

Poverty, the Middle Class and Income Distribution Amid COVID-19

JOSE RAMON G. ALBERT, MICHAEL RALPH M. ABRIGO,
FRANCIS MARK A. QUIMBA AND JANA FLOR V. VIZMANOS

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Philippine Institute for Development Studies

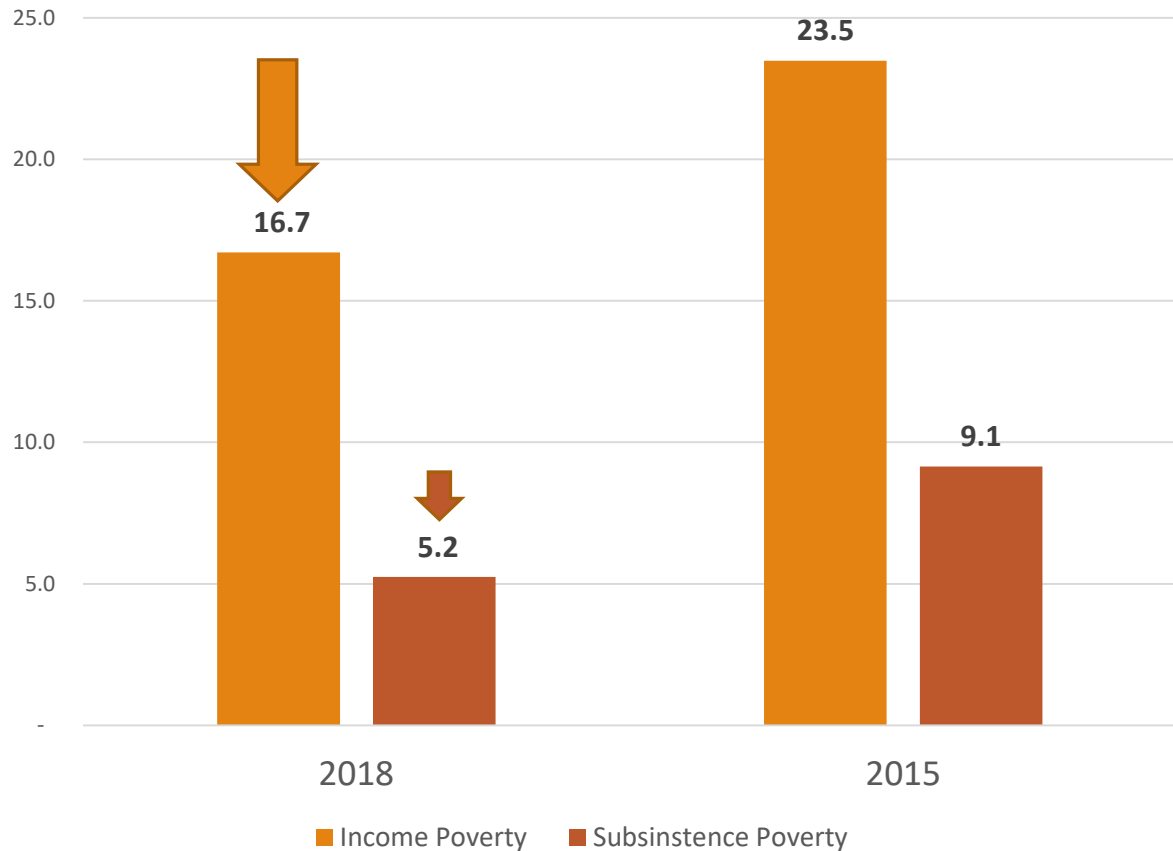
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Outline

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2. The Economic Impact of COVID-19
3. Profile of Poverty and the Middle Class
 - Official Poverty Measurement System
 - Poverty Profile
 - The Middle Class
4. Poverty and the Middle Class in the Wake of COVID-19
 - Various Income Contraction Scenarios
 - The Middle Class Society by 2040
5. Summary of Results, Policy Implications and Ways Forward

1. Introduction

Proportion of Filipinos in Poverty (in %): 2015 vs. 2018

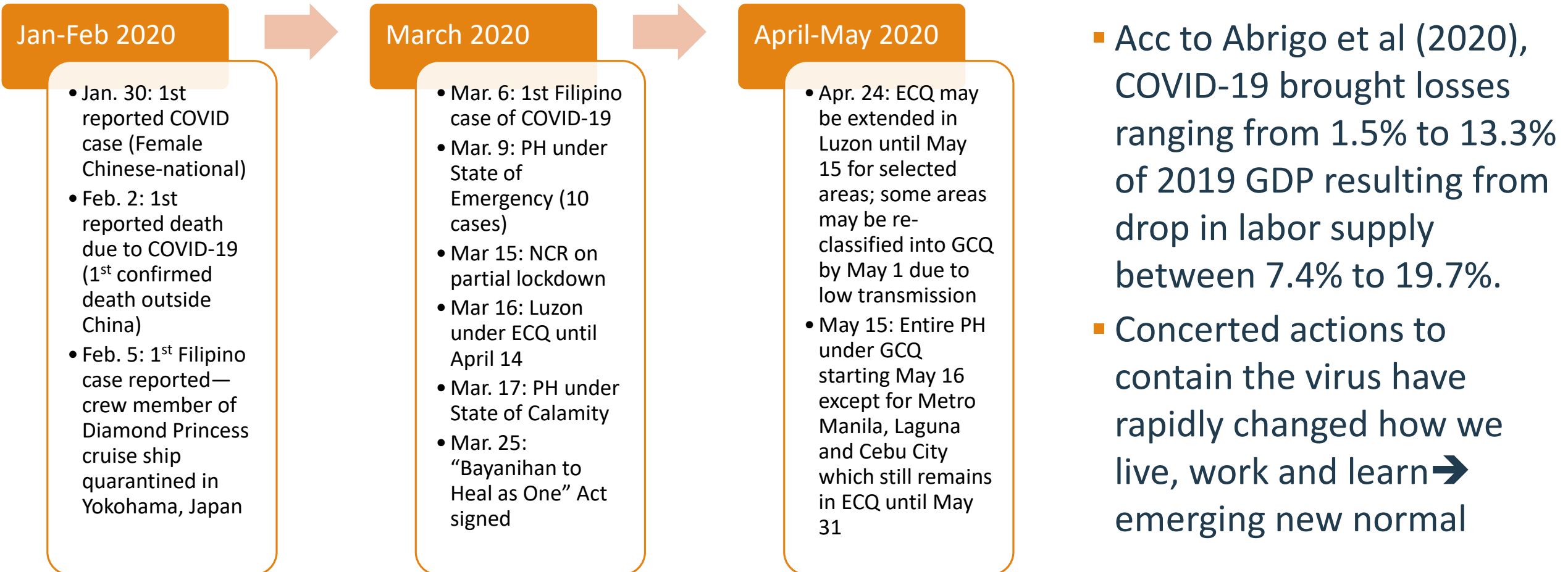


Source: FIES, PSA ([updated as of June 4, 2020](#))

- Acc to PSA, income poverty (and subsistence poverty) reduced from 2015 to 2018
- Improved welfare conditions from 2015 to 2018 have likely expanded middle class (but by how much, and is large share of middle class persisting in lower middle ???).
- Concern: improvement in living standards may be wiped out in the wake of COVID-19

