FÁS Quarterly Labour Market Commentary

Autumn 2009

Executive Summary[1]

After experiencing an extremely sharp downturn at the beginning of the year, here were some tentative signs in Q3 2009 that the deterioration in the labour market had eased considerably. The most compelling indicator in this regard was the marked deceleration in the numbers signing on the Live Register. While the Live Register has risen by 76% year-on-year to 429,000, the increase in Q3 was relatively modest (+17,000) when compared to the first half of the year. As a result, the unemployment rate rose at its slowest rate since 2007, from 12.1% in June to 12.6% in September. A further indication of an improvement in labour market conditions was the 20% increase in the number of vacancies notified to FÁS between Q2 and Q3 of this year.

That said, both seasonal factors and other considerations extraneous to labour demand, such as migration and social welfare eligibility criteria, may have created an overly favourable impression of the Q3 labour market performance. It is noteworthy that the number of redundancies in Q3, while down 17% on Q2, was still the third highest quarterly total on record - hardly indicative of strengthening labour demand.

[1] Brian McCormick, an economist working in the Planning & Research Department of FÁS, prepared this commentary.

In terms of the number of jobs lost, the downturn has primarily affected people in low-skilled employment who have relatively low levels of education. This has largely been a result of the slowdown in the construction sector. Nevertheless, FÁS data for Q3 shows that while the increase in third-level graduates and highly-skilled professions seeking employment has been less in numerical terms, in percentage terms they have seen the most significant increases. For example, while the total number of jobseekers registering with FÁS increased by 35% year-on-year, the percentage of third-level graduates has increased by 60% over the same period.

The increase in the percentage of third-level graduates seeking work is indicative of the impact that the downturn has had on younger people. Young males have been particularly affected with the unemployment rate reaching 40% for 15-19 year-olds and 30% for 20-24 year-olds. In response to the dearth of job opportunities for younger jobseekers, many have elected to stay on in education, resulting in a significant fall in labour force participation rates for those in the 15-24 year-old category.

Aside from lower labour force participation amongst young people, the main labour supply response to weaker demand has come via the migration channel, with more migrants now leaving the country than those that are entering. The official migration statistics show net-outward migration of almost 8,000 in the year to April, a net-change of over 46,000 from 12 months previous. This reversal has been the result of a dramatic change in EU12 migration flows. Furthermore, Live Register data would indicate that the outward flow of EU12-migrants intensified into Q3 2009.

Looking ahead, it seems probable that negative employment growth will continue into 2010. Although the statistics for Q3 were better than many commentators had feared and offer some cause for guarded optimism, the overall performance of the labour market looks set to remain extremely weak in the short-term. Given that negative economic growth is expected for the remainder of the 2009-2010 period, then a further contraction in the labour market seems inevitable. However, as with the economy, the rate at which the labour market contracts is not likely to be as pronounced in 2010.

The degree to which the headline unemployment rate continues to rise in the face of further negative employment growth will partly depend on the labour supply response. Should the participation rate continue to decline, then this will limit the increase in the unemployment rate, albeit at the expense of a significantly lower employment rate, which is arguably a more relevant measure of labour market performance. While further net-emigration would also limit the unemployment impact, it would not lower the employment rate significantly.

Macroeconomic Context

The Irish economy continued to contract in Q2 2009, shrinking by 12% of GNP year-on-year. However, the seasonally adjusted quarter-on-quarter decline in GNP was much less pronounced in Q2 2009 (-0.5%) than in Q1 2009 (-5.6%). This has led some commentators to suggest that the economy may have begun to stabilise.

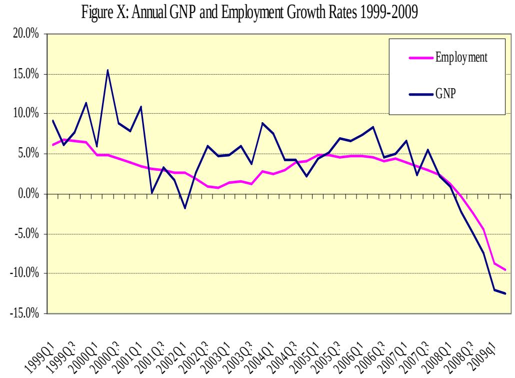
The main sources of decline in the first half of 2009 continued to be the construction sector and consumer spending, while government expenditure was also negative. On the other hand, the export sector, despite declining by 3% year-on-year, has performed relatively well given the global downturn.

