Foras Áiseanna Saothair
Training & Employment Authority

FÁS Quarterly Labour Market Commentary

First Quarter 2007

NATIONAL DEVELOPMENT PLAN

Executive Summary[1]

Last year Ireland's labour market continued to outperform the rest of the Eurozone delivering exceptional employment growth and an extremely low unemployment rate. By the end of 2006, employment had grown by 85,500 to 2.07 million and the unemployment rate was down to 4.1%, the lowest it has been for 5 years, with the numbers unemployed falling to 88,700.

The main feature of recent sectoral employment trends has been the dominance of the non-traded sectors. There are now almost as many people employed in construction as there are in the manufacturing sector; at the turn of the decade the ratio was 1:2.

The strength of last year's performance was reflected in the number of vacancies (144,000[2]) advertised with FÁS last year – the highest in the Agency's history. And the indicators are that labour demand has remained strong going into 2007.

Immigration continues to be a major source of labour supply, with non-nationals now accounting for almost 11% of the labour force and over half of the increase in last year's jobs. The ability of the labour market to absorb the large inflow of migrant workers bears testimony both to the strength of the labour market and the employability of the migrants.

Thanks in part to the large inflows of workers from the EU10, labour shortages remain bearable. In the construction sector, where employment has been strong, earnings growth has been moderate. This is in some part due to the large number of EU10 workers in the sector whose earnings are well below the sectoral average.

Looking ahead, the positive economic outlook augurs well for jobs growth this year. Specifically, employment is forecast to increase by 2.8% (57,000) in 2007. The primary source of jobs growth should continue to be the services sector. Construction employment is also expected to increase in 2007. That said, employment in the sector should begin to fall towards the end of year as investment switches from the residential sector to the less labour-intensive commercial and infrastructure sectors. Little change is forecast for manufacturing employment, notwithstanding some recent high-profile redundancy announcements.

Early indicators from PPSN data are that while migration flows from the EU10 may have peaked, the inflow from the 'EU2' countries could be significant. Between them, Romania and Bulgaria have accounted for 5,500 PPS numbers since joining the European Union, with the vast majority of these being issued to Romanian citizens. The absorption of EU2 citizens into the labour market is likely to be more problematic than it has been for EU10

[1] Brian McCormick, an economist working in the Planning and Research Department of FÁS, prepared this Commentary.
[2] This figure excludes employment programmes advertised in FÁS.

migrants, given the conditionality surrounding their employment.

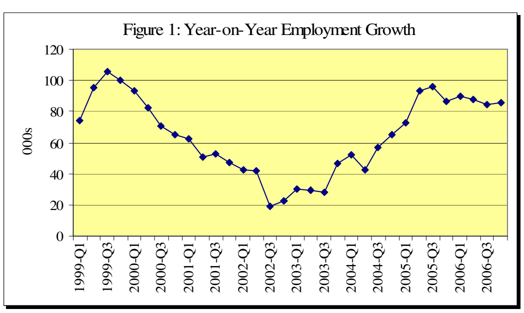
Further moderation in the rate of jobs growth is expected in 2008, especially in the construction sector as a number of factors such as higher interest rates dampen demand. The impact of any employment deceleration on unemployment will partly depend on how quickly the level of immigration responds to a looser labour market.

Macroeconomic Context

The Irish economy continued to perform strongly in 2006 with the Central Bank estimating GNP and GDP to have grown by 6.25% and 5.75% respectively, following on from similar growth in 2005. Provided the 2006 estimate proves to be accurate, it would represent the fastest growth in GNP since 2000. That said, the nature of recent growth has been quite lop-sided with the main driver being the strength of domestic demand in the services and construction sectors. At the same time, there has been a sharp slowdown in export growth since 2001 and the current account deficit is now running at close to 4% of GNP. With the annual rate of inflation reaching 5%, concern is growing that rising domestic costs, along with a strong euro, are adversely affecting the competitiveness of firms in the export sector.

Employment Trends

The Irish labour market, boosted by recent economic growth, finished 2006 strongly. By the fourth quarter of 2006, the numbers employed in Ireland were up 85,500 year-on-year to 2.07 million (Figure 1). The rate of employment growth at 4.3% continues to outpace the rest of the Eurozone. The majority of the jobs (77,200) created in 2006 were full-time (Table 1).



