

POLICY PAPER

The COVID-19 Pandemic and Ireland's Labour Market: Insights through the Lens of the Pandemic Unemployment Payment and the Characteristics of Impacted Workers

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Abstract: With the onset of the COVID-19 pandemic, and the introduction of rolling public health restrictions, conditions in Ireland's labour market deteriorated significantly. In response to the widespread impacts on businesses and workers, the Irish Government, as part of a broader suite of policy measures, introduced the Pandemic Unemployment Payment (PUP) in March 2020. Through the lens of the PUP, this paper explores the impact of the COVID-19 pandemic on Ireland's labour market and its implications for post-COVID recovery and policy. In particular, this analysis examines the demographics of impacted workers over time, rates of payment relative to pre-pandemic earnings and the potential scale of the post-COVID labour market challenge, via an exploration of long-term recipients.

Disclaimer: The authors are solely responsible for the content and all errors are our own. Data are subject to revision. The views expressed herein are those of the authors and do not reflect the views of the Minister or the Department of Social Protection.

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I INTRODUCTION

Ireland's economy has made significant strides in recent years, recovering at a pace much faster than many had predicted during the depths of the recession in 2012. As at Q4 2019 approximately 2.32 million people were working in Ireland; the highest level of employment seen in the history of the State, with the seasonally adjusted unemployment rate dropping to 4.7 per cent in the fourth quarter of 2019. The emergence of the COVID-19 pandemic towards the end of Q1 2020 resulted in an abrupt and adverse shock to the labour market. With a large proportion of the economy and businesses forced to close in March in accordance with public health restrictions, the COVID-19 adjusted unemployment estimate peaked at 30.5 per cent (or 711,805 individuals) in April 2020, the highest level in the history of the State (Coates *et al.*, 2020).

In response, the Government introduced a rolling series of measures to support the labour market, including those outlined in the July Jobs Stimulus Package. These supports were targeted at those displaced from work and/or those whose employment was adversely impacted (i.e. temporary business closures, reduced working hours, etc.). These included enhanced funding and new programmes in the sphere of activation services and further education and training (FET). It also included the introduction of the Temporary Wage Subsidy Scheme (TWSS; now the Employment Wage Subsidy Scheme) and the Pandemic Unemployment Payment (PUP) where the latter is available to employees and the self-employed who have lost their job on or after 13 March 2020 due to the COVID-19 pandemic.

The PUP shall be the primary, but not sole, focus of this paper. For the purposes of this work, we have availed of administrative data within the Department of Social Protection (the Department responsible for this scheme).¹ For classification purposes, we make reference to a 'first lockdown' (the initial restrictions introduced from March to May 2020), a 'second lockdown' (the reintroduction of the highest level of restrictions from October to November 2020) and a 'third lockdown' (the reintroduction of restrictions over the post-Christmas 2020 period).² We also make reference to a 'peak' (the point when active PUP claims reached its highest level on 5 May 2020) and a 'trough' (the point when active PUP claims reached its lowest level on 22 September 2020).

The objective of this paper is to examine the impact of the COVID-19 pandemic on the Irish labour market through the lens of the Pandemic Unemployment Payment, a year after its introduction. In doing this, our core research question is to explore the differential impacts over time by sector, region, gender and age group. We consider the duration of claims and the variation in prior earnings in order to contribute to our broader understanding of how these have changed over the past year. Given the intended temporary nature of the PUP, we also explore the likely

¹ Department of Social Protection (DSP) data are provisional and subject to revision.

² At the time of writing, the end date for these restrictions was not clear.

scale of Ireland's future unemployment challenge via a detailed examination of long-term PUP recipients and what this means for post-COVID employment and unemployment levels.

II TIMELINE OF EVENTS: A SUMMARY

Ireland experienced its first diagnosed case of COVID-19 in late February 2020 and within two weeks an initial series of public health restrictions had been introduced. In response to the escalating, and projected, volumes of cases of COVID-19 in Ireland, the Government introduced both the PUP and the Employer Refund Scheme in mid-March. The latter was replaced by the TWSS on 26 March but by the time this replacement subsidy came onstream, there were already close to 300,000 PUP claims in payment. As shown by the timeline of events in Figure 1, by early May 2020, the incidence of reliance upon State supports peaked, with close to 1.2 million persons in receipt of State income supports to the labour market, including those on the Live Register.³ This included just over 600,000 persons in receipt of the PUP and 400,000 persons whose employment was supported under the TWSS.

2.1 The Impact of Reopening the Economy During Summer 2020

The Government published a *Roadmap for Reopening Society and Business* in early May which set out a five-step plan to ease COVID-19 restrictions. As illustrated in Figure 1, as public health restrictions were eased and businesses were enabled to reopen, the number of PUP claimants began to fall. Although new PUP claims continued to be opened as the restrictions were eased, these were significantly lower than the level of closed claims resulting in a steady decrease in the overall total. As Ireland moved through phases one to three of the Roadmap over the summer months, active PUP claims fell from a peak of just over 600,000 claims in early May, to 210,000 claims by late September.

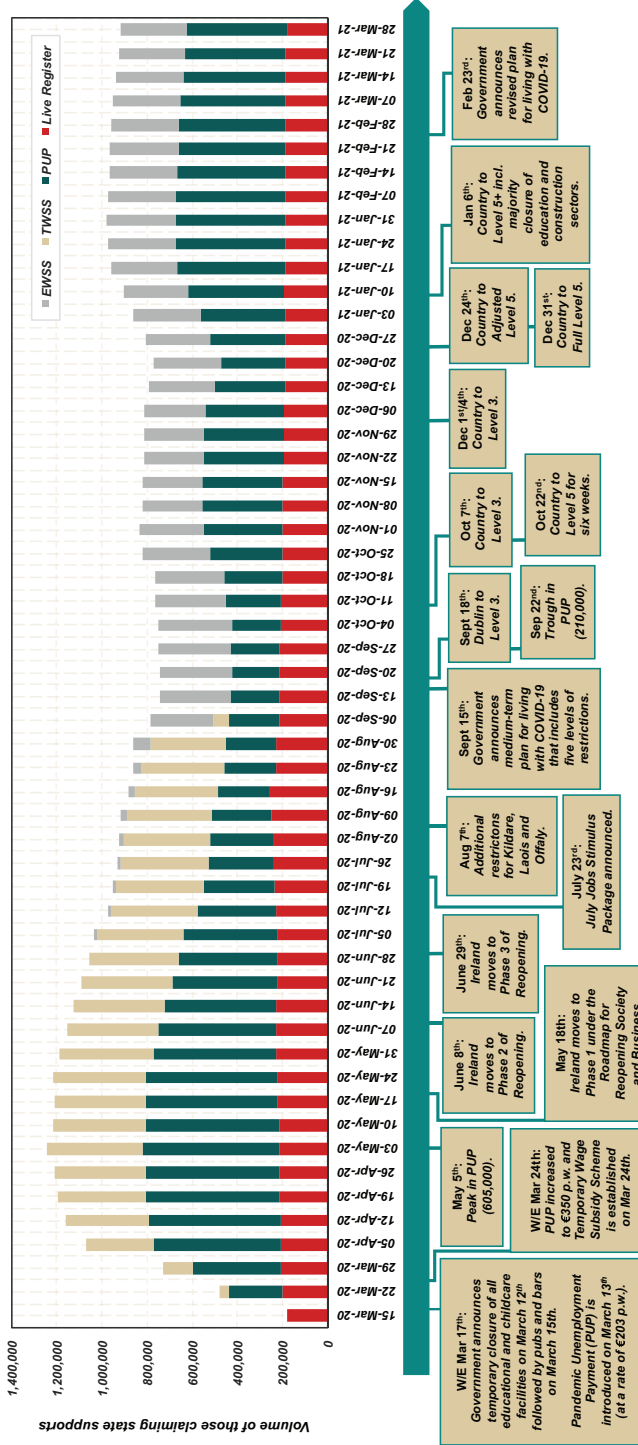
For each sector, the commencement of outflow activity from PUP tended to be anchored in a given reopening phase. For instance, the phased return of 'outdoor' workers, including those in the Construction sector, began during phase one (from 18 May) and fell by 33 per cent during this three-week period.⁴ By contrast, some other sectors, such as Hospitality (Accommodation and Food) saw only a very minor downward movement in their claim numbers over this same period, but did begin to fall more rapidly in the latter phases of reopening.

