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Box G:

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Recent Developments in the Irish Labour Market

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Strong employment growth observed in both Q2 and Q3 2021 has seen aggregate levels markedly increase above pre-pandemic peaks. The scale of these unexpected employment increases poses a question as to whether this is due to technical changes arising from new data regulations, transitory pandemic-related issues, a permanent structural shift in the Irish labour market or a combination of these factors. This Box explores gender, age and sectoral employment trends in recent quarters and considers how persistent these levels may be as the economy continues to recover from pandemic.

Recent Developments

In January 2021, new IESS regulations were implemented for the Labour Force Survey, with the main changes concentrated on greater testing of employment attachment for persons identified as *Away from Work*.² These changes were applied retrospectively to the historical series with minimal effects to the data up to 2019; however a clear *downward* revision was made to employment and labour force participation throughout 2020. This was due to pandemic-related disruptions to economic activity and more persons *Away from Work* classified as inactive rather than employed, which in turn lowered measures such as the Labour Force Participation Rate (LFPR) as a result.

¹ Irish Economic Analysis Division.

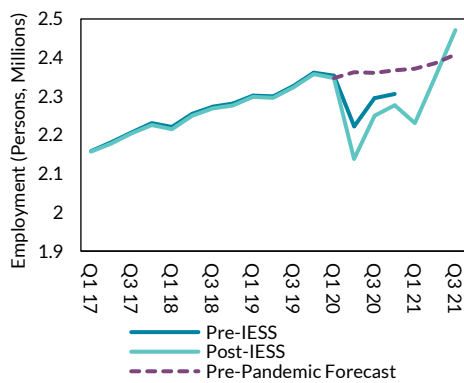
² See CSO Technical Note "[Implications of the Implementation of the Integration of European Social Statistics \(IESS\) Framework Regulation on Labour Market Statistics in Ireland in 2021](#)" for further details.



Observing trends in Q2 and Q3 2021 relative to the pre-pandemic period, there has been a sizeable upward swing in employment in the opposite direction of the previous IESS effects. This increase has resulted in the employment profile marginally exceeding, but remaining broadly in line with, *Quarterly Bulletin* projection figures published prior to the onset of the pandemic (See Figure 1).

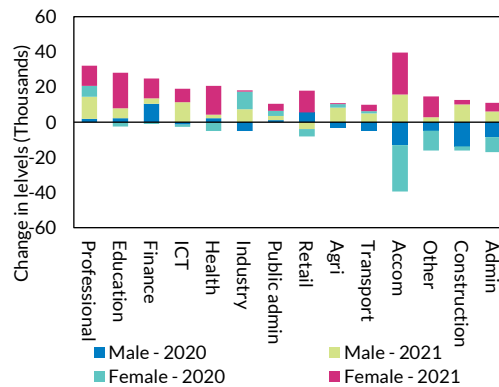
Employment broadly returns to pre-pandemic forecast levels driven mainly by increased participation effect of females across a number of sectors

Figure 1: IESS effect on employment levels



Source: CSO and Central Bank Quarterly Bulletin

Figure 2: Annual change in sectoral employment levels by year



Source: CSO

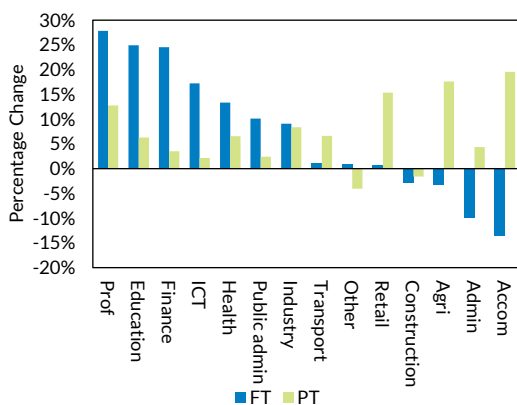
Recent employment increases have been driven by both women and younger age cohorts. Female employment has grown in sectors less adversely-affected by Covid-19 such as Professional services and Education (See Figure 2). These roles are primarily full-time, higher-skilled and salaried positions. These factors may reduce the possibility of the gains being related to transitory pandemic effects. The relative contributions to employment growth since Q3 2019 show disproportionate gains for women (61 per cent), tertiary educated (89 per cent), those working 35+ hours per week (61 per cent) and professional occupations (22 per cent). These developments appear to be largely consistent with recent trends in wages and vacancies data indicating labour market tightness in a number of non-pandemic related and externally-orientated sectors and those which displayed relatively high wage growth prior to the pandemic.



