



FÁS Quarterly Labour Market Commentary

Third Quarter 2008



Executive Summary¹

The movement of the Irish economy into recession in the first half of this year has coincided with a dramatic reversal in the fortunes of the labour market which is expected to worsen in the short-term. Employment, which had been growing rapidly at a rate of over 4% in 2007, has begun to contract, with the number of jobs down 15,000 between Quarter 1 2008 and Quarter 2 2008. Initial indicators suggest that the downturn in both the economy and the labour market have been even more pronounced in Quarter 3 of this year. By the end of September, the numbers signing on the Live Register were up 42% since the end of 2007, with the unemployment rate rising from 4.6% to 6.3% in the space of nine months. The Border Region appears to have fared worst from the contraction in labour demand with redundancies up 84% year-to-date.

Further indications of weakening labour demand comes from recent FÁS data. Vacancies notified to FÁS in the first nine months of the year were down 24% year-on-year, with particularly notable falls occurring for IT, transport and, not surprisingly, construction occupations. There has also been a fall of over 50% in construction-related apprenticeship starts.

While the downturn in the construction sector has been the main reason for the employment slowdown thus far, there are clear signs that the deterioration in economic conditions (most notably the current financial crisis) has begun to impact the services sector, especially financial services.

Labour supply has responded to the slacker jobs market, although not sufficiently to avert an increase in unemployment. Participation has declined, especially among young males, while the inflow of workers from Central Europe has fallen considerably, with the number of PPS numbers issued to EU12 workers down 41% on 2007. Whilst the slowdown of migratory inflows has been significant, over 60,000 PPS numbers have, nevertheless, been issued to EU12 migrants so far this year. At the same time, the ability of the Irish labour market to absorb migrant inflows has lessened considerably, as evidenced by a noticeable rise in the number of EU12 workers signing on.

Signs of weakness of labour demand can also be seen in earnings data for the first half of 2008 which show an economy-wide moderation in wage growth, with real average

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

earnings growth being negative for all sectors bar the financial & banking sector².

Unfortunately, there is every reason to believe that the current deterioration in the labour market will continue in the short-term. We expect annual average employment to fall by 0.2% (-3,000) this year, followed by a sizeable decline in the region of -3.8% (80,000) in 2009. This would, in effect, bring employment back to its 2006 level. However, we recognise that the rapidly changing nature of the economic landscape makes even short-term forecasts tentative.

While the most significant job losses will inevitably come in construction, every sector, with the exception of agriculture, is likely to experience a net reduction in employment, with service jobs, including the public sector, unlikely to be recession proof. We believe that the negative spill-over from the construction sector to the services sector will be significant and this, in turn, will be compounded by the deterioration in credit conditions and waning consumer confidence. Our particular concern for job prospects in the services sector makes our forecast more pessimistic than those issued by some other commentators.

The contraction in the labour market can be expected to have a significant impact on migration flows. As a result, we believe that emigration will exceed immigration next year by the order of 27,000. Labour force participation is also expected to decline in the light of fewer job opportunities.

Notwithstanding a significant labour supply response, the speed at which the unemployment rate has risen so far this year is likely to continue out to the end of 2009. Such is the extent of the slowdown in labour demand envisaged, that we expect the unemployment rate to reach 8% before the end of 2009. Again, however, it is important to emphasise the current economic turmoil increases the uncertainty of our forecasts leaving them subject to revision once data for Q4 2008 becomes available.

² At the time of going to print, earnings data for the financial & business sector was only available up to Q1 2008.

Macroeconomic Context

The most recent figures from the CSO Quarterly National Accounts confirmed that the economy entered a recession in the first half of the year, with year-on-year GNP and GDP growth down 2.1% and 0.8% respectively in Q2 2008. And while official data for Q3 2008 is not yet available, it is clear that the economic environment has continued to deteriorate since June. The global financial crisis, along with domestic factors such as the slowdown in the construction sector and the contraction in consumer spending, are continuing to impact negatively on the economy. And even though oil price and exchange rate movements have been favourable in recent months, petrol prices are still extremely high and the euro remains very strong against sterling. On a more positive note, the output of foreign-owned multinationals in the IT and pharmaceutical sectors has continued to remain strong. Nevertheless, the overall context is one of contraction and uncertainty, as evidenced by our recent banking crisis. Furthermore, given the erosion of the public finances, it was always likely that the Budget would lead to a reduction in disposable income which will further dampen economic activity in the short-run.

