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The Irish labour market: Recent developments and future growth

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Central Bank of Ireland
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Disclaimer

The views in this paper are those of the author only and not of the Central Bank of Ireland or the European System of Central Banks. All errors are my own.

Overview

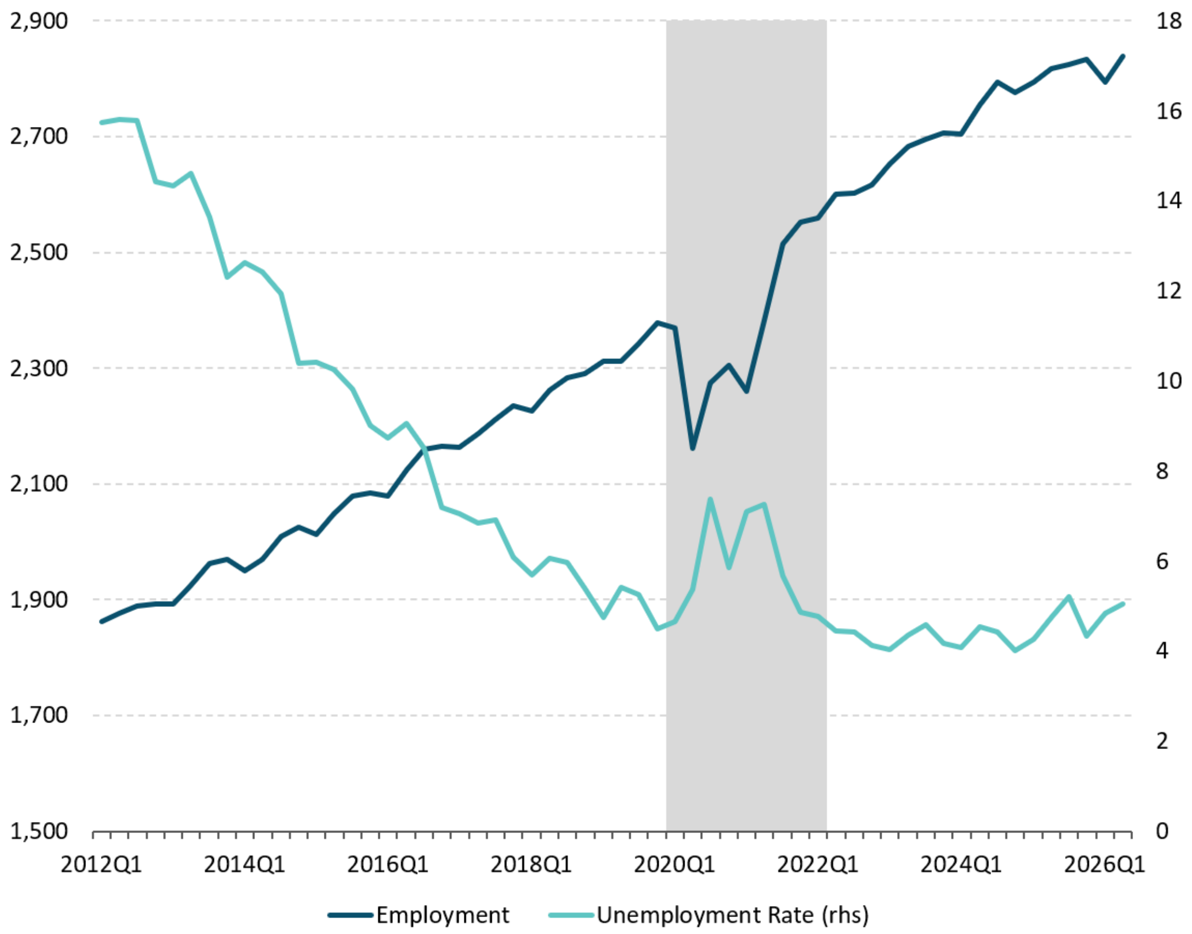
1. Growth in recent years

2. Current trends in labour market
   - Mixed signals from indicators
   - Role of migration
   - Labour demand and unemployment
   - Wage developments

3. Future outlook
   - Short to medium-term
   - Long-term path

Moderating developments following very strong growth

- Employment is broadly in line with the pre-pandemic linear trend
- Annual average growth of +6% in 2021 and 2022 slowed to 2.2% in 2025
- Unemployment close to historic lows though slight increase in recent quarters
- Composition of unemployment has changed over the years
  - Lower long-term unemployed
  - Higher educational attainment
  - Higher share with previous work experience



Note: grey shaded area denotes period of pandemic related support measures and restrictions

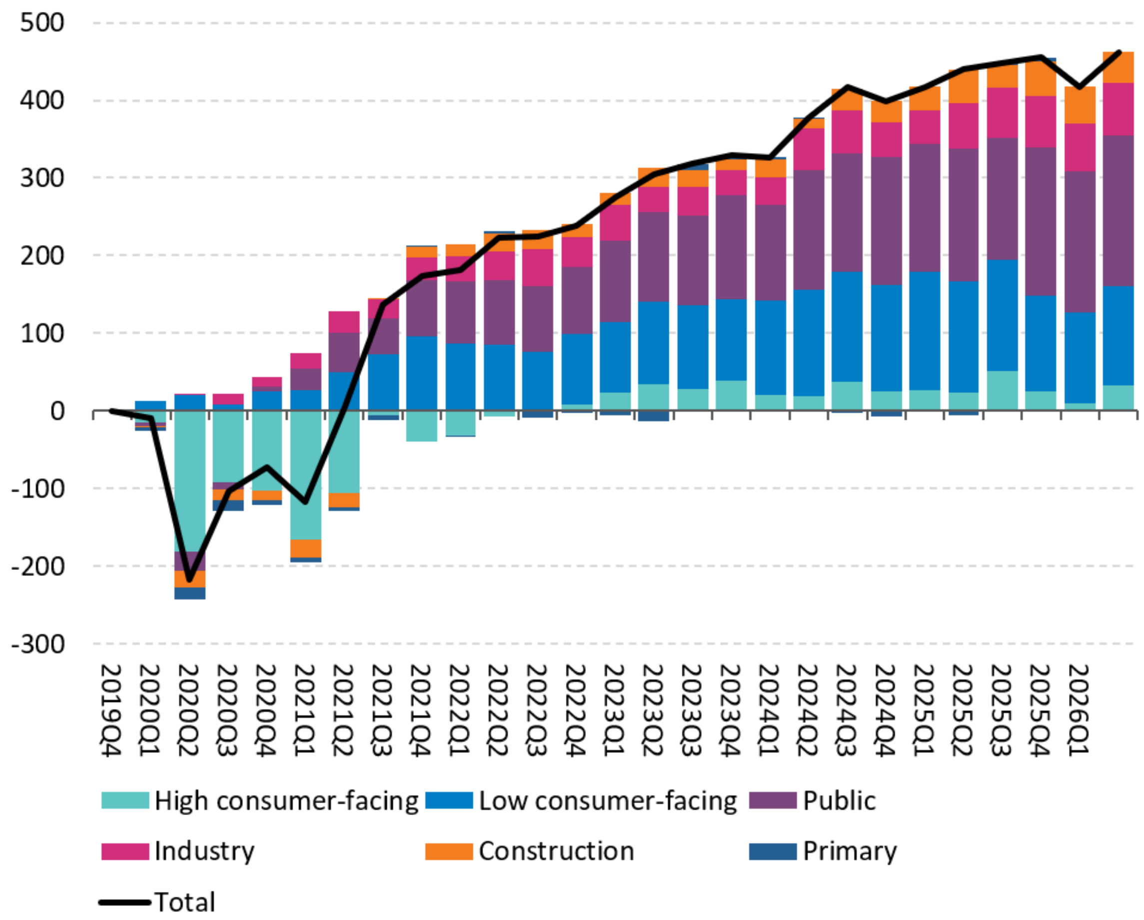
Sectoral drivers have changed

- Growth has mainly been in
  - Public: Health, Education, Public Admin
  - Low-Consumer Facing: ICT, Finance, Professional

- Construction has increased though remains 30k below peak employment levels

- ICT levels down recently due to redundancy announcements in several large firms
  - Levels in 2026 are still 40% higher than in 2019

Cumulative employment growth



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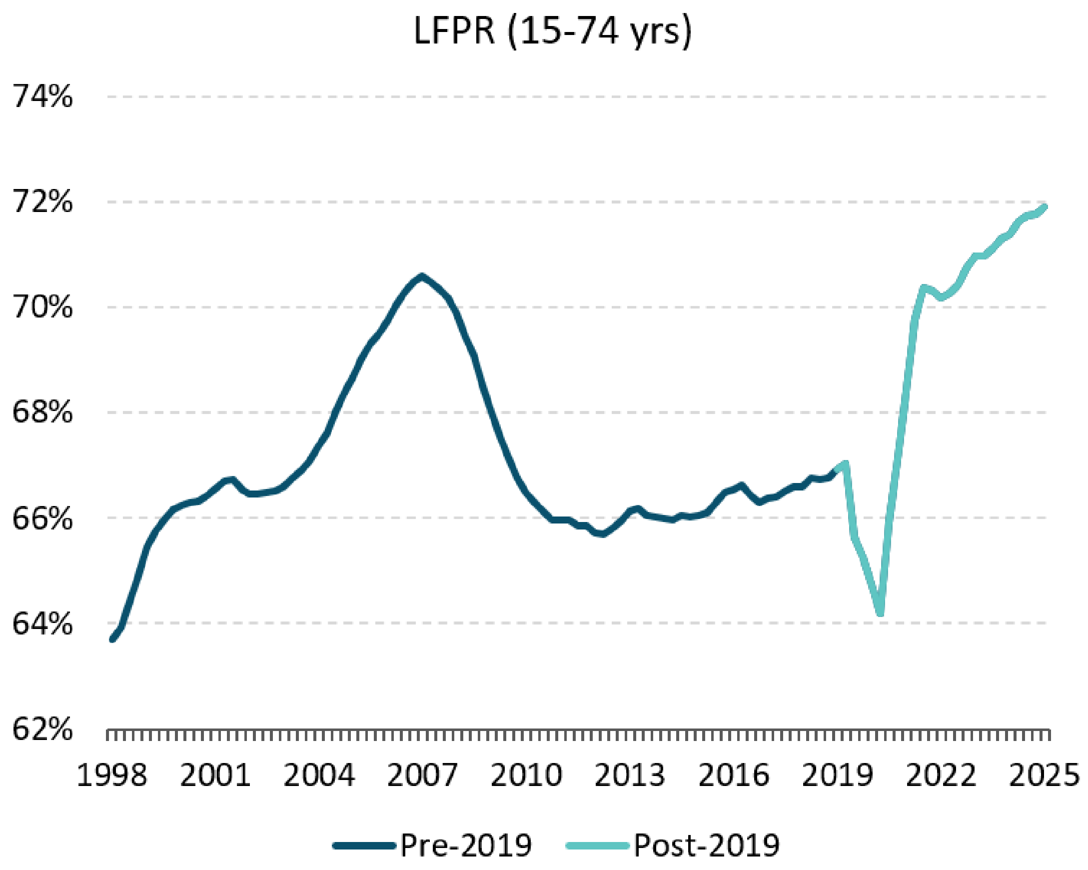
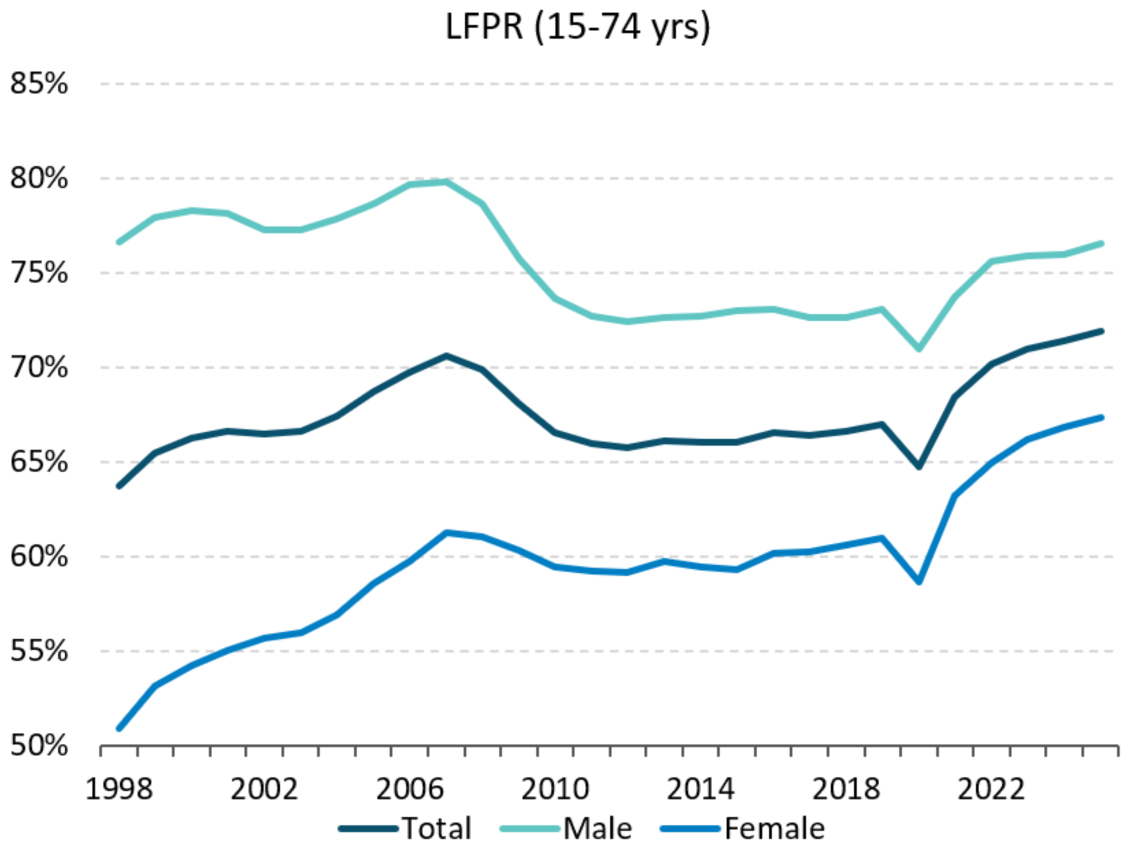
Participation going from strength to strength