While figures are not yet available for Q3 2009, signs of recovery in the world economy and a recent improvement in retail sales during Autumn would seem to add credence to the view that the worst of the downturn is over. Nevertheless, despite some encouraging indicators, domestic demand is still weak and the general economic environment remains poor.

Employment Trends

In our previous Quarterly, attention was drawn to the strong relationship between employment and economic growth trends since 2004 (Figure 1). This relationship continued to hold in Q2 2009, when total employment fell by 8.2% (174,300) year-on-year to 1.939 million (the largest year-on-year decline on record). When measured in terms of full-time equivalence, the fall was even greater (-10%) on account of part-time employment rising by 4.1% (15,900). As was the case with the economy, the seasonally-adjusted quarter-on-quarter decline in employment was much less in Q2 2009 (-1.8%) than in Q1 2009 (-3.4%).

Figure X: Annual GNP and Employment Growth Rates 1999-2009

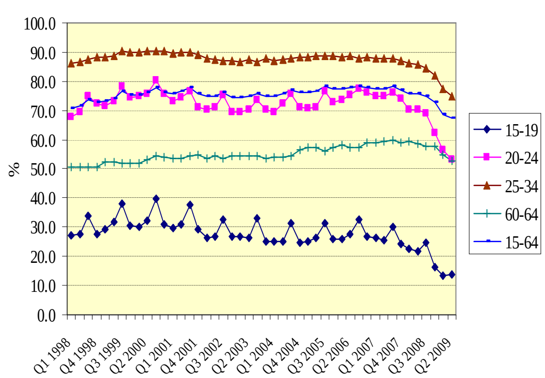


Source: CSO

On a sectoral basis, the most significant decline was in the construction sector where employment fell by 36% (86,000) year-on-year to 155,400. In fact, job losses in the construction sector accounted for almost half of the overall decline in employment. Employment growth was also negative in the other main sectors of the economy, namely agriculture (-15%), industry (-10%) and services (-3.5%). Within the services sector, there continued to be contrasting trends for the predominantly public sub-sectors (health & social work, education and public admin. & defence) where employment actually rose by 3.4% (16,100), and the rest of the services sub-sectors where employment fell 5.8% (-52,300). That said, when seasonally-adjusted, the quarter-on-quarter fall in private sector services employment was modest (-1,800) in Q2 2009.

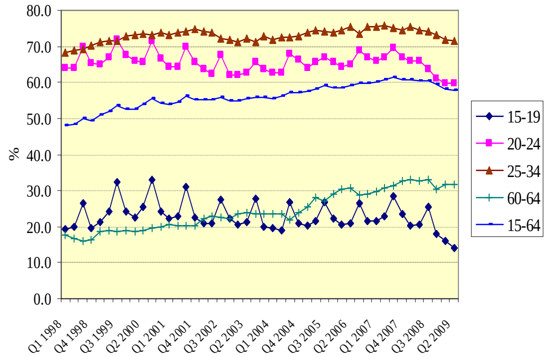
There has also been a significant decline in the employment rate[2], falling from 68.1% in Q2 2008 to 62.5% in Q2 2009, the lowest it has been in 10 years. The decline in the employment rate has been especially precipitous for males, falling from 75.7% in Q2 2008 to 67.3% in Q2 2009. Among males, the most rapid decline has occurred for those under the age of 25 (Figure 2) which was a result of both higher unemployment and reduced participation as more young males have chosen to stay on in education due to a lack of job opportunities. While the fall in the female employment rate from 60.4% to 57.8% was not nearly as pronounced as for males, there was a noticeable decline in employment rates for young females (Figure 3).

Figure 2: Male Employment rates by Age



[2] The employment rate here is the percentage of the 15-64 year-old population in employment.

