



# FÁS Quarterly Labour Market Commentary

*Second Quarter 2006*



## Executive Summary<sup>1</sup>

The Irish labour market, spurred on by a prosperous economy, has maintained the strong momentum generated in 2005 into the early months of 2006. In the year to the first quarter of 2006, the numbers employed in Ireland rose by 89,800 (+4.7%) to a total of 1,998,100. When seasonally adjusted, this translates into 2.01 million jobs, the first time in the history of the Irish labour market that the 2 million milestone has been reached. Underpinning the strong employment performance has been the rapid growth of the non-traded sectors of the economy (namely construction and non-market services). However, the employment boom continues to bypass the manufacturing sector and, to a lesser extent, the hotel and restaurants sector.

Ireland's unemployment rate was 4.2% in the first quarter of 2006, the lowest unemployment rate in the EU and half the EU average of 8.4%. The numbers unemployed in Ireland actually increased year-on-year by 6,100 to 88,200.

More generally, immigration accounted for over half the overall increase in the labour force. Another important source of labour supply has been women aged 45 and over who have added over 38,000 to the labour force over the past two years. Current indicators suggest that labour demand remains strong with the number of vacancies increasing in recent months. Despite the strength of labour demand, severe shortages

have not emerged, thanks to the strong growth in the labour supply. As well as inducing inflows into the labour market from both home and abroad, strong demand has also contributed to an acceleration in the rate of earnings growth across all sectors bar manufacturing. Earnings growth was particularly strong in the non-traded sectors, increasing by approximately 7% last year.

Turning to the future, the economic outlook is positive, with output expected to increase by about 5% both this year and next, which is likely to boost employment further. However, we expect most of this job creation to be front-ended to 2006, followed by a more moderate rate of jobs growth next year. Specifically, we are forecasting employment to grow by 4.3% (+84,000) this year, followed by a slower rate of 1.8% (+37,000) in 2007.

The deceleration in the rate of employment growth forecast for 2007 is predicated on the belief that there will be a substantial slowdown in employment in both the construction and services sector. Yet despite this predicted slowdown, the services sector will continue to be the main source of employment growth for the Irish labour market. We are forecasting jobs in the sector to increase by 5.2% (+68,000) in 2006 and 2.9% (+39,000) in 2007. Meanwhile, construction sector employment is forecast to grow by 5.3% (+15,000) in 2006 before moderating to 1.9% (+5,000) in 2007.

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

Given the increasing competitive pressures facing export firms it is hard to see much room for net job growth in the short-term. Our forecast is for manufacturing employment to remain unchanged this year, before falling by -1.7% (-5,000) in 2007.

Unemployment is forecast to rise by 5,000 this year to 94,000 and by a further 4,000 in 2007 while the unemployment rate is forecast to average 4.4% through 2006, before increasing slightly to 4.5% in 2007.

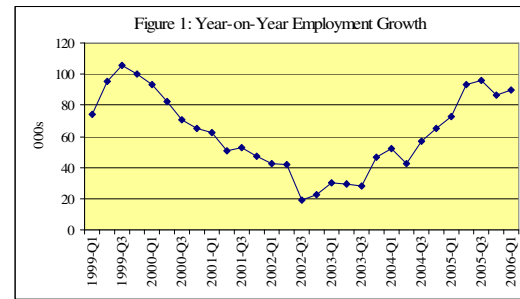
Now that more Member States have opened their labour markets to Eastern Europe, the choice of destinations for migrant workers has increased. Yet this recent development on its own is unlikely to lead to a significant redirection of migrant flows away from Ireland. The main consideration for migrant workers coming to Ireland will be their job prospects here. Currently, the strength of our labour market makes us the most attractive destination in the EU for jobseekers. However, the attractiveness of our labour market may diminish in the medium-term if our reliance on the non-traded sector to create jobs becomes unsustainable. In which case, the liberalisation of labour markets in other Member States may turn out to be a timely safety-valve for Ireland. This is especially true for the construction sector where a large number of EU10-nationals are employed.

