

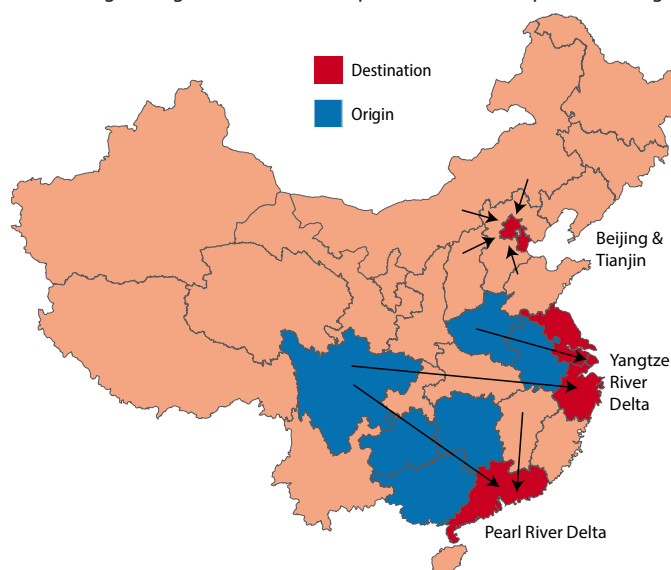
A Month Of Lost Wages

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As the rise of Covid-19 in China has slowed in recent weeks, most provinces have started to relax their drastic restrictions on transportation. But the extended closure of many businesses and the tough limits on movement have already imposed great costs on China's migrant workers, the roughly 174mn rural people who are employed far from their home, and other laborers. Their total lost wages are likely to be 3-4% of annual household income. While white-collar salaried employees are also at risk, they are generally more insulated from direct income losses. The impact from the coronavirus shutdown is thus mostly focused on lower-income households. Since this group account for a relatively small share of total consumer spending—which in the aggregate is driven by middle- and high-income households—their losses, though serious, will probably not stop consumer markets from bouncing back to normal after the outbreak is over.

Where workers have to go to get back to work

Six largest origin and destination provinces for inter-provincial migrants



Gavekal Dragonomics

Millions of migrant workers need to cross provincial boundaries to get back to their places of employment

The travel restrictions put in place to contain the coronavirus are thus costing workers weeks of wages

The normal functioning of China's labor markets relies on cross-provincial transportation. Inland provinces such as Henan, Guizhou, Sichuan, Anhui, Guangxi and Hunan send large numbers of workers to jobs in coastal provinces such as Guangdong, Shanghai, Beijing, Zhejiang, Tianjin and Jiangsu (see map). Many of these workers return home only once a year for the Lunar New Year holiday, so when the coronavirus outbreak began and quarantines and local blockades began to be imposed, they were trapped. Migrant workers generally rely on public transportation such as buses and trains, which were shut down or tightly restricted during the peak of the outbreak. By [February 24](#), 27 of China's 31 provinces had resumed inter-

provincial road transportation, and 71% of cities had removed limits on public transportation. The government is [urging companies](#) in less-affected locations to resume normal operations, though they still face difficulties in meeting new health and safety requirements (see [Back To Work, Not Back To Normal](#)).

