



Box D:

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An Update on Non-Employment and Labour Market Slack

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This Box updates the Bank's Non-Employment Index (NEI) first published in 2017. The NEI is a broader measure of capacity in the labour market than the standard unemployment rate – it includes individuals who are out of work but are no longer searching for employment and others marginally attached to the labour force. The latest NEI shows that the potential additional supply of workers coming from individuals resident in Ireland but outside of the labour force has been reduced significantly in recent years, implying an increasingly important role for inward migration in easing domestic labour supply pressures.

The Irish economy has been in a sustained growth phase for a number of years. The unemployment rate has fallen from 16 per cent in 2012Q1 to 5.7 per cent in the fourth quarter of 2018. Due to the highly open nature of the Irish labour market and the mobility of labour supply, there is uncertainty over what constitutes full employment in an Irish context. Nevertheless, at the current level of unemployment it is clear that the labour market is now closer to a position of full employment than at any stage since 2009. Despite this and considering the rapid growth in output since 2013, wages have been relatively slow to pick up until recently.

One reason for this slow pickup in wages could be that the standard unemployment rate is not adequately capturing the degree of spare capacity in the labour market. To be counted as unemployed, an individual must be actively seeking work and available to start in the next two weeks. In previous analysis published in 2017, we developed a new indicator of utilisation in the labour market called the Non-Employment Index^{2,3} which distinguishes between groups like short and long-

¹ Irish Economic Analysis Division

² This analysis is based on the work from the USA by Hornstein, Kudlyak and Lange (2014).

³ [Byrne, S and T. Conefrey. A Non Employment Index for Ireland. Central Bank of Ireland Economic Letter Series, 2017.9.](#)

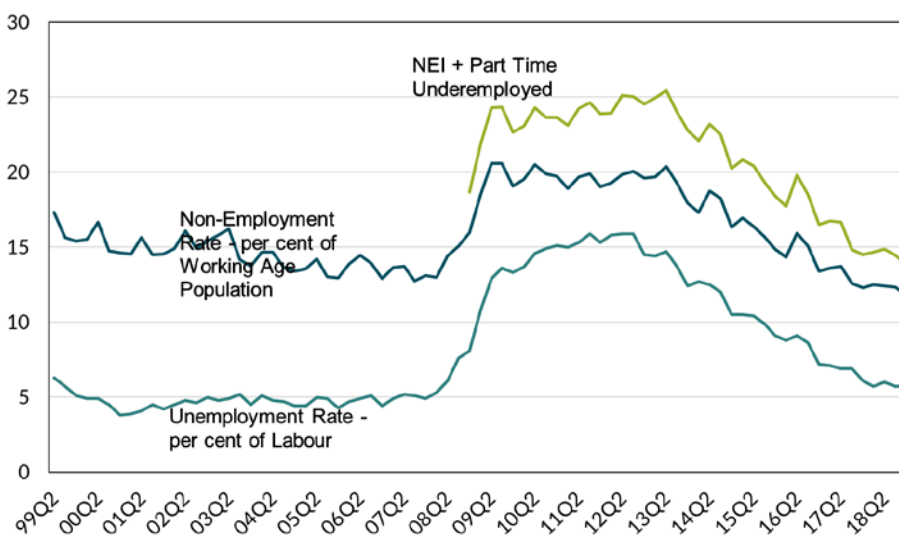


term unemployed, discouraged workers and passive job seekers, factoring in how likely individuals in each group are to transition into employment in the next quarter.

These non-employed individuals are not recorded as unemployed in the official measure of unemployment, but instead are classed as outside of the labour force. In some cases, these individuals may never transition back into employment, for instance those who have retired or those who are too ill to work. However, some other individuals who are without work and are not seeking employment may still transition into the labour market if their circumstances change. This is borne out in the data. In our analysis, we showed that individuals who classified themselves as “seeking but not immediately available” had a higher probability on average of gaining employment in the next quarter than those who were classed as long-term unemployed. This is despite fact that the latter are included in the unemployment rate while the former are not.

