

Commentary

Unemployment and underemployment in the Philippines

Be careful how you read the numbers

When President Arroyo assumed office in 2001, she promised one million new jobs per year but the domestic economy has failed to produce anywhere near such numbers. And with the population of employable age swelling by more than one million annually, even a million jobs a year falls short of providing full employment. In fact the reality is much harsher. No wonder there is such emphasise on overseas employment.

According to a release last week from the National Statistics Office (NSO), quoting results of the latest quarterly *Labor Force Survey*, the country's unemployment rate in January stood at 7.4 percent. This represents a slight deterioration in the employment situation from the previous survey (October 2007) when the rate stood at 6.3 percent¹. On the other hand, it represents a slight improvement when the data is compared on a year-on-year basis. In January 2007 the unemployment rate stood at 7.8 percent. It all depends how you look at the numbers. With the end of the school year and a further influx of school leavers to the labour market, the April figures will bear close watching.

Table 1: Results from the January 2008 Labor Force Survey (LFS)

Philippines	January 2008 ^{1/}	January 2007
Total 15 years old and over (in '000)	57,389	56,145
Labor Force Participation Rate (%)	63.4	64.8
Employment Rate (%)	92.6	92.2
Unemployment Rate (%)	7.4	7.8
Underemployment Rate (%)	18.9	21.5

Notes to the table

^{1/} Estimates for January 2008 are preliminary and may change.

^{2/} Population 15 years and over is from the 2000 Census-based population projections.

According to the NSO, the unemployment rate in January translates to around 2.7 million jobless Filipinos out of the 36.4 million which the government claims to make up the labour force. But the official numbers on labour force size are based on the 2000 Census-based population projections. The baseline is now eight years old and the estimate could be wide of the mark.

Be that as it may, the official numbers tell only part of the story and could be misleading to outsiders without further clarification.

¹ Such survey's are conducted quarterly

New labour market concepts introduced in 2005² ostensibly brought the Philippines into line with ILO standard definitions although many analysts have questioned both their applicability to developing markets generally as well as the specific manner in which these definitions have been applied—especially the concepts of “availability” and “underemployment”—in the Philippines through the survey questioning.

As we see below, the end result of applying these new concepts has been that many people previously categorised as “unemployed” or “underemployed” were removed from the labour force and the result was an immediate reduction of around four percent in the unemployment rate.

The term “employed” covers all those who worked at least one hour during the reference period and not those who had a full-time job. It also includes people who undertook unpaid family work. The crude employment rate tells us very little about those who work in full-time paid employment.

Furthermore, labour market analysts believe that many people are now being classified as out of the labour force by the manner of the questioning as to their availability for work and that those conducting the surveys are not sufficiently probing on this aspect. As a result it is estimated that between 3 and 4 percent of those at present considered out of the labour force should really be

Employment Status Concepts

“In the Labor Force” or “Economically Active Population”

- This refers to population 15 years old and over who are either employed or unemployed in accordance with the definitions described below.

Employed

- Employed persons include all those who, during the reference period are 15 years and over as of their last birthday and are reported either:
 - **At work.** Those who do any work even for one hour during the reference period for pay or profit, or work without pay on the farm or business enterprise operated by a member of the same household related by blood, marriage or adoption; or
 - **With a job but not at work.** Those who have a job or business but are not at work because of temporary illness/injury, vacation or other reasons. Likewise, persons who expect to report for work or to start operation of a farm or business enterprise within two weeks from the date of the enumerator’s visit, are considered employed.

Underemployed

- Underemployed persons include all employed persons who express the desire to have additional hours of work in their present job or an additional job, or to have a new job with longer working hours. Visibly underemployed persons are those who work for less than 40 hours during the reference period and want additional hours of work.

Unemployed

- Unemployed persons include all those who, during the reference period are 15 years old and over as of their last birthday who have no job/business and actively looking for work. Also considered as unemployed are persons without a job or business who are reported not looking for work because of their belief that no work was available or because of temporary illness/disability, bad weather, pending job application or waiting for job interview.

