An Roinn Coimirce Sóisialaí
Department of Social Protection

Labour Market Advisory Council

DSP Paper:
Update on Labour Market Developments

9th December 2021

Prepared by the Activation and Employment Policy and Labour Market Analytics Units

Key Messages

- The Irish economy continues to operate in a very dynamic environment with the COVID-19 pandemic posing a significant threat to recovery. This is evidenced by Government's decision to implement further public health restrictions and consequently, to reopen the PUP on December 3rd for those workers impacted.

- As of the 30th of November 2021, 54,824 individuals were in receipt of PUP. The number of persons claiming PUP has now fallen by over 430,000 since the 2021 peak in February 9th.

- After remaining relatively static for most of the year, the Live Register declined from 183,000 in late August to 165,000 in late September. Since late September, the Live Register has remained flat at just under 165,000, despite transitions from the PUP.

- Between the PUP and the Live Register, nearly 220,000 individuals are in receipt of State income supports as of November 30th. Pre-pandemic, this compares with about 183,000 on the Live Register at the end of February 2020.

- There are currently 275,100 employees supported by EWSS. There has been a steady decline since June 2021 when there were 345,600 employees supported by EWSS. This represents a decline of nearly 80,000. The "Accommodation and Food" sector is by far the most reliant on EWSS, where nearly two-thirds of employees are supported by the subsidy.

- The standard rate of unemployment was 5.2 percent in November 2021 while the COVID-19 adjusted rate of unemployment was 6.9 percent.

- DSP conducted analysis on former PUP recipient's employment transitions following their return to work. Overall, 62 percent returned to their former employer post-PUP. Approximately 38 percent of people moved to work with a different employer – the majority of these (68 percent) in a different sector than that in which they worked immediately prior to opening their PUP claim.

- Available vacancy data from the CSO suggests an extremely high demand for workers in the Irish economy. Reported vacancies at the end of Q3 2021 are the highest recorded figure in the series and are 72 percent higher than the pre-pandemic level at the end of Q3 2019, particularly in the sectors of administration & services sector and construction. In addition, higher frequency data from the Indeed hiring website indicates that demand for workers has strengthened in the last 2 months.

- In Q3 2021 the Irish labour force was estimated to be 2.62 million. This is the highest level in the history of the State. Furthermore, the labour force participation rate is estimated to be 65.1 percent in Q3 2021. This is the highest rate recorded since Q4 2008.

- The Q3 2021 Labour Force Survey indicates that substantial numbers of previously economically inactive people have joined the labour force. Moreover, the data suggest that women are joining the labour force at faster rates than men. Participation rates for women have increased by 4 percentage points since Q3 2019 compared to a 1.4 percentage increase for men. Additionally, younger workers in the 15-19 age cohort and older workers in the 55-59 age cohort are entering the labour force in greater proportions than other age groups.

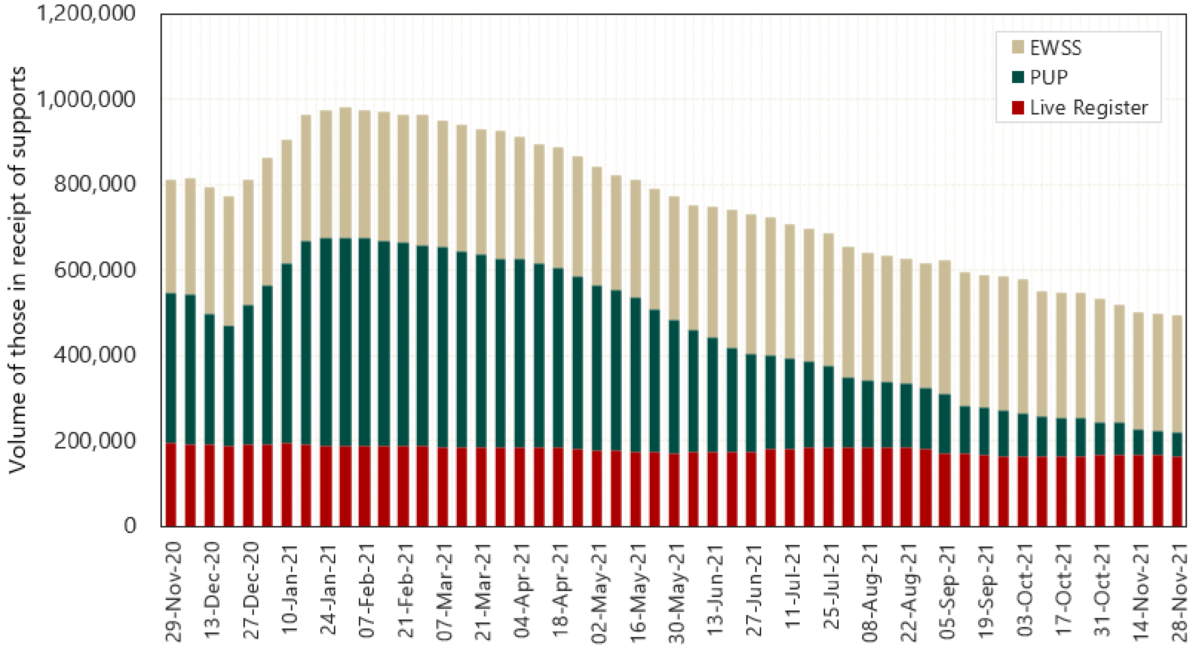
- Average weekly earnings are 9 percent higher in Q3 2021 for all sectors in comparison to Q3 2019. This represents a faster rate of increase in earnings than pre-pandemic. However, the average increase in earnings across all sectors has largely attenuated in 2021. This possibly indicates that 2020 increases are due to compositional changes of pay scales in the labour force during periods of lockdown.

While PUP was closed to new recipients in July 2021, the most recent Government decision of the 2nd December to re-impose restrictions impacting most on the hospitality and night-time economy sectors will lead to an inflow back onto the payment in the coming weeks. At the time of writing the impact of these new restrictions on the labour market in the immediate and more medium term is unclear. This paper was based on analysis of the 30th November.

1. Overview of Trends in State Supports

Figure 1 below illustrates the number of recipients of the PUP, employees supported by EWSS and individuals on the Live Register since December 2020.

Figure 1: Overview of trends in the PUP, EWSS and Live Register (December 2020 to November 2021)



Source: Revenue and DSP administrative data (figures are provisional and subject to revision).

1.1 Overview of Trends in the Pandemic Unemployment Payment

Latest figures (as of November 30th, 2021) indicate that there are 54,824 persons supported by the PUP, a decrease of 2,278 on the previous week's figure. The 2021 peak of claims occurred on February 9th with just over 486,000 claimants. The overall peak in total PUP claimants on the scheme was May 5th, 2020 with over 605,000 claimants. PUP closed to new recipients with effect from the 8th July, with transitions to the Live Register now underway.

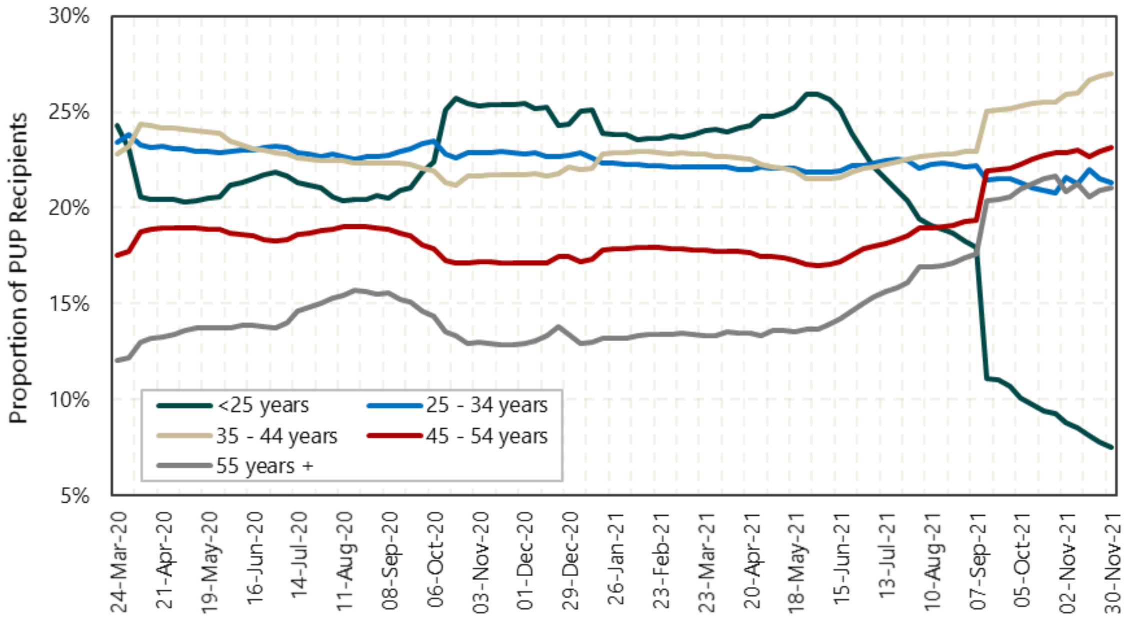
1.2 Demographic and Sectoral trends

Of the 54,824 recipients of the PUP, 23,137 are female (42.2 percent) and 31,687 are male (57.8 percent). Males are slightly overrepresented on the PUP compared to their share of the labour force which was 53.3 percent in Q3 2021.

At present, the largest age cohort in receipt of the PUP is the 35-44 group which accounts for

26.9 percent of all active claims. This is only slightly above the 26.5 percent of the pre-pandemic labour force in this age bracket. There has been a large decline in the number of under 25s in receipt of the PUP in recent months. Young people account for 7.5 percent of those on the payment, down from roughly 25 percent in June. The number of young people fell considerably as full-time students were no longer eligible for the PUP from September 7th. Figure 2 charts the percentage of recipients in each age group since the onset of COVID-19.

Figure 2: Proportion of PUP recipients by age cohort (March 2020-November 2021.)



Source: DSP administrative data.

In relation to the distribution of claimants across sectors, 'Wholesale & Retail Trade', 'Accommodation and Food' and 'Administrative & Support Services' are currently the three largest sectors, accounting for almost 44 percent of total claimants. The sector which has seen the most significant decline, in absolute terms, is the Accommodation & Food sector, with 104,000 exiting the payment since the 2021 February peak, a reduction of 92 percent.

