



The Irish Labour Market

2007 and Beyond

In this report we have updated, and give a more detailed analysis of, the employment forecasts set out in our *Irish Economic Outlook* report which was published in April. We look at the prospective sources of labour force growth and examine the prospects for employment growth on a sectoral basis.

Overview :

- ***The most recent data, contained in the QNHS for Q1 2007, show some slowdown in the rate of labour force and employment growth. However, what is perhaps more surprising is the strength of the Irish labour market, where conditions remain very tight.***
- Employment grew by 3.8% in the year to Q1 2007 with 76,800 new jobs created. Meanwhile, the labour force grew by 80,400 (3.9%) in the same period.
- The Irish unemployment rate at 4.4% seasonally adjusted in Q1 2007 remains very low, and has now been within a 4 - 4.5% range for the past six years.
- Growth in employment in recent years has been fuelled by the strength of the economy and facilitated by sizable inflows of foreign nationals.
- However, ***there are increasing concerns as to the sustainability of recent robust rates of labour force and employment growth.***

In terms of the labour force :

- Ireland has increasingly relied on non-Irish nationals to fuel labour force growth. However, the level of net inward migration may already have peaked.
- Increased participation has also contributed to the increase in the labour force. However, this contribution has been in decline for the past couple of years and the scope for future labour force growth from increased participation rates may well be more limited.

- **Notably, there has been a significant decline in the contribution to labour force growth from changes in the indigenous population** in recent quarters. Given the decreasing trend in population in the 15-19 age group, further declines in indigenous labour force growth seem likely.
- **Thus, it must be doubtful whether the labour force can continue to exhibit the robust growth rates of recent years.**

In terms of employment :

- **In general, the demand for labour can be expected to ease as GDP growth slows. Also, there are more specific concerns about some sectors of the economy.**
- In particular, employment in the construction sector will be impacted by the slowdown in house building activity - though this will be offset to some extent by increased activity in both private and public non-residential construction activity.
- Furthermore, recent negative job announcements have raised concerns about employment prospects, most notably in the manufacturing sector.
- **In some sectors, though, employment growth is being constrained by difficulties in finding suitable workers.**

Outlook :

- While we expect labour force and employment growth to slow, **we are not unduly pessimistic.**
- **We anticipate that around 68,000 jobs will be created on average in 2007** (employment growth of 3.4%).
- **By 2008, though, we expect employment growth to slow to 1.9%, representing an additional 40,000 jobs, with the construction sector shedding up to 10,000 jobs.**
- Over this two year period, it seems likely that the growth in the labour force will exceed that in employment, leading to a **small rise in the unemployment rate to 5% in 2008.**
- However, over the medium term, it seems unlikely that labour force growth will be sufficient to sustain employment growth much above 2.5% per annum. This may not be a serious problem, however, as many of the key sectors supporting job creation will have lower requirements.
- **The main risk to our forecasts is a much sharper than anticipated deterioration in employment in the construction sector, where there are already clear signs that housing activity is in decline.**

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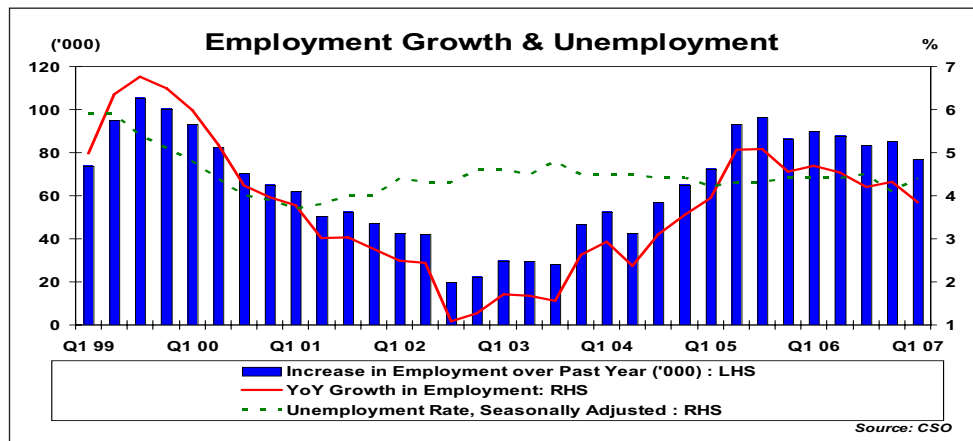
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INTRODUCTION

Labour market has been remarkably robust

The performance of the Irish labour market has been remarkably robust. Over 80,000 jobs were added on an annual basis in every quarter between Q2 2005 and Q4 2006, with the year-on-year growth rate consistently above 4% over this period. The pace of growth slowed slightly in Q1 2007, with the year-on-year growth rate declining to 3.8%, its lowest since Q4 2004. However, with 76,800 jobs added in the year to Q1 2007 this still represents a strong labour market performance.

This robust employment growth has meant that the unemployment has remained low, at below 4.5%, despite the strength of the numbers joining the labour force.



Picture not as bleak as some recent negative job announcements imply ...

Recent months have seen a stream of announcements of job losses or risks to jobs in the future - in the manufacturing sector in particular. Further, the Small Firms Association has warned of only minimal jobs growth by its members in the coming year. These negative job pronouncements, though, have to be seen against the background of other indicators which paint a somewhat less bleak picture of the employment outlook, namely:

- the relationship between redundancies and jobs growth; and
- surveys of firms' vacancy positions and employment intentions.

... but jobs growth likely to slow further

Looking ahead, though, we do have concerns about the prospects for such continued strong employment growth. These primarily relate to:

- the narrow base of recent employment growth. In the year to Q1 2007, only three sectors accounted for some 53,000 (70%) of the 76,800 increase in employment over the period. These sectors are construction (+28,300), education (+9,200) and health (+15,800);
- The prospects for some of the sectors of the economy that have been the principal drivers of employment growth over the past couple of years.

Structure of labour market warrants careful examination

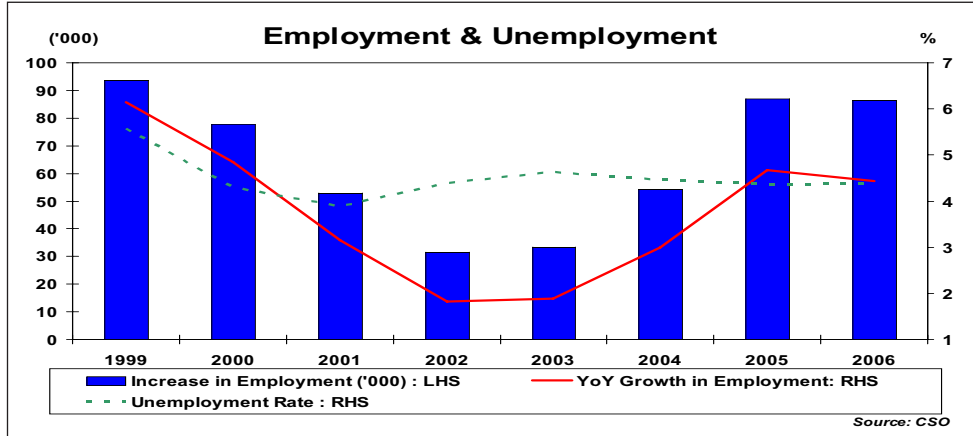
A key question also to be answered is whether labour force growth might become a constraint on employment growth. Thus, a careful examination of the structure of the Irish labour market is warranted, including:

- the increasing reliance on non-Irish national workers to fuel employment growth;
- the age structure of the market; and
- the scope for further increases in participation rates.

RECENT TRENDS

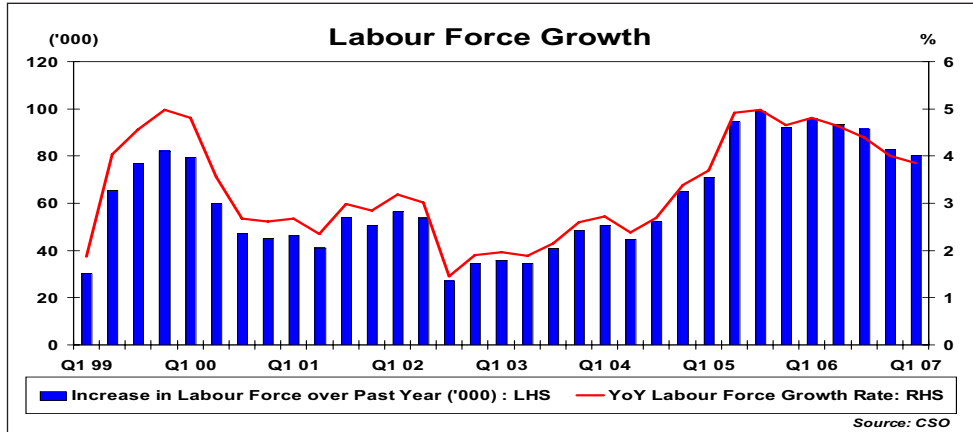
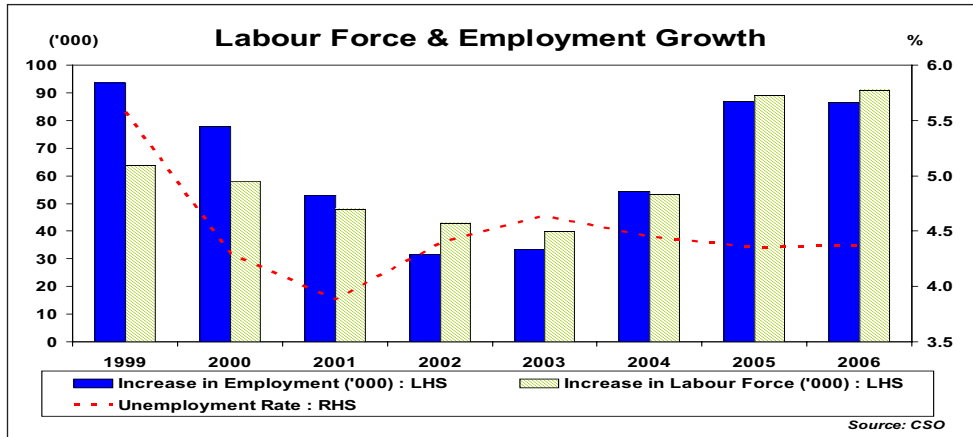
Strong employment growth and low unemployment

The Irish economy added over 85,000 jobs in both 2005 and 2006, with the number of jobs created growing at over 4% per annum. This strong employment growth has been accompanied by low unemployment, with the rate broadly contained within a 4 - 4.5% band for the past six years.