1. Introduction (cont'd)

Timeline of COVID-19 Pandemic in the Philippines: January-May 2020



1.1 Study Objectives

- ❑ To examine the limited available microdata from 2018 FIES on poverty, the middle class and income distribution
- ❑ To look into possible effects of COVID-19 on poverty and entire income distribution accounting for some scenarios on reduction of incomes, but incorporating effects of govt cash support/income subsidy
- ❑ To recommend policy interventions and strategies on social protection to mitigate the impact of COVID-19 on poverty, the middle class and the entire income distribution

2. The Economic Impact of COVID-19

- PH GDP growth outlooks for 2020 by int'l orgs :
 - ADB: 2.0% (revised to negative 7.3%)
 - IMF: 0.6% (revised to negative 3.6%)
 - WB: 3.0% (revised to negative 6.9%)
 - Govt: GDP growth for 2020 expected between -2.0% and -3.4% (recent BSP projection: -7.0% to -9.0%)
 - Php 767.19B in economic losses (3.85% of GDP) from 6-wk Luzon ECQ

Mobility Locations	Mar 29	May 9	Jun 22	Sept 11
Retail & Recreation	-81%	-79%	-50%	-36%
Grocery & Pharmacy	-59%	-45%	-24%	-18%
Parks	-59%	-59%	-42%	-6%
Transit Stations	-82%	-75%	-56%	-61%
Workplaces	-54%	-53%	-42%	-43%
Residential	+26%	+28%	+23%	+23%

Source: Google Community Mobility Reports

- PSA: 2020 Q1 GDP contracted by 0.2% (Q2 at -16.5%)
 - Most expect better Q3 (than Q2), but we are not out of the hole
 - High unemployment rate (14.7% April 2020 LFS, 10.0% July 2020)

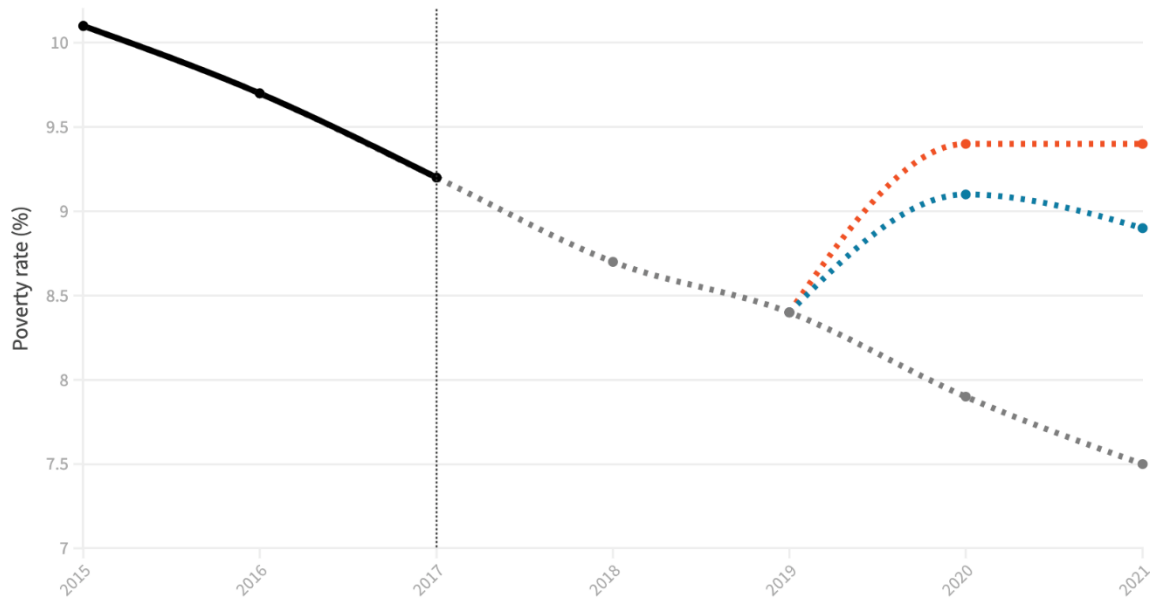
2. The Economic Impact of COVID-19 (cont'd)

- Now-casting exercises on poverty in the wake of pandemic
 - IFPRI (*Vos et al.* 2020): 1% global GDP slowdown → 1.63-3.02% increase in extreme poverty (\$1.90/day) or 12-22 Million people; In PH, this leads to 3-6% increase in extreme poverty rates (270K-600K more Filipinos with income less than \$1.90/day)
 - UN (WEF 2020): 3.2% reduction in global GDP → 34.3 Million to fall in extreme poverty (with less than \$1.90/day)
 - WB (*Mahler et al.* 2020): extreme poverty rate to rise from 8.2% in 2019 to 8.6% in 2020 (rev. 9.2%) (number of extremely poor to rise from 632 million to 665 million people, rev. to)

2. The Economic Impact of COVID-19 (cont'd)

Now-casting estimates of WB

- COVID-19 downside poverty rate (%) under \$1.90
- COVID-19 baseline poverty rate (%) under \$1.90
- Pre-COVID-19 poverty rate (%) under \$1.90
- Historical number of poor (%) under \$1.90



Source: Poverty and Shared Prosperity 2020, PovcalNet • Note: Extreme poverty is measured as the number of people living on less than \$1.90 per day. 2017 is the last year with official global poverty estimates. Regional nowcasts can be found here: <https://public.flourish.studio/visualisation/3704609/>.



Increase in Number of People in Poverty in ASEAN member economies Using Downward scenario of Global GDP deceleration by 8%

ASEAN member state	Increase in millions of people living below PPP per day		
	\$1.90	\$3.20	\$5.50
Cambodia	0.07	0.25	0.51
Lao PDR	0.14	0.34	0.28
Indonesia	4.92	13.40	15.04
Malaysia	0	0.03	0.10
Myanmar	0.11	1.31	2.61
Philippines	1.64	4.82	5.48
Singapore	0	0	0
Thailand	0	0.21	2.09
Vietnam	0.29	0.58	1.65

Note: Acc to WB authors, purpose is to come up with global and regional aggregates using a common methodology, they should not be used for analyzing trends for a particular country; for this purpose

2. The Economic Impact of COVID-19 (cont'd)

- Survival, transitional and structural measures (Php 1.74 T war chest to make a V-shaped rather than W, U or L recovery)

Policy	Strategies and Programs
1. Contain Spread of Virus	Total of P58.6 billion to Detect, isolate-treat-reintegrate (DITR) strategy for fighting catastrophic impact of COVID-19, incl. expanded medical resources
2. Provide Social Protection	P 595.6 Billion for providing people relief from sudden shock. LGUs food packs, incl. P205 B for Social Amelioration Program (SAP) and P51 B wage subsidy for MSMEs; P120 B loans for small business owners
3. Increasing Demand	P1.1 T for Monetary policies (reduced key policy rates and reserve requirements) and fiscal policies to soften decline in consumer and business spending (including monetary and fiscal incentives), plus “ economic recovery ” plan

