Irish Government Economic and Evaluation Service

Labour Market Synopsis

Issue 2

Long-term Unemployment

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The analysis contained within this paper was carried out by members of the Irish Government Economic and Evaluation Service (IGEES). Those views contained within do not necessarily represent those of the Department, the Minister for Public Expenditure and Reform or the Government.

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Executive Summary

The rate of increase in unemployment has fallen off by a significant amount. While this is a welcome development, labour market activation will have to take into account the fact that long-term unemployment's share of total unemployment currently stands at 60% and is expected to increase further. While durations of unemployment spells are a useful labour market indicator, development of policies based on this alone will not be sufficient. An understanding of the characteristics of the long-term unemployed must be reached in order to effectively design policies to get these people back to work. In the absence of this, Ireland's long-term unemployment problem will undoubtedly become structural and thus even more difficult to resolve.

Introduction

Long-term unemployment now accounts for the majority of total unemployment in the Irish economy. Labour market activation policies must respond to this challenge. While reducing the aggregate level of unemployment remains the most pressing concern, only through understanding the composition of total unemployment can policies be effective in achieving this goal.

There are now over 320,000 people unemployed, the majority of which (66%) are males. The latest Live Register release, noting a decrease of over 12,000 in the last 12 months, provides a Standardised Unemployment Rate of 14.6%.

Encouragement can be taken from the stabilisation in the labour market over recent quarters. While continued weakness in both the domestic and external economic environment ensures that there will be limited net job creation in 2013[1], the Department of Finance predicts that unemployment will peak this year at 14.9%.

As such, at almost 15% (324,000), the ILO unemployment rate remains high. Of this number, 193,000 (59%) have been unemployed for more than 1 year.[2] Worse still, 133,000 of the Live Register have been claiming for more than 2 years. With almost 60% of total unemployment comprised of long-term claimants, Ireland's *long-term unemployment rate* has reached 8.9% and shows few signs of abating. The predominance of males in the unemployment cohort is amplified further in the long-term unemployment statistics.

[1] Department of Finance: Budget 2013

[2] Unemployment is defined in most OECD countries in accordance with ILO guidelines. Long-term unemployment is here defined as people who have been in unemployment for 12 months or more.

Trends in Long-term Unemployment

Table 1: Long-term Unemployment 2006 – 2012 (Quarter 3)[3]

	2006	2007	2008	2009	2010	2011	2012
Total Unemployment	105,100	107,500	163,700	288,900	310,600	328,100	324,500
Short-term Unemployment	73,300	74,800	117,500	205,600	155,500	133,100	128,500
Long-term Unemployment	31,100	31,800	42,000	80,600	152,600	191,700	193,000

(Source: Central Statistics Office: QNHS)

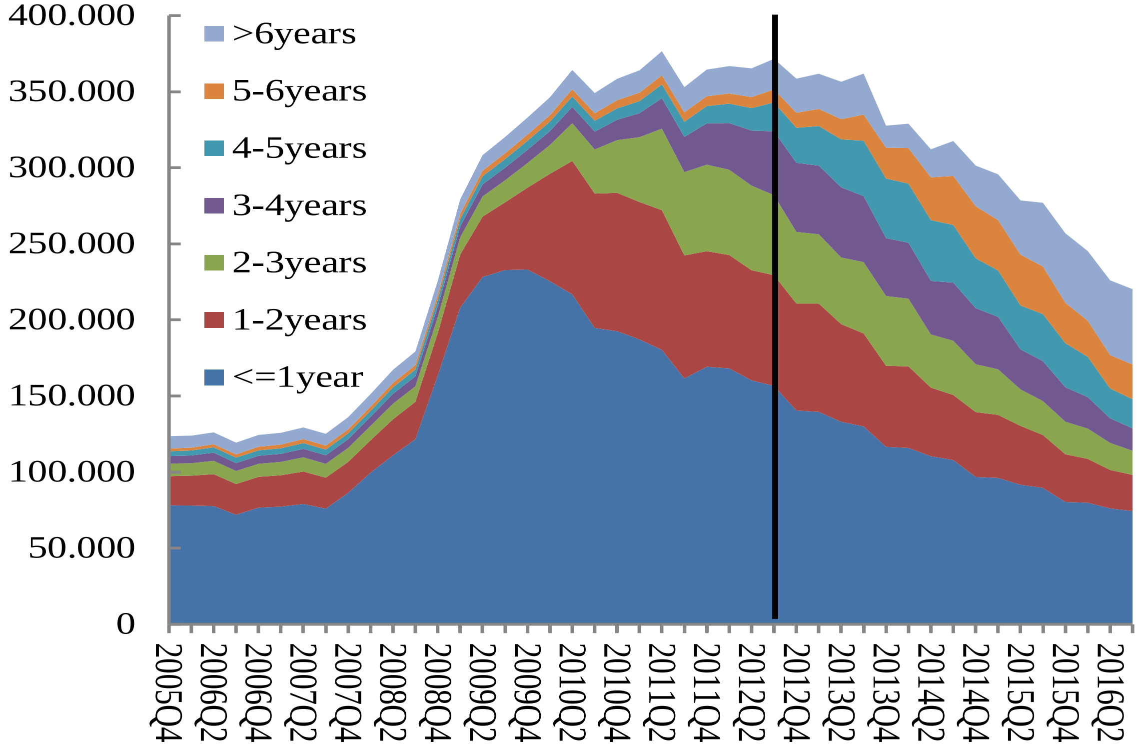
Over the period 2006–2011 unemployment rose by over 200,000 (209%) and long-term unemployment by over 150,000 (520%). Unemployment increased significantly during the downturn in the economy; however, the pace of this increase has moderated in recent years. Indeed, the last quarter saw the first annual decline – albeit marginal – since 2005.