Continued strong jobs growth dependent on further robust labour force growth

With unemployment at such low levels, this recent exceptionally strong employment growth has only been possible because of equally robust labour force growth. The labour force grew by around 90,000 in each of the years 2005 and 2006. Of some concern, though, for potential employment growth in the future is that labour force growth appears to be slowing. The year on year growth rate in the labour force peaked at 5.0% in Q3 2005 and had slipped to 3.9% by Q1 2007, down from 4.0% and 4.4% in the previous two quarters, respectively.



LABOUR FORCE TRENDS AND PROSPECTS

Net inward migration and increased participation major factors driving labour force growth

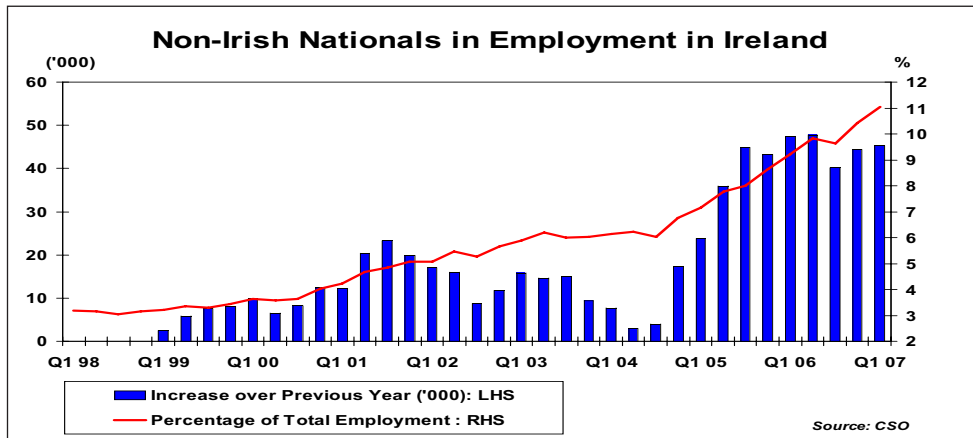
There was an increase of 80,400 in the labour force in the year to Q1 2007. The CSO, in its commentary on the data, estimated the sources of this labour force growth. In the year to Q1 2007:

- Net inward migration is estimated to have accounted for around 58% or some 47,000 of the total labour force increase;
- Rising participation rates accounted for 22%, or some 17,400, of the increase;
- The balance of around 20%, or less than 16,000, of the labour force increase was due to growth in the indigenous population.

CONTRIBUTION OF NON-IRISH NATIONALS

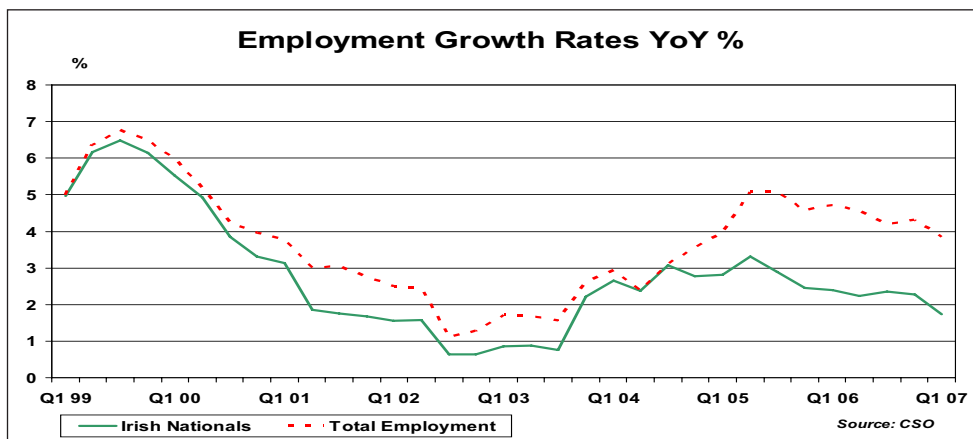
Non-Irish nationals increasingly important for labour force and employment growth

The Irish economy has become increasingly reliant on non-Irish national workers to maintain labour force and employment growth. According to the CSO, there were an estimated 229,400 non-Irish nationals employed in Ireland in Q1 2007. As a result, non-Irish nationals now account for 11.1% of total employment, compared to less than 4% at the beginning of the decade. Indeed, the proportion of non-Irish national employment may be even higher than this. The QNHS data are yet to be reconciled with Census 2006 data and the CSO believe that this process is likely to show even more non-Irish nationals in Ireland than estimated from the QNHS surveys.



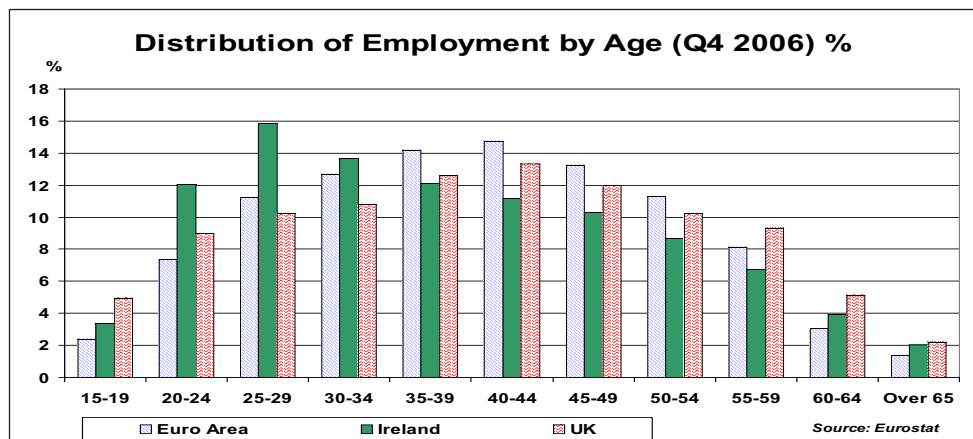
Without Non-Irish nationals, employment growth would have been much lower

Ireland has only been able to sustain recent high levels of employment growth with the help of this strong increase in non-Irish national employment. Employment growth among Irish nationals in the year to Q1 2007 was 1.7% compared to the total employment growth rate of 3.8%.



Non-Irish nationals are also influencing the age structure of Irish employment

The vast majority of immigrants into Ireland are aged between 15 and 44, with immigration particularly strong in the 25-34 cohort. Based on the latest 2006 Census data, the CSO estimate that 45% of net immigration over the four year period since the previous Census in 2002 was in the 25 - 34 year age group.



Thus, it is hardly surprising that an exceptionally high percentage of Ireland’s employment growth (almost 42% of the total increase in employment in the year to Q4 2006 compared to just 12% for the euro area on average) is in this age group. A further 13% of net immigration over the intercensal period was in the 15-24 year age group, which also experienced far stronger employment growth than the euro area on average.

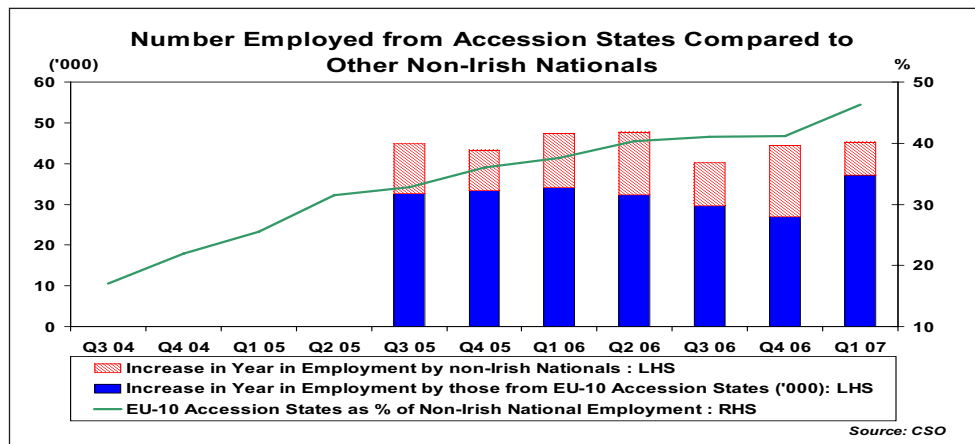
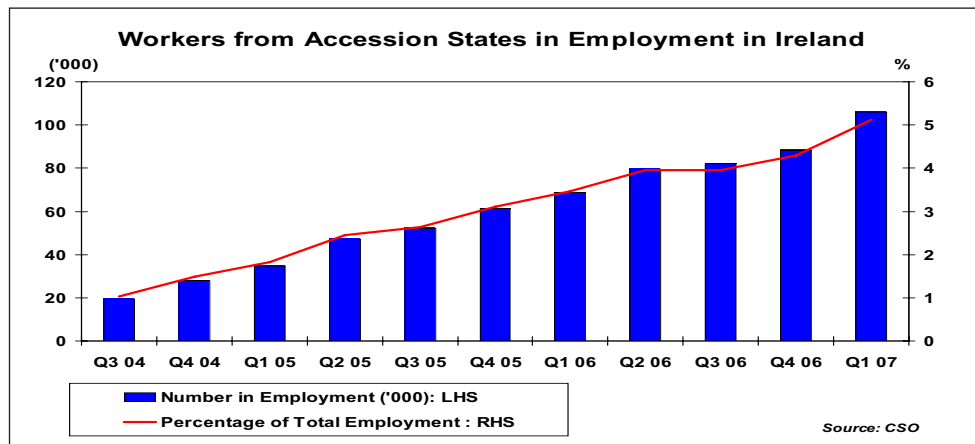
The 35-44 age group accounts for a further almost 20% of net immigration into Ireland. While employment growth in Ireland in this cohort accounts for a lower proportion of total employment growth than the euro area average, this is due to the dominance of the younger age groups in the Irish workforce, rather than any weakness in the growth rate for this cohort. Indeed, in terms of year-on-year employment growth in the 35-44 cohort, Ireland still has a stronger growth rate (at 2.8% in the year to Q4 2006) than the euro area average at 1.5% in the same period.

