An Roinn Airgeadais
Department of Finance

Ireland's Unemployment Rate and COVID-19 Disruption

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Overview

- Motivation
- Impact on headline labour market measures
- CSO COVID-adjusted series
- New CSO data
- Possible alternative measures
- Conclusion

Motivation

- Economic impact of COVID-19 severe in labour market – hundreds of ‘000s of people out of work.

- Scale and scope of policy intervention (PUP, T/EWSS) has been unprecedented.

- Further policy decisions required in short-to-medium term.

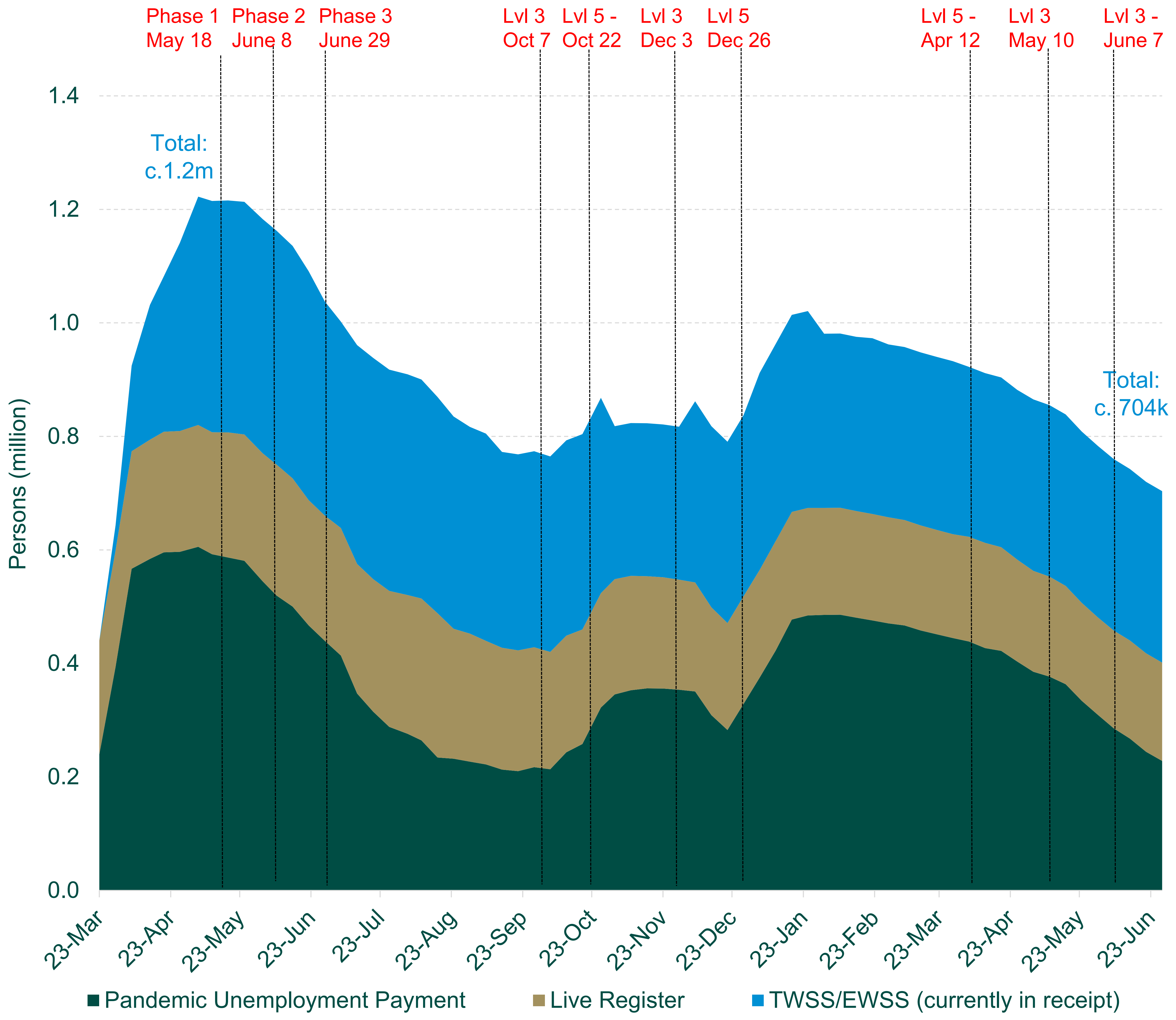
- Pandemic has not only disrupted labour market but also stats used to gauge it – double whammy.

