An Roinn Coimirce Sóisialaí
Department of Social Protection

Labour Market Advisory Council

Labour Market Update

29th June 2022

Prepared by the Labour Market Analytics unit

Key Messages

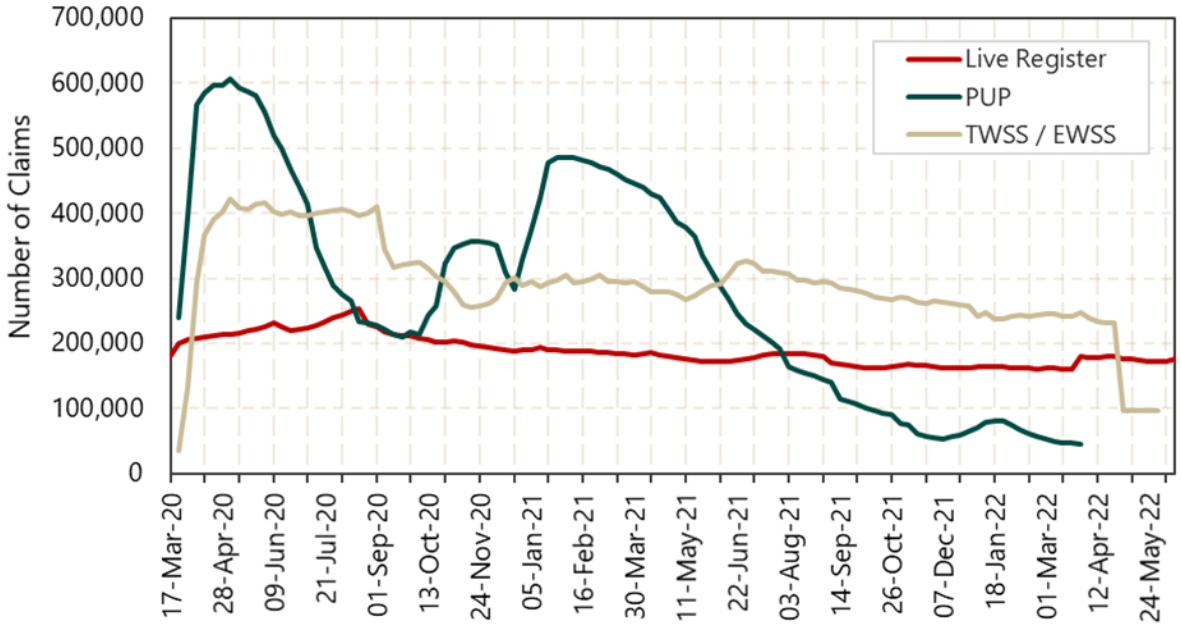
- The emergency COVID-19 income and employment supports introduced by Government in March 2020 to support individuals and businesses impacted by the pandemic, have come to an end. The final PUP was issued on March 29th, 2022, while the EWSS closed for all remaining businesses on May 31st.
- Following the closure of the PUP, its remaining recipients started the process of transitioning to standard jobseeker terms, and if eligible, moved onto a jobseeker payment effective from April 5th, 2022. As part of this final tranche, approximately 20,840 former recipients moved to jobseeker payments. Since then, the Live Register declined gradually to stand at 172,406 as of June 5th.
- As a result of the final PUP to Live Register transition, the composition of the Live Register has changed, particularly with respect to durations. When continuous time spent on the PUP is included in calculating an individual's claim duration the majority (51 percent) of Live Register claimants are seen to be long-term (although official classifications do not include time spent on the PUP – 38 percent).
- With respect to the EWSS, to date it is not apparent that there has been any marked increase of inflows into the Live Register associated with the closure of the scheme, although this will be actively monitored over the coming months.
- According to latest indicator estimates from the CSO (Q1 2022), the Irish labour market continues to perform strongly, post-COVID. Employment is above 2,530,000 – the highest level in the history of the State – while the unemployment rate is now below its pre-pandemic level; 4.7 percent as of end-May 2022. Similarly, participation rates in the economy are above where they stood pre-pandemic, driven in particular by increased female participation.
- Demand for workers among businesses continues to outstrip available supply and is challenging employers' ability to recruit. This imbalance, seen across sectors, is resulting in high numbers of unfilled vacancies and skill shortages. The latest Job Vacancy Rate figure from the CSO is 1.6 percent – the highest since data collection began. However, this is not a uniquely Irish experience, with similar experiences occurring across both Europe and the OECD. It is also worth noting the increasingly lower numbers of unemployed persons available to fill vacancies, with the ratio as of Q1 2022 being 4 unemployed people for every available (CSO) vacancy (down from 6 pre-pandemic).
- With respect to earnings, latest data from the CSO for Q1 2022 show that average earnings have continued their strong growth through the pandemic – although the CSO urges caution when interpreting these figures given the impact of COVID-19 and associated supports on their estimation. However, the persistent levels of high inflation since mid-2021 are reducing real wages and individuals' purchasing power. There is limited recent evidence in Ireland of a dynamic between wages and inflation, with the primary drivers of Irish inflation deemed to be to be global forces (international supply bottlenecks and higher imported energy and commodity prices exacerbated by the war in Ukraine) as well as a surge in pent-up consumer demand following the period of pandemic induced economic shutdown.
- In recent months the economic outlook for the global economy has darkened significantly with it now facing a period of substantial uncertainty. The continued inflation challenge, war in Ukraine as well as the threat of a global economic slowdown/recession all have potential to threaten Ireland's strong recovery from COVID-19, with consequent implications for the labour market going forward.

1. Overview of Trends in State Supports

Over the last number of months, the emergency COVID-19 income and employment supports introduced by Government in March 2020 to support individuals and businesses impacted by the pandemic, finally came to an end. The Pandemic Unemployment Payment (PUP) and Wage Subsidy Schemes (T/EWSS) supported almost 1.48 million discrete individuals over the course of their existence at a total cost to the State of almost €18.7 billion. The final PUP was issued on March 29th, while the EWSS closed for all remaining businesses on May 31st, 2022.

Figure 1.1 below illustrates the number of individuals in receipt of the PUP, supported by T/EWSS and on the Live Register, between March 2020 and early June 2022.

Figure 1.1: Numbers in receipt of State supports (PUP, EWSS and Live Register) over the course of the pandemic (March 2020 – June 2022).



Source: Revenue, CSO and DSP administrative data (figures are provisional and subject to revision).
Note: EWSS figures for May 2022 are monthly aggregates.

1.1 Winding down of the PUP and associated impact on the Live Register

Following Government's decision to ease public health restrictions on January 22nd 2022, the number of recipients on the PUP declined rapidly as people exited the scheme to return to work. Between January 22nd and the closure of the scheme on March 25th, the number of people in receipt of the payment decreased by 36,400, from 81,200 to 44,800.

Following the closure of the PUP, its remaining recipients started the process of transitioning to standard jobseeker terms, and if eligible, moved onto a jobseeker payment effective from April 5th, 2022. As part of this final tranche, approximately 20,840 former recipients were transitioned. The difference in the eligibility conditions for jobseeker payments and PUP contributed to the divergence in the numbers exiting PUP and subsequently appearing on the

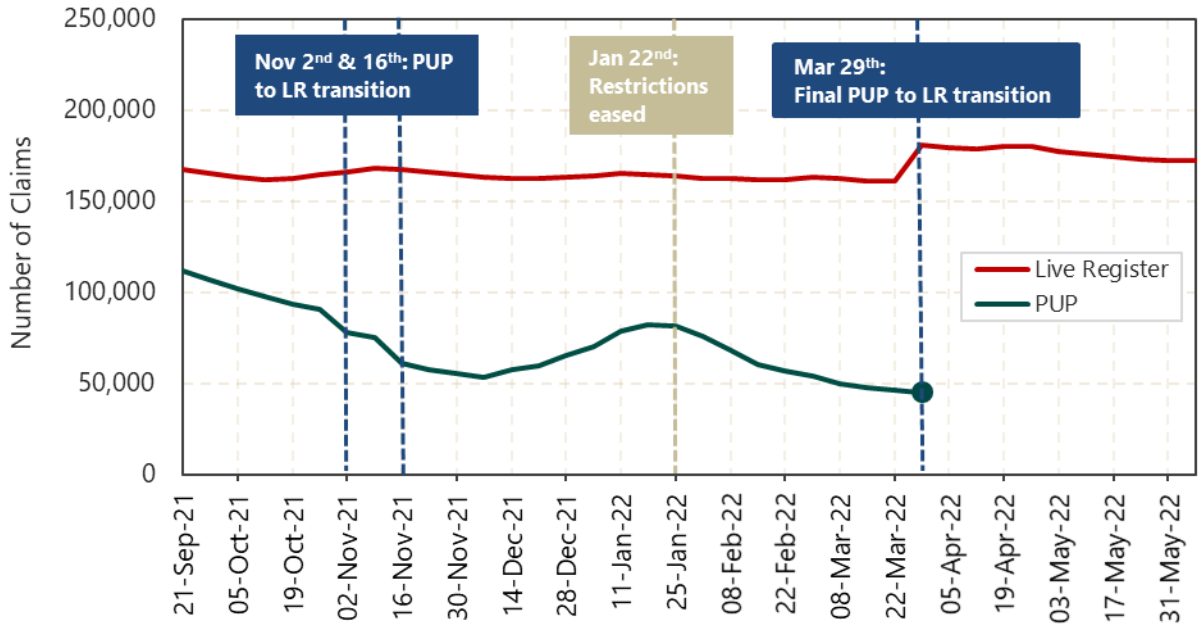
Live Register.[1]

The effect of the closure of the PUP was a notable increase in the Live Register figure from 161,000 to 180,700 as shown in Figure 1.2 below. It is worth noting that this was the only stage of the phased winding down of the PUP which had led to such a dramatic rise in the Live Register figure, with previous transition phases having a much more muted impact.

Since the March 29th transition, the Live Register has generally been exhibiting a gradual downward trend, likely driven by the strong post-pandemic labour market recovery and, as of June 5th, stood at 172,406.

Overall, as shown in Figure 1.1 above, the Live Register has remained relatively stable throughout the pandemic, largely unaffected by sudden changes in public health restrictions and sectoral closures owing to the absorptive capacity of the other COVID-19 related supports, particularly the PUP.

Figure 1.2: Ending of the PUP and transition to the Live Register.



