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Econews

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Impact of COVID-19 on the Household Survey on Employment Special Edition

As in the past quarter, the Covid-19 pandemic continued to impact government decision-making and economic performance in Q3-20. As of October 9th, there were a total of 52,294 confirmed cases and 715 deaths. By the end of Q2-20 (April-June), 7,226 confirmed cases had been reported. However, as the Vázquez administration began to implement measures to open the economy, albeit with certain regulations, the spread of the virus surged. During Q3-20 (July-September), 41,290 cases were confirmed, of which 39.8% were reported in August and 37.7% in September. Moreover, deaths rose by 508 in Q3-20 compared to 145 in the prior quarter.

The most recent Executive Order, released on September 10th to be upheld until October 2nd, eliminated lockdown on Sundays but maintained curfews from 10:00 p.m. to 5:00 a.m. Additionally, mandates for businesses to operate below full capacity remained along with measures to prevent the spread of the virus. Due to the lack of data to properly access the social and economic landscape, Vázquez extended the Executive Order until October 16th.

Some of the employment that was lost during lockdown was gained in the months of June through August. Nonetheless, there is still a sharp contrast in employment

relative to pre-pandemic levels, particularly in the private sector. To mitigate the impact on unemployed individuals, FEMA included Puerto Rico in the supplementary program for federal assistance, which extends benefits to the unemployed for an additional six weeks. This comes as a relief to many, given President Trump's announcement that he would not negotiate an economic stimulus package until after the elections on November 3.

In this edition we present an analysis of the impacts of COVID-19 on the key indicator of employment, with data from the Household Survey.

Since the start of the COVID-19 lockdown period on March 15th, one key economic indicator that has been affected very negatively is the monthly survey of the Labor Force Group, as the household survey was not possible during March and April, and the response levels afterwards were low. That level of response has increased, from the lows of 64% and 70% with the May and June surveys, to 76% in the July and August surveys.¹ A similar situation was experienced in the Household Survey (and Establishment Survey) for the U.S.²

Low response levels were not the only problems as a result of COVID-19. There were methodological problems to consider, in particular the treatment of those workers

that were temporarily out of work but with an assured job, in order to ascertain the labor status of the worker.

The question in the survey allows the respondent to indicate whether he/she had a job, even when temporarily out of employment. These workers are classified as having a job but not working.³ This explains why the official unemployment rate was not impacted directly. If they were included, the unemployment rate for August would be higher, 17.2% from the 8.4% reported.⁴ Another segment that has been affected by COVID-19 are those out of the labor force but who want to work.

Figures 1, 2 and 3 illustrate the impacts.

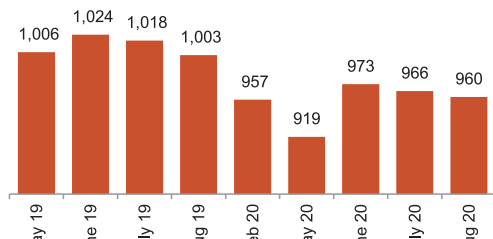
The most significant change in the survey, as mentioned before, has been on those with a job but not working, and not being classified as unemployed. Figure 1 presents the number of total employed, which include those with a job but not working, for the period between May 2019 and August 2020 (there was no survey in the months of March and April).⁵ Total employment decreased between February and May, increasing to 973,000 in June, and then dropping by 7,000 in August to 960,000, below its level of 1.003 million in August 2019. Still, it represents recovery to the pre-COVID-19 level in February.

Figure 2 presents the effect of COVID-19 on the survey estimates by separating



from total employment those employed and those with a job but not at work. The impact can be observed in the number of those classified with a job but not working; from a low of 25,000 in February, it rose to 214,000 by May 2020, decreasing afterwards to 92,000 in August 2020, quite above its level in August 2019 of 8,000.

