

## ► ILO Brief

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# COVID-19, labour market slack and what it means for recovery<sup>1</sup>

### Key points

- ▶ The sharp decline in working hours caused by the COVID-19 crisis resulted in an estimated loss in the volume of work in the Asia-Pacific region equal to a decline of 140 million full-time jobs. This includes 62 million jobs that were lost entirely when enterprises let employees go or when the self-employed closed operations and also jobs that were maintained but at which workers spent reduced hours.
- ▶ The majority of workers who lost work in the Asia-Pacific region moved outside the labour force to inactivity (48 million) with the remainder becoming unemployed (14 million). That is 4 newly inactive persons for every 1 additional unemployed.
- ▶ Putting labour markets back on track means not just creating new jobs for the millions of persons pushed out of work, but also getting labour demand back up to the point where it generates sufficient hours of work to re-absorb the additional millions who are currently underemployed in terms of working hours.
- ▶ Even if production increases again in 2021 and working hours return to normal for those who maintain their jobs, the surplus of persons in inactivity is likely to continue to exert negative pressure on wages. This could mean that labour income in the region will remain below the 2019 level also through 2021.
- ▶ Until all forms of labour market slack are adequately addressed, national economic recoveries will remain sluggish and incomplete.

## ► Visualizing labour market slack

Labour market slack is defined as a situation in which there is a shortfall between workers' desired amount of work and the amount of work that is available. During times of economic recessions, when enterprises limit hiring or even shed labour, labour market slack inevitably increases. Slack during the COVID-19 crisis is expected to be especially problematic given the particular situation of

workers forced to limit their hours of work in response to lockdowns and containment measures. This brief quantifies the extent of increased labour market slack in the Asia-Pacific region resulting from the COVID-19 crisis and examines what this means for the welfare of impacted workers and economies struggling to navigate recovery.

<sup>1</sup> This brief was written by Sara Elder, Senior Economist of the Regional Economic and Social Analysis Unit, Regional Office for Asia and the Pacific, with contributions from Phu Huynh, Steven Kapsos, Sher Verick and Christian Viegelah.

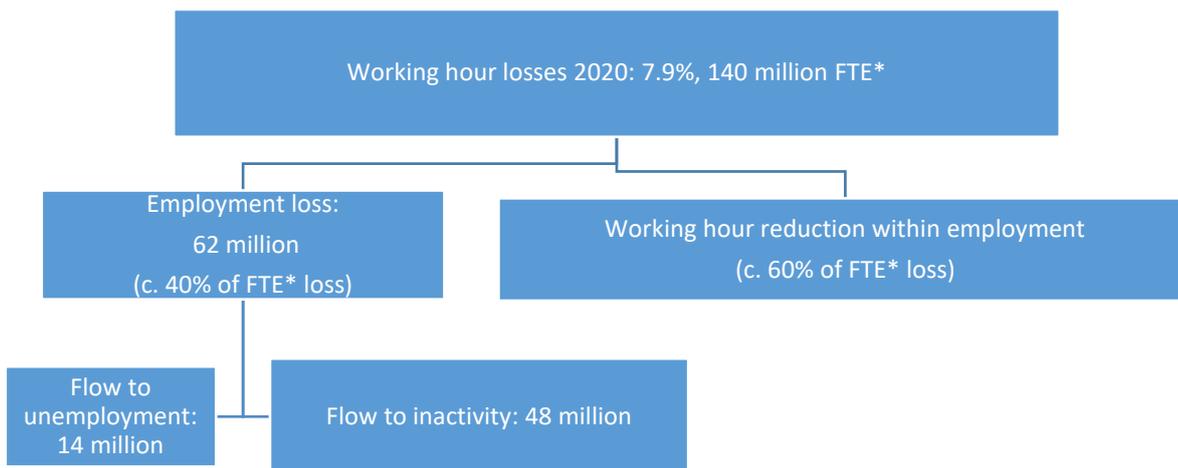
Figure 1 demonstrates the elements of the crisis-induced impact on labour markets in the Asia-Pacific region. The region saw a reduction of nearly 8 per cent in the total hours worked in 2020 (annual average) compared to the 2019. This is equivalent to a loss of 140 million full-time jobs.<sup>2</sup>

We can break down the loss of hours into complete job loss and persons who remain employed but are forced to work significantly fewer hours, or even zero hours, due to lockdowns and depressed demand. Approximately 60 per cent of the working hour losses were due to persons on reduced hours and 40 per cent to outright job loss. The available data also allows us to generate regional

estimates showing where people ended up who left employment: the majority (48 million) moved into inactivity and the remaining 14 million moved into unemployment. That means for every 1 person who became unemployed as a result of the crisis, 4 persons became inactive.

