

The impact of definition changes on employment estimates

From 1 January 2021, in Italy and in all the European Union countries, the Labour Force Survey (LFS) implemented the new Regulation (EU) 2019/1700 of the European Parliament and of the Council, which establishes new and more binding requirements aiming to improve the harmonization of the statistics produced. The new survey incorporates, in particular, changes in the criteria to identify employed people¹.

In the old definition, employees absent from work for more than three months who have earned at least 50% of their earnings and self-employed absent from work because the activity was temporarily suspended were classified as employed.

In the new definition, the worker absent from work for more than three months is considered not employed - regardless of the salary if employee or the suspension of activity if self-employed - unless they are:

- i) absent for some specific reasons: maternity, illness, vertical part-time, training paid by the employer, parental leave if paid;
- ii) seasonal worker declaring during the closing period to carry out activities relating to the maintenance, renewal or continuation of the work activity, for example for the maintenance of plants (legal or administrative obligations and activities relating to the payment of taxes are excluded) .

The differences between the old and the new definition concern three main cases:

- a) employees in redundancy fund (layoff) are not considered as employed when the absence exceeds 3 months, even if they receive at least 50% of their salary;
- b) self-employed are not considered employed if the absence exceeds 3 months, even if the activity is only temporarily suspended;
- c) workers on parental leave are classified as employed, even if the absence exceeds 3 months and the salary is less than 50%.

In summary, the overall duration of the absence from work (more or less than 3 months) becomes the prevailing criterion to define the condition of employed.

On the other hand, the definitions of unemployed and inactive do not change; however, differences in the estimate of these aggregates may arise as a consequence of the change in that of employed persons. Following the changes mentioned above, the new estimates are not directly comparable with those previously disseminated.

Starting from the press release "Employment and unemployment" of April 6th 2021, the monthly estimates refer to the new definition of employed and the time series based on the new definition have been provisionally reconstructed, for the period between January 2004 and December 2020².

With this press release, the quarterly estimates also refer to the new definition; to the reconstructed monthly time series already disseminated, the quarterly seasonally adjusted by division and by sector of economic activity are added, which are also provisional and available for the period between January 2004 and December 2020.

In addition, the raw estimates (not seasonally adjusted) of the main indicators based on the new definition are disseminated. Their reconstruction, available for the three-year period 2018-2020, was made possible thanks to the inclusion of specific additional questions in the questionnaire of the Labour Force Survey starting from January 1st 2018. Similarly, to the others, also these estimates are provisional and the final reconstruction will be completed and made available at the end of 2021.

In 2020, on average, 99.5% of individuals is classified in the same way with both definitions; 0.5% has instead a different employment status (Table 1). The change from the old to the new definition results in a decrease in the estimate of the employed people of 238 thousand units (22 million 666 thousand against 22 million 904 thousand), obtained as the difference between those who are no longer employed and those who become employed. With the new definition, in fact, 257 thousand individuals - classified as employed with the old definition - are classified as not employed (15 thousand are unemployed and 242 thousand inactive) and 19 thousand individuals - defined as not employed with the old definition (2 thousand unemployed and 17,000 inactive) - are now employed. The latter group, mostly represented by women on parental leave absent from work for more than three months who receive less than half of their salary, is of limited and almost constant

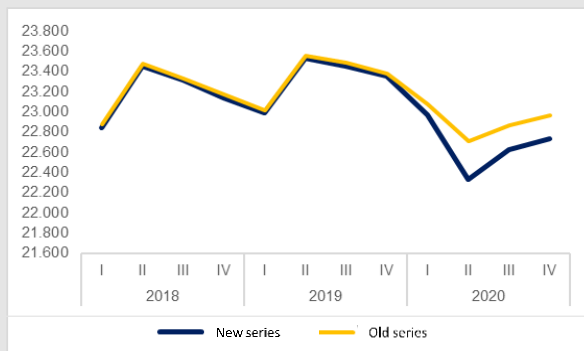
number over time (19,000 in 2018 and 14,000 in 2019). The consistency of the first group is much greater, due to the strong impact on employment of the measures implemented during the health emergency, in particular the partial or total interruption of activity for several sectors. The number of those who, as a result of the new definition, are no longer employed, in fact, in 2020 is about six times higher than that observed in the previous two years: 257,000, against 45,000 in 2018 and 41,000 in 2019. The quarterly information also shows how the impact of the change in definitions, still small in the first quarter of 2020, reaches its maximum in the second quarter, the total lockdown period, and returns to decline in the third and fourth quarters (Figure 1 and Figure 2).