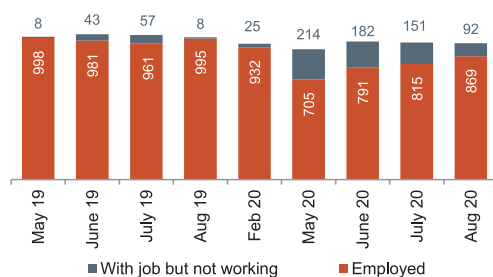
Figure 1: Total Employment (thousands)



Source: P.R. Department of Labor and Human Resources, *Employment and Unemployment*, February and August 2020, table 4, and p. 4.

The share of these workers in total employment rose considerably, from 0.8% in August 2019 to 23.3% in May 2020, dropping to 9.6% in August, a share still higher than that in the May through August 2019 period. The high number of this segment of workers reflects the impacts of the lockdown periods since March 15. The downward trend since June would suggest an incipient recovery in employment.

Figure 2: Effect of COVID-19 on Household Survey Estimates



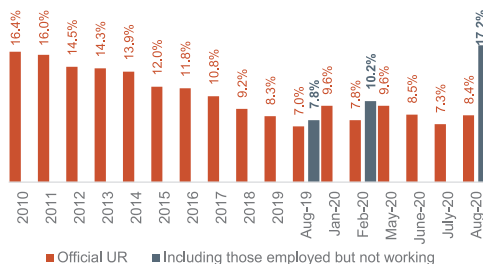
Source: P.R. Department of Labor and Human Resources, *Employment and Unemployment*, February and August 2020, table 4, and p. 4.

Figure 3 illustrates the impact on the unemployment rate. There are five measures of labor underutilization, among which is the official unemployment rate (U-3), which represents the number of unemployed as a percentage of the labor force (the labor force is the sum of the employed and unemployed).

In August 2020, the official unemployment rate was 8.4%, from 7.8% in February 2020 and 7.0% in August 2019, a rate similar to that for all 2019.⁶ If those classified as employed with a job, but not at work, were included in the unemployment

numbers, the unemployment rate would increase to 17.2%, from an already high 10.2% in February 2020, and 7.8% in August 2019. This rate is close to the high unemployment rates in 2010 and 2011.

Figure 3: Unemployment Rate: Official and Including Those Employed But Not Working



Sources: P.R. Department of Labor and Human Resources, *Employment and Unemployment*, February and August 2020, table 4; Estudios Técnicos, Inc., estimates.

There are many reasons why the employed are not at work for the entire survey reference period: on temporary layoff, permanent loss of job, job leavers, completed temporary jobs, reentrants, new entrants, other unspecified reasons. In August 2020, out of the 88,000 unemployed, only 7% were on temporary layoff, from 5% in February 2020.⁷

It is possible, though, that among those that indicated “other reason not specified” in those unemployed may still include some workers affected by the pandemic who should be classified as on temporary layoff, or in the group of employed but not working. In this case, the potential misclassification, similar to what happened at the beginning of the pandemic in the U.S. with the U.S. Bureau of Labor Statistics (BLS) survey at the beginning, could be happening in the case of the local survey data, as the issue hinges on the question about the main reason people were absent from their jobs. An indication of such “misclassification” could be in the number of those unemployed persons that responded “other reason not specified”.⁸ In February 2020, they represented 5% of the total unemployed; in August 2020 that proportion rose to 24% of the unemployed, from 8% in August 2019.⁹

SHORT-TERM OUTLOOK

The pandemic and its pace of new cases continued to be a concern, as it affects economic activity. Lately the number of new cases has slowed down somewhat,

compared to its high in September 29th, but how wide will the reopening will continue to be is a matter of discussion.

Related to the above, there is the concern that the pace of recent increases in private nonfarm salaried employment will slow down in the coming fourth quarter. In August, private employment increased by a mere 3,700 jobs m/m, from the increase of 23,600 m/m in June. Private nonfarm employment is still 69,000 jobs below its level in February.