- Uncertainty around unemployment rate – what is the number?

Impact on headline labour market measures

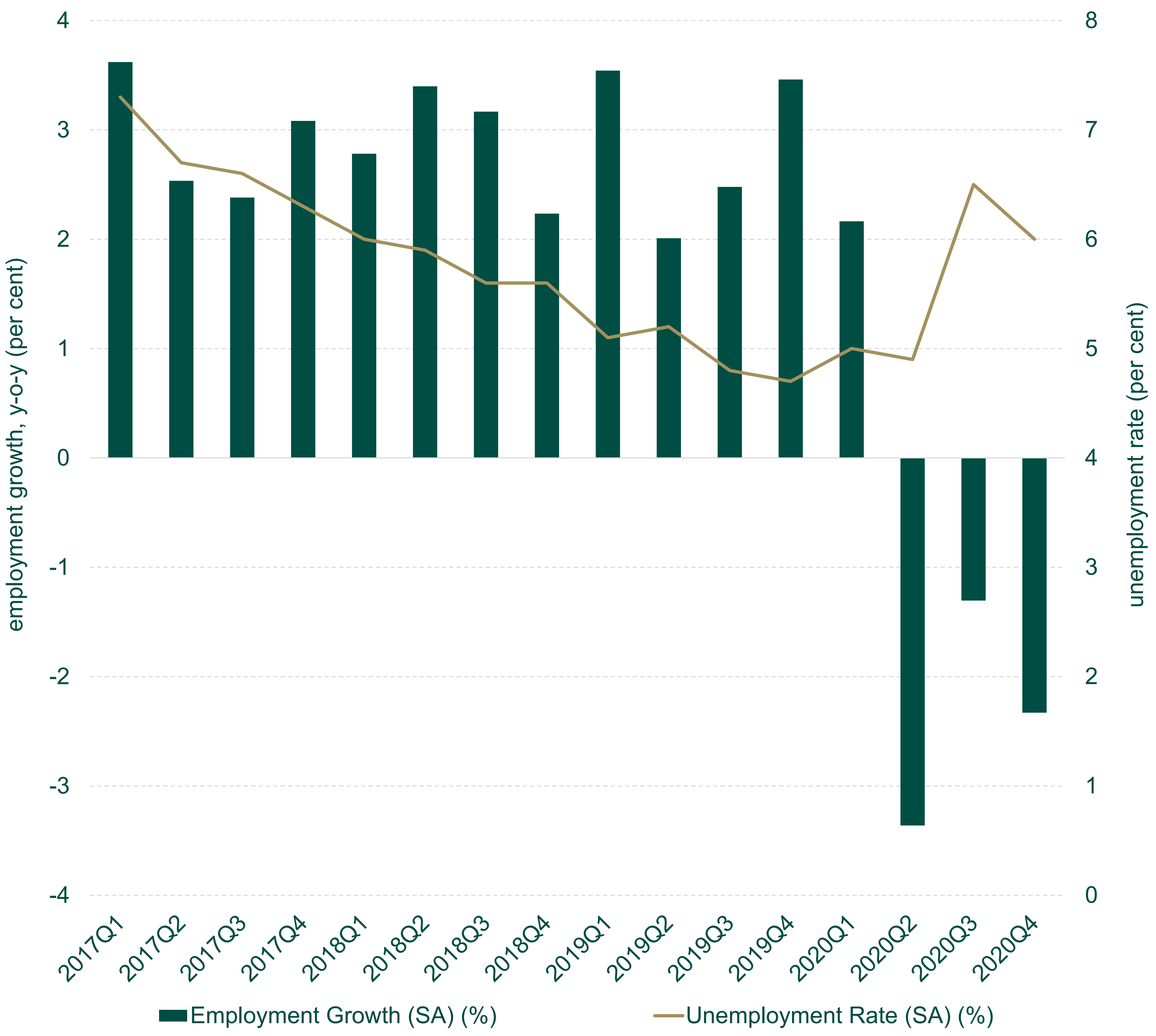
Labour market has borne the brunt of COVID-19 economic impact

Visible in income support schemes (PUP, WSS, LR)



Data source: DSP, Revenue. Overall totals include overlaps between schemes. Data as of 29th June 2021.