Younger age cohorts (aged 15-19 years) exhibited a greater flow to part-time employment in contact-intensive sectors such as Retail and Accommodation and Food services (See Figure 3). Overall, this group contributed 49 per cent of total part-time employment gains relative to Q3 2019 despite only accounting for a 27 per cent relative increase in total employment. Much of this recent increase may be third-level students utilising non-term periods and term-time flexibility (offered by Covid-related alterations to teaching methods) to occupy roles left vacant by the reduced level of net inward migration due to international travel restrictions. Figure 4 below shows labour force participation for this cohort increasing above its pre-pandemic average to a new high of 36 per cent. Given similar age and sectoral trends in income-support scheme data, it is likely that much of this new employment is supported by the EWSS. The long-term viability of these jobs remains to be seen as supports are tapered and firms begin to realise full wage costs.

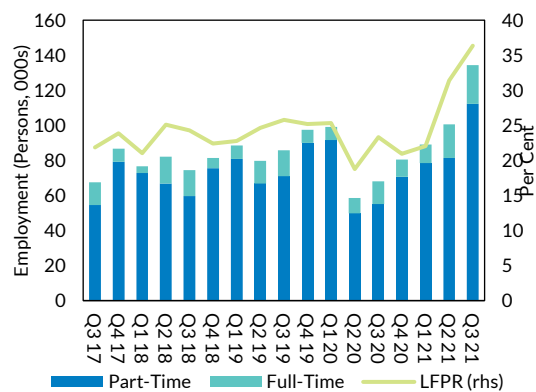
Full-time employment gains in remote working sectors and increased part-time employment in contact-intensive sectors

Figure 3: Relative sectoral contribution to full-time and part-time employment growth (Q3 2021 - Q3 2019)



Source: CSO

Figure 4: Change in third-level student employment and labour force participation



Source: CSO

International Comparison

International comparison shows that several other European countries have also experienced high employment growth in recent quarters (See Figure 5). For example, the employment rate for those aged 15-64 in France reached an all-time high (67.5 per cent) in Q3 2021 and



occurred on the back of strong Q2 data.³ As the unemployment rate remained largely unchanged, France’s National Institute of Statistics and Economic Studies attributes the quarterly increase to workforce growth, particularly amongst young people (aged 15-24) whose employment rate rose 2.9 percentage points (primarily due to work-study contracts). The share of young people in France neither in employment nor in education or training is now at its lowest level since 2008.⁴ The Netherlands also saw a large employment increase in Q3 2021. Here, however, the rise is also associated with a steep decline in unemployment due to increased job matching. While participation in the Netherlands is at its highest level based on the current measurement method, growth in participation has not been as substantial as in Ireland. The official Dutch unemployment rate in November is now the lowest it has been since the current measurement method was introduced in 2003.⁵

However, other large economies have yet to return to their pre-pandemic levels of employment. These include Germany, where employment levels remained unchanged between 2020 and 2021.⁶ In the case of the UK, employment did increase between August and October 2021 (a period that covered the end of the Coronavirus Job Retention Scheme) but the return to pre-pandemic levels is slow, producing labour market tightness.⁷ ECB analysis observes a similar but more pronounced situation in the US where labour demand significantly outstrips supply.⁸ The ‘*Great Resignation*’, which has seen a higher degree of job switching and re-evaluation of engagement with the labour market, is likely supported by temporarily boosted unemployment benefits, a preference for early retirement, and increased caring responsibilities (particularly for women).

³ Note: France continues to test for job attachment of employed persons on temporary lay-off under the pre-IESS situation. Spain also continues to use this method. It is therefore possible a different trend will be observed once full implementation of IESS is completed.

⁴ See [INSEE Informations Rapides No. 295](#) for further details.

⁵ See CBS News Release “[Unemployment Falling Further](#)”. Note: from 2022 onwards, the CBS will publish labour force figures based on a new measurement method. It is anticipated that this will identify more unemployed people.