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

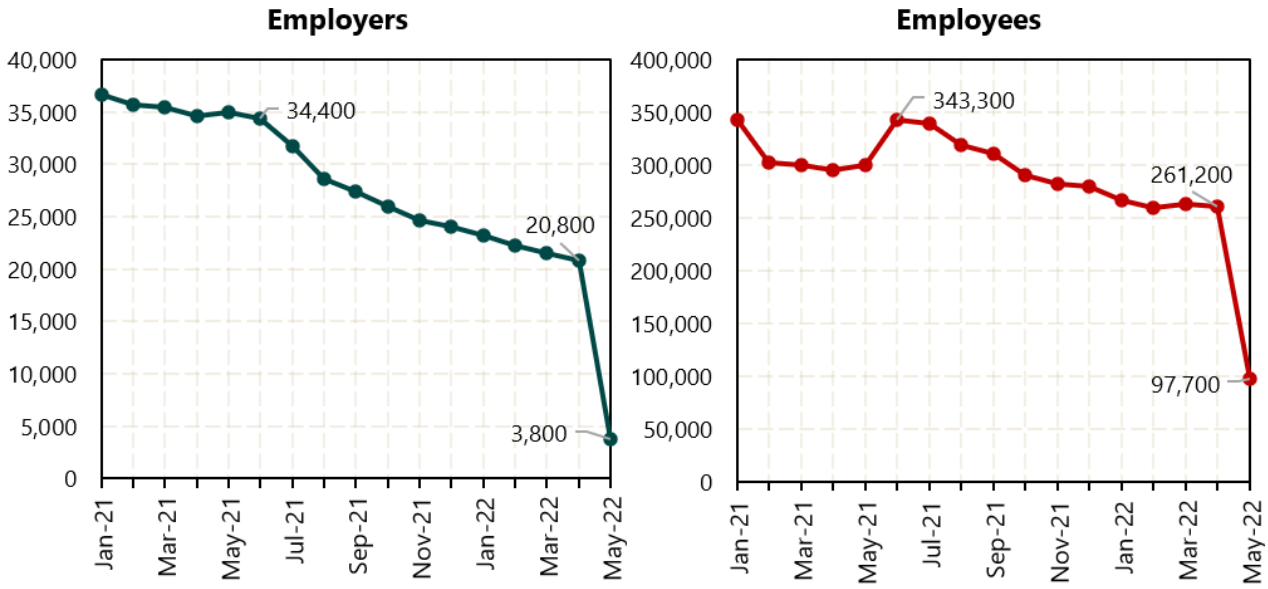
1.2 Trends and winding down of the EWSS.

Following a period of phased tapering of payment rates, the EWSS ended for most businesses on April 30th, 2022. However, for businesses directly impacted by the public health restrictions introduced in December 2021 – most notably those in the hospitality and events industry – the EWSS was extended until May 31st, 2022.

[1] For instance, the Jobseeker's Allowance payment is means-tested while PUP was not. In addition, while self-employed PUP recipients were permitted to retain their full payment while earning up to €960 over 8 weeks, self-employed earnings are fully assessed for Jobseeker's Allowance means testing purposes.

As shown in Figure 1.3 below, in April 2022 there were 20,800 employers and over 261,200 employees being supported through the EWSS, representing over a tenth of those currently in work. Monthly figures for May show that following the first partial closure, these numbers dropped sharply to 3,800 employers and 97,700 employees being supported by the scheme.[2]

1.3 Figure: Monthly EWSS recipients since January 2021 (Employers and Employees)



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

To date, it is not apparent that there is any marked increase of inflows into the Live Register associated with the closure of the EWSS. However, the full impact may not become clear for some time with a delay expected between the scheme's closure and any subsequent impact on unemployment. Therefore, given the relative uncertainty around the envisaged impact of the closure of the EWSS on future unemployment numbers, the Department will, with the support of the CSO, monitor the situation closely in the coming months.

[2] COVID-19 Support Schemes Statistics Update (revenue.ie) (June 23rd, 2022)

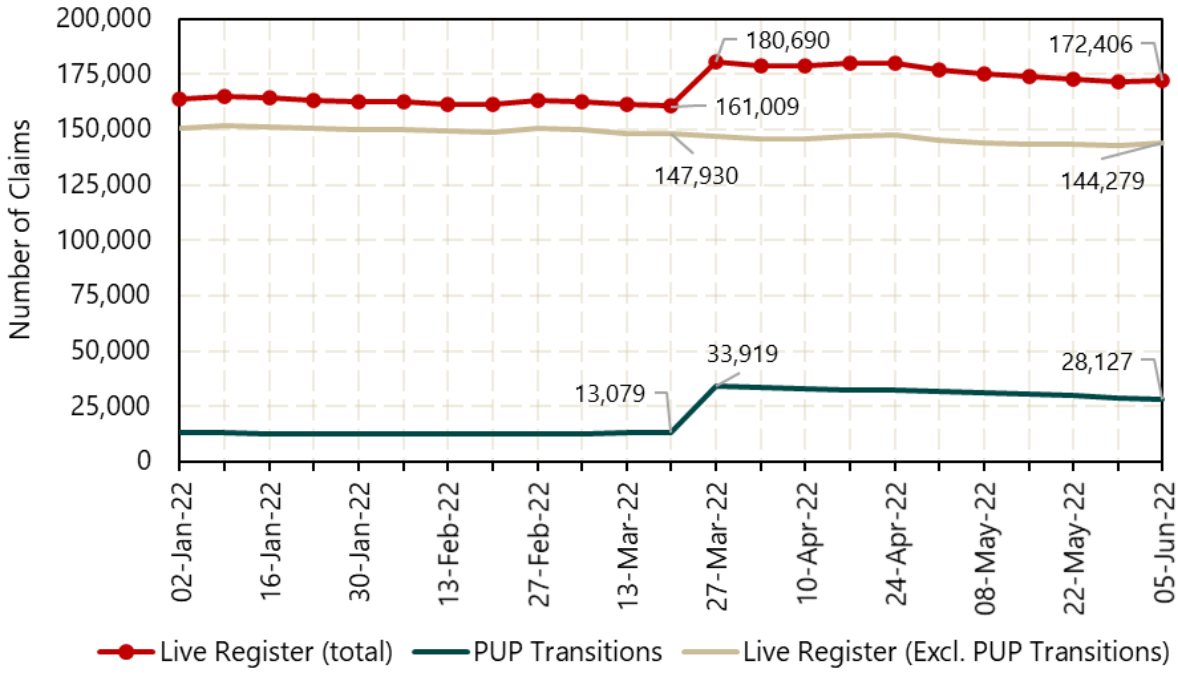
2. Live Register Trends and Composition.

2.1 Impact of final PUP transition cohort on the Live Register's composition.

On March 29th, the final cohort of PUP recipients were transitioned to the Live Register, if eligible. As mentioned previously, this represented a significant transition in which 20,840 individuals were transferred onto standard jobseekers' terms within a week resulting in a sizable increase in the weekly Live Register figure, from 161,009 to 180,690.

Since the transition, however, the Live Register has declined gradually to 172,406 by June 5th. Furthermore, as illustrated by Figure 2.1 below, it is encouraging to note that this downward movement has been driven by both declines in the underlying Live Register (excluding PUP transitions) and the PUP transition cohort. Former PUP recipients now account for just over 16 percent of all Live Register recipients compared to almost 19 percent at the date of transition. This represents a decline of 2.5 percentage points – or 5,800 individuals in absolute terms – since the transition at the end of March.

Figure 2.1: Number of Transitioned Former PUP Recipients on the Live Register in 2022

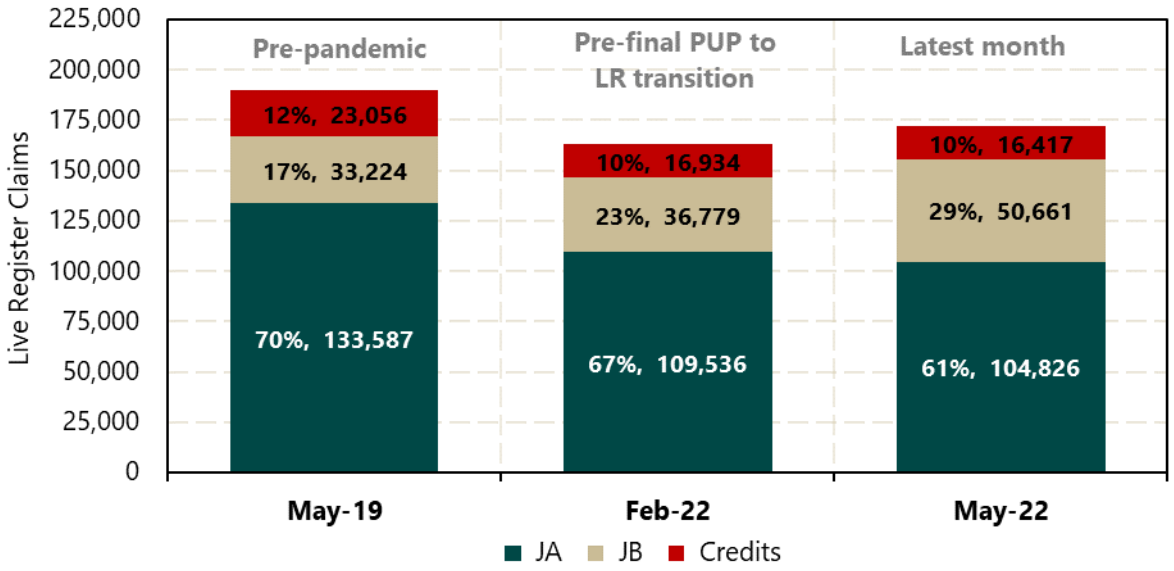


Source: DSP administrative data (figures are subject to revision).
Note: Prior to the final transition phase, there were already some 13,000 former PUP recipients on the Live Register who transferred in November 2021 as part of the first two transition tranches.

Figure 2.2 below details the payment composition of the Live Register at different points in time; May 2019 (comparable pre-pandemic), February 2022 (pre-final PUP to LR transition), and May 2022 (latest month available). As of May 2022, there were 171,903 people on the Live Register, higher than February 2022 (163,248) because of the PUP transitions, but lower than pre-pandemic (May 2019) when the Live Register consisted of 189,867 claimants. Looking at the proportions receiving each payment, it is clear that the final PUP transition had a significant

impact in terms of composition with the vast majority of those moving across now being in receipt of a Jobseeker's Benefit (JB) payment. At the end of May 2022, 29 percent of those on the Live Register, were receiving Jobseeker Benefit compared to 23 percent in February 2022 and 17 percent pre-pandemic.

Figure 2.2: Live Register breakdown by payment.



Source: CSO LR (figures are subject to revision).

2.2 Claim Duration on the Live Register

Figure 2.3 below shows the claim duration of those on the Live Register from January 2018 to May 2022. Typically, the Live Register has a larger share of short-term claimants (less than 1 year) compared to long-term claimants (1 year or more), as there is a significant amount of short-term churn. Pre-pandemic in May 2019, the proportion of those on the Live Register long-term was 40 percent.

