



# FÁS Quarterly Labour Market Commentary

*Summer 2009*



***Executive Summary<sup>1</sup>***

Since 2004, employment growth has broadly followed the path of economic growth and this link has been especially evident since the economy went into recession. As a consequence, there has been a marked deterioration in the labour market in 2009, with employment in the first quarter of the year, down 7.5% (185,000) year-on-year to under 2 million. Furthermore, the numbers signing on the Live Register rose by 92% (198,000) year-on-year to 414,000 in June, while the unemployment rate doubled from 5.9% to 11.9%.

A noticeable aspect of the recent downturn has been the increase in part-time work. While the number of full-time employees fell by 100,000 between Q4 2008 and Q1 2009, part-time employment rose by 12,000 over the same period - accounting for more than 1 in 5 jobs in the Irish labour market. This trend has resulted in a marked increase in the proportion of dole claimants who are also working part-time. The rapid rise in systematic short-time work possibly indicates that some employers are using part-time work as an interim measure to either avoid or postpone redundancies.

Men have fared worst from the downturn, primarily due to their high representation in the construction sector. There are now more than twice as many males on the Live Register as there are females, with the gap between the genders increasing by over 100,000 since May 2007. In terms of age, the worst affected were those in the younger age cohort (15-34) for whom employment fell by 13% (120,000) compared to just 3% (38,000) for those aged 35 and over.

While the jobs downturn has been severe, the rate of increase in the Live Register slowed considerably in Q2 2009. It is too early to say as to whether or not this constitutes a broader deceleration in the underlying trend. A similar slowdown in the decline in vacancies adds some credence theory that a broader deceleration is taking place. However, the number of redundancies continued apace in Q2, which would indicate that a recovery is not imminent. It is also worth bearing in mind that Q2 followed an exceptionally poor first quarter.

The deceleration in the Live Register increase was partly attributable to a marked slowdown in the rate of increase in the number of AC-12 nationals signing on. Prior to Q2, the rise in the Live Register had been particularly acute for AC-12 nationals, with the numbers increasing

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

by almost 40,000 in the space of two years. However, in Q2-2009 the increase was negligible (1,000). This deceleration may have been linked to a recent clampdown on social welfare fraud perpetrated by people residing outside the country.

Aside from the economic outlook, which remains poor, the future trend in unemployment will partly depend on the participation and migration responses to the downturn. To date, the participation response has been significant, especially among younger cohorts, who, when faced with limited job opportunities, are increasingly opting for further education rather than pursuing employment opportunities. Nevertheless, even after the participation response is accounted for, graduate unemployment still looks set to rise markedly in the second half of 2009.

While net-outward migration is likely to continue, the magnitude of the response is more difficult to predict, with factors outside the Irish labour market - namely unemployment and social welfare rates in the UK and in the AC-12 countries - having a strong bearing on the outcome. It is also worth pointing out that the downturn has resulted in jobseekers staying on the Live Register for longer durations. This increases the upward momentum in the underlying Live Register trend.

### Macroeconomic Context

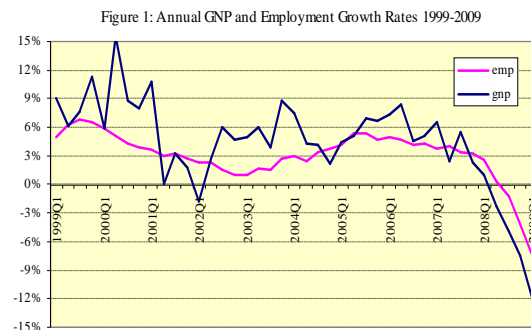
The Irish economy contracted by an unprecedented 12.0% of GNP year-on-year in Q1 2009. While figures are not yet available for the second quarter of 2009, there is little doubt that the economy has continued to perform poorly. The main sources of the decline have been the significant contraction in consumer spending and the fall in capital investment and industrial output.

