Low Pay Commission – Supplementary Report September 2020

This supplementary report has been written by the Secretariat to assist the Low Pay Commission in its deliberations about the National Minimum Wage.

The Commission would like to thank Kate O’Donnell and John O’Toole for producing this report.
Low Pay Commission – Supplementary Report September 2020

Table of Contents

1. Chapter 1: National Developments
   a. Economic Developments
   b. Labour Market Developments
   c. Conclusions

2. Chapter 2: National Minimum Wages Developments
   a. Ireland
   b. International Overview of National Minimum Wage Developments since the outbreak of COVID-19
   c. Conclusions

Appendix 1: International Developments
   a. Economic Developments
   b. Labour Market Developments
   c. Conclusions

Appendix 2: National Minimum Wages in Recessions: Literature Review
Introduction

This paper outlines the economic and labour market context both internationally and domestically as of September 2020. There remains strong uncertainty about the economic and social trajectory over the coming months and years. Large scale state stimulus measures have been announced both at the EU and domestic level. How this stimulus is used and implemented will likely impact how the Irish economy and labour market recovers. In making its recommendation, the Commission must, under the terms of the Act, analyse the factors outlined below:

(a) changes in earnings during the relevant period,
(b) changes in currency exchange rates during the relevant period,
(c) changes in income distribution during the relevant period,
(d) whether during the relevant period—
   (i) unemployment has been increasing or decreasing,
   (ii) employment has been increasing or decreasing, and
   (iii) productivity has been increasing or decreasing,
(e) international comparisons, particularly with Great Britain and Northern Ireland,
(f) the need for job creation, and
(g) the likely effect that any proposed order will have on—
   (i) levels of employment and unemployment,
   (ii) the cost of living, and
   (iii) national competitiveness.

Although it is not possible to assess all of these factors due a lack of up-to-date data overall, it can be seen that the COVID-19 crisis has changed the trajectory of most of these indicators quite strongly compared to quarter 4 of 2019. However, it is difficult to predict how state supports such as the National Economic Plan for Recovery and the Employment Subsidy scheme will shape the direction of employment, earnings and productivity over the coming months.

\footnote{All data and publications reflect before 3\textsuperscript{rd} July 2020}
Chapter 1 National Developments

Economic Developments

Estimating Impact on Irish Economy

The public health measures introduced in response to COVID-19 have had severe impacts on the Irish economy. Job losses have been severe and consumption has reduced heavily. Major income losses for individuals have been avoided due to state intervention in the form of the Pandemic Unemployment Payment and the Wage Subsidy Scheme. The Central Bank’s Business Cycle Indicator (BCI) provides an insight into overall domestic economic activity. In April, the BCI fell to a new all-time low, beyond that experienced during the 2008/09 economic crisis. This large fall in the BCI signals a very sharp and deep contraction in domestic activity. The latest estimate of the BCI for May (based on data up to 29th June), points to a slight improvement in economic conditions compared to April suggesting some stabilisation in activity during the month.²

The second quarter national accounts published by the Central Statistics Office show that based on initial estimates, GDP decreased by 6.1 per cent and GNP by 7.4 per cent in quarter 2 compared to quarter 1 of 2020.³ This was the second lowest fall in the EU.

Seasonally adjusted Growth Rates % change on previous quarter

![Graph showing seasonally adjusted growth rates](image)

Central Statistics Office (2020) Quarterly National Accounts Quarter 2 2020

---

² Central Bank of Ireland (2020) Quarterly Bulletin No.3 2020
³ Central Statistics Office (2020) Quarterly National Accounts Quarter 2 2020
Personal Consumption Expenditure (PCE) which accounted for 45.6 per cent of final domestic demand, decreased by 19.6 per cent in quarter 2. Modified Domestic Demand, an indicator of domestic demand that excludes the impact multinational elements on the Irish economy, decreased by 16.4 per cent in Q2 2020 compared to Q1 2020, driven by falls in personal consumption of 19.6 per cent and domestic capital formation of 28.2 per cent respectively.\(^4\)

Compared to quarter 1, most sectors value added decreased. The distribution, transport, hotels and restaurants sectors recorded a decrease of 30.3 per cent in volume terms. Construction declined by 38.3 per cent, agriculture, forestry and fishing fell by 60.6 per cent, and arts and entertainment fell by 65.5 per cent. Excluding the construction and public administration sectors, the value added of industry, shows that education and health were the only two sectors to increase modestly over the quarter.

On an annual basis, the CSO indicates that there was a decrease of 3.0 per cent in GDP in real terms in Q2 2020 compared with Q2 2019. GNP is estimated to have contracted by 2.5 per cent compared to Q2 2019. Industry (excluding construction) made a positive contribution to the Q2 result, rising by 15.9 per cent. All other sectors show year-on-year declines with distribution, transport, hotels and restaurants recording a decrease of 32 per cent.

Imports decreased by 37.2 per cent in Q2 2020 compared with Q2 2019. Exports decreased by -0.2 per cent. Personal Consumption Expenditure declined by 22.1 per cent year on year in quarter 2 2020.\(^5\) Modified Domestic Demand declined by 15.7 per cent over the year to quarter 2 2020.

The Central Statistics Office reported that the volume of retail sales increased by 38.4 per cent in June 2020 when compared to May 2020 on a seasonally adjusted basis.\(^6\) These increases follow the substantial drop in sales volume in March (-12.4%) and April (-35.8%). On an annual basis, retail volumes were 3.5 per cent higher in June 2020 compared with June 2019. Overall retail sales in June were 3.1 per cent higher than in February 2020. However, various sectors have not recovered to the February level of sales. For example, Bars remain 80.4 per cent below the February level. As well as firms in the Books, Newspapers and Stationery (-38.6%), Department Stores (-17.3%), Fuel (-16.0%), Clothing, Footwear & Textiles (-15.9%) all remain below their February sales levels.

\(^4\) Modified Domestic Demand is an indicator of domestic demand that excludes the impact of trade in aircraft by aircraft leasing companies and trade in research and development (R&D) related IPP service imports.

\(^5\) Central Statistics Office (2020) Quarterly National Accounts Quarter 2 2020

\(^6\) Central Statistics Office (2020) Retail Sales July 2020
The Department of Finance released emerging economic data in September which shows that Revolut transactions dropped severely (40 per cent) in April. This is in line with CSO retail sales data. Since then there has been a steady recovery in transactions with a slight spike over the August bank holiday. As of late August, total expenditure is about 15 to 20 per cent above early February levels. Furthermore, data shows that although online spending grew sharply during the lockdown periods, the share of spending carried out online appears to have returned close to its early February level, a similar trend is seen in CSO retail sales.

The Department of Finance show that the Purchasing Managers Index (PMI) for Ireland improved slightly in June. The manufacturing PMI rose to 51 in June up from 39.2 in May. The Department shows that the large increase in new orders and output components indicate improving conditions as public health restrictions have eased gradually. Services PMI rose to 39.7 in June from 23.4 in May, showing a much slower recovery in activity. Data for employment showed a less significant rebound. The construction PMI rose to 51.9, above 50.0 which represent the no-change mark for the first time in 4 months.

**Purchasing Managers Index Ireland April 19-June 2020**

![Chart of Purchasing Managers Index Ireland April 19-June 2020](image)

*Department of Finance (2020) Real time Economic Indicators*

---

7 Department of Finance (2020) *Emerging economic developments - real-time economic domestic indicators* - 2 July 2020
8 Department of Finance (2020) *Emerging economic developments - real-time economic domestic indicators* 7th September 2020
9 Department of Finance (2020) *Emerging economic developments - real-time economic domestic indicators* - 2 July 2020
**Sectoral Impacts**

The impact of COVID-19 has varied widely across sectors in most countries. The OECD highlight that the lockdown introduced in Ireland has impacted indigenous firms more heavily than foreign owned firms. These indigenous firms are also more likely to face cash flow constraints.\(^{10}\)

The Department of Business, Enterprise and Innovation recently published a set of reports focusing on how different sectors of the Irish economy have been impacted by COVID-19. The report focusing on retail highlights that the Irish retail sector is employment intensive and regionally dispersed.\(^{11}\) Wholesale and Retail (e.g. food, all other retail goods) accounted for 8 per cent of Gross Value Added in 2018 and is the largest employer across all sectors, with 310,200 employed, representing 13 per cent of national employment.\(^{12}\) The sector has a wide regional significance: with 70 per cent of employment outside Dublin. Although some retail outlets remained open during the lockdown periods, the sector as a whole has been badly affected by the public health containment measures introduced. Some of the major issues facing businesses in this sector include: the drop in footfall, the need for social distancing which is reducing efficiency and capacity for many retail businesses, and the ongoing fixed costs such as rents, insurance without corresponding revenues.

The report focusing on the impact of COVID-19 on the hospitality and tourism sectors highlights the growing importance of tourism as a sector globally with travel and tourism directly generating over 119 million jobs in 2019, 3.8 per cent of global employment.\(^{13}\) The report shows that tourism was worth over €9 billion to the Irish economy in 2018. It stated that there were 260,000 jobs supported by the tourism and hospitality sector in Ireland in 2018, and of these 180,000 are supported by overseas visitors, and 80,000 are supported by staycations. Visitors from Britain, the US, Germany and France, account for approximately 70 per cent of international visitors to Ireland.

The COVID-19 pandemic has severely impacted the tourism industry across the world. Revised OECD estimates on the COVID-19 impact point to 60 per cent decline in international tourism in 2020.\(^{14}\) The Department of Business, Enterprise and Innovation notes that tourism employment is projected to fall by between 190,000 and 200,000 in 2020. By mid-June approximately 87 per cent of those employed in tourism sectors were in receipt of COVID-19 income supports. The OECD estimates that under a worst case scenario of no international tourists coming to Ireland for the remainder of 2020, and a decline in

---


\(^{11}\) Department of Business, Enterprise and Innovation (2020) Focus on Retail 2020

\(^{12}\) Department of Business, Enterprise and Innovation (2020) Focus on Retail 2020

\(^{13}\) Department of Business, Enterprise and Innovation (2020) Hospitality and Tourism 2020

domestic tourism of about 20 per cent, this would lead to an overall loss to the economy of €2.3 billion and a potential loss of 200,000 jobs. The Department’s report highlights the major challenges in growing the international tourism numbers again into the future and states that the current focus should be on stimulating domestic tourism in order to ensure as many workers as possible can return to work as soon as possible.

Forecasts and Projections
The Central Bank of Ireland’s Quarterly Bulletin released in Q3 2020 estimates under a baseline scenario that private consumption will fall by 10.1 per cent in 2020 and 13.9 per cent under a severe scenario. For 2021, the Central Bank projects that private consumption will increase by 3.9 per cent under the baseline scenario and by 3 per cent under the severe scenario. The Central Bank forecast Underlying Domestic Demand (UDD), to decline by 9.5 per cent this year before growing by 4.6 per cent in 2021 and 4.4 per cent in 2022.

The OECD projections from June 2020 outline single hit and double scenarios depending how many major spikes of the virus occur, and thus how many lockdowns need to be imposed. If this double hit were to occur, annual GDP in Ireland is expected to decline by 8.7 per cent in 2020 with virtually no recovery in 2021. Under the single hit scenario GDP is forecast to reduce by 6.7 per cent in 2021 and then recover by 4.7 per cent in 2021. Under the single hit scenario, the OECD forecasts private consumption will fall by -12.3 per cent in 2020 and return to growth of 5.2 per cent in 2021. Under the double hit scenario the OECD projects that private consumption will fall by 14.4 per cent in 2020 and reduce again by 1.3 per cent in 2021.

The Department of Finance latest economic forecast is from the Stability update in April 2020. A new forecast will be published in October alongside the Budget, and the National Economic Plan.

The European Commission’s latest forecast for Ireland estimates that real GDP will contract by 8.5 per cent in 2020, with growth of 6.75 per cent expected in 2021, on the back of the pent-up domestic demand release and the global post-crisis recovery. The Commission highlights two significant issues potentially facing the Irish economy over the coming months. Firstly, the uncertainty about the relationship between the EU and the UK, and the potential changes in the international tax rules which may impact some of the multinationals based in Ireland.