Figure 3: Female Employment rates by Age



Source: CSO

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2008Q2	2009Q2	Change
Total Employment	2,112.8	1,938.5	*-8%*
Female Employment	922.7	886.5	*-4%*
Male Employment	1,190.2	1,052.0	*-12%*
Full-time Employment	1,722.4	1,532.1	*-11%*
Part-time Employment	390.5	406.4	*4%*
Agriculture	114.8	97.2	*-15%*
Industry	287.3	258.3	*-10%*
Construction	241.4	155.4	*-36%*
Services	1,469.4	1,427.5	*-3%*
Unemployment	126.7	264.6	*109%*
Labour Force	2,239.6	2,203.1	*-2%*
Unemployment Rate (Sept)	7.1%	12.6%	*5.5pp*
Employment Rate (15-64)	68.1%	62.5%	*-5.6pp*

Source: CSO

Unemployment Trends

The number of unemployed more than doubled between Q2 2008 and Q2 2009 from 126,700 to 264,600, although the quarter-on-quarter rate of increase slowed from 25% in Q1 2009 to 16% in Q2 2009.

The pattern for unemployment rate increases by age cohort has been similar both for males and females (Figures 4 & 5), with increases being most pronounced among younger cohorts. Unemployment rates were especially high for younger males, reaching 40% for 15-19 year olds and 30% for 20-24 year olds.

Figure 4: Male Unemployment Rates by Age

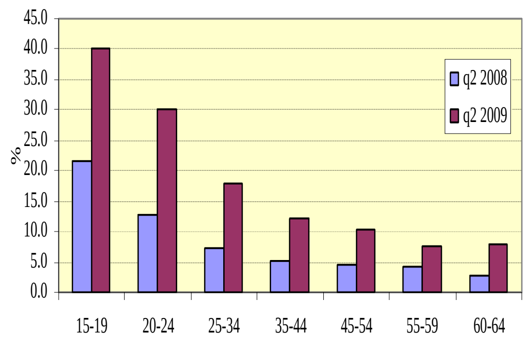
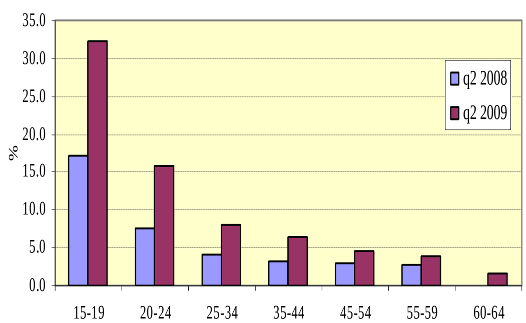


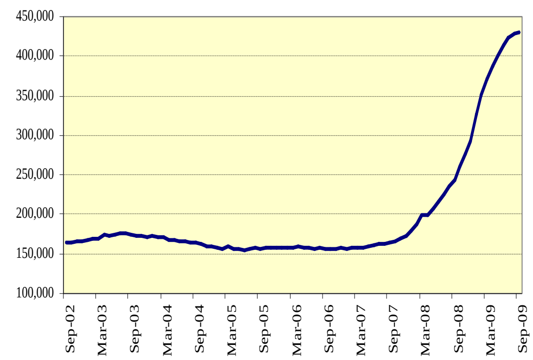
Figure 5: Female Unemployment Rates by Age



Source: CSO

A more up-to-date indicator of unemployment trends is available from the Live Register[3]. As of September-2009, 429,000 persons (seasonally adjusted) were signing on to the Live Register, up 76% (185,000) year-on-year (Figure 6). As a result the unemployment rate is estimated to have reached 12.6% in September compared to 7.1% in September of the previous year. While the numbers on the Live Register have continued to rise, the rate of increase has decelerated as the year has gone on. In Q3 2009, just under 17,000 persons were added to the Live Register, which was substantially less than the 80,000 increase in Q1 2009.

Figure 6: Live Register Seasonally Adjusted



Source: CSO

Over and above a possible pick up in labour demand in Q3 2009, there are several factors which are likely to have contributed to the slowdown in the rate of increase in the Live Register. In particular, it is noteworthy that much of the recent deceleration that has been accounted for by an increase in the rate of outflow from the Live Register rather than a dramatic decline in the rate of inflow (Figure 7).

