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Employment Trends in the Republic of Ireland

A sectoral perspective

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SUMMARY

Unemployment has continued to decline this year from their peak in 2012. Seasonally adjusted unemployment in the third quarter of 2016 was 7.9% with 4.2% long-term unemployed (52% of total unemployment). The participation rate at the same time was 60.3% compared to 64% in the same quarter in 2007.

Initially, decline in employment numbers affected some sectors more than others and similarly the upturn is benefitting some more than others. This has resulted in a slight restructuring of the work force.

This Research *inBrief* examines the distribution of these employment gains sectorally and the likely implications of this restructuring for future growth and employment in a small open economy such as Ireland.

KEY POINTS

- A significant amount (30,000 out of 199,000) of the job growth since 2012 has been in the *Accommodation and Food* sector with employment numbers in third quarter of 2016 up 10% on the same quarter in 2007.
- Employment in *Industry*, the main driver of economic growth is 13% lower than in 2007 with *Wholesale and Retail* (the largest sector) down a similar proportion.
- Employment is up by 20,000 in *Information and Communications* since the onset of the crisis driven in large part by the self-employed.
- Employment in *Financial, Insurance and Real Estate* is still almost 5% lower than in 2007 though the absolute number of employees (excluding the self-employed) in *Real Estate* is up by 11% in the last year and 11% on 2008.
- A pro-active approach to public investment in key areas would help to prepare the Irish labour force for future challenges.

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Research for new economic policies

Introduction

Unemployment peaked in the first quarter of 2012 at about 15.1% and has been declining since, reaching 7.9% in the third quarter of 2016. In absolute terms Irish employment fell from about 2.17 million in the third quarter of 2007 to a low of 1.83 million in 2012. It has now recovered to just over 2 million. In the past year other than in *Public administration and Defence* and *Administrative and support service activities* every sector experienced some kind of employment growth.

Data

Data for this research was sourced from the CSO's Quarterly National Household Survey which makes available collected data on regional and sectoral employment as well as related themes such as income and Eurostat which provides data for all EU member states. Data on employee numbers was also sourced from the CSO's Earnings Hours and Employment Costs Survey (EHECS). Sectors are divided by NACE REV 2 classification and data is the most current available including the third quarter of 2016.

Sectoral changes

The bursting of the housing bubble uncovered the unsustainability of Ireland's reliance on construction and a significant proportion of the employment loss in the aftermath was felt in this sector. Employment in *Construction* is still almost 50% less than the 270,000 in 2007.

The Republic of Ireland's two biggest sectors have a long way to go to recover in employment terms. *Wholesale/Retail* have

32,000 less in employment with sluggish growth in the past year and employment in *Industry* is 40,000 down on a high of 307,000 in 2007 though showing steady growth over the past four years. Employment in *Finance, Insurance and Real Estate* has shown some positive growth in the last year. Employees in *Real Estate Activities* have risen 11% this year, an absolute rise of 11% on 2008.

Employment in *Administrative and Support Service activities* is down significantly (21% since 2007). This sector includes sub-sectors such as travel agencies and recruitment and is likely to reflect the general trend towards on-line services.

Overall employment in '*Professional, Scientific and Technical Activities*' which includes high paying professions in legal and accounting activities, management consultancy, architectural and engineering activities, technical testing and analysis and scientific research and development fell by 15% between 2007 and 2012. However, the sector has shown strong growth since then with 30,000 more in employment than in 2012 and 10,000 more than in 2007. A comparison between QNHS (which calculates overall employment) and EHECS (which calculates overall employees, the self-employed excluded) implies that a lot of this growth is being driven by the self-employed. A similar trend can be seen when comparing the numbers in the *Information and Communication sector* which has also shown strong growth in employment numbers since the financial crisis.

	No. employed 2016 Q3 (000)	Change 2007 Q3- 2016 Q3 (000)	Change 2007 Q3- 2016 Q3 (%)	Change 2015 Q3 - 2016Q3 (000)	Change 2015 Q3 - 2016Q3 (%)
All NACE economic sectors	2040.5	-129.1	-6.0	57.5	2.9
Wholesale and retail trade, repair....	279.0	-31.9	-10.3	5.2	1.9
Industry (B to E)	267.7	-39.7	-12.9	15.4	6.1
Human health and social work acti...	253.7	34.8	15.9	0.3	0.1
Accommodation and food service	153.2	14.2	10.2	13.3	9.5
Education (P)	148.5	14.8	11.1	1.9	1.3
Construction (F)	136.7	-134.1	-49.5	9.3	7.3
Professional, scientific and tech.....	125.3	9.9	8.6	2.7	2.2
Agriculture, forestry and fishing (A)	116.0	3.8	3.4	3.3	2.9
Financial, insurance and real estate activi	101.7	-4.9	-4.6	1.9	1.9
Public administration and defence....	99.7	-8.2	-7.6	-1.6	-1.6
Transportation and storage (H)	95.2	2.4	2.6	5.2	5.8
Information and communication (J)	86.7	19.3	28.6	3	3.6
Administrative and support service....	66.0	-17.6	-21.1	-2	-2.9

QNHS, QNQ40 Persons aged 15 years and over in Employment by Sex, Region, NACE Rev 2 Economic Sector and Quarter

Implications

Although every new job is to be welcomed, a closer look at the compositional effects of this growth on the Irish labour market is warranted considering current and future challenges relating to the international environment.