## Macroeconomic Context

The Irish economy continues to perform strongly, recording GNP and GDP growth rates of 5.4% and 4.7% respectively in 2005. These growth rates look set to be emulated and possibly exceeded this year. The main driver of this recent economic growth has been the strong performance of the non-traded sector. While the economy has been performing extremely well, concern is increasing that it may have begun to overheat in certain sectors. Energy and house prices have risen noticeably this year, and the overall inflation rate has increased sharply in recent months reaching 3.9% in May. Although the strength of the euro vis-à-vis the dollar will help lessen the inflationary impact of high oil prices, it brings another problem – namely a loss in export competitiveness outside the Eurozone.

## Employment Trends

The strong employment growth of 2005 has continued in to the first quarter of 2006. There were 1,998,100 persons in employment in the first quarter of this year, up 89,800 (4.7%) on the corresponding quarter in 2005 (Figure 1). This compares with an annual increase of 4.6% in the previous quarter and 3.9% in the first quarter of 2005. Total employment was made up of 1,667,900 employees, 318,400 self-employed and 11,800 persons assisting relatives. All of the employment increase over the period was accounted for by employees with the level of self-employed showing little change.



Source: CSO, Quarterly National Household Survey

The number of women at work increased by the same rate as men, with an additional 38,200 (+4.7%) women and 51,500 (+4.7%) men in employment in the twelve months to the first quarter of 2006. The rate of increase for persons in part-time employment was +4.9% (16,000), broadly in line with the rate of increase for total employment.

Table 1: Summary of Labour Force Statistics

Statistic (000s)	2005 Q1	2006 Q1
Total Employment	1,908.3	1,998.1
Female Employment	810.1	848.3
Male Employment	1,098.3	1,149.8
Part-time Employment	327.4	343.4
Agriculture	112.5	115.5
Manufacturing	297.3	285.0
Construction	233.1	253.8
Services	1,265.4	1,343.8
Unemployment	82.1	88.2
Unemployment Rate %	4.1	4.2
Labour Force	1,990.5	2,086.3
Participation rate %	61.0	62.2

Source: CSO, Quarterly National Household Survey

## Sectoral Employment

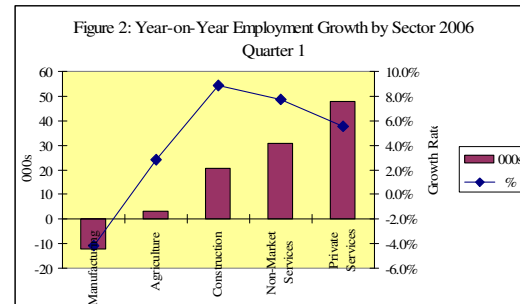
Employment again grew fastest in the construction sector, up 20,700 (+9%) year-on-year to 253,800 (Figure 2). While this rate of growth was extremely high relative to other sectors, it represents a slowdown from the peak growth rate of 18% recorded in the second quarter of 2005.

The numbers employed in the services sector rose by 78,400 (6%) between the first quarter of 2005 and the first quarter of 2006. The services sector now employs 1.34 million people, accounting for 2 out of 3 jobs in the Irish economy. The non-market services sector<sup>2</sup> registered particularly strong growth, up 30,500 (8%) on the corresponding period last year. Within the private services sector, there were rapid increases in both the wholesale & retail sector and the financial & business services sector, up 18,500 (7%) and 16,300 (6%) respectively on the first quarter of 2005. Employment growth was much lower in the hotel & restaurants sector where only 800 net new jobs were created. In fact, when aggregated over the last two years there has been zero employment growth in the hotel & restaurants sector at a time when employment across the economy grew by over 160,000.