Comparatively young employment age profile

Recent strong increases in employment in these younger age groups, due to net inward migration plus Ireland’s young demographic structure, have resulted in a much younger age profile of the total workforce than is case for the euro area on average or compared to that in the UK.

EU-10 Accession States a major source of labour

The opening up of Ireland to workers from the EU-10 Accession States saw a strong influx of workers from these countries. The CSO estimate that there were 106,300 workers from these countries employed in Ireland in Q1 2007, accounting for some 46% of non-Irish nationals employed and 5.1% of total employment. In Q3 2004, just after the 10 Accession countries joined the EU, these countries accounted for just 17% of non-Irish nationals in employment. There are now over 5 times as many from these EU-10 countries in employment in Ireland than there were two and a half years ago in Q3 2005.

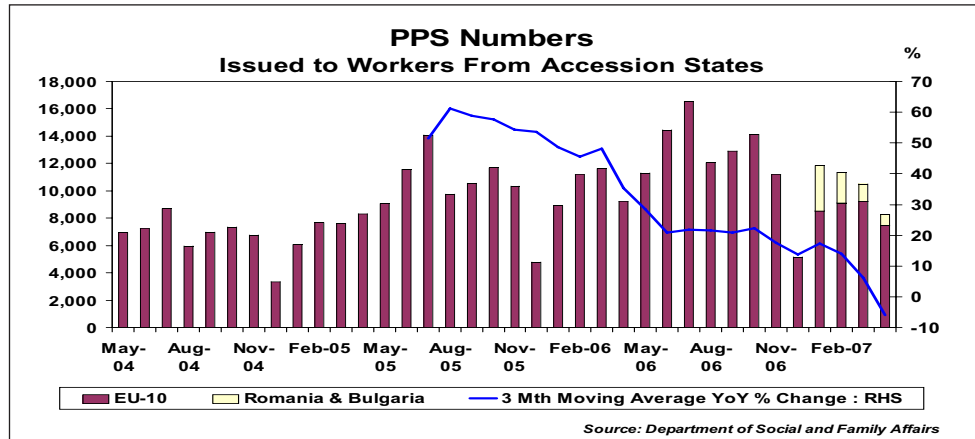


PPS data indicate continued strong inflows, though pace has slowed dramatically

PPS data from the Department of Social and Family Affairs show a continued strong inflow of workers from these countries, though the pace of growth in these inflows has slowed considerably. Indeed, in the three months to April 2007 there were less PPS numbers issued (including those to Romanians and Bulgarians) than in the same period a year earlier - the first such decrease in year-on-year terms.

PPS data represent a gross inflow rather than the stock of citizens from these countries in Ireland at any point in time. Notably, PPS numbers include those only in Ireland for a short time (such as students working over the holiday season) and also those leaving Ireland to return home or move on to another country. In addition, PPS numbers can be issued to anyone including children - thus the numbers will be greater than those entering the Irish labour force.

The temporary nature of many of those applying for PPS numbers can be seen by comparing PPS data with Census data. In total, 74,657 PPS numbers were issued to Poles between April 2005 and March 2006. However, according to Census 2006, there were 33,397 people resident in Ireland on Census night who had been resident in Poland a year earlier. (One caveat in comparing these figures is that one refers to nationality and the other to residence.)



Source: Department of Social and Family Affairs

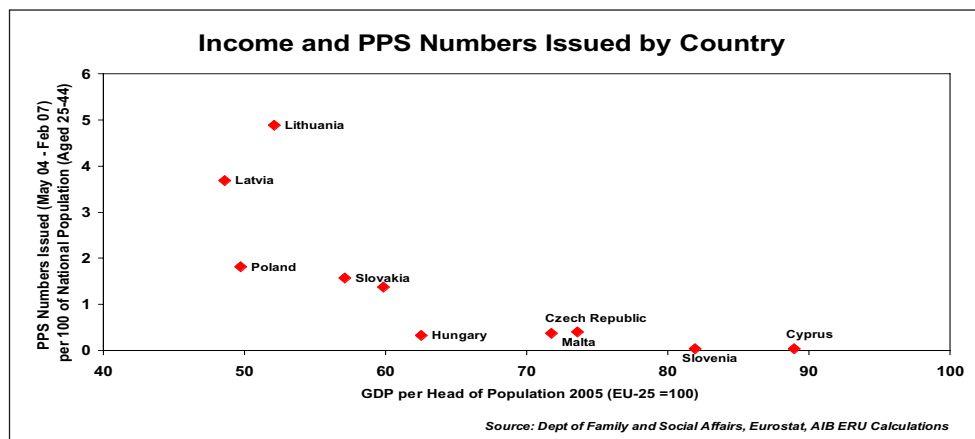
Accession States likely to continue as major source of labour market growth ...

We would expect that as long as Ireland continues to provide job opportunities there will be further strong inflows from these countries helping to maintain labour force growth. When Romania and Bulgaria joined the EU in January this year, workers from these countries were not allowed the same free access to employment as those from the EU-10 countries. Should Ireland experience labour force constraints there is undoubtedly a large pool of workers from these two countries that would wish to avail of any changes in the employment legislation.

Notably, in the first four months of this year, there were 7,600 PPS numbers issued to Romanian or Bulgarian citizens. Those workers from Romania and Bulgaria that had been in Ireland on valid work permits for a continuous 12 month, or longer, period prior to 31 December 2006 have the right to remain here without an employment permit.

... given the relative wealth of these countries ...

The experience has been that the poorer EU entrant countries have seen a proportionally higher percentage of their populations (of the 25 - 44 year age group from which most immigration into Ireland takes place) coming to Ireland looking for employment. The

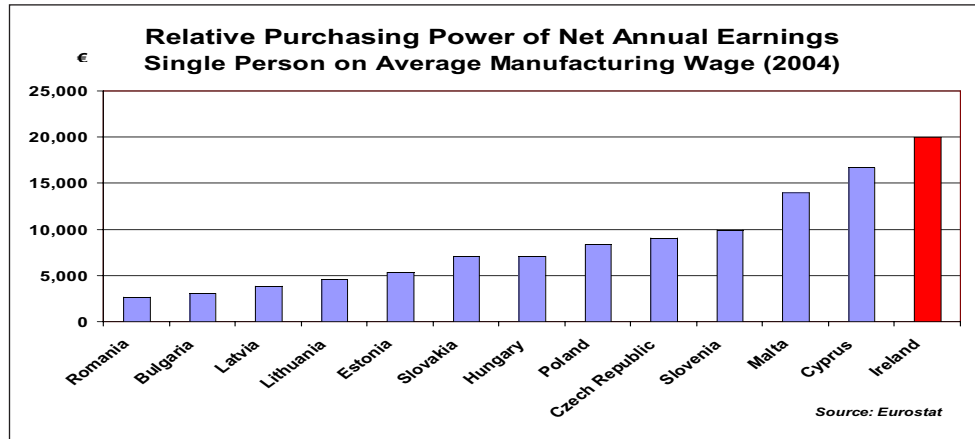


Source: Dept of Family and Social Affairs, Eurostat, AIB ERU Calculations

relative poverty of the EU-10 countries is likely to see a continued inflow of workers from these countries as long as job opportunities are open to them.

.... and lower earnings ...

Even the high cost of living in Ireland may well not be a significant deterrent. In general, the higher level of wages available in Ireland more than compensates for the higher cost of living.



There are a number of other possible explanations for the fact that growth in the number of PPS numbers issued to those from the Accession States has turned negative, apart from the high cost of living in Ireland. This downtrend may reflect tighter labour market conditions in the workers' home countries. Wage levels in some of these countries and in some particular sectors (such as construction) have apparently been rising rapidly in an effort to prevent more workers from leaving and in an attempt to attract back home some of those currently in Ireland. It may also be that most of those wanting to work in Ireland are already here. The current debate about deteriorating Irish labour market conditions could also be impacting on decisions as to whether to come to Ireland for employment.

... but net inward migration may have peaked and the trend in PPS data warrants watching

On balance, provided there are sufficient job opportunities, the Accession States are likely to continue to provide a supply of labour to the Irish market. However, it may well be that the level of net inward migration has peaked and, in this regard, the trend in these PPS data warrant careful watching.

CONTRIBUTION FROM INCREASED PARTICIPATION RATES

Increased participation rates have also boosted the labour force ...