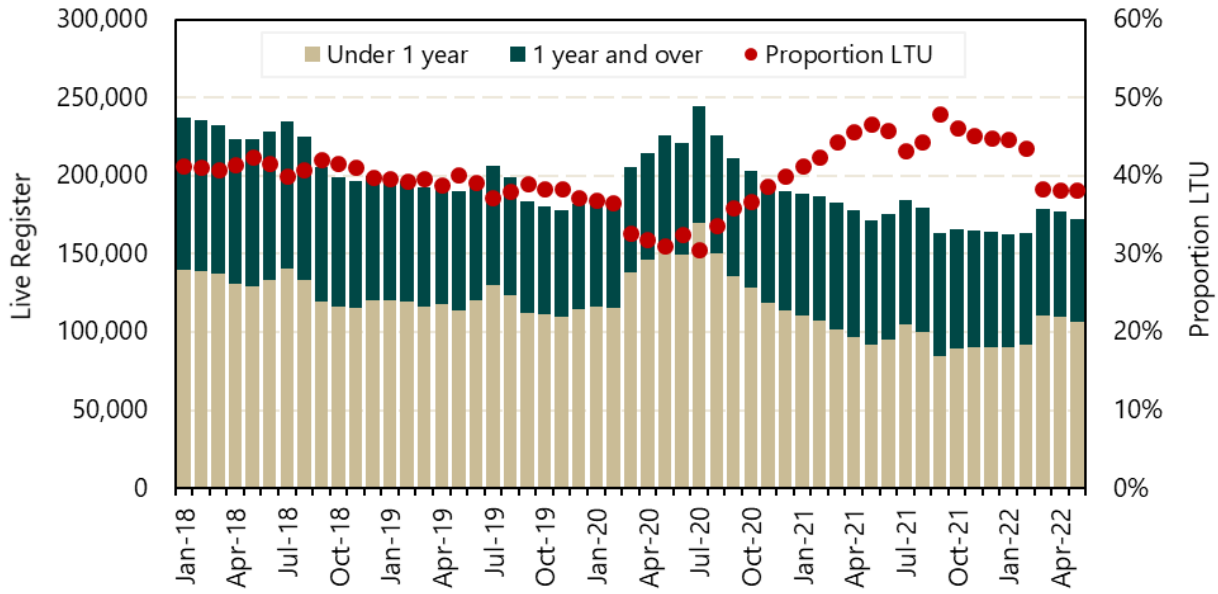
However, from mid-2020 there was a steady increase in the relative share of long-term claimants peaking at 48 percent in September 2021. The drivers of this are likely to have been two-fold. Firstly, the pandemic had a dampening effect on prevailing labour market conditions and job opportunities for existing jobseekers which made it more challenging for them to find employment. Consequently, this resulted in a gradual drift for many already on the Live Register pre-COVID into long-term unemployment. Secondly, there were fewer short-term entrants on to the Live Register during this period owing to the relative attractiveness (both in terms of its administrative burden and rate of payment) of the PUP compared to standard jobseeker payments. As a result, there was a strong preference amongst any displaced workers to avail of income support through the PUP rather than the Live Register. In this way, the existence of the PUP in particular had a significant mitigating or absorptive effect on inflows, which consequently led to an increase in the proportion of long-term claimants.

Since the wide-scale economic reopening in the latter half of 2021 however, both the proportion, and absolute number of long-term jobseekers has been falling, primarily as a result

of increased opportunities to return to employment but also the closure of the PUP to new entrants which has resulted in a return to typical short-term churn levels.

Most recently, Figure 2.3 shows a sharp drop in the proportion of long-term claimants following the transition of PUP recipients to the Live Register as part of the closure of the PUP at the end of March 2022. This is because, despite the vast majority of final PUP recipients being in receipt of the payment continuously for over a year, official classifications do not include time spent on the PUP when calculating an individual's Live Register claim duration.

Figure 2.3: Live Register breakdown by official* duration (Jan 2018 – May 2022).



Source: CSO LR (figures are subject to revision).
Note: Official classifications do not include time on the PUP when calculating Live Register claim duration.

However, as can be seen in Table 2.1 below – which compares Live Register durations with and without continuous time spent on the PUP – if time in receipt of PUP is included, the share of long-term claims on the Live Register rises markedly from 38 percent to almost 51 percent (87,400 persons). [3] For comparison, the highest long-term share reached during the Great Recession was 48.2 percent in September 2014 although the absolute number was far higher at 178,300.

Table 2.1: Live Register breakdown by duration, excluding and including continuous time spent on the PUP, as of end-May 2022.

	Excluding Time Spent on PUP	Including Time Spent on PUP
Less than 1 Year	106,226	84,546
1 Year or More	65,678	87,358
Total	171,904	171,904
Long Term Share (%)	**38.2%**	**50.8%**

[3] This is because the vast majority of the final PUP transition cohort had been on the payment for over 1 year.

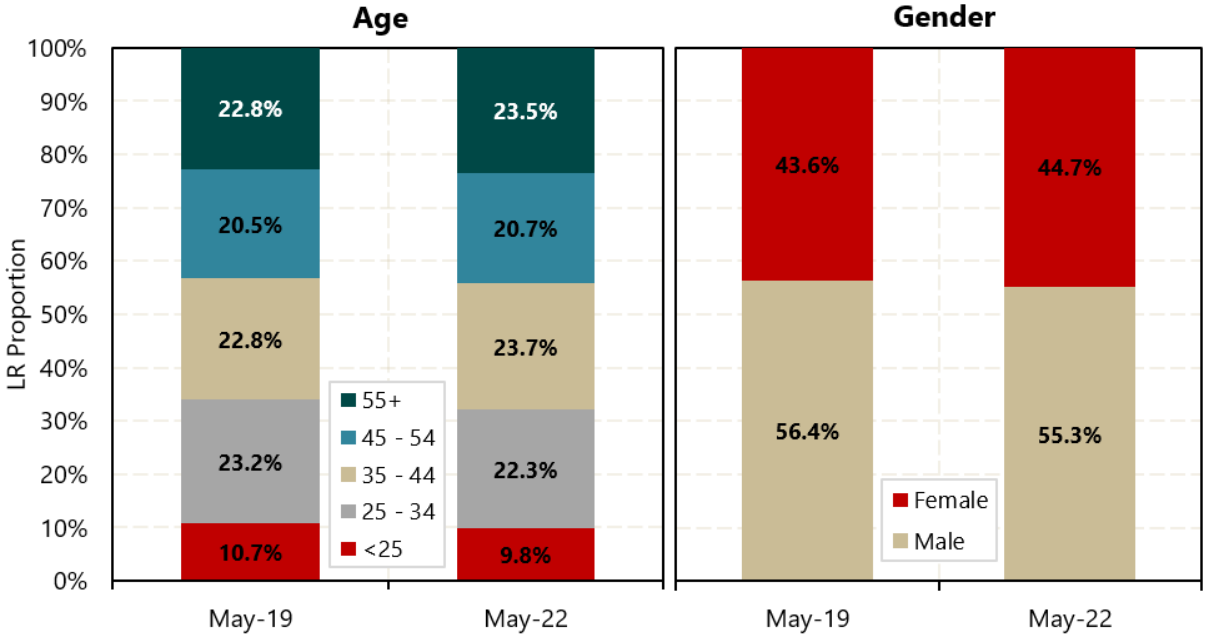
2.3 Demographic and Occupational characteristics of those on the Live Register

The current age and gender profiles of the Live Register as of end-May 2022 are only slightly different compared to pre-pandemic as Figure 2.4 below illustrates. This suggests that there has been a relatively limited impact of the PUP transitions to the Live Register on overall demographics.

Considering age first, the most noteworthy change is perhaps the slight increase in the average age profile of the Live Register, with those aged 35 and over accounting for 68 percent of all claimants as of May 2022. This is approximately 2 percentage points higher than the equivalent figure for 2019. The Figure below also demonstrates how, both pre- and post-pandemic, older people are disproportionately represented on the Live Register compared to the general labour force distribution.[4] This may reflect the challenge some older workers may face in re-entering the workforce once becoming unemployed.

With respect to gender Figure 2.4 shows that a slightly higher proportion of claimants now compared to pre-pandemic are women, although men continue to account for the majority at 55.3 percent of all claimants.

Figure 2.4: Live Register breakdown by age and gender (pre-pandemic vs. current).



Source: CSO LR (figures are subject to revision).

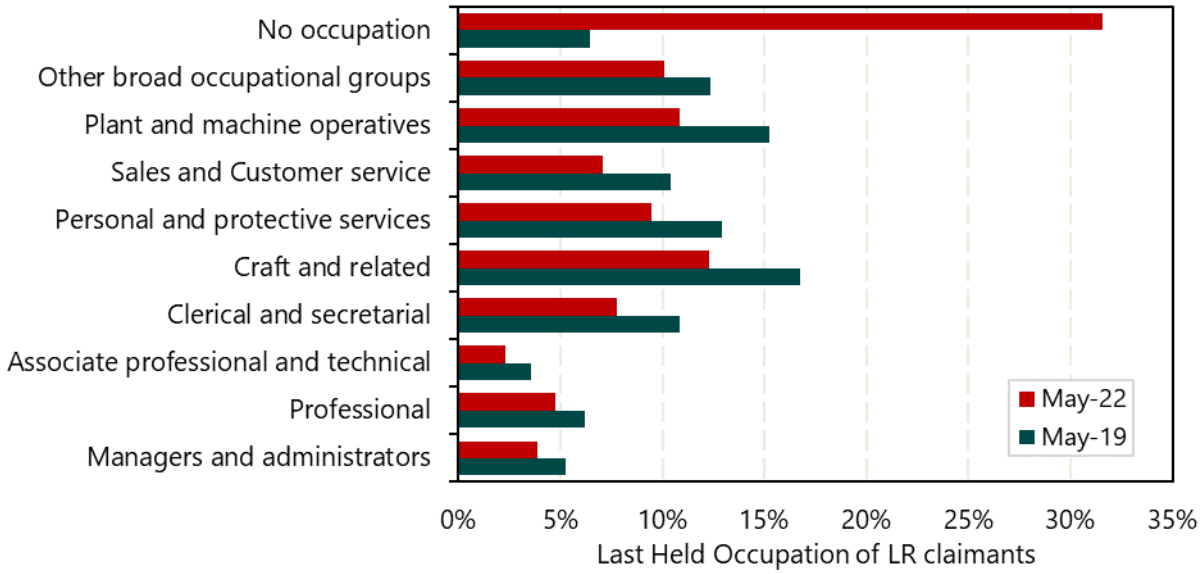
With respect to a Live Register claimant's previously held occupation, Figure 2.5 below shows that, compared to pre-pandemic, the share of people on the Live Register with 'no occupation' has increased considerably. This is primarily a result of people transitioning from the PUP, as PUP recipients were not required to state their occupation prior to application. This has consequently led to a sharp reduction in the shares of all other occupations for May 2022. It

[4] As of Q1 2022, those over 55 years of age accounted for 18.9 percent of the labour force. This compares with 23.5 percent of total Live Register claimants for the same age group for May 2022.

is worth noting however, that almost 60 percent of the PUP cohort that transitioned to the Live Register, entered the PUP from the accommodation and food (20 percent), wholesale and retail trade (18 percent), administrative and support services (12 percent) or construction (9 percent) sectors.