16 Department of Business, Enterprise and Innovation (2020) Hospitality and Tourism 2020
17 Underlying Domestic Demand removes the distortionary effects of globalisation activities in the National Accounts
The forecasts for personal consumption made by major stakeholders are outlined in the table below.

### Personal Consumption Forecasts 2020-2021

<table>
<thead>
<tr>
<th>Institution</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank (Quarterly Bulletin, July 2020) (Percentage Change)</td>
<td>3.4</td>
<td>2.8</td>
<td>-10.1 (b)</td>
<td>3.9 (b)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-13.9 (s)</td>
<td>3 (s)</td>
</tr>
<tr>
<td>ESRI (Quarterly Economic Commentary, Summer 2020) (Real Annual Growth %)</td>
<td>3.4</td>
<td>2.8</td>
<td>-13.3</td>
<td>-</td>
</tr>
<tr>
<td>Department of Finance (Stability Programme Update, April 2020) (year-on-year % change)</td>
<td>3.0</td>
<td>2.8</td>
<td>-14.2</td>
<td>8.7</td>
</tr>
<tr>
<td>European Commission Spring Forecast 2020 for Ireland</td>
<td>3.4</td>
<td>2.8</td>
<td>-8.8</td>
<td>4.6</td>
</tr>
<tr>
<td>The OECD, Economic Outlook, June 2020</td>
<td>3.4</td>
<td>2.8</td>
<td>-14.4</td>
<td>-12.3</td>
</tr>
</tbody>
</table>

### Inflation

The Central Statistics Office report that prices, measured by the Consumer Price Index, on average were 0.4 per cent lower in July compared with July 2019. The divisions which caused the largest downward contribution to the CPI in the year were Transport (-0.64%), Housing, Water, Electricity, Gas & Other Fuels (-0.28%), Communications (-0.19%) and Food and Non-Alcoholic Beverages (-0.13%).

The EU Harmonised Index of Consumer Prices (HICP) show that prices on average, decreased by 0.6 per cent compared with July 2019.

The European Commission Summer Statement has revised HICP inflation in the euro area to 0.2 per cent this year. It is forecast to increase to 1.1 per cent in 2021, largely on the back of positive base effects in energy prices. The Commission estimates that Ireland is expected to experience a period of deflation, with an average of -0.2 per cent for the whole of 2020, followed by moderate inflation of 0.8 per cent in 2021.

The European Central Bank states that, on the basis of the sharp decline in current and futures prices for oil, headline inflation is likely to continue to decline over the coming months. The European Central Bank projects in June 2020 that annual HICP inflation in the Euro area will be 0.3 per cent in 2020, 0.8 per cent in 2021 and 1.3 per cent in 2022.

---

18 The European Commission did not provide personal consumption projections in the Summer 2020 statement
21 European Central Bank, Economic Bulletin, July 2020
The Department of Finance predict that inflation will be negative in 2020, due to the decline in economic activity. For 2020 as a whole, consumer price inflation is forecast to drop to -0.6 per cent and core inflation is projected at -0.2 per cent. For 2021, HICP inflation is forecast by the Department at 0.4 per cent, with core inflation a 0.5 per cent. Under the baseline scenario the Central Bank expects the HICP to decline by 0.1 per cent in 2020, due to the deflationary effect of weak demand and lower energy prices, it forecasts for 2021 inflation of 0.3 per cent. Under the severe scenario deflation is forecast for 2020 (-0.2) and 2021 (-0.5).

The OECD forecasts HICP inflation for Ireland to be at 0.1 per cent in 2020 and 2021 under the double hit scenario. Under a single hit scenario the OECD forecast inflation of 0.2 per cent in 2020 and 0.6 per cent in 2021.

In conclusion, most forecasts predict a period of deflation for 2020 with modest inflation ranging from 0.1 per cent (OECD) to 0.8 (European Commission).

Tax Receipts
The Department of Finance reported that the Exchequer had a deficit of €9,452 million at the end of August 2020. Due to strong Corporation Tax and overall good performance at the beginning of the year, cumulatively the decrease was 2.3 per cent or €802 million, year-on-year. The report highlights that there remains considerable uncertainty about the outlook for the remainder of this year and next year. A potentially encouraging indicator is that Income tax has remained relatively strong over the preceding months. For the year to date, cumulative Income Tax receipts of €13,886 million are now slightly down on last year, by €194 million or 1.4%, boosted by a strong performance in January and February.

The steep decline in private consumption can be seen in the significant falls in VAT receipts since the beginning of 2020. Cumulatively, VAT receipts are now down by 21.3 per cent or €2,108 million on the same period last year, reflecting the significant decline in personal consumption.

Exchequer expenditure to end-August totalled €49,245 million, consisting of net voted expenditure of €43,200 million and non-voted expenditure of €5,852 million. Total gross voted expenditure to the end of August was €52,076 million, 23.9 per cent or €10,060 million ahead of profile and €7,827 million, or 17.7 per cent ahead of the same period in 2019. As expected the expenditure through the Department of Employment Affairs and

---

22 Department of Finance (2020) Stability Programme Update 2020
24 Department of Finance (2020) Fiscal Monitor August 2020
Social Protection and Department of Health votes grew the fastest year on year to August 2020.

**Business Responses and Supports**

In the latest wave of the CSO’s Business Impact of COVID-19 Survey, it is reported that the majority of enterprises (96.1%) reported trading in some capacity on 26 July 2020. Of the responding firms, 3 per cent report having ceased trading temporarily and 0.9 per cent permanently ceased trading. In the June wave of the Survey it was reported 92.1 per cent of firms were trading on the 28th June 2020. In the June wave it was clear the sector with the highest number of firms remaining closed either temporarily or permanently was the Accommodation and Food sector with 62.9 per cent of responding firms in this sector not trading, and just 37.1 per cent trading. However, a major increase in the number of firms in the Accommodation and Food sector that were trading in some capacity can be observed in the latest wave of the survey with 80.6% of enterprises in this sector trading in some capacity on the 26th July 2020.25

In total, 19.4 per cent of responding Services enterprises had restarted trading in July 2020. Within the Services sector, 67.7 per cent of enterprises in Accommodation and Food Services had restarted trading between the 29th June and the 26th July. About 54 per cent of responding enterprises had lower than normal turnover for the four-week period 29 June to 26 July 2020. Of those firms that had close to or normal turnover a higher proportion (42.2 per cent) of them are large enterprises compared to 32.5 per cent of SMEs.

The CSO Business responses survey shows that firms have taken various actions in response to the COVID-19 crisis and the public health guidelines. About 80.2 per cent of responding enterprises have increased hygiene measures in the workplace. The other two most common actions pursued were rearranging workspaces to facilitate social distancing (78.5 per cent) and introducing remote working arrangements (58.3 per cent). Micro enterprises that responded to the survey had a median spend on measures to comply with COVID-19 requirements for trading of €1,000. For small businesses that responded the median spend was €5,000. For medium sized businesses, the median spend was €10,000 on new measures in response to COVID-19.

The CSO captures the major concerns for businesses during this COVID-19 pandemic. A large 64.1 per cent of responding firms noted that they were concerned about a spike in cases leading to another lockdown. The second most common concern for responding businesses was reduced demand due to lower consumer confidence. About 29.8 per cent of respondents reported maintaining cash flow was among their top two concerns.

---

In conclusion, it appears that the majority of responding firms are currently trading across sectors and that there has been an increase in the number of firms in the Accommodation and Food sector, that are trading. It remains that the majority of firms that responded have lower than normal turnover for the four week period between the 29th June and the 26th July 2020. The Survey suggests that larger enterprises are more likely to have close to normal turnover. Office-based businesses report having a larger proportion of their workforce working remotely (59.2 per cent average workforce remote working) compared to non-office based firms (13.7 per cent). A high proportion of responding firms reported implementing various measures to comply with public health advice, such as enhanced hygiene measures, creating conditions for greater social distancing, and introducing working remotely when possible.

Business Stimulus Package - July

In response to the unprecedented economic low-point that occurred between March and May 2020, both in Ireland and internationally, the Irish Government introduced a July Stimulus package of measures to support the recovery of the economy. The overall size of the budgetary package amounts to €5.2 billion, the equivalent of 3 per cent of this year’s estimated modified gross national income (GNI*). Taxation measures account for around €900 million of this, with the remainder (€4.3 billion) on the expenditure side.

The main measures announced were the:

- New wage subsidy scheme;
- A tax rebate for the accommodation and food sector, the purpose of which is to boost out-of-season demand for these important activities;
- An extension to the Pandemic Unemployment Payment to provide income support to households;
- A reduction in the standard rate of VAT to support personal consumer spending and boost demand. The standard rate of VAT will be decreased from 23% to 21% for the period 1 September 2020 to 28 February 2021;
- An extension of help-to-buy to support new home-ownership;
- Enhanced corporate tax loss relief to provide additional liquidity supports for businesses;
- Additional public expenditure to fund re-start grants, a further six-month waiver of commercial rates and other measures to support business;
- The Help-to-Buy scheme will be enhanced for the remainder of 2020 so that the level of support available to first time buyers will be increased to the lesser of €30,000 (up from €20,000) or 10 per cent (up from 5 per cent).

From the 1st September 2020, the Employment Wage Subsidy Scheme (EWSS) replaces the Temporary Wage Subsidy Scheme and will run until the 31st March 2020. Under the EWSS
scheme, employers and new firms in sectors impacted by COVID-19 whose turnover has fallen 30 per cent or more will get a flat-rate subsidy per week based on the number of qualifying employees on the payroll, including seasonal staff and new employees. The Department of Finance notes that this scheme aims to keep the employer and employee relationship and maintain long term employment. The Department highlights that ‘maintaining an employer-worker relationship following a temporary negative shock enables a firm to keep specific human capital within the firm, thereby avoiding the costly processes of separation, re-hiring and training when economic conditions improve. For the worker perspective, it preserves experience and specific human capital and avoids the often very long-term career costs of layoffs’.26

EWSS provides a flat-rate subsidy to qualifying employers, based on the number of qualifying employees on the payroll. For employees paid between €203 and €1,462 gross per week, the subsidy is €203 and for those earning between €151.50 and €202.99 gross per week, the subsidy is €151.50. No subsidy is paid for employees paid less than €151.50 or more than €1,462 gross per week. Newly hired staff, are eligible for this grant.

For a full-time employee earning the National Minimum Wage an eligible employer would receive €203 per week, which amounts to 51 per cent of the employee’s wage. For a part-time national minimum wage employee (20 hours) their gross earnings are €202 per week. The employer would receive €151.50 per week for this employee. This amounts to 75 per cent of the employee’s wage, see figure below. This does not include PRSI payments due from the employer. The rules of EWSS state that 0.5 per cent PRSI is due on wages paid which are eligible for the subsidy payment.

Example of Employment Wage Subsidy Scheme for Employees earning the National Minimum Wage, €12.00 per hour and €15 per hour

26 Department of Finance (2020) ‘July Stimulus’ Policy Initiative: Overview of economic support measures
**Labour Market Developments**

*Employment and Unemployment*

The impact of COVID-19 on the Irish labour market has been sudden and severe. In April 2020, the COVID-19 adjusted unemployment rate reached 28.2 per cent. In the latest monthly unemployment figures for August 2020, the COVID-19 adjusted rates stands as 15.4 per cent. The traditional unemployment rate for August 2020 was 5.8 per cent. By age, the new COVID-19 Adjusted Measure of Unemployment is 37.8 per cent for those aged 15 to 24 years and 12.6 per cent for those aged 25 to 74 years.

The Labour Force Survey results for Q2 2020 reveal some important issues which have emerged since the onset of the pandemic. The standard LFS methodology shows that the employment rate in Q2 2020 was 65.7 per cent. The COVID-19 adjusted employment rate was 52.2 per cent in Q2 2020. The CSO Labour Market insight series shows that the employment rate reduced by 3.4 per cent in the year to Q2 2020. The number of people who stated they were away from work when interviewed increased by 405,700 people or 276.7 per cent over the year. Therefore, the actual hours worked decreased by 16.8 million hours or 22.1 per cent from Q2 2019 to Q2 2020. This is a similar trend to other European countries, as shown in the previous chapter.