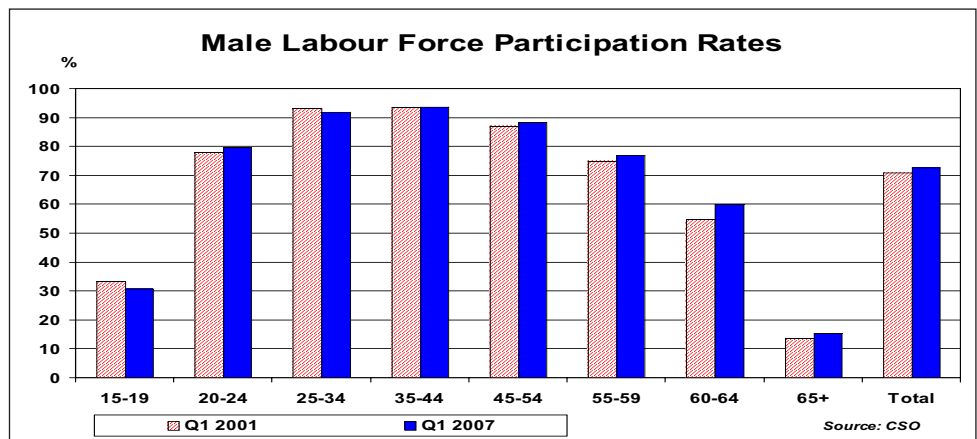
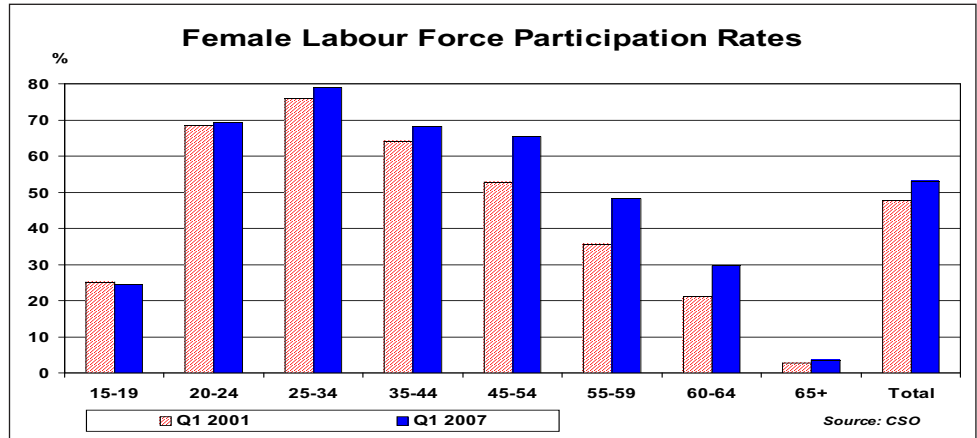
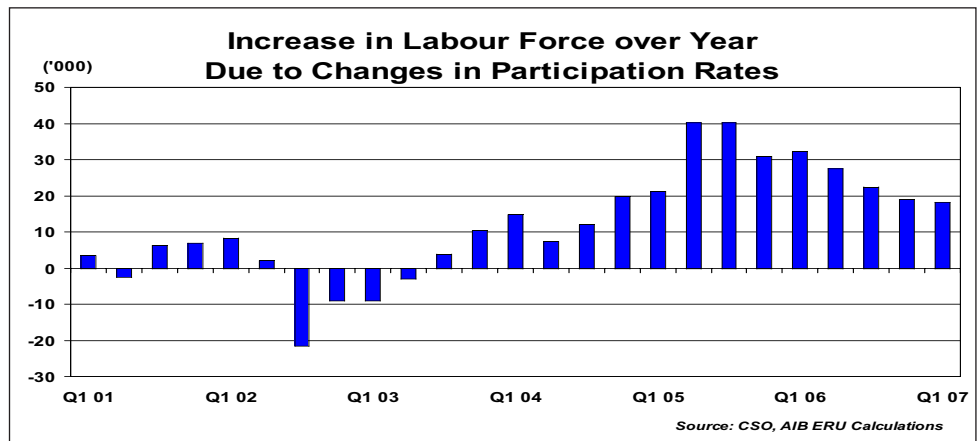
As well as the impact of net inward migration, there have been substantial increases in the Irish labour force in the past couple of years due to higher participation rates. It is estimated that increased participation accounted for an increase of some 17,400 (22%) in the labour force in the year to Q1 2007.

... but decline in contribution in recent quarters

The contribution to labour force growth from increased participation rates has been declining significantly in recent quarters. At its peak, in the each of the years to Q2 and Q3 2005, increased participation boosted the labour force by some 40,000 (well over 40% of the total labour force growth in these periods).

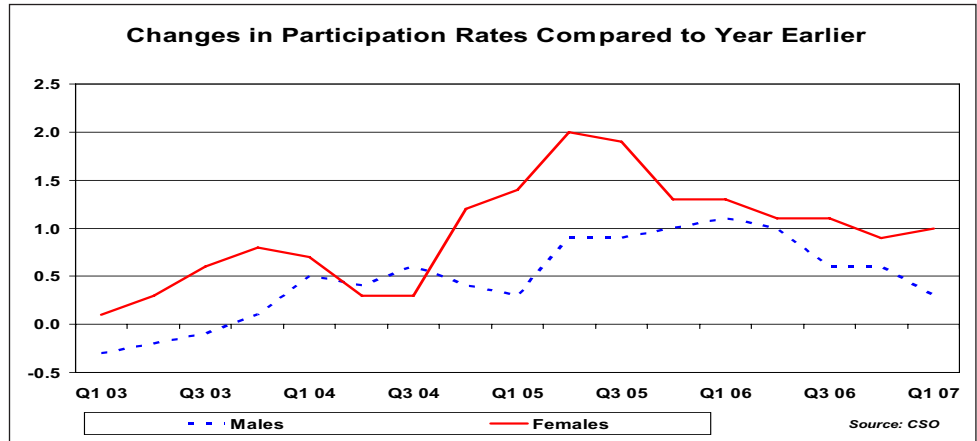
Female participation has risen particularly strongly

The exceptionally buoyant economic conditions saw a large number of older females joining the labour force in the 2003 - 2005 period, strongly boosting the overall participation rate. Meanwhile, the increase in female participation rates amongst younger workers, though more modest, no doubt in large part reflects the impact of the strong net inward migration. The impact of net inward migration is probably also reflected in the increase in male labour force participation amongst 20-24 year olds. However, in general the increase in male participation rates in recent years has been much less than for females.



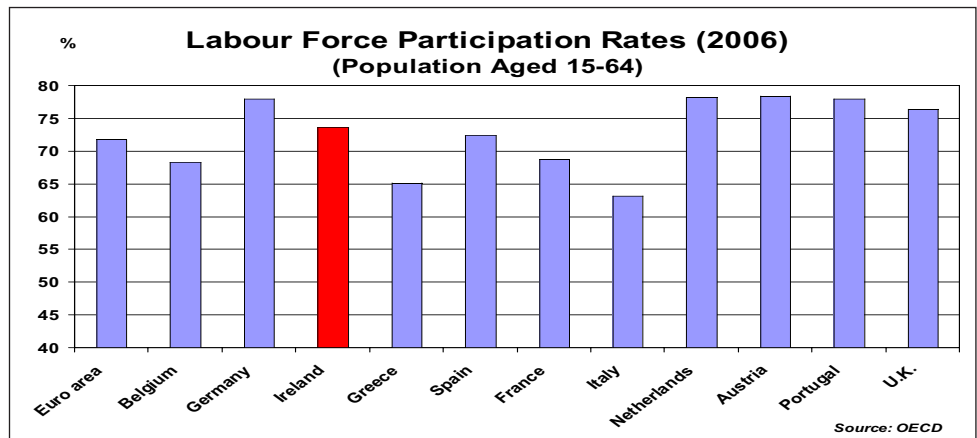
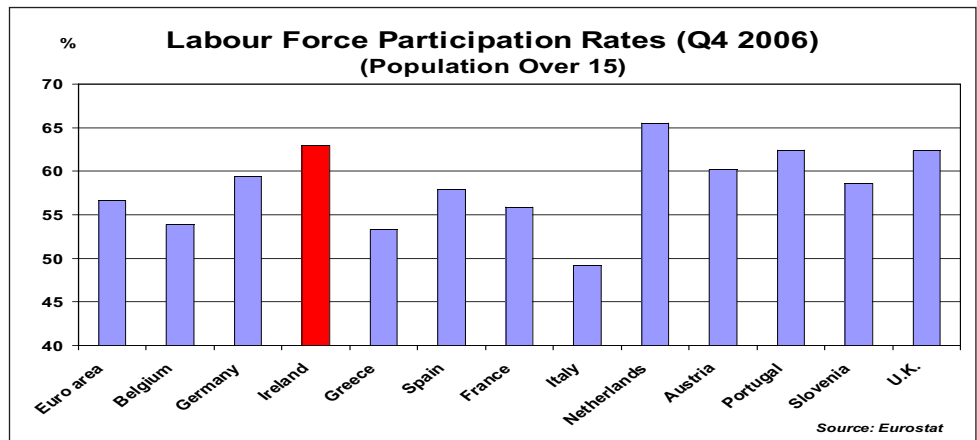
Rate of increase in participation rates has been slowing

What is notable, however, is that the rise in participation rates has been slowing since mid-2005. This is especially so amongst females.



Overall participation rate is high by European standards...

In terms of the total population (ie all those aged over 15) Ireland has the highest overall labour force participation rate of any of the countries of the euro area and UK, with the exception of Holland. This largely reflects Ireland's demographic structure and the relatively low proportion of the population aged 65 and over.



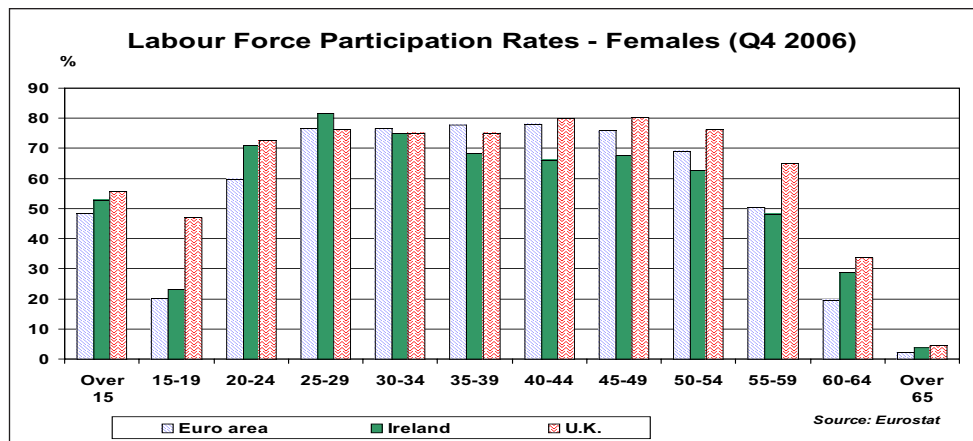
Indeed, on the basis of the population aged 15-64, while Ireland still has a higher participation rate than the euro average it is lower than that in Germany, Austria and Portugal, as well as Holland. (The potential labour force contribution of an elderly workforce, though, shouldn't be ignored. In the UK, for example, around half of the employment growth in the year to Q1 2007 was by those of post retirement age.)

