An Roinn Coimirce Sóisialaí
Department of Social Protection

Labour Market Advisory Council

Labour Market Update

19 October 2022

Prepared by the Labour Market Analytics Unit

Contents

Key Messages

- The labour market continues to perform strongly despite international economic uncertainty.
- The Live Register, which as of 9 October stands at 180,837, has seen substantial variation in recent months primarily as a consequence of normal seasonal variation associated with increases in the Education sector over the summer months. Additionally, there are some 16,514 Live Register claimants who arrived from Ukraine under the EU's Temporary Protection Directive.
- In terms of the ongoing impact on the Live Register of the cessation of pandemic-related supports, as of 9 October, there are 15,230 people who transitioned from the PUP. As of 2 October, there are around 4,400 former EWSS supported employees who joined the Live Register within two months of receiving an EWSS supported payslip. This analysis does not indicate that the closure of the scheme was associated with an immediate significant impact on the labour market.
- Seasonally adjusted employment figures from the CSO's Q2 2022 Labour Force Survey indicate employment is now above 2.55 million, an 11 percent increase compared to Q2 2019 pre-pandemic levels, and a 1.9 percent increase compared to Q1 2022. This is highest number of people in employment and the highest employment rate (73.5%) since the series began in 1998.
- The sectors with the largest employment growth in absolute terms, between Q2 2019 and Q2 2022 are Information, Communication, and Technology (+39,400), Healthcare (+38,200), and Industry (+37,300), though Accommodation and Food (-14,300) and the Admin and Support Services (-6,400) sectors have not recovered to pre-pandemic levels.
- According to the latest CSO's September Monthly Unemployment Release, the unemployment rate remains low at 4.3 percent and at 12.4 percent for those aged under 25.
- The overall participation rate for all persons over 15 years of age continues to remain strong, exceeding pre-pandemic levels, currently standing at 65.3 percent. The gender gap in labour force participation currently stands at 11.2 percent, near the Q3 2021 historic low of 10.2 percent.
- It is expected that the rate of increase for participation will slow given the Potential Additional Labour Force (PALF) is currently just over 84,000 according to the latest Q2 2022 CSO estimates. This is down from nearly 300,000 in Q2 2020 and 128,00 in Q2 2019. The majority (78.3 percent) of the PALF are people who are available to work but not currently seeking work. The remaining 27.6 percent are seeking but are not available.
- Among the economic challenges looking forward are, the continuance of the war in Ukraine and its impact on energy and commodity prices, slowing economic activity in Ireland's major trading partners, the potential embedding of inflation expectations in wages, and the effects of monetary tightening in the EU as well as other Central Banks.
- As part of Budget 2023, the Department of Finance projects the unemployment rate to increase slightly to 4.9 percent in Q4 2022 and to average 5.1 percent in 2023.

Introduction

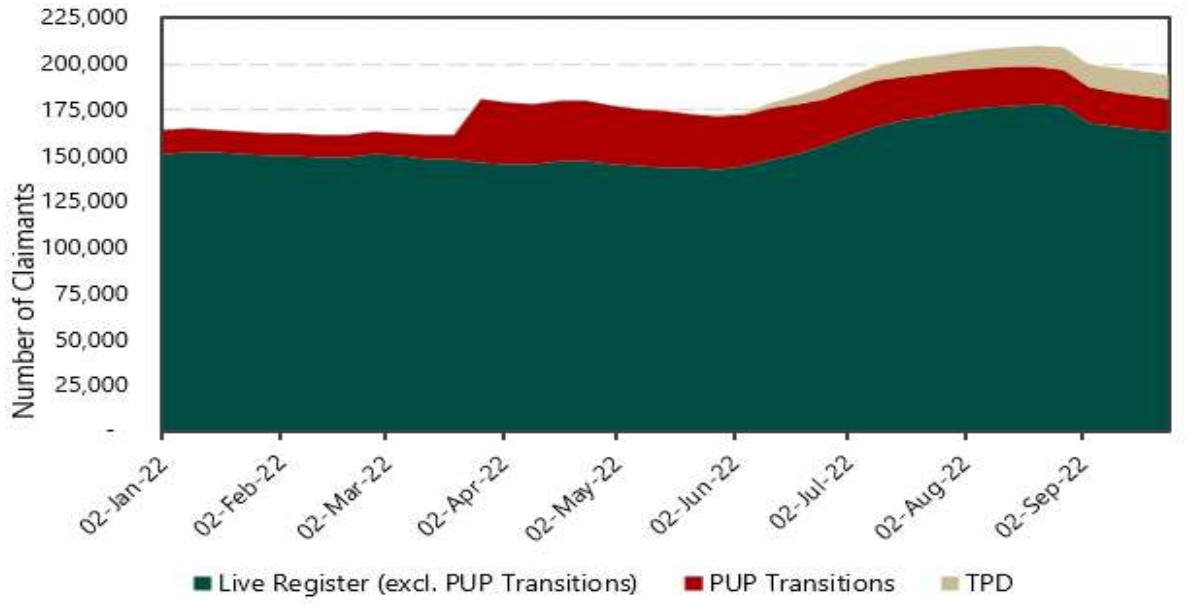
This Labour Market Update provides an overview of the latest developments in the Irish labour market. It uses Department of Social Protection (DSP) administrative data to examine the latest trends in the Live Register, including the impact of seasonal variation, the residual effects of the closure of the Covid-19 support schemes and the impact of those who are in Ireland under the EU's Temporary Protection Directive for Ukraine (TPDs). A brief overview of some of Department of Social Protection's engagement with TPDs and summary statistics on the characteristics of the working age TPDs is provided.

The CSO's Labour Force Survey (LFS) and Earnings, Hours and Employment Costs Survey (EHECS) data, among others, is used to examine trends in the unemployment rate, the increasing participation and employment rates, the potential additional labour force, as well as on-going labour shortages and changes in earnings. The paper concludes by looking at challenges ahead and the latest economic forecasts.

1. Live Register Trends and Composition.

The number of claimants on the Live Register began to decline after the final cohort of PUP recipients were transitioned to the Live Register at the end of March 2022. During the summer months, the Live Register experienced seasonal increases associated with claimants from a range of sectors, most notably the education sector. There have been corresponding decreases since the beginning of September, driven primarily by non-permanent workers within the education sector exiting the Live Register. There have also been increases in the Live Register associated with people under the EU's Temporary Protective Directive (TPD) for Ukraine. The following section examines the impact of these different factors on the Live Register over previous months and going forwards.

Figure 1.1: PUP transitions, Live Register and TPD trends

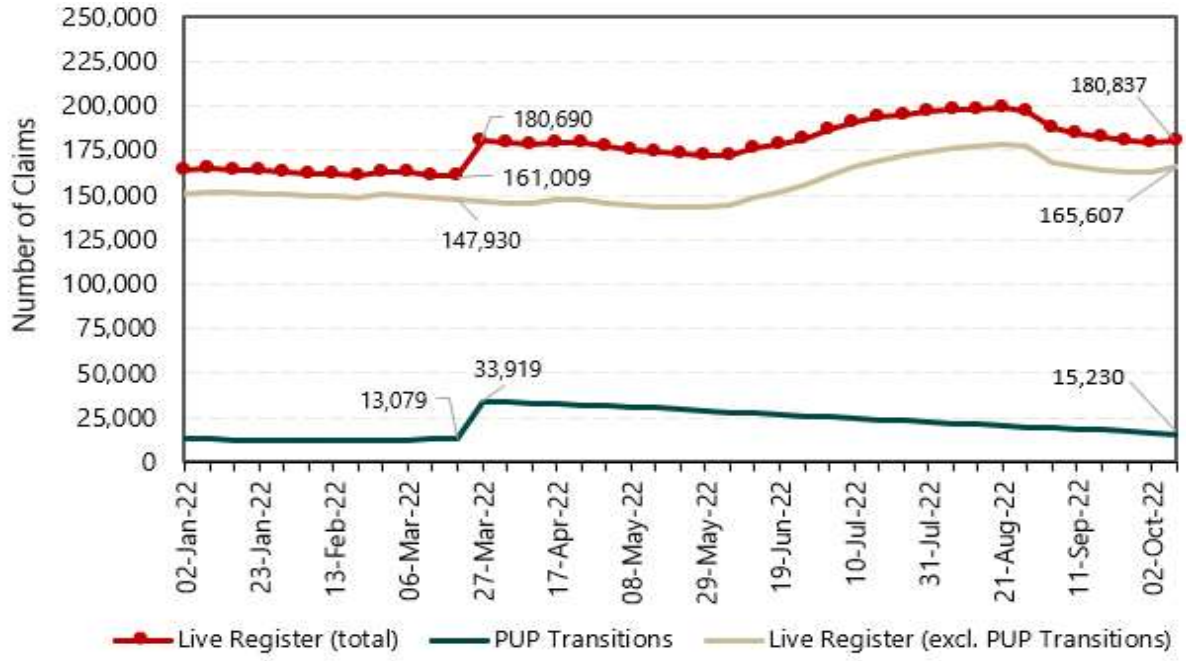


Source: DSP admin data (figures are subject to revision).

1.1 Former PUP recipients on the Live Register

In previous Labour Market Updates, it had been flagged that it would be necessary to monitor the impact of the withdrawal of the pandemic related income supports owing to the scale of the supports that were available from March 2020 to May 2022. As highlighted in Figure 1.1.1 below, the number former PUP recipients on jobseeker's payments have been steadily declining and as of 09 October, they accounted for just over 8.42 percent (15,230) of the overall Live Register.

Figure 1.1.1: Number of Former PUP Recipients on the Live Register in 2022

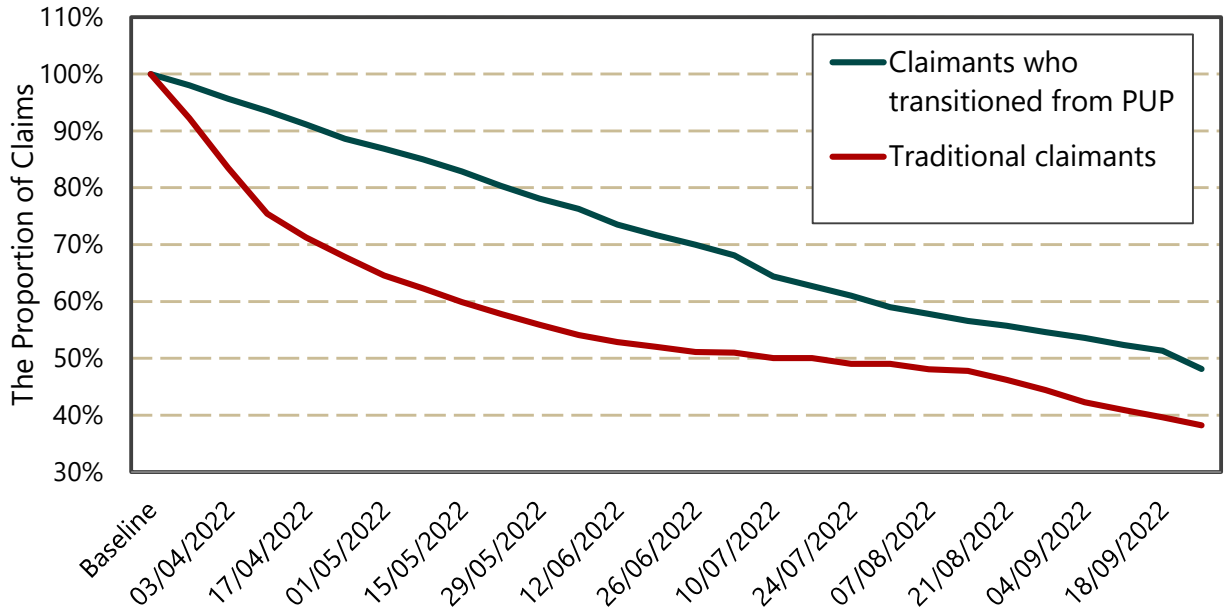


Source: DSP admin data (figures are subject to revision).

