CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

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Firing on all Cylinders for Now

The labour force data for the third quarter of this year published last week by the CSO provide further evidence of a strong rebound by the Irish economy in 2021. Employment stood at 2.47 million, or 2.37 million when adjusted for Covid, i.e. for those with jobs but who had not yet returned to work owing to ongoing Covid restrictions. Both measures are well up on the level of employment in the same period of 2019, before the pandemic took hold, which stood at 2.32 million.

Meanwhile, the labour force has increased by 170,000 or almost 7% in the past two years, with the participation rate standing at 65%, up sharply from 62.5% in 2019. Thus, unlike in some other economies, which have seen their labour forces shrink as participation rates fell owing to the pandemic, Ireland has witnessed strong labour force growth recently.

This may reflect rising job openings in some high wage sectors. The CSO data show very strong employment growth in ICT, financial services and in professional/scientific/technical activities. These are all areas of the economy that have performed well in the past two years, despite the pandemic.

There has also been a marked increase in employment in the public sector, most notably health, education and administration, consistent with the bigger role the State has played in the economy as a result of the pandemic. Meanwhile, areas that were hard hit by lockdowns and restrictions, such as hospitality and construction, are only now seeing employment return to around pre-Covid levels.

Meantime, the re-opening of the economy since the spring has also seen a collapse in the numbers on the Pandemic Unemployment Payment. As a result, the Covid-adjusted unemployment rate has fallen from 27% earlier in the year to 8% by October.

The labour market data are consistent with a broad range of other indicators showing a strong rebound by the Irish economy since the spring. Core retail sales rose by 10% in the second quarter of the year and a further 5% in quarter three. The PMIs for both services and manufacturing have posted very high readings since April/May, signaling very strong growth in both sectors. CSO data show robust growth in indigenous manufacturing output this year, as well as from the high-tech sector.

Meanwhile, the PMI for the construction sector has also picked up very strongly from earlier in the year. Perhaps the most encouraging data has been the surge in housing commencements since the spring, with the number rising to over 30,000 on a twelve month basis. This points to a likely marked increase in housing output in 2022-23.

The broad based strength of the economy is reflected in surging tax receipts, which were up by 20% to end October. The three main tax headings – Income, VAT and Corporation -showed increases of 21-25%. As a result, the budget deficit is in marked decline. Not surprisingly, growth forecasts for the economy in 2021 have been revised sharply upwards. The domestic economy is now expected to grow by circa 6%, with GNP rising by around 8%.

Considerable uncertainty remains about the economic outlook, though, with Covid proving more persistent than anticipated, and concerns regarding possible new, more infectious variants. It is unclear also if the supply chain disruptions and rising inflationary pressures seen this year will prove to be temporary. Thus, despite a very strong performance in 2021, it remains a very uncertain economic environment.

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