

IZA COVID-19 Crisis Response Monitoring:

# AUSTRIA

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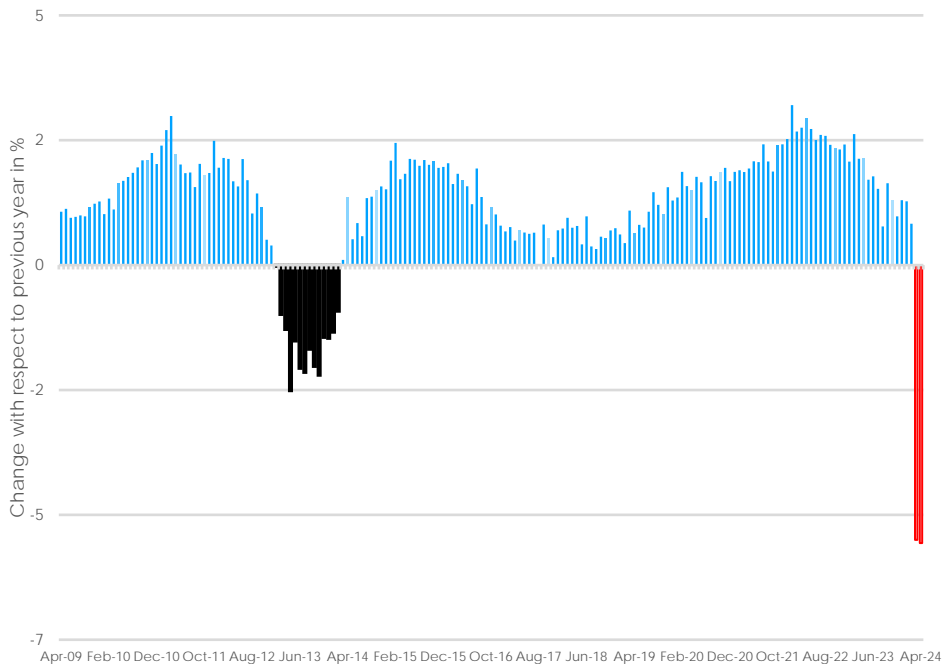
## 1. The current overall impact of COVID-19 on the labor market

First measures to lower the spread of the virus were announced by the Austrian government on March 11, 2020 and introduced in the following week. The Austrian economy went into lockdown on March 16. The measures included a ban the opening of shops, with the exemption of shops selling food, drugs or medical supplies; restaurants could sell take-out meals. After mid-April (Easter holidays), several types of shops were allowed to re-open conditional on increased safety measures, such as the wearing of facial masks.

The strict measures had a dramatic impact on the labor market. The number of unemployed increased, the number of employed decreased, and there was a massive inflow into short-time work. Bock-Schappelwein, Huemer, and Hyll (2020) and Bock-Schappelwein, Eppel, Huemer, Hyll, and Mahringer (2020) provide an overview of the developments until the end of April, which we summarize here below.

The number of persons who registered as unemployed with the Public Employment Services (PES) rose to a record level by the end of March and continued to rise until mid-April. Since then, the rise has been halted. At the end of April 2020, a total of 571,500 persons were registered with the PES, which is an increase of 210,000 persons or 58% compared to April of the previous year. While the number of persons in training fell by about a quarter due to the discontinuation of training courses, the number of persons registered as unemployed increased by two thirds. The unemployment rate (based on persons registered with the PES, excluding persons in training) reached 12.7%. This is the largest figure for April since the early 1950s and was only exceeded by the winter unemployment of 1953 and 1954. The rise in unemployment is mirrored by a strong decline in employment (Figure 1). In comparison to 2019, total employment in the economy was about 5% lower in March and April, which corresponds to a loss of 185,000 jobs.

Figure 1: Dependent employment in Austria, change on previous year.



Source: Dachverband der Sozialversicherungsträger; Hauptverband der österreichischen Sozialversicherungsträger, WIFO.