Employment in the agriculture, forestry and fishing sector has been showing signs of a mini-recovery with the number of persons employed in this sector up 3,000 (3%) since the first quarter of 2005. The only sector to show a

<sup>2</sup> Incorporating public administration & defence, education and health.

decline in employment was the one most exposed to international competitive pressures, namely manufacturing. Between the first quarter of 2005 and the first quarter of 2006 there was a net fall of 12,300 (-4%) in manufacturing employment.



Source: CSO

The largest annual occupational increases were for professionals (+26,100) and sales workers (+17,800).

## The Labour Force

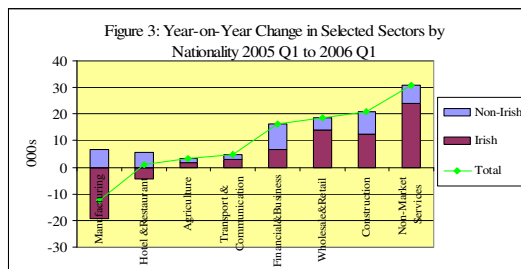
There were 2.086 million people in the labour force in the first quarter of 2006. This represents a year-on-year rise of 95,800 (+4.8%). As a result, 62.2% of all persons aged 15 and over are now participating in the labour force, which is significantly higher than the EU average of 57%.

The importance of foreign nationals to the labour force continues to increase. The CSO estimates<sup>3</sup> that net inward migration accounted for over half (51,200) of the growth in the labour force in the year to the first quarter of 2006. The total

<sup>3</sup> However, the CSO notes that current migration estimates are 'tentative' and may be revised upwards in the future.

number of foreign nationals in the labour force was 198,000, of which just over 74,000 were from the new Member States.

The highest concentration of foreign national workers was in hotel & restaurants where they accounted for 24% of all persons employed in the sector. Foreign nationals also accounted for around 10% of employment in the construction, financial & business services, and manufacturing sectors. Figure 3 shows that the largest increase in foreign nationals in the year to the first quarter of 2006 was in the financial and business sector (+9,600), followed by the construction sector (+8,400). The number of foreign nationals also increased significantly in the manufacturing sector (+6,900) at a time when there was a substantial fall in the number of Irish workers (-19,200).



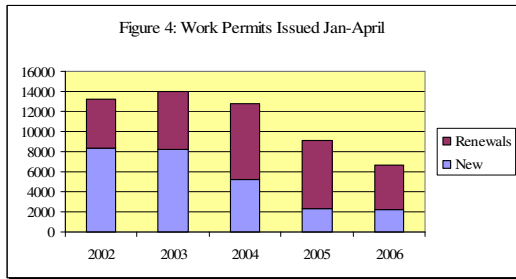
The number of migrants from the EU10 has exceeded most expectations. In the two years since enlargement began, over 200,000 Personal Public Service Numbers (PPSN<sup>4</sup>) have been allocated to EU10 nationals. It is estimated that approximately two-thirds of the EU10 nationals who acquire a PPSN stay in Ireland to work. Of the three countries (Ireland, UK, Sweden) that opened their labour markets to the new Member States, Ireland has received the largest number of

<sup>4</sup> PPSN are necessary to take up employment.

EU10 migrants per capita. For every 2 EU10 migrants who come to the UK, approximately 1 comes to Ireland despite the fact the UK population is 15 times larger. And Ireland's relative attractiveness is likely to increase further given that unemployment in the UK has begun to rise.

On May 1<sup>st</sup>, four more EU Member States, (Finland, Spain, Greece and Portugal) opened their labour markets to the East European States, while others (France, the Netherlands, Denmark) have allowed access to key sectors which are experiencing skills shortages such as construction. It is too early to say what effect this will have on migration flows into Ireland. However, the strength of our labour market, combined with the existence of established immigrant networks, should continue to make us a popular migration destination.

