

UNEMPLOYMENT RATE WILL CONTINUE TO INCREASE

Seyfettin Gürsel* and Mehmet Alper Dinçer**

Executive Summary

According to the latest data released by TURKSTAT and our current GDP growth projections, we estimate that the average unemployment rate will climb up to 16.8% in 2009. We do not expect any recovery in the unemployment rate during 2010 and 2011. Our calculations show that in January 2010, the unemployment rate will reach 18% by the end of 2011 and the total number of the unemployed will run over 4.6 million. Note that such unemployment levels may have serious political implications in Turkey.

In the Pre-accession Economic Programme 2008, State Planning Organization (SPO) estimates the unemployment rate for 2009, 2010 and 2011 as 13.5%, 13.9% and 13.9%, respectively while **betam** predicts these figures as 16.8%, 16.6% and 16.9%. Needless to say, there is a significant difference between SPO's and **betam**'s estimations concerning the future unemployment rates.

Unemployment rate is expected to be 16.8% in 2009

Labor market figures of December, January and February indicate a severe increase in the unemployment rate. During the last twelve months, the number of unemployed went up by 1.148 million and the non-agricultural unemployment rate mounted to 19%. Given the fact that the same rate was 13.7% in the same period last year, the increase of 5.3 basis points implies a striking deterioration in the labor market conditions. As a consequence, predicting the mid-term path of the labor market figures, especially the unemployment rate, becomes crucial.

Table 1 betam's estimates

| | 2009 January | 2010 January | 2011 January | 2012 January |
|--|--------------|--------------|--------------|--------------|
| Unemployment rate (%) | 15.5 | 18.0 | 18.0 | 18.6 |
| Non-agricultural unemployment rate (%) | 19.0 | 22.1 | 22.0 | 22.6 |
| GDP growth (annual, %) | 1.1 | -3.6 | 3.3 | 4.5 |
| GDP/Non-agricultural employment elasticity (%) | - | 40 | 50 | 50 |
| Non-agricultural employment growth (%) | -1.2 | -1.4 | 1.7 | 2.3 |
| Non-agricultural employment (in thousands) | 15 531 | 15 307 | 15 560 | 15 910 |
| Non-agricultural labor force growth (%) | 5.3 | 2.5 | 1.5 | 3.0 |
| Non-agricultural labor force (in thousands) | 19 174 | 19 653 | 19 948 | 20 547 |
| Agricultural employment growth (in thousands) | 259 | 100 | 0 | -50 |
| Agricultural employment (in thousands) | 4 342 | 4 442 | 4 442 | 4 392 |
| Total labor force (in thousands) | 23 523 | 24 095 | 24 390 | 24 939 |
| Total employment (in thousands) | 19 873 | 19 749 | 20 002 | 20 302 |
| Total unemployed (in thousands) | 3 650 | 4 346 | 4 388 | 4 637 |
| Non-agricultural unemployed (in thousands) | 3 643 | 4 339 | 4 381 | 4 630 |
| 15+ Population (in thousands) | 51 323 | 52 227 | 53 146 | 54 082 |

* Prof. Dr. Seyfettin Gürsel, Director, betam, seyfettin.gursel@bahcesehir.edu.tr

** Mehmet Alper Dinçer, Researcher, betam, alper.dincer@bahcesehir.edu.tr

Labor force participation rate (%) 45.8 46.1 45.9 46.1

betam predicts that the annual unemployment rate will reach 16.8% in 2009 (Table 2). Additionally, there are no signs of improvement during 2010 and 2011. Our predictions show that the annual unemployment rate will be 16.6% in 2010 and 16.9% in 2011 (Table 2). Moreover, we anticipate that the number of the unemployed will be around 4.6 million by the end of 2011 (Table 1). We estimate the non-agricultural unemployment to be 22.1%, in January 2010 and 22.6% in January 2012.

The Pre-accession Economic Programme 2008 includes the official predictions of SPO and the Government concerning the labor market figures for the period 2009-2011. They predict that the unemployment rate will be 13.5% in 2009; it will reach to 13.9% in 2010 with a marginal increase and remain flat in 2011. However our estimations point to a much more pessimistic outlook (Table 2).

Table 2: Annual unemployment rate forecasts (%)

| | betam | SPO |
|------|--------------|------|
| 2009 | 16.8 | 13.5 |
| 2010 | 16.6 | 13.9 |
| 2011 | 16.9 | 13.9 |

Assumptions

We used the GDP growth projections (2009-2011) of the Government in our estimations. The elasticity between the GDP growth and the non-agricultural employment is assumed to be 0.5. Put another way, it is assumed that a 1% of GDP growth generates a 0.5% increase in the non-agricultural employment.¹

GDP growth is expected to be negative in 2009. Given the fact that contract rigidity and the severance pays cause significant inertia in hiring and firing processes, we assumed that the elasticity will be smaller than its long term mean. We observed this to be the case in the period following the 2001 crisis as well.² Therefore the elasticity is assumed to be 0.4 in 2009. We use these elasticity figures and the Government's GDP growth projections in our predictions of the non-agricultural employment levels.

According to the latest figures released by TURKSTAT, the annual increase of the non-agricultural labor force is 3%. We use this figure in our estimations. Additionally, we assume that the accelerated increase in the labor force in 2008 due to the added worker effect will start to stagnate in April and decrease in September 2009. This negative trend will continue during 2010 and revert back to its regular level in 2011. We observed a very similar path following the 2001 crisis.

The agricultural employment increased by 259 thousand in 2008 due to the lack of new job opportunities in the non-agricultural sectors. We think that this number will decrease as the non-agricultural sectors start recovering. Therefore, we assume that the agricultural employment will increase only by 100 thousand in 2009. In 2010 it will remain constant and finally in 2011, it will start to decrease by 50 thousand. Furthermore, the number of unemployed in agriculture is assumed to be constant at 7 thousand. This figure corresponds to the current level of unemployment in the agricultural sector.

Lastly, the growth rate of working age population is 1.8% between January 2008 and January 2009. We assume that it will remain the same in the following years.

¹ The elasticity between GDP and non-agricultural employment is estimated via time series analysis.

² For the last three quarters of 2001 the elasticity is estimated as 44%.