FÁS Quarterly Labour Market Commentary

Winter 2009/2010

Executive Summary

2009 was a year of unprecedented job losses and rising unemployment for the Irish labour market. Employment fell by 9% in the 12 months ended September. The unemployment rate rose from 8.5% to 12.5% over the course of 2009 as a whole, with the numbers signing on the Live Register increasing from 293,000 to 427,000 (seasonally adjusted). There were signs of the rise in unemployment slowing towards the end of the year. For example, the increase in the Live Register in the fourth quarter at 1,000, was in stark contrast to the 76,000 increase in the first three months of 2009. In addition to this, redundancies seem to have peaked in Q2 2009. Equally, while vacancies notified to FAS were down by 19% year-on-year in Q4, the pace of decline in notifications decelerated through the year.

However, it is too early to say whether the apparent stabilisation in unemployment will persist. It is worth bearing in mind that there were still 16,000 redundancies in Q4 2009, while vacancies remained at very depressed levels. This suggests that labour demand remained weak towards the end of last year. In addition, labour market statistics for January 2010 were relatively weak. Moreover it is likely that factors other than labour demand, such as migration and expiration of benefit entitlement, accounted for some of the stabilisation in the Live Register.

Employment decline continued to be sharpest in construction, with the slowest decline in services – where a substantial fall in retail and wholesale distribution was offset – at least up to Q3 – by jobs growth in financial and ICT services and in the education and health sectors.

The varying sectoral impact of the downturn means it has affected different occupations in very different ways. While unemployment has risen across all occupations, craftspeople and manual workers have been hardest hit with unemployment in these groups rising to 25% or more, whereas the unemployment rate for professional occupations remains below 5%.

In response to the lack of job opportunities, labour force participation has fallen particularly sharply for teenagers and those aged 20-24 reflecting postponement of entry to the labour force. Aside from lower labour force participation amongst young people, the main labour supply response to weaker demand has come via the migration channel, removing 20,000 from the labour force in the year to Q3 2009.

The consensus short-term economic outlook, which envisages a return to GNP growth in the second half of 2010, should, all other things being equal, point to a return to employment growth at some stage in 2011. Indeed, there has been a very strong link between economic growth and employment growth in recent years, and this has been particularly evident during the recession. However, the anticipated economy recovery is export-led, whereas job creation is largely contingent on a recovery in domestic demand. Although the statistics for the second half of 2009 were better than many commentators had feared and offer some cause for guarded optimism, much will hinge on the timing of the recovery in consumer spending. According to most forecasts, consumer spending is expected to pick up only in the second half of this year, which implies that negative jobs growth will continue into early 2011, given that there is likely to be a lagged employment response. Furthermore, if the hoped for pick-up in consumer spending does not materialise, then employment growth is likely to stay negative throughout 2011. On balance, we are forecasting annual average employment to fall by 4.5% from 1,928,000 in 2009 to 1,841,000 this year and by a more modest 0.6% in 2011 to 1,830,000. Implicit in this forecast is a return to employment growth taking place in the second half of next year. Unemployment is still expected to rise further this year, peaking at about 13½% in the second half of the year. (Forecasts of the peak in unemployment have generally been falling in recent months; some commentators had foreseen the rate reaching as high as 16%). For 2011, we are forecasting a gradual reduction in the unemployment rate through the year, with the annual average falling to 12.6%. However, the economic outlook for Ireland is still uncertain which makes forecasting more tentative than usual.

