An Roinn Coimirce Sóisialaí
Department of Social Protection

Pathways to Work 2021-2025 Mid-Term Review: Labour Market Update

20 September 2023

Prepared by the Labour Market Analytics Unit

Introduction

Pathways to Work 2021-2025 was launched in the context of the COVID-19 pandemic, where there was substantial uncertainty about the duration of the of the public health restrictions required to contain the spread of the virus, and the length of residual effects for those who were unable to work. This challenge emerged following a period of prolonged economic expansion into early 2020. Among the key objectives of Pathways to Work was to support those who were displaced from working as a consequence of the pandemic, and to support those who otherwise face disadvantages in the labour market.

This labour market update provides an overview of the economic position immediately prior to the pandemic, the impact of the pandemic and effect of the temporary COVID-19 emergency support measures and the performance of the labour market following the lifting of the remaining public health measures. This update uses the Department of Social Protection's administrative data, CSO's Labour Force Survey (LFS) data, CSO's Earnings, Hours and Employment Costs Survey (EHECS) data, Revenue's data and other data sources to illustrate the scale of the challenge and subsequent economic recovery.

The paper also discusses emerging labour market trends, challenges and the overall outlook as the strategy moves into the second half of its lifecycle. The medium-term outlook presents challenges, including acute labour market constraints, sustained inflation eroding real wages, high interest rates, the potential continuation of the War in Ukraine and the associated level of support provided to the Beneficiaries of Temporary Protection for Ukraine (BOTPs), the green and digital transition, and adaptations and developments in ways of working, including the shift to blended working and the increasing role of Artificial Intelligence.

Despite these challenges, the medium-term outlook appears positive with the labour market expected to continue to perform at effectively full employment. Regardless, the performance of the labour market as it stands is substantially better than what was feared when Pathways to Work 2021-2025 was launched initially.

Theme 1: Developments in the Labour Market

The following section discusses developments in the Labour Market before, during and after the COVID-19 pandemic. It looks at the role of state supports, including the Live Register, Pandemic Unemployment Payment (PUP) and Temporary/Employment Wage Subsidy Scheme (T/EWSS) supports. It notes the recovery is reflected in the unemployment rate, which hovers around full employment, the record number of people in employment, increases in the participation rate amongst certain cohorts and net inward migration.

1.1. State supports before, during and after the COVID-19 pandemic

- At the peak, approximately 58 percent of the total labour force was in receipt of State supports through either the PUP, TWSS or Live Register.
- The PUP provided support to around 888,000 individuals across the lifecycle of the scheme, at a total cost of €9.2 billion.
- The TWSS provided support to around 664,000 employees across 66,500 businesses while the EWSS provided support to 745,700 employees across 51,800 employers, at a combined total cost of €9.7 billion.

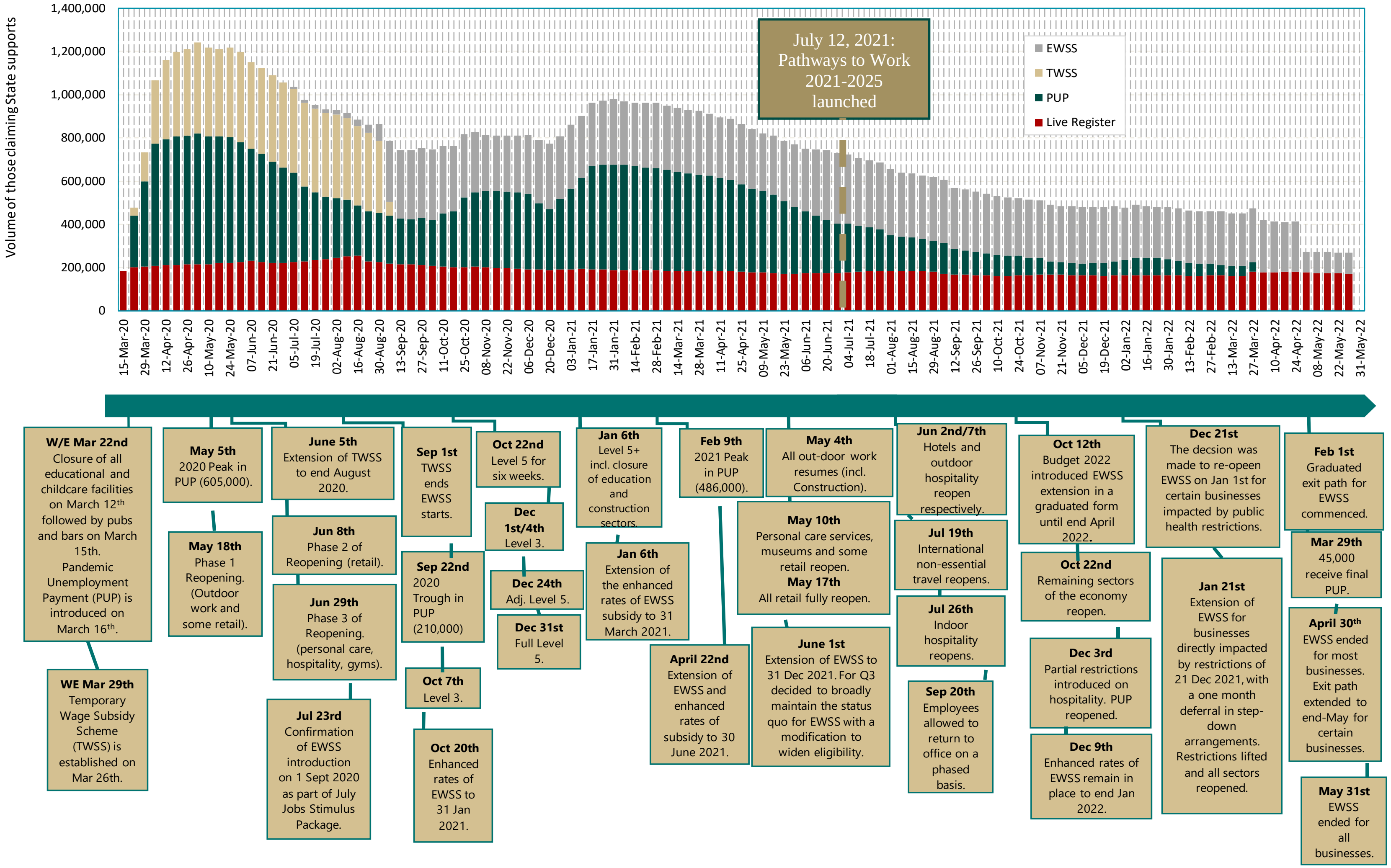
In the wake of the COVID-19 pandemic in early 2020, the Government introduced nationwide public health restrictions to stop the spread of the virus. These restrictions had an unprecedented impact on the Irish economy and labour market. In response, the Government introduced various temporary income and employment support schemes to support those households and businesses which were negatively impacted by the pandemic. These schemes included the Pandemic Unemployment Payment (PUP) and the Temporary Wage Subsidy Scheme (TWSS), later replaced by the Employment Wage Subsidy Scheme (EWSS).

As illustrated in Figure 1.1. below, there were a variety of policy changes as the pandemic progressed. The number of people in support of employment and income supports varied in line with the strictness of the public health restrictions and the ability of different sectors and occupations to adapt to the prevailing conditions.

At its height in early 2020 (week 7), the PUP scheme supported 605,676 displaced workers, while the job-retention scheme, TWSS supported 422,224 people. Combined with the 214,741 claimants on the Live Register, this amounted to 1.24 million individuals in receipt of supports, equivalent to 58 percent of Q2 2023 labour force.

From early 2021 onwards, the PUP experienced a marked and consistent decline from 486,390 in February 2021 to 53,274 by December 2021. By the time it was phased out in March 2022, there were 44,821 recipients on the scheme. Across the lifecycle of the scheme, it provided support to 879,772 individuals at a net total cost of €9.2bn. This compares with an estimated cost of €7.01bn for Jobseeker supports in the absence of the PUP. Similarly, the T/EWSS, which was a job-retention scheme, also experienced a decline over time, from a high of 410,095 in August 2020 to a low of 96,000 in May 2022. These wage subsidy schemes provided support to almost 1.4 million employees across 118,300 employers at a total cost of €9.7bn.

Figure 1.1. Timeline of State supports since the onset of the pandemic in (March 2020 – June 2022)



1.1.1 Effectiveness of COVID-19 support measures

The ESRI examined the impact of these pandemic schemes on households. It found that in the absence of the PUP and EWSS, household incomes would have decreased by an average of 7 percent, because of unemployment. Losses would have been larger for higher income groups as the difference between their incomes and the pre-existing welfare system is greater. It found that the estimated average income loss more than halved to 3 percent as a result of the schemes.[1]

The measures also went someway to mitigating the worst effects on poverty rates. The CSO note, for example, that "the at risk of poverty rate was 13.1% in 2022, up 1.5 % from 11.6% in SILC 2021. Without COVID-19 income supports the at risk of poverty rate would have been almost 20.5% in 2022 and 19.9% in SILC 2021." [2] Though, these figures should only be taken as illustrative of a positive effect of these schemes, as unlike the ESRI paper discussed above, the CSO makes no attempt to estimate the likely income receipts a person displaced from working by the pandemic would have received from the traditional welfare system, as a counterfactual.

Finally, it is worth noting the geographic and income distribution impacts of the pandemic. ESRI research commissioned by Pobal[3] found that the employment situation of individuals in deprived areas was more heavily impacted when compared with more affluent areas. Correspondingly, PUP rates fell more quickly in deprived areas when public health restrictions were relaxed. This was because lower paid jobs were more likely to be affected by restrictions and less likely to move to remote work. Moreover, those who earned lower incomes, or households with single incomes, may have had less discretion regarding when to return to work.

1.1.2 Distribution of COVID-19 supports by sector, age and sex

The COVID-19 pandemic had an asymmetric effect on sectors, with the contact-intensive sectors requiring more intensive levels of support, largely owing to the inability to adjust to a blended working environment. As discussed, the highest number of people in receipt of supports was in the early stages of the pandemic, in Q2 2020. Figure 1.2.1 shows the average numbers of weekly PUP and TWSS claimants in Q2 2020 and compares it with the number of people in employment, by sector, in that quarter. Across all NACE sectors approximately 18 percent of those employed were receiving support through the TWSS. The top three sectors were Wholesale, Retail Trade and Repair of Vehicles, Construction and Administration and

[1] Keane, C., K. Doorley and D. Tuda (2021). COVID-19 and the Irish welfare system, Budget Perspectives 202102, Dublin: ESRI, https://doi.org/10.26504/BP202202

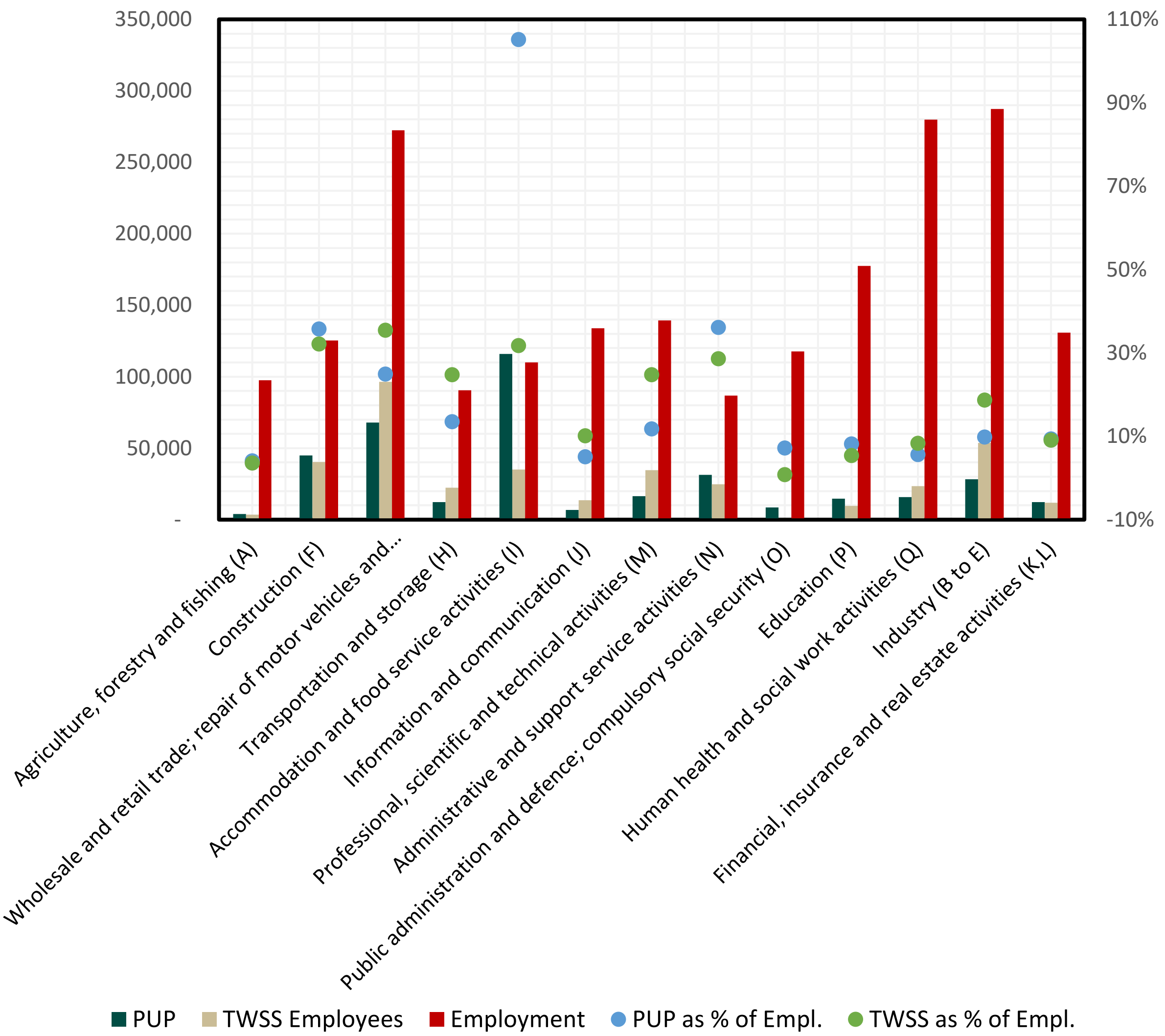
[2] CSO, SILC 2022, Impact of COVID-19 Income Supports on Poverty - CSO - Central Statistics Office.

[3] Whelan, A., A. Devlin, S. McGuinness and P. Redmond (2023). Pandemic unemployment and social disadvantage in Ireland, ESRI Research Series 163, Dublin: ESRI, https://doi.org/10.26504/rs163

Support Services, with 35, 32 and 29 percent respectively of the sectors employees in receipt of TWSS supports.