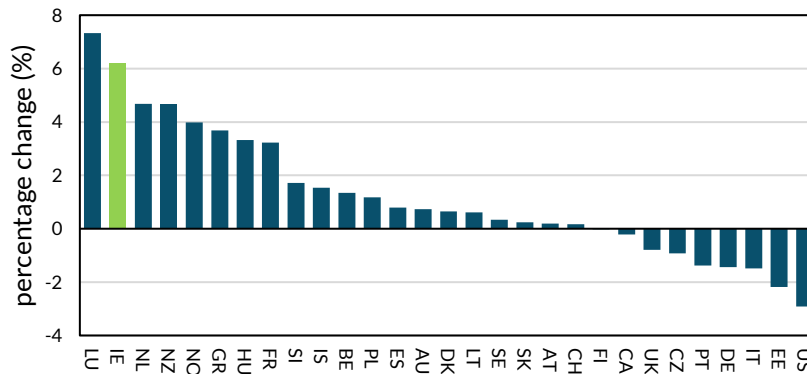
⁶ See Federal Statistical Office of Germany [Press Release No. 1](#)

⁷ See ONS “[Latest Employment in the UK](#)” Release

⁸ See ECB [Economic Bulletin](#)



Figure 5: Change in employed population aged 15+ since pre-pandemic (2021 Q3 – 2019 Q3)



Source: OECD and author's calculations

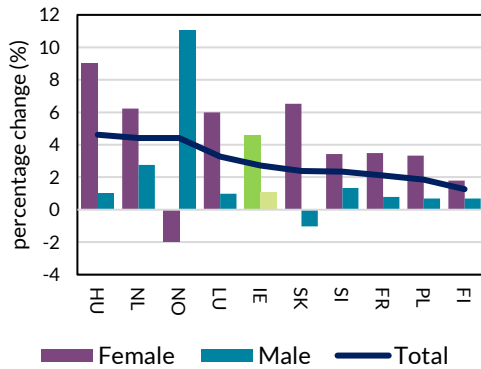
In Europe, increased labour force participation appears to be a key contributor to the observed employment growth. For the first time in the Netherlands, more than 70 per cent of 15 to 74 year-olds are in paid work.⁹ The activity rate for France's population aged 15-64 years stood at its highest ever level since ILO definitions were first introduced.¹⁰ LFPR also increased during Q3 2021 in Spain, Italy, and Switzerland and in the case of female labour participation specifically, the majority of countries in Europe observed an increase, both this quarter and compared to before the pandemic (See Figure 6). While Ireland's rate stands out for its magnitude in recent quarters, it is difficult to say if this trend will continue. Other OECD countries, such as Australia, saw a gradual rise in LFPR as part of its post-pandemic recovery only for it to drop in Q3. Evidence from the UK suggests reduced migration flows constrain LFPR growth, while countries such as the US continue to exhibit LFPR well below pre-pandemic levels (See Figure 7).

⁹ See CBS News Release above.

¹⁰ See INSEE source above.



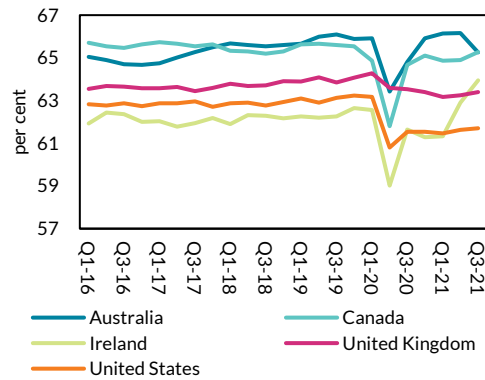
Figure 6: Top 10 countries in Europe for change in LFPR of 15+ population compared to pre-pandemic (Q3 2021 vs Q3 2019)



Source: OECD and author's calculations

Note: Due to methodological differences, OECD data can differ from official figures but it is used for consistency.

Figure 7: Labour Force Participation Rates of 15+ population



Source: OECD and author's calculations

The increased participation rates in Ireland, and across Europe, may be indicative of falling barriers to employment, possibly due to greater availability of flexible working arrangements, increased home working or a range of other factors. As yet, it is too early to say what the exact mechanism might be. Further work is needed to investigate these trends in more detail to understand what is driving the remarkable growth in employment and whether it indicates structural change to the labour market.

Conclusion

Ireland has experienced exceptional employment growth for two consecutive quarters. At present, there appears to be a confluence of factors that may have contributed to the recent changes in employment across various demographic groups, such as women and younger workers. While encouraging, it is as yet unclear how much of this change will persist. These recent developments are also evident in several EU countries such as France and the Netherlands. The experience in other countries differs, potentially due to the type of job retention schemes used during the pandemic or their relative starting positions prior to the pandemic. These trends provide a need to monitor developments closely as both pandemic-effects lessen and economic sectors adjust to new ways of working. Further work is planned to explore these developments in more depth.