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The Initial Labour Market Impact of COVID-19

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The Initial Labour Market Impact of COVID-19

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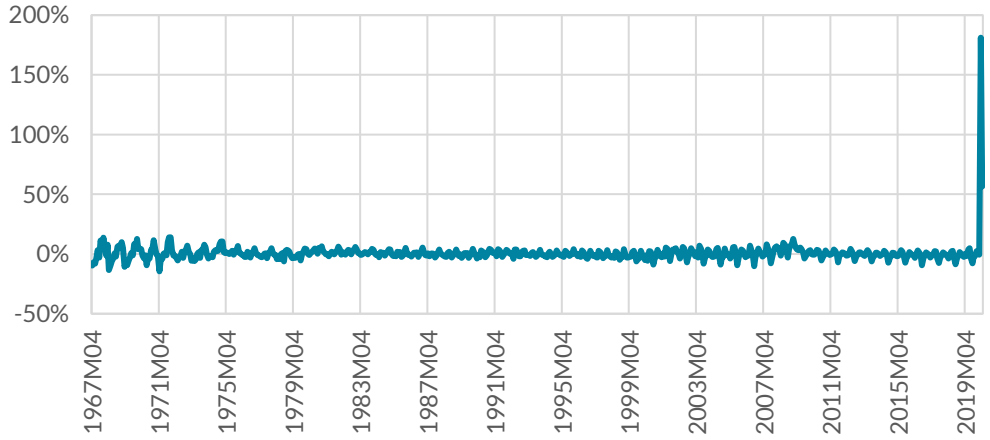
Job losses since the outbreak of COVID-19 are concentrated in the Accommodation & Food Services and retail sectors. By matching social welfare payment data on those who have lost jobs with survey information from before the crisis, we show that younger workers and those in the lower quintiles of the income distribution have suffered the greatest number of job losses. Larger firms have been more successful in retaining links with their employees through the Temporary Wage Subsidy Scheme.

The outbreak of COVID-19, and the essential measures to contain the spread of the virus, have resulted in the largest monthly increase in social welfare payments relating to job losses (Figure 1).

Figure 1 Monthly Growth in Live Register and Pandemic Unemployment Payment Recipients



Source: Department of Employment and Social Protection.
Note: These data refer to the numbers on the Live Register. The data points for March and April 2020 include numbers in receipt of the Pandemic Unemployment Payment, who do not count towards the Live Register but who are in receipt of the Pandemic Unemployment Payment.