Comparing the number of PUP claimants by sector to sectoral employment also shows that the contact-intensive sectors were in receipt of the highest level of supports, with Accommodation and Food Services, Administrative and Support Services and Construction sectors receiving the highest levels of supports, equating to 105, 36 and 36 percent respectively. Owing to the substantial uncertainty at the time, some PUP claimants may have indicated they were employed, while others may have indicated they were unemployed, when responding to the Labour Force Survey. Consequently, these findings, as they relate to the PUP, should only be taken as illustrative of the number of PUP claimants, by sector at the time, rather than the extent of the State subsidy to support sectors, as in the case of the TWSS.

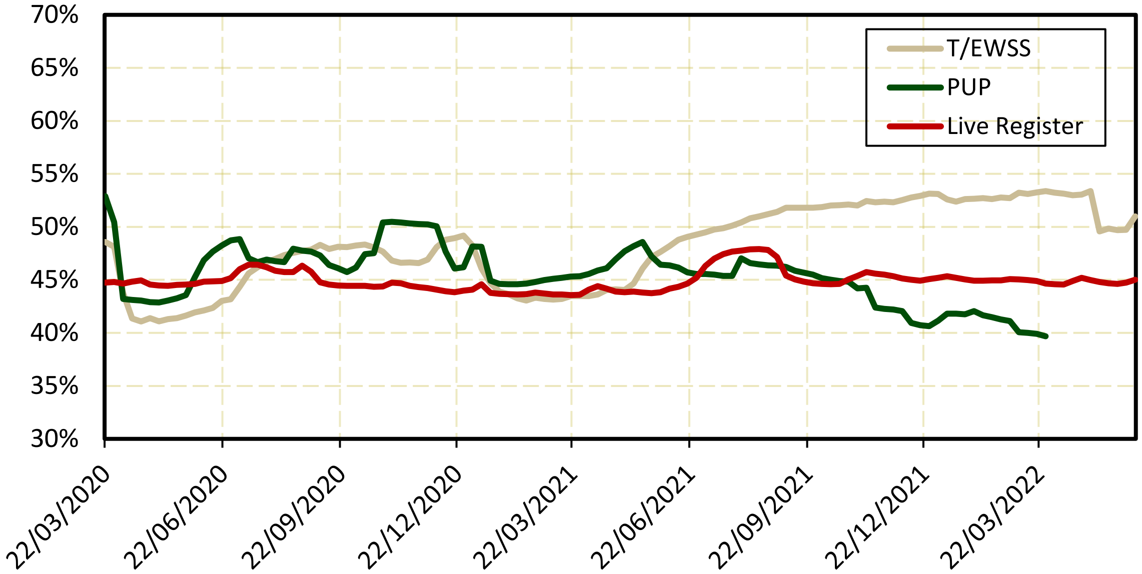
Figure 1.2.1 State COVID-19 supports compared with sectoral employment (Q2 2020)



Source: CSO data

On the average the proportion of male recipients on the PUP was 55 percent while female recipient was 45 percent throughout the existence of the scheme. However, it is worth noting that the composition of claimants of the COVID-19 supports varied somewhat, as illustrated in Figure 1.2.2. This is largely explained by the impact of the public health restrictions on sectors and occupations.

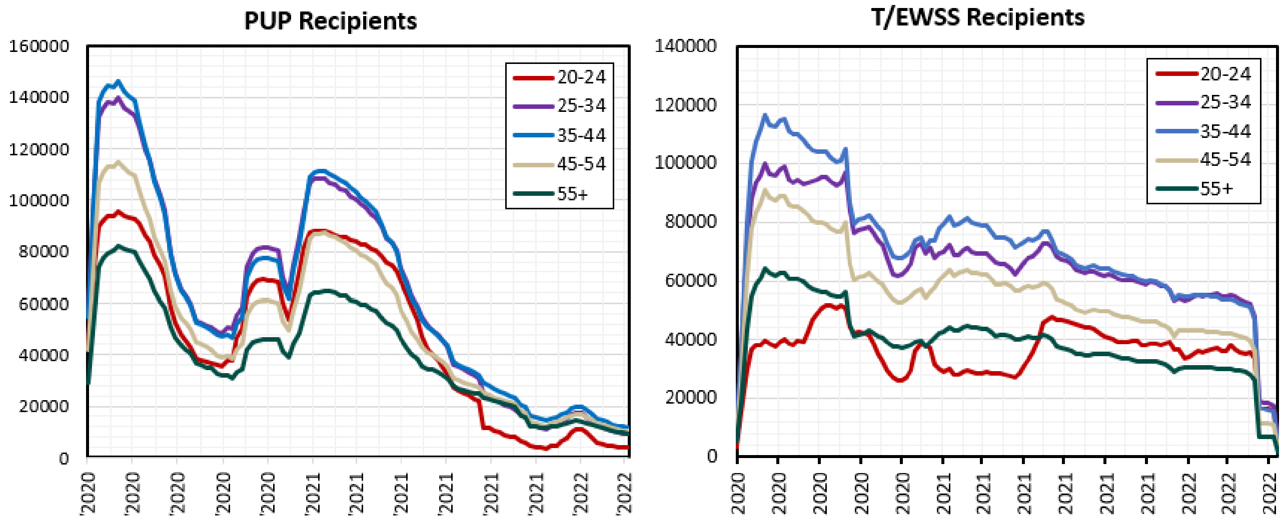
Figure 1.2.2 Proportion of female recipients on the PUP and T/EWSS, 2020 – 2022



Source: CSO data

Figure 1.2.3 below shows the number of people in recipient of the PUP, T/EWSS and the Live Register by different age cohorts. As the figure illustrates, the largest age groups on the PUP and T/EWSS were the 35-44 cohorts followed by the 25-34 and 45-54 age cohorts. This is to be expected given these are the most people's prime working years. The number of these recipients varied in line with the public health restrictions.

Figure 1.2.3 State (COVID-19) supports by age on a weekly basis, 2020 – 2022



Source: CSO data

1.1.3 Phasing down of the PUP and EWSS

The decrease in claimants of the temporary COVID-19 support measures is illustrated in Figure 1.1. Following the successful vaccination roll-out programme and the subsequent lifting of the public health restrictions in mid-to-late 2021, there was a strong exit from the PUP, and a general labour market recovery.

The PUP was closed on a phased basis, so as to ensure that people did not face a cliff edge in income support. In this period, there were a number of policy changes[4], notably, a reduction of payment rates on a phased basis, and supporting PUP claimants in their transition to standard jobseeker terms, where appropriate.

Numbers on the PUP declined by 100,418, from 143,936 to 43,518, between August 31st, 2021, and March 27th, 2022. This decline was underpinned by people returning to work as economic activity normalised, while there were also transitions to Live Register and elsewhere. As seen in Figure 1.3.2 below, there were relatively few people who moved from the PUP to the Live Register. Rather, there was substantial movement between employments, when comparing the pre- and post-COVID-19 period, with only 40 percent of PUP recipients, 62 percent of T/EWSS recipients and 68 percent of people who were not supported by the COVID-19 temporary support schemes in the same employment after the pandemic, when compared with the onset of the pandemic (see section 2.1 Analysis of Transitions in the Labour Market for details).

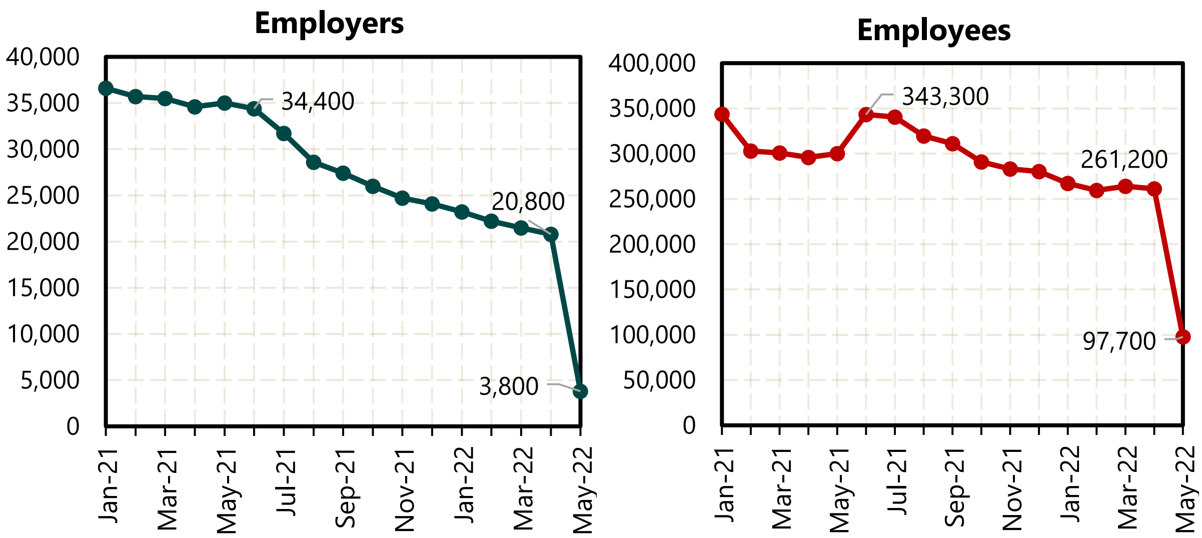
As mentioned above, the TWSS provided support to around 664,000 employees across The TWSS provided support to around 664,000 employees across 66,500 businesses while the EWSS provided support to 745,700 employees across 51,800 employers, at a combined total cost of €9.7 billion. The majority of the people that were supported by the T/EWSS came from the most-affected sectors. For instance, the Accommodation and Food accounted for 40 percent of the people. This was followed by the Wholesale & Retail, Health & Social Work, Construction, and Administrative & Support Services. These sectors when taken together accounted for a further 30 percent of the cohort supported by the scheme.

Similar to the PUP, the TWSS (later replaced by the EWSS) was wound down on a phased basis in line with the gradual re-opening of the economy and the strong post-pandemic labour market recovery. Following a period of phased reduction of payment rates, the EWSS ended for most businesses on April 30th, 2022. However, the scheme remained in place until May 31st, 2022 for certain sectors – hospitality and events industry – that were directly affected by the December 2021 public health restrictions. As Figure 1.3.1 below shows, following the partial closure of the EWSS, the number of employers supported by the EWSS declined markedly from 20,800 in April 2022 to 3,800 in May 2022. Correspondingly, the number of employees

[4] See Figure 1.1. for details on policy changes. For details on the phased closure of the PUP see: Babaiee Z. (2022) Spending Review "Labour Market Trends: An Analysis of the Transition of PUP Recipients to Jobseeker's Payments" Chapter 5.

supported by the scheme also experienced a notable fall, from 261,200 to 97,700 during the same period.

Figure 1.3.1. EWSS Supports by number of Employers and Employees



Source: Revenue Commissioner data

1.1.4 Trends in the Live Register

- There is no evidence of widespread scarring associated with the phasing down of the PUP, as the remaining claimants were supported in their transition to standard jobseeker terms.
- In line with the overall labour market recovery, the Live Register has trended broadly downwards following the closure of the temporary COVID-19 supports, with increases being associated with normal seasonal variation and support provided to BOTPs, who are becoming an increasing proportion (12%) of the Live Register.

As noted above, the Live Register was reasonably stable throughout the pandemic, as the PUP was the more utilised income support owing to the higher rates of payment provided for an individual and the ease of the application process. There were some increases in the number of Live Register claimants, following the phasing down of the PUP, as former PUP claimants were supported, if appropriate, in their transition to standard Jobseeker terms.

A central concern when Pathways to Work 2021-2025 was being devised, and as the phased closure of the temporary support schemes was initiated, was the potential for hysteresis, that is labour market scarring for those who were unable to work for substantial amounts of time. However, as show in Figure 1.3.2, the number of Live Register claimants who transitioned[5] from the PUP decreased steadily, in line with the general labour market recovery. At this stage, there are very few people remaining on the Live Register whose claim began on the PUP. Consequently, there is no evidence of widespread scarring.

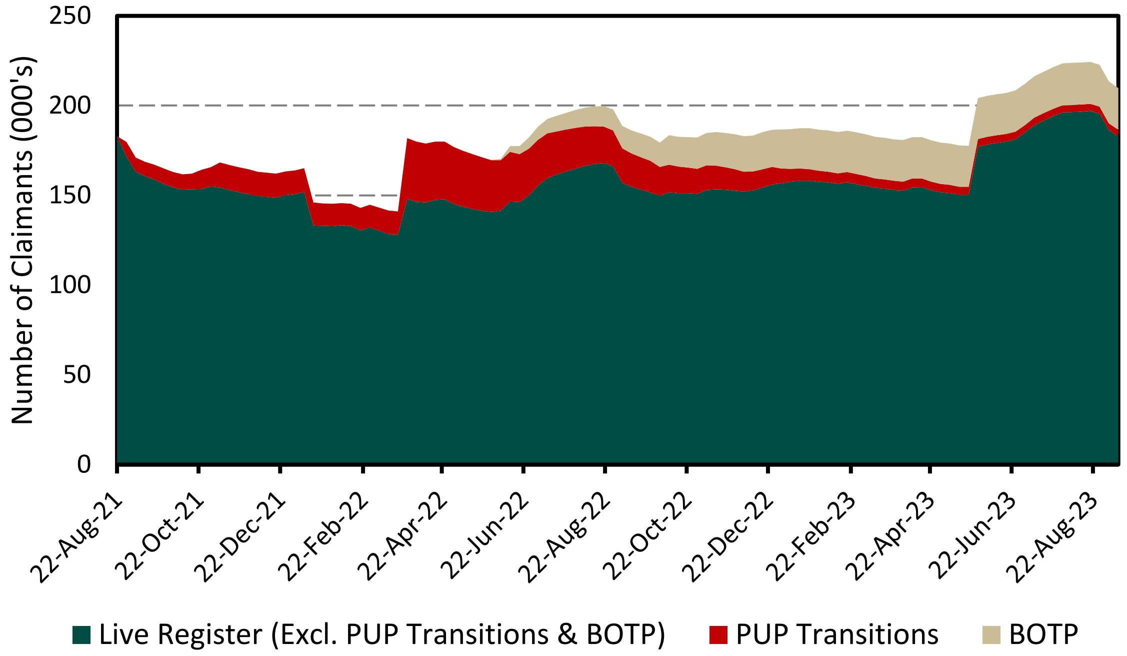
Notably, successive analyses of EWSS transitions to the Live Register[6], found that, overall, the winding down of the EWSS did not have a significant impact on the Live Register.

In line with the overall labour market recovery, the Live Register has trended broadly downwards following the closure of the Temporary COVID-19 measures, with increases being associated with normal seasonal variation, largely explained by increases in the Education Sector during school holidays, and increases associated with BOTPs.

[5] PUP transitions to the Live Register, in the figure, refer to any person whose Live Register claim opened within three weeks of their PUP claim closing.

[6] See for example: The October 2022 Labour Market Update drafted by the Labour Market Analytics Unit in DSP for the Council.