Less so in employment growth, unemployment rate



Source: CSO LFS

Standard headline measures not able to capture full impact of pandemic

ILO definitions (international standard):

Employed

- Worked at least 1 hr for pay or profit
- Not at work but **temporarily absent** (assurance of return **within three months** or still receiving >=50 per cent of pay from employer)

Unemployed

- Not in employment
- Available for work within 2 weeks
- Actively sought work in previous 4 weeks

Inactive (outside labour force)

- All other persons

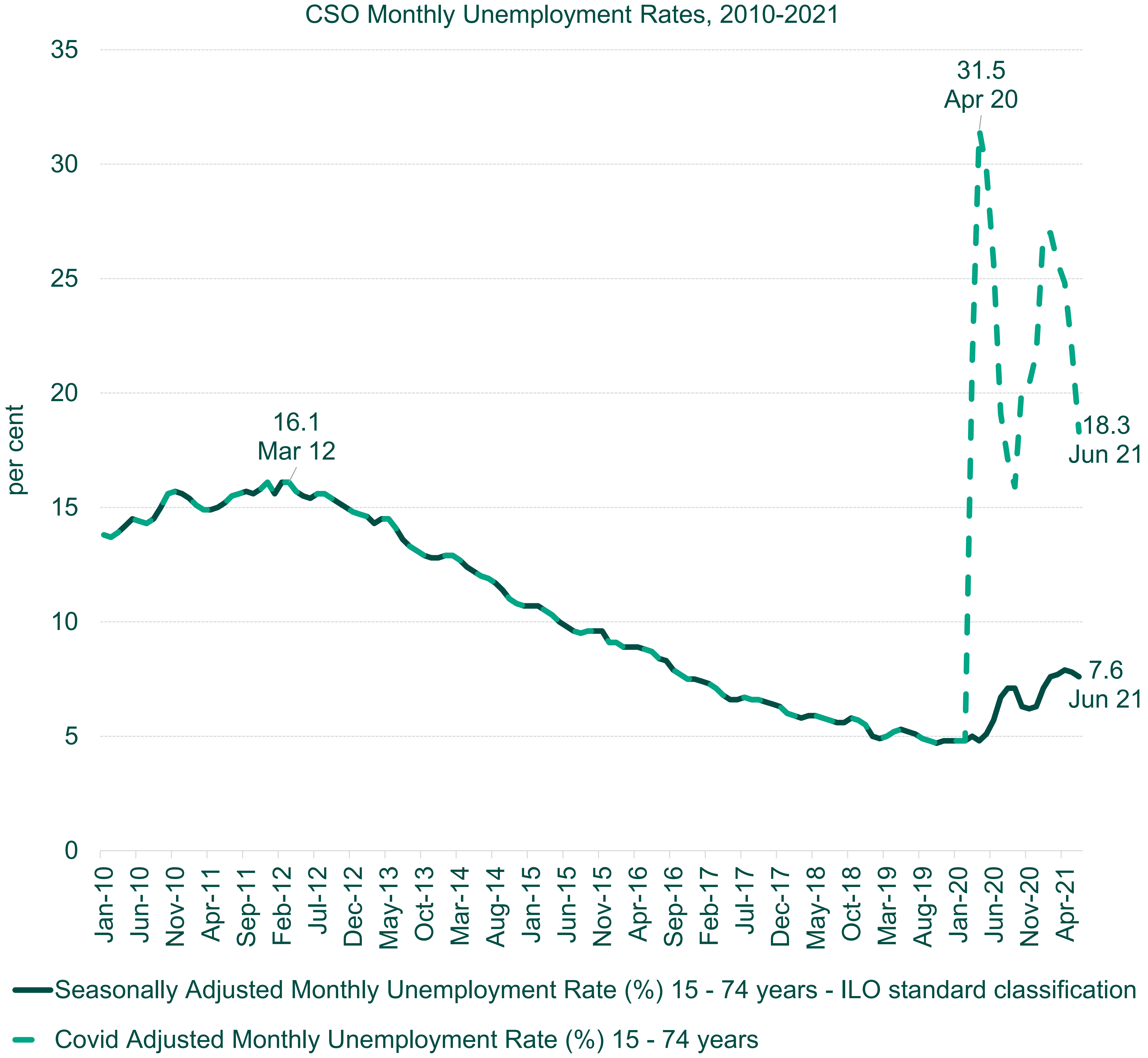
PUP recipients can be ILO employed, unemployed or inactive, depending on specific LFS answers

