



# FÁS Quarterly Labour Market Commentary

*Second Quarter 2007*



***Executive Summary***

The Irish labour market has continued to deliver a high rate of employment growth and a low level of unemployment with the long-term unemployment rate falling to an historical low of 1.2%. However, the most recent labour market data would seem to confirm that employment growth has begun to moderate. This gradual transition towards a lower growth rate is expected to continue for the remainder of the year preceding a more pronounced deceleration in 2008.

In the first quarter of this year, employment growth was extremely strong, increasing by almost 77,000 (+3.8%). The fastest rate of growth continued to be in the construction sector, while the largest absolute increase was in services, which was unsurprising given the size of the sector. There are also encouraging signs that the manufacturing sector has begun to reverse a five year trend of negative employment growth.

Immigration continues to be a major source of labour supply, with the proportion of non-nationals in the labour force now among the highest in Western Europe. Over 320,000 PPS numbers were issued to persons from the EU10 Member States in the first three years of EU enlargement, with the majority being accounted for by Polish nationals. However,

the most recent trends suggest that EU10 immigration peaked towards the end of 2006.

Vacancy data for the first half of 2007 suggests two contrasting trends; on the one hand the demand for labour in the services sector remains strong, while at the same time demand for construction workers has shown signs of weakening.

Earnings growth in most sectors has just about kept pace with inflation resulting in little or no real increase in wages. More rapid earnings growth has been experienced by the lowest paid, as a result of two increases in the minimum wage in 2007. In fact, Ireland now has the highest minimum wage in the EU after Luxembourg. However, this is unlikely to have much affect on economy-wide earnings given that only a small fraction of the full-time workforce are employed at the minimum wage.

Looking ahead, the positive economic outlook augurs well for jobs growth this year. Specifically, employment is forecast to increase by 3% (+60,000) in 2007. While this is a deceleration from 2006, it still represents a robust performance in an EU context. The primary source of jobs growth will continue to be the services sector. While construction employment is also expected to increase in 2007, the rate of growth is expected to moderate significantly and will probably turn

negative in the second half of the year. A slight recovery is expected in manufacturing employment this year in response to increased export activity.

A more pronounced moderation in employment growth is forecast for 2008 slowing to 1% (+23,000 jobs). The transition to this lower rate of growth will be largely due to job losses in the construction sector. We are forecasting a fairly modest rise in the unemployment rate from 4.4% in 2006 to 4.5% in 2007 and 4.9% in 2008. The precise impact of any employment deceleration on unemployment will partly depend on how quickly immigration responds to a looser labour market. The latest PPS data suggests immigration flows have already begun to moderate. Another significant unknown is the extent of future ECB interest rate increases. Any interest rate rises beyond the anticipated increase this autumn may necessitate an upward revision of the unemployment forecast for 2008.

### Macroeconomic Context

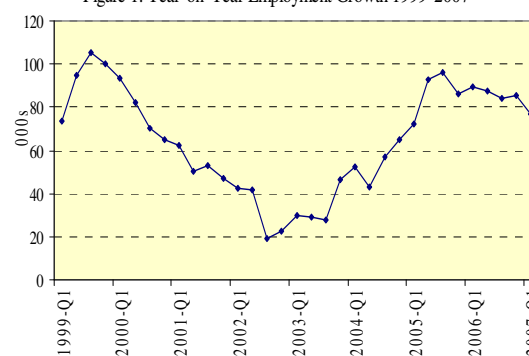
The Irish economy has continued to grow at a rapid pace. In 2006 both GNP and GDP grew at their fastest rates since the turn of the decade increasing by 6.5% and 5.7% in real terms respectively. This strong performance has been sustained into 2007, with GNP and GDP up 6.4% and 7.5% year-on-year in Q1. While the domestic sector continues to drive growth, the performance of the traded sector has improved significantly over the last year, thanks in part to the strength of the world economy. Notwithstanding the recent economic success, some indicators have been moving in the wrong direction; productivity growth has been low, the rate of inflation remains at 5%, interest rates have risen and the euro continues to appreciate against the dollar. While these developments are sources of some concern, on balance it must be said that the current macroeconomic environment is a favourable one for job creation.

