



# FÁS Quarterly Labour Market Commentary

*Spring/Summer 2010*



***Executive Summary***

During the recession, the rate of employment growth has tracked the rate of economic growth with very little lag. The economy now appears to be coming out of recession, but only at a relatively slow pace. The jobs market is likely to recover even more slowly.

Employment has fallen by over a quarter of a million since the recession began with the latest figures showing employment declining 5.5% (108,000) year-on-year to 1.86 million in Q1 2010. As a result, the employment rate<sup>1</sup> fell to 60% in Q1 2010, the lowest it has been since 1998. The sectors which experienced the largest increases in employment during the 'second wave' of the employment boom that began in 2004, namely construction and wholesale & retail, have also accounted for the biggest falls in employment over the last two years. Despite the jobs downturn, part-time employment continues to rise (up 8,000 year-on-year) implying that the use of reduced hours (as an alternative to fully laying off workers) has been an important element in the cost-reduction strategy of some employers during the recession.

Meanwhile unemployment rose by 52,000 between Q1 2009 and Q1 2010. As a result the number of people out of work has tripled to

275,000 since the end of 2006. Of particular concern is the doubling in the numbers of long-term unemployed people between Q1 2009 and Q1 2010 to 112,600.

There are some tentative signs that overall unemployment has begun to stabilise. The increase in the Live Register has decelerated significantly this year, rising 16,000 year-to-date to 445,000 in June compared with a rise of 113,000 for the same period in 2009. However, there has been a significant increase of 12,000 in the Live Register in the last two months.

While redundancies are down 20% year-on-year, they are still running well above levels seen in all years prior to 2009. Similarly, while vacancies notified to FAS are up 16% for the first half of 2010, they remain at a depressed level compared to the pre-recession period.

Although uncertainty still remains arising from the recent debt crisis in the Eurozone, the consensus short-term economic outlook for Ireland envisages a return to GNP growth by the second half of 2010. Assuming an export-led economic recovery, then a recovery in employment growth is likely to be delayed, as the export sector is less labour-intensive. That said, given the extent to which employers have shed labour, they may have to increase working hours and/or employment relatively

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<sup>1</sup> The employment rate is the percentage of the population aged 15-64 who are in employment.

quickly in response to any increase in output. On balance, we are forecasting employment to go on declining into next year with average employment falling by 22,000 (1.2%) from 1,842,000 in 2010 to 1,820,000 in 2011.

While the rise in unemployment has decelerated appreciably, it is not certain that it is close to a turning point and recent unemployment trends need to be interpreted with caution, especially after the rapid acceleration that took place in 2009. While the range of uncertainty is wide, on balance, we expect the unemployment rate to average 13.4% this year and to fall only modestly to 13.1% in 2011. To the extent that the unemployment rate does decline, it will be due to falling labour force participation and continued emigration. The number of long-term unemployed persons is, however, expected to continue to increase significantly. Such a rise in long-term unemployment implies an increase in structural unemployment which is much harder to reduce during an economic upswing than cyclical unemployment.

### Macroeconomic Context

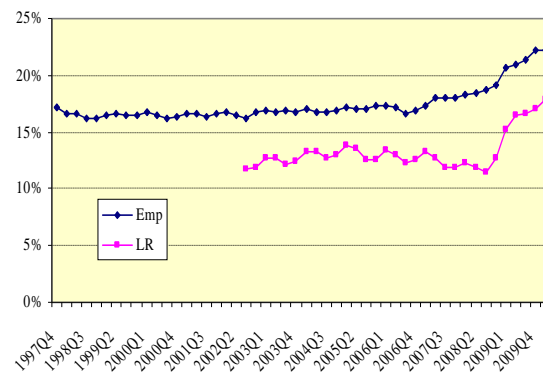
The Irish economy contracted by 4.2% year-on-year and by 0.5% quarter-on-quarter in GNP terms in Q1 2010. However, there have been some signs that the economy is stabilising. Exports, which have performed relatively well given the extent of the global downturn, appear to have risen since the turn of the year. The current financial crisis in the Eurozone, while increasing our lending costs, is at the same time providing a boost to the Irish export sector in so far as the weaker euro is increasing our competitiveness in non-euro markets. In addition, there have also been some tentative signs of improvement in retail sales volumes. However, consumer expenditure overall continues to be quite weak, while the downturn in the construction sector shows little sign of reversing. Overall, while the economy appears to be moving slowly out of recession, considerable uncertainty remains.