- LFPR for persons aged 15-74yrs has reached a new peak
  - 5pp increase to 71.9% between 2019 and 2025
- Employment levels likely to exceed 3 million persons in the coming years
- Higher LFPR than Celtic Tiger period when larger shares of youth persons (under 25yrs) were in the labour force
- Relatively low unemployment implies employment growth has largely absorbed the increase in labour supply



LFPR developments in Ireland

- Labour Force increased by 487,000 persons (+20%) between 2019 and 2025
- Working Age Population grew by 425,000 persons (+11.6%)
- Migration has a strong effect in a small-open economy
  - Typically exhibit LFPR than domestic population which can lift aggregate levels
- Structural change in remote working which can increase accessibility
- Uptick coincided with a notable increase in the price level
  - Potential leisure-income substitution effect
  - Rising household costs could push people into the labour force rather than it being solely preference based
- Higher participation ≠ More good jobs
  - % of underemployment moved from 12% to 17%
  - Average hours have been in decline for several years

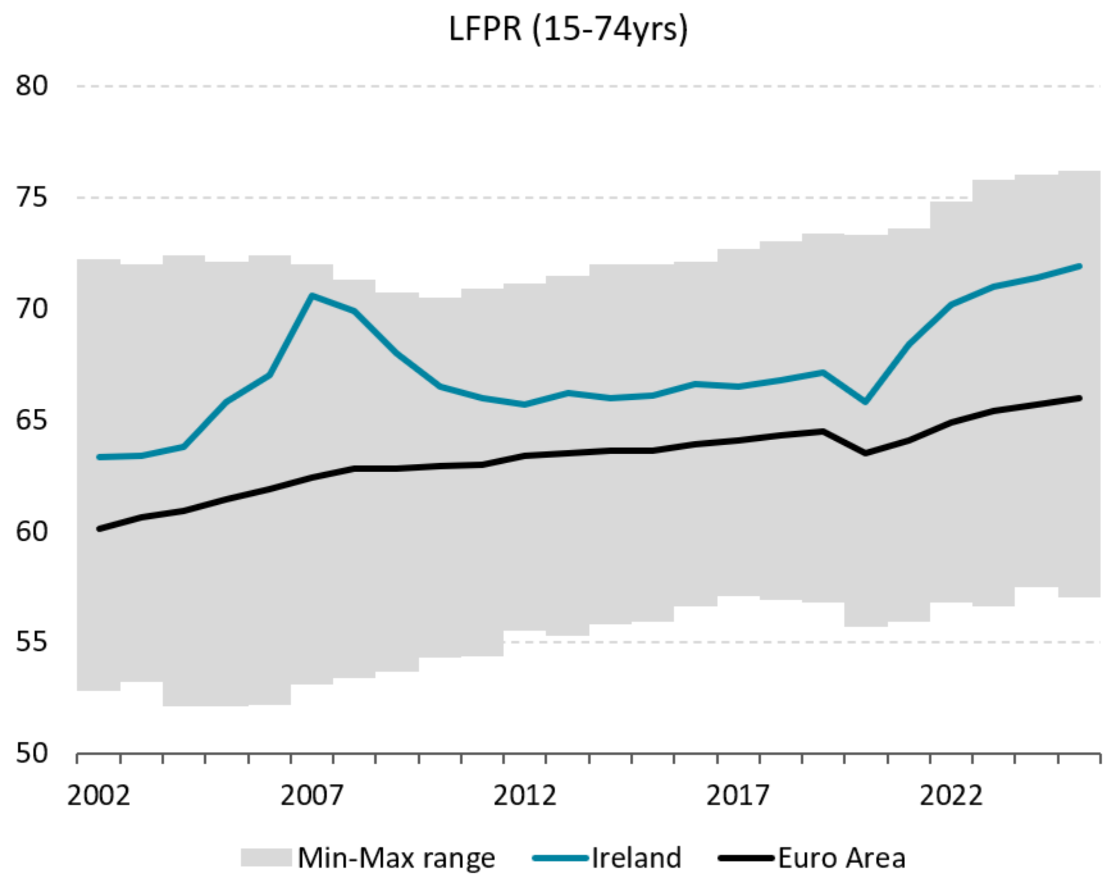


LFPR in Ireland has risen faster than Euro Area average

- Ireland moved from 10th to 6th highest LFPR between 2019 and 2025

- ECB (2022): Growth in euro area labour force arises from participation gains concentrated amongst:
  - Females, older age cohorts, 3rd level graduates, and migration

- ECB (2026): Ageing of population has not yet led to a decline in the labour force
  - Potential effect of higher statutory retirement ages
  - Uncertainty regarding future migration flows due to political environment



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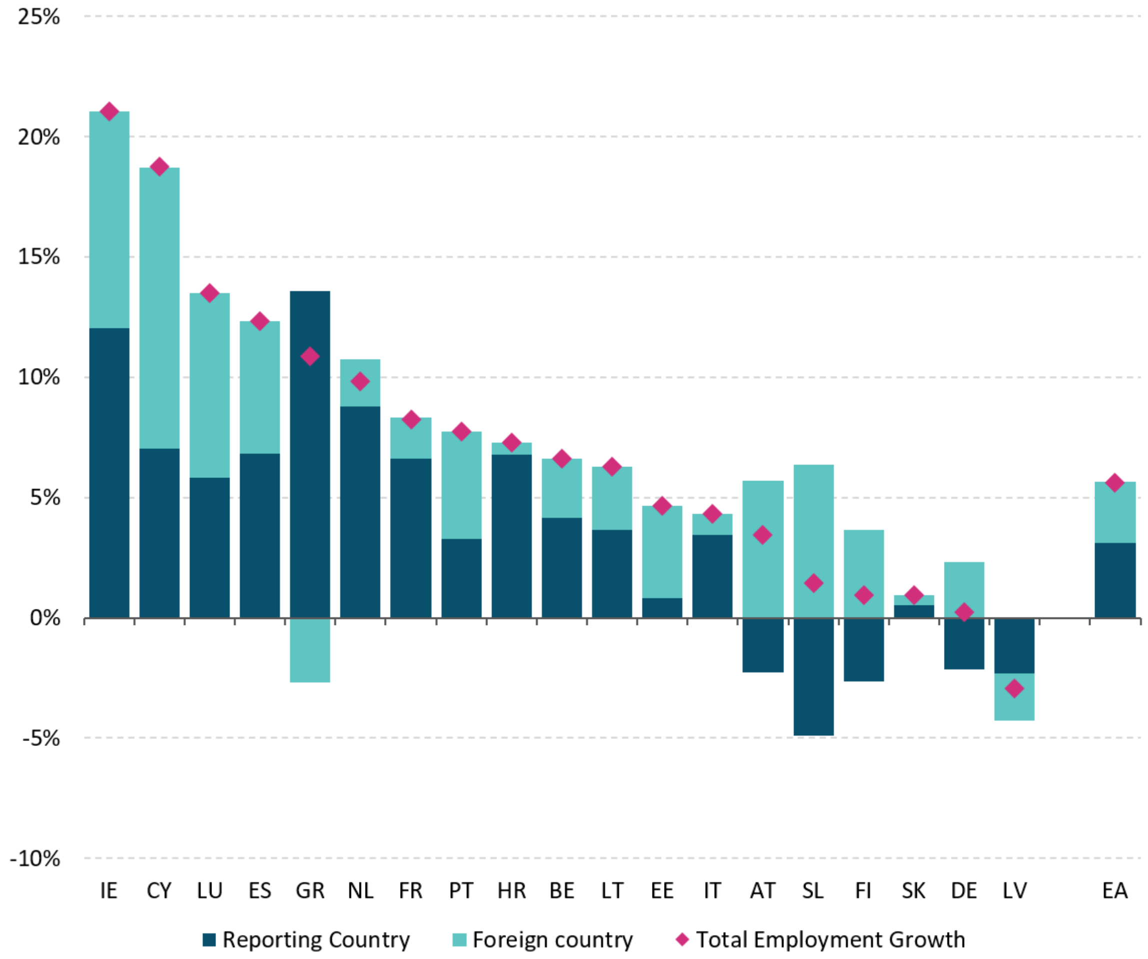
Migration contribution to employment

- ❑ Strong increase in migration and labour supply is not unique to Ireland

- ❑ 2.5pp of 5.6% euro area employment growth is linked to migration

- ❑ For Ireland:
    - High sectoral concentration (Health, Industry, Construction, Professional)
    - Reflected in increase in employment permits and updates to critical skills list
    - Large increase in Rest of World nationalities

Employment growth by citizenship (2019 – 2025)



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Current Trends

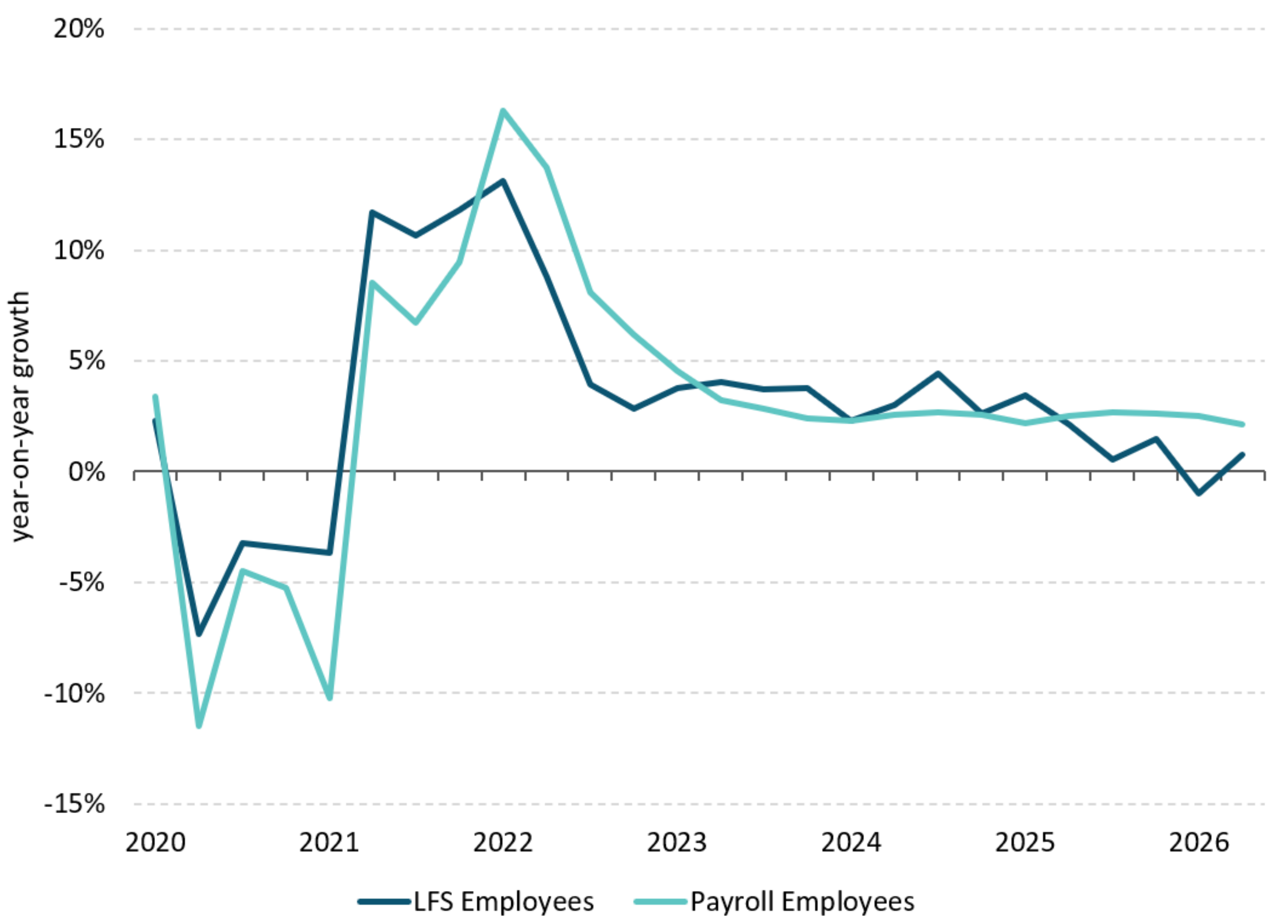
LFS outturn is weaker than admin data

- CSO monthly employee payroll exhibits steady growth since 2023

- Average growth for 2026 in LFS data is -0.1% compared to 2.3% in payroll data

- Wider indicators suggest more robust labour market conditions
  - Nominal income tax returns for year to August up 7.7%
  - Employment permits for year to August up 33%
  - No major increase in redundancies

