Labour market performance in Ireland pre-Covid: We already had a new normal

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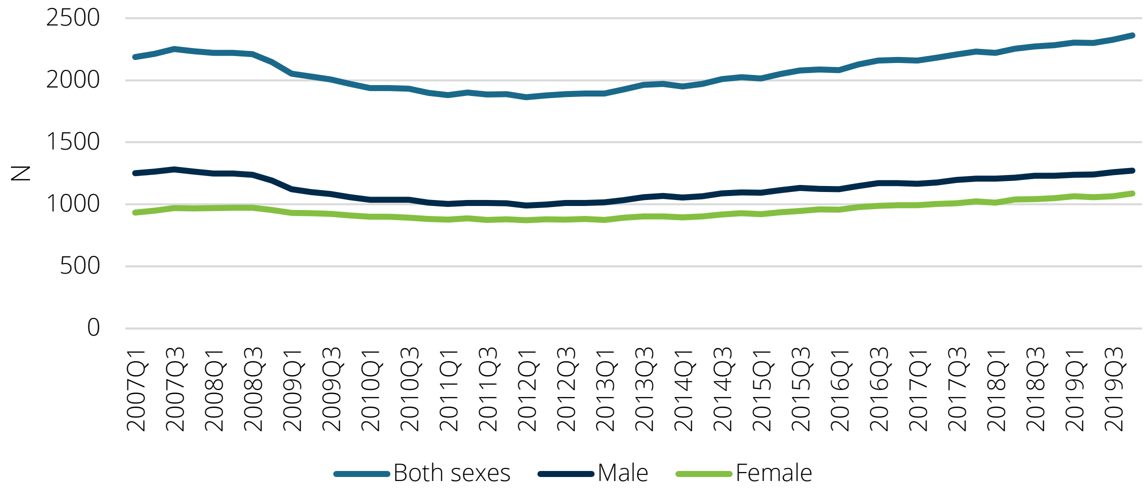
Summary: Ireland's labour market has seen dramatic shifts in employment over the past two decades. In the years recent to 2019, it was observable through a number of key summary measures that the Irish labour market had been performing very strongly, with suggestions that a full recovery had been made by 2018. However, in the years since the 2008 financial crisis, Ireland had recorded a steep decline in the rate of labour market participation that had not reversed along with the recovery in employment. In 2019 our labour market remained significantly weakened as a result of the 2008 financial crisis.

In recent years the Irish labour market has been performing very strongly, with suggestions that a full recovery had been made by 2018 following the 2008 financial crisis. However, despite employment and unemployment trends having recovered, in the years since the 2008 financial crisis, Ireland has recorded a steep decline in the rate of labour market participation that has not reversed along with the recovery in employment. We aim to discuss Ireland's labour market trends before and after the 2008 financial crisis, and explain how despite a strong recovery in employment, several factors have led to a fundamentally weakened labour market and the emergence of a 'new normal' for Ireland's labour force.

Employment and unemployment trends As shown in Figure 1 above the 2008 global financial crisis brought about a very sharp and somewhat sustained decline in employment numbers, with around 400,000 workers less in employment by Q2 2012 than there was in 2007 there has been a strong recovery in total employment since Q2 2012. By 2019 total employment numbers eventually exceeded the 2007 peak.

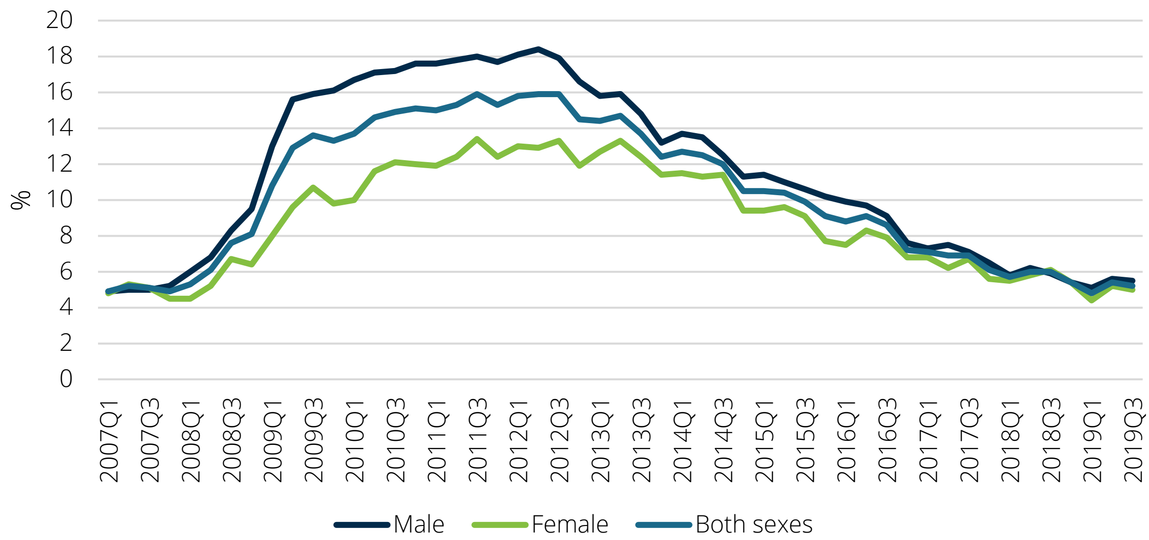
Figure 1: Trends in employment (15-64), by gender