Employment Trends

Given the deterioration in our economic performance so far this year, it was inevitable

that the strong employment growth of recent years would come to an end. According to the CSO Quarterly National Household Survey (QNHS) employment grew by just 0.3% (+6,900) to 2.109 million in the twelve months to Q2 2008 (Table 1). This represents a dramatic slowdown when compared to the 4% (+80,000) year-on-year growth rate recorded in Q2 2007. Furthermore, the underlying trend has turned negative, with seasonally adjusted employment falling by 15,000 between Q1 and Q2 of this year. Of some consolation is the fact that our employment rate of 68.1% continues to compare favourably to the EU27 average of 65.4%.

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2007Q2	2008Q2	Change
Total Employment	2,101.6	2,108.5	0.3%
Female Employment	900.1	921.6	2.4%
Male Employment	1,201.5	1,186.9	-1.2%
Full-time Employment	1,723.2	1,718.9	-0.2%
Part-time Employment	378.5	389.6	2.9%
Agriculture	113.8	121.3	6.6%
Manufacturing	295.2	286.4	-3.0%
Construction	281.8	255.0	-9.5%
Services	1,410.9	1,445.8	2.5%
Unemployment	100.3	115.5	15.2%
Labour Force	2,201.9	2,223.9	1.0%
Unemployment Rate	4.6%	5.2%	0.6pp
Employment Rate	69.0%	68.1%	-0.9pp

Source: CSO

The limited employment growth that did take place was dominated by part-time employment, while full-time employment did not grow at all in the year to Q2 2008 (Figure

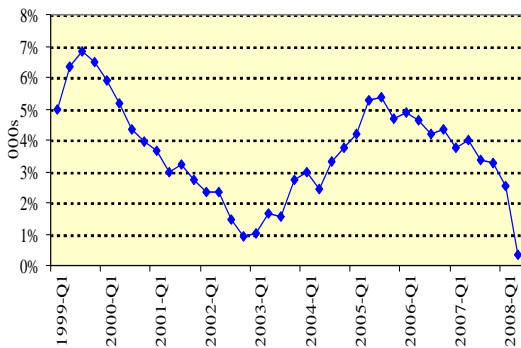
2). This contrasts starkly with the 1997-2007 period, when full-time employment accounted for 80% of total employment growth. The slowdown in full-time employment was even more dramatic when viewed on a quarter to quarter basis, falling by 26,000 to 1.719 million between Q1 2008 and Q2 2008, while part-time employment remained flat at 0.39 million. Males accounted for virtually all (24,000) of the fall in full-time employment in Q2 2008.

While total employment growth was under 7,000 year-on-year, employment for non-nationals increased by 21,500, while the number of Irish people at work fell by almost 15,000 over the same period.

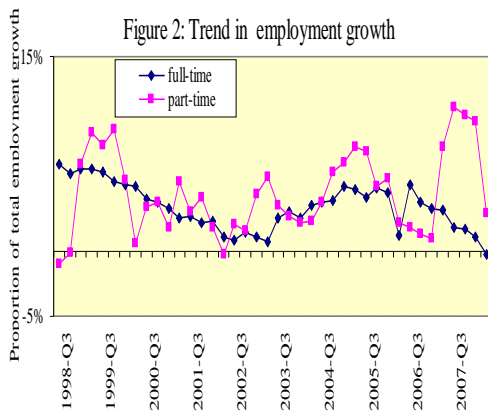
Sectoral Employment

The dramatic slowdown in the construction sector has been the primary reason for the deceleration in employment growth. The numbers employed in the sector fell by 10% (-28,800) in the 12 months to Q2 2008. Job losses in the sector were inevitable, given that house commencements were down 50% year-on-year in the first half of 2008. A more recent survey of employment in the sector, the *CSO Index of Employment in Construction*, which does not include the self-employed, shows an even more pronounced fall of 18% in the number of employees in the twelve months to August 2008.