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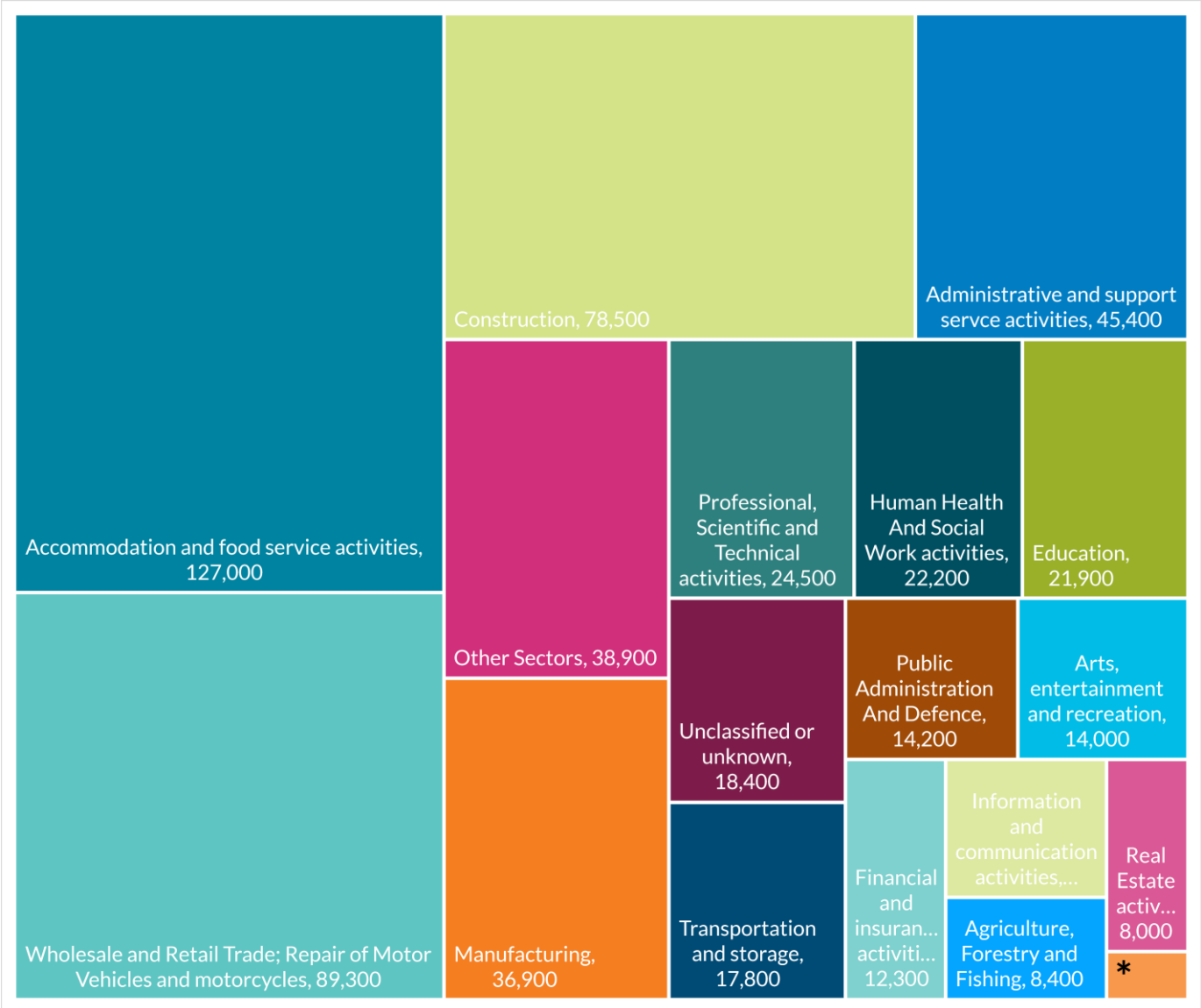
* The views expressed here are those of the authors rather than the Central Bank of Ireland, Eurosystem or Department of Employment and Social Protection. We are grateful for comments from Sharon Donnery, John Flynn, Reamonn Lydon, Gerard O'Reilly, Mark Cassidy, Caroline Mehigan and members of the Labour Market Advisory Council. Remaining errors are our own. An extended version of this work is available on the DEASP website.

This Economic Letter describes the impact of the COVID-19 pandemic on the labour market in Ireland using a variety of granular data sources: (i) jobseekers benefit claims and pandemic unemployment payments; (ii) demographics, earnings and household finances of workers in affected sectors from survey data; and (iii) information on the recipients of the Temporary Wage Subsidy Scheme (TWSS). Furthermore, one of the key questions for policymakers during this crisis is whether those affected have sufficient savings, or other financial buffers, to make up for the lost income without having to reduce consumption. With that in mind, in the last section of the paper we examine the financial buffers of households by the severity of the unemployment shock in their sector of work.