1.3 Payment Rates and Transitions to the Live Register

On the 14th September, the top payment rate of €350 was withdrawn. Recipients of the €350 rate were moved to the €300 rate, those on the €300 rate to the €250 rate and those on the €250 rate to the €203 rate. Initially, it was planned to begin the transition of individuals on the €203 rate to the Live Register in September. However, this transition was postponed given that not all sectors of the economy had fully reopened at that stage.

On November 2nd, the first tranche of PUP recipients on the €203 rate[1] began the transition to the Live Register (LR). While numbers on the PUP fell sharply as a result (-12,800, though this is inclusive of normal weekly exits too) on November 2nd, this did not lead to a similar increase

[1] This payment band was comprised with pre-Covid-19 earnings of less than €200 per week.

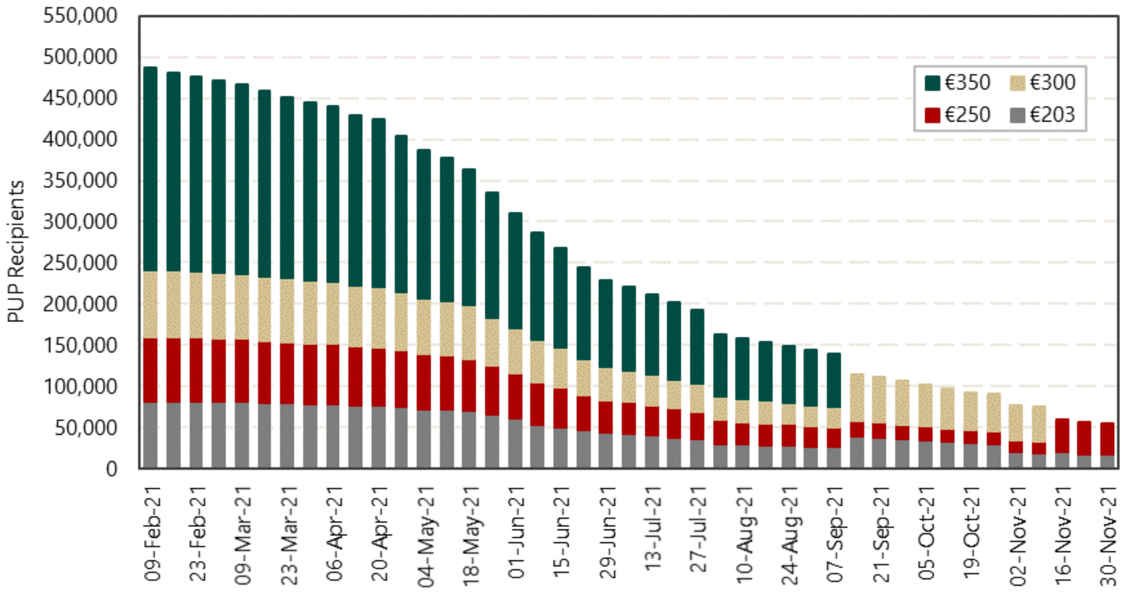
in numbers on the LR. This is likely due to the buoyant labour market and the different eligibility rules[2] of the two supports.

The second phase of PUP to LR transitions[3] and reduction in PUP rates occurred simultaneously on November 16th. Those previously on the then top rate of payment of €300 per week moved to €250, and those on €250 moved to the €203 rate. Again, numbers on the PUP fell sharply (-14,300, inclusive of normal weekly exits) while numbers on the Live Register stayed largely stable.

Consequently, there are currently only two PUP payment rates remaining: €250 and €203. The majority (69 percent) of the remaining PUP recipients are on the €250 rate. The next phase of transitions and reductions in PUP rates is planned for February 8th, 2022 at which point the PUP rate and the JSA/JSB rates will be identical.

The PUP scheme is currently planned to end on March 25th, 2022 with the last payment on Tuesday, 29 March 2022. At this point, all remaining PUP recipients will start moving to standard jobseeker's terms.

Figure 3: Distribution of PUP Recipients by Payment Rate in 2021



Source: DSP administrative data (figures are provisional and subject to revision).

[2] Eligibility conditions for jobseeker payments and PUP differ; a person who was eligible for PUP may not be eligible for a jobseeker's payment. For instance, the jobseeker's allowance payment is means-tested while PUP is not. In addition, while self-employed PUP recipients are permitted to retain their full payment while earning up to €960 over 8 weeks, self-employed earnings are fully assessed for JA means testing purposes.

[3] Those with prior earnings of between €200 and €299.99, per week.

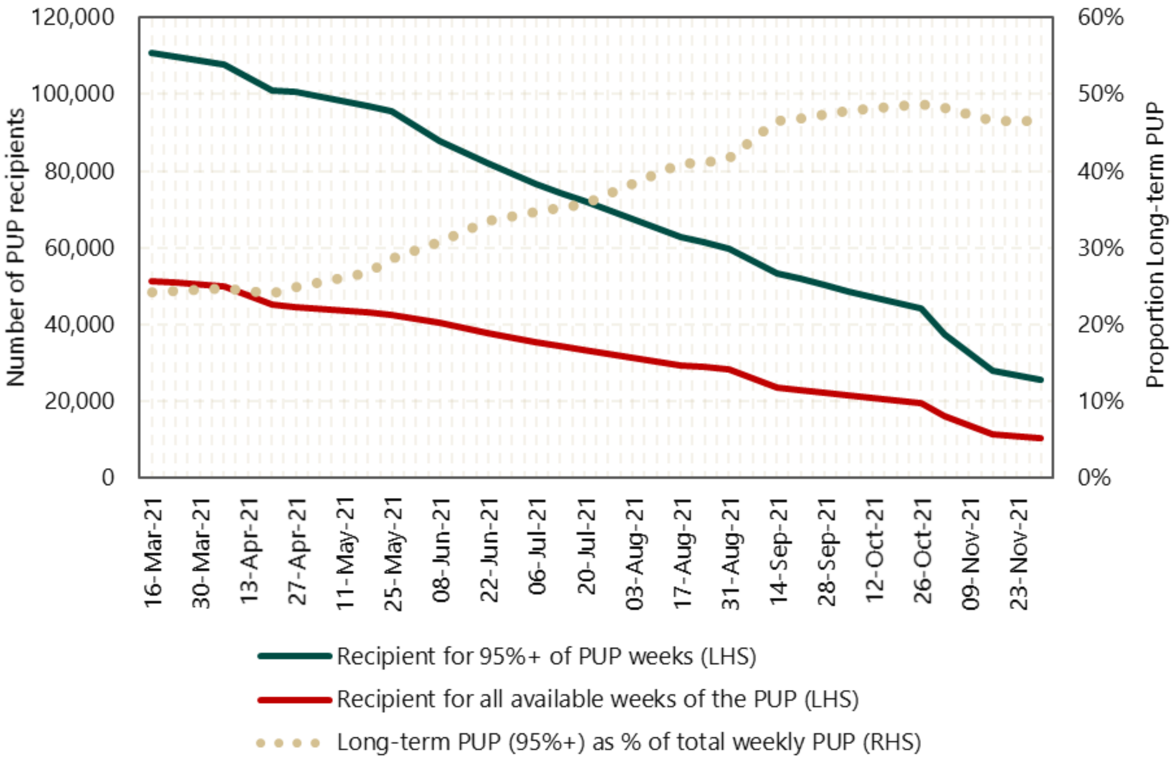
1.4 Duration of PUP Claims

As of 30th November:

- 85 percent (c.46,600) of PUP recipients have received 52 or more weekly PUP payments (out of a maximum possible 89 weeks). As the scheme has been closed to entrants since July, this proportion 52 weeks+ recipients has been steadily increasing in recent months. Therefore, the vast majority of persons remaining on PUP could be classified as long term unemployed.

- Almost 47 percent have been in receipt of the payment for over 85+ cumulative weeks (95 percent of all possible weeks). As shown in Figure 4, the percentage of long-term PUP recipients has begun to stabilise in recent months.

Figure 4: Distribution of PUP Recipients by Duration in 2021



Source: DSP administrative data (figures are provisional and subject to revision).

1.5 Overview of Trends in the Live Register

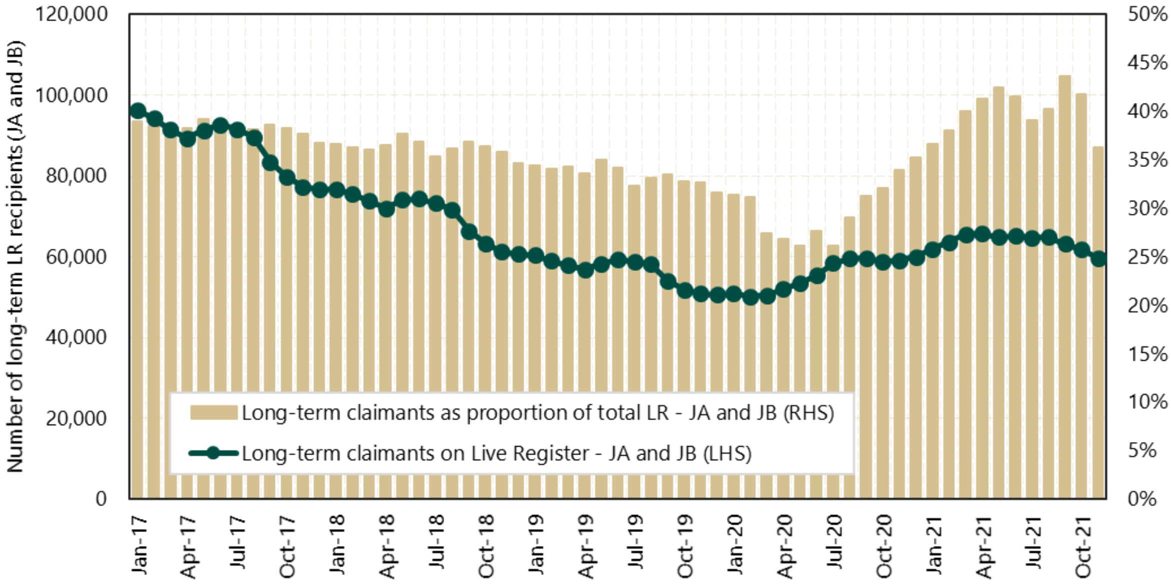
The Live Register stood at 164,626 on Friday November 26th, 2021. The Live Register has decreased slightly over the last few months from just over 184,000 in July.

It is worth noting that a slightly higher proportion of those claiming jobseeker payments on the Live Register in November 2021 are long-term unemployed (on the Live Register for more than one year), compared with the same time last year; 36.3 percent in November 2021 compared with 34 percent in November 2020. This is illustrated below in Figure 5, which shows the evolution in Jobseeker's Allowance and Jobseeker's Benefit claims since 2017. The increase in the relative share of long-term claimants since mid-2020, as a result of the pandemic and dampened labour market conditions, is clear.

