

With most of the 2Q09 GDP reports out of the way in Asia and other parts of the world, signs of stabilization/smaller negatives/"less bad" data are the common feature after the sharp declines seen in 1Q09, the period when the impact from post-Lehman's credit crunch/liquidity tightening and destocking activities was at the maximum and risk appetite at the lowest.

While most of the focus has been on the extent of contractions in headline figures on growth, exports, industrial production, and others, Asia's labour markets have surprisingly garnered relatively less attention.

In this article, we take look at the latest developments in labour markets in various Asian countries to assess the extent of damage of this global recession and how the situation will pan out from here.

Labour Markets Weaken But Holding Well

One key factor driving the return of stabilization in 2Q09 in Asia's economic declines are inventory rebuilding, but more important were the massive government interventions early in this crisis, via fiscal stimulus and loose monetary policy throughout Asia as well as other parts of the world.

For instance, our earlier article shows that fiscal stimulus in Asia ran in the order of at least 1% to as much as 8% of GDP (see "Asia: A Look at the Fiscal Measures" dated 6 March 2009). Asian central banks' aggressive interest rate cuts late 2008/early 2009 (in conjunction with global central banks' moves) also helped bring down interest rates and limited the fallout on domestic activities (For more details, please refer to our feature article discussing Asian central banks' possible policy moves in 2010).

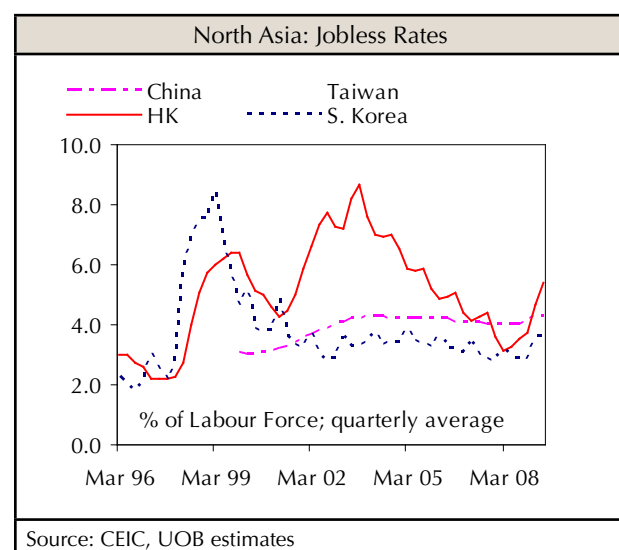
Government interventions had thus limited the fallout on the labour markets, which in turn forestalled a further downward spiral in domestic economic activities. The impact on Asia's labour markets turns out to be less severe in this current global economic crisis, than during the Asian financial crisis in 1997/98, one of the surprising outcomes.

Asia: Jobless Rates Rising ...

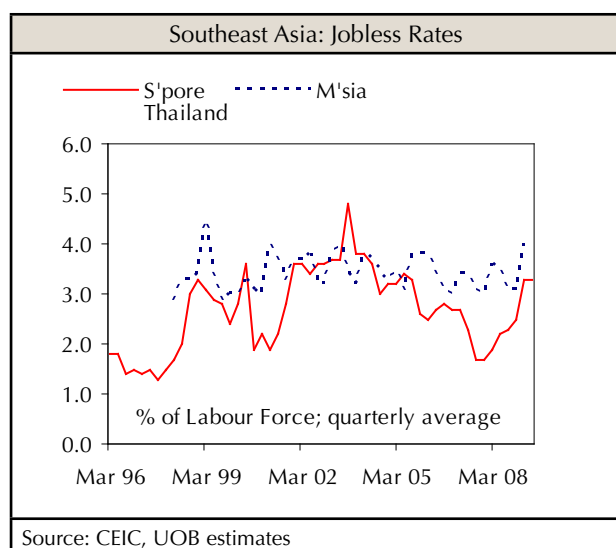
As shown in the charts below, it is no surprise that unemployment rates ratchet up in the current downturn. However, the surprise is that the impact on unemployment is thankfully smaller compared to the 1997/98 Asian financial crisis, considering the collapse in headline figures

across Asia during the final quarter of 2008 and early part of 2009.