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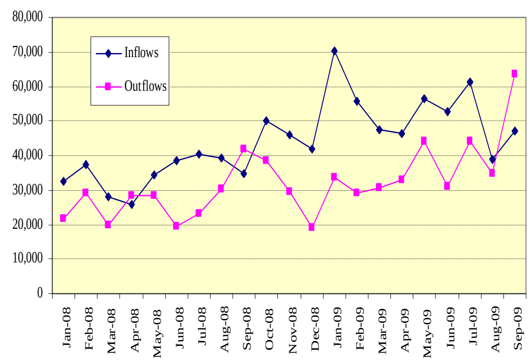
[3] The Live Register is not a measure of unemployment as it includes in its total part-time workers, casual workers and seasonal workers who are entitled to either Jobseekers Allowance or Jobseekers Benefit and those awaiting approval of their claim for social welfare. It does, however, provide a good 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.

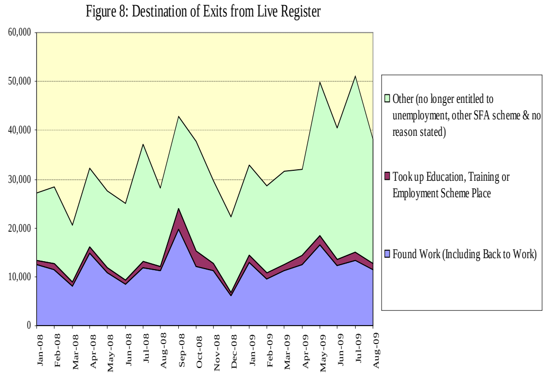
Figure 7: Flows into the Live Register



Source: DSFA

When the reasons for people exiting the Live Register are broken down, it appears that one the increase in outflows has been due to the exhausting of entitlement to Jobseekers Benefit and related payments (Figure 8). Put another way, the increase in the number of people exiting the Live Register is partly explained by administrative factors that are not dependant on an improvement in labour market conditions.

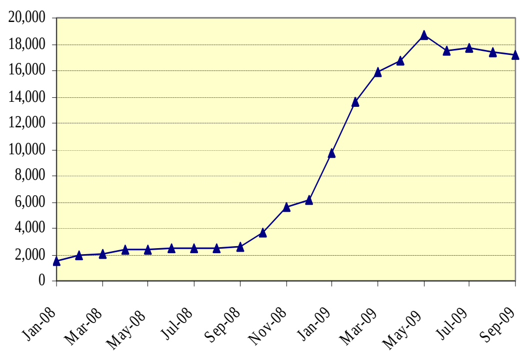
Figure 8: Destination of Exits from Live Register



Source: DSFA

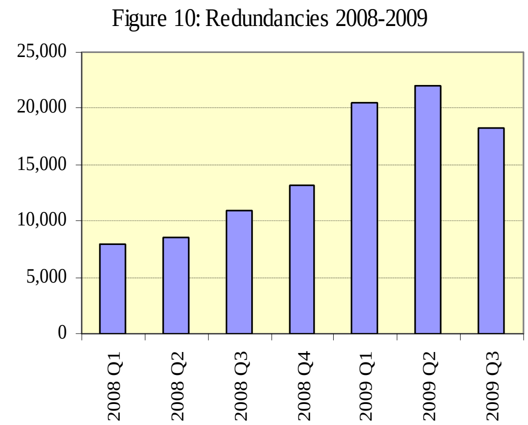
There has also been a significant deceleration in the number of people who are on receipt of a social welfare payment and who are also engaging in systematic short-time work (Figure 9). In the first half of 2009, the increase in short-time work was dramatic, almost trebling from 6,000 to 18,000. However, this rise came to a halt in Q3. This would seem to suggest that the appetite among employers for short-time working arrangements is not what it was six months ago.

Figure 9: Systematic Short-Time Work



Source: DSFA

The deceleration in the Live Register has not been mirrored by a concomitant slowdown in redundancies which were up 66% year-on-year in Q3 2009. And though they were down 17% on a quarter-on-quarter basis, there were still 18,000 redundancies in Q3, the third highest quarterly total on record (Figure 10). This would seem to add further weight to the theory that factors other than labour demand have had a significant impact on the deceleration in the Live Register. That said, it should also be borne in mind that redundancies are likely to lag labour demand given that there is a gap between the time the redundancies are notified and when they actually take effect.