If the 'no occupation' cohort is excluded, the current composition of Live Register in terms of former occupations remains aligned very closely with its pre-pandmic make-up. Occupations such as craft and related, plant and machine operatives, and personal and protective services account for the largest known and specific prior occupations of those on the Live Register.

Figure 2.5: Live Register by previously held occupation (pre-pandemic vs. current).



Source: CSO LR (figures are subject to revision).

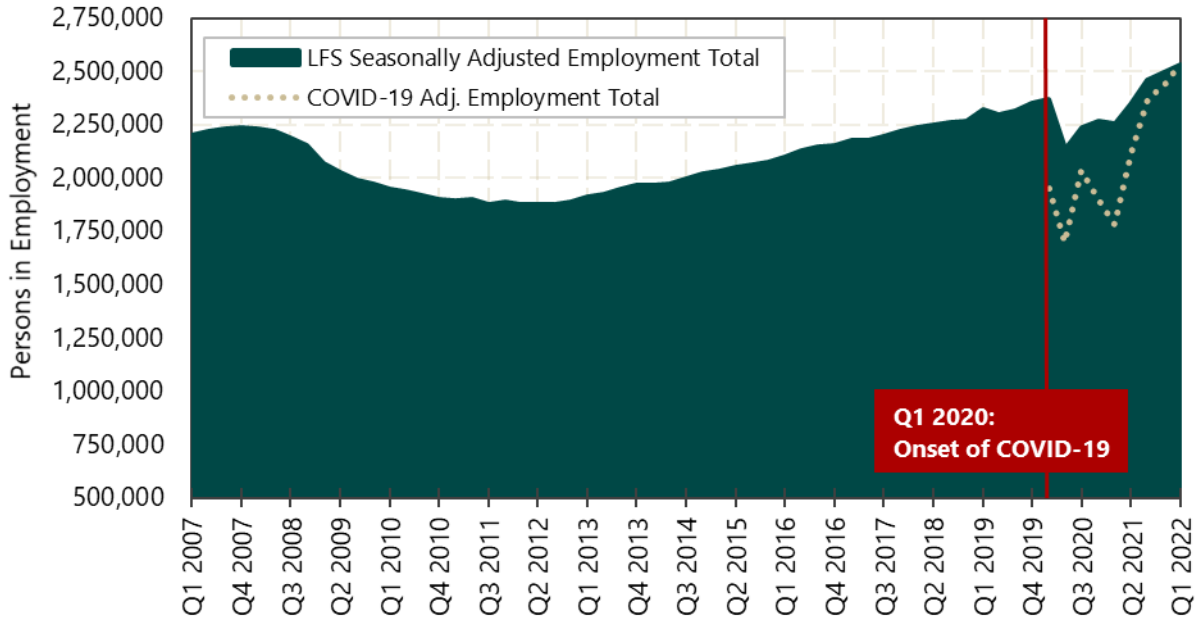
3. Beyond Recovery: Recent trends and changes in the Irish Labour Market

3.1 Overview of employment trends

As shown in Figure 3.1 below, while the initial drop in employment following the onset of the pandemic was substantial – in the region of 600,000 people – latest figures from the CSO indicate the continuation of a very strong recovery since the middle of 2021. Seasonally adjusted employment figures from the CSO's Q1 2022 Labour Force Survey suggest employment is now above 2,530,000, a 6.8 percent increase compared to Q1 2020 pre-pandemic levels, and a 1.4 percent increase compared to Q4 2021. This figure represents the largest recorded number of individuals in employment in the history of the State.

Ireland's overall employment rate, which takes into account population increases, has now also exceeded its pre-pandemic 2019 average level of 69.5 percent with latest CSO figures indicating it is now close to 73 percent, as of Q1 2022.

Figure 3.1: Persons in employment (Q1 2007 – Q1 2022).



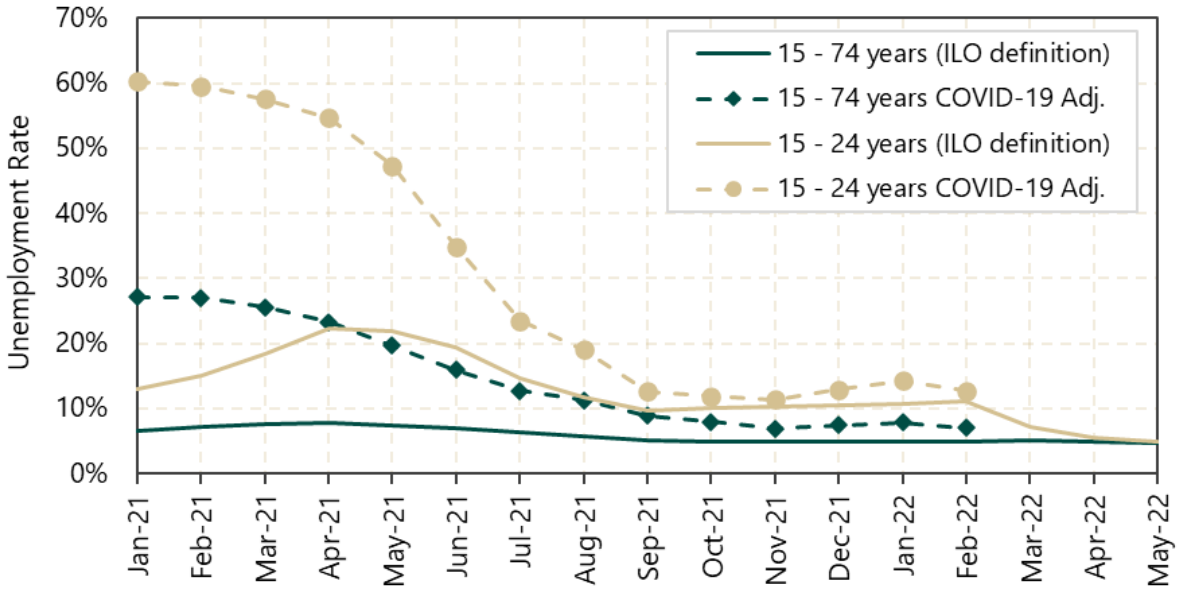
Source: CSO LFS (figures are subject to revision).

In terms of sectoral employment growth, the sectors that have added the most jobs in absolute terms over the last two years are information, communication and technology (+36,600), healthcare (+35,500), and industry (+29,000). In comparison, some of those sectors most impacted by the pandemic and the associated public health restrictions – namely accommodation and food, admin and support services, and retail trade – remain somewhat below their pre-pandemic levels. This overall shifting in the economy's sectoral mix illustrates the scale of the ongoing labour reallocation as the economy continues its recovery from COVID-19.

3.2 Unemployment rates

Reflecting the strong growth in overall employment, Figure 3.2 below shows monthly COVID-19 adjusted unemployment rates declining sharply since mid-2021, for both the overall population as well as for young people (15-24 years of age). As of end May 2022, the overall seasonally adjusted unemployment rate is 4.7 percent, slightly lower than its pre-pandemic level. Even more noteworthy however, has been the decline in the youth unemployment rate which now stands at just 4.9 percent. For comparison, the 2019 pre-pandemic average for youth unemployment was approximately 12.5 percent.

Figure 3.2: Monthly Unemployment Rates for the overall population and youth (Jan 2021 – May 2022).



Source: CSO MUR (figures are subject to revision).
Note: Following the cessation of the PUP on March 29th, 2022, the alternative COVID-19 adjusted monthly unemployment rate metrics produced by the CSO – which included all those in receipt of the PUP as unemployed – were discontinued.

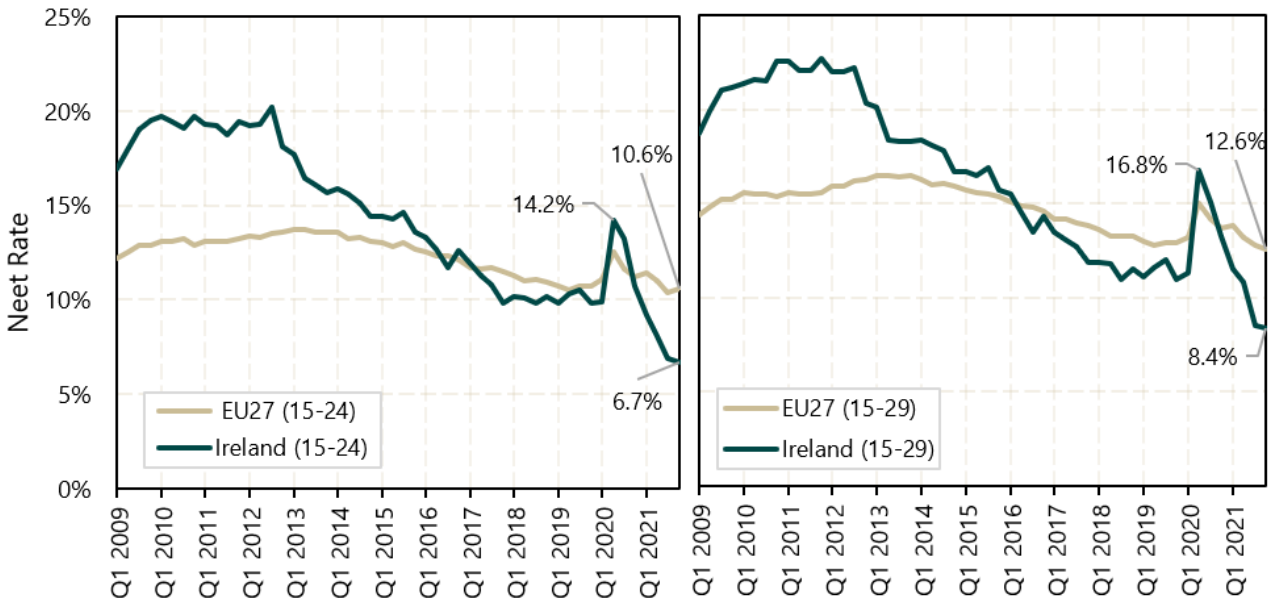
3.3 Not in Employment, Education or Training (NEET) rates

While unemployment is typically a good metric for assessing the labour market situation of the population or a particular cohort, it is also useful to get a sense of the proportion of a select group that are neither in employment, education or training (NEET). This is of particular relevance when assessing the situation for young people.