### Employment Trends

Buoyed by recent economic growth, the Irish labour market has continued to expand. In Q1 2007 the numbers employed were up 76,800 year-on-year to 2.075 million, an increase of 3.8%. However, this does represent a slight moderation from the 4.3% year-on-year growth rate registered in Q4 2006 (Figure 1). More generally, employment growth peaked towards the end of 2005 and has been trending downwards since then. Yet despite this

deceleration, annual employment growth in Q1 2007 was still well above the EU27 growth rate of 1.2% for the same period.

Figure 1: Year-on-Year Employment Growth 1999-2007



Source: CSO

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2006Q1	2007Q1	Change
Total Employment	1,998.1	2,074.9	3.8%
Female Employment	848.3	887.0	4.6%
Male Employment	1,149.8	1,187.9	3.3%
Full-time Employment	1,654.7	1,718.5	3.9%
Part-time Employment	343.4	356.4	3.8%
Agriculture	115.5	116.4	0.8%
Manufacturing	285.0	290.8	2.0%
Construction	253.8	282.1	11.2%
Services	1,343.8	1,385.6	3.1%
Unemployment	88.2	91.8	4.1%
Labour Force	2,086.3	2,166.7	3.9%
Unemployment Rate	4.2%	4.2%	0.0pp
Employment Rate	68.0%	68.6%	0.6pp
Participation rate	62.2%	62.9%	0.7pp

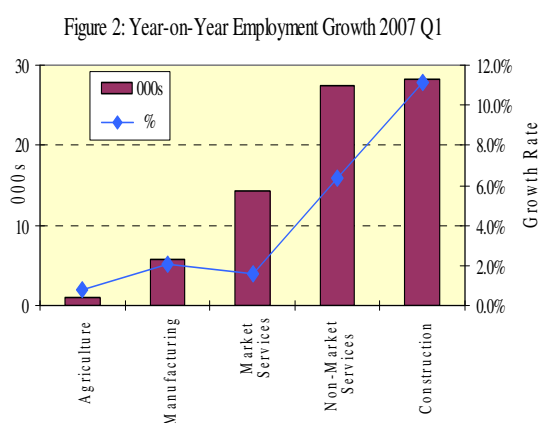
Source: CSO

The employment rate rose from 68.0% in Q1 2006 to 68.8% in Q1 2007 (Table 1), with all of the increase being accounted for the rise in the female employment rate from 58.6% to 59.8%, just 0.2 percentage points short of the Lisbon target for female employment. Over the

same period, the male employment rate remained unchanged at 77.2%.

### Sectoral Employment

Employment growth continues to be dominated by the services sector, where employment grew by 41,800 to 1,385,600 year-on-year in Q1 2007. The importance of the services sector for job creation is due to a number of factors such as the size of the sector, the labour-intensive nature of services and the evolution towards a more service-orientated economy<sup>1</sup>. Within this broad sector the main source of jobs growth was the non-market services sector<sup>2</sup> which grew by 27,500 (+6.4%) while the employment growth rate in the market services sector was a much more modest 14,300 (+1.6%) (Figure 2).



Source: CSO

Employment in the goods-producing sector<sup>3</sup> grew by 35,000 year-on-year to 689,000 in Q1

<sup>1</sup> There has been a noticeable shift towards services exports vis-à-vis merchandise exports in recent years.

<sup>2</sup> Comprised of the health, education and public administration & defence sectors.

<sup>3</sup> A term sometimes used to categorise all non-services sectors (i.e. construction, manufacturing and agriculture).

2007. Within this broad sector, the fastest rate of employment growth was by some distance in construction where an extra 28,300 (+11%) jobs were added. This increase reflected the record number of house completions in 2006.

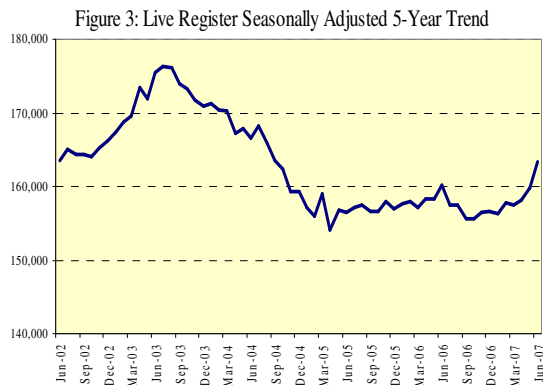
There were also encouraging signs that employment has begun to recover in the manufacturing sector. In the 12 months to Q1 2007, employment in the sector rose by 5,800 (+2%) to 290,800. This reverses a trend over the previous five years when the sector shed 30,000 jobs. Agricultural employment remained virtually unchanged from a year previous.