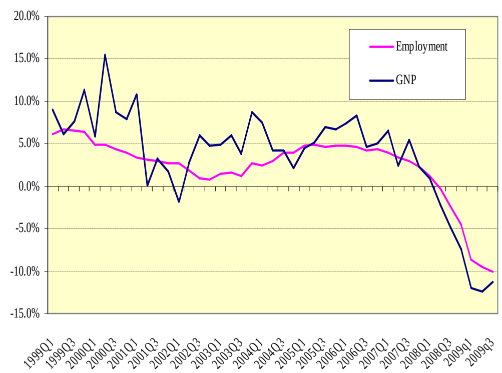
Macroeconomic Context

The Irish economy continued to contract in 2009, shrinking by 11.3% of GNP year-on-year in Q3 2009. The main sources of decline were the construction sector and consumer spending, while government expenditure was also negative. On the other hand, the export sector has performed relatively well in the face of the global downturn. Encouragingly, the quarter-on-quarter decline in GNP had slowed from -5.2% in Q1 to -1.5% in Q3. However, the economy has still remained extremely weak in recent months with consumer confidence remaining low and exchequer returns below expectations in January.

Employment Trends

Year-on-year, the numbers in employment fell by 9% (185,000) to 1.92m in Q3 2009. Overall, employment has fallen over 226,000 since its peak in Q3 2007. The decline in full-time employment has been even more pronounced, down 202,000 year-on-year, while part-time employment has increased significantly, rising 18,000. Economic growth and employment growth (based on a full-time equivalence basis) have followed a very similar trend since 2004, which should not be surprising given that most of the growth in the economy in recent years has come from the more employment-intensive sectors, namely construction and non-traded services. This link between the two has been particularly strong since the advent of the recession (Figure 1).

Figure 1: Annual GNP and Employment Growth Rates 1999-2009



Source: CSO

Predictably, the most significant year-on-year job losses occurred in the construction sector (-81,000). There were also significant losses in the services (-47,000), manufacturing (-41,000) and agriculture (-16,000) sectors. However, the percentage decline in services was relatively small (-3%), partly due to positive employment growth (+12,500) in the non-market services sector (i.e. education, health and public administration & defence). There have also been year-on-year employment increases in both the financial services sector and the ICT sector. The bulk of the decline in services has come from the wholesale & retail sector where employment has fallen by 10% (31,000) year-on-year.

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2008Q3	2009Q3	Change
Total Employment	2,107.1	1,922.4	-9%
Female Employment	924.7	882.4	-5%
Male Employment	1,182.4	1,040.0	-12%
Full-time Employment	1,712.7	1,510.3	-12%
Part-time Employment	394.4	412.1	4%
Agriculture	111.7	95.9	-14%
Industry	293.2	252.1	-14%
Construction	232.3	151.5	-35%
Services	1,469.9	1,423.0	-3%
Unemployment	159.4	279.8	76%
Labour Force	2,266.6	2,202.3	-3%
Unemployment Rate (s.a.)	6.8%	12.4%	*5.6pp*
Employment Rate (15-64)	67.7%	62.1%	*-5.6pp*

Source: CSO

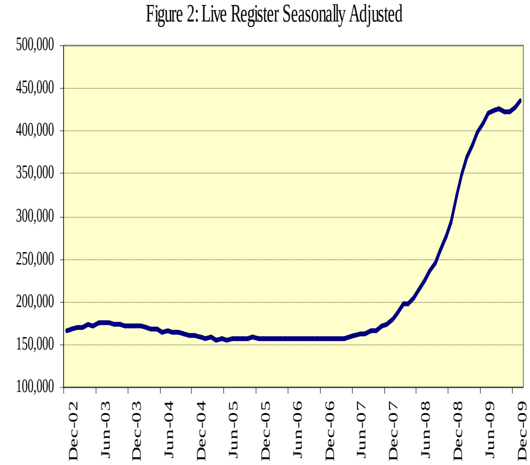
Unemployment Trends

The number of unemployed people increased by 75% between Q3 2008 and Q3 2009, rising from 159,400 to 279,800, although the seasonally adjusted quarter-on-quarter rate of increase had slowed somewhat as the year progressed, decelerating from 16% in Q2 2009 to 5% in Q3 2009.

A more up-to-date indicator of unemployment trends is available from the Live Register[1]. Since the recession began, the number of Live Registrants has been in and around 50% higher than the number of unemployed people (ILO definition). As of January 2010, 435,000 persons (seasonally adjusted) were signing on to the Live Register, up 34% (111,000) year-on-year (Figure 2). The unemployment rate is estimated to have reached 12.7% in January 2010 compared to the 12.4% figure in Q3 last year.