Figure 1: Year-on-Year Employment Growth Rate 1999-2008



Source: CSO

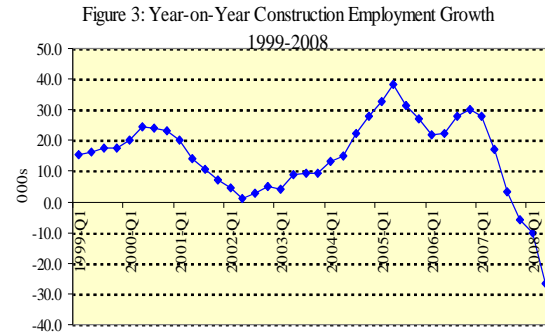


Source: CSO

Thus far, the fall in employment in the construction sector has been exclusively due to the sharp decline in the residential sector which has shed 40,000 jobs in the 12 months to Q2 2008, while employment in the commercial sector was up 11,000. Young persons (predominately males) have been hit particularly badly, with the number of construction workers under the age of 25 falling by 23% (13,500).

Employment growth was also negative in the manufacturing sector, down 3% (-8,800) year-on-year. The strength of the euro over the period was one of the main reasons for these job losses. By contrast, agricultural employment was up over 5% (+7,500) over the same period. The reasons for the resurgence in agricultural employment were discussed in the previous Quarterly.

Services employment grew by 2.5% (+35,000) year-on-year, which represents a noticeable deceleration from Q2 2007 when the growth rate was 4.4% (+59,000). Within the services sector there has continued to be strong year-on-year jobs growth in wholesale & retail (+6%) and in financial & business services (4%). However, it should be pointed out that all of the growth in financial & business services came in the second half of 2007. The subsequent stagnation in the first half of 2008 is the first sign that the credit crunch is impacting on employment prospects in the sector. Meanwhile, other service sub-sectors have been affected by adverse developments on the currency and oil markets. In particular, the hospitality sector, which is influenced by exchange rate movements, experienced a fall in employment of 3% (-3,000), while the transport sector has suffered from the rise in oil prices with employment down 2% (-3,000) year-on-year.



Source: CSO

Unemployment Trends

The numbers unemployed rose from 100,300 in Q2 2007 to 115,500 in Q2 2008, while the unemployment rate rose from 4.6% to 5.2% over the same period. Yet despite the recent increase in the numbers unemployed, the Irish unemployment rate has remained low compared to the EU average of 6.8%. However, Ireland's position has worsened relative to the best performers in the EU, namely the Netherlands and Denmark, where unemployment rates have fallen even further to just 2.8% and 2.3% respectively (Figure 4). The largest annual reduction was in Poland, down 2.7 percentage points from 9.5% to 6.8%.

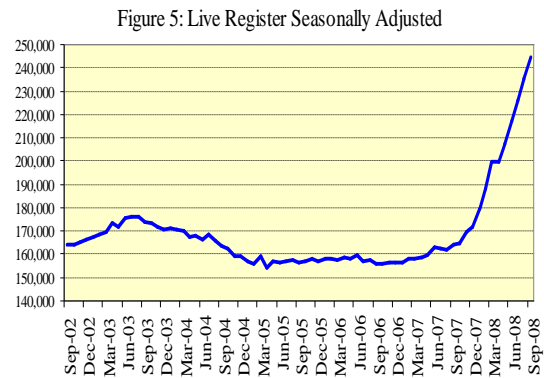
While Ireland's long-term unemployment rate rose from 1.3% (28,400) in Q2 2007 to 1.5% (32,700) in Q2 2008, it is still very low by historical standards, given that it was 10.4% (137,800) in 1988.



