Quarterly Economic Observer

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NERI Nevin Economic Research Institute

About NERI and this publication

The Nevin Economic Research Institute (NERI) was established to provide information, analysis and economic policy alternatives. Named in honour of Dónal Nevin, scholar, trade unionist and socialist who gave a life of service to the common good, the Institute aims to undertake research that will be of relevance to the Trade Union movement and the general public across the island of Ireland.

This is the 13th *Quarterly Economic Observer* (QEO) of the Institute. The purpose of the QEO is to provide regular, accessible and timely commentary so as to equip trade unions and others in articulating and advancing a new economic paradigm where the old has failed. The QEO complements the *NERI Spring 2015 Quarterly Economic Facts* (QEF) which provides a set of statistical indicators to underpin our analysis. Unless otherwise stated, the data cited in this Observer are the latest available as of mid-March 2015. The final draft of this document was completed on 16th March 2015.

This report has been prepared by staff of the Institute. We are grateful to two external reviewers from the academic and research community who reviewed and commented on an earlier draft of this document. The analyses and views expressed in this publication are those of the NERI and do not necessarily reflect those of others including the Irish Congress of Trade Unions or the unions supporting the work of the Institute.

Further information about NERI may be obtained at our website
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The Nevin Economic Research Institute

Quarterly Economic Observer

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Executive Summary

This edition of the NERI's *Quarterly Economic Observer* (QEO) outlines our latest expectations for the economic outlook in the Republic of Ireland and Northern Ireland (Section 3) and provides a profile of the earnings distribution and low pay in the Republic of Ireland (Section 4). In particular, we focus on establishing a more detailed evidence base for understanding those who are low paid.

Economic Outlook

The economic outlook differs for both part of the island of Ireland. In the Republic, an overdue recovery is gaining strength with ongoing improvements in the labour market, exports, domestic demand and earnings. However, concerns persist that the recovery has yet to spread across the country – a phenomenon typified by weak or limited employed growth in regions outside Dublin and its hinterland.

In the North uncertainty remains, deriving from the impact of Sterling's appreciation against the Euro alongside unclear prospects for the forthcoming General Election and a possible European Union membership referendum in 2017. However, the expectation is for continued economic growth and falling unemployment. In both economies challenges remain given high, if declining, long-term unemployment and lower than ideal levels of investment.

Based on the assumptions and expectations outlined Section 3, our current projections for the Republic of Ireland include:

– Strong GDP growth of 3.4% in 2015, declining marginally to 3.1% in 2016.

– Consumption will continue its recovery driven by rising real disposable incomes, improving household balance sheets and a strengthening labour market while investment will grow strongly from its currently very low base.

– The improvements in the economy will impact positively on the exchequers finances with the General Government Deficit falling to 2.7% in 2015 and 1.9% in 2016.

- A steady decreased in unemployment out to 2016, with the 2015 figure reaching 10%. By 2016 we expect unemployment to reach 9.1%.
- Further employment growth of 2.1% in 2015 and 1.9% in 2015.
- However, the pattern of employment growth in 2014 is a concern and points to divides in the nature of economic recovery across the Republic. The overall picture has been one of steady employment growth along the eastern half of the country centred on the Greater Dublin Area and stagnation or decline in the western and northern counties.

The Earnings Distribution and Low Pay

Section 4 presents our analysis of the earnings distribution using the latest data (from 2013). It finds that:

- On average employees earns €20.63 per hour although 50% of employees earn less than €16.62 per hour.
- 25% of employees earn an hourly wage of less than the Living Wage threshold of €11.45 per hour (approximately 345,000 employees).
- 30% of employees earn below the Eurostat low pay threshold of €12.20 per hour (approximately 400,000 employees).

Our examination has also allowed us to gain a greater understanding of those who are low paid and the risk of low pay faced by employees with certain characteristics. Among these findings are:

- 60% of the low paid are women, with female workers facing a 34% risk of being low paid (one in three).
- Of all those who are low paid almost one-quarter are in the wholesale and retail sector with almost one-in-six (17.1%) in the accommodation and food sector.
- The highest risk of low pay is for employees in the agricultural, forestry and fishing sector where seven out of every ten employees are low paid.

- 69% of employees in the accommodation and food sector are low paid, while 60% of workers in administration and support services are also classified as low paid.
- More than half of employees in the wholesale and retail trade are low paid.
- Overall 38.8% of employees in the private sector are low paid; the corresponding figure in the public sector is 10.5%.
- The risk of low pay is much greater for employees on low hours (less than 20hrs) where more than one in two are low paid. The risk is similar (52%) for employees with a temporary contract.

1 Introduction

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In the North uncertainty remains, deriving from the impact of Sterling's appreciation against the Euro, alongside unclear prospects for the forthcoming General Election and a possible European Union membership referendum in 2017. However, the expectation is for continued economic growth and falling unemployment. In both economies challenges remain given high, if declining, long-term unemployment and lower than ideal levels of investment.

In this *Quarterly Economic Observer* (QEO) as well as reviewing recent economic trends on both parts of the island, and outlining our expectations for the future economic outlook, we also provide a profile of the earnings distribution and low pay in the Republic of Ireland. In particular, we focus on establishing a more detailed evidence base for understanding those who are low paid.

The QEO is structured as follows. Recent economic trends in both parts of Ireland are reviewed in Section 2. Section 3 updates the NERI's macroeconomic projections while Section 4 provides a profile of the Earnings Distribution and Low Pay in the Republic of Ireland. Section 5 concludes.[1]

The Nevin Economic Research Institute offers this report as a contribution to public debate on policy making and formation on the island of Ireland. We welcome feedback, comment and suggestions. The precise data used and the specifics of any proposal/projections are subject to review as fresh information and data become available.

[1] The analysis in the document complements a number of recent and forthcoming NERI Research Papers. These are cited throughout the report and can be accessed on the NERI website.

2 Overview of Recent Economic Trends

2.1 Introduction

This section of the QEO examines recent trends for key economic indicators. Headline economic developments from 2007 to 2014 are summarised in Table 2.1. Data for 2014 are not yet available for many indicators.

Table 2.1 Key Economic Trends (2007-2014)

	2007	2008	2009	2010	2011	2012	2013	2014
Total Employment (% of working-age population)								
ROI	69.2	67.6	61.9	59.6	58.9	58.8	60.5	n/a
NI	68.4	67.9	64.7	66.1	67.4	67.1	66.8	68.1
UK	71.5	71.5	69.9	69.4	69.3	69.9	70.5	n/a
Euro18	65.5	65.9	64.5	64.1	64.2	63.8	63.5	n/a
Unemployment (% of labour force)								
ROI	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3
NI	3.9	4.4	6.4	7.1	7.2	7.5	7.5	6.4
UK	5.3	5.6	7.5	7.8	8.1	7.9	7.6	n/a
Euro18	7.5	7.6	9.5	10.1	10.1	11.3	12.0	11.6
Gross Domestic Product (% volume change over previous year)*								
ROI	4.9	-2.6	-6.4	-0.3	2.8	-0.3	0.2	n/a
NI	7.2	-0.3	-1.1	2	1.6	1.5	1.2	n/a
UK	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	2.6
Euro18	3.0	0.5	-4.5	2.0	1.6	-0.7	-0.5	n/a

Sources: Labour market data for Republic of Ireland (ROI), United Kingdom (UK) and for the Euro area (Euro18) are from Eurostat (2015a). Labour market data for NI is from NISRA (2014) Real GDP growth rate data for ROI, UK and for the Euro area are from Eurostat (2015b) Gross Value Added (GVA) data for Northern Ireland (NI) are taken from ONS Regional Trends Series (ONS, 2013)

Notes: *NI output refers to GVA. Euro18 refers to the first 18 members of the Euro Area (i.e. excluding Lithuania). ROI, UK, NI and Euro area labour market data for 2007-2013 represent averages for the whole year. Total employment refers to all persons in employment (ILO definition) aged 15-64 as a proportion of all persons aged 15-64. Unemployment is measured on the ILO definition basis and refers to persons aged 15-74.
n/a = not available

The Republic of Ireland's employment rate was 62.6% in the fourth quarter (Q4) of 2014 (CSO, 2015a). This compares favourably to the Q4 2013 rate of 61.4% and the Q4 2012 rate of 59.3%. There was an increase in net employment of 29,100 in the year to 2014 and 90,000 over the previous two years. Although the employment trend is upwards the employment rate itself is still well down on the pre-crisis Q4 employment rates of 68.8% (2006 and 2007). Seasonally adjusted total employment of 1,927,600 in Q4 2014 represents 231,500 less people employed than during Q4 2007 (2,159,100 employed). In comparison, the United Kingdom's (UK) employment rate was 72.2% in Q3 2014 (Eurostat, 2015a). This exceeds pre-crisis employment levels and is the highest quarterly rate recorded for the UK this century. The euro area employment rate was 64.4% in Q3 2014, an improvement on the Q3 2013 figure of 63.8%. The euro area employment rate peaked at 66.3% in Q3 2008 (Eurostat, 2015a).

The Republic of Ireland's unemployment rate averaged 11.3% in 2014 (Eurostat, 2015c). This is the lowest average rate since 2008. The unemployment rate averaged 6.2% in the United States (US), 11.6% in the euro area and 10.2% in the European Union (EU). The unemployment rate continues to fall in the UK with the headline three-month unemployment rate reaching 5.8% in the three months to November 2014. There was a wide range of unemployment rates in the EU in 2014. Greece (25.9%), Spain (24.5%) and Croatia (17%) had the highest unemployment rates, while Austria (4.9%) and Germany (5.0%) had the lowest rates.

Flash estimates (Eurostat, 2015d) suggest that compared with the previous quarter seasonally adjusted GDP rose by 0.3% in the euro area and 0.4% in the EU during Q4 2014 and rose by 0.5% in the UK and 0.7% in the US during the same period. The annual increases in real GDP are estimated at 0.9% in the euro area, 1.3% in the EU, 2.6% in the UK and 2.4% in the US. CSO data (2015d) suggests real GDP grew by 4.8% in the Republic in 2014.

Finally, provisional data (Eurostat, 2015e) suggests an annual inflation rate (HICPS) to February 2015 of -0.3% in the euro area. This is up from -0.6% in January and is the third consecutive monthly reading in negative territory. Euro area deflation is largely being driven by the fall in energy costs (-7.9% in February). CPI inflation in the UK fell to 0.5% in December. This was its lowest rate since 2000.

2.2 Recent trends in the World Economy

While high unemployment and substantial output gaps persist in many advanced economies, the marked decline in oil prices is supporting a gradual but sluggish economic recovery and boosting global growth (ECB, 2015; IMF, 2014 and 2015; European Commission, 2015). Falling energy prices should benefit activity in energy importers and are exerting downward pressure on global inflation. On the other hand the sharp drop in oil prices is negatively impacting economic activity in oil exporters and increasing those economies' vulnerability to macroeconomic imbalances and recession.

Economic growth has been slow in the EU and fairly robust in the US and the UK. There are signs that the Chinese and particularly the Japanese economies are slowing, with negative implications for other Asian economies, while geopolitical tensions associated with the situation in Ukraine are contributing to deterioration in the Russian economy. Deflation concerns persist – particularly in the euro area – and monetary policy is likely to remain very accommodative in the near term and with close to zero interest rates. The global economy continues to be characterised by large output gaps, weak investment levels and high levels of unemployment while a large number of economies remain constrained by high public and private debt levels. The weak investment levels and protracted demand weakness may reflect structural shifts and stagnation in the global economy and, if so, suggests lower output growth over the medium-term. On the other hand a slowing of both private sector deleveraging and fiscal drag should help support demand.

The United States has been the major bright spot in the global economy with most economic indicators trending positively in 2014 (FOMC, 2015; BEA, 2015). Overall job growth in 2014 was the highest since 1999 with the unemployment rate falling to 5.6% in December. Real GDP increased by 2.4% in 2014 over the previous year. Seasonally adjusted personal consumption increased by a robust 4.2% in Q4 2014 over the previous quarter. Sentiment data remains strong suggesting the recovery will carry-over into 2015. Labour market slack combined with falling energy and commodity prices are keeping wage and price pressures subdued. CPI inflation remains below the Federal Reserve's longer-run objective of 2% due to the large decreases in energy prices. Core inflation was 1.5% over the 12 months ending in December while nominal average hourly earnings for all employees increased only slightly faster than core consumer price inflation. The federal funds rate is expected to remain low for the foreseeable future.

The UK economy grew strongly in 2014 with real GDP increasing by 2.6% and the unemployment rate falling to 5.7%. There are concerns about the type of jobs being created which, in terms of composition, have been skewed towards lower paid sectors. Labour productivity growth and real wage growth have both been weak since 2007. The lack of fiscal space and weak wage growth remain constraints on domestic demand. Even so the increase in economic activity in 2014 was driven by a 3% growth in domestic demand, investment increasing by 7.4% over the previous year and private consumption increasing by 2.3% over the previous year. UK exports fell by 1.1% in 2014 reflecting weak export markets and a strengthening of Sterling. Compensation of employees (1.9%) exceeded HICP inflation (1.5%) in 2014 and the fall in oil prices and appreciation of Sterling should keep inflation subdued in 2015.

The recovery has been slower elsewhere in Europe. The euro area grew by just 0.9% over the previous year in 2014 and by just 0.3% in Q4 2014. Annual HICP inflation averaged 0.4% in the euro area in 2014 and has been in negative territory for three consecutive months beginning in December 2014. The deflationary trend is being driven by falling energy prices which is in turn a function of increasing supply and weak demand. Monetary policy has been very accommodative with the ECB initiating a programme of quantitative easing to support demand. The demand recovery in the euro area is being hindered by ongoing fiscal contraction, private sector balance sheet adjustments and weak credit conditions. Unemployment remains high in the euro area but is at least trending downwards. The seasonally adjusted euro area unemployment rate was 11.2% in January 2015 down from 11.8% in January 2014. The EU seasonally-adjusted unemployment rate was 9.8% in January 2015 down from 10.6% in January 2014 and equivalent to 23.8 million people. Youth unemployment was at 21.2%.