The labor market effects of the crisis are asymmetric across industries and worker groups. Most jobs losses occurred in the accommodation and food service industry, as employment in hotels and restaurants fell by almost 40%. Because of its size, this industry also recorded the largest drop in employment in absolute terms, with a decrease by almost 75,000 jobs. Other industries that were hit particularly hard by the crisis include the arts, entertainment, and recreation culture; personal services; and the provision of other

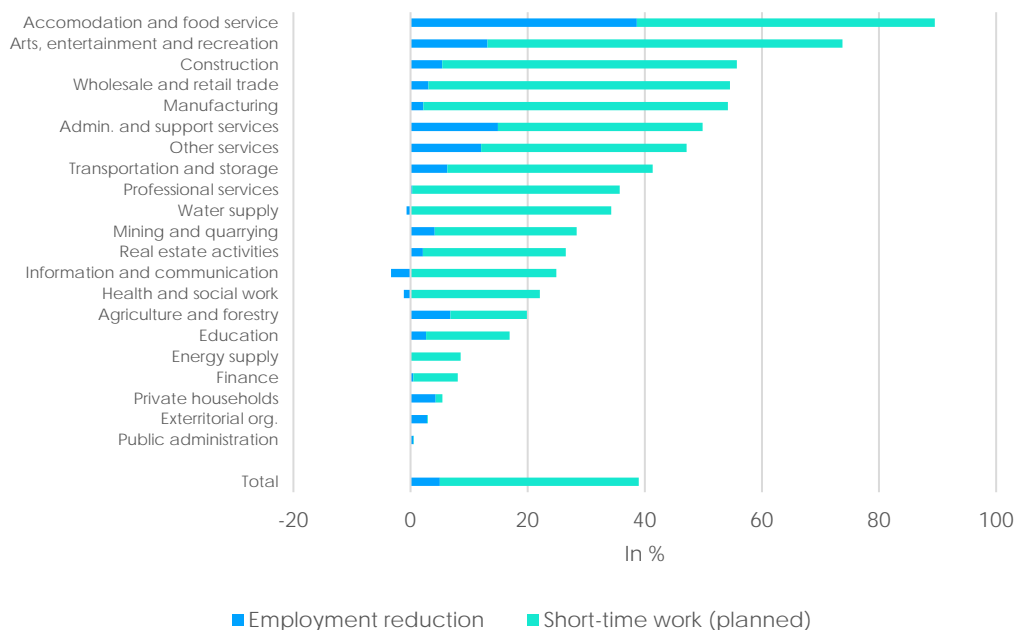
business services (which also includes temporary work agencies). In these industries, employment fell by 12% to 15%.

Although certain businesses in the retail industry were allowed to open from mid-April and the initial drop in employment was comparatively mild (-3%), the large size of the retail industry resulted in a sizable loss of about 17,000 jobs. The decline in the transportation and storage industry was about 13,000 jobs (-6%). In the construction industry, the decline in employment was strong in March (-10%), but this was partially offset by the development in April when many construction sites were able to resume work. In contrast, both the health and social work sector and the information and communication technology industry recorded a rise in employment of about 3,000 jobs compared to April 2019, corresponding to an increase of 1.1% and 3.3%.

While in March men were slightly more affected by the decline in employment than women (men -5.6%, women -4.1%; Bock-Schappelwein, Famira-Mühlberger, and Mayrhuber, 2020), by the end of April the losses were almost balanced across the genders. Compared to the previous year, employment was 5.1% (about 103,000 jobs) lower for men and 4.9% (about 83,000 jobs) lower for women.

Gaps between other worker groups are much more pronounced. The number of workers with Austrian citizenship fell by 4% (114,000 workers), but for workers with foreign citizenship the job loss was more than twice as large (-9.2%, corresponding to 72,000 workers). This difference reflects the different distribution of workers across industries, the segmentation in terms of occupations and employment forms, and the fact that many cross-border commuters (particularly in the East of the country) were unable to reach their jobs due to mobility restrictions.

Figure 2: Short-time work and change in employment by industry, change in April 2020 with respect to employment level of previous year.



Source: Bock-Schappelwein et al. (2020); Arbeitsmarktservice, Dachverband der Sozialversicherungsträger, WIFO. Short-time work applications as of 03.05.2020. NB: Negative value indicates an increase in employment.