The failure of the negotiations between the Fiscal Oversight Board and P.R.’s main creditors under Title III of PROMESA, means that for all practical purposes they will restart at the beginning of next year, with a new administration in place.

The issue of the replacement of the receipts from Law 154 is another still-pending issue that will have to be faced by an incoming administration. Late September the U.S. Department of Treasury indicated that a regulation the agency issued last month, concerning controlled foreign corporations, or CFCs, does not alter the federal creditability of the Commonwealth’s excise tax on CFC earnings under Act 154, as was initially believed. Yet, this new alert means that the government will have to definitely develop new alternatives to be implemented likely by 2021.

Notes:

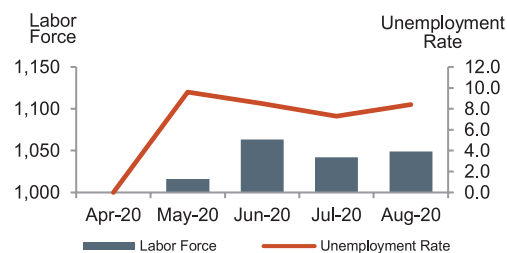
1. P.R. Department of Labor and Human Resources (2020). *Empleo y Desempleo en Puerto Rico – August* (September 18, 2020), p. 1. At: <http://www.mercadolaboral.pr.gov/lmi/pdf/Grupo%20Trabajador/2020/EMPLOY%20Y%20DESEMPLEO%20EN%20PUERTO%20RICO%208.pdf>
2. In the case of the Household Survey for the U.S., the U.S. Bureau of Labor Statistics suspended in-person interviews on March 20, conducting interviews by telephone until July, when a combination of in-person and telephone interviews were undertaken. In September, in-person interviews resumed, though only after first attempting to reach households by telephone. The response rate for the household survey was 79% in September, from 65% in June, but still low from the 83% response rate in February. See U.S. Bureau of Labor Statistics, *Impact of the coronavirus (COVID-19) pandemic on The Employment Situation for September 2020* (Accessed on October 8, 2020). At: <https://www.bls.gov/covid19/employment-situation-covid19-faq-september-2020.htm>
3. This information is presented in Table 4 – Employed Persons by Weekly Hours in the monthly report *Empleo y Desempleo en Puerto Rico*. A similar treatment to that done by the U.S. BLS.
4. See P.R. Department of Labor and Human Resources, *Empleo y Desempleo en Puerto Rico – Agosto* (September 18, 2020), p. 4 and Table 1A.
5. Readers are cautioned against over-the-month comparisons of not seasonally adjusted data, as the change could be affected by some seasonal component.
6. There are five alternative measures of unemployment, including U-3. For their definitions see *Empleo y Desempleo en Puerto Rico – Agosto 2020*, p. 7.
7. See *Empleo y Desempleo en Puerto Rico – February and August 2020*, table 9B.
8. See Note 7.
9. See *Empleo y Desempleo en Puerto Rico – February and August 2020*, table 9B. In their monthly employment and unemployment reports, the PR Department of Labor and Human Resources does not provide a breakdown of the reasons for those classified with a job but not at work.

Puerto Rico Economic Indicators

Employment

	Jun-20	Jul-20	Aug-20	Percent Change	
				Fiscal Year 2020-2019	Accumulated year to date
Labor Force (Household Survey, thousands)	1,063	1,042	1,049	-2.0%	-4.2%
Employment (Establishment Survey)	800	794	811	-1.8%	-5.7%
Private	600	602	609	-2.2%	-7.3%
Construction	20	19	20	-10.1%	-20.9%
Manufacturing	75	74	75	1.1%	-1.0%
Public Administration	201	192	202	-0.3%	-0.2%
Unemployment Rate (Household survey, %)	8.5	7.3	8.4	0.8%	5.7%