While the numbers on the Live Register rose significantly over the course of 2009, the average monthly increase over the last three months has been about 3,000, in stark contrast to the average monthly increase of 24,000 in Q1 2009. This would seem to support the view that the unemployment level may have begun to stabilise. That said, there was a seasonally-adjusted rise of 5,800 in January of this year – somewhat above the average for recent months. It remains to be seen if this was a once-off change, reflecting post-Christmas layoffs in retailing and construction.

Figure 2: Live Register Seasonally Adjusted

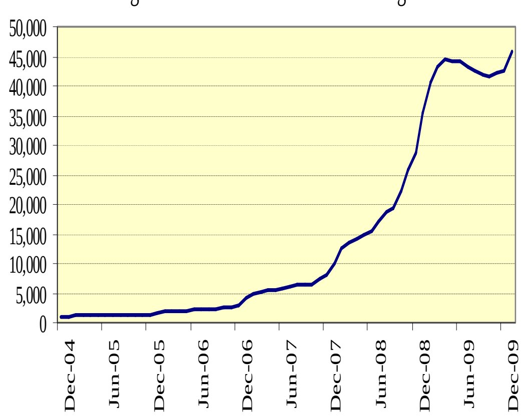


Source: CSO

[1] The Live Register is not a measure of unemployment as it includes in its total part-time workers, casual workers and seasonal workers who are entitled to either Jobseekers Allowance or Jobseekers Benefit and those awaiting approval of their claim for social welfare. It does, however, provide a good indication of the trend in unemployment. Recently, the numbers of unemployed has tended to be in the region of 60-65% of the numbers on the Live Register.

It is worth bearing in mind that there are several factors which have contributed to the decelerating rate of increase in the Live Register. For example, one reason for outflows from the Live Register has been the exhausting of entitlement to Jobseekers Benefit and related payments which is independent of any improvement in labour demand. In addition, the dramatic rise in the number of EU-12 nationals signing on which began in earnest in 2008, began to decline in April 2009, when the numbers signing on reached 44,000, before rising again in January 2010 to just under 46,000 (Figure 3). The deceleration in this trend goes some way to explaining the broader deceleration in the overall Live Register total. The eligibility criteria for Jobseekers Allowance, which places an onus on the claimant proving that their 'centre of interest' resides in Ireland, has probably led to significant numbers of Non-Irish nationals signing off, once their entitlement to Jobseekers Benefit runs its course.

Figure 3: EU12-Nationals on the Live Register



Source: CSO

Another indicator of the health of the labour market is the number of redundancies. There were 77,000 redundancies in 2009, an increase of 90% on 2008, with 35,000 redundancies in the second half of 2009, of which over 16,000 came in Q4 2009 (Figure 4). While redundancies seem to have peaked in Q2 2009, they were still substantial in the second half of the year and in January 2010 (6,700).

The composition of redundancies changed over the course of 2009 with the proportion of redundancies accounted for by the services sector rising from 43% in Q4 2008 to 54% in Q4 2009, while the construction sector's share has fallen from 32% to 20% over the same period (Figure 5).

Figure 4: Redundancies 2008-2009

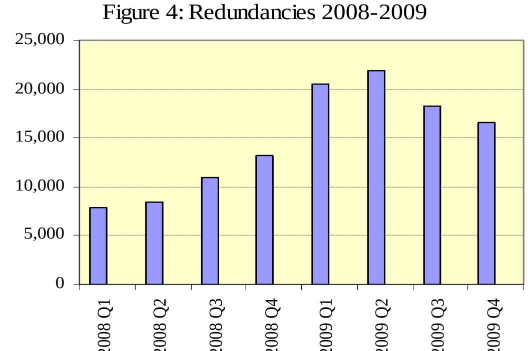
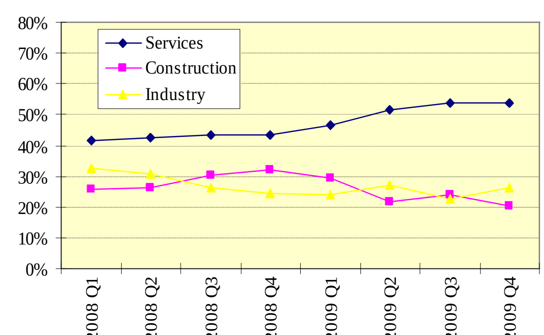