As cursory analysis, in order to see whether there is evidence of scarring among the PUP transition cohort – which would be expected, given that the vast majority were on the PUP for over a year – the persistence rates, also known as survival rates, of the 22,079 former PUP recipients who transitioned, as part of the final tranche, to the Live Register as of March 27th were compared to the persistence rates of new Live Register claimants who joined on the 20th, the 27th of March and the 3rd of April, totalling 10,285. This comparison does not control for sector or other characteristics.

Figure 1.1.2 below shows that while there are strong exits from the Live Register of the PUP transition cohort (38 per cent) by the end of September 2022, almost 48 per cent of traditional claimants exited over the same period. The relatively low exit rate by the PUP transition cohort reflects the need for active engagement and support to enhance the employability of these long-term unemployed claimants that have difficulties re-entering the labour market.

Figure 1.1.2: Persistence on the Live Register by those who transitioned from the PUP and traditional claimants



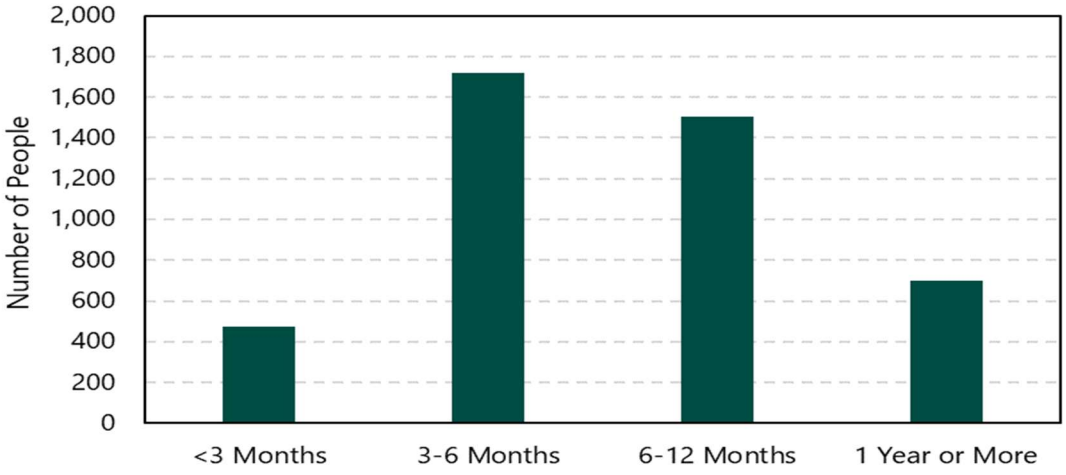
Source: DSP admin data (figures are subject to revision).

1.2 Former EWSS employees on the Live Register

Combining Live Register and Revenue data indicates that, as of the 2nd of October, there were around 29,400 former EWSS supported employees in total on the Live Register. Of these, 4,397 had formerly been supported by EWSS and had moved to the Live Register within two months of their most recent EWSS payslip and could be considered as having transition from EWSS supported employment to the Live Register. This represents close to 2.5 percent of the Live Register. The majority of this cohort of former EWSS supported employees are in receipt of Jobseeker's Allowance (56 percent). Close to 42 percent are receiving Jobseeker's Benefit and the remainder are receiving credited contributions.

Figure 1.2.1 below shows the breakdown of the durations that this group of former EWSS supported employees have spent on the Live Register. 84 percent of the group are short term Live Register claimants, i.e., they have an active claim of less than a year, with the majority having spent less than 6 months on the Live Register. The remaining 16 percent of the group have been on the Live Register for a year or more.

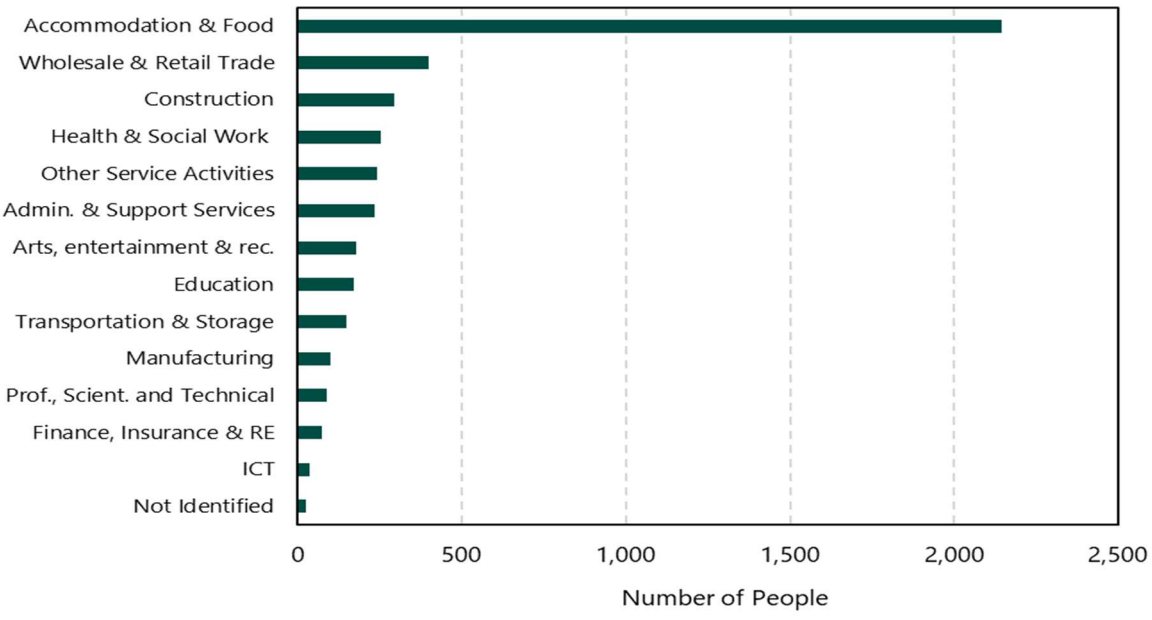
Figure 1.2: Number of former EWSS recipients on the Live Register by Duration



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

Analysing the sectors of the EWSS supported employers of this cohort reveals, as expected, that the majority of the group worked in the sectors most impacted by the pandemic. Accommodation & Food is by far the most common origin sector, accounting for almost half of the group. Over 2,100 people received their most recent EWSS payslip from an employer in this sector. The next largest sectors of origin are Retail, Construction, Health & Social Work, Other Services and Administration & Support Services. Together these five sectors represent an additional 32 percent of the cohort. Figure 1.2.2 illustrates the sectoral breakdown of the whole cohort.

Figure 1.2.2: Sectors of the Employers of Former EWSS Recipients on the Live Register



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

Examining the age profile of the group shows that almost 84 percent of them are over the age

of 25 with close to 71 percent between the ages of 25 and 55. Thus, younger people are somewhat over-represented in this group compared to the overall Live Register on the 2nd of October, in which, around 11 percent were under 25 years of age.

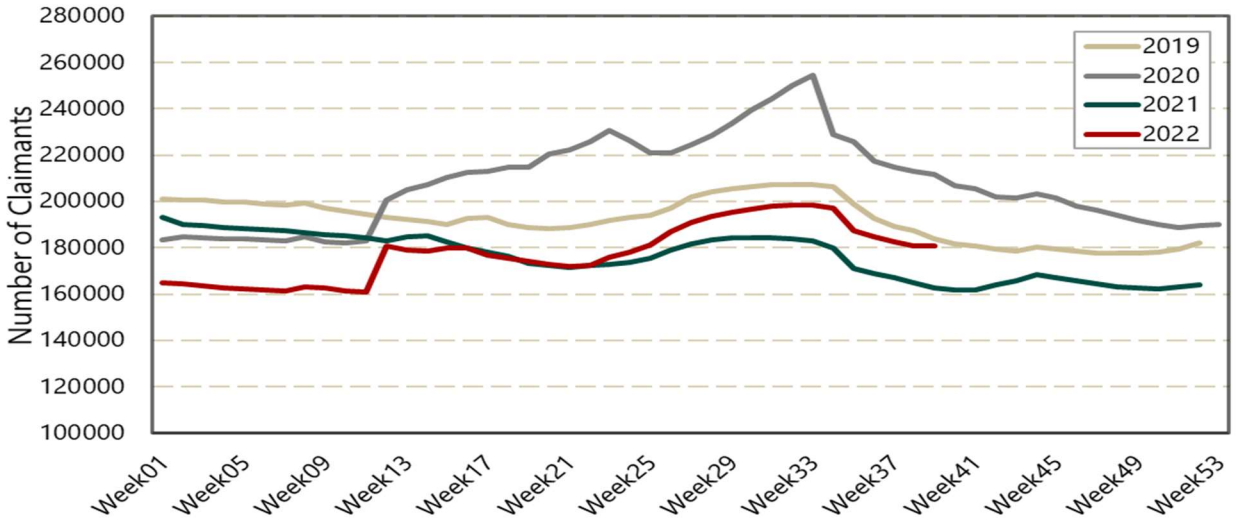
Overall, this high-level analysis does not indicate a significant impact on the labour market, or on the Live Register, from the winding down of the EWSS scheme. However, this group will continue to be monitored going forward.

1.3 Seasonal variation and the Live Register

Figure 1.3.1 below demonstrates the impact of seasonality on the Live Register trends between 2019 and 2022. The Live Register typically follows a seasonal pattern whereby the number of claimants rises during the summer months followed by a steady decline in autumn. One can observe that the number of claimants begins to steadily increase from Week 24 onwards and it peaks in and around Week 33 before subsequently decreasing from Week 35 onwards. The seasonal trend for 2022 has thus far followed previous years' pattern. That said, the number of Jobseeker claimants in 2022 is noticeably lower compared to 2019, pre-pandemic.

The seasonality effect in the Live Register is primarily driven by non-permanent workers within the education sectors who are unemployed during the summer months, and who subsequently exit the Live Register when the academic year re-commences. The seasonal pattern observed in 2020 is different to the other years due to the introduction of the PUP scheme in 2020 which significantly distorted the Live Register figure.

Figure 1.3.1: The overall Live Register on a weekly basis, 2019 – 2022

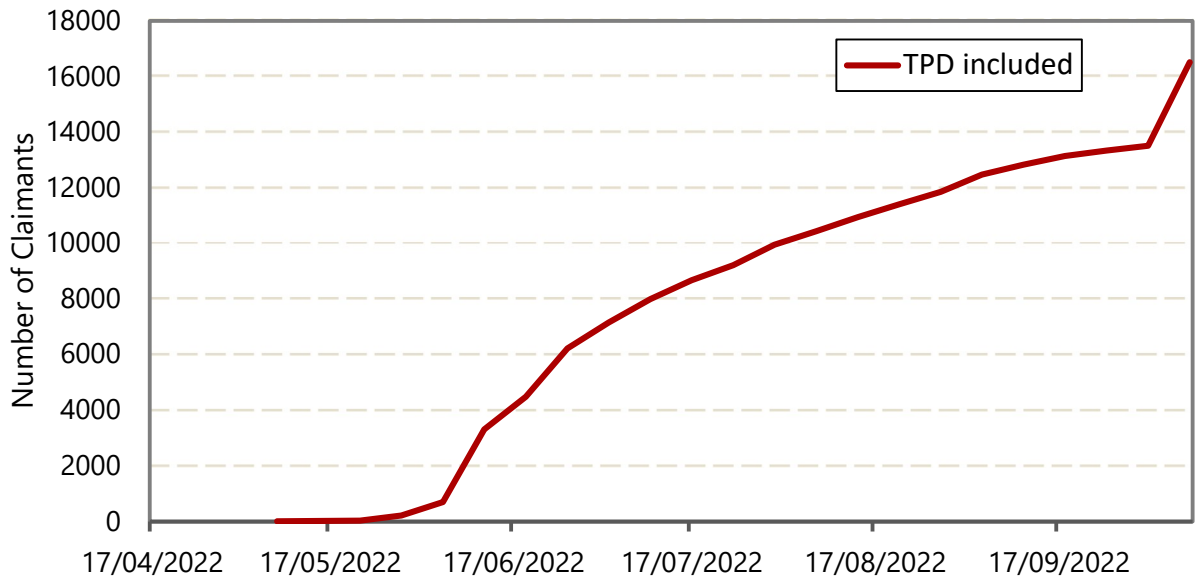


Source: DSP admin data (figures are subject to revision).