Nevertheless, the export sector has performed strongly, (thanks largely to the pharmaceuticals sector), growing by 5% in the year to April, and this despite Ireland's exposure to the global downturn and unfavourable exchange rates. However, the overall performance of the economy has been undeniably weak and is being compounded by the need to reduce the budget deficit and restore confidence in the banking system.

### Employment Trends

Since 2004, labour-intensive sectors have accounted for a large amount of economic activity. As a result, employment growth has broadly followed the path of economic growth, with the relationship strengthening since the downturn (Figure 1). On the back of a significant fall in economic output, employment fell 7.5% (158,500) year-on-year in Q1 2009 to 1.966 million. Over half of the fall was accounted for by a quarter-on-quarter decline of 89,000 (72,000 seasonally adjusted)

between Q4 2008 and Q1 2009. The fall in full-time employment has been even more pronounced, down over 10% (-176,000) year-on-year to 1,560,000. At the same time, part-time employment actually grew by 4.6% to 405,000. In effect, 1 in 5 jobs are now part-time.



Source: CSO

On a sectoral basis, the steepest decline occurred in the construction sector where employment was down 29% (72,000) year-on-year to 179,000. Employment also fell in the agriculture (-12.3%), industry (-6.9%) and services (-3.5%) sectors. The rate of decline in agricultural employment was somewhat surprising given the employment growth that this sector had been experiencing previously. With regards to the services sector, there was a marked difference in terms of the predominantly public sub-sectors (health, education and public admin. & defence) where employment actually rose by 3.6% (16,500), and the rest of the services sub-sectors where there was a fall of 6.8% (-69,000). That said, seasonally-adjusted employment in the 'public

sector' did fall back on a quarter-on-quarter basis by 8,000 in Q1 2009, which would suggest that the expenditure cutbacks arising from Budget 2009 have had an immediate effect on recruitment.

Male employment has fallen at a much faster rate (-10%) than female employment (-4%). The severe downturn in the construction sector (where males account for 95% of the workforce) has been a major factor in this regard. When broken down by age, it becomes clear that the vast majority of the year-on-year decline in employment was accounted for by those in the younger age range (15-34) for whom employment fell by 13% (121,000) compared to just 3% (38,000) for those aged 35 and over. Employment for males under the age of 25 has fallen particularly sharply, down 31% (46,000) year-on-year.

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2008Q1	2009Q1	Change
Total Employment	2,124.1	1,965.6	-7.5%
Female Employment	925.2	888.9	-3.9%
Male Employment	1,198.9	1,076.7	-10.2%
Full-time Employment	1,736.4	1,560.2	-10.1%
Part-time Employment	387.7	405.4	4.6%
Agriculture	115.8	101.5	-12.3%
Industry	282.3	262.7	-6.9%
Construction	252.1	179.9	-28.6%
Services	1,473.8	1,421.5	-3.5%
Unemployment	109.4	222.8	103.7%
Labour Force	2,233.5	2,188.4	-2.0%
Unemployment Rate (Q2)	5.9%	11.9%	+6.0pp
Employment Rate (15-64)	68.4%	63.2%	-5.2pp

Source: CSO

### Unemployment Trends

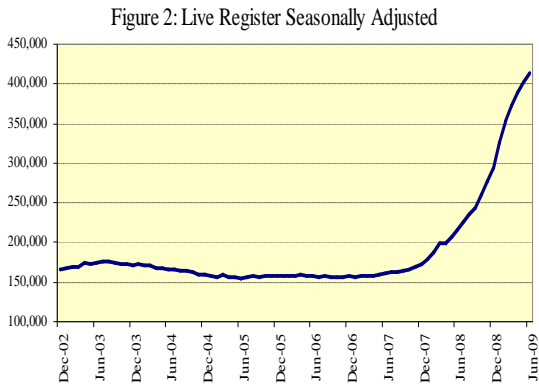
Notwithstanding the sizeable fall in employment, the starkest indication of the extent of the decline in labour demand has been the sharp rise in unemployment. The number of unemployed more than doubled between Q1 2008 and Q1 2009 to 223,000, with almost half of this increase occurring in Q1 2009.