3. Profile of Poverty and the Middle Class

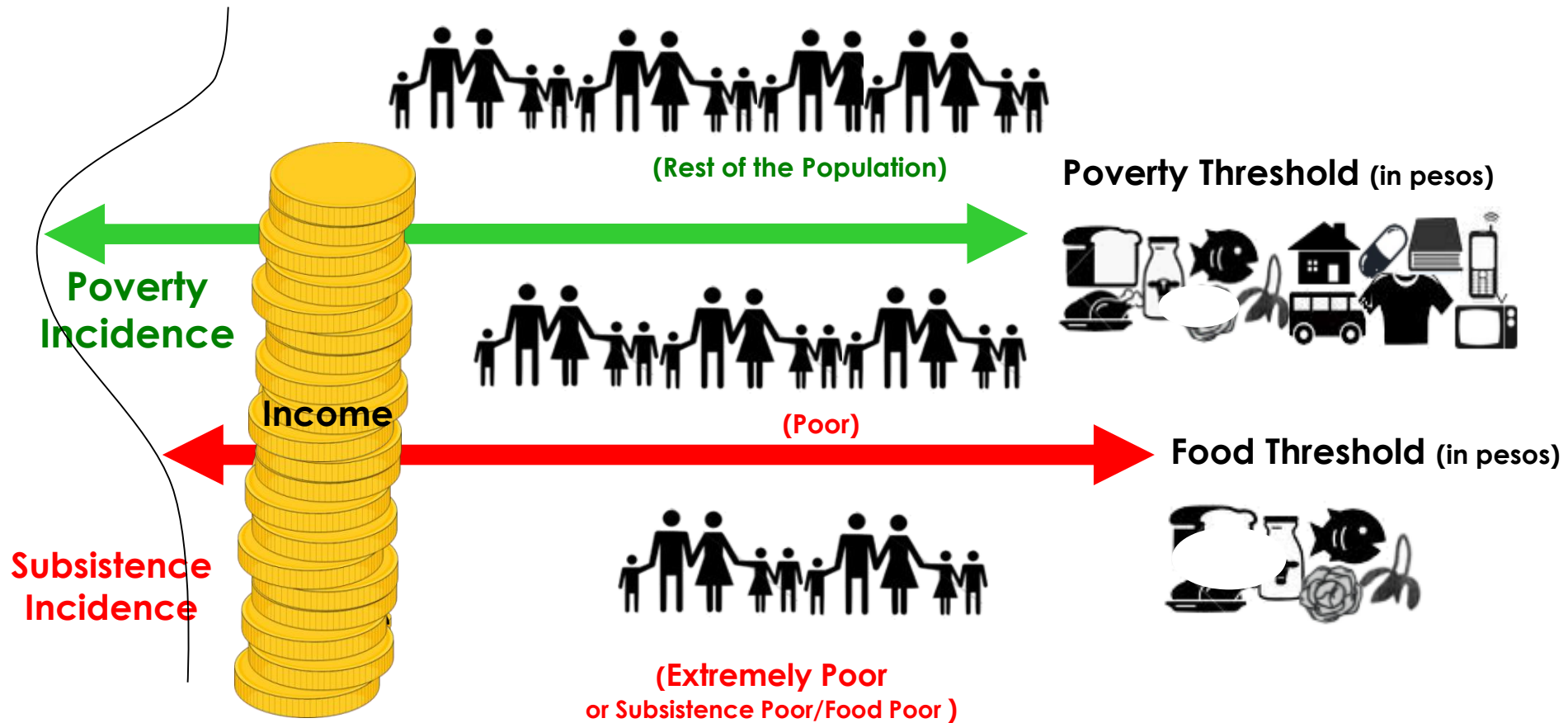
- ❑ In this study, we consider poverty as shortfall in income from official poverty thresholds; income inequality as indicated by gaps in various statistics across various income groups (as defined by Albert *et al.* 2018)
- ❑ Poverty at the heart of development agenda
 - 2030 SDG 1: “End poverty in all its forms everywhere”; “Leaving No One Behind”
 - PH Development Plan: poverty reduction mainstreamed
 - AMBISYON 2040: PH to be predominantly middle class society by 2040
- ❑ Countries have started to reset their development priorities, and reallocate resources to deal with the pandemic, and there are dangers that such response to the pandemic could be de-linked from the SDGs

3.1. Official Poverty Measurement System in PH

- According to RA 8425 of 1997 (Social Reform and Poverty Alleviation Act), the poor is defined as:
 - individuals and families whose **income** fall below the poverty threshold as defined by the NEDA; and/or
 - cannot afford in a sustained manner to provide their minimum basic needs of **food, health, education, housing** and other **essential amenities**
- Official poverty measurement systems involve three steps (UNSD 2005; Albert 2008; Haughton 2009):
 1. **Defining a welfare indicator:** PSA uses (per capita) income from FIES
 2. **Setting a poverty line:** cost-of-basic needs → official poverty thresholds
 3. **Summarizing poverty data:** PSA releases poverty and subsistence incidence (among families, population, among “basic sectors”), poverty gap

3.1. Official Poverty Measurement System in PH

How does PSA generate official poverty statistics? Classify people using income data from FIES



3.1. Official Poverty Measurement System in PH

- A decade ago, poverty lines were revised to make them consistent, by the then NSCB, under guidance of the TC-PovStat.
- PSA needs to re-examine the entire official poverty measurement system

- Income vs Expenditure
- Data Quality (FIES instrument: 4-5 hours of interview time)
- Poverty Lines: criticism that these are not “realistic” ; menu vs basket approach for food poverty line

- Suggested that PSA convene TC-PovStat (expert committee) rather than Inter Agency Committee

Poverty Headcount Rates (in %) in the Philippines using International and National Poverty Lines: 2010-2015

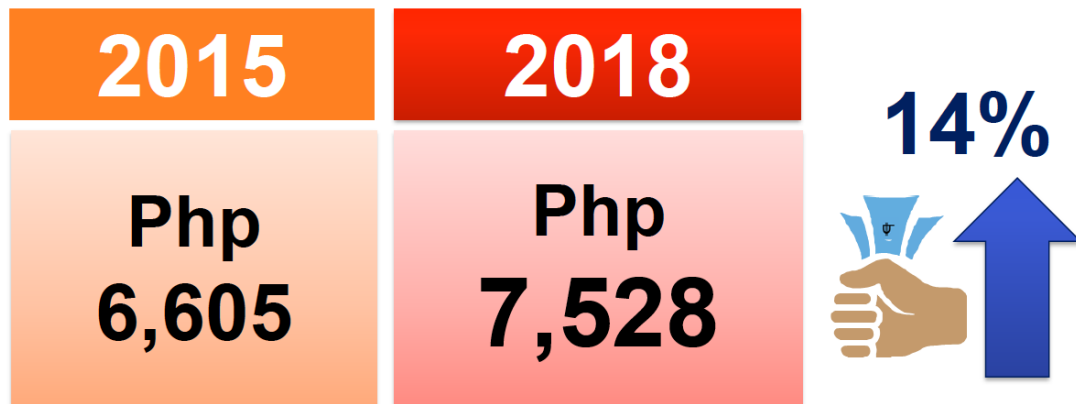
Year	International Poverty Line		National Poverty Lines
	\$1.90 a day	\$3.20 a day	
2015	6.15	26.04	23.5*
2012	10.51	33.55	25.2
2009	10.87	34.24	26.3
2006	14.54	38.42	26.6
2003	13.16	36.29	
2000	13.89	38.15	