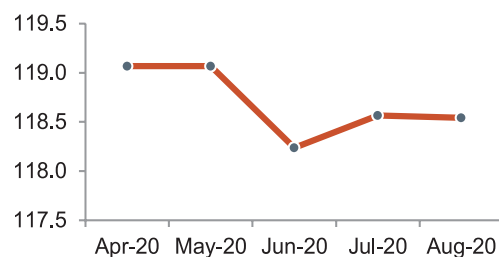
Total Employment
(December 2006 = 100)



Consumer Price Index

	Jun-20	Jul-20	Aug-20	Percent Change	
				Fiscal Year 2019-2020	Accumulated year to date
All Items	118.2	118.6	118.5	0.0%	-0.5%
Food & Beverages	130.8	130.5	130.6	-0.4%	-0.8%
Housing	115.4	115.3	115.4	1.1%	1.0%
Apparel & Upkeep	83.5	85.1	84.9	-2.7%	-3.1%
Transportation	106.2	107.4	107.4	-0.4%	-1.4%
Medical Care	156.4	156.6	156.6	0.9%	1.0%
Education	118.5	118.2	118.0	0.8%	0.5%
Recreation	113.5	113.2	112.7	0.3%	0.0%
Other Services	122.7	123.3	123.3	-0.8%	-2.5%

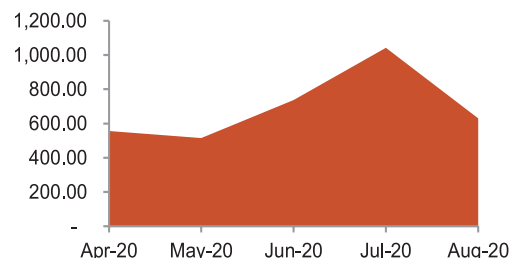
Consumer Price Index



Fiscal Revenues

	Jun-20	Jul-20	Aug-20	Percent Change	
				Fiscal Year 2019-2020	Accumulated year to date
Total Revenues (Mill.\$)	737.23	1,042.31	630.93	-18.3%	-34.7%
Taxes	702.58	1,012.48	568.97	-18.4%	-35.1%
Income Taxes	274.19	538.51	211.03	-18.4%	-44.3%

Net Revenues to the General Fund

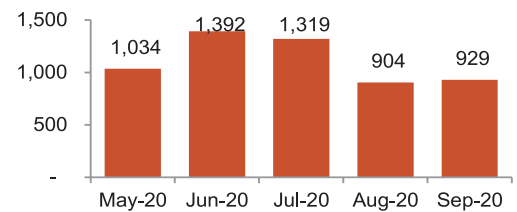


Puerto Rico Economic Indicators

Construction

	Jul-20	Aug-20	Sep-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Cement Production (Thousand 94-lb Bags)	1,319	904	929	-8.8%	-10.7%
Cement Sales (Thousand 94-lb Bags)	1,424	1,391	1,411	-9.8%	-1.6%

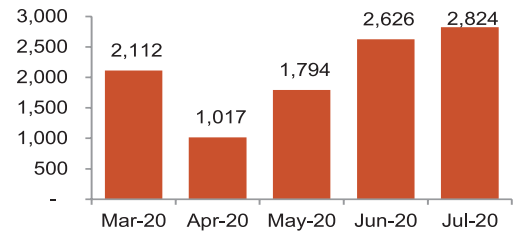
Cement Production



Retail

	May-20	Jun-20	Jul-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total (Bill. \$)	1,794	2,626	2,824	-10.8%	-11.4%
Department Stores (Mill. \$)	430	641	882	-11.4%	-12.8%
Supermarkets (Mill. \$)	320	304	328	1.0%	14.2%
Used and New Autos (Mill. \$)	257	597	502	-24.0%	-22.0%
Gasoline Stations (Mill. \$)	59	82	130	-7.6%	-22.2%
Restaurants (Mill. \$)	72	138	156	-16.2%	-28.4%

