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Wages in Ireland, 2008-2016.

A cohort analysis

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SUMMARY

This *inBrief* provides a broad overview of changes to annual wages at different stages in the worklife cycle in Ireland between 2008 and 2016. The period under consideration includes the peak of the Celtic Tiger, the financial crisis, the subsequent recession and four years of strong macroeconomic growth (2012- 2016).

The analysis shows that the median wage for the two youngest cohorts in 2016 had not recovered to the level recorded in 2008. The average for the youngest workers (18-24) was 8.9% lower in real terms in 2016 than in 2008. Average annual salary for 25-34 year olds in 2016 was 1.4% higher in real terms compared to 11.8% and 13.3% for 35-44 and 45-54 year olds respectively.

Trends for the 25-34 year old group are of particular concern as evidence from survey data points to a more positive educational profile for this group in 2016 relative to 2008 whilst the share of low-skilled jobs has increased. This suggests that the returns to education diminished substantially between 2008 and 2016 and has implications for future lifetime earnings of young Irish workers.

KEY POINTS

- A cohort analysis of wage growth between 2008 and 2016 shows that the median wage for the two youngest groups (18-24 and 25-34) had not recovered from the financial crisis by 2016 in nominal or real terms. The average 18-24 year old worker earned 8.2% less in nominal wages and 8.9% in real terms in 2016 than in 2008.
- In contrast, workers in the 35-44 year old bracket saw median wages rise steadily throughout the recession and stood 14.6% higher in 2016 than in 2008, with an average rise of 12.5% in that period. The 45-54 year old group saw the next best gains with the median wage 5.3% higher and average wage 14% higher.
- The median wage for the eldest group was 5.3% higher in nominal terms (4.6% in real terms) than in 2008 and only marginally higher on average (0.9% in real terms).
- The more up-to-date survey, Earnings, Hours, Employment Costs, which unfortunately does not include details on demographic variables such as age, shows an added average growth of 2.1% in weekly earnings between the third quarter of 2016 and the same quarter 2017.

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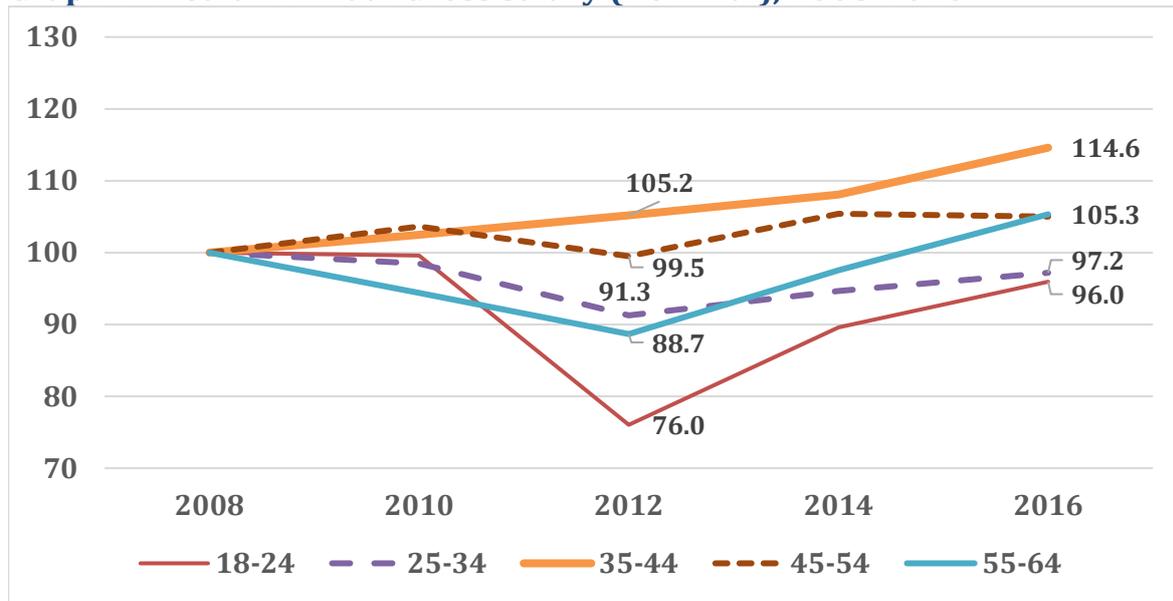
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Research for new economic policies

Graph 1: Median Annual Gross Salary (Nominal), 2008-2016.



Notes: Wages are in nominal terms for those 'at work' as their principle economic status only. Students, home duties etc, excluded.

