



AIB GLOBAL TREASURY SERVICES

## Topic of the Day

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# THE IRISH LABOUR MARKET 2007 AND BEYOND

AIB GLOBAL TREASURY ECONOMIC RESEARCH UNIT

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1<sup>ST</sup> JUNE 2007

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# The Irish Labour Market 2007 and Beyond

1<sup>st</sup> June 2007

**AIB** Global Treasury today released a detailed report on trends and prospects for the Irish labour Market. This report examines the Irish labour market in terms of employment demand on a sectoral basis and also in terms of the future sources of labour supply.

To date the Irish labour market has remained remarkably robust

What is remarkable is the strength of the Irish labour market, where conditions remain very tight. According to the most recent Quarterly National Household Survey, the rate of labour force and employment growth did slow somewhat in Q1 2007. However, employment still grew by 3.8% in the year to Q1 2007, with 76,800 new jobs created. Meanwhile, the labour force grew by 80,400 (or 3.9%) in the same period. Furthermore, the Irish unemployment rate at 4.4% (seasonally adjusted basis) in Q1 2007 remains very low. The unemployment rate has been within a 4 - 4.5% range for the past six years.

Commenting on the report, John Beggs, Chief Economist said

*"The growth in employment in recent years has been fuelled by the significant strength of the economy and has been facilitated by sizable inflows of foreign nationals. However, there are increasing concerns as to the sustainability of the recent robust rates of labour force and employment growth.*

*In particular fears about labour demand have been fuelled in recent months by a stream of announcements of job losses or risks to jobs in the future - in the manufacturing and construction sectors in particular. Furthermore, the Small Firms Association has warned of only minimal jobs growth by its members in the coming year.*

*These negative job pronouncements, though, have to be seen against the background of other indicators which paint a somewhat less bleak picture of the employment outlook. Overall, while growth rates are set to slow considerably, we are not unduly pessimistic about labour market prospects."*

## Growth rates set to slow

It must be doubtful whether the labour force can continue to exhibit the robust growth rates of recent years. There has been a significant decline in the contribution to labour force growth from changes in the indigenous

population in recent quarters. Given the impact of the low birth rate in the 1990s, further declines in indigenous labour force growth seem likely. Increased participation has also contributed to the increase in the labour force.

However, this contribution has been in decline for the past couple of years and the scope for future labour force growth from increased participation rates may well be more limited.

Ireland has increasingly relied on an influx of foreign nationals to fuel labour force growth. However, the level of net inward migration may already have peaked. Overall, labour force growth looks set to slow to 3.5% in 2007 and 2.5% in 2008, from 4.5% last year.

Meanwhile, the report envisages that around 68,000 jobs will be created on average in 2007 (employment growth of 3.4%). By 2008, though, employment growth is expected to slow to 1.9%, representing an additional 40,000 jobs.

However, over this two year period, it seems likely that the growth in the labour force will exceed somewhat that in employment, leading to a small rise in the unemployment rate to 5% in 2008.

### Construction sector particularly at risk

There are undoubted concerns about the narrow base of recent employment growth. Employment growth was generally broad based on average in 2006 (with the exception of the manufacturing sector). However, the rate of employment growth in several sectors of the economy slowed significantly during the year. Indeed, in the year to Q1 2007, only three sectors accounted for some 53,300 (70%) of the 76,800 increase in employment over the period. These sectors, construction, education and health, though, account for only 30% of total employment.

A detailed examination of the individual sectors in some detail, however, indicates that the base for employment growth should broaden again in 2007. In addition, public sector employment growth should remain firm.

However, though it may take some time for the recent spate of announcements of job loss to take effect, manufacturing employment is expected to come under pressure and a renewed contraction in the sector is quite possible. Furthermore, the report does not envisage that the rise in construction employment will be sustained.

Indeed, it is the construction sector that AIB sees as posing the main risk to employment growth.

### As John Beggs comments:

“Overall, we expect that the pace of employment growth in the construction sector will slow, with the supply of new housing reaching a peak. However, given the strength of activity in other areas of the construction sector, a collapse in construction employment does not appear to be imminent.

Construction could add approaching 12,500 jobs on average in 2007, compared to the 24,000 added, on average, in 2006. However, over the course of the year the rate of job creation could slow to such an extent that, by the end of 2007, employment may be in decline on a year-on-year basis. Furthermore, looking to 2008, employment in the sector seems set to contract by around 10,000."

### Reduce demand likely to coincide with lower supply

In general, then, AIB expect demand for labour to ease in the period ahead, especially in sectors such as construction and manufacturing and also with the economy expected to move down to a lower growth trajectory from 2008 onwards. However, this reduced demand is likely to coincide with a significant fall in the supply of labour, given the constraints now emerging on all of the major components of labour force growth of recent years.

### As John Beggs Notes:

"Looking to the medium term, it seems unlikely that labour force growth will be sufficient to sustain employment growth much above 2.5% per annum. This may not be a serious problem, however, as many of the key sectors supporting employment creation will have lower job requirements."

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OR

### For the full 31 page report, click Below:

<http://www.aibeconomics.com/PDFS/Irish%20Labour%20Market%20June%202007.pdf>

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