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The impact of COVID confinement measures on EU labour market

Headlines

- The labour market impact of COVID-19 related confinement measures is expected to be higher in some Southern European Member States and Ireland. These are the countries in which the share of sectors forcefully closed are higher.
- The impact is likely to concentrate on the most vulnerable segments of the working population: workers with lower wages and worse employment conditions as well as women and young workers.
- Previous experience supports the current large-scale transition to telework. Unfortunately, some of the most affected countries had lower prevalence of telework before the crisis.

The analysis has been carried out as follows:

- We have analysed the restrictions on activities imposed in three EU Member States (Italy, Spain and Germany), to use them as benchmarks for the rest of Europe.
- Following the legislative measures adopted in those three countries, we classify all economic sectors into different categories according to the likely impact of the COVID crisis, and compare the shares of employment that are likely to be affected in each country.
- Once this is done, we apply the same categories of sectors to recent data on the distribution of employment in Europe, and estimate how different types of workers (by gender, age, skill level, employment status and wage levels) would be affected by the economic lockdown measures.
- Finally, we use all this information to speculate about possible mid-term developments and broader socio-economic implications of the COVID crisis in Europe.

The impact of the COVID confinement measures on EU labour markets

In this brief we present an assessment of the potential labour market impact of the confinement measures implemented by many Member States to halt the spread of the coronavirus pandemic in the first quarter of 2020.

These restrictions are having an important impact in nearly all European labour markets. The outcomes in different countries will vary depending on the specific restrictions imposed, but also on the design and characteristics of their institutions and their employment and economic structure.

All these factors will result in unequal impacts in terms of overall employment effects but also in terms of the types of jobs and workers affected.

Confinement measures: a comparison of three European countries

According to the information contained in the national confinement decrees of Italy, Spain and Germany, we first classify the sectors as essential and non-essential. In terms of employment, Spain is the country where the most restrictive measures were adopted: 56% of employment was located in sectors that were considered non-essential, and were thus mandatorily closed to the public when the more restrictive measures were adopted. This proportion was lower in the cases of Germany (45%) and Italy (38%). However, these differences reflect how restrictive the different confinement decrees were, not their actual implications in terms of employment because in some sectors at least part of the activity could be maintained via telework: e-commerce, online lessons, research, etc.

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How confinement measures are affecting EU labour markets and workers

Thus, taking all relevant information from the national decrees, and additional information about the possibility to work remotely, **we constructed five categories of sectors according to the likely impact of the confinement measures:**

1) essential and fully active sectors;
2) active but via telework;
3) mostly essential and partly active, not teleworkable;
4) mostly non-essential and inactive, not teleworkable and
5) closed.

This classification is applied to an ad-hoc extraction of the European Union Labour Force Survey data (with annual figures from 2018), so **we can compare the share of employment potentially affected in different countries** (see Figure 1).

The countries with a higher share of employment in the forcefully closed sectors are likely to suffer a much higher impact. As we see in Figure 1, for the EU as a whole this category represents around 10% of employment, but there are significant differences by country, with some Southern European countries plus Ireland showing the highest shares.

The main driver behind this heterogeneity is regional economic specialisation. Indeed, we do know that some