Figure 2 Job Losses by Sector



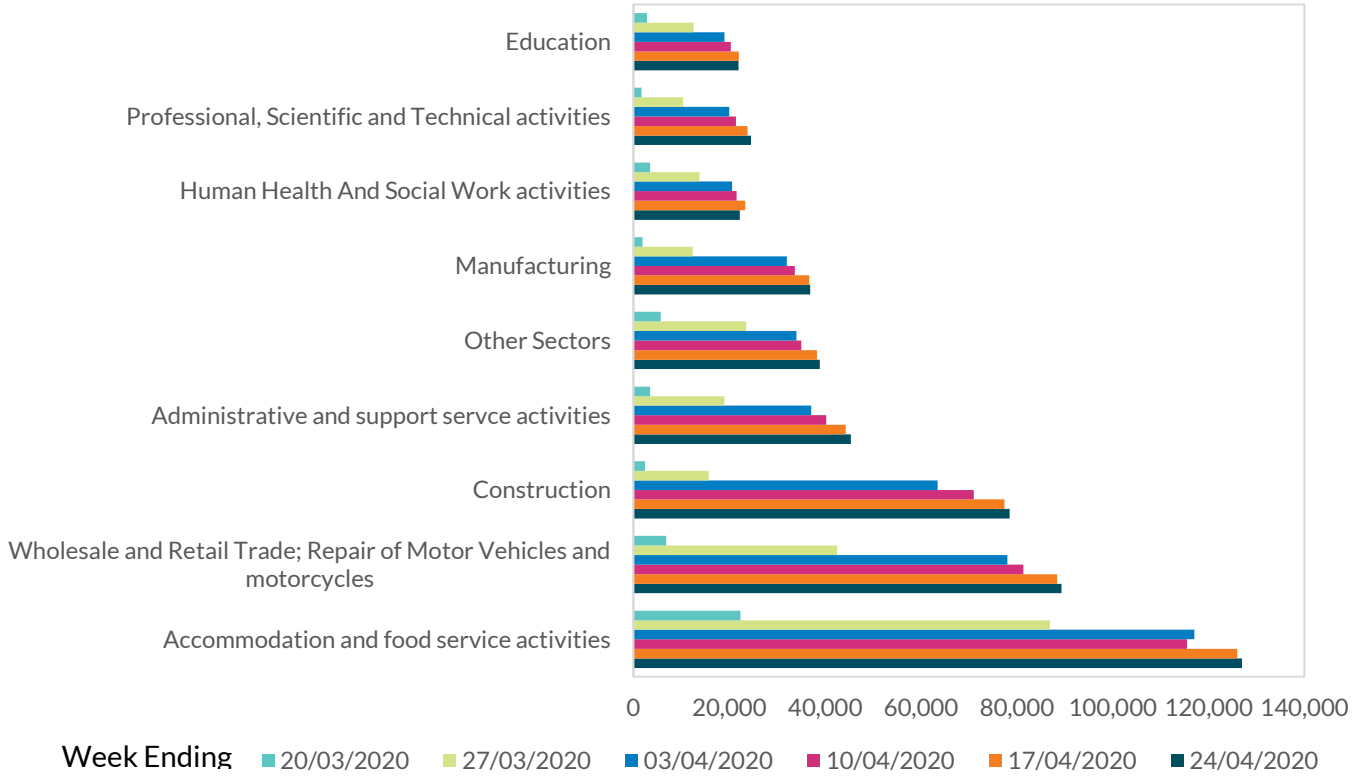
Source: Department of Employment and Social Protection (DEASP).
Note: This figure details the total number of job losses (those claiming the Pandemic Unemployment Payment) due to Covid-19 to April 18th 2020 by broad NACE sector. The size of each box represents its relative contribution to total job losses.
*Electricity, gas supply, Water supply, sewerage and waste management, 1,900.

Job Losses Came in Waves

Approximately 620,000 people have been displaced from work as of April 28th . Almost all of these have received the Pandemic Unemployment Payment (PUP), of €350 per week, this payment is available to workers who have lost their job on or after March 13th due to the pandemic.[3] A further 427,400 employees remain linked to their employer, but have received a Temporary Wage Subsidy Scheme (TWSS) payment administered by the Revenue Commission, as of April 30th (more detail provided below).

These job losses came in waves (Figure 3) which coincided with increasing levels of government restrictions and public health guidelines. It is reasonable to assume that jobs which were lost prior to the mandatory closure announcement of all non-essential business on the 27th March are from firms and sectors which are less compatible with social distancing, and may be thus slower to regain employment. For example, the majority of job losses in the accommodation sector were during the period prior to the 27th of March. In construction and retail however, most of the job losses occurred after the announcement.