This is however, part of the normal dynamics of long-term unemployment. As the economy opens up and hiring resumes, the exit rate from the Live Register of those with less than 12 months duration increases faster than for those of 12 months and over, leading mechanically to a rising share of long-term unemployed on the Live Register.

However, it is also important to note that since wide-scale economic reopening, the proportion, and absolute number of long-term jobseekers has begun to fall in recent months, primarily as a result of increased opportunities to return to employment.[4]

Figure 5: Monthly Live Register long-term claimants[5] (JA and JB only) and proportion of long-term claimants as a percentage of total, January 2017 – November 2021.



Source: CSO LRM18.

1.6 Overview of Trends in the Employment Wage Subsidy Scheme (EWSS)

The latest Revenue statistical release (December 2nd, 2021) reports that payments in respect of 275,100 employees were processed in November, down over 15,000 since October. In total, there are 23,600 employers currently registered with Revenue for EWSS, down almost 2,500 since October. Figure 6 illustrates the recent fall in the number of employees and employers supported by EWSS.

To be eligible for EWSS, firms must demonstrate that they will experience a 30 percent

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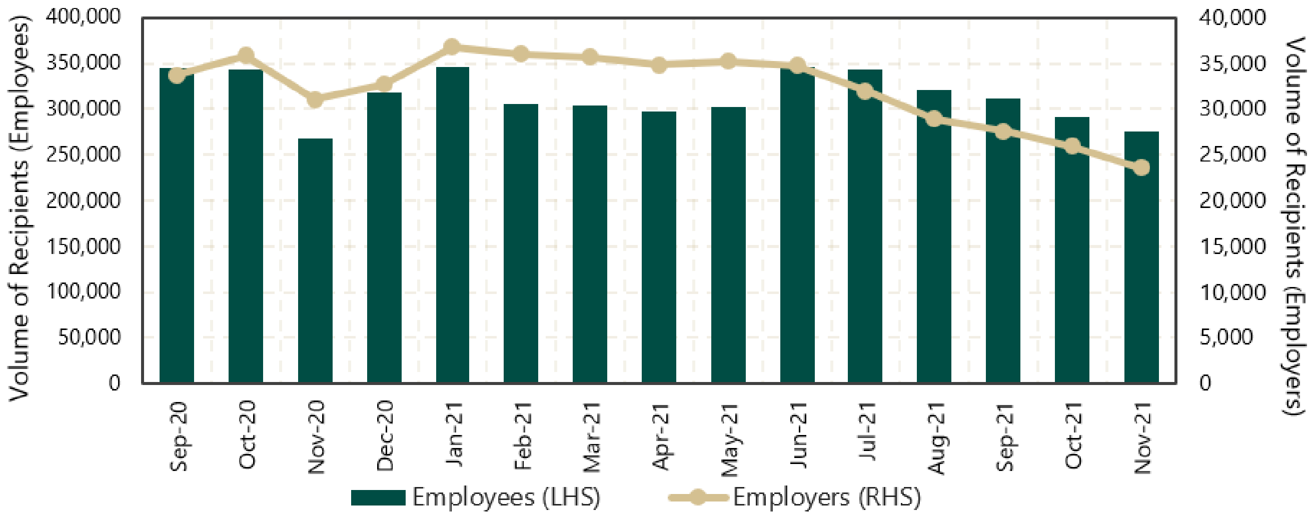
[4] As PUP recipients are transitioned to the Live Register, if their durations on PUP are included as part of their unemployment duration classification, an increase in long-term Live Register recipients may occur in the coming weeks and months. This process is currently being finalised between the D/SP and CSO.

[5] Long-term claimants are classified as being on the Live Register for more than one year.

reduction in turnover, or customer orders, in the period from 1 January to 31 December 2021 (compared to 2019) and that this disruption is caused by COVID-19.

As such, many firms in the most affected sectors will experience a drop in revenues of 30 percent or more compared to 2019 as a result of the rolling public health restrictions earlier in the year. Therefore, despite improvements in trading conditions in recent months, many firms still remain eligible for EWSS. However, the recent reduction in EWSS claimants as highlighted in Figure 6 suggests some firms are no longer eligible for the scheme due to increased revenue.

Figure 6: Monthly EWSS recipients (Employers and Employees). September 2020 – November 2021.



Source: Revenue (figures are provisional and subject to revision).

On the 1st December 2021, the EWSS rate of payment began to be reduced.

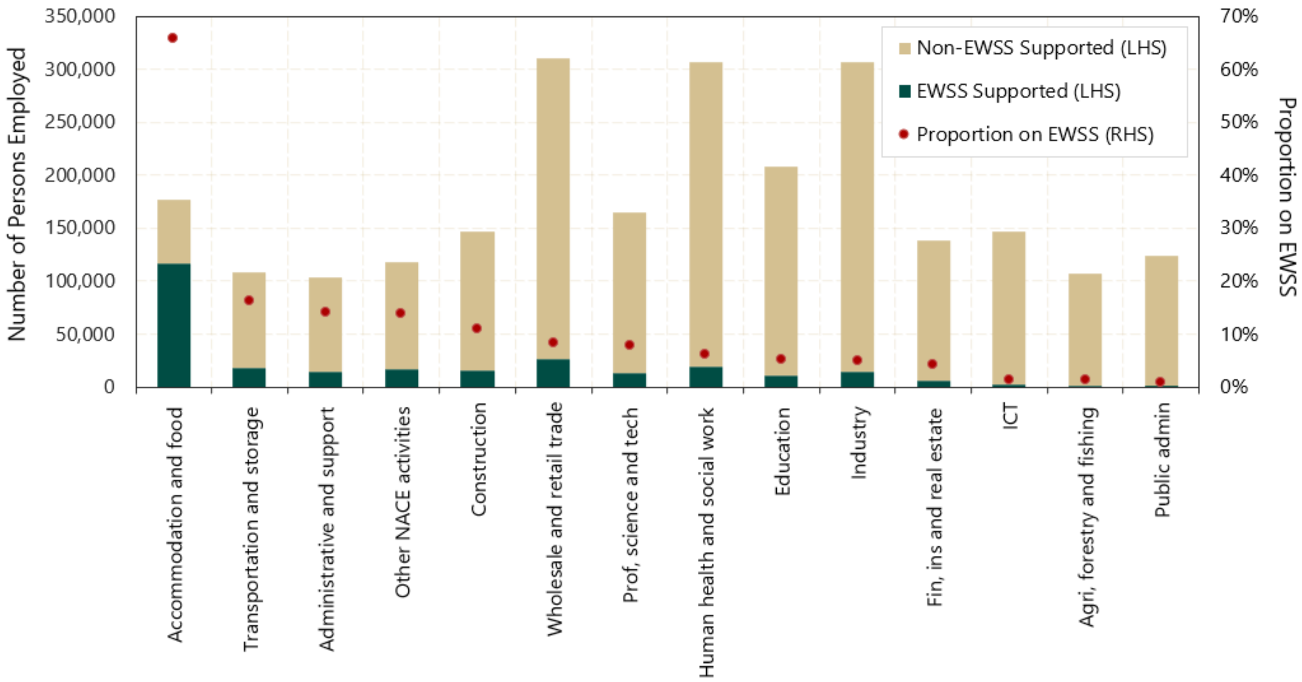
- The subsidy rate per employee earning between €151.50 and €202.99 fell from €203 to €151.50.
- For those earning between €203 and €299.99, the subsidy rate fell from €250 to €203.
- For those earning between €300 and €399.99, the subsidy rate fell from €300 to €203.
- For those earning between €400 and €1,462, the subsidy rate fell from €350 to €203.
- Hence, with the sole exception of the highest-paid employees, the EWSS subsidy rate is now equalised with the JSA/JSB rate.

1.6.1 Sectoral Breakdown for EWSS

In relation to the distribution of EWSS claimants across sectors, 'Accommodation & Food' is by far the single biggest sector: 40 percent of EWSS supported employees work in the 'sector. 'Wholesale & Retail Trade' and 'Human Health & Social Work' account for 9 percent and 6.6 percent of total employee claims respectively.

The sectors most supported by EWSS are highlighted in Figure 7. Of all sectors, the 'Accommodation and Food' sector has the highest proportion of employees, nearly two-thirds, that are being supported by the EWSS. The 'Transportation and Storage' sector is the second most supported with 16 percent of employees being supported by EWSS. While 'Wholesale & Retail Trade' has the second most EWSS supported employees in absolute terms, over 90 percent of the sector's employees are not supported by EWSS payments.

Figure 7: Employment supported by EWSS in select sectors.[6]



Source: Revenue and CSO LFS. (figures are provisional and subject to revision).

[6]To elaborate on the results portrayed in Figure 7, starting with the left hand side (LHS) of the axis: EWSS Supported employment is based on sectoral employee numbers for the month of October and are calculated using the percentages provided in Revenue's weekly statistical release on November 11th. Non-EWSS supported employment is then calculated by subtracting the EWSS recipient numbers, from the CSO labour Force Survey (LFS) employment estimates per sector for Q3 2021. For the right-hand side of the axis (RHS): The proportion on EWSS uses the combined number of EWSS recipients for a given sector as the numerator, and the number of LFS respondents in employment per sector as the denominator.

2. Labour Market Reallocation

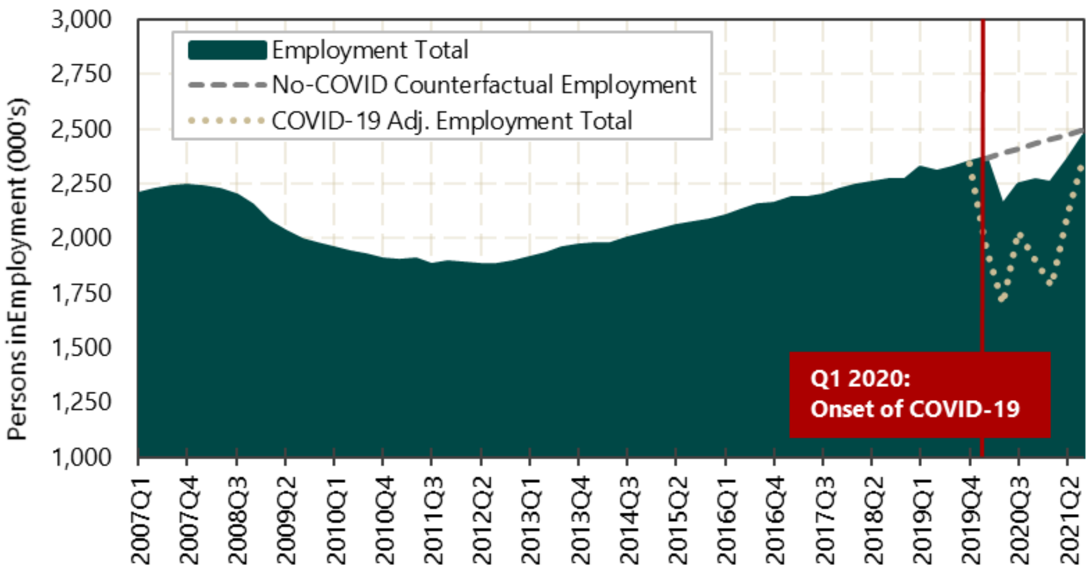
2.1 Overview of employment recovery and changes in sectoral compositions.