*revised poverty lines

3.2. Poverty Profile

In 2018, a family of five needed an average of PhP7,528 for its monthly income to meet “minimum basic food needs; and PhP10,727 monthly if we also add nonfood needs

FULL YEAR Food Threshold per Family¹ per Month



¹ Refers to a family of five

FULL YEAR Poverty Threshold per Family¹ per Month

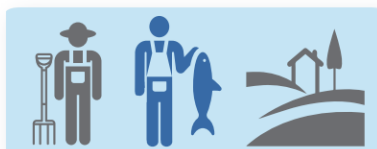


¹ Refers to a family of five

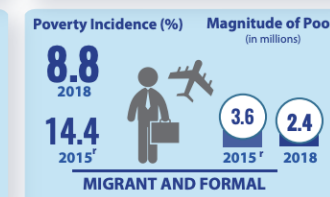
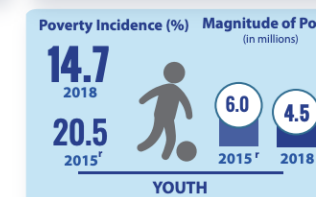
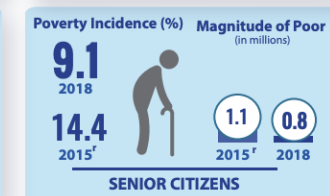
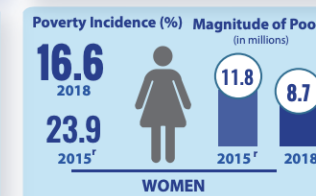
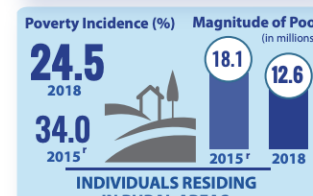
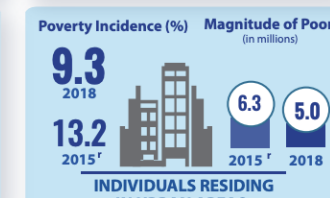
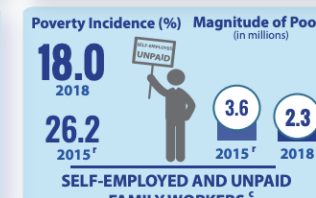
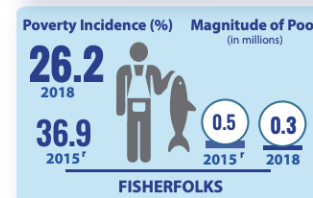
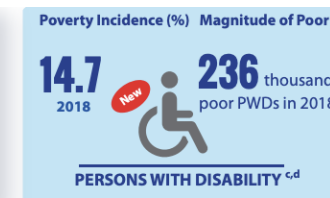
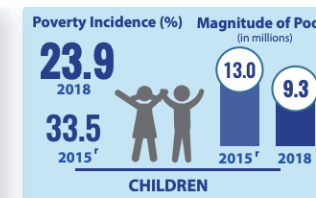
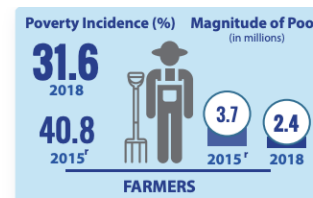
3.2. Poverty Profile

- In 2018, 3 out of 20 Filipinos (or 17.7 million) are poor; a third of these poor Filipinos (5.5 million) are extremely poor.
- 12.1% of Filipino families (or 2.9 million families) are poor in 2018 (this is a reduction of one-third of the rate, i.e., 17.9%, in 2015)

Farmers, fisherfolks, and individuals residing in rural areas had higher poverty incidences compared to other basic sectors in 2015 and 2018.



Individuals residing in rural areas, children, and women were the sectors with higher magnitude of poor in 2018 compared with the other sectors.



Footnotes:

a - Republic Act (RA) 8425 or the Social Reform and Poverty Alleviation Act, defines "poor" as individuals and families whose income fall below the poverty threshold as defined by the National Economic and Development Authority (NEDA) and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health, education, housing and other essential amenities of life. In this case, per capita income derived from the Family Income and Expenditure Survey (FIES), which was used for classifying poor or non-poor, refers to the total family income divided by the number of family members and not necessarily the income of the individual in a particular sector. If the per capita income is below the poverty threshold, then all the members of the family are considered poor. Hence, a farmer belonging to a poor family is considered poor.

b - RA 8425 defined the basic sectors as the disadvantaged or marginalized sectors of the Philippine Society. **Basic sectors are not mutually exclusive** i.e., there could be overlaps among sectors wherein women may also be counted as senior citizens, farmers, etc.

c - Considering data available in the Philippine Statistical System, self-employed and unpaid family workers served as proxy indicators for informal sector workers. Estimate for persons with disability for 2018 was already included since rider questions on functional difficulty were incorporated in the January 2019 round of the Labor Force Survey.

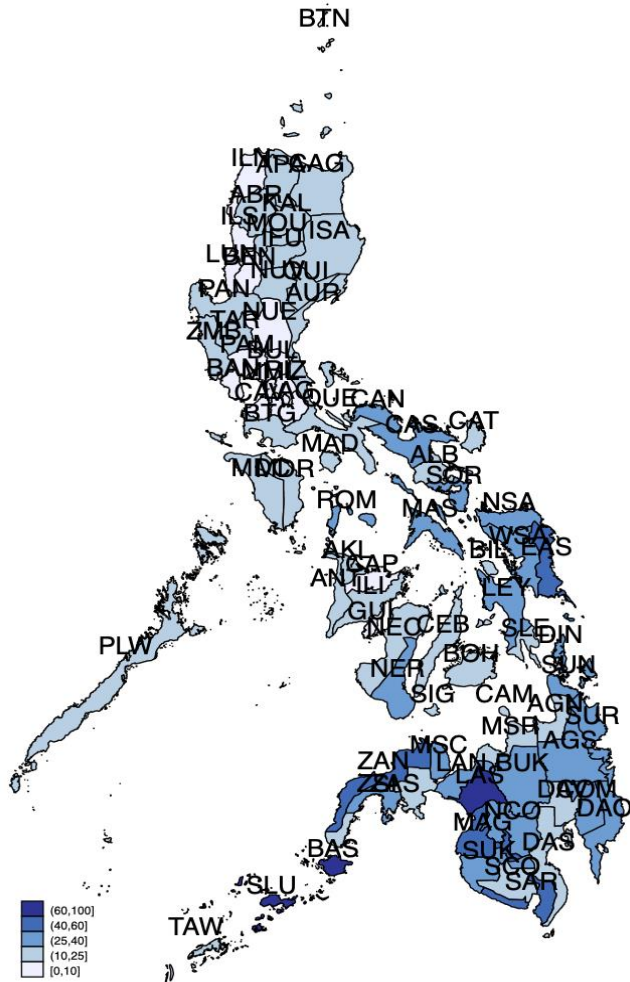
d - Persons with disability are those who experienced a lot of difficulty or who cannot do at all any of the following: a) Seeing even if wearing eye glasses; b) Hearing even if using hearing aid; c) Walking or climbing steps; d) Remembering or concentrating; e) Self-care; and f) Communicating. The Washington Group on Disability Statistics recommended this cut-off for disability.

r - revised; The 2015 estimates were revised/updated based on the following: a) rebasing of the Consumer Price Index (CPI) market basket of prices from 2006 to 2012; b) adoption of the 2015 Census of Population (PopCen) results for the weights in the merged FIES-LFS; and c) updated urban-rural classification.