Figure 3: PUP claims came in waves



Source: DEASP.
Note: All figures are provisional and subject to revision

[3] The PUP was initially set at €203 per week before being increased to €350 after the first week.

The speed at which these jobs may be restored depends on a number of factors. At present, almost all economic activity which requires a physical presence or social interaction has ceased, with the exception of essential services like shops selling food. When the most stringent containment measures are lifted, it is possible that some sectors, which are able to implement social distancing, will be able to begin to return to work. However, evidence from China suggests that other sectors will continue to be affected after the mandatory stay at home order is lifted.[4]

On the assumption of a phased removal of the stringent containment measures currently in place, some of these jobs may be regained quite quickly. In a hypothetical case, where all of the Construction sector job losses in the week beginning March 30th (47,800), and half of all the other sectors which shed jobs during this week (88,150), return to work, 135,000 people would regain employment immediately.

Which sectors have the PUP claimants come from?

Using social welfare data from the Department of Employment and Social Protection (DEASP) on those receiving PUP and matching this to the Labour Force Survey (LFS) we estimate the percentage of workers in each sector (as per the Q4 2019 LFS) who were in receipt of the PUP by April 18th (Figure 3).[5] [6]

There are four sectors in which the proportion claiming the PUP exceeds 25 per cent of pre-COVID-19 employment, namely "Accommodation and Food Services", "Construction", "Administrative and Support Services" and "Wholesale and Retail Trade and Repair of Vehicles". In the analysis that follows, we designate these sectors as **severely affected**.[7] We label as **moderately affected** those sectors such as "Transportation and Storage" and "Manufacturing" where between 10 per cent and 25 per cent of those employed in these sectors are in receipt of the payment.[8] The **mildly affected** sectors, which include "Human Health and Social Work" and "Information and

[4] Financial Times, 12th April 2020
[5] Sectoral breakdown to April 18th 2020 can be found here.
[6] We constrain our analysis to the NACE sector categories A-R accounting for over 90 per cent of all PUP payments to April 18th.
[7] The analysis here is unable, at this time, to account for those experiencing wage cuts, hours reductions, hiring freezes and other impacts to staffing due to COVID-19.
[8] Manufacturing; Transportation and storage; Finance and Insurance and Real Estate; Professional, Scientific and Technical; Public Administration and Defence; Education and Arts, entertainment and recreation are considered moderately affected in the analysis that follows.

Communication", see fewer than 10 per cent of those employed prior to the crisis claiming the PUP up to April 18th.[9]

Table 1 shows the characteristics of those employed before COVID-19 by the severity of the sectoral job losses. One quarter of those in employment prior to the pandemic are now in receipt of the PUP. The severely affected sectors accounted for 31.7 per cent of employment before the crisis.[10] Our estimates suggest that 45.4 per cent of those previously employed in the severely affected sectors are in now in receipt of the PUP.

The first column of Table 1 illustrates some stylised facts about individuals in the severely affected sectors prior to the outbreak. Workers in these sectors are on average younger, less educated, more likely to be a citizen of another country, more likely to be in their role for less than 12 months, and more likely to be employed on a part-time basis than the population average. Further analysis shows that these characteristics are statistically significantly different for all of the severe, moderate and mildly affected sectors.[11]

Table 1: Employment characteristics by severity of job losses

	Severely	Moderate	Mild	All
Share of Private Sector Employment[12]	32.7	42.9	24.4	100
Share in receipt of pandemic unemployment payment	45.4	14.9	7.8	25.0
Share under 35	41.8	26.9	28.4	32.1
Share with less than tertiary education	59.2	32.2	34.6	41.6
Share non-Irish	20.4	13.7	16.3	16.5
Share female	41.0	45.0	51.9	45.3
Share in role less than 12 months	22.4	13.8	15.4	17.0
Share self-employed	15.0	10.3	19.7	14.1
Share part-time employment	29.2	12.5	20.2	20.4

Source: LFS, CSO; DEASP and authors' calculations.
Note: Figures relating to PUP as at April 28th.

