The Portuguese labour market in times of the pandemic

- The COVID-19 outbreak has brought about substantial changes in the Portuguese labour market: workers who had never teleworked have begun to do so, others have seen their employment contracts temporarily suspended, while others have lost their jobs.
- However, while the fall in economic activity has been unusually sharp, the impact on the labour market is, for now, more contained. This is due to temporary workforce reduction programmes and teleworking, which will continue to be key in containing the rise in unemployment.

At the beginning of the year, we had little idea that an unknown virus would force us to go into lockdown and that some sectors of the economy would have to shut down in order to prevent contagion. However, the European Commission estimates that almost 11% of employment in Portugal is in sectors that were forced to shut down almost entirely as a result of the COVID-19 outbreak. This figure is similar to that of the EU as a whole (10%), although less than that of countries such as Malta, Spain or Greece. In addition, it is estimated that around 50% of Portuguese workers have jobs that involve a risk of COVID-19 transmission because they require physical proximity to colleagues or interaction with the public.

How was the labour market in Portugal affected by the pandemic? The population in employment decreased by 3.8% year-on-year in Q2 (–185,500 people), but the unemployment rate fell to 5.6%. Although the reduction in unemployment is surprising, it should be borne in mind that some traditional indicators are not adequate in the current context: firstly, the lockdown made it difficult to obtain statistical data, and secondly, the restrictions on activity prevented unemployed people from seeking work or being immediately available to work, so they were not formally considered unemployed. In contrast, if we look at the labour underutilisation rate, this increased to 14.0% in Q2 (12.9% in Q1), driven mainly by the increase in the number of people who have not actively sought employment. At the same time, unemployment registered in job centres rose to a peak of 409,000 people in May (+29.6% versus February).

While these figures are obviously worrying, they also indicate that the pandemic has had a lower impact on the labour market than on economic activity. This is mainly due to two factors: temporary workforce reduction programmes and teleworking.

Temporary workforce reduction programmes

The main tool for mitigating the negative impact of the COVID-19 outbreak on the labour market has been temporary workforce reduction programmes (involving either a temporary reduction in working hours or a temporary suspension of contracts), a scheme used throughout Europe (at the end of April, it is estimated that such reductions had been requested for 27% of EU workers). Portugal has been no exception and it will also receive around 6 billion euros from the EU’s SURE programme to help cover the costs of the temporary workforce reduction programmes implemented.

In Portugal, more than 880,000 people were affected by such schemes at the beginning of July (almost 19% of the population in employment). This has been key in preventing the collapse in GDP from triggering a sharp rise in unemployment: we estimate that, in the absence of these measures, the unemployment rate would have reached around 22% (compared to the 5.6% registered in Q2). As a result of these schemes, the impact of the COVID-19 pandemic on the labour market is more visible in the reduction in the total number of hours worked in Portugal (–26.1% year-on-year in Q2).

By sector, although no official figures have been published, we estimate that more than half of the workers affected by temporary workforce reduction programmes belong to the manufacturing, vehicle trade

1. 15.7%, 14.2% and 13.0% for Malta, Spain and Greece, respectively. See European Commission (2020). "The impact of COVID confinement measures on EU labour market".
2. This percentage ranges from 39.3% in Luxembourg to 55.9% in Spain. See OECD (2020). "Employment Outlook 2020".
3. This includes the population out of work, people who involuntarily work part-time, inactive people in search of employment but not available to work, and inactive people who are available to work but are not seeking employment.
4. The latest figures are somewhat lower and in July the increase (compared to February) was 407,302 (+29.1%).
5. This includes workers affected under the traditional scheme and under the new simplified scheme, according to information provided by the Government of Portugal and the Social Security institute. The simplified scheme was created specifically to address the pandemic. Firms can use it to temporarily reduce staff working hours or to suspend employment contracts, whereby the employee affected receives two-thirds of their usual remuneration. This scheme applies to companies that had either partially or completely closed due to the state of emergency, as a result of interruption of global supply chains or cancellation of orders, or those that had suffered a reduction in revenues of at least 40% in the 30 days prior to the request compared to the monthly average recorded in the previous two months or the year-on-year period.
6. Replacing the simplified workforce reduction programme, firms with a drop in turnover of 40% or more that were using these schemes can sign up for a programme to support them with the gradual recovery in activity up until December. This other mechanism allows firms to reduce their normal working hours, such that they only pay for the hours actually worked and the workers will be supported with Social Security remuneration covering 70% of the hours not worked.
7. The data from the Strategy and Planning Department include the entire workforce of companies that have implemented temporary workforce reduction programmes (rather than the specific number of workers that those companies have placed under these programmes). Nevertheless, it is estimated that the number of workers under temporary workforce reduction programmes corresponds to around 60% of the figures published by this Department.
and repair, and accommodation and catering sectors. In the accommodation and catering sector, more than half of workers would have been affected under these programmes in early July. On the other hand, around 25% of employees working in manufacturing and in the trade and repair of vehicles were also affected under temporary workforce reduction programmes.

**Teleworking during the lockdown**

Another solution to keep companies active has been teleworking. In a country where, prior to the pandemic, 15.5% of people in employment had regularly or occasionally teleworked, it is estimated that, in early April, 38.3% of Portuguese employees began working from home as a result of the health crisis. This is a higher figure than in countries such as Germany (36.9%) or France (37.2%). In the same regard, it is estimated that over a million employees worked entirely or almost entirely from home in Q2, which is equivalent to 23.1% of the employed population. These are significant figures, considering that some estimates place Portugal’s teleworking potential at around 30%.

A good way to see how teleworking helps to mitigate the impact of the COVID-19 pandemic is to compare the teleworking potential of the various economic sectors with how their level of activity has been affected in recent months. As the first chart shows, a higher teleworking potential mitigates the negative impact of the COVID-19 pandemic: the sectors that suffered the greatest decline in activity in Q2 are, in general, those that have the lowest teleworking potential.

**The new normal**

What can happen over the next few months in the labour market? In July, registered unemployment rose by 0.2% over the previous month, after having fallen slightly in June (–0.6% month-on-month), and it continues to affect some 407,000 people. However, this increase may be limited by the fact that companies that resorted to temporary workforce reduction programmes are not allowed to dismiss their staff for a certain period, so unemployment could increase more in a few months’ time.

8. Data from the 2019 EU Labour Force Survey. This figure is close to the EU average (16.1%) but below that of countries that lead the field in terms of teleworking, such as Sweden (37.2%) or the Netherlands (37.1%).
10. Data from the National Statistics Institute of Portugal.
11. For more details on teleworking potential, see the Focus «The COVID-19 outbreak boosts remote working» in the MR06/2020.
13. Study conducted by Robert Walters.

Similarly, according to the latest consumer confidence survey by the National Statistics Institute of Portugal (see second chart), the outlook for unemployment over the next 12 months is rather unfavourable.

Teleworking, meanwhile, has come to stay, and many firms are expected to apply mixed working arrangements. Some have already indicated that they will maintain teleworking, and many Portuguese people who have teleworked are satisfied with the possibility of doing so. Furthermore, and despite the likely destruction of jobs caused by the COVID-19 pandemic, the digital transformation that it is forcing upon us and the challenges that firms are currently facing should contribute to an increase in the recruitment of new professionals, such as ICT specialists.

However, despite efforts to safeguard jobs, in the short term the uncertainty generated by the pandemic and the incomplete recovery in economic activity will likely lead to a deterioration in the unemployment figures over the coming months, especially given the important role of tourism.

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