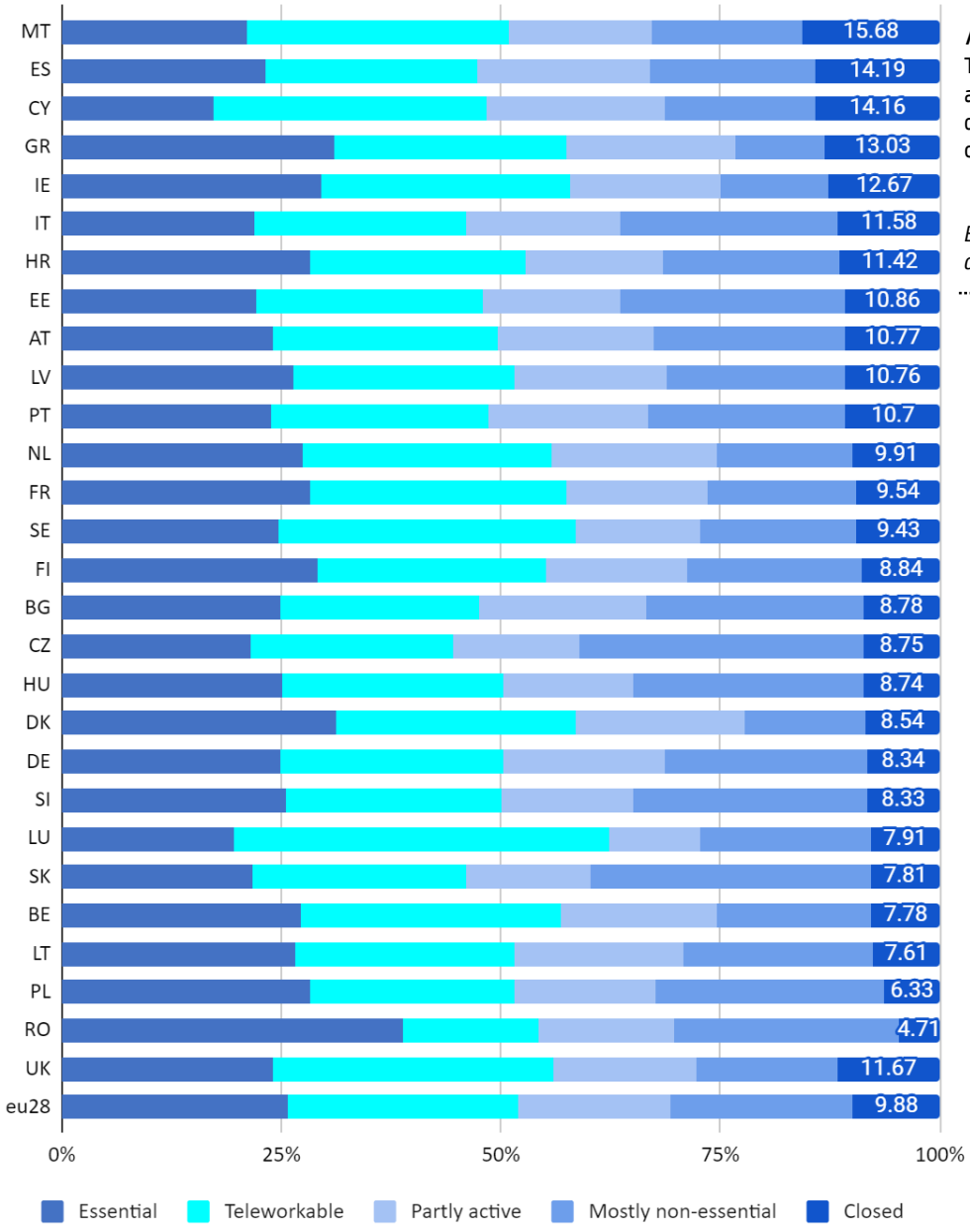

Figure 1
The distribution of employment across the 5 categories of sectors, defined by likely impact of COVID crisis.

Employment figures from 2018 annual LFS data.

"The countries with a higher share of employment in the forcefully closed sectors are likely to suffer a much higher impact.. For the EU as a whole the 'Closed' category represents around 10% of employment, but there are significant differences by country"

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Mediterranean countries account for higher shares of employment in leisure activities, hospitality, personal services and other sectors that have been strongly hit, but they also have higher shares of self-employment and temporary contracts (especially in the closed sectors), which can compound the negative effects of forceful closures. On the other hand, the countries in which the shares of essential or teleworkable sectors are higher are usually located in Northern and Western Europe. These countries are potentially less exposed to the negative consequences of the current crisis.

An analysis of **the socio-economic composition of the groups of sectors defined above allows us to deepen on the distributional consequences** of the COVID crisis. Table 1 shows the average wage percentile of jobs (a good proxy for job quality) in each of the categories, showing that wages are the lowest in the forcefully closed sectors. A similar exercise has been performed using variables such as gender, age, employment type, type of contract and skill level. All these results suggest that the effects of the lockdown measures across groups of workers are asymmetric, as we summarise in the Table 1 below and in the following paragraphs.