[9] Primary industries; Electricity, gas supply, Water supply, sewerage and waste management; Information and Communication (ICT); and Human Health and Social Work are considered mildly affected in the analysis that follows.
[10] As per 2019Q4 LFS.
[11] Though not reported here, regression results which show the effect of each of these characteristics is statistically significant is available from the authors on request.
[12] NACE sectors A-R

Prior to the pandemic, the four severely affected NACE sectors had exhibited large employment growth and had become increasingly reliant on inward migration for new hires, reflected in the high incidence of non-Irish workers, 21.4 per cent, and in 22.4 per cent being in their roles for less than 12 months. [13]

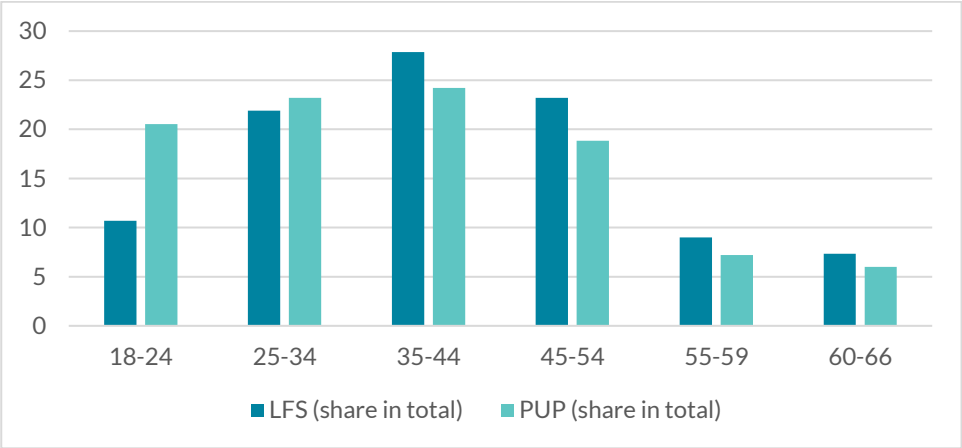
Employment in the sectors most severely affected in the first two weeks of the job losses associated with COVID-19 is disproportionately female, low skilled, under 35 years old and on part-time arrangements. For example, 54 per cent of those employed in Accommodation and Food Services in Q4 2019 were female, whilst 61 per cent had less than tertiary education, 56 per cent were under 35 years of age and 42 per cent were on part-time working arrangements. Indeed, DEASP data shows that women accounted for 52 per cent of those in receipt of PUP to the 28th of March, whereas they accounted for just one third and one quarter of new claimants in the following two weeks.

Later waves, due to mandatory closures, saw an increase in the share of males claiming the payment as well as those aged 35 to 54 years as operations in the construction industry ceased after the March 27th announcement. If the loosening of restrictions occurs in reverse order to the introduction of these measures, this will result in the labour market recovery taking longest to reach some of the worst affected sectors, including Accommodation and Food Services, and the types of workers typically employed in these sectors are disproportionately female, low-skilled, young and working part-time.

Those under 25 in receipt of the PUP accounted for 20.5 per cent of all PUP claimants by the middle of April, almost double their relative share in total employment (10.9 per cent) before the employment shock. Indeed, we estimate that close to half (49 per cent) of those under 25 and employed in Q4 2019 are claiming PUP with 27.2 per cent of those aged between 25 and 34 in receipt of the PUP (Figure 4).

[13] See Staunton and Smyth (2019).

Figure 4: Workers receiving PUP are younger



Source: LFS, CSO; DEASP and authors' calculations.