### Employment Trends

The latest employment figures show employment declining 5.5% (108,000) year-on-year to 1.86 million in Q1 2010. Overall, employment has fallen 270,000 since its seasonally-adjusted peak in Q4 2007. All of the fall in employment in the last year has been accounted for by full-time employment, which was down 116,000, while part-time employment rose by 8,000. More generally, the percentage of total employment accounted for by part-time employment has risen

significantly over the course of the recession from 18% in Q4 2007 to 22% in Q1 2010, having previously stayed within a narrow band of 16-17% from 1998 to 2007 (Figure 1). This would imply that for some employers, the use of part-time work has been a significant part of their strategy to reduce labour costs in the face of the recession. This seems to be further borne out by the fact that the percentage of persons on the Live Register who are part-time/casual workers has risen from 12% in Q4 2007 to 18% as of Q2 2010.

Figure 1: Part-Time Share of Employment & Live Register

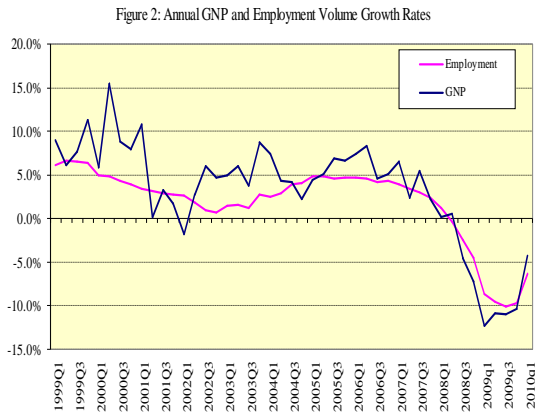


Source: CSO

On a full-time equivalent basis, the volume of employment in Q1 2010 was the lowest it had been since 2003. The correlation between overall economic output growth and employment (volume) growth since 2004 has been striking and has strengthened during the recession<sup>2</sup> (Figure 2). The strength of the

<sup>2</sup> There were 44 quarters between Q1 1999 and q4 2009. When split into 2, the first 22 quarters represents the period Q1 1999 to Q2 2004 and the second 22 quarters cover the period Q3 2004 to Q4 2009. The correlation between employment and economic growth rates in period 1 was 47.3%

relationship since 2004 is indicative of the importance of the labour-intensive construction and non-traded services sectors in the ‘second wave’ of the boom.



Source: CSO

Table 1: Summary of Labour Market Statistics

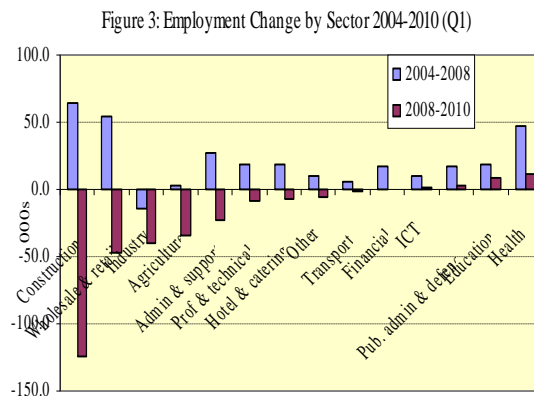
Statistic (000s)	2009Q1	2010Q1	Change
Total Employment	1,965.6	1,857.6	-5%
Female Employment	888.9	861.4	-3%
Male Employment	1,076.7	996.3	-7%
Full-time Employment	1,560.2	1,444.5	-7%
Part-time Employment	405.4	413.1	2%
Agriculture	101.5	80.6	-21%
Industry	262.7	242.2	-8%
Construction	179.9	129.1	-28%
Services	1,421.5	1,405.6	-1%
Unemployment	222.8	275.0	23%
Labour Force	2,188.4	2,132.7	-3%
Unemployment Rate (s.a.)	10.2%	12.9%	+2.7pp
Employment Rate (15-64)	62.0%	60.2%	-2.0pp