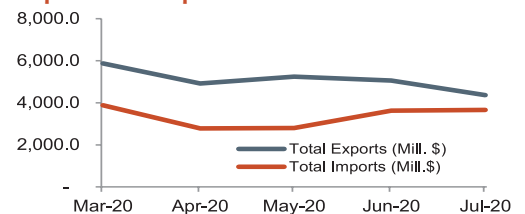
Retail Sales



Exports and Imports

	May-20	Jun-20	Jul-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total Exports (Mill. \$)	5,242.8	5,060.2	4,363.5	-2.2%	-11.2%
Foreign Countries	1,227.8	1,228.0	1,027.4	-2.5%	-24.9%
Total Imports (Mill. \$)	2,794.7	3,619.9	3,658.9	-7.2%	-4.0%
Foreign Countries	1,297.2	1,754.2	1,599.0	-6.1%	-2.6%

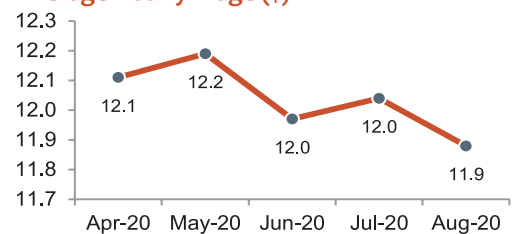
Exports and Imports



Manufacturing

	Jun-20	Jul-20	Aug-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Weekly Hours (#)	37.4	37.5	37.7	1.3%	-2.3%
Average Hourly Wage (\$)	12.0	12.0	11.9	0.0%	-2.5%

Average Hourly Wage (\$)



United States The Economy

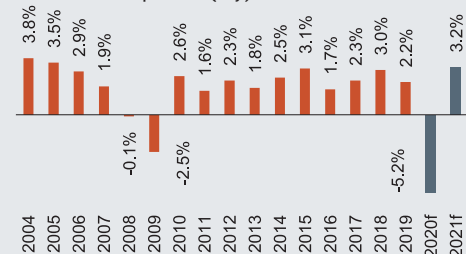
- The third quarter saw a continuation of COVID-19 increases in contagions, with some states registering higher increases in new cases. The end of CARES-2 relief funds in August, is another obstacle in many of the states. The negotiations for a new stimulus continued, but no agreement so far.
- The second quarter, when the COVID-19 recession started, was worse than the first. The economy is expected to improve in the third and fourth quarters but not enough to make up for earlier losses. On Sept. 16, 2020, the Fed announced it would keep the benchmark rate at its current level until inflation reached 2.0% over a long period of time. It said that wouldn't occur until at least 2023.¹
- The lack of a fourth relief package can have a significant impact on U.S. GDP. Important policy challenges are ahead if there is a change in the White House come 2021.

REAL GDP

COVID-19 has had a significant impact on economic growth. Real GDP growth was -9.0%/y, from an increase of 2.3% in Q4-19. It was the most dramatic decrease since the great recession of 2007. For Q3-20 expectations are that GDP will reach growth, based on the fact that nonfarm employment increased in the quarter.

Annual GDP Growth U.S.

Historic and Expected (Y/y)

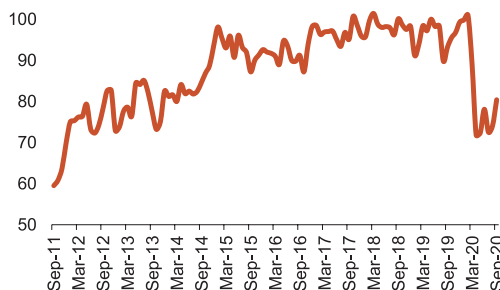


Sources: U.S. BEA.; Survey of Professional Forecasters Third Quarter 2020 (August 14, 2020). f=forecast.

Consumer confidence moved up in Q3-20, led by an improving labor market, after decreasing dramatically

during the second quarter, at the height of the pandemic. The University of Michigan/Reuters index increased 2.2% from the previous quarter, as the index improved markedly in September by 8.5% m/m, after falling 19.1% m/m in April. Consumers, though, remain less optimistic as the general elections approach, and uncertain after the expanded unemployment benefits ended.

