

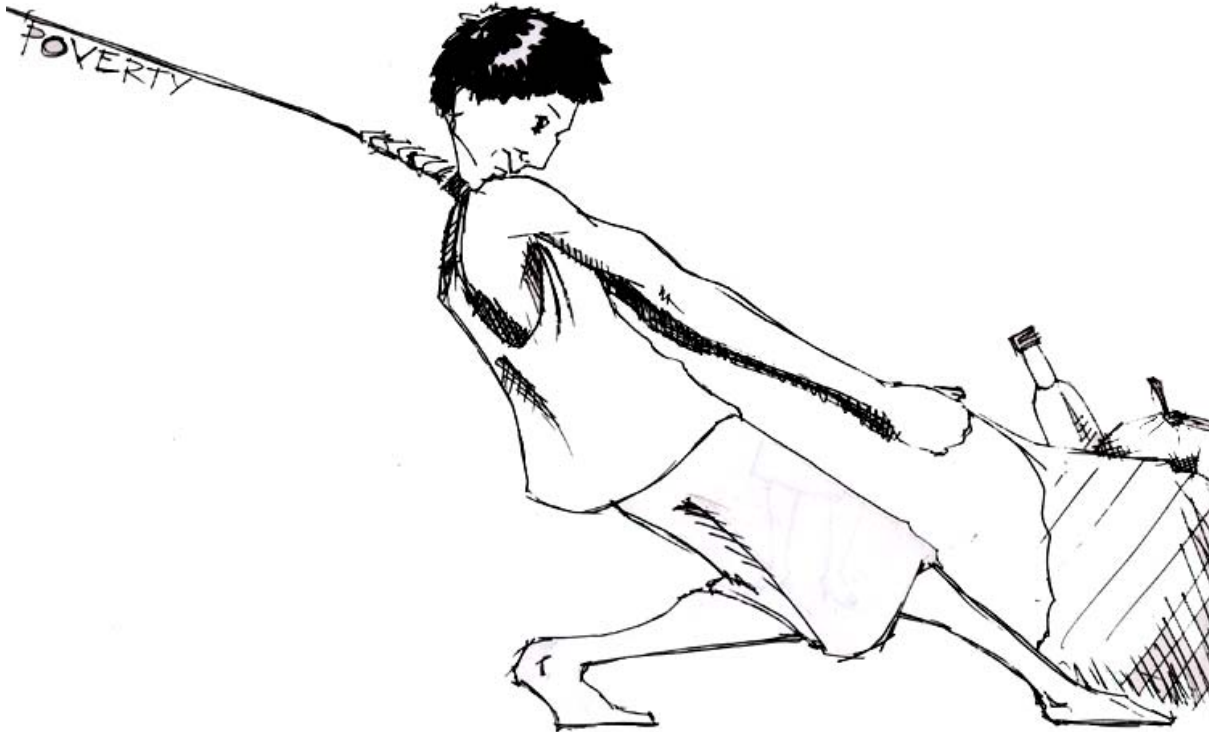


LEARN

VOL II NO.5

LABOR TRENDS

May 2006



Poverty may rise as underemployment surges

After rising sharply in the last 12 months, total underemployment eased in April this year but remained at near-record level, according to the latest Labor Force Survey (LFS). Total underemployment declined to 25.4% in April from 26.1% in the same month last year.

The decline in total underemployment came on the back of a fall in invisible underemployment, the proportion of full-time workers desiring additional work hours. Invisible underemployment stabilized at 8.9% in April.

But visible underemployment, the proportion of part-time workers wanting more work hours remains on the rise. It reached 14% in April, the highest in 20 years.

Table 1. Unemployment and Underemployment levels and rates, Jan 2005-Apr 2006

| | 2005 | | | | 2006 | | | |
|------------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | Jan | | Apr | | Jan | | Apr | |
| | number (‘000) | rate (%) | number (‘000) | rate (%) | number (‘000) | rate (%) | number (‘000) | rate (%) |
| Unemployment | 4,030 | 11.3 | 4,708 | 12.7 | 3,878 | 10.7 | 4,433 | 11.8 |
| Underemployment | 5,097 | 16.1 | 8,422 | 26.1 | 6,895 | 21.3 | 8,401 | 25.4 |

Source: National Statistics Office

Rising underemployment is important because it may indicate rising poverty incidence that is not yet reflected in currently available income statistics. Underemployed workers are likely to become working poor with incomes insufficient to carry themselves and their families above the poverty threshold. This issue discusses underemployment in more detail, particularly in relation to unemployment.

Limited measure

The state of the labor market is often assessed on the basis of the unemployment rate. Headlines of news articles reporting on the results of the latest labor force survey refer to the unemployment rate.