... reflecting young age of the population...

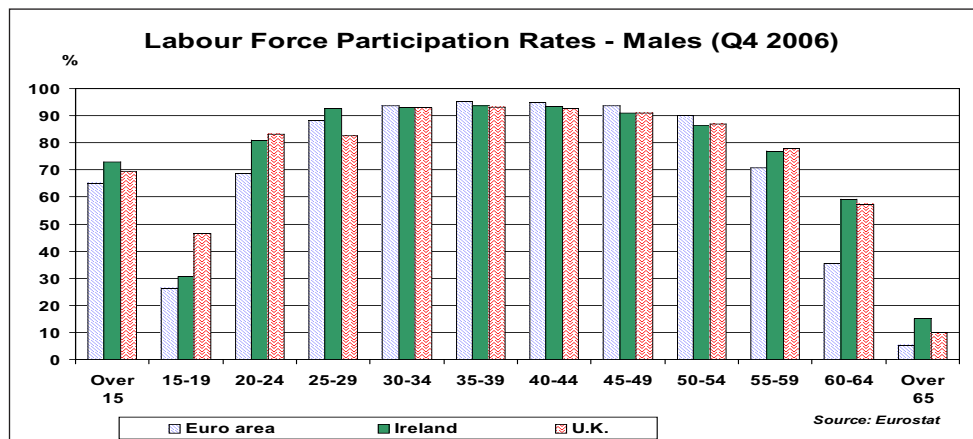
Ireland's high overall participation rate reflects the relatively high participation rate amongst 25-29 year olds in particular, coupled with the high percentage of the workforce in this age group. This no doubt reflects the high level of non-national employment in Ireland with a considerable number of these workers in the younger age groups.

... while participation rates for older age cohorts are lower than EU average

Notwithstanding the increases in recent years, for females aged 35 and over, participation rates in Ireland are still significantly lower than those in either the euro area (on average) or the UK. Thus, there would appear to be some scope for increased participation by these older workers which could provide a source of increase in the labour force. However, it is likely to take buoyant economic conditions and improved childcare provisions to attract these older female workers into the labour force.



Male participation rates are more in line with those in the euro area and UK. Thus, there would appear to be little scope for substantial increases in the labour force from significant increases in male participation rates.



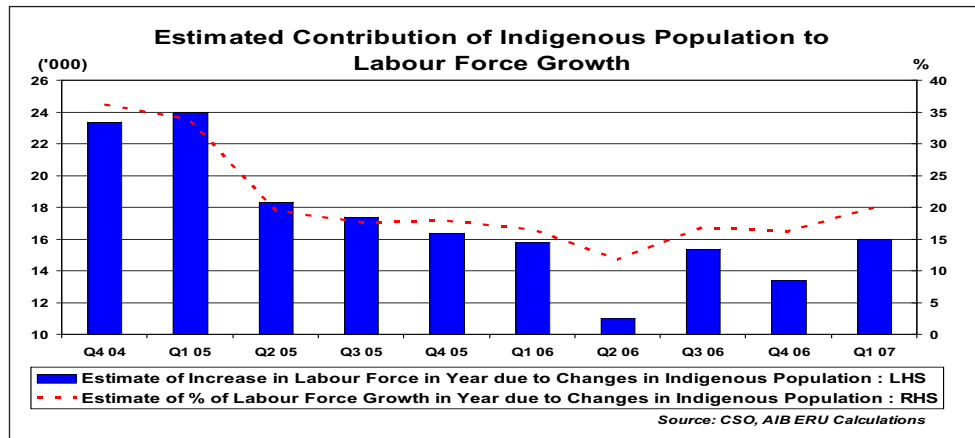
Scope for further, more limited, increases in participation rates

Overall, there would appear to be some further scope for participation rates to increase in some age groups and thus for increases in the labour force from this source. However, participation rates are only relatively low in the older age groups suggesting that it will again require exceptionally buoyant economic conditions to encourage workers from these cohorts into the labour force. Thus, the scope for labour force growth from increased participation rates may well be more limited in the years ahead.

CONTRIBUTION OF INDIGENOUS POPULATION

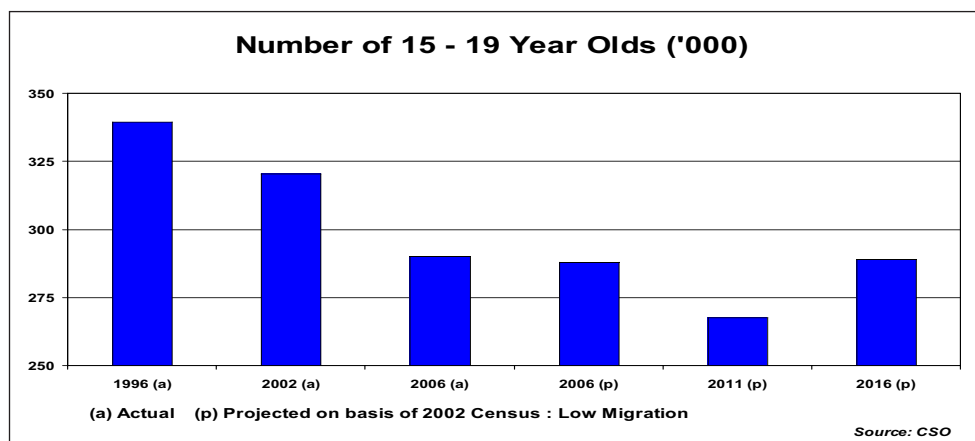
Number entering the labour force from indigenous population has declined

There has been a significant decline in the contribution to labour force growth from changes in the indigenous population in recent quarters (i.e. in labour force growth excluding the effects of net inward migration and participation rates). The CSO in its commentary on the QNHS data provides estimates of the increase in the labour force due to changes in the indigenous population. These commentaries indicate that the indigenous population accounted for, on average, about 14,000 (or 16%) of the labour force growth of 87,000 in the four quarters to Q1 2007. The contribution of the indigenous population has decreased significantly in recent quarters, having averaged around 20,000 per annum (or 25% of the total labour force growth) in the Q4 2004 to Q4 2005 period.



Further decline in indigenous population labour force growth is likely

The declining trend in indigenous labour force growth is hardly surprising, given the decrease in the population in the 15-19 age group, which forms the basis for potential labour force growth. Census data show that falling birth rates have resulted in a decline



in the the number of 15-19 year olds to 290,300 in 2006 from 339,500 in 1996, even taking account of some probable boost from the high levels of net inward migration. The latest CSO projections, show further expected declines in this key age group, again even on the expectation of a boost from some further new inward migration.

Thus, further declines in indigenous labour force growth seem likely given the declining numbers in the 15-19 cohort, increasing the dependence on non-Irish nationals and increased participation rates to bolster labour force growth.

PROSPECTS

Labour force growth to slow

It must be doubtful whether the Irish labour force can continue to exhibit the robust growth rates of recent years. The growth in inward migration could well have peaked. Meanwhile, the strong uptrend in participation rates has slowed considerably while the trends in indigenous demographics have turned less favourable because of the low birth rate in the 1990s. Overall, we see labour force growth slowing to 3.5% in 2007 and 2.5% in 2008, from 4.5% last year.

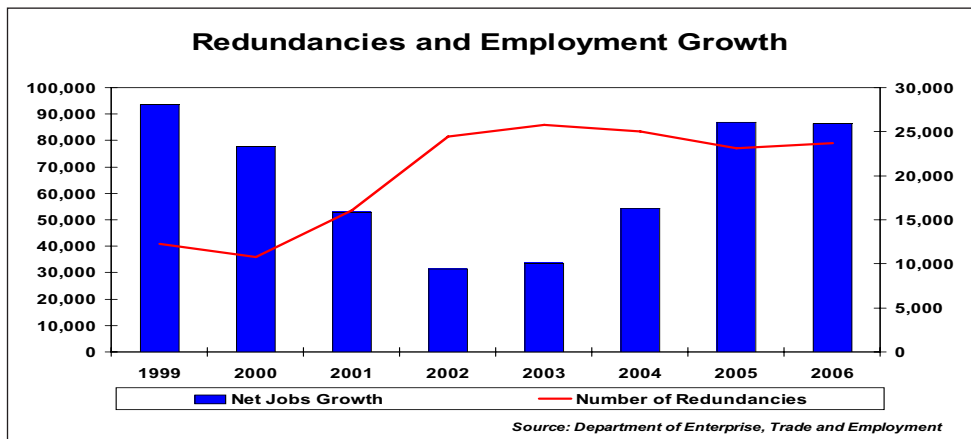
EMPLOYMENT TRENDS AND PROSPECTS

REDUNDANCIES

Increase in high profile redundancy announcements

Recent months have seen a stream of high profile announcements of job losses or risks to jobs in the future, most notably impacting on the manufacturing sector. The scale of these announcements undoubtedly has implications for the pace of future jobs growth. However, these announcements must be viewed in perspective. What does not get the same degree of publicity is the number of jobs being created. What must also be borne in mind is that some of the job losses contained in recent announcements will not take place for some time, years in some instances.

