Box 4.2

THE EMPLOYMENT INCOME AND FINANCIAL SITUATION OF THE WORKERS MOST AFFECTED BY COVID-19

The most recent economic crises have had asymmetric impacts across different groups of the population. Between 1978 and 2013 a decline in GDP of 1% had a proportionally larger negative impact on the income of men than that of women among US workers earning median salaries. By age group, the same 1% contraction in GDP reduced the annual employment income of workers under the age of 35 by 2.5%, of those aged between 36 and 55 by 1% and of those aged between 55 and 65 by less than 1%. Lastly, in past crises the workers hit by the deepest declines in employment income when GDP shrank were employed in the manufacturing sector and construction.[1]

This box sets out preliminary evidence for the potential effects of the current economic crisis, prompted by the COVID-19 pandemic, on different groups of workers and sectors in the Spanish economy.[2] The analysis focuses on two specific aspects that have had a notable bearing on the extent to which levels of economic activity have been maintained during the crisis: the feasibility of performing the work from home and the degree of physical proximity to others required by each task.

Specifically, this box describes the characteristics of workers in the so-called "social industries", which bore the brunt of the confinement measures implemented by most countries in response to the pandemic, using data from the Spanish Survey of Household Finances. In particular, the analysis focuses on the financial position of those workers and their households.

The financial position of households is a key factor when studying how loss of employment might affect their demand for goods. The lower the levels of disposable savings held by the affected individuals' households, the lower their capacity to maintain spending when employment is lost, resulting in a deeper drop in expenditure. It has been documented in the United States that households with members less able to work from home and employed in the industries hardest hit by the confinement measures also tend to have fewer financial assets (liquid savings) than other households. At the aggregate level, the fact that these workers, who are more at risk of losing their employment, hold lower levels of financial assets is likely to accentuate the drop in total expenditure in the economy during a pandemic.[3]

For the purposes of this analysis, the "social industries" are: retail trade, accommodation and food services, education, arts and entertainment, and other personal services.[4] As described in Chapter 4.2 of this report, employment and activity levels in those sectors have been particularly dented by the confinement measures implemented by most countries to contain the pandemic. Conversely, the relatively less affected or "regular" industries include agriculture; manufacturing; construction; real estate and financial services; clerical, professional and specialist services and public administration. In addition to these two industry groups, this analysis also examines two essential sectors – healthcare and transport – on a separate basis, owing to their particular importance during this crisis.

Given that a substantial proportion of young Spanish people live with their parents and bearing in mind the varying frequency with which men and women may work in the different sectors, the analysis in this box is conducted at the individual level.

Charts 1 to 3 show the proportion of workers – both employed and self-employed – in the various industries in 2014 on the basis of various characteristics.[5] Chart 1 illustrates how women are overrepresented in the social industries. While Chart 2 shows that practically half of all workers in Spain under the age of 35 are employed in the social industries. The evidence available for other countries

1 F. Guvenen, S. Schulhofer-Wohl, J. Song and M. Yogo (2017): "Worker betas: Five Facts About Systematic Worker Risk", *American Economic Review,* Vol. 107 No 5; B. Bell , N. Bloom, J. Blundell and L. Pistaferri (2020): *Prepare for Large Wage Cuts if you are Younger*, VOX CEPR Policy Portal.

2 For an analysis of the heterogeneous impact of the COVID-19 crisis based on the productive structure of the economy and sectoral interconnections, see E. Prades-Illana and P. Tello-Casas (2020), "The heterogeneous economic impact of COVID-19 among euro area regions and countries", *Analytical Articles,* Economic Bulletin, 2/2020. Banco de España.

3 G. Kaplan, B. Moll and G. Violante 2020 *Pandemics according to HANK*, mimeo, Stockholm University; S. Mongey, L. Pilossoph and A. Weinberg (2020) *Which workers bear the burden of social distancing policy?*, BFI Working Paper 2020-51.

4 This classification of regular and social industries is an adaptation of the classification used by G. Kaplan, B. Moll and G. Violante (2020), op. cit., but here healthcare and transport are separated from the others. In the Spanish Survey of Household Finances, "Transport" encompasses both regular and social modes in the classification by G. Kaplan, B. Moll and G. Violante (2020). The same applies to "Healthcare", which is considered social but has been maintained as an essential industry.

5 This box takes data from the 2014 Spanish Survey of Household Finances, which is the most recent with full available data. The analytical article *"La situación financiera de los trabajadores afectados por la pandemia"* argues that the main qualitative results are unchanged when examining the preliminary data from the 2017 Spanish Survey of Household Finances.

Box 4.2

THE EMPLOYMENT INCOME AND FINANCIAL SITUATION OF THE WORKERS MOST AFFECTED BY COVID-19 (cont'd.)