### Unemployment Trends

The number of unemployed persons rose by 3,600 year-on-year to 91,800 in the twelve months to Q1 2007, although the seasonally adjusted unemployment rate remained unchanged at 4.4%. All of the recent increase was accounted for by short-term unemployment, while the long-term unemployment rate fell to 1.2%, equalling an all time low. Foreign nationals accounted for 14,900 of the total unemployed, an increase of 1,200.

The Live Register, which provides a more up-to-date indicator of unemployment trends, points to a slight slackening in the labour market in recent months. When seasonally adjusted, there were 163,400 persons signing

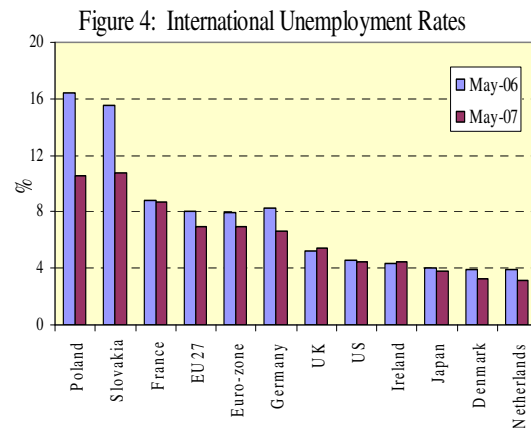
on the Live Register in June of this year, an increase of 5,700 since the end of 2006 (Figure 3). The seasonally adjusted unemployment rate, when recalibrated to take account of the rise in the Live Register, is estimated to have risen to 4.6% in June. A further sign of a slight weakening in the labour market has been an 8% year-on-year increase in the number of redundancies in the first half of 2007. The most noticeable increase occurred for the construction sector where redundancies rose by 26% year-on-year.



Source: CSO

Despite the recent increase in our unemployment rate, it continues to be one of the lowest rates in the EU. However, the gap between the Irish unemployment rate and the EU27 average has narrowed with the latter falling from 7.9% to 7% over the most recent 12-month period (Figure 4). The euro area unemployment rate has also fallen to 7%, its lowest level ever. The largest reduction has occurred in Poland where the unemployment rate fell by six percentage points to 10.4%. The

Netherlands and Denmark had the joint lowest unemployment rate in the EU at 3.1%.



Source: Eurostat

### Labour Supply

There were 2.167 million persons in the labour force in Q1 2007, up 80,000 (+3.9%) on Q1 2006. The CSO estimate that demographic factors (i.e. immigration and the natural increase) accounted for the majority (77%) of the increase, with increased participation accounting for the remainder. The labour force now accounts for 62.9% of all persons aged 15 or over.

The contribution of immigration alone is estimated to have accounted for almost 60% of the increase in the labour force. While this immigration estimate is itself substantial, it is sure to be revised upwards in light of the recent results from the 2006 Census. The Census figures show that non-nationals represented 13.4% of the total labour force in Q2 2006, significantly higher than the QNHS estimate of 10.1%. Based on the Census 2006

figure, the corresponding figure for Q1 2007 could be closer to 14% of the total labour force. This would rank as one highest percentage of non-nationals in a labour force in Western Europe.

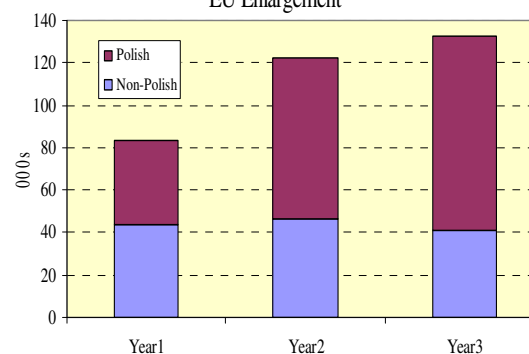
While the absolute number of non-nationals in the labour force may be underestimated in the QNHS, their sectoral distribution accords closely to the results of the Census. Both the QNHS and the Census figures show that non-nationals are most important for the hotel & restaurants sector accounting for approximately 30% of the sector's workforce, while the largest volume of workers are employed in the manufacturing sector (39,100 according to the QNHS estimate), with similar numbers employed in the construction sector (38,000 – QNHS).

