

Reflections on the labour market statistics today put in context of wider trends

Since the pandemic, the local labour market largely became the go to place for positive economic statistics. Employment at record highs and unemployment close to historic lows has been a line regularly trotted out. A cursory glance at these two statistics provides some comfort that the labour market appears to be functioning well.



But according to the latest batch of labour market statistics released today, even these two stalwarts of positive economic statistics are starting to soften. There are distinct signs of a broad-based weakening in the labour market. Unemployment and economic inactivity rates up. Meanwhile Northern Ireland's employment rate, employment levels and total hours worked all moved in the wrong direction.

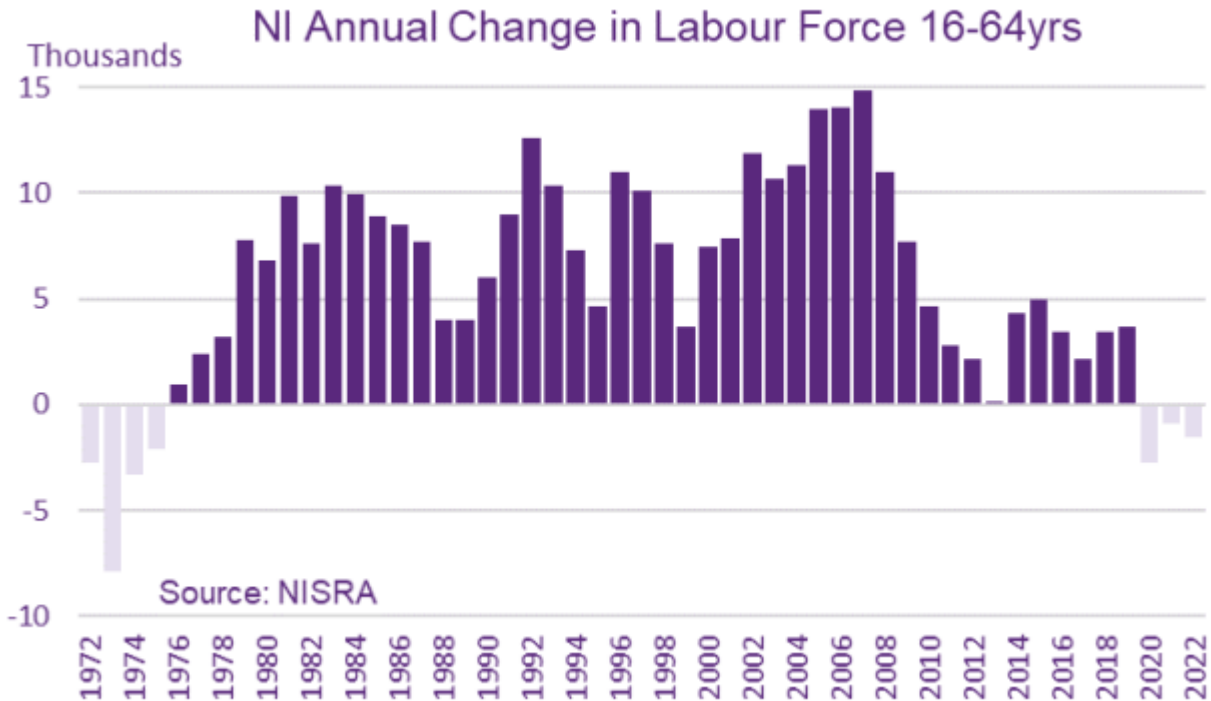
The local labour market has been coming off the boil since the Spring. Two growing concerns are the falling employment rate and rising economic inactivity rates. These hit 10-month highs (26.9%) and lows (71.1%) respectively in the three months to July. They also compare unfavourably with the position that prevailed before Covid-19 hit. These trends feed into a wider economic concern, namely the emerging labour supply crunch.

Widespread skills shortages are well known with recruitment difficulties experienced across the length and breadth of the economy. The evolving trends in the labour market are far from ideal from an employer and hiring perspective.