Source: DETE

Occupational Trends

The downturn in the labour market has impacted some occupations more than others, with those related to the construction and manufacturing sectors worst affected. In Q2 2009 there were significant falls in the employment of crafts & related occupations (-25%) and plant & machine operatives (-19%), while the lowest rates of decline were in the professional (-1%), associate professional (-2%) and personal & protective services occupations (-2%).

Information on the recent occupational profile of jobseekers and trainees is available from the FÁS database. By Q3 2009, there had been a 35% year-on-year rise in the number of persons registering with FÁS to seek employment or training, with the most rapid increases occurring for managers (+106%) and professional/technical workers (+84%). The slowest rates of were for clerical workers (+26%) and sales workers (+22%). However, the clerical and sales occupational groups still represented almost one-fifth of all new FÁS clients.

The increase in new FÁS registrants over 2008 has been most rapid for those with higher qualifications, with the number of third-level graduates increasing by 60% year-on-year in Q3 2009 (Table 2). Where educational data are available, those with some third level education now represent 26% of all new registrants.

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

Ed. Level	2008	2009	Change	Share this year
Primary	5984	6305	5%	9%
Junior	13831	15951	15%	22%
Leaving	23661	31084	31%	43%
Third-Level	11967	19103	60%	26%
Unspecified	11644	18238	57%	
Total	67087	90681	35%	

Source: FÁS

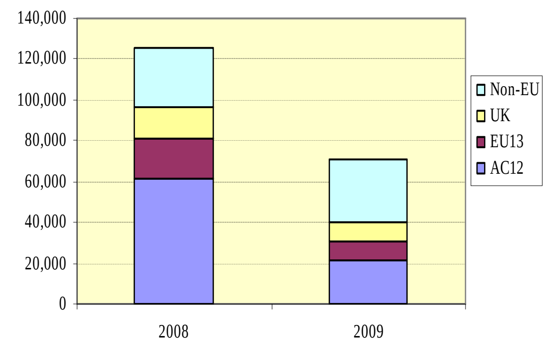
Labour Supply Trends

Although employment fell by over 174,000 year-on-year in Q2 2009, the labour force declined by only 36,500 over the same period. To the extent that the labour supply has contracted, it has largely been due to a decline in participation, with the participation rate falling by 1.2 percentage points from 63.7% to 62.5%, - equivalent to a fall of 46,000 in the numbers participating 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 has made further education a relatively attractive option.

The other major source of adjustment has come via the migration channel. The CSO estimates that there was a switch from a situation of net-inward migration of 38,500 for the year ending April 2008 to net-outward migration of 7,800 for the year ending April 2009. The main reason for this dramatic reversal in migration flows has been the change in the migration patterns from the EU12 countries (primarily from Central and Eastern Europe), where net-inward migration of 14,900 in 2008 has been replaced by a net-outward flow of 16,600 in 2009. Meanwhile, annual outflows and inflows of Irish-nationals were both 18,400 in April 2009, resulting in net-migration of zero, which represents a very modest change from the net-inward migration of 2,800 Irish nationals a year previous.

Data on PPS numbers issued provide a more up-to-date indicator of *inflows* of non-Irish nationals. Not surprisingly, the data shows that the number of PPS numbers issued to non-Irish nationals were down substantially (-44%) year-to-date. Again, this has been driven by the substantial fall (-65%) in the number of PPS numbers being issued to EU12-nationals (Figure 11). On the other hand, the number of PPS numbers issued to migrants from outside the EU actually rose by 4%.