Similarly, whilst climbing rapidly during the recessionary years the rate of unemployment had been declining steadily from 2012 until 2019. Indeed, what is visibly clear from the chart below is that the years since the 2008 financial crisis have been exceptional in terms of the climb and descent in the rate of unemployment. Nevertheless, by 2019 the unemployment rate remained slightly above its pre-crisis level, and in particular male unemployment remained elevated at 5.5% by Q4 2019, compared to 4.9% in Q1 2007.

Thus, while the female unemployment rate rose between 2007 and 2012 (where it peaked at 12.8%), the increase was not as great as that for men. Male unemployment increased dramatically, from the onset of the financial crisis in 2008 until 2012, when it reached 17.8%. Since then the unemployment rate has fallen quite rapidly, and indeed the large gap that emerged between male and females in the recessionary period narrowed almost completely during the recovery. By Q4 2019 the female unemployment rate stood at 5%, compared to 5.5% for males.

Figure 2: Trends in seasonally adjusted unemployment rate (15-74), by gender



Labour market participation

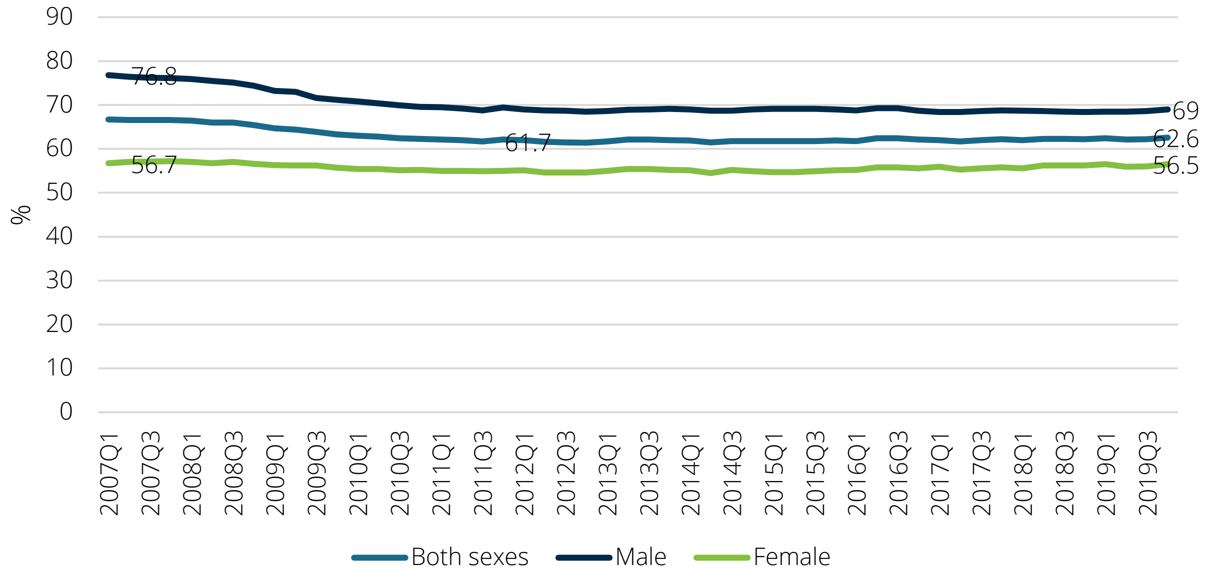
Figure 3 below presents trends in labour market participation rates including by gender over the period 2007 to 2019. The labour force participation rate is calculated as the labour force divided by the total working-age population (15 +).

In looking at the trends in labour market participation what is most notable is the continued and substantially lower participation rate than before the 2008 global financial crisis. By Q4 2019 the labour market participation rate stood at 62.7 per cent, notably lower than pre-financial crisis peak which of 67.4 per cent which was recorded in Q3 2007. From then labour market participation rates declined steadily until 2012. Over the period until 2019 the rate hovered around 61 or 62 per cent. With little to no sign of it returning to pre-recession levels, the trend suggests structural changes in labour market participation.

Particularly interesting in terms of labour market participation rates is the gendered differences over time. By Q4 2019 male labour market participation rates had still not recovered the sharp declines experienced during the financial crisis. Specifically, in Q1 2007 male labour market participation was 76.8%, whilst in Q4 2019 male labour market participation was 69%.

In contrast to male labour market participation, female participation declined only marginally (-2pps) during the 2008 economic crisis. Nevertheless, similar to that seen in the rates of male labour market participation there is also a stagnation in female labour market participation, with little overall change over the period 2007 to 2019.

