POLICY BRIEF

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A Closer Look at the Impact of COVID-19 and the Lockdown on Employment and Poverty

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The Philippine Statistics Authority's Labor Force Survey (LFS) report for April 2020 came out on June 5 and showed unemployment rate shot up to 17.7% from only 5.1% in the comparable period in 2019, equivalent to an additional 5 million unemployed workers.[i]

This is the highest ever unemployment rate recorded in the country, and is especially high when counting only the period since 2005, when the PSA (then the National Statistics Office) revised the definition of unemployment to conform to International Labor Organization standards, which effectively reduced unemployment rate in the country by several percentage points.

But in fact the unemployment rate gives an incomplete picture of the true employment condition in April 2020, which was much worse than what the unemployment rate of 17.7% suggests. In this policy brief, I explain why this is the case and then argue for the continuation, refinement, and expansion of the existing social safety nets.

Employed, unemployed, and not part of the labor force

To understand why the already high unemployment rate still understates the true employment condition, one must first understand how the unemployment rate is computed.

In the labor force survey, people who are of working age (15 years old and up but excluding those working abroad) are classified into three groups based on employment status: employed; unemployed; and not part of the labor force.

The employed are those who worked at least one hour during the reference week and those who, even if they did not work, reported having a job or business and was only unable to work due to some valid reason. The government imposed enhanced community quarantine (ECQ) lockdown would qualify as a valid reason. Additionally, those who are expected to report to work or start a job or business within two weeks from the LFS interview are also counted among the employed.

The unemployed, meanwhile, are those without job or business during the reference period, but available for work, and either seeking work or not seeking work for an invalid reason (such as temporary illness, belief that no work is available, bad weather, etc.)

Finally, those not in the labor force are those who are not employed, not available, and not looking for work because of a valid reason (either too young or too old; permanent disability, household duties; and schooling).

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The labor force is the sum of the employed and the unemployed. The unemployment rate is the ratio of the unemployed to the labor force.

Why the unemployment rate understates the true employment condition?

One of the more notable things about the April 2020 LFS report is that while the number of unemployed persons was reported to have increased by 5 million, the number of employed persons actually declined by a much higher 8 million. Where did the 3 million (and the additions to the working age population) go?

The answer is that they went to the ranks of those not part of the labor force, which also swelled by 5 million during the one year period, from 27.8 million to 32.7 million. It is likely the case that they reported they were unavailable for work because of the lockdown or because of fear of COVID-19.

The unemployment rate is not capturing these 5 million who either lost their employment or chose not to seek employment because of the lockdown.

A better measure than the unemployment rate of the true employment condition in April 2020 is the share of the working age population who are either unemployed or not part of the labor force, which swelled from 41.8% to 54.2%, equivalent to a hike of 10 million, reflecting both the extraordinary increase in the number of the unemployed and also the number of those not in the labor force.

With job but no income

In fact the true picture is even worse, as there are among the employed those who reported they had a job but did no work, and likely earned no income. Such would be the case for those I would refer to as 'non-regular' employees who were paid per day, per hour, per piece of output, "pakyawan", or on commission basis, which are the great majority of employees (more than 60%).

There were an estimated 12.5 million workers who reported having a job but not having done any work due to the lockdown or COVID-19 in April 2020. Assuming, conservatively, that only half of them did not receive any income, then that is equivalent to 6.3 million more workers severely affected by COVID-19 and the lockdown.

One also has to include farmers and fishermen who might have worked but were not able to sell their produce or catch because they could not transport them during the lockdown, as well as overseas Filipino workers who lost their jobs, some of whom have already returned to the country.

Lower-skill lower, lower-income workers more affected

The numbers made available by PSA suggest the employment of low income workers were disproportionately affected.

By education level, the increase in the number of unemployed in terms of percentage growth was highest among those with only elementary or no education (336%), those with only junior high school education (275%), and those with senior high school education (262%), compared to those with at least some college (157%).

The same is indicated by looking at employment loss by sector, which shows highest decline in employment in wholesale and retail trade and repair of motor vehicles (loss of 2 million jobs), construction (-1.4 million jobs), and transportation and storage (-1 million jobs). Based on previous data, approximately half of those employed in these three sectors belong to the poorest 50% of households, which means their income situation is precarious and they are vulnerable to any loss in income.

Impact on poverty

The impact on poverty will ultimately depend on the speed of employment recovery, government programs for affected low income households, and private sector and civil society support to the same households.

The speed of employment recovery itself will depend on whether or not there would be a second wave of COVID-19 infection, which could necessitate another ECQ, and on when a vaccine can be developed and people given their shots.

In an ongoing study[ii], using Monte Carlo simulations, we estimate that if 8.4 million self-employed workers and 'non-regular' workers become jobless during the lockdown months and that employment recovery is gradual so that only two-thirds of the 8.4 million are able to recover their jobs by the end of the year, poverty incidence would go up by 5.7 percentage points from the pre-COVID-19 baseline, equivalent to an additional 1.4 million poor households or 7.5 million poor individuals.

There would be an even larger relative increase in poverty gap and poverty severity, meaning that not only would there be more poor but they would be farther from the poverty line, on average, and there would also be more in extreme poverty.

But in fact, effectively, the total number who became jobless is much larger as it includes not only those who lost their employment, but also those who otherwise would have been employed among the new entrants to the labor force if not for the lockdown, as well as those who technically had jobs but earned no income because they were not able to work. In total, these could easily reach 15 million.

Our simulations also show that the Bayanihan 2-month cash grant to 18 million households, even if perfectly targeted to the lowest-income households, will reduce poverty incidence by only three percentage points, meaning it will not fully offset the effect of COVID-19 and the lockdown.

What can be done

The dire employment numbers for April 2020 are not due to any economic mismanagement but are rather the direct consequence of the ECQ, which according to a recent survey by Social Weather Stations, is supported by 84% of Filipinos. Many other countries have instituted similar lockdowns and they have suffered the same hit on employment.

But in the short run our economic managers can mitigate the poverty impact of the employment crisis by continuing an improved social amelioration program, by ensuring food inflation is under control, as food counts heavily in the poor's consumption basket, and by hastening economic and employment recovery so displaced workers can earn wage and entrepreneurial income again.

There is a need to continue support to affected low-income households, whether the households are still under ECQ or not. The support need to be timely, as many affected households are in danger of immediate poverty and hunger, having no savings and likely no access to borrowing. But the support should also be better targeted, because the employment crisis might be drawn out.

Ensuring food inflation is under control means ensuring the food supply chain is working properly and that farmers have the capital to engage in their usual production. Many farmers and fishermen likely used up whatever capital they had during the lockdown months.

There should also be employment support programs, including emergency employment and re-training, for workers in sectors unlikely to recover soon, and loans and job-retention programs for viable enterprises that

may only be wanting in capital. These will help reduce the number of temporary unemployment that will turn into permanent unemployment.

In the medium to long-run, improved social protection for the working poor, including those in self-employment, should be in place, and unemployment insurance should be instituted, as it already is in other ASEAN countries. And of course, an economic recovery program that will prepare the country for the challenges and opportunities of the post-COVID-19 world will be vital.

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[i] https://psa.gov.ph/content/unemployment-rate

[ii] G. Ducanes, and A. Balisacan. (ongoing research). 'A Suggested Approach to Modeling the Poverty Impact of COVID-19, with application to the Philippines'