



FÁS Quarterly Labour Market Commentary

First Quarter 2008



Executive Summary¹

The early months of 2008 have begun to see the Irish labour market switching from an era of rapid employment growth to a significant slowdown. While employment growth was strong in 2007, with over 70,000 extra jobs created, labour demand, especially in the construction sector, has begun to weaken noticeably in recent months. As a result, a much more moderate rate of growth can be expected in 2008 with a strong possibility of employment actually declining in 2009. Slower jobs growth will lead to a sustained increase in the numbers unemployed, although the magnitude of the increase should be tempered by a substantial reduction in immigration.

The majority of employment growth in 2007 was accounted for by either part-time work and/or self employment. Less than one-third of the increase in employment was accounted for by males. On a sectoral basis, the fastest rates of growth were in financial & business services and wholesale & retail trade, both of which grew by the order of 8%. By contrast construction employment has fallen for the first time in over a decade in response to the slowdown in house building activity. This has led to the number of new apprentices in construction trades declining by over 50% in early 2008 and a deceleration in construction

earnings growth. The services sector has also seen a deceleration in earnings, with average earnings in both the private and public sectors falling in real terms in the year to Q3 2007.

Evidence of a slower start to 2008 is based primarily on the Live Register which was showing a seasonally adjusted increase of 28,000 in the numbers signing in the first quarter. As a result, the unemployment rate rose to 5.5% in March up from 4.8% in December. Over 75% of the increase in the Live Register in the last 12 months was accounted for by males.

Elsewhere in the EU, unemployment has been falling, especially in the newer Member States. Up until recently, the difference between labour market conditions in the Irish and Central European labour markets has been sufficiently wide to encourage large scale inward migration, with 113,000 PPS numbers being issued to EU10 nationals in 2007. However, the rate of inflow from Central Europe fell by almost 50% in March, suggesting that immigration is responding to the reduction in job opportunities in Ireland.

Given the current turmoil in world markets and the slowdown in the construction sector, the short-term outlook for the economy is for below trend growth both this year and next. This will have negative implications for the

¹Brian McCormick, an economist working in the Planning and Research Department of FÁS, prepared this Commentary.

labour market. In particular, the construction sector, which has been one of the primary conduits of jobs growth during the last decade, is expected to act as a major drag on employment growth. Indeed employment in the sector could be down by 37,000 from its peak by the end of this year.

Fortunately, employment growth in the services sector is expected to remain relatively strong in 2008, reflecting the sectoral shift in the economy and the current momentum in the sector. In the round, we are forecasting total employment growth to slow from 73,000 in 2007 to just 24,000 this year.

We continue to take the view that migration will be sensitive to the employment slowdown and are forecasting migratory inflows to fall by over 60% in 2008. Reduced migration, along with a decline in the participation rate, should lessen the impact of slower jobs growth on unemployment. Nevertheless, we are still forecasting the average unemployment rate to increase from 4.6% in 2007 to 5.5% in 2008 with the numbers unemployed averaging 124,000 in 2008.

A further deceleration in the rate of jobs growth is expected in 2009 with a net decline in employment the most plausible scenario given that the services sector will suffer from a contagion effect arising out of the construction downturn. The unemployment rate is likely to

exceed 6.5% as a result, with males continuing to be the worst affected due to their preponderance in the declining construction and manufacturing sectors.

Macroeconomic Context

Despite the slowdown in the construction sector, the economy continued to perform strongly in 2007 with GNP and GDP growing by 4.5% and 5.3% respectively. In particular, the export sector made a noticeable recovery in 2007, partly due to an expanding world market for our exports, with the internationally traded services sector performing particularly well. Domestic demand also remained strong. However, most of the economic growth came in the first half of the year, with the slowdown in the construction sector dragging down the rate of growth in the second half. Significantly, exchequer returns for the first quarter of 2008 are down 5% on projections, suggesting that economic activity has been below expectations since the start of the year. Furthermore, the slowdown in the U.S. economy and the rise in the euro have increased the pressure on exporters in recent months.

