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IMPACT OF LOCKDOWN ON THE EURO AREA LABOUR
MARKET IN 2020 H1

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ABSTRACT

Labour markets in the euro area in 2020 Q2 were severely affected by the COVID 19 lockdown measures. In this context, the conventional concepts of employment and unemployment are insufficient to describe labour market developments. Job retention schemes averted potential redundancies and replaced them with temporary lay-offs and reductions in working hours. Further, many workers who lost their jobs were unable to seek work owing to mobility restrictions. Accordingly, under the conventional measure of unemployment, they were not considered unemployed. A broader measure of the unemployment rate, taking into account this type of inactivity and temporary lay-offs, lifts the share of the euro area population available for work who were totally or partially unemployed in 2020 Q2 to 27%. The sharp increase in unemployment, understood in this broader sense, and the short-time work schemes prompted an unprecedented fall-off in employment in terms of hours worked. This decline was highly uneven, with Spain being the hardest-hit country. In principle, temporary lay-offs should help curb the potential hysteresis effects on the euro area's labour markets. However, the more protracted the health crisis, the more severe these effects will tend to be.

Keywords: intensive and extensive margin adjustments, temporary lay-offs, broad unemployment rate.

JEL classification: J21, J80, J82.

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Introduction

Similarly to other areas of the economy and society, in 2020 H1 euro area employment was profoundly affected by the COVID-19 pandemic. Its rapid spread across Europe prompted the different countries to introduce lockdown measures that drastically reduced economic activity. These were accompanied by various liquidity and income support measures for firms and workers. Of particular significance in the labour market were the incentives for temporary lay-offs and short-time work schemes and the shoring up of unemployment benefit systems.

Such policies allowed firms to make greater use of the intensive margin of adjustment (i.e. hours worked per employee) and temporary lay-offs rather than resorting to the traditional extensive margin of adjustment (i.e. jobs, particularly temporary positions). Thus, amid the sharp fall-off in euro area economic activity in Q2 (-11.8% according to Eurostat estimates), the change in employment¹ varied markedly depending on whether it is measured in terms of persons (down 2.1 million, or 1.5% quarter-on-quarter) or number of hours worked (down 13.4% vis-à-vis Q1), according to the EU labour force survey (EU-LFS). Moreover, mobility restrictions hindered active job seeking, which affects the interpretation of the unemployment figures as conventionally defined. Given all this, non-traditional indicators, such as total hours worked, measures of underemployment and the number of temporary lay-offs are needed to understand the labour market's dynamics and slack.

This article presents Eurostat's recently published EU-LFS results for 2020 Q2, which in most variables exclude Germany.² The second section focuses on developments in employment and unemployment, the third section describes changes in hours worked and absences from work and the final section summarises the key messages.

1 Measured for workers aged 20 to 64.

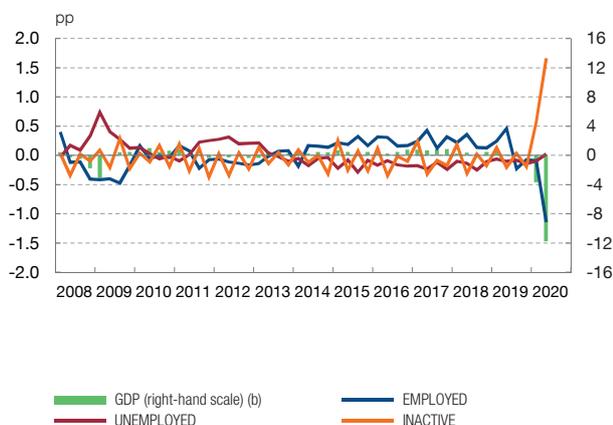
2 Owing to the introduction of a new integrated survey of German households, Eurostat has only published data for Germany for certain EU-LFS variables, while also flagging these as low reliability estimates. Accordingly, this article omits those estimates. The euro area aggregate is presented only for those variables published as an aggregate by Eurostat or as the sum of the countries indicated in each case.