Whereas the PUP was the principal support to the labour market at the outset of the response and assisted more workers than the TWSS in early May, this was

³ Specifically, Jobseeker's Benefit (JB) or Jobseeker's Allowance (JA) recipients.

⁴ Sectors linked to Construction (i.e. water and electricity plus transport) also saw some downward movement during this period.

Figure 1: Timeline of Developments in State Supports since the Onset of the Pandemic (March 2020 – March 2021)



Source: CSO, Revenue and DSP administrative data.

Notes: The TWSS closed on September 1st, 2020 and was replaced by the EWSS.

inverted by mid-July as PUP recipients closed their claims and returned to work, whilst numbers supported by the TWSS remained steady. Those sectors worst hit initially by the pandemic saw the strongest recovery, in absolute terms, during Ireland's phased economic reopening albeit that some sectors had only a limited re-absorptive capacity. Despite overall figures falling approximately 66 per cent over the course of reopening from peak to trough, most of those sectors worst hit at the beginning of the pandemic still retained the highest proportion of PUP recipients even as the overall total fell.

2.2 The Reintroduction of Restrictions

Having reached a trough of close to 210,000 claims in late September 2020, the number of PUP claimants began to rise with the gradual re-introduction of restrictions throughout the following month of October. Ireland initially moved to Level 3 restrictions as set out in *Resilience and Recovery 2020 – 2021: Plan for Living with COVID-19*, the framework for managing COVID-19. Shortly thereafter on 21 October, the Government introduced nationwide Level 5 restrictions for a period of six weeks. By contrast with the measures introduced in March however, schools, universities and childcare facilities were allowed to remain open. Beyond this, the Construction sector was also allowed to remain open. As a result of these exemptions, the volume of displaced workers – and by extension, the inflows to both the PUP and the Employment Wage Subsidy Scheme (EWSS) – did not reach the levels witnessed earlier in the year. In addition, it is likely that some service providers in the Retail and Hospitality sectors had adopted modified ways of working, such as deliveries and takeaways, in response to the earlier wave of public health restrictions and were thus able to retain a greater number of employees.

As shown in Figure 1, the number of active PUP claims increased sharply in the early weeks of Level 5 in October 2020. As the second lockdown progressed the rate of claim growth plateaued before peaking at 355,000 in late November. This was still significantly lower than the peak reached in May. The upward trend in the number of claims was reversed as Ireland moved from Level 5 to Level 3 restrictions at the beginning of December. As seen in Figure 2, which shows the underlying inflows and outflows from the PUP during this period, there was a substantial increase in the number of closed claims (or PUP outflows). As a result, total numbers declined to 278,000 by 22 December. These reductions were short-lived, with the re-introduction of (partial)⁵ Level 5 restrictions in late December 2020. These restrictions were amended to full Level 5 measures with effect from close of business on 31 December with the closure of non-essential retail and other associated measures (including the extension of the seasonal closure of schools).

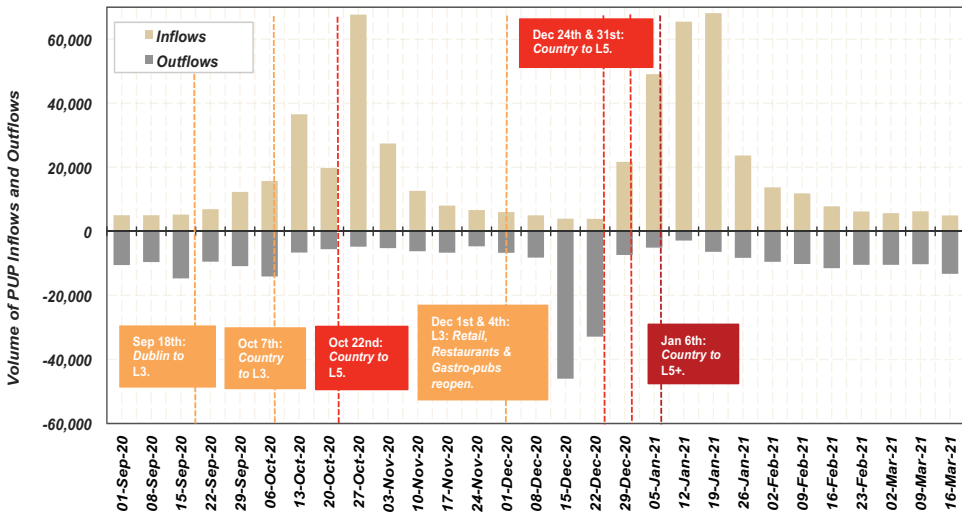
Although initially exempt, on 6 January 2021 these restrictions were extended to include schools and the Construction sector⁶ which, in turn, served to further

⁵ The initial restrictions exempted non-essential retail and certain service providers (i.e. gyms, etc.).

⁶ With exceptions for essential projects such as social housing, urgent roof repairs and utilities.

accelerate the upward trend in PUP claims into 2021. Numbers in receipt of the PUP reached their highest point for this third lockdown at over 485,000 on 9 February 2021. In the following weeks, numbers in receipt of the PUP began to gradually decline, despite no change to prevailing public health restrictions. This was driven by outflows from the scheme – predominantly exits to work – exceeding inflows. This trend was seen during previous lockdowns, where claims peaked in the initial weeks of increased restrictions before beginning to decline.

**Figure 2: Inflows and Outflows on the PUP
(1 September 2020 – 16 March 2021)**



Source: DSP administrative data.

III SECTORAL, REGIONAL AND DEMOGRAPHIC DISTRIBUTION OF PUP CLAIMS

3.1 Trends by Sector

The sectoral distribution of PUP claims has varied over time in line with the evolution of public health restrictions.⁷ At the peak of PUP claims in May, the Hospitality sector accounted for almost 22 per cent of all claims with Retail and Construction the next two most significant sectors. In spite of the substantial reduction recorded in claims for all sectors over the summer reopening, the Hospitality sector actually accounted for a slightly greater proportion of total claims

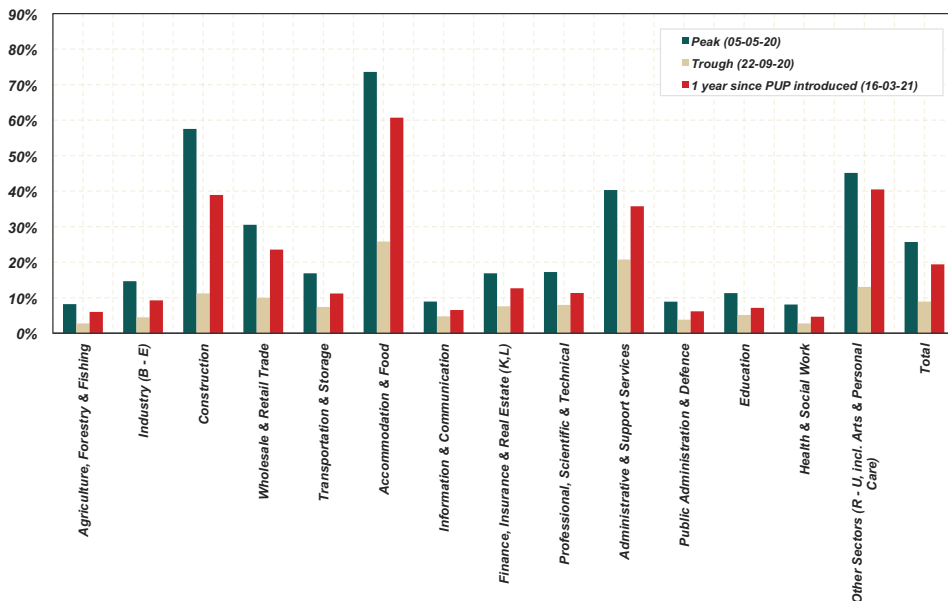
⁷ The sectoral breakdown of PUP recipients presented in this paper are estimates prepared by the Department of Social Protection. These estimates use the NACE code of an individual’s last known employer. This approach is applied to all PUP recipients, regardless of their last known employment status as employed or self-employed. This approach differs to that used by the Central Statistics Office.