Employment Trends

Employment grew by 3.2% (+66,800) year-on-year in Q4 2007 to 2.139 million (Table 1). While this was a relatively strong rate of growth, it represents a moderation from the 4.4% growth rate registered in Q4 2006. There were significant increases in atypical forms of employment, which would suggest that the quality of the new jobs created was somewhat

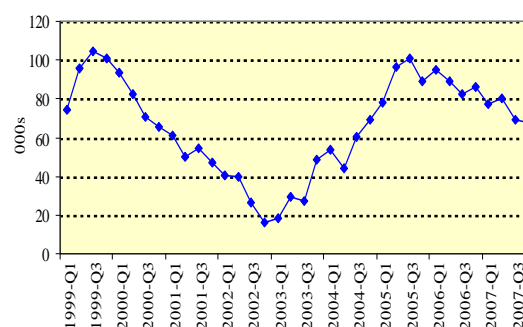
less than in previous years. In particular, part-time employment increased by 36,500 (mainly females) and self-employment increased by 39,100 (mainly males).

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2006Q4	2007Q4	Change
Total Employment	2,072.1	2,138.9	3.2%
Female Employment	879.0	924.8	5.2%
Male Employment	1,193.1	1,214.1	1.8%
Full-time Employment	1,724.1	1,754.4	1.8%
Part-time Employment	348.0	384.5	10.5%
Agriculture	114.7	118.7	3.5%
Manufacturing	294.9	290.7	-1.4%
Construction	284.6	279.0	-2.0%
Services	1,377.9	1,450.5	5.3%
Unemployment	90.3	101.0	11.8%
Labour Force	2,162.4	2,239.9	3.6%
Unemployment Rate	4.2%	4.5%	0.3pp
Employment Rate	68.8%	69.0%	0.2pp
Participation rate	63.3%	63.9%	0.6pp

Source: CSO

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



Source: CSO

Employment growth was much stronger for women than men last year, with the male employment rate actually falling over the period from 77.9% to 77.1% while the female employment rate rose from 59.6% to 60.8%.

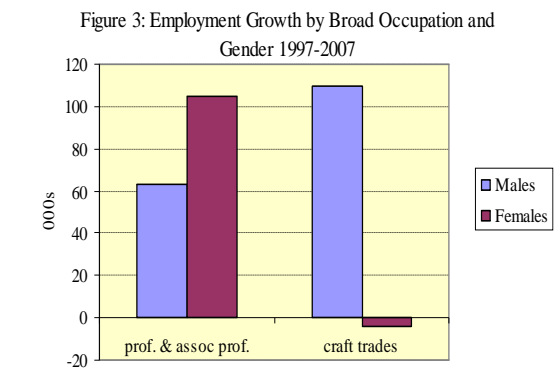
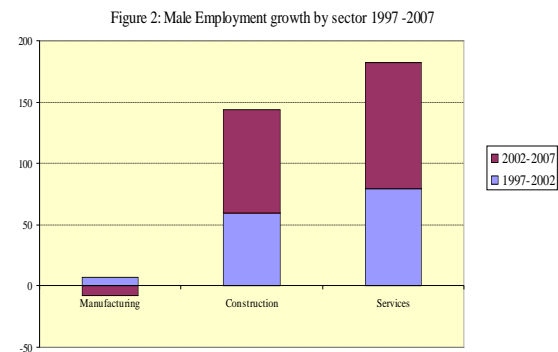
Sectoral Employment

The labour market continued to rely on the services sector for jobs growth, with the number of additional jobs created in services (73,000) in the 12 months to Q4 2007 more than the number created in the economy as a whole. Two sub-sectors drove the growth in services jobs, namely the financial & business sector and the wholesale & retail sector, with employment in both increasing by the order of 8% year-on-year. The majority of the increase in both of these sectors was accounted for by foreign nationals, especially EU10 nationals.