The CSO released a second labour market insights analysis which is meant to complement the Earnings, Labour Costs and Employment (EHECS) Q2 release. The EHECS data shows that between quarter 1 and quarter 2 2020, the number of employments fell by 13.5 per cent, with all economic sectors showing decreases. The sectors that showed the largest reduction in employment are the Accommodation and food services sector (-61.2%) and the Arts, entertainment, recreation and the other service activities sector (-39.3%) sector. Employment reduced by 11.3 per cent in the Wholesale and Retail sector.

The impact of COVID-19 on the labour market has varied widely across the EU and euro area. As can be seen from the figure below Spain, Ireland, Hungary, Estonia and Portugal have seen the largest declines in employment growth in quarter 2 2020. However, it should be noted that hours worked have decreased heavily across most of the EU Member States.
COVID-19 Income Support- Pandemic Unemployment Payment

The two main schemes designed to support individuals during the COVID-19 crisis in Ireland are the Pandemic Unemployment Payment (PUP) and the Temporary Wage Subsidy Scheme. As of the 16th August 2020 there were 232,372 individuals in receipt of PUP. This is down from its highest point of 602,107 individuals as of the 3rd May 2020.\(^\text{27}\)

From the current PUP recipients, 51.9 per cent are male and 48 per cent are female. As the 16th August 2020, about 20.5 per cent of PUP recipients were under 25 years of age.\(^\text{28}\) Although the numbers of young people in receipt of PUP have reduced considerably since May, it remains that about 19 per cent of those employed in Q4 2019 aged between 20 and 24 years of age are in receipt of PUP, see figure below.

\(^{27}\) Central Statistics Office (2020) Detailed COVID-19 Income Support and Live Register Tables

\(^{28}\) Central Statistics Office (2020) Detailed COVID-19 Income Support and Live Register Tables
The sector with the largest number of PUP recipients remains the Accommodation and Food sector with 43,899 as of the 16th August 2020, which is down from the peak of 121,465 as of the 3rd May 2020. This represents 24 per cent of the total employment in this sector as of Q4 2019. The sector with the second largest number of PUP recipients is the Wholesale and Retail sector with 25,534 recipients; this represents 8 per cent of total employment in Q4 2019.
The regional spread of PUP recipients has not altered greatly over time. Across all regions the number of recipients has reduced. The Border region still has the largest percentage (12.90 per cent) of those employed in Q4 2019 in receipt of PUP as of 16th August. About 11 per cent of those employed in Q4 2019 in Dublin are now in receipt of PUP.

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of PuP Claimants as of 24th May 2020</th>
<th>Percentage of Employment (Q4 2019) as of 24th May 2020</th>
<th>Number of PuP Claimants as of 16th August 2020</th>
<th>Percentage of Employment (Q4 2019) as of 16th August 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border</td>
<td>33,971</td>
<td>18.47%</td>
<td>23,729</td>
<td>12.90%</td>
</tr>
<tr>
<td>South East</td>
<td>33,797</td>
<td>17.25%</td>
<td>17,100</td>
<td>8.73%</td>
</tr>
<tr>
<td>Mid-West</td>
<td>36,987</td>
<td>17.05%</td>
<td>20,756</td>
<td>9.62%</td>
</tr>
<tr>
<td>West</td>
<td>38,813</td>
<td>17.48%</td>
<td>20,262</td>
<td>9.12%</td>
</tr>
<tr>
<td>Mid-East</td>
<td>58,915</td>
<td>17.05%</td>
<td>34,546</td>
<td>10.00%</td>
</tr>
<tr>
<td>Midland</td>
<td>21,591</td>
<td>16.08%</td>
<td>12,339</td>
<td>9.19%</td>
</tr>
<tr>
<td>South-West</td>
<td>56,665</td>
<td>16.75%</td>
<td>29,368</td>
<td>8.68%</td>
</tr>
<tr>
<td>Dublin</td>
<td>131,744</td>
<td>18.17%</td>
<td>80,519</td>
<td>11.10%</td>
</tr>
</tbody>
</table>

The CSO’s outflow estimate for the PUP scheme as of 9th August 2020 is 441,981 persons; this outflow is equivalent to 62.7 per cent of all those who had received at least one payment from the scheme up to that point.\(^{29}\)

\(^{29}\) Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
Analysing the gender and age profile of those who have left the PUP scheme shows that 64.8 per cent of males had left the scheme, and 60.1 per cent of females. About 65.4 per cent of those aged between 25 and 34 years left the scheme alongside, 64.7 per cent of those aged between 35 and 44 years. The youngest and oldest cohorts were less likely to have left the PUP scheme; with 55.6 per cent of those aged 60 years and 57.9 per cent of those under 20 years leaving the scheme.30

The CSO shows the percentage of PUP recipients who have left the scheme from each sector as the 9th August.31 The figure below shows the outflow as percentage of those who received one payment of PUP, as well as the number of remaining PUP recipients in each sector as of 16th August 2020. This shows that 63.4 per cent of those who worked in the Accommodation and Food sector who received PUP at least once have left the scheme, however 43,899 individuals from this sector remain in receipt of PUP. This compares to the Construction sector for example in which 78 per cent of the people who had previously been in receipt of PUP left the scheme by 9th August 2020 and just 10,186 former construction workers remain in receipt of PUP.

Outflow of Pandemic Unemployment Payment Recipients by Sector as Percentage of Recipients by Sector and Number of Recipients Remaining on the Scheme by Sector

![Graph showing outflow of PUP recipients by sector](image)

Central Statistics Office: Detailed COVID-19 Income Support and Live Register Tables

30 Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
31 Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
Of those who are aged 15 and older, and who reported that they lost employment or have been laid off due to COVID-19 in Q2 2020, 7.5 per cent report that they did not expect to return to the same job once restrictions were eased. Of PUP recipients, 8.3 per cent reported that they did not expect to return to the same job once restrictions were lifted. Only 1.9 per cent of those who were in receipt of TWSS indicated that they did not expect to return to the same job once restrictions were lifted. About 21.1 per cent of all those interviewed reported that they had already returned to the same job compared to approximately 11.3 per cent receiving the PUP and 32.9 per cent of those who were benefitting from TWSS.

Percentage of all Persons aged 15 years and over whose employment was affected by COVID-19 (self-reported) by expectation of return to work and separately PUP and TWSS Recipients

One of the major difficulties since the outbreak of COVID-19 has been to capture the extent of job losses. This is due to the unique public health restrictions which did not allow many people to attend work and thus many of the people who are not currently working do not meet the ILO definition of unemployment. One innovative way of understanding this is to use the Principal Economic Status question of the Labour Force Survey. The CSO note that ‘the Principal Economic Status (PES), is a subjective self-assessment by the respondent of their own economic status rather than the labour market status assigned to an individual from the LFS using the standard ILO methodology’.

---

32 Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
33 Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
The results suggest that the labour market positions of many individuals during this public health crisis do not fit into the official definition of employed, unemployed or inactive. For those in receipt of PUP, TWSS as well as for the population as a whole, the percentage of those who were classified as Unemployed, on the objective (ILO) basis, is lower than the subjective (PES) basis. Those aged 15 years and older were more than twice (6.9%) as likely to self-classify themselves as Unemployed using PES as to be objectively classified as Unemployed on the ILO basis (3%). Those in receipt of the PUP in Q2 2020 were almost four times more likely to self-classify themselves as Unemployed using PES (18.8%) as to be objectively classified as Unemployed on the ILO basis (4.8%). This analysis suggests that the numbers of individuals receiving PUP may be a useful indicator of future unemployment.

**COVID-19 Income Support: Temporary Wage Subsidy Scheme**

The Temporary Wage Subsidy Scheme was introduced in March 2020. Since the beginning of the scheme, over 360,000 employees have received a subsidy. An estimated 365,000 employees are currently being directly supported by the Scheme. Over 69,500 employers have received subsidy payments under TWSS.

Since the public health measures were eased from May onwards, there have been considerable movements of people from different schemes into employment and from one scheme to another. About, 23,200 people have moved from TWSS to PUP.

282,500 people have moved from TWSS to another status other than PUP and of those 241,900 have moved to employment:
- 216,900 with same employer
- 25,500 with new employer.

The sector with the largest number of employees who transferred from TWSS to non-TWSS employment was the Wholesale and Retail sector with 63,200 individuals transferring, followed by manufacturing with 38,200 employees.

Another 1,500 of those who moved from TWSS transferred to Jobseekers Benefit, and 1,200 also moved to Illness Benefit. The remaining 37,400 who have not yet appeared on payroll or on non-PUP schemes, may now be inactive in the labour market.

---

34 Central Statistics Office (2020) Labour Market Insight Series 1 Q2 2020
35 Revenue Commissioners (2020) Wage Subsidy Statistics
36 Revenue Commissioners (2020) Wage Subsidy Statistics
37 Revenue Commissioners (2020) Wage Subsidy Statistics
About 125,100 individuals have transferred from the Pandemic Unemployment Payment to the TWSS with their original employer. The sector with the largest number of people who moved back to their original employer from PUP is the Accommodation and Food sector (48,400) followed by the Wholesale and Retail sector (22,000). Another 175,600 individuals transferred from PUP to non-TWSS employment with a new employer. The Construction, Wholesale and Retail and Accommodation and food sectors had the greatest numbers of employees in this category.

The sectors with the largest number of TWSS recipients remaining are the Accommodation and Food (71,959), Wholesale and Retail (47,435), and Industry (excluding Construction) (27,097). 38

Small and Medium Sized Business Liquidity and Employment

The Central Bank analysis of SMEs liquidity provides useful insights into the employment intensity in the most affected sectors. The Central Bank has identified the most affected sectors by COVID-19. These include wholesale and resale, accommodation and food services, construction and transport and storage. 39 The Central Bank estimates there are another 128,366 SME firms in moderately affected sectors with 350,000 people employed. The Central Bank analysis shows that across firms about 34 per cent of all those employed, work in highly affected sectors. The Central Bank highlights that the state supports announced at the end of March have eased the wage burden on affected SMEs. Therefore, the Central Bank notes that ‘a key factor that will determine the overall demand for liquidity is the ability of firms to reduce non-personnel expenses such as rent, rates, tax, insurance, trade credit, debt repayments and utilities’. 40 The Central Bank’s analysis shows, using CSO enterprise data, that the total costs of firms in the Accommodation and Food sector are low compared to other sectors, especially if personnel costs are removed. Personnel costs make up fewer than 40 per cent of total costs for large and SME firms in the Accommodation and Food sector. This is the highest share of any sector except for the Administration and Support sector. This reinforces the point that the Accommodation and food sector is very labour intensive and thus wage supports for this sector will have a large impact on the ability of firms in this sector to stay liquid during this crisis.

The Central Bank outlines the three main ways of supporting SMEs access to credit during this crisis: credit guarantee schemes, direct lending programs and direct fiscal supports. Clearly, there are delicate trade-offs in the design of these interventions to ensure maximum effect without major costs.

38 Central Statistics Office: Detailed COVID-19 Income Support and Live Register Tables
39 Other sectors include Industry, Information and communication, Real estate activities, Professional, scientific and technical activities, Administrative and support service activities, Other service activities
Regional Employment

The figure below shows that the impact on county labour markets has been quite varied, with for example, over 60 per cent of those employed in Monaghan in receipt of either PUP, TWSS or another Jobseeker’s support. By contrast, the comparative figure is below 30 per cent in Cork, and just above 30 per cent in Dublin. Another important issue is the ratio of PUP claimants to TWSS employees. It appears that the number of recipients of PUP may be indicative of future unemployment. As the lockdown measures were eased the number of PUP claimants fell across most counties. As can be seen in Monaghan, the proportion of PUP recipients is considerably higher than TWSS recipients. The ratio of PUP to TWSS recipients in Monaghan is 1 to 2.29 whereas in every other county besides Dublin and Wicklow, the ratio of TWSS recipients to PUP recipients is higher.