As shown in Figure 8 below, the emergence of the COVID-19 pandemic towards the end of Q1 2020 resulted in an abrupt and adverse shock to the labour market, quite unlike previous recessions. While the initial drop in employment was in the region of 600,000 by Q2 2020, according to COVID-adjusted CSO numbers, the latest figures show a very strong recovery since the middle of 2021, driven by economic and societal reopening.

Seasonally-adjusted figures of employment from the CSO's Q3 2021 Labour Force Survey suggest employment is close to 2,466,000, representing an increase of 113,400 (4.8 percent) compared to the previous quarter. This is the highest recorded level of employment in the history of the State and, as shown in Figure 8 below, is only just below a counterfactual 'No-COVID' employment estimate.[7]

Similarly, the CSO's COVID adjusted measure of employment for Q3 has also continued to recover quickly, rising a further 250,000 (11.7 percent) since the last quarter to stand at almost 2,370,000[8]. While there is a significant difference of approximately 100,000 between these two measures of employment, it is important to note that even the COVID-19 adjusted measure now stands above pre-COVID employment levels (Q4 2019).

Figure 8: Quarterly changes in employment levels (2007 – 2021).



Source: CSO LFS and authors' calculations (figures are provisional and subject to revision).

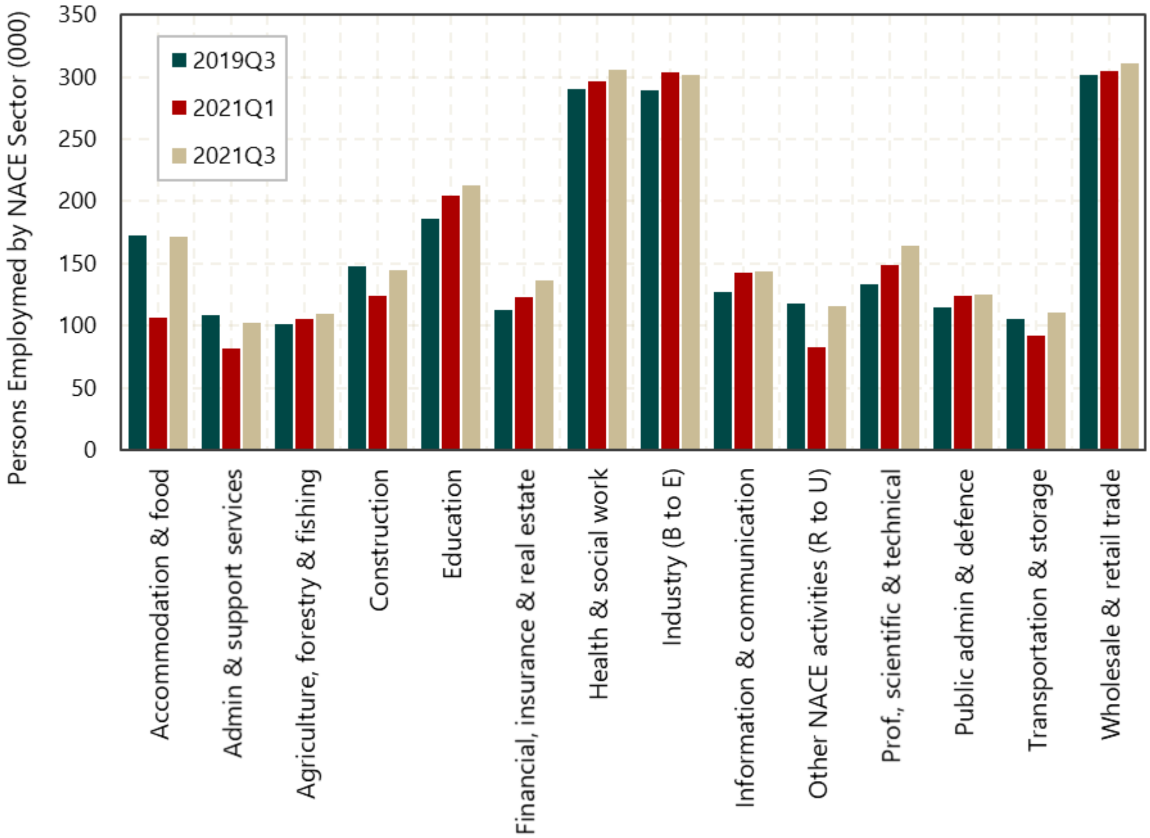
[7] The counterfactual employment estimate in Figure 8, is calculated by the authors using the average employment growth rate of the previous five pre-COVID quarters (Q1 2019 – Q1 2020).

[8] The CSO has been producing a COVID-19 Adjusted Measure of Employment since (Q1) 2020. The estimate for the end of Q3 2021 was calculated by subtracting those who were in receipt of the PUP at the end of September 2021 (end of Q3 2021) from the numbers in employment during Q3 2021. The COVID-19 Adjusted Measure of Employment is a crude measure which should be considered as the lower bound for employment.

When interpreting these employment figures, it is however, important to be aware, that the Labour Force Survey data may not fully capture the impact of COVID-19 on the labour market in Ireland owing to how individual's employment status is classified. [9]

Given these caveats however, it is clear that overall employment has recovered strongly in recent months. However, it is also important to consider the sectoral composition of this recovery. Unsurprisingly, as shown is Figure 9, those sectors that have grown most strongly since reopening began in early Q2 are those that have been the most impacted by the pandemic, such as the accommodation and food, construction, and 'other NACE (including arts and personal care)' sectors. For example, seasonally adjusted figures show that employment in the accommodation and food sector alone grew by 54,000 (46 percent) in Q3 2021, to stand at 172,000 – close to its pre-COVID level.

Figure 9: Persons Employed by NACE Sector pre-COVID (Q3 2019), at 2021 Peak restrictions (Q1 2021) and latest (Q3 2021).



Source: CSO LFS (figures are provisional and subject to revision).
Note: Figures are seasonally adjusted and non 'COVID adjusted'. Q1 2021 is used here for illustrative purposes to show the

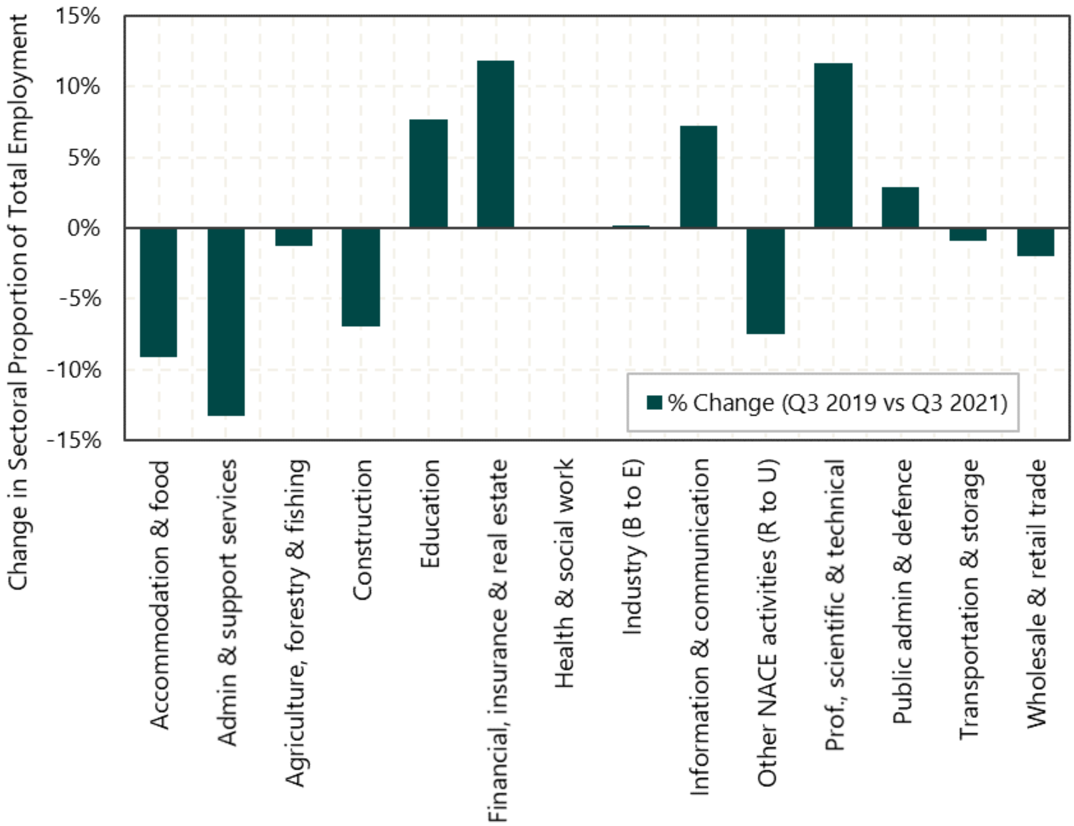
[9] The LFS definitions relating to employment are unlikely to fully capture the impact of COVID-19 on the labour market in Ireland. This is because people are classified as employed if they are currently 'away from work' but expect to return to work within 3 months or if they are presently not working but continue to receive payment from their employer; this is in line with the ILO's definition of employment. This can include those availing of emergency income supports from the Government, for example, those people who are currently receiving subsidised wages as part of the EWSS, and may not be currently working.

significant recovery in employment levels across sectors over the previous two quarters.

However, while many of these sectors have recovered significantly in recent months, given the growth in overall employment levels and steadily falling unemployment rate, it is important to examine whether there is evidence of any structural changes in terms of sectoral proportions, longer-term scarring or potential labour market movements. Figure 10 below shows that, compared to pre-pandemic, those sectors most impacted by COVID-19 now make up a smaller share of overall employment. This suggests that either: further recovery is still to follow in the coming quarters, individuals are not returning to their previous sector of employment (or recruitment into the sector is lacking), or there are fewer job opportunities in that sector. We explore the second of these possibilities further in section 3.2 below.