TABLE 1 – POPULATION 15 YEARS AND OVER BY EMPLOYMENT CONDITION IN THE OLD AND NEW CLASSIFICATION. Year 2020 * (absolute values in thousands and percentage values)

Old classification	New classification				New classification				New classification			
	Employed	Unemployed	Inactive	Total	Employed	Unemployed	Inactive	Total	Employed	Unemployed	Inactive	Total
Employed	22,646	15	242	22,904	43.6	0.0	0.5	44.1	98.9	0.1	1.1	100.0
Unemployed	2	2,308	-	2,310	0.0	4.4	-	4.4	0.1	99.9	-	100.0
Inactive	17	-	26,746	26,763	0.0	-	51.5	51.5	0.1	-	99.9	100.0
Total	22,666	2,323	26,988	51,977	43.6	4.5	51.9	100.0	43.6	4.5	51.9	100.0

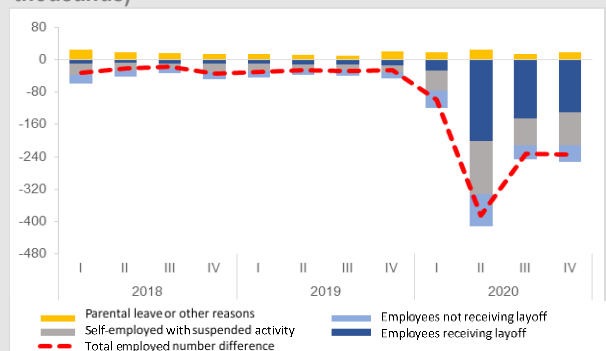
Source: Istat, LFS
* Provisional data.

FIGURE 1 – EMPLOYED OLD AND NEW SERIES. I 2018-IV 2020 (absolute values in thousands) *



Source: Istat, LFS
* Provisional data.

FIGURE 2 – NUMBER EMPLOYED DIFFERENCE BETWEEN NEW AND OLD SERIES BY CHARACTERISTICS. I 2018-IV 2020 (absolute values in thousands) *



Not only the number, but also the composition of those who - as a result of the new definition- are no longer employed shows elements of discontinuity between the two-year period 2018-2019 and 2020. On average, in the first two years, most of these individuals (over 70%) is equally shared between self-employed that suspended activities and paid employees absent from work; the rate of workers in redundancy fund is less than a quarter. In 2020, the aggregate consists of self-employed with suspended activities in one-third of cases, paid employees absent from work in less than one in five cases and workers receiving layoff for nearly half of the cases. However, it should be emphasized that among those who were in redundancy fund in the week of interview, only 13% changed employment condition, because 82% remain employed and 5% not employed with both definitions.

People who - as a result of the new definition - are no longer employed are 52 percent male, 42 percent are at least 50 years old, and half are resident in the North. More frequently have a permanent contract (63% of cases), because these kind of workers have higher access to layoff scheme or to paid absences. The estimates reported in Table 1 clearly show how individuals who, as a result of the new definition, are no longer employed in almost all cases (about 94%) are classified as inactive, as they have not carried out any job search actions in the month preceding the interview. In other word, they do not have one of the two necessary conditions - having done research and willingness to work within two weeks - to be classified as unemployed.

The estimate of unemployment, for what has just been said, with the old and the new definitions is substantially identical, while the estimate of the inactive people changes with that of employed (Figures 3 and 4).