Source: CSO

When broken down by NACE sector (Figure 3), it becomes apparent that since the beginning of 2008, job losses have been largest in the construction (-124,000) and wholesale &

whereas the equivalent correlation statistic for period 2 was 97.4%.

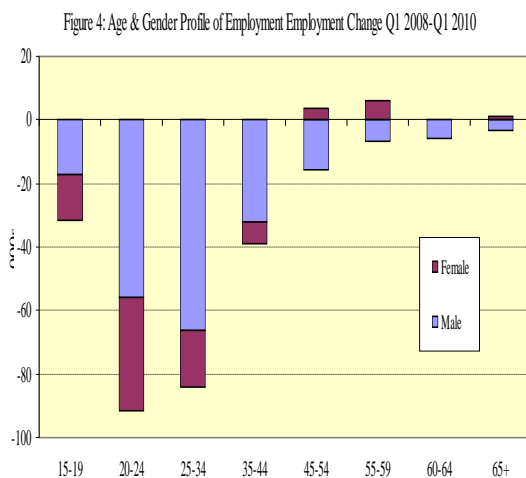
retail sectors (-48,000); the same two sectors which experienced the largest employment increases during the Q1 2004 – Q1 2008 period. The construction sector alone has accounted for almost half (47%) of the total decline in employment over the last 2 years. The only significant sources of net jobs growth during the recession were in public sector-related areas, namely health & social work (+12,000), education (+9,000) and public administration & defence (+3,000). Outside of the public sector, most sectors have seen negative growth, with the exception of the ICT sector which has grown marginally (+2,000) and the financial sector where employment has essentially remained unchanged.



Source: CSO

The decline in employment has been heavily concentrated among young people, and particularly younger men (Figure 4). The concentration of job reductions among young people reflects the tendency for job losses to be on a LIFO (Last In First Out) basis as well as the difficulty new entrants face in finding a

first job. The greater impact of the recession on males has been a by-product of the sectoral distribution of job losses which has been dominated by the construction sector. Much of the impact has also been on non-Irish nationals, who accounted for 40% of the fall in employment over the last two years; this has been reflected, in turn, in significant out-migration in this group.

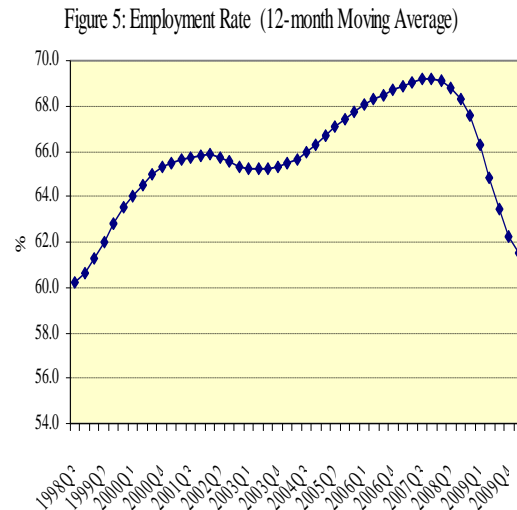


Source: CSO

While most attention has understandably been focused on the unemployment rate, the employment rate<sup>3</sup> arguably provides a better metric for the performance of the labour market as it reflects changes in labour force participation (which are partly determined by changes in labour demand) as well as changes in employment. Figure 5 below shows that there has been a significant fall in the employment rate since the jobs downturn began at the end of 2007. Between Q4 2007

<sup>3</sup> The employment rate is the percentage of the population aged 15-64 who are in employment.

and Q1 2010 the employment rate fell by 9 percentage points from a high of 69.2% to 60.1%, the lowest it has been since 1998.