Table 1 presents Quarter 3 unemployment numbers between 2006 and 2012. In tracking the increases in long-term unemployment alongside short-term unemployment and total unemployment, one can see that the initial increases in short-term unemployment have fed into subsequent increases in long-term unemployment.

The analysis of more general unemployment figures feeds well into the discussion around long-term unemployment. The high concentration of job losses over a limited period has resulted in an elevated unemployment rate of which long-term unemployment continues to increase its share.

[3] Data is supplied by the CSO's QNHS. Total unemployment is not the sum of short- and long-term unemployment as a there a number of durations classified as undisclosed.

Graph 1: Actual and predicted term structure of unemployment (2005-2016)



(Source: European Commission Staff Report – December 2012)[4]

Reflecting the fact that the largest increases in unemployment were recorded pre-2010, short-term unemployment has decreased from over 200,000 to fewer than 130,000, a fall of 38%. The Graph above, from the European Commission's December Staff report 2012, demonstrates that high levels of long-term unemployment are likely to persist in years to come.

The labour market exhibits a high level of churn and is characterised by large flows of people moving into and out of unemployment as a result of the prevailing economic conditions, both domestic and external[5]. Coinciding with the recession, inward flows on to the Live Register (LR) rose 129% from 2006 to their peak in 2009. Inward flows have subsequently receded, currently standing at almost 50,000 (12%) lower than over the same period in 2011.

[4] The forecast provided is based on the assumption of "standard" exit rates from unemployment. Standard in this instance refers to pre-crisis levels of exits.

[5] As a small and open economy, Ireland's domestic economy is greatly affected by the business cycles in our most important trading partners. While the export-oriented industries are less employment-intensive, they nonetheless have a substantial effect on the wider economy.

Table 2: Inward flows on to the Live Register 2006 – 2012

	2006	2007	2008	2009	2010	2011	2012
Inflows	273,977	296,217	449,895	626,248	557,512	484,793	*360,260*[6]
Monthly Average	22,831	24,685	37,491	52,187	46,459	40,399	*36,026*

(Source: Department of Social Protection)

Table 3: Outward flows off the Live Register 2006 – 2012

	2006	2007	2008	2009	2010	2011	2012
Outflows	274,420	281,230	328,908	494,630	544,028	487,090	*383,240*[7]
Monthly Average	22,868	23,436	27,409	41,219	45,336	40,591	*38,324*