Source: CSO, Quarterly National Household Survey

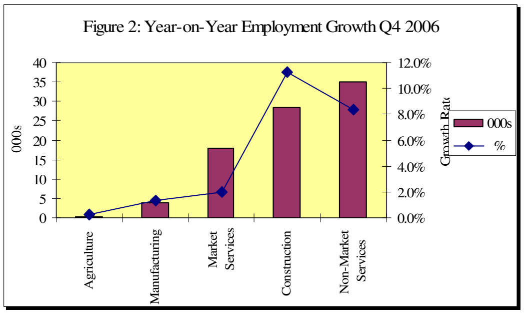
Table 1: Summary of Labour Force Statistics

Statistic (000s)	2005 Q4	2006 Q4	Change
Total Employment	1,980.60	2,066.10	4.3%
Female Employment	840.1	879.8	4.7%
Male Employment	1,140.5	1,186.3	4.0%
Full-time Employment	1,639.8	1,717.0	4.7%
Part-time Employment	340.8	349.1	2.4%
Agriculture	115.3	115.8	0.4%
Manufacturing	289.1	292.1	1.0%
Construction	253.2	281.6	11.2%
Services	1,324.0	1,376.5	4.0%
Unemployment	91.3	88.7	-2.8%
Labour Force	2071.9	2,154.8	4.0%
Unemployment Rate %	*4.4*	*4.1*	*-0.3pp*
Participation rate %	*62.2*	*63.0*	*0.7pp*

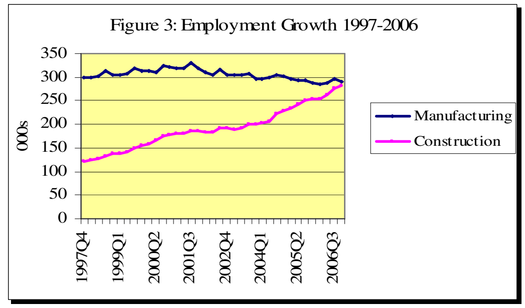
Source: CSO, Quarterly National Household Survey

Sectoral Employment

Over half of last year's jobs growth was accounted for by the services sector, where employment grew by 52,500 to 1,376,500. Given the size of the sector, it can be helpful to break it down into two sub-categories; the (largely) non-market services sector (health, education, public administration & defence) and the market services sector (all other services). There was a significant increase in non-market services employment in 2006, up 37,000 to 455,000, with jobs growth particularly strong in the health sector (+18,700). Employment growth was much more subdued in the market services sector (Figure 2). Despite the fact that almost half all jobs are in market services (921,000), it accounted for just over a fifth of the total growth in employment.



Source: CSO Quarterly National Household Survey



Source: CSO Quarterly National Household Survey

Employment in the goods-producing sector[3] grew by 33,000 through the year to 667,000. Within this sector, the fastest rate of jobs growth by some distance continued to be in construction where an additional 28,400 (+11%) jobs were created. In fact, there are now almost as many people working in the construction sector as there are in the manufacturing sector, the latter having lost 30,000 jobs since 2001 (Figure 3). However, manufacturing employment did show tentative signs of a recovery in 2006, increasing by almost 4,000 year-on-year to 292,100 in the fourth quarter. In summary, the main feature of recent sectoral employment trends has been the dominance of the non-traded sectors. It is of some concern that when the contributions of sectors with a degree of 'export potential'[4] are combined, they accounted for only 22% of employment growth in 2006.

Unemployment Trends

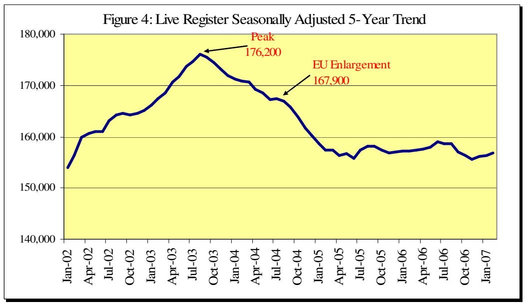
The number of unemployed persons fell by 2,600 year-on-year to 88,700 in the twelve months to the fourth quarter of 2006. Over the same period, the unemployment rate fell from 4.4% to 4.1%, as low as it has been for 5 years. Just over two-thirds of total unemployment was accounted for by short-term unemployment. The number of foreign nationals who were unemployed increased by 2,500 year-on-year to 14,300 in Q4 2006. As a result, the unemployment rate for foreign nationals was 6.2% in Q4 2006, noticeably higher than the 3.9% rate for Irish nationals.