The Chinese economy slowed marginally in 2014 but still grew at a robust 7.4% despite a property market downturn, credit flows moderating and an unwinding of fiscal stimulus. Economic activity was boosted by lower oil prices and by an easing of monetary policy. CPI inflation was 1.5% at the end of 2014. The Chinese economy is rebalancing slowly away from debt fuelled investment and towards personal consumption. The Japanese economy grew by just 0.4% in 2014 with private consumption falling by 1.0%. The impact of expansionary monetary policy was outweighed by that of tightening fiscal policy. CPI inflation was 2.7% during the year driven by hikes in the consumption tax. Real wage growth declined as compensation of employees was just 0.5% and this drove the decline in private consumption. The collapse in oil prices has exposed structural weaknesses in the Russian economy, in particular the overreliance on energy exports. Real GDP growth was just 0.5% in 2014 with investment falling by 6.6%. Financial conditions are worsening as access to Western capital markets is becoming more difficult in the context of geopolitical tensions and economic sanctions.

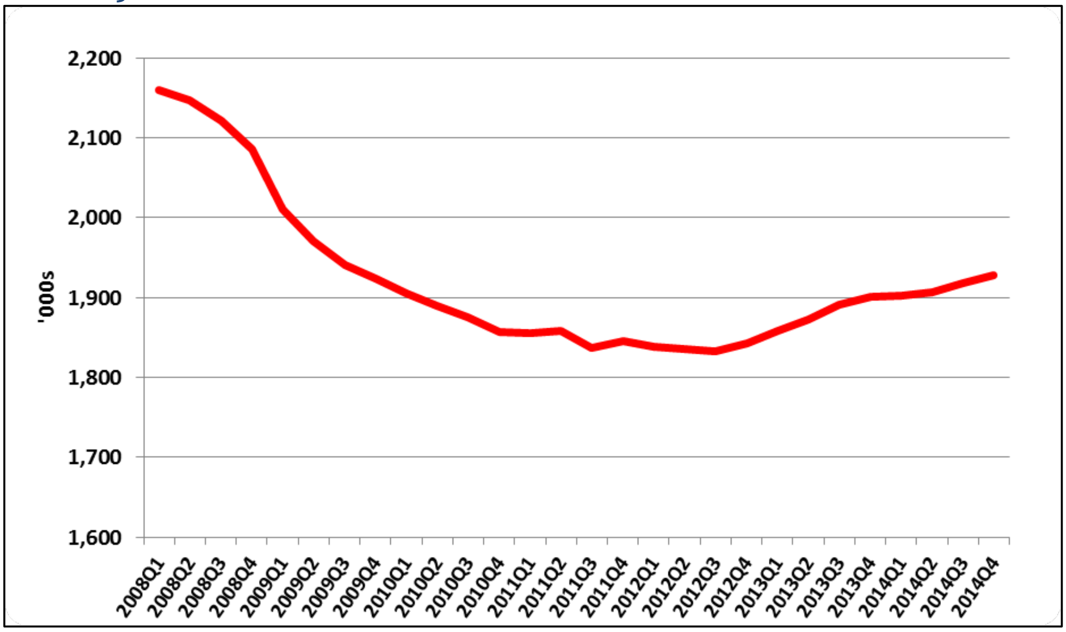
2.3 Recent trends in the Republic of Ireland Economy

There were 2,152,500 people in the labour force in Q4 2014 (CSO, 2015a). This represents a decline of 10,500 persons or 0.5% over the previous year. The labour force participation rate for persons aged 15 and over fell from 60.1% in Q4 2013 to 59.8% in Q4 2014. Overall unadjusted unemployment was 213,600, or 9.9%, in the fourth quarter having declined by 39,600 in the year to Q4 2014. The seasonally adjusted unemployment rate was 10.4% in Q4 2014, declining from 12.2% in Q4 2013, while seasonally adjusted unemployment fell by 13,600 persons during the fourth quarter. The Live Register's standardised unemployment rate was 10.1% in February 2015 down from 10.3% in December 2014 and 12.0% in February 2014. The long-term unemployment rate fell from 7.2% in Q4 2013 to 5.7% in Q4 2014. The number of long-term unemployed fell from 155,500 to 123,400.

Total employment was 1,938,900 in the fourth quarter of 2014 representing an annual increase of 29,100 persons and a +1.5% improvement over Q4 2013 (see Chart 2.1). Male employment increased by 14,800 over the year (+1.4%) while female employment increased by 14,200 (+1.6%). Full-time employment increased by 39,600 (+2.7%) in the year while part-time employment fell by 10,500 (-2.3%). Seasonally adjusted employment increased by 11,000 (+0.6%) in the fourth quarter. Employment fell in three of the fourteen economic sectors and increased in the other eleven sectors over the year to Q4 2014. The largest increases were in *construction* (+13,000); *education* (+7,100) and *wholesale and retail trade* (+5,900) while the largest declines were in *agriculture, forestry and fishing* (-11,100) and *health and social work* (-800). The occupational group with the largest annual increase in employment was *elementary* (+8,100) while the occupational group with the largest decline in employment was *professionals* (-8,600). Total youth employment (persons aged 15-24) fell by 39,600 between the fourth quarter of 2013 and the fourth quarter of 2014 while the number of youths in the labour force declined by 10,500.

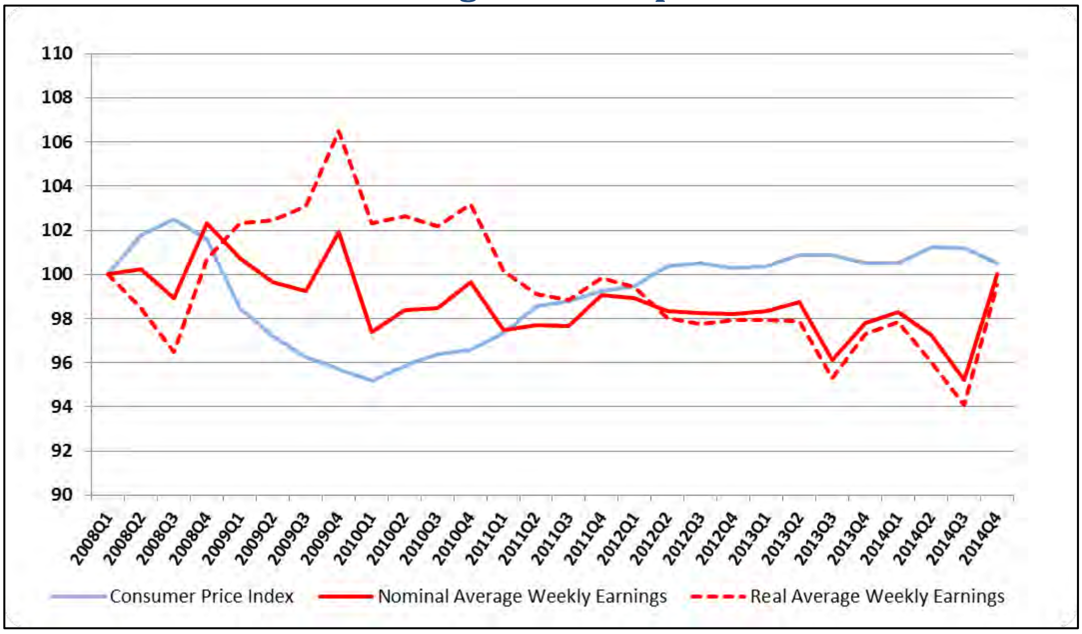
Average weekly earnings increased by 2.3% in the year to Q4 2014 and were up 5.0% over the third quarter (CSO, 2015b) (see Chart 2.2). Preliminary estimates show that average weekly earnings were €704.34 in Q4 2014 compared to €688.78 in Q4 2013.

Chart 2.1 Quarterly Trends in Total Employment (Republic of Ireland)



Source: CSO Quarterly National Household Survey (reference code from CSO StatBank is QNQ03)
Note: Total employment seasonally adjusted

Chart 2.2 Trends in Earnings in the Republic of Ireland



Sources: Calculated from CSO Survey on Earnings Hours and Employment Costs and Consumer Price Index.
Note: Index values set to 100 for Q1 2008.

Box 2.1 Trends in Regional Employment

The overall employment trend has been positive since 2012. However, this has masked sharp differences in regional performance with the recovery in employment unevenly spread across the regions. Total employment increased by 61,000 across the economy between Q4 2012 and Q4 2013 and by a further 29,100 between Q4 2013 and Q4 2014. The Mid-East region had the strongest relative performance in 2014 with a 5.3% increase in employment (12,000 jobs). This was followed by the South-East region with a 3.8% increase (7,400 jobs) and the Dublin region with a 2.7% increase (15,400 jobs). Employment growth in Dublin and the Mid-East (the Dublin feeder counties of Kildare, Meath and Wicklow) is equivalent to 94.2% of net employment growth across the entire country in 2014.

The Midlands (2.3% or 2,600 jobs) and Mid-West (1% or 1,500 jobs) experienced moderate employment growth while the Border region stagnated with zero net employment growth in 2014. Employment fell by 2.6% in the West (-4,800 jobs) and 1.8% in the South-West (-5,000 jobs). The overall picture is of steady employment growth along the eastern half of the country centred on the Greater Dublin Area and stagnation or decline in the western and northern counties. Total Full-Time Equivalent (FTE) employment increased by 32,600 in 2014. However, FTE employment actually declined in 2014 in the West (Galway, Mayo, and Roscommon) and Border county regions, while stagnating in the South-West (Cork and Kerry) region. FTE employment growth was 16,300 in the Mid-East region and 8,900 in the Dublin region which combined accounts for 77.3% of the net increase in FTE employment in the State in 2014. There was also strong growth in FTE employment in the South-East region.

The size of the labour force declined in four of the eight regions in 2014, most prominently in the West (-9,200 persons) and Border (-8,400 persons) regions, with smaller declines in the South-West (-4,100 persons) and South-East (-1,100). The labour force continues to expand in Dublin (+7,700 persons in 2014 following on from +9,200 persons in 2013). This is contributing to pressure on rental costs and house prices in Dublin particularly given the low level of house completions in the Dublin region (1,360 completions in 2013 and 3,259 completions in 2014). The Midlands (+2,100 persons), Mid-East (+1,900 persons) and Mid-West (+600 persons) also had expanding labour forces in 2014.

It is plausible the diverging regional labour force trends reflect an ongoing process of internal regional migration for economic reasons. The unadjusted unemployment rate is now well below double figures in the Mid-East (8.5%) and Dublin (8.6%) suggesting stronger prospects for potential and actual labour force participants in these two regions. All other regions have double digit unemployment rates with the Midlands (13.1%), the South-East (11.9%) and the South-West (10.6%) representing particular blackspots. Participation rates in Dublin (62.8%) and the Mid-East (62.6%) are well above the average for the State (59.8%). The lowest participation rates are in the Mid-West region (57.7%) and the Border region (54.0%). It is not yet clear whether the regional trend represents A) a structural shift in the Irish economy towards the Greater Dublin Area with stagnation or decline persisting into the future in the western half of the country, or, alternatively, B) represents a temporary phenomenon whereby the economy recovery currently taking hold in Dublin gradually extends out to other regions.

The average conceals substantial differences across sectors. Average weekly earnings increased in 9 of the 13 sectors in the year to Q4 2014. The largest annual percentage increase in average weekly earnings was in *finance, insurance and real estate activities* (+9.6%) while the largest decline was in *professional, scientific and technical activities* (-3.6%). Average hourly earnings increased by 1.7% over the previous year - from €21.73 in Q4 2013 to €22.11 in Q4 2014 while average total hourly labour costs increased by 0.6% over the year. Private sector average weekly earnings increased 2.4% in the year to Q4 2014, while public sector hourly earnings increased by 0.3% in the same period. Average weekly hours increased marginally from 31.7 hours to 31.9 hours in the year to Q4 2014.

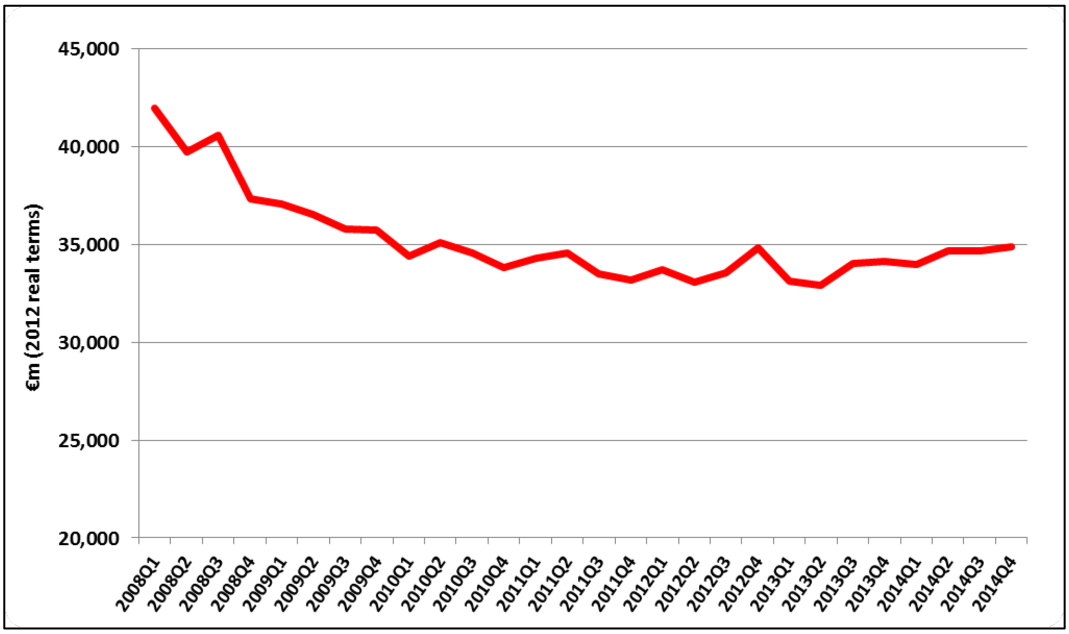
The annual rate of growth in average weekly earnings now exceeds CPI and HICP inflation (CSO, 2015c). Prices in January 2015, as measured by the CPI (-0.6%) and the HICP (-0.4), were down over the previous year. Falling food and energy prices are contributing to low inflation. In addition, the Irish economy remains well below its long-run potential with an excess of unused resources and this is contributing to the subdued wage and price inflation. Water supply and sewage collection charges together contributed a 0.41% increase to the January 2015 CPI. The largest upward contribution to the CPI in the year to January 2015 was *restaurants & hotels* (+0.24%), while *transport* (-0.92%) was responsible for the largest downward contribution – reflecting lower petrol and diesel prices. The annual rate of inflation for services was 2.3% in the year to January, while goods inflation was -4.3%. Services, excluding mortgage interest payments, increased by 3.3% in the year to January 2015. The annual change in the CPI has remained below 1.0% since March 2013 and has remained below 2.0% since September 2012. The deflationary trend continued into February 2015 with the annual consumer price index at -0.5% and the HICP at -0.4%.