For instance, we had expected at the beginning of 2009 that Singapore's headline jobless rate would deteriorate to 4.2% by end-2009 (and resident jobless rate to rise to 6%), from 2.5% at end-2008 as a result of the global recession. However, by mid-2009, Singapore's overall jobless rate has stabilized at 3.3% and unchanged from 1Q, while resident jobless rate (seas. adj) actually improved to 4.6% from 4.8% in 1Q09. In Thailand's case, the headline jobless rate has actually begun to improve in 2Q. In most cases, jobless rates are actually lower or at least on par with those seen during the Asian Financial Crisis.



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Analyzing the data further and comparing with those during the Asian Financial Crisis, there are two items worth noting, as shown in the table below: 1) the impact on jobless rate is less severe compared to the last crisis. The hit on jobless rates during the current cycle rose 1.5%pt on average, which is about half of the 2.9%pt jump during the Asian Financial Crisis. 2) Going by experience in the previous crisis, which saw jobless rate peaking six quarters from trough, it appears that jobless rates in Asia this time round may also be nearing their peaks as well, which lends further support to view that the downturn is stabilizing.

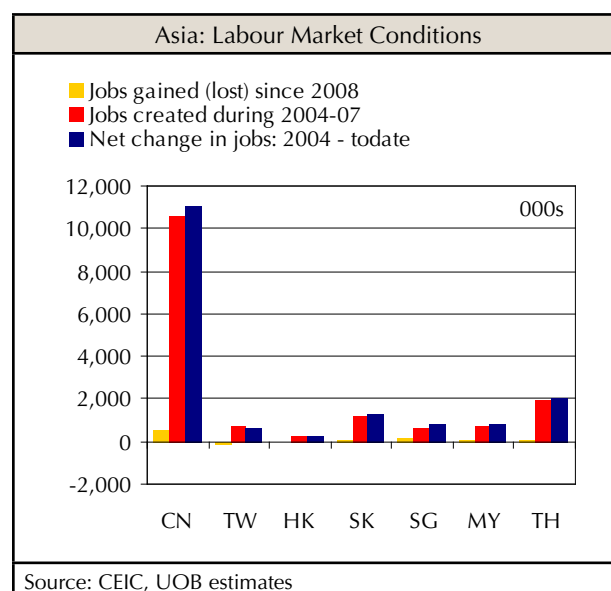
... But Job Creation Remains in Positive

However, there are some issues with just looking at unemployment figures alone. For instance, data series could be too short (Full data for China and Thailand only

became available after 1997/98). It may also be problematic to compare the figures across different countries due to different stages of development, data collection ability, and other factors. In addition, the existence of discouraged workers would distort interpretation of unemployment figures even if all the figures were comparable across countries.

One indicator that is more useful would be the change in employed labour force, which gives a clearer picture of how many jobs have been created or eliminated during a business cycle.

As shown in the charts below, the picture is largely consistent in that these Asian countries are still in a net job creation position in the current cycle. This is despite