As immigration from the EU10 has increased, the number of work permits being issued to non-EU migrants has fallen. There were 6,655 work permits (new and renewed) issued in the first four months of this year, down 27% from the same period in 2005 (Figure 4). The most significant decline was in the number of renewed permits being issued, down 34% on the first four months of 2005. That said, approximately 2 out of 3 permits issued this year were still accounted for by renewals.



Source: DETE. \*Not including Group Permits.

Increased participation has also been significant, accounting for over a third (32,000) of the total increase in the labour force in the year to the first quarter of 2006. Since the first quarter of 2004 there has been a particularly strong increase in the number of women aged 45 and over in the labour force, accounting for almost a quarter (38,000) of the total increase in the labour force (both male and female).

### Unemployment Trends

The number of unemployed persons increased by 6,100 to 88,200 in the twelve months to the first quarter of 2006, while the unemployment rate rose slightly from 4.1% to 4.2%. Short-term unemployment increased by 7,600 to 62,000, while long-term unemployment fell by 1,600 to 26,200. The long-term unemployment rate was 1.3% in the first quarter of 2006, down from 1.4% a year previously.

The Irish unemployment rate continues to be the lowest in the EU. The unemployment rate for the EU25 was 8.4% in March 2006, down from 8.9% a year previous (Figure 5). In fact, the EU25 unemployment rate has been falling steadily over the last two years after peaking at 9.2% in January 2004. The EU youth (under-25) unemployment rate was 18.4%, compared to

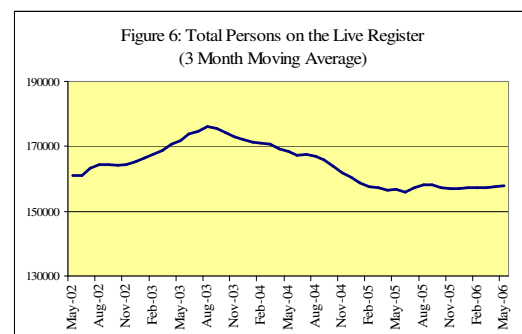
8.8% for Ireland. Ireland has the third lowest youth unemployment rate in the EU.

As well as accounting for most of the increase in employment, foreign nationals also accounted for the majority of the rise in unemployment, with the number of foreign nationals seeking employment increasing by 5,300 in the year to the first quarter of 2006. The unemployment rate for Irish nationals was 4.0%, unchanged from early 2005.



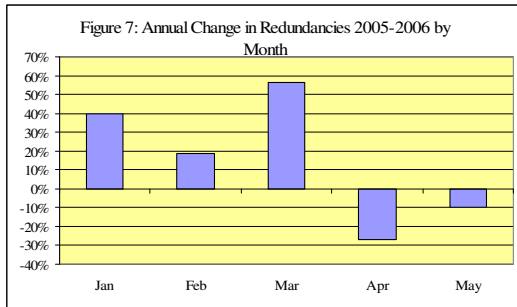
Source: Eurostat

The seasonally adjusted Live Register showed a slight month-on-month increase in May of 600 to 158,800. The numbers signing on the Live Register seem to have stabilised only fluctuating within a narrow range (155,000-159,000) over the last year (Figure 6).



Source: CSO, Live Register Analysis.

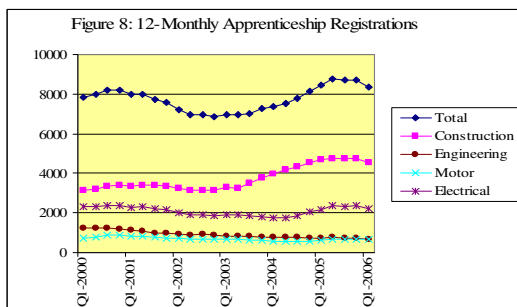
There were just under 10,000 redundancies in the period January to May 2006, an increase of 7% on the same period in 2005. The increase was concentrated in the first three months of the year. More recently, redundancies in March and April have been below year earlier levels (Figure 7).