Figure 5: Redundancies by Sectoral Share 2008-2009



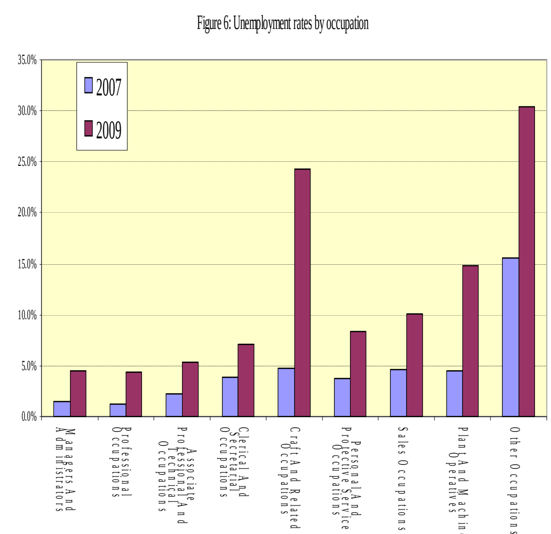
Source: DETE

Occupational Trends

In this section we take a more detailed look at the occupational trends that have emerged during the recession. (With regards to QNHS data, at the time this analysis was conducted, a detailed breakdown by occupation is only available up to Q2 2009. It is, nevertheless, informative.)

The varying sectoral impact of the downturn means it has affected different occupations in very different ways. Most obviously, jobs related to construction have contracted sharply. Building craft jobs fell by 71,000 or 38% between mid 2007 and mid 2009; unskilled building jobs fell by 37,000 or 42%; and professional and managerial jobs broadly related to construction contracted by 6,000 or 18%. Outside of the building area, other craft jobs were down by 19,000 or 16%, and semi-skilled/unskilled jobs were down by 36,000 or 12%. Clerical/secretarial and sales jobs showed relatively smaller declines (3% and 6%, respectively), while the number of personal service jobs was essentially unchanged. By contrast managerial and professional/technical jobs were actually up by 34,000 or 5% between mid 2007 and mid 2009. (However, much of the growth in professional/technical employment was in healthcare and education, and professional employment in other areas was beginning to weaken by mid 2009).

While unemployment has risen across all occupations, craftspeople and manual workers have been hardest hit, with unemployment in these groups rising to 25% or more (Figure 6). For a more precisely defined group of craft and other occupations directly linked to the construction industry, unemployment has risen to over 30%. Also, although the unemployment rate for professional occupations remains below 5%, the rate for managers and professionals closely linked to construction has risen to over 13%. The vast majority of the unemployed people come from manual or lower-level service jobs. Managers, professionals and technicians together account for a minority – 14% – of the jobless.



Source: CSO

Further information on the occupational profile of jobseekers is available from the FÁS registration database. While new registrations in 2009 rose most rapidly among management (+88%) and professional/ technical workers (+72%), this was from a relatively low base, and these groups represented just one in five new registrants in 2009. The slowest rates of increase were for clerical workers (+22%) and sales workers (+18%). However, the clerical and sales occupational groups still accounted for almost one-fifth of all new FÁS registrants in 2009. This broad occupational pattern was also reflected in the educational background of new registrants. While registrations among those with education beyond secondary level rose most rapidly (+48%), this group represented about a quarter of the new client inflow in 2009 (Table 2).