The portions of the figure that make up the underutilized labour force (or labour market slack) are the unemployed, the portion of the inactive who would like to re-join the labour market (also known as the **potential labour force**) and the share of workers on reduced hours that would like to work additional hours again (also known as the **time-related underemployed**).

► **Figure 1. Estimates of the working hours and employment lost in the Asia-Pacific region, 2020**



\*FTE: Full-time equivalent job (assuming a 48-hour workweek).

Source: Based on information in ILO, [Monitor on COVID-19 and the World of Work, 7th edition](#), 2021.

## ► Elements of labour underutilization have increased significantly during the COVID-19 crisis

In “normal” times, numbers of time-related underemployed are small as a share of total employment. In the unusual circumstances of lockdowns and workplace closures, with many affected enterprises putting workers

on reduced hours and incomes affected accordingly, the number of time-related underemployed jumped significantly. Available country-level results highlighted in the [APESO 2020](#) confirm this.<sup>3</sup> The increase in persons working fewer than 35 hours per week who wished to

<sup>2</sup> The 140 million figure is an estimate of the full-time equivalent (assuming a 48-hour workweek) of the estimated 7.9 per cent decline in working hours in 2020 over 2019. The methodology is describe in full in ILO, [Monitor on COVID-19 and the World of Work, 7th edition](#), 2021.

<sup>3</sup> ILO, [Asia-Pacific Employment and Social Outlook 2020: Navigating the crisis towards a human-centred future of work](#), 2020.

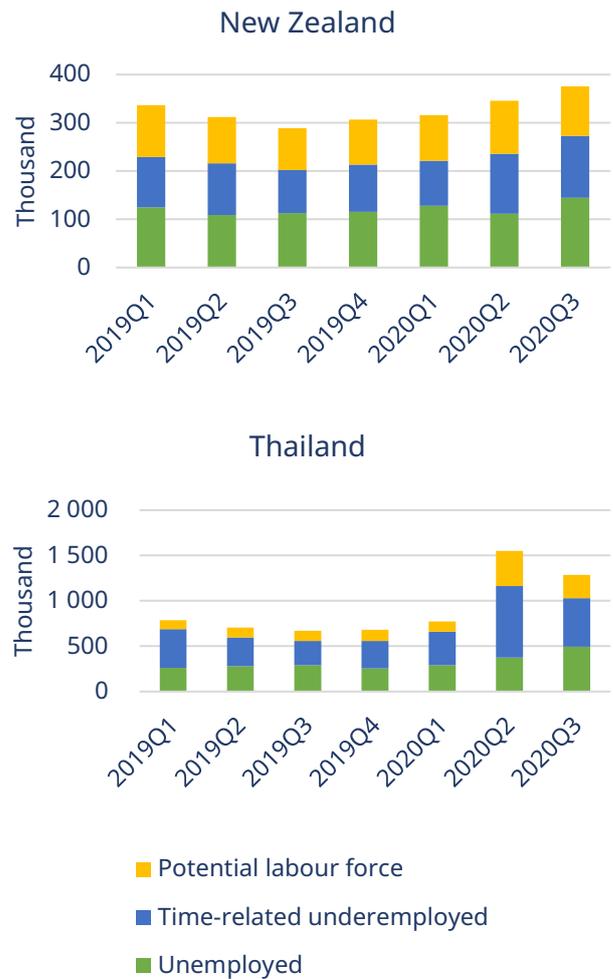
work more hours was significant in Q2 and Q3 2020 over the same periods of 2019. In Hong Kong (China), the number surged by around 250 per cent in both the second and third quarters. Increases are more muted in the other countries with data (Australia, New Zealand, Republic of Korea and Thailand), but remain sizable nonetheless (at least 50 per cent).

Of the persons pushed into inactivity as a result of the crisis, many are biding their time outside the labour force, waiting for better chances of finding work. They are counted as the potential labour force, a category that includes persons available for work but not actively seeking work (possibly knowing there is no work available given the COVID-19 crisis) and persons seeking work but not current available (for instance, a parent unable to work due to care responsibilities for children unable to return to school). [Working mothers](#) are particularly susceptible to falling out during the crisis. The crisis has seen the potential labour force increase significantly: for example, increases in the potential labour force in the third quarter 2020 compared to the same quarter in 2019 were 18 per cent in New Zealand, 22 per cent in the Republic of Korea and a remarkable 123 per cent in Thailand. In all cases, the increase (nominal and rate) in women moving to the potential labour force was higher than that of men.

Figure 2 shows the scale of the three main forms of labour market slack – unemployment, time-related underemployment and the potential labour force – in two countries: New Zealand and Thailand. By Q3 2020, there were 87,000 additional persons in the categories of labour market underutilization in New Zealand compared to Q3 2019, a jump of 30 per cent. In Thailand, 612,000 additional persons joined the categories of

underutilization, 91 per cent more than the same period of the previous year.