By contrast, the construction sector saw employment fall by 5,600 jobs in the year to Q4 2007. This represents a significant change from 2006 when employment grew by 30,000. The recent downturn in the construction sector is particularly worrying for the job prospects of male workers. Over the last 10 years the sector has been responsible for almost half (144,000) of the total growth in male employment, with the majority of this growth (85,000) coming in the second half of the boom (Figure 2). From an occupational point of view, the construction boom has resulted in a phenomenal growth in employment in the craft & related trades over the last decade. These jobs have been almost exclusively accounted for by males (Figure 3), which contrasts with the growth in professional and associate professional occupations, where females have been to the fore (+105,000 females compared to +63,000

males). Now that the construction sector is in decline, there will be a much greater reliance on other sectors (especially the services sector) to provide job opportunities for male workers.

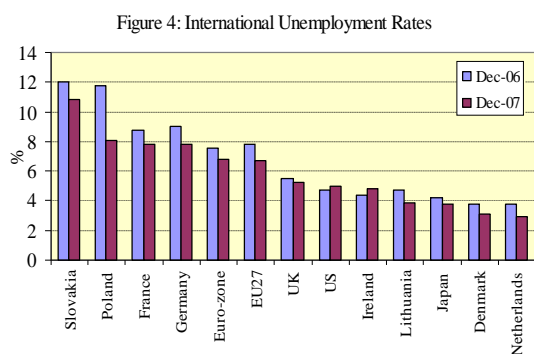
Manufacturing employment also fell in Q4 2007, down 4,000 on Q4 2006. Meanwhile, there was a recovery in the agricultural sector (+4,000), which represents a reversal of previous trends. Much of this increase is probably due to workers returning from the construction sector who had previously worked full-time in the agricultural sector prior to the housing boom.



Source: CSO, QNHS

Unemployment Trends

The numbers unemployed saw an annual increase of 10,700 to 101,000 in Q4 2007, while the unemployment rate rose from 4.2% to 4.5% over the same period. Despite this increase, our unemployment rate remained low relative to the EU average. However, the gap between the Irish unemployment rate and the EU27 average has been narrowing, with the EU27 unemployment rate falling from 7.8% to 7.2% through 2007. The Netherlands had the lowest unemployment rate in the EU at just 2.9% while the largest annual reduction was in Poland, down 3.6 percentage points from 11.8% to 8.2% (Figure 4). Prior to EU enlargement the Polish unemployment rate was almost 20%. The other main 'sending countries', Slovakia and Lithuania, have also seen their unemployment rates fall, with the Lithuanian unemployment rate (3.9%) now below the Irish rate.



Source: Eurostat

A more up-to-date reading of the unemployment situation can be approximated from the Live Register, which, although not a measure of the unemployment level per se,

does act as a reliable trend indicator. The latest figures from the Live Register suggests that there has been a sharp rise in unemployment since the start of the year. When seasonally adjusted, there were just under 200,000 persons signing on the Live Register in March, an increase of over 28,000 since the end of 2007 and over 40,000 since March 2007. In fact, the numbers signing on are currently at the highest they have been since 1999. However, the monthly rise of 12,000 in March can partly be accounted for by a one off 'Easter effect'² which probably overstates the true monthly increase by approximately 4,000.

The rapid increase in the numbers signing on contrasts sharply with a previous two and a half year period when the numbers on the Live Register remained within a narrow band of 155,000-160,000. When recalibrated to take account of the rise in the Live Register, the unemployment rate is estimated to have risen from 4.6% in March 2007 to 5.5% in March 2008. While this represents a noticeable increase on recent years, it is still well below the EU average.

The rise in the Live Register has disproportionately affected men. Males have accounted for 76% of the increase in the Live Register over the last 12 months, which is not

² The numbers signing on the Live Register tends to increase during the Easter school holidays.

surprising given the recent job losses in the construction sector. That said, the March increase of 12,000 was evenly split between males and females. While some of the female increase is probably due to the aforementioned ‘Easter Effect’, it may also be indicative of the first signs of a weakening in the services sector, given that the majority of females are employed in this sector.