In 2017, when the original analysis was published, wage growth remained particularly muted. A potential explanation for the subdued nature of wage growth lay in the fact that while the unemployment rate had fallen very quickly since the beginning of 2012, the Non-Employment Index had fallen more slowly and was above the level seen before the onset of the financial crisis. An update to the Non-Employment Index using the most recently available microdata from the Quarterly Labour Force Survey show that this is no longer the case (Figure 1).

Box D Figure 1: Non-Employment Index

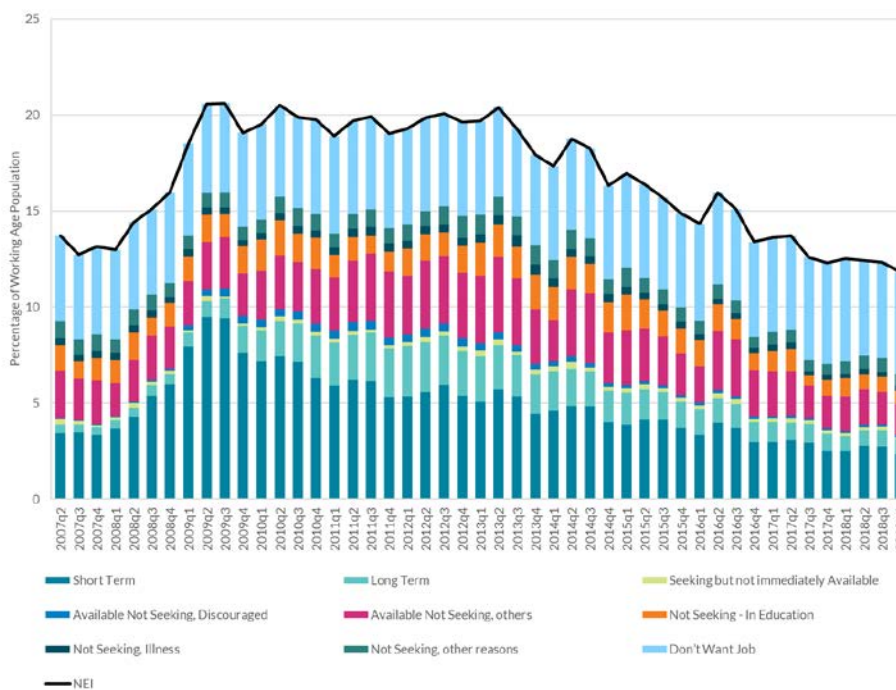




As shown in figure 1, the Non-Employment Index has now fallen to below the levels seen before the crisis, and now stands at 11.9 per cent, compared with 13.1 per cent in late 2007. In recent quarters, the Non-Employment Index has continued to decline, suggesting that the level of underutilisation in the labour market is reducing.

A decomposition of the non-employment index shows that the largest contributions to the decline in the non-employment index recently, outside of the officially unemployed, has come from those who say they are available but not seeking, others. According to Eurostat, these may be individuals who are currently not seeking a job for personal or family reasons.

Box D Figure 2: Decomposition of Non-Employment Index



Source: CSO and Authors' Calculations

During the period from 2013 to 2017, there were large numbers in categories such as the available not seeking and not seeking, in education. As can be seen from the chart above, the numbers in these groups are now much smaller and any additional falls in the non-employment index would need to come from outside these groups, for example, from those who report that they do not want a job. However, the absolute number in this category has actually increased since the beginning of 2012. Moreover, individuals who report that they do not want a job have the lowest probability of



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transitioning into employment in the next quarter. These developments suggest that the potential additional supply of workers coming from those outside of the labour force has been reduced significantly in recent years. On balance, this implies an increasingly important role for inward migration in easing domestic labour supply pressures – a topic explored further in Box C.