The majority of unemployment is probably frictional, that is short-term unemployment that occurs as people transition between jobs. In general, a small level of frictional unemployment can actually be seen as a positive as it indicates a certain level of dynamism within a labour market. This is consistent with the increase in unemployment among foreign nationals as new entrants take time to familiarise themselves with the Irish labour market and may thus experience a short-period of unemployment.

There were 157,800 persons signing on the Live Register in February 2007, which continues to be

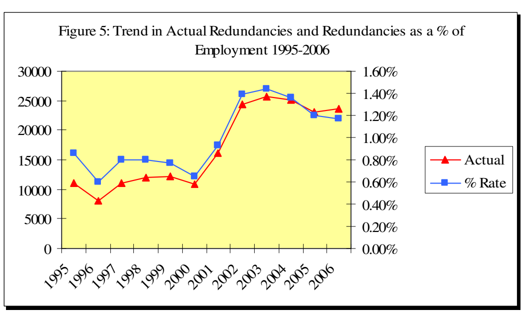
[3] A term sometimes used to categorise all non-services sectors (i.e. construction, manufacturing and agriculture).
[4] Namely agriculture, manufacturing, hotels & restaurants, finance & business and transport & communications.

an extremely low level when compared with the last 5 years (Figure 4). In fact, since EU enlargement the numbers on the Live Register have fallen by 10,000, despite the large inflow of migrants from the EU10.



Source: CSO

While both unemployment and the Live Register fell last year, redundancies were up 2.3% in 2006, having fallen for the previous two years. However, the rate of redundancies as a percentage of employment shows a marginal reduction (Figure 5). More recently, redundancies have risen by 2% in the first two months of 2007 compared to the same period last year.

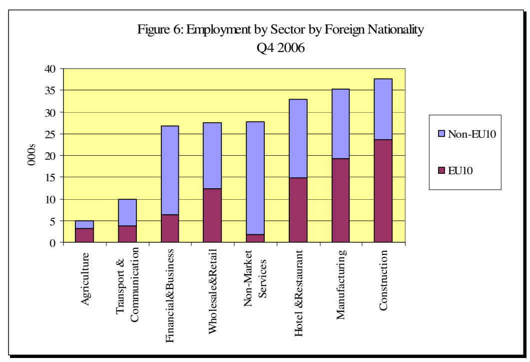


Source: DETE

Labour Supply

There were 2.155 million persons in the labour force in Q4 2006, up 82,900 (+4.0%) on Q4 2005. The labour force now accounts for 63% of all persons aged 15 or over. Demographic factors (immigration and the natural increase) accounted for over 75% of the increase, with increased participation accounting for the remainder.

There were just under 230,000 non-Irish nationals in the Irish labour force in Q4 2006, of which 93,600 were from the EU10. Non-Irish nationals accounted for over half (46,800) of the total increase in employment in 2006 including 28,300 from the EU10 and 17,000 from outside the EU25. The largest concentration of EU10 workers is in the construction sector (23,600) with significant number also in the manufacturing, hotels & restaurants and wholesale & retail sectors (Figure 6). By contrast, the non-market services sector stands out for its extremely low level of penetration by EU10 nationals.



Source: CSO

Personal Public Service Numbers (PPSN[5]) provide an extra source of information on EU10 immigration flows. Over 300,000 PPSNs have been issued to EU10 migrants since EU

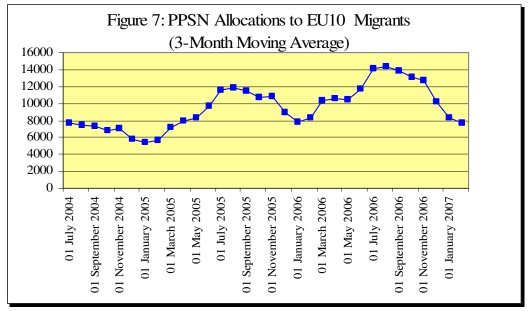
[5] PPSN are issued by the Department of Social and Family Affairs (DSFA) and are necessary to take up employment. More generally, the PPS Number is the unique customer reference number for transactions between individuals and Government Departments and other public service providers. Its use helps people access benefits and information from public service agencies more quickly and more easily. This includes services such as Social Welfare, Revenue, Public Health Care, and Education

enlargement with the rate of issuance increasing in 2006. However, the latest PPSN figures show the inflow of EU10 migrants falling by 8% year-on-year for the December-February period (Figure 7). It remains to be seen whether this signals the beginning of a longer-term slowdown in the rate of inflow.