Source: Philippine Statistics Authority

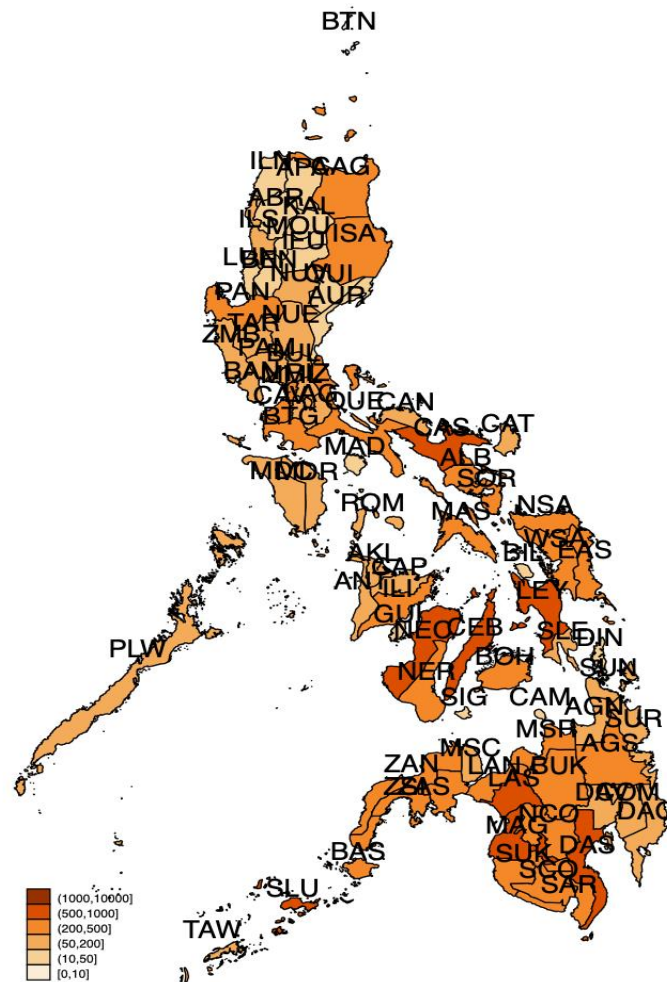
3.2. Poverty Profile

Population Poverty Incidence (%): 2018



Source: 2018 FIES, PSA

Number of Poor (Thousands): 2018



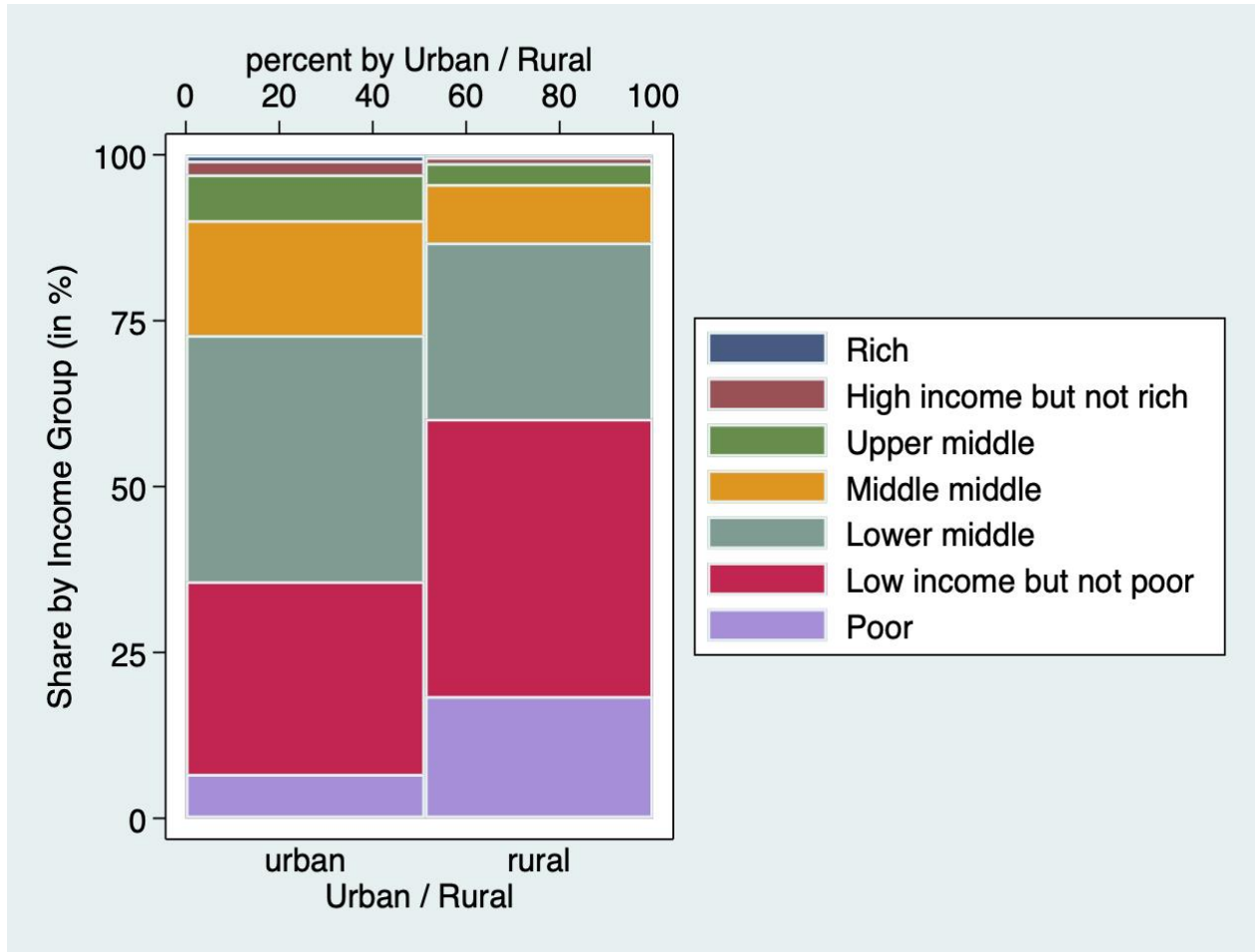
Source: 2018 FIES, PSA

- BARMM has the highest poverty incidence at 61.8%; NCR the lowest at 2.2%
- >50% poverty rate: (Isabela City), Lanao del Sur, Basilan, and Sulu
- >5% poverty rate: NCR, Pampanga, Laguna, Rizal, La Union, and Ilocos Norte
- More than 1M are poor: Camarines Sur, Leyte, Negros Occidental, Maguindanao, Sulu, Cebu, Lanao del Sur