A more up-to-date indicator of unemployment trends is available from the Live Register<sup>2</sup>. As of June-2009, 414,000 persons (seasonally adjusted) were signing on to the Live Register, up 92% (198,000) year-on-year (Figure 2). As a result the unemployment rate is estimated to have reached 11.9% in June compared to 5.9% in June of the previous year. The increase in the Live Register was most pronounced in Q1 2009 when the numbers signing on rose by 80,000 in the space of three months.

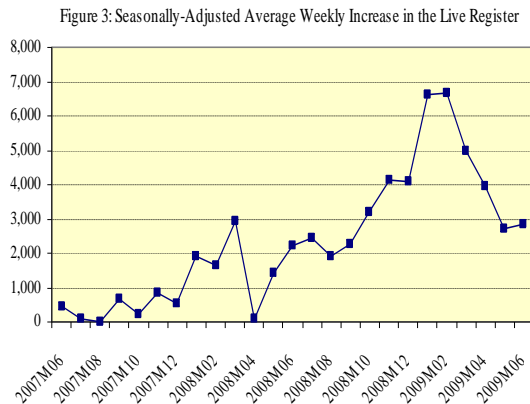
The true rate of the underlying increase in the Live Register can sometimes be obscured by the fact that the monthly figure does not adjust for the number of weeks involved in

<sup>2</sup> The Live Register is not a measure of unemployment as it includes in its total part-time workers, casual workers and seasonal workers who are entitled to either Jobseekers Allowance or Jobseekers Benefit and those awaiting approval of their claim for social welfare. It does, however, provide a good indication of the trend in unemployment. Recently, the numbers of unemployed has tended to be in the region of 60-65% of the numbers on the Live Register.

calculating the monthly total.<sup>3</sup> When the Live Register increase is looked at on a weekly basis, it becomes clear that the rate of increase has slowed significantly since it peaked in February when almost 7,000 were being added on a weekly basis (Figure 3).



Source: CSO

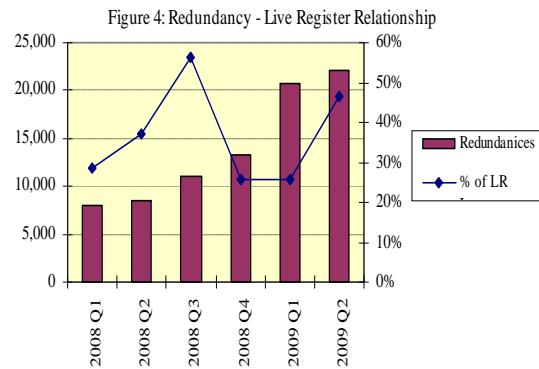


Source: CSO

The marked deceleration in the Live Register increase in Q2 has led some commentators to suggest that a turning point in the rate of increase has now been reached. Yet it should be borne in mind that there was no

<sup>3</sup> That is to say, the number of Fridays that occur in a particular month. For example, the month of May had five Fridays, with the result that the May figure overstates the underlying increase.

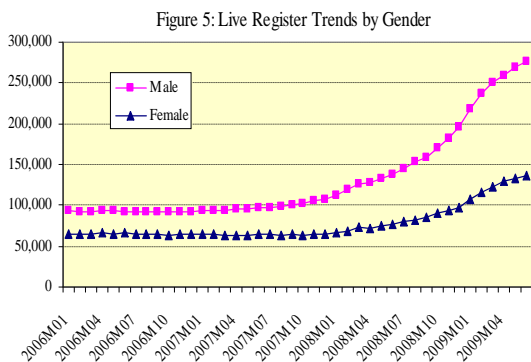
corresponding deceleration in the volume of redundancies, with the number of lay-offs totalling 21,000 for the quarter. This represents a year-on-year increase of 160%, almost identical to the increase of 161% recorded in Q1. Admittedly, the relationship between redundancies and the Live Register has varied considerably over the course of the downturn (Figure 4). Nevertheless, the number of redundancies in Q2 was the largest on record, which would seem to call into question the longevity of the recent deceleration in the Live Register increase.