Blue-collar workers are disproportionately more affected by job cuts than white-collar workers. In April, the decline in employment among blue-collar workers amounted to -12.0% (compared to April 2019), while there were hardly any job losses among white-collar workers or civil servants (-0.8%). In other words, 9 out

of 10 lost jobs lost were from manual workers. The strong concentration of jobs losses on blue-collar workers is partially due to the weaker employment protection compared to white-collar workers. The period of notice for salaried employees varies from six weeks (for less than two years of service) to five months (for 25 years or more), depending on the number of years of service, while for manual workers it is only 14 days, although this period might vary by collective agreement). Young workers (under the age of 25) are also affected more than proportionally in terms of the employment decline, although in terms of rising unemployment the effect has been strongest among prime-age workers. (See also point 6 below.)

It is important to stress that the most important labor market measure implemented by the government in reaction to the crisis, the COVID-19 short-time work scheme, prevented an even steeper fall in employment. (See also point 4 below.) By early May 2020, the PES approved almost 100,000 applications from firms applying for the scheme, covering more than 1.1 million workers. Figure 2 shows the impact that this measure had on employment across industries. Although at present we do not know to what extent the approved short-time periods will be used as firms do not need to use their approved applications, the scheme prevented much greater job losses.

Depending on the industry, we see a large variation in the level of short-time utilization as well as in the combination of short-time work and labor shedding. In total, 90% of the workforce in the tourism industry were affected by the COVID-19 pandemic. In arts, entertainment, and recreation, about three quarters of workers were affected, and in manufacturing, construction, and the retail industry the share was above 50%.

These labor market data are broadly in line with the latest economic forecasts. In its latest medium-term economic forecast from mid-April, the Austrian Institute of Economic Research (WIFO) expects the Austrian economy to contract by at least 5.2% in the current year (Baumgartner, Kaniovski, Bierbaumer-Polly, Glocker, Huemer, Loretz, Mahringer, and Pitlik, 2020). A more pessimistic scenario forecasts a drop in GDP by 7.5% (Baumgartner et al., 2020). According to these forecasts, the unemployment rate for 2020 will increase to at least 8.7%. These forecasts are based on the (crucial) assumption that the pandemic will be contained by the second half of the year, without a second lockdown, so that the economy will gradually recover.

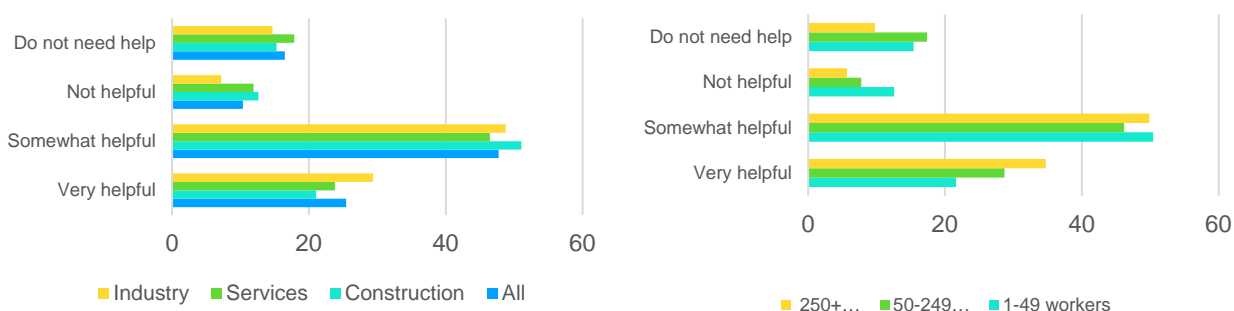
The most recent data indicate that in May unemployment decreased moderately from the mid-April peak by about 55,000 persons. At the same time, however, there are up to 1.3 million workers with approved short-time schemes and there is uncertainty about the evolution of their situation in the coming months.