by the September trough than at the peak in May reflecting the sector's difficulty operating under even low-level public health restrictions compared with other sectors.

With regard to the sectoral pattern of increases in claims observed in response to second lockdown, it is notable that the increase recorded for the Construction sector was very limited, reflecting the fact that the restrictions introduced did not apply to those working directly in the sector. Following the move back to Level 3 in early December, it was again Hospitality and Retail, as well as the 'Other Services' sector (which includes Personal Care services) that witnessed the sharpest reduction in the number of active claims, with strong outflows from the PUP driven by pent-up consumer demand in the run-up to Christmas. However, as Ireland entered the third lockdown at the beginning of 2021, the recovery of jobs witnessed in these sectors was entirely reversed. Moreover, no longer exempt from sectoral closure under Level 5, the Construction sector also saw for the first time since March 2020 a significant rise in claimants under the third lockdown.

Furthering this analysis, Figure 3 presents the sectoral composition of PUP recipients at the peak, trough and at one year since its introduction as a share of pre-pandemic employment. It shows that the five largest sectors in volume terms

Figure 3: PUP Recipients as a Proportion of those Employed Pre-Pandemic by NACE Sector at Peak, Trough and One Year Since PUP Introduction



Source: CSO (Q4 2019 LFS) and DSP administrative data.

Note: Authors' calculations exclude those PUP recipients whose sector was classified as 'unknown'.

on the PUP since its inception, are also the largest five sectors in terms of the proportion of their pre-pandemic workforce in receipt of the PUP.

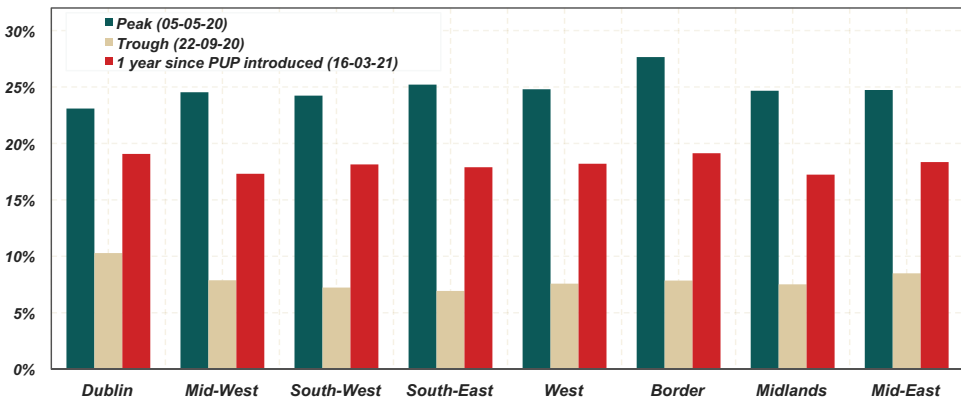
In particular, Figure 3 shows that of all sectors, the Hospitality sector has had the highest share of its pre-pandemic employment supported by the PUP since its introduction. The sector’s high reliance on the PUP, including during times of widespread easing of restrictions, shows that although this sector has had experience of re-opening to various degrees at a number of stages during the pandemic, its activity and service delivery remains greatly curtailed by public health measures and social distancing guidelines. In contrast, the Wholesale and Retail sector, which has been the second largest sector on the PUP since the beginning, is only the fifth largest in terms of the share of pre-pandemic employment in receipt of the payment. This suggests that the high levels on the payment are due to the overall high share of total employment accounted for by this sector, with a significant share of this sector able to sustain activities without support via the PUP.

3.2 Trends by Region

In general, the regional distribution of PUP claims as a proportion of the total regional labour force since the beginning of the pandemic has remained largely consistent, with the proportions of workforce on the PUP varying only slightly over time between regions, as shown in Figure 4. This is unsurprising given the predominately nationwide implementation, and easing, of public health restrictions.

At the peak, approximately 25 per cent of the Irish labour force was in receipt of the PUP with the largest regional share seen in the Border region at over 27 per cent. In terms of absolute claim-loads, the Dublin region has consistently seen the largest number claimants, approximately 29 per cent at the peak of PUP claims in May 2020.

Figure 4: PUP Recipients of as a Proportion of Pre-Pandemic Labour Force by Region at Peak, Trough and One Year Since PUP Introduction



Source: CSO (Q4 2019 LFS) and DSP administrative data.

While claim levels declined significantly in each region during the months between peak and trough, the scale of the reduction was, however, not entirely uniform. In particular, the share of the Dublin region's workforce in receipt of the PUP declined by considerably less than other regions over this period. As a consequence, Dublin came to account for 37 per cent of all claims by the end of September. This was equivalent to 10 per cent of its pre-pandemic labour force, a share significantly higher than in other regions. The difference can likely be explained by the unique concentration of business activities in the Dublin region that were unable to viably restart their operations as a result of the pandemic, either as a result of government mandated closure or insufficient consumer/supporting business demand for their services. In particular, this includes those directly or indirectly employed in the Travel and Tourism sector, and also those in the Administrative and Support Services sector.

3.3 Trends by Gender

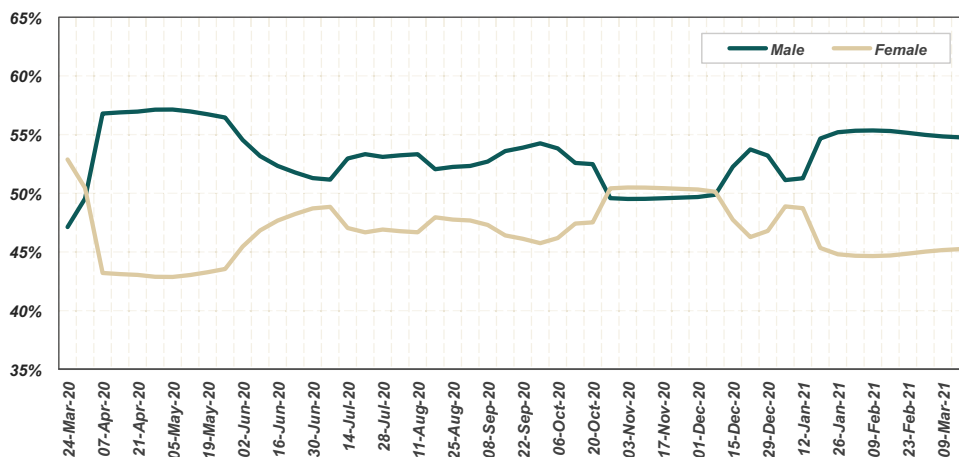
While the employment outcomes of both genders were adversely affected during the Financial Crisis period, the evidence suggests that, in Ireland, men were particularly impacted (Russell *et al.*, 2014). It is useful therefore, to investigate whether the COVID-19 pandemic has had a similar effect in terms of differential gender impacts. As seen in Figure 5, the gender composition of PUP recipients has changed significantly over time. This is driven by two primary factors: the nature of public health restrictions at a given point in time and the gender composition of the overall workforce.