The large difference between the CSO EU10 migration estimates and the PPSN figures suggests that many of the EU10 immigrants entering Ireland are choosing to return home after only a relatively short time working here. There also seems to be a significant seasonal component to immigration patterns. This transitory migration has been facilitated by the dramatic growth in the number of low-fares airline companies operating between Ireland and Central Europe.

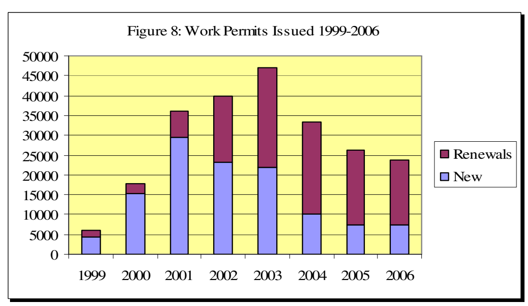
Perhaps surprisingly, there were also over 5,000 PPS numbers issued to Romanian migrants in the first two months of this year. While Romanian (and Bulgarian) citizens are not generally allowed to be employed here without a work permit[6], under EU law they are entitled to stay for three months before returning home. Also, if they are self-employed they can remain in Ireland indefinitely.

[6] Romanian and Bulgarian citizen are entitled to take employment without a work permit if they have already been working in the country for over a year with a work permit.



Source: DSFA

Prior to EU enlargement, the main source of migrant labour (especially in low skilled occupations) came through the work permit system[7], with approximately one-third of work permits issued in respect of workers from the accession states. Since May 2004, the government policy has been to fill vacancies that would have previously been filled through the work permit system, with workers from the enlarged EU. It is hardly surprising, then, that since EU enlargement, there has been a noticeable decline in the number of work permits (especially new work permits) being issued with just under 24,000 work permits issued in 2006 compared to almost double that figure (47,000) in the last pre-enlargement year of 2003.

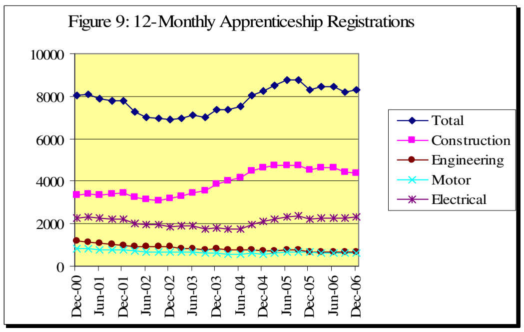


Source: DETE

[7] Work permits are primarily issued in respect of low-skilled jobs which can not be filled by workers from the EU. Prior to EU enlargement, approximately one-third of work permits were issued in respect of workers from the accession states. In January of this year, changes were made to the work permit system. See http://www.entemp.ie/labour/workpermits/ for more details.

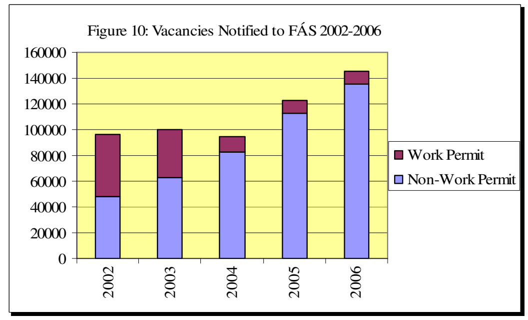
Labour Demand Indicators

The number of apprentice registrations totalled 8,300 in 2006, unchanged from 2005 (Figure 9). The number of new apprentices has remained at a high level since reaching a peak of 8,800 in Q3 2005. The profile of new apprenticeships continues to be dominated by the construction and electrical trades, accounting for over 80% of all apprenticeship starts last year.