Chart 1

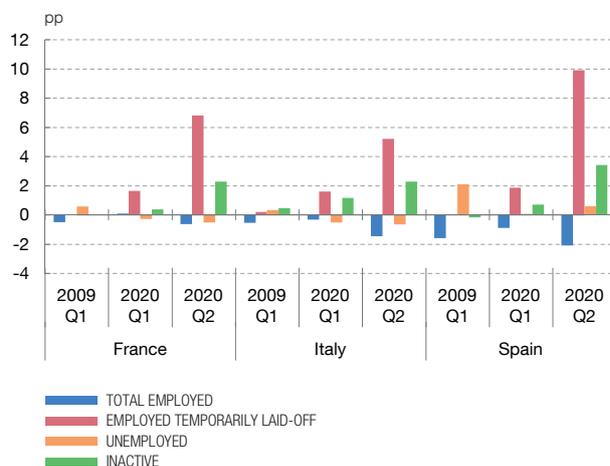
EMPLOYMENT, UNEMPLOYMENT AND INACTIVITY IN THE EURO AREA (a)

In 2020 Q2, the decline in the euro area employment rate more than doubled that observed in the worst quarter of the financial crisis (2009 Q1). However, the number of employed fell less sharply than activity thanks to the widespread use of temporary employment adjustment schemes. There was an exceptional increase in the number of the economically inactive, and the unemployment rate rose by just 0.1 pp, since it was impossible for the jobless to actively seek employment.

1 EURO AREA



2 MAIN COUNTRIES (c)



SOURCES: Labour Force Survey (Eurostat) and Banco de España calculations.

- a Change in the percentage of population aged 20 to 64. Seasonally-adjusted series.
- b Quarterly percentage change (right-hand scale).
- c Except Germany, whose data for 2020 are not available.



Employment and unemployment

The impact of the pandemic and the measures implemented to curb its spread led to a record plunge in GDP in the euro area, practically quadrupling the decline seen in the worst quarter of the financial crisis (2009 Q1). While the drop in employment was also steeper than during the financial crisis (approximately twice as large in quarter-on-quarter terms), it was less dramatic than the fall-off in activity thanks to the widespread use of temporary employment adjustment schemes. The employment rate fell by 1.1 percentage points (pp) to 71.4% (see Chart 1.1 and Table 1). Among the large euro area countries, job destruction was considerably more severe in Spain. This was also true during the financial crisis and tends to be the case in downturns. Further, the proportion of employed persons absent from work due to temporary lay-offs³ rose more sharply in Spain than in either France or Italy (see Chart 1.2), which is consistent with Spain’s comparatively deeper fall-off in GDP.⁴ Thus, the employment rate in Spain decreased by 2.1 pp vis-à-vis Q1, while the

3 According to the EU-LFS, workers subject to lay-offs are classified as employed if they have an assurance of return to work within a period of three months or receive 50% or more of their wage from their employer.

4 In 2020 Q2, GDP fell by 13.8% in France, 13% in Italy and 17.8% in Spain.

Table 1

EURO AREA LABOUR MARKETS IN 2020 H1, ACCORDING TO THE EU-LFS (a)

In 2020 Q2, the euro area labour force participation rate and employment rate both declined by 1.1 pp, while the unemployment rate held at levels of just over 7%. However, the broad unemployment rate, which includes, among others, the economically inactive population available for work but not seeking work, rose by 1.3 pp. Further, nearly 12% of the employed population were subject to temporary lay-offs.