Average and median gross salary

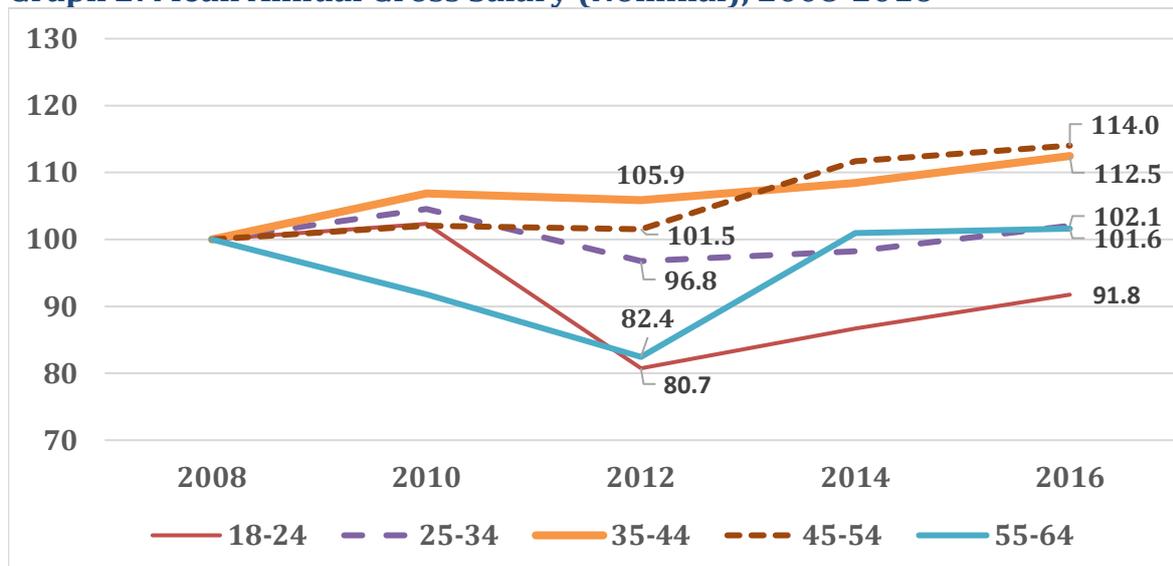
This inBrief will assess changes in annual wages from 2008 to 2016 with a specific focus on the experience of different age groups. The period under consideration includes the peak of the Celtic Tiger, the financial crisis, following recession and approximately four years of strong GDP growth between 2012 and 2016. The analysis considers only individuals who identify as 'at work' in the Survey on Income

and Living Conditions (SILC) and therefore does not include students.

Graph 1 shows the changes of nominal median wages (the wage of the individual in the middle of the distribution) for five age groups between 2008 and 2016, 18-24, 25-34, 35-44, 45-54 and 55-64.

SILC data show the median wage for working 18-24 year olds fall by 24% in nominal terms

Graph 2: Mean Annual Gross Salary (Nominal), 2008-2016



Notes: Wages are in nominal terms for those 'at work' as their principle economic status only. Students, home duties etc, excluded.

between 2008 and 2012. The lion's share of this decrease happened between 2010 and 2012 where the median wage earner saw their wage fall from €15,754 to €12,031.¹

The median wage for 18-24 year olds was 4.0% behind 2008 (€15,822) in 2016 (€15,183) in nominal terms. The average annual salary for workers in this age group fell by more than 20% between 2010 and 2012. Over the next four years, a little over 50% of the ground lost was recovered with an average salary of €16,155 in 2016, 8.9% lower than in 2008 in real terms.²

The median 25-34 year old worker in 2016 earned an annual gross salary of €29,114 (2.8% lower than the equivalent worker in 2008 in nominal terms and 3.5% in real terms). The average wage (€32,875) was 1.4% higher in real terms in 2016 compared to 2008 (€32,208).

Movements in wages for the next two age cohorts (35-44 and 45-54) have been relatively more positive. Median wages for the first group continued on a steady rise even through the worst years of the recession and in 2016 (€38,218) are 14% higher than in 2008 (€33,349). The average has also risen 12.5% in nominal terms, from €39,040 to €43,909.

At the 45-54 year old stage of the worklife cycle, the middle earner in the distribution earned €37,156 or 5.3% more in 2016 than the equivalent worker in 2008 (4.6% in real terms). The median for this group only fell slightly (0.5% approx.) relative to 2008 between 2010 and 2012 having risen marginally over the previous two years. At 14% over 8 years, the average wage for this age group showed the highest gains out of any under consideration, standing at €47,623 in 2016.