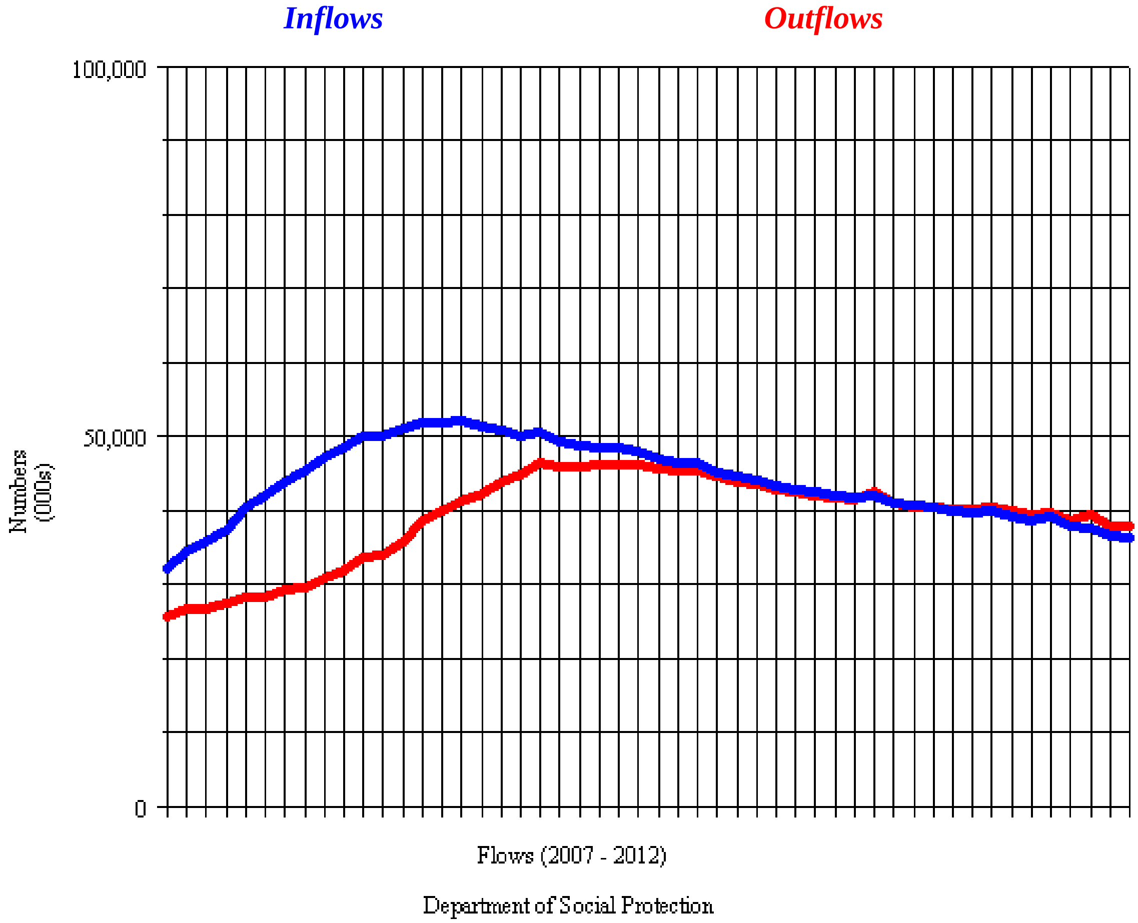
(Source: Department of Social Protection)

Outward flows also remain above pre-recession levels. Some of this reflects the fact that job creation remains in the Irish economy. Much of it however, can be attributed to increased rates of net outward migration and the movements of those in receipt of income supports to labour market activation programmes such as JobBridge and others.

The Graph below represents the 12 month moving average of inward and outward flows of the Live Register over the period 2007 – 2012. Similar to the preceding analysis, the graph demonstrates that significant divergence emerged at the beginning of the recession and continued for a number of quarters thereafter. The gap between inflows and outflows has since been closed with outflows now slightly larger, resulting in small decreases in the numbers on the Live Register.

[6] Data supplied for 2012 relates to data up to November 2012
[7] Data supplied for 2012 relates to data up to November 2012

Graph 2: Inflows/Outflows Liver Register: 12 Month Moving Average



Long-term Unemployment: Composition Analysis

Long-term unemployment is, in general, defined as unemployment spells in excess of 12 months. While there is considerable discrepancy between the QNHS and LR data in terms of total numbers in unemployment, the figures for durations in excess of one year remain broadly similar. It should be stressed at this point that the Live Register is not a pure measure of unemployment due to its inclusion of persons claiming part-time income supports and PRSI credits.

At present there are almost 200,000 people classified as long-term unemployed in the Quarterly National Household Survey. The Live Register currently amounts to just fewer than 420,000 of which 190,000 have been claiming income supports for over 12 months.

Based on the latest Live Register figures[8], of all unemployment claimants on the Live Register, 45% have been claiming for over 1 year. Meanwhile, those on the Live Register for over 3 years now make up 21% of all unemployment claimants in Ireland.