Figure 1.3.2. Live Register, PUP transition and BOTP trends, August 2021 – Sept. 2023



Source: DSP admin data

Following agreement with the CSO, BOTPs claiming Jobseeker's supports, who meet the definition of available and seeking work, have been included in the Live Register from May 2022. BOTPs now comprise 12 percent of the total Live Register.

It is also worth noting that that some BOTP have crossed the 12 months threshold and are classified as long-term unemployed. Overall, the Live Register stands at 182,846, of which 107,964 are associated with Jobseeker's Allowance claims, 34,675 are Jobseeker's Benefit claims, and 15,044 are Credits. As of the most recent week, 65,215 (35.7%) of Live Register claimants are long-term claimants. Notably, while the absolute number of long-term unemployed claimants has been decreasing, their share of the total has been increasing.

1.1.5. Engagement and Summary Statistics for Beneficiaries of Temporary Protection for Ukraine

- There have been 93,930 arrivals from Ukraine issued PPSNs as of 14 September.
- BOTPs face significant labour market and other challenges, including a language barrier, transport, housing, skills recognition and the severe psychological impacts of being displaced by war. Despite this, there are a total of 15,171 unique BOTPs with employment, at some stage in the last three months.
- Data collected indicates that working age BOTPs have a high level of educational attainment, with 60 percent having a level seven qualification or higher.

The following section outlines the characteristics of the Beneficiaries of Temporary Protection (BOTP) from Ukraine.[7] There have been 93,930 arrivals from Ukraine issued PPSNs as of 14 September. A combined 60,764 BOTPs are either primary claimants of income supports or qualified adults/children, approximately 65 percent of the total, though not all those issued PPSNs continue to reside in the state necessarily.

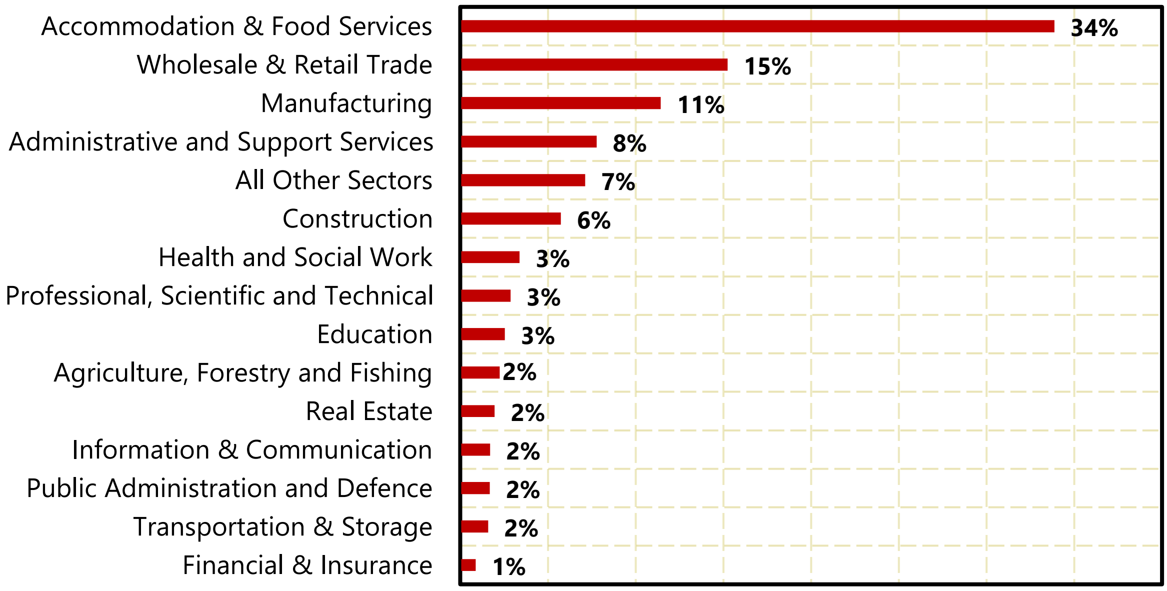
BOTPs have been subject to activation since end January 2023. Since then, the PES has been inviting BOTPs to group information sessions or initial 1-to-1 meetings on an activation basis, having regard to their PEX score. There are 12,056 BOTPs subject to activation as of 11th September. The number of BOTPs on the Live Register stood at 23,201 on September 10th, of which 9.7% had earnings from employment compared with 10.2% for the rest of the Live Register population. As of 12th September, a total of 15,171 unique BOTPs were in employment at some stage over the previous three months. This is in spite of the significant barriers BOTPs face in the labour market in terms of language, transport, and skills recognition. For example, at least 62% of BOTPs on the Live Register at present have indicated that their English-language ability is a barrier to employment.

BOTPs are able to access employment supports from the Department provided they meet eligibility rules. The conditionality for accessing Community Employment was, for example, eased for this cohort, permitting a shorter period of eligibility to avail of the scheme (9 months instead of 12 months).

Figure 2.1 below shows the sectors in which BOTPs have found work (this includes 492 second/third etc. jobs held by BOTPs).

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

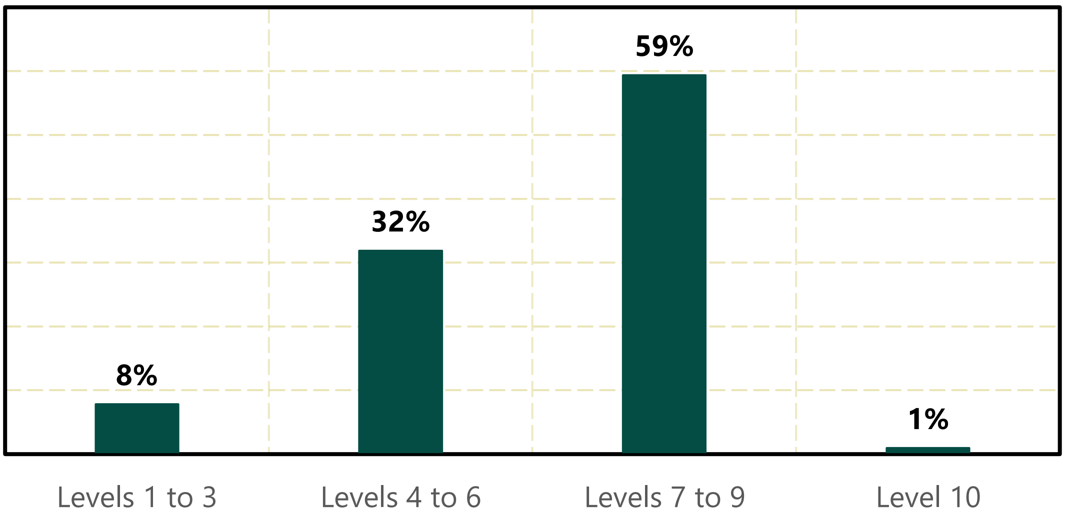
Figure 1.1.5.1 Employments held by BOTPs by NACE sector as of 12th September.



Source: CSO data

The PES further records the highest level of educational attainment of arrivals using National Framework of Qualifications (NFQ) levels[8]. Figure 1.1.5.2 shows the breakdown for the 51 percent of BOTPs on the Live Register for whom education is recorded. As can be seen, this is a relatively high level of educational attainment, given 60 percent have a Level 7 qualification or higher.

Figure 1.1.5.2: Highest NFQ level of educational attainment of BOTPs on the Live Register, as of 11th September.



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

[8] https://www.qqi.ie/what-we-do/the-qualifications-system/national-framework-of-qualifications

1.2. Recent Trends in the Irish Labour Market

This section looks at trends in the Irish Labour Market as measured by the Labour Force Survey.

1.2.1. Labour Force Participation

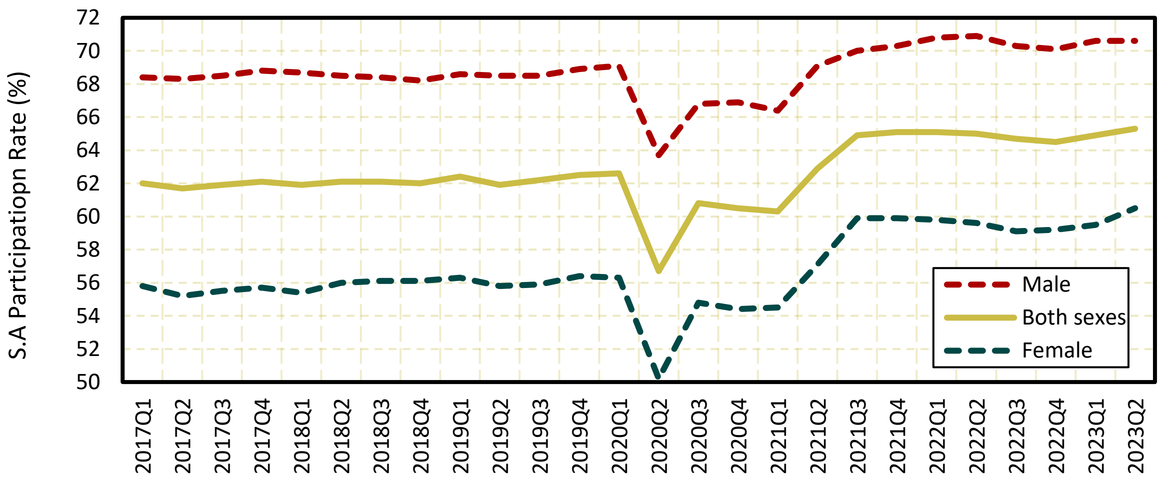
- The seasonally adjusted participation rate stands at 65.3 percent, up 0.4 percentage points on Q1 2023, and up 2.7 percentage points compared with Q1 2020.
- Male participation remains 1.6 percentage points higher than pre-pandemic levels, while female participation increased 4.2 percentage points.
- Female participation is growing, particularly in 15-19 and 20–24-year-olds.

Prior to the onset of the COVID-19 pandemic, the seasonally adjusted labour force participation rate stood at 62.6 percent. The decline and recovery are illustrated in Figure 2.3.1, where pre-pandemic levels were exceeded in Q2 2021, reaching record levels in Q2 2023. More recently, the seasonally adjusted participation rate increased from 64.5% in Q4 2022 to 64.9% in Q1 2023, reaching 65.3% by the end of Q2 2023. This represents a 2.7 percentage point increase from the previous post-pandemic peak in Q1 2022.

The seasonally adjusted male participation rate increased from 70.1% in Q4 2022 to 70.6% in Q1 2023, remaining level in Q2 2023. Male participation remains 1.6 percentage points higher than pre-pandemic levels.

The increase in the seasonally adjusted participation rate in the first two quarters of 2023 is driven predominately by a significant increase in female participation. At the end of Q4 2022, the seasonally adjusted female participation rate stood at 59.2%, before increasing by 0.3 and 1 percentage points in Q1 and Q2 2023, respectively, reaching 60.5% in Q2 2023. This represents a 4.2 percentage point increase on the pre-pandemic levels.

Figure 2.3.1: Seasonally Adjusted Labour Force Participation Rates (2017-2023)

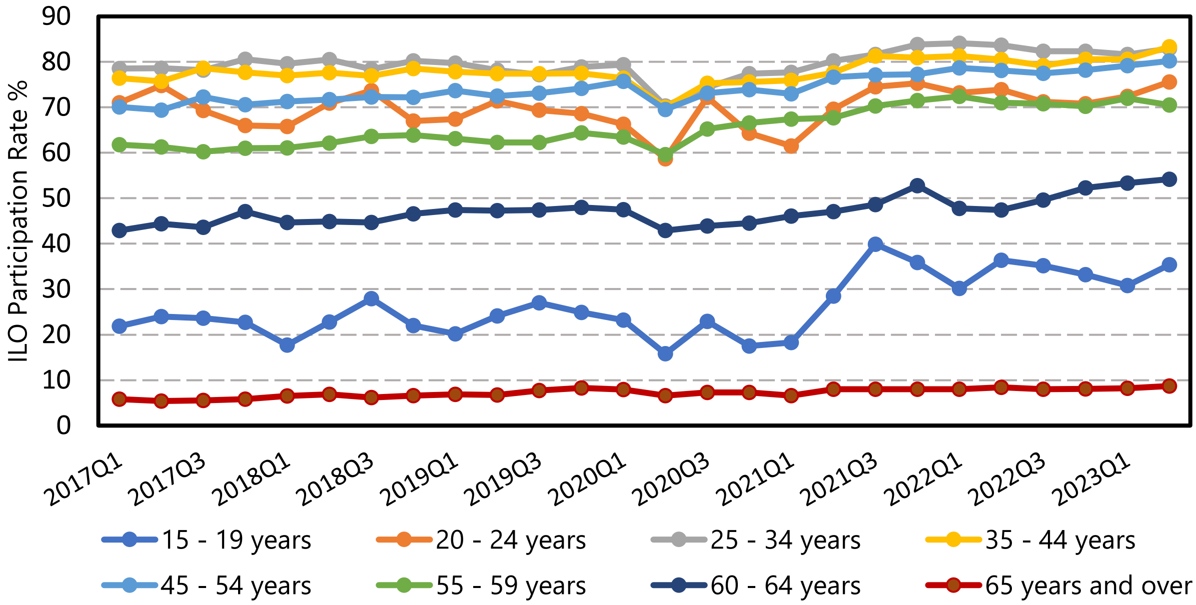


Source: CSO LFS (figures are subject to revision). Note: Participation rate refers to those aged 15 years and older.

Interestingly, (non-seasonally adjusted) female participation rate growth differs across age groups. While female participation has increased overall compared to pre-pandemic levels it has increased most, in proportional terms, for age groups 15-19, 20-24, and 55-59 year-olds, for whom it has increased by 12.2, 9.3 and 7 percentage points since Q1 2020. This is consistent with an expansionary phase in an economy as higher wages induce greater participation in the labour market.

When looking at the period Q4 2019 to Q4 2021, SOLAS[9] found that the growth in female participation could be a consequence of demographic factors such as fewer females with childcare responsibilities. It also found that those with third-level qualifications accounted for almost all the gains in employment. The below figure illustrates that female participation remains highest for 25–34-year-olds, remaining over 80% in Q2 2023. Both 35-44- and 45–54-year-olds, the two largest age groups in the female labour force, reached a new peak in Q2 2023, however 25–34-year-olds are yet to reach the peak of 84.1% in Q1 2022.