Lower growth rate in LFS employee levels since end-2025



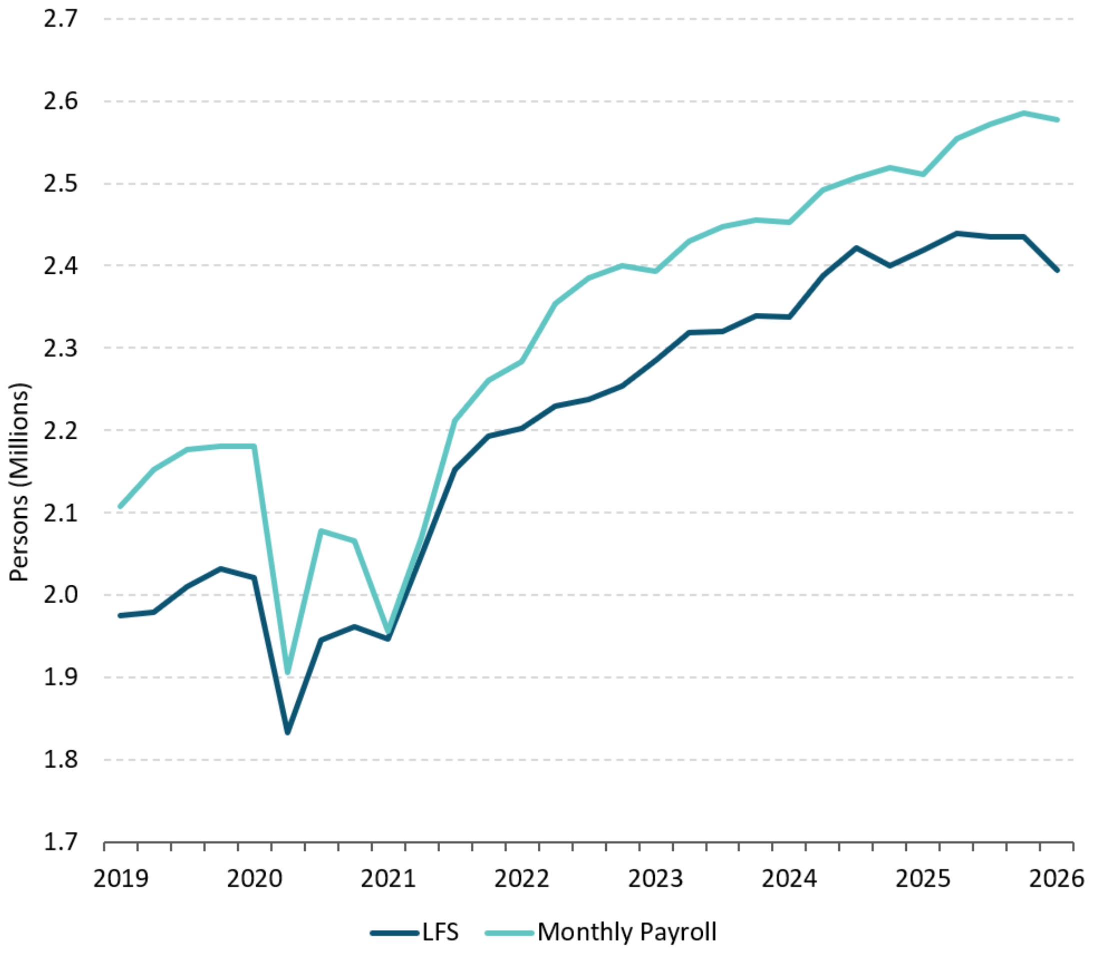
Divergence in headcount indicators

	LFS	Monthly Payroll
Source	Household survey data	Admin data (Revenue PMOD)
Qualification	Worked at least 1 hour in **survey reference week** (or temporarily absent)	Any person to have worked in the **month** for non-zero pay and paid through firm payroll
Coverage	Must usually live in the state and reside in private HH	Any person liable for PAYE including non-residents and temporary/recent arrivals. No HH restriction
Self-employment and multiple jobs	Self-employed persons with a secondary PAYE job not counted in LFS employee data	All PAYE jobs counted in payroll data. No duplication if >1 PAYE job
Sampling and revisions	Subject to sampling error. Population figures revised in line with Census (next due in 2029)	Most recent 2 months are provisional and often subject to revisions

Typically payroll levels is 120k persons higher than LFS

- Gap has increased to 150k-180k in recent quarters

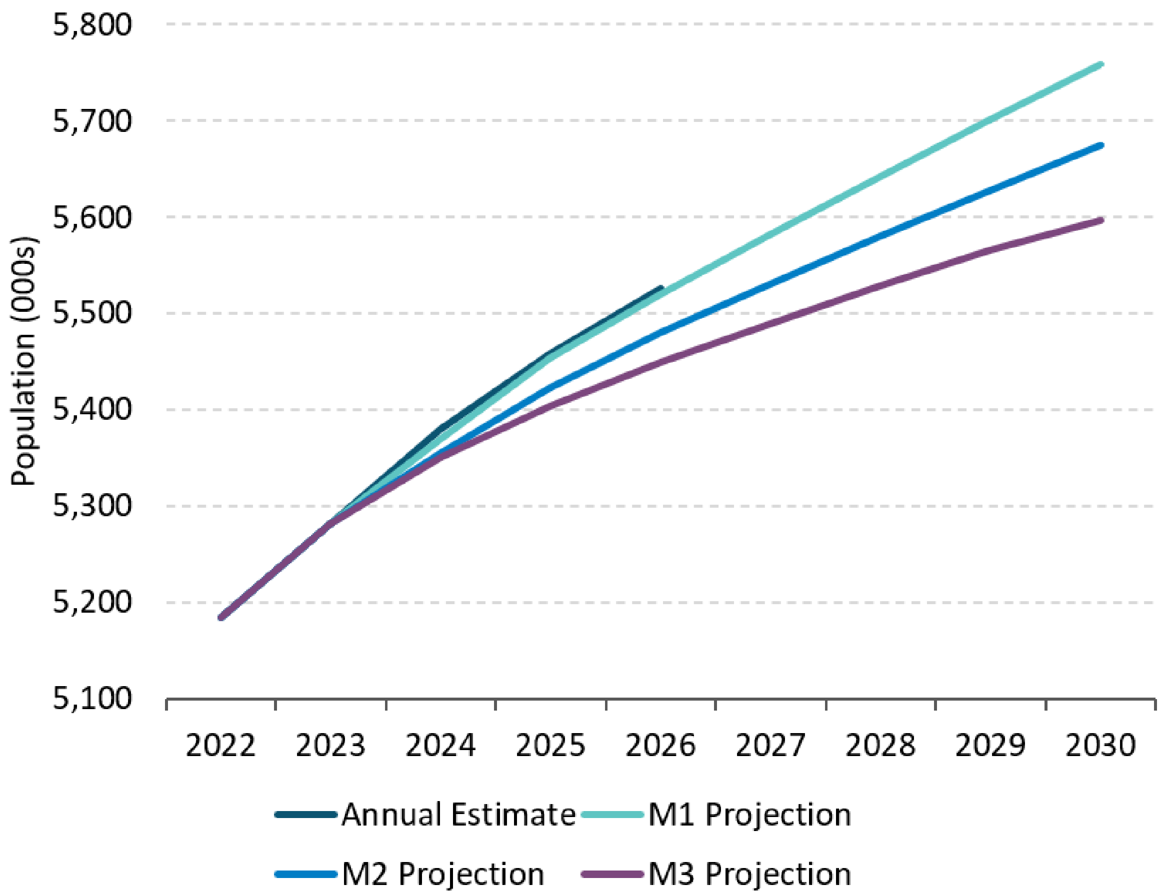
Gap has widened between LFS and payroll data



Migration developments

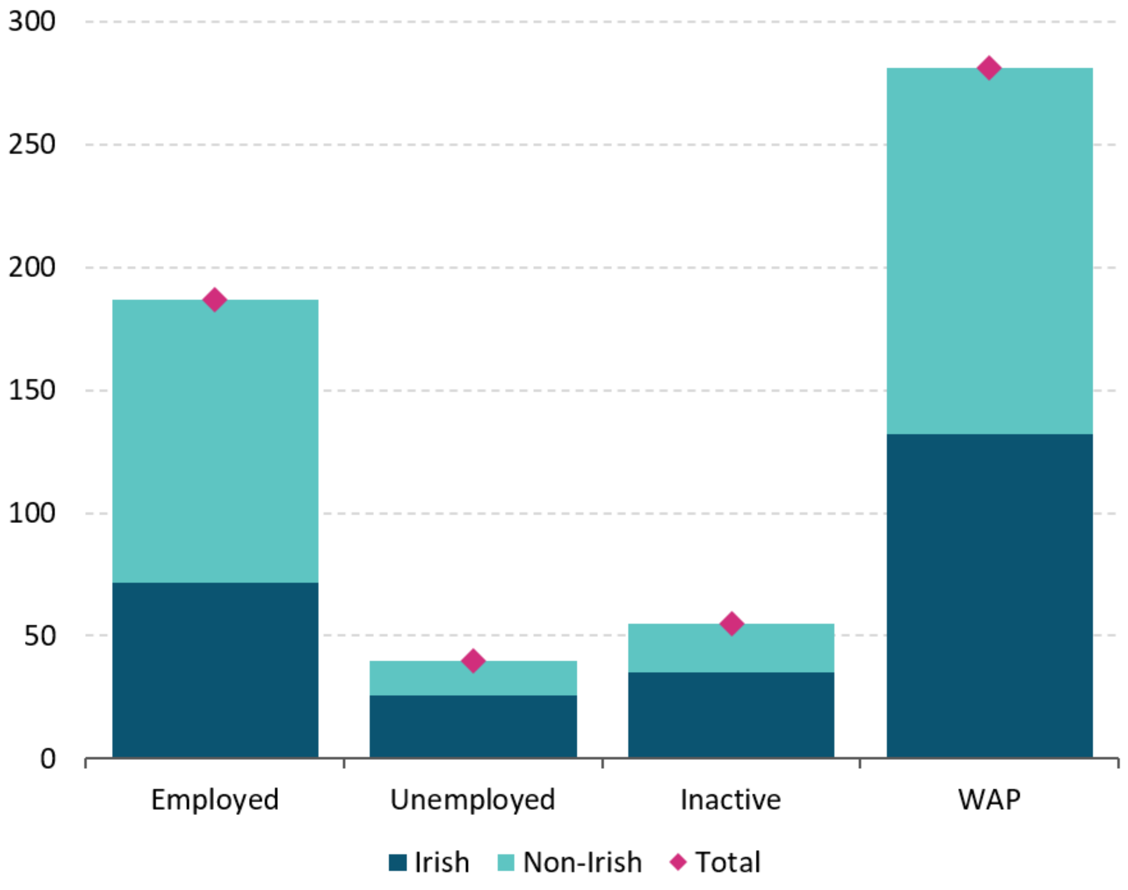
- Net inward migration averaged +35k per year pre-pandemic
- Increased to 79k in 2024
- Levels moderating to 48k in 2026 though remains above long-run average
- CSO M1 projections estimate +45k per year out to 2057 with population rising to 7 million
- Future Forty central scenario ranges between 35k – 40k per year
  - Net migration is the most unpredictable component

Population growth on track with highest CSO net migration scenario

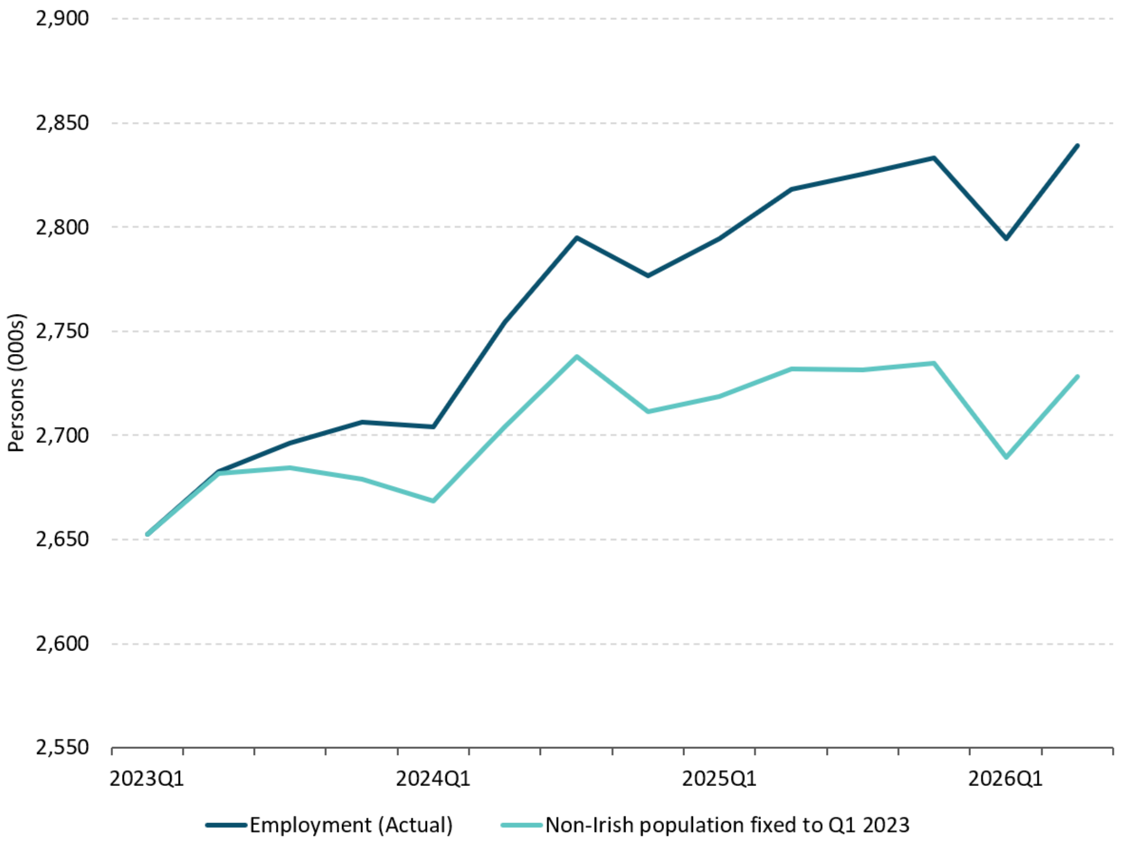


Net migration levels have eased in 2026 though it remains the main driver of labour market growth

Non-Irish citizens accounted for almost 2/3rds of net employment growth from 2023 to 2026