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[8] November 2012 Live Register Release

Table 4: Live Register Components: Durations from 1 to 6 years (end-Q3 2012)

LR	1 – 2 yrs	2 – 3 yrs	3 – 4 yrs	4 – 5 yrs	5 – 6 yrs	> 6 yrs
JA	61,871	51,368	41,670	19,025	8,513	20,125
JB	11,258	1,311	295	46	0	1
Credits	8,136	6,264	3,636	1,314	703	1,447
Total	81,265	58,943	45,601	20,385	9,216	21,573

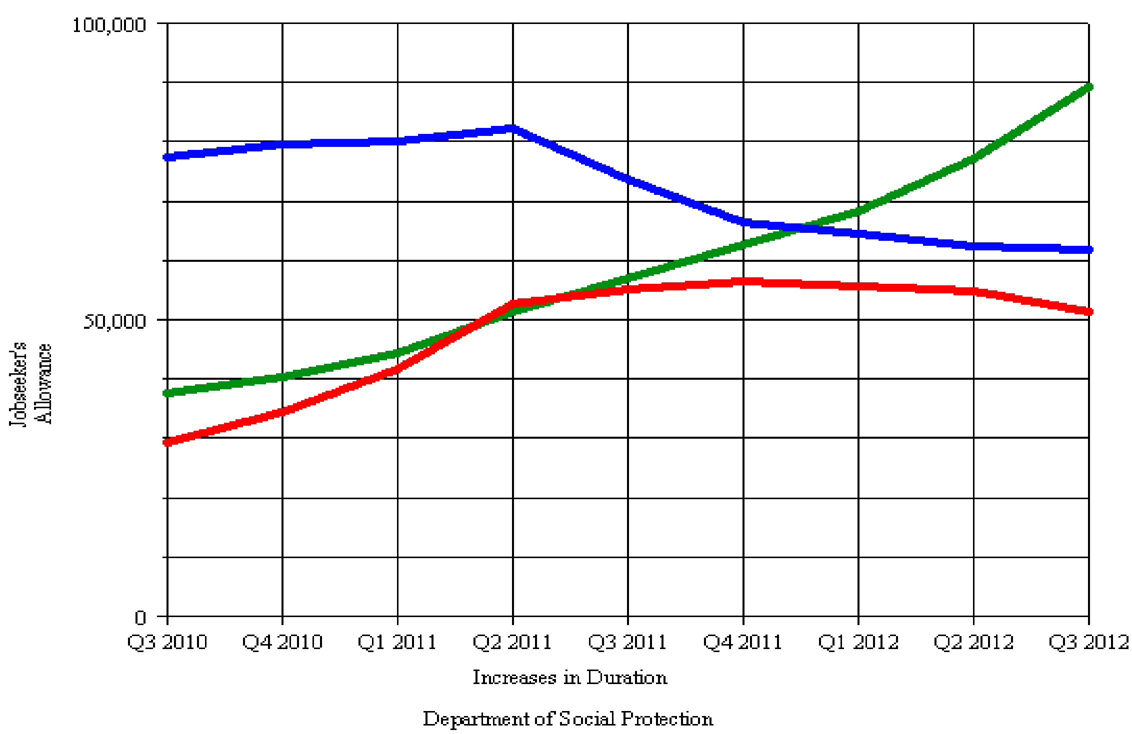
(Source: Department of Social Protection)

Almost 100,000 claimants have been on the Live Register for over 3 years. Even more striking is that well over 20,000 of these have been claiming for over 6 years. The contraction in low skills-intensive industries, while affecting a significant amount of workers, did not result in a loss of employment for these people as they were already considered long-term unemployed.

Jobseeker's Allowance is used as a proxy for the analysis of increases in unemployment durations in excess of one year. While the other components of the Live Register make up a considerable proportion of the claimant count with respect to durations of less than 1 year, their impact thereafter is fairly limited. This can clearly been seen above as Jobseeker's Benefit accounts for 14% (from 36% under 1 year) of the total Live Register for durations between 1 and 2 years. Its presence becomes even less pronounced for durations in excess of 2 years.