Source: DETE

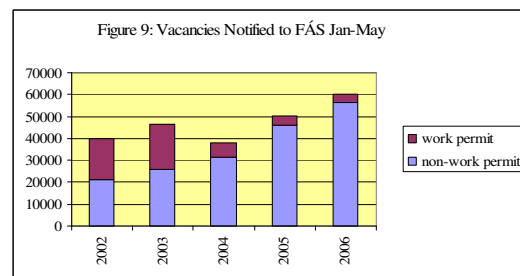
**Current Labour Demand Indicators**

The number of apprentice starts totalled 8,331 in the twelve months to the first quarter of 2006, down 5% on the previous quarter (Figure 8). All sectors experienced a quarter-on-quarter decline. Construction and electrical apprenticeship starts fell by 4% and 5% respectively, which was consistent with the deceleration in construction employment since the second quarter of 2005. The recent trend, although continuing to remain at record levels, suggests that apprentice starts may have reached a peak towards the end of 2005.



Source: FÁS

There were just over 60,000 vacancies notified to FÁS in the first five months of 2006, up 19% from the same period of 2005 which in turn was up 33% on the corresponding period in 2004 (Figure 9). The growth in the number of vacancies has occurred in spite of a fall of 12% in the number of work permit-related vacancies. The fall in work permit-related vacancies was indicative of a more general decline in the number of work permits being issued post-enlargement.



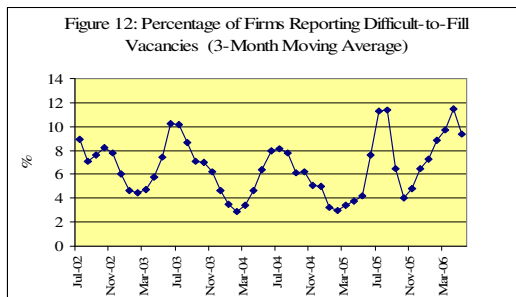
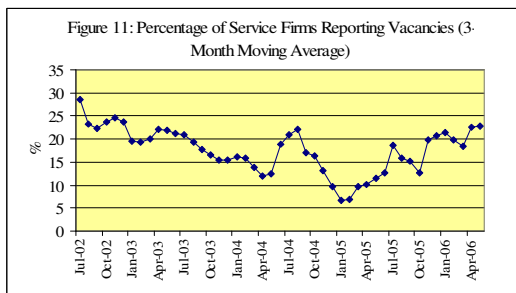
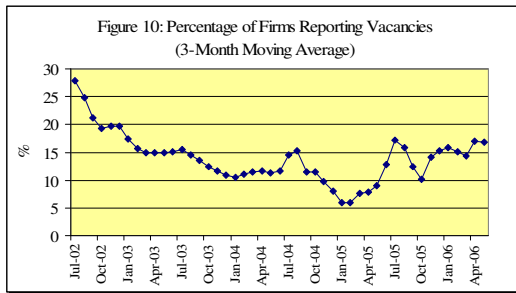
Source: FÁS

Further evidence of strong growth in the number of vacancies comes from the May edition of the *FASNESRI Employment and Vacancies Survey*. Figure 10 below shows that the percentage of firms reporting vacancies has risen from 10% in October 2005 to 16% in May of this year. The rise in services sector vacancies has been the main reason for the overall increase (Figure 11).

While vacancy trends are a good proxy for overall trends in labour demand, the proportion of these vacancies that are ‘difficult-to-fill’ gives a better indicator of the extent to which this demand is being met by labour supply. Figure 12 below reveals that the 9% of firms surveyed had difficult-to-fill vacancies in the month of May which is about average for the beginning of the summer period. The vacancies that employers

have found the most difficult to fill were, by sector:

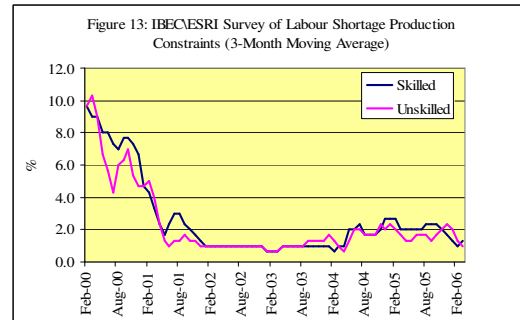
- *Construction sector:* site managers and quantity surveyors
- *Industry sector:* engineers, sales staff and managers
- *Retail sector:* sales staff
- *Services sector:* chefs and engineers



Source: FÁS/ESRI Employment and Vacancies Survey.