In recent years the Irish economy has shown a strong capacity to create jobs despite a continuing relatively high level of redundancies. Indeed, over 86,000 net jobs were created in both 2005 and 2006 despite over 23,000 redundancies in both of these years. The large number of job losses announcements so far this year has, in general, yet to translate into redundancies. However, redundancies for the first four months of 2007 are still up by 13% on the same period in 2006.



	Redundancies				
	Year 2006		Jan/Apr 2007		
	Number	% of Total	Number	% of Total	YoY %
Agriculture/Forestry and Fisheries	843	3.6	149	1.7	-46.4
Energy and Water	314	1.3	30	0.3	-82.8
Extraction Industry (Chemical Products)	429	1.8	162	1.8	-31.6
Metal Manufacturing and Engineering	1,251	5.3	391	4.5	-7.1
Other Manufacturing	6,045	25.5	2,115	24.1	11.1
Building and Civil Engineering	2,126	9.0	1,058	12.1	40.7
Distributive Trades	2,351	9.9	825	9.4	2.1
Transport and Communications	1,665	7.0	520	5.9	19.5
Other Services *	7,425	31.4	3,150	36.0	42.0
Banking, Finance & Insurance	1,235	5.2	359	4.1	-31.5
Total	23,684		8,759		13.0

* Includes media, entertainment & personal services
Source: Department of Enterprise, Trade and Employment

Redundancy data by their nature are very lumpy. Thus, it is difficult to draw too much inference from short term trends. Acknowledging this proviso, it is noticeable that there was an 11% increase in redundancies in the 'other manufacturing' sector (this excludes metal manufacturing and engineering and chemical products) in the first four months of 2007, slightly less than the growth rate in redundancies for the economy as a whole.

Also, there was a 41% increase in construction sector redundancies in the January to April 2007 period. This is perhaps an early indicator of the impact of the slowdown in housing activity, though in absolute terms the numbers involved are still relatively small.

More significant in terms of the numbers involved was the 42% increase in redundancies in the four months to April this year in the sector classified as 'other services'. This is largely a residual category of companies that don't fall into any other easily identifiable category. Notably, there was a significant slowdown in employment growth towards the end of last year amongst these 'other services' group of companies.

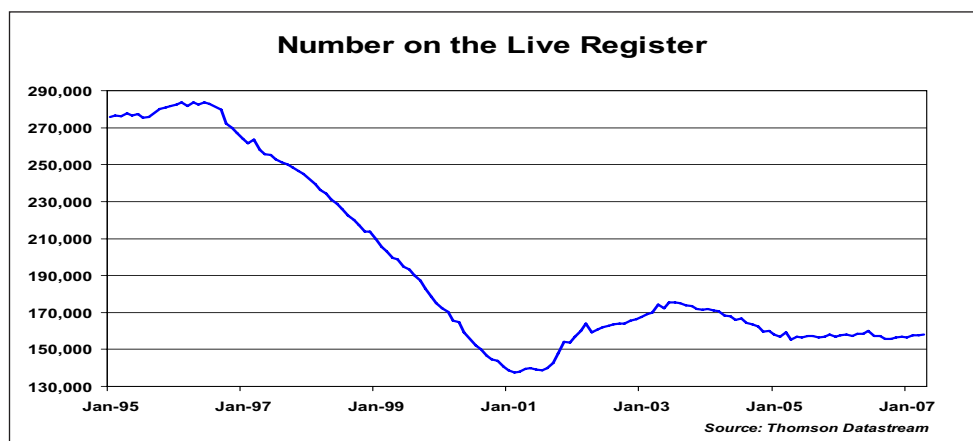
Construction and manufacturing redundancy data need careful watching

Given the scale of recent announcements, it is reasonable to expect that the year 2007 will see a significant increase in the number of redundancies. This could have a significant impact on net employment growth. In the years 2000 to 2004, the number of redundancies increased from 10,799 to 24,432. This coincided with a marked decline in employment growth from 77,800 in 2000 to 31,600 in 2004. The redundancy data for the construction and manufacturing sectors, in particular, need to be watched closely as they could provide an early indication of a slowdown in employment growth.

UNEMPLOYMENT AND WORKING HOURS

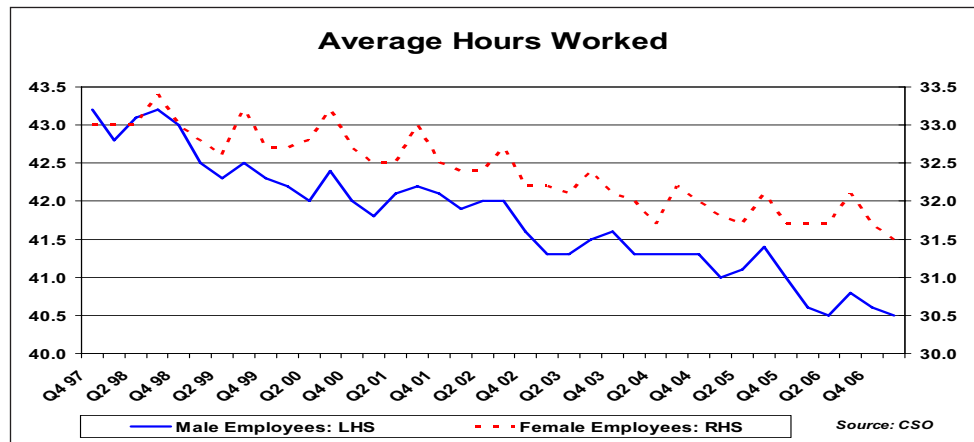
However, little impact on the live register ...

The number of redundancy announcements, however, has as yet failed to have any noticeable impact on the Live Register, which has remained remarkably steady since the beginning of 2005.



.. or, as yet, on hours worked

A first response to a deterioration in employment conditions, though, could well be a reduction in the number of hours worked. However, while these did decrease in Q1 2007 this fall is in line with the long term downtrend that has been in evidence even throughout the recent very buoyant employment conditions. Thus, as yet, it is difficult to see any real evidence of a deterioration in employment conditions from these data.

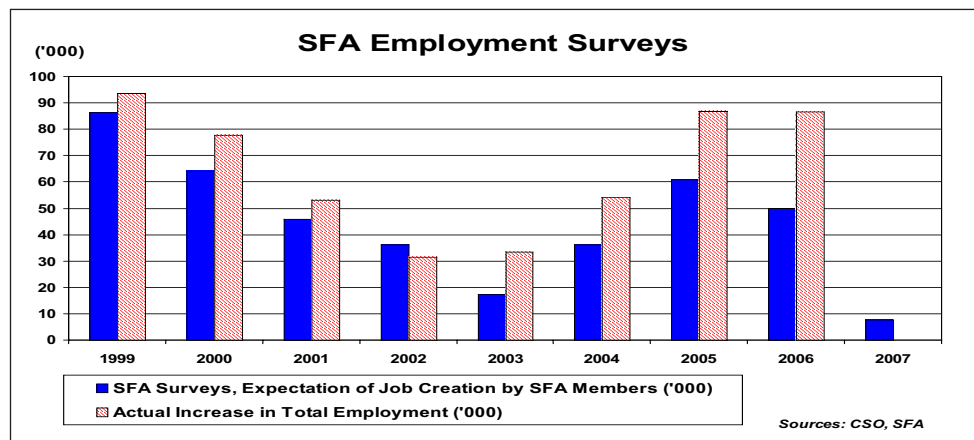


EMPLOYMENT SURVEYS

Looking ahead, there have been a number of recent surveys that point to a deterioration in employment prospects. However, they also show that the labour market remains tight, with skills shortages, in particular, hindering job creation.

SFA warn of minimal job creation ...

The most pessimistic of these surveys is from the Small Firms Association (SFA) which warns that its members see a sharp slowdown in job creation in 2007. The results of the SFA’s 2007 employment survey indicate the lowest level of anticipated job creation by its members since the surveys began in 1995. The 2007 survey indicates that SFA members anticipate an increase in demand for labour of just 0.9% in 2007. This is down from 6.1% in 2006 and 8.3% in 2005. The SFA estimate that this translates into job creation by its members of just 7,787 in 2007 compared to 50,243 in 2006 and 61,003 in 2005. The SFA draws its members, all of whom have less than 50 employees, from the manufacturing, distribution, retail and services sectors. It estimates that its membership represents 50% of private sector employment.



... but also tight labour market ...

The SFA survey, though, is not quite as negative as the headline numbers suggest. The survey also shows that the labour market remains tight with 46% of companies reporting vacancies at the time of the survey. Furthermore, 85% of companies reported difficulties filling vacancies, which is up 8% from the 2006 survey.