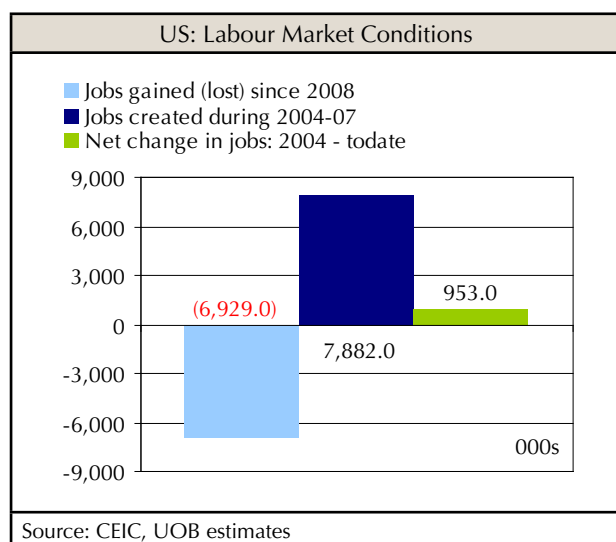


Asia Jobless Rate: Current Cycle vs. 1997/98 Asian Financial Crisis								
	Current Cycle				1997/98 Asian Financial Crisis			
	Latest Jobless Rate (%)	Jobless Rate at recent low (%)	Change in Jobless Rate (% pt)	No of Quarters (Trough to Peak)	Peak Jobless Rate (%)	Jobless Rate at recent low (%)	Change in Jobless Rate (% pt)	No of Quarters (Trough to Peak)
China	4.30	4.00	+0.3	3	NA	NA	NA	NA
Taiwan	5.84	3.88	+2.0	5	2.97	2.51	+0.5	5
Hong Kong	5.40	3.30	+2.1	5	6.40	2.20	+4.2	6
South Korea	3.57	2.83	+0.7	6	8.50	2.20	+6.3	6
Singapore	3.30	1.70	+1.6	6	3.30	1.30	+2.0	5
Malaysia	4.00	3.00	+1.0	5	4.50	2.90	+1.6	4
Thailand	1.73	1.12	+0.6	6	NA	NA	NA	NA
Average (ex CN/TH)			+1.5	5.4			+2.9	5

Source: CEIC, UOB estimates

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the fact some are more badly hit, i.e. Taiwan and HK and have seen a reduction in employed workforce since 2008 (recall that the US economic recession began officially in late 2007).



While Taiwan is particularly hard hit in this cycle, with 131,000 jobs lost since 2008 (vs. 16,000 jobs gained during the Asian Financial Crisis), it still created nearly 600,000 jobs since 2004 (column (A)+(B) in the table). The same trend is also observed across all Asian countries in the table below.

In Singapore's case, there were more than 200,000 jobs created since the beginning of 2008 (despite job losses of 13,800 in 1H09, which is less than half of our initial estimate of 50,000 for the full year of 2009).

In contrast, the same cannot be said of the US jobs

market, which has seen a reduction of 6.9mn nonfarm payrolls (NFP) since 2008 and reducing its net change of NFP since 2004 to below 1mn. The outlook for US labour market remains under pressure, with consensus expecting -185k for the September NFP (data due Friday 2 Oct). This means that the US jobs market would be in a net job loss position in less than 6 months if the NFP declines at the current pace. However, our US economist expects nonfarm payrolls to improve to gains by late 2009 or early 2010, in line with positive growth in headline GDP figure.

Labour Market Improvements Still Depend on Global Recovery

Overall, the picture is that Asia's labour market has fared relatively well in the current round of global recession. Comparisons with the 1997/98 Asian Financial Crisis is favourable, whether using jobless rates or employment creation. It appears also that Asia's labour market has past its worst point and unemployment rate is nearing the peak, based on experience of the last cycle. In addition, there is still a substantial jobs buffer built up during the boom years in 2004-2007. This is despite the fact that headline figures in exports and production have generally fallen off the cliff in most Asian countries.

A number of factors has prevented the collapse in Asia's labour market. For instance early and massive fiscal stimulus, significant loosening of monetary policy and sharp interest rate cuts have been key in stemming jobs losses. In addition, high savings rates; healthy banking system; restructuring of consumer/corporate/govt balance sheets in the decade since the Asian Financial Crisis; and non-conventional measures such as credit guarantee/risk sharing programs for SMEs have been implemented.

Labour Market Conditions [^] : Holding Steady in Asia but a Challenge in US				
	(A)	(B)	(A)+(B)	
('000s)	Jobs gained (lost) since 2008	Jobs created during 2004-07	Net change in jobs: 2004 - todate	Net Change in 1998
China#	511.2	10,547.3	11,058.5	(19,758.0)
Taiwan	(131.0)	722.0	591.0	16.0
HK	(25.1)	293.2	268.1	(106.3)
S. Korea	95.0	1,173.0	1,268.0	(1,295.0)
Singapore	207.8	595.5	803.3	(23.4)
Malaysia	92.2	713.0	805.2	(150.3)
Thailand	73.8	1,950.6	2,024.5	-NA-
US*	(6,929.0)	7,882.0	953.0	2,998.0

Source: CEIC, UOB estimates
[^]Data as of 21 Sep #SOE+collective+other enterprises *US non-farm payrolls

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These measures had allowed employers to use interim steps such as shorter working hours and pay reductions, before resorting to cutting employees off their payrolls.

However, going into 2010, global recovery prospects are still far from certain, especially if stimulative fiscal and monetary policy measures begin to unwind. It may be the case that Asia's headline jobless rates are nearing

their peak going by the experience in the 1997/98 cycle, but that is only if current trends track historical behaviour. For now, the key driver will still be the US economic recovery and how US consumers would behave (i.e. spend vs. save) after emerging from this crisis. This is important as Asia's export-driven model is unlikely to be changed within the next 2-5 years, and the US still accounts for more than 20% of global GDP.