Some members of this under 35 cohort had already suffered somewhat from entering the labour market during the Global Financial Crisis.[14] This group had a higher unemployment rate, controlling for age, than the population average even during 2019, five to six years after the end of the crisis. Indeed, younger cohorts typically fare worse during economic downturns. Lydon and Lozej (2018) find that new hires suffered the largest pay declines at the onset of the financial crisis in 2008. Considering this, it is possible that youth unemployment caused by the COVID-19 crisis could persist even after the labour market has improved in aggregate terms, particularly if migration is restricted due to on-going global containment measures. Another feature of this crisis may be that the recent convergence in labour force participation between men and women may be reversed to a degree. Female participation has been more sensitive in the past to fluctuations in the business cycle.[15]

Wage Subsidy Scheme

One of the factors that will determine the speed of the labour market recovery is the number of permanent layoffs relative to the number of employees laid off temporarily but retaining a link to their employer. Permanently laid off workers must search for new employment after the crisis, and firms must go through a hiring cycle to regain employees. This introduces a friction into the speed of the recovery even in the best-case scenario where there are many jobs and many people searching for jobs. Hiring costs increase for higher-skilled workers, but are never zero meaning that each separation slows the speed of the labour

[14] See Byrne, S and McIndoe-Calder, T. (2019).
[15] See Byrne, S. and O'Brien, M.D., 2017. Understanding Irish Labour Force Participation. The Economic and Social Review, 48(1, Spring), pp.27-60.

market recovery (Blatter *et al*, *2012)*. There is also a productivity impact from the loss of firm specific skills.[16]

One factor which may mitigate this is the establishment of the Temporary Wage Subsidy Scheme (TWSS) for employers significantly affected by the COVID-19 crisis.[17] The scheme, administered by the Revenue Commission, allows workers to receive government support directly through their employer's payroll – thereby maintaining the firm-worker link.

As of April 30th, 43,000 employers have registered for the TWSS and 427,400 employees have already received at least one payment. The TWSS payment is €410 per week or 70 per cent of the employee's average net weekly pay for employees earning less than or equal to €586 per week (Approximately €38k). Business Demography data from 2017 shows a relatively uniform distribution of firm size across sectors. For example, 89 per cent (90 per cent) of firms in mildly (severely) affected sectors employ under 10 people whilst 2 per cent (1 per cent) of firms in mildly (severely) affected sectors employ over 50 people.

Table 2: Firms using the TWSS scheme, by firm (employment) size

	Share of employees		Share of employers	
	All	TWSS	All	TWSS
<10	25.6	21.7	92.1	66.0
11-19	9.1	15.5	4.1	15.7
20-49	11.8	21.2	2.4	11.0
50-249	18.6	26.5	1.2	5.0
250+	34.8	14.8	0.2	0.8

Source: Business Demography, CSO and Revenue.
Note: Figures relating to TWSS as at April 30th. There is the potential that some "firms" in the business demography data are actually self-employed individuals with no employees, who could be availing of the pandemic unemployment payment. Subtracting all such firms does not change the result that larger firms have been more efficient in utilising TWSS.

Recently published data by the Revenue Commission[18] shows the scheme has predominantly been utilised by smaller firms; 66 per cent of enrolled firms employ fewer than 10 workers, although these firms account for just 21.7 per cent of total employees on the scheme (See Table 2). In 2017 (the last year for

[16] See Fujita et al (2020) on VoxEU.
[17] Revenue Commission: Temporary COVID-19 Wage Subsidy Scheme
[18] Revenue Commission data on the TWSS is found here.

which data are available), firms employing less than 10 workers accounted for 25.6 per cent of total employment. This means that larger firms have been more successful in maintaining important links with their employees during the COVID-19 crisis,[19] despite the similarities between relatively more and less affected sectors with regards firm size distribution.

More than two fifths of all those employed in Q4 2019 are currently receiving income support through either the PUP or TWSS schemes (Table 3). Whilst PUP claimants account for almost 60 per cent of all those in receipt of COVID-19-related government income support, some sectors have seen relatively high take up of the wage subsidy support scheme. For example Manufacturing and Wholesale and Retail Trade, which together accounted for almost a quarter of total employment before the crisis, see more people on the wage subsidy scheme than PUP by the end of April. Contrastingly, almost three times as many people are claiming PUP rather than TWSS in Accommodation and Food Services where 95.4 per cent of the sector is now reliant on government income supports.