Real GDP is estimated to have grown by 0.2% on a seasonally adjusted basis in the fourth quarter of 2014 and to have grown by 4.1% compared to the fourth quarter of 2013 (CSO, 2015d).[2] This followed annual real GDP growth of 7.2% in the second quarter and 4.1% in the third quarter. Real GDP grew 4.8% in 2014 while real GNP

[2] The CSO revised the National Accounts in July of this year to ensure compatibility with the latest European System of National Accounts (ESA 2010). The changes to the system of National Accounts - most importantly the inclusion of R&D expenditure as an investment item instead of as intermediate consumption - raised the level of GDP in 2013 by 6.5%. The upward revisions to GDP and GNP are stock effects and do not imply changes to future growth rates. The revisions do however improve the debt to GDP ratio.

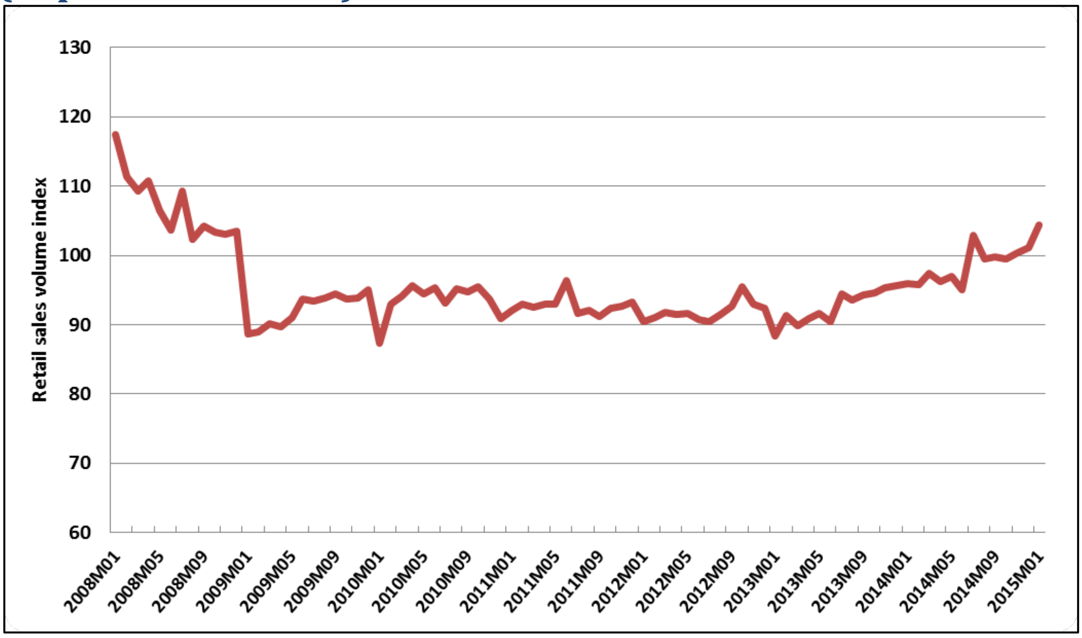
increased by 5.2%. As we discussed in the Winter 2014 edition of our QEO the economic growth figures are being flattered by the contract manufacturing activities of a small number of multinational companies (NERI, 2014a: 22). Consequently, trends in the real value of domestic demand offer a better insight into changes in economic activity (see Chart 2.3). The volume of exports was up 12.6% in 2014while imports were up 13.2%. Capital formation increased by 11.3% in 2014 while personal consumption is up 1.1% on the previous year. Data from retail sales (CSO, 2015e) suggests a recovery in consumer spending is taking hold. Seasonally adjusted total retail sales were up 8.8% in January in volume terms and 5.5% in value terms over the previous year, while core sales, which exclude motor trades, were up 4.8% in volume terms and 0.9% in value terms over the previous year. On an annual basis the January 2015 result was the fifteenth consecutive month of seasonally adjusted positive growth in retail sales in both volume and value terms. Retails sales in January were up 3.3% in volume terms over the previous month and 2.9% in value terms. The *KBC Ireland/ESRI Consumer Sentiment Index* (ESRI, 2015) was at 101.1 in January and the strongest level since February 2006 (see Chart 2.4).

Chart 2.3 Trends in the real value of domestic demand (Republic of Ireland) (€m)



Source: CSO Quarterly National Accounts.
Notes: Domestic Demand = Personal Consumption + Government Consumption + Investment. Domestic demand chiefly differs from GDP due to net exports = exports – imports, and changes in values of physical stocks. Values are adjusted for seasonal variation.

Chart 2.4 Monthly Trends in the Volume of Retail Sales (Republic of Ireland)



Source: CSO Retail Sales Index (StatBank code RSM03)
Notes: Volume of retail sales (seasonally adjusted). Index base is for 2005=100

The seasonally adjusted volume index of production has now shown growth in production for twelve consecutive months on an annualised basis (ten out of the last eleven months had double digit growth) and was up an extremely robust 28.0% in the fourth quarter of 2014 compared to the previous year (CSO, 2014f). The headline *Manufacturing Purchasing Manager's Index* (PMI) was 57.5 in February (Investec, 2015a); a score above 50 represents expansion in activity. The February result of 57.5 signified the fastest rate of expansion in the manufacturing sector since December 1999. The headline Services PMI (Investec, 2015b) also shows growth in business activity, easing marginally to 61.4 in February but marking the thirty first consecutive month of growth and one of the strongest results since the beginning of the crisis. Sentiment remains positive in the construction sector although the Construction PMI (Ulster Bank, 2015) declined to 57.1 in January from 63.1 in December. The PMI reading for commercial activity (61.6) is particularly strong, with civil engineering activity (54.5) and housing activity (54.4) both positive.

The number of mortgage accounts for Principal Dwelling Houses (PDH) in arrears fell for the sixth consecutive quarter in Q4 2014 (CBI, 2015c). A total of 110366 PDH accounts (14.5%) were in arrears at end Q4 2014, a decline of 6.4% relative to Q3 2014. PDH accounts in arrears over 90 days fell by 7.4% to 78,699 at end-December. Irish residential property prices rose by 15.5% in the year to January (CSO, 2014g). However, house prices fell by 1.4% nationwide over the previous month. Household net worth rose by 5.5% during Q3 2014 and has increased 28.3% since the low point in Q2 2012 (CBI, 2015a). Household net worth stood at €574 billion or €124,523 per capita, at end third quarter 2014. Household debt fell by €1.9 billion during Q3 2014 to stand at €160.6 billion. Household debt as a proportion of disposable income (a measure of debt sustainability) declined by 2.4 percentage points during the quarter and is now 177%. The domestic economy (households, non-financial corporates and government) continues to be a net lender with the combined deleveraging by households and non-financial corporates outstripping the net borrowing of government and financial corporates.

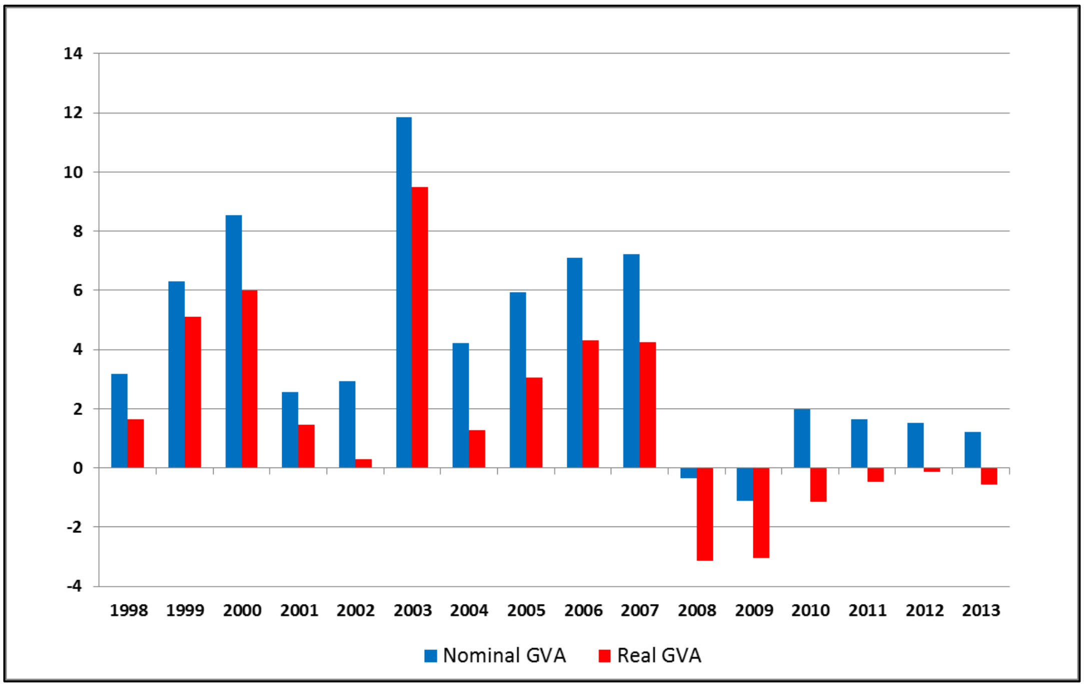
An Exchequer deficit of €205 million was recorded up to the end of February 2015 (DOF, 2015b). This compares with a deficit of €1.7 billion for the same period last year and the outturn to the end of February is better than profile to the tune of €835 million. The reduction is driven by increased tax receipts, reduced net voted expenditure and earlier full repayment of loans from the Exchequer to the Social Insurance Fund. Tax revenue up to end February is 5.4% ahead of profile and up 15.9% year on year. Net voted expenditure is down 2.4% year on year. The Exchequer deficit was €8.2 billion in 2014 (DOF, 2015b) The CSO (2015h) estimates that at end Q3 2014 the gross debt of General Government stood at €208.2 billion or 114.8% of annualised GDP, while net debt amounted to €161.0 billion or 92.1% of GDP (CSO, 2015h). The borrowing costs for 10-year bonds have fallen from over 14% in 2011 to below 0.9% in early March 2015. The yield on Ireland's 10-year bonds reached its lowest ever rate in February 2015 at 0.88%.

2.3 Recent trends in the Northern Ireland Economy

The latest figures for economic output in Northern Ireland painted a very mixed picture for the first half of 2014. The Northern Ireland Composite Economic Index (NICEI), which provides the most up-to-date figures, showed contraction of 0.4% in the first quarter and growth of 0.3% in the second. As the NICEI is a relatively new statistical output it has been subject to regular review since its introduction in 2013. Consequently the scheduled release of NICEI figures for the third quarter of 2014 has been indefinitely delayed whilst quality assurance is carried out. The NICEI however builds on the more robust, long-term measure of Northern Ireland's output, Gross Value Added.

Gross Value Added is equal to Gross Domestic Product plus indirect taxes and less subsides. When estimating GDP by the production or income approach, the contribution of each industry is calculated using gross value added. GVA is used in the same way to measure contributions to output in the NICEI, and so a closer examination may yield more clarity with regard to growth or contraction within the index. Importantly as well, GVA relates output and growth in Northern Ireland directly with the other regions of the United Kingdom and measures the extent of regional imbalances and disparities.

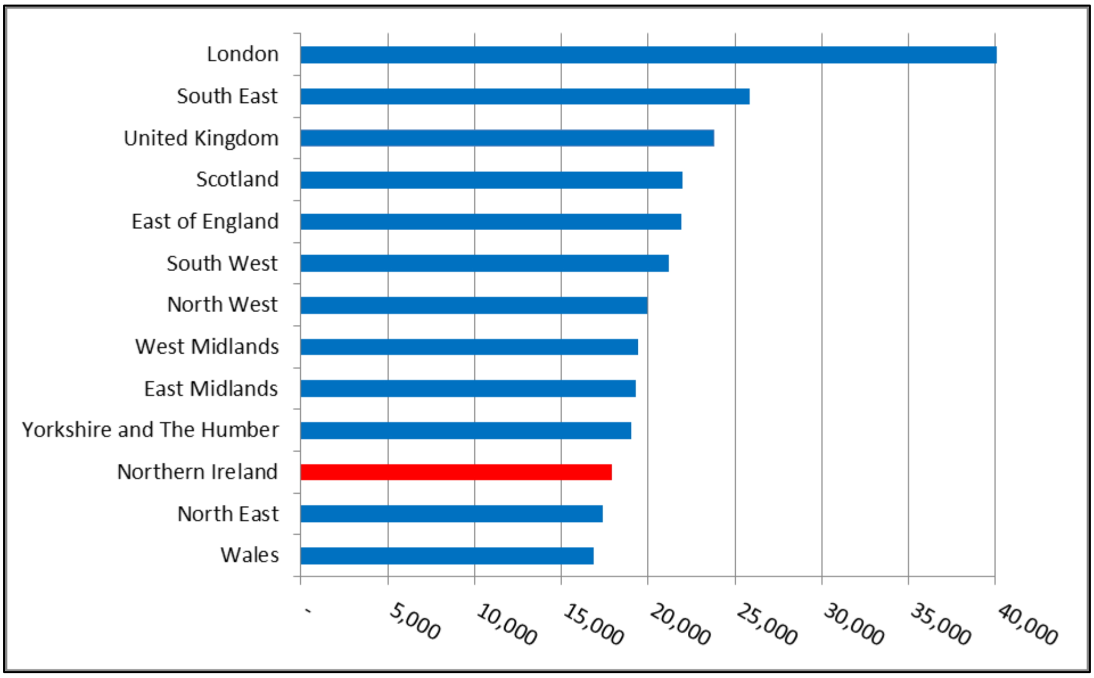
Chart 2.5 Trends in the Northern Ireland Gross Value Added, 1998-2013



Source: ONS (2014) Regional GVA Income Approach
Notes: Real figures adjusted using HMRC (2014) GDP deflators

Chart 2.5 shows yearly growth in GVA measured in nominal and real terms and highlights some interesting trends. 2003 was the stand out year for growth in Northern Ireland with a nominal increase of almost 12% and real growth of over 9%. Whilst growth fell back sharply in 2004, it continued to strengthen every year until the onset of recession in 2008. Importantly, GVA growth has contracted in real terms in every year from 2008 to 2013. The contraction in 2012 was surpassed by 2013 and this was despite the pick-up in UK GDP growth that began in early 2013. Nominal growth has also slowed in the last five years indicating that low inflation may still produce a real terms contraction in 2014.