Data on the issuing of Personal Public Service (PPS<sup>4</sup>) numbers provide an extra source of information on migration (specifically from the new EU Member States). Over 320,000 PPS numbers were issued to EU10 migrants in the first three years of EU enlargement. Inflows from the EU10 were highest in Year 2 of EU enlargement (May 2005 to April 2006)

<sup>4</sup> PPS numbers 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

reaching 122,000 for the 12-month period before falling back slightly, to just over 115,000 in Year 3 (Figure 5). The proportion of Polish migrants receiving PPS numbers increased substantially over the three year period. In Year 1 less than half of PPS numbers were for migrants from Poland; by Year 3 Polish migrants were accounting for 4 out of 5 PPS numbers issued. In total, Polish migrants have accounted for 60% of all PPS numbers allocated since EU enlargement commenced.

Figure 5: PPSN Allocation to EU10 Migrants Since EU Enlargement



Source: DSFA

Prior to EU enlargement, approximately one-third of work permits were issued in respect of workers from the accession states. When Ireland opened up its labour market to the EU10 it was hoped that workers from these countries would fill jobs that had previously required work permits<sup>5</sup>. And this has largely

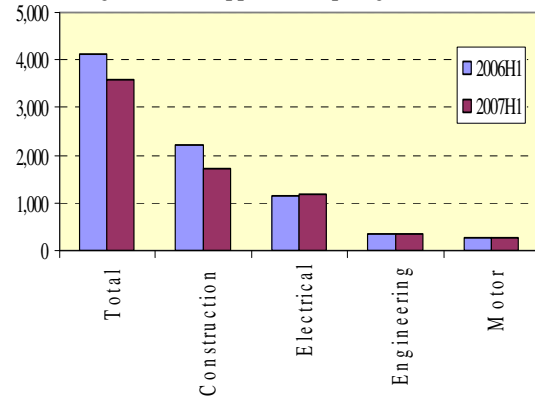
<sup>5</sup> Work permits are primarily issued in respect of low-skilled jobs which can not be filled by workers from the EU. Prior to EU enlargement, approximately one-third of work permits were issued in respect of workers from the accession states. In January of this year, changes were made to the work permit system. See

happened with the number of work permits falling from a peak 25,000 in the second half of 2003 to just under 9,000 in the first half of this year, despite strong employment growth over this period. In particular, there has been a noticeable decline in the number of work permits issued in respect of agricultural vacancies, falling from almost 4,000 in H2 2003 to less than 500 in H1 2007. This probably reflects the fact that Poland and the Baltic States have a strong agricultural tradition and as a result many agricultural employers are sourcing their workers from these countries. Over the same period, there has been an increase in the number of work permits accounted for by the health sector, rising from 1,371 to 1,701. This would suggest that this sector is having difficulty in filling medical and health posts from the EU10.

**Labour Demand**

Just under 3,600 new apprentices were registered in the first half of 2007 (Figure 6). This represents a fall of 13% compared to the same period in 2006. The slowdown in apprenticeship registrations has been driven by a fall in the construction trades which are down 24% year-on-year, while the number of registrations for other trades has remained virtually unchanged vis-à-vis H1 2006.

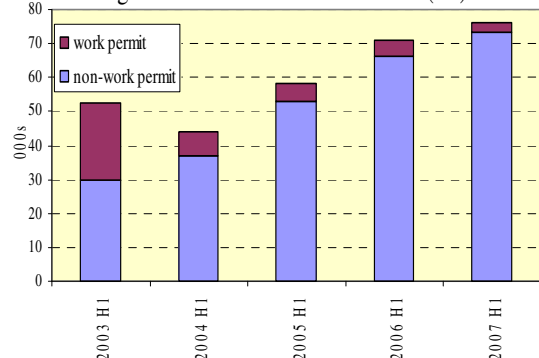
Figure 6: New Apprenticeship Registrations



Source: FÁS

There were 76,000<sup>6</sup> vacancies notified to FÁS in H1 2007 an increase of 7% on H1 2006 (Figure 7). Given that 2006 was itself a record year for FAS vacancies, the recent increase suggests that labour demand and/or labour turnover has continued to be significant in H1 2007. The services sector has accounted for the vast majority of FAS vacancies so far this year. The share of vacancy notifications that are associated with work permit applications continues to fall.