In interpreting these changes, it is important be aware that the pandemic has brought about a significant acceleration in the adoption of technology across many sectors of our economy, including remote and flexible working.[10] These developments may well have led to structural changes in employment composition and worker preferences, not least by allowing some to move to new sectors of employment, whilst allowing others previously outside the labour market to re-engage.

Figure 10: Change in sectors proportion of total employment, compared to pre-pandemic.



Source: CSO LFS and authors' calculations (figures are provisional and subject to revision).
Note: Figures are seasonally adjusted and non 'COVID adjusted'.

[10] Summer Skills Bulletin (2021).pdf (solas.ie)

2.2 Overview of PUP Employment Transition Analysis (September-October 2021)

As restrictions have eased and society has reopened, anecdotal reports suggest that the economy is experiencing reallocation challenges in certain sectors[11]. A recently published working paper prepared by the Department of Social Protection, presents an analysis up to September 21st, of the extent to which people who availed of PUP have now returned to work at any time since the onset of the pandemic in March 2020.[12] In particular, the working paper examines whether former PUP recipients have;

- returned to their former job with their former employer, or
- changed employment either within their former sector of occupation or to a different sector of occupation.

In summary, the analysis indicates that of all people for whom the Department of Social Protection has evidence of closing their PUP claim and returning to paid employment (with evidence of a payslip since July 2021 from Revenue data);

- **62 percent** of people who have returned to work are currently working for their **former pre-pandemic employer**,
- **38 percent** of people return to work with a **new employer**; with
    - **12 percent** of total persons returning to work, taking up a new job with a different employer in the **same broad sector of employment** that they worked immediately prior to opening their PUP claim,
    - **26 percent** of total persons returning to work taking up a new job with a different employer and in a **different sector** of activity than they worked immediately prior to opening their PUP claim.

Of those who have returned to work from PUP, and taking into account the various transitions between sectors, both Table 1 and Figure 11 below, show that on aggregate there are sectoral movements in the labour force as the economy has re-opened. For example, the number of individuals that exited PUP who were designated as working in the accommodation and food sector is higher than the number of individuals that took up work in that sector after exiting PUP. The net impact of this movement has been a loss of approximately 22,000 paid employees in the hospitality sector.

[11] Half of Irish firms negatively impacted by staff shortages (irishtimes.com)
[12] Analysis is publicly available here on Gov.ie.

Table 1: Preliminary breakdown of aggregate transitions between select sectors post-exit from PUP[13]

NACE Sector	Pre-PUP sector of employment (of those who have exited PUP)	Post-PUP sector of employment (of those who have exited PUP)	Net change in sector	Percentage change
Accommodation and Food	123,200	101,225	-21,975	-17.8%
Arts, Entertain. & Recreation	12,015	10,376	-1,639	-13.6%
Wholesale and Retail Trade	99,238	95,483	-3,755	-3.8%
Other Service Activities	23,862	23,176	-686	-2.9%
Transportation and Storage	15,609	16,257	648	4.2%
Construction	63,386	66,064	2,678	4.2%
Admin & Support Service	40,004	41,838	1,834	4.6%
Manufacturing	44,974	48,089	3,115	6.9%
Prof., Scientific & Technical	19,976	24,104	4,128	20.7%
Health and Social Work	28,020	34,347	6,327	22.6%
Financial & Insurance Activities	5,920	7,499	1,579	26.7%
Information & Communication	8,523	11,588	3,065	36.0%

Source: DSP and Revenue administrative data (figures are provisional and subject to revision).

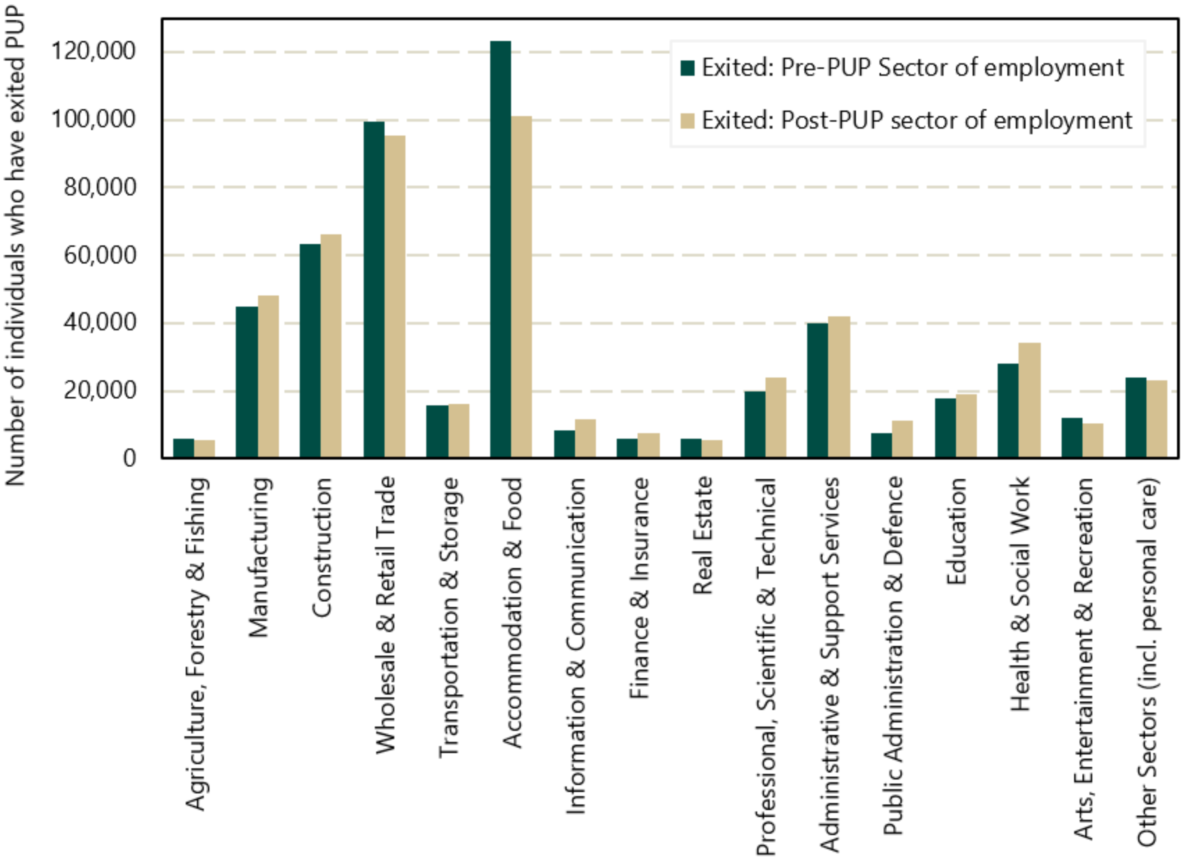
Of those that had exited the PUP by mid-September (760,800), approximately 73 percent (553,200) show evidence of having returned to employment. The remainder could have returned to full time education, returned to self-employment, retired, emigrated or may no longer be eligible for the PUP.

The analysis also finds that as individuals exit the PUP to return to employment, a significant portion have been returning to employers that are supported by the Employment Wage Subsidy Scheme (EWSS). In August 2021, for example, of the 500,000 former PUP recipients evidenced as being in employment in that month, approximately 30 percent were supported by EWSS.

In summary, the findings indicate that the labour market is seeing a significant level of job churn, with some sectors experiencing net losses in terms of labour while other have gained. While there is likely to be a number of factors underlying these movements, they can, at least partly, explain some of the difficulties reported by employers in recruiting former or new employees in some sectors.

[13] Of those evidenced to have returned to work from PUP, for which employment records exist both pre- and post-PUP.

Figure 11: Number of individuals that have exited PUP by pre- and post-PUP sector of employment.



Source: Revenue and DSP administrative data (figures are provisional and subject to revision).
Note: Preliminary data considering former PUP recipients as of September 21st, 2021.

3. Disruption in the Labour Market

As economies around the world navigate the ongoing impacts of COVID-19 and the associated health restrictions, much attention has been paid to pressures and bottlenecks in the labour market. Anecdotal reports of labour shortages and surging consumer demand abound.[14] This is giving rise to an unusual economic environment with high numbers of vacancies and increasing wage levels coexisting with unemployment levels elevated above their pre-pandemic levels. In this section trends in vacancies, earnings and labour force participation are analysed in the Irish context.

3.1 Labour Shortages, Vacancies and Earnings

Building on the employment reallocation analysis in the previous sections, the following subsections further examine the issue of labour shortages through a focus on unfilled job vacancies and trends in average earnings.