Share of Labour force by County in on Scheme or Live register

Job Loss Risks

The ESRI calculates estimates of employment risk categories based on re-employment probabilities. The ESRI identify high-risk, medium-risk and low-risk, with high-risk sectors

---

having a job loss rate of 60 per cent and above, medium-risk 20–59 per cent and low risk less than 20 per cent. Based on this the five sectors with the highest job loss rates are:

1. other personal service activities, such as hairdressers and beauticians (76.5 per cent);
2. accommodation (75.2 per cent);
3. real estate activities (74.8 per cent);
4. food and beverage service activities (73 per cent);
5. specialised construction activities, such as demolition and site preparation, electrical, plumbing and other construction installation activities (68 per cent).

Two travel related sectors are also included in the high-risk category. It should be noted that the job loss rate is calculated by dividing the number of PUP claimants by the number of people employed in that sector.

Of these high-risk sectors, food and beverages (5 per cent), the specialised construction sector (3.2 per cent), and accommodation (2.3 per cent) have high shares of employment. In total, high-risk sectors accounted for 13.6 per cent of total employment prior to the pandemic and make up 37.5 per cent of PUP claimants that could be classified according to economic sector. Three of the most at risk sectors have large numbers of minimum wage workers employed, as illustrated in the table below.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of employees earning NMW or less Q4 19</th>
<th>Proportion of employees within each sector earning NMW or less Q4 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation &amp; Food</td>
<td>39,800</td>
<td>24.5%</td>
</tr>
<tr>
<td>Wholesale and Retail</td>
<td>35,200</td>
<td>13.7%</td>
</tr>
<tr>
<td>Administration and Support Services</td>
<td>[5,300]</td>
<td>[6.3%]</td>
</tr>
<tr>
<td>Construction</td>
<td>[6,100]</td>
<td>[6.4%]</td>
</tr>
<tr>
<td>Industry</td>
<td>[6,100]</td>
<td>[2.4%]</td>
</tr>
<tr>
<td>Human Health and Social Work</td>
<td>[6,500]</td>
<td>3.2%</td>
</tr>
<tr>
<td>Other NACE Sectors</td>
<td>10,600</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

Labour Force Survey (2020)

The ESRI show that those aged under 25 have the highest job loss rate (46.7%) but the lowest share of total employment in the economy (11%). The age category with the highest

---

43 Ibid
employment share is those aged 35–44, and its job loss rate is 22.6 per cent. Those aged 55 and above have the lowest job loss rate (18.6%) and a low share of employment (18.4%).

The border region, which includes counties Cavan, Donegal, Leitrim, Monaghan and Sligo, has the highest job loss rate (29.1%), but a low share of total employment (7.5%). Dublin has the lowest job loss rate (23.9%) and the highest share of employment in the economy (30.5%).

The ESRI argues that there are important factors which may indicate whether an individual will become long term unemployed: was their previous employment in a high risk sector; do they live in a rural area; were they previously long term unemployed, and are they over 55 years of age.

**Hiring**

The Department of Finance show that the hiring rate in Ireland has reduced considerably since the outbreak of COVID-19 pandemic. The LinkedIn Hiring Rate (percentage of LinkedIn members who added a new employer to their profile, divided by the total number of LinkedIn members) started to fall from the middle of March; and had fallen by 45 per cent year-on-year by the end of March. This trend has improved in recent weeks, and is only a fall of 4 per cent year-on-year as of early August.

The job vacancy rate at the end of quarter 2 2020 was 0.7 per cent, down from 1.1 per cent at the end of quarter 2 2019. The vacancy rate is calculated by the number of vacancies reported divided by the number of people employed in the sector. The highest vacancy rates are in the public administration and defence sector (2.1%), and education (1.2%). The sectors with the lowest vacancy rates are Construction (0.1), Wholesale and Retail (0.2) and Transportation and Storage (0.2). The vacancy rate in the Accommodation and Food sector was 0.5 per cent in quarter 2.

**Forecasts and Projections**

Under the baseline scenario, the Central Bank forecasts unemployment to be 9.2 per cent in 2020 and 7.3 per cent in 2021. In the severe scenario, unemployment is forecast to be 12.4 per cent in 2020 and 9.4 per cent in 2021. The Central Bank notes, that COVID-19 is likely to reduce the size of the labour force due to emigration, as well as lowering the participation rate. The size of the labour force is projected to decline by 2 per cent in 2020, followed by an increase of 1.3 per cent in 2021.

---

44 Department of Finance (2020) Emerging economic developments - real-time economic domestic indicators 7th September 2020
46 Central Bank of Ireland (2020) Quarterly Bulletin No.3, 2020
The OECD forecast for the unemployment rate for Ireland under the double-hit scenario is 12.3 per cent in 2020 and 12.9 per cent in 2021. Under the single-hit scenario the OECD forecast unemployment to be 10.8 per cent in 2020 and 8.5 per cent in 2021.

The European Commission’s latest employment forecast estimates that unemployment in Ireland will reach 7.4 per cent in 2020 and 7 per cent in 2021. It must be noted this forecast is from Spring 2020 and thus may not reflect the developments since then. Similarly, the most recent economic forecast and unemployment estimate from the Department of Finance was published in April 2020.

### Employment Forecasts: 2020 and 2021

<table>
<thead>
<tr>
<th>Institution</th>
<th>Total Employment</th>
<th>Unemployment Rate</th>
<th>% Change</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank (Quarterly Bulletin, July 2020)</td>
<td>2.9</td>
<td>-11.9</td>
<td>7.6</td>
<td>5</td>
<td>14.5</td>
<td>9.2</td>
</tr>
<tr>
<td>ESRI (Quarterly Economic Commentary, Summer 2020)</td>
<td>2.5</td>
<td>-12</td>
<td>5.2</td>
<td>17.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Finance (Stability Update, 2020)</td>
<td>2.9</td>
<td>-9.3</td>
<td>5.5</td>
<td>13.9</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td>European Commission Spring Forecast 2020</td>
<td>2.9</td>
<td>-2.5</td>
<td>1.3</td>
<td>5.0</td>
<td>7.4</td>
<td>7.0</td>
</tr>
<tr>
<td>The OECD Economic Outlook June 2020</td>
<td>-</td>
<td>-</td>
<td>4.9</td>
<td>12.3 (D)</td>
<td>12.9 (D)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10.8 (S)</td>
<td>8.5 (S)</td>
<td></td>
</tr>
</tbody>
</table>

Various Sources

### Earnings

The quarter 2 Preliminary Estimates for Earnings and Labour Costs have been released by the CSO, and provide an initial picture of how COVID-19 has impacted earnings and employment across different sectors of the economy. The CSO highlights that changes in earnings between quarter 1 and quarter 2 of 2020 may be due to large compositional changes in the labour market during this period. For example, changes in average weekly earnings in any sector may be impacted to some degree by those employments that have left the sector, having lower/higher average earnings than those employments that remained in the sector in both quarters.

---

Average hourly earnings increased by 7.9 per cent between quarter 2 2019 and quarter 2 2020, rising from €23.69 to €25.57. The average hourly paid hours decreased by 1.8 per cent between quarter 2 2019 and quarter 2 2020 from 36.6 to 32.

Average weekly earnings increased by 2.9 per cent across all employments, between quarter 1 and quarter 2 2020 (this includes TWSS payments). Between quarter 1 and quarter 2, six economic sectors recorded a fall in average weekly earnings, while seven sectors recorded increases.

The two sectors with the largest increases in average weekly earnings between quarter 1 and quarter 2 were the Arts, entertainment, and recreation sector (14.1 per cent) and Accommodation and Food sector (11.6 per cent). The largest quarterly percentage decreases in average weekly pay were seen in the Construction sector (-6.5%) and the Financial, insurance and real estate sector (-6.3%). The table below shows the change in weekly earnings, hourly earnings and paid hours between Q2 2019 and Q2 2020. It shows that private sector hourly earnings increased by 0.9 per cent between quarter 1 and quarter 2. In small firms weekly and hourly earnings increased between quarter 1 and 2 but this again may be due to compositional changes in these firms.

---

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average Weekly Earnings</th>
<th>Average Hourly Earnings</th>
<th>Average Paid Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q2 19</td>
<td>Q1 20</td>
<td>Q2 20</td>
</tr>
<tr>
<td>Industry</td>
<td>898.55</td>
<td>954.99</td>
<td>911.45</td>
</tr>
<tr>
<td>Construction</td>
<td>789.40</td>
<td>834.22</td>
<td>760.28</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>593.43</td>
<td>619.46</td>
<td>593.82</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>846.43</td>
<td>823.02</td>
<td>850.85</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>365.97</td>
<td>360.08</td>
<td>405.20</td>
</tr>
<tr>
<td>Information and communication</td>
<td>1,198.52</td>
<td>1,323.93</td>
<td>1,251.03</td>
</tr>
<tr>
<td>Financial, insurance and real estate</td>
<td>1,151.37</td>
<td>1,281.38</td>
<td>1,168.41</td>
</tr>
<tr>
<td>Professional, scientific, technical</td>
<td>952.94</td>
<td>965.45</td>
<td>917.77</td>
</tr>
<tr>
<td>Administrative and support services</td>
<td>618.19</td>
<td>642.86</td>
<td>621.13</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>972.60</td>
<td>968.11</td>
<td>975.03</td>
</tr>
<tr>
<td>Education</td>
<td>852.77</td>
<td>865.48</td>
<td>884.68</td>
</tr>
<tr>
<td>Human health and social work</td>
<td>749.62</td>
<td>762.75</td>
<td>763.52</td>
</tr>
<tr>
<td>Arts, entertainment etc</td>
<td>498.42</td>
<td>542.84</td>
<td>561.56</td>
</tr>
<tr>
<td>All Sectors</td>
<td>771.63</td>
<td>800.31</td>
<td>819.13</td>
</tr>
<tr>
<td><strong>Public/Private Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>711.04</td>
<td>745.97</td>
<td>756.39</td>
</tr>
<tr>
<td>Private Sector</td>
<td>980.01</td>
<td>989.96</td>
<td>1,002.67</td>
</tr>
<tr>
<td><strong>Size of Firm</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 50 employees</td>
<td>610.80</td>
<td>623.59</td>
<td>642.87</td>
</tr>
<tr>
<td>50-250 employees</td>
<td>715.70</td>
<td>756.33</td>
<td>745.95</td>
</tr>
<tr>
<td>Greater than 250 employees</td>
<td>903.40</td>
<td>941.14</td>
<td>940.71</td>
</tr>
</tbody>
</table>

The compositional influence on earnings data can be seen in the graph below in which the sectors with the largest increases in weekly earnings between quarter 1 and quarter 2 are those that experienced the heaviest declines in employment. The sectors most relevant when analysing the minimum wage are the Accommodation and Food sector (I), Wholesale and Retail sector (G) Administration and Support (N) and Art and Entertainment and other services (R-S).

**Percentage Change in Employment and Earnings by Sector Q1-Q2 2020**

![Graph showing percentage change in employment and earnings by sector Q1-Q2 2020]


The proportion of employments supported by the TWSS in Q2 2020 varied across the sectors with the Accommodation & food services sector (61.0%) and the Construction sector (54.2%) having the highest proportions and the Public Administration and Defence sector (0.3%) having the lowest proportion.

The Temporary Wage Subsidy Scheme payments accounted for 8.5 per cent of total earnings across all sectors in quarter 2 2020. This varied strongly by sector; in the Accommodation & food services sector TWSS payments represented 51.8 per cent of total earnings, while in the Construction sector and the Arts, entertainment, recreation and other service activities sector the proportions were 24.2 per cent and 24.1 per cent respectively.

---


---

52
**Conclusions**

It is clear that the Irish economy has experienced an unprecedented major shock since March 2020. GNP and GDP have contracted since quarter 1 and private consumption declined strongly between March and May. There is some evidence of a slight resurgence in retail trade and card transactions in July and August, but it remains modest at this point. HICP inflation decreased by 0.6 per cent compared to 2019. The forecasts for the Irish economy are highly uncertain and depend heavily on the evolution of the COVID-19 crisis and the outcome of the Brexit negotiations. The July Stimulus package provided a large stimulus to the Irish economy which aims to support businesses, livelihoods and incomes over the coming months and years.