## 2. The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19

To soften the impact on the labor market, the government introduced several initiatives targeted at businesses. The main components can be summarized as follows: (i) a “Corona support fund” of €15 billion, targeted at all firms, (ii) a “hardship fund” of €2 billion, targeted at self-employed, freelancers, and small enterprises, (iii) guarantees and the postponement of tax liabilities for businesses, and (iv) the “COVID-19 short-time work scheme” with a current budget of about €12 billion. Measures (i)-(iii) are targeted at businesses which have little or no revenues due to the crisis. All measures were announced as methods for keeping business operational and able to provide employment. Several smaller measures were also introduced to soften financial difficulties at the household level, such as a “family hardship fund” (€30 million) and a moratorium for rent payments and evictions.

COVID-19 short-time work is an adaptation (effective from March 1st) of the existing short-time work arrangement and intended to keep employees employed even if there is little or no work. It is limited to a maximum of 6 months (divided in two periods of three months each); employees’ wages are paid by the PES with a replacement rate that varies between 80% and 95% (depending on the wage level); and firms’ social security contributions for their employees are refunded in full. The average working time over the period must be between 10% and 90% of the regular working time, which allows for shorter periods of 0% working time. It is more generous than the existing short-time work program. Firms have, however, to pay their workers in advance and are refunded later, which could lead to liquidity problems for some firms.

Figure 3: Do firms consider state support measures to be helpful for surviving the period of economic restrictions caused by the pandemic measures (in %)?



Source: Hölzl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

A survey of businesses carried out in April indicates that these measures were seen as “helpful” (48%) or “very helpful” (25%) (Hölzl, 2020). Only about 10% of businesses said that the measures did not help. About 16% of businesses stated that they do not need government support during the crisis. We observe significant variation across firm size, however, and small firms were twice as likely as large firms to report that support measures are not helpful (Figure 3).

Measures were targeted at “standard” businesses and were initially not available for NGOs, artists, and certain groups of self-employed. The government extended and adapted the program in several steps, with the aim to close gaps and to increase their coverage of vulnerable categories. By mid-May, steps have been taken to improve the situation of artists and persons working in the cultural and entertainment sector, who are in a particularly difficult situation because cultural activities and mass events are still largely banned or subject to very restrictive rules.

Although labor market indicators such as employment and unemployment currently show similar developments, in several respects the crisis affected women harder than men, as more women than men

work in the health sector, in education, or in retail. In addition, both men and women have been working more in the home, but evidence indicates that the additional burden due to care and household work has not been shared equally. Berghammer (2020) states that 16% of women and 9% of men report that they spend much more time on housework (47% of women and 43% of men spend more or slightly more time on housework). The increase is most marked among families with children, but couples without children and people living alone also report increased time spent on domestic work. Gender-specific responsibilities for childcare increased and it is mainly mothers who look after their children and learn with them: 47% of women and 29% of men spend much more time on school-related activities. Survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) indicate a marked drop in life satisfaction during the pandemic crisis for the Austrian population as a whole. The decline was however steeper for women than for men (Haindorfer, 2020).

### **3. Policies providing immediate liquidity to small firms and freelancers**

A dedicated hardship fund of €2 billion was established for freelancers, one-person companies, professionals, and other small entrepreneurs, meant to cover personal living costs. A larger Corona-support fund also provides partial support for fixed costs such as rent or interest payments. The application for grants to cover fixed costs started on May 20 and entrepreneurs must have had a loss in revenue of at least 40% due to the pandemic to be eligible for support.

In a first phase (from March 27), the hardship fund provided rapid financial support of up to €1,000, where eligibility was based on previous income and other criteria. In this first phase there were 144,000 applications and €121 million were distributed (i.e., an average payment of €840 which indicates that virtually all applications were approved). The measure was criticized for excluding specific categories of persons and entrepreneurs and the government subsequently adjusted the eligibility criteria.

A second phase with less strict eligibility criteria (particularly the income ceiling) started on April 16. The fund now provides up to €2,000 per month for up to three months. Further adjustments to the hardship fund were announced in early May, aimed at increasing its flexibility and the accessibility for specific groups. For instance, applicants can now claim support for three months within a six-month window.