Firstly, the gender composition of PUP recipients is shaped by the nature of public health restrictions at a given point in time, due to the degree to which the level of restrictions impacts different sectors. This is due to the fact that some sectors in our economy see proportionately higher shares of one gender over the other. For example, Construction, a largely male dominated industry employing over 148,000⁸ was closed during the initial phases of the pandemic but was allowed to remain open under Level 5 of the *Plan for Living with COVID-19* in October-November 2020; the period when women made up the majority share of PUP recipients. However, this sector's closure under the third lockdown contributed to the share of PUP recipients accounted for by males outweighing that of females from December 2020 and into Q1 2021.

The second driver of the gender composition of PUP claims is the fact that women typically make up a smaller share of the workforce. Figure 6 presents male and female PUP recipients as a proportion of the male and female pre-pandemic labour force. It indicates that since the beginning of the pandemic, excluding those periods when the Construction sector was forced to close, a slightly larger

⁸ CSO Labour Force Survey – Q4 2019 figure.

Figure 5: Proportion of Weekly PUP Recipients by Gender (March 2020 – March 2021)



Source: CSO (Q4 2019 LFS) and DSP administrative data.

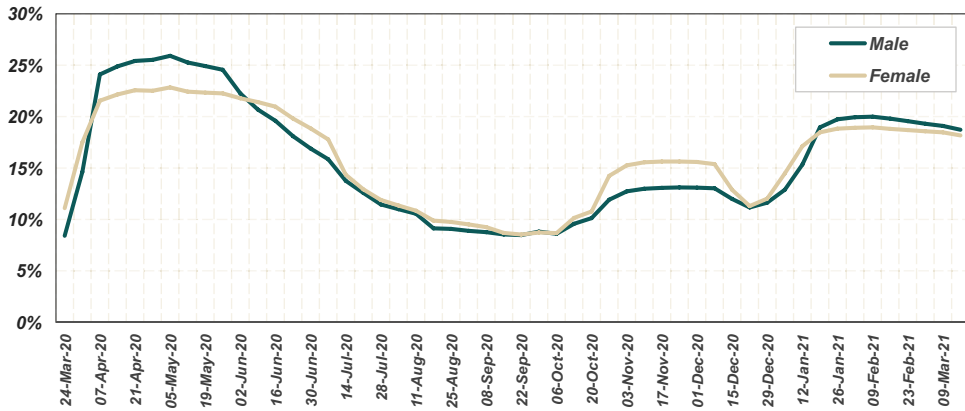
proportion of the female labour force has been claiming the PUP than their male counterparts, particularly during the second lockdown in October-November 2020. This suggests that, overall, women may have been more negatively impacted by the pandemic than men, given their concentration in those sectors that have struggled most to operate even under the lower levels of public health restrictions, such as Hospitality, Retail and Personal Care services.

3.4 Trends by Age Group

As with the gender composition of PUP recipients, the age distribution has varied with the nature of public health restrictions and the associated sectors impacted. Figure 7 examines the age profile of the pre-pandemic labour force and recipients of the PUP one year after the scheme's inception. From this we can see that young persons (aged 15-24 years) accounted for approximately 11.8 per cent of the labour force in Q4 2019. However one year following the introduction of the PUP, those under 25 years accounted for almost 25 per cent of recipients. The CSO's COVID-19 adjusted youth unemployment rate for March 2021 was estimated at over 58 per cent. This rate is considered by the CSO to be an upper bound estimate, due to its treatment of all PUP recipients under 25 as unemployed (Central Statistics Office, 2020).

The higher share of younger persons among those displaced from work, and in receipt of the PUP, is driven by both the high shares of younger workers in those sectors most impacted (e.g. Hospitality and Retail) and the eligibility of full-time students to claim the PUP. Given the circumstances that arose in the wake of the pandemic, young workers – including full-time students – were awarded the PUP.

Figure 6: Weekly PUP Recipients as a Proportion of the Pre-Pandemic Labour Force, by Gender (March 2020 – March 2021)



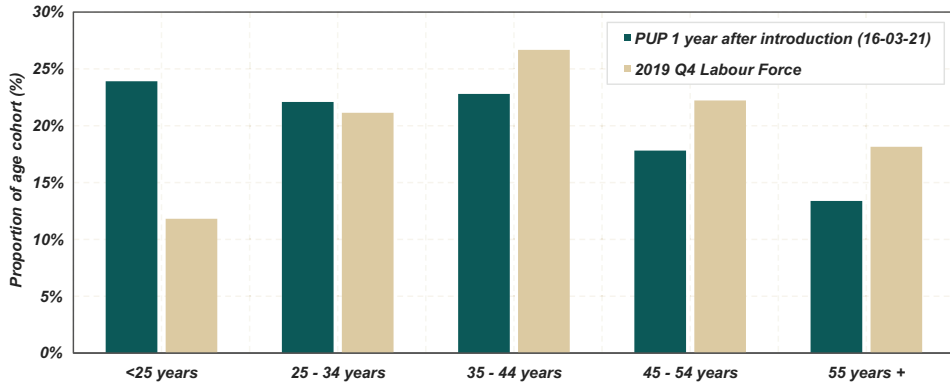
Source: CSO (Q4 2019 LFS) and DSP administrative data.

Using internationally recognised standards set by the ILO (International Labour Organization), these (typically) younger claimants would not traditionally have an entitlement to standard jobseeker payments (Jobseeker's Allowance or Benefit) due to their status as being in full-time education. In addition, in the Labour Force Survey (LFS; as used to measure unemployment) full-time students would not usually be counted as unemployed, as they are not in the labour force. We estimate that as of March 2021, approximately 48,000 students were in receipt of the PUP, almost 90 per cent of whom were under 25 years.⁹ This equates to a significant proportion of those aged 15-24 years under the CSO's upper-bound estimate of youth unemployment at that point. It has contributed to the proportionately higher share of young people on the PUP relative to the labour force and the inflation of the COVID-19 adjusted youth unemployment rate.

Figure 8 shows the distribution of these students across the scheme's four payment rates. These students account for approximately 10 per cent of total recipients and between 3.5 and 20.7 per cent of recipients within the individual payment rates. The rate of €250 per week (for those who earned between €200 and €299.99 per week) sees the highest share of students at 20.7 per cent, with the rates of €300 and €350 having a lower estimated share of the total attributable to students. Given that the PUP allocates payment rates based on prior earnings, for students to account for a relatively lower proportion of claimants in the upper payment bands is intuitive, due to the likelihood of younger persons to work in those sectors most impacted by public health restrictions.

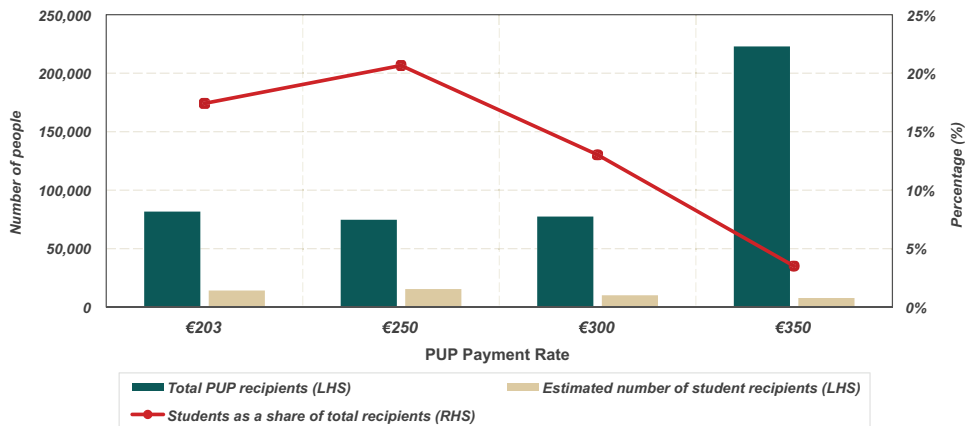
⁹ Figures presented on students are estimates based on the data available at the time of writing and should be considered to be lower bound estimates.

