Economic Research Unit

Economics Weekly

Bank of Ireland

LFS may overstate Irish employment growth slowdown

This morning's CSO Labour Force Survey data (LFS), showed that employment growth returned in Q2, following an unexpected quarterly fall in Q1, with employment up nearly 20,000 (+0.7%), from Q1. Annual employment growth was quite soft, rising by just 0.8%, with falls in annual employment in five of the fourteen sectors. However, there may still be some sampling errors at work in this data as it is at odds with other economic data. The CSO's payrolls release shows that employment increased by 1.8% in the year to May, while trends in some individual sectors (for example, professional, scientific and technical) within this data, which is based on Revenue Commissioners data, are at odds with similar sectors in the LFS, which is survey based. Buoyant tax returns data in the year to July also point to stronger employment growth than indicated in the LFS. We do think employment growth has slowed from the 2%+ rates seen in the past number of years, but we think this data is overplaying the slowdown.

Employment rises in Q2: Employment rose by 0.7% quarter-on-quarter (or 19,500) in Q2. This followed a 0.7% fall in Q1, suggesting that employment numbers have been more or less flat since the start of the year. Total employment is now an estimated 2.84m, up 0.8% from the same quarter one year ago. Looking at individual sectors, there were gains in the year in, amongst others, education (+5.9%), accommodation and food services (+3.8%) financial, insurance and real estate (+3.1%) and public administration (+2.6%). However, there were falls in five sectors, including information and communication (-1.5%) wholesale and retail trade (-3.1%) and agriculture (-3.6%). There were also somewhat sizable movements in small sectors which suggest there is perhaps some volatility in the data which might be revised away and which are at odds with payrolls data. For example, transportation and storage sector employment, which was up 7.9% in the year, but this increase was driven by large gains in a single segment, air transport, which accounted for 70% of the increase in employment, while the large fall in the professional, scientific and technical sector, down 8.2% year-on-year, saw 70% of the lost jobs over the past year again came in a single segment, architectural and engineering. On the face of it, these movements seem unlikely and are at odds with payrolls data, where the professional, scientific and technical sector posted a gain of 3.2% in the year to May and the transport and storage sector posted a more subdued 4.1% increase.

Payrolls data suggest employment growth slowdown is less pernicious: Payrolls data for May also showed a slower pace of employment growth in the year, but one much less rapid than suggested in the LFS data. Employment fell by 0.3% in the month, but that followed monthly gains in each of the first four months of the year, suggesting employment grew by about 0.3% since the start of the year to May. Annual employment growth slowed to 1.8%, but there were yearly gains in most sectors, with only marginal annual falls in three sectors, agriculture (-0.5%) industry (-0.2%) and information and communication (-0.1%). The larger employment gains in the year using this data were in public administration (+7.1%), construction (+4.1%) and transportation and storage (+4.1%). The overall picture from this, and the LFS data, suggests that jobs growth (whatever its pace) is currently more driven by the public sector and domestic sectors rather than exporting sectors.

Other data supports view that labour market is healthy Firstly, the unemployment rate has not risen significantly. It was 4.9% in Q2, down from 5.0% in Q1, with the latest estimate for July coming in at 5.1% still indicative of a relatively tight labour market. Secondly, Exchequer returns show that the income tax take is up 7.5% in the first half of the year. This is slightly ahead of the Department of Finance's tax profile projections and suggests a faster pace of employment growth than in the LFS as the Department's projections have employment increasing by 1.6% this year. Thirdly, while headline GDP data has been volatile, data points to robust activity in the domestic sector supporting jobs gains. The latest manufacturing and services PMIs for July indicate strong job creation in both sectors. Overall, we think that while employment growth has slowed, this LFS data is likely to be overstating the slowdown.

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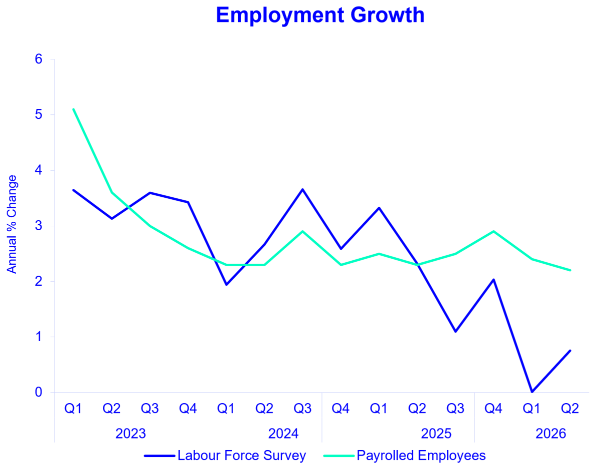

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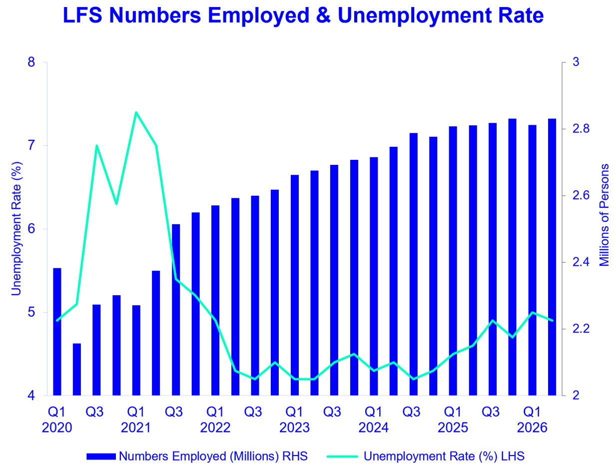

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