Figure 2.3.2: Female Labour Force Participation Rates (2017 - 2023)



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

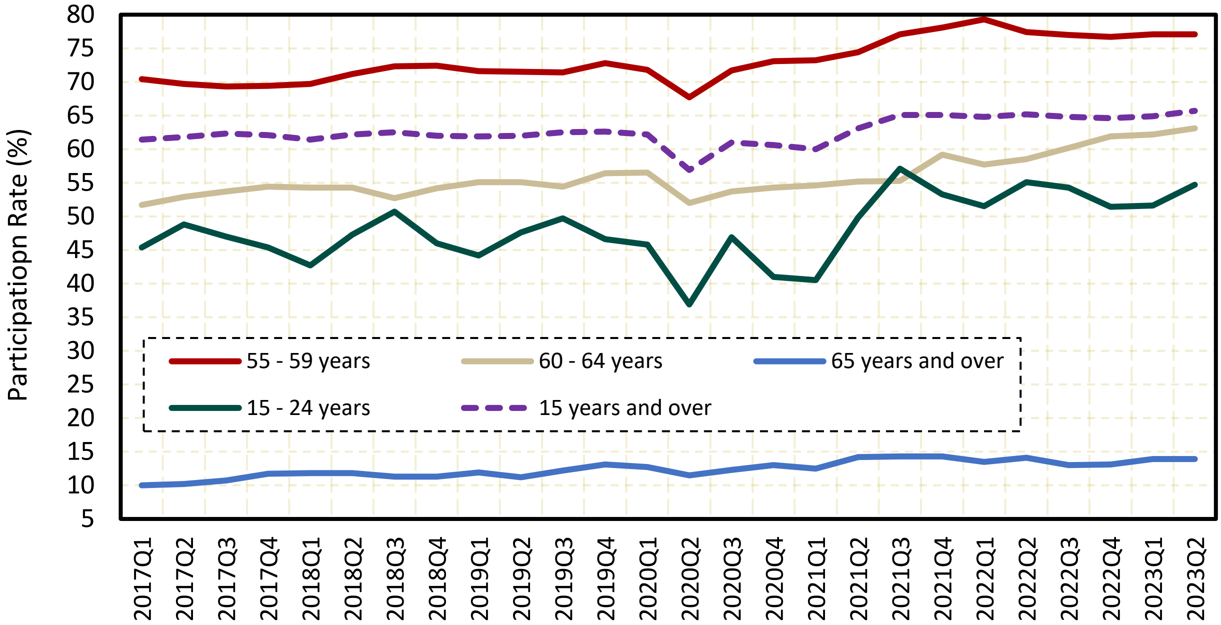
The rise in participation by those aged 60-64 has continued in the first two quarters of 2023, increasing by 1.9 percentage points in Q1 and Q2 2023. Interestingly, as highlighted in Figure 2.3.2 above, the increase in participation rate for females (1.9% increase from Q4 2022-Q2 2023) is greater than that of both sexes. The participation rate for those aged 55-59 shows no signs of returning to its pre-pandemic peak of 79.3%. Meanwhile, participation of those aged 65 and over has seen a modest increase of 0.6 percentage points since the beginning of 2023.

[9] See SOLAS Summer Skills Bulletin 2022

The volatile nature of participation rates for those under 25 can be seen, however participation remains 4 percentage points higher than its pre-pandemic peak of 50.7 in Q3 2018.

Analysis conducted by the Central Bank showed that this expansion in participation was largely driven by young people under 25 years old and women over the age of 35. Despite the prevalence of remote working, they did not find strong evidence to suggest that structural changes such as remote or hybrid working were the dominant factors supporting the notable increase in employment. Instead, this was a response by these cohorts to the strong post-pandemic labour market recovery.[10]

Figure 2.3.3: Labour Force Participation Rates of Select Age Groups (2017 - 2023)



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

[10] Kennan, E. et al., 'Labour Recovery after a pandemic', Quarterly Bulleting Q3 2022, Labour Market Recovery Boyd, Byrne, Keenan, McIndoe-Calder (centralbank.ie)

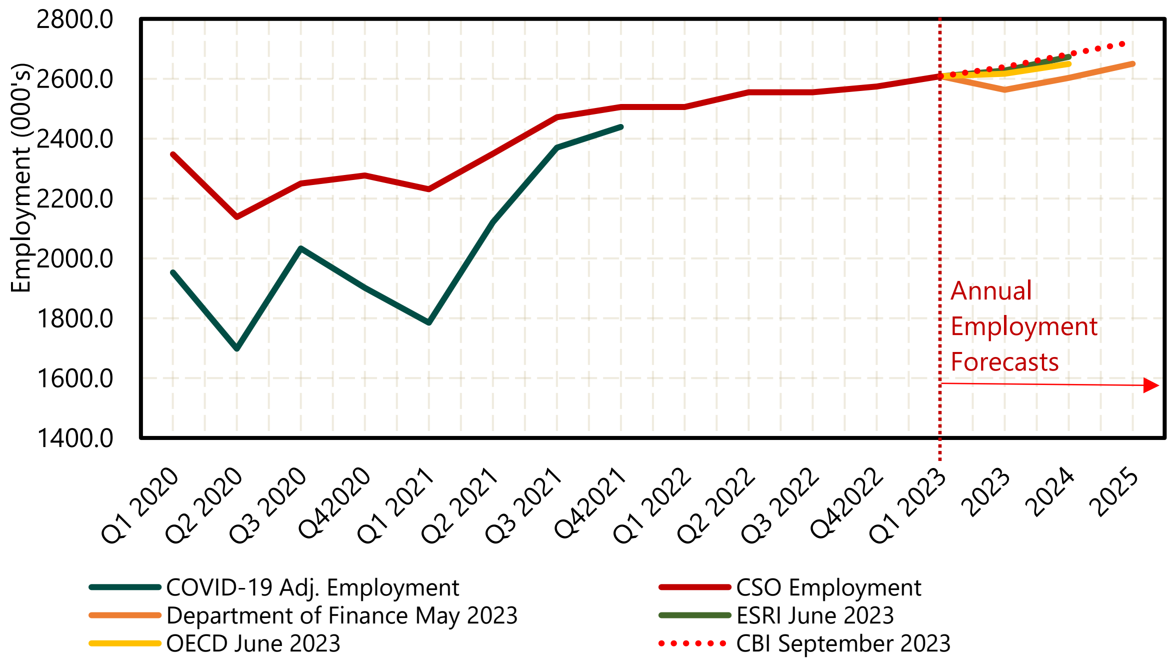
1.2.2. Employment Trends & Outlook

- According to the Q2 2023 LFS, there are 2,643,000 people in employment, the highest number in the history of the series. This equates to an employment rate of 74.2%, another series high.
- The latest short-term forecasts suggest continued positive growth, averaging 1.5% in 2024 and 1.7% in 2025.

Employment growth has been positive following the lifting of the public health restrictions. As of the Q2 2023 LFS, there are 2,643,000 people in employment, which equates to an employment rate of 74.2 percent, both of which are the highest levels achieved in the history of the series. This is an increase of 34,500 (1.3%) compared with the previous quarter and an increase of 285,000 (12.1%) compared to Q4 2019 pre-pandemic.

Figure 2.4.1 illustrates Irelands employment growth from the beginning of the COVID-19 pandemic and short-term forecasts from four institutions. Considering the non-COVID adjusted employment growth rate, Ireland's labour market has performed considerably well after covid related restrictions, overtaking its pre-pandemic levels in Q3 2021. All forecasts at present expect the Irish labour market to continue its growth in the remainder of 2023 and beyond. The Department of Finance provided their update in the April 2023 Stability Programme Update and expect employment to continue growing and reaching 2,650,000 by 2025. The ESRI forecasts significant growth in employment, reaching 2,673,000 by the end of 2024. The Central Bank of Ireland provides the most optimistic forecast, predicting employment to reach 2,692,000 in 2025.

Figure 2.4.1: Employment forecast by Institution

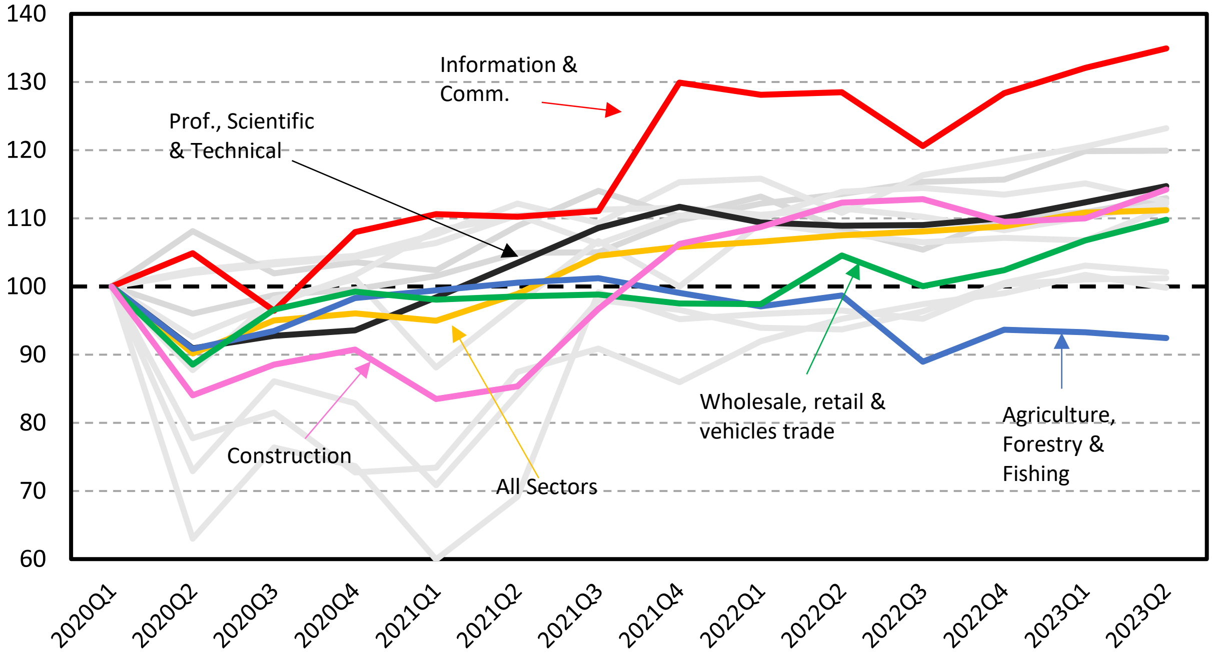


Source: CSO LFS, D/ Finance, Central Bank of Ireland, ESRI, OECD (figures are subject to revision).

At a sectoral level, the effect of COVID-19 on employment is more pronounced. While aggregate employment is higher, the Agriculture, Forestry and Fishing sector has experienced a 7.5 percent loss in employment since the beginning of the pandemic. The Information and Communication sector has seen a growth of 34.9 percent over the same period. It is possible that the adaptation to blended and remote working throughout the pandemic facilitated employment growth in this sector. While there has been a several high-profile redundancies by large MNEs in this sector, only 2,307 of the 87,330 announced worldwide were attributed to Ireland[11]. Public Administration and Defence also increased by 23 percent since the beginning of 2020. Having fallen by 16.5 percent between Q1 2020 and Q1 2021, the Construction sector increased by 14.2 percent on its pre-pandemic levels in Q2 2023.

Figure 2.4.2 below shows the seasonally adjusted level of employment by sector, with Q1 2020 set at 100, and sectors which experienced the greatest volatility in the 2 years to Q2 2023. All sectors bar Agriculture, Forestry and Fishing, and Administrative and Support Services have returned to their pre-pandemic levels.

2.4.2: Growth in seasonally adjusted employment between Q1 2020 and Q4 2022 by sector, Q1 2020 = 100.



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

[11] The Role of the ICT Services Sector in the Irish Economy (Conefrey, Keenan, O'Grady and Stauton) (centralbank.ie)

1.2.3. Unemployment Trends and Outlook

- The unemployment rate in Ireland fell 0.2 percent since the beginning of the year to 4.1 percent.
- Forecasts from six institutions predict Ireland will continue around full employment until at least 2025.
- Youth unemployment has increased by 1.1 percentage point since the beginning of 2023.

As discussed, Pathways to Work 2021-2025 was launched in the context of substantial uncertainty, in the midst of the COVID-19 pandemic, when the unemployment rate stood at 7.2% or 31.5% according to the COVID-19 adjusted unemployment rate, which in many respects was an upper bound estimate. This was, in part, the motivation for the substantial provisions made in the strategy to supporting those who were unable to work, to find jobs.

The most recent unemployment data is from the CSO's seasonally adjusted monthly series in which the estimated August 2023 unemployment rate was 4.1 percent; in Ireland full employment is conventionally considered to be an unemployment rate between 4 and 5 percent. Seasonally adjusted youth unemployment was 11.2 percent in August 2023, an increase of 1.4 percentage points since May 2023.

The NEET Rate, a measure of those neither in employment, education, nor training, as of Q2 2023, stood at 8.9 percent (for those aged 15 – 29 years), unchanged from the previous quarter. The Irish NEET rate remains 2.2 percent lower than the EU-27 average. The NEET rate for those aged 15-24 increased by 0.1 percentage point in Q2 2023 to 6.6 percent, Ireland remains 2.4 percent below the EU-27 average.12

The scale of the unemployment challenge is illustrated through the levels reached during the pandemic. Covid-adjusted youth unemployment, which includes those who were on the PUP and unemployed reached a peak of 69.6 percent in May 2020., before falling and rising in line with the level of public health restrictions. The Covid adjusted unemployment (15–74-year-olds) reached a peak of 31.5 percent a month earlier than youth in April 2020.

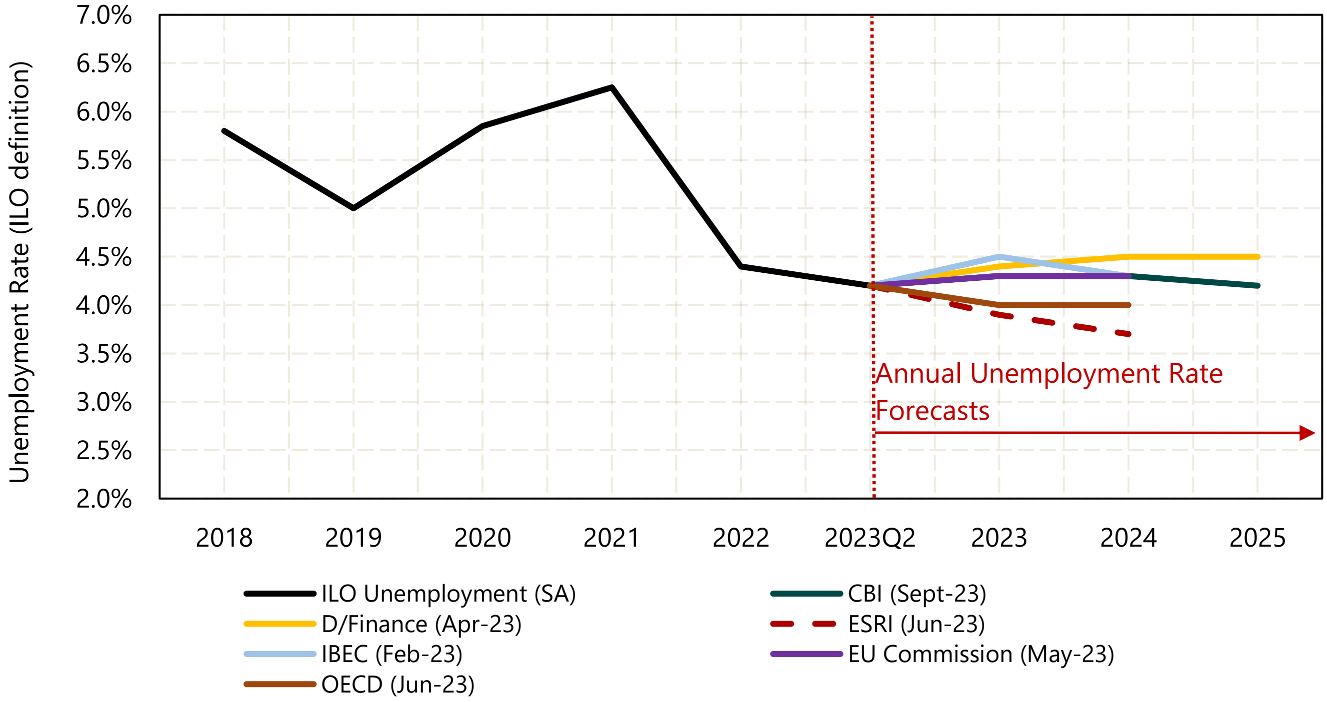
Figure 2.5.1: Unemployment Rate October 2019 – August 2023

In terms of seasonally adjusted unemployment, Figure 2.5.2 below shows the latest short-term unemployment projections from several institutions. Each institution expects Ireland to maintain full employment into 2024. The ESRI forecast unemployment to reach 4 percent in 2024. Meanwhile, IBEC forecast unemployment to rise to 5 percent in 2023, before falling to

[12] Statistics | Eurostat (europa.eu)

4% in 2024. A -range forecast by the Central Bank of Ireland forecasts Ireland to continue at 4 percent unemployment into 2025.