The eldest group (55-64) are the middle performer in terms of wages of the five groups under consideration over 8 years. For this group the median gross annual wage in 2016 (€35,638) was 5.3% higher in nominal terms and 4.6% in real terms than the corresponding age group in 2008 (€33,835), having suffered the second largest decrease between 2008 and 2012 of any of the groups. The average wage for workers at this stage of their worklife cycle also dropped significantly in the aftermath of the financial crisis, but rebounded relatively quickly to surpass the average in 2008 by 2014 by 0.9%. Average wages for this group grew marginally between 2014 and 2016.

Table 1: Gross Annual Salary (Nominal), 2008-2016.

	2008	2010	2012	2014	2016
18-24 (Median)	€15,822	€15,754	€12,031	€14,176	€15,183
18-24 (Mean)	€17,608	€18,019	€14,218	€15,264	€16,155
25-34 (Median)	€29,949	€29,487	€27,333	€28,346	€29,114
25-34 (Mean)	€32,208	€33,673	€31,167	€31,643	€32,875
35-44 (Median)	€33,349	€34,177	€27,333	€36,041	€38,218
35-44 (Mean)	€39,040	€41,727	€31,167	€42,344	€43,909
45-54 (Median)	€35,378	€36,663	€35,201	€37,290	€37,156
45-54 (Mean)	€41,766	€42,630	€42,406	€46,649	€47,623
55-64 (Median)	€33,835	€31,933	€30,000	€32,998	€35,638
55-64 (Mean)	€42,970	€39,453	€35,429	€43,378	€43,663

Notes: Wages are in nominal terms for those 'at work' as their principle economic status only. Students, home duties etc, excluded.

¹ All quoted wages refer to nominal values

² The difference in the Consumer Price Index between 2008 and 2017 is +0.7%

Discussion:

The evidence in this paper suggests that the impact of the financial crisis has effected the wages of workers at certain stages of the worklife cycle more than others. Graph 1 shows the difference in average wage growth between 18-24 year old workers and their 35-44 year old counterparts over 8 years is 20.7% whilst Graph 2 shows that for the median workers between these groups, the gap over the same period was 18.6%. This seems, in part at least, to be driven by a shift in the occupational make-up of the younger group between 2008 and 2016. The International Standard Classification of Occupations sets out nine occupational groupings divided by four skill levels. Managers and Professionals are at the top of this spectrum, whilst elementary workers are at the bottom. Between 2008 and 2016, the share of 18-24 year old workers in Managerial and Professional categories dropped by more than 50% from 19.7% to 8.2% whilst at the bottom of the spectrum, the proportion of elementary workers for this age group more than doubled (9.6% to 24.1%). This occupational category tends to be the lowest paid in Ireland as well as having a disproportionate number of precarious working arrangements relative to other groups. Indeed, aside from occupational classification, there is strong evidence to suggest that young workers across the board are disproportionately subject to precarious work contracts (McDonnell & Nugent 2018).

Of particular concern is the 25-34 year old group whose average wage is just 0.9% higher in 2016 than in 2008 in real terms whilst the median had still not recovered to pre-crisis levels. This is loosely the stage of the worklife cycle where those completing third level education begin their career. The education profile of this group shifted considerably during the recession as many citizens, especially those in the first two age groups, were forced to choose third level or to upskill in a difficult labour market. 25-34 year olds were more likely to have a post-leaving cert qualification or above in 2016 than in 2008 (65.4% compared to 53.3%) with particular growth at the top end of the skill/education spectrum with 20% more

reporting to have a third level degree or above in 2016 than in 2008 (30.1% compared to 36.2%). At the same time, this does not seem to have transferred to employment and evidence suggests that the occupational make up of this group has also shifted markedly between 2008 and 2016. The SILC data between 2008 and 2016 shows a 25% drop in the proportion of workers in professional and managerial occupations (40.9-30.5%) and a more than 60% rise in the share of workers in the elementary professions (8.7%-14.1%). This has obvious implications for the expected lifetime earnings of younger Irish workers.

This has further implications for young workers in an environment where housing costs are spiralling. Two average earners in the 25-34 year old bracket earned €65,750 in 2016. Applying the 2.1% national average wage growth recorded by EHECS in 2017 makes this couple eligible for a mortgage of €234,957. With a 10% deposit, this couple would be looking at a property of a maximum of €258,000, which is not enough to buy an average 3-bedroom semi-detached house in any area in Dublin (Nugent 2018).

These developments have occurred in the context of substantial real growth in output between 2012 and 2016. Modified Gross National Income per capita or GNI*, a new measure of output which attempts to strip out the distortive effects of the activities of multinationals for a better indicator of how the real economy is performing grew by 33.2% in this time. This raises serious questions about the distribution of the gains from Irish growth.

References

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