1.4 The impact of the Temporary Protection Directive on the Live Register

Under the EU's Temporary Protection Directive (TPD), people who have arrived in Ireland, having been displaced by the war in Ukraine, can access income supports and employment services from the Department of Social Protection. In most instances, these TPDs initially receive a Jobseeker's Allowance (JA) payment. This is provided as an interim measure until their claim has been evaluated and they can be provided with the most appropriate support. Initially, despite being in receipt of a JA payment, they were excluded from the Live Register until they were on JA for at least 50 claim paid days. The 50-claim paid day threshold was to ensure there was sufficient time to evaluate the claim. As of the week ending 09 October, in consultation with the CSO, this threshold was amended to 20 claim paid days, as the Department has not experienced undue delays in processing these claims. This change explains the increase seen in Figure 1.4.1 in the most recent week. As this was a once off change, the rate of inflows should return to its previous pace for subsequent weeks. Notably, individuals may also be excluded from the Live Register if they are probable candidates for One-Parent Family payment.

Figure 1.4.1: The TPD cohort included in the Live Register



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

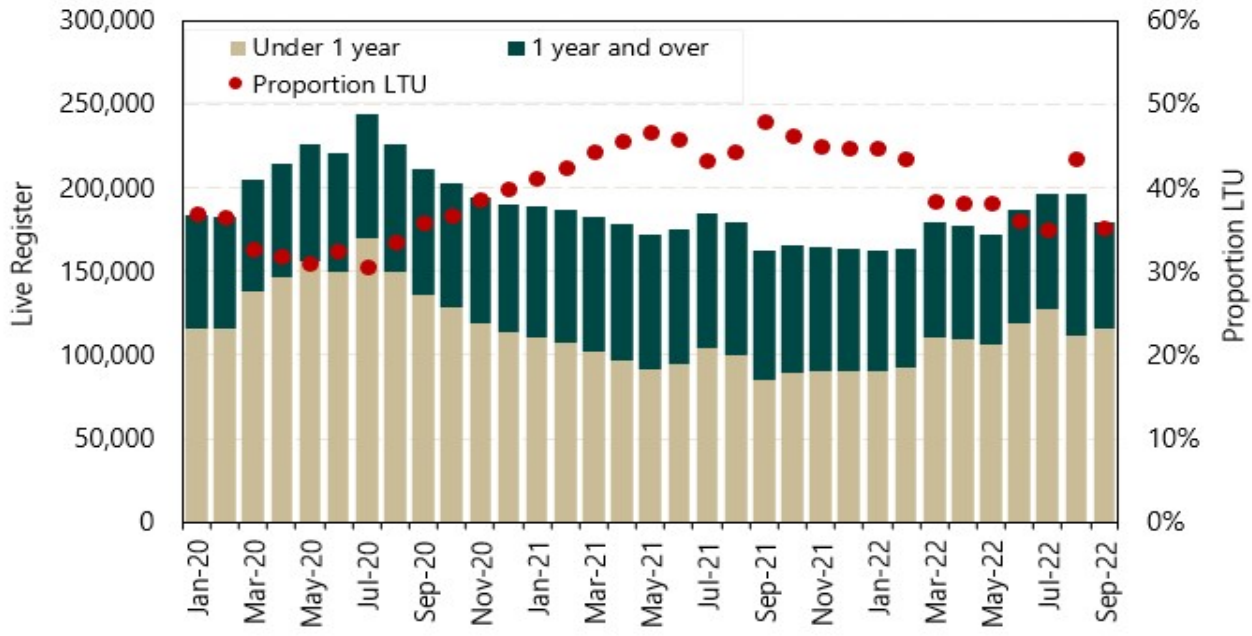
1.5 Claim Duration on the Live Register

Figure 1.5.1 below shows, on a monthly basis, the claim duration of those on the Live Register from January 2020 to Oct 2nd, 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 August 2019, the proportion of those on the Live Register long-term was 38.1 percent. From mid-2020, as noted in previous labour market update papers, the proportion of long-term claimants increased significantly

over the course of the pandemic, likely as a consequence of the pandemic reducing both exits from the LR (limited job opportunities) and entrants to the LR (due to the availability of PUP).

The number of short-term claimants increased in June and July and declined markedly in late August, largely due to seasonality effects. Coupled with an increase in absolute numbers of long-term claimants in August, which is associated with inflows in July of the previous year as the PUP closure commenced, has resulted in the proportion of long-term claimants increasing significantly, albeit remaining below the peaks evident during the pandemic.

Figure 1.5.1: Live Register breakdown by official* duration (Jan 2018 – Sep 2022)



Source: Live Register (figures are subject to revision).

Note: *Official classifications do not include time on the PUP when calculating Live Register claim duration.

As can be seen in Table 1.5.1 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 34.7 percent to almost 40.2 percent (72,776 persons). [1] For comparison, the highest long-term share reached during the Great Recession was 48.2 percent in September 2014 although the absolute long-term claims were far higher at 178,300.

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

Table 1.5.1: Live Register breakdown by duration, excluding and including continuous time spent on the PUP, as of October 9th, 2022

	Excluding Time Spent on PUP	Including Time Spent on PUP
Less than 1 Year	118,149	108,061
1 Year or More	62,688	72,776
Total	180,857	180,837
Long Term Share (%)	**34.7**	**40.2**

1.6 Demographic and occupational characteristics of those on the Live Register

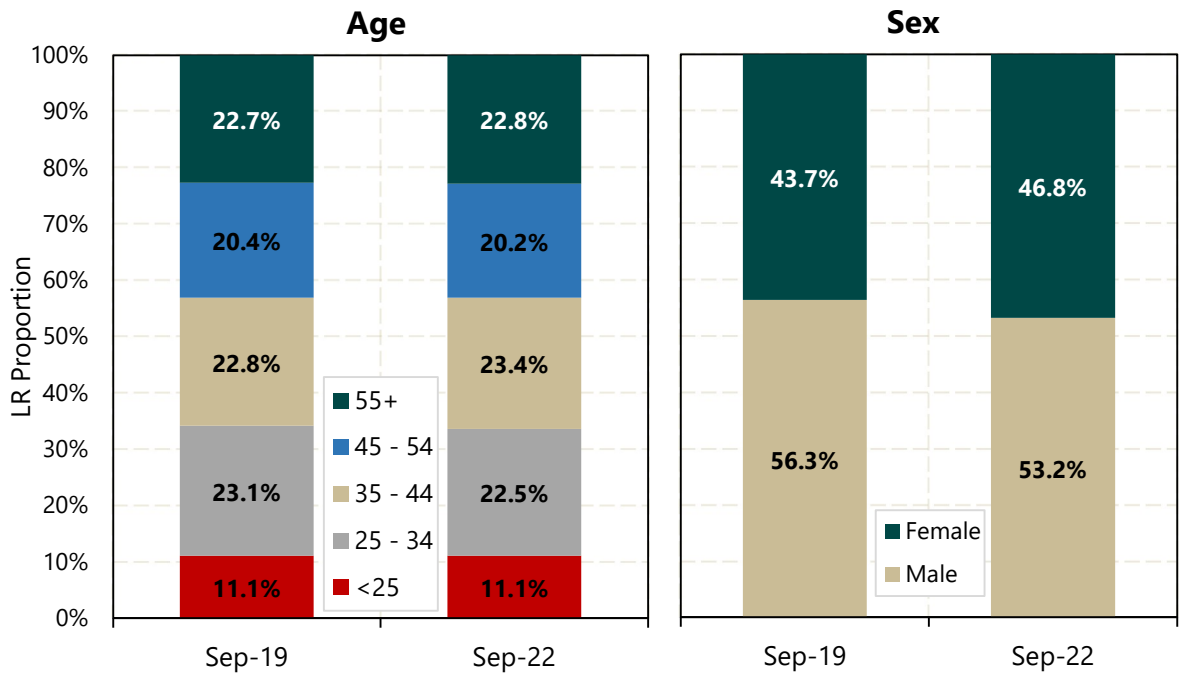
The current age and gender profiles of the Live Register, as of September 2nd, 2022, are only slightly different compared to pre-pandemic as Figure 1.6.1 illustrates. This suggests that there has been a relatively limited impact of the PUP transitions to the Live Register on overall demographics, particularly with regard to the age profile.

Considering age first, the most noteworthy change is the slight increase in the average age profile of the Live Register, with those aged 35 and over accounting for almost 66.4 percent of all claimants as of September 2nd, 2022. This is just a half a percentage point 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.[2] This may reflect the challenge some older workers face in re-entering the workforce once becoming unemployed.

With respect to sex, Figure 1.6.1 shows that the proportion of women as of September 2nd, 2022, is 46.8 percent, which is higher than the corresponding pre-pandemic period of 43.7 percent. Conversely, the most recent Live Register data shows that proportion of men is 53.2 percent, which is lower relative to the pre-pandemic period of 56.3 percent.

[2] As of Q2 2022, those over 55 years of age accounted for 18.8 percent of the labour force. This compares with 22.8 percent of total Live Register claimants for the same age group for September 2022.

Figure 1.6.1: Live Register breakdown by age and gender (pre-pandemic vs. current).



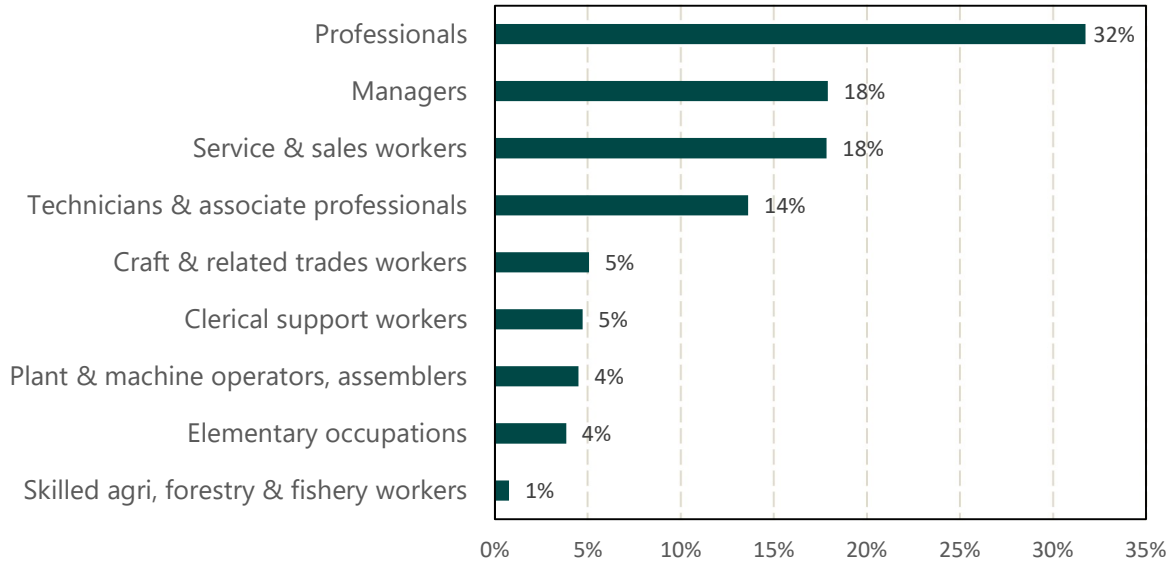
Source: CSO LR (figures are subject to revision).

2. Engagement and Summary Statistics of Temporary Protection Directive Applicants

The following section outlines the characteristics of those who have arrived in Ireland from Ukraine under the Temporary Protection Directive.[3] Of the approximately 57,500 arrivals as of 10th October, there are 36,800 aged 18 to 65 (of which there are 25,900 females and 10,900 males). As set out in section 1.4, the number of TPDs on the Live Register currently stands at 16,500. This cohort is increasing in size as the war continues and TPDs continue to arrive in Ireland.

Intreo Employment Services have been engaging with TPDs on a one-to-one basis, either in their local Intreo Centre or on an outreach basis at employment support events specifically for TPDs, since April 11th, 2022. When engaging with the public employment service (PES), the occupational work history of TPDs is recorded using the European Skills, Competences, Qualifications and Occupations (ESCO) framework. The ESCO Level 1 breakdown for arrivals is shown in Figure 2.2 below.