In addition, on April 3, the termination of rental agreements due to outstanding rent in April, May or June 2020 was temporarily suspended. For micro-enterprises with credit debts (as well as for private households), repayment and interest payments were automatically suspended for three months and the credit period extended by three months free of charge (Parliamentary Correspondence No 306 of 3 April 2020). The federal government agreed with the energy utilities and the regulator to secure the supply of electricity, gas, and district heating for private households, one-person companies, and small enterprises even in the event of late payment. These deferrals aim to relieve temporarily the liquidity situation.



#### **4. *The labor market situation of dependent workers***

The adapted short-time work scheme (“COVID-19 short-time work”) is the main measure aimed at labor market stabilization and it eclipses all other measures in terms of financial resources. The scheme was originally estimated to cost €400 million in mid-March, but the budget has been increased in several steps to €12 billion by mid-May. By early May, the unemployment office had received about 104,000 applications for short-time work for about 1.25 million workers. Currently, about 100,000 applications for more than 1.1 million workers (roughly one third of the dependent workforce) have been approved. The first three-month period of the scheme will end in June and firms are allowed to re-apply for a second three-month period. To date, it is still unclear to what extent the short-time work refunds that have been approved will actually be claimed by firms.

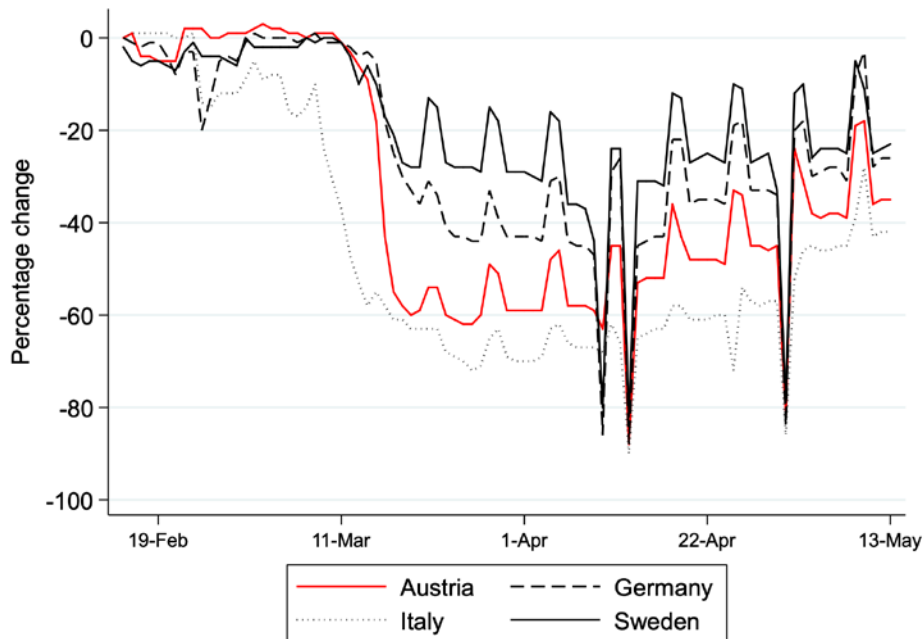
During the acute lockdown period, ALMP and especially training activities carried out by the PES came to a halt. Training measures for unemployed persons started again on May 15 and attendance of further education will start from May 29.

With respect to passive labor market policies, the most important change concerns the unemployment assistance. This is a social transfer that can be claimed by unemployed persons upon exhaustion of the entitlement to unemployment benefits, with a lower replacement rate. At the end of April, the unemployment assistance benefit was increased to the level of unemployment benefit, with retroactive effect from mid-March. This measure is currently scheduled to expire at the end of September, but the Minister for Labor, Family and Youth may extend the period until the end of the year.

## 5. Working conditions and work organization within firms

The lockdown resulted in momentous changes in work organization, and its effects are still reverberating. As can be seen in Figure 4, the lockdown, which began on March 16, immediately reduced workplace visits. Italy's earlier lockdown, by comparison, lowered workplace visits only moderately during the first week. In Germany and – much more so – in Sweden, the reduction was less pronounced than in Austria. With the gradually lifting of restrictions from mid-April, workplace activity increased. The most recent data however suggest that workplace visits are still substantially below the pre-crisis baseline level.