- **Differences by gender:** in all EU countries (except Greece and Malta) women are more represented in the forcefully closed sector, and in many countries also in the essential and teleworkable sectors (being generally underrepresented in the mostly non-essential sectors of manufacturing and construction).
- **Differences by age:** a relatively important share of young workers are occupied in the forcefully closed sector, while the proportion of young workers active in the sectors less affected by the crisis (the essential one and the teleworkable sector) is really low. By contrast, we also found that senior workers are overrepresented in the essential sector.
- **Differences by employment type:** both self-employment and temporary contracts are especially common in the forcefully closed sector, although we can appreciate important differences across countries (the share of precarious forms of employment is higher in some countries of Southern and Eastern Europe).
- **Differences by skill level:** there is a clear pattern in all countries showing that more than half of the workforce (60.6% for the EU as a whole) in the teleworkable sector are high-skilled workers. Low-skilled workers are more equally distributed across the rest of the sectors.

	Essential	Teleworkable	Partly active	Mostly non-essential	Closed	All sectors
DE	46.06	67.59	36.83	55.29	27.50	50
FR	45.47	64.14	41.38	51.11	35.52	50
IT	53.57	72.47	38.23	45.81	25.58	50
ES	53.84	71.67	34.87	47.36	31.64	50
PL	45.59	69.75	36.04	50.35	33.63	50
NL	48.54	69.19	35.91	51.63	26.83	50
RO	50.58	66.65	39.26	50.31	27.04	50
CZ	53.47	67.22	36.54	47.15	29.43	50
SE	42.70	64.03	43.60	51.27	29.04	50
BE	46.39	67.06	36.39	50.99	30.07	50
HU	49.87	61.21	40.50	47.80	41.59	50
AT	48.22	66.60	37.98	56.02	24.95	50
GR	44.39	74.87	40.87	48.26	29.01	50
PT	44.32	74.24	48.52	33.25	36.68	50
BG	48.91	67.42	43.82	45.12	36.54	50
FI	41.36	69.42	40.47	56.75	29.67	50
SK	50.55	61.29	37.77	51.29	31.07	50
DK	46.62	71.49	37.89	51.09	23.94	50
IE	51.17	75.04	28.41	52.79	21.34	50
HR	53.48	68.13	36.48	45.32	31.02	50
LT	46.62	66.12	42.99	49.45	32.06	50
SI	48.66	69.79	42.85	42.94	33.37	50
LV	48.91	65.80	42.14	46.73	35.02	50
EE	47.78	61.68	42.98	52.93	30.94	50
CY	53.34	72.27	37.15	42.95	25.27	50
LU	43.98	61.86	29.50	53.10	24.49	50
MT	51.83	67.33	32.36	44.53	40.29	50
UK	48.73	64.91	32.49	57.82	28.54	50

Table 1
Average wage percentile of jobs in each of the categories

Higher — Lower

"The most negative effects tend to concentrate on the most vulnerable and disadvantaged workers."

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- **Differences by wages:** information of skill-level correlates with information about wages. The teleworkable sector in also the one with higher wages in all countries. The opposite happens with the wages of workers in the forcefully closed sectors, where the lowest wages are concentrated.
- **Previous experience of telework:** here the differences by country are very large. Some countries already had a significant previous experience of telework and are thus likely to be much more prepared for the large-scale transition to telework triggered by the COVID crisis. Unfortunately, some of the countries with a lower previous prevalence of telework before the crisis are again those countries hardest hit by the pandemic (including Italy and Spain).

In summary, we can **conclude that the most negative effects of the confinement measures often concentrate on the most vulnerable and disadvantaged workers.** The **sectors forcefully closed by the decrees** (i.e. hospitality, personal services, leisure activities, etc.) are, in most EU countries, characterised by low wages and precarious conditions of employment, and tend to have a higher concentration of women and young workers than the rest.