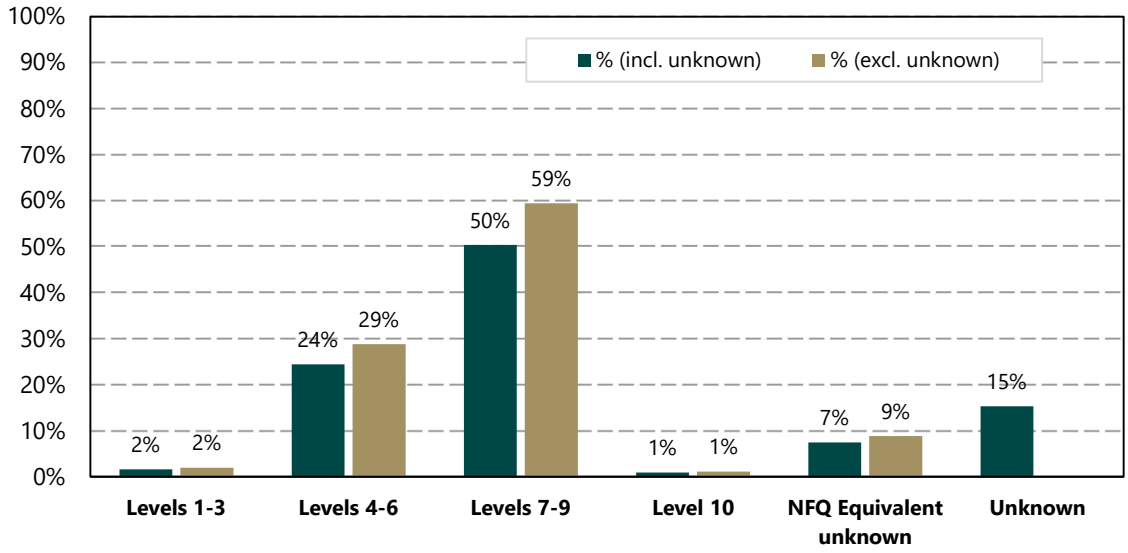
Figure 2.1: Proportion of arrivals by occupational work history (ESCO Level 1) as of 30th September.



PES further records the highest level of educational attainment of arrivals using National Framework of Qualifications (NFQ) levels. Of the 19,100 who have engaged with the public employment service, around 16,700 have had their level of educational attainment recorded. The numbers show at least 52% with Level 7 or above qualifications. That compares to 44% among the 15-64 population in Ireland, though these figures are not perfectly comparable.

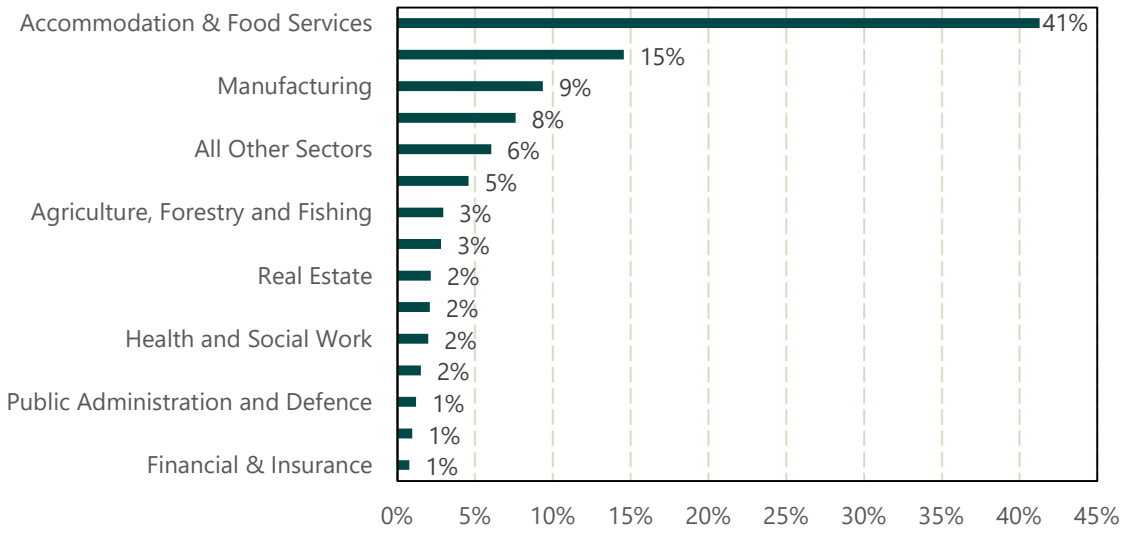
[3] Additional data can be found on the CSO's new release: Arrivals from Ukraine in Ireland

Figure 2.2: Highest level of educational attainment of TPDs, as of 30th September.



There are a number of barriers to employment for this cohort. For instance, among those who have engaged with the public employment service, two-thirds have indicated that English language ability represents a barrier to employment. In common with other EU member states, this cohort faces broader issues in relation to housing, childcare (particularly pertinent given the composition of the cohort), recognition of prior learning, and psychological trauma from war. Despite these barriers, there is evidence for 9,500 TPDs being in 11,200 positions of employment. Revenue data provides the NACE sector of these jobs, highlighted in Figure 2.1 below. TPDs appear to be gaining employment primarily in low-skilled sectors which do not reflect the work history recorded by PES, though further analysis is required to establish if this is the case.

Figure 2.3: Employment by NACE sector (as of 3rd October).



Note: This contains data on all employments e.g. a person with two jobs in wholesale & retail trade appears twice.

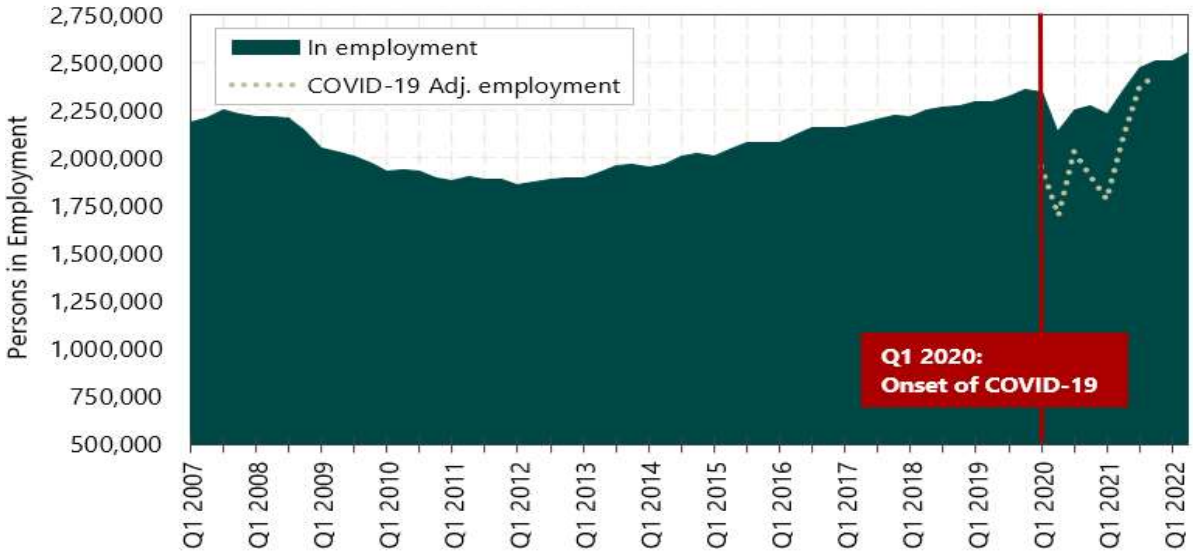
3. Recent trends and changes in the Irish Labour Market

3.1 Overview of Employment trends

As shown in Figure 3.1.1, 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 Q2 2022 Labour Force Survey suggest that the number of people in employment is now above 2.55 million, an 11 percent increase compared to Q2 2019 pre-pandemic levels, and a 1.9 percent increase compared to Q1 2022. This figure represents the largest recorded number of individuals in employment in the history of the State.

Ireland's employment rate, for 15–64-year-olds, has now also exceeded its pre-pandemic Q2 2019 level of 69 percent, with latest CSO figures indicating it is now at 73.5 percent, as of Q2 2022. This is the highest rate recorded since the series start date of Q1 1998. This is a result of high employment rates amongst both sexes, but notably amongst females.

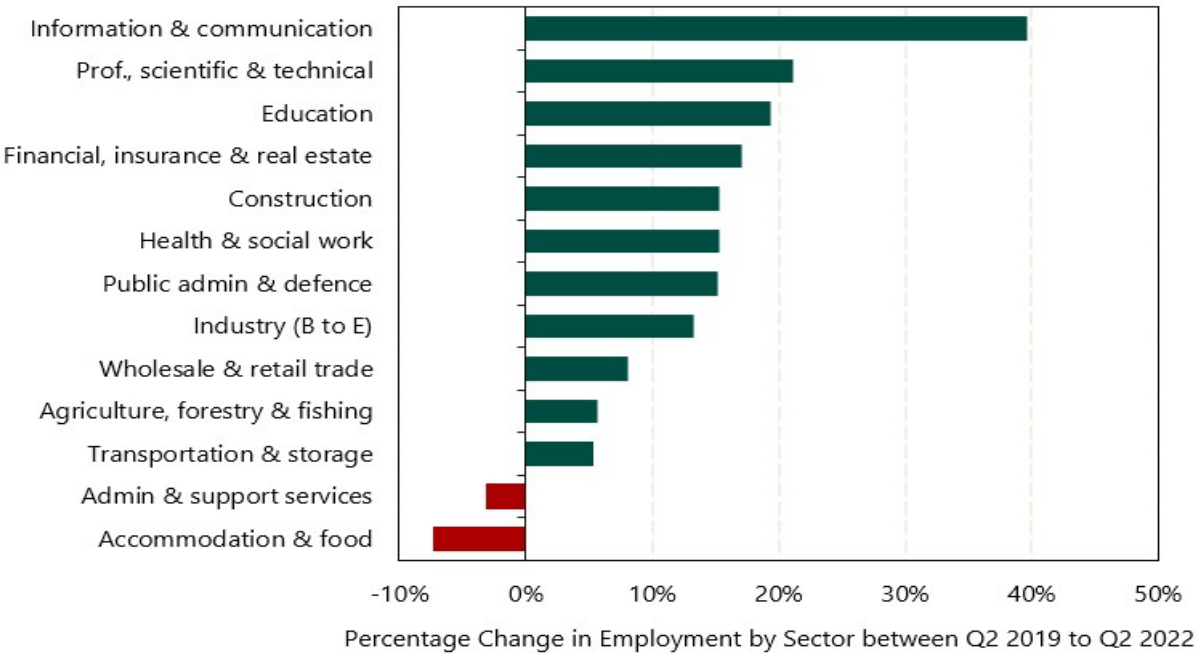
Figure 3.1.1: Persons in employment (Q1 2007 – Q2 2022).



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 between Q2 2019 and Q2 2022 are information, communication, and technology (+39,400), healthcare (+38,200), and industry (+37,300). In comparison, some of those sectors most impacted by the pandemic and the associated public health restrictions – namely accommodation and food, and admin and support services – remain 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. Figure 3.1.2 below indicates the percentage change in employment between Q2 2019 to Q2 2022 by sector.