U.S. Consumer Sentiment Index



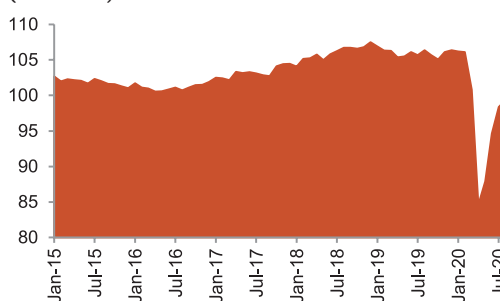
Source: University of Michigan/Reuters.

PRODUCTION

Industrial production decreased considerably after March, with the manufacturing production falling to 84.6 in April, from 106.1 in February. It has improved, particularly during the third quarter (up to August), with the index moving to 99.3. Still, manufacturing production continued to be below its levels of February and of 2019. The index averaged 98.8 in Q3-20, from 106.0 in Q3-20.

US Industrial Manufacturing Production Index

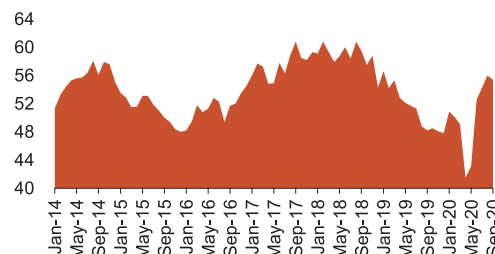
(2012 = 100)



Source: Federal Reserve.

After decreasing in Q2-20 by -8.6% y/y to 45.7, the Purchasing Managers Index PMI improved markedly during the third quarter, rising to 55.2, as new orders expanded, pointing to increase in manufacturing activity as consumer demand increased.

ISM Index of Manufacturing Activity



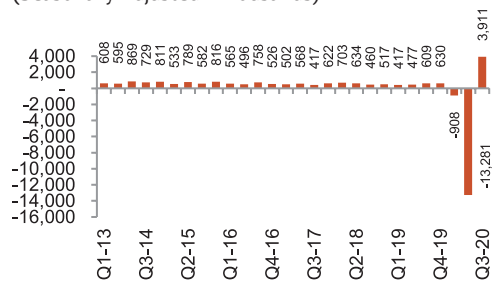
Source: Institute for Supply Management. Note: A reading above 50 points indicates that the manufacturing economy is generally expanding, and declining when the reading falls below 50 points.

EMPLOYMENT

The impact of the pandemic in the labor market has been dramatic. During Q2-20 nonfarm employment fell by 13.3 million jobs, which followed another decrease of 908,000 in the first quarter.

Quarterly Changes in Employment

(Seasonally Adjusted - Thousands)

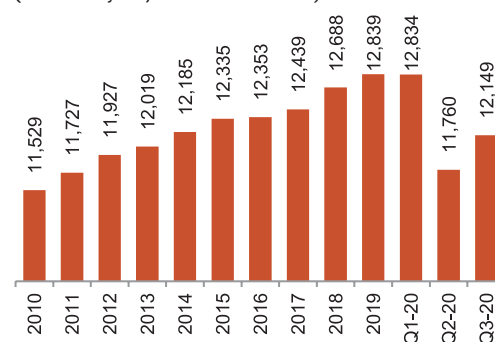


Source: U.S. BLS, Establishment Survey.

As the lockdowns were eased, and economic activity moved up, 3.9 million jobs were added in Q3-20, an improvement that started in May, when 2.7 million jobs were added. That notwithstanding, the level of employment continues to be below that in 2019, with concerns that not all the jobs lost will be recuperated in the coming months.

Changes in Manufacturing Employment

(Seasonally Adjusted - Thousands)



Source: U.S. BLS, Establishment Survey.