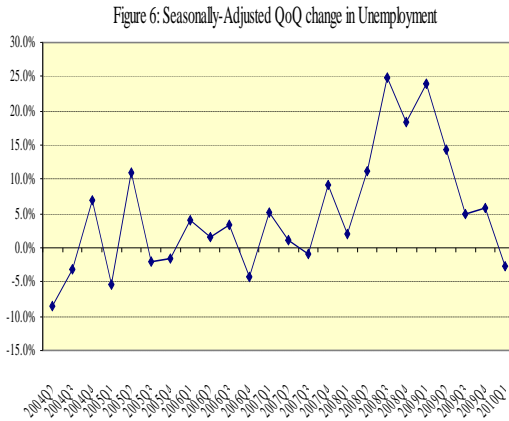
Source: CSO

### Unemployment Trends

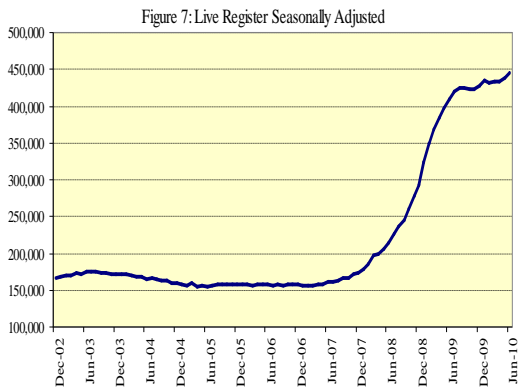
Unemployment rose by 52,000 between Q1 2009 and Q1 2010, from 223,000 to 275,000. In fact, the number of people out of work has tripled since the end of 2006. However, more recent trends provide tentative signs that unemployment may be approaching its peak. Firstly, the rise in unemployment as reported in the QNHS decelerated in each quarter of 2009. Indeed, first estimates even suggest that when seasonally-adjusted, unemployment actually fell slightly in Q1 2010 (Figure 6). Although too much weight should not be put on this reported decline<sup>4</sup>, Live Register figures for the first half of the year also suggest a

<sup>4</sup> Seasonally adjusted data tend to be less reliable when sudden shifts in trend take place, as has been the case over the last two years, and particularly in the first quarter of 2009

deceleration in the rise in unemployment (Figure 7). At 445,000<sup>5</sup> in June, the Register has risen by 16,000 so far this year (compared to 113,000 over the same period last year).



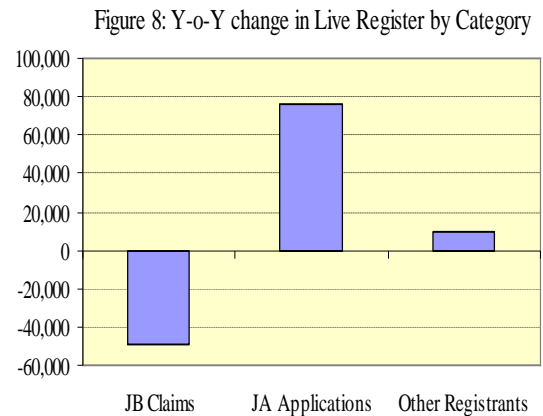
Source: CSO



Source: CSO

There has been a substantial shift in the composition of the Live Register over the last year. The number of Jobseekers Benefit claimants fell noticeably (-49,000) since June 2009 (Figure 8). At the same time, there has been a significant rise in applicants for the means-tested Jobseekers Allowance (+77,000). This is partly due to those who are no longer

entitled to Jobseekers Benefit transferring over to Jobseekers Allowance. The increase in Jobseekers Allowance applications is also likely to reflect persons signing on with no PRSI contributions (e.g. persons who have come out of the education system, previously self-employed).