Figure 4: Mobility trends during the Covid-19 pandemic. Change in visits to the workplace, daily data compared to the baseline for selected countries



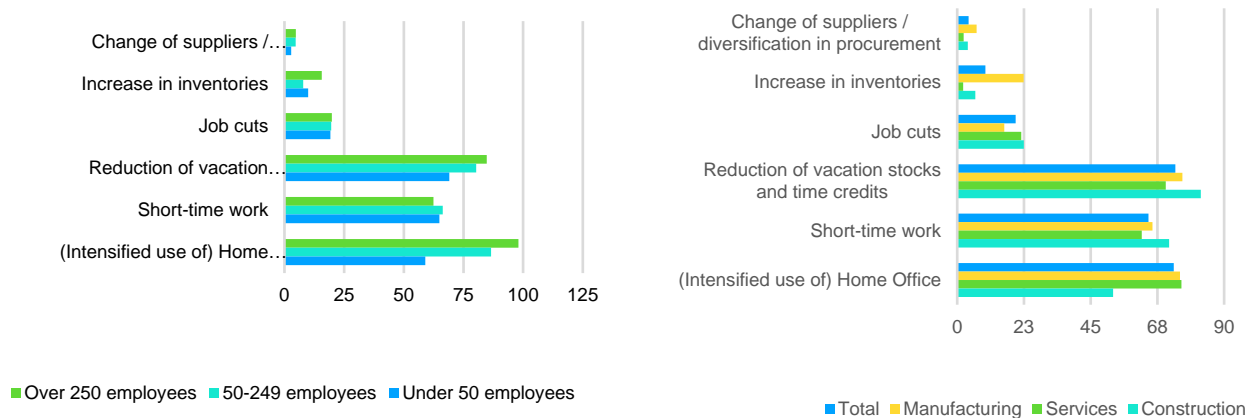
Source: Google LLC "Google COVID-19 Community Mobility Reports"; authors' calculations. The data are available under [www.google.com/covid19/mobility](http://www.google.com/covid19/mobility) and were accessed on May 19, 2020. The data show how visits and length of stay change compared to a baseline the median value for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020.

A significant part of this deviation from the baseline can be explained by the strong utilization of short-time work. In addition, many firms allow workers, in particular workers who have care responsibilities or who belong to at-risk-groups because of their age or pre-existing health conditions, to work from home. Schools have reopened, but pupils are attending classes on alternate days. Although child care arrangements are provided for children who cannot be cared for at home, only a small fraction of children spend the "regular" number of hours at school. In addition, special working arrangements are still in place in many firms because the workplace organization makes it difficult to apply the hygiene rules prescribed by the government. This is the case, for instance, in many larger firms, where workplaces are organized in open-plan offices. In many firms, workers rotate between working from home or in the office or groups of workers attend the workplace while other groups work from home.

This pattern is confirmed by company survey data that indicate that working from home was widely adopted. (See Figure 5.) Virtually all larger firms implemented (additional) forms of mobile working. About 80% of medium-sized firms and close to 60% smaller firms used some form of working from home. A sectoral disaggregation shows that home-office was less common in the construction industry (with about 50% of firms reporting an (increased) use of this instrument) than in other industries. In both the service industries and in manufacturing, however, about three quarters of firms implemented mobile working in

response to the crisis (Hözl, 2020). Another wide-spread measure concerned the reduction of vacation stocks and time credits accumulated by employees in previous periods.

Figure 5: Measures implemented by firms as consequence of the pandemic (in %).



Source: Hözl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

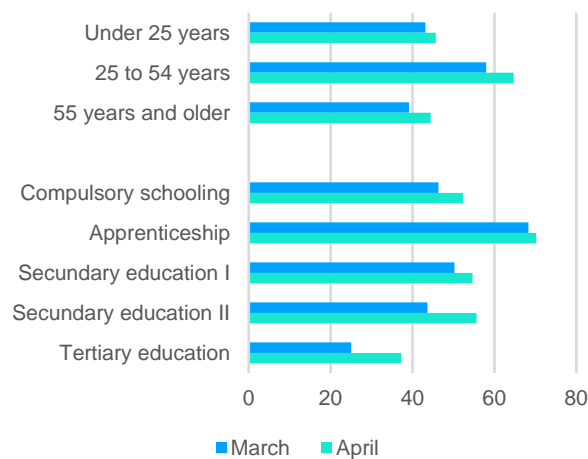
The impact of the crisis on working conditions and working arrangements hit different segments of the workforce asymmetrically. Panel survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) show that in early April about one third of male workers and close to 40% of female workers were working from home. However, the share varied greatly across skill-levels and occupations. Only 14% of workers with compulsory education and 26% of those with a dual education were working remotely, whereas half of the workers with upper secondary education and almost two thirds of those with tertiary education did so (Pichler et al., 2020). A similar picture emerged in a disaggregation by income level, highlighting the social gradient of the pandemic's labor market impact.