Persons Not in the Labor Force

- Persons 15 years old and over who are neither employed nor unemployed according to the definitions mentioned. Those not in the labour force are those persons who are not looking for work because of reasons such as housekeeping, schooling, etc. Examples are housewives, students, disabled or retired persons.

² See box next page

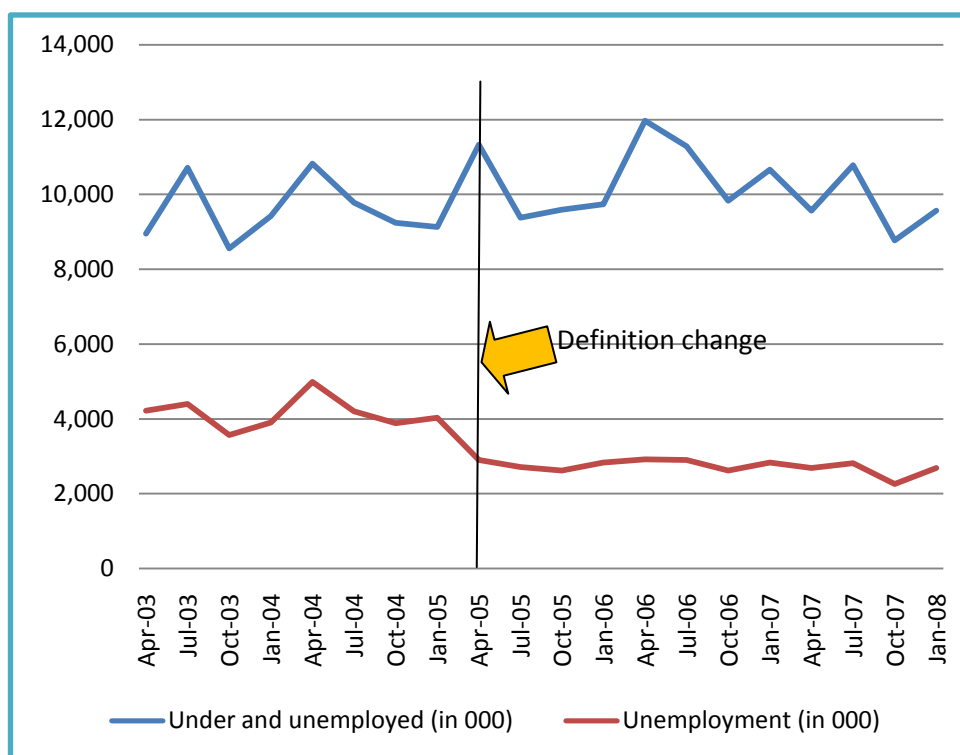
included were definitions applied more stringently.

Returning to the present numbers, we see that as well as a slight rise in the unemployment level, the underemployment rate also rose on a quarterly comparison basis—to 18.9 percent in January from 18.1 percent in October 2007. The NSO defines the underemployed as those who were working but who were seeking additional hours of work during the reference . If unemployment and underemployment are considered together then in January 2008 some 26.8 percent of the labour force was in need of work or additional work.

Were the pre-2005 definitions to be applied, the labour force would probably be sized at around 38 million rather than the 36.4 million given in official estimates and the unemployed would amount to around 4.4 million rather than 2.7 million as inferred from Table 1.

If this were the case then the official unemployment rate for January 2008 would jump immediately to 12 percent rather than the 7.4 percent, given in the above table. While at first sight the unemployment numbers appear to have declined in absolute terms, this is only because of the change in definition. In fact neither in unemployment nor in underemployment is any clear downward trend evident.

Figure 1: Unemployment and underemployment



Note to the chart

The unemployment numbers dropped significantly as a result of the change of definitions in April 2005 but the total of unemployed and underemployed, while showing cyclical variation has not changed in any significant way.

The average of the quarterly unemployment rate from April 2005 to January 2008 is 7.7 percent whereas the average unemployment rate in the eight quarters preceding the definition change was 11.7 percent—a difference of four percent. Such is the influence of the changes made at that time.

