The Initial Labour Market Impact of COVID-19

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Introduction

Job losses since the outbreak of COVID-19 are concentrated in the Accommodation & Food Services and retail sectors. Matching social welfare payment data on those who have lost jobs with survey information prior to the crisis, highlights that those in the lower quintiles of the income distribution and younger workers have suffered the greatest number of job losses. Larger firms have been more effective in retaining links with their employees through the Temporary Wage Subsidy Scheme (TWSS). One of the key questions for policymakers during this crisis is whether those affected have adequate savings, or other financial safeguards, to make up for the lost income without having to reduce consumption. With that in mind, the last section of the paper examines the financial buffers of households by the severity of the unemployment shock in their sector of work.

Data

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) administrative data on jobseekers benefit claims and pandemic unemployment payments; (ii) demographics, earnings and household finances of workers in affected sectors from survey data; and (iii) administrative information on the recipients of the Temporary Wage Subsidy Scheme (TWSS).

Results

Patterns of Job Losses

Almost 620,000 people were displaced from employment by April 28th, 2020. Almost all received the Pandemic Unemployment Payment (PUP), of €350 per week. This is available to workers who lost their job on or after March 13th due to the pandemic. Some 427,400 employees remain linked to their employer but received a Temporary Wage Subsidy

Scheme (TWSS) payment. These job losses came in waves coinciding with increased levels of government restrictions and public health guidelines.

PUP claimants

Using administrative data from the Department of Employment and Social Protection (DEASP) on those receiving PUP and matching this to the Labour Force Survey (LFS), the percentage of workers in each sector (as per the Q4 2019 LFS) who were in receipt of the PUP by April 18th were estimated.

Four sectors were identified in which the proportion claiming the PUP exceeds 25 per cent of pre-COVID-19 employment. They were "Accommodation and Food Services", "Construction", "Administrative and Support Services" and "Wholesale and Retail Trade and Repair of Vehicles". For the purposes of analysis these sectors were designated *severely affected*. Sectors such as "Transportation and Storage" and "Manufacturing" where between 10 per cent and 25 per cent of those employed in these sectors were in receipt of the payment were designated *moderately affected*. *Mildly affected* sectors, which included "Human Health and Social Work" and "Information and Communication", had fewer than 10 per cent of those employed prior to the crisis claiming the PUP up to April 18th.

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.

The first column of **Table 1** provides information on individuals in the severely affected sectors prior to the outbreak. Workers in these sectors are on average younger, less educated, more likely to be non-Irish, to have been in their roles for less than 12 months, and more likely to be working on a part-time basis than the population as a whole. Further analysis shows that these characteristics are statistically significantly different for all of the severe, moderate and mildly affected sectors.

Before the pandemic, the four worst affected NACE sectors[1] had exhibited large employment growth and had become more reliant on inward migration for new hires. This was reflected in the high incidence of non-Irish workers and in just over one fifth being in their roles for less than 12 months. Employment in the sectors most severely affected in the first two weeks of the job losses associated with COVID-19 was

[1] European Industrial Activity Classification

disproportionately female, low skilled, under 35 years old and on part-time schedules. 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 work in the construction industry ceased.

By the middle of April those under 25 in receipt of the PUP accounted for 20 per cent of all PUP claimants. This was almost double their relative share in total employment (11 per cent) before the pandemic employment shock. Almost half (49 per cent) of those under 25 and employed in Q4 2019 were claiming PUP with a further 27 per cent of those aged between 25 and 34 in receipt of the PUP.

Many of those in the under 35 cohort already had negative labour market experiences owing to the earlier Global Financial Crisis. 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. It is possible that youth unemployment caused by the COVID-19 crisis could persist even after the labour market has improved in overall terms. Limiting migration due to on-going global pandemic containment measures will place further pressure on youth unemployment. The recent convergence in labour force participation between men and women may be disrupted by the pandemic. It has been shown that female participation is more sensitive to fluctuations in the business cycle.

Wage Subsidy Scheme

Recovery in the labour market will be impacted by 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 will have to search for new employment after the pandemic crisis, and firms will undergo a hiring cycle to regain employees. This introduces a time-lag into the speed of the recovery. A factor which may alleviate the disruption of the labour market is the Temporary Wage Subsidy Scheme (TWSS) for employers significantly affected by the COVID-19 crisis. The scheme allows workers to receive government support directly through their employer's payroll – thus retaining the firm-worker link. Published data by the Revenue Commission shows the scheme has mostly been used by smaller firms. Some 66 per cent of firm enrolled in the TWSS employed fewer than 10 workers although overall such firms account for just one fifth of total employees on the scheme. Take up of the wage subsidy support scheme has been higher in some NACE sectors.

Table 2: 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.

Impact on Incomes

Drawing on the CSO Earnings Analysis using Administrative Data Sources (EAADS) for 2018, **Table 2** shows that almost 60 per cent of workers in the most severely affected sectors had pre-pandemic earnings in the two lowest quintiles. 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. The earnings data by sector allow an examination of the average gross weekly incomes for the most severely affected sectors. 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, average earnings among those under 25 are about 41 per cent of those aged 25 and over.

Household Finances

Knowledge of household finances before a shock can be used to look at the ability of households to tolerate economic shocks. The economic impact of COVID-19 means that households with net liquid assets (or financial safeguards) may need to draw down on them in order to cushion against falls in employment or wages. Households have different levels of financial safeguards depending on their incomes and sectors of employment Data from the Household Finance and Consumption Survey (HFCS) shows that the median household in Ireland has a financial safeguard valued at less than a month, of gross income.

Table 3: 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.

Households in sectors which have seen a 25 per cent, or higher, employment fall hold €1,000 worth of financial safeguards (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 per cent although their debt repayment burdens are lower at 13.8 per cent of gross income. This is, in part, due to the higher share of renters among the more exposed households (36 per cent) compared to between 20 per cent and 25 per cent of households in less affected sectors.

Conclusions

Prior to the order to close non-essential businesses many workers had already lost their jobs. Some sectors such as accommodation, food services and retail have shown that they are less able to function with social distancing measures in place. Sectors such as construction and manufacturing experienced more layoffs after the order to close. Even with the lifting of restrictions it may take some time to return to pre-pandemic levels of employment. Employees in receipt of the TWSS are more likely to come from larger firms than previously 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.

References

Merkl, C. and E. Weber, 2020 “Rescuing the labour market in times of COVID19: Don’t forget new hires” VOXEU, Technical Paper.