According to the *IBEC/ESRI Monthly Industrial Survey* (Figure 13), the percentage of manufacturing companies whose production was constrained by labour shortages continued to be

low in the early part of 2006 (approximately 1%). This contrasts sharply with six years ago when 10% of firms were experiencing significant skill shortages. The low incidence of shortages is reflective of the decline in manufacturing employment that has taken place in recent years.



Source: IBEC/ESRI Monthly Industrial Surveys

Overall, the indications are that labour demand has remained strong in most sectors in the first half of 2006, with signs that the services sector labour market may be tightening. Yet despite the recent rise in vacancies, severe shortages are not as apparent as they were at the turn of the decade when immigration flows were less significant. The absence of severe shortages highlights how important immigration has been in filling the large number of vacancies that have arisen in recent months.

### Earnings and Productivity

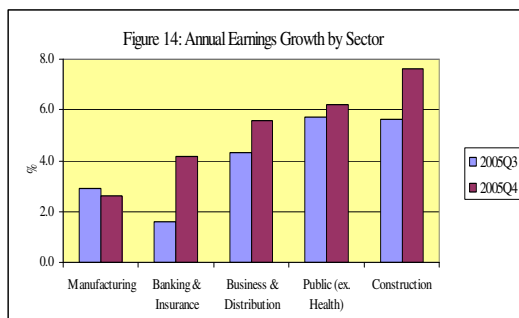
The strong demand for labour might be expected to lead to an acceleration in the rate of earnings growth. Indeed, earnings data<sup>5</sup> for the fourth

<sup>5</sup> Based on hourly earnings data in the construction and manufacturing sectors and average weekly earnings in the services sectors. No hourly earnings data are available for the services sub-sectors.

quarter of 2005 shows the annual rate of growth rising in most sectors when compared to the third quarter of 2005 (Figure 14). The annual earnings growth rates were strongest in the non-traded sectors of the economy with earnings increasing by 7.6% and 6.2% in construction and the public sector (excluding health) respectively. In the construction sector, strong earnings growth occurred in tandem with a substantial increase in the number of migrant workers.

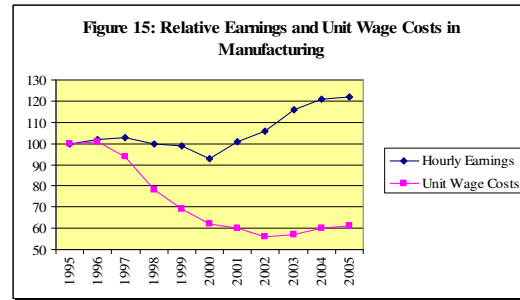
Within the private services sector, earnings rose by 5.6% in business & distribution and by 4.2% in banking & insurance. The manufacturing sector, which is the most exposed sector to international competition, was the only sector where the earnings growth rate decelerated, slowing from 2.9% in the third quarter of 2005 to 2.5% in the fourth quarter.

Relative<sup>6</sup> unit wage costs for the manufacturing sector are estimated to have risen by 2% last year (Figure 15). The strength of the euro is likely to have put further pressure on relative unit wage costs in the first half of this year.