Last year, President Arroyo boasted that unemployment in the Philippines is just above 8%, lower than the unemployment rate in Germany. She was referring to the unemployment rate using the new official definition.

But this does not mean that the Philippine labor market is more effective than Germany’s. Otherwise, would the Philippines be sending tens of thousands of workers to Germany every year?

The concept of unemployment has serious limitations in developing countries like the Philippines. First, in the absence of unemployment insurance or relief programs, those who find themselves without formal employment engage in informal sector activities to survive. Often this work will not employ them full time or generate a decent income.

Second, a large share of people are self-employed. When these workers face periods of no work, instead of looking for formal employment, they engage in alternative self-employment activities, even though these may generate a lower income than their usual activities.

Third, work in rural communities is often organized according to traditional arrangements, with the available

Table 2. Unemployment and Underemployment levels and rates, Apr 2006

| Age Group | Unemployment | | Underemployment | |
|--------------|---------------|----------|-----------------|----------|
| | number ('000) | rate (%) | number ('000) | rate (%) |
| 15 - 24 | 1,421,000 | 17.4 | 1,614 | 19.2 |
| 25 - 34 | 847,000 | 8.8 | 2,322 | 27.6 |
| 35 - 44 | 332,000 | 4.2 | 2,137 | 25.4 |
| 45 - 54 | 210,000 | 3.7 | 1,458 | 17.3 |
| 55 - 64 | 104,000 | 3.3 | 648 | 7.7 |
| 65 and Over | 17,000 | 1.2 | 242 | 2.9 |
| Not Reported | 0 | 0 | 1 | 0 |

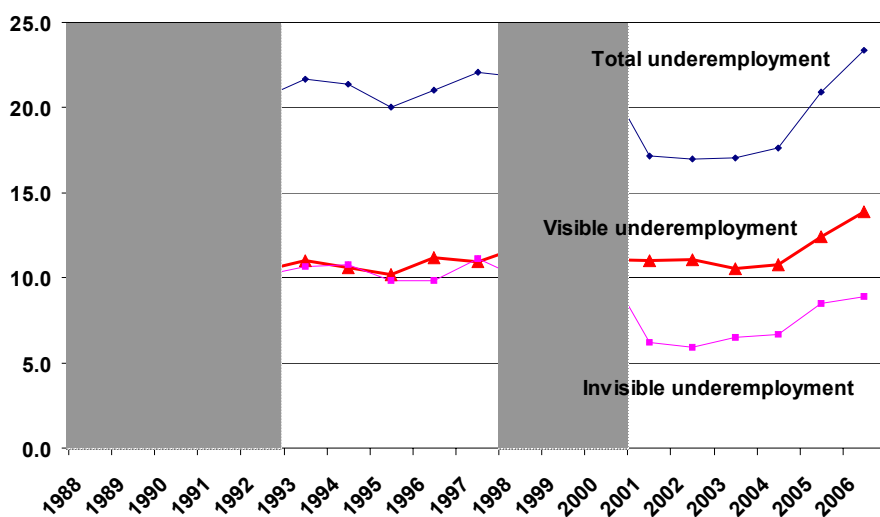
Source: National Statistics Office

labor distributed among all workers at the cost of lowering their average hours.

The result is widespread underemployment—a partial lack of work, low employment income and underutilization of skills or low productivity—rather than or on top of unemployment as officially measured.

Previous issues of *Labor Trends* have highlighted high unemployment rates in recent years. Notwithstanding the shortcomings of the concept of unemployment in a developing economy, we believe high unemployment in recent years is alarming for two reasons.

Fig 1. Total, visible, and invisible underemployment



Source: National Statistics Office

Table 3. Total underemployment by major industry, Oct-05 to Apr-06

| | Agriculture | Industry | Services | All |
|------------------|-------------|----------|----------|-------|
| Total | | | | |
| Number | 3,356 | 1,183 | 2,883 | 7,422 |
| Rate | 28.4 | 23.7 | 18.1 | 22.7 |
| Share | 45.2 | 15.9 | 38.8 | 100.0 |
| Visible | | | | |
| Number | 2,454 | 539 | 1,401 | 4,394 |
| Rate | 20.8 | 10.8 | 8.8 | 13.4 |
| Share | 55.8 | 12.3 | 31.9 | 100.0 |
| Invisible | | | | |
| Number | 832 | 604 | 1,413 | 2,849 |
| Rate | 7.0 | 12.1 | 8.9 | 8.7 |
| Share | 29.2 | 21.2 | 49.6 | 100.0 |

Source: National Statistics Office

One unemployment has been high despite seven years of sustained, albeit moderate, economic growth. This is unlike previous periods when unemployment fell as the economy gradually recovered after a recession. Two, underemployment continued to be a significant problem during this period, in particular, visible underemployment. There was a significant reduction in invisible underemployment though.