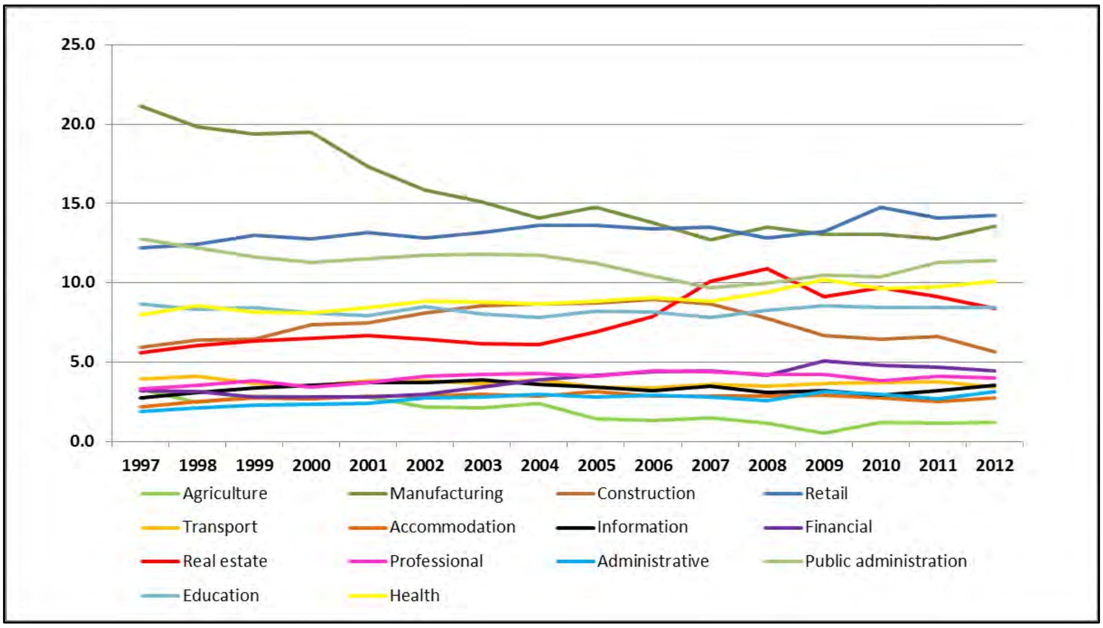
Chart 2.6 Gross Value Added per head in UK Regions, 2013



Source: ONS (2014) Regional GVA Income Approach

Chart 2.6 shows how GVA in Northern Ireland sits into the regional UK picture. Measuring GVA per head, in order to make meaningful comparisons, it can be seen that Northern Ireland has the third lowest output per head in the United Kingdom. Northern Ireland, Wales and the North East of England constantly rank toward the bottom of UK league tables on a number of economic measures including wages and economic inactivity. Despite 10 years of uninterrupted growth from 1998-2008, Northern Ireland remains as regionally marginalised as it was at the signing of the Good Friday Agreement. At present Northern Ireland's output per head is 76% of the UK average, a fall of 1% since 2012. Northern Ireland's acute productivity problem was explored in depth in the Winter 2014 edition of this publication (NERI, 2014a).

Chart 2.7 Sectoral Breakdown of Output in Northern Ireland, 1997-2012



Source: ONS (2014) Regional GVA Income Approach

Significantly, Gross Value Added provides key statistics on the contributions of industrial sectors to Northern Ireland's output. Looking back over a period of 15 years, Chart 2.7 shows some key trends in the make-up of economic growth in Northern Ireland. The pronounced decline in manufacturing is the most significant change over the period, with output falling from almost 22% of total GVA in 1997 to just over 13% in 2012. The construction industry, which reached a peak of 9% in 2006, has fallen back to 5.5%, below the level it was in 1997. Allied to the construction industry, the real estate sector saw a surge to almost 11% of output in 2008 reflecting the boom in house prices which occurred over the same period. The Agriculture industry showed decline from 1997 through to 2009 and while there has been recovery from that point, output in 2012 was still almost a third of what it was in 1997. In the broad public sector, the health sector has seen a steady incline in contrast to the relative decline in output in the education sector, whilst public administration has remained steady throughout. Apart from recent growth in the financial sector the contribution of all other major industries to output has been quite constant.

The Northern Ireland labour market has seen some positive changes in recent months (NISRA, 2014). Unemployment in the three months to the end of December 2014 was 5.7%, a fall of 3,000 or 0.3% from the previous quarter (July to September). The fall in unemployment has been impressive and mirrors similar reductions across the UK. Northern Ireland's unemployment rate is now back to the same level it was in late 2009. However as Chart 2.8 shows, the number of people classified as economically inactive has also risen to levels not seen since late 2009. Economic inactivity is not necessarily a worrying labour market indicator, as it may imply an increase in early retirees or more people in full-time education. However, as 18% of 18-24 year olds are unemployed and 55% of unemployed people are long-term unemployed, the problem of discouraged workers remains a concern. More positively, the data for the last quarter of 2014 shows increases for full-time employment far outstripping decreases in part-time employment. Full-time employment increased by 25,000 while part-time employment fell by 18,000.

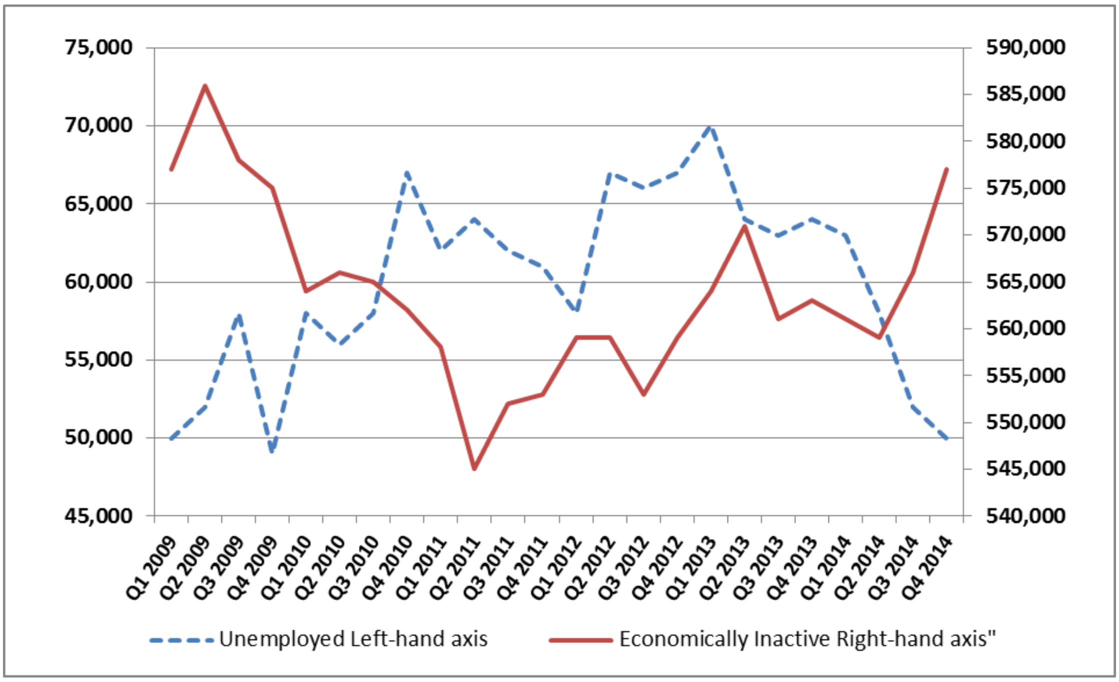
So far 2015 has been a good year for job creation in Northern Ireland with prominent announcements across many sectors. Within the software sector there was an announcement of 400 jobs by software development company Skanios, to be based in Belfast and Derry/Londonderry and 25 jobs announced by Newry based software company Fieldmotion. Additionally there were 50 jobs announced in Belfast by Intelligent Environments, which provides online software to financial services. Job announcements in the software sector are particularly welcome as most of the positions created are relatively highly-skilled and provide good salaries. However, there are concerns as to whether Northern Ireland has the skills base to provide for these companies and further expansion within the sector.

The banking sector in Northern Ireland also saw a welcome boost with Ulsterbank announcing 350 jobs at a call centre run by its parent company RBS. While the salary profile of these positions may be less than optimal, the commitment of RBS to Northern Ireland is significant given the recent uncertainty over the future of Ulsterbank within the RBS group and job reductions in RBS internationally. There was also a boost for Northern Ireland's food industry with the announcement of 55 jobs at Willowbrook fine foods in Co. Down. The Jobs announcement is part of a £2.3m investment pan to develop marketing and management services to grow the company in Northern Ireland and to expand its market in the Republic and Great Britain.

Beyond these successes there were some worrying developments within Northern Ireland particularly in the manufacturing sector. Bombardier announced further cuts in its workforce with 130 contract staff let go in February, following similar announcements late last year. The Belfast site has been pivotal in the development of the C-Series jet which was a significant investment for Bombardier at the time, given the global trend in private and commercial jet sales. Should this project be abandoned, it would almost certainly call into question the role of Invest NI which has provided much assistance to the development of this risky investment.

Elsewhere the announcement of up to 20,000 voluntary redundancies within the public sector over the next four years is a cause for concern. Not only is it doubtful that the private sector could absorb such an increase in available labour, the salary profile of the private sector in Northern Ireland is still far below of overall UK levels. While this scheme remains voluntary, staff reductions may not have as much of an impact on spending power in the domestic economy, but the scale of reductions will also necessarily affect the provision and quality of public services in Northern Ireland.

Chart 2.8 Unemployment and Economic Inactivity, Northern Ireland, 2009-2014 (000's of individuals)



Source: NISRA (2014) Labour Force Survey

House prices in Northern Ireland increased by just 1% in the final quarter of 2014 matching 1% growth in the third quarter. The annual increase from the third quarter of 2013 to 2014 was 8% while the volume of residential sales increased by 22% over the same period (NISRA, 2014). House prices in Northern Ireland reached their peak in the third quarter of 2007 and the overall index is still over 50% below peak level. Average property prices were 9.1 times the average salary in 2007, and this index fell to 4.2 in 2013. However as the modest recovery in house prices has not been met by wage growth the index increased to 4.5 in 2014.

The most recent indicator of economic activity in Northern Ireland is the Ulsterbank Purchasing Managers Index which measure confidence within sectors of the economy. The main Northern Ireland PMI suffered its first simultaneous monthly contraction in January of this year. While the PMI is a confidence indicator recent trends would imply that any tentative recovery is far from certain.

3 Future Economic Outlook

3.1 Introduction

In this section of the QEO we outline our basic assumptions for the main trading partners of the Republic of Ireland and Northern Ireland as well as our expectations for the economies of both parts of the island of Ireland. We also consider risks to our baseline forecast. For Northern Ireland we present sectoral employment projections for 2015 and 2016 in addition to external projections for economic activity and unemployment and consideration of the main risks to the Northern Ireland economy.

The outlook for Northern Ireland is uncertain given the May 2015 general election and the potential for a 2017 referendum on European Union membership. The desirability of Northern Ireland as a location for Foreign Direct Investment will suffer as long as there are lingering doubts over the province's status within the EU. Our baseline projection for the Northern Ireland economy is for healthy employment growth although this will be tempered by austerity policies constraining growth in economic output.

NERI projections for economic growth, the labour market and the public finances are presented out to end-2016 for the Republic of Ireland. We anticipate that the Republic's economy will grow at a reasonably strong rate for the duration of the forecast period. The economy will continue to operate below its potential output level, and, driven by strong employment growth, is projected to grow faster than the economy's long-run average potential growth rate. The unemployment rate will continue to fall and we project that by the end of 2016 the rate will have fallen below 9%. On a policy neutral basis the general government balance will remain in deficit over the forecast period, albeit declining steadily year-on-year.

3.2 Macroeconomic Assumptions for the Global Economy

Domestic growth prospects are linked to the economic performance of the wider global economy. This is true for all economies, but is particularly the case for a small open economy like the Republic of Ireland, as it is one of the most globalised economies in the world with a very large export sector relative to the size of the domestic economy. The IMF (2015) is projecting that global growth will be 3.5% in 2015 and 3.7% in 2016 while the OECD (2014) is projecting real GDP growth in the OECD economies of 2.3% in 2015 and 2.6% in 2016. Global growth is expected to receive a boost from lower oil prices, with energy importing economies disproportionately benefiting. However, the IMF anticipates that these gains will be more than offset by a range of negative factors including general investment weakness. The main downside risks relate to volatility in global financial markets, particularly in oil and commodity exporting emerging economies where lower oil and commodity prices are generating balance sheet vulnerabilities as well as slowing economic growth. The investment weakness may be a function of “secular stagnation” (CEPR, 2014), particularly in advanced economies, and, if so, the medium-term outlook for consumption and investment may be much weaker than currently understood. A slowdown is expected in 2015 in those emerging and developing economies reliant on commodity and energy exports. The outlook for the Russian economy is particularly bleak in the short-term as falling oil prices, economic sanctions, geopolitical tensions and a falling rouble act to worsen Russia’s economic crisis. Lower growth in China as the economy matures and rebalances will have negative spill-over effects for much of East Asia. Tightening monetary policy in the United States risks destabilising emerging market economies as a reversal in capital flows starts to materialise.

The Republic’s main trading partners are the euro area, the United Kingdom and the United States. Euro area real GDP grew by 0.2% over the previous quarter in Q3 2014, by 0.3% over the previous quarter in Q4 2014, and grew by 0.9% in real terms in the year to end Q4 2014 (Eurostat, 2015d). The latest economic indicators and sentiment data are consistent with a moderate economic expansion in the euro area in the short term. Growth will be assisted by the fall in oil and other input prices; the significant depreciation of the Euro against the US Dollar and UK Sterling, reduction in fiscal drag as governments increasingly abandon any further austerity measures, as well as further monetary easing in the form of asset purchases by the Eurosystem including sovereign debt purchases. Structural reforms notably the implementation of the banking union should assist with credit access and support a pick-up in domestic demand. However, deleveraging in the public and private sectors continues to hamper demand and the euro area will operate below its potential for the duration of the forecast period. The composite output PMI declined in the fourth quarter reflecting a weakening of business confidence in the services sector although the data is still consistent with moderate expansion. The IMF (2015) is projecting euro area real GDP growth of 1.2% in 2015 and 1.4% in 2016, the European Commission (2015) is projecting growth of 1.3% in 2015 and 1.9% in 2016 and the ECB is projecting growth of 1.5% in 2015, 1.9% in 2016 and 2.1% in 2017.