Figure 7: Age Distribution of PUP Recipients at One Year On from the Introduction of the PUP (as at 16 March 2021) Compared to Age Distribution of Pre-Pandemic Labour Force



Source: CSO (Q4 2019 LFS) and DSP administrative data.

Figure 8: Student Composition of PUP Recipients Across Payment Bands (as at 16 March 2021)



Source: DSP administrative data.

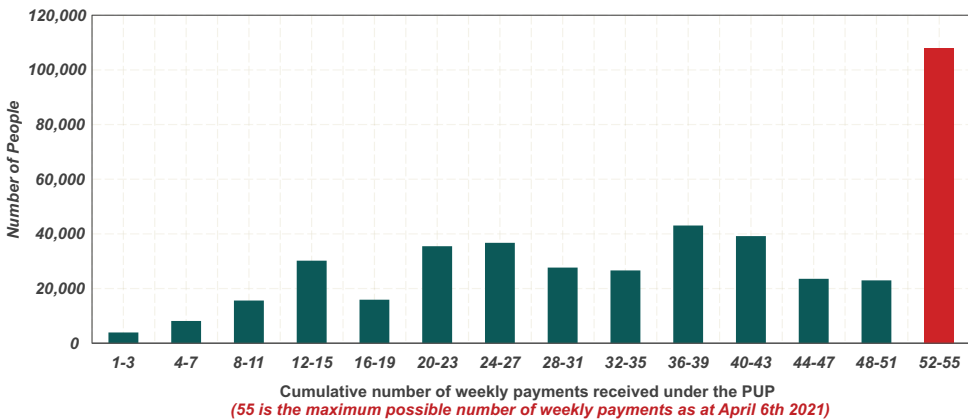
IV DURATION OF CLAIMS AND LONG-TERM PUP RECIPIENTS

4.1 Duration of Claims

The decision by Government to extend the PUP into March 2021 means that a significant number of people have availed of the support for long periods of time. By the first week in April 2021, the PUP had been in place for 55 weeks. Figure 9 presents the number of weeks PUP recipients were in receipt of a payment under

the PUP at this point.¹⁰ The largest group are those who have received 52-55 weekly payments under the scheme; this indicates that approximately 110,000 individuals (or close to one-in-four claimants) had claims which were ‘structurally long-term’ in nature. Simply stated, as a result of the pandemic, these 110,000 individuals have been, to date, unable to return to employment to any meaningful degree between March 2020 and March 2021. This cohort included approximately 50,000 claimants who had been in receipt of the PUP for the full 55 weeks. This long-term PUP cohort are considered most at risk of permanently losing their employment, due to the fact that they have not been able to return to work despite the easing of restrictions at various points over this 12-month period.

Figure 9: Number of Weekly Payments Received by PUP Recipients (as at 6 April 2021)



Source: DSP administrative data.

Although the distribution of weekly payments received in Figure 9, as well as the underlying inflows and outflows observed in Figure 2, clearly highlight the degree of movement in and out of the PUP over its lifetime, data limitations mean it is not currently possible to distinguish the number of spells individuals have had on the support. However this is an area we intend to return to in future research.

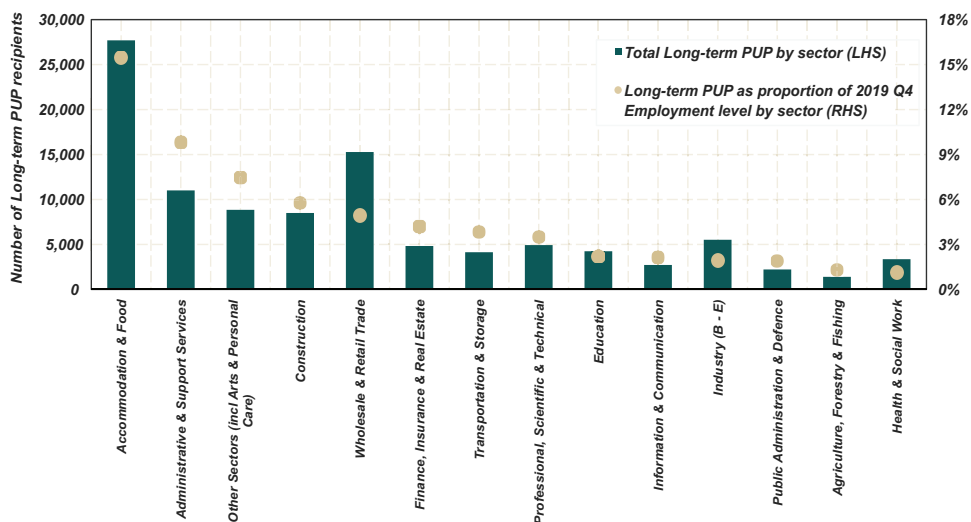
4.2 Long-term PUP Recipients by Sector

Figure 10 provides an analysis of these long-term PUP recipients by sector. This indicates that 25 per cent of all long-term claimants (as defined above) had previously worked in the Hospitality sector. When taken together with the Retail and Administrative Services’ sectors, these three sectors alone accounted for 50 per cent of all such claims. This is not unsurprising given the length of time these

¹⁰ It is important to note that these figures are cumulative rather than continuous.

sectors in particular have been forced to operate under public health restrictions. Figure 10 also shows the long-term PUP cohort as a proportion of the Q4 2019 employment level by sector. It indicates that those long-term PUP recipients from the Accommodation and Food sector account for over 15 per cent of the pre-pandemic employment level for that sector, again highlighting the sector's difficulty operating under public health restrictions. Long-term recipients from the Administrative and Support services sector and 'Other sectors' (incl. Arts and Personal Care services) also account for a significant share of pre-pandemic employment at approximately 10 and 7.5 per cent respectively.

Figure 10: Long-term PUP Cohort (52 – 55 Weekly Payments) by Sector and Long-Term PUP as a Proportion of the Pre-Pandemic Sectoral Employment Level



Source: CSO (Q4 2019 LFS) and DSP administrative data.

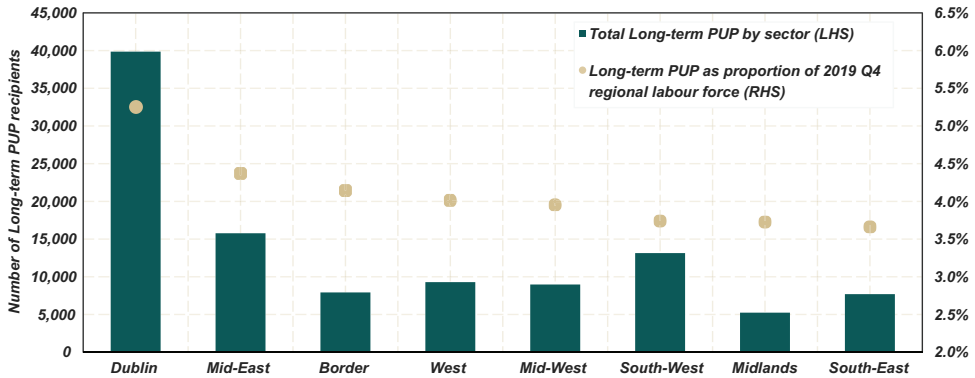
Note: Authors' calculations exclude those PUP recipients whose sector was classified as 'unknown'.