The impact of COVID-19 on the Irish labour market is unprecedented. Within a few weeks of the public health restrictions being introduced nearly half the workforce were in receipt of state income supports through the Temporary Wage Subsidy scheme and the Pandemic Unemployment Payment. In May 2020 the COVID-19 adjusted unemployment rate was 28.5 per cent, but this has reduced to 15.4 per cent in August 2020. Although it does appear that many people have returned to employment over the last few months the Irish labour market faces considerable challenges. Job losses appear to be more likely in services sectors such as the Accommodation and Food, Arts, Wholesale and Retail, administrative support,
in small businesses, in rural areas such as the Border region and amongst younger people. It appears that receipt of the Pandemic Unemployment Payment may be indicative of future unemployment; the CSO found that 8.3 per cent of PUP recipients reported that they did not expect to return to the same job once restrictions were lifted. Forecasts predict an unemployment rate of between 7 and 12.9 per cent in 2021. It is difficult to estimate the impact of this crisis on earnings due to the major compositional changes occurring in the labour market, as well as the important role of the temporary wage subsidy scheme in protecting incomes and supporting employers to maintain wages. It does appear that many firms, especially in low paying sectors, are availing of the wage subsidy scheme to support them to pay the wages of their staff.
Chapter 2 Minimum Wage Developments

Ireland
Share of Minimum Wage Earners
The most recent data on the number of individuals earning the minimum wage or less comes from the Labour Force Survey Q4 2019. This showed that 6.4 per cent (122,800) of employees reported earning the minimum wage or less. The share of the minimum wage employees between Q2 2016 and Q4 2019 is shown in the figure below.

Share of employees reporting earning the National Minimum Wage or less between Q2 2016 and Q4 2019

In 2019, the gender breakdown of National Minimum Wage (NMW) employees remained similar to previous years. The table below shows those, on average females (55%) were more likely to report earning the NMW or less than Males (45%).

<table>
<thead>
<tr>
<th>Gender</th>
<th>Average Number 2019</th>
<th>Average Proportion 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>60,500</td>
<td>45%</td>
</tr>
<tr>
<td>Female</td>
<td>74,500</td>
<td>55%</td>
</tr>
</tbody>
</table>

The table below presents the sectoral breakdown of NMW employees in Q4 2019. The sectors in the table below have sufficient numbers to enable the CSO to report on them separately. It is not possible to report separately on the number of NMW workers in the Agriculture, Forestry and Fishing sector, because this data is not collected by the CSO.
The sectors with the greatest proportion and number of minimum wage employees are the Accommodation and Food and Wholesale and Retail sectors. In Q4 2019 there were 39,800 employees in the Accommodation and Food sector who reported earning the NMW or less. This represents 24.5% of employees within this sector. The sector with the second largest proportion (13.7%) of employees earning the NMW or less is the Wholesale and Retail sector with 35,200 NMW workers in this sector. Other sectors with significant numbers of NMW employees are the Construction and Human Health and Social Work sectors.

The Labour Force Survey shows that 58.7% of all those reported earning the NMW or less are employed in the Accommodation and Food services sector or the Wholesale and Retail sector. This demonstrates the concentration of NMW workers in specific sectors.

Since 2018, the proportion of employees reporting earning the NMW or less reduced in every region of the State. The region with highest average proportion of NMW employees in 2019 was the Border region (11.6%) followed by the South-east (9.7%). The Mid East and Dublin regions have lower proportions of NMW employees. Dublin has the lowest average proportion (4.9%) of NMW employees in State, but also has the highest number of NMW employees in the State.
The graph below shows the increases in the rate of the national minimum wage between 2015 and 2020 as well as the percentage change each year.

**Development of Minimum Wage-inflation**

![Graph showing the increases in the rate of the national minimum wage between 2015 and 2020.](image)

**Authors Calculations**

The figure below shows how the percentage increase in the minimum wage compares to percentage changes in inflation and growth in average hourly earnings between 2014 and 2019. Up to date data on the growth in median hourly earnings is not available. The 2016 increase in the minimum wage was the first increase since 2007.

**Percentage Change in Inflation, the National Minimum Wage and Average Hourly Earnings 2014-2019**

![Graph showing the percentage change in inflation, the national minimum wage, and average hourly earnings.](image)

Central Statistics Office, Consumer Price Index, Earnings and Labour Costs Quarterly
In all EU countries that have statutory minimum wages, gross minimum wages increased for 2020 and in some cases quite substantially such as Poland (17%) and Slovakia (12%). For countries that do not have statutory minimum wages- Austria, Denmark, Finland, Italy, Sweden and Norway – minimum wages are implemented via collective agreements. Despite upward trends in national minimum wages in general across the EU, most statutory minimum wages are below 60 per cent or even 50 per cent in some cases of the median wages. The concentration of minimum wage workers in certain sectors can be seen also on an EU level, across the EU about 16 per cent of all minimum wage workers are employed in the Accommodation and Food sector.

Eurofound notes that the European Commission is considering a fair minimum wage proposal which is analysing the adequacy of minimum wages through various metrics outlined below. It is difficult to analyse Ireland against all these metrics due to a lack of available data. Where data for Ireland is available, these metrics are analysed.

1. The minimum wage relative to median hourly earnings i.e. the bite of the minimum wage

In relation to the Irish NMW relative to median earnings, OECD data shows that in 2018 it was 48 per cent. A measure of adequacy in the literature and across international bodies is how far the minimum wage is from 60 per cent of median earnings. The figure below sets out a comparison of minimum wages relative to median earnings for various countries with similar nominal minimum wages as Ireland.

National Minimum Wages Relative to Median Earnings-full time employees

OECD database: accessed 4th June

It is important to highlight that the OECD data may underestimate the bite of the Irish national minimum wage because it is based on full time employment, and the evidence indicates that 80 per cent of minimum wage workers are in part-time employment. In this sense it is more appropriate to use median hourly earnings as the basis for calculating the bite of the Irish minimum wage.

2. The take-home pay or what impact taxes and social security contributions have: The Low Pay Commission requested the OECD to analyse the interaction between minimum wage and the Irish tax and benefit system.\(^{54}\) This report found that the level of tax imposed on a minimum wage employee in Ireland is low compared to other OECD countries. Moreover, given comparatively generous social-benefit provisions for low-income groups, even short working hours at the minimum wage can be enough to avoid income poverty. In some household circumstances, families can escape income poverty also when out of work, although poverty does remain a risk for others. However, interactions between the minimum wage and tax and benefit policies are complex and require careful consideration. In particular, in Ireland lone parents relying on means-tested benefits while in work would benefit from tighter co-ordination between the minimum-wage policy and the tax and benefit system. The financial incentives to move from part-time to full-time minimum-wage employment are comparatively weak for lone parents. In particular, the combined increase in tax burdens and loss in social benefits is significantly higher than in most OECD countries. By contrast, incentives to start employment are stronger for lone parents than in the OECD on average. However, these results do not account for the costs of childcare, which are high in Ireland and can make low-paid work “unaffordable” to low-paid parents. The high cost of housing in Ireland is another relevant factor.

3. Whether the take-home pay of minimum wage earners is sufficient to provide for a decent living. Two possibilities are mentioned:

   a. A needs-based approach as an absolute measure, which determines a basket of goods and service that workers and their families should be able to consume. In some countries – notably the UK and Ireland – this has been labelled as ‘living wage.’

   b. A relative measure of in-work poverty, which compares the net earnings of minimum wage workers to 60% of median household income.

The rate of in-work poverty for full-time employees is relatively low in Ireland at 2.9 per cent but it rises 10.2 per cent for part-time employees. This is below the EU average of 15.6 per cent. However, the in-work poverty rate for certain groups such as lone parents is 18.5 per

The latest OECD data reports that Ireland is the Member State with the third highest proportion of full-time workers in low pay. Over time the proportion of full-time low paid workers has increased from approximately 18 per cent of employees in 2000 to 23 per cent on the latest figures. The rate peaked in 2014 (25.6%) and there are pronounced gender differences in the experience of low pay.

4. Price levels and therefore differences in purchasing power across countries: Purchasing power standards takes into consideration the prices in different states and thus how much a nominal amount is worth in terms of what goods and services can be bought in each state. Eurofound shows that Ireland is one of the EU countries, where taking account of purchasing power standards, changes the position of Ireland compared to other EU member states. For example, when considering Ireland and Spain, nominal rates are 58 per cent higher in Ireland than in Spain, however, after taking local price levels into consideration, the difference is drastically reduced to only 14 per cent.

Figure below shows that in nominal terms Ireland has the 4th highest hourly minimum wage rate of those countries that have statutory minimum wages.

**Figure Hourly minimum wages, selected EU Member States, 2020**

<table>
<thead>
<tr>
<th>Country</th>
<th>Statutory Hourly Minimum Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>€12.08</td>
</tr>
<tr>
<td>Netherlands</td>
<td>€10.60</td>
</tr>
<tr>
<td>France</td>
<td>€10.15</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td><strong>€10.10</strong></td>
</tr>
<tr>
<td>Belgium</td>
<td>€9.67</td>
</tr>
<tr>
<td>Germany</td>
<td>€9.35</td>
</tr>
<tr>
<td>Spain</td>
<td>€6.43</td>
</tr>
<tr>
<td>Slovenia</td>
<td>€5.31</td>
</tr>
<tr>
<td>Malta</td>
<td>€4.42</td>
</tr>
<tr>
<td>Greece</td>
<td>€4.27</td>
</tr>
<tr>
<td>Portugal</td>
<td>€4.17</td>
</tr>
<tr>
<td>Poland</td>
<td>€3.99</td>
</tr>
<tr>
<td>Lithuania</td>
<td>€3.72</td>
</tr>
<tr>
<td>Estonia</td>
<td>€3.48</td>
</tr>
<tr>
<td>Czechia</td>
<td>€3.44</td>
</tr>
<tr>
<td>Slovakia</td>
<td>€3.33</td>
</tr>
<tr>
<td>Croatia</td>
<td>€3.12</td>
</tr>
<tr>
<td>Hungary</td>
<td>€2.80</td>
</tr>
<tr>
<td>Romania</td>
<td>€2.78</td>
</tr>
<tr>
<td>Latvia</td>
<td>€2.46</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>€1.87</td>
</tr>
</tbody>
</table>

Eurofound: Review of Minimum Wages

---

55 Eurostat (2020) (ilc_iw07), (ilc_iw02)
56 OECD (2020), Wage levels (indicator)
57 Eurofound (2020) Review of Minimum Wages
Of the EU member states that have a statutory minimum wage Ireland has the 7th highest in purchasing power standards.

Minimum Wages Expressed in Purchasing Power Standards as of July 2020

Eurostat: Minimum Wages

5. Some countries have exceptions for certain groups of workers, which might not be covered by minimum wages or which have a lower rate than the ‘full-adult’ rate. Such lower rates and their extent will need to be considered.

Ireland has sub-minima rates in place for younger employees. In 2019, the sub minima rates were reformed and the trainee rates were abolished. Currently, those aged 19 earn 90 per cent of the national minimum wage, those aged 18 earn 80 per cent of the national minimum wage and those aged under-18 earn 70 per cent of the national minimum wage. Other than these rates there are two other groups that are not entitled to earn the national minimum wage; those employed by a close relative and those who are in a statutory apprenticeship.

In conclusion, the Irish minimum wage performs relatively well in nominal and purchasing power terms compared to other EU Members States. Furthermore, the tax burden on low wage earners is low and the coverage of the minimum wage is high (i.e. few exceptions). How the minimum wage relates to median earnings is difficult to assess due to a lack of up to date data on hourly median earnings. The levels of in-work poverty are comparatively low but the number of low paid workers remains high in Ireland.
International Overview of National Minimum Wage Developments since the outbreak of COVID-19

Various countries have also been confronted with setting the minimum wage since the outbreak of the pandemic.