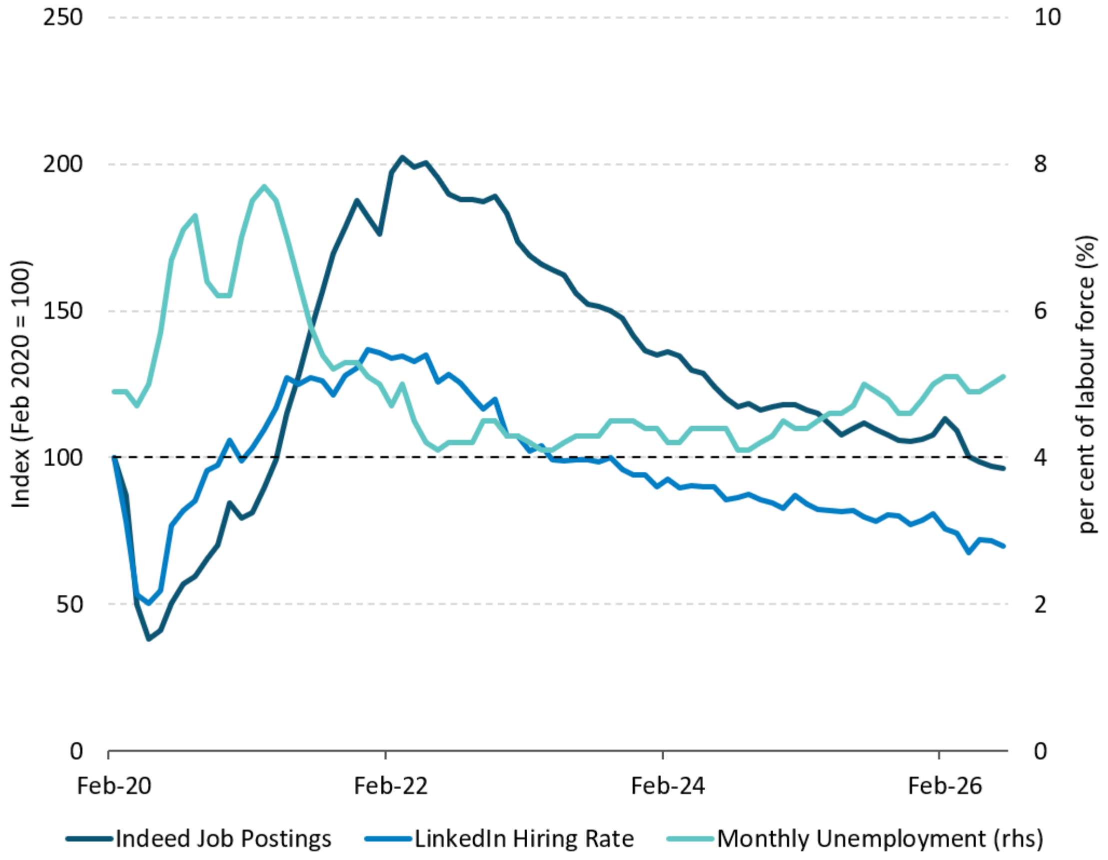


Aggregate employment would be 110k persons lower if non-Irish population had not increased from 2023 onwards



High frequency indicators indicate continued moderation in labour demand with slower posted wage growth

Job postings and hiring indicators slow as unemployment gradually increases



Posted wage growth continues to ease across all areas

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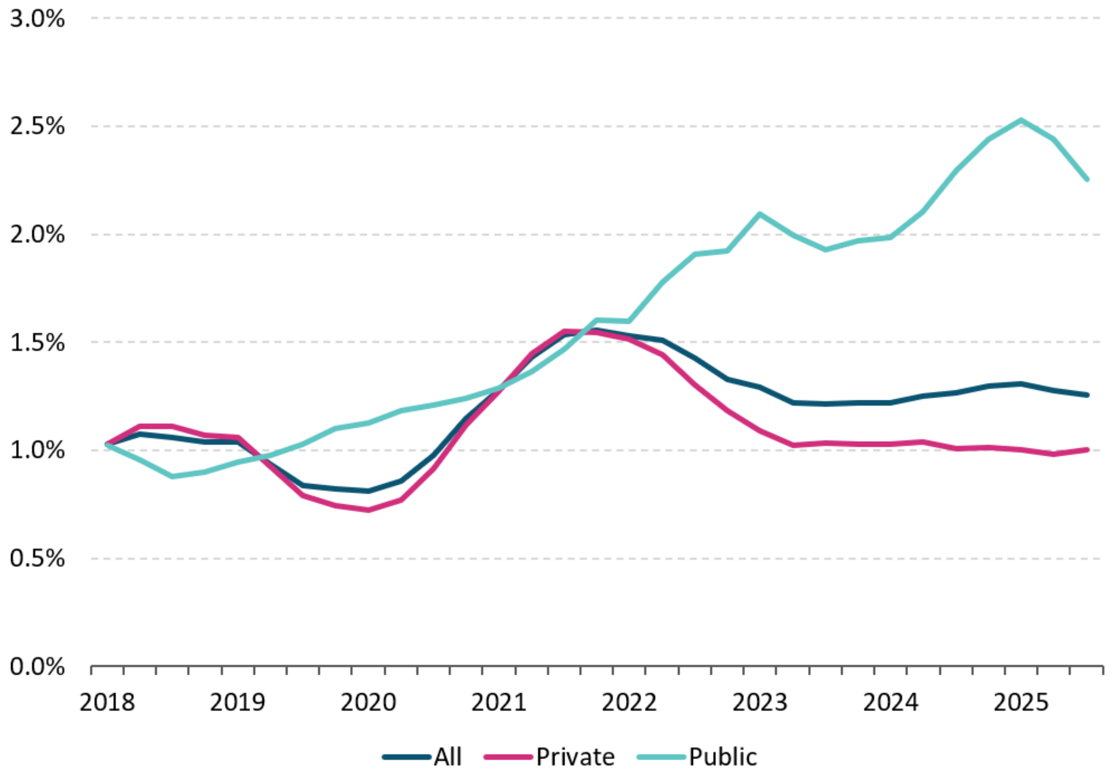
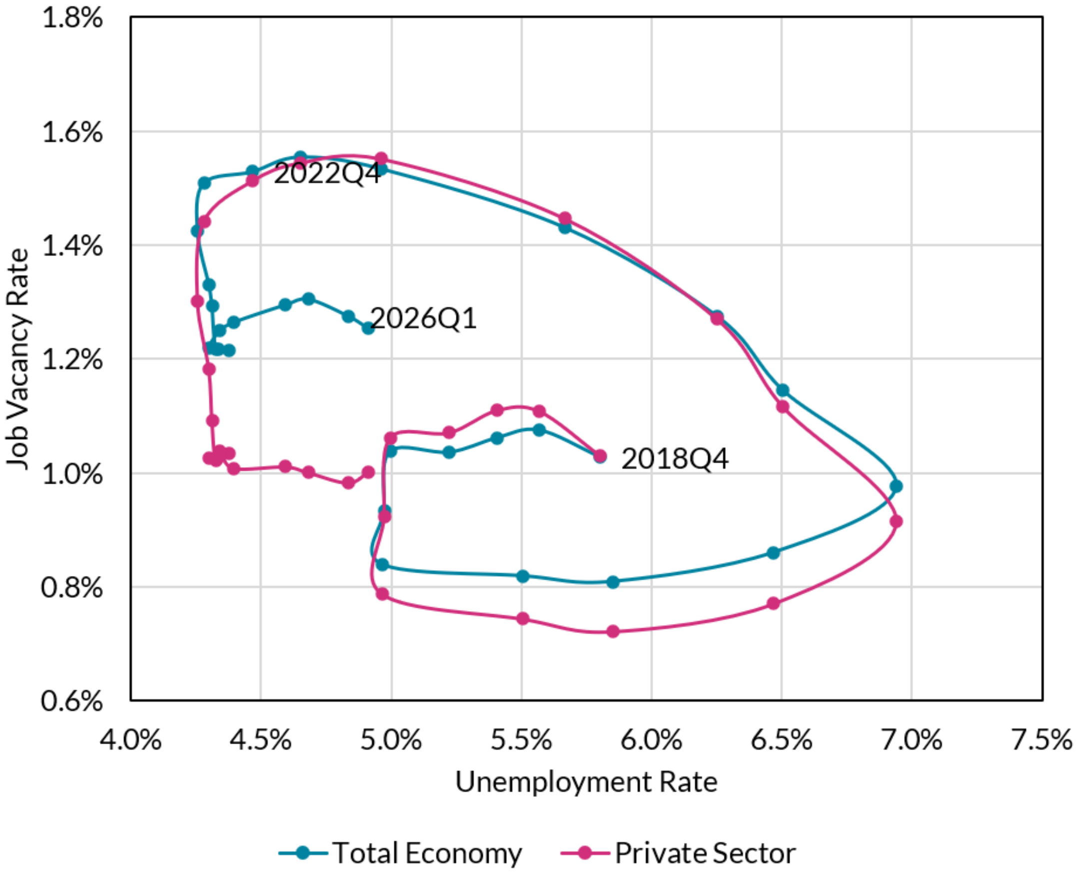
Job vacancies have flattened though labour market remains relatively tight

Aggregate vacancy rate propped up by public sector



Beveridge curve slope has flattened



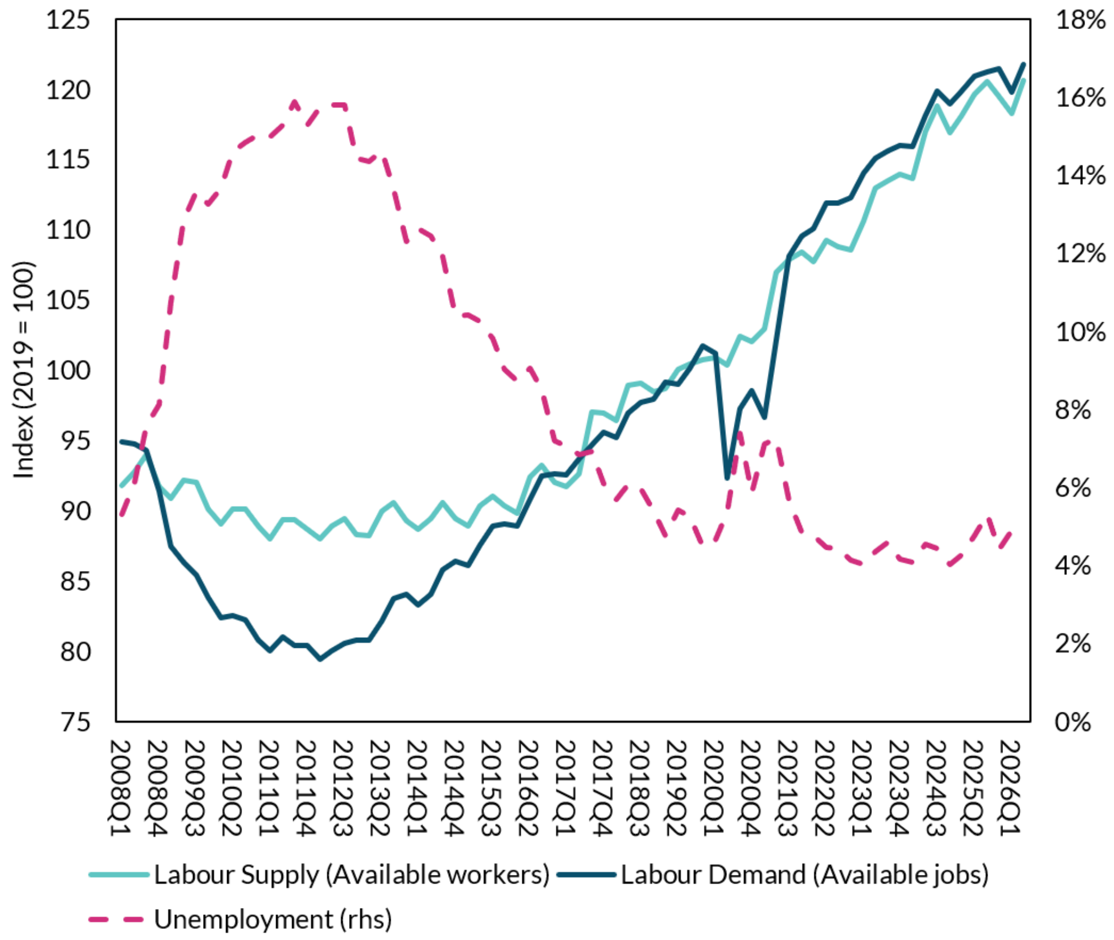
Labour Demand vs Labour Supply

- Labour demand is the sum of employment and job vacancies

- Labour supply is the sum of the labour force and the potential additional labour force

- Convergence between demand and supply recently due to:
  - Slight decline in vacancy levels
  - Increase in PALF due to larger levels of younger persons seeking employment