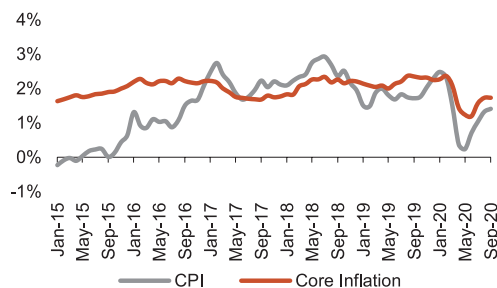
As manufacturing production improved, employment in the sector increased in Q3-20 to 12.1 million, from 11.8 million in Q2-20, when employment decreased by 1.1 million in Q2-20, led by increases in production in Food and Beverages, Furniture and Related Products, and Chemical Products. Employment is still below its Q1-20 level of 12.8 million jobs.

INFLATION

Both, headline (Consumer Price Index (CPI)) and core inflation increased during the third quarter, after registering smaller increases in the second quarter. The CPI rose 1.3% y/y, and core inflation by 1.7%, as demand for consumer for raw materials and consumer goods expanded in the third quarter. On an accumulated basis (up to September), headline and core inflation remained below its 2019 levels.

Annual Percent Change in CPI

(Y/y, seasonally adjusted)



Source: U.S. BLS.

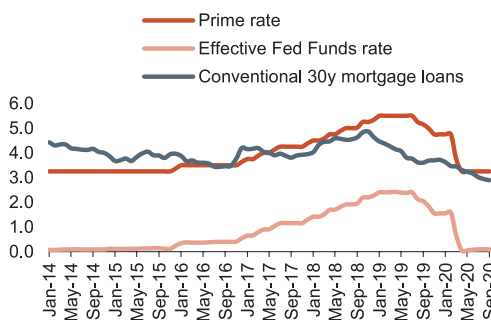
INTEREST RATES

In response to the pandemic, the Federal Reserve has reduced its benchmark rate, from 1.58% in February to 0.09% in September. As a result, interest rates for

personal loans and mortgages are low. But banks have tightened standards, becoming more selective about borrowers, as the number of people out of jobs is high.

Selected Interest Rates

(Annual and monthly averages)



Source: St. Louis Federal Reserve Bank (FRED).

On the other hand, lower mortgage interest rates have contributed to an expansion in residential mortgages. During Q3-20, the conventional 30-year mortgage rate averaged 2.95%, its lowest level in years.

U.S. OUTLOOK

That the COVID-19 pandemic has brought quite a shock to the global economy, including that of the U.S., goes without saying. In 2019, U.S.'s real GDP growth was 2.2% y/y, down from 3.2% y/y in 2018, decreasing to -9.0% y/y in Q2-20. For 2020 real GDP growth is expected to decrease between -4.3% and -5.2% y/y.

The recuperation from the COVID-19 recession will not be immediate. According to the Federal Reserve, "the U.S. economy needs another year or more until it gets

back to pre-pandemic levels of economic activity."² The IMF's most recent forecast expect a recuperation of the U.S. by 2021, with real GDP growth at 3.1%, but that will be slightly below growth in 2018.

In 2020 the global economy is projected to contract by 4.4%, according to the IMF's October outlook, moving into growth of 5.2% next year, from an estimate of 5.4% made in June.³ The big surprise is the swift recovery of China, which is expected to grow by 8.2% in 2020.

World Economic Growth: Outlook 2019 - 2021

	Forecasts		
	2019	2020	2021
World GDP	2.8%	-4.4%	5.2%
Advanced Economies	1.7%	-5.8%	3.9%
Euro Zone	1.3%	-8.3%	5.2%
U.S.	2.2%	-4.3%	3.1%
Emerging Economies	3.7%	-3.3%	6.0%
China	6.1%	1.9%	8.2%
Latin America & Caribbean	0.0%	-8.1%	3.6%

Source: International Monetary Fund (2020). *World Economic Outlook - October* (October 13, 2020). Table 1.1.