Source: FÁS

There were 144,000[8] vacancies notified to FÁS last year up 18% on 2005 which in turn was up 30% on 2004 (Figure 10). In fact, 2006 saw the highest number of vacancies being advertised since FÁS was established in 1988. The growth in the number of vacancies has occurred in spite of a 75% fall in the number of work permit-related vacancies over the post-enlargement period.[9] Since 2003, the professional & clerical category has increased its share of FÁS vacancies from 9% to 17%. Over the same period manufacturing's share has fallen from 12% down to 5%. These trends are indicative of the shift towards a service-based economy that has gathered pace in Ireland in recent years.



Source: FÁS

Results from the *FÁS\ESRI Employment and Vacancies Survey* show a fall in the percentage of firms reporting vacancies at the beginning of the year. In the month of February, 12% of firms said that they had experienced vacancies, down from 15% in February 2006. However, the three-month moving average remained unchanged at 15% (Figure 11). More generally, there has been a gradual increase in the percentage of firms reporting vacancies since the beginning of 2005, when vacancies reached their lowest point in the last four years.

Although vacancy trends are a good proxy for trends in labour demand, the proportion of these vacancies that are 'difficult-to-fill' provides additional information on the extent of labour shortages. The percentage of firms with difficult-to-fill vacancies increased from 11% in January 2006 to 14% in January 2007. The vacancies that employers found most difficult to fill in January were, by sector:

- *Construction: Quantity surveyors and managers*
- *Services: Drivers and accountants*
- *Industry: Engineers and sales personnel*
- *Retail: Sales staff and garage personnel*

[8] This figure excludes employment programmes advertised in FÁS.

[9] All vacancies that employers seek to fill via the work permit system must first be advertised in FÁS and on the EURES system for four weeks to see if the vacancy can first be filled by a worker from within the EEA. In the two years prior to EU-enlargement, approximately half of all vacancies advertised in FÁS were work-permit related.

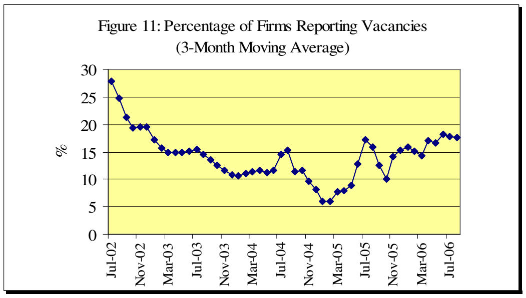


Figure 11: Percentage of Firms Reporting Vacancies (3-Month Moving Average)

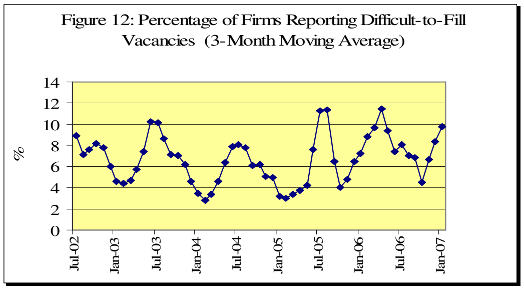


Figure 12: Percentage of Firms Reporting Difficult-to-Fill Vacancies (3-Month Moving Average)

Source: FÁS\ESRI Employment and Vacancies Survey.

Despite the recent bad news on the redundancy front, the latest statistics suggest that the demand for workers was strong towards the end of 2006 and this continued into early 2007. Labour demand was such that not even migration from the enlarged EU was sufficient to fill all the new jobs[10]. Nor has displacement been a problem, at the macro level at least, given our low unemployment rate and the even lower unemployment rate for Irish nationals.

Earnings Trends

Annual earnings growth rates for the third quarter of 2006 showed no major change from the previous quarter (Figure 13). Annual earnings growth in the services sectors was above the rate of inflation[11], with the fastest growth taking place in banking & insurance (7.4%). The lowest rate of earnings growth continued to be in the construction sector, where average hourly earnings rose by just 2.5% year-on-year having shown no growth in the previous quarter. The next slowest rate of growth was in the manufacturing sector where earnings grew by 3.5% year-on-year. In fact, when inflation is taken into account, both goods-producing sectors show negative real earnings growth for the 12-month period.