Surging underemployment

Since April 2005, underemployment, both visible and invisible, has been rising rapidly, highlighting the old problem of partial lack of work and low employment incomes. (See Fig. 1)

There is no single reason behind the rise in underemployment. Rising prices of basic commodities fueled by rising oil prices and higher taxes may push low-income workers to look for additional work to augment low earnings. Moreover, the fact that majority of jobs generated during this period has been in agriculture where underemployment is high is partly to blame.

Underemployment is rising sharply at a time when unemployment remains high. Unemployment reached a high of 11.8% in 2004 and has since eased slightly to 11.3% in 2005. This rate is unchanged for the first half of 2006. The decline since 2004 is small—a mere drop of

**Table 4. Total, visible, and invisible underemployment levels and rates,
Oct '05 - Apr '06**

| Major industry group | Total | | Visible | | Invisible | |
|--|------------------|-------------|------------------|-------------|------------------|-------------|
| | number ('000) | rate (%) | number ('000) | rate (%) | number ('000) | rate (%) |
| Agriculture | 3,356 | 28.4 | 2,454 | 20.8 | 832 | 7.0 |
| Agriculture, hunting and forestry | 2,941 | 28.3 | 2,147 | 20.6 | 735 | 7.1 |
| Fishing | 415 | 29.4 | 308 | 21.8 | 97 | 6.8 |
| Industry | 1,183 | 23.7 | 539 | 10.8 | 604 | 12.1 |
| Mining and quarrying | 44 | 32.2 | 27 | 20.0 | 16 | 12.0 |
| Manufacturing | 633 | 20.6 | 296 | 9.6 | 320 | 10.4 |
| Electricity, gas and water | 20 | 15.3 | 6 | 4.7 | 13 | 10.4 |
| Construction | 353 | 21.1 | 211 | 12.6 | 255 | 15.3 |
| Services | 2,883 | 18.1 | 1,401 | 8.8 | 1,413 | 8.9 |
| Wholesale and retail trade, repair of motor vehicles and motorcycles | 1,136 | 18.2 | 576 | 9.2 | 536 | 8.6 |
| Hotels and restaurants | 135 | 15.2 | 53 | 6.0 | 79 | 8.9 |
| Transport, storage and communications | 510 | 20.4 | 226 | 9.0 | 271 | 10.8 |
| Financial intermediation | 43 | 12.6 | 12 | 3.4 | 31 | 9.1 |
| Real estate, renting and business activities | 134 | 17.4 | 43 | 5.6 | 88 | 11.5 |
| Public administration and defense compulsory social security | 269 | 18.1 | 102 | 6.9 | 162 | 10.9 |
| Education | 122 | 12.0 | 32 | 3.2 | 78 | 7.7 |
| Health and social work | 65 | 18.0 | 26 | 7.3 | 36 | 9.9 |
| Other community, social and personal service activities | 268 | 33.1 | 175 | 21.6 | 65 | 8.0 |
| Private households with employed persons | 203 | 13.1 | 120 | 7.7 | 66 | 4.3 |
| Extra-territorial org. and bodies | 1 | 42.9 | - | - | 1 | 42.9 |

Source: National Statistics Office

0.3 percentage points compared with an increase of 1.2 percentage points relative to 1998. The decline in fact is meaningless considering that it was accompanied by a lower labor force participation rate and weak job creation. This

means that unemployment fell largely because many of the unemployed did not bother to look for work.

Underemployment higher than joblessness

A closer look at the underemployment statistics, particularly in relation to unemployment, reveals interesting points.

First, underemployment is more widespread than open unemployment. In the last four quarters, underemployment averaged 22% compared with an unemployment rate of 10% using the old definition or 8% using the new definition.

In absolute numbers, there were 3.9 million unemployed workers in January 2006, compared with 6.7 million underemployed workers. The latter is composed of 4.2 million visibly underemployed workers and 2.5 million invisibly underemployed workers. Joblessness takes on the form of underemployment more than open unemployment in the Philippines.