The German social partners made their unanimous recommendation on the 30th June 2020 for the next two years. They agreed that in January 2021 the minimum wage would increase from €9.35 to €9.50 (1.6 per cent increase), in July 2021 it would increase to €9.60 per hour (1.1 per cent increase). Both these increases match inflation. In January 2022 the minimum wage will increase to €9.82 (2.3 per cent increase) and in July 2022 the minimum wage will increase to €10.45 per hour (6.4 per cent increase). They based their recommendation on the economic forecast of economic experts and the return of pre-pandemic GDP growth by 2022. Also, these increases keep the link with collectively agreed wages and do not increase above the collectively agreed wages at the sectoral level until 2022. This provides employees and social partners the opportunity to plan.

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Percentage Increase</th>
<th>Annual Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current rate</td>
<td>€9.35</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>January 2021</td>
<td>€9.50</td>
<td>1.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>July 2021</td>
<td>€9.60</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>January 2022</td>
<td>€9.82</td>
<td>2.3%</td>
<td>8.9%</td>
</tr>
<tr>
<td>July 2022</td>
<td>€10.45</td>
<td>4.4%</td>
<td></td>
</tr>
</tbody>
</table>

The United Kingdom went ahead with the proposed increase of between 4.6% and 6.5% in the minimum wage in April 2020. The UK Low Pay Commission will decide their recommended rate for 2021 over the coming weeks.

The French system for setting the minimum wage relies on the guidance of an expert committee and a formula which includes inflation and an index of average wage growth. Due to the severity of the lockdowns imposed in many countries, the basket of goods and the locations where people purchase goods changed considerably. Therefore, it is difficult to derive an appropriate measure of inflation for this formula. The Committee are currently in discussions with office of statistics in order to recommend a rate in late November 2020, for implementation in January 2021.

Australia’s Fair Work Commission published their recommendation in June 2020 and recommended at 1.75 per cent increase. They also recommended that the implementation date should vary by sector, given the uneven impact of the pandemic crisis across sectors. For sectors less affected by the pandemic e.g. social, health, childcare sectors the increase will occur on 1st July 2020. Industries affected by the pandemic, but not amongst the worst
affected, the minimum wage will increase on 1st November 2020. In sectors that are worst affected by the COVID-19 pandemic such as accommodation and food, arts and recreation, aviation, retail trade and tourism the minimum wage will increase on the 1st February 2021.

Japan
The Japanese Government announced at the end of July 2020 that there would be no minimum wage uprating this year (the uprating usually takes place on 1 August).

South Korea
In mid-July 2020, the South Korean Minimum Wage Commission recommended an increase of 1.5%, for implementation next January.

Netherlands
The Netherlands have a rules-based indexation method for setting minimum wage increases. There were some calls for no increase this year but the normal indexed increase went through. On 1st July, 2020 the National Minimum Wage increased by 1.6% to €1,680, which represents an hourly rate of €10.60. It is expected that in January 2021, minimum wages will still increase, but at a lower rate, because negotiated wages are likely to be increased at a slower rate than other years.

New Zealand
The planned increase of the minimum wage on the 1st April 2020 from $17.70 to $18.90 went ahead this year, which represents an increase of 6.78%. The review for next year has begun, although the Government has committed to increasing the minimum wage to $20 in April 2021, there is scope to choose a different rate for next year.

Conclusions
There is radical uncertainty on the economic and social trajectory across most countries. The globe is in the grip of a global pandemic that we do not fully understand and must make immediate choices that balance the demands of our health against the needs of our economy. Our understanding of the present is incomplete and our knowledge of the future is even more fragmentary, in a world of uncertain futures and unpredictable consequences. Furthermore, much of the evidence that is relied upon to make informed decisions is not yet capturing the true extent of the COVID-19 crisis. The global and domestic economy has been severely impacted by this crisis. A major feature of this period has been considerable State intervention both at the EU and domestic level. This may have

58 Radical Uncertainty: Decision-making for an unknowable future; Kay J and King, M, 2020
important implications for how the economy recovers over the coming months and years, and the extent of job losses and the extent of long term unemployment that may develop. In relation to minimum wages, a challenge which various countries have confronted is how to balance supporting and rewarding the lowest paid workers, many of whom were on the front-line throughout the pandemic crisis, and stimulating consumption with supporting businesses to stay liquid during this period of downturn. The Central Bank state ‘as an open economy highly interconnected with the global system, Ireland benefits from the positive effects of monetary and fiscal policy measures implemented abroad. Our preliminary assessment of the combined effects of domestic and international policy supports indicates that the interventions will help to meaningfully reduce the scale of the output loss in Ireland from the pandemic’. 

---

59 Central Bank of Ireland (2020) Quarterly Bulletin No.3 2020
Appendix 1 International Developments

Economic Developments

Impact of COVID-19 on the Global Economy

The European Central Bank (ECB) highlights that the external economic environment remains highly uncertain, and that the increases in COVID-19 cases across various countries since their lockdown measures were eased exacerbates the uncertainty of a global economic recovery. The ECB notes that the latest data and survey results suggest that economic activity improved significantly in May and June, from its low point in April. However, economic indicators remain well below the levels recorded before the pandemic. The recovery is in its early stages and remains uneven across sectors and states. Consumer demand in countries that more successfully suppressed the virus, such as China and South Korea, has remained weak and well below pre-pandemic levels.\footnote{European Central Bank, Economic Bulletin, July 2020}

In the second quarter of 2020, seasonally adjusted GDP decreased by 11.8 per cent in the euro area and by 11.4 per cent in the EU compared with the previous quarter.\footnote{Eurostat (2020) GDP and Employment Estimate} Compared to quarter 2 2019, seasonally adjusted GDP decreased by 14.7 per cent in the euro area and by 13.9 per cent in the EU in the second quarter of 2020. Personal consumption expenditure decreased by 12.4 per cent in the euro area and by 12.0 per cent in the EU (after -4.5% in the euro area and -4.2% in the EU in the previous quarter).

The OECD estimates that GDP contracted by 9.8 per cent across the OECD in Q2 2020.\footnote{OECD GDP Growth Press Release, September 2020} This is the largest drop ever recorded by the OECD. Among the major seven economies of the OECD, the United Kingdom saw the steepest decline in GDP (20.4 per cent). Large falls in growth were also seen in Italy (-12.4 per cent), Canada (-12 per cent) and Germany (-9.7 per cent).\footnote{OECD GDP Growth Press Release, September 2020} The OECD notes that small and medium sized firms in the service sector, across most countries have been particularly impacted by the shutdown measures and generally have limited financial resources to buffer the shock of COVID-19. The Purchasing Managers Index shows that although in May activity picked up slightly, business activity remains exceptionally weak, particularly in the service sectors.

The Department of Finance’s release of real time economic indicators show that globally the composite Purchasing Managers Indicator rose to 54.8 (+6.3) in July, from an all-time low in April 2020\footnote{Department Finance (2020) Real time Economic Indicators, 30th July 2020}. Euro area Services PMI rose to 55.1 (+6.8; a 25-month high) in July; manufacturing PMI increased to 54.0 (+5.1; a 23-month high). The composite PMI for China
increased to 55.7 (+1.2) in June which signals a sharp and fast increase in overall Chinese business activity.

**Purchasing Managers Index China, US, UK, Euro Area and Germany**

The European Commission’s latest economic statements suggests that the euro area economy is forecast to contract by about 8.75 per cent in 2020 before recovering at an annual growth rate of 6 per cent next year. A number of indicators suggest that the euro area economy operated between 25 per cent and 30 per cent below its capacity during the major public health restrictions. In the euro area, private consumption decreased by 4.7 per cent from quarter 1 to quarter 2, with the quarter 2 figures considerably lower at 12 per cent. A major decline in GDP was forecast for the second quarter of 2020 with the Commission estimating a 13.5 per cent quarter on quarter reduction. The actual reduction was 12 per cent.

The Commission shows that there is large variation in the level of output loss across EU states. Among the largest euro area countries, above-average GDP contractions were reported in France, Italy and Spain (at around -5% per cent) whereas Germany (-2.2 per cent) and the Netherlands (-1.5 per cent) saw smaller hits. The differences can be attributed in the main to the differing timings and severity of lockdowns. Another important factor is the economic structure of different member states, particularly how many people

---

are employed in highly exposed sectors such as tourism and service sectors that are reliant on person-to-person contact.

The European Central Bank reviews the economic developments in three major global economies; the United States, China and the United Kingdom.\(^6^8\) A brief summary of this analysis is outlined below.

In the United States various indicators have shown a pick-up in economic activity since May 2020, with retail and food sales rising sharply. Industrial production also increased in May and in June. Employment increased by 7.5 million jobs in June. However, the unemployment rate remains very high at 11.1 per cent and these figures do not reflect the local lockdowns reintroduced in some states since June 2020.

The recovery appears to be continuing in China, with industrial production growth turning positive in April, and in May was 4.4 per cent higher year-on-year. However, consumer sentiment and retail sales remain weak and considerably lower than last year. The PMI data shows similar developments with manufacture growing relatively strongly, but new orders for exports remain low and this is suppressing higher growth.

In the United Kingdom, real GDP increased by 1.8 per cent month-on-month in May but fell by 19.1 per cent on a three-month rolling average basis as a result of strict lockdowns. The composite PMI output for the UK remained below 50 throughout the second quarter.

**Sectoral Impact**

Since the lockdown measures were introduced across most countries, there is widespread evidence emerging from surveys, that small and medium sized businesses are being heavily impacted by COVID-19, and many could potentially close over the coming months. The OECD finds that there is an above average representation of SMEs in sectors that are heavily impacted by the crisis, which include construction, transport, manufacturing, wholesale and retail, accommodation and food, air transport, real estate and personal services.\(^6^9\) The OECD estimates that SMEs account for over 50 per cent of employment across OECD countries. In the hardest hit sectors the share of employment in SMEs is 75 per cent on average across OECD countries, and nearly 90 per cent in Greece and Italy. The implications of these potential job losses in SMEs are discussed further in the labour market section below.

**Trade, Retail Trade and Inflation**

World trade has contracted sharply over the previous months and continues to be highly depressed. The OECD shows that air traffic has been particularly impacted with

---

\(^{68}\) European Central Bank, *Economic Bulletin*, July 2020

international passenger travel 98 per cent lower than the previous year and international freight traffic is 30 per cent lower than the previous year.\textsuperscript{70} The World Trade Organisation reported a decline in the volume of global merchandise trade in Q1 2020 of 3 per cent year-on-year, and expects a decline in Q2 of 18.5 per cent. The World Trade Organisation outlined two scenarios for their outlook on international trade for 2020. The optimistic scenario would result in a 13 per cent decline in the volume of international trade. The pessimistic scenario forecasts global trade to drop by 32 per cent over 2020.\textsuperscript{71}

Trade in services has been equally affected and is set to take even longer to recover, especially in the tourism and hospitality sectors. Overall, world imports of goods and services (excluding the EU) are projected to fall sharply by over 11.5 per cent in 2020 followed by an incomplete rebound of around 6 per cent in 2021.\textsuperscript{72}

Retail spending in April fell by 11.7 per cent in the euro area, as a result of the strict restrictions in place during the month. The euro area average, however, hides significant differences among countries. Sales in April were about 30 per cent below their February readings in France, Italy and Spain, compared to about 10 per cent below in Germany.\textsuperscript{73}

In the euro area, retail trade rose by 20.6 per cent in May and rose by 5.3 in June.\textsuperscript{74} It is concerning that in July retail trade declined again by 1.3 per cent in the euro area. Retail trade remains about 50 per cent below the average monthly level in 2019. Annual consumer price inflation in OECD countries declined to 0.7 per cent in May, driven by a fast decline in energy prices, while food price inflation increased slightly. Inflation excluding food and energy remained stable at 1.6 per cent. Eurostat’s flash estimate shows that HICP inflation increased to 0.2 per cent in August down from 0.4 per cent in July 2020.\textsuperscript{75} Food and services are estimated to remain growing in price, but major drops in energy prices continue to pull down overall inflation. All items excluding energy have inflation of 0.7 per cent in August 2020.

\textit{Exchange Rates}

The nominal effective exchange rate of the euro, as measured against the currencies of 42 of the euro area’s most important trading partners, appreciated by 1 per cent. This largely reflected a strengthening of the euro in particular against the currencies of emerging economies that have been more heavily affected by the economic and financial market impact of the COVID-19 pandemic.