Figure 2.5.2: Unemployment Rate forecast by Institution



Theme 2: Developments in Work and Ways of Working

The following section looks at developments in work and ways of working. It begins by noting the high level of transitions in the Labour Market when comparing the pre- to post-COVID-19 period. It discusses the uptake in blended working, which, while currently below pandemic highs, appears to be a permanent development in working for many. Looking forward, it considers acute skills shortages and vacancies, the reliance of the Irish labour market on net inward migration to meet bridge certain skill gaps and forecasts for future skills requirements as Ireland moves to meet the joint challenges of the digital and green transitions. Finally, there is a discussion of the impact and persistence of inflation on real wages.

2.1 Analysis of Transitions in the Labour Market

- Those in employment in Q1 2020 were less likely to be in the same job by Q2 2022 (40%) if they availed of the PUP during the period compared to those who were either supported by T/EWSS (62%) or made no use of supports (68%).
- BOTPs face significant labour market and other challenges, including a language barrier, transport, housing, skills recognition and the severe psychological impacts of being displaced by war. Despite this, there are a total of 15,171 unique BOTPs with employment, at some stage in the last three months.
- Data collected indicates that working age BOTPs have a high level of educational attainment, with 60 percent having a level seven qualification or higher.

The CSO undertook an analysis[13] of the impacts of COVID-19, looking at those who were in employment in Q1 2020 and whether they were still in the same employment nine quarters later in Q2 2022. It divided the group by the income support they received during the period: no support, the employment (or temporary) wage subsidy scheme, or the pandemic unemployment payment. As shown in the table, 40 percent, 62 percent and 68 percent of those on the PUP, T/EWSS and not on supports were in the same employment before and after the pandemic. This indicates a very high rate of churn, which is also to be expected given the high rate of employment growth in some sectors, as outlined in the Employment Trends Section above.

[13] Impact of COVID-19 on Business and the Labour Market Q2 2022 - CSO - Central Statistics Office

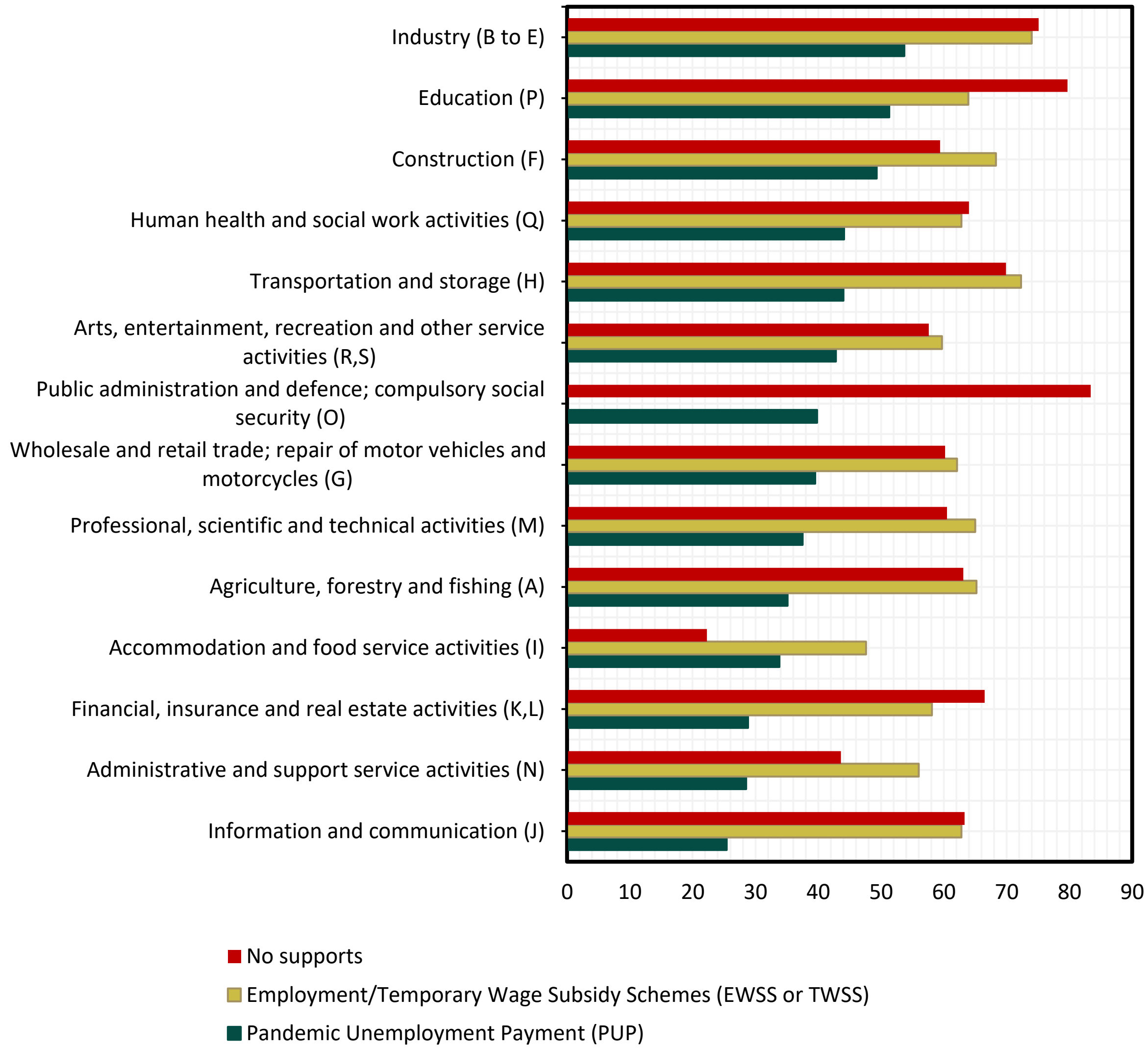
Table 1. Comparing Labour Market Outcomes of Covid-19 Support Recipients in Q2 2022

	PUP Recipients	T/EWSS Recipients	No Supports
As of Q2 2022, the percentage of persons who are:			
In same primary employment	40%	62%	68%
In same sector but different employment	13%	9%	7%
In different sector and different employment	28%	18%	12%
On Live Register	5%	2%	1%
Other	15%	10%	12%

Source: CSO Data

Looking at this data by sector tells broadly the same story. There are, however, more sectors (five versus eight) where the Wage Subsidy Schemes appeared to have kept more workers in the same employment than where workers availed of no supports. The accommodation and food services sector were an outlier in that those who availed of the PUP were more likely to be in in the same employment than those who availed of no income support at all. Results by sector are shown in Figure 2.1.2 below.

Figure 2.1.2: Proportion of people in same job as in Q1 2020 by Covid-19 related income support scheme and sector



2.2 Remote and Blended Working

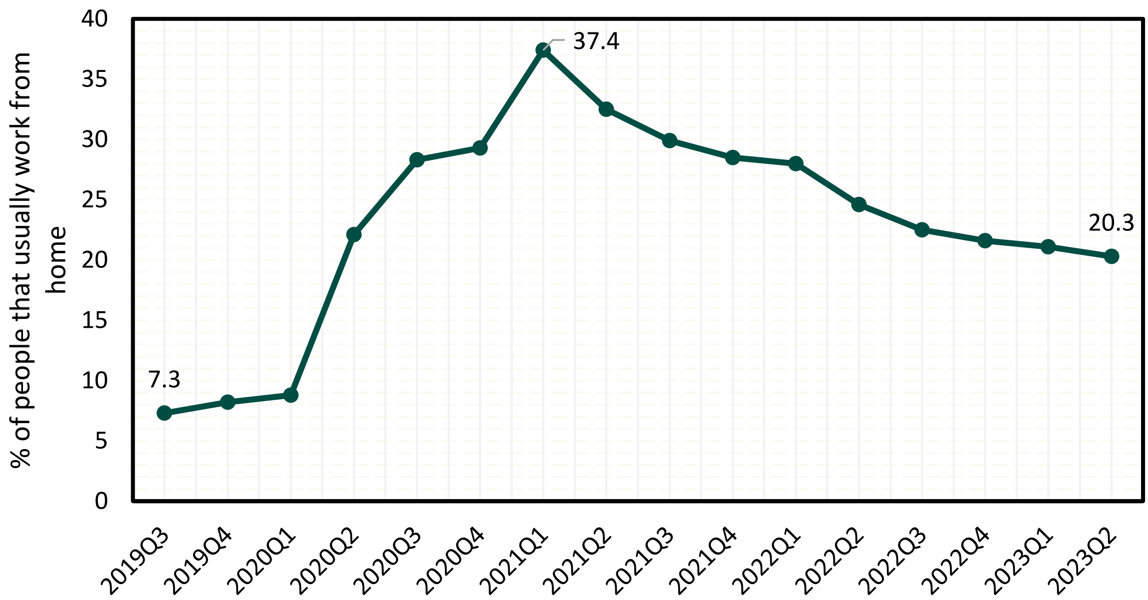
The COVID-19 pandemic has had a major impact on work methods and the composition of the labour market. As a result of the pandemic and the associated restrictions, remote working became prevalent, and it remains so even in the post-pandemic era. For instance, according to CSO'sQ2 2023 LFS data, 20.3 per cent of those people in employment usually work from home, though down from a high of 37.4 percent in Q1 2021, it is markedly higher than the pre-pandemic levels of 7.3 percent[14] as Figure 2.2.1 below shows.

When broken down by regions of residence, Dublin has the highest proportion of employed persons working from home, 30 percent in Q2 2023 relative to the pre-pandemic levels of 6.5 percent. This notable increase is also reflected in other regions such as the Mid-East which rose to 23.5 percent in Q2 2022 from 6.7 percent, and the Midlands which experienced a similar increase from 6.2 percent to 21 over the same period. The regions with the lowest proportion

[14] CSO LFS, 2023, https://data.cso.ie/table/QES21

of people working from home in Q2 2023 are the Border counties (14.5%), followed by the Mid-West and South-East at 15.2 percent and 15.7 percent, respectively.

Figure 2.2.1 Proportion of employed persons that usually work from home, Q3 2019 – Q2 2023



Source: CSO's data

The impact of remote working on productivity is not yet fully known. A 2022 IGEES evaluation[15] report which looked at the impact of remote working on the Irish economy found that remote working is likely to have a positive impact on the Irish economy and society. For instance, they found that employers and employees expect remote working to improve productivity. It also suggests that remote working should improve labour market outcomes for people with disabilities and caring responsibilities. In this regard, remote work enables improved access to the workplace through greater flexibility in terms of time management, childcare and commuting options.' However, a recent study from the National Bureau of Economic Research on remote working based on a randomised control trial in India suggests a reduction in productivity as a consequence of remote working.[16] Furthermore, it is worth pointing out that not all sectors and occupations can adapt to working from home. For instance, workers from the contact-intensive sectors, which typically consists of low paying jobs, do not have the opportunity to work from home compared to workers from other sectors that have adapted.

[15] IGEES, 'An Evaluation of the Impacts of Remote Working', 2022, [gov.ie - An Evaluation of the Impacts of Remote Working (www.gov.ie)](https://www.gov.ie).

[16] https://www.nber.org/papers/w31515

2.3 Vacancies, Emerging Skills Requirements, Digital, Green and the National Skills Agenda

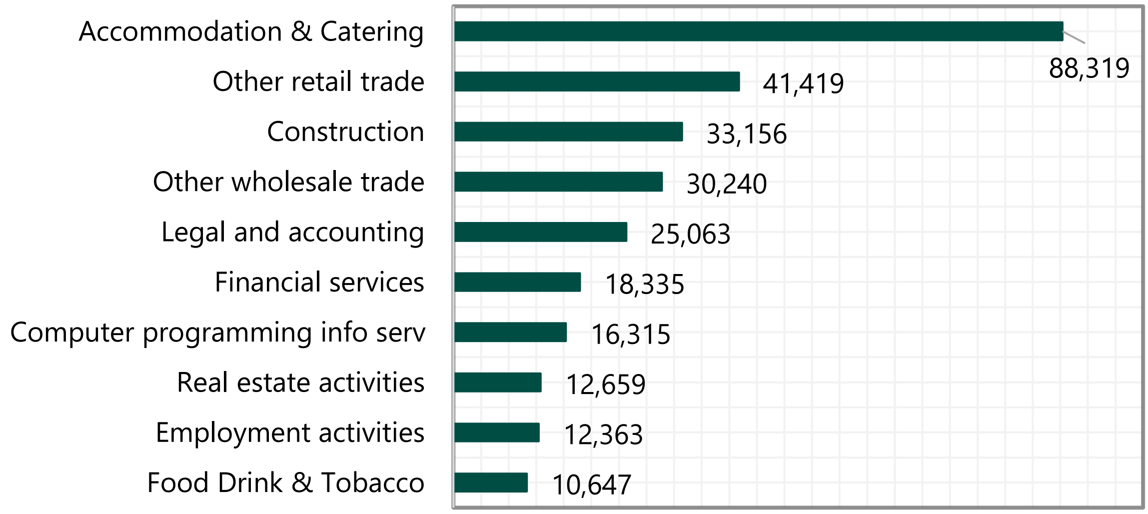
This section begins by looking at emerging skill requirements in the medium term. It then considers the central policy responses and recommendations to meet these. It discusses acute labour market shortages and vacancies and considers the increasing role that migrant labour plays in the labour market. Finally, it closes with a discussion of the cost-of-living challenge, the persistence of inflation and its impact on real wages.