Chart 1
PROPORTION OF MALE AND FEMALE WORKERS, BY SECTOR OF ACTIVITY

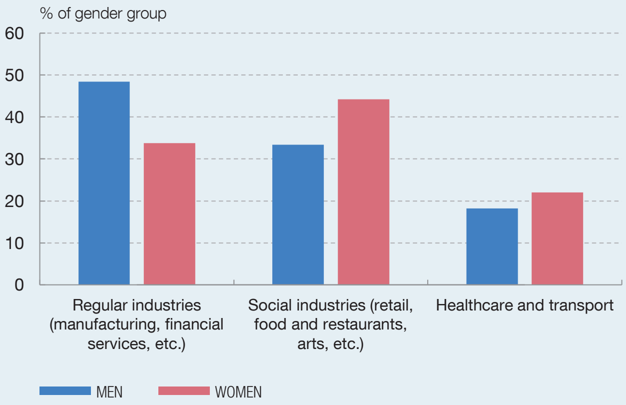


Chart 2
PERCENTAGE OF WORKERS, BY SECTOR OF ACTIVITY AND AGE GROUP

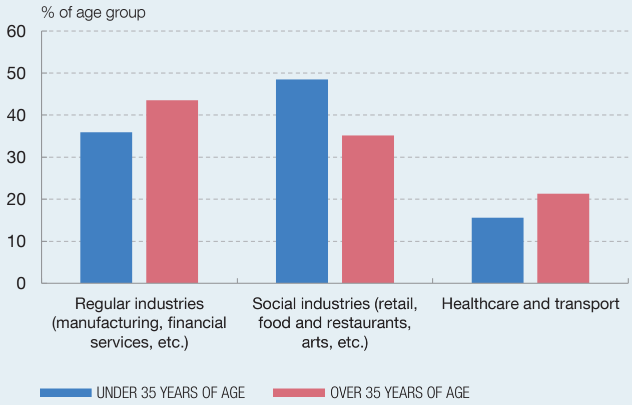


Chart 3
PERCENTAGE OF WORKERS IN THE BOTTOM QUARTILE OF THE INCOME DISTRIBUTION

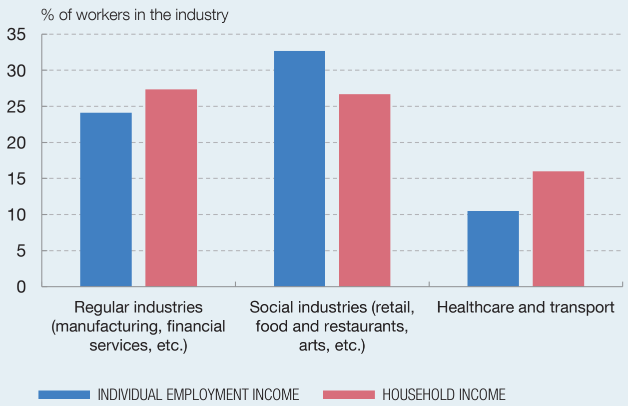


Chart 4
RELEVANCE OF INCOME SOURCES TO THE HOUSEHOLDS OF WORKERS IN DIFFERENT SECTORS OF ACTIVITY

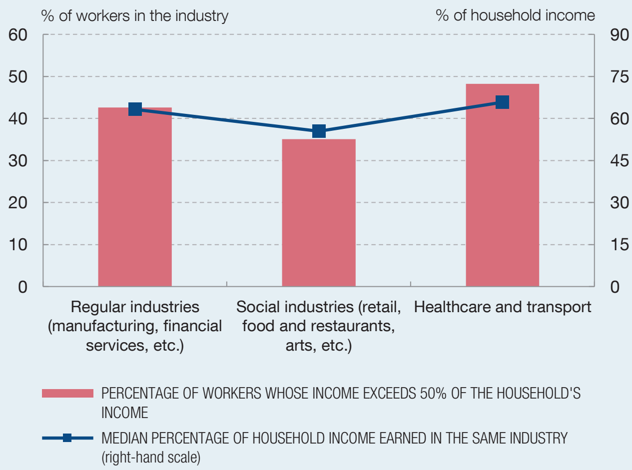


Chart 5
FINANCIAL SITUATION OF THE HOUSEHOLDS OF WORKERS IN DIFFERENT SECTORS OF ACTIVITY

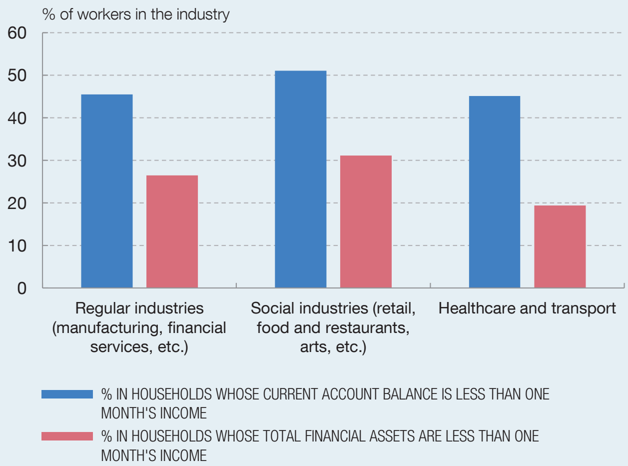
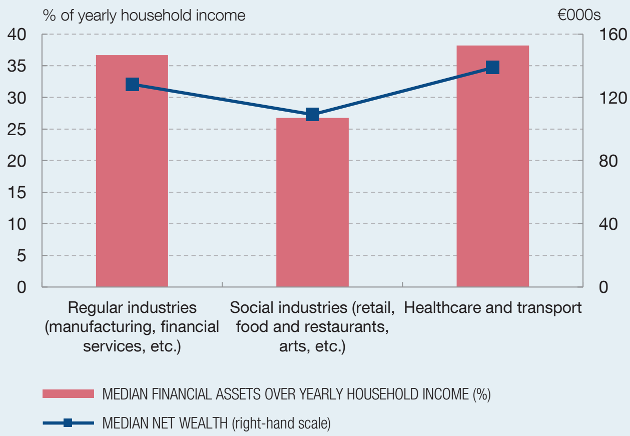