\textsuperscript{70} OECD (2020) \textit{Tourism Policy Responses to the coronavirus (COVID-19)}
\textsuperscript{71} World Trade Organisation Press Release 22nd June 2020
\textsuperscript{72} European Central Bank, \textit{Economic Bulletin}, July 2020
\textsuperscript{73} European Central Bank, \textit{Economic Bulletin}, July 2020
\textsuperscript{74} Eurostat Retail Trade, September 2020
\textsuperscript{75} Eurostat Flash HICP Inflation Estimate, August 2020
Based on the latest developments, it can be seen that the euro relative to the sterling exchange rate has appreciated by 1.12 per cent since September 2019. The euro has gained approximately 6.36 per cent against the dollar.

**Table 2 Euro to Dollar and Sterling Exchange Rates**

<table>
<thead>
<tr>
<th>Institution</th>
<th>€ vs. US $</th>
<th>€ vs. ST £</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/09/19</td>
<td>1.10</td>
<td>0.89</td>
</tr>
<tr>
<td>11/09/20</td>
<td>1.184</td>
<td>0.922</td>
</tr>
<tr>
<td>Percentage Change</td>
<td>+7.27%</td>
<td>+3.6%</td>
</tr>
</tbody>
</table>

*Source: ECB Exchange Rates*

**Economic Sentiment**

The European Commission’s Economic Sentiment Indicator for the euro area reached an all-time low of 64.8 in April but has moved up in May and reached 75.7 in June. However, the level in February was still considerably higher at 103.4. It appears that the services sector has been hit the hardest. The Commission’s services confidence indicator declined significantly more than industry confidence in April and continued declining in May, but has rebounded quite well in June. By contrast, industrial confidence has showed stronger signs of improvement on the back of brighter production expectations, which were almost back to their February level in June and which provide some hope for the months to come.

**Forecasts and Projection:**

The International Monetary Fund June 2020 forecast, estimates that the global economy will contract by 4.9 per cent in 2020. In 2021 global growth is projected at 5.4 percent.

The OECD estimate that, global real GDP growth will contract by 7.6 per cent in 2020 and grow by 2.8 per cent in 2021. The forecast shows that under the double-hit scenario, GDP growth in the OECD will contract by 9.3 per cent in 2020 and in the euro area by 11.5 per cent (see figure below). In 2021 the OECD project that GDP will grow by 3.5 per cent in the euro area.

---

76 European Commission (2020) European Economic Forecast Summer 2020 (interim)
77 European Commission (2020) European Economic Forecast Summer 2020 (interim)
The ECB’s June 2020 projections estimate that real GDP will decline by 8.7 per cent in 2020 in the euro area, and grow by 5.2 per cent and 3.3 per cent in 2021 and 2022 respectively.\(^7^9\) Private consumption collapsed in March and April across the euro area, and for 2020 as a whole private consumption is expected to decline by 7.8 per cent and recover somewhat up to 2022.

World trade was already relatively weak before the pandemic, and since the COVID-19 crisis it is projected to decrease by 11.5 per cent under a double spike scenario of the virus, and 9.5 per cent under a single spike.\(^8^0\)

Eurostat show that average point forecasts for annual HICP inflation now stand at 0.4 per cent for 2020, 1.0 per cent for 2021 and 1.3 per cent for 2022. Projections suggest that inflation will be 1.1 per cent in 2020 and 1.0 per cent in 2021 amongst OECD countries. The European Commission’s estimates inflation to be 0.3 per cent in 2020 and 1.1 per cent in 2021.\(^8^1\) The OECD projects deflation for the euro area in 2020, and low inflation in 2021.\(^8^2\)

As can be seen from the various forecasts outlined above, there is large uncertainty surrounding the economic outlook for the remainder of 2020 and 2021. All economic commentators are forecasting a decline in global GDP in 2020, ranging from 4.9 per cent (IMF) to 7.6 per cent in a double hit scenario (OECD). For the euro area, steep declines in GDP growth are forecast for 2020, ranging from an 8.7 per cent (ECB) to 11.5 per cent...
decline (OECD double hit scenario). For 2021, all commentators are forecasting modest GDP growth globally and for the euro area. All forecasts suggest that inflation will be limited in 2021, ranging between 1 and 1.1 per cent in the euro area.

European Union Stimulus Package

In July 2020 the European Union Council and Commission reached an agreement on a recovery plan and the multiannual financial framework for 2021-2027. The package has two main elements: firstly, a new recovery instrument of €750 billion which will enhance the EU budget by using new finance raised on the financial markets for 2021-2024. Secondly, a reinforced long-term budget for the EU for 2021-2027 (€ 1,100 billion) was agreed. The Commission state that the Next Generation EU will be rolled out under three pillars:

1. Supporting Member States to recover;
2. Kick-starting the economy and helping private investment;
3. Learning the lessons from the crisis.

There is a large focus on green and digital transformation within this package of supports. Member States will be supported to invest in digital development and to support rural areas to make structural changes. These structural changes will enable rural economies to develop in line with the European Green Deal and help to achieve the targets in the new Biodiversity and Farm to Fork strategies.

On the 23rd April 2020, a Eurogroup report was adopted by EU leaders which contained three safety nets worth €540 billion, for jobs and workers, businesses and member states. These measures became operational from the 1st June 2020. The support for Member States comes through the European Stability Mechanism. The support for businesses comes through the European Investment Bank and the workers’ supports will be delivered by the European Commission through the SURE scheme. The SURE programme delivers loans that will assist Member States in addressing sudden increases in public expenditure to preserve employment. It is intended that these loans will help Member States to cover the costs directly related to the financing of national short-time work schemes, and other similar measures they have put in place as a response to the COVID-19 pandemic, in particular for the self-employed.

---

84 COUNCIL REGULATION (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak
Labour Market Developments

The International Labour Organisation (ILO) highlights the severe impact of the COVID-19 pandemic on global labour markets. As of 15\textsuperscript{th} June 2020, almost one third of the world’s workers (32 per cent) were living in countries with required workplace closures for all but essential workplaces. Another 42 per cent were living in countries with required workplace closures for some sectors or categories of workers, and a further 19 per cent in countries with recommended workplace closures. Across the European Union many governments have introduced various levels of supports to protect jobs and the incomes of individuals.

Employment and Unemployment

Across the euro area various measures were introduced to contain the spread of the COVID-19 virus, which had a large impact on economic activity and were expected to have a considerable impact on the euro area labour market.

The latest Eurostat release shows that the number of employed persons decreased by 2.9 per cent in the euro area and by 2.7 per cent in the EU in the second quarter of 2020, compared with the previous quarter.\textsuperscript{85} These were the sharpest declines observed since the time series started in 1995. Hours worked decreased by 12.8 per cent in the euro area and by 10.7 per cent in the EU in the second quarter of 2020, compared with the previous quarter. On an annual basis, hours worked declined by 16.6 per cent in the euro area and 13.8 per cent in the EU respectively.\textsuperscript{86}

However, the official unemployment rates have not fully reflected the major shock to the euro area economy caused by COVID-19, whereas in the United States the unemployment rate increased sharply since the lockdown was introduced. The low rate of official unemployment may be related to the official definition of unemployment, which does not encompass those who have been temporarily let go, had their hours adjusted or placed on short-term work schemes. Survey data on perceptions and expectations of unemployment show a very strong impact of the COVID-19 public health crisis on the labour market. The PMI indicator of employment perceptions declined from levels of 51.4 in February 2020 to an historic low of 33.4 in April, rebounding to 43.1 in June as a result of loosening restrictions during this period.\textsuperscript{87} The decline was particularly acute in the services sector, with the accommodation, food and beverages, and the warehousing and transportation sectors being most affected.

\textsuperscript{85} Eurostat GDP and Employment Estimate Quarter 2- 8th September 2020
\textsuperscript{86} Eurostat GDP and Employment Estimate Quarter 2- 8th September 2020
\textsuperscript{87} European Central Bank, Economic Bulletin, July 2020
Hours Worked

It appears that the major impact of COVID-19 on the euro area economy can be seen in the number of hours worked. This has been seen across many countries. The International Labour Organisation estimates that working hour losses for the second quarter of 2020, relative to the last quarter of 2019, are 14 per cent worldwide (equivalent to 400 million full-time jobs).\(^{88}\)

The ECB shows that across the euro area, hours worked dropped quarter on quarter by 3.1 per cent in the first quarter of 2020. The decline in hours worked was almost twice as large as that recorded in the first quarter of 2019.\(^ {89}\) The decline in hours worked in the first quarter of 2020 was mostly driven by an adjustment in the intensive margin of labour, i.e. the average number of hours worked per person employed. In quarter 1 2020 average hours worked across the euro area decreased by 2.9 per cent quarter on quarter whereas employment reduced by just 0.2 per cent.\(^ {90}\) The relative contributions to the decline in total hours worked across the euro area was driven by a reduction in average hours worked (around 90%) and employment (around 10%).

International comparisons are notoriously difficult. Those who are temporarily laid off are not considered unemployed in the EU, whereas in the United States these individuals are considered unemployed for official statistics. A significant feature of the response to the COVID-19 crisis in euro area countries has been the introduction of short-term work or wage subsidy schemes. The number of workers partaking in these schemes is unprecedented across the euro area. The estimates suggest that large shares of employees in many countries are being supported through such programmes. The ECB shows that it could amount to a maximum of 10.6 million employees in Germany (26% of the total number of employees in the country), 12 million employees in France (47% of employees), 8.1 million in Italy (42% of employees), 3.9 million in Spain (23% of employees) and 1.7 million in the Netherlands (21% of employees).\(^ {91}\) If these employees were included in official unemployment statistics, the euro area unemployment rate would be considerably higher. The impact and efficacy of these schemes will depend on how long they remain in place, how they are reformed as the context changes and the duration of the crisis.

The hiring rate and number of vacancies has reduced considerably across the euro area. The ECB analysed the Indeed job postings and LinkedIn hiring rates across the five biggest euro area economies: Germany, France, Italy, Spain and the Netherlands. The hiring rates reduced considerably and bottomed out in May 2020. The number of job postings can be

\(^{88}\) ILO Monitor: COVID-19 and the world of work. Fifth edition Updated estimates and analysis

\(^{89}\) European Central Bank, Economic Bulletin, July 2020

\(^{90}\) European Central Bank, Economic Bulletin, July 2020

\(^{91}\) European Central Bank, Economic Bulletin, July 2020
used as an indicator of labour demand. As of June 2020 the decline in annual growth in job postings was very large across these countries with -15.6 per cent in Germany and -44.4 per cent in Spain. The recreation and travel sector has been particularly affected by the crisis and by the public health restrictions, with the hiring rate in the sector decreasing year on year in June 2020 by 44 per cent in Germany, 28.8 per cent in France, 77.9 per cent in Italy, 50.1 per cent in Spain, and by 28.3 per cent in the Netherlands.

This analysis shows that the euro area unemployment rate may not be showing the impact of the COVID-19 pandemic very strongly. But by analysing other indicators such as hours worked, purchasing managers index for employment, the numbers of workers being supported by state schemes, job vacancies, and job postings it is clear that this crisis is having a very strong impact on the global and euro area labour market.

**Sectoral Impact**

The OECD highlights a recent report published by McKinsey in which it is estimated that at least two of three jobs in SMEs are at risk of being lost and that 30 per cent of all jobs at risk are found in microenterprises.\(^1\) The ILO COVID-19 monitor outlines the sectors expected to be hardest hit by this crisis: wholesale and retail, manufacturing, real estate and accommodation and food services.\(^2\) Those considered to be at medium to high risk are transport, storage and communication, and arts, entertainment and recreation. The ILO state that, approximately 47 million employers representing 54 per cent of all employers worldwide, operate businesses in the hardest-hit sectors. Own-account workers and micro-enterprises combined represent 70 per cent of global employment in the retail sector and about 60 per cent in the accommodation and food sector; this reflects the severe vulnerability of these sectors under the current economic climate. The proportion of small firms in the hardest hit sectors is much higher than the proportion of small firms in the least affected sectors. For example, in the wholesale and retail sector 70 per cent of firms worldwide have less than 10 employees; this is 60 per cent for the accommodation and food sector.\(^3\) By contrast, in the least affected sectors the proportion of small firms is much lower (about 20 per cent). This shows that employees working in small firms in labour intensive sectors are most at risk of employment losses going forward.