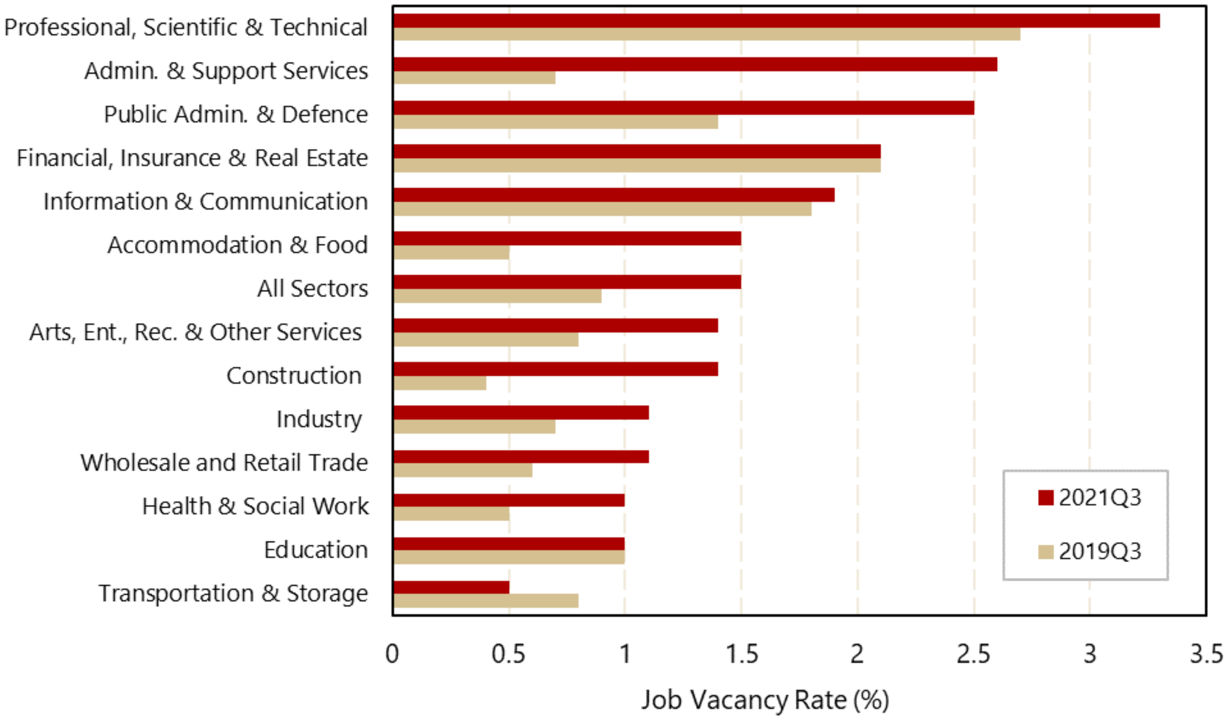
3.1.1 Labour Shortages and Vacancies

In line with economic reopening in recent months, a significant ramp up of demand for workers has occurred in a short space of time. This can create imbalances between labour demand and labour supply, for which vacancies are an important indicator. The CSO publish quarterly data on job vacancies as part of the 'Earnings, Hours and Employment Costs Survey'. In the survey, firms indicate the number of job vacancies in their organisation on the last working day of the quarter. The time-series comes with the caveat that due to one-off bulk recruitments by individual firms and a low number of firms reporting vacancies, the series can be volatile and must be interpreted cautiously. The latest release estimates that there were 30,800 unfilled vacancies at the end of Q3 2021. This is the highest figure ever recorded in the series since its commencement in 2008. Moreover, it has risen from 17,800 at the end of Q1 suggesting an approximate quarterly growth rate of over 30 percent in the number of unfilled jobs in 2021 so far. For comparison, the equivalent pre pandemic figure from Q3 2019 was 17,900 vacancies. This jump certainly supports reports of staff shortages and difficulties filling posts across the economy, notwithstanding the CSO's caveat about volatility in these figures.

The CSO derive a job vacancy rate (JVR) by dividing the number of vacancies by the sum of vacancies and occupied jobs. Figure 12 displays the JVR for Q3 2019 and Q3 2021 below:

[14] Half of Irish firms negatively impacted by staff shortages (irishtimes.com)

Figure 12: Vacancy Rates by Sector, Q3 2019 versus Q3 2021



Source: CSO Earnings, Hours and Employment Costs Survey
Note: The job vacancy rate measures the proportion of total posts that are vacant.

The vacancy rate has increased for every sector with the exceptions of Finance, Insurance & Real Estate and Transportation & Storage. Proportionally, the largest increases in the JVR compared to pre-pandemic have been in the administrative & support services sector, construction and the hospitality sector. Given the caveats and limitations of the available vacancy data, it should be noted that these figures likely underestimate the actual number of vacancies.

A higher frequency series of vacancy data is available from the job-search company *Indeed*. The company publishes an index of the seasonally adjusted number of vacancies advertised on their site for the Irish market relative to February 2020[15]. At the time of writing, the latest posting from the 19th November suggests that the total number of postings are 53 percent higher than February 1st, 2020. Furthermore, Indeed's time series suggests that hiring activity has ramped up in Q4, for which we do not yet have CSO data. In August and September, the number of vacancies on the site averaged 30 percent higher than the February 2020 level. In the last two months, October and November, this had increased to an average level over 45 percent higher than the pre-pandemic figure. This would suggest accelerating levels of demand for workers in the Irish economy in Q4. It should be noted as well that the CSO vacancy series tends to fall in Q4 following a peak in Q3. So continual increases in vacancies would be a break with previous seasonal patterns.

[15] GitHub - hiring-lab/job_postings_tracker: Regularly updated data series for external use.

In interpreting the level at which labour supply is meeting labour demand, it is important to note the atypical nature of the current environment. With economic and societal reopening, a large fraction of employers are simultaneously seeking new recruits and trying to get former workers back. This likely provides workers with more choice and leverage than they had pre-pandemic. This may translate into workers being more likely to take time in considering their next move, rather than quickly accepting the first job they are offered. Moreover, workers may now have different demands than pre-pandemic, including in terms of working conditions (including pay and off-site working), employment type (full-time vs part-time) and may even wish to change occupation/sector; all of which will be contributing to this increase in labour market tightness. Lastly, it should be noted that aggregate demand is currently higher than pre-pandemic in terms of elevated levels of spending in the economy. This is manifesting as a demand for more goods and services and increasing the demand for workers above the 2019 level.

3.1.2 Average Weekly Earnings by Sector

In scenarios of increasing demand for workers and substantial reallocation of workers between sectors, the resulting competition for employees would be expected to impact average wages.

The CSO's 'Earnings, Hours and Employment Costs Survey' provides a quarterly picture of average earnings across different sectors. To understand whether recent changes are outside of historical norms, the rate of change of wages in Ireland pre-pandemic must first be considered. According to the survey, the average annual salaries of all full-time employees were largely static in the recessionary years of 2010 to 2014. In this period the average annual salary for full- time employees in 2014 was only 1 percent higher than the 2010 figure.

As the economy entered a sustained period of growth, average salaries benefitted from higher levels of demand in the economy. Between 2015 and 2019, average full-time salaries in Ireland increased each year. By the end of 2019, average salaries for full-time employees were almost 9 percent higher than they had been in 2015. In that four-year period, the average annual growth rate was 2 percent, although it should be noted that the rate of increase also rose over the period. Average annual salaries grew by 1.5 percent between 2015 and 2017, while in 2018 and 2019 the rate of growth increased to an average of 2.7 percent per year. These trends indicate the positive feedback between a strong economic environment and average earnings.

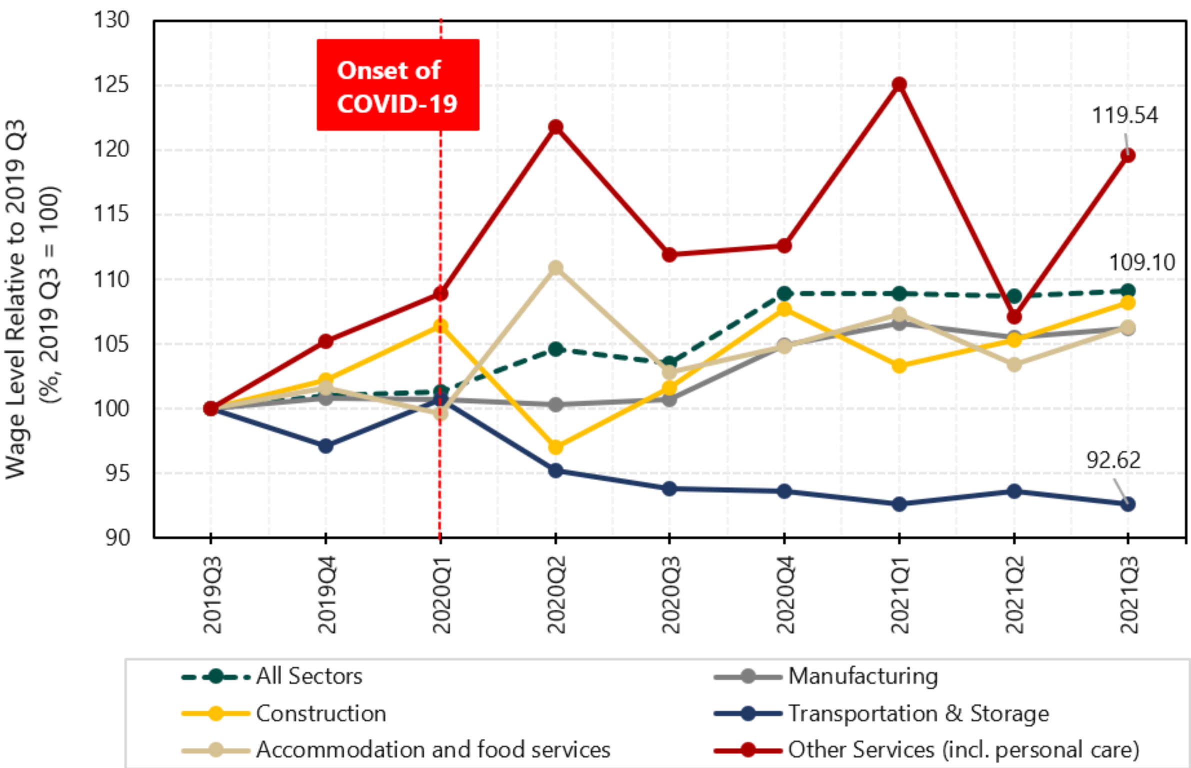
In Figure 13, below, quarterly data for seasonally adjusted average weekly earnings[16] for selected sectors are plotted. The sectors shown in this graph represent a diverse mix of income levels, occupations and skills groups, with the average of all sectors also included. Each sector is indexed to its Q3 2019 level with the average weekly salary in Q3 2019 set to 100 for each individual sector. The differentiated impacts of the pandemic on average earnings across

[16] The CSO calculate average weekly earnings by summing the total earnings for the quarter divided by the average number of persons employed during the quarter divided by 13 (number of weeks in a quarter). This is then seasonally adjusted to remove typical seasonal patterns so that underlying growth rates can be observed.

different sectors can thus be observed.

In relation to data reliability, when interpreting the below chart, it should be noted that the series has been significantly impacted by COVID-19. The earnings data incorporates EWSS subsidies provided by Government. Given the substantial number of firms which utilised EWSS in this period, **Figure 13 does not accurately represent wage costs of firms**. **Furthermore, the survey does not capture compositional changes in the workforce.** Instead, the average earnings are calculated by dividing total earnings in the period by the average number of employees in the period. Thus, increases may be a result of lower paid workers temporarily leaving the sector, as appears to have been the case in the accommodation and food sector at the height of the pandemic. As they re-join the workforce, average wage levels would be expected to fall[17].

Figure 13: Growth of average weekly earnings for selected sectors Q3 2019 – Q3 2021, data is seasonally adjusted with Q3 2019 = 100.



Source: CSO Earnings, Hours and Employment Costs Survey
Note: Only trends of a selection of available sectors are shown above in the interests of readability.