4.3 Long-term PUP Recipients by Region

Similarly, Figure 11 presents the same cohort by reference to each region. This indicates that almost 40,000, or 37 per cent, of long-term claimants were based in the Dublin region. The Mid-East and South-West regions accounted for close to 30,000 further claimants. In each region nationwide, the Hospitality and Retail sectors represented the two largest categories of long-term claimants. In terms of the long-term PUP cohort as a proportion of the pre-pandemic regional labour forces, Figure 11 shows that Dublin is significantly higher than the other regions with a long-term PUP share of over 5 per cent. As noted above, this is likely a

consequence of the unique concentration of occupations and sectors in the Dublin region that have been unable to resume operations since the onset of the pandemic.

Figure 11: Regional Long-Term PUP Cohort (52 – 55 Weekly Payments) and Long-Term PUP as a Proportion of Pre-Pandemic Regional Labour Forces



Source: CSO (Q4 2019 LFS) and DSP administrative data.

4.4 Long-term PUP Recipients by Age and Gender.

It is also worth exploring the demographic characteristics of the long-term PUP cohort in order to understand who is most at risk of being permanently displaced from work as a result of COVID-19. With regard to the gender breakdown, the data show that 54 per cent are men and 46 per cent are women, representing almost identical proportions to the overall PUP recipient cohort as at the one-year anniversary mark of the PUP.

Looking at the age composition of this cohort, individuals aged 15-24 years account for proportionally less of the long-term cohort (17 per cent) than they do of total PUP recipients (24 per cent). This suggests that, although young workers have been among the worst groups affected during the pandemic, they also have the most labour mobility and are able to engage in some form of employment quite quickly when restrictions are eased. For example, significant outflows from the PUP were seen among this cohort during the reopening in December for the Christmas period, with many filling in seasonal demand jobs in Retail and Hospitality. In contrast, the evidence suggests that older age workers are less likely to return to the labour market when they have been displaced. The oldest cohort for example, 55 years and over, account for almost 20 per cent of the long-term PUP cohort compared to 13 per cent of total PUP claimants. This, however, is an area for further analysis as additional data points are accumulated.

Students make up approximately 9,400, or just under 9 per cent, of long-term PUP recipients. Furthermore, our analysis shows that one-in-five students on the PUP are in the long-term PUP cohort, with approximately 82 per cent of these

long-term PUP students under 25 years of age. As already noted above, given the fact students are generally ineligible (when studying full-time) for jobseeker's payments, we would not consider these individuals as unemployed when the scheme eventually comes to an end.

4.5 Long-term PUP Recipients and Potential Implications for Future Unemployment Levels

The CSO's COVID-19 adjusted unemployment rate for March 2021, which includes all those in receipt of the PUP, was 23.8 per cent. The traditional seasonally-adjusted ILO unemployment rate for March 2021 remained stable relative to previous months at 5.8 per cent. However, neither of these measures are likely to represent the true level of unemployment arising as a result of COVID-19, which is likely to lie somewhere between these two figures.

The methodology behind the COVID-19 adjusted measure of unemployment, in including all those in receipt of the PUP as unemployed, means that it is an upper bound estimate.¹¹ A significant proportion of those in receipt of the PUP are waiting for the re-opening of their sector or employer and so, using a traditional definition, would not be classified as unemployed. In addition, students would not typically be counted as part of the labour force (or as unemployed). Therefore, the CSO's COVID-19 adjusted measure likely overstates the true unemployment rate, which is likely to be considerably lower whilst the standard (or lower-bound) monthly unemployment rate does not capture the underlying impact of the pandemic.

In order to better understand the likely scale of the challenge, we have endeavoured to provide an estimate of unemployment based on our understanding of PUP and its recipients. The number of persons in receipt of the PUP for the vast majority of its existence (long-term cohort) has remained largely consistent in the months leading up to the one-year anniversary of the payment's existence at approximately 110,000 individuals. This cohort, as we have already noted, are considered to be the group most at risk of remaining unemployed after COVID-19 restrictions end. By adding this long-term PUP cohort to the number classified as unemployed under the CSO's ILO measure of unemployment (approximately 140,000 in March 2021, seasonally adjusted) we get an estimate in the region of 250,000 as the true underlying numbers unemployed. If we further subtract those long-term PUP recipients classified as students (approximately 9,400) we get 240,000. This equates to an unemployment rate of approximately 10 per cent. While only an estimate, this helps us to better approximate the scale of the unemployment challenge until a clearer picture emerges once restrictions are fully unwound.

In addition, there may be some businesses whose viability has increasingly come under pressure due to the rolling and prolonged nature of restrictions – alongside underlying changes to consumer behaviour – leading to further pressures

¹¹ CSO Technical Note on the COVID-19 Adjusted Estimates (August 2020).

on retention of pre-COVID levels of employment. The interplay of these competing dynamics will also impact on post-COVID unemployment levels.

V PRE-PANDEMIC EARNINGS AND REPLACEMENT RATES

5.1 Trends in Pre-pandemic Earnings and PUP Rates

In the final section of this paper, we use administrative data to analyse pre-pandemic earnings. Whereas the PUP was paid at a flat rate of €350 per week to all recipients from mid-March – and regardless of prior earnings – the payment structure was amended in both July and September. These changes established a link between prior earnings and the rate of PUP available. Additional changes established a four-tier payment structure as further nationwide restrictions came onstream in October.^{12,13} For illustrative purposes, we have applied these four payment bands to all PUP recipients as shown in Figure 12.

Table 1 presents the distribution of PUP recipients using these earnings categories at multiple points in time. The four payment bands presented here were introduced on 16 October, meaning the ‘peak’ and ‘trough’ columns below represent what the distribution across these payment rates would have looked like, given the earnings profile of recipients at these two points in time.

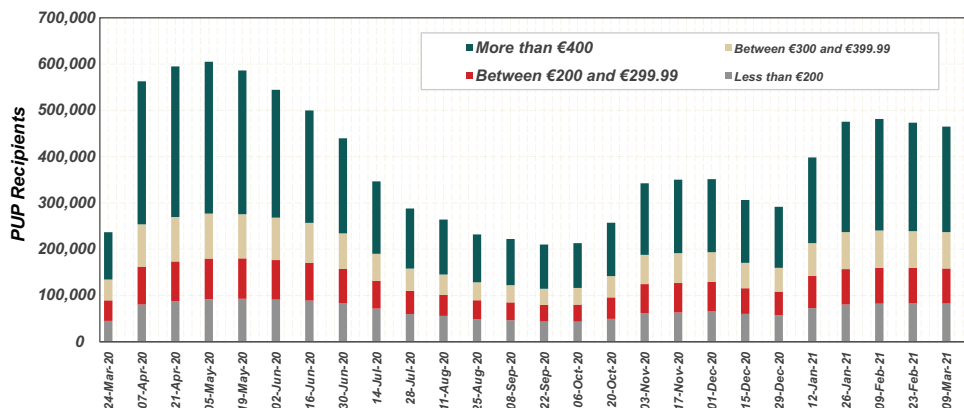
Figure 12 and Table 1 thus allow for useful comparisons to be made between timeframes. We can see here that during the period up to May 2020, a proportionately higher share of PUP recipients had prior earnings classified at the higher end of the spectrum (i.e. in excess of €400 per week) than was the case over later months. As the economy reopened, this distribution began to change and by late September the proportion of those PUP recipients with a lower level of pre-pandemic earnings had increased. Those with prior earnings below €300 per week increased from just below 30 per cent to 38 per cent of the total. This, in turn, suggests that those working in sectors with a higher average earned income were more likely to return to work over the Summer period (and/or to work in a sector where their employer was able to recommence trading operations). In part, this also reflects the fact that younger workers were more likely to be in receipt of a lower level of the PUP payment.