%	Q2 2020 ILO	Q3 2020 ILO	Q4 2020 ILO
Employed	69.7	58.8	63.4
Unemployed	4.8	15.3	11.5
Inactive	25.5	25.8	25.1
Total	**100.0**	**100.0**	**100.0**

CSO COVID-adjusted series

COVID-adjusted figures aim to clarify by accounting for PUP recipients

All PUP recipients added to unemployment…



…and taken away from employment

Source: CSO LFS

But there are measurement issues with COVID-adjusted figures too

All PUP recipients added to UR (assumed they are initially ILO employed)

Some PUP recipients not traditional 'unemployed'

- Full-time students
- Self-employed

Calculation issues due to ILO assumptions:

- Double count of any PUP who are ILO unemployed (c.12 per cent in Q4)
- Any PUP who are ILO inactive not counted in standard labour force (c.25 per cent in Q4)

Numerator too large, denominator too small → pushes COVID UR metric upwards

$$Unemployment\ rate = \frac{Unemployed}{Labour\ force}$$

$$ILO\ UR = \frac{ILO\ Unemployed}{Labour\ force\ (ILO)}$$

$$COVID\text{-}adj.\ MUR = \frac{standard\ Unemployed + PUP}{Labour\ force\ (standard)}$$

New CSO data

Movement of total hours worked broadly in line with other macro trends

Q2 2020 (y-on-y, per cent):

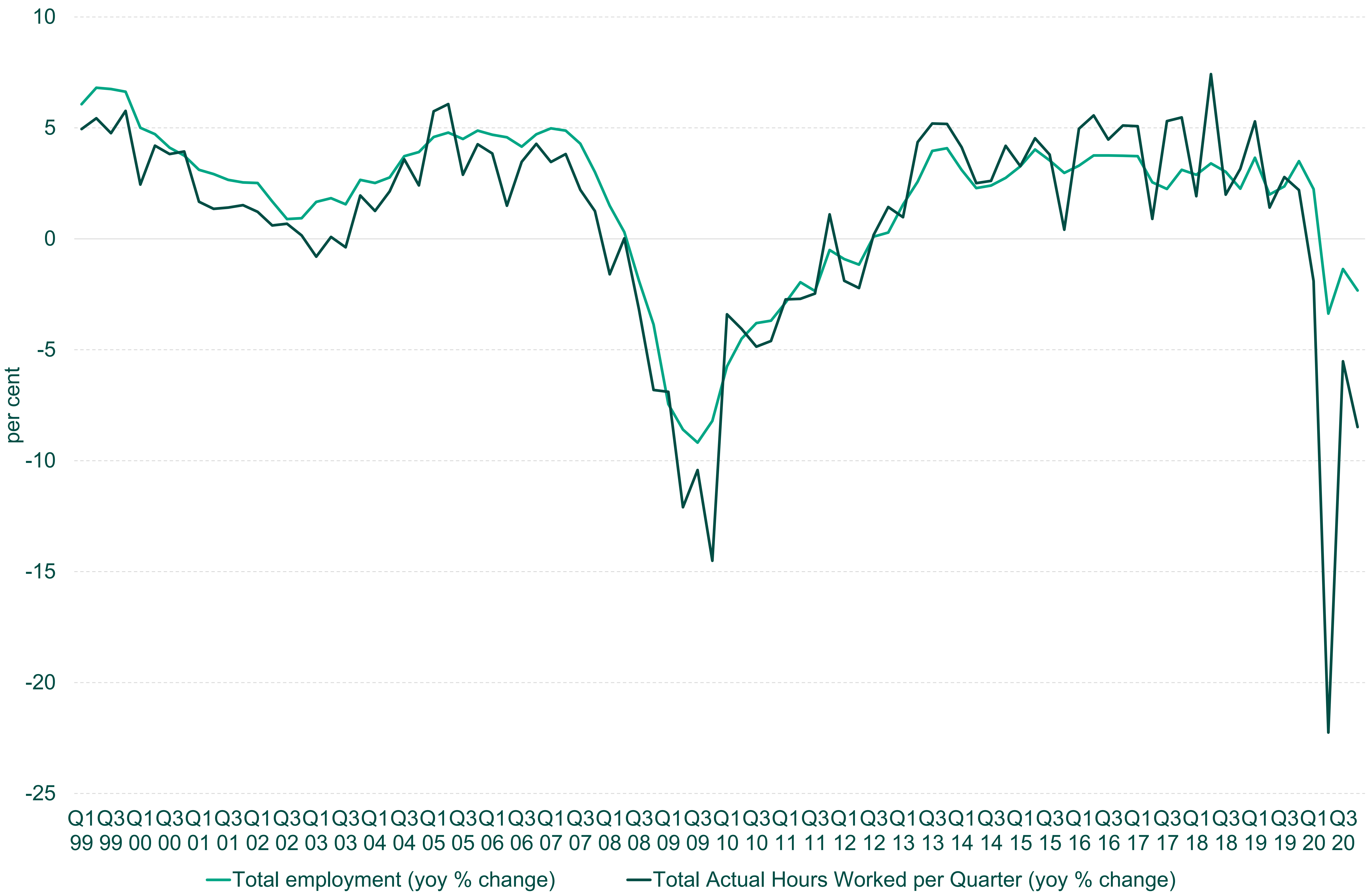
- Hours worked –22
- Consumption –21
- MDD –15.5
- Employment (ILO) –3