	Participation rate		Employment rate		Unemployment rate		Broad unemployment rate		Absences owing to temporary lay-offs (b)	
	2020 Q1	2020 Q2	2020 Q1	2020 Q2	2020 Q1	2020 Q2	2020 Q1	2020 Q2	2020 Q1	2020 Q2
Euro area (c)	78.0	76.9	72.5	71.4	7.1	7.2	14.5	15.8	2.2	11.7
France	77.5	76.4	71.7	71.1	7.5	6.9	15.1	15.3	2.4	12.0
Italy	69.4	67.3	63.3	61.9	8.7	8.0	21.0	23.6	3.0	11.5
Spain	77.6	76.2	66.8	64.7	13.9	15.0	22.6	25.0	2.9	18.3
Netherlands	82.8	82.3	80.6	79.7	2.7	3.1	8.7	10.2	0.5	1.7
Belgium	74.1	73.2	70.4	69.6	5.0	5.0	11.0	11.7	1.6	7.8
Greece	72.9	72.5	61.3	60.2	16.0	17.0	23.4	24.8	3.6	21.4
Portugal	80.6	78.3	75.5	73.7	6.3	5.9	12.4	13.7	1.3	15.5
Austria	79.6	78.8	76.2	74.5	4.4	5.5	10.7	13.3	0.7	3.4
Finland	82.2	81.9	77.1	76.2	6.2	6.9	13.2	15.3	0.7	4.1
Slovakia	77.6	77.2	73.0	72.2	5.9	6.4	8.3	9.0	0.3	2.4
Ireland	78.0	76.2	74.5	72.8	4.5	4.5	12.1	15.5	0.7	5.2
Lithuania	83.9	84.1	78.2	76.7	6.8	8.8	9.3	11.2	—	1.2
Slovenia	80.1	78.5	76.7	74.5	4.2	5.1	6.7	7.8	1.4	15.8
Latvia	83.9	84.5	77.7	77.3	7.4	8.5	14.1	13.5	—	2.5
Estonia	84.6	83.3	80.7	77.4	4.7	7.1	8.6	10.9	—	—
Cyprus	81.1	81.0	75.7	75.1	6.7	7.3	13.3	14.3	3.9	26.0
Luxembourg	75.8	76.5	71.2	71.8	6.1	6.2	11.5	12.2	0.8	2.9
Malta	81.0	80.9	78.2	77.5	3.4	4.2	5.9	6.4	4.1	10.2

SOURCES: Eurostat and Banco de España calculations.

a Seasonally-adjusted data referring to the 20 to 64 age group. Countries ranked by total population (from higher to lower) at 1 January 2019. Data for Germany are omitted since Eurostat has only provided these for certain EU-LFS variables, while also flagging them as low reliability estimates.

b Percentage of the employed population.

c Absences owing to temporary lay-offs data exclude Germany, Estonia, Latvia and Lithuania.

percentage of people aged 20 to 64 who were absent from work on account of temporary lay-offs rose by nearly 10 pp (compared with 6.8 pp in France and 5.2 pp in Italy). Thus, in 2020 Q2, more than 18% of employed persons in Spain were subject to temporary lay-offs, while that figure did not exceed 12% in the other two large euro area countries for which data are available.⁵

Despite the sharp decline in employment, the number of unemployed increased by just 60,000 in the euro area as a whole. The unemployment rate rose by only 0.1 pp (to 7.2%), while in 2009 Q1 that increase was close to 1 pp. In contrast with what

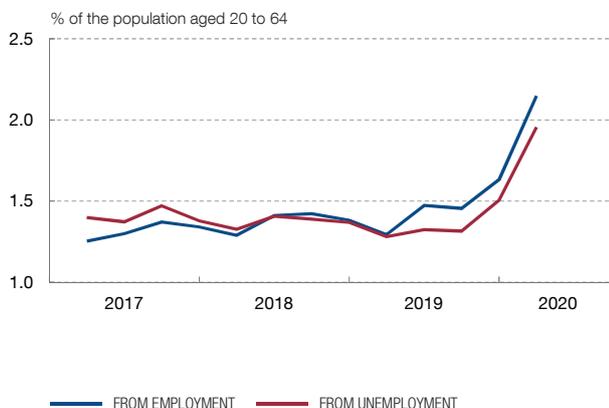
5 The latest data for Spain, relating to 2020 Q3, show a sharp drop in the number of workers subject to temporary lay-offs or short-time work schemes (ERTEs by their Spanish name) and in the number of self-employed who have ceased their activity. Specifically, the figure has declined to 887,000 in Q3 from 4.6 million in the previous quarter (see M. Izquierdo and I. Soler (2020), "La evolución del empleo y del paro en el tercer trimestre de 2020, según la Encuesta de Población Activa", *Boletín Económico*, 4/2020. Banco de España).

Chart 2

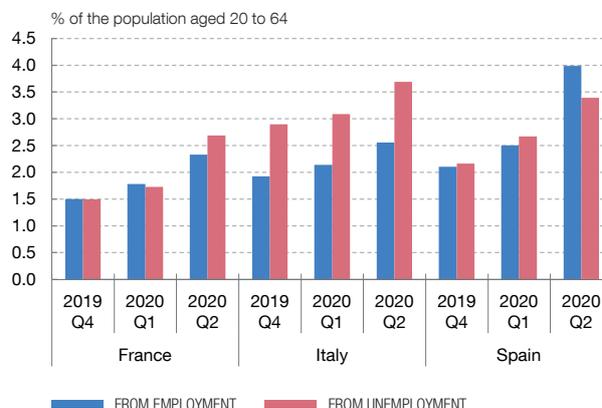
TRANSITIONS TO INACTIVITY (a)

Transitions from employment and unemployment to inactivity increased substantially in the euro area in 2020 Q2. These flows were stronger in the three large countries for which data are available, with a particularly pronounced rise in transitions from employment to inactivity in Spain.