**Social Impact**

The ILO highlights that there is a major gender dimension to the global employment impact of COVID-19. Firstly, women are overrepresented in the hardest hit sectors. Globally, almost 510 million, or 40 per cent of all employed women, work in hard-hit sectors, including accommodation and food services; wholesale and retail trade; real estate, business and

---

\(^2\) ILO Monitor: COVID-19 and the world of work. Fifth edition Updated estimates and analysis
\(^3\) ILO Monitor: COVID-19 and the world of work. Fifth edition Updated estimates and analysis
administrative activities; and manufacturing. This compares with a share of 36.6 per cent of employed men. Secondly, the ILO finds that domestic workers are particularly vulnerable to losing their job due to the containment measures. The vast majority of domestic workers in most countries are woman, and often are also from migrant backgrounds and this further exacerbates the vulnerability of these individuals. Thirdly, the majority of individuals working in the human health and social work sector are woman. Globally, women represent more than 70 per cent of those employed in health and social work; in some developed regions, they account for almost 80 per cent of the health workforce. These workers are particularly impacted by the COVID-19 crisis.

Finally, the ILO highlights that ‘during the crisis, the unequal distribution of increased care demands affects women disproportionately’. The closure of early childhood education services, childcare services and schools has exacerbated the care demands on woman during this crisis. This is particularly the case for single parents, 78.4 per cent of whom around the world are women. The recent Eurofound Survey focusing on the impact of COVID-19 on living and working in the EU found that 10.6 per cent of female respondents (aged 35 to 49) reported that, during the crisis, family responsibilities prevented them (always or most of the time) from devoting the required time to their jobs, compared with 6.7 per cent of male respondents.

Forecasts and Projections
The OECD’s single hit scenario suggests global unemployment will be 9.2 per cent in 2020, and 8.1 per cent in 2021. Under the double hit scenario, global unemployment is expected to be 10 per cent in 2020 and 9.9 per cent in 2021.

The ILO’s forecast uses three scenarios; baseline, optimistic; and pessimistic. The ILO’s Baseline scenario forecasts working hours to be 4.9 per cent less than in the fourth quarter of 2019, or 140 million FTE jobs. The pessimistic scenario forecasts global working-hour loss of 11.9 per cent at the end of 2020, or 340 million FTE jobs. The optimistic scenario forecasts working hour loss of 1.2 per cent or 34 million FTE jobs by the end of the fourth quarter of 2020. There is large regional variation in this forecast. For Europe and Central Asia, the baseline scenario is estimated to lead to a 5.4 per cent loss in working hours with a FTE job loss of 18 million. The pessimistic scenario forecasts a 10.6 per cent reduction in

---

95 ILO Monitor: COVID-19 and the world of work. Fifth edition Updated estimates and analysis
96 Figures based on respondents from the EU-27. See Eurofound, “Living, Working and COVID-19”, e-survey launched on 9 April 2020
97 The baseline scenario uses the current GDP growth projections from the OECD (single hit scenario) which estimates a significant rebound in consumption and investment in 2021. The pessimistic scenario uses the GDP growth forecast from the OECD double hit scenario in which widespread work closures are reintroduced. The optimistic scenario assumes that the output gap will be less than the baseline the assumption.
working hours (35 million FTE jobs). The optimistic scenario is estimated to result in a 1.2 per cent reduction in working hours with a loss of 4 million FTE jobs.

The European Central Bank forecasts an unemployment rate in the euro area of 9.8 per cent in 2020, and 10.1 per cent in 2021. The unemployment rate is not projected to return to its pre-crisis level over the projection period, reaching 8.8 per cent in the fourth quarter of 2022. The ECB highlights that there are likely to be wide variations across the euro area in how unemployment unfolds over the coming months and years. Short-term work schemes and other labour market policies are likely to reduce the length of unemployment spells. Otherwise, countries with a larger share of temporary, self-employed or service sector employment are likely to see larger employment losses.

**Earnings**

In the euro area, growth in pay per employee decreased to 0.3 per cent in the first quarter of 2020 compared to 1.6 per cent in quarter 4 of 2019, this reflects the fall in hours worked. The impact of widespread short-time work schemes and temporary layoffs can be seen in the growth in hourly pay per employee which rose to 3.1 per cent in quarter 1 2020, compared to 1.8 per cent in quarter 4 2019. The ECB notes that this is due to very significant falls in the number of hours worked. Negotiated wages in the euro area grew by 2 per cent in the first quarter of 2020, but as the latest data shows wages per employee have fallen sharply this implies a strong downward impact in the wage drift. The level of pay per employee exaggerates the loss of labour income in many countries, because in many euro area countries the state has stepped in to protect incomes and for statistical purposes this is recorded as transfers, not as labour income.

Research in relation to the response of earnings to drops in GDP growth, shows that young people and those working in small firms are most likely to experience large decreases in earnings. Bell et al suggest that a younger worker in a small firm may see earnings fall by about 6.7 per cent, compared to 1.4 per cent for an older worker in a large firm. This research highlights that overall male earnings are generally more responsive to the business cycle compared to female earnings, due to the different sectors that men and woman are typically employed in. Bell et al suggest that this crisis may be different because many of the hardest hit industries are hospitality, travel, and accommodation and food sectors and all these sectors have a large share of female employees. Whereas, manufacturing, construction, and finance sectors may not be as highly impacted by this crisis.

---

98 European Central Bank (2020) Eurosystem staff macroeconomic projections for the euro area, June 2020
99 Negative Wage drift: when actual wages or actual wage decreases are higher than the negotiated ones.
The most prominent labour market policy response to the COVID-19 crisis has been job retention schemes, either in the form of short-term work schemes or wage subsidy schemes. These schemes vary across countries but all aim to maintain the employer–employee relationship during a downturn in economic activity. During a downturn, the employee’s job may become unprofitable in the short-term, but in the medium term the job and company remain viable. Some countries have enhanced and reformed existing short-term work programmes such as in Germany, France, Italy and Japan. Other mainly English-speaking countries have introduced ad-hoc wage subsidies schemes that can be used by firms for hours worked (like standard wage subsidies) as well as for hours not worked (like short-term work schemes). These wage subsidy schemes are generally not conditional on a reduction in working hours for the employees involved, they are only for firms experiencing a significant decline in revenue or sales. Firms can use these subsidies to continue to pay workers who are temporarily not working.

A major difference between the two scheme designs is that wage subsidy schemes are more generous to employers than short-term work schemes, when business is still possible. Short term work schemes relieve employers of the cost for hours not worked, they do not change the cost of hours worked. By contrast, wage subsidy schemes are designed to reduce the cost of hours worked as well.

The OECD highlights that job retention schemes significantly reduce the numbers of jobs at risk of termination.\textsuperscript{101} The OECD analyses how the design of these schemes impact labour costs and employment within firms with liquidity issues. The OECD found through microsimulation that the short term work schemes are more effective in saving jobs than wage subsidy schemes because the former are more targeted towards firms with greater financial difficulties.\textsuperscript{102} Short term work subsidies reduce the share of the jobs at risk by 10 percentage points, while this is only 7 percentage points under wage subsidy schemes. Wage subsidy schemes potentially allow for larger reductions in labour costs for firms, at the cost of providing weaker protection for workers on reduced working hours.

It is important that States adapt these schemes, as the public health restrictions are gradually lifted. These reforms ensure that the schemes do not continue to support firms and jobs that will not recover, and thus slowing the transfer of workers to more sustainable high-performance firms and sectors.\textsuperscript{103} Thus, the major questions going forward are how to

\textsuperscript{101} OECD (2020) OECD Policy Responses: Job retention Schemes during COVID-19 and Beyond
\textsuperscript{102} ibid
\textsuperscript{103} ibid
adapt these schemes to ensure they are targeted more towards those jobs at risk of being terminated, but that are viable in the longer term? When to phase out the support? To whom should the adjustments apply? Should this be differentiated across sectors? These questions are relevant for the issue of minimum wages because they are a major labour market policy. The Irish Government have adapted the Temporary Wage Subsidy Scheme from September 2020 onwards; this will be discussed further in a later chapter.

Overall, it is clear that the widespread introduction and take up of job retention schemes is an important consideration to be accounted for when considering future employment and wage trajectories.

**Conclusions**

The impact of COVID-19 on the international economy can hardly be overstated. GDP has fallen, trade has fallen, inflation is well below target, and essentially every indicator of consumer or producer confidence has fallen.

Across the OECD, the number of workers out of work has skyrocketed. And across the developed world, job retention programmes of unprecedented scale have been rolled out with very large numbers employed either via short term work schemes or wage subsidy schemes.

However, despite the nearly universal trajectory of negative economic development, it is important to pay attention to variation in outcomes. There are significant variations between national economies. While the Dutch economy has contracted by 1.5 per cent [between Q1 and Q2], the French economy has contracted by more than 5 per cent. It is noteworthy that while one-in-five workers in the Netherlands currently employed through a job retention scheme, in France that figure is nearly one-in-two workers. This is a significant variation over time. There was a very large and sudden drop in economic activity in April and May of this year. But, by mid-late summer there are already signs of significant economic recovery. In the US, the UK and the Euro Area, many economic indicators had returned to pre-pandemic levels by August.

Finally, there are significant variations between sectors. Construction, transport, manufacturing, wholesale and retail, accommodation and food, air transport, real estate and personal services have all been hit hard by the pandemic. Likewise, the SMEs and microenterprises have been harder hit than larger firms.

These variations in outcomes and the possibility of a second or third wave of the virus make predicting future developments in the international economy very difficult. It is not clear why the virus has affected some countries more than others and, although transmission
rates have declined from the first quarter, it is not clear how rapidly it might spread in the future.

Nevertheless, the predictions are uncertain and overall negative. Predictions are that global GDP will decline by 4.9-7.6% this year and weak growth is predicted for 2021.
Appendix 2 National Minimum Wages in Recessions: Literature Review

As with the literature on minimum wages in general, the literature on the impact of minimum wages during a recession is highly contentious.

Prior to the Great Recession, the literature on minimum wage and recessionary periods was relatively small. And even today the literature remains sparse.

A major challenge for researchers on this topic is that is extremely difficult to disentangle the impact of minimum wages on employment levels from the economic cycle. For example, if we assume that minimum wages lead to reductions in employment, then it will be hard to distinguish the reduction in employment caused by the minimum wage laws from the reduction in employment caused by an economic contraction.

Bryan, Salvatori and Taylor (2012) use a difference in difference approach that compares the outcomes for workers on the minimum wage in the UK between the years 2008 and 2010 and a control group of workers earning just above the minimum wage. They find that there is little evidence that the recession increased the sensitivity of employment and hours worked to increases in the minimum wage. They found that the minimum wage had little to no effect on employment retention, job finding probabilities of the unemployed. They found that it did have some impact on the hours worked by young workers, but that this was not significantly different from the effect during non-recession years.

In contrast, Dolton and Bondibene (2012) exploit the differences in the "bite" of minimum wages across countries during economic downturns. By "bite" they are concerned with the level of the MW relative to the average wage. They try to control for endogeneity by using an instrumental variable approach in their robustness tests. They argue "a more left wing government, which is averse to inequality, is more likely to favour a MW with higher bite relative to the average wage." (p.106) They therefore use an instrument that measures the degree of right or left wing political orientation of a country's government as an IV for the minimum wage. The main outcome of their work is to find that minimum wages have negative employment effects for young people but less significant negative employment effects for adults.

Clemens and Wither (2019), which found that minimum wages had a negative impact on the employment and income trajectories of low skilled worker during the recession, caused some debate when it was circulated as a working paper (2014). Zipperer (2016) presented a substantial critique of the paper, with Clemens (2016) in turn writing a long response in the defence of their findings.
The debate remains highly contentious and, despite the strong theoretical models, the evidence is very uncertain. It remains true that it cannot be definitively said that minimum wage laws lead to negative employment outcomes even during a recession when the labour market is tight.

References


ENDS