Q3 2020 (y-on-y, per cent):

- Hours worked –5.5
- Consumption –5
- MDD –2
- Employment (ILO) –1

Q4 2020 (y-on-y, per cent):

- Hours worked –8.5
- Consumption –8
- MDD –3
- Employment (ILO) –2

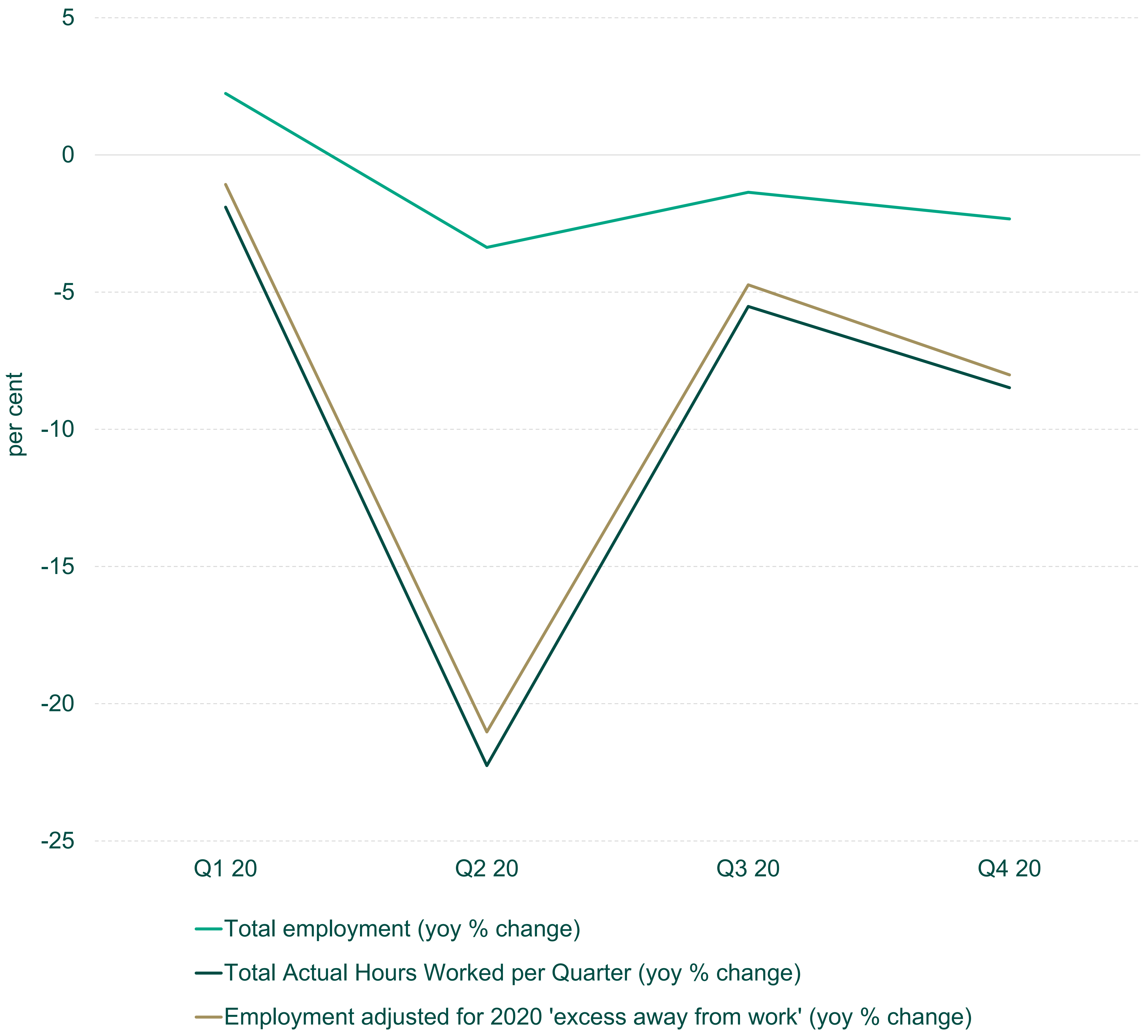


Source: CSO LFS

Possible alternative measures

Employment adjusted for 'excess away from work' matches hours worked

- Supplementary LFS data on persons employed but 'temporarily away from work'
- Various reasons (maternity leave, holidays, illness, slack work/off-season, etc.) – captures PUP recipients still ILO employed
- 'excess' in this cohort in 2020 relative to 2019 – treat these as 'unemployed' (subtract from total employment)
- Y-on-y growth in this adjusted employment measure closely matches hours worked



Source: CSO LFS and Department of Finance calculations

‘Away from work’ and PALF can be used to explore alternative UR indicator

- Potential Additional Labour Force (**PALF**) – available *or* seeking work (but not both), outside LF (inactive)
- Use this data and data on ‘temporarily away from work’
- Treat y-on-y change in these cohorts as ‘excess’ and ‘unemployed’
- Rationale: cohorts not currently at work but relatively close – somewhere between ‘at work’ and ‘inactive’

$$Alt.UR = \frac{une + excess\ away\ from\ work + excess\ PALF}{labour\ force + excess\ PALF}$$

Alternative method suggests figure of c.12 per cent in Q3 2020, c.13 per cent in Q4

	Unemployment rate Q3 2020	Unemployment rate Q4 2020
CSO COVID-adjusted monthly estimates (‘upper bound’)	17.4	20.8
Alternative method: y-on-y changes in ‘away from work’ and PALF	12.1	13.4
CSO standard methodology, not seasonally adjusted (‘lower bound’)	7.4	5.9

Caveats:

– Quarterly frequency (LFS data)
– Using year-on-year changes from 2019 for ‘excess’
– Inclusion of WSS recipients as ‘unemployed’ (‘away from work’)

Conclusion

- Pandemic has severely disrupted not only labour market but also stats on employment & unemployment.