1 EURO AREA (b)



2 MAIN COUNTRIES (c)



SOURCES: Labour Force Survey (Eurostat) and Banco de España calculations.

a Seasonally-adjusted series.

b Except Germany and Malta, whose data are not available.

c Except Germany, whose data are not available.



occurred during the financial crisis, the job destruction, which came amid strict restrictions on movement, prompted an exceptional rise in the number of the economically inactive,⁶ since it was impossible for the unemployed to actively seek work. The economically inactive population reached nearly 24% in the 20 to 64 age group, up 1.6 pp on the previous quarter. By country, that increase was likewise greater in Spain than in France or Italy, although the latter still has the lowest labour force participation rate of the euro area (see Table 1).

In 2020 Q2, 4.3 and 3.9 million people in the euro area transitioned from employment and unemployment, respectively, to inactivity. These figures are much higher than the quarterly average for 2019 which was 2.8 and 2.6 million people, respectively. In the case of the 20 to 64 age group, both flows are higher in the three large countries for which these figures are available (see Chart 2). Particularly noteworthy is the sharp increase in Spain in the numbers transitioning from employment to inactivity, which amounted to 4% of the population in that age group, even more than the flow from unemployment. This contrasts with the pattern observed in France and Italy. Indeed, in Italy, transitions from unemployment to inactivity are especially high and reached 3.7% of the population in that age group during lockdown.

⁶ Once the restrictions on movement were loosened, the opportunities to seek work and transition from inactivity to unemployment increased. The monthly euro area unemployment rate indicator rose by 0.6 pp in 2020 Q3.

In the current setting, marked by a sharp increase in temporary lay-off schemes and a surge in inactivity, aggregated employment and unemployment figures do not offer a complete picture of the impact the pandemic is having either on the degree of slack or the surplus supply in European labour markets. One approximation that aims to overcome some of the limitations of the conventional unemployment rate is the broad unemployment rate. This rate includes, in addition to the unemployed, all those in part-time employment who would like to work more hours (the underemployed) and all those who are economically inactive, be they available for work but not seeking work or seeking work but not available for work. In normal circumstances, without restrictions on job seeking, most of these inactive workers would have been considered unemployed, which justifies the use of this broader definition of joblessness. In 2020 Q2 the broad unemployment rate in the euro area rose by 1.3 pp to 15.8%.⁷ This increase was higher than that seen in 2009 Q1 and, unlike that increase, was due not to unemployment but to economically inactive persons available for but not seeking work (see Chart 3.1).

Italy and Spain both recorded much higher increases in their broad unemployment rate than those observed in the euro area overall, up to 23.6% and 25%, respectively (see Chart 3.2 and Table 1). The reason for this growth in the broad unemployment rate in both countries, as in the euro area overall, was primarily the increase in economically inactive persons who were available for but were not seeking work. In Italy, higher underemployment also played a part, whilst in Spain almost one-third of the increase in the broad unemployment rate was on account of higher unemployment.