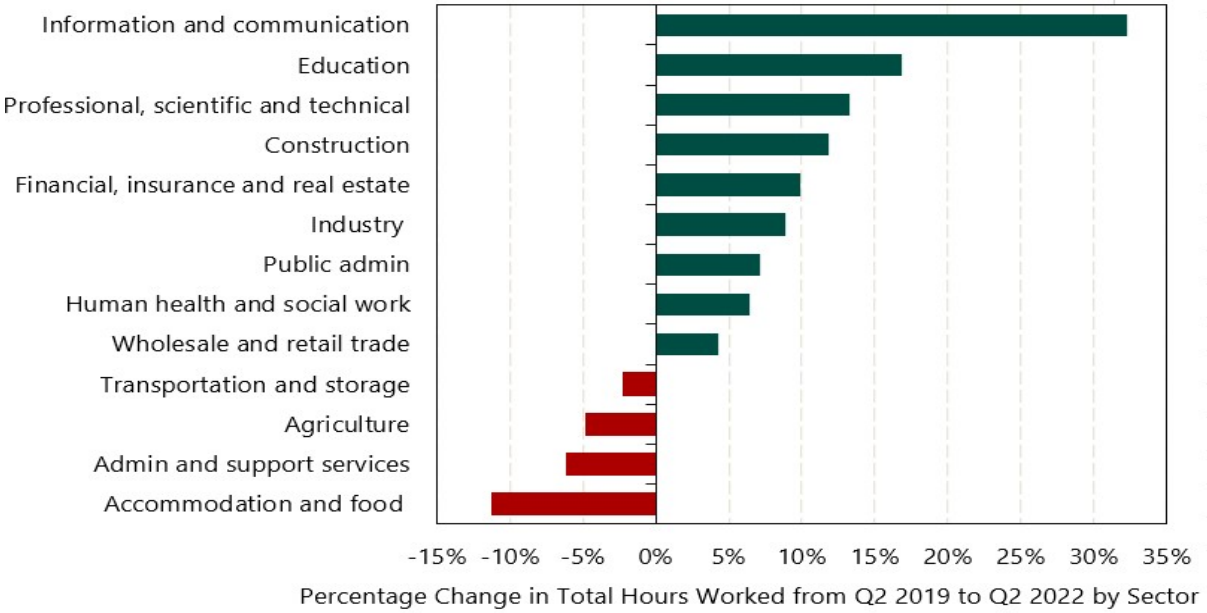
Figure 3.1.2: Percentage change in employment between Q2 2019 to Q2 2022 by sector.



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

There is strong correlation between the growth in employment by sector and the growth in hours worked by sector. As seen in Figure 3.1.3, the largest increase in total hours worked, between Q2 2019 and Q2 2022 has been in the Information and Communication sectors, experiencing an increase of over 30 percent. The Education sector, Professional, Scientific and Technical, and Construction sector have all seen increases of over 10 percent in the last three years. Accommodation and Food is the sector that has been slowest to recover from the pandemic with total hours worked still down by over 11 percent.

Figure 3.1.3: Change in Total Hours Worked by Sector (Q2 2019 - Q2 2022)

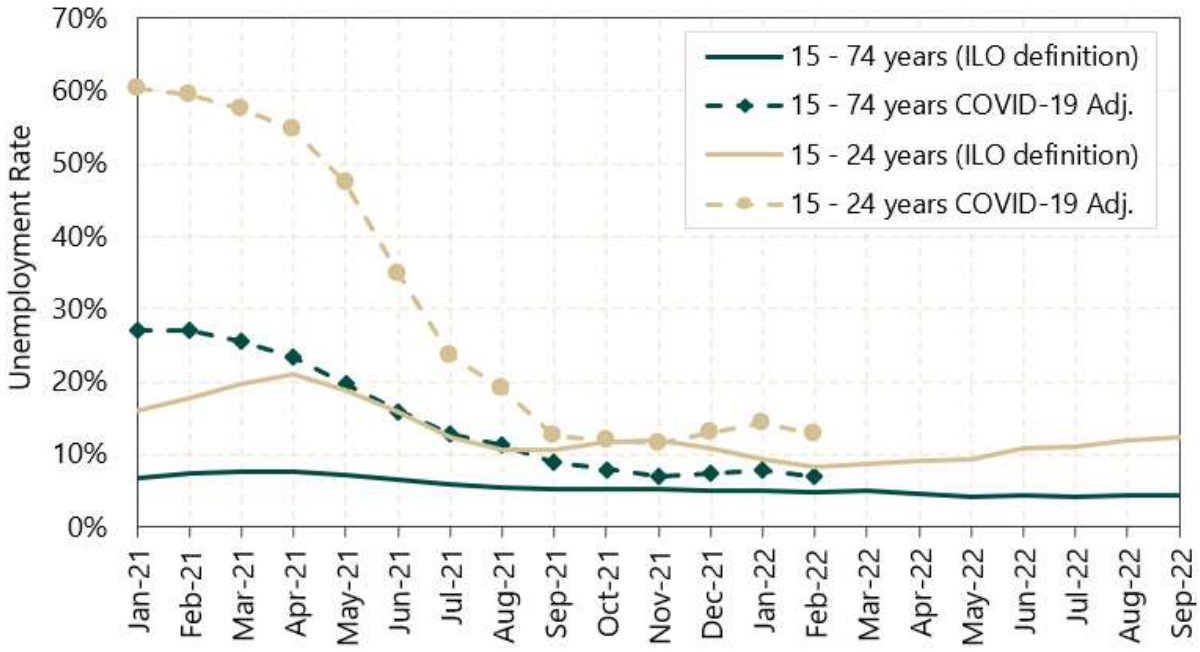


Source: CSO LFS (figures are subject to revision).

3.2 Unemployment rates

Reflecting the strong growth in overall employment, Figure 3.2.1 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 September 2022, the overall seasonally adjusted unemployment rate is 4.3 percent while the youth unemployment rate stood at 12.4 percent.[4]

Figure 3.2.1: Monthly Unemployment Rates for the overall population and youth (Jan 2021 – September 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.

3.2.1 Trends in Youth Employment

Latest figures from the CSO (Q2 2022) show a youth employment rate of 48.8 percent, a slight increase from 47.7 percent in Q1 2022. The employment rate for 15–24 year olds has increased by 9.5 percentage points in the year to Q2 2022 from 39.3 percent in Q2 2021 and has grown from the pre-pandemic level of 40.2 percent in Q2 2019. By the end of Q1 2022, the sectors with the largest proportion of youth employed were the sectors among those worst affected

[4] In the previous Labour Market Update, the reported youth unemployment rate was between 4.9 percent and 5.6 percent, for the months April, May, and June. As part of the newly released LFS, the CSO revised these figures were revised upwards. The CSO use the trend in the Live Register since the most recent LFS to estimate the monthly unemployment rate. Relatively small variation in the Live Register can result in outsized impacts on the estimation if the sample size is small (such as for males under the age of 25 on the Live Register).

by pandemic. 40 percent of those employed in the Accommodation & Food Services were aged 15-24 while 25 percent of employees in Wholesale and Retail Trade were aged between 15-24. Though employment in these sectors has not returned to pre-pandemic levels. The number of CAO applications[5] has been largely consistent since 2019, suggesting that increased youth employment is not explained by lower participation in higher education.

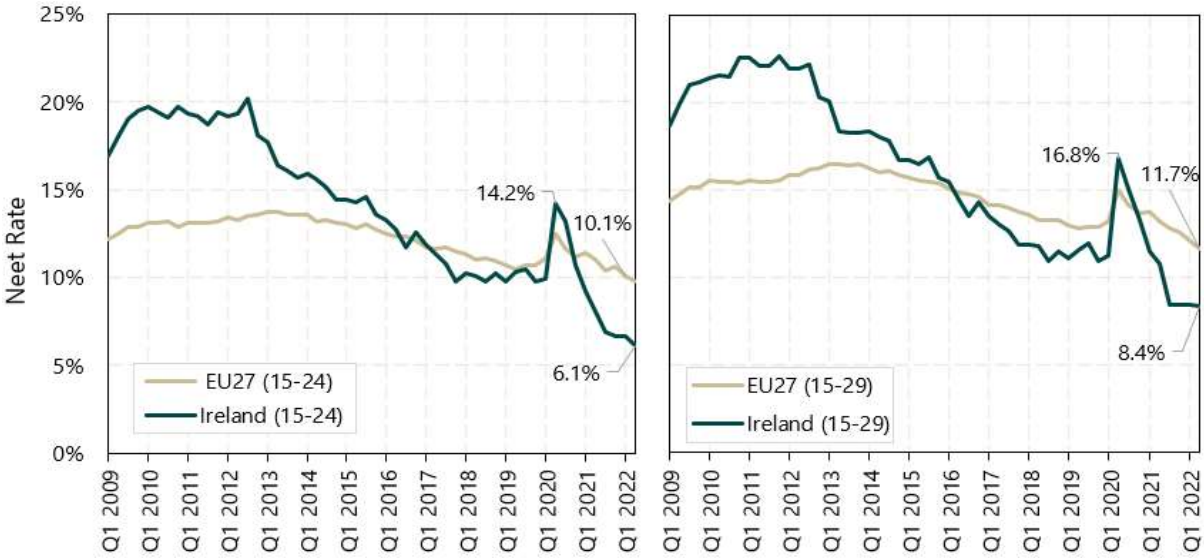
3.3 Not in Employment, Education or Training (NEET) rates

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 3.3.1 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 6.1 percent and 8.4 percent at Q2 2022 for 15 – 24 years old 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 3.3.1: EU Comparison of NEET rates Q1 2009 - Q2 2022 (Ages 15-24- and 15–29).



Source: Eurostat (figures are subject to revision). Note: Q1 2009 are the oldest comparative figures available.

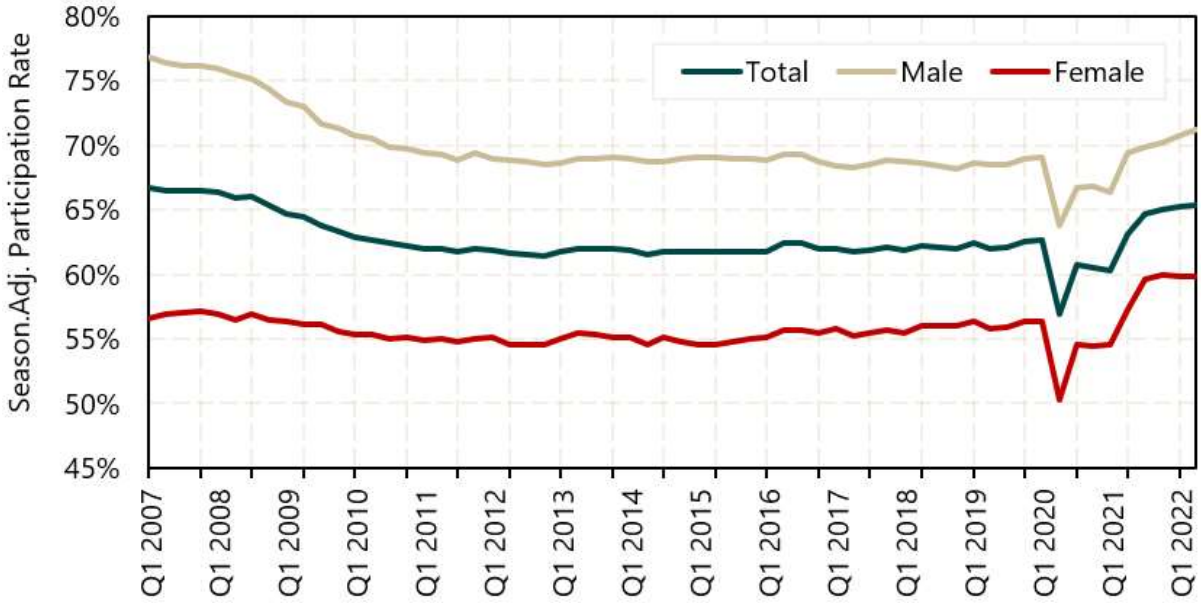
[5] CAO Stats

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 3.4.1 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 65.3 percent. This is however, still below its pre-Great Recession peak of 66.7 percent, achieved in Q1 2007.

Examining the participation rates by gender also provides some useful insights. In particular, female participation is at a high of 59.8 percent, 4 percentage points higher than its Q2 2019 level. 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 has increased only slightly since then, to a gap of 11.2 percent. 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.

Figure 3.4.1: ILO Seasonally Adjusted Participation Rates (Q1 2007 – Q2 2022)



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

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).