Source: CSO, DETE.

The fastest year-to-date increase in redundancies occurred in the services sector (+201%). This compares with a 152% increase in the construction sector and a 110% increase in the manufacturing sector. Moreover, the services sector accounted for almost half (50%) of all redundancies in the first half of 2009, which is further evidence that the slump in labour demand which originated in the construction sector, has become more pervasive.

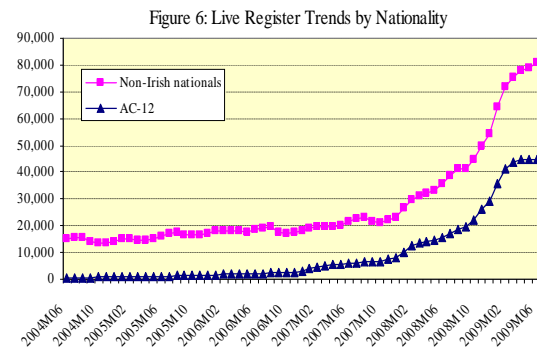
The rise in the Live Register has disproportionately affected men, and the gap between male and female registrants has widened by over 100,000 since 2007 (Figure 5). In fact, in June 2009 there were more than twice as many males (276,000) on the Live Register as there were females (137,000). By comparison, in June 2007 the difference was much less pronounced (97,000 males, 65,000 females).



Source: CSO

The sharp increase in the Live Register has been particularly acute for non-Irish nationals, with the numbers signing on rising by 126% to 81,000 in the 12 months to June 2009 and almost quadrupling since June 2007 (Figure 6). This increase has, in large part, been accounted for by the rise in the number of Accession State (AC-12) citizens signing on. In June 2009 there were 45,600 AC-12 nationals signing on, compared to just 5,900 in June 2007. One of the contributing factors to this rise has been the deterioration in the labour markets of Central and Eastern Europe, particularly in the Baltic States.

More generally, to the extent that the current downturn can be described as cyclical, migrant workers are likely to fare worst as they are concentrated in cyclical industries such as construction and manufacturing.



Source: CSO

Another factor that has probably contributed to the increase in AC-12 nationals signing on is the relatively high rate of social welfare payments available to eligible claimants<sup>4</sup> in Ireland compared to the rates in both the accession countries and in the U.K.<sup>5</sup>. Traditionally, the main determinant of migration flows between the Republic of Ireland and the U.K. has been the unemployment rate differential between the two countries. However, given the high level of job insecurity currently prevailing in both countries, risk-averse jobseekers, when considering migration, will be increasingly

<sup>4</sup>Claimants who either satisfy the 2-year habitual residency clause or those who have an entitlement to Jobseekers Benefit based on their social insurance contributions.

<sup>5</sup>The U.K. has been the primary destination for East-West migration since EU enlargement in 2004.

influenced by the social welfare rate differential as well.

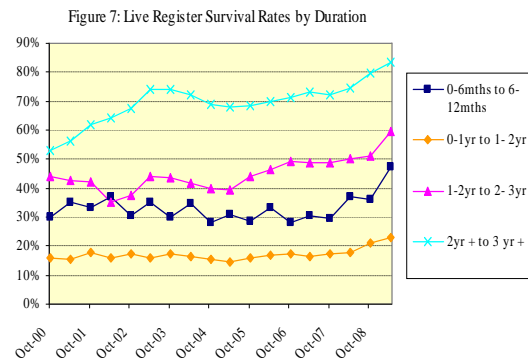
Although the increase in the number of non-nationals, and in particular, AC-12 nationals joining the Live Register has been dramatic, there was a marked slowdown in this trend in Q2 2009. The number of AC-12 nationals on the Live Register has increased by only 1,000 in Q2 having risen by almost 16,000 in the previous quarter. While outward migration probably explains much of this recent slowdown, another factor has been the Department of Social and Family Affairs' (DSFA) investigation into fraudulent claims made by persons residing outside Ireland.