In contrast, there is a category of sectors for which the restrictions imposed by confinement measures are not so adverse. This category is formed generally by **service sectors that involve some degree of social interaction** (paradigmatic examples are education, public administration, telecommunications and most professional, scientific and technical activities) that **lends itself to remote service provision.** In sharp contrast with the forcefully closed activities, these "teleworkable" sectors are characterised in most countries by better employment conditions: the proportions of self-employed and temporary workers are comparatively lower, and they have very high wages. A remarkable share of high-skilled workers is active in this category of sectors.

In between those most and least negative outcomes, there are **three more categories of sectors** defined according to the COVID lockdown measures. The characteristics of those sectors can be summarised as follows:

- The sectors considered **essential and thus remaining fully active.** This category includes activities related with food production, utilities, the activities of health professionals and social care, etc. They account, on average, for around 25% of employment in most countries, with conditions and wage levels generally similar to those of the average working population. In this case, we can highlight that there is an important gap by age: the sector that is fully active and open to the public is the one employing the highest proportion of older workers, while young workers are underrepresented. Since exposure to the virus is particularly dangerous for older workers, this could be problematic.
- A mixed category of sectors which are **partly considered essential and thus partly active.** Here we include a significant part of retail and manufacturing of chemicals and paper, which remain to some extent active even in the strict confinement situation. The typical conditions of this category are similar to those of the forcefully closed sectors, and in some cases may suffer similar problems in the short and medium term. For instance, non-essential retail is also likely to suffer forceful closures and intermittent activity in the near future.
- The activities that are **not considered essential** but, in many cases, are **allowed to continue functioning with additional precautionary measures.** Here we include activities that usually do not involve high risks to the general public but which cannot operate on remote since they require the physical transformation of objects: the majority of manufacturing not previously mentioned, some machine and computer repair activities and construction. These typically male-dominated sectors tend to have better employment and wage conditions than the average, even if their average education levels are in fact below those of the forcefully closed sectors. Although these sectors may also suffer a significant blow because of the forthcoming economic contraction, the lockdown measures themselves are unlikely to affect them in a significant way in the medium term.

Labour market impacts and policy implications

The impact of the COVID crisis is likely to concentrate on the most vulnerable segments of the working population. Restrictions on economic activity are mainly affecting workers with lower wages and worse employment conditions. The impact also appears to be significant for women and young workers. It is important to notice that these segments of the working population are also probably the ones with less resources available to face unemployment and sudden income losses. The challenges for unemployed people are likely to be quite significant in the short and medium term, since they will have to look for jobs in a context of subdued economic activity and employment scarcity.

The fact that the crisis is global and has an important impact on investment, global value chains and international trade implies that employment and economic growth are unlikely to suffice by themselves to alleviate the situation of the most affected segments of the population, at least in the short-term. In this context it appears essential to put in place measures aimed to provide income support and ensure access to social protection to those vulnerable segments of the population. While these types of measures are useful to alleviate and improve the economic and social conditions of the vulnerable people, they support final demand, a pivotal driver for the recovery and therefore an adequate tool to promote job creation.

Furthermore, the sudden rise in unemployment levels and the difficulty to ensure smooth labour market transitions call for the use of short-term working schemes and for active measures to support job seekers.

The labour market impact of the crisis is also likely to be much stronger in some countries. A collective EU response based on pan-European emergency mechanisms is being set up to provide support for the countries most in need. In the mid-term, we can expect that the economic sectors most affected now will remain problematic until the pandemic is under control, because they involve an important degree of face-to-face social interaction and final (often external) demand. It is thus likely that a very significant proportion of the workers now employed in those sectors will face very uncertain prospects in the medium term, in a context of protracted economic crisis that will provide very thin opportunities in any other way.

The immediate policy needs mentioned above, therefore, will probably have to be extended or adapted for mid-term application at least. To be really successful in the long run, these measures should be combined with bold industrial and investment policies that provide alternative opportunities at a properly large scale, such as an ambitious European Green Deal.

This policy brief has been prepared by Sergio Torrejón, Ignacio González-Vázquez, Marta Fana and Enrique Fernández-Macías, and summarises the main results and policy implications of the technical report *The COVID confinement measures and EU labour markets*.

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