In terms of age, young people have been worst affected by the rise in the Live Register, with the number of persons under the age of 25 signing on increasing by 10,000 (almost a third) from 31,000 to 41,000 in the last 12 months.

Figure 5: Live Register Seasonally Adjusted



Source: CSO

The recent rise in the Live Register has led to significant increases in both Irish and foreign-nationals signing on. Of particular note has been an increase in the number of EU10-nationals signing on to the Live Register since the beginning of 2007. Prior to 2007, the increase in the number of EU10 migrants

signing onto the Live Register³ was fairly modest reaching just 3,000 by the end of 2006. Since then, the numbers of EU10 nationals signing on has more than quadrupled to over 13,000. This has been due to a combination of factors, most notably the slowdown in the construction sector and the expiration of the habitual residency clause for those EU10 claimants who have been in the country for over two years.

Labour Supply

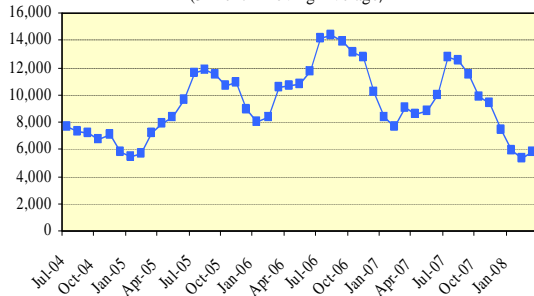
There were 2.24 million persons in the labour force in Q4 2007, up 77,500 (+3.6%) on Q4 2006, with foreign nationals accounting for two-thirds of the increase. As a result foreign nationals now make up 16% of the total labour force. To put this in perspective, the equivalent figure was just 3% ten years ago. The increase in the number of foreign national workers working here has been the fastest anywhere in the OECD.

That said, recent months have seen a noticeable fall off in the number of migrants coming to work in Ireland, implying that the era of mass immigration that has taken place since EU enlargement may be coming to an end (Figure 6). In the first three months of this year the number of PPS numbers issued to EU10 nationals fell by 36% year-on-year. This suggests that EU10 nationals are

³ In other words making a claim for social welfare because they are unemployed.

beginning to respond both to the slowdown in the Irish labour market and to improvements back home.

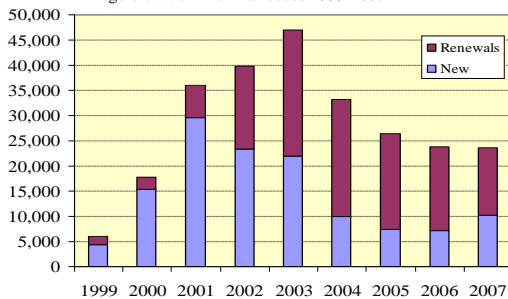
Figure 6: PPSN Allocation for EU10 Migrants (3-Month Moving Average)



Source: DSFA

With regards to economic migration from outside the EU, there were 23,600⁴ permits issued in 2007, which is virtually unchanged from 2006, but only half the number that were issued in 2003, prior to EU enlargement (Figure 7). However, it should be pointed out that the 2007 figure includes Green Cards, which were not in existence prior to 2007. The vast majority (89%) of new work permits issued in 2007 were in the services sector, up from 78% in 2003.

Figure 7: Work Permits Issued 1999-2007



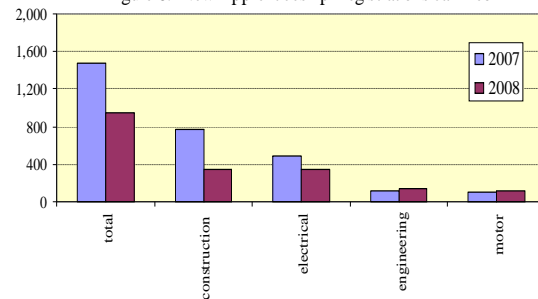
Source: DETE

⁴ The 2007 figures include Green Cards issued under the new employment permits system introduced in 2007. So far, approximately one-third of the new employment permits issued have been Green Cards.