Table 3: Share of sectoral employment registered for pandemic unemployment payment or temporary wage subsidy support

	% receiving PUP	% receiving TWSS	% receiving either PUP or TWSS	% of total employment
Accom. & Food services	70.9	24.6	95.4	7.6
Construction	53.4	30.8	84.2	6.2
Wholesale & Retail Trade	28.8	33.9	62.7	13.1
Admin & support services	30.5	22.1	62.6	4.7
Manufacturing	14.5	23.8	38.3	10.8
Other Sectors (average)	15.8	10.9	26.6	57.5
All sectors (average)	**25.0**	**18.1**	**43.1**	**100.0**

Source: DEASP; Revenue Commission; LFS, CSO and authors' calculations.
Note: Number of TWSS recipients generated by scaling shares by total number of recipients as at April 30th (427,400).

Revenue also provide a detailed breakdown of the average incomes received by recipients of the TWSS in January and February 2020. The majority of recipients (69.4 per cent) earned less than €586 per week on average. The

[19] See Merkl and Weber

average net pay across all sectors was €487, which is 39 per cent or €137 higher than the maximum subsidy. It is important to note that the average pay level is not as meaningful in sectors with significant part-time work, and the income loss for full time workers may be significantly higher.

Employers can provide a supplementary top-up to employee wages for any amount of the remaining 30 per cent. Across all sectors, 86 per cent of employees are in receipt of additional income from employers, ranging from 72 per cent in accommodation and food services to 95 per cent in utilities. The majority (71 per cent) of these top ups are between €1-200.

Incomes in the most affected sectors

Using the CSO Earnings Analysis using Administrative Data Sources (EAADS) for 2018, Table 4 shows that almost 60 per cent of workers in the most severely affected sectors had pre-pandemic earnings in the two lowest quintiles. This is consistent with Beirne *et al* (2020), who find that the government supports insulate workers in these quintiles from income losses (on average). Only 8.7 per cent of workers in these sectors are estimated to earned a weekly sum, before COVID-19, equivalent to place them in the highest quintile. The weighted average mean gross weekly earnings for persons employed the severely affected sectors is €542. Analysis of the employment data and characteristics of those who have lost their jobs in the previous section show this cohort is relatively young, less likely to hold third-level qualifications and more likely to be working part-time, all of which affect earnings.

Table 4: Income distribution by intensity of sectoral job losses

	Severe	Moderate	Mild
Share in Fifth Quintile	8.7	25.9	26.7
Share in Fourth Quintile	12.7	23.4	24.7
Share in Third Quintile	20.2	20.3	18.7
Share in Second Quintile	26.7	16.5	16.2
Share in First Quintile	31.6	13.8	13.6
Weighted Average Mean Weekly Earnings (€)	542	841	879

Source: CSO Earnings Analysis using Administrative Data Sources (EAADS, 2018) and authors' calculations.

The distribution of earnings for workers in sectors experiencing a 10-25 per cent or less than a 10 per cent unemployment shock ('moderate' and 'mild' sectors) are very different, with the share of workers increasing between each quintile. Over a quarter of these workers were in the top earnings quintile in 2018. Workers in these sectors are more likely to be full-time workers, with higher education levels, both of which are reflected in higher average weekly pay.

The earnings data by sector allow an examination of the average gross weekly incomes for the most severely affected sectors (Table 5). Compared with average earnings across all sectors (€740), the most severely affected sectors see lower levels of average gross weekly earnings ranging from €348 in accommodation and food services to €694 in construction. In aggregate and reflecting their lower human capital and higher part-time arrangements when compared to older workers, those under 25 earn around 41 per cent of those over 25.