As shown by the twin charts in Figure 3.3 below, the proportion of those aged between 15 – 24 and 15 – 29 years old that are not in employment nor in education and training are at their lowest rate since at least the Great Recession. While this is reflective of a downward movement dating back to 2012, it has accelerated sharply since the beginning of 2021 having abruptly increased following the onset of COVID-19. For each age cohort, Ireland's NEET rate is now well below the European average standing at 6.7 percent and 8.4 percent at Q4 2021 for 15 – 24 years olds and 15 – 29 year olds respectively.

Combined with the record low levels of unemployment, these metrics reflect the degree of labour market tightness pervasive across the economy at present. This is perhaps explained by employers now turning to young people to fill available vacancies in the absence of more experienced candidates.

Figure 3.3: EU Comparison of NEET rates 2009-2021 (15-24 and 15-29 year olds).



Source: Eurostat (figures are subject to revision).

Note: Q1 2009 are the oldest comparative figures available from Eurostat.

3.4 Labour Force Participation

With respect to participation rates in the labour market, latest data from the CSO suggests very positive developments since the second half of 2021. As shown in Figure 3.4 below, the overall participation rate for all persons over 15 years of age has rebounded in recent quarters and now exceeds its pre-pandemic level standing at 65.2 percent. This is however, still below its pre-Great Recession peak of 66.7 percent, achieved in Q1 2007, suggesting that there may be further scope for growth.

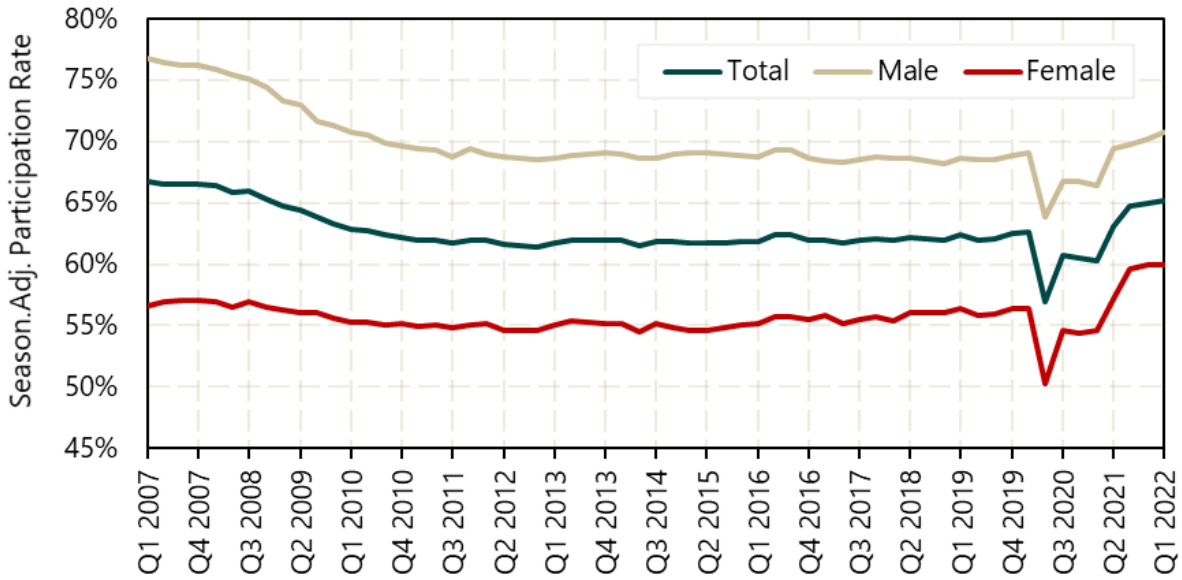
Examining the participation rates by gender also provides some useful insights. In particular, female participation is at an historic high of 60 percent, almost 4 percentage points higher than its pre-pandemic level. This increase has been linked to the proliferation and widespread adoption of remote working during the pandemic which has encouraged more women to enter the labour force.[5]

Of note also is the gap in labour force participation between genders which reached an historic low of 10.2 percent in Q3 2021 and remains at a low level. Since 2007, this gap has roughly halved, driven by increasing female participation but also a fall in male participation relative to its pre-Great Recession levels.

[5] European Semester: Country Reports – Ireland. European Commission (May 2022).

With respect to the participation rates of different age cohorts, the latest data suggests that the largest proportional increases compared to pre-pandemic levels, have been among younger workers (15 – 24) and older workers (55 – 59).

Figure 3.4: ILO Seasonally Adjusted Participation Rates (Q1 2007 – Q1 2022)



Note: Participation rate of those 15 years and older.
Source: CSO LFS (figures are subject to revision).

3.5 Labour Shortages and Vacancies

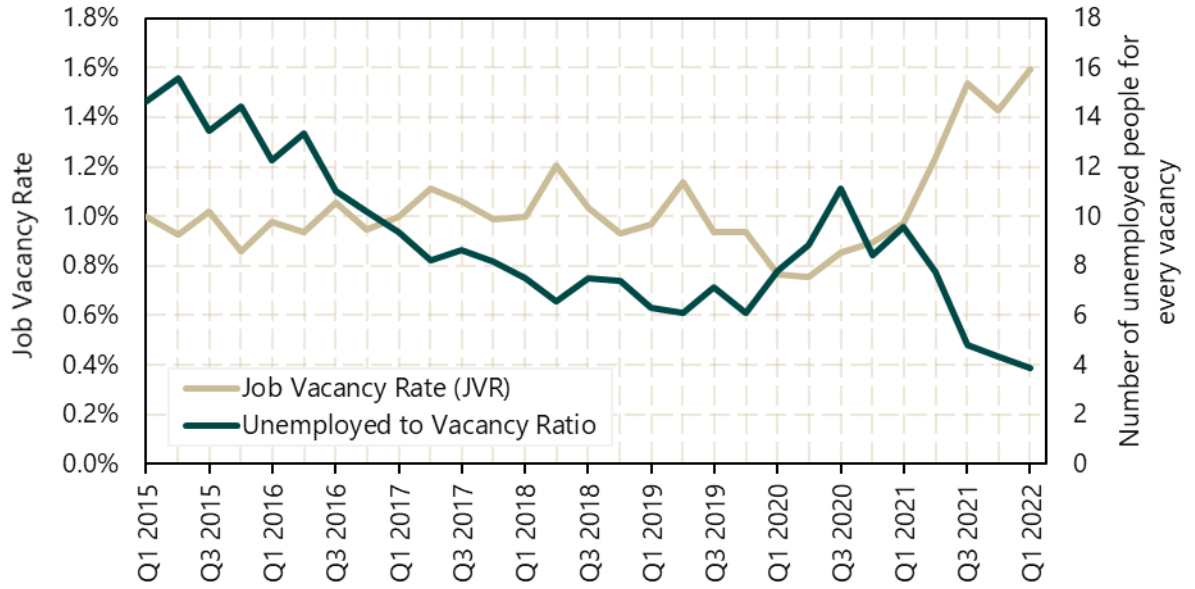
As implied by the increasing levels of labour force participation, domestic demand in the Irish economy has been extremely high since societal reopening began in the latter half of 2021. This elevated demand has resulted in a sharp increase in competition for workers among businesses, amplified by their simultaneous re-opening following the lifting of public health restrictions. It appears that, despite rising participation levels, demand for workers continues to outstrip available supply and is challenging employers' ability to recruit. This imbalance is resulting in unusually high numbers of unfilled vacancies and skill shortages in many sectors. However, this is not a uniquely Irish experience, with similar experiences occurring across both Europe and the OECD.

According to the latest figures from the CSO, labour shortage challenges continue to intensify in Ireland with almost 33,000 unfilled vacancies as of Q1 2022 and a Job Vacancy Rate (JVR) of 1.6 percent. This increase in the JVR represents a notable jump following the slight dip observed in Q4 2021 and is now at its highest level since records began in 2008.[6] As illustrated by Figure 3.5 below, there are also increasingly few numbers of unemployed persons to fill available vacancies, with the ratio as of Q1 2022 being 4 unemployed people for every available

[6] The Job Vacancy Rate (JVR) is derived by dividing the number of available vacancies by the sum of vacancies and occupied jobs. The time-series on vacancies from the CSO 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.

(CSO) vacancy. For comparison, this ratio was approximately 6 individuals pre-pandemic and over 60 people at the peak of the Great Recession. The underlying data indicates that this declining ratio is not only driven by the increasing number of vacancies but also by a decline in the number of unemployed people looking for work. This suggests that, when considered alongside the increases observed in overall participation rates, there may be significant labour supply constraints that are limiting the economy's ability to meet the high-level of demand.

Figure 3.5: Trends in the Job Vacancy Rate and unemployed persons to job vacancy ratio, since Q1 2015.



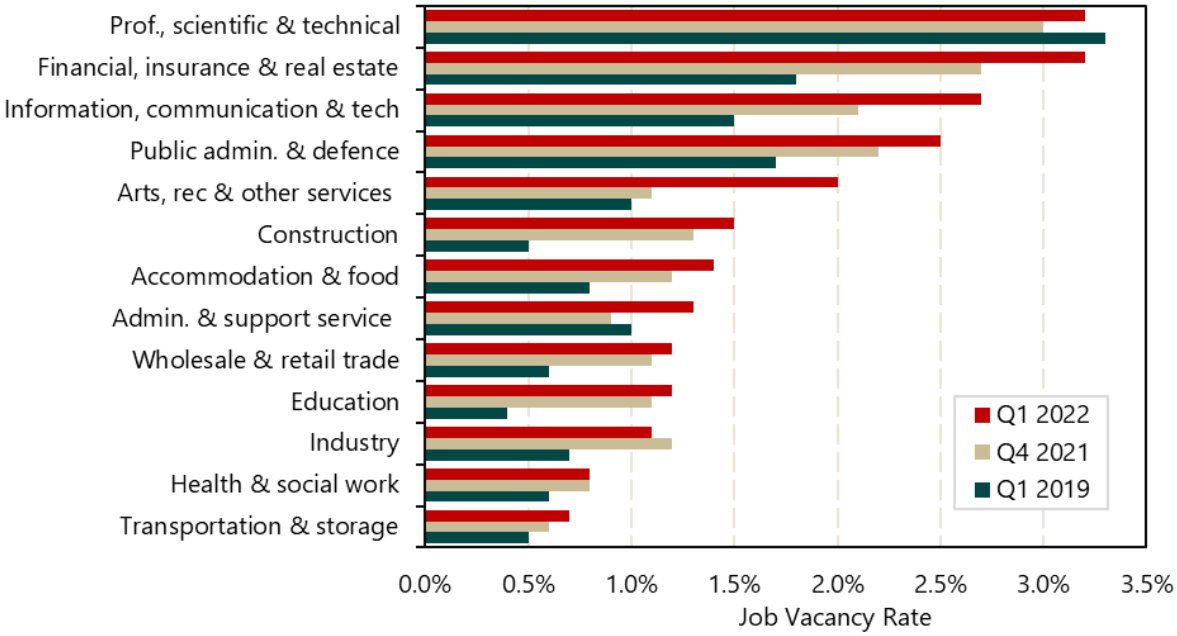
Source: CSO EHECS and author's calculations (figures are subject to revision).