2.3.2 Medium and Long-term Employment and Skills Growth

- CEDFOP has forecasted a rise in employment of ~650,000 between 2021 and 2035.
- Over the 2025 to 2035 period, the highest sectoral employment growth is expected for accommodation & catering, wholesale/retail trade, and construction.
- Over the 2021 to 2035 period, the highest occupation employment growth is expected among personal care workers, business & administration professional/associate professionals, and product & specialised service managers.

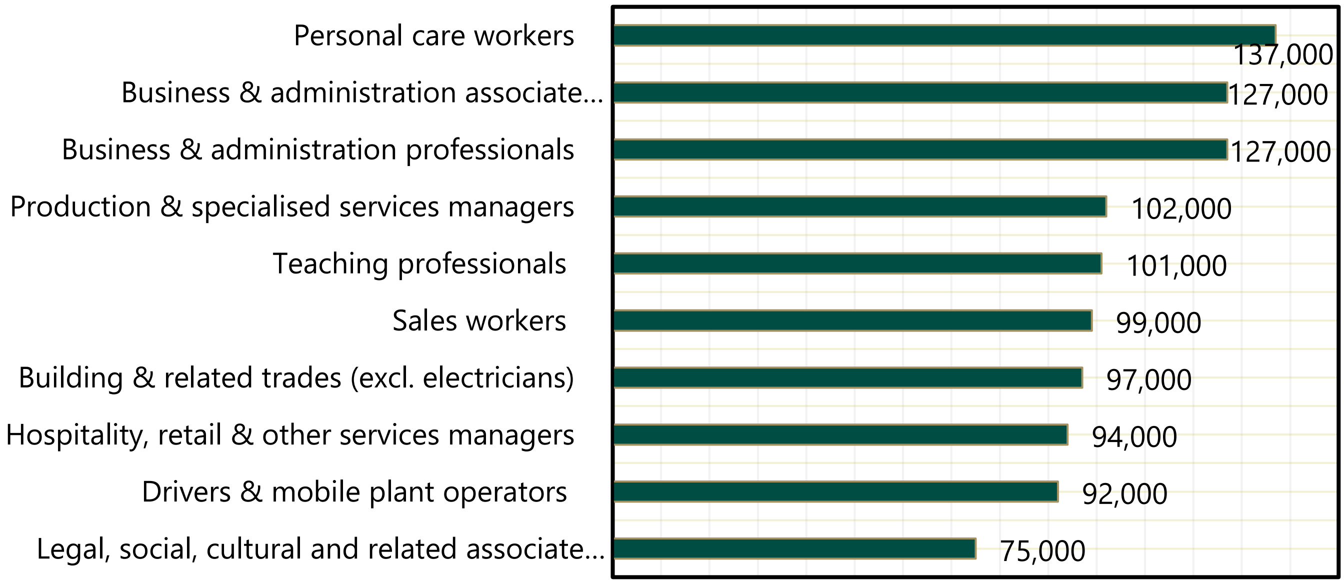
The European Centre for the Development of Vocational Training (CEDEFOP) produced forecasts this year of employment growth in Ireland by sector and occupation for the period 2021 to 2035. By 2035, 650,000 more people are forecast to be in employment compared to 2021 or over 400,000 more compared to 2025 projections. Looking at 2025 to 2035, approximately 70 percent of all employment growth is forecast to occur in ten sectors, as depicted in Figure 3.9.1 below.

Figure 3.9.2: Employment growth by sector (2025 to 2035)



SOLAS's *Summer Skills Bulletin*[17] provides detailed figures on the forecasted growth in employment by occupation. Looking at the net change in occupational employment over 2021 to 2035, the ten largest changes (by occupation) in absolute terms are shown in Figure 3.9.2 below. All these figures have the caveat, however, that some forecasts have already been exceeded. For example, there were 12,000 more ICT professionals in employment in 2021 than the forecast for that year and this level already exceeds the 2025 forecast. Indeed, the CEDEFOP forecast for the broader occupational group of professionals underestimated employment for that group by 27,000 in 2021.

Figure 3.9.2: Employment growth by occupation (2021 to 2035)



2.3.1 Emerging Skills Requirements, policy responses and recommendations

- Labour demand related to renewable energy will have tripled between 2021 and 2030 and quadrupled for retrofit workers between 2020 and 2023 if forecasts are correct.
- The skills required for motor vehicle repair will change and labour demand will drop for these services.

While the labour market is performing well at present by historical standards, sustaining or improving this performance may require adapting to new and in-demand skills requirements of both employers and future employers. As part of its work advising the Government on skills needs, the Expert Group on Future Skills Needs has published two important documents in the past two years, covering the skills required for a lower carbon-emitting economy and one in which artificial intelligence is increasingly adopted.

[17] Summer Skills Bulletin 2023: Solas.

Amongst the key findings were that over half of educators surveyed as part of the *AI Skills* report responded that they would need a lot of training to be confident in using and teaching about AI. Almost two-fifths of AI Users and Innovators surveyed responded that they could not pay the salaries of the people they would need. The *Skills for Zero Carbon* report estimated that labour demand from renewable energy will rise from over 3,000 full-time equivalent workers in 2021 to over 9,000 by 2030, whereas demand for vehicle repair and maintenance will fall by 8% over the period. It also estimated that the number of retrofit workers would have increased significantly between 2020 and 2023 from under 4,000 to over 16,500, without much additional growth thereafter to 2030.

Projections by the US Bureau of Labor Statistics in 2020 showed increasing demand for health and renewable energy-related occupations, in line with the SOLAS and *Skills for Zero Carbon* reports.[18] They projected that between 2019 and 2029 there would be large declines in both absolute and relative terms in demand for administrative occupations and as with *Skills for Zero Carbon* a decline in demand for motor vehicle repairers. The largest absolute increases in labour demand were forecast for 'Home health and personal care aids' at over 1.1 million, cooks, and software developers/testers (over 300,000 each). In relative terms, the largest increases were forecast for 'Wind turbine service technicians' (61%), Nurse practitioners (52%), and Solar panel installers (51%).

The *Skills for Zero Carbon* and *AI Skills* reports makes a number of recommendations, amongst the pertinent were the recommendations to:

- Increase exposure to Renewable Energy topics in third-level engineering courses;
- Prioritise training provision for emerging occupations in Onshore and Offshore Energy and Energy Systems;
- Fully integrate electric vehicle training into the existing Motor Mechanic apprenticeship programme;
- Increase the provision of training for Retrofit occupations;
- Assist employers to expand workplace-focused AI upskilling and reskilling, including through apprenticeships, SOLAS programmes, Skillnet Ireland training programmes and enterprise partnership schemes; and, to
- Review the criteria for employment permits for critical AI-related skills, having regard to the research and analysis of AI skills needs that is undertaken.

[18] OECD Skills Outlook 2021

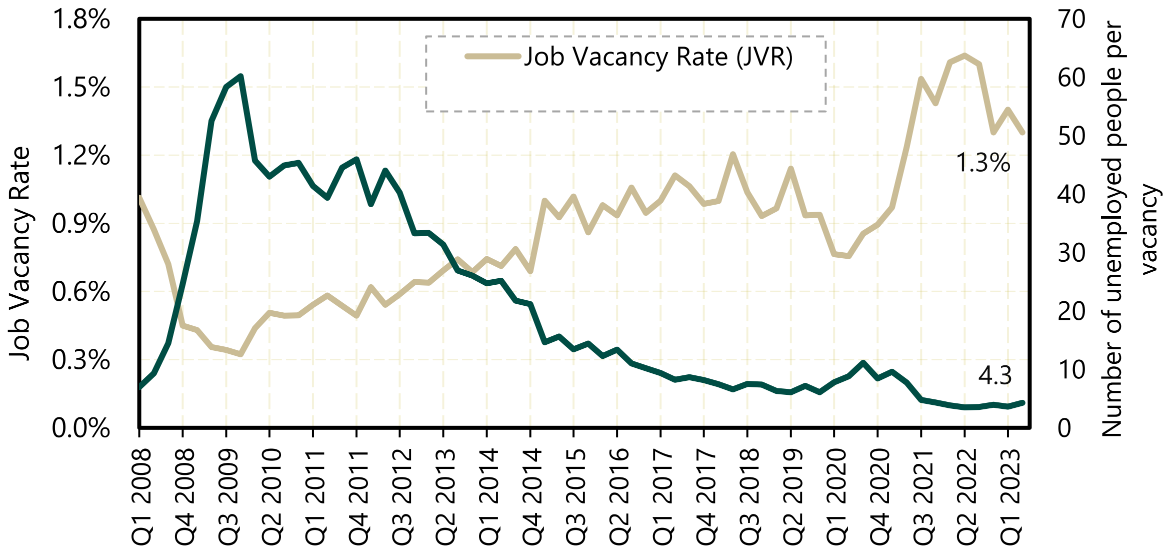
2.3.3 Vacancies and Labour Shortages

- The job vacancy rate has dropped recently but remains at historically high levels.
- The ratio of unemployed people to job vacancies remains at historically low levels.

The job vacancy rate in 2023 Q2 stood at 1.3%, a decline from 1.6% a year earlier, though it remains above all rates recorded between 2008 and 2020. In absolute terms, reported vacancies stood at 28,200 in the most recent quarter compared to 34,200 a year earlier, though as with the vacancy rate, this metric remains above all recorded levels between 2008 and 2020 inclusive. The 2023 Q2 estimate for the EU-27 job vacancy rate was 2.8%, below 3% from a year earlier. Historically, Ireland's vacancy rate has been consistently lower than that of EU levels and the current difference is within historical norms, according to available data.

The ratio of unemployed people to vacancies stood at 4.3 in the most recent quarter (see Figure 3.6.1 below), above the historic low of 3.5 a year earlier, but both this ratio and the job vacancy rate remain at record levels. This may suggest a slight easing of labour demand pressures.

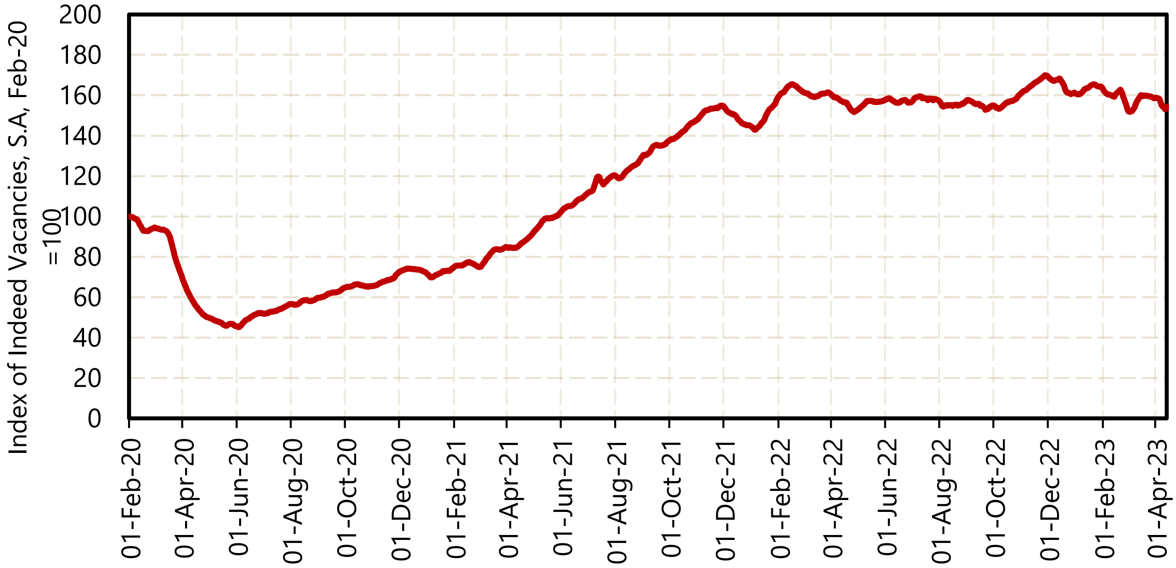
Figure 3.6.1: Trends in the Job Vacancy Rate, and no. of unemployed persons to job vacancy ratio, since Q1 2008.



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

The alternative, higher frequency, series of vacancy data for Ireland published by *Indeed* shows that total posted vacancies have been declining, slightly, since December 2022 (albeit with some fluctuations). It has fallen from a rate of 168.5 in December 2022 to 154.42 in mid-April 2023.

Figure 3.6.2: *Indeed.com* job postings advertisement levels relative to April 2020.



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

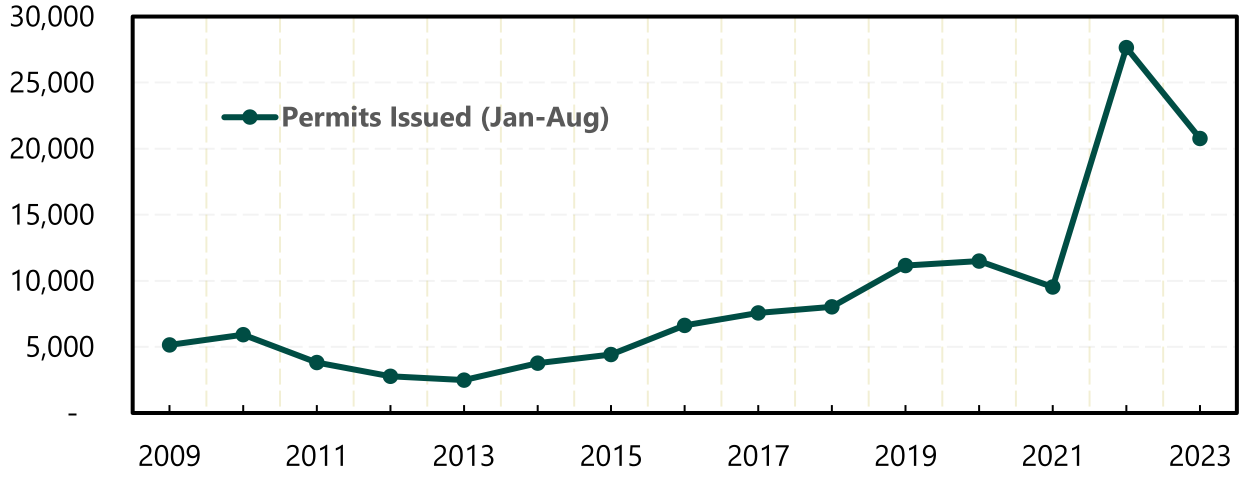
Together, these two series imply that labour demand in Ireland may have cooled slightly, and the high growth rates observed earlier in 2022 have stabilised.

2.3.4 Employment permits

- The number of permits issued this year appears on track to be lower than 2022, but will be high compared to previous years.
- The ICT, health, and accommodation & food service sectors appear to rely heavily on the permit system to fill vacancies.