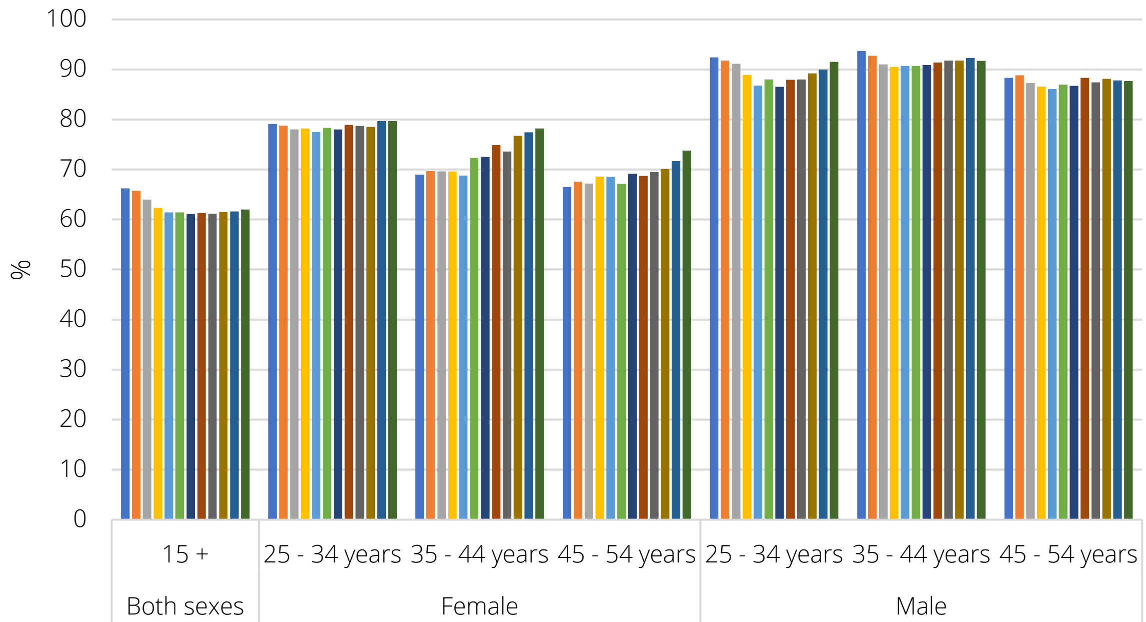
Figure 3: Trends in labour market participation rate, by gender, 2007-2019



Furthermore, whilst the overall decline in labour market participation rates tends to be attributed in policy discussions to the impact which two structural factors amongst younger age groups are having on driving the aggregate rate of labour market participation. Namely, the activity rate of young people (15-24), which used to be extremely high, has converged towards the EU average, as young people have been staying longer in education and training. In addition to this the age distribution of the working age population is less supportive (Byrne and O'Brien, 2016; Faubert, 2019). However, as shown in Figure 4 below, there has also been a notable decline in labour market participation amongst prime-age working males. Specifically, male labour market participation rates amongst prime working-age males had not recovered by Q1 2019 to what they were in Q1 2007. It is worth making clear however that by Q4 2019 the labour market participation rate of those aged 45-54 had surpassed the previous peak (CSO, 2020).

Whilst it difficult to say for certain why prime-working age males were not returning to the labour force even as the labour market was making a strong recovery, one obvious explanation is that the demand for the skills that were lost did not recover. A number of studies have pointed to 'skills-biased technological change' and have identified declining labour market opportunities for low-skilled workers as the most likely explanation for the decline of prime-age male labour force participation (Juhn and Potter 2006). This, whilst the monumental fall-out of the 'Construction' sector explains the bulk of the jobs that were lost, the fact that rates of labour market participation for prime-age working males had not recovered by 2019 despite the total number of jobs having surpassed the peak prior to the 2008 financial crisis suggests that the labour market recovery did not create a like-for-like to the jobs that were lost, leaving some workers who lost their job unable to find a replacement job as the economy and labour market recovered. Whilst it is difficult to disentangle the possible reasons why demand for certain skills changes overtime it is possible that technological advances have played a role in eliminating, partially eliminating or change the type and nature of jobs in which males would previously have been employed.

Figure 4: Labour market participation rates for those of prime-working age, by gender, 2007-2019



Conclusion - An (almost) recovered labour market

Much of the analysis in terms of the labour market in 2019 focused upon the strong growth in employment with discussions centred on whether Ireland had reached full employment or full capacity (Taylor, 2019; Power, 2020). In this respect, whilst there is no consensus on what is meant by full employment there was no denying the strong growth in employment and sharp decline in the rate of unemployment. Nevertheless, claims that the labour market was beginning to overheat (Power, 2020) towards the end of 2019 were a stretch to far.

A more balanced assessment of the performance of the Irish labour market is provided by analysing performance across various indicators and by including data on participation rates. In doing so, we conclude the following. The labour market had been performing very strongly in the years recent to 2019, with a number of key summary measures suggesting that the labour market had made a full recovery by 2018, following the 2008 financial crisis. However, analysis of rates of labour market participation would suggest that there was not a full labour market rebound and that fundamentally in 2019 our labour market remained significantly weakened as a result of the 2008 financial crisis.

References:

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