There has also been a significant increase in the proportion of those who have been on the Live Register for relatively short periods (i.e. 0-6 months and under a year). The main reason for this has been the increased flow onto the Live Register. At the same time the duration that people are spending on the Live Register has also increased as the opportunities to exit via employment have diminished.

Figure 7 shows that survival rates<sup>6</sup> have been increasing across all duration groups. For example, the percentage of Live Registrants who had been signing on the Live Register for 0-6 months, who are still signing on 6 months

<sup>6</sup>Survival rates refer to the proportion of a particular Live Register cohort at time t, who are still on the Live Register at time t+1.

later, increased from 53% in April 2007 to 63% in April 2009. As survival rates increase, the Live Register composition will, over time shift towards more longer-term registrants. Furthermore, the rise in survival rates also creates an upward dynamic in the overall Live Register total which can only be reversed by a marked decline in the rate of inflow.

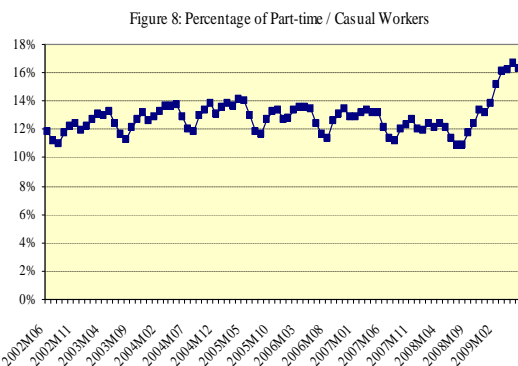


Source: DSFA

Another characteristic of the rise in the Live Register has been the increasing share of part-time/casual workers who are also claiming a pro-rata Jobseekers Benefit payment (Figure 8). Over the 2002-2008<sup>7</sup> period, the underlying share of part-time/casual workers remained within a very narrow range of 12.5-14.0% (seasonally adjusted). However, this stable link has broken down in 2009 with the percentage of the Live Register accounted by part-time/casual workers rising to over 16% as of June. In numerical terms, the number of part-time/casual workers has more than doubled

<sup>7</sup>2002 was the earliest year for which data was available.

from 31,000 in October 2008 to 67,000 as of May 2009.



Source: DSFA

Within the part-time group there is a smaller sub-group of claimants who are engaged in *systematic* short-time work<sup>8</sup> for whom the increase has been even more dramatic. In April 2008 there were just over 2,000 short-time workers on the Live Register. By April 2009<sup>9</sup> this figure had reached almost 17,000, an increase of 673%. There were particularly substantial increases in the number of short-time workers in the construction & metal sector (+1004%), the retail sector (+743%) and the transport sector (+1906%). The rapid rise in short-time work would imply that some employers are using short-time work as an interim measure to either avoid or postpone laying off staff.

<sup>8</sup> Short-time work in this case refers to employment in which, for the time being, a number of days is systematically (i.e. repetitively) worked in a working week which is less than the number of days which is normal in a working week in the employment concerned.

<sup>9</sup> No data was available for May.

### Occupational Trends

Not surprisingly, occupations relating to the construction, manufacturing and retail sector have shown the most pronounced falls in employment to date. In particular, there were significant falls in the employment of crafts & related occupations (-20%), plant & machine operatives (-15%) and sales workers (-12%). In contrast, the number of professionals increased by 2%, with little change occurring for associate professionals (-0.7%).

These trends have been reflected in the profile of persons who have joined the Live Register this year, with the construction industry<sup>10</sup> accounting for almost a third of the increase in the Live Register year-to-date<sup>11</sup>. While a substantial proportion of this increase is likely to have been accounted for by redundant tradesmen, anecdotal evidence would suggest that a significant number of construction professionals, most notably architects, are also losing their jobs. A further 12% of the increase in the Live Register was accounted for by general operatives, many of whom are likely to have been employed in the construction sector.