Graph 3: ***Increases in Duration: Jobseeker's Allowance***

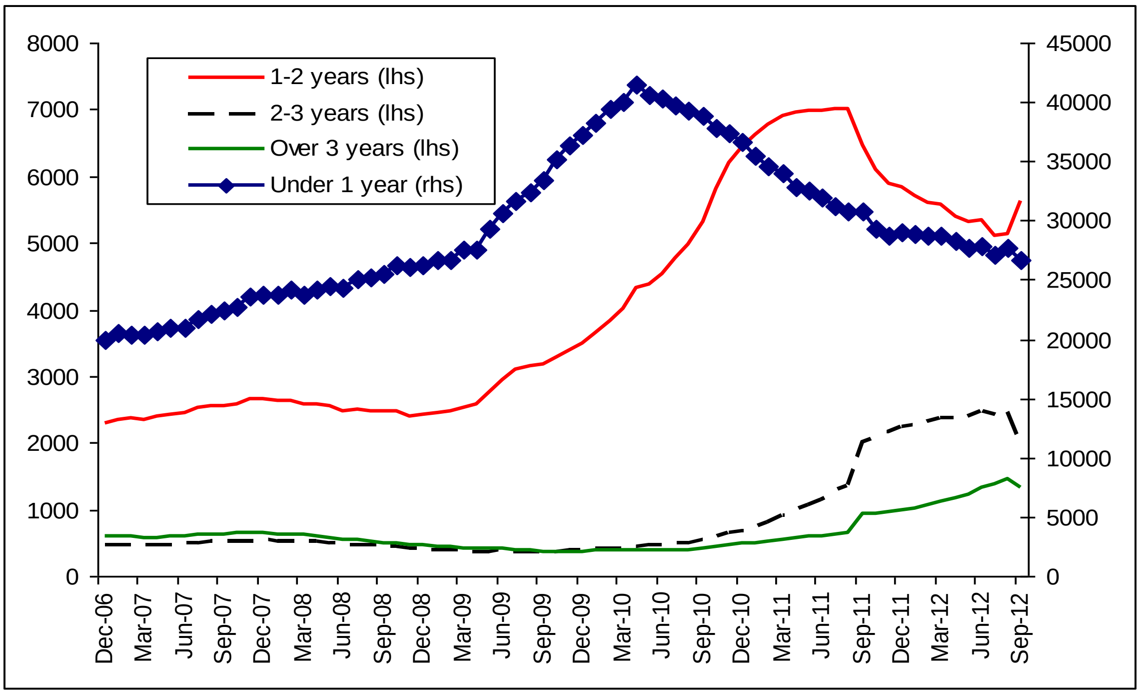
(1 – 2 yrs) (2 – 3 yrs) (>3 yrs)



Graph 3 above tracks the increases in numbers signing-on to Jobseeker's Allowance by duration over the period Q3 2010 – Q3 2012. Durations of between 1 and 2 years, has fallen markedly over the period. While undoubtedly a portion of this 15,000 (20%) fall is due to finding employment and other factors, a considerable amount of these claimants can be expected to have transferred into the 2 – 3 years category and the 3 – 4 years category thereafter. Numbers unemployed in durations in excess of 3 years have risen from 37,000 to just fewer than 90,000 (136%).

Live Register Exits for Differing Durations of Long-term Unemployment

Graph 4: Live Register Exits by Duration: 12 Month Moving Average



(Source: Department if Social Protection)

The Graph above is a 12 month moving average of closures on the Live Register. In line with the increased outward flows from the Live Register, exits increased markedly over the period 2008 – 2010 before falling off again. What is most significant however; is that the majority of these closures were recorded by people who had been on the Live Register for a period of less than 12 months. This is at the centre of the discussion around reducing the long-term unemployment rate as, despite being in more need of assistance, those on the Live Register for over 3 years are left to drift from one duration into the next. This is also evident in that the probability of exit declines significantly for longer durations.

In keeping with the knowledge that unemployment, long-term or otherwise, is not simply a function of gross job losses, Table 5 below shows exit rates from the Live Register for all durations categorised by the Department of Social Protection for January – August 2012.

Table 5: Cumulative Monthly Exits by Duration and Jan – Aug 2012

	< 1yr	1 – 2 yrs	2 – 3 yrs	3 – 5 yrs	> 5 yrs
Total Exits	209,699	43,868	15,165	8,381	2,257

(Source: Department of Social Protection)

Short-term Live Register claimants (durations of less than 1 year) have much higher exits. Well over 200,000 (75%) of those who left the Live Register during the period outlined had been claiming unemployment benefits for less than one year. While a significant proportion (36%) of these exit rates relate to ending of entitlements to income supports, over 80,000 (39%) of exits for durations of less than one year were as a result of finding employment.

The exaggerated divergence between those leaving the Live Register for short- and long-term durations demonstrate that high levels of churn are evident for shorter durations with diminishing levels for longer durations thereafter.