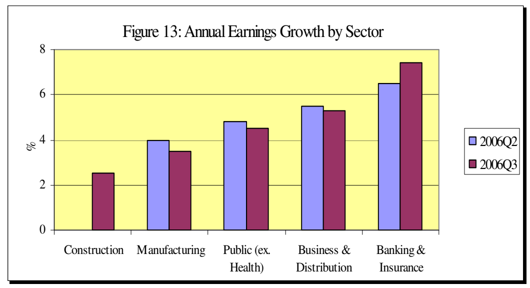


Figure 13: Annual Earnings Growth by Sector

Source: CSO

Earnings figures for EU10 migrants based on PPSN and P34 data[12] would seem to confirm what might be expected *a priori* about these workers, i.e. they earn significantly less than their Irish counterparts. On average EU10 workers who entered Ireland in 2004 were estimated to be earning in the region of €407[13] per week in 2005. This compares unfavourably with the average weekly earnings for sectors which migrants tend to work in, namely manufacturing, construction, retail, and accommodation & catering (Figure 14). On a

[10] Ireland has had to look further afield to fill vacancies with almost 17,000 extra workers coming from outside the enlarged EU last year.

[11] The annual inflation rate was 4% in September 2006.

[12] The earnings figures are based on a matching exercise conducted jointly by the DSFA and the Revenue Commissioners. Data on P35 tax returns were matched with EU10 PPS numbers to provide an indicator of the average earnings of EU10 migrants working in Ireland.

[13] The 2005 figure is based on 2.2 million P35 returns, compared to 3.5 million returns in 2004. When all the P35 returns for 2005 are made the annual average is likely to change, although not significantly.

more positive note for EU10 migrants, those who arrived in 2004 saw their average weekly earnings rise by 11.5% from €365 in 2004 to €407 in 2005. This was a faster rate of earnings growth than occurred in any sector of the economy for that period.

Figure 15 shows that those who arrived in the month of May 2004 were earning an average of €420 per week in 2005 compared to €370 for those who arrived in December 2005. This would suggest that the longer the EU10 workers stay the greater their earnings are likely to be[14]. This is to be expected as they acquire experience, language skills, employer trust and knowledge of the labour market. So while there appears to be a segmented labour market for EU10 nationals, there are also opportunities for earnings progression.

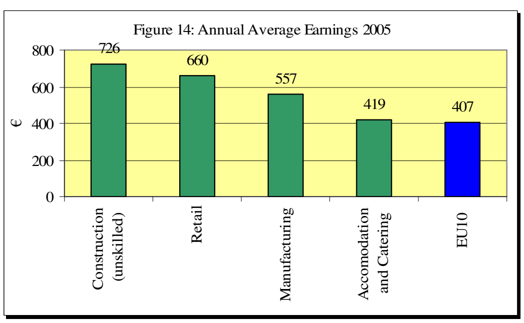


Figure 14: Annual Average Earnings 2005

Source: CSO, Revenue Commissioners / DSF

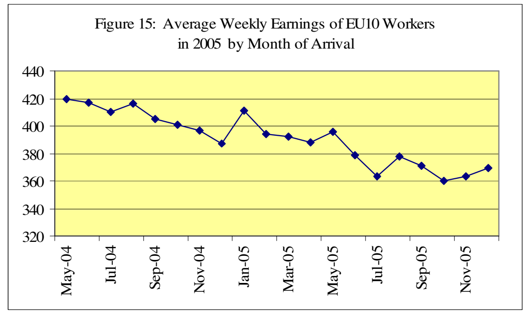


Figure 15: Average Weekly Earnings of EU10 Workers in 2005 by Month of Arrival

Source: Revenue Commissioners / DSFA

Prospects and Conclusions

The economy continues to outperform the rest of the Eurozone and the current momentum is likely to be maintained through 2007 with both GNP and GDP forecast to expand by around 5.5%. Domestic factors should again drive economic growth, with both population and incomes growth continuing this year.

The positive economic environment should continue to stimulate significant jobs growth and employers' employment expectations are now more optimistic than a year ago (Figure 16). However, while further employment growth is anticipated, the rate of growth is expected to moderate vis-à-vis 2006. Specifically, employment is forecast to grow by 2.8% (57,000) in 2007 down from 4.5% in 2006. As a result, employment should average 2.036 million for the year.