Retail & sales occupations have also accounted for a significant proportion (13%) of the

<sup>10</sup> The exact description of this industry by the Dept. of Social and Family Affairs is 'Construction, Woodwork and Metal and Related Industries'. Just over one third of persons signing on to the Live Register had previously been employed in the construction industry

<sup>11</sup> Figures for the sectoral/occupational profile of Live Registrants relate to the period Jan-May.

overall increase, although as with construction workers, the increase is broadly in line with their total share of the Live Register. While business, financial & legal professions have accounted for a relatively small share (3%) of the rise in the Live Register, they have increased by 42% year-to-date, with the increase being particularly noticeable since March. This would seem to indicate that the rise in unemployment, which was triggered by the property downturn, is turning into a more generalised fall in labour demand.

In addition to the Live Register, information on the occupational profile of recent jobseekers is available from FÁS client registration data. Overall, new jobseeker registrants with FÁS were up by 41% year-on-year for the first four months of 2009 (Table 2)<sup>12</sup>. While the majority of the increase was accounted for by manual and clerical workers, the increase was more rapid for managers and professional/technical workers - albeit from a low base.

Compared to 2008, the increase was most rapid for those with higher qualifications. Where educational data are available, those with some third level education now account for 26% of new registrants compared with 23% in 2008.

<sup>12</sup> Aside from new registrants, a significant number of the newly-unemployed who approach FÁS are already registered with the organisation.

Table 2: New FÁS Registrants Jan-April by Educational Attainment

Ed. Level	2008	2009	Change	Share this year
Unspecified	5747	10010	74%	
Primary	2773	2983	8%	9%
Junior	6386	7534	18%	24%
Leaving	9844	13037	32%	41%
Third-Level	4905	8261	68%	26%
Total	29655	41825	41%	100%

Source: FÁS

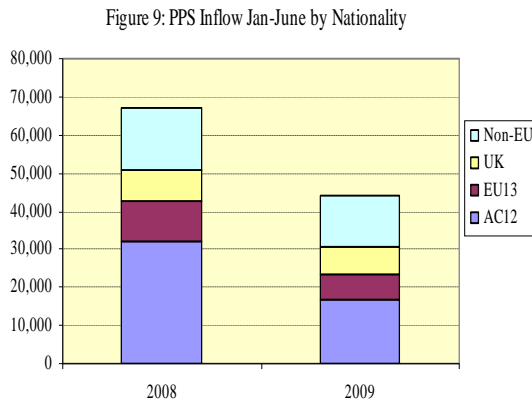
### Labour Supply Trends

The labour supply response to the downturn has been significant, with the labour force declining by 45,000 year-on-year in Q1 2009. The contraction in the labour supply has been driven by falling participation, with the participation rate falling by 1.5 percentage points from 63.5% to 62.0%, - equivalent to a fall of 46,000 in the labour force. The male participation rate fell from 72.8% to 70.8% while the female participation rate fell at a slower pace, from 54.3% to 53.3%. In terms of age, the largest falls occurred among 15-19 year olds (24.8% to 19.7%), 20-24 year olds (74.2% to 70.8%) and 60-64 year olds (47.2% to 45.4%). The more rapid falls among the lower age cohorts would imply that the lack of job opportunities is making further education a relatively attractive option.

The other major source of labour supply adjustment has come via the migration channel. The number of PPS numbers<sup>13</sup> issued

<sup>13</sup> This figure includes PPS numbers that had no connection to the labour market.

to non-Irish nationals were down substantially (-45%) in the first half of 2009 compared to the same period in 2008 (Figure 9).