Higher demand has curbed unemployment growth



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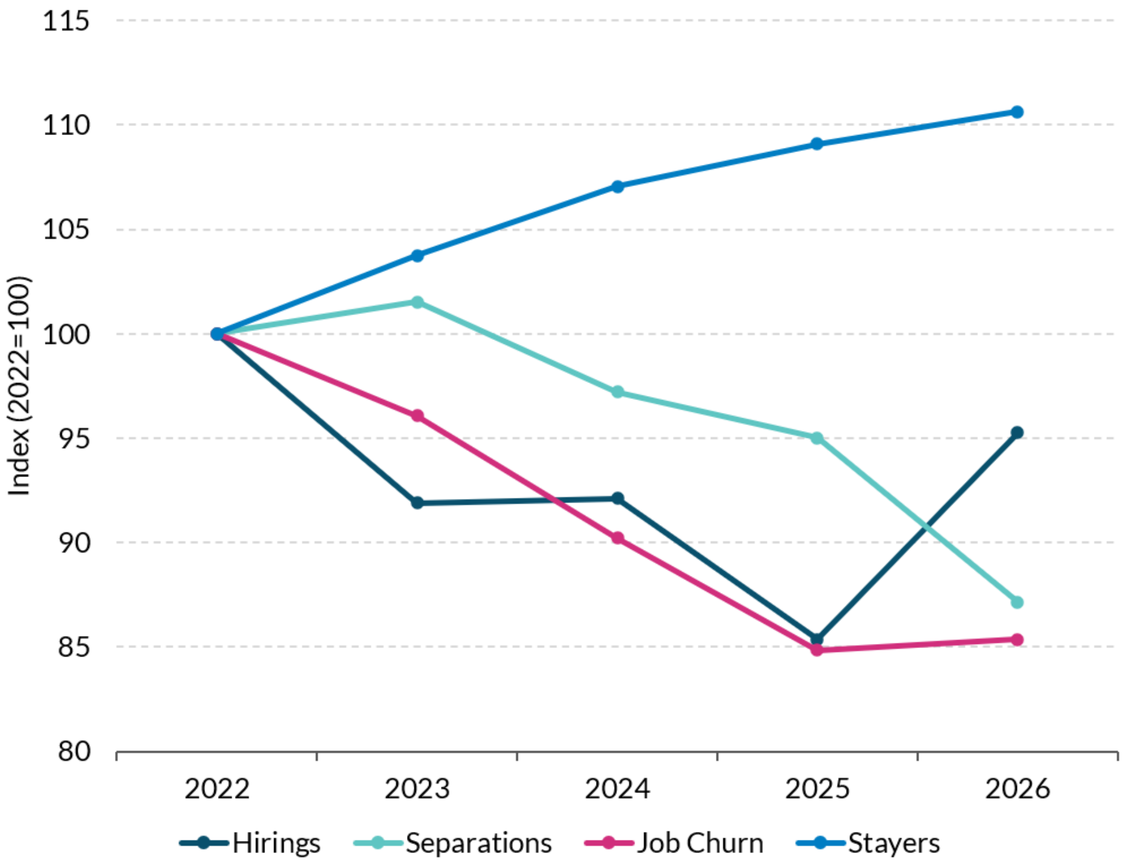
Job Churn and Demographics

More workers cautiously remaining in current role though hirings recently increased



Temporary boost in domestic labour supply in coming years though these cohorts are entering job market in a slower period

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Income revisions

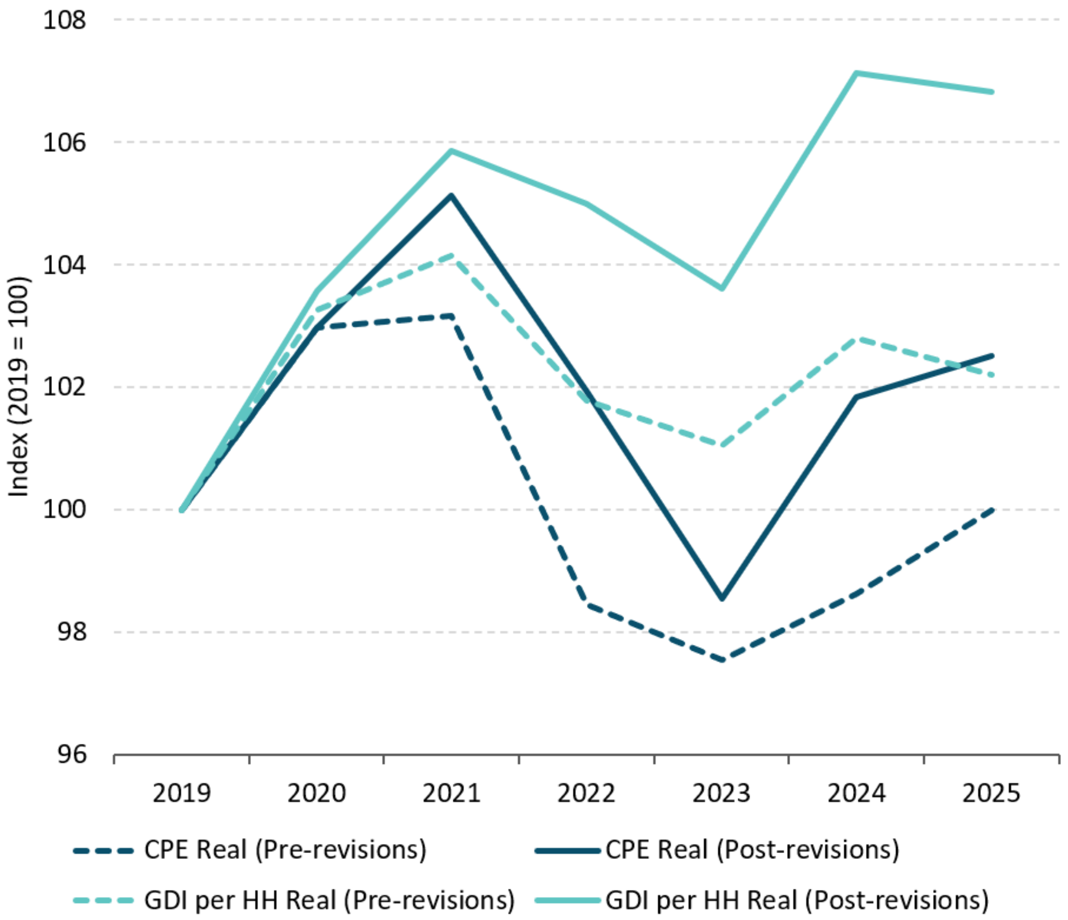
- ❑ Annual National Accounts saw upward revisions to wages and income back to 2021
  - Matched revenue returns
  - Increased self-employment income from declared returns
  - Other adjustments (pensions, estimated cash transactions)

- ❑ Prior these revisions, average real CPE was broadly back to 2019 levels following elevated inflation phase
  - Real levels are now 2.5% above 2019 indicating wage catch-up
  - Real GDI per HH is now 6.8% higher

- ❑ Possible upward revisions to 2025 data may occur at next ANA release

- ❑ Downward revisions to consumption have led to savings rate hitting 20%
  - Important to highlight quintile developments as not all HHs experience same wage developments and inflation changes

Upward revisions to wages and income



Outlook

Short-to-medium term (QB outlook)

- ❑ Employment growth to remain positive (+1.2% in 2026) then growing by 2.1% in 2027 due to base effects

- ❑ Unemployment to increase beyond 5%
  - Caused mainly by younger cohorts experiencing difficulties in gaining employment
  - No evident increase in redundancies or separations yet

- ❑ LFPR to increase further helped by demographics and continued net inward migration

- ❑ Nominal wages to grow by annual average of 4% though numerous downside risks exist
  - Continued weakening in labour demand may curb worker bargaining power
  - Second-round effects of elevated inflation
  - Further revisions to data may affect growth rates

Long-term labour market outlook

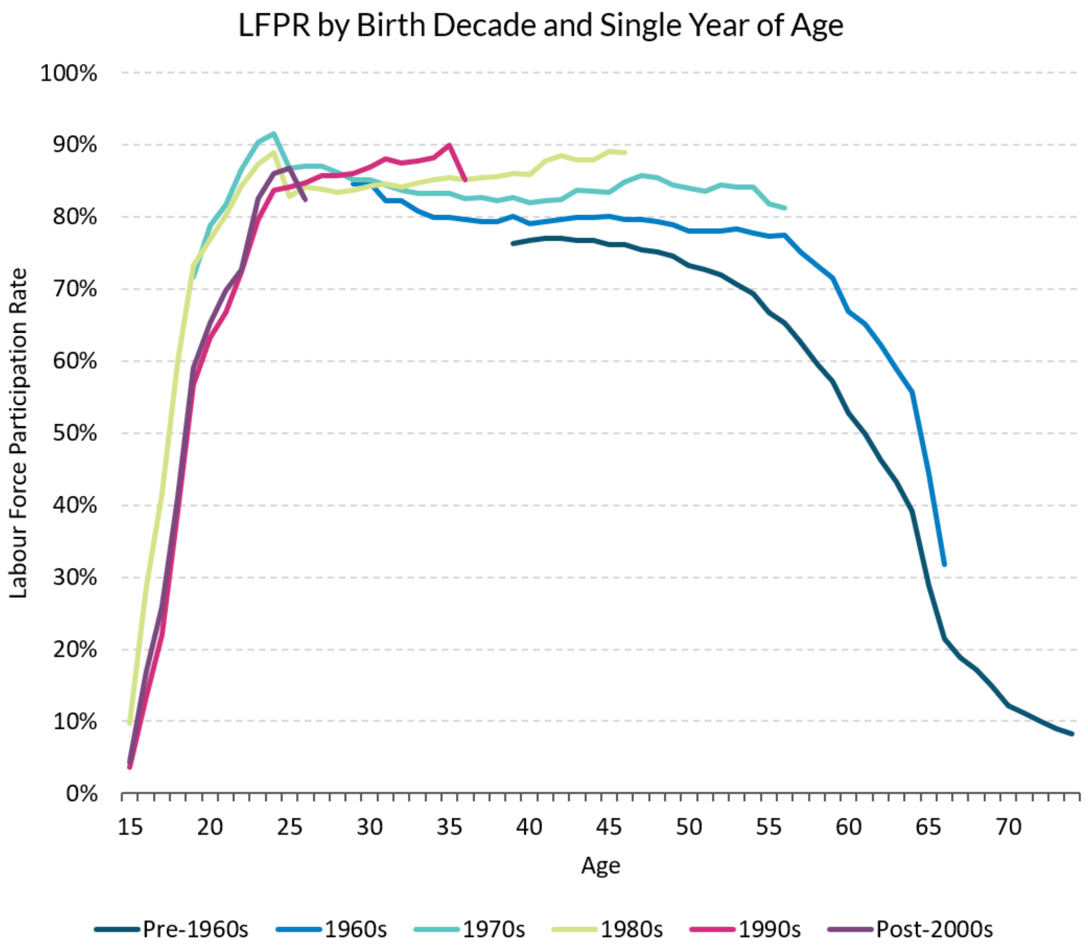
- LFPR has increased notably since 2019 though how much further could it rise given demographic trends and population ageing?

- Each successive birth cohort appears to have a higher labour force attachment than their predecessors
  - Increasing educational attainment has been a big driver

- Ireland has one of the youngest populations in euro area
  - CSO M1 population projections indicate notable drop in the 15-24yrs population level affecting future labour supply
  - Share of persons over 55yrs to increase to 34% of population by 2050

- Changes to the pension age could limit the potential drop-off in labour supply

- Decreasing birth rates reduce replacement and place greater reliance on migration



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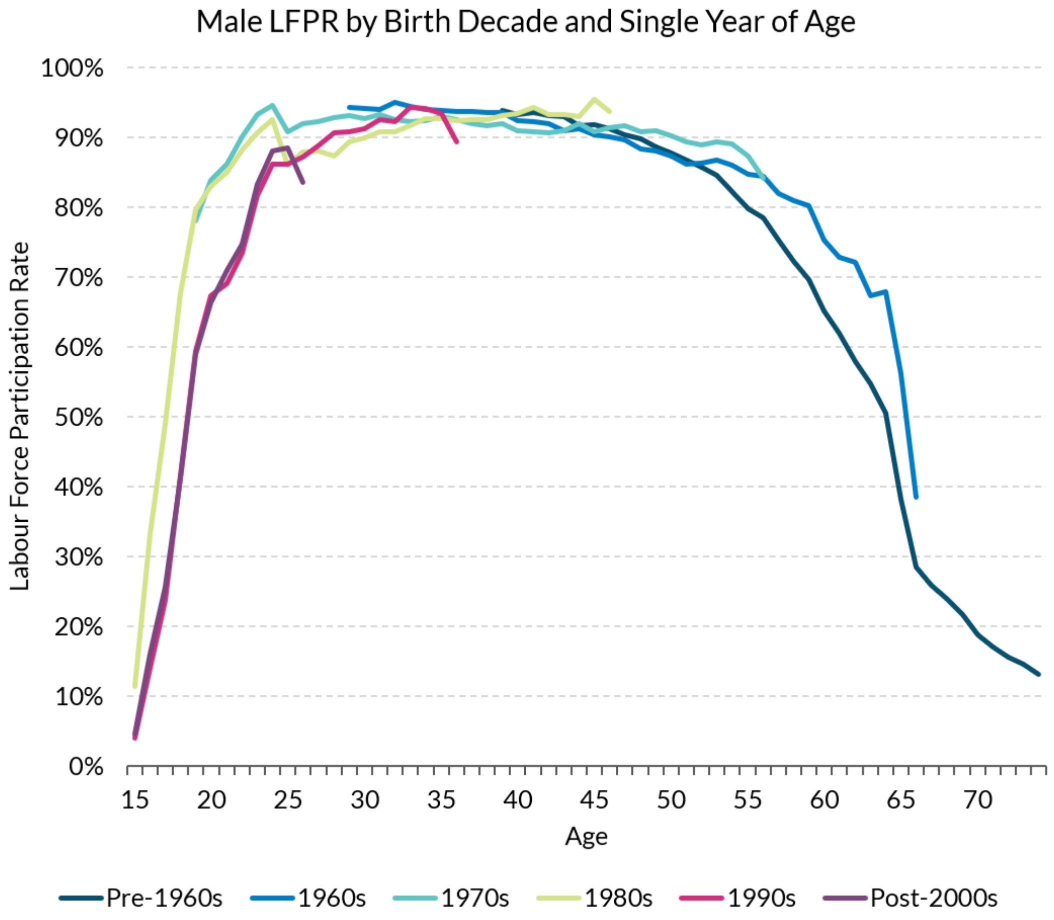
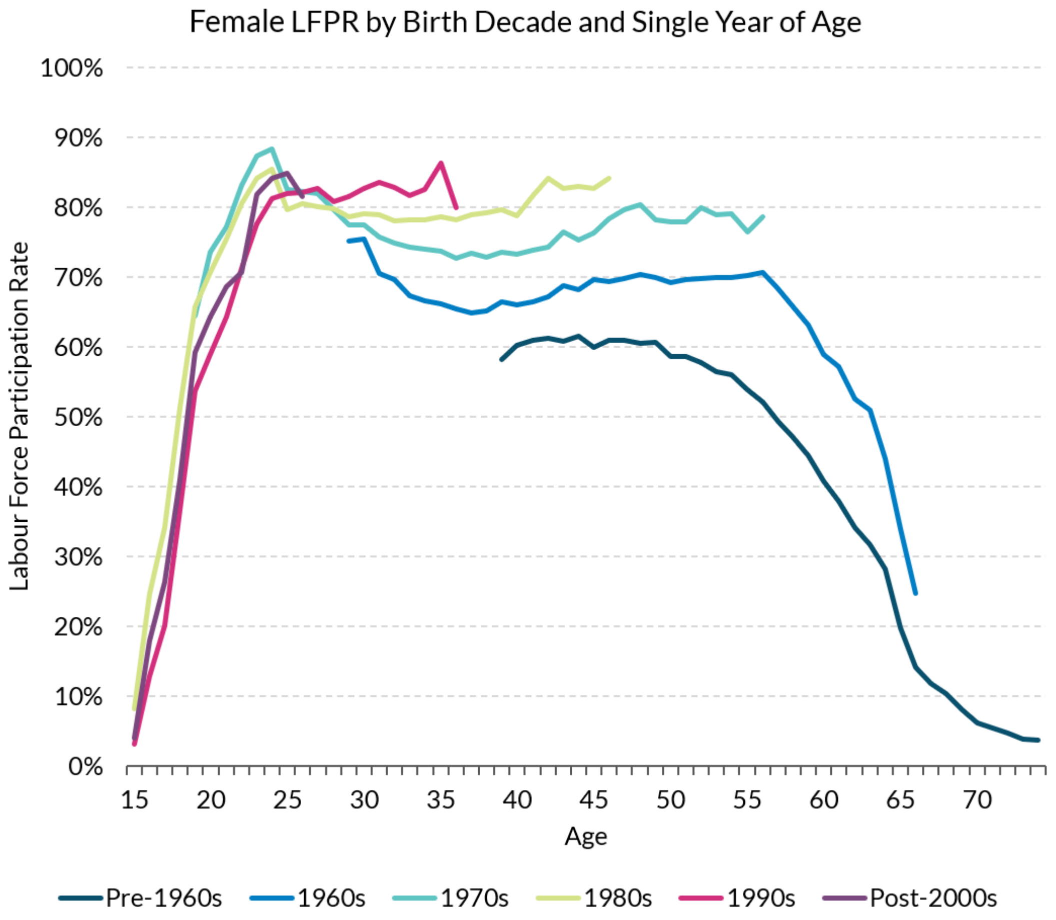
Cohort replacement has helped to raise aggregate female LFPR