Considering the JVR by sector, it is clear from Figure 3.6 below that almost all sectors had a higher vacancy rate in Q1 2022 than in the previous quarter (Q4 2021) and compared to the equivalent pre-pandemic level. Sectors with the highest JVR at present are professional, scientific and technical services (3.2 percent), finance (3.2 percent), and ICT (2.7 percent). Compared to pre-pandemic, those sectors that have seen the highest percentage point increase in the JVR are finance and insurance (1.4 percent), information communication and technology (1.2 percent), and construction (1 percent). Given the caveats and limitations of the available vacancy data however, it should be noted that these figures likely underestimate the true number of vacancies.

As mentioned previously, in an international context, Ireland is not an outlier in terms of vacancy levels and labour shortages. In Q1 2022, reported vacancy rates in Ireland were well below the European Union average of approximately 2.9 percent, which is a full 1.3 percentage point higher than Ireland's reported overall rate of 1.6 percent for the same period. Similarly for comparison, the UK's Office of National Statistics publishes rolling 3-month data on vacancies. In the period of March 2022 to May 2022, vacancy rates maintained their record high of 4.3 percent in the UK, with the number of unemployed people to every vacancy at a record low of 1. In the US, the Bureau of Labour Statistics reported 11.4 million unfilled

vacancies in April, equating to a seasonally adjusted vacancy rate of 7 percent.

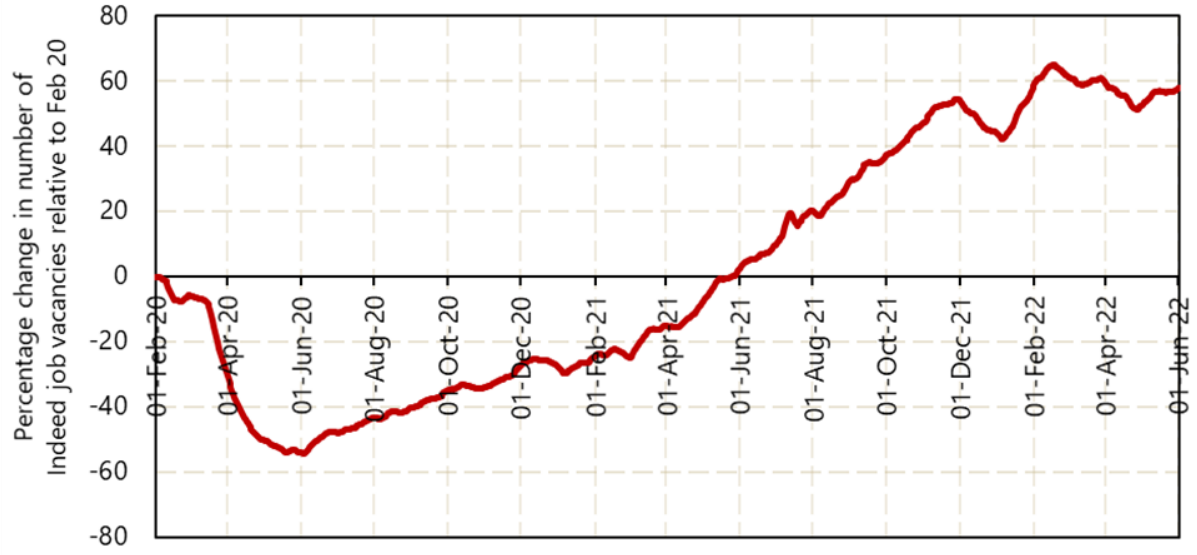
Figure 3.6: Job Vacancy Rate, by sector



Source: CSO EHECS (figures are subject to revision).

In addition, an alternative higher frequency series of vacancy data for Ireland 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. As shown in Figure 3.7 below, the latest posting from the June 3rd 2022, suggests that the total number of postings are 58 percent higher in Ireland in comparison to February 1st, 2020 (pre-pandemic). This is just slightly lower than the peak of 65 percent seen in late February 2022, and may suggest that labour demand may be stabilising, albeit at a very high level.

Figure 3.7: *Indeed.com* job vacancy advertisement levels relative to February 2020.



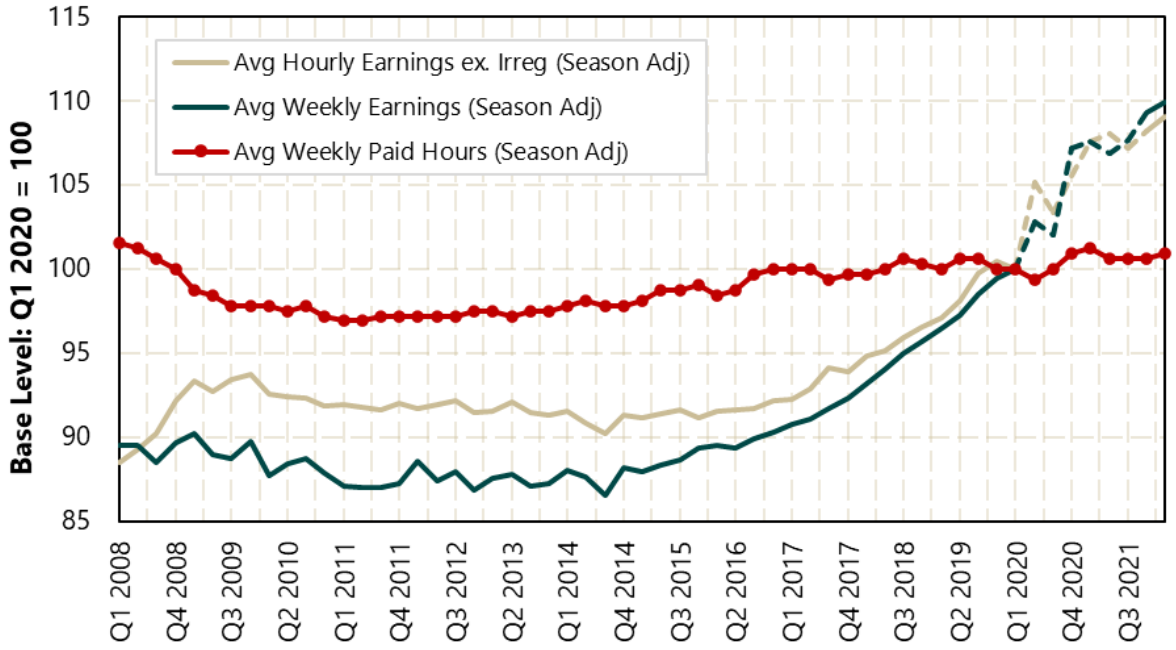
Source: Indeed.com (figures are subject to revision).

3.6 Earnings, Hours and Real Wages

Given the current tightness of the labour market, it is important to consider what, if any, impact this might have on nominal earnings trends. Figure 3.8 below shows the relative percentage change in average hourly earnings, average weekly earnings and average weekly paid hours between Q1 2008 and Q1 2022, with Q1 2020 as the base reference point (Q1 2020 = 100).

The chart shows the protracted impact of the Great Recession on each of these metrics between 2008–2015 and steady recovery and growth thereafter until the onset of the pandemic in Q1 2020. The data shows that over the pandemic period, growth in weekly and hourly earnings continued, although these should be interpreted cautiously as they are likely to have been impacted by the significant changes in the number of active employments in certain sectors.[7] Most recent data from the CSO for Q1 2022 however, which is somewhat less impacted by COVID-19 and associated State supports, show average earnings to be growing strongly – although caution with respect to interpretation is still advised. For example, average hourly earnings are over 9 percent higher in Q1 2022 compared to pre-pandemic Q1 2020.

Figure 3.8: Comparison of relative change in Ireland's average hourly and weekly earnings, and average weekly paid hours (Q1 2020 = 100).



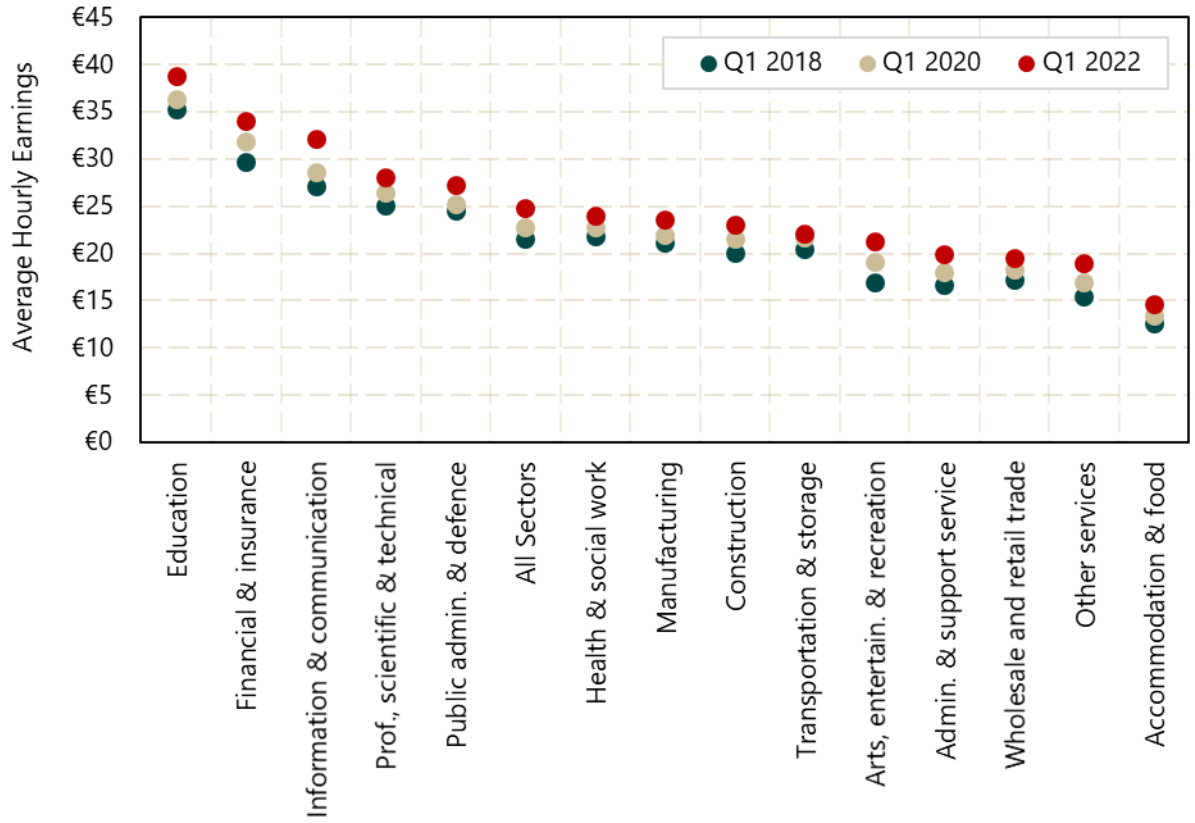
Source: CSO EHECS, CPM and author's calculations (figures are subject to revision).
Note: Dashed lines for earnings since Q1 2020 should be interpreted cautiously (see footnote).