Table 6: Durations of Unemployment Relative to Number leaving the LR: August 2012

	< 1yr	1 – 2 yrs	2 – 3 yrs	> 3 yrs	Total
Total Exits	29,287	5,902	1,984	1,674	38,847
Numbers on LR	254,743	62,043	51,683	87,787	456,256

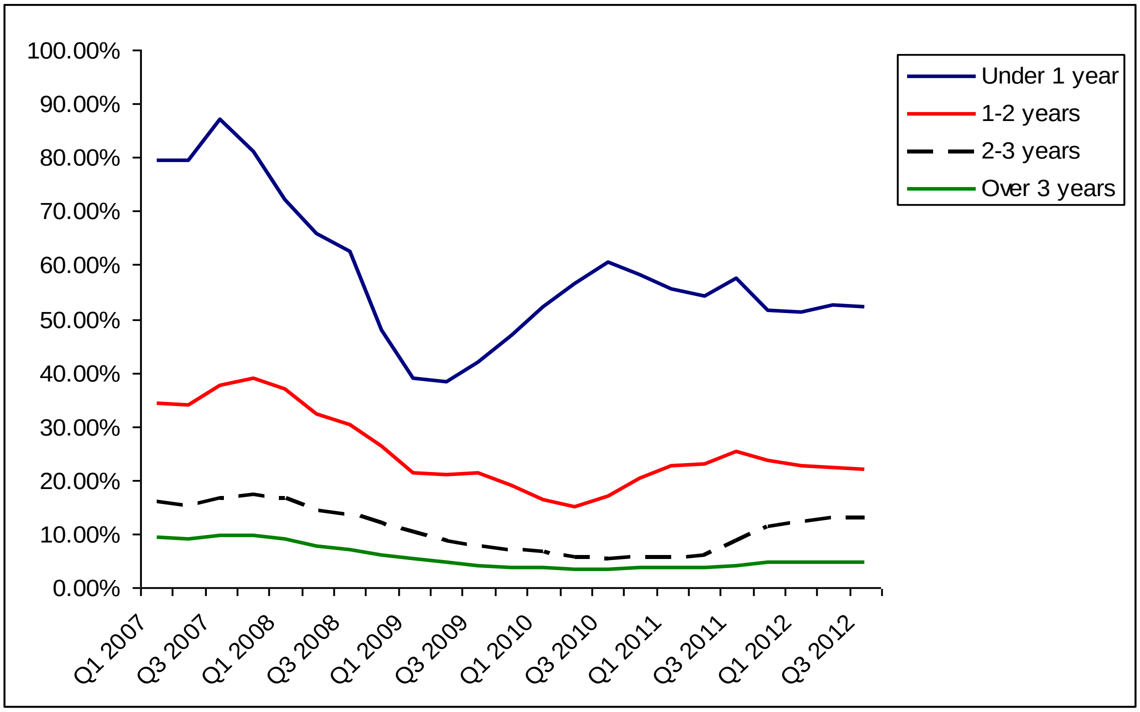
(Department of Social Protection)

Table 6 highlights the divergence in exit rates from the Live Register for August 2012. During this month, 56% of the LR was comprised of short-term unemployment. Furthermore, over 150,000 (60%) of short-term unemployment is made up of claimant durations of less than 3 months.

As the data shows, the longer a person remains unemployed and on the Live Register, the less likely it is that they will eventually find employment. This phenomenon has been studied extensively and is referred to as negative unemployment duration hazard. In addition to the diminishing probability of exiting unemployment, people who remain in this state for an extended period are more likely to accept lower wage rates once they eventually find employment[9].

[9] Wang (2012). *Negative Duration Dependence of Wage and Unemployment Hazard Rate.* Available: http://mywebspace.wisc.edu/hwang78/web/fieldpaper.pdf

Graph 5: Rates of Exit by Duration: 2007 - 2012



(Source: Department of Social Protection)

Specifically regarding those who have been unemployed for over 3 years, outward flows from the Live Register have slightly increased in recent months. However large this increase, the fact that it is coming from such a low base ensures that the rate of Live Register exits is insufficient to reduce long-term unemployment. While exits for this group are almost 4,000(42%) higher than the same time last year, as of end-Q3 2012 there were over 35,000 (57%) more people in this cohort of the long-term unemployed.

Skills depreciation, detachment from the labour force and unemployment stigma are all used to explain the incidence of long-term unemployment. In Ireland’s case, while these may all be of relevance, the economic downturn has eliminated jobs in unproductive or by now unprofitable sectors and they will not return within a reasonable timeframe.

Increasing exit rates for those in long-term unemployment requires well resourced and targeted policies. Effective active labour market policies involve retraining and job-search assistance to participants. Only through the provision of targeted supports which reflect the needs of the economy will long-term exits from the Live Register increase. At present, and with only limited employment growth expected over the coming years, activation will primarily serve as a means to prevent outright detachment from the labour market.

