



Labour Pains

Strong inflows of Foreign Direct Investment (FDI) have been a key factor behind the extraordinary growth in output, exports and employment enjoyed by the Irish economy in the past couple of years. Recent announcements of job losses at US technology companies with significant operations in Ireland have sparked concerns about the health of the sector, as well as the prospects for continued inflows of FDI, at a time of a downturn in the global economy.

A survey of American Chamber of Commerce members in Ireland published last week, provides reassurance in this regard. It shows that over 60% of US companies based in Ireland expect to expand their workforces in the coming year, while just 4% of companies expect to shrink employee numbers. A key challenge may be sourcing these workers, especially with the IDA reporting a good pipeline of FDI for 2023.

A clear headwind to Irish growth prospects, though, is the emerging capacity constraints in the economy. The American Chamber of Commerce survey reveals that companies' biggest concerns are around the shortage of housing, unwieldy planning system, energy supply and costs, and the availability of labour.

In regard to the latter, the results of the CSO's Q3 2022 Labour Force Survey published last week, reveal clear signs of capacity constraints in the labour market. It showed that the unemployment rate remained at a twenty year low, below 4.5%, for the second quarter running. Meanwhile, the sharp pick-up in the labour force participation rate from 62.2 in 2019 to 65.0 by end 2021 has levelled off. Indeed, the rate edged lower to 64.7 in the third quarter of 2022. As a result, growth in the labour force is now slowing down.

The labour force has expanded by just 16,000 or 0.6% in the past two quarters. In year-on-year terms, the labour force grew by 2% or 53,000 in the past year. However, the number of Irish citizens in the labour force fell by 14,000 over this period, while the number of non-Irish citizens increased by 67,000, of which 55,000 were non-EU citizens. Some 60% of the growth in Irish employment in the past year was accounted for by non-EU citizens. Thus, Ireland has become heavily reliant on non-EU workers to fill job vacancies.



Labour shortages may be partly the reason why variations in the numbers employed are starting to emerge across different sectors. The past year has seen strong growth in employment in industry, construction, ICT and health care. By contrast, the numbers employed have fallen in agriculture, hospitality and financial services. Meantime, the numbers in part-time employment have been static over the past year.

It would seem then that the labour market is facing a squeeze from all directions; unemployment has fallen to very low levels, the surge in participation has levelled off and may even be starting to decline, while the part of the labour force comprising Irish citizens is now shrinking despite favourable demographics. The latter suggests a pick-up in outward migration, possibly after a hiatus caused by the pandemic. Overall, the jobs harvest may be rich but the labourers are few, leaving the Irish economy very reliant on workers from overseas. These now constitute nearly 20% of the employed workforce in Ireland.

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