Labour Demand

Labour demand can be gauged indirectly through a number of indicators such as apprenticeship recruitment, vacancy and redundancy statistics. With regards to apprentices, there has been a noticeable downward trend in recent months due to weaker demand for construction-related apprentices. Specifically, new apprentice registrations were down 36% year-on-year in the first two months of 2008, with construction trades down a full 56% (Figure 8).

Figure 8: New Apprenticeship Registrations Jan-Feb

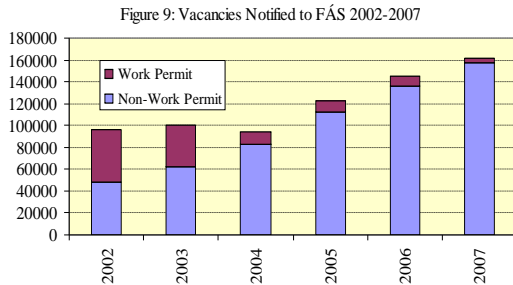


Source: FÁS

Despite the moderation in employment growth during 2007, the number of vacancies notified to FÁS totalled 162,000⁵, up 12% on 2006 and the highest annual total in the Agency's 20 year history (Figure 9). However, a slightly different picture has begun to emerge as 2008 has progressed. While vacancies for the Q1 2008 as a whole were up 1.5% on Q1 2007, the month of March showed a decline of 15%. It remains to be seen whether this recent decline was a blip caused by the timing of Easter or

⁵ This figure excludes advertised FÁS funded employment programmes.

the first sign of a downward trend. The majority of vacancies so far this year have been in the services sector.

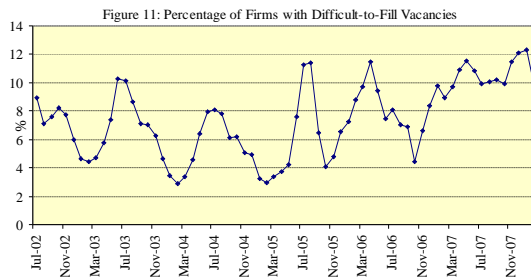
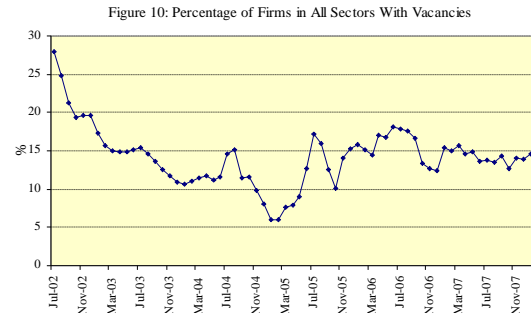


Source: FÁS

Vacancy data from the FÁS\ESRI *Employment and Vacancies Survey* suggests that there has been an economy-wide fall in vacancy levels in the early part of this year, with the proportion of firms reporting vacancies down from 15% to 13% in the twelve months to February⁶ (Figure 10). Not surprisingly, the construction sector has seen the most notable decline in vacancies, falling from 14% of firms in February 2007 to just 9% in February 2008.

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 slightly from 9% in February 2007 to 10% in February 2008 (Figure 11). The vacancies that employers found most difficult to fill in February were, by sector:

- *Industry: General operatives, managers, engineers*
- *Construction: Managers and quantity surveyors*
- *Retail: Mechanics and managers*
- *Services: Accounting, insurance personnel*



Source: FÁS\ESRI *Employment and Vacancies Survey*.

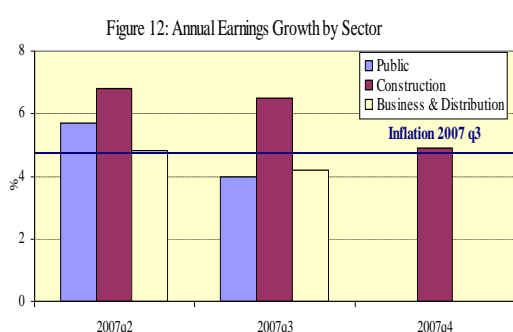
Further evidence that labour demand has weakened in recent months comes from the redundancy figures which show an increase of 30% in the first two months of this year compared to the same period of 2007. The increase was driven by the construction sector where redundancies rose by 182%.