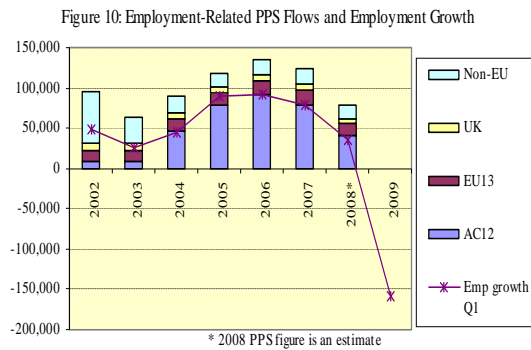


Source: DSFA

However, this figure includes PPS numbers that had no connection to the labour market. A more meaningful but less up-to-date indicator of economic migration is the number of employment-related PPS numbers issued<sup>14</sup>. The trend in employment-related PPS inflows for a given year has tended to follow the annual employment growth in Q1 of that year (Figure 10). In particular, the trend in AC-12 economic migration has been virtually identical to employment growth since EU enlargement<sup>15</sup>. Moreover, fluctuations in AC-12 flows have accounted for the virtually all of the overall variance in economic migration.

<sup>14</sup> The percentage of PPS numbers issued to non-Irish nationals that were associated with employment activity in the year of issuance averaged around the 63% mark over the 2004-2007 period.

<sup>15</sup> There are no figures available as of yet with regards to the employment-related PPS numbers issued in 2008, so an estimated was derived based on the total number of PPS numbers issued by nationality, previous trends and labour market conditions in 2008



Source: CSO

Obviously, the predictive value of this migration-employment relationship breaks down somewhat when employment contracts given that PPS issuance can not be negative. However, to the extent that the relationship can be extended to *net* flows, it points to significant a net-outward migration of AC-12 nationals this year. Indeed, the initial indicators derived from the most recent QNHS are consistent with this thesis. While no precise figure for the impact of net-migration on the labour force is contained in the QNHS, the CSO estimate that the number of non-Irish nationals in the workforce fell by 30,000 year-on-year in Q1, of which 26,000 was accounted for by AC-12 nationals.

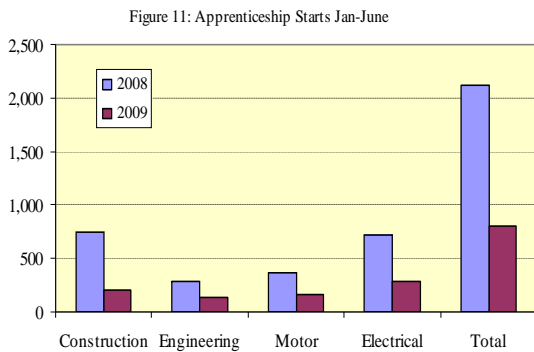
The decline in labour demand has meant that there are fewer labour shortages that need to be filled from abroad. As a result, the number of work permits/green cards<sup>16</sup> issued in the first half of 2009 have fallen considerably compared to the same period in 2008 (-55%).

<sup>16</sup> Work permits/green cards are only issued to non-EEA nationals.

The decline in the number of work permits issued has been similar across all the major sectors which would again suggest that the fall in labour demand is becoming more widespread<sup>17</sup>.

**Labour Demand Indicators**

The decline in labour force participation and the rise in unemployment for younger males are partly attributable to the fall in employer demand for apprentice trades. In the first four months of this year the number of apprentice starts was down 63% year-on-year, to under 800, with the fastest decline occurring for construction-related trades (-73%) (Figure 11).



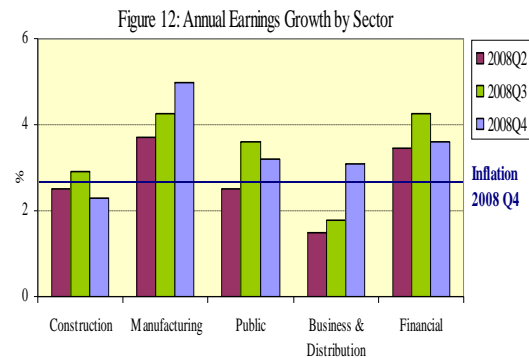
Source: FÁS

Not surprisingly, vacancies have also been declining. In the first half of 2009, the number of vacancies notified to FÁS were down by 52% with above-average declines in vacancies for routine service jobs, clerical, and manual jobs, although all virtually occupations

experienced a significant fall-off. However, the rate of decline in vacancies did ease off in Q2, with the quarter-on-quarter decline being only 1%. While some of this deceleration was accounted for by seasonal factors, it nevertheless suggests that the fall in labour demand was not as pronounced as in Q1, which is consistent with the deceleration in the Live Register.