For all sectors, seasonally adjusted average weekly earnings are 9 percent higher in Q3 2021 when compared to Q3 2019. In this period, Transportation & Storage is the only sector which recorded a lower average weekly earnings figure. The sector with the highest increase is ‘Other

[17] Technical Note – Impact of COVID-19 on the Earnings and Labour Costs release - updated Quarter 2 2021 - CSO - Central Statistics Office

Services' which includes personal care services. Average weekly earnings in this sector are almost 20 percent higher than they were in Q3 2019. However, data for this sector is also very volatile which suggests the trend may not be permanent.

Overall, the data is indicative of wages rising faster than the pre-pandemic trajectory. Preliminary analysis suggests this also the case when considering average hourly earnings, rather than average weekly earnings, which were significantly impacted by the pandemic and associated lockdowns.[18] However, the fact that the data show average earnings across all sectors to be relatively static in 2021 suggests that compositional factors may be playing a large role. If this is the case, wage increases could attenuate in the coming months, but this may be contingent on a drop in the job vacancy rate.

3.2 Labour Force Participation

Over the course of the pandemic, international economic commentary has included a focus on the reduction in labour force participation brought about by COVID-19. Indeed, despite rising wages and prices in the US and UK, the latest statistics from the US Bureau of Labour Statistics and the UK's Office for National Statistics show a reduced rate of labour force participation compared to the equivalent pre-pandemic periods in 2019. Suggested explanations for this trend include early retirements, people dropping out of the labour force due to caring responsibilities or sickness and a general reluctance to return to jobs perceived as relatively undesirable. [19,20]

In this subsection, trends in labour force participation in Ireland are outlined to assess the evidence of the above-mentioned phenomena occurring here.

The headline results of the latest quarterly Labour Force Survey do not support the existence of these phenomena in Ireland, with a significant and somewhat remarkable increase in labour force participation recorded. The Irish labour force is at its highest ever level with 2.62 million participants in Q3 2021. This translates to a labour force participation rate of 65.1 percent for all persons aged 15 and over. This rate is significantly higher than the corresponding pre-pandemic quarterly figure of 62.5 percent recorded in Q3 2019. Figure 14 below, places this trend in a historical context.

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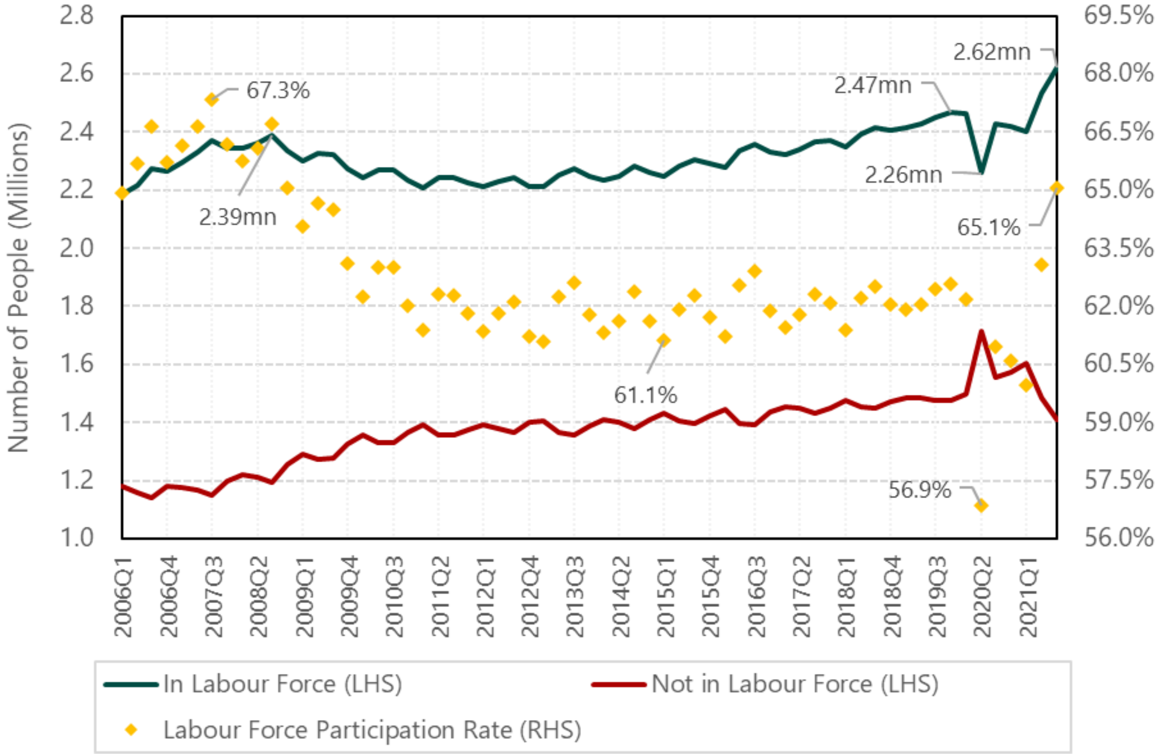
[18] Analysing trends in hours worked, employment arrangements and their impact on earnings over the course of the pandemic will be discussed in greater detail in future labour market reports as more complete data becomes available.

[19] Employment in the UK - Office for National Statistics (ons.gov.uk)

[20] Where did all the workers go? | Financial Times (ft.com)

Figure 14: The Irish Labour Force & Participation Rate 2006 – 2021 (Non-seasonally adjusted)



Source: CSO Labour Force Survey

The extraordinary impact of COVID-19 is immediately apparent with unprecedented levels of volatility occurring over the last 18 months. Following the onset of the pandemic, the participation rate fell to the lowest level recorded in the span of the available survey, back to 1998, at 56.9 percent in Q2 2020. Since, then it has rebounded to a participation rate of 65.1 percent. This is the highest recorded rate since Q4 2008. Furthermore, while it cannot yet be said definitively, the impacts of the pandemic may have shifted the long-term trajectory of labour force participation.

As seen in Figure 14, the financial crash of 2007 and 2008 brought deeply scarring effects to the Irish labour market which led to structurally lower participation rates. After peaking at 67.3 percent in the third quarter of 2007, the participation rate declined to 61.4 percent at the beginning of 2011. Over the subsequent 9 years, the participation rate fluctuated between 61 and 63 percent. Despite a recovering labour force in absolute terms over this period, the number of people not in the labour force grew at a similar rate which served to depress the participation rate.

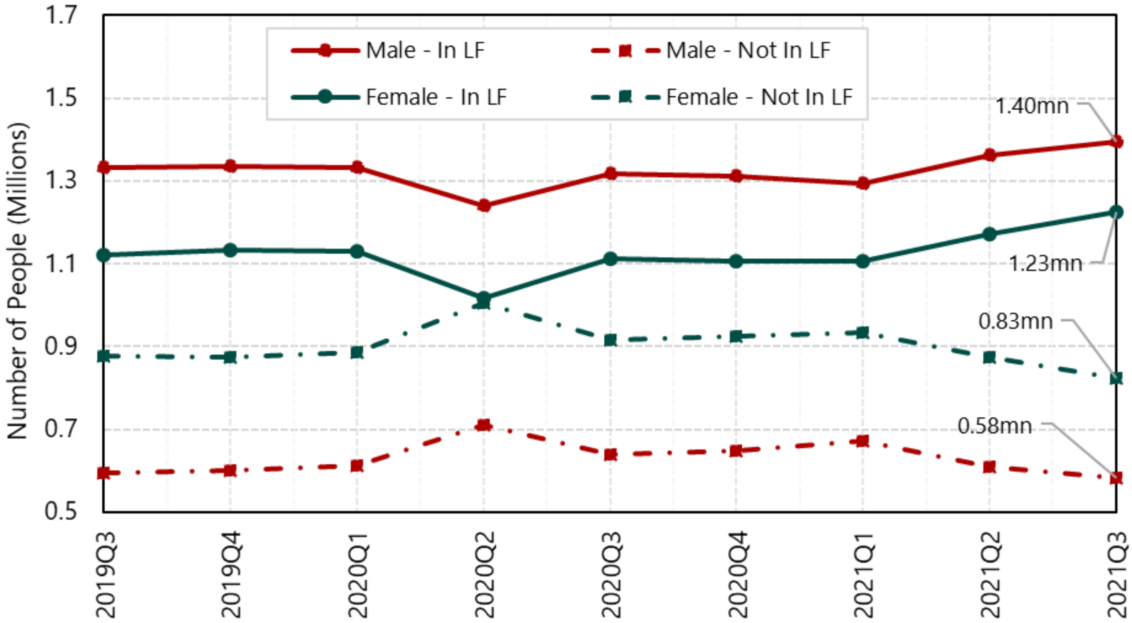
This trend has now been broken by the COVID-19 pandemic. For the first time since 2006, there is asymmetry in the observed trends of the labour force and non-labour force. For three consecutive quarters in 2021, numbers in the labour force have grown while the number of persons aged 15 and over who are economically inactive has fallen rapidly.

In the following two subsections, trends of participation across genders and age cohorts are assessed.

3.2.1 Labour Force Participation Across Genders

As caring responsibilities have historically been borne to a greater extent by women than by men, a divergence in participation trends between men and women since the beginning of the pandemic may have been expected. Figure 15 below portrays trends in the economically active and inactive populations of men and women aged over 15 over the past two years.

Figure 15: Labour Force Participation by Gender Q3 2019 – Q3 2021 (non-seasonally adjusted)



Source: CSO LFS

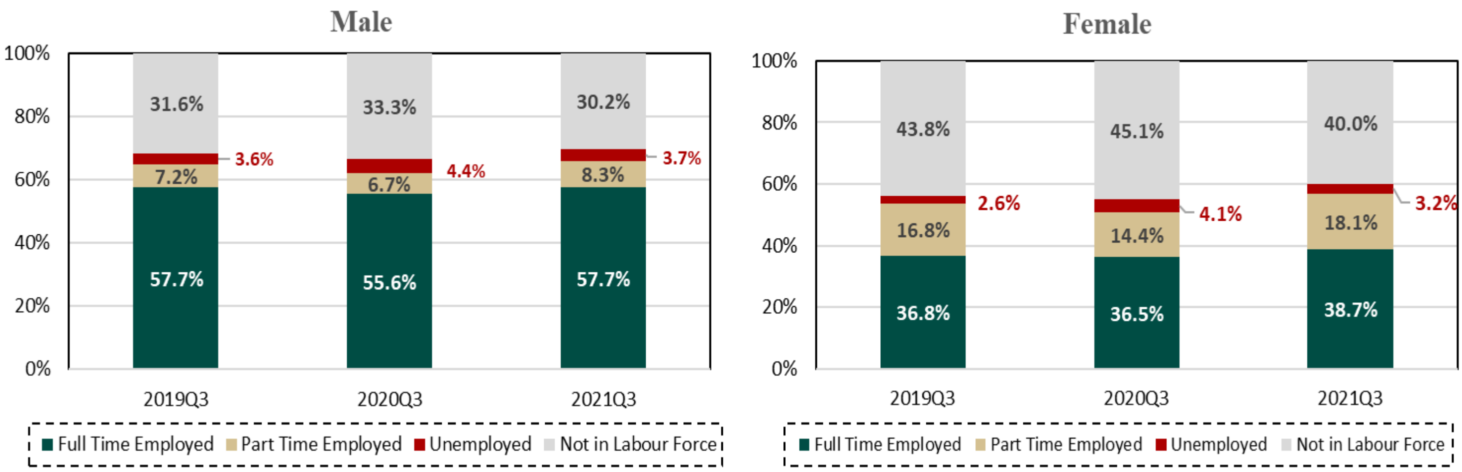
Between Q3 2019 and Q3 2021 the population of persons aged 15 and over is estimated to have increased by over 102,000 to 4.028 million people. Close to 64,000 additional men were participating in the labour force in Q3 2021 compared to the equivalent pre-pandemic quarter, Q3 2019. The number of women participating in the labour force, meanwhile, increased by slightly more than 105,000, despite an initial drop at the onset of the pandemic in Q1 2020. Furthermore, the number of women classified as not in the labour force fell between Q3 2019 and Q3 2021.