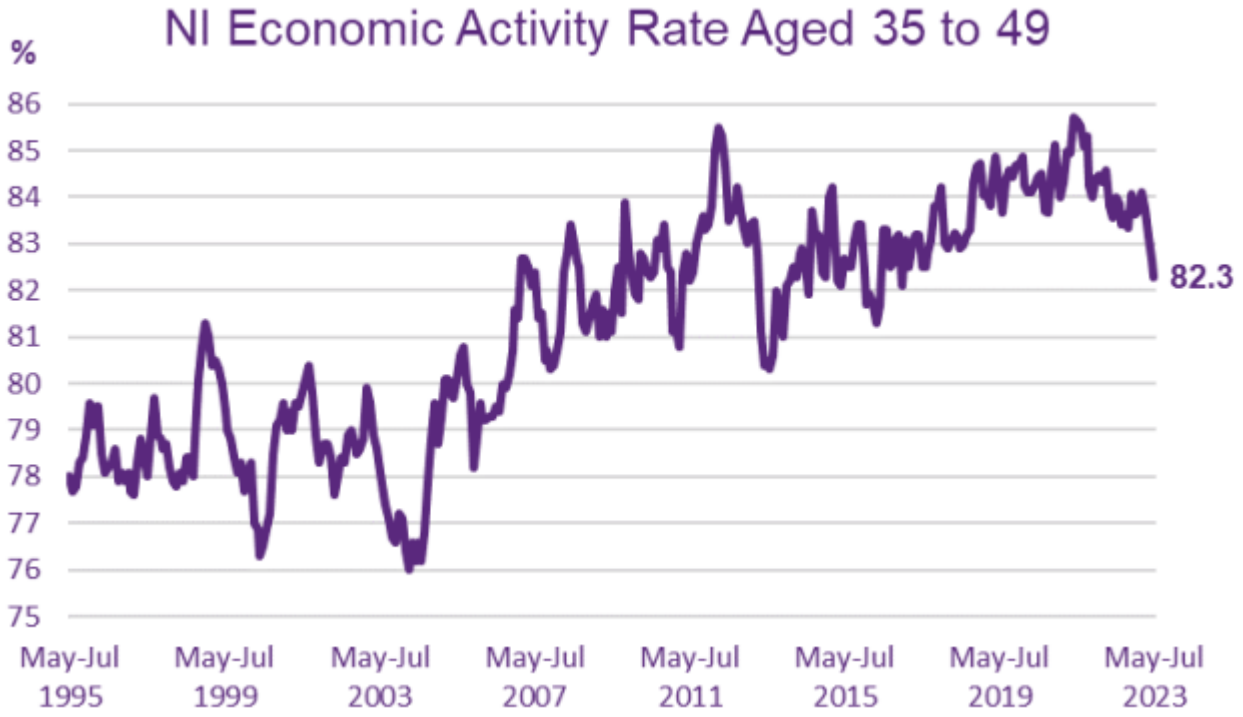
The labour supply crunch comes in three parts.

- A declining working-age population
- A rise in economic inactivity (or reduced economic activity)
- Those in work choosing to work less.