As Ireland exited the first lockdown, the number of PUP recipients working in Construction and Manufacturing fell, and whilst the number of those working in the Hospitality sector also fell, the latter sector actually increased as a proportion

¹² This included the introduction of a higher payment rate of €350 reflecting the move to a higher level of national restrictions which resulted in some businesses being asked to close. These changes were reflected in payments made from 27 October 2020.

¹³ The four Pandemic Unemployment Payment bands are based on an earnings model as follows: if you earned less than €200 per week, the rate is €203 per week; if you earned between €200 and €299.99 per week, the rate is €250 per week; if you earned between €300 and €399.99 per week, the rate is €300 per week; and if you earned €400 or more, the rate is €350 per week.

Figure 12: PUP Rate Distribution by Pre-Unemployment Weekly Income, Applying the Four Payment Band Model that was Introduced on 16 October 2020 to all PUP Recipients (March 2020 – March 2021)



Source: DSP administrative data.

Note: These distributions also include the small number of PUP recipients who were previously in receipt of a casual jobseeker's payment and those who, at the point of writing, were in the process of being reclassified.

of total claims over time. As the number of PUP claims began to rise again in early 2021 on foot of more comprehensive restrictions – which included the Construction and Education sectors – the underlying distribution by prior earnings was re-balanced again with a proportionately greater inflow of those with higher levels of earned income.

It is also interesting to note from the Department of Social Protection's weekly PUP statistics update that, in terms of payment rate by gender, the proportion of women claiming the top €350 rate has been consistently lower than that claimed by their male counterparts. As at the one year point of the PUP's existence, only 37 per cent of women on the support were receiving the €350 rate compared with over 58 per cent of men. Again, as outlined above, this suggests that women in lower income customer facing jobs may have been particularly impacted by public health restrictions.

5.2 Replacement Rates

Replacement rates are used to measure a person's financial incentive to work. They compare a person's in-work income with out-of-work income. While there is no fixed cut-off level above which a support is considered to act as a disincentive to work, it is suggested that it is advisable to have particular regard to replacement rates of 70 per cent or more (Reilly, 2015).

In the case of the PUP, however, caution must be exercised in the interpretation of replacement rates, and the implied financial incentives to work, due to the unique

Table 1: Distribution of PUP Recipients by Pre-Unemployment Income

<i>Pre-unemployment weekly income thresholds</i>	<i>First Lockdown Peak (5 May 2020)</i>	<i>Trough (22 Sep 2020)</i>	<i>Second Lockdown Peak (24 Nov 2020)</i>	<i>Third Lockdown and One-year since PUP introduced (16 March 2021)</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Less than €200	15.1	20.9	18.4	17.8
Between €200 and €299.99	14.5	17.2	18.1	16.4
Between €300 and €399.99	16.1	16.6	18.3	16.9
More than €400	54.2	45.4	45.2	48.9

Source: CSO, DSP administrative data and authors' calculations.

Note: These distributions also include the small number of PUP recipients who were previously in receipt of a casual jobseeker's payment and those who, at the point of writing, were in the process of being reclassified.

policy and labour market context that pertains during a pandemic. The PUP, by design, is a temporary support to allow workers impacted by the pandemic and public health restrictions to remain at home until permitted to return to work. In this context, the incentive to work issue is not at play in the same way as it would typically be, as it is predominantly the easing of public health restrictions and the return to more normal labour market conditions that will ultimately contribute to the return of a PUP recipient to work.

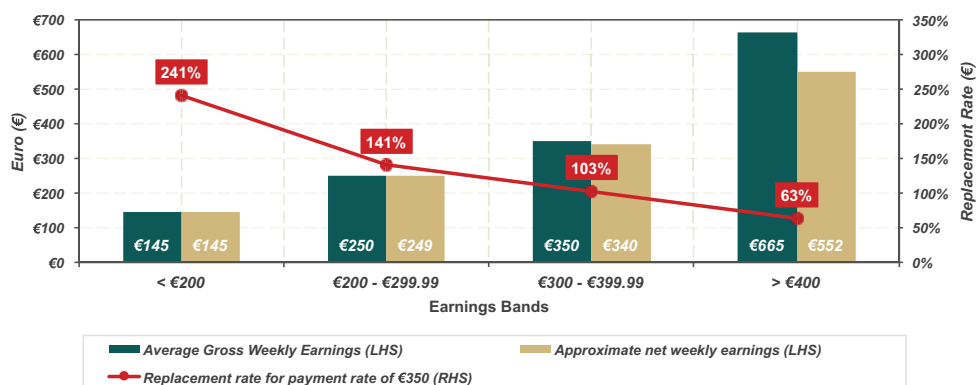
The material presented here is intended to provide the reader with some level of insight as to changes made to the payment bands to include a link to prior earnings. The evidence suggests that the changes introduced over time have helped re-shape the payment structure and consequently provided a better alignment to pre-pandemic earnings. An initial review of the labour market impacts of the pandemic (Coates *et al.*, 2020) found that the most severely impacted sectors were Tourism, Hospitality and Food services; Retail; and Construction on the basis of jobs lost (or displaced). This research also found that the average replacement rate for workers in these sectors was close to 76 per cent. This, however, does not tell the whole story given the earnings range of those working in these sectors, including the differential between full-time and part-time workers.

At the time of the peak in PUP claims in early May, gross weekly earnings across all PUP recipients averaged €485 giving an overall replacement rate of 83 per cent.¹⁴ However, this average masks the wide variation that exists between recipients. As previously noted, all PUP recipients at this time received a weekly

¹⁴ Replacement rate based on prior net earnings.

payment of €350. By means of segmenting these claimants using the later four-tier payment bands, we can better understand the underlying earnings distribution of claimants and their respective replacement rates. Figure 13 indicates that the average pay of those with pre-unemployment gross weekly earnings of less than €200 was €145. As shown in Table 1, these individuals represented just over 15 per cent of all PUP recipients at that stage. This equated to an effective replacement rate of 241 per cent. By contrast, the replacement rate at the peak of the first lockdown was 63 per cent for those with the highest category of earnings.

Figure 13: Replacement Rate at Payment Rate of €350 using Prior Earnings of Recipients (as at 5 May 2020, Peak of First Lockdown)



Source: DSP administrative data and authors' calculations.

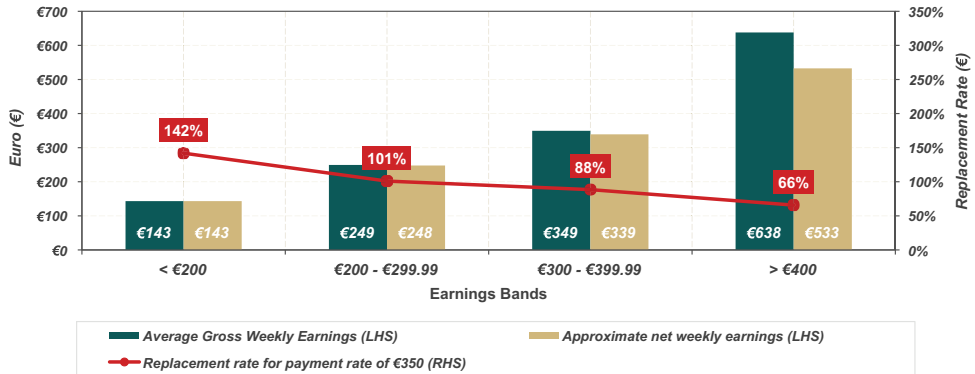
Note: Authors' calculations exclude those in receipt of a casual jobseeker's payment and those in the process of being reclassified.