The European Commission is projecting an average euro area unemployment rate of 11.2% in 2015 and 10.6% in 2016. The seasonally adjusted unemployment rate was 11.2% in January. This was the lowest rate since April 2012 (Eurostat, 2015c). The weakening of the Euro has positive implications for net exports and will begin to exert some inflationary pressure in the euro area. The unemployment rate is still very high and the euro area economy is operating well below its long-run potential. Spare capacity and falling energy and commodity prices will keep wages and prices subdued. HICP inflation has been below 0.5% since July 2014 (ECB, 2015), fell into negative territory in December 2014 and is expected to remain below 1% in 2015. The euro area is currently experiencing deflation with the HICP at -0.3% in February 2015, although this was an increase on the -0.6% rate recorded in January. Despite the ECB's new asset purchases programme the mandated 2% inflation target is unlikely to be achieved before 2017. The ECB is projecting zero inflation growth in 2015, 1.5% inflation growth in 2016 and 1.8% inflation growth in 2017. Long-term interest rates are at historic lows reflecting expectations of a further weakening of inflation dynamics in an environment of weak growth.

The outlook for the United Kingdom is somewhat brighter. The European Commission (2015) is projecting that real GDP growth in the United Kingdom will be 2.6% in 2015 and 2.4% in 2016, while the IMF (2015) is projecting very similar growth estimates of 2.7% in 2015 and 2.4% in 2016. The Bank of England (BOE, 2015) external forecasters project annual real GDP growth rates of close to but below 2.5% for each of the next three years while the BOE itself anticipates annual growth rates of close to but below 3% for the period out to end 2017. The BOE expects that domestic demand will be supported by lower energy and food prices in the short-term and higher productivity growth further out in the projections. The weakness of the euro area economy is a downside risk while the strengthening of Sterling will diminish net exports. Headline unemployment continues to fall and is expected to be close to 5.5% by mid-2015 although employment growth is slowing and participation rates are falling. CPI inflation fell to 0.5% in December 2014 with the BOE forecasting CPI inflation of 0.5% in 2015 and 1.8% in 2016..

The United States is expected to outperform most other advanced economies. The IMF is forecasting growth of 3.6% in 2015 and 3.3% in 2016 while the Commission is forecasting 3.5% and 3.2% respectively. The improving labour market, falling levels of private indebtedness, reduced fiscal drag and falling oil prices are all supporting growth in personal consumption while business investment has rebounded strongly in response to pent-up demand. The Council of Economic Advisers (2015) is somewhat more cautious with real GDP projections of 3.0% in 2015, and again in 2016. The Fed is expected to only very gradually normalise monetary policy but eventually interest rates will rise and start to dampen domestic demand. The strengthening of the US Dollar will reduce net exports while weaker investment in energy-related industries will somewhat moderate capital spending. The Council estimates that the potential real GDP growth rate for the US economy is 2.3% and as a consequence expects the unemployment rate to continue to fall – to 5.4% in 2015 and 5.1% in 2016. The Council expects that CPI inflation will increase gradually over the next few (it was 1.5% in 2014) before stabilising at close to 2.3% by 2018.

3.3 Macroeconomic Projections for the Republic of Ireland

Gross Domestic Product

The national accounts have become increasingly volatile and difficult to interpret with headline GDP growth somewhat decoupled in recent years from real activity in the Irish economy. The main reason is the outsize influence of a few multinationals on recorded economic activity. The headline GDP figures were pushed downwards by this phenomenon in 2013 as a result of the patent cliff effect on pharmaceutical exports, while the GDP figures were substantially pushed upwards in 2014 due to highly concentrated increases in goods exports arising from offshore production activities – i.e. contract manufacturing. It is not expected that these activities will structurally influence the growth figures in future years although there may be some impact in 2015. Real GDP growth was 4.8% in 2014 while real GNP growth was 5.2%. The GDP deflator was 1.3% meaning nominal GDP increased by 6.1% in 2014 to €185.41 billion The recovery was driven by strong growth in investment (+11.3%) and exports

(+12.6%) while there was only modest growth in personal consumption (+1.1%). Recorded export growth was much larger than import demand in the Republic's trading partners. This is in part explained by the contribution from contract manufacturing but also reflects other factors such as improved competitiveness.

Table 3.1 Projections for Output, the Public Finances and the Labour Market, (Republic of Ireland)

	2013	2013	2014	2015	2016
National Income		*Percentage real change over previous year*			
Gross Domestic Product	€174.8bn	0.2	4.8	3.4	3.1
Personal Consumption	€83.3bn	-0.8	1.1	1.8	1.8
Government Consumption	€26.0bn	1.4	0.1	-0.6	1.8
Investment	€26.5bn	-2.4	11.3	9.8	7.7
Exports	€184.1bn	1.1	12.6	4.3	3.3
Imports	€147.7bn	0.6	13.2	4.2	3.3
Government Finances		*Percentage of GDP*			
General Government Balance	€9.95bn	-5.7	-3.7	-2.7	-1.9
Gross Debt	€215.6bn	123.3	109.6	108.3	104.5
Labour Force		*Percentage change over previous year*			
Employment	1,881,150	2.3	1.7	2.1	1.9
		Percentage of Labour Force			
Unemployment	282,200	13.0	11.3	10.0	9.1

Sources: 2013 data are from CSO National Accounts, Government Finance Statistics and CSO Quarterly National Household Survey (QNHS), 2014 data is from the QNHS (labour force) and NERI calculations.

Notes: Projections for Gross Domestic Product and it's components refer to real economic activity; Investment refers to Gross Domestic Fixed Capital Formation; Unemployment represents the average value over the four quarters

With the above caveats in mind we are projecting that real GDP growth will be 3.4% in 2015 and 3.1% in 2016 (see Table 3.1). Demand will be boosted by the ECB's programme of quantitative easing, the fall in oil prices and the mini stimulus announced in Budget 2015, while the depreciation of the Euro against the US Dollar and Sterling will boost net exports. We expect that net exports will make a small but positive contribution to growth in 2015 and 2016. Consumption will continue its recovery on the back of rising real disposable incomes, improving household balance sheets and a strengthening labour market while investment will grow strongly from its currently very low base as a proportion of GDP. The main survey indicators of economic performance and sentiment are in positive territory and broadly suggestive of moderately strong performance in 2015. The early exchequer returns, as well labour market and retail sales data are also supportive of the analysis that the economy is in recovery. Above trend GDP growth is therefore likely in 2015. We forecast that nominal GDP will marginally exceed €193 billion in 2015 and will be close to €202 billion in 2016.

Personal Consumption: Volume growth in personal consumption increased by 1.1% in 2014 although this figure may yet be subsequently revised upwards given the increase in VAT receipts and strong retail sales data in 2014. We now expect personal consumption to grow by, 1.8% in 2015 and 1.8% in 2016. Growth in domestic demand will be driven by higher levels of employment, higher real disposable household income and anticipated wage growth and improving household net worth. While wage growth has been stagnant in recent years there is sign of recovery with average weekly earnings increasing by 2.3% in the year to Q4 2014 (CSO, 2014b). The low inflation environment is helping to preserve the value of real incomes while the net effect of Budget 2015 will be to help stimulate domestic demand despite the negative impact of the introduction of water charges.

The *KBC/ESRI Consumer Sentiment Index* was at 101.1 in January suggesting robust growth in personal consumption over the next few months (ESRI, 2015). The early retail sales data for 2015 have also been positive. The volume of retail sales increased by 8.8%% in January 2015 over the previous year and by 3.3% on a seasonally adjusted basis over the December figure. However, if motor trades are excluded the volume of retail sales actually declined by 0.1% in January compared to December although there was an increase of 4.8% in the annual figure. The early VAT and Excise returns have also been robust. The end-February 2015 outturn for VAT receipts is up 16.2% on the previous year while Excise receipts are up 20.0%. The VAT outturn is 0.3% above profile in the first two months while Excise receipts are up 7.1% on profile.

The drag on demand from the high levels of household debt continues to diminish. Household debt fell by €1.9 billion during Q3 2014 to stand at €160.6 billion or €34,846 per capita and declined as a proportion of disposable income (a measure of debt sustainability) by 2.4 percentage points during the quarter to stand at 177%. The decline reflects the reduction in household debt as well as a slight increase of €152 million in disposable income. The decline in the ratio of debt to disposable income should increasingly feed through into a declining savings rate and a higher level of consumption. Household net worth rose by 5.5% during Q3 2014, largely driven by increases in housing assets. We anticipate the ECB's quantitative easing programme will put upward pressure on the value of housing assets in 2015. Finally, the improvement in household net worth represents an increase in anticipated lifetime income and will act to boost consumption levels in the future.

Government Consumption: Following the Budget 2015 announcements we anticipate that government consumption will decline by close to 0.6% in real terms in 2015. This follows an increase of 0.1% in the volume of government consumption in 2014. The 2014 increase appears to be related to the statistical treatment of the negotiated increase in working hours under the Haddington Road Agreement. Government consumption is largely a policy instrument and therefore our forecast for 2016 should be seen as particularly tentative. However, given the impending election and recent announcements by Ministers we anticipate a moderate increase in government consumption in 2016.

Investment: Investment is by far the most volatile component of GDP in terms of year-on-year changes and has the strongest potential for fast growth rates and sharp declines. The Republic's investment-to-GDP ratio has been one of the lowest in the EU for each of the last five years (European Commission, 2014) and the current ratio (15.2%) is well below the long-run historical average. This suggests capacity for growth in investment of well in excess of trend GDP growth rates over the medium-term as firms replenish depleted capital stock levels and improvements in the public finances help support needed increases in levels of public capital investment. Investment growth will be supported by the improvement in private sector balance sheets as well as by the downward pressure on interest rates and the cost of capital arising from the ECB's quantitative easing programme. The emergence of non-traditional sources of funding, notably the Strategic Banking Corporation of Ireland, will also help support investment growth in 2015. Capital formation grew by 11.3% in 2014 and this strong growth is expected to continue into 2015 with building and construction driving much of the expansion as supply gradually responds to pent-up demand for housing. Data on commencements and registrations suggest strong growth in house completions in 2015. The Construction PMI was 57.1 in January with the reading for commercial activity particularly strong and the readings for civil engineering activity and housing activity both positive. We are currently forecasting investment will increase by 9.8% in 2015, and by 7.7% in 2016

Net Exports: Exports will benefit from the strong recovery in the United States and the United Kingdom although this will be partially offset by the weak performance of the euro area. Exports will also benefit from the expected significant depreciation of the euro against the US Dollar and the UK pound. The openness of the Republic's economy makes it particularly well placed to benefit from a declining euro. Export growth was extremely robust in 2014 growing 12.6% year-on-year. We expect that exports will fail to maintain this level of expansion in 2015. The 2014 figures are skewed upwards by contract manufacturing and we do not anticipate this phenomenon will continue to contribute to growth. Future growth in exports is anticipated to be more in line with external demand indicators, albeit benefiting from the weakened euro in 2015. The *Investec Manufacturing PMI* suggests positive sentiment and improving business conditions in the exporting sector with output and new orders both up strongly. We are forecasting that the volume of exports will increase by 4.3% in 2015 and by 3.3% in 2016. Imports also grew extremely strongly in 2014 and were up 13.2% on 2013. We are projecting that growth in the volume of imports will moderate to a still robust 4.2% in 2015 and then to 3.3% in 2016. Growth in imports in 2015 will be driven by increases in real disposable household income and domestic demand. This will be reflected in greater imports of motor vehicles as well as tourism and other service imports. The anticipated investment growth will also boost the demand for goods imports. The expansion in exports combined with the high import content of Irish exports will help drive growth in imports broadly in line with external demand indicators.

Labour Market

The economy is still operating well below its long-run potential with significant remaining slack. In this context we are projecting fairly robust employment growth of 2.1% in 2015 and 1.9% in 2016. This employment growth will be driven by the anticipated improvements in domestic demand. In particular the anticipated increase in investment will boost employment growth in the construction sector while the overall recovery in consumption will boost employment in the retail sector. Most sectors should see gains in employment. We forecast that the unemployment rate will average 11.3% in 2014, 10.0% in 2015 and 9.1% in 2016. Our unemployment and employment projections are broadly consistent with that of other forecasters. Table 3.2 shows a range of baseline projections for unemployment. The range of projections for 2015 is from 9.6% to 10.5% while the range for 2016 is from 8.3% to 9.9%. The high rate of long-term unemployment and the length of the recession may have caused permanent damage to the economy in the form of a higher rate of structural unemployment. Even so we expect the labour force participation rate to increase gradually in the medium-term with annual growth rates of close to 1%.

Table 3.2 Range of Projections for Unemployment as a Per Cent of the Labour Force, (Republic of Ireland)

	2014	2015	2016	2017	2018
NERI (March)	11.3	10.0	9.1	-	-
Department of Finance (October)	11.4	10.2	9.4	8.9	8.1
Central Bank of Ireland (January)	11.4	10.4	9.3	-	-
European Commission (February)	11.1	9.6	8.8	-	-
IMF (October)	11.2	10.5	-	-	
OECD (November)	11.5	10.5	9.9	-	-
ESRI (December)	11.3	9.7	-	-	-
Investec (February)	11.3	9.8	8.3	-	-

Sources: DOF: Budget 2015, Economic and Fiscal Outlook (DOF 2014); CBI: Quarterly Bulletin 01 2015, January, (CBI 2015b); European Commission: European Economic Forecast Winter 2015, (EC, 2015a); IMF: World Economic Outlook October 2014 (IMF 2014); OECD: Economic Outlook, (OECD 2014); ESRI: Quarterly Economic Commentary, Winter 2014 (ESRI, 2014); Investec: Irish Economy Monitor, Q1 2015 (Investec, 2015c).