Source: CSO

Tentative signs of an approaching peak in unemployment need to be interpreted with caution, for several reasons. First, the seasonally-adjusted increase of 12,000 in the Live Register for the May-June period seems at odds with the flatter trend in earlier months. Furthermore, as has been mentioned already in previous Quarterlies, the relationship between Live Register trends and underlying unemployment can be unstable. For example, some of the apparent stabilisation in the Live Register may be due to registrants, who had previously been receiving Jobseekers Benefit, signing off because they do not qualify for

<sup>5</sup> This is the seasonally adjusted figure.

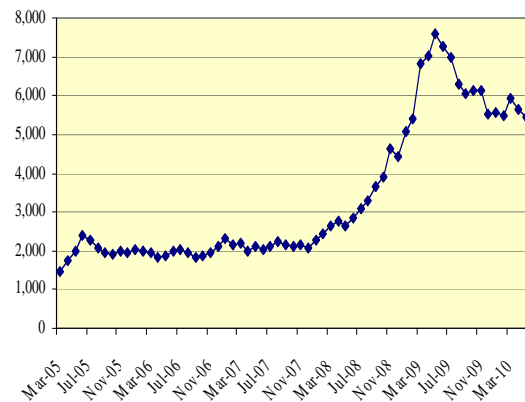
Jobseekers Allowance<sup>6</sup>. This situation can arise because a claimant's spouse is working or because the claimant can not establish that their 'centre of interest' is in Ireland (as is often the case with non-Irish nationals). These factors are likely to have been particularly relevant to the very large cohort who joined the Live Register in the first half of 2009, many of whom would be subject to a means-test 6-12 months later when their Jobseekers Benefit entitlement expires.

**Other Labour Demand Indicators**

Redundancies provide another source of data from which to form a view on unemployment trends. For the first five months of the year, at 28,600, the number of redundancies was down by 20% on the comparable period in 2009. However, this period last year was the worst on record; despite the year-on-year decline, redundancies, are still running well above levels seen in all years prior to 2009 (Figure 9). Another indicator of labour demand is vacancies. On a year-on-year basis, vacancies notified to FAS were up 16% for the first half of 2010 but, as with redundancies, the poor performance of the first half of 2009 must be

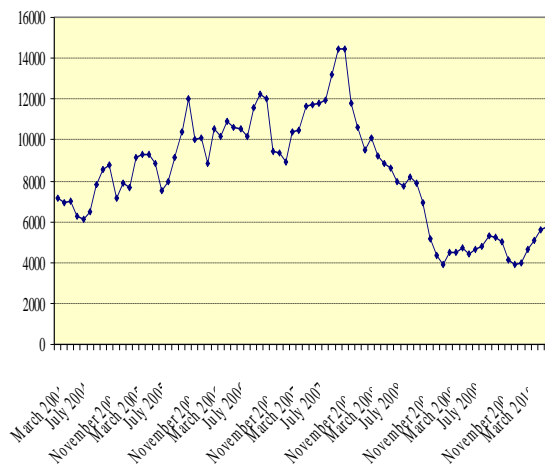
taken into account (Figure 10). Overall, vacancies still remain at an extremely depressed level compared to the pre-recession period. Most of the year-on-year increase has been driven by a substantial rise (56%) in the number of vacancies for sales workers, which is consistent with the upturn in retail sales volumes that has taken place since the beginning of the year.

Figure 9: Redundancies (3-Month Moving Average)



Source: DETI

Figure 10: Vacancies Notified to FAS (3-Month Moving Average)



Source: FAS

<sup>6</sup> Jobseekers Benefit is paid on the basis of a claimants PRSI contribution record and can last for up to 12 months depending on the amount of prior contributions that have been made. Once entitlement to Jobseekers Benefit ceases claimants may then switch to Jobseekers Allowance which, unlike Jobseekers Allowance, is means-tested. Persons with no history of PRSI contributions have no Jobseekers Benefit entitlement and are assessed on a means-tested basis for Jobseekers Allowance.