Income Classes (& Clusters), Income Thresholds and Sizes of Income Classes (& Clusters) in 2018

Income class	Income cluster	Definition: Per capita income	Indicative Range of Monthly Family Incomes (for a Family Size of 5 members) at 2015 prices	Estimated Size in thousands (andn % of Total)	
				Families	Persons
Low income	Poor	Per capita income less than official poverty threshold	Less than PhP 10,957 per month	2.9 million	17.7 million
	Low income (but not poor)	Per capita incomes between the poverty line and twice the poverty line	Between PhP 10,957 to PhP 21,914 per month	8.4 million	40.7 million
Middle income	Lower middle income	Per capita incomes between twice the poverty line and four times the poverty line	Between PhP 21,914 to PhP 43,828 per month	7.6 million	31.0 million
	Middle middle income class	Per capita incomes between four times the poverty line and seven times the poverty line	Between PhP 43,828 to PhP 76,699 per month	3.1 million	11.2 million
	Upper middle income	Per capita incomes between seven times the poverty line and twelve times the poverty line	Between PhP 76,699 to PhP 131,484 per month	1.2 million	3.8 million
High income	Upper income (but not rich)	Per capita incomes between twelve times the poverty line and twenty times the poverty line	Between PhP 131,483 to PhP 219,140	358 thousand	1.0 million
	Rich	Per capita incomes at least equal to twenty times the poverty line	At least PhP 219,140	143 thousand	360 thousand

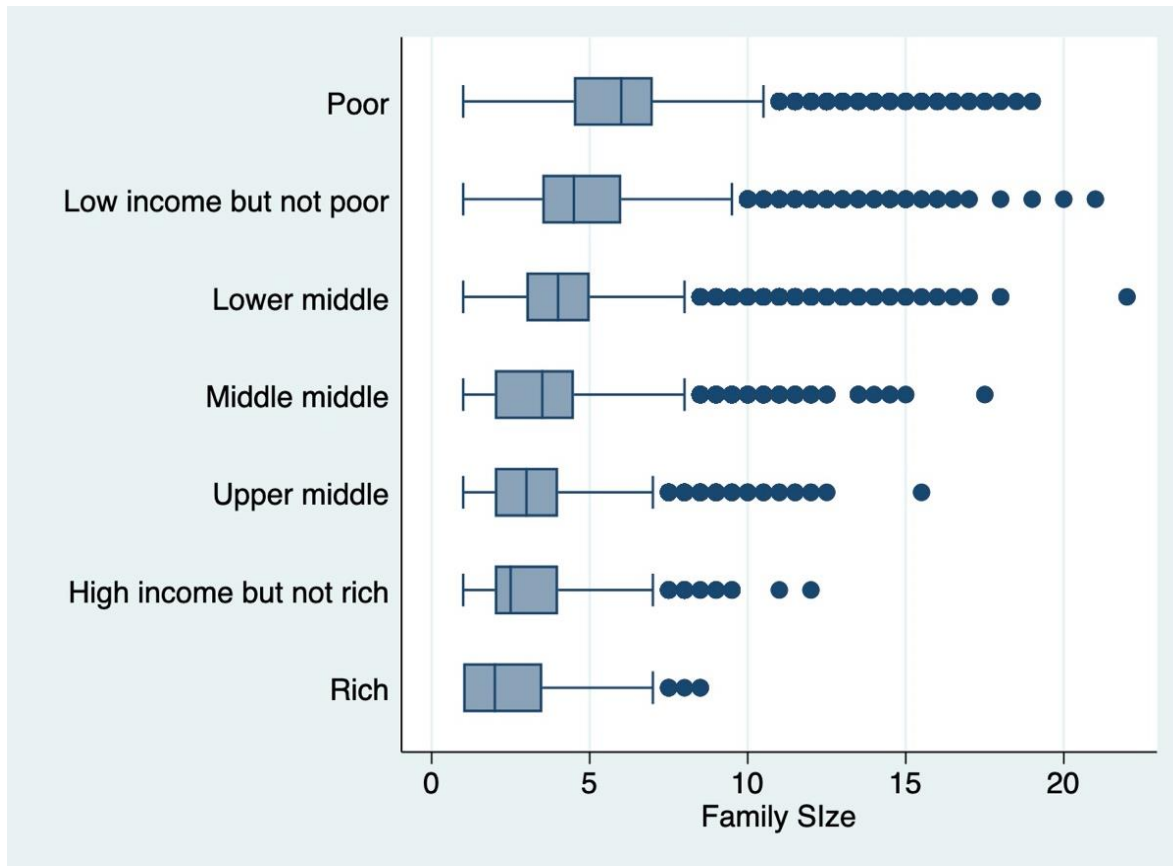
3.3. The Middle Class (and other Income Groups)



- Rural areas: low-income but not poor is highest (43.3%), followed by the poor (24.6%) among income groups
- Urban areas: lower middle class are highest (36.0%), followed by low income but not poor (33.8%). These income groups make up 69.8% of the population in the urban areas

3.3. The Middle Class and other Income Groups (cont'd)

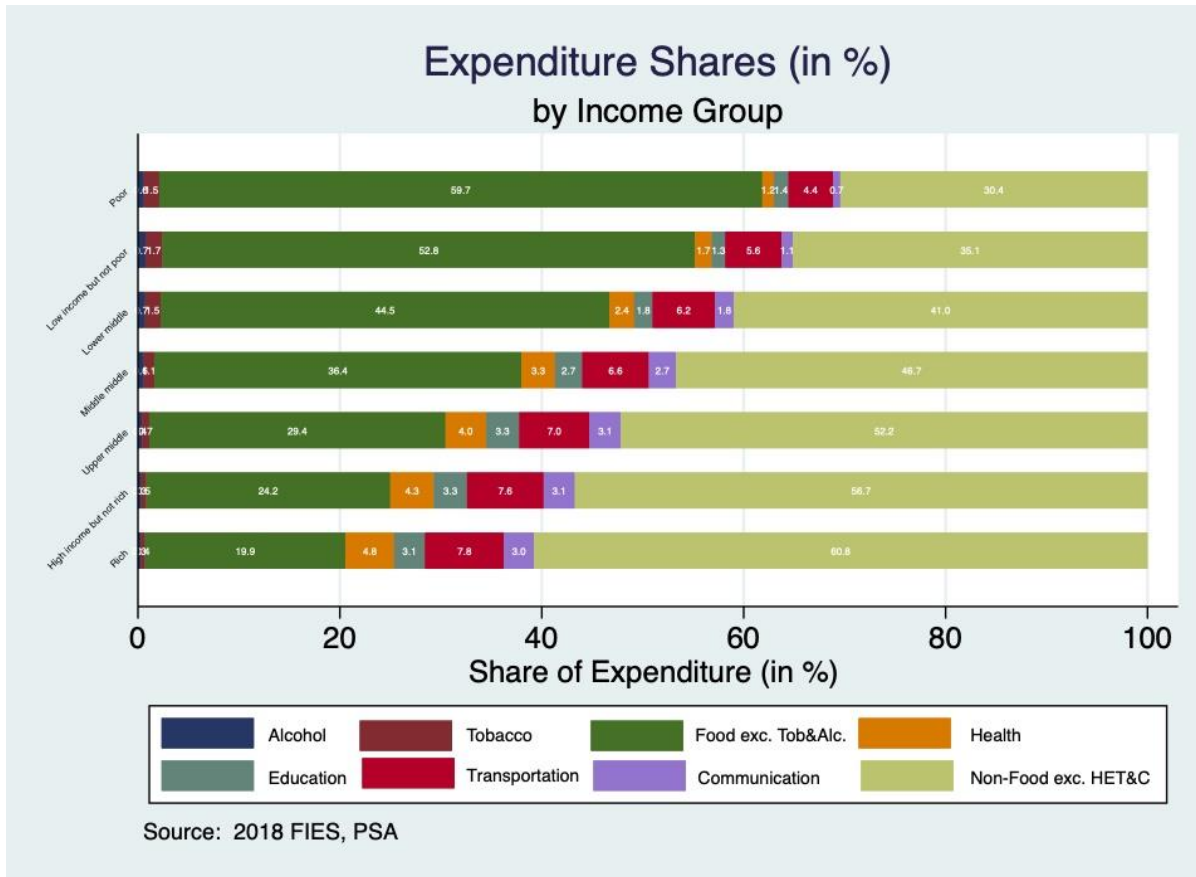
Distribution of Family Size, by Income Group: 2018