3.4.1 Female Labour Force Participation (FLFPR)

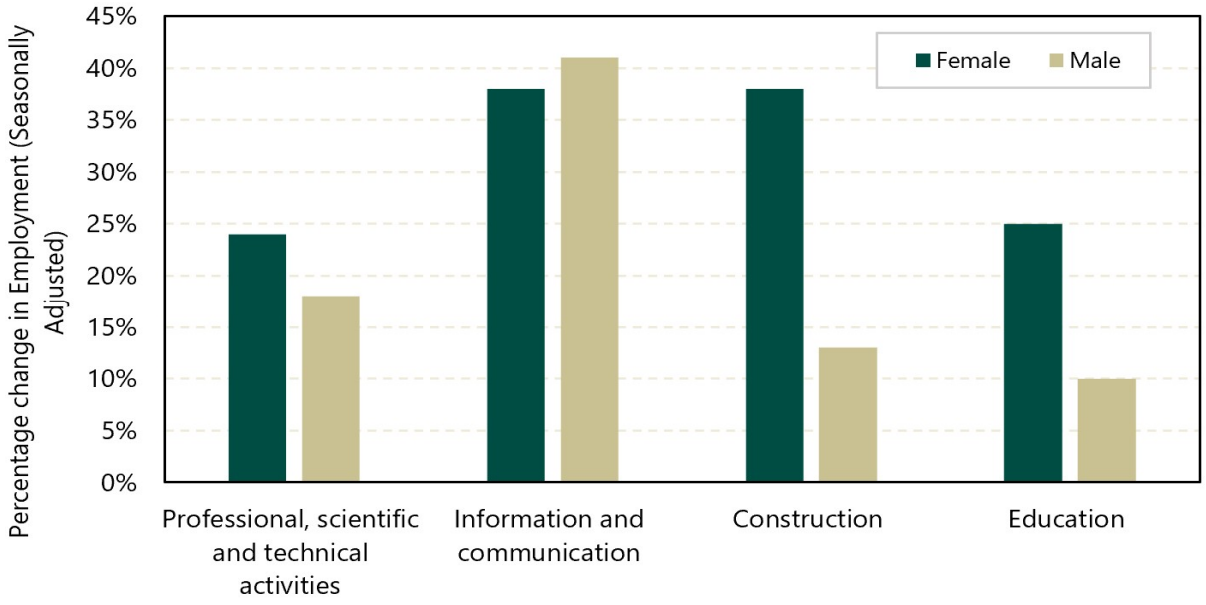
The increase in female employment cannot be explained purely by growth in sectors of the economy that have traditionally employed a greater number of women. A noticeable feature of the Irish labour market since 2019 has been the increasing presence of women. Since Q2 2019, the sectors which have seen the largest percentage increases in female employment are Construction (+38%), Information and Communication (+38%), Education (+25%) and Professional, Scientific and Technical Activities (+24%). This corresponds to sectors which have

seen the greatest overall percentage increases in employment: Information and Communication (+39%), Professional, Scientific and Technical Activities (+21%), Education (+19%). The sectors which employ the greatest number of females remain since Q2 2019: Human Health and Social Work, Education and Wholesale and Retail trade.

Research by SOLAS[6] found that there was a decline of over 76,000 females aged 20-64, from Q4 2019 to Q4 2021, who were classified as economically inactive and on home duties. Most of the increase in participation in labour force, is amongst those with third-level qualifications, and correspondingly, the largest share of employment growth high skilled roles.

A feature within the Central Bank's Q3 Bulletin[7] on Labour market recovery after a pandemic cited how women aged 35-59 accounted for one third of the increases to labour force participation over the period Q4 2019-Q4 2021. Eurostat figures for the past year have shown that the female labour force participation rate for the prime working age category (20-64) in Ireland has been above that of the EU-27 average for every quarter since Q2 2021. Despite this recent expansion in female labour force participation, the prime working age participation rate for men has been at least 10 percentage points above the equivalent female rate for each quarter since Q2 2021. The latest Q2 figures point to a gap of 11.7 percentage points between the sexes for this age range (75.9 percent for women and 87.6 percent for men). At 81.7 percent, Ireland lags the European best for prime working age participation with Estonia (86.1 percent), Sweden (88.5 percent) and Lithuania (84.2 percent) all performing better. It will be necessary to support more women to join/re-join the workforce to bridge this gap.

Figure 3.4.1: Percentage change in numbers employed by sector and sex (Q2 2019 – Q2 2022)



[6] SOLAS Summer Skills Bulletin 2022

[7] Quarterly Bulletin Q3 2022 | Central Bank of Ireland

3.5 Potential Additional Labour Force

When examining whether there is scope to increase labour force participation, a useful indicator to look at is the Potential Additional Labour Force (PALF), which is one measure of slack in the market. Though net migration is also a notable factor for small open economies.

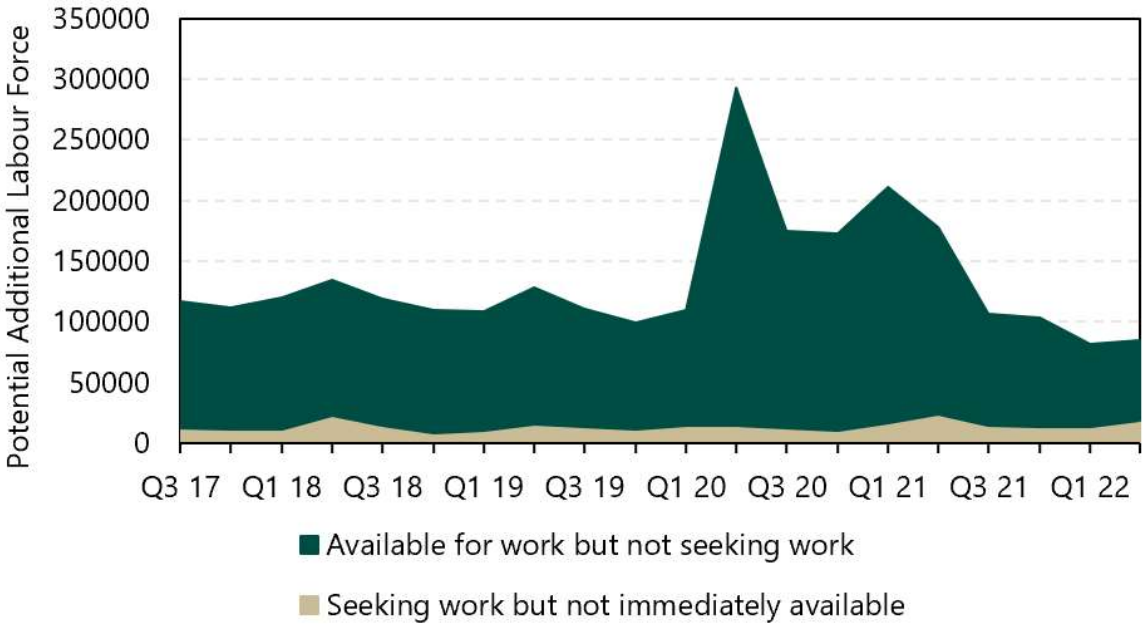
The PALF is the sum of the two groups. Those 'Seeking work but not immediately available' and those 'Available for work but not seeking work'. Persons in the PALF are not part of the standard labour force, which encompasses only employed and unemployed people. However, they have a stronger link to the labour market than other persons not in the labour force.[8] Persons classified as 'seeking work but not immediately available' mostly consists of jobseekers who do not qualify as unemployed because they cannot start a job in the next two weeks, despite actively looking for work. It also includes those who state they have secured a job which will start in a number of months. The second classification of 'available for work but not seeking work' includes people who are available to work and want a job but are not seeking one. This includes, among others, discouraged jobseekers and persons prevented from seeking work by personal or family circumstances.

Q1 2022 and Q2 2022 represent the two lowest levels recorded since definitions in the PALF series changed in Q3 2017. As shown in Figure 3.5.1, below, the PALF is currently just over 84,000 according to the latest Q2 2022 CSO estimates. This compares to an estimate of 128,00 in the equivalent pre-pandemic quarter, Q2 2019. Thus, this category has declined by 34 percent compared to pre-pandemic and is further indication of the tightness of the Irish labour market.

Figure 3.5.1 also illustrates that the majority, (78.3 percent), of the PALF consists of people who are available to work but not currently seeking work. Of this group, most are not seeking work for reasons other than feeling discouraged, i.e., for a variety of family and personal circumstances. This subgroup accounts for 80 percent of the category. The number of people who were classified as discouraged workers in this Labour Force Survey was 13,500 which is similar to the 2019 estimates. In 2019 discouraged workers fluctuated between 12 and 16 thousand persons over the year.

[8] New measures of labour market attachment - Eurostat (europa.eu)

Figure 3.5.1: Potential Additional Labour Force (Q3 2017-Q2 2022)

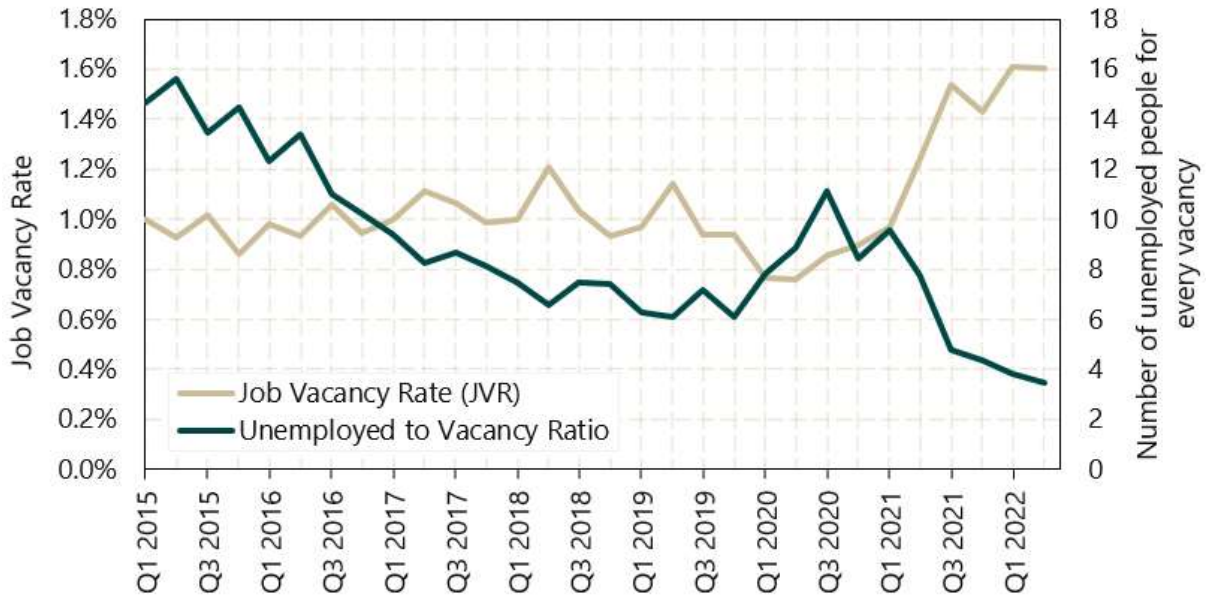


3.6 Labour Shortages and Vacancies

According to the latest figures from the CSO, labour shortage challenges have increased since mid-2021 in Ireland with almost 35,000 unfilled vacancies as of Q2 2022 compared to 21,500 in Q2 2019 and a Job Vacancy Rate (JVR) of 1.6 percent, the same as in Q1 2022.[9] This suggests that labour demand may be starting to stabilise. It should be noted that Ireland's JVR is still the 8th lowest in the EU and below the EU average of 2.9 percent as of Q1 2022. As illustrated by Figure 3.6.1 below, there are also fewer numbers of unemployed persons to fill available vacancies, with the ratio as of Q2 2022 being 3.4 unemployed people for every available (CSO) vacancy. For comparison, this ratio was approximately 6 individuals pre-pandemic and over 60 people at the peak of the Great Recession. This declining ratio is being driven by the increasing number of vacancies and a decline in the number of unemployed people. This suggests that, when considered alongside the increases observed in overall participation rates, if sustained, there could potentially be labour supply constraints which limit the economy's ability to meet levels of demand. This could result in lower levels of overall productivity growth than compared with otherwise. However, this does not consider a number of factors such as future net migration and technological change.

[9] 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.