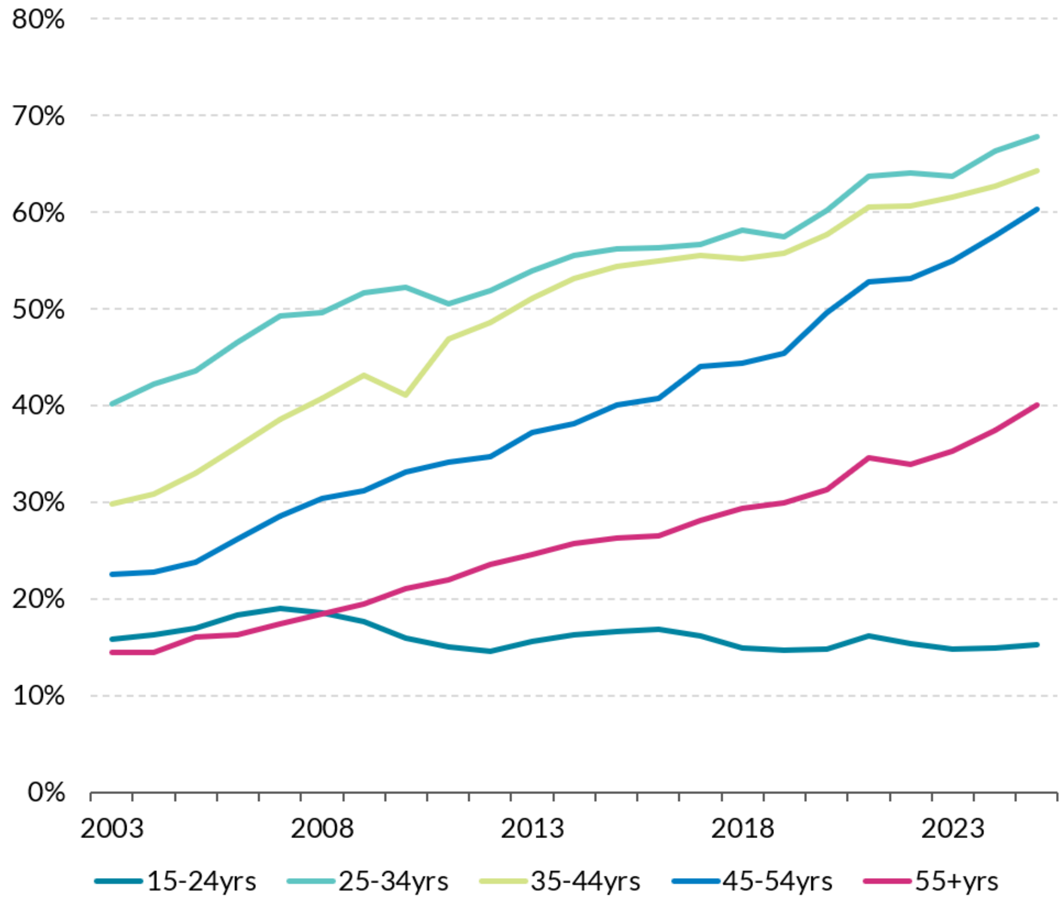




Role of Education / Human Capital Accumulation

- Average population share of 3rd level graduate has risen 25% in 2003 to 50% in 2025
- Higher again for females at 53%
- Typically, graduates have greater attachment to the labour force and lower unemployment rates
- Cumulative effect has a strong positive effect on economic growth per capita (Keenan and McIndoe-Calder, 2025; Fitzgerald, 2012)
- Population average may continue to rise due to cohort replacement though not all human capital accumulation is linked to 3rd-level qualifications

Share of population with tertiary qualifications



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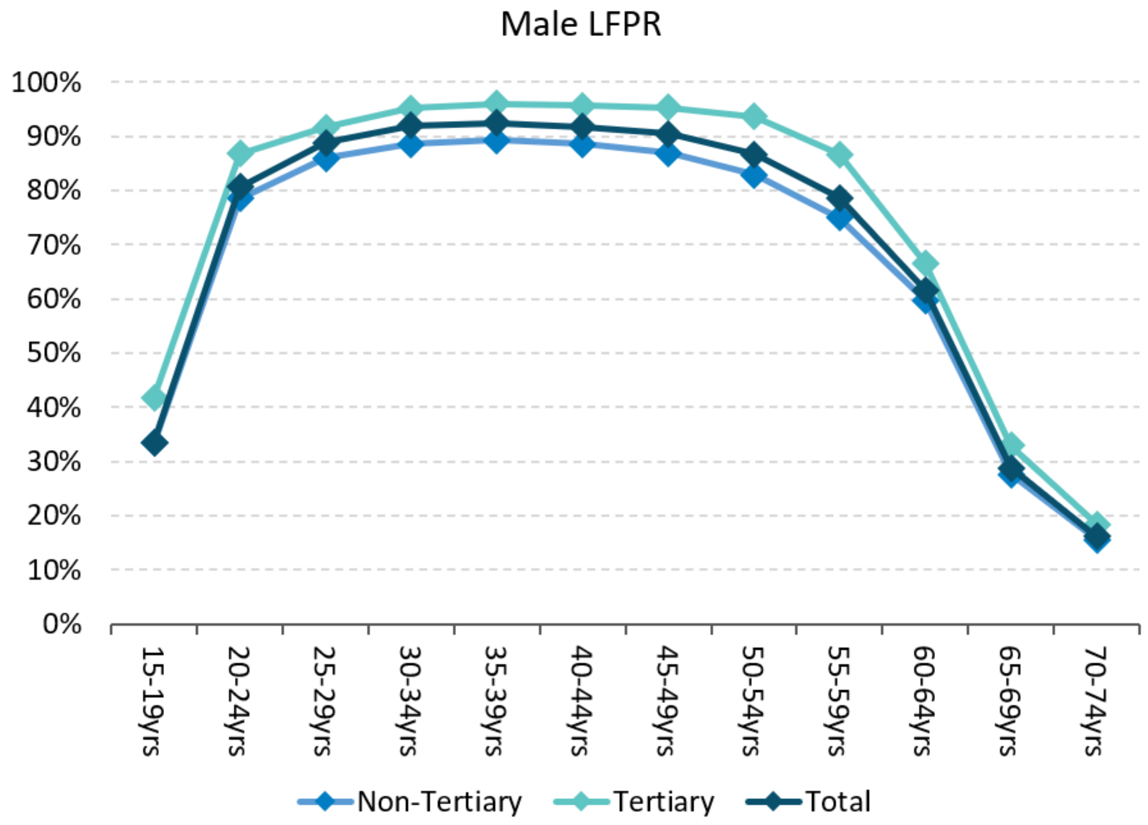
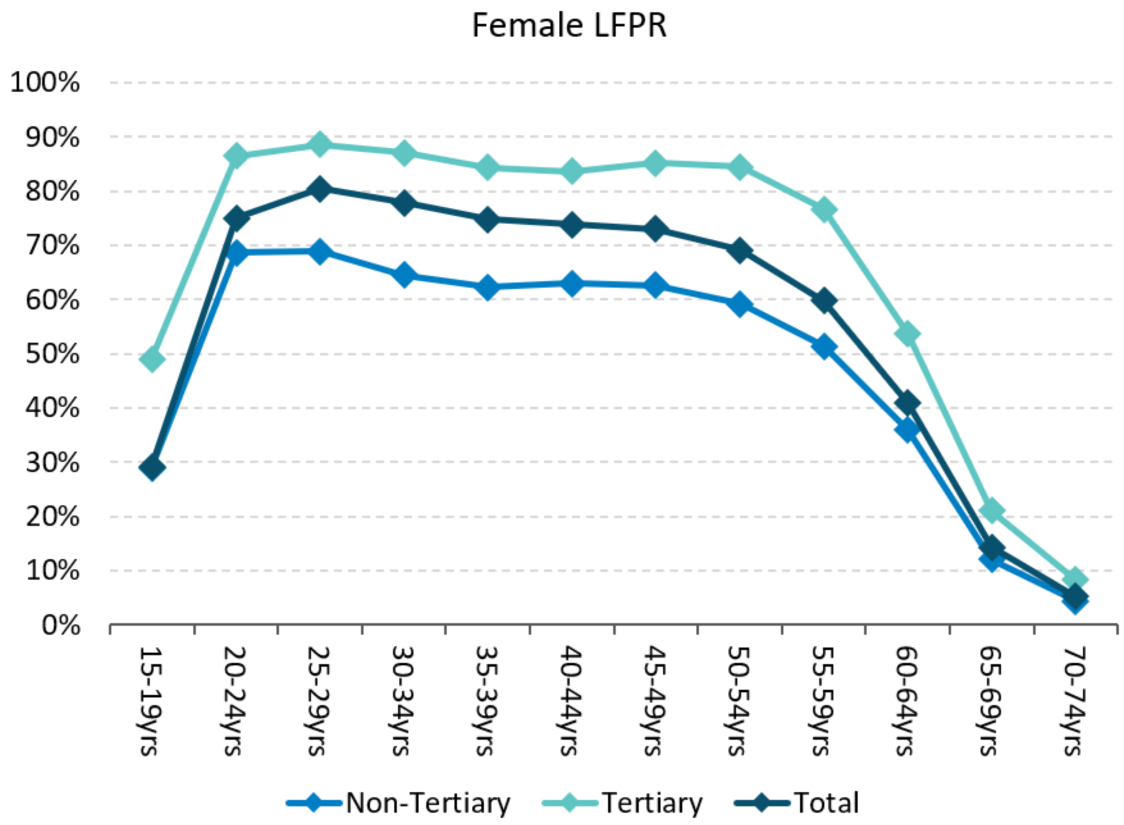
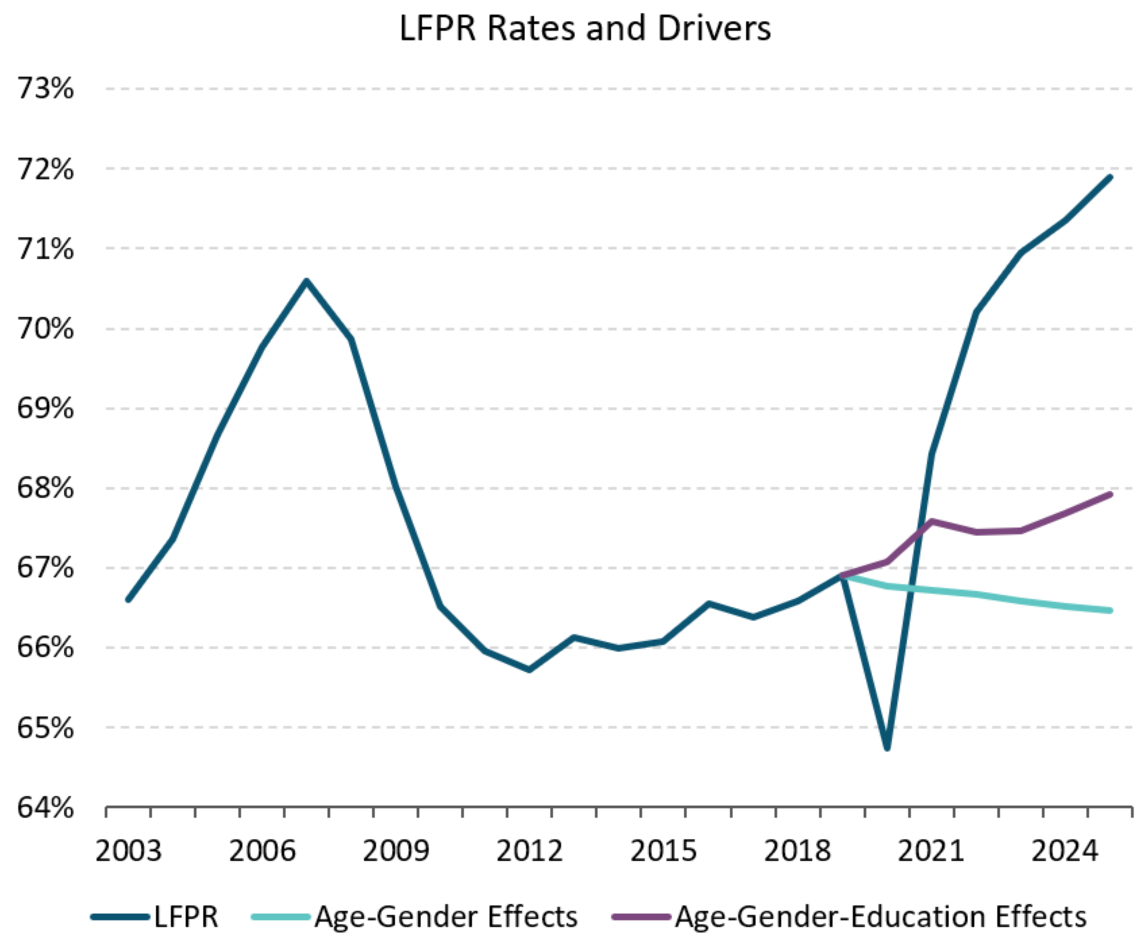
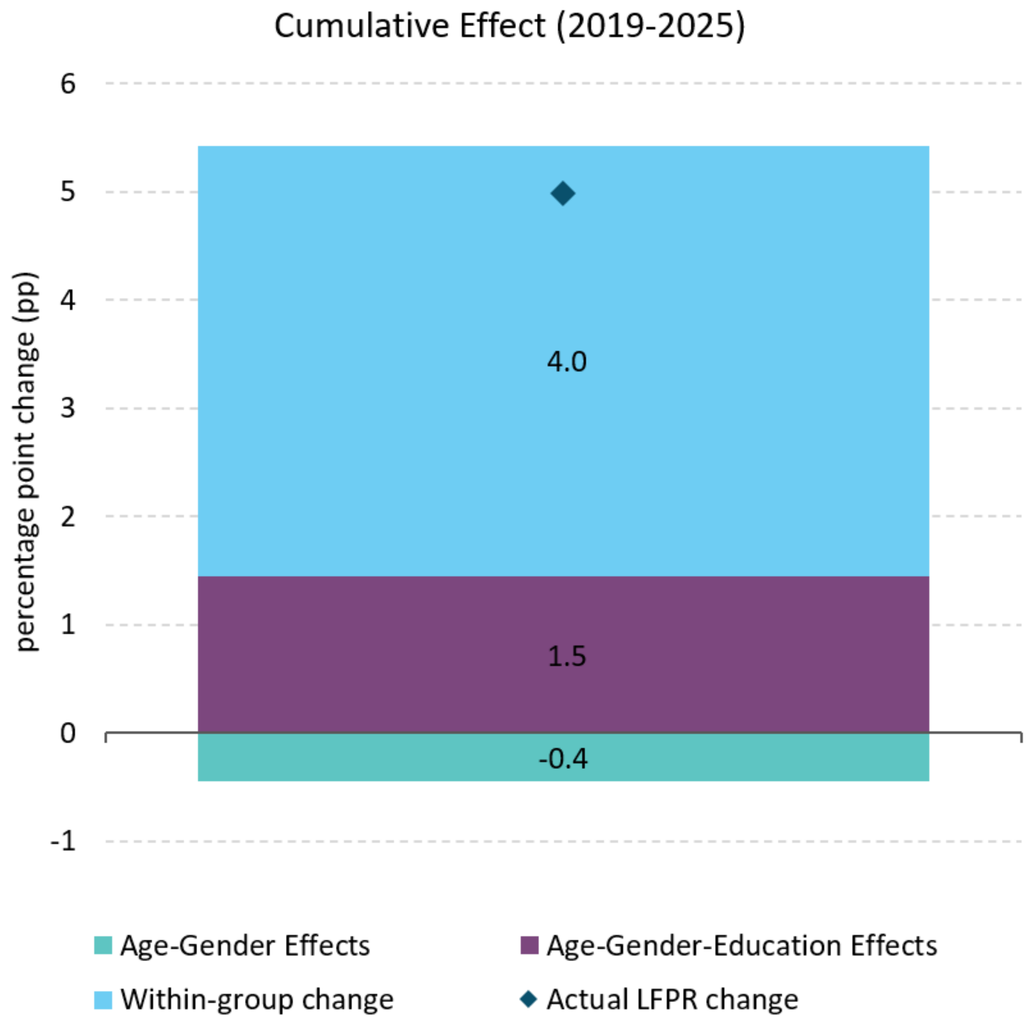
Education participation premium is particularly higher amongst females