Table 2: New FÁS Registrants by Educational Attainment

Ed. Level	2008	2009	Change	Share this year
Unspecified	15673	22964	47%	
Primary	7817	7950	2%	9%
Junior	18473	20341	10%	22%
Leaving	31476	39796	26%	43%
Third-Level	16670	24730	48%	27%
Total	90109	115781	28%	100%

Source: FÁS

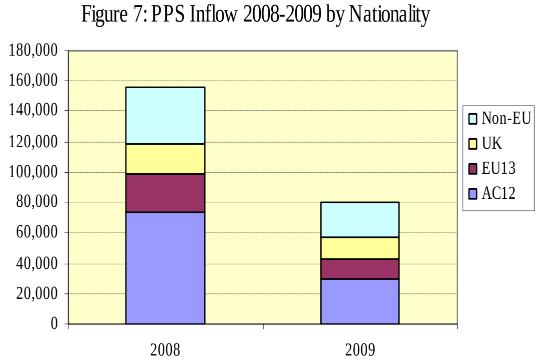
Labour Supply Trends

One response to falling employment has been for people to leave (or delay entry to) the labour force. Indeed, the rise in unemployment would have been greater were it not for the fact for every 3 jobs lost, one person either left, or did not enter, the labour market. As a result, the labour force declined by 64,000 between Q3 2008 and Q3 2009. The decline in the labour force was due to a combination of increased outward migration and falling participation. Participation fell particularly sharply for teenagers (down from 33% in Q3 2008 to 23% in Q3 2009) and those aged 20-24 (down from 79% to 73%), reflecting postponement of entry to the labour force. At older ages, female participation continued to rise, but there were significant falls for men aged 55 and over, perhaps reflecting early retirement by some of those losing their jobs in this age-range.

Some of those losing jobs have taken up training and education opportunities. For example, FÁS greatly increased the number of opportunities for unemployed people to undertake training last year, and almost 80,000 people participated in training in 2009, with a further 26,000 still in training at year-end. In addition, there was some expansion in FÁS employment programmes. Almost 11,000 people completed periods on these programmes in 2009 and 26,000 were still participating at year end. The impact of these measures on labour supply at a point in time is however best captured in the number of people *currently* participating in *full-time* FÁS programmes for unemployed people. For training, this figure rose from 14,300 at the end of 2008 to 16,300 at the end of 2009; for employment programmes it rose from 24,400 to 24,900. In addition, between November 2008 and November 2009, the number of previous social welfare recipients availing of the DSFA *Back to Education Allowance* had increased by almost 10,000, to just over 20,000.

Migration, which had added 50,000 to the labour force in 2007 and 10,000 in 2008, removed a net 20,000 from the labour force in the year to September 2009. Data on PPS numbers issued provide a slightly more up-to-date indicator of inflows of non-Irish nationals than the QNHS. Not surprisingly, the data show that the number of PPSNs issued to non-Irish nationals in 2009 was down substantially on 2008. This has been driven by the substantial fall (-60%) in the number of PPS numbers being issued to EU12-nationals (Figure 7).

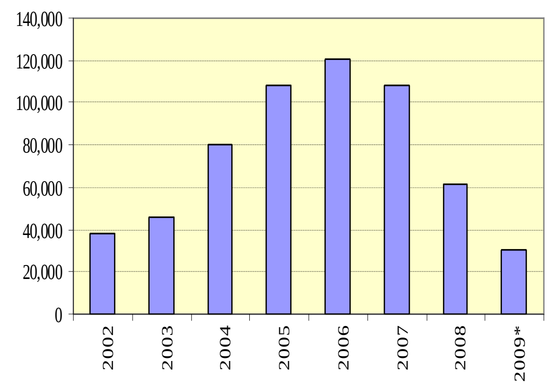
Figure 7: PPS Inflow 2008-2009 by Nationality



Source: DSFA

Typically, in recent years, over half of all non-Irish nationals issued with PPSNs have worked at some stage in the year of issue; however, this proportion has been falling over time. Based on these trends it is estimated that perhaps 30,000 of those issued with PPSNs in 2009 found employment – down from 62,000 in 2008 and 121,000 as recently as 2006 (Figure 8). More narrowly, the number of work permits/green cards[2] issued to persons from outside the EU fell by 41% from just over 13,500 in 2008 to 8,000 in 2009.