Chart 6
FINANCIAL ASSETS AND NET WEALTH OF THE HOUSEHOLDS OF WORKERS IN DIFFERENT SECTORS OF ACTIVITY



SOURCE: Banco de España, based on the Survey of Household Finances (EFF) 2014.

likewise indicates that social industries employ proportionally more young workers.[6] Further, 33% of those employed in the "social industries" have lower employment income than 75% of all workers (see Chart 3). In the remaining sectors the percentage of employees in the bottom quartile of salary income is substantially smaller, which suggests that the workers hardest hit by social distancing measures earn less than the rest.

However, it is important to take into account the composition of the households where each of these workers resides. Although nearly a third of employees in the social industries earn less than 75% of the population, they are not necessarily members of households in the lowest income groups. As Chart 3 likewise illustrates, just a quarter of workers in the "social industries" live in households in the bottom quartile of the income distribution. This ratio is very similar to that observed for the regular industries. The reason for this is a higher proportion, on average, of young people being employed in social industries than regular industries.[7] As a proportion of young Spanish people live with their parents and given that salaries tend to rise with age, the total income of the households of workers hardest hit by the pandemic may be greater than their individual income would suggest.

Taking this into account, Chart 4 shows that 35% of workers in the "social industries" are the primary breadwinners for their homes, i.e. their earnings account for more than half of the household's income. This percentage stands at 43% for employees in the regular industries. Further, the impact of the potential loss of employment in social industries on a household will be smaller if other members of the family unit draw salaries in other sectors. In fact, half of all affected employees reside in households that earn less than 55% of their income from the social industries (see Chart 4). By contrast, half of the workers in regular industries live in households where more than 63% of total income is earned from regular industries. Therefore, the earnings of other members of the household provide something of a safety net, albeit limited, when employment is lost in the sectors worst hit by the pandemic.[8]

Chart 5 suggests that the households of workers in "social industries" generally have more limited access to resources to maintain their expenditure. Half of the workers in the industries worst affected by the crisis live in homes whose current account savings represent less than one month of the household's income (see Chart 5). If less liquid financial assets (such as pension funds) and higher risk assets (such as shares) are included, 31% of those workers live in homes whose financial assets amount to less than one month's income. The median ratio of financial assets to annual household income for workers in social industries stands at 0.27 (see Chart 6). This means that for 50% of these individuals the household's savings represent less than 3.3 months of their total income. The financial position of employees in regular industries is somewhat better: 26% live in a home with financial assets amounting to less than one month's income and 50% hold assets representing more than four and a half months' income (the ratio of financial assets to annual income is 0.37). Lastly, the net median wealth of households with members employed in the "social industries" stands at €109,000, 17% lower than that of other workers' households (see Chart 6).

In short, a high percentage of women and young people are employed in the sectors bearing the brunt of the confinement ("social industries"). Further, a higher proportion of employees in these sectors are low-income earners and live in households with few financial assets to help withstand a reduction in employment income. This evidence suggests that the measures aimed at supporting income and employment should be targeted to take into account the asymmetric impact that the current crisis is having on certain groups of particularly vulnerable workers.

Notable among these measures, given the more physical and interactive tasks performed by the groups of workers most closely associated with the social industries, would be support for training in new skills that may be in demand in other sectors with robust growth potential, thus enhancing the employability of these workers.

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6 R. Joyce and X. Xu (2020), in *Sector shutdowns during the coronavirus crisis: which workers are most exposed?*, IFS Briefing Note BN278, documented a high percentage of workers in the United Kingdom under the age of 25 in industries affected by the quarantine. S. Mongey, L. Pilossoph and A. Weinberg (2020) showed that, in the United States, there are more employees under the age of 50 in occupations that require close physical contact with other people.

7 The bottom quartiles of the distribution of salary income and total household income are calculated based on the population of employed individuals to ensure that 25% of workers are at the lower end of the distribution in both cases.

8 In 2008 the employment income of one in two workers in construction – which bore the brunt of that crisis – accounted for at least 50% of their household income. In this recession, the employment income of one in every three workers affected exceeds the 50% level.