Figure 11: PPS Inflow Jan-Sept by Nationality



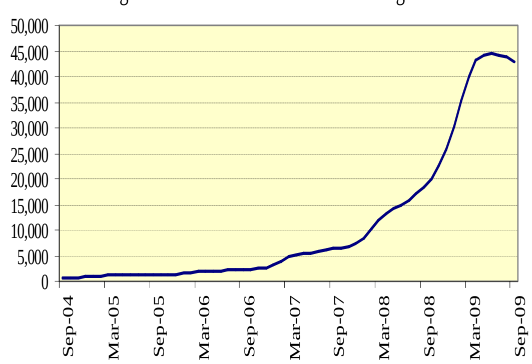
Source: DSFA

As has been noted in our previous Quarterly, PPS data include PPS numbers that have no connection the labour market. A more meaningful indicator of economic migration is the number of employment-related PPS numbers issued. Unfortunately, this data is not available on a timely basis and the most up-to-date estimate of economic migration is limited to flows from outside the EU (in the form of work permit/green card data). The number of work permits/green cards[4] issued in Q3 2009 fell considerably when compared to the same period in 2008 (-55%). The fall 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.

[4] Work permits/green cards are only issued to non-EEA nationals.

There is no up-to-date indicator of migratory *outflows* of non-Irish nationals from Ireland. Nevertheless, some degree of inference can be drawn by examining the nationality profile of Live Registrants. While there was a sharp increase in the number of EU12-nationals signing on in Q1 2009 (+14,600), this has been followed by a significant slowdown in Q2 2009 (+1,000) and a decline in Q3 2009 (-2,100) (Figure 12). This would seem to suggest that the strong outward-migration of EU12-nationals continued unabated into Q3 2009. The exhausting of entitlement to Jobseekers Benefit may go some way to explaining the fall in the number of EU12-nationals signing on in recent months, and this in turn is likely to have reduced the economic attractiveness of remaining in Ireland.

Figure 12: EU12-Nationals on the Live Register

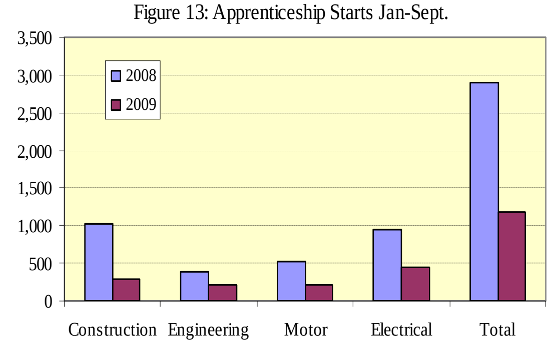


Source: CSO

Labour Demand Indicators

Year-to-September, new apprenticeship starts were down 60% year-on-year, to less than 1,200. While the fastest fall occurred for construction-related trades (-72%), all trades have experienced a significant decline vis-à-vis 2008 (Figure 13) – which was already a large fall compared to 2007. The fall in apprenticeship starts goes some way to explain both the decline in labour force participation and the rise in unemployment for younger males.

Figure 13: Apprenticeship Starts Jan-Sept.



Source: FÁS

In Q3 2009, vacancies notified to FÁS were down 35% year-on-year, although the rate of decline has slowed from the first half of the year when vacancies were down 52% (Figure 14). On a quarter-on-quarter basis, total vacancies were actually up 20% in Q3 2009, which would seem to indicate that some form of recovery in labour demand did take place in the most recent quarter, although seasonal effects are likely to have been significant.

There continued to be above-average declines in vacancies for routine service jobs, clerical, and manual jobs. The only occupational group to experience a year-on-year increase in vacancies was health & care services workers (up 13%) while the decline in vacancies for sales workers was small (-6%). Overall, vacancies for sales workers accounted for 23% of all vacancies notified to FÁS in Q3 2009. This is partly a result of the fact that sales occupations tend to have a high rate of turnover and will, therefore, always be a source of job opportunities, even during a downturn. By contrast, there was a dramatic fall in vacancies for construction-related occupations; down 69% year-on-year.