Source: Eurostat

A more up-to-date reading of the unemployment situation can be garnered 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 suggest that there has been a sharp rise in unemployment since the most recent QNHS was undertaken. In September there were 244,500 persons signing on the Live Register (when seasonally adjusted), an increase of 72,100 (42%) since the end of 2007 and 45,300 since the most recent QNHS estimate (Figure 5). When recalibrated to take account of the rise in the Live Register, the seasonally adjusted unemployment rate is estimated to have risen from 5.1% in April (based on the Q2 2008 QNHS) to 6.3% in September. The number officially unemployed tends to be about 60% of the number of those signing on the Live Register for the same period. This would suggest the numbers unemployed in September were around the 147,000 mark.

Males have accounted for 64% (51,000) of the increase in the Live Register so far this year, which is not surprising given their overrepresentation on the Live Register and the recent job losses in the construction sector.



Source: CSO

When broken down by age, it becomes apparent that the recent increase in the Live Register has particularly affected younger people (under 25s). In the first 9 months of this year, the number of under 25s signing on increased by 65% (18,500) to 53,700, compared to an increase of 39% (63,600) to 190,800 for those aged 25 and over. Research shows that young people tend to be worst affected by a cyclical downturn.

The number of foreign nationals signing on the Live Register has risen by 63% from 23,000 to 41,000 (of which 19,000 were from the new EU Member States) so far this year. The proportion of Live Registrants who were foreign-nationals was 17% as of September.

Particularly noticeable has been the increase in the number of EU12 nationals signing on, increasing from just 3,000 in December 2006 to 8,000 in December 2007 before rising more rapidly to 19,000 in September 2008. The recent increase provides evidence that not all EU12 nationals who are being made redundant in the construction sector are returning to Central Europe. Yet despite the recent increase, the number of EU12 nationals signing on the Live Register in September was just 8% of the overall total, which is in proportion to their representation in the labour force.

There were 27,500 redundancies in the first 9 months of the year, up 43% on the same period in 2007. The primary reason for the increase in redundancies has been the 186% increase in the number of redundancies in the construction sector. The biggest increase in redundancies year-to-date was in the Border region³ (+84%), compared to the national increase of 43%, while the lowest increase was in Dublin (+27%). Dublin accounted for the highest proportion of redundancies so far this year (41%). The Border region also had the highest regional unemployment rate (6.4%) in Q2 2008 compared to 5.2% for the State, 4.8% for Dublin and just 3.7% for the Mid-East.

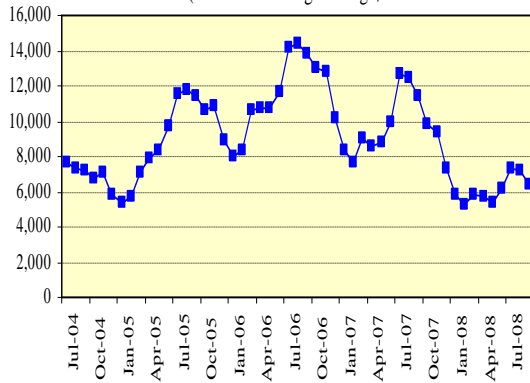
³ The Border region consists of the following counties: Cavan, Donegal, Leitrim, Louth, Monaghan, Sligo.

Labour Supply

The main increase in our labour supply has continued to come from abroad. In Q2 2008, foreign nationals accounted for 80% of the year-on-year increase in the size of the labour force (22,000), which now stands at 2.24 million. As a result, foreign nationals now make up 16% of the total labour force. However, a slacker labour market has seen the rate of inflow from abroad slow, with annual net-migration falling from 67,500 in April 2007 to 38,500 by April 2008. The majority of this decline was accounted for by a reduction in net migration of 21,000 from the EU12 countries.

A more up-to-date indicator of inflows from the New Member States comes from the PPS data. Year-to-date there have been 55,000 PPS numbers issued to EU10 nationals, which represents a fall of 40% compared to the same period in 2007 (Figure 6). This was to be expected given that there has been a significant improvement in labour market conditions in Central Europe relative to Ireland. For example, during the 4 years since EU enlargement, the Polish unemployment rate has fallen from 20% to under 7%. Yet, while the rate of inflow to Ireland has slowed, the deceleration has been much less pronounced than the employment slowdown, which suggests that the labour supply response will not be sensitive enough to avoid an oversupply of labour.