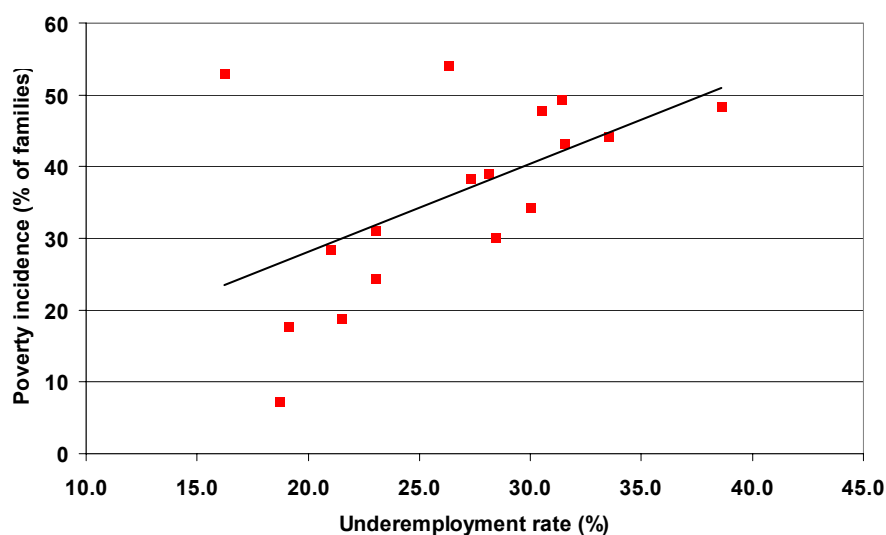
Second, underemployment is generally spread across all ages, with the oldest age group (65 & over) having the lowest underemployment rate of 16%, while all other age groups posted underemployment rates above 20%.

In fact, underemployment for the age group 25-54 is above 26%, with the 35-44 age group posting the highest rate at 28%. In contrast, open unemployment is highest among young workers 15-24 years old (23% using the old definition and 17% using the new definition), and dips to 4% among the 35-54 age group. Young workers account for half of the unemployed.

Third, underemployment encompasses agriculture and services. The two sectors account for 42% and 41%, respectively, of the underemployed. In the service sector, underemployment is highest in other community, social and personal services (36%), transport, storage and communication (24%), and wholesale and retail trade, and public sector (21%).

Fourth, visible underemployment (underemployment among part-time workers) is most widespread in agriculture which accounts for more than half, 52% of involuntary part-timers. Involuntary part-time employment is highest in agriculture (farming and fishing) at 22%.

Fig 2. Underemployment and poverty rate by region, 2003



Source of basic data: National Statistics Office

There are pockets of above-average visible underemployment in industry and services: mining at 20% and other community, social and personal services at 25%.

Invisible underemployment as a phenomenon is most widely felt in construction, transport, storage and communication, real estate, renting and business activities (13%), and health and social work (12%).

In terms of shares, agriculture accounts for more than half of the visibly underemployed, while services accounts for more than half of the invisibly underemployed. Employment in agriculture is associated with inadequate work hours (and low pay too). Employment in services is associated with long work hours and low pay, hence invisible underemployment.

Working poor

Fifth, underemployment is associated with poverty. Underemployed workers carry a high risk of becoming working poor with incomes insufficient to carry themselves and their families above the poverty threshold.

Previous studies on poverty have shown that it is not so much the lack of employment as the poor quality of employment that accounts for poverty. The same is evident between underemployment and poverty incidence by region. (See Fig 2) Under-employment is highest in the most depressed regions like Bicol, Northern Mindanao, Eastern Visayas, and Zamboanga Peninsula.

It is lowest in the most developed regions like Metro Manila, Central Visayas, Southern Tagalog (Calabarzon and Mimaropa). In contrast, unemployment is generally lower in the most depressed regions and higher in the most developed regions.

Regions with high underemployment rates (rather than unemployment rates) tend to have high poverty incidence. Regions with low underemployment report low poverty rates. In other words, underemployed workers are likely to belong to poor families.

In sum, a closer look at the unemployment and underemployment data reveals a comprehensive crisis of lack of work affecting all regions and groups of workers.

The crisis takes the form of unemployment among young workers and relatively well educated workers, but takes on the form of underemployment among older workers and less educated workers.

It is evident in high unemployment in urban areas like Metro Manila and neighboring regions, but is also evident in high underemployment in the depressed regions of Bicol and Eastern Visayas.

The lack of jobs has worsened whether measured in terms of unemployment or underemployment. But the rising underemployment is important in another way: it may indicate rising poverty since underemployment, more than unemployment, is strongly associated with poverty. If so, the jobs crisis has become deeper and more widespread.



Labor Trends is published by the Labor Education and Research Network, Inc (LEARN) in cooperation with the Friedrich Ebert Stiftung (FES)--Philippine Office. LEARN is a non-profit organization providing various services to workers: education, research, publications, gender program, solidarity and networking. LEARN is an affiliate of the International Federation of Workers' Education Associations.

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