... and skills mismatch

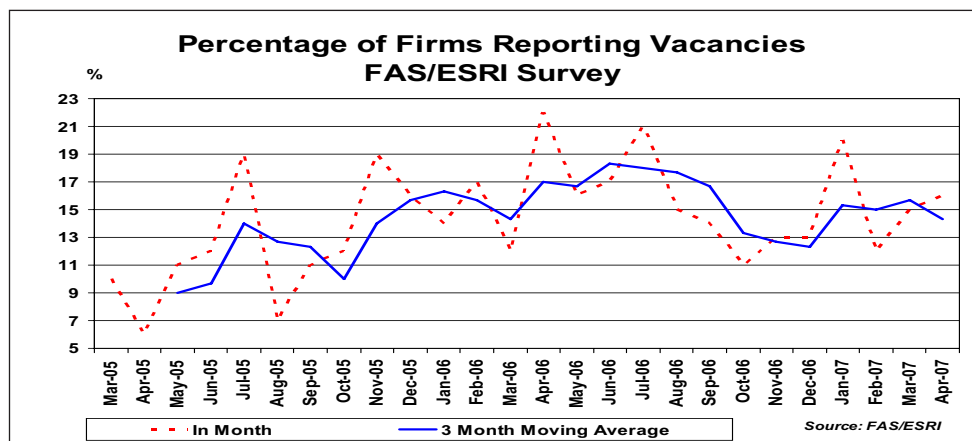
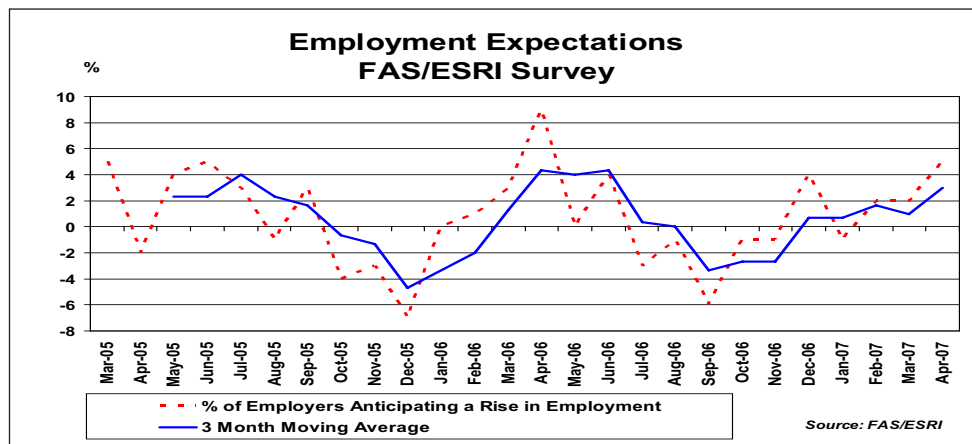
In a further indication of tight labour market conditions, 46% of companies with vacancies cited a lack of response to advertised vacancies and unrealistic wage expectations as major barriers to recruitment. However, skills mismatch is apparently an even bigger impediment to job creation, with 48% of those with vacancies citing a lack of skills as a significant barrier to recruitment.

ISME survey also indicates slowdown in employment growth but also skill shortages

Not surprisingly there are many similarities between the SFA survey and the latest business trends survey from the Irish Small & Medium Enterprises Association (ISME). The latter also points to a slowdown in employment growth. In Q1 this year, a net 18% of SME's indicated that they planned to increase employment in the next 12 months. This is down from +30% in Q4 2006. ISME, in its wages and conditions of employment survey, also point to skills shortages in certain job categories, particularly in the skilled sector.

FÁS/ESRI employment expectations continue to edged higher

Despite some of the 'doom and gloom' about employment prospects, the latest FÁS/ESRI survey shows a continuing pick-up in employers' optimism about employment prospects. In April there was a positive balance of 5% of firms expecting a rise in employment in the coming months, up from +2% the previous month. The April 2007 survey is the most positive about employment expectations since April last year. Furthermore, the three months moving average has now been in positive territory for the past five months (showing that more employers are positive about employment prospects than are negative) after the dip below zero towards the latter part of last year.



... while vacancy levels have also increased ...

Meanwhile, a further modest pick-up has been seen in the percentage of firms reporting vacancies, according to this latest FÁS/ESRI survey. In April, 16% of firms surveyed reported vacancies compared to 15% in March and 12% in February. The three month moving average has now been confined to a relatively narrow band around 15% since the beginning of the year.

... which are proving difficult to fill

As with the SFA survey, this wider FÁS/ESRI survey also points to continuing tightness in the labour market with job vacancies proving difficult to fill. In the services sector 96% of employers described their vacancies as difficult to fill in April this year. Meanwhile, 91% of construction sector firms, but only 57% of those in the industrial sector, said their vacancies were difficult to fill.

PROSPECTS

Further strong jobs growth, but rate of expansion to moderate

As already discussed, we see labour force growth slowing to 3.5% in 2007 and 2.5% in 2008, from 4.5% last year. Employment growth should also moderate, given the expected slower pace of economic expansion.

This is particularly so in terms of construction sector employment, which looks set to decline in 2008 (see following section for a more detailed look at employment trends on a sectoral basis). Furthermore, though it may take some time for the recent spate of announcements of job loss to take effect, manufacturing employment is coming under pressure and a renewed contraction in the sector is quite possible. However, service sector employment growth should remain firm. Overall, we expect job creation of some 68,000 and 40,000 in 2007 and 2008 respectively, compared to 86,600 in 2006. As such, employment growth would slow to 3.4% in 2007 and 1.9% in 2008, from 4.4% in 2006.

Unemployment to edge higher but stay low

On the basis of these labour force and economic growth forecasts, the unemployment rate is forecast to remain broadly unchanged at 4.5% in 2007 but rise modestly to 5.0% in 2008. **It should be noted, that despite the anticipated slowdowns, these still constitute robust growth rates for the labour force and employment, as well as a low unemployment rate.** The main risk we see is in a sharper than expected deterioration in employment in the construction sector.

KEY LABOUR MARKET FORECASTS

	2004	2005	2006	2007 (f)	2008 (f)
Labour Force ('000)	1,952	2,041	2,132	2,207	2,261
% Change	2.8	4.6	4.5	3.5	2.5
Employment ('000)	1,865	1,952	2,039	2,107	2,147
Increase ('000)	54.4	87.1	86.6	68	40
% Change	3.0	4.7	4.4	3.4	1.9
Unemployment Rate (%)	4.4	4.4	4.4	4.5	5.0

Source: CSO, AIB ERU forecasts

SECTORAL EMPLOYMENT TRENDS AND PROSPECTS

Narrow base of recent employment growth a concern ...

There are undoubted concerns about the narrow base of recent employment growth. Employment growth was generally broad based on average over 2006 (with the exception of the manufacturing sector). However, the rate of employment growth in several sectors of the economy appears to have slowed significantly. Indeed, in the year to Q1 2007, only three sectors accounted for some 53,300 (70%) of the 76,800 increase in employment over the period. These sectors, construction, education and health, though, account for only 30% of total employment.

... but should broaden again over the course of 2007

However, looking at the individual sectors in some detail, we would expect that the base for employment growth will broaden again in 2007. A renewed contraction in manufacturing employment seems likely, though, while growth in construction sector employment is also expected to turn negative on a year-on-year basis by end 2007.

Irish Employment by Sector						
Sector	2006 Average Level	Increase on Year	Q1 2007 Level	Increase on Yr Earlier Number	Increase on Yr Earlier %	% of Total Employment
Agriculture Forestry and Fishing	116,900	1,600	116,400	900	0.8	5.6
Other Production Industries	290,600	-3,000	290,800	5,800	2.0	14.0
Construction	269,000	23,800	282,100	28,300	11.2	13.6
Wholesale and Retail Trade	289,200	12,600	291,300	5,200	1.8	14.0
Hotels and Restaurants	116,700	1,800	120,100	7,000	6.2	5.8
Transport, Storage and Communication	121,700	4,000	123,400	2,900	2.4	5.9
Financial and Other Business Services	270,600	11,500	272,700	3,500	1.3	13.1
Public Administration and Defence	104,800	5,700	105,600	2,500	2.4	5.1
Education	132,900	10,300	142,000	9,200	6.9	6.8
Health	204,700	15,500	212,100	15,800	8.0	10.2
Other Services	121,900	2,800	118,500	-4,300	-3.5	5.7
Total Employment	2,038,600	86,600	2,074,900	76,800	3.8	100.0

Note: Figures may not total due to rounding errors
Source: CSO

CONSTRUCTION

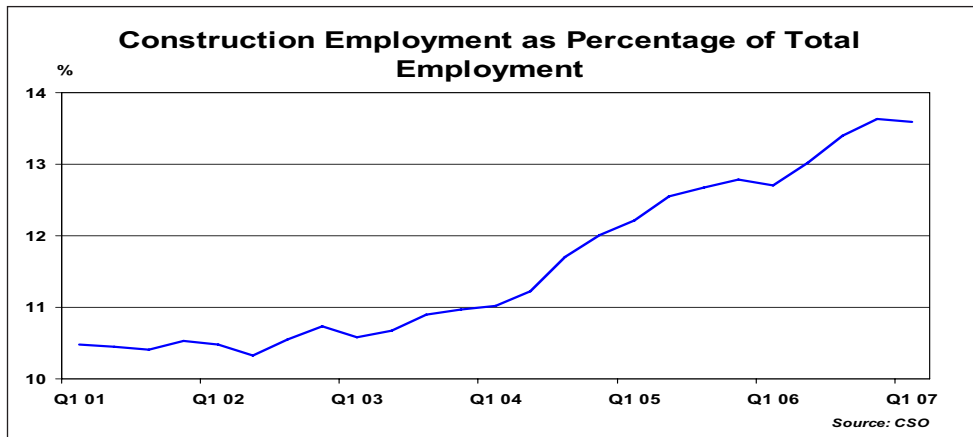
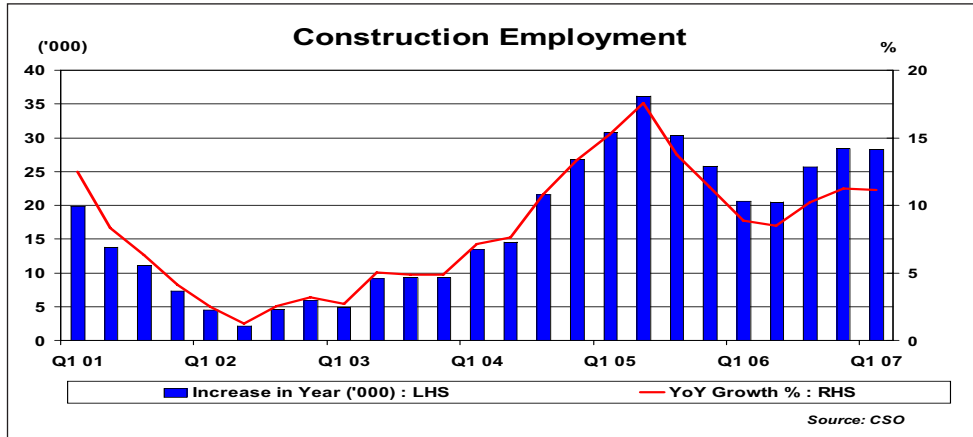
Increasing reliance on construction employment

Construction sector employment continues to grow strongly, reinforcing the concerns about the extent to which Ireland's strong employment growth has been fuelled by the construction sector.