**Labour Supply Trends**

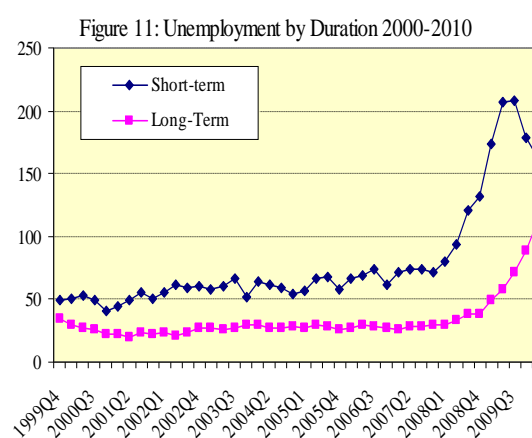
Inevitably, one response to falling employment has been for people to leave (or delay entry to) the labour force. Indeed, the rise in unemployment would have been greater were it not for the fact that the labour force contracted by 56,000 over the last year. The decline in the labour force was due to a combination of renewed outward migration and falling participation

Migration, which had added 50,000 to the labour force in 2007 and 10,000 in 2008, removed more than 30,000 during 2009. A substantial proportion of the out-migration in 2009 was accounted for by non-Irish nationals; the non-Irish, working age population fell by 60,000 between Q1 2009 and Q1 2010. As a result, the number of non-nationals in the labour force fell by almost 16% (-54,000) to 283,000, with the numbers in employment falling by 17% (-50,000) to 237,000. There has been a particularly strong decline in the number of persons from the EU12 accession countries nationals working in Ireland; currently they number 114,000, down from a peak of 170,000 in early 2008.

The participation rate fell from 62.0% in Q1 2009 to 60.7% in Q1 2010 accounting for 39,000 of the total decline in the labour force. Participation fell particularly sharply for under 25s over the last two years (down from 52% to 41%).

### *Unemployment by Duration*

Compounding the impact of the trend in overall unemployment is the trend in long-term unemployment which has seen the numbers out of work for over a year more than double (+63,500) between Q1 2009 and Q1 2010 to 112,600 (Figure 11), leading to a long-term unemployment rate of 5.3%. Long-term unemployment now accounts for 41% of total unemployment.



Source: CSO

The recent upward trend in long-term unemployment has been echoed in the Live Register, with the number of Live Registrants signing on for more than a year doubling from 71,000 to 142,000 in the year to May 2010. In part this reflects the very large cohort of people signing on the Live Register for the first time in the first five months of 2009<sup>7</sup>. However, it also reflects the fact that people entering the Register are now continuing to sign for longer periods than before, as reflected

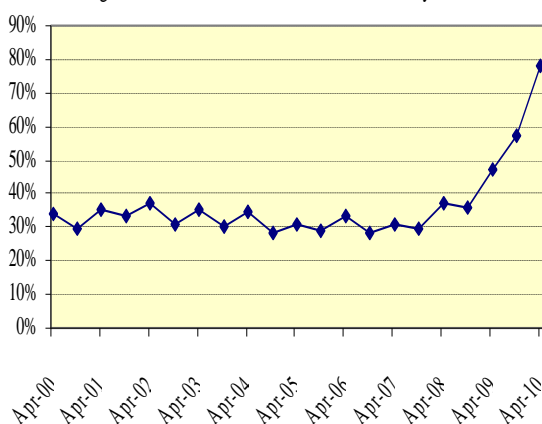
<sup>7</sup> That is to say, the large increase in the Live Register that occurred in Q1 2009 has 'matured' into a large increase in long-term live registrants in Q1 2010.

in increased “survival rates”<sup>8</sup> on the Register. A comparison of survival rates in April 2009 and April 2010 shows that those who had been signing on for 6-12 months, 1-2 years, 2-3 years, and 3 years+ in April 2010 were finding it harder to exit the Live Register than their comparable cohorts were in April 2009 (Table 2). As a striking example, 47% of those who were on the Register for under 6 months in October 2008 were still signing on in April 2009; a year later, 78% of those who were on the Register for under 6 months in October 2009 were still signing on in April 2010.