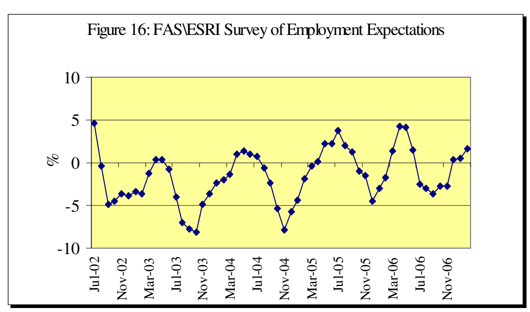


Figure 16: FAS\ESRI Survey of Employment Expectations

Source: FÁS\ESRI Employment and Vacancies Survey

[14] The higher average for the 'long stayers' may also partly be due to the fact that those who didn't find work in the early months of enlargement or who were paid badly left the country early. When these poor labour market performers leave, it pushes up the average weekly earnings rate for those still in the country. Nevertheless, it seems fair to assume that some of the difference (€50) in the earnings of early and late arrivers can be attributed to length of stay in the country.

Further growth in both consumer and public expenditure should ensure that the majority of employment growth continues to come from the services sector, with the number of jobs rising by 2.9% (+40,000) in 2007 to just over 1.4 million.

Employment prospects for the manufacturing sector are less encouraging. On the one hand, there has been an increase in the number redundancies in the sector in recent weeks. On the other hand, the results from the January NCB PMI would suggest that prospects for the sector are positive. On balance, employment levels in the sector are likely to remain broadly unchanged this year.

The Ulster Bank Construction PMI for February, while positive, shows signs that there has been a shift in investment away from the residential sector to the commercial sector. There have also been signs that house prices have stagnated in recent months and this will temper the purchasing decisions of potential house buyers. Construction employment is forecast to rise by 6% (16,000) this year on average, but fall in the second half of the year due to a shift from the residential sector to the less labour-intensive commercial and infrastructure sectors.

Although the unemployment level fell slightly towards the end of 2006, it is unlikely to fall much further and could rise slightly in the second half of 2007 as the labour market adjusts to slower employment growth. Overall, unemployment is forecast to increase by 3,000 to 96,000 this year but remain unchanged in terms of the average unemployment rate (4.4%).

While immigration will continue to be a major factor in labour force growth in 2007, the rate of inward migration from the EU10 should moderate this year as the latest Eurostat figures show the job markets in the EU10 countries continuing to improve. PPSN data for early 2007 suggest that this moderation may have already begun. It is expected that net-inward migration will be of the order of 60,000 this year, down from 74,000 in 2006. However, this represents a tentative estimate as migration flows are notoriously difficult to predict. The drop off in the rate of inward migration may not materialise if EU10 immigration is replaced by inward flows from Romania and to a lesser extent Bulgaria. Given their restricted access to the labour market it is likely that a significant proportion of migrants from the 'EU2' will seek to register as self-employed.

Along with migration, labour force participation and the natural increase are also expected to moderate, resulting in a deceleration in total labour force growth from 4.4% in 2006 to 2.8% (+60,000) in 2007.

The early indications are that economic growth is likely to slow in 2008. Consumer demand and residential construction are likely to be affected by the loss of the SSIA effect and higher interest rates while competition from emerging economies will increasingly test the viability of some manufacturing firms. There will be some compensating factors – favourable demographics and the National Development Plan should act as buffers against a sharp decline in construction overall, and weakness in manufactured exports continues to be offset by strong service exports.

While it is still too early make a specific employment forecast for 2008, it is likely that slower economic growth will be reflected in a further moderation in jobs growth. The impact of this on unemployment in 2008 will depend on how quickly labour force growth – and particularly the level of immigration – responds to a looser labour market.

Table 2: Labour Force Averages 2005-2007

	Annual Averages (000s)		
	2005	**2006**	**2007**
Agriculture	115	117	117
Construction	245	269	285
Manufacturing	294	291	292
Services	1,298	1362	1402
Total Employment	1,952	2039	2096
Unemployed	89	93	96
Labour Force	2,041	2132	2192
Net Immigration	56	74	60
Unemployment Rate	4.4%	4.4%	4.4%