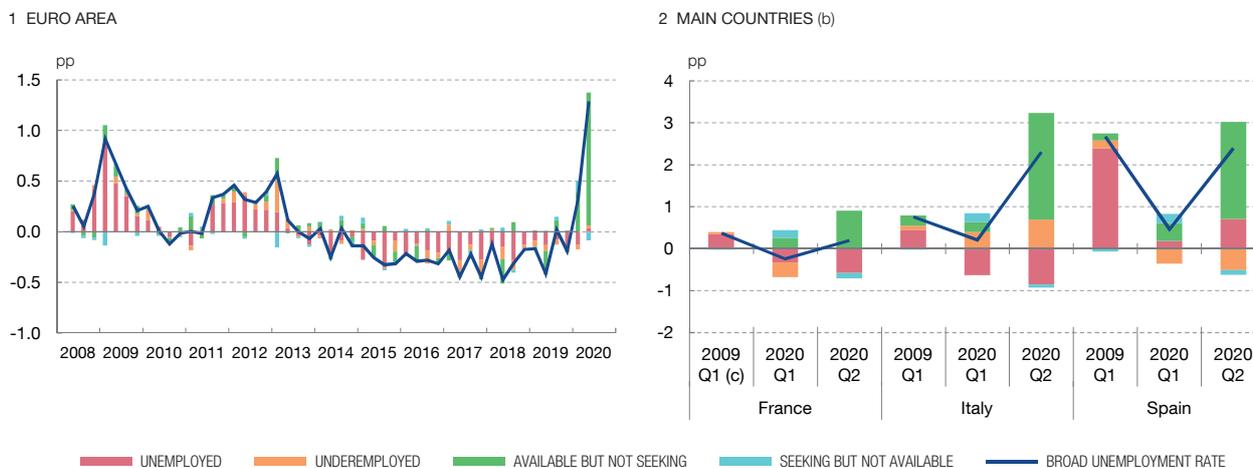
The broad unemployment rate reflects part of the extensive margin adjustment (through unemployment and economic inactivity) and also part of the intensive margin adjustment (through underemployment). But it takes no account of the effects of temporary lay-offs or short-time work schemes. In this respect, a broader measure of the degree of slack in the labour market could be used, including in the broad unemployment rate the percentage of the (extended) labour force that is absent from work due to temporary lay-offs. If this is included, the broad unemployment rate in 2020 Q2 was over 27% overall in the euro area countries for which these figures are available (all except for Germany and Estonia), more than triple their conventional unemployment rate (see Chart 3.3). With rates of 38% and 32%, respectively, Spain and Italy are, together with Greece and Cyprus, above the average, while Portugal and France are just below. The central and north European countries are to be found at the lower end of the distribution, with rates of 11% for both the Netherlands and Slovakia.

⁷ Percentage of the extended labour force, which in addition to the conventional labour force includes the underemployed and all economically inactive persons, be they available for but not seeking work or seeking but not available for work.

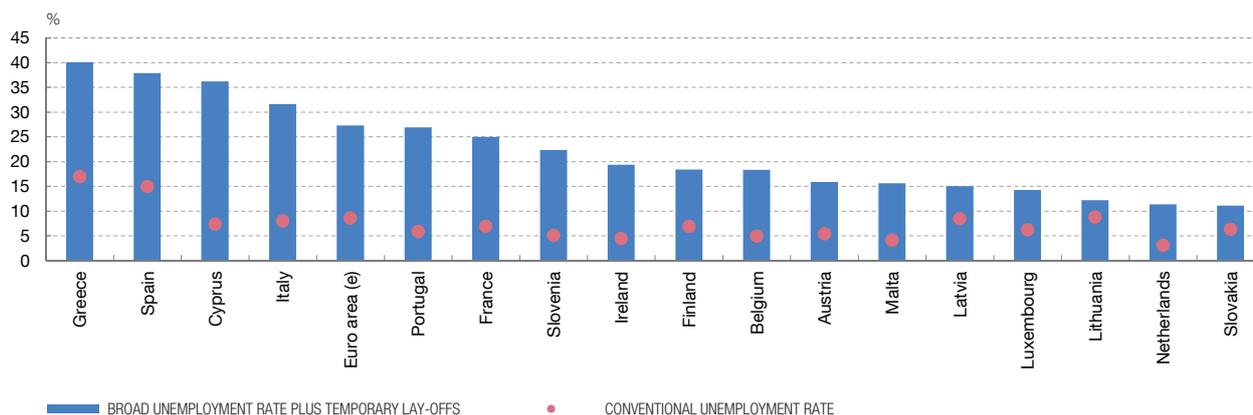
Chart 3

BROAD UNEMPLOYMENT RATE (a)

One approximation of labour market slack that aims to overcome some of the limitations of the conventional unemployment rate is the broad unemployment rate, which rose in the euro area by 1.3 pp in 2020 Q2 to 15.8%. If absences from work owing to temporary lay-offs are included, the rate climbs to 27%, with levels of 38% and 32% in Spain and Italy, respectively.



3 INCLUSION OF ABSENCES OWING TO TEMPORARY LAY-OFFS. 2020 Q2



SOURCES: Labour Force Survey (Eurostat) and Banco de España calculations.