These estimated replacement rates were not static, however, and have evolved over time as the underlying composition of PUP claimants has changed. More importantly, the introduction of a link to prior earnings has played a critical role. With the inflow of new PUP claims in the aftermath of the reintroduction of public health restrictions in late December and early January, the replacement rates for PUP recipients during the third lockdown were generally lower, particularly for those with lower earnings. For instance, as shown in Figure 14, at the one-year anniversary of the PUP, those with prior earnings of less than €200 per week now experienced an average replacement rate of 142 per cent. The reduction, when compared with the first lockdown, is primarily a function of the reduced weekly rate of PUP payable (i.e. €203 versus €350).

5.3 Trends in PUP Recipients Average pre-COVID-19 Gross Weekly Income

Figure 15 shows the average pre-COVID-19 weekly income of PUP recipients for the 12 months since its inception. It shows that average earnings peaked at

Figure 14: Replacement Rate of Four Band Payment Structure using Prior Earnings of Recipients (as at 16 March 2021, Third Lockdown and One Year of PUP)



Source: DSP administrative data and authors' calculations.

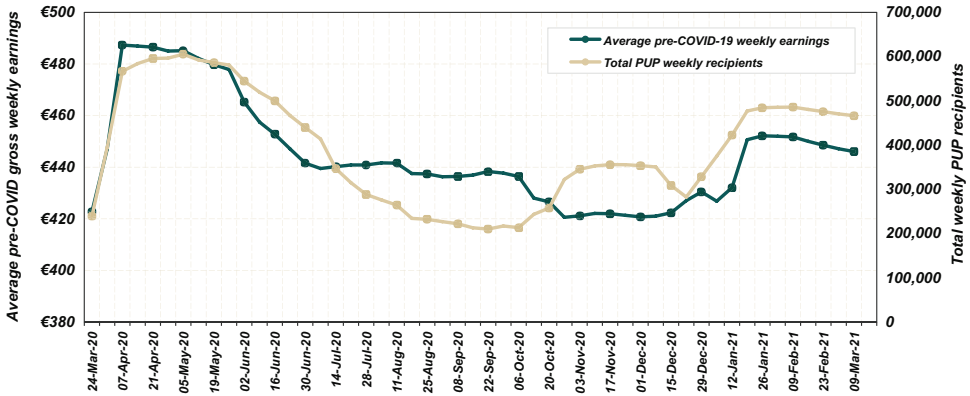
Note: Authors' calculations exclude those in receipt of a casual jobseeker's payment and those in the process of being reclassified.

approximately €487 in the initial weeks of the scheme but have not returned to that level since this time, even under renewed periods of strict public health containment measures.

The trend shows that average earnings tend to move in tandem with total PUP claims, with increasing public health restrictions tending to result in higher earners flowing into the system. The one notable exception to this, however, is the second national lockdown in October-November 2020, where average pre-COVID earnings actually fell. This, as well as the overall trend can be explained however, if we consider the sectoral targeting of restrictions. For example, Construction, which is typically a relatively high-income sector, has likely been a key contributor to the increase in total average earnings when it has been mandated to cease operations; as was the case in the first and third lockdowns. In comparison those individuals working in the sectors most impacted during the second lockdown such as Retail, Hospitality and Personal Care services are typically on lower incomes. In addition, the nature of work in these sectors – in-person services with limited ability for social distancing – and their inability to provide their services remotely, means that these sectors have been most consistently impacted, even during times of reduced public health restrictions.

It is also interesting to note from Figure 15 that, even when restrictions remain in place for a number of weeks or months, the average earnings of recipients gradually decline. This suggests that, on average, higher income earners may have a higher propensity to close their claim and return to work prior to the formal lifting of restrictions, compared with lower income individuals. This was particularly

Figure 15: Average Pre-COVID Gross Weekly Income of PUP Recipients (March 2020 – March 2021)



Source: DSP administrative data and authors’ calculations.

Note: Figure excludes those in receipt of a casual jobseeker’s payment and those in the process of being reclassified.

evident during the first lockdown and again in the third lockdown introduced in early January 2021. Again, it is worth noting the nature of work of these individuals and the fact that certain types of work are more amenable to remote working or other forms of adapted activity or service delivery; an option not available to many – particularly close proximity – occupations and sectors, i.e. Hospitality and Personal Care services.

Finally, we also examine weekly pre-pandemic average earnings with respect to the long-term PUP cohort discussed in Section IV and find that, as of 6 April 2021, 38 per cent of these individuals are in receipt of the highest rate of payment, suggesting that some higher earners have not been able to return to their previous source of employment (perhaps because they are employed in those sectors most impacted). It is clear, therefore, that those most at risk of being permanently displaced as a result of the pandemic are not only going to be low income earners.

VI CONCLUDING COMMENTS

The objective of this paper is to examine the impact of the COVID-19 pandemic on the Irish labour market through the lens of the Pandemic Unemployment Payment, a year after its introduction. In doing so, the core research question of the paper is to explore the differential impacts over time by sector, region, gender and age group. In addition, we examine payment rates and pre-pandemic earnings, along with durations of claims among recipients in order to gain insights into the challenges for Ireland’s post-COVID recovery.

On the basis of jobs lost (or displaced), the three most severely impacted sectors at the outset were Hospitality; Retail; and Construction but this mix has changed over time. For example, whilst the Construction sector was largely exempted from subsequent waves of restrictions in 2020, the number of PUP claimants who had previously worked in the Hospitality sector has remained high throughout the year. Indeed, even when the numbers from this sector have fallen, it has continued to account for the single largest sectoral block of claimants and largest overall share of its pre-pandemic employment level. This has implications for the ongoing targeting of supports to the impacted sectors and workers. With respect to region, we find a largely consistent impact of the pandemic across the country reflecting the largely nationwide implementation of public health restrictions. The evidence presented here also indicates that younger persons are now more likely to account for a higher proportion of claims than was the case during the first lockdown. In other words, the sectors that typically provided employment opportunities to younger workers are those most impacted by the pandemic. Similarly, our analysis suggests that the differential gender makeup of the PUP observed throughout the pandemic is largely dependent on the sectoral targeting of public health restrictions. However, from an examination of the gender composition of the PUP relative to the labour force, our evidence suggests that, overall, women may have been more negatively impacted by the pandemic. This is likely driven by the high levels of female workers in those sectors most impacted by public health restrictions, namely Hospitality, Retail and Personal Care services.

A detailed examination of the underlying duration of claims suggests that there is a considerable cohort of PUP claimants who have not had an opportunity to return to work since March 2020, but who have been in receipt of this payment since its inception. Whilst students displaced from part-time work account for a small proportion of this cohort and can be expected to ultimately move on to a post-education career in (most likely) other sectors, there are still others displaced from full-time work who have become more distanced from the labour market over time. It is this cohort who are most at risk of being permanently displaced by the pandemic. Using this analysis of long-term recipients and noting the limitations of the COVID-19 adjusted measure of unemployment, we then constructed an estimate of the likely 'true' scale of the unemployment challenge. Our estimate, while significantly lower than the upper bound COVID-19 adjusted measure, provides a better indication of the likely extent of the problem than both the COVID-19 adjusted or traditional (lower bound) measure.

Finally, the evidence presented indicates that changes introduced to the payment bands have provided a better alignment to pre-pandemic earnings. In addition, exploring the evolution of average pre-COVID income of PUP recipients over time suggests that higher earners may have a higher propensity to close their claim and return to work prior to the formal easing of restrictions. A determining factor here is likely the nature of work held by these individuals and the ability for some sectors

and occupations to adapt to their modes of service delivery and to facilitate remote working, an option that does not exist in areas of our economy that deliver services in person and in close proximity.

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