Average weekly earnings exhibited widely divergent growth rates across the sectors in 2014 ranging from +9.6% in financial, insurance and real estate to -3.6% in professional, scientific and technical activities. Economy-wide changes in average weekly earnings must be understood in the context of the changing composition of employment by sector. Earnings growth is occurring in some sectors of the economy and average earnings will begin to rise across the economy provided the unemployment rate continues to fall. In general the labour market improvements and in particular the falling unemployment rate are beginning to translate into higher average weekly earnings although the high degree of slack and negligible inflation growth suggest upward pressure on nominal wages will remain somewhat muted in 2015. Nominal wage growth should start to take hold throughout the economy in 2016 as the unemployment rate continues to fall.

Public Finances

In light of our estimates for economic growth, unemployment and employment we are forecasting continued improvement in the public finances in 2015 and 2016 on a policy neutral basis. The reductions in the numbers unemployed mean reduced expenditure on social transfers. At the same time increased employment and higher average incomes will generate additional direct and indirect revenue flows. We are projecting a general government deficit of close to 3.7% of GDP in 2014, 2.7% of GDP in 2015 and 1.9% of GDP in 2016. However, the deficit forecast is clearly at risk given the possibility Irish Water will fail its market capitalisation test. The exchequer deficit up to end February 2015 was €205 million, compared to €1.677 billion for the same period last year. We estimate that gross debt will fall to 108.3% of GDP in 2015 and to 104.5% of GDP in 2016.[3]

Risks to the Outlook

Table 3.3 compares NERI's real GDP projections to those of other agencies. Our forecast is somewhat cautious with agency projections for 2015 varying from a low of 3.0% to a high of 4.7%, while the 2016 projections range between 3.1% and 3.8%. Even this range of forecasts does not encompass the full range of feasible outcomes.

Table 3.3 Range of Projections for Annual Change in Real GDP, (Republic of Ireland)

	2015	2016	2017	2018
NERI (March)	3.4	3.1		
Department of Finance (October)	3.9	3.4	3.4	3.4
Central Bank of Ireland (January)	3.7	3.8	-	-
European Commission (February)	3.5	3.6	-	-
IMF (October)	3.0	-	-	-
OECD (November)	3.3	3.2	-	-
ESRI (December)	4.7	-	-	-
Investec (February)	3.7	3.5	-	-

Sources: See Table 3.2

[3] These estimates assume there will be a reduction in precautionary cash balances of the scale described in the Budget 2015 *Economic and Fiscal Outlook* (DOF, 2014).

There is a wide range of risks to our baseline projection. Deflation, supply side shocks, a slowdown in emerging economies, an increase in interest rates and geopolitical tensions all represent downside risks with significant probabilities. Lack of credit access is a risk to the projections for investment growth while the outcome of the OECD's BEPS project might reduce the ability of the Republic to attract inward Foreign Direct Investment. Exchange rate movements always represent a source of uncertainty while weaker than expected output growth in the Republic's trading partners would impact significantly on the pace of the GDP recovery with knock-on implications for employment growth and the public finances.

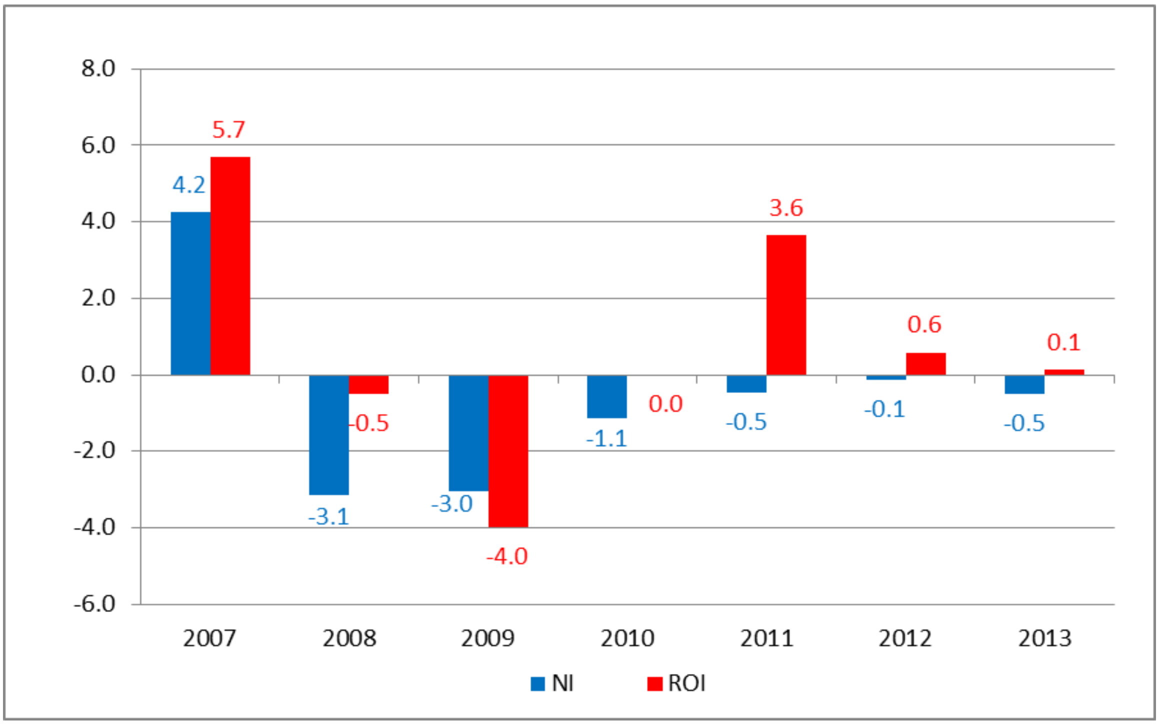
Secular stagnation poses a difficult to quantify downside threat to medium-term growth forecasts. It is also difficult to quantify the damage done to the Republic's human capital base during the crisis and what that means for the Republic's natural rate of unemployment. This effect may be larger than is generally understood and, if so, the ability of the domestic economy to generate sustained employment growth will be diminished. The high levels of long-term unemployment suggest the plateau for employment may be lower than in the pre-crisis period and the floor for unemployment commensurately higher.

3.4 Macroeconomic Outlook for Northern Ireland

Macroeconomic Outlook

Northern Ireland as a small regional economy faces many challenges over the next number of years ranging from an uncertain global economic outlook to political instability within the United Kingdom. In the first instance the budgetary situation in Northern Ireland is quite precarious. While the scale of reduction in public expenditure is not of the order experienced in the Republic of Ireland, the continuing under-performance within the private sector means that austerity measures will have a significant impact on the economy as a whole.

Chart 2.1 Percentage change in Real Gross Value Added for Northern Ireland and Republic of Ireland, 2007-2013



Source: Real figures adjusted for NI using HMRC (2014) GDP deflators
Notes: ONS (2014) Regional GVA Income Approach & CSO (2014) Gross Value Added at constant basic prices

At present public expenditure in Northern Ireland is estimated to be £1.1bn lower than it was in 2010 - out of an overall public spend of £17bn. The final budget delivered in January of this year saw a small real terms cut in overall public expenditure, but due to the additional funding required for the Health service, all other departments have experienced sizable cuts to their budgets. Budget cuts to higher and further education were scaled back from the Draft Budget position in December with the tacit acknowledgment that such spending played a key role in driving growth and that it was counter-productive in the long-run to reduce it. However the 2015-16 spending round, which determined Northern Ireland's public expenditure, will be replaced by another four year plan by whatever UK government is elected in May 2015.

It is worth noting that among Westminster parties there is a significant divergence in fiscal plans for 2015 onwards. All of the major parties are committed to eliminating the current budget deficit by 2018/19. However the Conservative Party have gone somewhat further than this. In the Autumn Statement the Chancellor of the Exchequer outlined Conservative Party plans for an overall Budget Surplus by 2019/2020. An overall budget surplus would require revenue to meet total spending, while the current budget excludes investment spending. This means that on current policies a Conservative government would aim to cut expenditure (and or increase taxes) by £51bn by 2019/20, whereas a Labour or Liberal Democrat government would only aim to reduce this by £8bn (IFS, 2014). The scale of such reductions in public expenditure will have a significant impact in Northern Ireland and will determine much of the macroeconomic environment over the next five years.

With regard to the global economy, Northern Ireland has been quite exposed to events in the euro area as it is the only part of the Sterling area to share a land border with the euro area. In particular the steep decline in the value of the Euro due to quantitative easing and other deflationary pressures is having a substantial impact on cross-border trade. The Euro has fallen from a high of £0.87 in early 2013 to a low of £0.72 in March of this year. Such fluctuations may prevent Northern Ireland experiencing any benefit from the recovery, such as it is, in the Republic of Ireland.

Table 3.4 Overview of recent projections of Economic Activity and employment/unemployment (Northern Ireland)

	2014 (outturn)	2015	2016
Economic Activity	**n/a**		
Ernst & Young (GVA)	-	1.4	1.5
PWC (GVA)	-	2.1	2.1
Danske Bank (GVA)	-	1.3	2.6
NICEP	-	2.9	2.6
Employment	**0.3**		
NERI		1.1	0.6
Danske Bank	-	0.5	0.3
Ernst & Young	-	-0.1	0.5
NICEP	-	1.2	0.8
Unemployment % Labour Force	**6.4**		
NICEP		4.9	4.4
Ernst & Young		6.3	6.2

Sources: Ernst and Young: Economic Eye, Winter (2014); PWC: Northern Ireland Economic Outlook Decmber(2014); Danske Bank Quarterly Sectoral Forecast Q4 2014 (December 2014) NICEP Spring Outlook (November 2014)

Note: Gross Value Added differs from GDP by the difference between taxes and government subsidies.

Table 3.4 outlines the forecasts of NERI and other agencies with regard to output and the labour market. Most forecasters expect robust output growth and falling unemployment. However in common with NERI's employment projections, all forecasters see more moderate employment growth in 2016. NERI's employment forecasts will be updated for the next edition of this publication.

Risks to the forecast

By the time of the Summer 2015 edition of this publication (June 2015) the result of the UK general election should be known, however the exact makeup of the next UK government may still be unclear. The projections of most opinion polls point to neither of the main parties having a majority or the numbers to form a two-party coalition. The advance of the Scottish National Party and possibly UKIP has made predictions of a clear result on the 7th of May all but impossible. As outlined earlier, the makeup of the next UK government will determine the scale of public expenditure cuts that will impact Northern Ireland over the next five years, and could still possibly affect the 2015/16 budget as well.

The other key election outcome will be whether a parliamentary majority exists to support holding a referendum of the UK's membership of the European Union. The outcome of any such referendum will have a major impact on the Northern Ireland economy.

4 The Earnings Distribution and Low Pay in the Republic of Ireland[4]

4.1 Introduction

As signs of economic recovery continue to emerge, issues relating to quality of life, living standards, the provision of public services and adequacy of income are returning to the policy sphere. Included among these are issues related to earnings and pay levels. In recent weeks the Government has appointed a Low Pay Commission to examine issues around low pay including minimum hourly rates and the conditions of workers, in particular those experiencing precarious employment patterns. This focus complements a broader consideration of pay levels in both the public and private sector and the emergence over the past year of a method for estimating an annual living wage for workers in the Republic.[5]

In this section of the *Quarterly Economic Observer*, we examine both the overall distribution of hourly earnings and explore the distribution and risk of low pay. In doing so, our intention is to provide greater clarity on the overall shape of earnings across the state and in particular to establish a more robust evidence base for our understanding of the nature and shape of low pay.

The section is structured as follows. First we outline the data employed in our analysis and then use it to summarise the hourly earnings distribution. Next we focus on those at the bottom of that distribution, the low paid, and examine both the composition of those who are low paid and the risk of low pay faced by employees with different characteristics. Finally, the section concludes with a series of policy recommendations.

[4] This research derives from a current NERI research project on low pay and a forthcoming research paper entitled '*Earnings and Low Pay in the Republic of Ireland: A Profile and Some Policy Issues*' (Collins, 2015). The NERI acknowledges the input of external reviewers and their comments and suggestions prior to publication. We also acknowledge the provision of SILC data from the CSO.

[5] See www.livingwage.ie

4.2 The Earnings Distribution

While there are quarterly publications of employment numbers, hours worked and wage trends[6], micro-level data on Ireland's earnings distribution has been infrequent. For the most part, previous assessments have been based on the Structure of Earnings Survey, a four-yearly Europe wide survey, which last occurred in 2010.[7] There have also been assessments of tax records although this data is often at the tax case (individuals and jointly assessed couples) rather than at the individual employee level.[8]

Data

In the analysis presented here, we examine the distribution of earnings using micro data from the latest Central Statistics Office (CSO) Survey on Income and Living Conditions (SILC). This survey is part of an annual Europe wide household living standards survey and collects income and living standards information from a representative national sample. The latest data, for 2013, was released in late January 2015 and comprised responses from 12,663 individuals in 4,922 households.[9]

Data on earnings is available for all those in the dataset indicating that their principal economic status is 'at work' and who are employees. The data includes values for the gross monthly earnings of employees in their main job and a value for the number of hours employees usually work in their main job. Taken together these allow an estimation of the average hourly wage rate for an employee in their main job.

To assess the representativeness of the SILC data, Table 4.1 compares values generated from that data with other labour market indicators published by the CSO for the reference year. Overall, the SILC data compares well to the other labour market indicators. There are challenges comparing the SILC results with measures of the

[6] See various editions of CSO *Quarterly National Household Survey* (QNHS) and *CSO Earnings and Labour Costs Quarterly Survey*.
[7] A stand-alone Structure of Earnings Survey has since been discontinued with data now estimated using administrative sources. Previous assessments include Eurostat (2012), O'Farrell (2013) and Healy (2014). MacFlynn (2014) has also examined earnings and low pay in Northern Ireland using data from the UK Annual Survey of Hours and Earnings (ASHE).
[8] See for example Social Justice Ireland (2014: 282-283) and NERI (2014b: 75-76). McCarthy et al (2012) use administrative data from both Revenue Commissioners and CSO to examine the earnings distribution and those earning less than 60% of median earnings.
[9] The data includes a probability weight variable to correct for under-representation and non-response and these weights are used in the analysis.

number of employees in the Quarterly National Household Survey (QNHS). The latter uses the International Labour Office (ILO) method of measuring those who are at work, capturing all those working for pay, profit or in a family business for more than one hour a week as employed. Conversely, the SILC data is based on a measure of a person's principal economic status, the main thing that the person does. As a person may be employed for a few hours per week, for example working part-time, but may regard themselves as principally a student, retired, unemployed or working in the home, estimates of the total number of employees using these two approaches are likely to differ fairly substantially. In an attempt to take account of this, the table compares the number of individual with any employee income (from SILC) with the QNHS measure of employees.