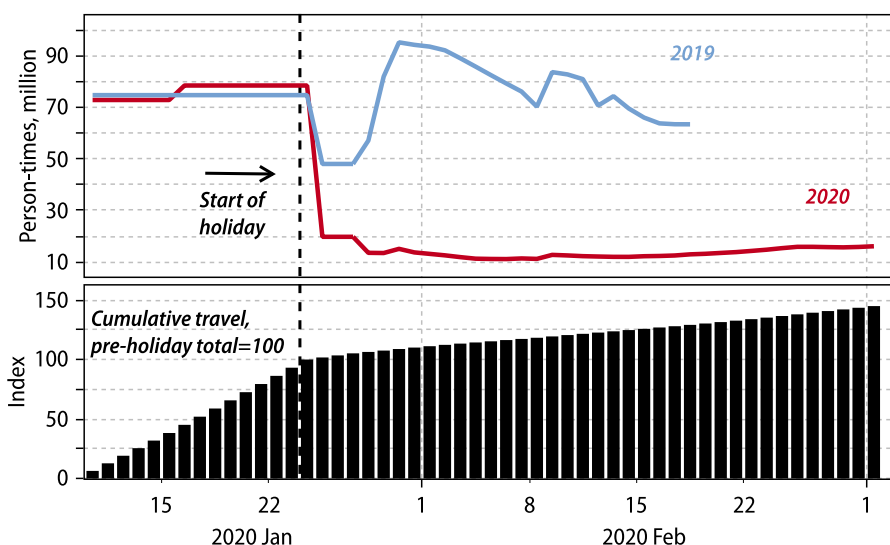
Rural migrants have been trickling back to their jobs, but it is a slow process. They are mostly wage earners concentrated in sectors like manufacturing, construction, household services and retail, so every day that they are away from their jobs is a day of lost income. On February 15, the Ministry of Transport [estimated](#) that about 27% of migrant workers' return journeys had already been completed, and expected that another 40% would have returned by end-February and the remaining 33% in March. Assuming therefore that 27% of the migrant worker population lost two weeks of work, 40% lost one month of work, and 33% lost six weeks of work, at an average daily income of RMB146, would mean that migrant workers collectively lost about RMB800bn in income—1.8% of total annual household income.

The daily traffic data published since then seem to indicate that the Ministry of Transport's forecast has been borne out. From February 19 to February 29, passenger traffic on all modes of transport (rail, road, air, water) totaled 164mn journeys, closely in line with the original forecast of 160mn (the MOT may have already had the information from ticket sales). The ministry believes most of the recent travel is returning migrant workers, as other tourism and business travel has largely been postponed or canceled. Cumulative passenger traffic since the Lunar New Year holiday totaled 514mn journeys, 45% of the volume before the holiday. So it's reasonable to accept that roughly 40% of migrant workers did in fact travel back to their workplace in the last two weeks of February, and that two-thirds of total migrants have already returned.

The government expects that two-thirds of migrant workers would have returned by end-February

Travel recovery has been slow, but adds up to 45% of pre-holiday volume

Daily total passenger traffic volume, before and after Lunar New Year holiday



Daily data on passenger traffic show a slow recovery, but still bear out this forecast

Ministry of Transport, Gavekal Data/Macrobond

Even after returning to their place of employment, many workers will have to undergo 14-day quarantines

This does not mean that all of those workers are actually back on the job, however. Many migrants crossing provincial boundaries would have to observe a 14-day quarantine before returning to work, one of the major issues for many employers trying to get their operations back to normal. While [official surveys](#) show that 79% of larger companies had resumed operation by February 25, low levels of activity data suggest they are unlikely working at full capacity. And [only 30%](#) of small- and medium-sized companies had restarted as of February 26. Assuming that quarantine requirements add an average of another week of lost work for all migrant workers, the total income lost would rise to RMB975bn, or 2.3% of total annual household income.

Shuttered stores and empty streets

Other informal, technically self-employed workers are also losing income from extended closures of businesses

Of course, migrant workers are not the only ones who suffered from the widespread shutdown of businesses in February. With stores shuttered and streets empty, many of the urban service businesses that are major employers of local workers also suffered a big hit. Particularly vulnerable are informal workers and small family businesses, which are mostly classified as self-employed in the employment statistics. Self-employed workers account for a large share of jobs in both the wholesale and retail sector, and the hotels and catering sector. These were among the sectors hardest hit by the coronavirus closures, and have been slow to get back to normal.

Based on the 2018 economic census, I estimate that there are roughly 44mn self-employed people in the wholesale and retail sector, and 11mn in the hotel and catering sector. There are also another roughly 6.5mn self-employed workers in the real estate, recreation and commercial services sectors, which were also badly hit. Since there is some overlap between migrant workers and the self-employed, these estimates exclude migrants. If the self-employed lose six to eight weeks of earnings, then based on average incomes for the different sectors, that is a loss of roughly RMB500-700bn to household income.