The number of employment permits issued to August this year is approximately 21,000. Looking at the January to August period of previous years shows a steady increase between 2013 and 2019 and a substantial increase in the past two years.

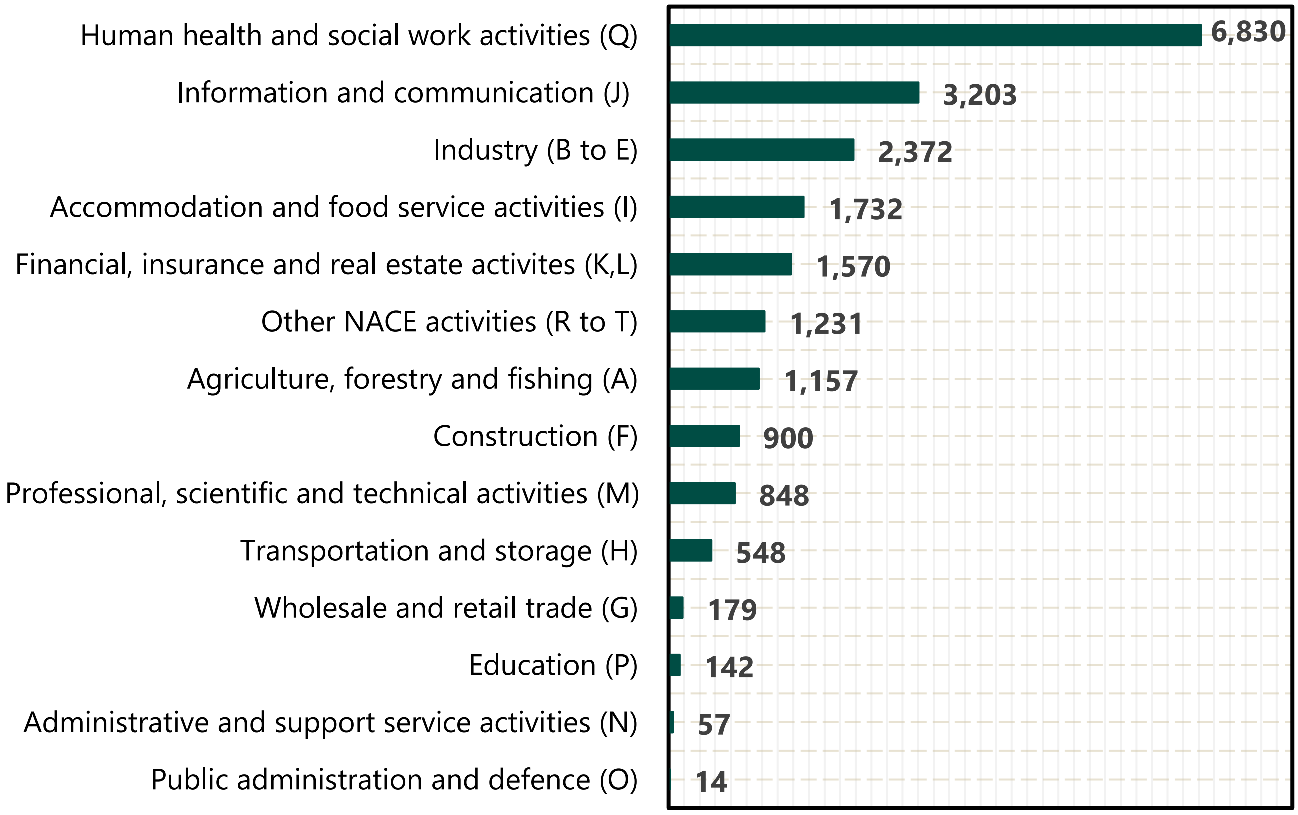
Figure 2.3.4.1: Employment permits issued *by year (2009 to August 2023)*



Source: Department of Enterprise, Trade and Employment data.

Figure 2.3.4.2 below shows the sectors to which this year's permits have been issued. In line with recent years, a large number have gone to the health and ICT sectors. Notably, these sectors and occupations are highly specialised and consequently, it may be a result of an inability to fill demand with domestic supply in the short term.

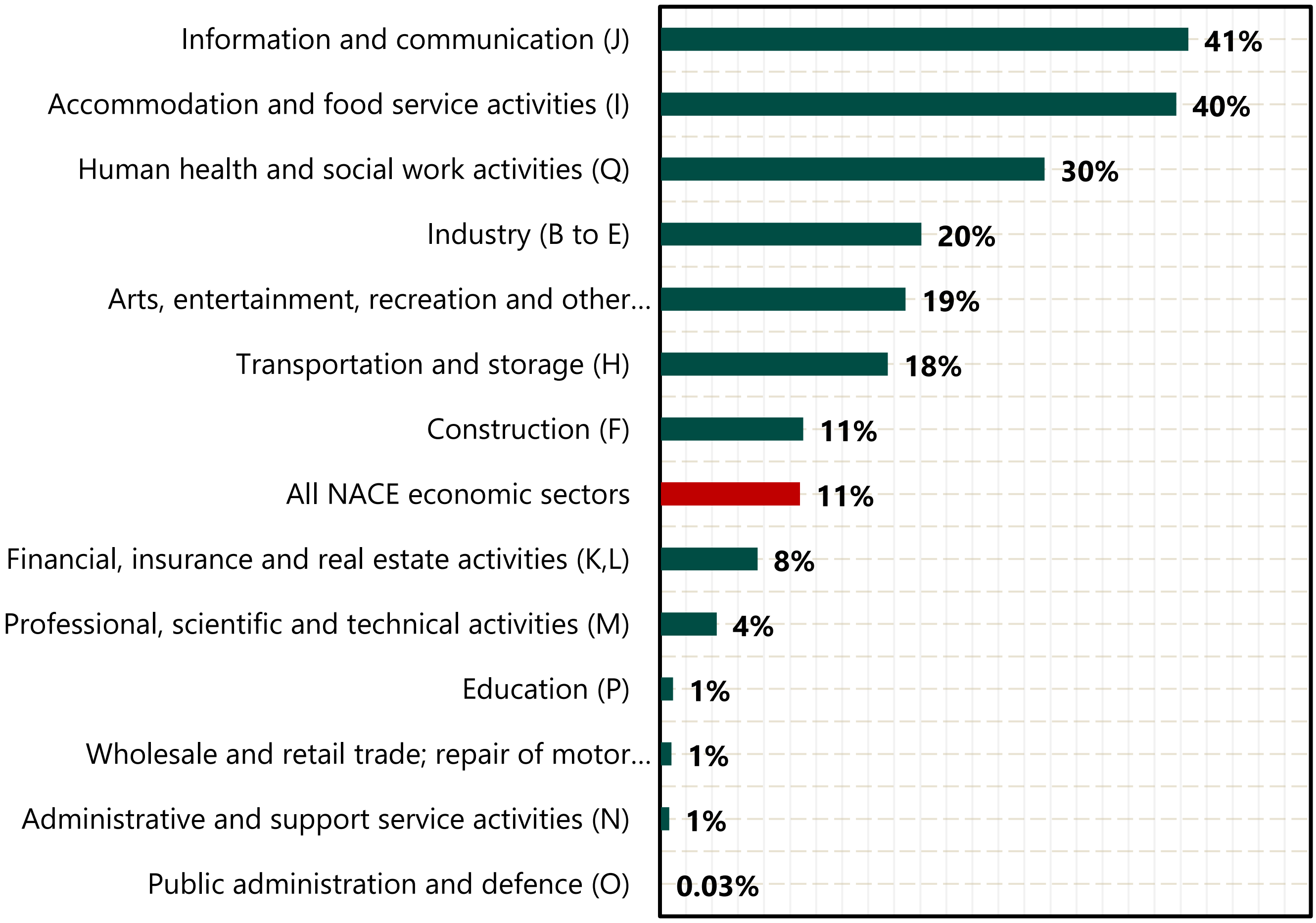
Figure 2.3.4.2: Employment permits issuance (Jan – Aug 2023) by NACE sectors



Source: Department of Enterprise, Trade and Employment data.

While it is not possible to match job vacancies with whether they were filled by a permit holder or not, Figure 3.6.6 attempts to provide a possible insight into the degree to which employers must resort to non-EEA/UK nationals to hire those with sufficient skills. Figure 3.6.6 shows sectoral permits issued in July as a proportion of sectoral vacancies in 2023 Q2 (which was the last week in June). The figures indicate that there could be large gaps in the skills required by employers unable to source employees from within the Irish/EEA/UK labour market, with the ICT and accommodation/food service sectors seeming to hire similar proportions of new employees through the permit system. It should be noted, however, that renewal permits are included in these figures.

Figure 3.6.6: Employment permits (July) as a % of Q2 2023 sectoral job vacancies.

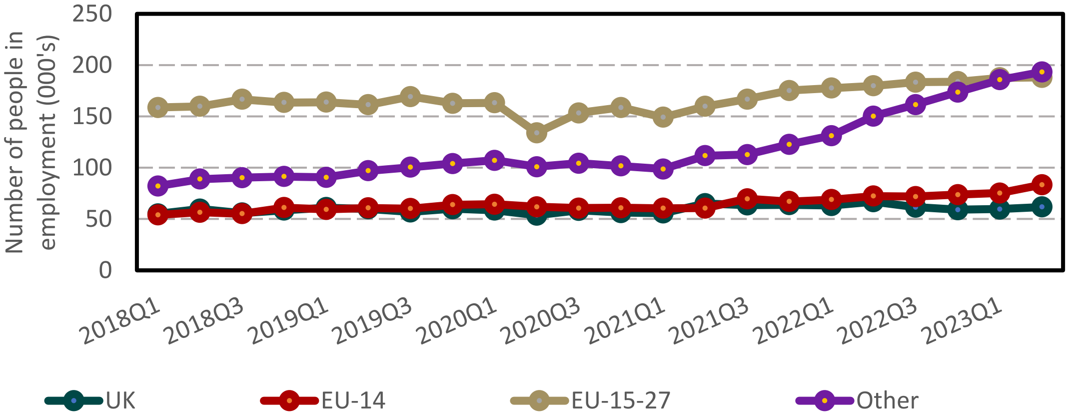


2.3.5 Migration and the Labour Market

Migration continues to play an important role in the Irish labour market. Prior to the pandemic, there were 416,900 non-Irish born people in the labour force, equivalent to 17.4 percent. As of Q2 2023, this has increased to 555,500 (or 20.1%). This remains higher than the peak of 382,200 in Q3 2008.

After Q1 2022, the number of migrants in the labour force from outside of the UK, EU14 or EU15-27 has grown rapidly. The charts depict (a) the number of non-Irish people in the labour force and (b) in employment.[19] Migrants from outside the UK, EU14 or EU15-27 became the most common in employment in Q2 2023. This suggests a relatively short lag between entering the labour force and gaining employment. Inversely, the number of non-Irish persons unemployed increased by 1,900. This trend signals the current strength of Ireland's labour market, indicating that new entrants to the labour force are able to find employment in a relatively short period of time. Given, the high number of permits, discussed above, one may surmise that many people have employment already agreed prior to moving.

Figure 3.4.2: Migration and the Labour Market



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

In line with these findings, the unemployment rate for non-Irish born people stands at 5. 2%, compared with Irish born people with a rate of 4. 2%.

2.6 Earnings, Inflation and Real Wages

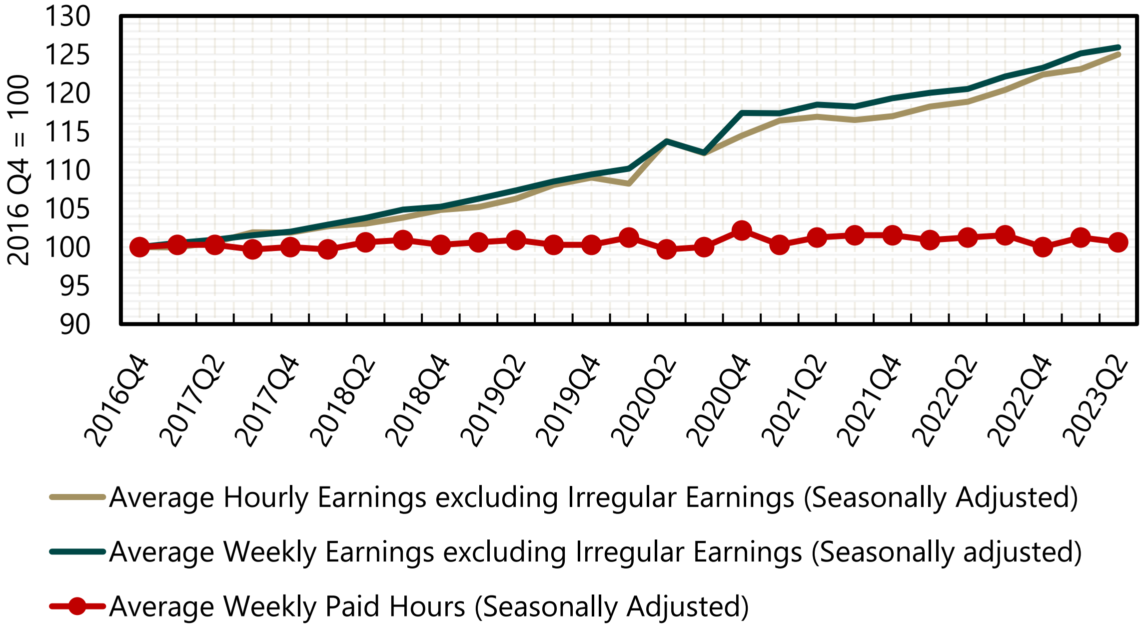
- In nominal terms, hourly and weekly earnings have been increasing steadily since 2016, while the number of hours worked has remained broadly similar, excluding some variation during the COVID-19 period.
- In the pre-pandemic period, real wages increased steadily, with the inflation rate remaining below the 2% eurozone target. As public health restrictions were loosened, supply chain challenges, increased energy prices, and high consumer demand, resulted in increasing inflation rates, hitting a peak of 9.2% in October 2022. Real wages have fallen by 8.5% over the period 2021Q1 to date. Though real wages remain 5% above their Q4 2016 level.
- The highest levels of wage growth have been in the Mining and Quarrying and ICT sectors.

[19] Note: Prior to Q1 2021, the LFS recorded data as Nationality rather than Citizenship. Given survey respondents may answer questions differently based on Nationality or Citizenship, this creates a break in the data. For simplicity, they are referred to as Citizenship in this analysis and previous Labour Market Updates produced for the LMAC.

Figure 3.7.1 below shows the change in average hourly earnings, average weekly earnings, and average weekly paid hours between Q4 2016and Q2 2023, with Q4 2016 as the base reference point.

The chart shows the steady upward trend in earnings since 2016 alongside a consistent level of hours worked. Over the past year, both hourly and weekly earnings have increased in each consecutive quarter. Average hourly and weekly earnings are now 5.2 and 4.5% higher than a year ago (2023 Q2 vs 2022 Q2).

