Economic Commentary

Ireland's employment boom — 26 November 2013

Real GDP in Ireland fell by 1.2% in the year to the second quarter according to the CSO and although the consensus expects a strong rise over the third quarter, it would only take the annual change into modestly positive territory, Not a very conducive environment for job creation one would think although as noted on this site earlier in the year the employment data has been at odds with the GDP figures for a while.

That gap has widened to a chasm in the third quarter; the latest Quarterly Household survey showed employment growth accelerating to an annual 58k in q3, up from 34k in the second quarter. A few industries showed an annual fall, mainly in the public sector, but most showed job creation, including construction(4k) and manufacturing (11k) , with a net 18k rise in employment in the service sector, driven by the hospitality sector (15k) and IT(11k). Agriculture provided the balance, and here there must be a caveat, with employment rising by 25k, which is the equivalent of a 29% increase in that sector.

On the face of it then employment in Ireland has risen by 3.2% in the past year, which is off the scale relative to the experience of our peers in Europe, where job losses are the norm, and would imply a booming economy rather than a modest increase in recorded GDP. The implication is that productivity growth has collapsed in the aggregate (output per worker is falling) or that GDP is indeed growing very strongly and that data revisions to the national accounts are very likely.

Yet other puzzles remain. That pace of employment growth would normally be associated with some upward pressure on wages but according to other data published today by the CSO average weekly earnings fell in the year to q3, by 2.4%, with declines seen in nine of the 13 industries in the survey. In addition, the pattern of tax receipts this year is not indicative of very strong GDP growth, or indeed employment growth on the scale just reported.

The labour force , which had been falling steadily, has also started to grow again, despite net emigration, and rose by an annual 16k (0.8%) in the third quarter, thanks to a rise in the participation rate (i.e. more people of working age returned to the work force). That increase was dwarfed by the surge in employment, and unemployment fell sharply as a result, by 42k to 283k, which must be the largest ever annual fall in absolute and percentage terms.

That left the unemployment rate at 13% but the more commonly quoted measure uses the seasonally adjusted data and that showed a huge fall on the quarter, to 12.8% from 13.6% in q2. That is a four-year low so on any labour measure one chooses the economy is in much ruder health than other indicators, notably the national accounts, would have us believe..