While having increased in absolute terms, the non-Irish share of the labour force is approximately the same in Q3 2021 as in Q3 and Q4 2019. Seemingly then, the entrance of previously economically inactive people into the labour force is substantially contributing to the observed participation increase. Moreover, this increase has been disproportionately driven by women entering the labour force. In Figure 16, below, the changing distributions of men and women between types of economic activity or inactivity is shown.

For men, the proportion of men classified as economically inactive fell by 1.4 percentage points between Q3 2019 and Q3 2021. This higher participation rate is largely reflected in an increasing share of men in part-time employment. The proportion of men over the age of 15 in full-time employment and unemployment has now returned to pre-pandemic levels.

In contrast, participation rates amongst women have changed much more drastically. The share of women not participating in the labour force fell by close to 4 percentage points when comparing Q3 2019 and Q3 2021. The share of women in the other three categories of unemployment, full and part time employment have all increased. The participation rate amongst women is now at its highest recorded level, surpassing participation rates from before the financial crash in 2008. This is not the case for men for which the latest seasonally adjusted participation rate of 69.8 percent is some way off the Q1 2007 peak of 76.8 percent.

Figure 16: Distribution of men and women across categories of economic activity 2019 - 2021, (seasonally adjusted)



Source: CSO LFS

As such, there is presently no evidence of additional caring responsibilities leading to reductions in labour force participation for men or women. Moreover, in the detailed breakdowns of people not in the labour force, the CSO report that the number of adults not seeking work due to caring responsibilities has fallen by 22,000 between Q3 2019 and Q3 2021. This represents a decline in this category of over 41 percent in this two-year period[21].

To understand the factors driving the greater participation of women in the labour force, more granular data and a greater depth of research would be required. One possible explanation, as noted previously, is that the expansion of remote working has brought greater flexibility in working arrangements. This could potentially have led to women joining the labour force in numbers not seen prior to the pandemic.

[21] Persons not in Labour Force - CSO - Central Statistics Office – See Table 8.1 'Detailed breakdown of classification of persons aged 15 years or more not in the Labour Force, Q3 2019 to Q3 2021'

3.2.2 Labour Force Participation Across Age Groups

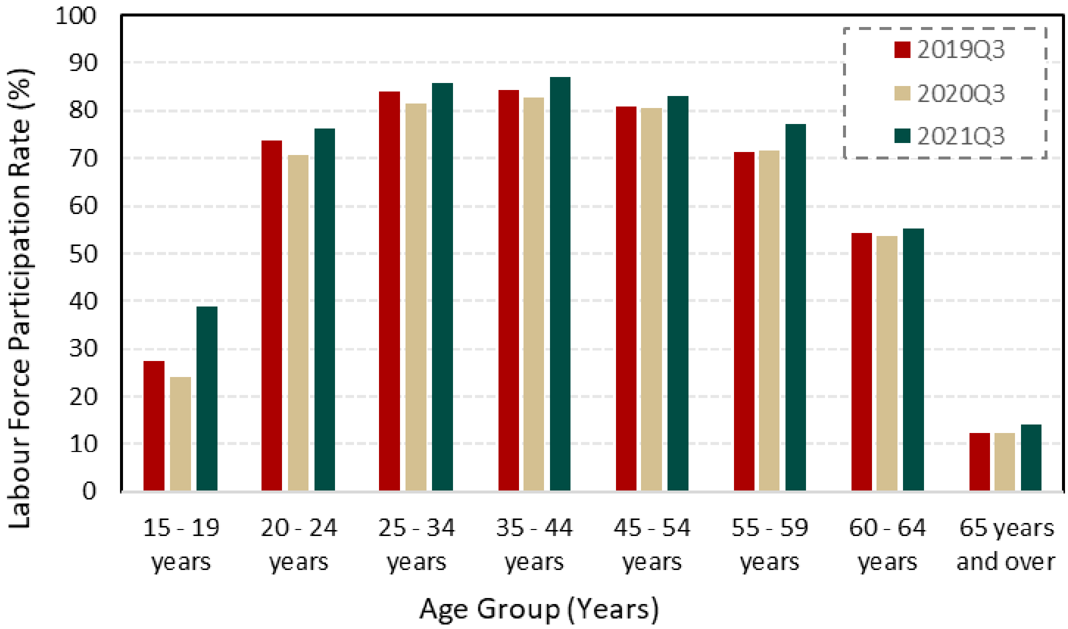
As previously discussed, a second factor often given for reduced labour force participation in some countries following the pandemic is a wave of early retirements amongst older workers.[22]

Recent data from the CSO shows that the number of labour force participants is higher in every age cohort in Q3 2021 compared to the pre-pandemic level. As mentioned in the previous subsection, this is not merely due to population increase because gains in the labour force, (approx. 169,000), are substantially higher than the population increase of approximately 102,000 persons.

Thus, while this high-level data does not give accurate measures of flows in and out of the labour force for different age groups, it does not support the idea of a wave of early retirements occurring as a result of the pandemic in Ireland. In fact, it suggests the opposite. The number of individuals aged 65 and over in the labour force increased by the highest relative rate between 2019Q3 and 2021Q3. Between these two quarters the non-seasonally adjusted number of labour force participants in the 65 and over category grew by over 24 percent, from 86,000 to 107,000. The next highest growth rate is the 15-24 group in which the number of labour force participants in 2021Q3 is over 18 percent higher than 2019Q3.

Figure 17, below, shows how the labour force participation rates has changed across age groups.

Figure 17: ILO Labour Force Participation Rates Across Age Groups



Source: CSO LFS

[22] In the US, there have been slightly over 2.4 million “excess” retirements due to COVID-19. [Federal Reserve Bank of St. Louis (2021)].

Gains in participation levels have occurred in all ages with the largest gains in the 15-19 and the 55-59 year old cohorts. These two groups have participation rates 11.5 and 5.7 percentage points higher in Q3 2021 when compared to Q3 2019.

Again, unfortunately, aggregate data does not allow us to properly explain the observed changes. In the case of the 15-19 year old group, the changes may be due to an increased demand for workers in hospitality and other relatively lower skilled occupations which have been disproportionately impacted by health restrictions. For the 55-59 year old cohort, it is notable that while absolute numbers and participation rates have increased for both men and women in this age cohort, they have increased much more rapidly for women than men. Between Q3 2019 and Q3 2021, the participation rate for men aged 55-59 increased by 3.4 percentage points. For women the increase was 8 percentage points. This could be due to greater availability of flexible working conditions or, alternatively, due to financial need in these households, or perhaps due to a broader behavioural change brought on by the pandemic. Further research would be required to explain this divergence.

When analysing gains in the participation rates of older workers in the labour force, it should be noted that participation rates have been trending upwards for many years now, not just in Ireland but also across the OECD.[23] In all cases, labour force participation rates were higher for the 55-59, 60-64 and 65 and over age cohorts in 2019 compared to 2006. But, the observed increases in participation in 2021 seemingly represent an acceleration of this trend. After excluding the initial shock and recovery from the first lockdown in 2020, both the 55-59 year old and 65 and over age groups witnessed their highest recorded quarterly increases in participation during 2021. In contrast, the 2021 increases for the 60-64 year old cohort do not as yet fall outside of the typical range of the longer term trends.

Lastly, while the trends outlined as regards changes in participation rates are, on the face of it, very positive, they must be caveated by the extremely unpredictable present-day environment. Subsequent releases of the labour force survey may show a reversion to pre-pandemic levels of participation.

3.3 Economic Outlook and Conclusion

Overall, data on labour force participation, earnings and vacancies suggests that the Irish labour market is undergoing a period of growth and experiencing significant labour market tightness in the process.

The recent Economic Outlook report from the OECD supports this position with very optimistic projections of further growth in Irish GDP in 2022 (+5.7 percent) followed by further

[23] Live Longer, Work Longer: The Changing Nature of the Labour Market for Older Workers in OECD Countries (iza.org)

growth (+3.9 percent) in 2023. The OECD also forecast average unemployment to be approximately 5.7 percent in 2022, before declining to an average of 5.1 percent in 2023.[24]

However, the Irish economy also faces substantial short-term risks. These include the introduction of pre-notification requirements for many agri-food goods exports to the UK on January 1st followed by more extensive checks on UK goods exports from July 2022. [25] Additional risks may emerge from new COVID-19 variants, (such as the recent Omicron variant), stalling the economic recovery through domestic and international channels as well as the possibility of rising inflation dampening consumer spending with subsequent knock on effects on jobs.

In addition, despite the remarkable increases in labour force participation and very positive trends in employment figures, the numbers reliant on State income supports remain extremely high. As outlined in Section 1, there are almost 220,000 people on the Live Register and PUP at the end of November and over 275,000 employees being supported by EWSS.

To conclude, the themes explored in this report highlight the unusual coexistence of high levels of reliance on State income supports together with elevated numbers of vacancies and growth in average earnings. Perhaps this should not be surprising given the unprecedented disruption COVID-19 has imposed on society, the economy and the labour market, as well on peoples behaviours.

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[24] OECD Economic Outlook (December 2021)

[25] Government sets out pragmatic new timetable for introducing border controls - GOV.UK (www.gov.uk)