Table 4.1 Representativeness of SILC Labour Market Estimates

Indicator	CSO Labour Market Data	SILC Analysis
Annual average earnings	€35,830	€35,487
Average hourly earnings	€20.75	€20.63
Average weekly hours	31.55hrs	33.22hrs
Employees / Any Employee Income	1,555,775	1,530,624
Employees % male	49.0%	47.5%
Employees % female	51.0%	52.5%

Notes: CSO labour market data is for 2013 and where data is quarterly it is averaged over the four quarters to provide an annual figure. Average annual earnings is from the *Earnings and Labour Costs Annual 2013*. Hourly earnings and hours worked data is from the *Earnings and Labour Costs Quarterly Survey*. Employee estimates are from the *Quarterly National Household Survey*.

As the SILC data is focused only on those whose principal economic status is 'at work' and who are employees, the number of workers represented by the analysis below is a smaller figure than the total number with any employee income. Overall, the data represents a total of 1,345,395 employees.[10] Of these employees, the mean hourly earnings is €20.63 per hour although 50% of employees earn less than €16.62 per hour.

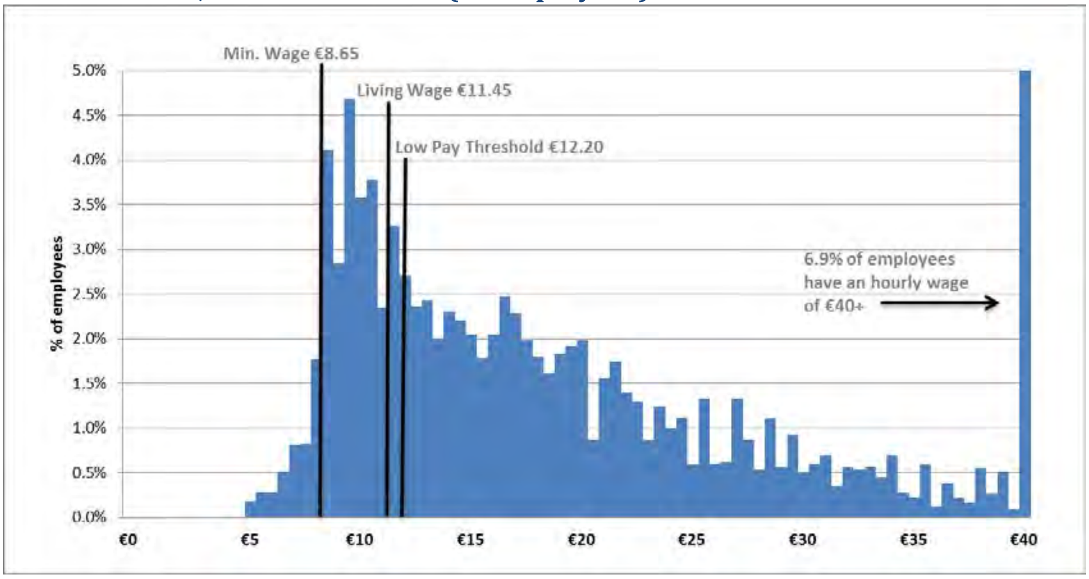
The Earnings Distribution

Chart 4.1 presents a profile of the hourly earnings distribution in the Republic of Ireland. The chart also includes markers for three earnings thresholds. These include the ***minimum wage*** which stood at €8.65 per hour in 2013 having been restored to

[10] This total represents the weighted value of the final sample size which was also cleaned to exclude variables with missing or spurious monthly earnings / usual hours data.

that level in July 2011 and originally set at that level in July 2007.[11] A ***Living Wage*** value of €11.45 per hour was first established in July 2014 by the Living Wage Technical Group who presented a methodological basis for its calculation and annual update.[12] In the absence of a comparable figure for 2013, the 2014 value has been used in Chart 4.1. Finally, the ***low pay threshold*** established by Eurostat in their most recent Structure of Earnings Survey (2010) is also used. This figure was estimated for those in firms of 10 or more employees and in all sectors of the economy excluding agriculture and public administration and defence. The threshold is calculated as two-thirds of median hourly earnings (the earnings of the middle person in the distribution), and the 2010 figure was €12.20 per hour.[13]

Chart 4.1: Distribution of Hourly Earnings and Selected Pay Thresholds, Ireland 2013 (% employees)



Notes: A national Living Wage was first established in 2014 and that value is used in the absence of an earlier figure for 2013. The Eurostat low-pay threshold was established using data from the 2010 Structure of Earnings Survey – the figure has not been updated since. The small proportion of earners with hourly rates below the minimum wage include legitimate exemptions (those under 18 years, persons employed by a close relative, apprentices and those on structured training schemes), non-compliance and a degree of measurement error.

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[11] The minimum wage was raised from €8.30 to €8.65 in July 2007. It was reduced by €1 in February 2011 and restored to €8.65 in July 2011.

[12] Note, the Living Wage has been estimated for a single-person working full-time and as such the hourly figure does not necessarily capture employees who face different costs and circumstances (couples with children etc). As the figure is an hourly one derived from an assumption of full-time work, employees at or above the Living Wage but working less than a full-week (voluntarily or involuntarily) may also be unable to achieve a weekly living wage (see Living Wage Technical Group, 2014).

[13] The Eurostat estimate for median hourly earnings in 2010 was €18.25 and two-thirds of this is €12.1667 cent which they rounded to €12.20 in their publications (see Eurostat, 2012).

Using the SILC hourly earnings data, it is possible to estimate an update of the Eurostat threshold using a similar subgroup of employees. Looking only at those employees in NACE sectors B to S excluding sector O and who are in firms of 10 or more employees, the 2013 median hourly wage rate ranges between €17.14 and €17.25 per hour.[14] The corresponding low pay threshold is between €11.43 and €11.50 per hour and is thus similar to the 2014 Living Wage value.

The data in Chart 4.1 are summarised in Tables 4.2 and 4.3. Of all the employees examined in the data, 5.5% have an income below the statutory minimum wage – these include those exempted by the structure of the minimum wage including young workers under 18 years old, persons employed by a close relative, apprentices and those on structured training schemes. Using the hourly Living Wage as a threshold, the analysis finds that 25.6% of employees have an hourly wage rate of less than €11.45. Some 30.3% of employees lie below the low pay threshold of €12.20. These findings imply that almost 345,000 employees earn less than €11.45 per hour while just over 400,000 earn below €12.20 per hour.

Table 4.2 Distribution of Hourly Earnings, Ireland 2013 (% employees)

From	To	% of employees
minimum	€8.64	5.5%
€8.65	€9.99	8.3%
€10.00	€11.44	11.8%
€11.45	€12.19	4.7%
€12.20	€14.99	12.5%
€15.00	€19.99	19.6%
€20.00	€24.99	13.6%
€25.00	€29.99	8.4%
€30.00	€34.99	5.4%
€35.00	€39.99	3.1%
€40.00+		6.9%
		100.0%

Notes: See notes to Chart 4.1

[14] The €17.14 figure is estimated for the full sample of employees for whom we have any hourly earnings data, the €17.25 is estimated for a reduced sample which excludes 30 observations with spuriously low hourly wage rates.

Looking above these three low-pay categories, more than 40% of employees have an hourly rate of between €15-€30; 8.6% lie between €30-€40 and 6.9% have an hourly rate above €40 per hour. Consequently, irrespective of the threshold used, almost 70% of employees are not formally classified as low paid. However, the remainder of this section focuses on those at the bottom of the hourly earnings distribution, below two of the low pay thresholds: the €11.45 Living Wage and the Eurostat low pay threshold of €12.20.

Table 4.3 Distribution of Hourly Earnings by Selected Pay Thresholds, Ireland 2013 (% employees)

Threshold	% above	% below
Below €8.65	94.4%	5.5%
Below €10.00	86.2%	13.8%
Below €11.45	74.3%	25.6%
Below €12.20	69.7%	30.3%

Notes: See notes to Chart 4.1

4.3 A Profile of the Low Paid

Who are the Low Paid?

To gain a better understanding of those who are low paid, we first explore the composition of those who are low paid and then examine the probability of workers with different characteristics experiencing low pay. Reflecting the data outlined above, the analysis considers those who are low paid as employees falling below the two hourly pay thresholds identified. Of course, it may be the case that employees above these thresholds with short, or involuntarily short, working weeks are low paid when judged on a weekly earnings basis.

Tables 4.4a and 4.4b examine those below each of the two low pay thresholds. As a comparison, the distribution of all employees (both low paid and otherwise) is presented in the first column.

Table 4.4a The Incidence of Low Pay, Ireland 2013 (% employees)

	% employees	Below €12.20	Below €11.45
All employees	100.0	100.0	100.0
Gender			
Male	47.5	40.4	39.8
Female	52.5	59.6	60.2
Age Group			
18-29	17.4	34.5	35.8
30-39	32.6	27.7	28.7
40-49	24.8	19.2	16.6
50-59	19.4	12.3	12.8
60+	5.7	5.9	5.6
Highest Completed Education			
Primary or below	4.5	7.9	7.9
Lower secondary	10.4	14.6	13.7
Higher secondary	23.3	34.4	34.8
Post leaving cert	12.3	16.8	17.3
Third level non degree	15.5	10.1	10.3
Third level degree or above	32.3	13.0	12.6
NACE Sector			
Agri, forestry/ fishing	1.2	2.9	3.0
Industry	16.1	12.4	11.6
Wholesale and retail trade	14.3	24.1	23.8
Accommodation and food	7.5	17.1	18.1
Admin & support services	2.8	5.5	5.6
Health & social work	15.6	12.9	13.0
Pub Adm, Defence, Educ	17.4	5.6	5.6
Others	25.2	19.7	19.4

Notes: Highest completed education excludes 1.78% of employees who did not state their level. NACE sectors: Industry includes construction while 'all other sectors' includes: transportation and storage; information and communication; financial insurance and real estate activities; professional, scientific and technical; and those classified by the CSO as 'other NACE activities'.

Women represent 60% of all those who are low paid; a finding that holds for both thresholds. When examined by age group, the data show that more than one-third of the low paid are aged less than 30 years. Between 60% and 65% of the low paid are aged less than 40 years; this group represents about half of all employees. The profile of the low paid across categories representing completed education levels is unsurprising, with 22% of the low paid not having completed secondary education.

Table 4.4b The Incidence of Low Pay, Ireland 2013 (% employees)

	% employees	Below €12.20	Below €11.45
All employees	100.0	100.0	100.0
Occupation			
Manager and admin	6.7	2.8	*
Professional	20.7	4.2	4.5
Associate Prof. & technical	12.8	6.2	6.6
Clerical and secretarial	13.4	9.7	9.0
Craft and related	9.5	9.7	9.8
Personal/ protective services	8.0	13.8	14.4
Sales	8.8	19.3	18.8
Plant/machine operatives	7.5	10.1	8.2
Others	12.5	24.3	25.9
Sector of employment			
Public	29.2	10.1	9.7
Private	67.8	86.9	87.3
Hours Worked per week			
1-19hrs	13.6	24.9	26.1
20-34.9hrs	24.0	31.5	30.6
35hrs+	62.5	43.7	43.3
Work status			
Full-time	72.1	51.1	50.0
Part-time	27.9	48.9	50.0
Contract Type			
Permanent	91.0	83.7	82.2
Temporary	9.0	16.3	17.8
Urban/rural location			
Urban	66.4	61.9	64.1
Rural	33.6	38.1	35.9
Other socio-economic classifications**			
Bottom 40% income dist.	15.7	33.5	35.0
Medical Card (full)	17.5	34.6	36.0
Difficulty make ends meet	27.5	35.8	35.9
Can't afford unexpected costs	45.9	66.1	66.1

Notes: * = sample too small to report. Bottom 40% of the income distribution refers to the equivalised disposable household income. Difficulty making ends meet and inability to afford unexpected expenses (€1,085 without borrowing) are variables answered by the head of each household and that answer has been applied to each employee in the household. **Note these categories do not add to 100% as other aspects of the variables have been excluded from the table.

Tables 4.4a and 4.4b also provide an insight into the location of the low paid within various sectors of the labour market. Using the €12.20 threshold, of all those who are low paid almost one-quarter are in the wholesale and retail sector with almost one-in-six (17.1%) in the accommodation and food sector. The low paid are mainly concentrated in the private sector (87%) although one-in-ten are employees in the public sector.

44% of the low paid work 35 hours or more per week, although relative to employees overall, the low paid are more concentrated on low hours with 25% working less than 20 hours per week. Most low paid workers hold a permanent contract of employment (84%) although there are more low paid workers on temporary contracts (16.3%) than the proportion of such workers among all employees (9%). Similarly, the low paid split 50/50 between full-time and part-time work although the proportion of part-time work among all employees is much less at 28%. The low paid are also mainly urban based.

Finally, Table 4.4b looks at the proportions of the low paid who are within certain other socio-economic categories. While 16% of all employees live in households that are in the bottom 40% of the income distribution, this is where more than one-third of the low paid live. A similar number (34.6%) of the low paid have a full medical card. 36% of the low paid are living in households that indicate that they have difficulty making ends meet (with difficulty or with great difficulty) – twice the level for all employees. Similarly, two-thirds of the low paid are in households that would be unable to afford an unexpected expense of €1,085 – again a figure which is larger than that for employees overall (46%).

Who is most likely to be Low Paid?

As reported earlier, in 2013 30.3% of employees earned less than €12.20 while 25.6% earned less than €11.45. Tables 4.5a and 4.5b examine the risk of workers with different characteristics experiencing low pay. Of all male employees almost 26% are low paid when judged against the €12.20 threshold. The risk is higher for female employees with more than one-third (34.4%) low paid.[15]

The risk of being low paid declines with age, with 60% of all workers under 30 years being low paid. The risk falls to 19.1% for those employees aged between 50-59 years, although it increases once again for older workers. Risks also decrease with increases in the level of completed education; 53% of employees with only primary education

[15] The analysis in this section principally focuses on the risk employee's face of being below the €12.20 threshold.

are low paid while the risk is less than 20% for those with some completed third level education.