- a The broad unemployment rate is the total number of unemployed, underemployed (persons working part-time who wish to work more hours) and economically inactive persons who are available for but not seeking work or seeking but not available for work; all as a percentage of the extended labour force including underemployment and inactivity as defined above. Quarterly change of the seasonally-adjusted series.
- b Except Germany, whose data for 2020 are not available
- c Raw data for persons aged 15 to 64. Quarter-on-quarter change in the four-quarter total.
- d Sum of the broad unemployment rate plus temporary lay-offs as a percentage of the extended labour force defined in note (a).
- e Except Germany and Estonia, whose data are not available.



Hours worked and absence from work

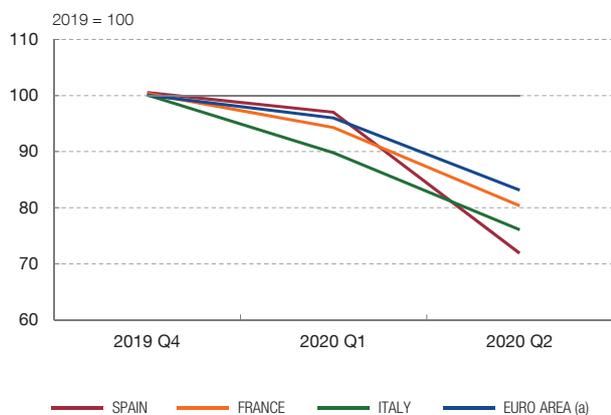
Compared with the conventional magnitudes of employment and unemployment, affected, as discussed above, by a series of pandemic-related distortions, the total number of hours worked is a better reflection of how the European labour markets have

Chart 4

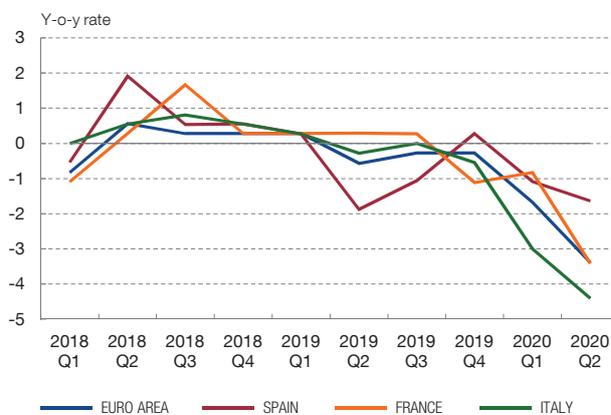
HOURS WORKED AND ABSENCES FROM WORK

Hours worked declined sharply over the first half, while absences from work rose in the second quarter driven by temporary lay-offs.

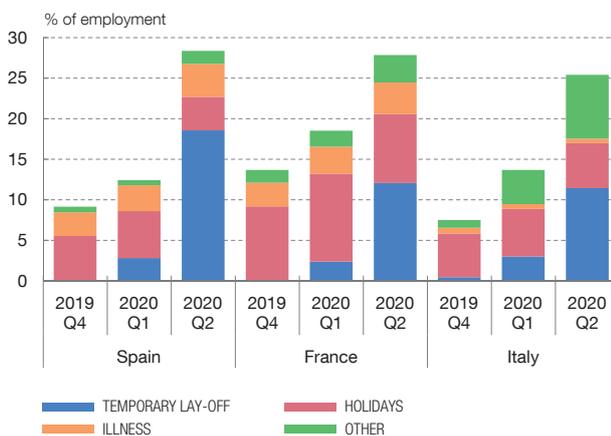
1 TOTAL HOURS WORKED



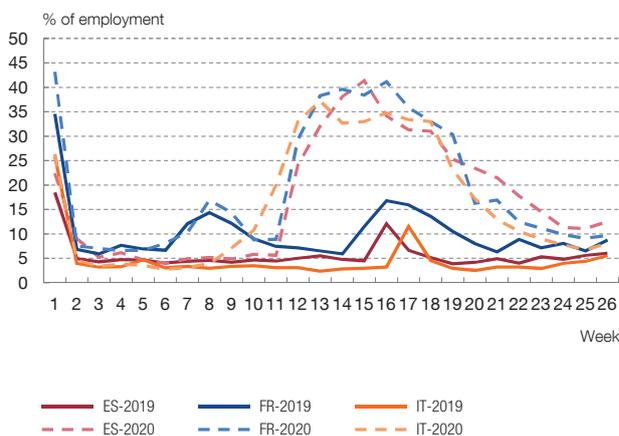
2 ACTUAL HOURS PER WORKER



3 ABSENCES FROM WORK



4 WEEKLY ABSENCES FROM WORK



SOURCES: Labour Force Survey (Eurostat) and Banco de España calculations.