Figure 8: Employment-Related PPS Inflows



*Source: CSO, *2009 figure is an estimate.*

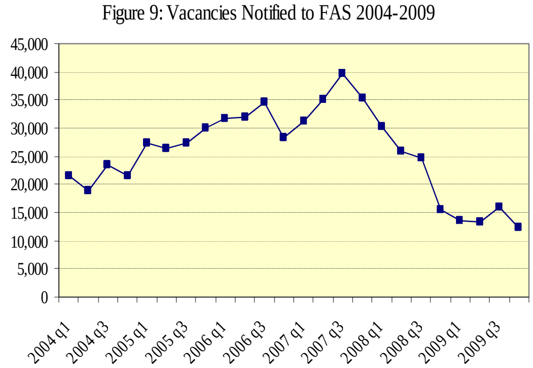
In addition to the fall in inflows, there has been a reduction of 63,000 in the number of non-Irish nationals in employment between Q3 2008 and Q3 2009. While some of these have moved abroad, many initially joined the Live Register. However, the deceleration in the number of non-Irish nationals joining the Live Register would seem to suggest that return migration has been a more significant factor in the latter half of 2009.

[2] Work permits/green cards are only issued to non-EEA nationals.

Labour Demand Indicators

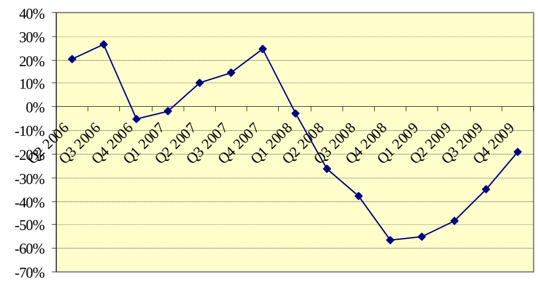
In the absence of employment data for Q4 2009, vacancy data provides an up-to-date indicator of labour demand. For the year as a whole, there was a 43% drop in the number of vacancies notified to FÁS from 96,000 in 2008 to 55,000 in 2009. There were above-average annual declines in vacancies for routine service jobs, clerical, and manual jobs. In Q4, vacancies notified were at their lowest level since the recession began (Figure 9). This would suggest that labour demand continued to be very weak towards the end of last year (although these figures are not seasonally adjusted). On a year-on-year basis, vacancies were down 19% in Q4, as compared with declines of over 50% in early 2009 (Figure 10). It is too early to say whether vacancy inflows have reached a trough. The only occupational group to experience a year-on-year increase in vacancies in Q4 was health & care services workers (up 11%).

Figure 9: Vacancies Notified to FAS 2004-2009



Source: FAS

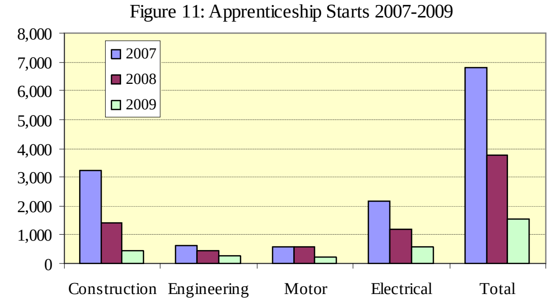
Figure 10: Year-on-Year Change inVacancies Notified to FAS



Source: FAS

Another indicator of labour demand comes from apprenticeship data. The number of apprenticeship starts was down 56% year-on-year in Q4, which reinforces the view that labour demand remained particularly weak in the construction sector. For the year as a whole, there were just over 1,500 new apprenticeship starts in 2009, a drop of 59% from the 2008 total, which itself was down 44% on 2007 (Figure 11). There were significant declines across all major trades in 2009, with the fastest decrease occurring for the construction sector which was down 69% on 2008. The fall in apprenticeship starts has contributed to the decline in labour force participation and the rise in unemployment for younger males.