Figure 14: Vacancies Notified to FAS

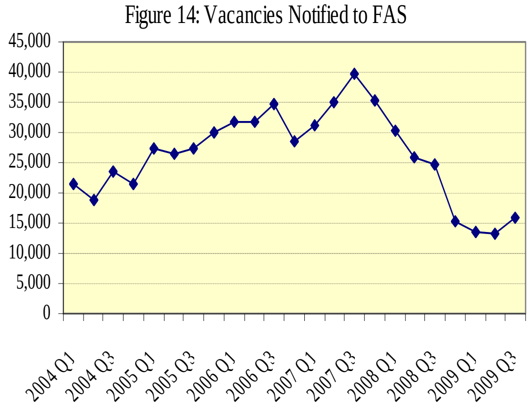


Figure 15: Health/Care Service Workers Vacancies

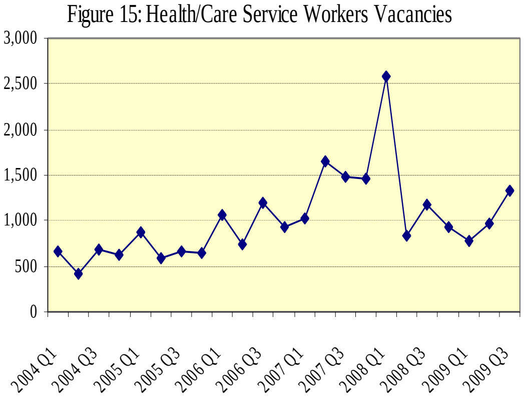
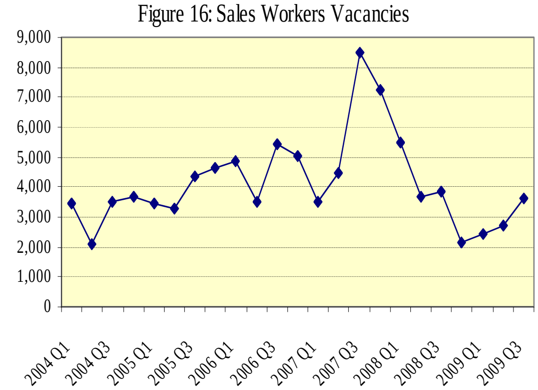


Figure 16: Sales Workers Vacancies



Source: FÁS

Prospects and Conclusions:

The recent deceleration in the rate of increase in the Live Register, combined with a rise in vacancies in Q3 2009, would seem to provide some evidence that the underlying rate of jobs decline has slowed significantly. Nevertheless, it should be pointed out that a combination of administrative, migration and seasonal effects have probably overstated the case for an imminent recovery in labour demand.

If the strong relationship between employment growth and GNP growth continues to hold in the short-term, then the primary influence on short-term labour market trends will continue to be the performance of the economy. Given that mainstream forecasters are expecting GNP to fall by the order of 9-10% this year and 2-3% in 2010, then further declines in employment seem inevitable, although the rate at which jobs are lost is likely to slow considerably. The precise labour market impact of the economic slowdown will primarily hinge on the extent to which domestic demand recovers, given the close link that it has to employment creation.

The impact of the anticipated reduction in government expenditure in the forthcoming budget could also have a significant bearing on the employment outlook. Given that the public sector has been the only source of net jobs growth during the downturn, employment prospects in the private sector will have to improve significantly before positive employment growth returns.

The degree to which further job losses translate into higher unemployment will partly depend on labour supply factors such as participation and migration. Suffice it to say that further outward migration and falls in participation are the most plausible responses to the continued jobs downturn. Such responses will act as a limiting factor on the rise in unemployment.

Another factor that will impact on the unemployment trend will be the extent to which employers decide to switch their employees from full-time to part-time employment in an effort to avoid lay-offs. While this was a popular response by employers to the downturn in the first half of the year, Q3 figures for short-time work would suggest that this ‘buffer’ effect may be beginning to wane.

Finally, any estimate of future unemployment trends must take into account that the rate of increase will be affected by the various employment and training programmes that are being introduced to combat the rise in the number of people signing on, as well as any changes in the generosity and administration of social welfare payments. This will particularly be the case for younger jobseekers given that they are likely to be most affected by any new labour market initiatives.

Overall, the short-term outlook for the Irish labour market remains quite poor. While the most recent quarter has shown some tentative signs of a turnaround in terms of increased vacancies and a slower rise in the Live Register, a more detailed analysis of the figures would suggest that underlying labour demand is still weak. Hence, positive employment growth seems unlikely to occur in 2010. However, for the reasons outlined above, a continuation of weak labour demand may not necessarily translate into a commensurate increase in unemployment. Arguably a more accurate measure of labour market performance will be the trend in the employment rate.