All scenarios assume a continuation of the pandemic into 2021. Downside risks persist, with the pandemic spreading and accelerating in some places, and some countries reinstating partial lockdowns.

Notes:

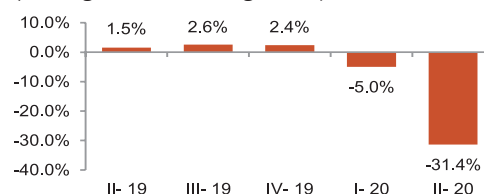
1. Board of Governors of the Federal Reserve System. Federal Reserve Press Release, Implementation Note issued September 16, 2020. At: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200916a1.htm>.
2. Jeff Cox (2020). Fed Vice Chair Clarida says economy needs "perhaps another year to return to pre-pandemic level, CNBC (August 24, 2020). At: <https://www.cnbc.com/2020/10/14/clarida-says-us-economy-needs-perhaps-another-year-to-return-to-pre-pandemic-level.html>
3. International Monetary Fund (2020). *World Economic Outlook, October 2020* (October 13, 2020). At: <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

United States Economic Indicators

GDP

	III- 19	IV- 19	I- 20	II- 20
GDP (% Change From Preceding Period)	2.6	2.4	-5	-31.4
Private Consumption	2.7	1.6	-6.9	-33.2
Fixed Investment	2.4	1	-1.4	-27.2
Residential	4.6	5.8	19	-35.6
Non-Residential	1.9	-0.3	-6.7	-27.2
Government Spending	2.1	2.4	1.3	2.5
Exports	0.8	3.4	-9.5	-64.4
Imports	0.5	-7.5	-15	-54.1

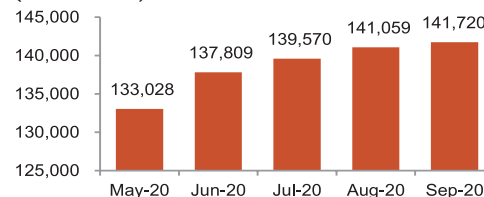
Gross Domestic Product (% Change From Preceding Period)



Employment

	Jun-20	Jul-20	Aug-20	Sep-20
Employees on Non-Farm Payrolls (SA) (Thousands)	137,809	139,570	141,059	141,720
Change (%)	3.6%	1.3%	1.1%	0.5%
Goods Producing	19,859	19,925	19,970	20,063
Change (%)	2.5%	0.3%	0.2%	0.5%
Service Industries	117,950	119,645	121,089	121,657
Change (%)	3.8%	1.4%	1.2%	0.5%

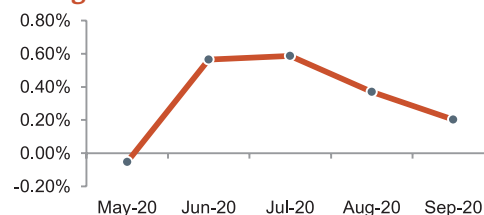
Employees on Non-Farm Payrolls (In thousands)



Consumer Price Index

	Jun-20	Jul-20	Aug-20	Sep-20
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	0.6%	0.6%	0.4%	0.2%
Change from preceeding year	0.7%	1.0%	1.3%	1.4%
CPI - Less Food and Energy				
Change from preceeding month	0.2%	0.6%	0.4%	0.2%
Change from preceeding year	1.2%	1.6%	1.7%	1.7%

Change in CPI



Interest Rates

	Jun-20	Jul-20	Aug-20	Sep-20
Effective Federal Funds	0.08	0.09	0.09	0.09
Three Month Treasury Bill (Constant Maturity Rate)	0.13	0.16	0.13	0.10
Prime Rate	3.25	3.25	3.25	3.25
Ten Year Treasury Bond	0.73	0.62	0.65	0.68
Moody's Seasoned Aaa Rate	2.44	2.14	2.25	2.31
30-Year Conventional Mortgage Rate	3.16	3.02	2.94	2.89

Selected Interest Rates (3month T Bills)