[7] CSO Technical note: When considering the change in earnings during the COVID-19 period, it should be noted that there may be a compositional effect due to the significant changes in the number of active employments in certain sectors. The composition of the labour market in Q1 2022 was very different to the composition of the labour market in some previous quarters, with significant changes in the number of employments in certain sectors across the various quarters analysed. The changes in average weekly earnings in any sector may be impacted to some degree by those employments that have left/joined the sector having lower/higher average earnings than those employments that remained in the sector in quarters being analysed.

Moreover, the data shows that average weekly earnings are up more than 10 percent, buoyed by both increases in hourly earnings and average weekly paid hours; which are now treading slightly above their pre-pandemic level. These trends reflect the tight labour market conditions and the increase in the demand for labour among employers.

While it is useful to understand the relative changes in average hourly earnings across the economy, it is also helpful to analyse changes within sectors. The figures below consider this in more depth by depicting absolute average earnings at Q1 2018, Q1 2020, and Q1 2022 as well as proportion changes between these periods.[8] As Figure 3.9 shows, relatively high-skill sectors such as finance, ICT and professional services had the highest average hourly earnings as of Q2 2022 at over €28p/h, while customer facing service sectors such as retail trade and hospitality had among the lowest at less than €20p/h.[9]

Figure 3.9: Average Hourly Earnings by Sector at Q1 2018, 2020 and 2022.



Source: CSO EHECS (figures are subject to revision).

Note: In the interest of readability, some smaller NACE sectors have been excluded here.

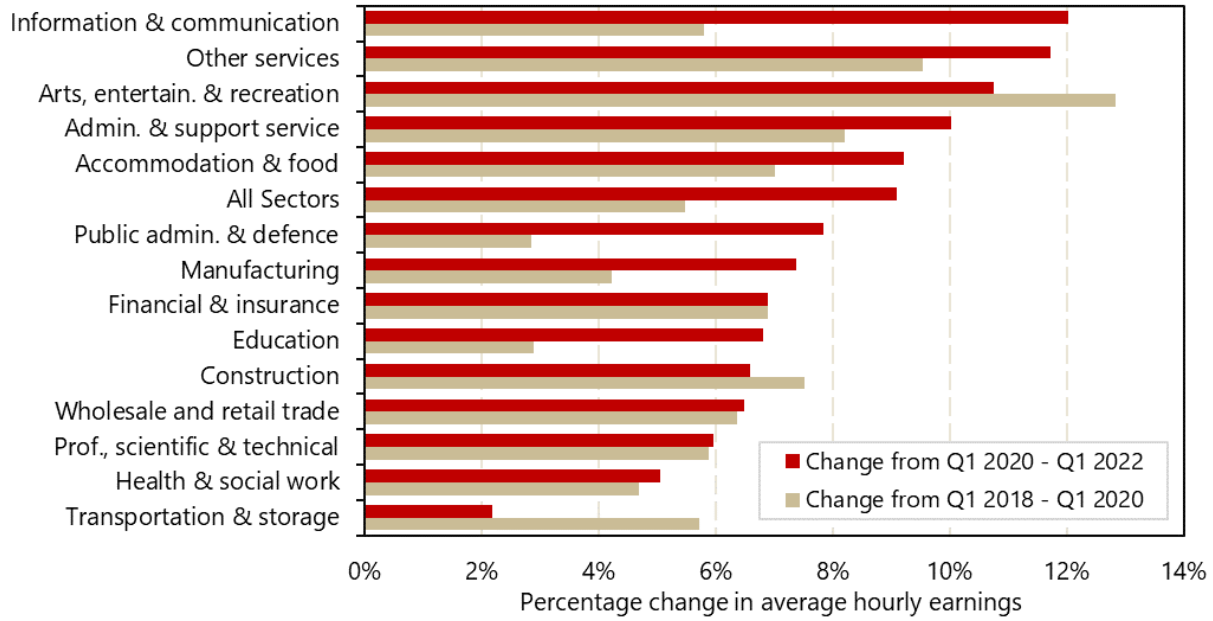
Figure 3.10 shows the percentage growth in average hourly earnings over the two-year periods

[8] Given the impact of the pandemic on average hourly/weekly earnings and sectoral compositions for much of 2020 and 2021, it would not be appropriate to compare annual changes in earnings during this period. As such the authors have opted to examine changes over two two-year periods where the quarterly figures of reference are more reliable.

[9] In Figure 3.9, education is shown to have the highest average hourly earnings by sector. This is because education workers typically work less hours than most other sectors (Q1 2022: 24 hours vs. 32.7) but earn quite a strong weekly/annual salary overall. As a result, their calculated 'hourly' earnings (weekly earnings / the number of hours worked) appear quite high.

2018–2020 and 2020–2022. Looking across all sectors first, we can see that average earnings have increased faster between 2020–2022 (9.1 percent) than between 2018–2020 (5.5 percent) suggesting that perhaps the ongoing labour market tightness as well as other cost pressures in the economy are starting to manifest themselves in the form of higher wages. Moreover, this finding is consistent with the fact that growth in average hourly earnings has been faster between 2020–2022 for the vast majority of sectors, particularly for ICT and public administration. ICT is also the sector with the largest overall change in earnings in the last two years, growing 12 percent. As noted above, the highest vacancy rates in Q1 2022 were concentrated in high-skill, high-wage sectors, suggesting that wages are likely to rise in these sectors in particular in the future, with demand continuing to exceed available supply.

Figure 3.10: Percentage change in Average Hourly Earnings by Sector between Q1 2018–Q1 2020 and Q1 2020–Q1 2022.



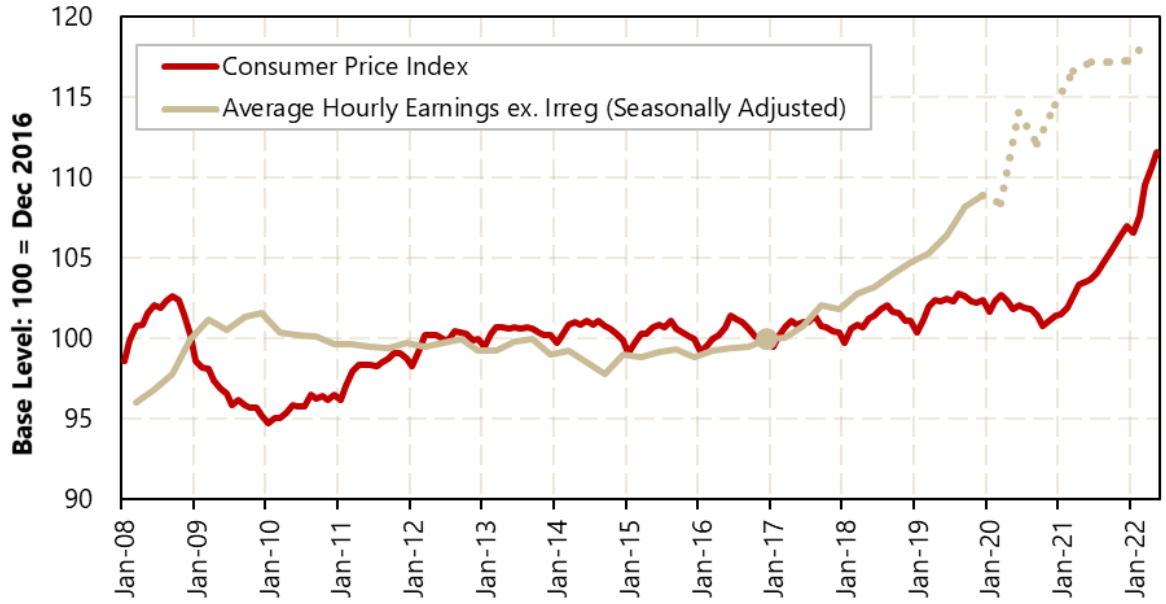
Source: CSO EHECS and author's calculations (figures are subject to revision).
Note: In the interest of readability, some NACE smaller sectors have been excluded here.

While it is clear that average earnings continue to grow apace, given the current environment, it is also important to examine the trends in real wages – that is, the nominal growth in average hourly earnings with changes in consumer prices (inflation) taken into account. Figure 3.11 below depicts a comparison of relative changes in Ireland's Consumer Price Index and average hourly earnings since January 2008 (with December 2016 as the base reference point; Dec 2016 = 100). It shows that while earnings have steadily tracked up each successive quarter since 2016, inflation had remained quite flat for almost a decade, until the start of 2021. The net effect of this was growth in people's average real wages resulting in increased purchasing power.

However, since the beginning of 2021, despite average earnings continuing to grow, they have not matched the recent increases in price inflation. Since January 2021, the CPI has increased by more than 10 percent, which has resulted in a net decline in average real wages and in turn,

a decline in purchasing power. Furthermore, it is important to be cognisant of the fact that the growth exhibited in average earnings throughout the last 5-6 years is unlikely to have been equally distributed across occupations or society and as such, some cohorts – particularly those on lower earnings – are likely to have had their purchasing particularly adversely affected by the recent inflation surge.

Figure 3.11: Comparison of relative changes in Ireland's Consumer Price Index vs. Average Hourly Earnings since January 2008 (December 2016 = 100).



Source: CSO EHECS, CPM and author's calculations (figures are subject to revision).
Note: Dashed lines for earnings since Q1 2020 should be interpreted cautiously owing to COVID-19 impact.

It is unclear as of yet what the exact relationship has been between wages and price inflation in an Irish context over recent quarters. The main driver of inflation across Europe in recent months has been attributed predominantly to supply side shocks in energy and commodities exacerbated by the war in Ukraine, as well as demand-supply imbalances. Among these are international supply-chain bottlenecks and generally, a surge in pent-up consumer demand supported by record high levels of household savings following the prolonged period of pandemic induced economic shutdown.[10]

However, while there is limited evidence at present of a wage-price dynamic, this is not to say that this will not change in the future when they may or may not begin to interact and drive each other directly with the potential danger of a 'wage-price spiral'. This is however dependent on a range of other structural and international factors, such as level of competition, pricing power, changes in Central Bank monetary policy, level of worker unionisation, de-globalisation, offshoring of labour, and productivity reactions to increased labour costs. In any case, this is a dynamic to be closely monitored in the coming quarters.