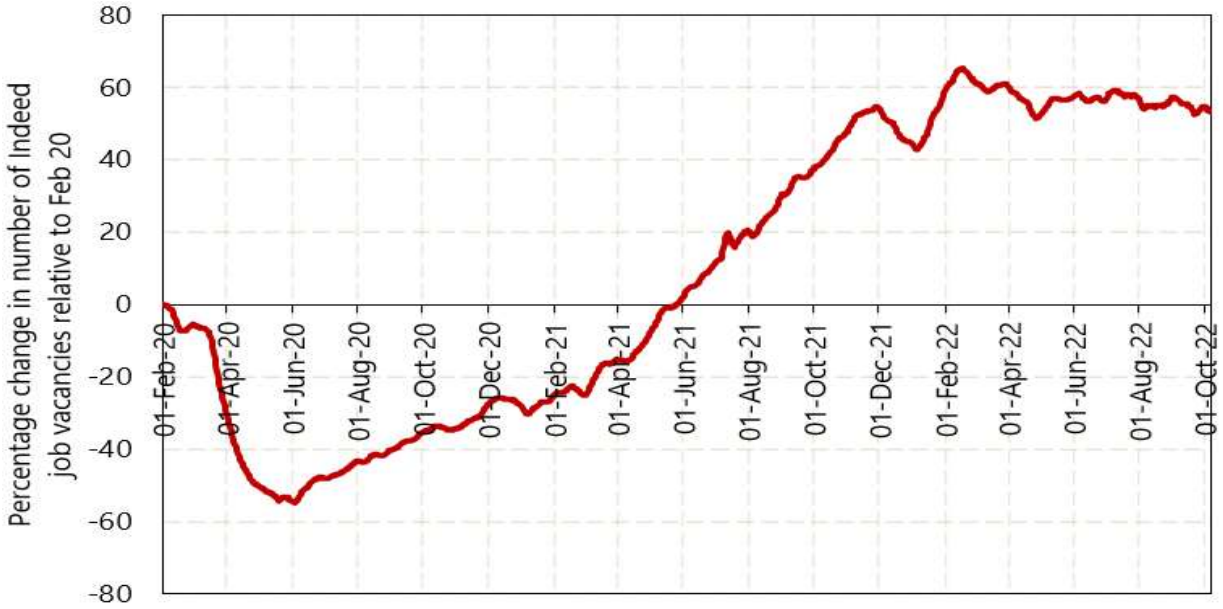
Figure 3.6.1: Trends in the Job Vacancy Rate and unemployed persons to job vacancy ratio, since Q1 2015.



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

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 3.6.2 below, the latest data from October 7th, 2022, suggests that the total number of postings are 53 percent higher in Ireland in comparison to February 1st, 2020 (pre-pandemic). This is lower than the peak of 65 percent seen in late February 2022.

Figure 3.6.2: *Indeed.com* job vacancy advertisement levels relative to February 2020.



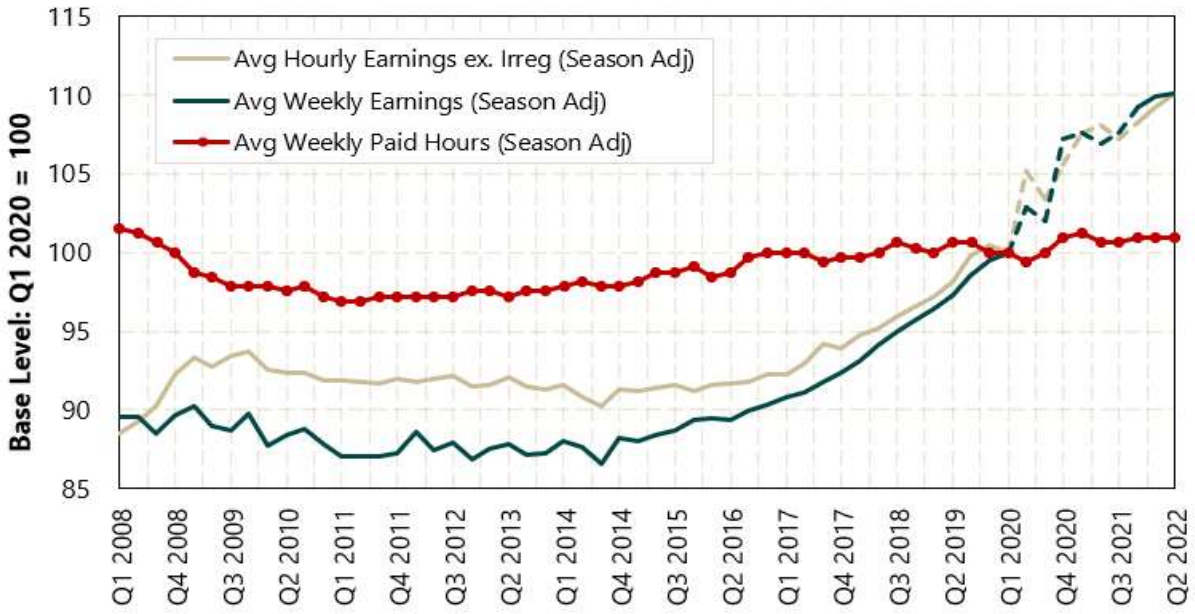
Source: Indeed.com (figures are subject to revision).

3.7 Earnings and Real Wages

Given the current tightness of the labour market, this section considers what, if any, impact this might have had on nominal earnings trends. Figure 3.7.1 below shows the relative percentage change in average hourly earnings, average weekly earnings, and average weekly paid hours between Q1 2008 and Q2 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.[10]

Figure 3.7.1: 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.

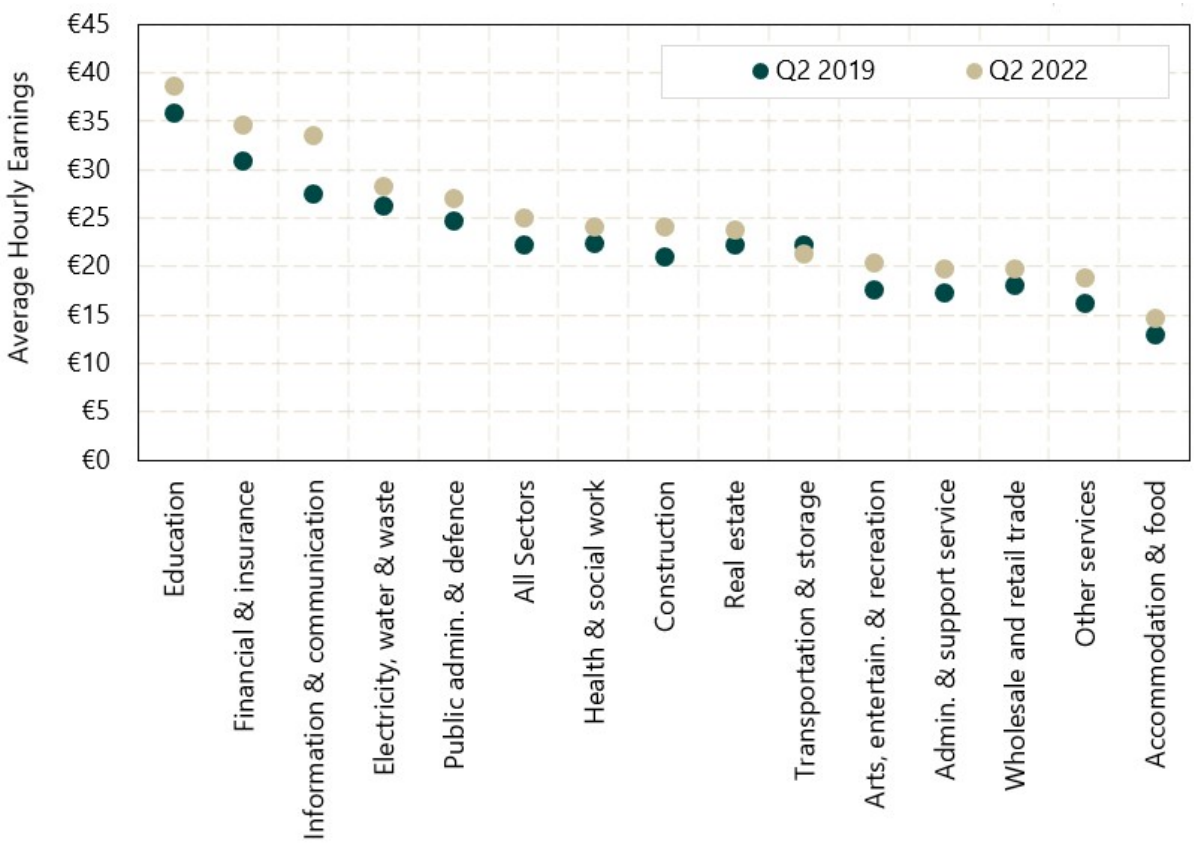
Moreover, the data shows that average weekly earnings are up more than 10 percent, buoyed by both increases in hourly earnings and average weekly paid hours, which are now above

[10] 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.

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 Q2 2019 and Q2 2022. As Figure 3.7.2 shows, education (€39p/h), financial & Insurance (€35p/h) and ICT (€34p/h) are the sectors with the highest hourly wages as of Q2 2022. The customer facing service sectors such as retail trade (€20p/h) and accommodation and food (€15p/h) had among the lowest.

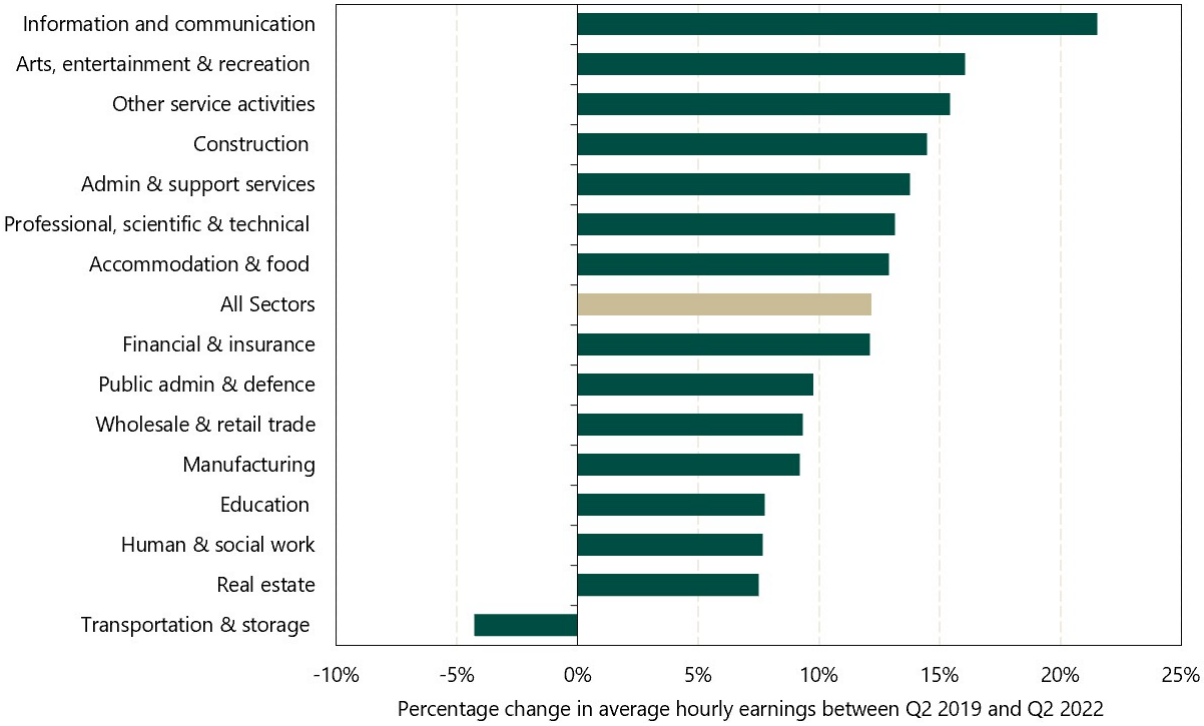
Figure 3.7.2: Average Hourly Earnings by Sector at Q2 2019 and Q2 2022.



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

Figure 3.7.3 shows the percentage growth in average hourly earnings between Q2 2019 and Q2 2022. All sectors of the economy besides transportation and storage have seen increases in earnings over the past three year. Average earnings increased by 12.2 percent over the period with particularly strong earnings growth experienced in the ICT sector (+21.5 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 3.7.3: Percentage change in Average Hourly Earnings by Sector between Q2 2019 and Q2 2022.