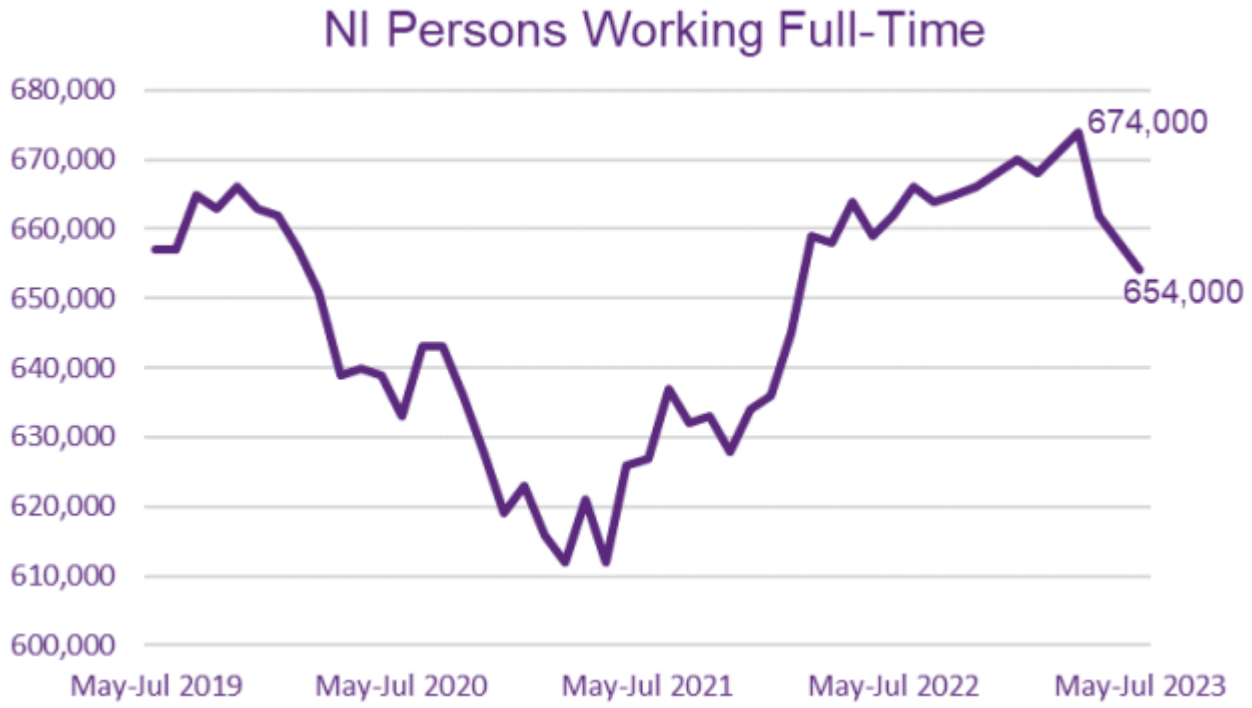
First, consider NI's working age-population. This is the number of people aged 16-64 years of age and provides the potential pool of labour that employers can avail of. That pool of potential labour has been falling for the last three years. Three successive years of a shrinking working-age population is a feat that hasn't occurred since the early 1970s. Back then the issue was a shortage of jobs not labour. The recent decline in NI's working-age population follows a notable slowdown in working-age population growth over the previous decade. Brexit has exacerbated the labour supply issue although there has been a significant pick-up in inward migration from non-EU sources, notably India and Ukraine.



Second, rising economic inactivity means that an increasing proportion of 16-64year-olds aren't actively looking for work for whatever reason. This includes students in education, long-term sickness, retired and those individuals looking after the home / family (includes carers). The most damaging of these is the rise in long-term sickness. The number of long-term sick has risen by 26,000 or 26% since the pandemic. Long-Covid, an increased incidence of poor mental health and a backlog of health issues missed during the pandemic have all contributed to this trend. It is noted that economic activity amongst 35-49year-olds fell to its lowest rate in over 6 years.



Third, those individuals in work in Northern Ireland choosing to work less. The pandemic has led to new ways of working and changed people’s lifestyle choices. It is noted that people are working fewer hours and embracing part-time as opposed to full-time work. Looking at the Labour Force Survey for the three months to July 2023, there were 20,000 fewer full-time workers relative to the previous quarter. The number of people working full-time fell to a 17-month low during the period May-July 2023. Conversely, the number of people working part-time has risen over the last quarter. The rise of Working from Home (WFH), enabled by technology, has also enabled workers based in Northern Ireland to work for employers outside of the economy. This further reduces the pool of available labour for local employers.



Northern Ireland, like economies elsewhere, faces a labour supply crunch. Demographic trends, such as an ageing population, point to an increasing shortfall of available workers. Meanwhile, the legacy of Covid and deteriorating health outcomes is shrinking the supply of workers further. Throw in the new ways of working / post-covid lifestyle choices and employers are experiencing severe shortages in labour. Competition for staff leads to a bidding up of wages. But for many firms in low wage sectors this could impact on profitability and viability. Solutions on attracting more migrants from abroad and / or replacing labour with machines (automation) are required sooner rather than later. The labour supply crunch has arrived.

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