Statistical Profiling of the Long-term Unemployed

Although labour market activation policies may not always be suitable for tailoring towards individual groups of the labour force, it is essential that deadweight is limited as much as is possible. In doing so, it is hoped that those groups most in need of assistance in finding employment are effectively targeted. In Ireland's case, the magnitude of long-term unemployment ensures that a properly functioning labour market activation policy must be more granular than targeting only durations of over one year.

The first and perhaps most obvious characteristic, aside from duration of unemployment, upon which we can develop activation policies is that of age. The previous parts of this paper have already identified the period during which the greatest job losses occurred. It may therefore be reasonable to assume that those of working age during this period and who subsequently lost their employment are currently within the cohort of the long-term unemployed. The table below shows this to be the case.

Table 7: Increases in Long-term Unemployment: Age/Durations of more than 1 year

Quarter 3	2006	2007	2008	2009	2010	2011	2012
15-24 yrs	7,000	6,900	9,900	17,400	29,100	33,000	33,200
25-44 yrs	16,200	16,300	20,600	42,900	81,000	108,500	100,800
> 45 yrs	8,000	8,500	11,500	20,300	42,500	50,100	58,900

(Source: Central Statistics Office: QNHS)

Although not evenly, the Table above clearly shows that long-term unemployment has affected all age-groups. Those of prime working age, 25 years and above, have been impacted most as long-term unemployment for 25 – 44 years and over 45 years has risen by 85,000 (520%) and 50,000 (635%) respectively. Given that much higher proportions of young people (15 – 24 year olds) would have remained and continue to remain in education, long-term unemployment within this group has *only* increased by 26,000 (374%).

Long-term unemployment is therefore most prevalent among those of prime working age. Additionally, the gender of each of these groups is predominantly male. Males represent the vast majority of the long-term unemployment in each of the age-groups defined above.

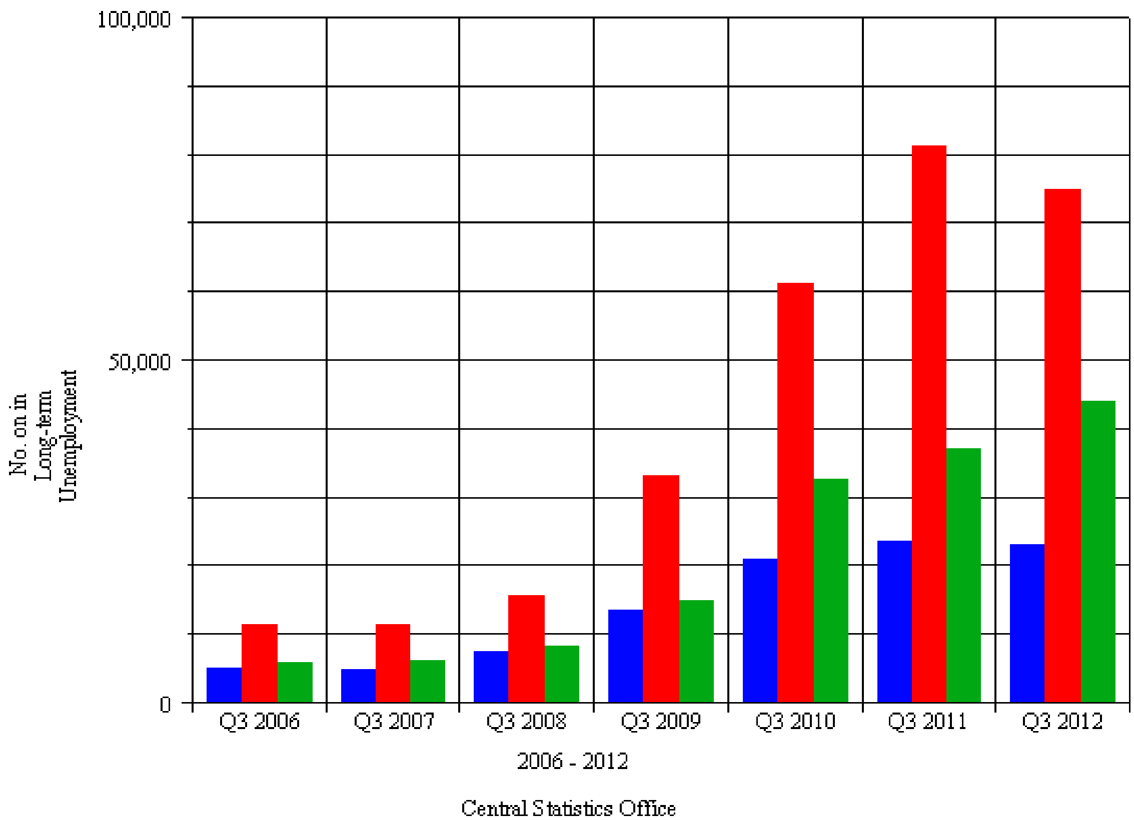
Table 8: Males/Females in Long-term Unemployed Cohort: Q3 2012