Figure 7: Vacancies Notified to FÁS (H1)



Source: FÁS

<http://www.entemp.ie/labour/workpermits/> for more details.

<sup>6</sup> This figure excludes employment programmes advertised in FÁS.

Other vacancy data from the *FÁS NESRI Employment and Vacancies Survey* suggests that economy-wide the level of vacancies has fallen with a four percentage point drop in the proportion of firms reporting vacancies to 15% in the twelve months to June<sup>7</sup> (Figure 8). The most notable falls were in the industry and retail sectors where the proportion of vacancies both fell by five percentage points in the twelve months to June. Over the same period, there was three percentage point fall to 8% in the proportion of construction firms reporting vacancies; this is the lowest vacancies in the sector have been since the survey began five years ago (Figure 9).

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 7% in May 2006 to 11% in June 2007 (Figure 10). The vacancies that employers found most difficult to fill in May were, by sector:

- *Construction: Drivers, managers, Qty. Surveyors*
- *Services: Managers, accountants, insurance staff*
- *Industry: Engineers, managers, sales personnel*
- *Retail: Managers and mechanics*

Figure 8: Firms in All Sectors With Vacancies

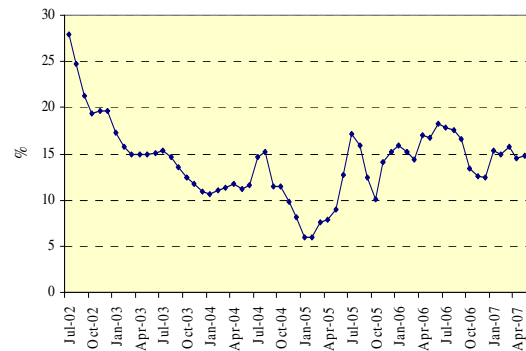


Figure 9: Construction Firms with Vacancies

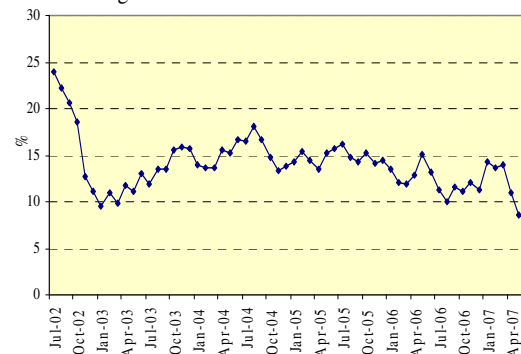
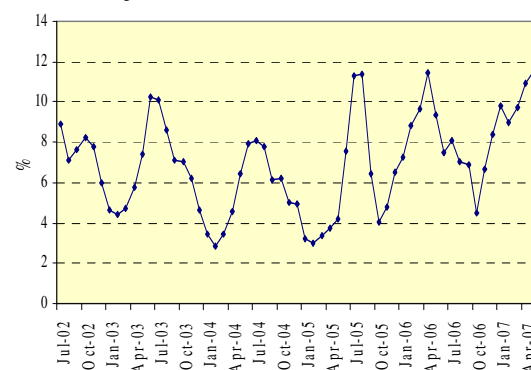


Figure 10: Firms with Difficult-to-Fill Vacancies



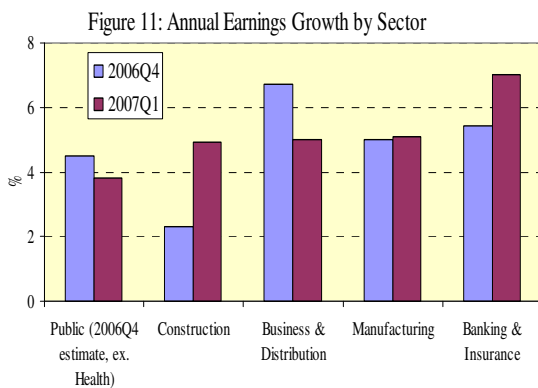
Source: FÁS NESRI Employment and Vacancies Survey.

Overall, the available indicators point to continued strong demand for labour in the services sector but a weakening demand for construction workers.

<sup>7</sup> Based on a three-month moving average

**Earnings Trends**

Earnings data for Q1 2007 show wages growing by 5% on an annualised basis in the construction, manufacturing and distribution & business services sectors, with a slightly faster growth rate of 7.0% in the banking & financial sector (Figure 11). Equivalent estimates for the public sector are not yet available (the annualised earnings growth rate for Q4 2006 was 3.6%). Given that the annual inflation rate was 5% for the period, there was no real earnings growth in the private sector, with the exception of the banking & finance sector.