- Decisions on fertility and reproductive health tend to be associated with income levels
- Low-income class have larger-sized families (with more children) and more variability in family sizes than those from the middle and high-income classes

3.3. The Middle Class and other Income Groups (cont'd)

Expenditure Shares (%), by Income Group: 2018



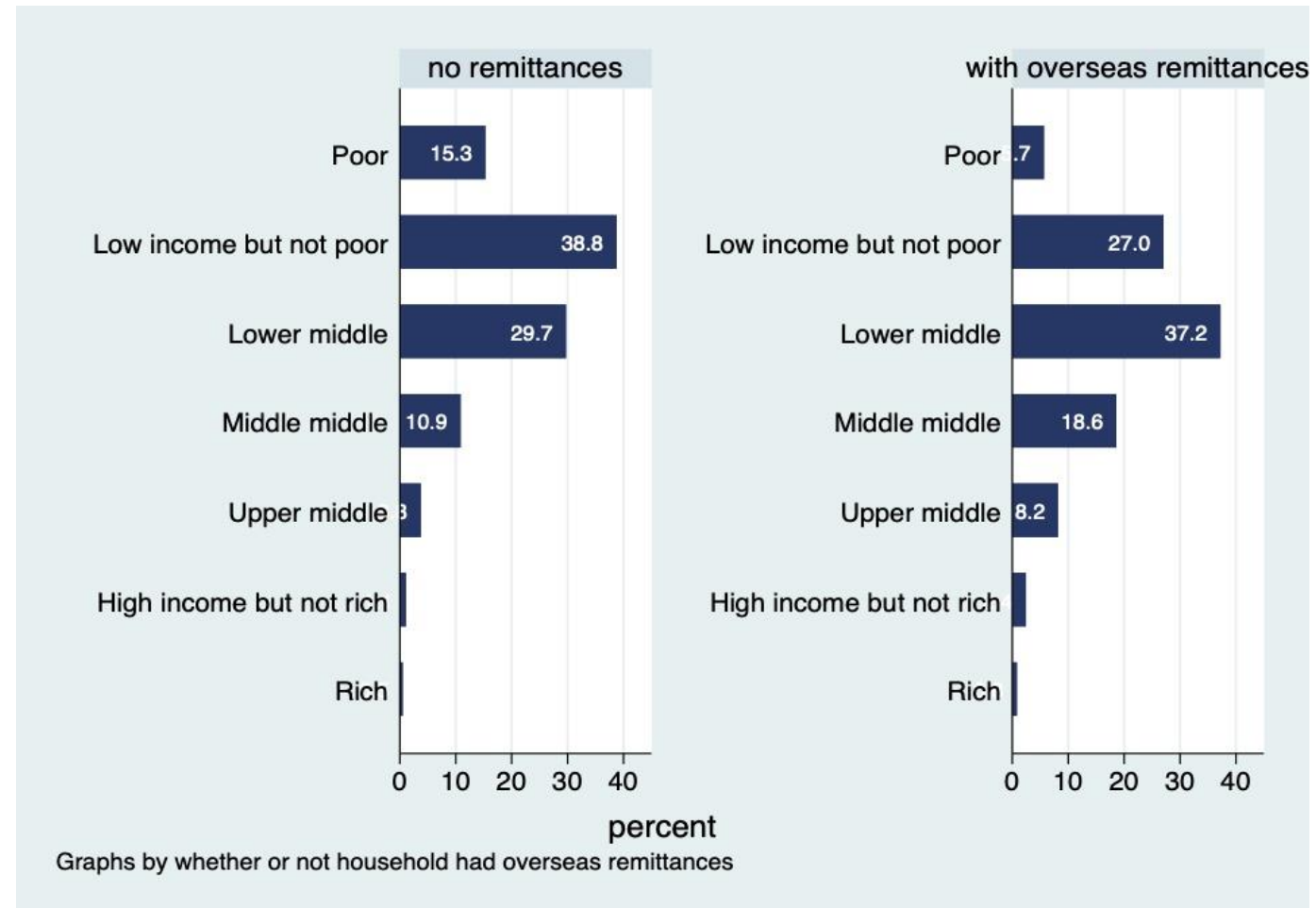
- Middle-class spends nearly 2x (2.8%) on health compared to low-income class (1.5%), and this is more than a third less than the high-income class (4.5%).
- Low-income class spends about three-fifths (56.9%) on food; Middle class spends at 42.8% while high income class at 22.9% of total expenditures
- Expenditures on education, on transportation and on communication also rises with income
- Issues on sustainable consumption (Never and Albert, forthcoming, Asian Studies Rev.)

3.3. The Middle Class and other Income Groups (cont'd)

Out of 23.7 M families in 2018, 29.7% depended on overseas remittances. Average remittances was about P100 K (over a fourth of total family income). Over half of families with remittances are from lower middle-income (37.2%) or low income but not poor (27.0%).

- Among families with remittances, one in twenty (5.7%) is poor.
- Lower middle-income families dependent on remittances receive on average of P80 K , double those of low income but not poor, and four times average remittance of the poor
- Half of lower middle and low income but not poor families dependent on remittances reside in NCR, CALABARZON & Central Luzon.

Households without and with overseas remittances, by Income Group: 2018.



