

# NERI Research inBrief

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## The Irish Construction Sector (2008-2016)

### Employment, compensation and labour costs

Ciarán Nugent

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#### SUMMARY

Employment in *Construction* in the last quarter of 2017 (133,200) was 42.7% lower (100,000 workers) than in the last quarter of 2007 (232,600), the peak of the Celtic Tiger and the period directly preceding the property crash.

The Survey on Income and Living Conditions shows that there has been a shift in employment arrangements in the sector with a rise in the category of *self-employed with no employees* between 2008 and 2016. This may indicate a rise in dependent self-employment in the sector and support qualitative evidence to that effect. At the same time, the sector saw a reduction in those self-employed with employees and the share of employees. There has also been a shift towards temporary contracts as a proportion of all employee contracts in the industry.

For employees in *Construction*, SILC data shows that the average salary had not yet recovered to the level recorded pre-crisis by 2016 in nominal terms. For the *self-employed with no employees*, income in 2016 was still significantly behind levels in 2008.

#### KEY POINTS

- Despite strong employment growth in *Construction* over the past number of years, numbers employed in the sector were still 42.7% lower at the end of 2017 than a decade previously. Employers have also voiced concerns over difficulties regarding recruitment in the sector.
- Employees as a proportion of employment in the *Construction* sector has fallen, whilst the share of self-employed with no employees has risen.
- Temporary contracts as a proportion of all employees in the sector has also risen in this time, though data shows a declining trend since 2012.
- Average annual total earnings in 2017 had not yet recovered to the level recorded in 2008.
- Self-employment income from workers with no employees was 21.7% lower on average in 2016 than in 2008.
- Employer's social contributions as a proportion of labour costs fell in Ireland between 2008 and 2015 further than any other country in the EU.

#### Nevin Economic Research Institute (NERI)

31/32 Parnell Square  
Dublin 1  
+ 353 (1) 8897722

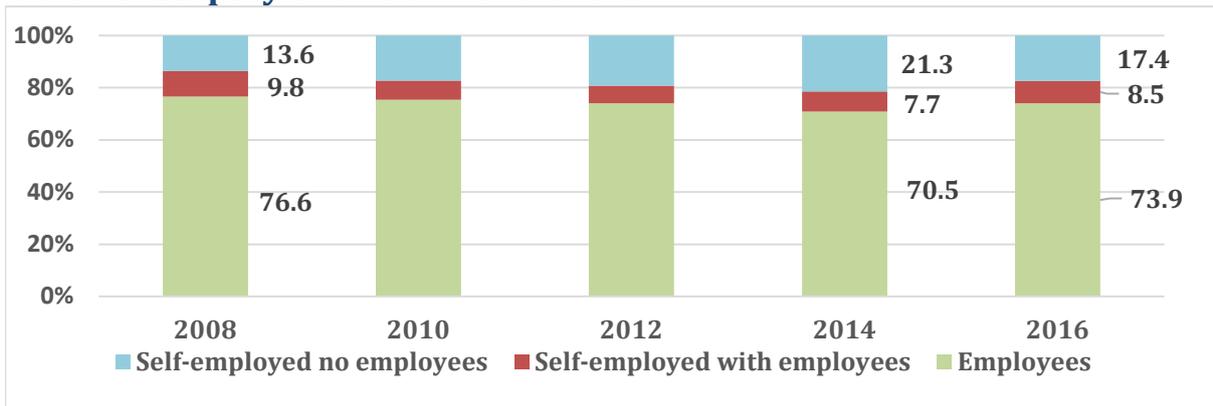
45-47 Donegall Street  
Belfast BT1 2FG  
+ 44 28 90246214

e-mail: [info@NERInstitute.net](mailto:info@NERInstitute.net)  
Web: [www.NERInstitute.net](http://www.NERInstitute.net)



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**Table 1: Employment in Construction**



**Introduction**

This inBrief will examine the Irish *Construction* sector between 2008 and 2016 using data from the Survey on Income and Living Conditions (SILC). Although the Earnings, Hours and Employment Costs (EHECS) survey provides more up-to-date data on wages, SILC is the widest and most detailed survey in Ireland on individual and household income. The survey allows for the examination of wages at levels of detail other surveys do not accommodate, including linking compensation data to economic sectors and providing details on wages and self-employment income. This inBrief will examine trends in the labour market in *Construction*, with a particular focus on changes in the structure of employment in the sector, employee wages and compensation for sole-traders.