Table 5: Average incomes for the severely affected sectors

	All	Under 25 years	25 years and over
Construction	694.1	405.9	745.4
Administrative & Support services	595.9	374.2	632.2
Wholesale & Retail Trade	562.3	268.7	643.8
Accommodation & Food services	347.6	230.4	409.1
All	740.7	328.6	801.5

Source: CSO EAADS (2018) and Authors' calculations.

Household finances before COVID-19

The position of household finances before a shock can be used to examine the ability of households to withstand economic shocks. In aggregate, net household wealth at the end of 2019 was 10 per cent higher than at the start of 2007.[20] The relatively favourable net wealth position of households at the end of 2019 was supported by a recovery, to pre-2007 levels, in both incomes and employment. The economic impact of COVID-19 on families will occur, in large part, as an income fall. Households with net liquid assets (or financial buffers) may need to draw down on these in order to cushion against falls in employment or wages as

[20] Using Quarterly Financial Accounts data on households from the Central Bank of Ireland.

a result of the pandemic.[21] Households hold different levels of financial buffers depending on their incomes and sectors of employment (Table 6). New data from the Household Finance and Consumption Survey (HFCS) shows that the median household in Ireland holds financial buffers valued at around 5.9 per cent, or less than a month, of gross income.[22] Households whose members were employed, prior to COVID-19, in sectors which have seen a 25 per cent, or higher, employment fall hold €1,000 worth of financial buffers (at the median), lower than those in sectors with smaller employment falls. These households hold 2.4 per cent of their income as financial buffers, less than two weeks of gross income. Households in the most exposed sectors are more likely to hold debt than the population average of 51.5 per cent, but their debt repayment burdens are lower than other employed households at 13.8 per cent of gross income. This in part reflects the higher renter share of more exposed households (36.2 per cent) compared to between 20.2 per cent and 24.8 per cent of households in less affected sectors.

Table 6: Financial position of households before Covid19, by intensity of unemployment shock

	Severe	Moderate	Mild
HH income (median)	23,949	31,041	29,098
Share with NLA	68.61	67.12	73.22
NLA (median)	1,100	3,000	3,000
NLA (share of income)	2.35	4.32	5.97
Share with debt	60.97	73.90	57.78
Total debt service burden (average)	13.75	14.86	16.63
Renter (share)	36.20	20.20	24.80

Source: LFS, CSO; HFCS, CSO; SILC, CSO; DEASP and authors' calculations.

Conclusion

COVID-19 has resulted in the loss of more than 621,000 jobs in the six-week period since March 13th. While all sectors are affected, the worst impact has been in the hotels, restaurants, bars and retail. Using data on the PUP and TWSS, we find that this crisis has impacted on those at the lower end of the

[21] Net liquid assets are defined as the sum of liquid assets (deposits, mutual funds, bonds, non self-employment business wealth, shares and managed accounts) less non-collateralised debt (overdrafts/credit lines, credit cards and other non-mortgage loans) – this is a commonly used financial buffer metric.

[22] The latest Household Finance and Consumption Survey report for Ireland is here. The Irish data surveyed just under 4,800 households between April 2018 and January 2019.

income distribution. Those who have lost their jobs are more likely to be young, part-time and non-Irish than their share in the pre-pandemic employed population suggest.

Many workers lost their jobs even before the order to close non-essential businesses, this may indicate that work in some sectors is less compatible with social distancing, for example, some parts of accommodation, food services and retail. In other sectors such as construction and manufacturing, most of the layoffs occurred immediately after the order to close – suggesting that employment may grow at a faster place in these sectors after the restrictions are lifted, albeit they are unlikely to regain their pre-pandemic employment levels for some time. Lessons from the 2008 recession in Ireland show that this may affect the employment prospects of these cohorts once the containment measures are gradually rolled back.

Employees in receipt of the TWSS are more likely to come from larger firms than the demography of enterprises in 2017 may have suggested. Re-establishing employer-employee relationships is relatively more costly for smaller firms. Hiring supports for smaller firms may be beneficial for the recovery phase (as evidenced by Merkl and Weber (2020)), given that many firms have not been able to maintain links with their workers through the crisis.

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