NOTE: Workers aged 20 to 64. Seasonally-adjusted series, except hours per worker and weekly absences.

a Estimated drawing on National Accounts.



evolved. The figures for 2020 Q1 already pointed to a sharp drop in the number of hours worked (see Chart 4.1), especially in Italy and France, although the most abrupt fall was in Q2, primarily as a result of the lockdown measures. In Spain, labour input measured in hours worked fell by 28 pp in 2020 H1 compared with the 2019 average, almost double the fall of 17 pp in the euro area overall. This decline in the euro area is much bigger than the fall (of 6.6%) from the peak in the expansionary phase that ended in 2008 Q1 to the trough recorded in 2013 Q1 following the euro crisis.

This highly unfavourable performance in hours worked compared with the number of persons employed reflected the set of employment adjustment measures taken in

light of an unprecedented negative shock. One peculiarity of this contractionary phase is that, given its specific combination of limited duration and high intensity (with much productive activity almost completely shut down), firms are making greater use than in the past of the intensive margin of adjustment (hours worked per employee). This has been encouraged by the widespread adoption of measures to support temporary lay-offs and short-time work schemes, all of which has cushioned job destruction (the extensive margin). Chart 4.2 depicts the change in actual hours worked per person employed and reveals a sharp decline in this variable in all three large European countries considered, especially in Italy.

The statistics on absences from work⁸ (see Chart 4.3) show that total absences increased sharply in Q2, with figures over 20% of total employment in the three countries considered (more than 28% in Spain). Among total absences, those owing to temporary lay-offs were particularly relevant, as indicated in the previous section. Absences owing to holidays were also significant in France, as were absences for other reasons⁹ in Italy, which could denote an indirect adjustment channel.

Lastly, Eurostat has also provided an experimental “Weekly absences from work” indicator. Chart 4.4 depicts absences from work in France, Italy and Spain over the first 26 weeks of 2019 and 2020. As the chart shows, in 2020 absences rose significantly from the end of March, reaching 40% of all persons employed in France and Spain in April. Absences remained high up to week 19 (approximately mid-May), coinciding with the strictest phase of restrictions on mobility. From then on, absences from work decrease appreciably, reflecting the gradual easing of the various restrictions. Nevertheless, at end-June, absences still amounted to some 10% of employment in all three countries considered (almost 2.4 million workers in the case of Spain).

Final comments

Labour markets in the euro area in 2020 Q2 were severely affected by the COVID-19 lockdown measures. In this context, conventional employment and unemployment measures are not sufficient to describe labour market developments. Job retention schemes averted potential redundancies, replacing them with temporary lay-offs and reductions in working hours. These instruments had already been widely used in some European countries, such as Germany, in the global financial crisis, but had seen very limited use in others. In addition, many workers who lost their jobs were unable to seek work owing to restrictions on movement. Accordingly, under the conventional measure of unemployment, they were not considered unemployed.

8 These consider absences of employed persons for reasons such as holidays, illness, temporary lay-offs or other reasons (cf. next footnote).

9 These absences could be on account of maternity or paternity leave, or bad weather, which are clearly not COVID-19-related, but they could also be due to other factors that may be indirectly pandemic-related, such as educational or training leave or other personal reasons.

In these circumstances, variables such as hours worked or a measure of the broad unemployment rate that takes into account this type of inactivity and includes temporary lay-offs have gained prominence as a means to measure the slack in the euro area labour market. On this broad unemployment rate, the percentage of population available for work in the euro area and who, in 2020 Q2, were fully or partially unemployed, rises to 27%. The sharp increase in unemployment, in this broad sense, and the short-time work schemes resulted in an unprecedented fall in employment in terms of hours worked. This decline was very uneven across countries, with Spain being the one most affected. In principle, temporary lay-offs should help limit the potential hysteresis effects on euro area labour markets which, however, will tend to become more severe the longer the health crisis persists.

15.12.2020.