Figure 11: Apprenticeship Starts 2007-2009



Source: FÁS

Prospects and Conclusions:

Tentative signs of recovery in the world economy have led some to take the view that the worst of the downturn is over, for the short-term at least, although there continues to be concern about the medium-term implications of the debt overhang from the recent stimulus packages and, more recently, about the fiscal situation of peripheral Eurozone countries. However, most Irish macroeconomic forecasts have factored in a recovery in the world economy and are anticipating a return to growth by the end of 2010 at the latest. For instance, in their most recent Quarterly, the ESRI are predicting that the pace of decline in the Irish economy (on a full-year GNP basis) will decelerate from -10% in 2009 to -1.5% in 2010. Implicit in this forecast is a return to positive economic growth in the second half of this year. More recent Central Bank forecasts envisage a similar growth path for GNP (-11.3% in 2009 and -2.0% in 2011).

The predicted recovery in the Irish economy is anticipated to be export-led, whereas the non-traded side of the economy (essentially construction and non-traded services) is expected to act as a drag on economic growth. That said, a pick up in consumer spending, albeit a modest one, is forecast for the second half of 2010. It should be stressed, however, that the economic outlook for Ireland is still uncertain which makes forecasting more tentative than usual.

Despite the strong link between employment growth and economic growth in recent years, it is by no means certain that the labour market will recover soon after the economy, given that job creation is largely contingent on a recovery in domestic demand. Furthermore, the consumer confidence on which domestic demand largely depends, remains brittle. Cutbacks in public expenditure and continuing bank rationalisation may point to further downside in labour demand. In addition, net emigration may have knock-on effects on demand for housing and services with implications for employment in these sectors. On balance, we are forecasting annual average employment to decline by 4.5% from 1,928,000 in 2009 to 1,841,000 this year.

For 2011, the labour market outlook would appear slightly more positive than 2010, due in large part to the anticipated recovery in consumer spending in late 2010. As a result, services employment should return to growth during 2011. However, the *annual average* services employment level is forecast to remain unchanged from 2010, at 1.38 million. Outside of services, annual average employment is forecast to fall across manufacturing, construction and agriculture. However, these annual averages hide a stabilisation in employment levels for these sectors in 2011. For the construction sector, we take the view that the worst of the job losses will have taken place this year, and that 2011 should see employment in the sector reach a trough. The stabilisation in the manufacturing trend is predicated on a continuing recovery in the world economy which rejuvenates the demand for our exports.

Overall, these trends should see employment fall by a more modest 0.6% in 2011 to 1,830,000. Implicit in this forecast is a return to (initially very moderate) employment growth taking place in the second half of next year – i.e. lagging the upturn in economic activity by 6-9 months.

The implications of our employment forecast for unemployment will partly depend on labour supply factors. In this regard, further outward migration and falls in participation can be expected as long as employment continues to fall. This contraction in the labour supply is also likely to outlive the contraction in employment as people take time to adjust their job expectations. These supply responses will act as a limiting factor on the rise in unemployment. Even so, unemployment is still expected to rise further this year, although it could reach a short-term peak at about the 13½ % mark in the second half of the year. For 2011, we are forecasting a gradual reduction in the unemployment rate through the year, with the annual average falling from 13.3% in 2010 to 12.6% in 2011.

Table 3: Annual Averages (000s) 2009-2011

	2009	2010	2011
Agriculture	97	92	88
Manufacturing	254	239	236
Construction	159	132	127
Services	1,417	1,380	1,380
Total Employment	1,928	1,841	1,830
Unemployed	250	282	264
Labour Force	2,187	2,123	2,094
Unemployment Rate	11.5%	13.3%	12.6%