Education has offset ageing effects though within-group changes are the main driver of the 5pp increase





Note: Constructed using 20 sub-groups (5 age, 2 gender, 2 education

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Regression Setup

- ❑ Estimated for males, females and total
- ❑ Long-run:
  - Weighted age of population
  - Share of population with tertiary education
  - Non-Irish share of population (proxy for migration)
- ❑ Short-run:
  - Error correction term
  - Unemployment gap from sample mean
  - Inflation gap from sample mean
  - Pandemic dummy (structural break and likely effect of remote working etc)
- ❑ **Caveat**: Run from 2006q3 onwards due to change in LFS nationality classification

Results

	Total	Male	Female
Long-run specification			
Weighted Age	-2.326***	-3.524***	-1.053***
Higher Education Share of Pop	0 .359***	0.429***	0.277***
Non-Irish Share of Pop	0.545***	0.146	0.842***
Short-run specification			
ECM(t-1)	-0.467***	-0.474***	-0.485***
Unemployment	-0.086***	-0.099***	-0.077****
Inflation	0.068***	0.056***	0.081***
Pandemic Dummy	-6.303***	-5.775***	6.152***

- ❑ Migration does not appear to significantly affect male LFPR
  - Level of female, non-Irish, 3rd-level graduates exceeded males in recent years
- ❑ Inflation above the mean may proxy household real-income pressures

Next steps:

- ❑ Cohort analysis (single year of age and birth year)
- ❑ Other structural changes

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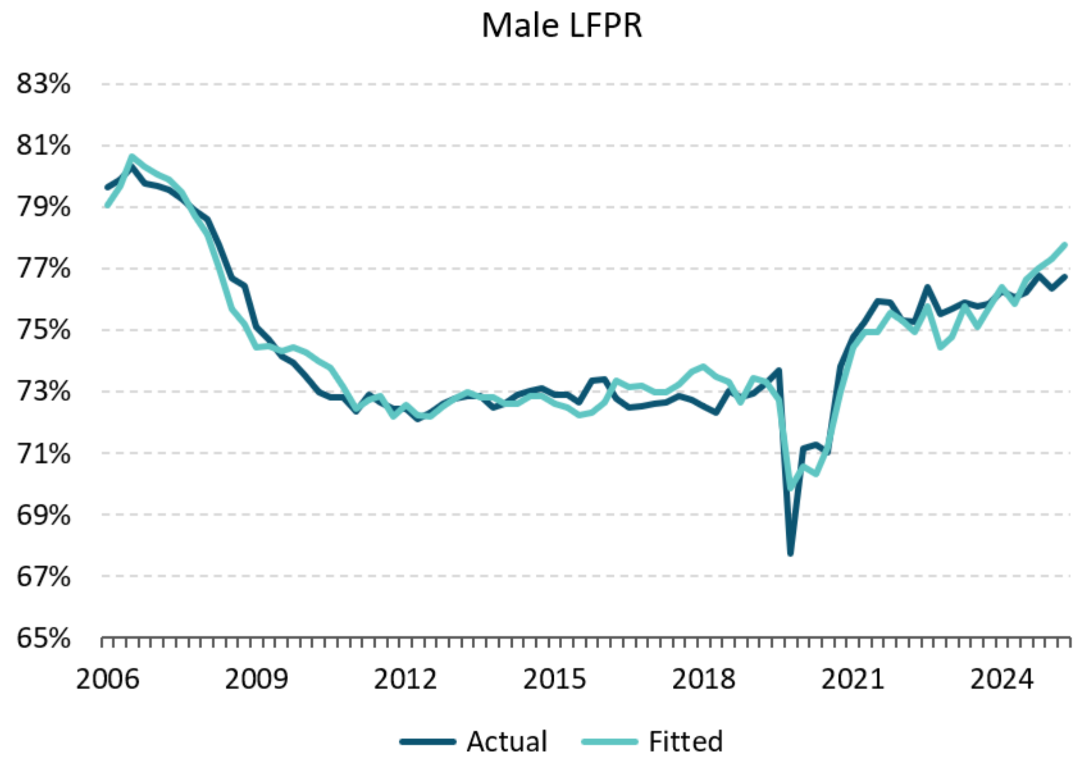
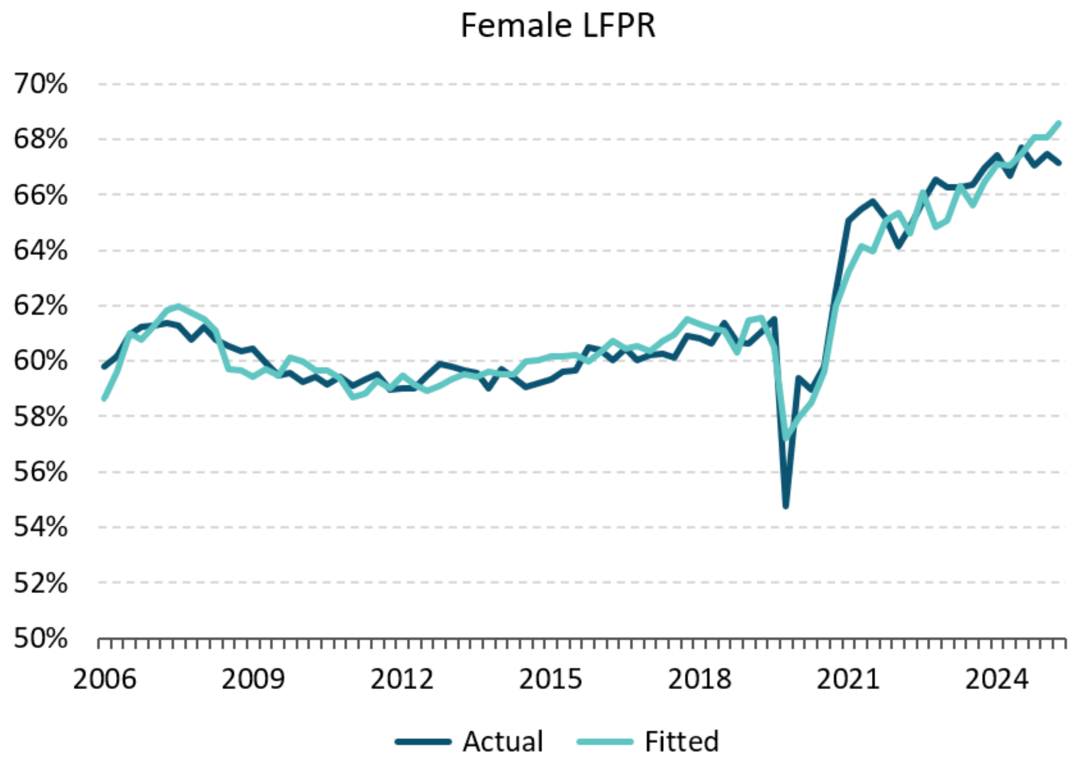
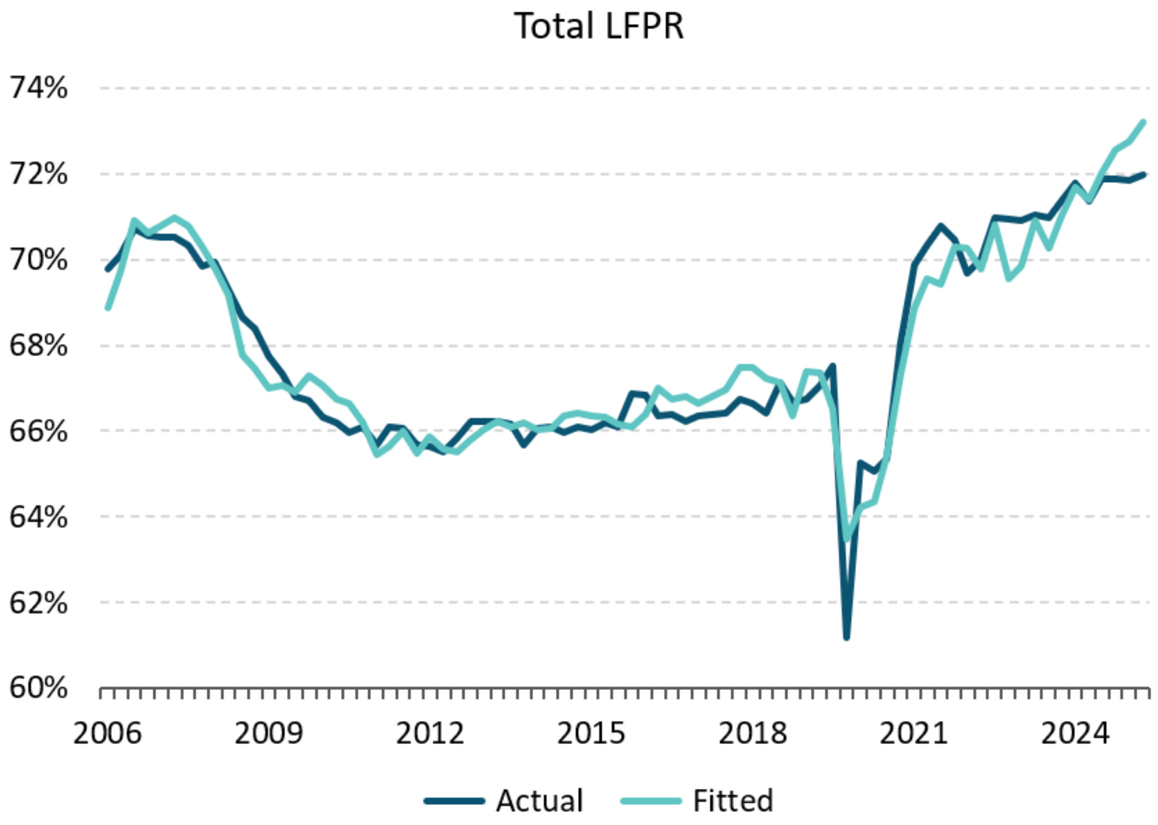
Fitted values