Accommodation and Food showed the highest growth this year and the fourth highest of any sector relative to 2007 in percentage terms. This sector is one of the lowest paid NACE sectors with average pay under 12 euro an hour and the second lowest in terms of the average hours that workers are offered (26 hours). Additionally, as 40% of visitors to Ireland in 2015 were from the UK the industry is quite vulnerable to forces outside the control of Irish policymakers and likely to see a negative impact in the coming months due to the depreciation of the pound post-Brexit. The growth in the last few years was also buoyed by positive economic conditions in the U.S which are anything but certain to continue.

Although growth in *Information and Communication* is to be welcomed, the Irish labour supply is not keeping up with demand from new investments meeting only 45% of vacancies in 2012 and 59% in 2014. This is a strategically important sector to facilitate growth in high-end manufacturing and other productive sectors. Many of the jobs created in this sector have had to be filled by imported labour. This is evidence of the relative importance of Ireland's tax regime in attracting foreign direct investment (if Ireland can only supply two-thirds of IT

positions it is likely the workforce is less important in these investment decisions). Ireland's tax regime is attractive relative to its competitors and thus vulnerable to changes in tax rates in competing countries. Reliance on the corporate tax rate in competing for FDI is a risky strategy for long-term growth. The U.S have announced a dramatic cut in corporate tax rates, a move likely to effect future investment decisions of MNC's, at the very least.

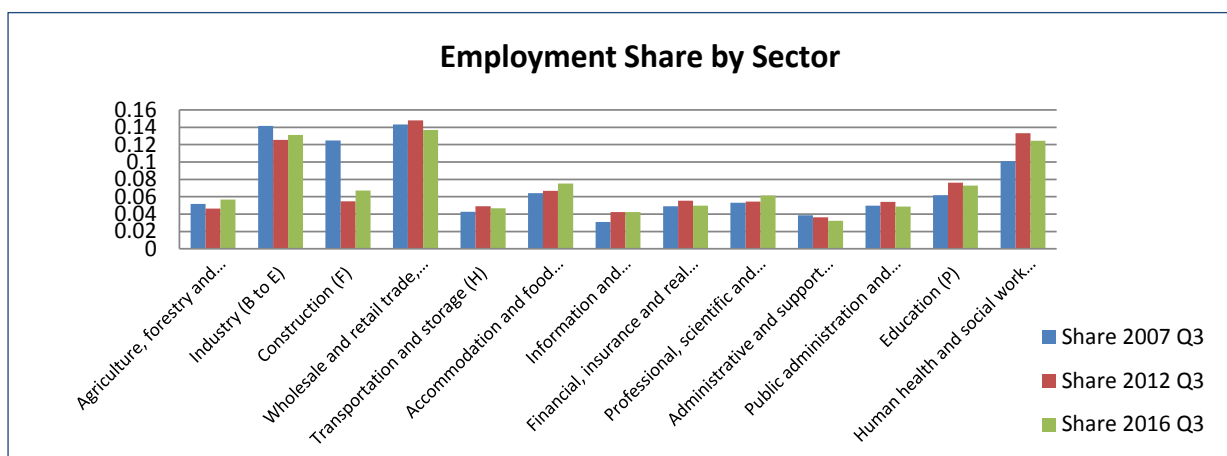
The other two sectors that show most employment growth since the financial crisis are *Education* and *Health and Social Work Activities* and are likely to reflect growing demand for public services from demographic change.

Absolute employee numbers in *Real Estate Activities* have grown by 11% in the past year alone and are now 11% higher than in 2008. Although employment figures in this sector are quite low relative to others, as a share of the composition of overall employment they do suggest a trend towards a return to an unhealthy reliance on buying and selling residential property as a vehicle for Irish growth.

Policy

With the bursting of the property bubble it became clear that a restructuring of the Irish economy is vital to meet the needs of the 21st century. This should entail focusing on producing high-value goods for export.

Knowledge and technology will be the key drivers of productivity and economic growth in the 21st century. Investments in



research and development, education and infrastructure are crucial to long-term sustainable growth and a competitive economy in the global marketplace. Public investments in these areas will complement private investment, driving productivity and 'high-end' employment in high-tech and high value-added industries which are vital in creating a competitive edge internationally as many traditional jobs become automated. Ireland is still far behind other developed economies in internet penetration (around 80% compared to 90% in the UK).

Facilitating competitive enterprise in these areas begins in education. Irish Universities have been slipping down the international rankings in recent years due to cutbacks in academic staff and rising student numbers. The education system is not meeting demand for ICT graduates, a sector which facilitates *Industry*, the main driver of economic growth. At a time of youth unemployment over 15% this suggests that better coordination between industry and third-level institutions is needed and/or better incentives for students to choose a course in this area should be introduced.

Ireland is also facing significant demographic challenges with numbers of third-level students to rise substantially in the coming decades suggesting our employment share and investment in education should be well-ahead of others not experiencing the same kind of population growth should we hope to gain advantage in these lucrative areas.

Although a return to the unhealthy reliance on construction would be disastrous, there is obvious capacity for growth in this sector given the current housing market failure. Investment in a public works building programme to tackle the homeless crisis would benefit Irish employment in a variety of ways. A significant proportion of the long-term unemployed (the group most difficult to reintroduce to the labour market) are skilled construction workers. An employment programme could transform many welfare recipients into tax payers, this would not only have a positive effect on revenue but also domestic demand, impacting indirectly on the *Accommodation and Food* and *Wholesale and Retail* sectors at the same time as creating downward pressure on rents by fixing the supply problem in Irish housing. This in turn would mean more income for Irish citizens to spend on local services.

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