Figure 3.7.1: Index of average hourly/weekly earnings and weekly paid hours (2016 Q4=100).



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

A more forward-looking indicator of wage growth is available from the job search company Indeed, which publishes data on the growth rates of wages for advertised jobs, after controlling for job titles and regions. [20,21] The most recent data shows that the year-on-year 3-month moving average of the series was 4.3% in June 2023. That differs marginally from the growth in average weekly earnings and could indicate that both new and existing employees are benefitting similarly from wage inflation.

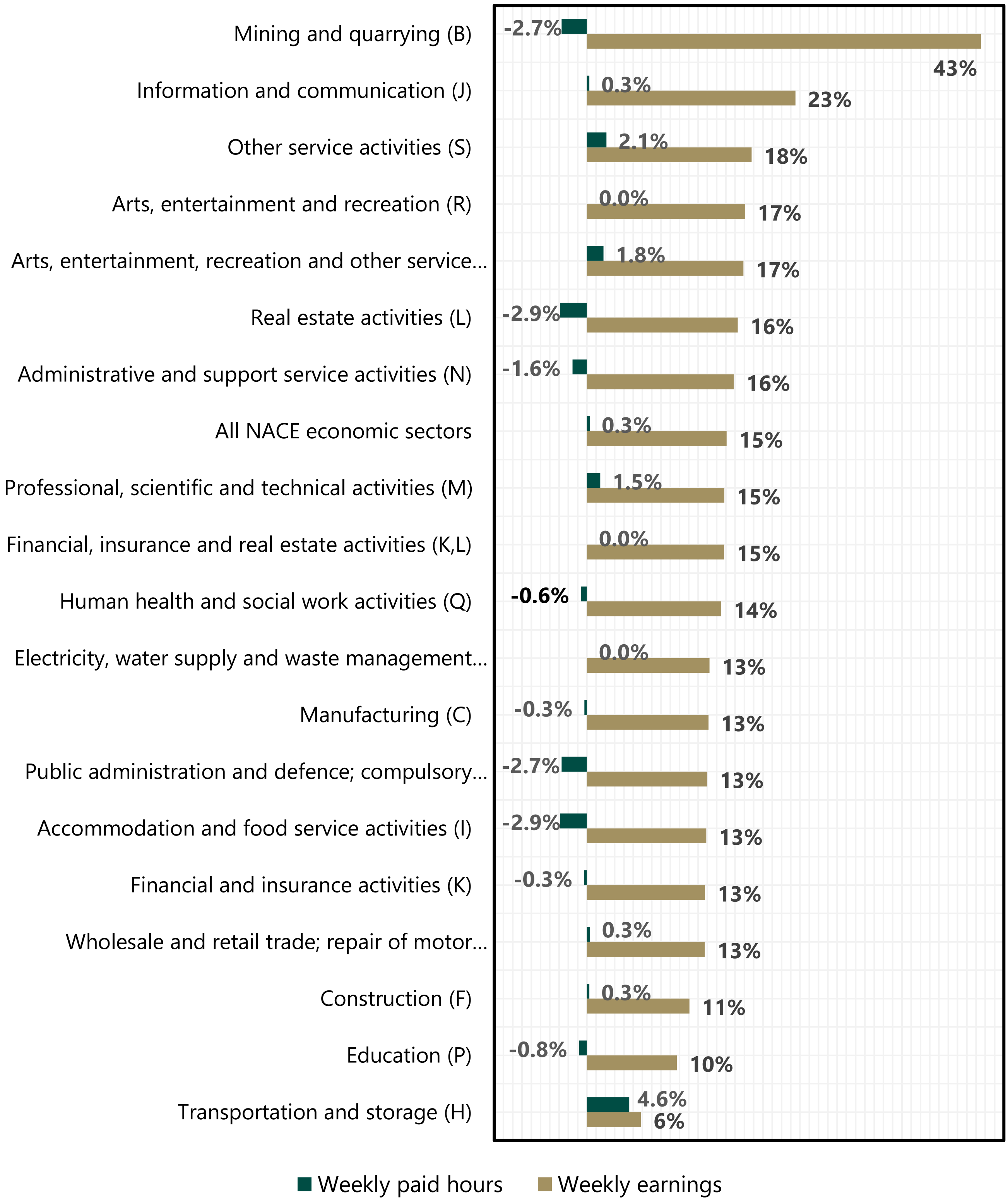
Figure 3.7.2shows the percentage change in weekly earnings and paid hours across sectors between 2019 Q4 and 2023 Q2. Most sectors have experienced increases in weekly earnings of 10-18% and little change in paid hours. The Transportation & Storage sector stands out, in particular, given it has the lowest increase in weekly earnings over the period alongside the largest increase in hours worked. This could suggest a comparative oversupply of labour

[20] Vol 2022, No.7, Wage Growth in Europe: Evidence From Job Ads (Adrjan and Lydon) (centralbank.ie)

[21] GitHub - hiring-lab/indeed-wage-tracker: Measuring growth in wages advertised in job postings, updated monthly

relative to other sectors. The mining and quarrying sector has seen a substantial. increase In weekly earnings over the period, though this sector only employs a small number of workers

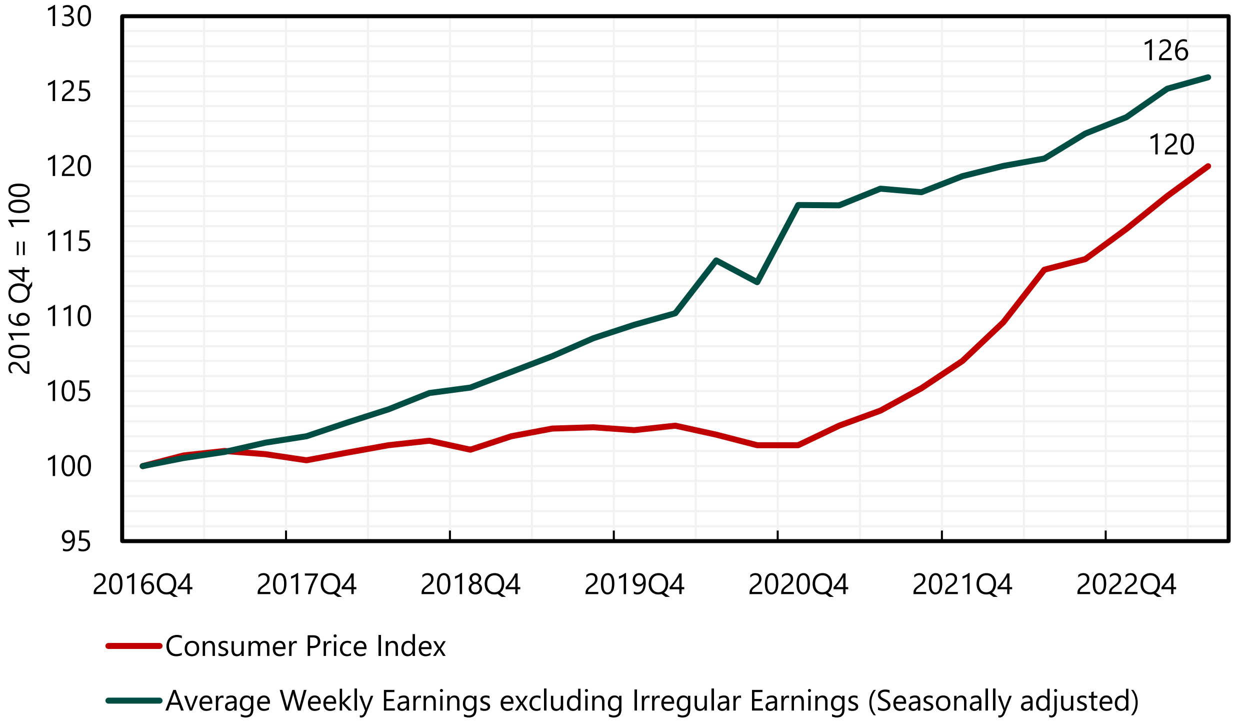
Figure 3.7.2: Percent change in Average Weekly Earnings and Paid Hours by Sector, 2019 Q4 vs 2023 Q2.



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

Weekly earnings began to increase in 2016 after a long period of stagnation following the financial crisis of 2008. Looking at the period 2016 to the present, changes in earnings compare favourably to price changes. Figure 3.7.3 depicts the period (indexed to 2016 Q4) and shows that average weekly earnings are 26% higher now whereas prices are 20% higher compared to Q4 2016.

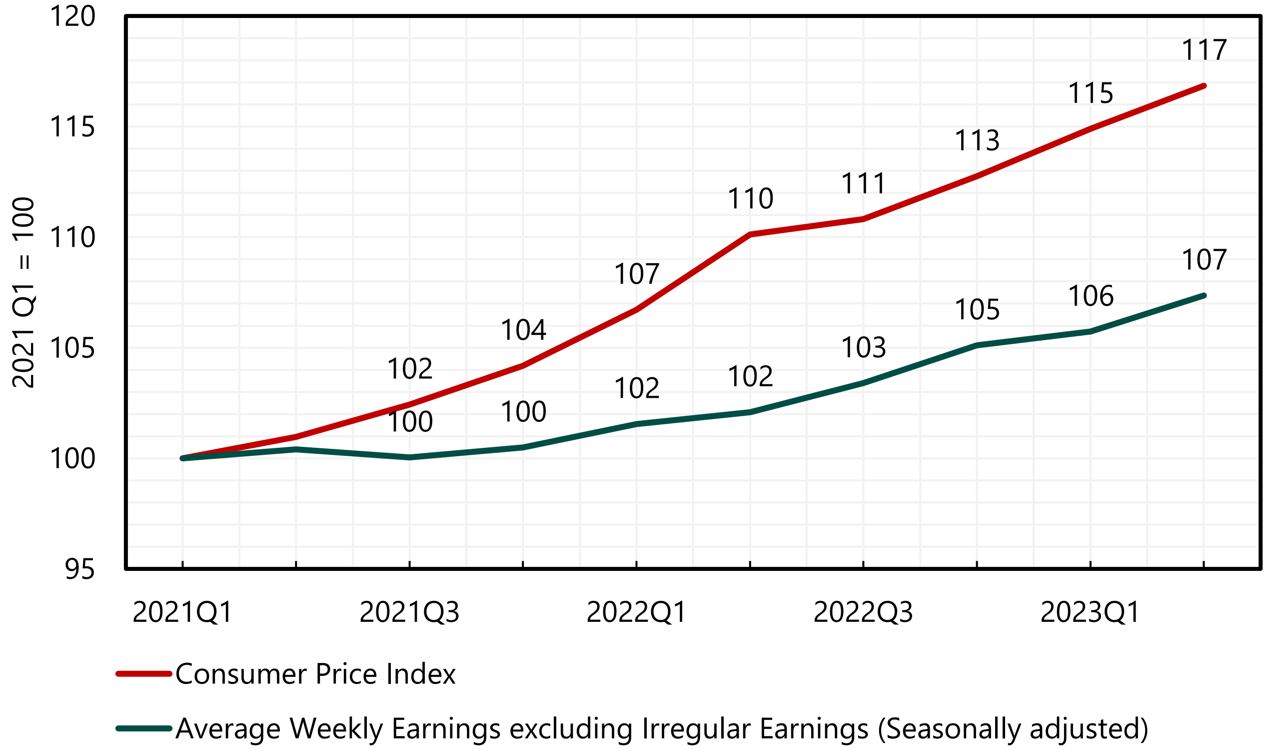
Figure 3.7.3: Comparison of relative changes in Ireland's Consumer Price Index and Average Weekly Earnings from 2016 Q4 to 2023 Q2 (2016 Q4 = 100).



Source: CSO EHECS, CPM and author's calculations (figures are subject to revision). CPI data is monthly, and earnings data is quarterly. Note: Dashed lines for earnings between Q1 2020 and Q2 2022 should be interpreted cautiously as this broad period is subject to distortions resulting from acute impacts of the COVID-19 pandemic.

However, as illustrated in Figure 3.7.4, inflation accelerated rapidly during the tail end of the pandemic and into the post-pandemic period, reaching a peak of 9.2% in October 2022. As public health restrictions were lifted in a number of countries, a confluence of factors combined to increase inflation including: supply chain challenges, pent-up consumer demand, pandemic-period quantitative easing, and increases in energy spot prices in Europe owing to the Russian invasion of Ukraine. This has had a substantial negative effect on real wages as prices and weekly earnings were 17% and 7% higher by Q2 2023 compared to Q1 2021. Real earnings over the past two years have therefore decreased by 8.5%.

Figure 3.7.4: Comparison of relative changes in Ireland's Consumer Price Index and Average Weekly Earnings from 2021 Q1 to 2023 Q2 (2021 Q1 = 100).



Notably, inflation has stabilised somewhat and is trending downwards, standing at 6.3% as of August 2023, down from the peak of 9.2% in in October 2022, but still well above the EU's 2 percent inflation target.

Outlook and Conclusions

Pathways to Work 2021-2025 was launched in the midst of the COVID-19 pandemic, with the dual objectives of supporting those who were displaced from working by the pandemic and supporting those who were not working prior to the pandemic, in finding employment. When it was launched there was still substantial uncertainty about how long the pandemic would persist. The Government had responded to the pandemic by introduced income and employment supports through the PUP and T/EWSS, which provided support, at the peak, to excess of 50 percent of the total labour force.

Among the main labour market considerations at the time was the potential for scarring for those who were unable to work for large portions of the pandemic owing to their sectors being affected, the potential impacts the pandemic would have on poverty and inequality and how to appropriately phase down the temporary COVID-19 emergency support measures such that a cliff-edge was avoided work incentives were preserved.

These concerns did not materialise to the extent feared. Based on transitions to the Live Register from the PUP, there is no evidence of sustained scarring, nor of employees being let go following the closure of the PUP. The ESRI found that the PUP was effective in insulating household incomes to a large extent and the schemes were gradually phased down with high exits, meaning few people needed to be supported to standard jobseeker terms.

Currently, the labour market is performing well, with the economy at operating at almost full employment and the highest number of people in employment in the history of the Labour Force Survey series.

At the same time, a number of challenges have emerged, including the persistence of high inflation resulting from a confluence of factors which decrease real wages, the need to provide assistance to those who were displaced by Russia's invasion of Ukraine and more structural challenges such as meeting medium-term housing pressures.

Despite these challenges, the short-term macroeconomic forecast is positive, with most institutions predicting continued growth in terms of GDP, MDD, employment and broadly stable unemployment.

Given this outlook, and one of the primary objectives of Pathways to Work 2021-2025 is to support those who were not working prior to the pandemic, there is an opportunity to promote outcomes for groups which face disadvantages in the labour market. However, progress in this space may be more difficult owing to persistent structural issues, but also because of a lack of data on certain groups. The 2022 Census results may provide an avenue to address some of these data gaps.