Source: CSO

One of the most significant earnings increases in the last twelve months have been for the lowest paid. The minimum wage was increased in July 2007 from €8.30 to €8.65, having previously been increased from €7.65 in January 2007. This represents a rise of 13% since the start of the year. However, prior to January, there had not been an increase in the minimum wage since May 2005. Figure 12 shows that after the January increase, Ireland

had the second highest minimum wage in the EU after Luxembourg. While Ireland's minimum wage is relatively high, its impact on overall average earnings may be limited in current circumstances. This is suggested by Figure 13 which shows that only 3.3% of Irish full-time workers were in receipt of the minimum wage at the beginning of the year, which was low by EU standards.

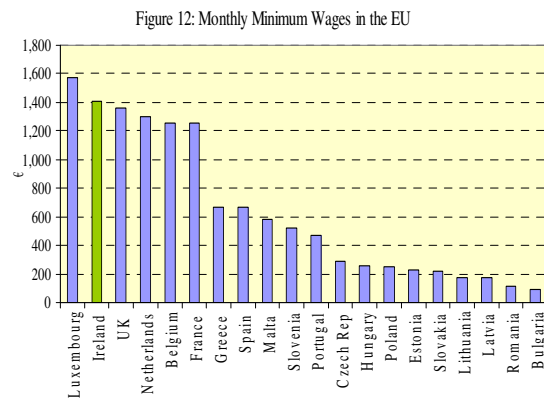
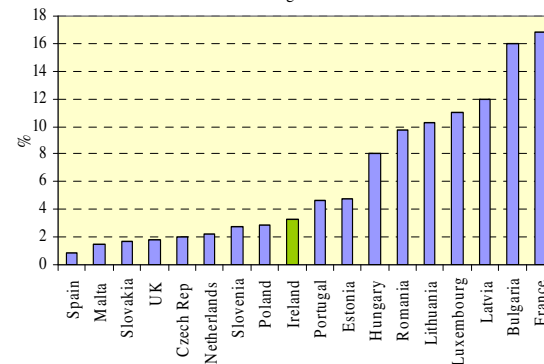


Figure 13: Percentage of Full-Time Employees Receiving Minimum Wage



Source: Eurostat

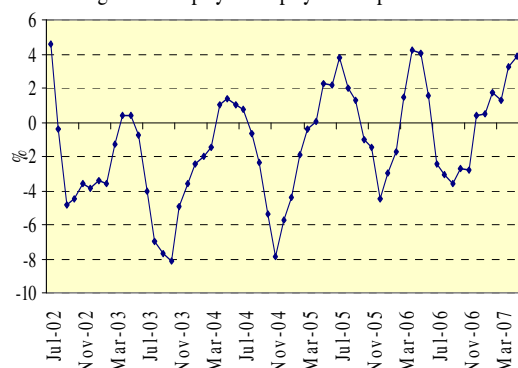
### Prospects and Conclusions

Given the strong start to the year it seems almost certain that Irish economic growth will significantly outpace the EU average yet again in 2007. Current forecasts suggest that both GNP and GDP will expand by around 5% in real terms this year. The contribution of the construction sector will be less than in previous years. By contrast, the importance of the traded sector should increase, as it benefits from the continued growth of the world economy. The rate of economic growth is expected to decelerate in 2008 to approximately 4% due to a slowdown in construction activity.

The composition of economic growth, as well as its magnitude, will have a significant impact of the labour market. Given the relatively robust rates of growth forecast, the outlook for the labour market would, on the surface, seem positive. However, the reduced contribution of construction, where employment growth been strongest, will have a dampening effect on the rate of job creation. While growth in the traded sector should compensate in part for the subdued contribution of the construction sector, it will not be sufficient to halt the recent deceleration in jobs growth. That said, employment growth should still be relatively strong for 2007 as a whole. Indeed, the latest FASVESRI survey shows short-term recruitment expectations remaining positive (Figure 14). The outlook for 2008 is for a

further slowdown. Specifically, we are forecasting employment to rise by 3.0% (+60,000) on average in 2007 before moderating significantly to 1.1% (+23,000) in 2008.