► **Figure 2. Components of labour underutilization in New Zealand and Thailand, Q1 2019 to Q3 2020**



Source: Calculations based on quarterly data available in ILOSTAT database.

## ► Why labour slack matters

Recession-driven labour market slack is an area of concern for the following reasons:

1. **Previous research has shown that increases in inactivity exert downward pressure on wages.**<sup>4</sup> The recent [ILO Monitor](#) estimates that labour income had declined by 6.6 per cent in the Asia–Pacific region in 2020 from the previous year. Even if production increases again in 2021 and working hours return to normal for those who maintain their jobs, the surplus of persons in inactivity is likely to continue to exert negative pressure on wages. This could mean that labour income in the region will remain below the 2019 level also through 2021.
2. **It is women who make up a disproportionate share of the displaced.** Attachment to the labour market not only brings much-needed earnings to households, but also an associated sense of empowerment among women to play a strong role in household decision-making and to guide personal and family well-being. In countries where gender participation gaps were improving (although gaps [remain too large in many](#)), the crisis threatens to push the end-goal for equality in access to decent work opportunities back by decades.
3. **The disadvantaged become even more disadvantaged.** The crisis is already exacerbating existing [wage inequalities](#) in the labour market. When recovery starts to take hold, streamlined and debt-laden enterprises are not likely to go on hiring sprees, at least initially. When they do start to expand, they will have a broad pool of jobseekers to choose from. Many enterprises will prefer to take on persons with work experience, leaving young labour market entrants and other persons with limited skills at the back of the queue.
4. **A large share of the potential labour force are those working in the highest-affected sectors.** The most impacted sectors of this crisis include accommodation and food services, manufacturing, wholesale and retail trade, and real estate and business activities. Some of these industries, for example, those related to the

tourism sector, are projected to take years to get back to their pre-pandemic normal. Many of the slow recovery sectors are where large shares of low-skilled labour compete for work. The sectors more likely to recover quickly or having already recovered are those that tend to absorb comparatively lower shares of labour – the information, communications and technology sector, for example. The sectoral composition of work in developing and emerging countries will thus exacerbate the challenge of absorbing excess labour supply.

### No recovery until all elements of labour market slack return to pre-crisis number...

In the Asia–Pacific region as elsewhere, upping workers' hours while re-absorbing all persons who exited the labour market during the crisis and also taking care of new young graduates will be the top challenges for years to come.

Until all persons pushed to the margins of the labour force are re-absorbed and the segments of labour market slack diminish to at least what they were before the COVID-19 crisis began, recovery will not be complete. With the crisis pushing millions back into circumstances of working poverty, governments will need to keep up the momentum on fiscal expenditure, if at all possible, and continue the delivery of an expanded set of support services for workers, enterprises and households.<sup>5</sup> At the same time, governments can also consider to implement programmes of short-term job schemes that create opportunities for potential jobseekers to earn extra income until the time when recovery and sufficient job creation takes hold. Even as economic growth returns, effective [labour market policies and employment services](#) will be needed to ensure that such growth is job-rich, fairly paid and capable of matching candidates from a bloated pool of available jobseekers to available jobs in an equitable way.

<sup>44</sup> David G. Blanchflower and Adam S. Posen, "Wages and Labor Market Slack: Making the Dual Mandate Operational", Working Paper Series 14-6, Peterson Institute for International Economics, September 2014; Jed Armstrong and Ozer Karagedikli, "The role of non-participants in labour market dynamics", Reserve Bank of New Zealand Analytical Notes, AN2017/01, January 2017.

<sup>5</sup> Olivier Blanchard, "[Designing the fiscal response to the COVID-19 pandemic](#)", Peterson Institute for International Economics (PIIE), 8 April 2020.

## ... and no “better normal” until the most vulnerable workers are not just back on their feet, but thriving.

While getting working hours and labour incomes back up to what they were before the crisis will mean recovery is underway, the hope is that countries can strive for greater ambition than that. In the developing economies of Asia and the Pacific, where 2 in 3 workers are still in informal employment, a post-crisis objective of a quick “return to work” is not enough to propel increased consumption and economic recovery.

Many countries in Asia have been categorized as middle-income for decades now, and it is not economic crises like the current one that are preventing the developmental breakthrough to high-income status. Rather, the limits to economic growth exist when labour market duality is not

tackled – when a minority gains access to decent jobs while the majority remain in informal, unprotected work. The economic breakthrough of developing and emerging economies in the Asia-Pacific region will only come once countries get serious about tackling informal employment and increasing opportunities for well-paid, secure work that can boost per capita income.

There is an important opportunity now for countries to get past this crisis, moving towards a “better normal” by making policy choices that will permanently increase investments in the areas that boost resilience and promote a more people-centred recovery and future of work. A roadmap exists in the [ILO Centenary Declaration for the Future of Work](#). Let us see who is brave enough to follow it.

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