	Males	% of Cohort	Females	% of Cohort
15 – 24 years	22,900	69%	10,300	31%
25 – 44 years	74,900	74%	25,900	26%
Over 45 years	43,900	75%	15,000	25%

(Source: Central Statistics Office: QNHS)

Graph 6: ***Increases in Male Long-term Unemployment: Durations >1 year***

15 – 24 yrs 24 – 45 years >45 yrs



As highlighted in previous analysis carried out by this Department[10], the contraction experienced in the labour market has disproportionately affected the male cohort of Ireland's labour force. This largely explains why both the more general unemployment rate as well as the long-term unemployment rate has diverged between both genders. While female rates of employment fell also, the recession has affected those areas of the economy in which males have a much larger presence. The Table below highlights the changes in employment in key sectors of the economy as well as male exposure to those sectors.

Table 9: ***Gender Divergence as a Result of Contracting Sectors***

Sectors	Employment (Q3 2006)	% Male	Employment (Q3 2012)	% Male	Employment Loss	Employment Loss %
Agriculture	113,600	90%	85,600	87%	28,000	25%
Construction	269,300	96%	101,100	93%	168,200	62%
Industry	303,700	72%	231,100	70%	72,600	24%

(Source: Central Statistics Office)

While some industries such as ICT and Human Health have shown resilient employment growth throughout, the recession has resulted in declines in employment in most other

[10] Labour Market Synopsis: Issue 1 – Labour Market Overview

sectors of the economy. As is well established, the construction industry has recorded a 62% loss in employment over the last 6 years. The overwhelming majority of employment in the industry was male and therefore any downturn was always going to leave the male cohort worse off.

This trend is indicative of the other industries worst affected with the structural change in the economy displacing semi- and unskilled labour such as that in Agriculture and Industry.

These declines have produced a large inflow into unemployment which, due to the limited skill-sets which these sectors employ, will remain for a sustained period. Key to addressing this unemployment problem will be a retraining of these individuals. This will require a significant shift away from the industries in which they were previously employed in order to ensure that their skills as members of the labour force are in demand.

Conclusion

Both the economic and societal implications of long-term unemployment are significant. It presents significant challenges to policymakers in terms of the fiscal constraints which it applies and the limited scope for policy to effectively tackle the problem. For the individual too there are substantial negative impacts. Extended periods of joblessness can result in detachment from the labour market, depreciation of skills and human capital, and large increases in the incidence of poverty (Manchin and Manning, 1999).

With unemployment at 18% in the early 1990s, Ireland's labour market found itself in a similar position to that of today; an outlier of the European Union with long-term unemployment well above the European average. The period 1980 – 1987 saw notified redundancies in the economy double and substantial employment declines in sectors such as agriculture and construction were recorded[11]. What followed was a brief period of recovery before a further deterioration in the economy.

The six-fold increase in exports was at the centre of a significant economic expansion which led to the number of people in work in Ireland growing by 50% over a concentrated period. What is particularly notable of this period is the cohort of Ireland's unemployed which found employment. Contradictory to what one would expect, statistics provided from the Labour Force Survey over the period show that long-term unemployment reduced at a faster rate than short-term unemployment. This success in reducing long-term unemployment is often attributed to the effectiveness of Ireland's labour market activation policies however caution should be taken when reaching these conclusions.

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[11] Ronaye (1994). *Regions Without Work: Unemployment and Labour Market Policy in Ireland.* Available: http://www.wrc.ie/publications/regionsw.pdf

In a more contemporary Ireland where labour market activation is at the forefront of policy, the aspiration that reductions in total unemployment will come largely from the long-term unemployed appears some way off. With exit rates from unemployment as they currently stand, leaving unemployment is much more probable for short-term claimants and this probability diminishes significantly after.

This paper has stressed that employment growth will remain constrained thus ensuring that only marginal declines in unemployment will be recorded in the short- and medium-term. Labour market activation can ensure that these declines, however modest, will be sourced from within long-term unemployed. At present, this is not the case and results in those signing-on to the Live Register for long periods drifting from one duration to the next. In the absence of significant improvements in supports for those unemployed for long durations, one can be assured that this group will form a significant part of present and future structural unemployment.