[10] gov.ie - From pandemic to war – economic developments in Ireland - Presentation by John McCarthy, Chief Economist (www.gov.ie)

4. Economic Outlook

4.1 Challenges ahead

While acknowledging the high levels of labour and skill shortages challenging some sectors of the Irish labour market, the overriding domestic situation remains, according to the latest data, very strong. However, labour markets indicators typically lag current economic developments and over recent months a number of headwinds have emerged for the global economy that are threatening Ireland's strong recovery from COVID-19.

Chief among these headwinds, from Europe's perspective are the economic implications of the ongoing war in Ukraine, which in addition to creating a humanitarian crisis, has quelled hopes for a quick end to the rising inflationary pressures that were already emerging pre-war.

Persistent high inflation, which is present in most recovering developed economies, including Ireland, is eroding households' real disposable income and savings and is in turn lowering consumption. Surging inflation is likely to impact vulnerable groups in particular as a greater proportion of their budgets are directed towards maintaining consumption of staples, such as domestic energy costs.[11] Higher food, energy and commodity prices and the continued worsening of supply-chain problems as a result of the war suggest that consumer price inflation will now peak later and at higher levels than previously anticipated. Moreover, from a labour market perspective, the knock-on implications of high inflation are likely to affect firms' revenues, profits, capacity to invest and consequently ability to create and sustain jobs over time.

It is worth noting also that supply chain bottlenecks caused by repeated shutdowns in China due to its commitment to its 'Zero-COVID Policy' are also exacerbating inflationary pressures, dealing a further blow to global recovery.

While the nature of the inflation challenge differs somewhat in origin and intensity across regions (supply/cost-driven in the EU vs. demand/labour-driven in the US), Central Banks globally are expected to continue their increase in interest rates over the coming quarters to try and curb future inflation expectations from becoming ingrained. The overall effect of these monetary policy decisions (combined with other developments) on inflation, wage growth, business investment and macro-economic growth is, as of yet, unclear. However, an increasing number of forecasters are suggesting a growing risk of recession or a period of '*stagflation*', particularly in the US economy.[12]

Additional uncertainties around the threat of an escalation or further protraction of the war in

[11] A range of measures targeted at lower income households were introduced by Government to mitigate the impact of increases in the cost of living such as two Fuel Allowance lump sum payments (€125 and €100), bringing forward Budget measures such as increases to the Working Family Payment income thresholds, and reductions in public transport fares. In addition, a €200 electricity credit was applied for all households.

[12] Stagflation is characterised by slow economic growth and relatively high unemployment—or economic stagnation—which is at the same time accompanied by rising prices (i.e., inflation).

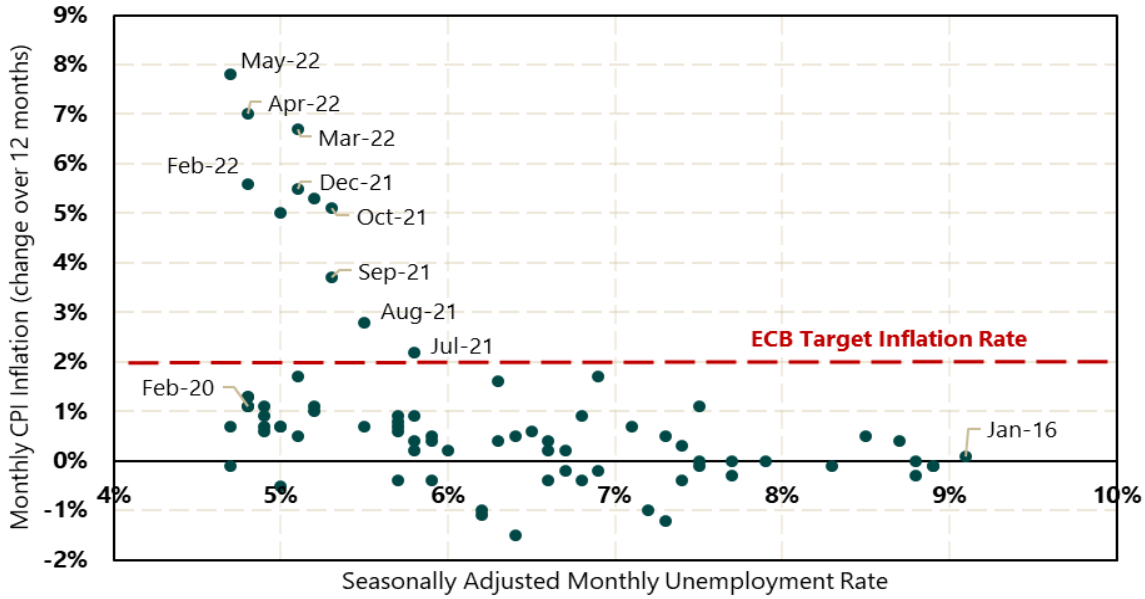
Ukraine also weigh on global economic growth, as does the continued risk of a new, and potentially more dangerous, variant of COVID-19 emerging. Overall, according to the most recent projections from the OECD (June, 2022), GDP growth is now projected to be markedly weaker than previously expected in almost all economies, with global GDP growth expected to be around 3 percent, and remain at a similar pace in 2023 – well below the pace of recovery projected in December 2021.

In short, the outlook for the global economy has darkened significantly in recent months with it now facing a period of substantial uncertainty. For a small open economy such as Ireland, if these factors were to manifest, they would likely contribute to an economic slowdown with implications for the labour market.

4.2 Forecasts

As referenced previously, Ireland has seen a marked increase in monthly CPI inflation figures since the second half of 2021. As shown by the Phillips Curve in Figure 4.1 below, these increases in inflation have also corresponded with monthly declines in unemployment (as well as a falling ratio of unemployed workers to job openings). While unemployment has returned to pre-pandemic levels, monthly inflation for May 2022 reached a 38 year high of 7.8 percent. However, prior to this recent bout of inflation (points above ECB target line in Fig 4.1), the distribution of data points showed no meaningful relationship between unemployment and inflation in recent years. This suggests that the determinants of inflation and/or unemployment in Ireland are exogenous of each other and may, particularly in the case of inflation, be driven by global forces in recent history.

Figure 4.1: Phillips Curve Jan 2016 – May 2022 (Monthly Inflation vs. Unemployment).



Source: CSO CPM and MUR (figures are subject to revision).
Note: Prior to mid-2021, Irish inflation had been consistently below ECB's 2% inflation target for close to a decade.

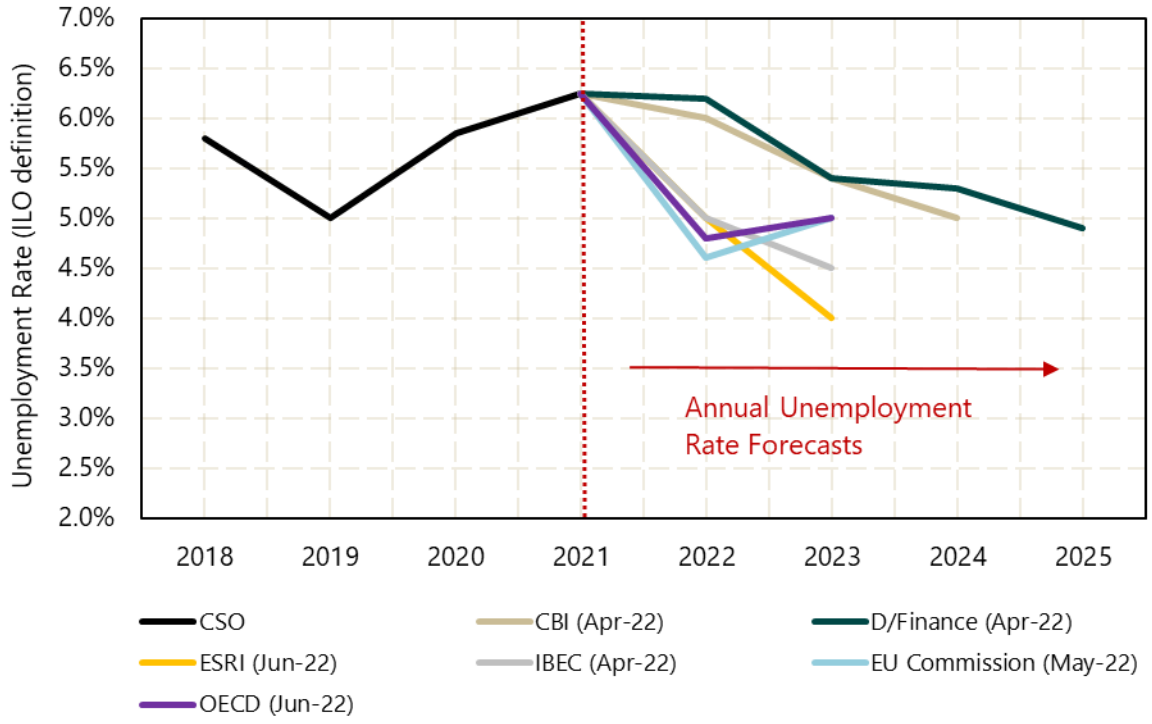
Latest ESRI (June, 2022) projections for Ireland predict inflation averaging 7.1 percent over

2022 and 4 percent over 2023, suggesting that inflation is expected to remain high over the medium-term but should begin declining in the latter half of this year. A similar scenario is forecast by the OECD.

Reflecting the impact and uncertainty of the ongoing macro-economic and geo-political challenges, recent forecasts for the Irish labour market are somewhat mixed. Irish-based organisations (Department of Finance, ESRI, IBEC and Central Bank of Ireland) expect lower unemployment, and higher numbers of people in employment going forward. The ESRI in particular forecasts unemployment to drop to 4 percent over 2023 with the economy operating at close to full employment. However, the European Commission and the OECD forecast a modest rise in unemployment between 2022 and 2023 for Ireland, guided by historical experience and a changing macro-economic landscape (4.5 percent and 4.8 percent in 2022 respectively with both rising to 5 percent in 2023).

Importantly, all of the forecasts illustrated in Figure 4.2 below are recent enough to at least start to take account of the spill-over effects arising from the war in Ukraine (in addition to other underlying factors), including the high (and sustained) increases in energy, commodity and food prices, and the various sanctions against Russia. However, the most recent forecasts of the EU and OECD are more pessimistic than those of Irish-based organisations.

Figure 4.2: Unemployment rate forecasts for Ireland, by institution.



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