Table 4.5a The Risk of Low Pay, Ireland 2013 (% employees)

	Below €12.20	Below €11.45
All employees	30.3	25.6
Gender		
Male	25.7	21.4
Female	34.4	29.3
Age Group		
18-29	60.1	52.7
30-39	25.8	22.5
40-49	23.5	17.2
50-59	19.1	16.7
60+	31.6	25.3
Highest Completed Education		
Primary or below	53.0	44.9
Lower secondary	42.7	33.9
Higher secondary	44.8	38.2
Post leaving cert	41.5	36.0
Third level non degree	19.8	16.9
Third level degree or above	12.2	10.0
NACE Sector		
Agri, forestry/ fishing	73.5	64.6
Industry	23.3	18.3
Wholesale and retail trade	51.1	42.6
Accommodation and food	68.7	61.5
Admin & support services	60.1	52.3
Health & social work	25.0	21.3
Pub Adm, Defence, Educ	9.7	8.3
Others	23.6	19.6

Notes: Highest completed education excludes 1.78% of employees who did not state their level. NACE sectors: Industry includes construction while 'all other sectors' includes: transportation and storage; information and communication; financial insurance and real estate activities; professional, scientific and technical; and those classified by the CSO as 'other NACE activities'.

The concentration of low pay in particular sectors of the labour market is also detailed in Table 4.5a. The highest risk of low pay is for employees in the agricultural, forestry and fishing sector where seven out of every ten employees are low paid. Risks are similarly high for workers in the accommodation and food sectors (69%). Employees in administration and support services carry a 60% risk of being low paid while more than half of employees in the wholesale and retail trade are low paid. The lowest risk of being low paid is for workers in public administration, defence and education where less than 10% are low paid.

Table 4.5b The Risk of Low Pay, Ireland 2013 (% employees)

	Below €12.20	Below €11.45
All employees	30.3	25.6
Occupation		
Manager and admin	12.7	*
Professional	6.2	5.6
Associate Prof. & technical	14.7	13.1
Clerical and secretarial	21.9	17.1
Craft and related	30.7	26.4
Personal/ protective services	52.3	46.2
Sales	66.1	54.3
Plant/machine operatives	40.5	28.0
Others	58.8	52.9
Sector of employment		
Public	10.5	8.5
Private	38.8	32.9
Hours Worked per week		
1-19hrs	55.5	49.2
20-34.9hrs	39.7	32.7
35hrs+	21.2	17.7
Work status		
Full-time	21.5	17.8
Part-time	53.1	45.8
Contract Type		
Permanent	26.7	22.0
Temporary	52.6	48.0
Urban/rural location		
Urban	28.3	24.7
Rural	34.3	27.3
Other socio-economic classifications		
Living below poverty line	65.2	58.6
Medical Card (full)	59.9	52.5
Difficulty make ends meet	39.4	33.4
Can't afford unexpected costs	43.6	36.8

Notes: * = sample too small to report. Living below the poverty line refers to households whose equivalised disposable income is less than 60% of the median. Difficulty making ends meet and inability to afford unexpected expenses (€1,085 without borrowing) are variables answered by the head of each household and that answer has been applied to each employee in the household.

The risk of being low paid also varies by occupation type. It ranges from 6% for professional employees to more than 40% for employees who are plant and machinery operative, 52% for those employed in personal and protective services and 66% for those employees in sales.

Employees in the private sector carry a 38.8% risk of being low paid and the risk of being low paid is much greater for employees on low hours (less than 20 hours per week). They face a risk of being low paid of 55%, with this risk declining for employees on longer working weeks. Full-time workers (and those on 35+ hours per week) face a one in five risk of being low paid while more than half of employees who work part-time are low paid. The risk of being low paid is also higher for those employees on a temporary contract (52%) and those living in rural areas (34%).

As might be expected there is a strong relationship between low pay and low incomes. Of all those employees living in households whose overall income means they are in poverty, 65% are low paid. Of all those employees with a full medical card 60% are in low paid employment. Likewise, almost 40% of employees whose household experience difficulty making ends meet are low paid while a similar number are in households that could not afford to pay for an unexpected expense.

4.4 Conclusion and Policy Implications

This analysis in this section of the QEO offers an insight into the earnings distribution and low pay in the Republic of Ireland. Using the latest data, for 2013, we find:

- On average employee earns €20.63 per hour although 50% of employees earn less than €16.62 per hour.
- 25% of employees earn an hourly wage of less than the Living Wage threshold of €11.45 per hour (approximately 345,000 employees).
- 30% of employees earn below the Eurostat low pay threshold of €12.20 per hour (approximately 400,000 employees).
- Irrespective of the threshold used, almost 70% of employees are not formally classified as low paid.

Our examination has also allowed us to gain a greater understanding of those who are low paid and the risk of low pay faced by employees with certain characteristics. Among these findings are:

- 60% of the low paid are women, with female workers facing a 34% risk of being low paid (one in three).

- Of all those who are low paid almost one-quarter are in the wholesale and retail sector with almost one-in-six (17.1%) in the accommodation and food sector.
- The highest risk of low pay is for employees in the agricultural, forestry and fishing sector where seven out of every ten employees are low paid.
- 69% of employees in the accommodation and food sector are low paid, while 60% of workers in administration and support services are also classified as low paid.
- More than half of employees in the wholesale and retail trade are low paid.
- Overall 38.8% of employees in the private sector are low paid; the corresponding figure in the public sector is 10.5%.
- The risk of low pay is much greater for employees on low hours (less than 20hrs) where more than one in two are low paid. The risk is similar (52%) for employees with a temporary contract.
- Of all those employees who are low paid, 65% live in households whose overall income is below the poverty line.

Given these findings, our analysis points towards a number of policy relevant issues. Clearly, low paid is a significant labour market phenomenon, one concentrated by gender and in certain sectors of the economy. It also extends across the age groups, reflecting the fact that low-pay is not a transitory phase experienced principally by young employees starting out. Its relationship with low hours of work, part-time work and temporary contracts also points towards its association with those employees regarded as experiencing precarious working conditions. The true impact of these conditions on employee weekly/annual income is likely to be more pronounced that that identified for the hourly data examined here.

Despite state intervention, in the form of low income taxation rates on low incomes and subsidies via Family Income Supplement (FIS), there is a concentration of the low paid in households living below the poverty line.

This analysis also inputs into a larger NERI research project on low-pay and earnings. By implication, it will examine the impact on individuals, households, business and the economy in general of increases to low pay, or the broader adoption of concepts such as the Living Wage.

5 Conclusion

As outlined throughout this edition of the *Quarterly Economic Observer* (QEO), there remains a mixed picture to the economic outlook across the island of Ireland. In both economies growth has remerged and is translating into welcome improvements in consumption, employment and reductions in unemployment. However, in both the Republic and for Northern Ireland in a UK context, there are notable differences in the regional pace of recovery. Uncertainty also persists in Northern Ireland given the forthcoming UK General Election and the possible implications it carries for political stability and the fiscal outlook.

In the Republic, as signs of economic recovery continue to emerge, issues relating to quality of life, living standards, the provision of public services and adequacy of income are returning to the policy sphere. Included among these are issues related to earnings and pay levels. Our analysis in Section 4 of this document has focused both on the overall distribution of hourly earnings and has explored the distribution and risk of low pay. As its findings indicate, low paid is a significant labour market phenomenon, one concentrated by gender and in certain sectors of the economy. Its relationship with low hours of work, part-time work and temporary contracts also points towards its association with those employees regarded as experiencing precarious working conditions. Given its scale, it remains a public policy issue that deserves greater attention.

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7 Appendix

Appendix 7.1. Overview of recent economic trends – Republic of Ireland

	2010	2011	2012	2013	2014
Total Expenditure					
Consumption €m	82,447	82,969	82,467	83,334	85,619
Investment: private and public €m	26,106	24,841	26,923	26,541	30,400
Government current spending €m	26,437	26,111	25,922	25,956	25,967
Exports €m	157,811	167,086	182,506	184,056	207,792
Imports €m	-129,023	-132,398	-147,079	-147,694	-168,083
Domestic Demand €m	134,421	134,701	135,600	136,668	143,835
Total Income					
GDP €m	164,928	171,042	172,755	174,791	185,412
GNP €m	138,503	138,915	141,229	147,505	158,438
Income from Agriculture €m	2,586	3,202	3,019	3,027	n/a
Income non-Agriculture: Wages €m	69,440	69,465	69,519	71,854	n/a
Income non-Agriculture: Other €m	57,882	63,645	63,648	61,706	n/a
Employment					
Labour Force	2,196,700	2,173,700	2,165,800	2,182,100	2,172,400
Labour Force Participation Rate %	61.0%	60.4%	60.2%	60.7%	60.4%
Employment	1,886,100	1,845,600	1,841,300	1,899,300	1,926,900
Employment full-time	1,459,700	1,411,300	1,395,000	1,448,600	1,474,700
Employment part-time	426,400	434,300	446,300	450,700	452,200
Underemployment	112,500	140,800	147,600	139,300	124,300
Unemployment	310,600	328,100	324,500	282,900	245,500
Unemployment %	14.1%	15.1%	15.0%	13.0%	11.3%
Long-term Unemployment	152,600	191,700	193,000	165,100	139,200
Long-term Unemployment %	6.9%	8.8%	8.9%	7.6%	6.4%
Migration					
Immigration	41,800	53,300	52,700	55,900	60,600
Emigration	69,200	80,600	87,100	89,000	81,900
Net Migration	-27,500	-27,400	-34,400	-33,100	-21,400

	2010	2011	2012	2013	2014
Public Finances					
Total General Gov. spending €m	103,544	76,550	69,844	70,371	n/a
Total General Gov. revenue €m	55,149	55,331	56,623	58,866	n/a
General Gov. Balance €bn	-48.40	-21.22	-13.22	-11.50	n/a
General Gov. Gross Debt €bn	144.2	190.1	210.2	215.6	n/a
General Gov. Gross Debt % GDP	87.4%	111.1%	121.7%	123.3%	n/a
Earnings and Prices					
Average earnings € per week	693.70	687.67	691.93	677.13	670.53
Average earnings % change	n/a	-0.9%	0.6%	-2.1%	-1.0%
Private sector av. earn. % change	n/a	-2.5%	1.0%	-1.3%	-1.1%
Public sector av. earn. % change	n/a	0.7%	1.2%	-1.2%	-0.6%
Inflation CPI %	-1.0%	2.6%	1.7%	0.5%	0.2%
Inflation HCPI %	-1.6%	1.1%	2.0%	0.5%	0.4%
Inequality and Poverty					
Gini coefficient	31.4	31.1	31.2	31.3	n/a
Quintile ratio	4.8	4.9	5.0	4.8	n/a
Relative poverty %	14.7%	16.0%	16.5%	15.2%	n/a
Consistent poverty %	6.3%	6.9%	7.7%	8.2%	n/a
Deprivation rate %	22.6%	24.5%	26.9%	30.5%	n/a

Sources: CSO Quarterly National Accounts; CSO National Income and Expenditure; CSO Quarterly National Household Survey; CSO Population and Migration Estimates; CSO Earnings and Labour Costs; CSO Consumer Price Index; CSO SILC Reports; and Eurostat online database.

Notes: Earnings and labour market data are for Q3 in all years.
Domestic Demand is Total Domestic Demand.
National accounts data reported at current market prices.

Appendix 7.2 Overview of recent economic trends– Northern Ireland

	2010	2011	2012	2013	2014
Total Expenditure					
Personal consumption £m	-	-	-	-	-
Investment: private and public €m*	9,353	7,332	n/a	n/a	n/a
Government consumption £m	-	-	-	-	-
Exports £m	5,438	5,910	5,627	5,985	5,924
Imports £m	5,417	5,774	5,690	5,821	5,955
Domestic Demand £m	-	-	-	-	-
Total Income					
GVA £m	31,444	31,961	32,444	32,841	n/a
GNP £m	-	-	-	-	-
Income from Agriculture £m	373	374	385	n/a	n/a
Income non-Agriculture: Wages £m	17,420	17,890	18,287	n/a	n/a
Income non-Agriculture: Other £m	13,651	13,697	13,772	n/a	n/a
Employment					
Labour Force	841,000	862,000	865,000	865,000	873,000
Labour Force Participation Rate	59.8%	61.0%	60.8%	60.5%	60.7%
Employment	765,500	781,500	780,000	776,500	795,000
Employment full-time	598,000	611,000	597,000	594,000	618,000
Employment part-time	177,250	185,000	194,000	199,000	194,000
Underemployment	27,000	32,000	41,500	43,000	34,000
Unemployment	60,000	62,500	65,000	65,000	56,000
Unemployment rate %	7.1%	7.2%	7.5%	7.5%	6.4%
Long-term Unemployment	26,000	27,500	33,000	34,500	30,000
Long-term as % of Unemployed	42.9%	44.1%	50.7%	53%	53.5%
Migration					
Immigration	24,544	23,724	23,255	23,100	n/a
Emigration	23,394	25,218	24,570	25,438	n/a
Net Migration	1,150	-1,494	-1,315	-2,338	n/a

	2010	2011	2012	2013	2014
Public Finances					
Total General Gov. spending £m	18,840	19,081	19,350	19,834	n/a
Total General Gov. revenue £m	-	-	-	-	-
General Gov. Balance £m	-	-	-	-	-
General Gov. Debt nominal £m	-	-	-	-	-
General Gov. Debt % GDP	-	-	-	-	-
Nominal earnings and Prices					
Average earnings £ per week	354.4	354.6	360.1	365.2	359.6
Average earnings % change	-0.1%	0.1%	1.6%	1.4%	-1.5%
Private sector av. earn. % change	0.6%	0.1%	-2.3%	2.5%	0.4%
Public sector av. earn. % change	6.5%	1.9%	5.4%	-1.7%	2.3%
Inflation CPI %	-	-	-	-	
Inflation HCPI %	-	-	-	-	
Inequality and Poverty					
Gini coefficient	-	-	-	-	-
Quintile ratio	-	-	-	-	-
Relative poverty %	22%	20%	21%	19%	n/a
Consistent poverty %	20%	20%	23%	20%	n/a
Deprivation rate %	-	-	-	-	-

Sources: HMT Public Expenditure Analysis 2014; HMRC RTS; ONS Gross Value Added (Income Approach); LFS Quarterly Supplement; NISRA Northern Ireland Migration Flows; NISRA Annual Survey of Hours and Earnings; Department of Social Development Poverty Bulletin

Notes: Where cells are blank the data are unavailable.
*Investment as Gross Fixed Capital Formation (estimated)

Notes

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