Figure 14: Employers Employment Expectations



Source: FÁS/ESRI Employment and Vacancies Survey

The main source of job creation will continue to be in the services sector. Current indications are that the demand for labour remains strong while the sector's export firms have seen increased demand for their services. Nevertheless, in 2008 employment growth in services could moderate significantly. The disappearance of the SSIA effect, higher interest rates and the concomitant rise in mortgage repayments should all serve to temper consumer spending next year and this should translate into slower employment growth. Hence, while we are forecasting employment in the sector to grow by 2.9% (+40,000) this year we expect jobs growth to moderate to 2.1% (+30,000) in 2008.

Recent housing statistics would seem to confirm earlier evidence that the housing sector has been cooling off since late 2006. While the causes of the recent slowdown have been the subject of much debate, it is generally believed that the ECB interest rate increase in June and a further anticipated increase this autumn could extend the cooling-off period. In terms of the employment outlook for the sector, the most relevant consideration is the level of housing completions. These are expected to fall noticeably this year from a record number in 2006. Indeed, short-term employment expectations among construction managers have been unseasonably negative in recent months according to the FASVESRI survey. However, employment should continue to grow in both repair and maintenance services and the commercial and infrastructural sub-sectors. Significantly, the Ulster Bank Construction PMI has showed a shift away from the residential sector to the commercial and infrastructural sectors. That said, it is likely that 2008 will see a decline in construction employment as the full impact of higher interest rates and lower house completions take effect. In short, we are forecasting construction employment to grow by 6.0% (+16,000) in 2007 before decreasing by 3.1% (-9,000) in 2008. However, should interest rates hikes continue beyond the anticipated rise this autumn then the deceleration in employment growth could be more pronounced next year.

The outlook for the manufacturing sector has improved in recent months, with exports increasing and the size of the market for these exports expanding. Encouragingly, employment seems to be responding in a similar fashion. However, competitive pressures have increased recently, most notably through the exchange rate channel, placing a question mark over the sustainability of the recent recovery in the sector. On balance, we are forecasting manufacturing employment to rise by 1.2% (+3,000) in 2007 with a more moderate increase of 0.7% (+2,000) anticipated for 2008.

As employment growth slows, the unemployment level is expected to increase, although the size of any such increase will partly depend on the immigration and participation response. Assuming immigration flows moderate broadly in line with employment growth then the increase in unemployment should not be overly dramatic. Specifically, we are forecasting unemployment to rise by 6,000 to 99,000 in 2007 and by a further 11,000 to 110,000 in 2008. This would equate to an average unemployment rate of 4.9% next year which, while high by recent Irish standards, would still be significantly lower than the EU average.

While the precise response of immigration is extremely hard to predict, it is assumed that migratory inflows will slow both this year and

next as jobs growth slows and labour market conditions improve elsewhere in the EU. Significantly, since EU enlargement there has been a dramatic improvement in the EU10 labour markets in general and the Polish labour market in particular. As mentioned earlier, PPSN data for the first half of this year suggest a noticeable moderation in the migrant inflow from the EU10. And while migration from Romania (and to a lesser extent Bulgaria) has been taking up some of the slack, the signs are that migration from Central Europe peaked in 2006. On balance, it is expected that net-inward migration will moderate from 74,000 in 2006 to 60,000 this year before falling more substantially to 30,000 in 2008.

The deceleration in immigration combined with a smaller contribution from both the participation effect and the natural increase should see labour force growth moderating to 3.1% (+66,000) in 2007 before slowing more noticeably to 1.5% (+34,000) in 2008.

In summary, 2007 will see the labour market transition from a period of high employment growth to a moderate rate of job creation, similar to that experienced by most of our EU counterparts. This will be accompanied by a slight increase in the unemployment rate, which will nonetheless remain relatively low. The main risk to this outlook is that construction employment falls faster than forecast. In addition, if immigration fails to

slow in response to lower employment growth, the impact on unemployment could be greater than anticipated.

**Table 2: Annual Averages (000s) 2006-2008**

	2006	2007	2008
Agriculture	117	118	118
Construction	269	285	276
Manufacturing	291	294	296
Services	1362	1402	1432
Total Employment	2039	2099	2122
Unemployed	93	99	110
Labour Force	2132	2198	2232
Net Immigration	74	60	30
Unemployment Rate	4.4%	4.5%	4.9%