**Earnings Trends**

There has been anecdotal evidence of significant pay cuts in the private sector, as businesses are forced to reduce costs in light of the downturn. However, official earnings data from the CSO statistics is only available up to Q4 2008 (Figure 12). As of Q4 2008, earnings growth rates across all sectors, with the exception of construction, were above the rate of inflation of 2.8%.



Source: CSO

In an attempt to get a more up to date view of earnings trends, McCarthy (2009)<sup>18</sup> reviewed

<sup>17</sup>The majority of these figures pre-date the stricter conditions that were introduced for the issuance of work permits and green cards which came into effect in June of this year and which can be expected to result in a further decline in the rate of issuance.

<sup>18</sup>McCarthy, C., “Pay and Employment Trends in the Public and Private Sectors”, [www.irisheconomy.ie](http://www.irisheconomy.ie), April 2009.

more recent survey data from IBEC, the Central Bank and the Small Firms Association, and estimated that private sector pay cuts in the region of 6-7% are likely to have taken place in Q1 2009 (which as it happens is comparable to the de facto 7% pay cut experienced by public sector workers since the introduction of the public sector pensions levy)<sup>19</sup>. The survey data would seem to back up the anecdotal evidence that a relatively rapid downward adjustment in nominal earnings growth has been taking place. The adjustment in real earnings has been much less pronounced, given that the annual inflation rate was significantly negative (-5.4%) in June.

### ***Prospects and Conclusions:***

The slowdown in labour demand that has taken place in the first half of this year shows no real sign of abating in the short-term. However, the rate at which unemployment will increase is open to debate. On the positive side, the unprecedented rate of increase in the Live Register that took place in Q1 slowed considerably in Q2. Whether or not this deceleration continues for the rest of the year remains to be seen. There are several factors to consider in this regard.

Firstly, there is the economic outlook and its impact on employment. Most mainstream

economic forecasts see GNP shrinking over the course of this year and next by a combined total of 10%. If the correlation between economic and employment growth continues, this will lead to further significant falls in employment. This in turn would imply further increases in unemployment out to the end of 2010 at least.

The degree to which the decline in employment translates into higher unemployment will partially be determined by the labour supply response. A fall in participation will lessen the impact of the downturn on unemployment. Given the current outlook, labour force participation can be expected to fall further. In particular, the recent fall in the female participation rates is likely to continue, while the numbers in education can be expected to increase.

However, those who do exit the education system this year will be facing a labour market with limited job opportunities. Indeed a recent survey found that almost one third of companies that normally hire graduates will not be doing so this year.<sup>20</sup> Hence, the labour market will have difficulty absorbing the large inflow from the education system that is anticipated in the second half of this year.

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<sup>19</sup>Preliminary data Q1 2009 shows public sector earnings up 3.0% year-on-year. These figures do not take into account the impact of the public sector pensions levy.

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<sup>20</sup> The Graduate Salary and Recruitment Trends Survey, 2009.

Another determinant of the future trend in unemployment will be the migratory response. The greater the level of net-outward migration, the smaller will be the rise in unemployment. Traditionally, Irish graduates facing poor employment prospects at home would have had a fairly high probability of migrating. However, such a response can no longer be presupposed given the deteriorating economic conditions in countries that have been traditional destinations for Irish economic migrants.

There is also some uncertainty with regards the intentions of migrant workers, especially AC-12 nationals. While migrant inflows have tracked employment trends in recent years; in the future, relative rates of social welfare and unemployment, in both the U.K. and the AC-12 countries, will also influence their decisions. Hence, while net-outward migration seems the most plausible scenario over the 2009-2010 period, the magnitude of these outflows remains uncertain.

Finally the impact of the recent increase in Live Register survival rates will need to be factored into any unemployment projections. All other things being equal, higher survival rates result in more people signing on to the Live Register, thereby adding upward momentum to the underlying trend.