The combined loss of wages should be around 3-4% of annual household income

The widespread economic shutdown for most of February and some of March is therefore likely to lead to a total loss of at least RMB1.5trn in income for migrant workers and the self-employed, or 3-4% of overall annual household disposable income. The sum could still rise, depending on how long it takes workers to get out of quarantine and how long it takes businesses to reopen. The loss of income is also going to be largely a permanent one, since the number of lost days is too large to be made up by just working longer hours later.

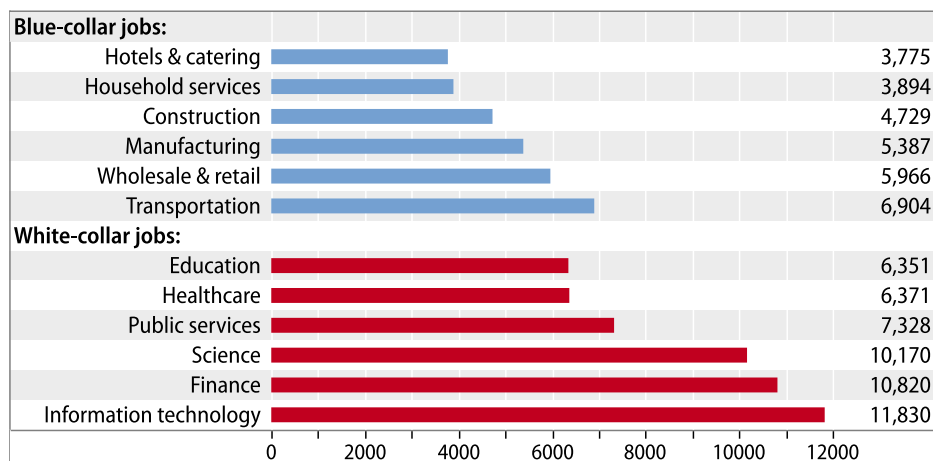
The estimate for migrants and self-employed workers also does not include any job losses among salaried employees. Companies with salaried workers have had to continue paying those fixed costs even during the collapse in demand, which is going to create big cashflow pressures for them (see [The Covid-19 Cost To Corporate Cashflow](#)). However there is not enough information available yet to quantify any potential job losses. And of course the government is trying to minimize any layoffs by [offering subsidies](#) to companies who maintain employment, and by strictly enforcing labor contracts.

Lower-income blue-collar workers are bearing the biggest impact of the coronavirus containment measures

How much that hit to household income flows through into reduced consumer spending depends to some extent on which consumers have lost income. The travel restrictions, quarantines and business closures during the outbreak have had the most impact on labor-intensive sectors such as construction, retail and light industry—the same sectors in which migrant and informal worker employment is concentrated. White-collar employees in technology, finance and business services, by contrast, can keep on working from home even if under quarantine. And, of course, those in health care are working harder than anyone else. In general, the sectors with mostly blue-collar workers and relatively lower pay have been those hardest hit by the coronavirus shutdown, while sectors employing high-earning white collar workers have suffered much less.

The hardest-hit sectors employ lower-income workers

Average monthly wage by sector, 2018



NBS, Gavekal Data/Macrobond

Therefore, higher-income consumers face relatively minor risks to their household income, while lower-income consumers are going to experience the biggest losses. Historical household-survey data shows that households in the bottom 40% of the income distribution account for under 20% of aggregate consumer spending. The middle 40% and the top 20% of households both account for around 40% of total spending (see [Will The Middle Class Consumer Please Stand Up?](#)).

The hit to total household consumption will be smaller than the hit to household income

Since consumption in aggregate is driven by middle-income and affluent consumers, rather than the lower-income households who are taking the brunt of the impact, the shock to consumer spending should be smaller than the hit to total household income. While the permanent loss of income from lower-income workers will drag on their spending, consumption by less-affected higher-income households can still recover. Consumer durables such as autos are likely to see a V-shaped rebound in sales once the outbreak is over and business conditions normalize (see [The Hit To Consumer Durables](#)).