Source: CSO

<sup>6</sup> Adjusted for the exchange rates of our main trading partners



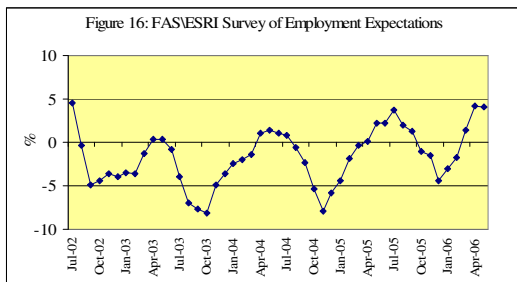
Source: Central Bank

While employment growth has been strong, concerns about low labour productivity growth persist. Both the nature and scale of employment growth are partly responsible for our poor productivity performance. Job creation has been concentrated in labour-intensive sectors which tend to have lower productivity, while the rapid nature of employment growth may have led to a productivity lag as new recruits are trained into their unfamiliar roles. To the extent that the employment boom has contributed to the productivity slowdown, a corresponding ‘productivity rebound’ may occur once the rate of employment growth decelerates.

### Prospects

Current forecasts suggest that economic growth will remain strong both this year and next with annual GNP and GDP growth rates expected to average around the 5% mark. Although the outlook is positive, the number of ‘warning signals’ has been increasing in recent months. Of particular concern has been the impact of cost trends on the performance of internationally-traded sectors of the economy. Nevertheless, the short-term economic outlook is generally positive and this augurs well for employment prospects.

The seasonally adjusted trend in employment growth picked up slightly in the first quarter of this year after decelerating through 2005. This would suggest that employment growth may be stronger this year than was anticipated in the previous Quarterly. Evidence from the FÁS\ESRI Employment Survey also shows strong employment expectations in recent months (Figure 16). According to the Survey, employers' employment expectations in May were at their highest level in four years (although expectations tend to be higher at the beginning of the summer). Given the above, we are raising our employment growth forecast for 2006 to 4.3% (+84,000). A deceleration in the employment growth rate to 1.8% (+37,000) is anticipated for 2007.



Source: FÁS\ESRI Employment and Vacancies Survey

Our growth forecast for services sector employment is 5.2% (+68,000) in 2006 before moderating to 2.9% (+39,000) in 2007.

While employment has continued to boom in the construction sector (+50,000 in the last two years), commentators are becoming increasingly concerned that the property market is overheating, with house prices continually exceeding forecasts. Higher interest rates are likely to cool off some of the demand in the construction sector which should in turn lead to a

slowdown in employment growth in the second half of this year and into 2007. Therefore, our employment forecast is for construction to grow by 5.3% (+15,000) this year before slowing to 1.9% (+5,000) in 2007.

While employer sentiment in the most recent NCB-PMI Manufacturing Survey remains upbeat, both a strong euro and high oil prices will limit the ability of firms to expand and create new jobs. On balance, we expect the level of manufacturing employment to remain unchanged this year, before falling by -1.7% (-5,000) in 2007.

Based on the assumption that immigration flows in 2006 will be of a similar magnitude to last year<sup>7</sup>, the labour force is forecast to grow by around 89,000 (+3.9%), which is marginally faster than projected employment growth. Labour force growth is then expected to slow to about 41,000 (1.9%) in 2007, broadly in line with the projected moderation in employment growth.

Unemployment is forecast to rise by 5,000 this year to 94,000 and by a further 4,000 in 2007. The unemployment rate is forecast to stay within the 4.4%-4.5% range over the 2006-2007 period.

<sup>7</sup> In the first five months of the year the number of PPSN allocated to EU10 nationals has averaged 10,000 per month, suggesting that immigration flows will continue to be significant this year.

**Table 2: Employment & Unemployment 2004-2006**

	Annual Averages (000s)		
	2005	2006	2007
Agriculture	115	116	114
Construction	245	260	265
Manufacturing	294	294	289
Services	1,298	1,366	1,405
Total Employment	1,952	2,036	2,073
Unemployed	89	94	98
Labour Force	2,041	2,130	2,171
Unemployment Rate	4.4%	4.4%	4.5%