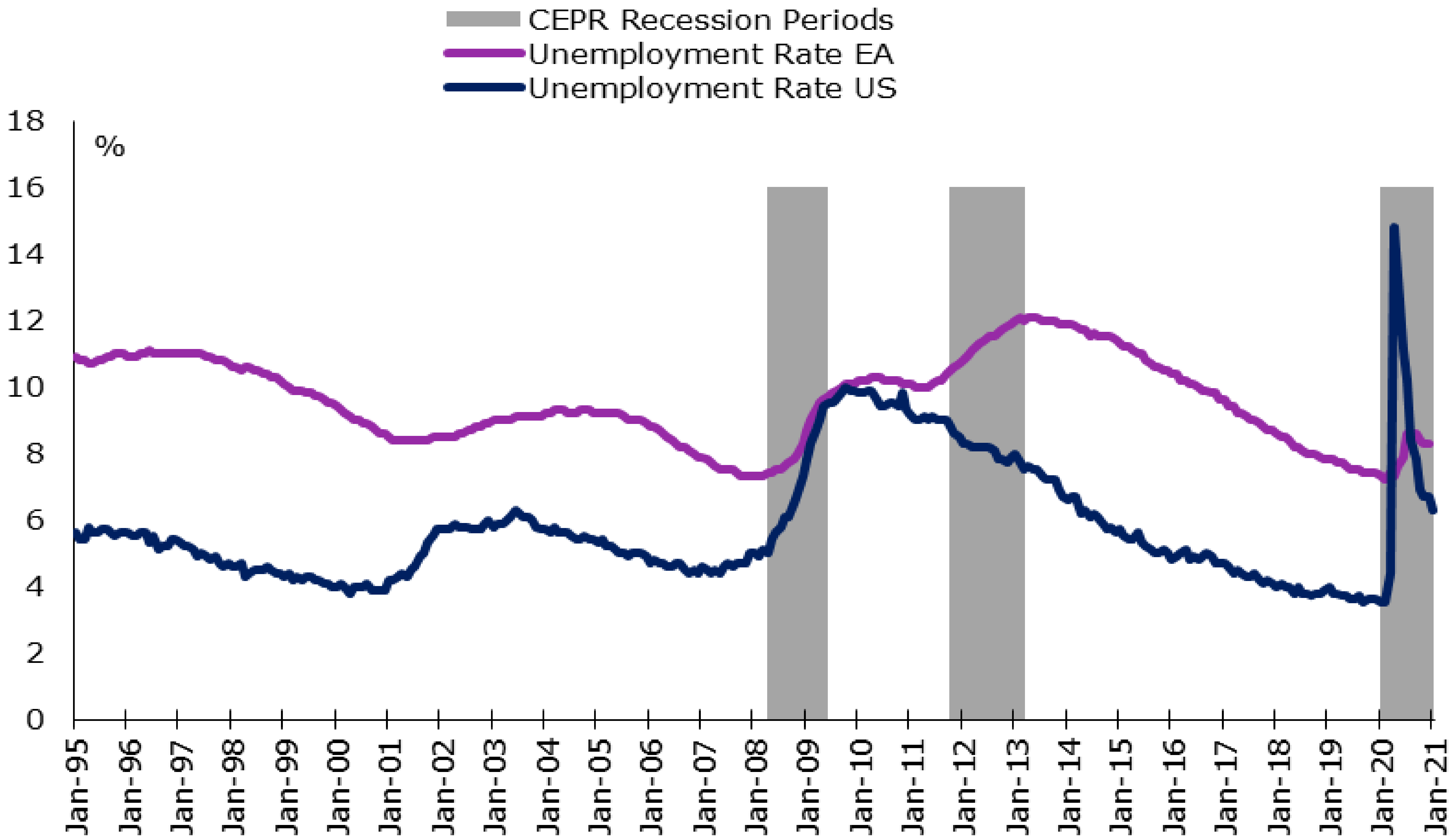
- Standard headline measures (ILO) do not fully capture impact, especially PUP recipients.

- CSO COVID-adjusted stats also have issues e.g. some double counting of unemployed.

- New CSO data on hours worked and 'temporarily away from work' give insight on labour/employment impact:
  2020 Q2: down c.20 per cent y-on-y
  Q3: down c.5 per cent y-on-y
  Q4: down c.8 per cent y-on-y

- 'Unemployment rate' may have been c.12 per cent in Q3 2020 and c. 13 per cent in Q4 (halfway between upper & lower bounds).

- Issues remain – further work in this area is needed.



Source: EU Commission (Eurostat and Bureau of Labor Statistics)