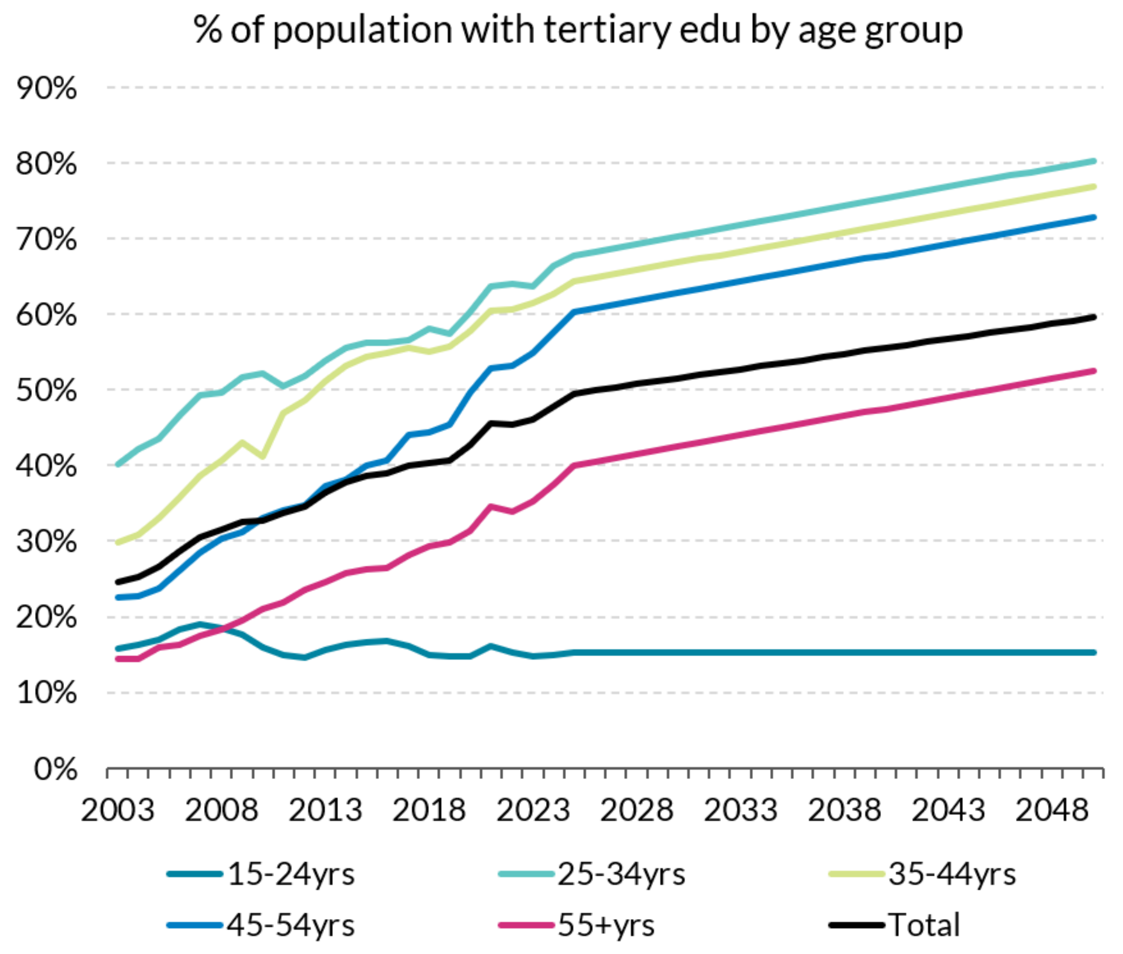
Fitted values

- ❑ Reasonable fitted values for 2006-2025 period
- ❑ Using these long-run coefficients:
    - What could we say about the future path assuming changes in age, migration and education
- ❑ Ageing assumption taken directly from CSO population projections
    - Weighted average age rises from 43.6 years in 2025 to 46.3 years in 2050
- ❑ Assumption of steady state economic growth over this period
    - ❑ Unemployment at 5%
    - ❑ Inflation at 2%



Education assumptions

- Educational attainment profile of 15-24yrs cohort likely to stay constant as many within this group remain in education
- All other cohorts assumed to increase at rate of 0.5pp per annum
- Overall, the share of population (15-74yrs) with tertiary education would rise from 50% in 2025 to 60% in 2050
- This would have a positive effect on the LFPR and offset some of the negative effects of ageing



Migration assumptions

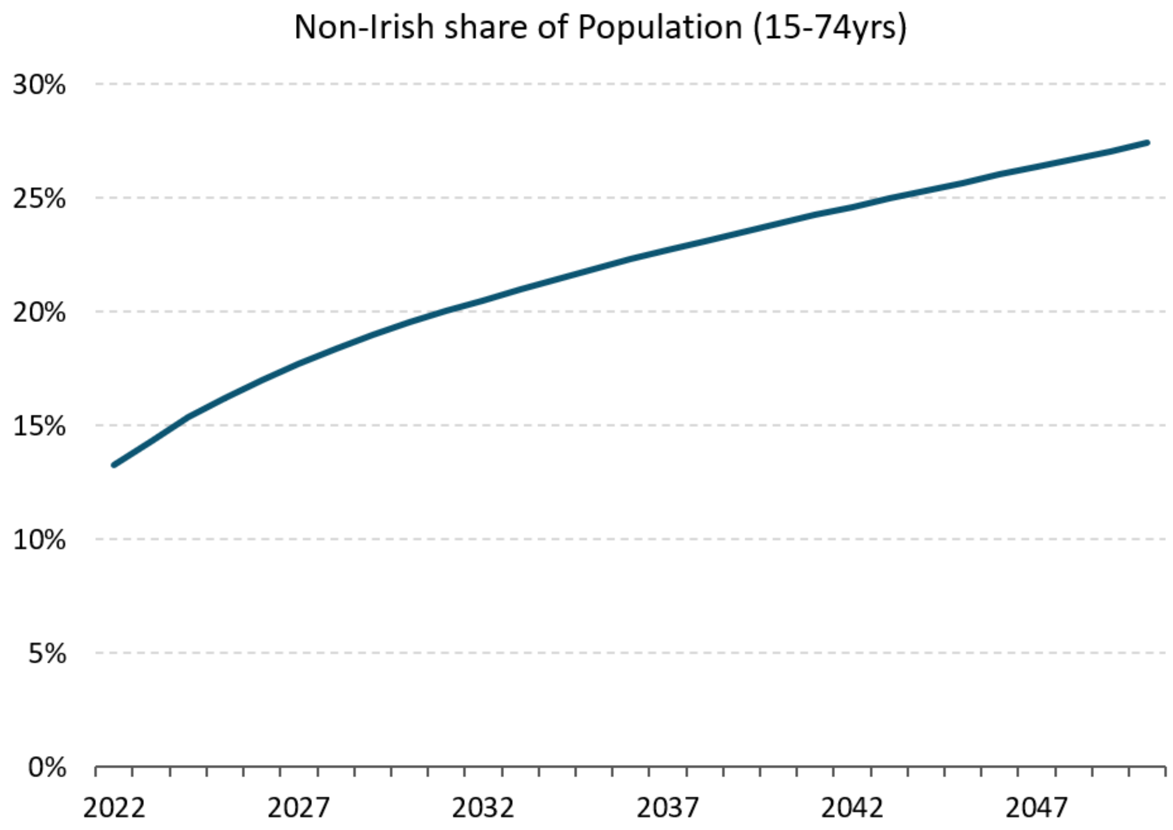
- ❑ Sustained inward migration could boost labour supply but path is uncertain

- ❑ Irish share of population in 2025 currently estimated at 83.8%
- ❑ Non-Irish at 16.2%

- ❑ Current population growth is in line with CSO highest net migration scenario (M1 projection)
  - ❑ +45k per year

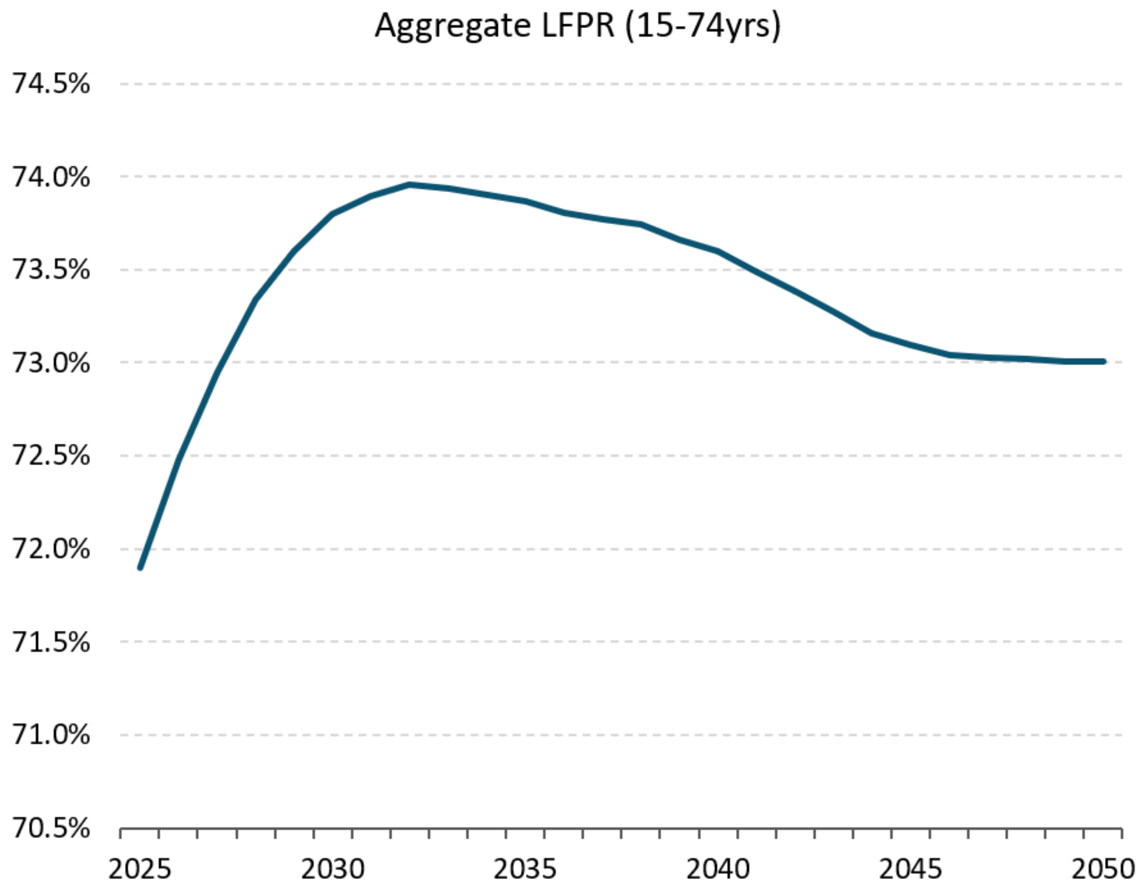
- ❑ Net migration of Irish citizens has been net neutral over previous 10 years

- ❑ Non-Irish share of population would increase from 16% in 2025 to 27% in 2050
  - Upward effect on LFPR and necessary input to labour supply in order to support economic growth
  - Upper bound estimate given citizenship status can change



Potential aggregate LFPR profile

- ❑ Using the long run coefficients out to 2050
- ❑ LFPR would peak at 74% in mid-2030s before gradually declining as ageing effects dominate
- ❑ LFPR remains above current levels out to 2050s
- ❑ Assumes no change in retirement age to specifically alter labour force attachment of those aged 66yrs+
- ❑ Potential for weaker growth in LFPR with regard to changes in economic growth, cyclical developments and migration trends



Summary

- LFPR increased notably between 2019 and 2025 (+5pp)

- **Strong underlying attachment**: Education, cohort replacement and rising female participation have supported this increase

- **Demographic forces pull in opposite directions**: Migration and educational attainment raise LFPR, while population ageing exerts a growing drag

- **Further LFPR increases are possible**: Under a conditional projection the LFPR can continue to rise out to mid-2030s before then gradually declining

- Future labour supply growth will depend increasingly on sustaining participation, human capital accumulation and migration instead of population growth alone

Thank You