Overall, the picture that emerges from the latest labour demand indicators is that while demand seems to have been holding quite well in the services sector, it has been weakening elsewhere. In particular, the latest data on apprentices, vacancies and redundancies confirm that there has been a sharp fall in labour demand among construction employers.

⁶ Based on a three-month moving average

Earnings Trends

Earnings trends provide an indication of labour demand vis-à-vis labour supply. The most recent figures show that there has been a deceleration in the rate of earnings growth in both the services sector and in the construction sector. In fact, the average earnings growth rate in real terms was negative in both the public and private services sectors (Figure 12).



Source: CSO

However, because these are averages they mask changes in compositional effects which, in sectors such as construction and private services, have been caused by a large increase in the number of workers from the EU10. These workers tend to earn less than their Irish counterparts and, therefore, a large inflow would tend to depress the average earnings growth in these sectors. Compositional effects could also be a factor in the public sector, given that recruitment tends to take place at the lower end of the salary scale⁷. These

⁷ The timing of pay increases awarded under *Towards 2016* is unlikely to have been a factor, as the two periods in question (Q2 2006 – Q2 2007 & Q3 2006 – Q3 2007) both involved increases of 5% under the terms of the T16 Agreement.

compositional effects could obscure the fact that earnings are increasing for a significant majority of employees at rates faster than the average would necessarily imply.

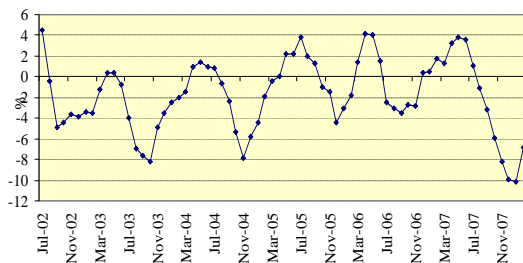
Prospects and Conclusions

The economy is entering a period of below trend growth as it corrects for an overdependence on the construction sector. International developments outside our control, namely the strengthening of the euro, rising commodity prices and the fallout from the credit crisis, increase the risk that this correction could turn into a full-scale recession. While the extent of the slowdown is the subject of much debate, it seems clear that a significant deceleration is in store, with the GNP growth rate likely to fall to 2% or below this year.

Such a weak economic outlook provides little reason to be sanguine about short-term employment prospects. Indeed, the most recent FÁS\ESRI Survey reveals that employers are becoming increasingly cautious, with hiring expectations at their lowest level since the Survey began (Figure 13). We take the view that the change in economic fortunes will translate into a significant moderation in the number of jobs created in 2008. However, the employment response to the economic slowdown is likely to be lagged in terms of its impact on the total employment figure.

Specifically, we are forecasting that employment growth will slow from 3.6% (+73,000) in 2007 to just 1.1% (+24,000) this year with the numbers in employment averaging 2,141,000.

Figure 13: Employers' Employment Expectations



Source: FÁS\ESRI Employment and Vacancies Survey

The primary reason for the slowdown in employment growth will be the downturn in the construction sector. In particular, we are anticipating a significant reduction in the numbers employed in the new homes sector as house completions roughly halve from their 2007 levels. Furthermore, job prospects in the commercial and retail property sectors are likely to worsen in the second half of this year. And while the repair & maintenance and infrastructure sectors are expected to buck the broader downward trend, this will not be sufficient to avoid significant job losses for the construction sector as a whole. In short, we are forecasting employment in construction to fall by an average of 7% in 2008, with net job losses reaching 28,000 by the end of the year.