4. Poverty and Middle Class Amidst COVID-19

- Following approach of Sumner *et al.* (2020), we simulate low (5%), medium (10%), and high (20%) contractions of entire income distribution to estimate impact of COVID-19 on income poverty in PH
- We also incorporated income transfers from the ff. govt social protection programs :
 - Social Amelioration Program: Php 5-8K cash transfer for 2 months to targeted 18 Million households (or 75% of entire Filipino households)
 - Small Business Wage Subsidy: similar to levels of SAP for 3.4 Million MSME workers in the formal sector

4.1. Effects on Poverty Under Different Scenarios

Scenario	Poverty Incidence (in percent)		Number of Poor (in millions)	
	Using Food Poverty Line as Threshold	With Total Poverty Line as Threshold	Income below Food Poverty Line	Income below Total Poverty Line
(Status quo: Baseline 2018 data)	5.3	16.8	5.6	17.7
A0: income contraction of 5%	6.4	19.2	6.7	20.3
A1: income contraction of 5% with SAP and SBWS	4.4	15.5	4.7	16.4
B0: income contraction of 10%	7.7	21.9	8.2	23.2
B1: income contraction of 10% with SAP and SBWS	5.6	18.2	5.9	19.2
C0: income contraction of 20%	11.4	28.0	12.0	29.7
C1: income contraction of 20% with SAP and SBWS	8.6	24.2	9.1	25.6

4.1. Effects on Poverty Under Different Scenarios

- For medium case (B1) scenario (10% income fall but with SAP/SBWS): **ALL** regions would expect **increased** poverty incidence; Bicol to increase by as much as 3.1 percentage points
- For worst case (C1) scenario (20% income fall but with SAP/SBWS): poverty incidence could increase by **over 10 percentage points in six regions**, viz., Bicol (11.5), Eastern Visayas (11.3), Zamboanga (11.2), CARAGA (10.7), BARMM (10.6), and Northern Mindanao (10.0);
 - While SAP and SBWS help, they are not enough to bring average incomes to baseline levels

4.2. Middle Class Society by 2040

Growth in Household Per Capita Income (in %)	Growth Rate of GDP Per Capita (in %)	Scenarios						
		Status quo	A0	A1	B0	B1	C0	C1
0.5	1.0	106.28	111.25	102.34	116.51	107.49	128.76	119.40
1.0	2.0	53.14	55.62	51.17	58.26	53.74	64.38	59.70
1.5	3.0	35.43	37.08	34.11	38.84	35.83	42.92	39.80
2.0	4.0	26.57	27.81	25.58	29.13	26.87	32.19	29.85
2.5	5.0	21.26	22.25	20.47	23.30	21.50	25.75	23.88
3.0	6.0	17.71	18.54	17.06	19.42	17.91	21.46	19.90
3.5	7.0	15.18	15.89	14.62	16.64	15.36	18.39	17.06
4.0	8.0	13.29	13.91	12.79	14.56	13.44	16.10	14.92
4.5	9.0	11.81	12.36	11.37	12.95	11.94	14.31	13.27
5.0	10.0	10.63	11.12	10.23	11.65	10.75	12.88	11.94
5.5	11.0	9.66	10.11	9.30	10.59	9.77	11.71	10.85
6.0	12.0	8.86	9.27	8.53	9.71	8.96	10.73	9.95
6.5	13.0	8.18	8.56	7.87	8.96	8.27	9.90	9.18
7.0	14.0	7.59	7.95	7.31	8.32	7.68	9.20	8.53
7.5	15.0	7.09	7.42	6.82	7.77	7.17	8.58	7.96
8.0	16.0	6.64	6.95	6.40	7.28	6.72	8.05	7.46
8.5	17.0	6.25	6.54	6.02	6.85	6.32	7.57	7.02
9.0	18.0	5.90	6.18	5.69	6.47	5.97	7.15	6.63
9.5	19.0	5.59	5.86	5.39	6.13	5.66	6.78	6.28
10.0	20.0	5.31	5.56	5.12	5.83	5.37	6.44	5.97

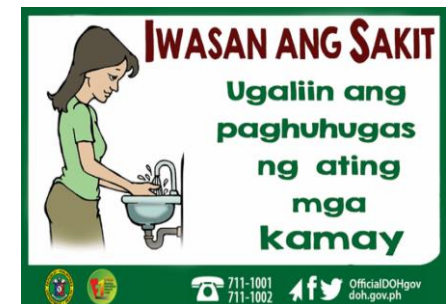
- Assuming 2.5% yearly per capita income growth → it will take **21.25 years** for low income in 2018 to transition to middle class
- B1 scenario (10% fall with support) → **21.5 years** transition time
- C1 scenario (20% fall with support) → **24 years**
- AMBISYON 2040 aspiration for a middle class society to be affected
- Social protection programs during pandemic needed for the poor as well as low-income but not poor and lower-middle income

5. Summary, Policy Implications & Ways Forward

- Given the likely drop in incomes (and expenditures) of households as well as businesses in the wake of COVID, we expect PH to grow at slower pace this year and to **worsen in poverty conditions**
- With rapidly changing data landscape, important for PSA to **re-examine its poverty measurement system**:
 - study **shift** from income **to consumption/expenditure as welfare indicator** since agriculture and informal sectors do not have regular wages
 - look into **approach for poverty line setting**: menu vs food bundle
 - **poverty statistics** communicated and strategies

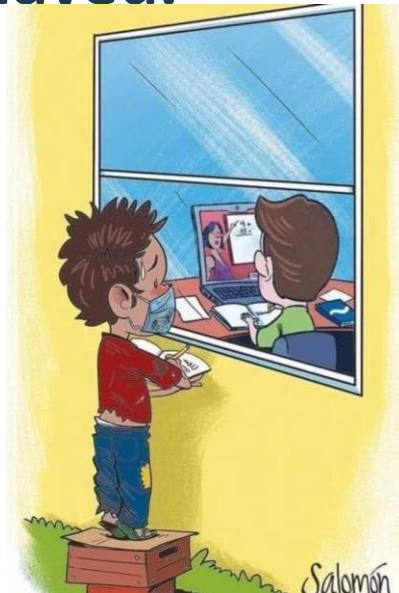
5. Summary, Policy Implications & Ways Forward

- Among middle-class households, two-thirds (63.6%) are in lower middle group (7.6M), a quarter (26.2%) are middle-middle (3.1M), and a tenth (10.1%) are upper-middle (1.2M).
- If SAP targeted 18M households and was targeted well → benefits all low-income class plus a sizeable portion of lower-middle income group
- Govt and all Filipinos should ensure that the **poor are at the center of policy attention** especially for the pandemic (and similar crises):
 - The poor often do not have the luxury to seek health care
 - As we advice people to “stay@home” and “wash your hands”, we note that these are luxuries for some of our countrymen



5. Summary, Policy Implications & Ways Forward

- Simulation results suggest that income contractions in the wake of **COVID-19 can increase poverty by** about 5.5 million Filipinos but **with SAP and SMBS**, this has been mitigated to a mere increase of **1.5 Million Filipinos** falling into poverty; the **vision of a predominantly middle class society by 2040 can also be delayed.**
- Risk that **current inequalities amidst COVID-19 will widen**
 - Pandemic or not, social protection should be at the core of govt policies and attention
 - Need to work on improving access to and cost of technology
 - Need to work progressively toward **universal social protection**, but focus primarily on poor and vulnerable, as well as **mainstream SDGs** in COVID-19 policy responses





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inquiries@pids.gov.ph ; jalbert@mail.pids.gov.ph



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