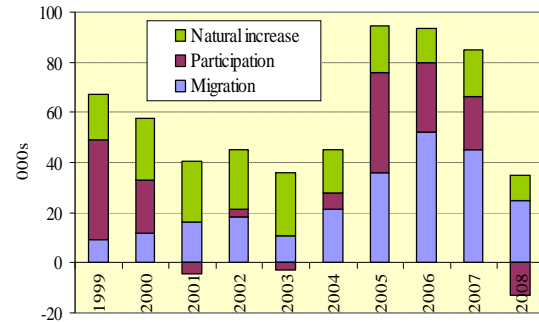
Figure 6: PPSN Allocation for EU10 Migrants (3-Month Moving Average)



Source: DSFA

As the number of job opportunities has reduced, the participation rate has begun to fall. In Q2 2008, the participation rate was 63.4%, down from 63.7% in Q2 2007. As a result, it is estimated that the contribution of the participation effect on labour force growth fell by 13,000 during this period. Significantly, during the last employment slowdown in 2002-2003 labour force participation also fell (Figure 7). The recent decline in the participation rate has been primarily due to a fall in participation among the 15-19 age group. This has in part been due to a decline in apprenticeship take up (see later), with younger people, especially males, staying on longer in the education system in the face of fewer job opportunities.

Figure 7: Components of Labour Force Growth 1999-2008

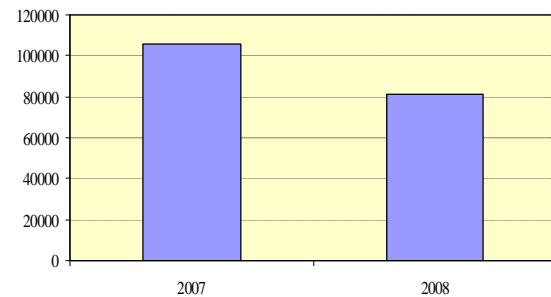


Source: CSO

Labour Demand

A number of indicators confirm that labour demand has weakened appreciably year-to-date. In the first instance, the number of vacancies notified to FÁS showed a year-on-year fall of 24% in the first nine months of 2008 (Figure 8). Year-to-date declines in vacancies were recorded across all occupations, with noticeable declines occurring for IT-related occupations (-43%), construction (-43%), transport (-50%) and retail sales (-26%).

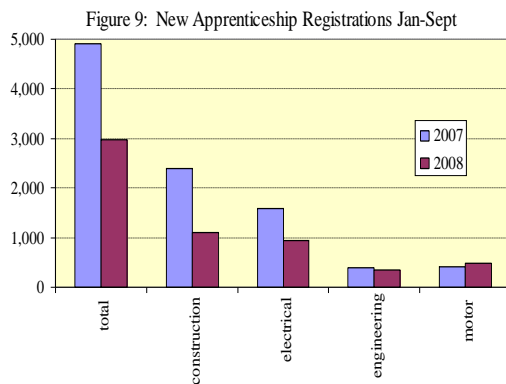
Figure 8: Vacancies Notified to FAS Jan-Sept.



Source: FÁS

Another clear sign of a softening in labour demand can be seen in the decline in the

number of new apprentices registering with FÁS. Overall, apprenticeship starts were down 39% in the first nine months of the year to just under 3,000 compared to almost 5,000 for the same period in 2007 (Figure 9). Not surprisingly, construction trades experienced the biggest fall (-54%) followed by the electrical trades (-41%). Apprenticeship starts in the motor trades have bucked the overall downward trend, increasing by 15%, despite the fact that the transport sector as a whole appears to be contracting. Significantly, the overall decline in new apprentices has occurred in tandem with a rise in the unemployment rate for the 15-19 age group.