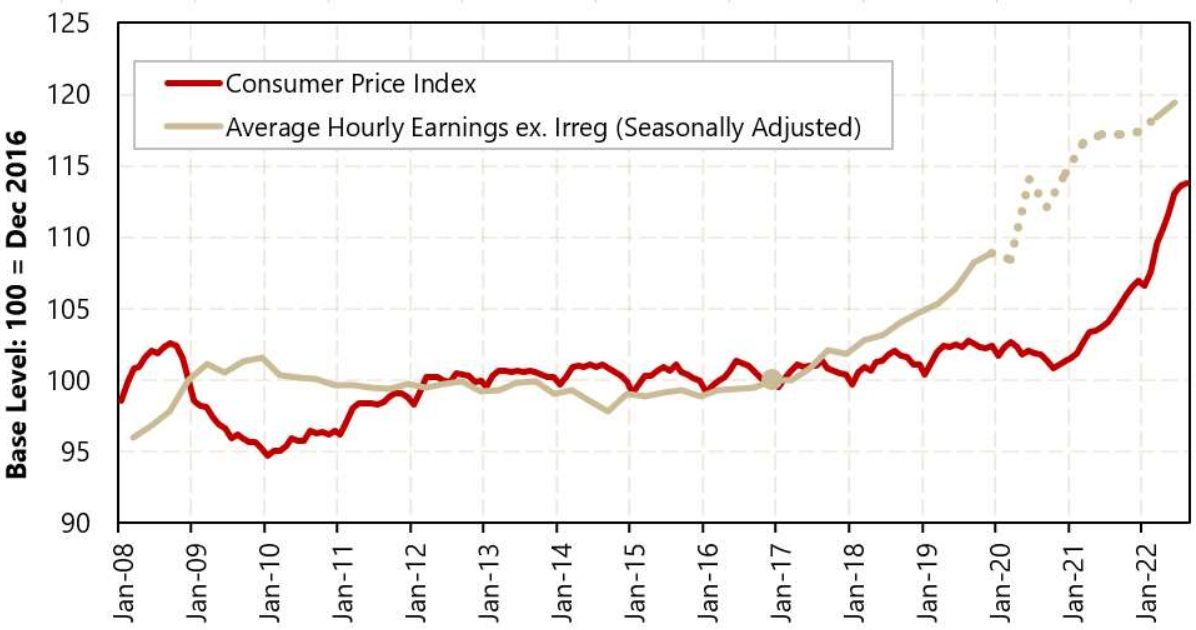


Source: CSO EHECS and author's calculations (figures are subject to revision).
Note: In the interest of readability, some NACE smaller sectors have been excluded here.

While 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 3.7.4 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. Between January 2021 and August 2022, the CPI has increased by more than 12 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 power particularly adversely affected by the recent inflation surge.

Figure 3.7.4: Comparison of relative changes in Ireland's Consumer Price Index vs. Average Hourly Earnings from Jan 2008-Aug 2022 (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. CPI data is monthly, and earnings data is quarterly.

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. While supply side factors continue to play a strong role in higher consumer price inflation, recent evidence from the European Central Bank suggests that there is now a significant demand component to inflation which has been steadily increasing over the past four quarters. [11]

[11] Cantillon Lecture (europa.eu) – Slide 12

4. Economic Outlook

While the first half of 2022 saw robust economic growth in Ireland and strong performance in the Irish labour market, multiple headwinds present downside risks going forward. Factors which will impact the Irish economy in the coming year include:

- the trajectory of international and domestic price pressures and associated economic impacts,
- the speed with which the Irish and European energy systems can adapt to constrained energy supplies,
- the effects of monetary policy responses to higher inflation rates, and
- geopolitical tensions and economic activity amongst major economies and Ireland's primary trading partners.

As these dynamics cannot be fully captured in economic models, future projections are fraught with uncertainty. However, recent publications from the Central Bank of Ireland (CBI) [12] and the Economic and Social Research Institute (ESRI)[13] expect economic growth to continue through Q4 2022 and 2023, albeit at a much slower pace than previously anticipated. Both institutions forecast higher numbers in employment in 2023. Furthermore, the ESRI project a lower unemployment rate of 4.1 percent in 2023 while the CBI expect a slightly higher unemployment rate of 5.1 percent in 2023, due to continued expansion of the labour force outpacing job growth.

Inflationary pressures are expected to reduce household consumption in the coming months. In addition, slowdowns in the US and the Euro area, together with a likely recession in the UK, are also likely to temper export performance for certain sectors in the near term. Aggregate economic output is expected to be sustained, however, through continuing high levels of investment, Government supports and trade activity in the ICT and pharmaceutical sectors.

This likely implies that negative impacts will be felt asymmetrically in the labour market. Those sectors which rely on domestic consumption, tourism and trade with the UK are likely to be among the most affected. This would include Accommodation & Food, Retail and the Agri-Food sector. Moreover, businesses which require substantial energy inputs will have to manage persistently elevated costs in the coming months. Recent weeks have also highlighted the potential for unforeseen shocks to the international financial system. Rising interest rates and persistent inflation are causing volatile re-evaluations of asset prices. This has increased the level of stress in the financial system and has led to high profile cases of potential insolvency requiring government intervention.[14, 15] It is unclear if, and how much, Irish companies may be exposed to similar issues. However, given the integration of international

[12] Quarterly Bulletin Q4 2022 | Central Bank of Ireland

[13] Quarterly Economic Commentary, Autumn 2022 | ESRI

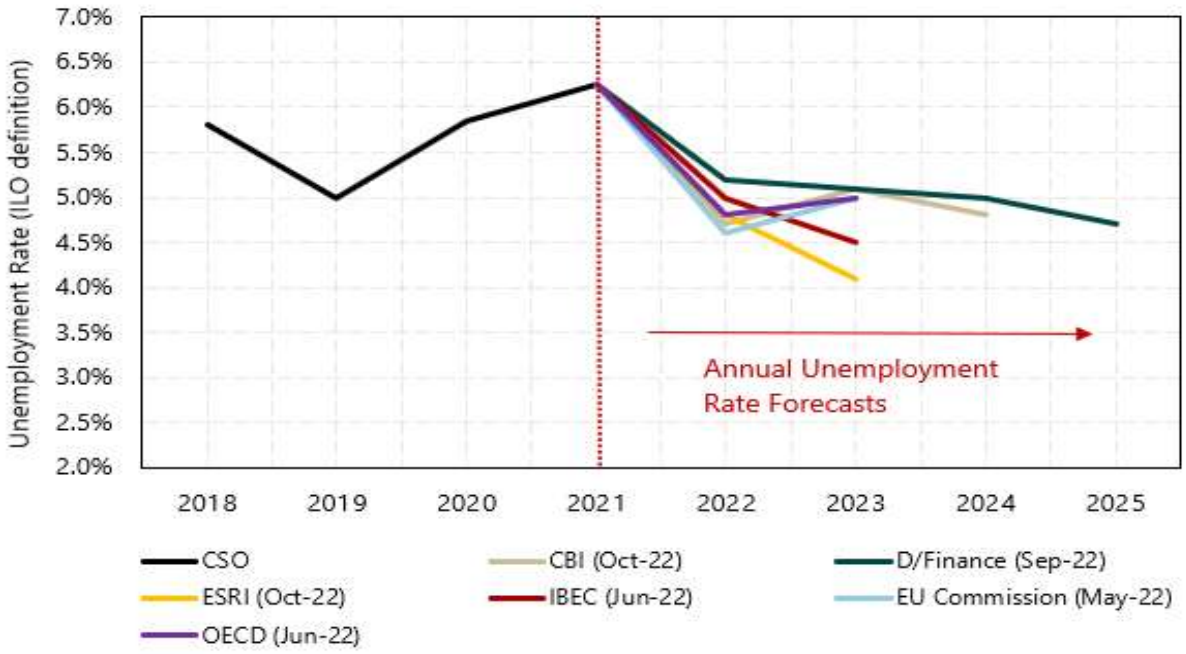
[14] The Problems Facing the Gilt Market Aren't Unique to the UK - The Washington Post

[15] Explainer: How margin calls came to threaten Europe's energy firms | Reuters

financial systems, any major international shock would at least be indirectly felt in Ireland through tighter financial conditions for firms and the Government.

Under present conditions, these economic pressures are not expected to lead to a surge in unemployment. They may, however, manifest in reduced hiring rates and lower numbers of hours worked as firms adapt and seek to minimise losses. This would likely impact those most marginally attached to the labour force with jobseekers finding it more difficult to gain employment and some workers in impacted sectors seeing a reduction in earnings. But given the observed economic strength in Ireland to date in 2022, it is also possible that the Irish economy will weather the oncoming challenges with minimal impacts on the labour market and the numbers in unemployment. The unemployment rate forecasts by various institutions, and their date of publication can be seen in Figure 4.1, and a more detailed breakdown of the Department of Finance's Macroeconomic projections published alongside Budget 2023 is provided in the Appendix.

Figure 4.1: Unemployment rate forecasts for Ireland, by institution.



In any scenario, households and businesses will suffer from higher costs in the coming months as inflation outpaces income growth. As part of Budget 2023 the Government announced a series one-off and sustained measures to assist in cushioning households from the negative effects of inflation. ESRI post budget analysis finds, with the inclusion of these measures, overall, most households, will be slightly better off next year despite projected inflation. [16]

[16] ESRI Post Budget Briefing 2023

Appendix

Department of Finance Budget 2023 Projections

Table 1: Key macroeconomic variables – quarter-on-quarter, per cent change (unless stated)

	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consumer spending	-0.1	1.8	-0.5	-0.5	0.1	1.4	1.0	0.9
Modified domestic demand	-0.1	4.3	-2.4	1.3	-0.6	0.8	0.5	1.0
Inflation rate (annual per cent)	5.9	8.4	9.3	10.4	10.3	7.8	6.3	4.0
Unemployment rate (per cent)	7.1	4.4	4.6	4.9	5.1	5.2	5.2	5.1

Notes: Data for the first and second quarters are outturns. Seasonally adjusted data (except for inflation rate).
Source: CSO and Department of Finance.

Department of Finance Budget 2023 Projections

Table 2: Summary – main economic and fiscal variables

	2021	2022	2023	2024	2025
Economic activity			***per cent change***		
Real GDP	13.6	10.0	4.7	3.3	3.8
Real GNP	14.7	8.9	4.2	2.8	3.3
Modified domestic demand	5.8	7.7	1.2	3.3	3.6
Real GNI*	15.4	5.1	0.4	2.7	3.1
Prices			***per cent change***		
HICP	2.5	8.5	7.1	2.4	1.8
Core HICP^	1.7	5.3	4.6	3.0	2.6
GDP deflator	0.7	6.5	4.4	2.1	1.9
External trade			***per cent GNI****		
Modified current account	11.1	8.4	7.7	7.0	6.3
Labour market			***per cent change (unless stated)***		
Total Employment, '000	2,140	2,531	2,563	2,603	2,650
Employment	11.0	18.3	1.2	1.6	1.8
Unemployment, per cent	15.9	5.2	5.1	5.0	4.7
Public finances			***per cent GNI* (unless stated)***		
: flow position					
General government balance, € bn	-7.0	1.0	6.2	10.7	13.7
General government balance	-3.0	0.4	2.2	3.7	4.5
Underlying general government balance,€ bn~	-12.0	-8.0	-3.8	1.7	4.2
Structural budget balance^^	-0.5	0.2	0.9	0.8	1.4
: stock position					
General government debt (€bn)	235.6	225.3	224.1	226.7	223.8
General Government debt ratio	100.8	86.3	81.5	78.3	73.3
Net general government debt (€bn)^^^	192.3	190.4	189.6	183.6	176.5
Net general government debt ratio	82.2	72.9	68.9	63.4	57.8

Notes:
^ core inflation is the headline figure excluding unprocessed food and energy
^^ estimates of the structural balance exclude estimates of windfall corporation tax receipts.
^^^ net debt from 2022 onwards estimated by mechanical extrapolation of financial assets.
~ underlying fiscal balance excludes the Department's estimate of corporation tax receipts that may be 'windfall' in nature.
Source: CSO for 2021; Department of Finance for 2022-2025.