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Economic Research Unit

Economics Weekly

Bank of Ireland

Earnings continue to rise steadily

Earnings data shows that wages continue to rise but at a relatively modest pace considering the recent period of elevated inflation post pandemic. Hourly earnings rose by 5.4% year-on-year (y-o-y) to €29.71 in Q2. However, as inflation has fallen back considerably now, real incomes are rising steadily, and with inflation set to remain low, there may be less upward pressure on wage demands going forward. Despite a record number of people in work and low unemployment, the labour market does not appear to have overheated. That has been helped by a growing labour force which is being driven by healthy population growth and inward migration. A CSO estimate this week shows the population rose by nearly 100,000 in the year to April 2024, to 5.38m.

Earnings on the up: Average hourly earnings in Ireland rose by 5.4% y-o-y in Q2, taking them to €29.71. Gains were broad based across sectors - all bar transportation (which fell marginally) rose on the year - with the biggest percentage gains coming in the construction sector and administrative services. The split between public and private sectors was quite even with private sector hourly earnings up 5.0% annually and the public sector up 5.8%. Over the past five years (since Q2 2019), average hourly earnings have risen by around 25% with the largest rise coming in the information and communication sector which gained 38%.

Inflation now at low levels: While wages have risen substantially since 2019, they have only outpaced inflation by a small amount as, according to the CPI, average prices rose by c.19% between Q2 2019 and Q2 2024. However, inflation has now dropped back considerably following the post-Covid and Ukraine war surge. The year-on-year CPI rate peaked at 9.2% in October 2022 but stood at 2.2% in July. The flash HICP estimate for August shows Irish inflation on that measure fell to 1.1%, down from 1.5% last month. This is well below the prevailing Euro Area average of 2.2% and also the ECB's target rate of 2%. While annual CPI rates may pick up slightly at the tail end of this year, inflation is likely to remain low, at around 2%, for the next few years and take some of the upward pressure off wages.

Strong population growth: With record numbers at work and a low unemployment rate, the labour market has been tight but this has not led to overheating and excessive wage gains. Part of this restraint has been due to strong job creation being matched by labour force growth, which has increased by 18% since Q2 2019 (with employment up 19% in the same period). This has been possible due to strong population growth fueled by inward migration. The CSO April 2024 population estimate published this week showed the population increased by 98,700 (+1.9%) y-o-y - encompassing inward migration of 149,200 offset by 69,900 outward migration, and a natural increase of 19,400 - taking the total population to 5,380,300. However the population increase does put further pressure on existing infrastructure. The Government's current National Development Plan is based on population growth forecast of approximately 1 million between 2016 and 2040, but this week's estimate indicates the population has already grown by c.640,000 since 2016.

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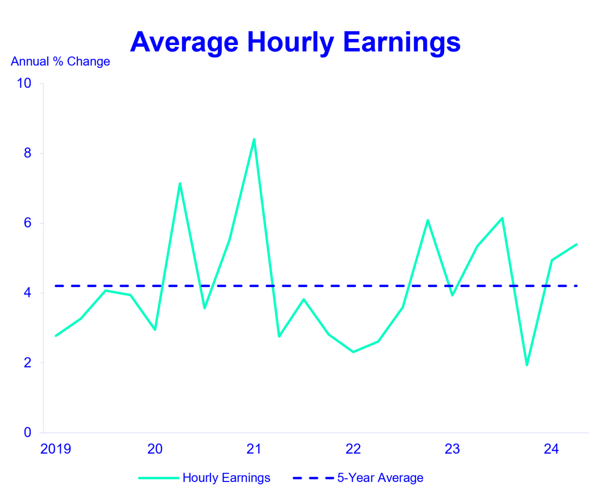

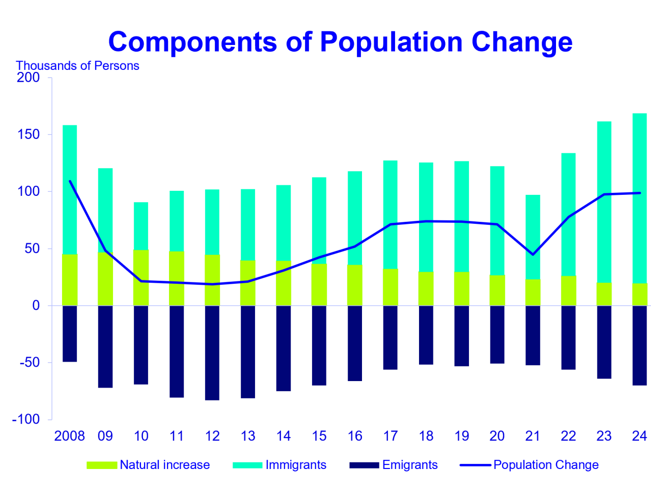

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