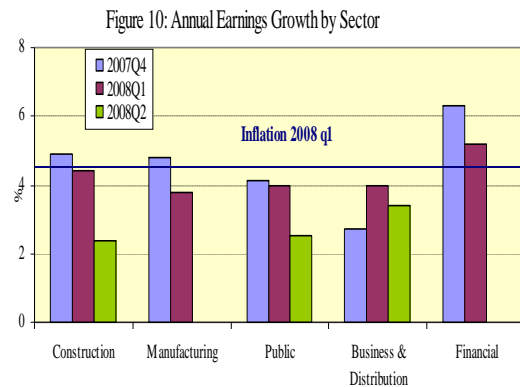


Source: FÁS

Earnings Trends

Earnings trends provide an indication of the strength of labour demand vis-à-vis labour supply. The slowdown in the labour market would be expected to lead to a moderation in the rate of earnings growth. Indeed, earnings data available for 2008 thus far show a

deceleration in the rate of average⁴ annual earnings growth across all sectors (Figure 10⁵). Furthermore, the rate of earnings growth was below the Q1 2008 inflation rate of 4.7% in every sector bar financial & banking services. Hence, there was no growth in *real* terms for any sector outside the financial services sector.



Source: CSO

⁴ As 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 scale. These 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.

⁵ Earnings data for Q2 2008 is not yet available for the manufacturing sector or for the financial sector.

Prospects and Conclusions

Short-term economic forecasts for the economy have been revised downwards significantly in recent months as the true extent of the credit crisis and the domestic housing slowdown has become more apparent. While there is no consensus among commentators as to the extent or longevity of the current recession, it is becoming increasingly clear that it will be more pronounced than had previously been expected, with no prospect of a recovery before 2010. While much of the slowdown to date has been directly due to the dramatic reduction in the number of new house commencements, given the current banking crisis, the spill-over effect into the services sector in terms of reduced consumer spending will become much more acute in 2009.

The outlook for the labour market is, unfortunately, equally pessimistic. Given the economic climate, it now seems almost inevitable that employment growth will be negative for the second half of 2008 and into 2009, with the only real uncertainty being the extent of the job losses.

The biggest employment losses in percentage terms will continue to be in the construction sector. While redundancies in the sector so far this year have been largely confined to the house-building sector, this is set to be compounded by substantial job losses in the commercial sector next year as the demand for

office & retail property dries up. Furthermore, we also envisage some job losses in the infrastructure sector arising from cutbacks in the National Development Plan. It may also be that the expansion of the repair & maintenance sector which has taken place in recent years will come to an end due to tighter credit conditions and the general retrenchment in consumer spending. All in all, we expect the average employment level in the construction sector to fall by 11.2% (-31,000) in 2008 with a more pronounced reduction of 19.4% (-49,000) anticipated for 2009.

Further job losses are also expected to occur in the manufacturing sector, largely due to the slowdown in the world economy and increased competition from lower-cost emerging economies. An early indication of future trends comes from the *NCB Purchasing Managers Employment Index* which was just off its lowest level ever in September. And while the recent recovery in the value of the dollar will help manufacturing firms exporting to the US, for many Irish SMEs the sterling/euro exchange rate is more important. Given the continued weakness of sterling, many Irish firms will struggle to maintain competitiveness and this will have negative implications for staff retention and recruitment. In short, we are forecasting employment in the sector to fall by 2.9% (-9,000) this year and by a further 4.2% (-12,000) in 2009.

It remains to be seen whether or not the agricultural sector will continue to see employment growth into 2009 given the slowdown in the world economy. On balance, we are expecting no change next year, with the return of workers from the construction sector being balanced by weaker demand arising from the slowdown in the world economy.

Perhaps the biggest uncertainty regarding the short-term is the extent to which jobs in the services sector will be affected by the slowdown in the construction sector and the general tightening of credit and reductions in consumer demand. Unfortunately, the initial indicators are not promising. There has already been a slight weakening in employment in both the financial and transport sectors, which had, up until recently, been two major contributors to employment growth. Both sectors are being badly affected by the slowdown in the construction sector, while the credit crunch has been an added blow to job prospects in the financial and banking sector. And although other services sectors have, up until now, proved fairly recession proof, it is increasingly likely that all private service sub-sectors will experience some degree of job losses in 2009. Furthermore, public sector employment is also set to contract next year in light of the recently announced cutbacks. Overall, we are forecasting average employment in the services sector to rise by 30,000 (2.1%) this

year before suffering a reduction of 1.3% (-20,000) in 2009.