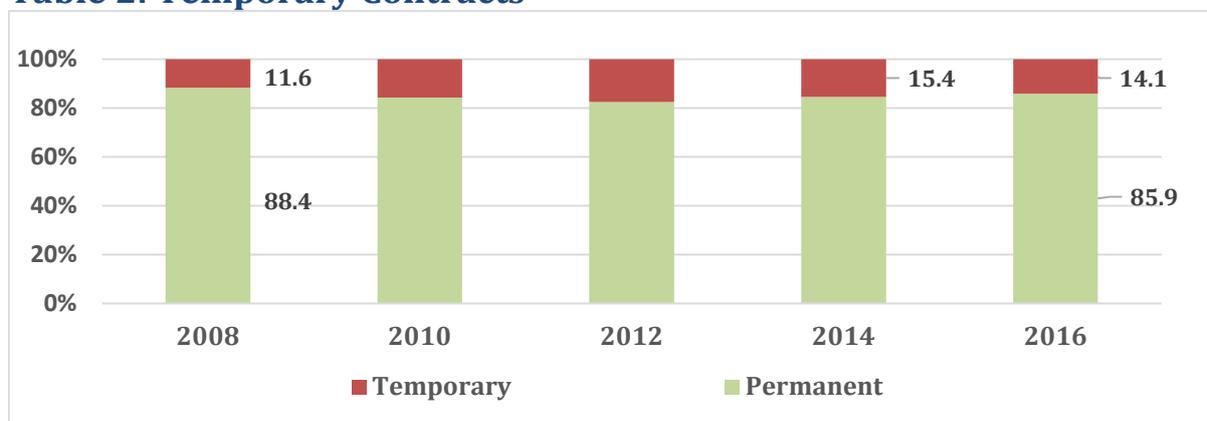
**Employment**

Absolute employment in the *Construction* industry grew by about 12,000 workers in the year leading up to the last quarter of 2017 to 133,200. This however, was 46% lower or 100,000 jobs less than the pre-crisis peak.

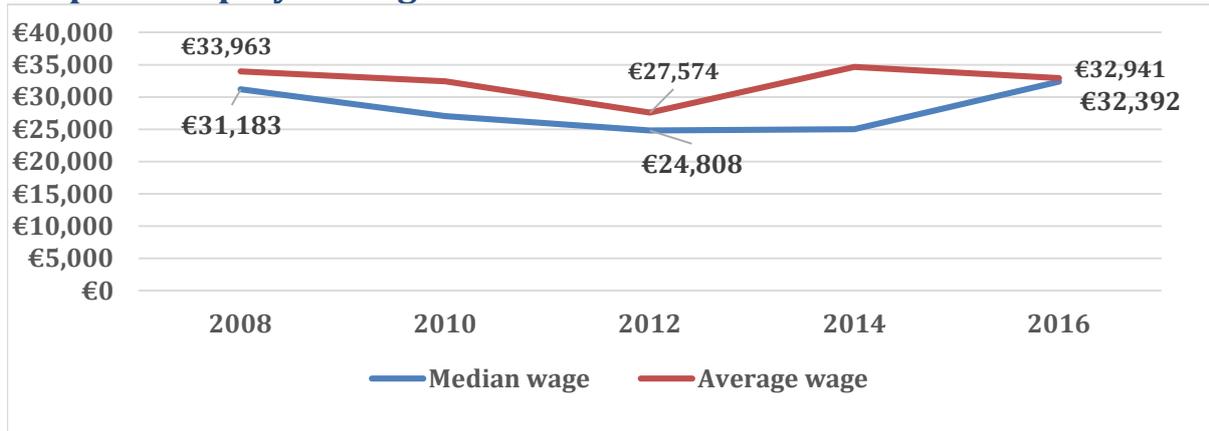
Evidence from the *Survey on Income and Living Conditions* suggests a higher share of precarious employment in *Construction* in 2016 relative to the labour market existing before the financial crisis, as well as lower levels of compensation for some groups.

The share of self-employed workers with no employees was 17.4% in 2016 compared to 13.6% in 2008 (though this number decreased between 2014 and 2016). This indicator may support qualitative research on the labour market in *Construction* which

**Table 2: Temporary Contracts**



**Graph 1: Employee Wages**



found evidence of a rise in dependent or ‘bogus’ self-employment (ICTU 2016)<sup>1</sup>, an issue identified as a significant problem even before the financial crisis (Dobbins 2009). This is a particularly precarious form of employment, where workers are employees in all but name. This arrangement is characterised by a shift in the risk of an employment contract from employers to workers.

In addition, the share of employees and ‘self-employed with employees’ fell from 76.6% to 73.9% and from 9.8% to 8.5% between 2008 and 2016 respectively. Ireland’s *Construction* sector had the 4<sup>th</sup> lowest share of employees in employment in the Eurozone in 2015.