Averaging employment growth over the period between January 2008 and April 2006³, shows that in absolute terms, the local economy has been creating jobs at an annual rate of only 550,000 p.a. or a little over half what is required to keep pace with new entrants to the workforce in this country.

Quality employment lags

Perhaps of equal concern is the quality of employment offered. According to the latest *Labor Force Survey*, labourers and unskilled workers continue to make up the largest proportion (31.6 percent) of the total employed population. Farmers, forestry workers and fishermen registered the next largest group of workers with 18.2 percent in January 2008 against 17.6 percent in January 2007.

More than half (51.7 percent) of the total employed persons in January 2008 were wage and salary workers mostly working for private establishments (38.2 percent). Those working for the government or government corporations accounted for 7.9 percent. More than one-third of the total employed persons were own-account workers accounting for 36.1 percent with self-employed workers registering the highest share (32.3 percent of total employed). Unpaid family workers were estimated at 12.2 percent. This amounts to 4.4 million people who are considered to be in the workforce but unpaid for the work they do.

Or you could look at the figures another way and say that of those employed only around half drew regular salary or wages.

More money for education

Against this stark background, the signing into law last week of the 2008 budget and with some Php140 million earmarked for the Department of Education is a welcome sign but it is only the first step on a long road towards enhancing the skill-base of the country. State-owned colleges and universities will receive a further Php19.4 billion. Specific budget allocations to support higher learning and skills development through TESDA and the CHED were not disclosed in the statement although it has been announced that a total of Php200 billion has been allocated this year for the various agencies dealing with education.

Also in recent days the state-owned Development Bank of the Philippines has announced the creation of a Php100 million scholarship programme to provide free college education for deserving students under the *DBP Endowment for Education Program*. Interestingly, priority under the programme will be given firstly to those wishing to study nursing and secondly towards seamen—both career paths that will enable graduating students to find employment outside of the Philippines. This is a drop in the bucket of course and will only support some 150 to 200 students but it is a step in the right direction. Hopefully other financial institutions may come to the party with creative financing solutions to enable promising students from disadvantaged economic groups to finance their education against their future earning power. Other countries have come up with

³³ Earlier comparisons would be distorted by the definition changes

creative programmes for student loans, so models exist that could easily be adapted to the local system. Perhaps one of the major donor countries could assist in the setting up of such a scheme?

Given the structural nature of the problem, finding quick solutions will not be easy. But the first step is to recognize that much of it stems from the poor investment climate. As we have noted elsewhere recently⁴, the level of per capita FDI flowing into the Philippines is among the lowest in Asia and certainly the lowest of those countries who wish to be considered as “emerging markets.” Using recent Economist Intelligence Unit forecasts, we estimate that in 2007 Singapore received almost \$6500 per head in FDI; Malaysia, \$243; Thailand, \$164 while Indonesia and the Philippines received \$27 and \$25 respectively.

With new volatility in global markets, it will be those countries that develop their domestic economy to drive future economic growth that will prove to be the most resilient. The young population demographic of this country could be a boon if it provides the basis for domestic consumption generated from local earnings. But as it is, while almost 70 percent of GDP

growth comes already from domestic consumption, the funding of that consumption is to be found offshore. That is a kind of double jeopardy that has to change. We need quality jobs here in the Philippines and that means a significant improvement in the investment climate.

Foreign Direct Investment per capita (2007 data)		
Population (millions)	FDI (Billions)	FDI/pc US\$
1323.1	96.1	73
1110.4	20.2	18
234.7	6.3	27
27.2	6.6	243
91.1	2.3	25
4.5	29.0	6,459
66.5	10.9	164
86.0	6.1	71

Source: PBLF estimates based on EIU forecasting data for 2007

MCA Digital Designs Inc.

Corporate communications specialists

P.O. Box 2737 Makati City, Metro Manila, Philippines
Tel/Fax: (63 2) 889 6054: E-mail: michael.clancy@mayamaya.com

Web: www.virtual-asia.com

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⁴ AIM Conference on ASEAN Charter, 12 March 2008