FIGURE 3 - UNEMPLOYED - OLD AND NEW SERIES. I 2018-IV 2020 (absolute values in thousands) *

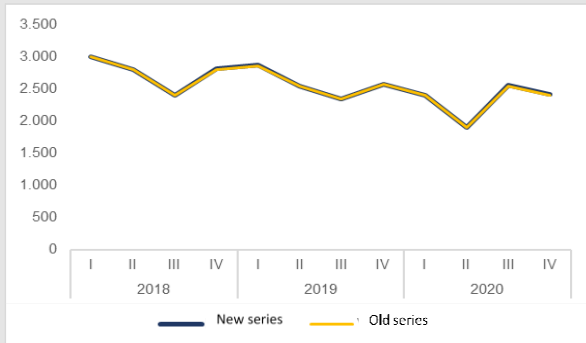
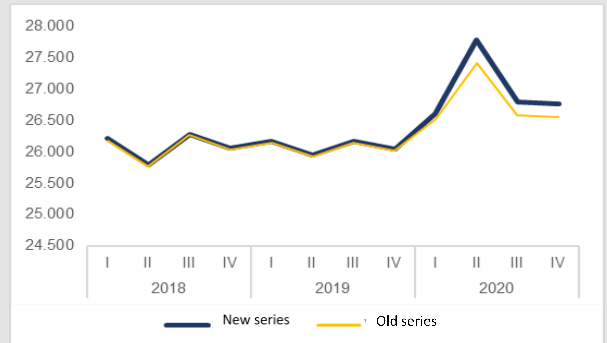


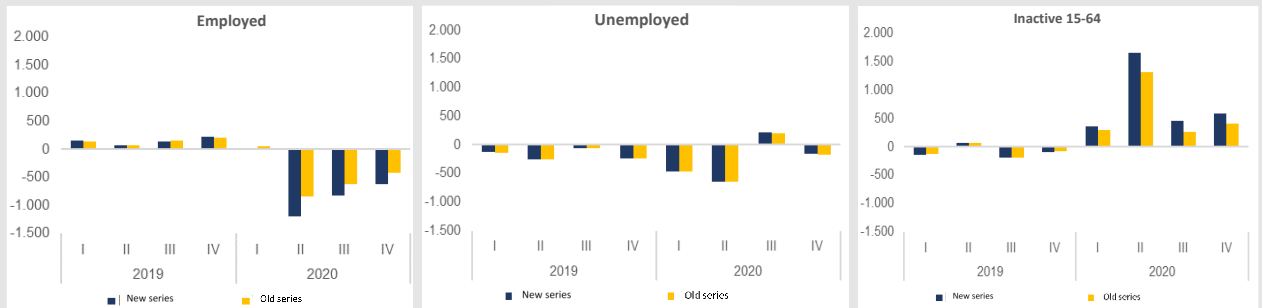
FIGURE 4 – INACTIVE - OLD AND NEW SERIES. I 2018-IV 2020 (absolute values in thousands) *



Source: Istat, LFS
* Provisional data .

The employment trend over the three-year period is markedly influenced by the change in definition only in 2020; in particular in the second quarter, when the massive use of layoff and the suspension of production activities led to the transition toward inactivity of the workers absent from work for more than three months. The dynamics of unemployment remain substantially the same, while the number of inactive people (aged 15-64) with the new definition grows more than with the old definition in all four quarters of 2020; once again the difference is more marked in the second quarter (Figure 5).

FIGURE 5 - EMPLOYED, UNEMPLOYED AND INACTIVE - OLD AND NEW SERIES. I 2018-IV 2020 (Absolute changes in thousands)



Source: Istat, LFS
* Provisional data .

Similar results emerge considering relative indicators. The value of the employment rate 15-64 years, which for the years 2018-2019 shows differences never exceeding 0.1 percentage points compared to the old series, with the transition to the new definition is 0.2 points lower in the first quarter 2020, by 1 point in the second and by 0.6 percentage points in the third and fourth. The 15-64 year inactivity rate is 0.9 points higher in the second quarter and 0.5 points higher in the third and fourth. The unemployment rate, on the other hand, is 0.1 points higher in the first quarter of 2020 and 0.2 points in the following three quarters of the year.

¹ For further details, see page on Istat website dedicated to changes in the LFS: <https://www.istat.it/en/archivio/255311>

² See the Press Release of April 6, 2021: <https://www.istat.it/en/archivio/256262>