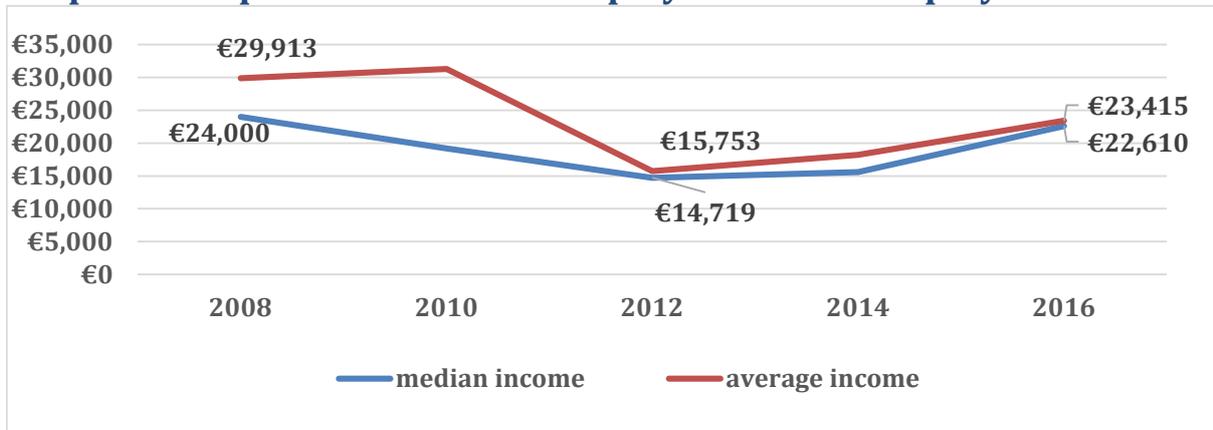
For employees, the share of temporary contracts was also higher in 2016 (14.1%)

than in 2008 (11.6%). This however, represents a fall from its 2012 peak.

**Employee Wages**

Having fallen by more than 20% between 2008 and 2012, the median (the middle earner in the distribution) annual employee wage (cash or near cash income) grew strongly in the *Construction* sector between 2014 and 2016 and was 3.1% higher in real terms in 2016 (€32,392) than in 2008 (€31,183)<sup>2</sup>. Average wages also showed strong growth after a similar decline in *Construction* between 2008 and 2012 but had not reached the pre-crisis level of €33,963 by 2016. This is broadly in line with findings from the Earnings, Hours and Employment Cost survey, which showed that average annual earnings (of all employment) were yet to catch up to 2008 levels in 2017 in real terms.

**Graph 2: Compensation for Self-employed with no employees**



Note: Survey sample size for 2010 (41) and 2012 (49) might be considered low for best practice.

<sup>1</sup> Due to the nature of ‘bogus’ self-employment, much of it occurs in the informal economy. Estimates from surveys

such as SILC therefore likely underestimate the prevalence of these kinds of employment arrangements.

<sup>2</sup> Annual wages are presented in nominal terms.

### Compensation for Sole-traders

In light of concerns regarding the suspected shift towards dependent self-employment at the expense of secure employment, it is important to examine compensation for sole-traders in *Construction*.

Graph 2 shows the median and average income of sole-traders (with no employees) in the sector. Not only was there a significant reduction in compensation for these workers between 2008 and 2016, with the average down 21.7% and the median down 5.7%, the compensation is much lower for this group than for employees. This gap has also increased significantly since the financial crisis. The difference between the average compensation for an employee and a sole-trader in 2008 was €4,050 per annum (or 13.5%) compared to €9,526 (or 40.6%) in 2016. From an employer's perspective, labour costs for the self-employed also do not include the 10.75% in PRSI contributions for employees (who earn over €376 a week), with obvious implications for revenue.

Although there have been some gains in annual income for self-employed workers with no employees since Ireland's return to growth in 2012, the average was €23,415 in 2016 compared to €29,913 in 2008, a 22.4% difference in real terms. The median annual cash benefit from self-employment for a sole-trader in *Construction* was also 6.4% lower in real terms in 2016 than in 2008.

### Labour Costs

According to the latest Eurostat data (2015), *Labour cost per full-time employee in Construction* fell from €52,500 to €44,300 from 2008 to 2015 (18.5% in nominal terms), the biggest absolute adjustment in the EU (only Cyprus observed a bigger proportional adjustment in the same period). Driving this decline were falling wages as well as falling employer's social charges, driven themselves in part by the shift towards sole-traders and temporary contracts. As a percentage of labour costs, Irish employer contributions are the third lowest in the EU, dropping by over a third between 2008 and 2015 from 15.2% to 10%, the biggest decline in the bloc.

### Conclusion

With the continuing housing crisis, an acute skills shortage in *Construction* presents challenges for meeting much needed supply in the market. A recent report by the *Society of Chartered Surveyors* and *Price Waterhouse Coopers* outlined some of the barriers to tackling serious labour shortages, with particular attention given to the excessive cost of accommodation in Ireland, making overseas hires more difficult. Coupled with lower compensation levels than those paid pre-crisis (as outlined previously) this may undermine the Irish government's stated goal of attracting back skilled tradespeople who emigrated during the financial crisis. Numbers registering for apprenticeships relative to the years pre-crisis also gives insight into the appeal of a career in *Construction*. A recent report by the *Construction Industry Foundation* estimates the number of *Brick and Stone* laying apprentices in Ireland in 2017 at just 60, less than 10% of the peak figure of 679 in 2004. If labour supply does not meet demand in an economy, economic theory suggests that pricing is out of line. For a strategically important industry like *Construction*, which is key to supporting the productive capacity of the economy through the provision of housing for workers, offices for business and roads for the economy, a strong policy response is required to tackle this ongoing problem. Failure to do so may have serious negative implications for long-term growth.

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