## 6. The situation of *new labor market entrants*

The number of vacancies for apprentices declined by about 25% in comparison to 2019. Currently there are about 8,400 persons looking for an apprenticeship (about 55% more than one year ago). Applicants who cannot find a training post or whose firm is folding will have access to an apprenticeship training through the PES.

The government ruled that the training period for apprentices can be reduced during short-time work, this is currently possible until August 2020. Journeyman's exams were suspended until May and were re-instated after May 4th. The government provides financial support for apprentices who could not take their final exams due to the crisis and suffer income losses (some 3,700 apprentices of about 7,300 who could not take their exams).

Figure 5: Change in unemployment, by age and education.



Source: Arbeitsmarktservice Österreich, WIFO.

The increase in persons claiming unemployment benefits, including ALMP training, for people under 25 years of age was less (+26,264 or +45.7%) than for workers between 25 and 64 years of age (+156,619 or +64.7%). The increase for people aged 55 and over is about as large as for young people (+27,392 or +44.4%) (Bock-Schappelwein et al., 2020).

The reduction in employment did however affect the youngest cohorts more strongly than the other age groups. The decline in employment recorded in April amounted to close to 9% for young workers (under-25s: -36,997 or -8.8%) and it was less pronounced for the 25-54 age group (-153,287 or -5.6%). In contrast, the number of persons employed in the 55+ age group rose slightly (+4,360 or +0.8%) (Bock-Schappelwein et al., 2020).

## **7. Further remarkable developments**

The extensive use of short-time work prevented many redundancies and an even greater rise in unemployment. As in the 2009 financial crisis, the negative effects of an economic crisis can be significantly mitigated by reducing working hours.

In the medium-term, however, employment will depend strongly on how the international demand for goods and services will develop. The Austrian Institute for Economic Research (WIFO) estimates that, conditional on keeping the pandemic under control, from the second half of this year the economy should gradually recover, leading to economic growth of 3.5 percent and a fall in the unemployment rate to 7.9 percent next year. Unemployment is estimated to remain high (7.5% for the period 2022 to 2024). In a more pessimistic scenario, if the global economy is expected to recover only moderately, the unemployment rate is estimated at 9.1%.

Nevertheless, even in a favorable scenario there is a risk that unemployed people who have slim chances of re-employment will remain unemployed for a long period. For example, persons who have health problems or the long-term unemployed had already lower chances of re-employment and their situation may worsen over the coming months. There is a risk that even during an upswing phase, they will feel the effects of increased competition in the labor market. The same can be said of the youngest cohorts, and of labor market entrants in general, who based on the evidence from previous crises are expected to experience long-lasting scarring effects.

## 8. *Useful next steps*

Policy measures in Austria during March, April, and May aimed to help businesses survive and to cushion employment losses. As the number of seriously ill persons declined, the rules for disease control were relaxed. This led to the re-opening of schools, the re-opening of most businesses, and a gradual return to pre-crisis levels of business activities.

However, uncertainty about the future development of the infections lowers demand, global supply chains are disrupted, and it is possible that a substantial number of businesses will have to fold. This will undoubtedly have implications for employment levels. Further adaptations of the short-time work scheme seem likely, possibly accompanied with more generous unemployment benefits.

Policies so far have focused primarily on minimizing job destruction, with little or no measures to foster job creation. With the lifting of restrictions, future policies will focus also more strongly on job creation through government spending on infrastructure such as public transport or the renovation of schools.

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