Overall, our best estimate at this point is that annual average employment will fall by 0.2% (-3,000) this year, followed by a more pronounced decline of 3.8% (-80,000) in 2009. This is pessimistic relative to other published forecasts (although some other forecasters have suggested that their forecasts may have to be revised downwards further in the near future)⁷. In the main, the differences reflect the belief that the recession is already resulting in net job losses in the services sector as well as in industry and that this services decline will carry on through much of 2009. However, our 2009 forecast is by necessity tentative, given the high level of uncertainty that currently surrounds both global and domestic economic trends.

Given the sharp rise in the Live Register in recent months and the deterioration in the economic environment we are revising upwards our forecasts for unemployment both for this year and next. We now expect the unemployment rate to average 5.7% this year, with a further increase to 8.1% the most probable scenario for 2009 (compared to our previous estimate of 7.0%). On this basis, the

⁷ Davy Stockbrokers have already issued a more pessimistic forecast of a 3.9% year-on-year decline, which is very similar to our forecast.

average number unemployed would be 178,000 next year. Given that these are average forecasts, they hide the fact that we expect the unemployment rate to continue to rise through 2009. This is based on our assumption that the Live Register trend continues its current trajectory out to the end of 2009 (a cursory glance at the recent trend shows that it has been on a fairly consistent upward trajectory since the end of 2007).

That said, the actual increase in the Live Register over this period may of course be mitigated by any tightening of eligibility conditions and/or higher sanction rates on the relevant welfare payment schemes. For example, the stricter conditions surrounding the claiming of benefit that were recently introduced (i.e. claimants must now present themselves at an office each week rather than receiving payment through ETF) may have a moderating effect on the rate of increase in the numbers signing on. It is also possible that additional active labour market programmes may be developed that will impact on the Live Register.

It is instructive to consider the recent experience of Spain, whose economy has, like Ireland, been heavily reliant on the construction sector and strong inward migration in recent years. In the space of one year the Spanish unemployment rate has risen rapidly from 8.2% to 11.0%. Save for the fact

that our labour market is generally viewed as more flexible than Spain's, it is hard to see why the Irish experience should be qualitatively different in the short-term.

As has been mentioned in previous Quarterlies, the precise magnitude of the unemployment increase will depend on the labour supply response both in terms of participation and migration. Already there are signs that participation is slowing as young people stay on longer in the education system. If this were to continue, it would lessen the impact of the slowdown on the unemployment level.

With regards to migration, while there has been a marked slowdown in inward flows from Central Europe, it has not been as pronounced as the slowdown in jobs growth. As of yet, there is no hard data on the rate of outward flows (either Irish emigrating or return migrants), although anecdotal evidence would suggest that a significant number of construction workers are now looking to ply their trade abroad in the few remaining economies around the world that are still experiencing construction booms (i.e. Australia, Canada and the UAE). That said, the sharp increase in the number of EU12 nationals and construction workers signing on the Live Register over the last year would suggest that many made redundant from the housing slowdown are choosing to remain in

Ireland, for the time being at least, despite the dramatic reduction in job opportunities.

In summary, the Irish labour market will experience a sharp adjustment in the short-term. The scale of the job losses is likely to be significant and the impact on unemployment considerable, notwithstanding the reversal of migration trends. Given the current level of economic uncertainty, employment forecasts beyond 2009 would involve heroic assumptions that have no certainty of materialising. Nevertheless, in the absence of a significant upturn in the world economy, a further contraction in labour demand is the most likely scenario for 2010.

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

	2007	2008	2009
Agriculture	116	124	124
Construction	282	251	202
Manufacturing	296	287	275
Services	1,423	1,453	1,433
Total Employment	2,117	2,114	2,034
Unemployed	101	127	178
Labour Force	2,217	2,241	2,213
Net Immigration	63	28	-27
Unemployment Rate	4.5%	5.7%	8.1%