Table 2: Survival Rates by Cohort:

	0-6 mths to 6-12mths	<1year to 1-2years	1-2 years to 2-3 years	2years+ to 3 years +
Apr-09	47.2%	23.2%	59.7%	83.5%
Oct-09	57.0%	27.6%	72.6%	95.4%
Apr-10	78.2%	26.7%	66.9%	96.0%

Figure 12: Survival Rates for 0-6mths to 6mths-1yr



Source: DSP, FAS

**Prospects**

<sup>8</sup> Survival rates refer to the proportion of a particular Live Register cohort at time t, who are still on the Live Register at time t+1.

Looking ahead, the consensus short-term economic outlook for Ireland envisages a return to GNP growth by the second half of this year. Indeed most short-term macroeconomic forecasts have been revised upwards since the last Quarterly was published. However, many of the macroeconomic forecasts were made before the recent escalation of the Eurozone crisis and much of the short-term outlook will depend on how this unfolds. Ireland also faces further fiscal tightening in 2011. On current economic forecasts, we expect average employment in 2010 to be down by 4.5% on 2009.

Assuming that the economy does return to growth at some stage this year, whether or not employment growth occurs soon after will depend partly on the nature of the recovery. If the hoped for recovery is export-led, as most commentators believe it will be, then a recovery in employment growth is likely to be delayed as the export sector is less labour-intensive than other economic sectors. On the other hand, the extent of the recent reduction in employment, relative to the fall in output, suggests that firms have retained little spare capacity by “labour hoarding”; they may therefore have to increase working hours and/or employment relatively quickly in response to any increase in output. On balance, we are forecasting employment to go on declining into 2011 and stabilising thereafter. We expect average employment in 2011, at

1,820,000, to be down by 22,000, or 1.2%, from its 2010 level.

Having fallen by 1.9% in 2010, average services employment is forecast to fall by a further 0.9% in 2011 to 1,380,000. However, the job losses are expected to decelerate markedly over the 2010-2011 period. After a fall of 12,000 in 2010, manufacturing employment is expected to remain broadly stable in 2011, predicated on the belief that an upturn in the world economy and the depreciation of the euro will provide a boost to the sector. Construction employment having fallen by 20% this year is expected to fall by a further 5% in 2011 to 119,000; this represents a downward revision from our previous Quarterly.

While the rise in the unemployment rate has decelerated appreciably, it is not yet clear that it is close to a turning point. More generally, given the mixed messages that are emanating from the labour market and the wider economy, there is a wide range of uncertainty with all economic forecasts at present. On balance, we see the unemployment rate peaking at around the 13.7% in the second half of 2010, and averaging 13.4% for this year as a whole, with only a modest fall to 13.1% for 2011. To the extent that the unemployment rate does fall, this will be due primarily to a further contraction in the labour force arising from continued net-outward migration and

reductions in participation, rather than a recovery in employment. Within this persisting high unemployment, we expect the long-term component to increase significantly. A rise in long-term unemployment implies an increase in structural unemployment which is much harder to reduce during an economic upswing than cyclical unemployment.

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

	2009	2010	2011
Agriculture	96	82	81
Manufacturing	255	243	241
Construction	156	125	119
Services	1,419	1,392	1,380
Total Employment	1,929	1,842	1,820
Unemployed	251	285	274
Labour Force	2,187	2,127	2,094
Unemployment Rate	11.5%	13.4%	13.1%