Manufacturing employment growth is also expected to be negative. The strength of the

euro is currently making our exports more expensive outside the Eurozone and this will force some employers to cost-cut by either reducing staff numbers or moving operations to lower cost locations. And should the current recession fears in the U.S. be realised, then the likelihood of significant job losses will increase. On the upside, the sector should continue to benefit from the continued expansion of emerging economies. On balance, though, we are forecasting manufacturing employment to fall by 1.1% this year. By contrast, agricultural employment is likely to rise slightly next year (+0.6%) due to the strength of the food sector and the return of workers from the construction sector.

Further growth in both consumer and public expenditure will ensure that services employment continues to grow, albeit at a more moderate rate than in recent years. One moderating influence will be the contagion effect from the construction sector, especially in the second half of this year. International factors such as the credit crisis, the strong euro and high oil prices are also likely to act as a drag on services employment growth. Specifically, the credit crisis will impact on financial services employment, the euro appreciation will hurt the hotel & restaurants sector, while employment prospects in the transport sector will be adversely affected by the steep rise in petrol prices. However, the momentum generated from jobs growth in recent years

should ensure that spending on services remains relatively robust this year. In short, we are forecasting the number of service sector jobs to increase by 46,000 in 2008.

Notwithstanding the recent slowdown in inward migration, it remains to be seen how foreign-nationals who are currently working here will react to the anticipated slowdown. As the economy slows, there is concern that an oversupply of workers (both Irish and foreign-national) could materialise in exposed sectors. This is especially true for the construction sector which employs almost 50,000 foreign nationals. However, if there is a significant exodus of migrant workers then the risk of oversupply will be reduced somewhat. This is quite a plausible scenario given that the modern migrant is much more mobile than the Irish migrant of the 1980s. The advent of low-fare airlines facilitates migrants who want to return home or to access the large U.K. labour market, both of which will become increasingly attractive options as economic activity here slows. However, the steep rise in the number of EU10 workers signing on in recent months suggests that, in the short-term at least, a significant number are choosing to stay in Ireland to look for alternative employment.

Meanwhile, the number of new migrants coming to seek work here should continue to fall as the unemployment level rises. Indeed,

the majority of EU10-nationals who are disposed to migrate to Ireland have already done so, with the numbers of Central Europeans who have 'migration potential' (i.e. are young, mobile and highly motivated) now much lower than before Accession. In short, we are forecasting migration to slow from 65,000 in 2007 to just 25,000 in 2008.

The last time employment growth slowed significantly (2001-2003), labour force participation declined and we expect this to be repeated in the context of the current slowdown. A smaller participation effect combined with a deceleration in immigration should see labour force growth moderating from 3.7% (+79,000) in 2007 to 2.2% (48,000) in 2008.

Despite this deceleration, the labour force will still be growing at a faster rate than employment and, as a result, the unemployment rate will rise. The recent rise in the Live Register is a cause for concern and suggests that the increase in unemployment could be quite significant. We are forecasting unemployment to rise from 101,000 in 2007 to 124,000 this year. This will translate into an annual average unemployment rate of 5.5%, its highest level for almost a decade.

Early indications are that economic growth will, at best, remain subdued in 2009. A slowing economy, when combined with a

lagged employment response from 2008, is expected to lead to a fall in the numbers employed next year by the order of 20,000. Again the construction sector is expected to be the main source of jobs losses while services employment growth is expected to remain fairly flat. The jobs slowdown will, in turn, lead to a further reduction in immigration with net migration expected to be negligible next year. As a result, labour force growth is forecast to slow to just 0.2% implying an average unemployment rate in the order of 6.6% for 2009.

Table 2: Annual Averages (000s) 2007-2009

	2007	2008	2009
Agriculture	116	117	115
Construction	282	262	245
Manufacturing	296	292	287
Services	1,424	1,470	1,473
Total Employment	2,117	2,141	2,120
Unemployed	101	124	150
Labour Force	2,217	2,265	2,270
Net Immigration	65	25	0
Unemployment Rate	4.5%	5.5%	6.6%