Economic Commentary

Employment at odds with GDP — 1 September 2013

The Irish seasonally adjusted unemployment rate peaked in early 2012 at just over 15% and has fallen steadily since, averaging 13.7% in the second quarter of this year before falling to an estimated 13.4% in August. Some argue that the decline is largely due to emigration but the latest Quarterly Household survey, for q2, reveals that employment has risen strongly and that the labour force too is also growing again.

Indeed, the pace of employment growth is surprising, showing an annual rise of some 34k, or 1.8% following a 1.1% annual increase in the first quarter. That pace of job creation is startling in a European context and implies a buoyant economic backdrop which is very much at odds with the recent trend in Irish GDP– the 0.6% contraction in the first quarter was the third consecutive decline and left the annual change in GDP at –0.9%. GDP and employment can diverge for a time (the Irish economy picked up in 2011 but employment continued in freefall) but the divergence between the two measures is now a real puzzle.

The composition of any change in GDP can be important in terms of the labour market , with some industries much more labour intensive than others. In Ireland's case the export sector is dominated by high valued-added sectors which can grow strongly without generating much in the way of additional employment, at least in the short term. Total employment in Ireland, is therefore much more dependent on domestic demand, which has yet to clearly show signs of stabilization, particularly in terms of consumer spending, at least as measured in the national accounts.

Yet the Survey revealed annual employment growth in construction, the retail sector and hotels although it should be noted that about half the total of jobs created were in agriculture, which according to the survey has seen an 18.7% rise in employment over the past month. The CSO does point out that the survey data for that sector should be treated with caution., but if agriculture is excluded the annual pace of job creation is still a very respectable 1.1%.

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The employment data may be revised, of course, but in the absence of a significant change the implication is that either Irish productivity has collapsed (output is falling but employment is growing) or that GDP is not as weak as initially reported. The publication of national accounts for the second quarter could throw more light on that issue.,