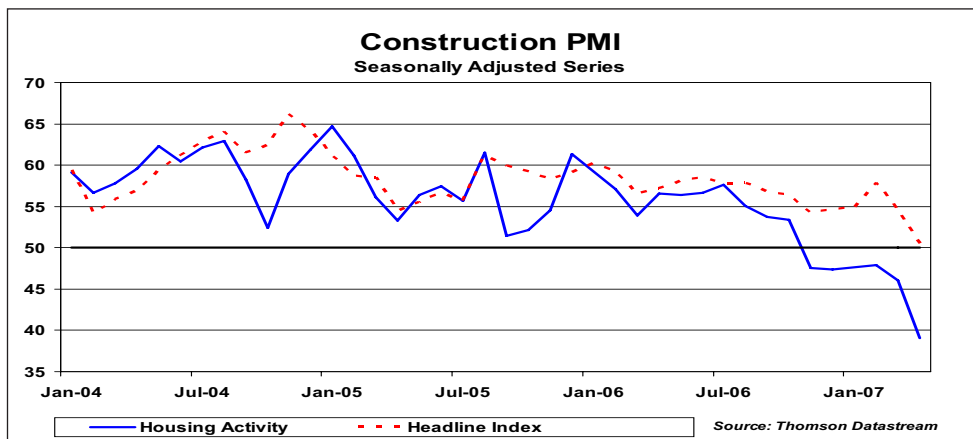
In the year to Q1 2007, the construction sector accounted for 28,300 (37%) of the increase in numbers employed. As such, the sector continued to account for an increasing proportion of total employment. Indeed, by Q1 2007, construction accounted for 13.6% of total employment.

Further strong growth in construction employment in Q1 2007

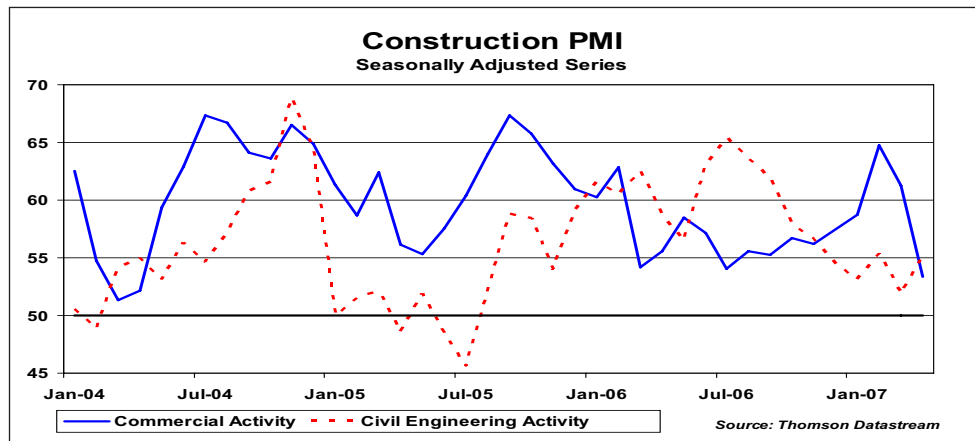
It had appeared that the hectic pace of jobs growth in the construction sector may have been cooling somewhat. However, it would seem to have reaccelerated again in recent quarters. Employment in the sector grew by 11.2% year-on-year in Q1 2007, for the second consecutive quarter. This is up from 10.2% and 8.5% in Q3 and Q2 2006 respectively, though still down on the peak in construction employment growth of 17.6% year-on-year in Q2 2005.



While housing market activity has been cooling in recent months, other areas of construction are performing well. The construction PMI activity index dropped back close to the 50 level (which indicates no change in activity) in April, driven largely by a sharp



drop in housing sector activity. However, activity levels for both the commercial and civil engineering sectors remain well above this key breakeven level.

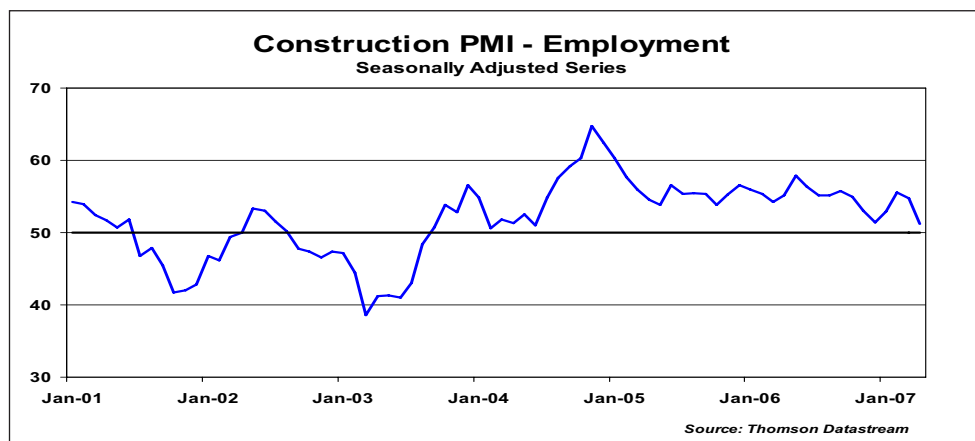


Employment in construction set to decline

Overall, we expect that the pace of employment growth in the sector will slow, with the supply of new housing reaching a peak. (The number of housing completions is expected to fall to 82,500 this year and 75,000 in 2008 from 88,200 in 2006.) However, given the strength of activity in other areas of the construction sector, a collapse in construction employment does not appear to be imminent. Construction could add some 12,500 jobs on average in 2007, compared to the 24,000 added, on average, in 2006. However, over the course of the year the rate of job creation could slow to such an extent that, by the end of 2007, employment may be in decline on a year-on-year basis. Further, employment in the sector seems set to contract in 2008 by around 10,000.

Employment component of construction PMI still above 50 ...

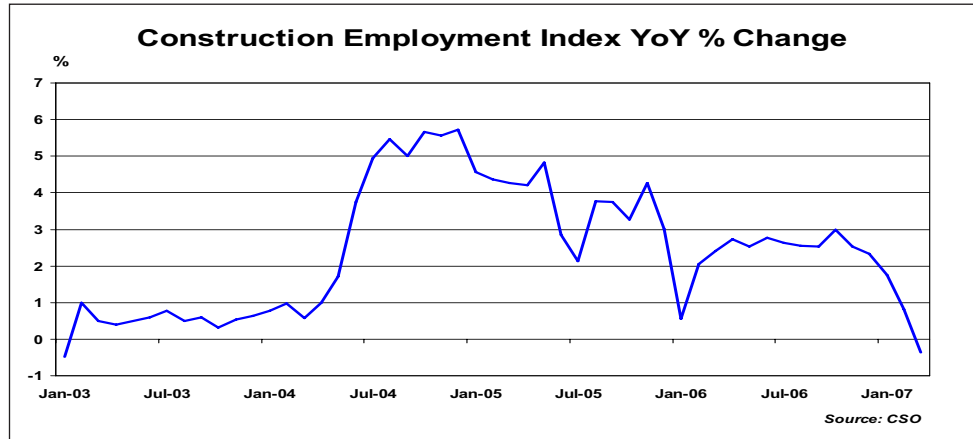
This view of softening, but not collapsing, construction sector employment would appear to be borne out by survey evidence. The employment component of the construction PMI, at above 50, still points to continued growth in jobs numbers in the sector. That being said the implied rate of employment growth is at its lowest for thirty four months.



... but CSO's construction employment index shows YoY decline

Meanwhile, the CSO's index of construction employment fell by 0.4% in April compared to a year earlier, the first such year-on-year decline since January 2003. A decline of this magnitude is hardly surprising, given the modest downturn in house building activity that has been evident in the opening months of this year. However, while these data provide a useful signal as to possible trends, we are cautious about reading too much into the data. The index of employment in construction covers only established firms with five or

more persons in employment. Historically this series has had a poor correlation with the level of construction employment as measured by the CSO's QNHS survey.



The FÁS/ESRI survey also points to slowing employment

The most recent FÁS/ESRI vacancy and employment survey also shows a deterioration in employment prospects. In April there was a net balance of 11% of construction sector employers anticipating a decline in employment levels in the coming months. This compares to March's negative balance of -6. The three month average fell to -6% in April this year. This compares to a positive balance of 12% of firms expecting an increase in employment levels at the same point in April 2006. However, the data still show an improvement on the even more pessimistic attitude towards employment by construction sector employers that emerged over the latter part of last year, which saw the three month average of expectations dip to -12% in December 2006.

... but also possible skill shortages

The FÁS/ESRI survey, meantime, shows that the percentage of construction firms reporting vacancies remained stable in April at 10%. While the three month average of vacancies declined to 11% it remains within the 10% and 15% range to which it has been confined for the past year and a half. Nearly all (91%) of the firms with vacancies in April reported difficulty in filling these positions, indicating perhaps that many of these vacancies relate to shortages in specific job skills. Indeed, of the difficult-to-fill vacancies in April, quantity surveys, engineers and foremen in the construction sector were specifically cited.

Redundancy data warrants watching

Meanwhile, it may be that the redundancy data are showing some indication of the impact of the slowing in housing market activity. There was a 41% increase in the number of construction sector redundancies in the first four months of 2007. It should be noted that the data are lumpy in nature and too much inference should not be taken from short term trends. Further, the numbers involved are relatively small (1058 in the January to April 2007 period). However, the trend in these data warrants watching.

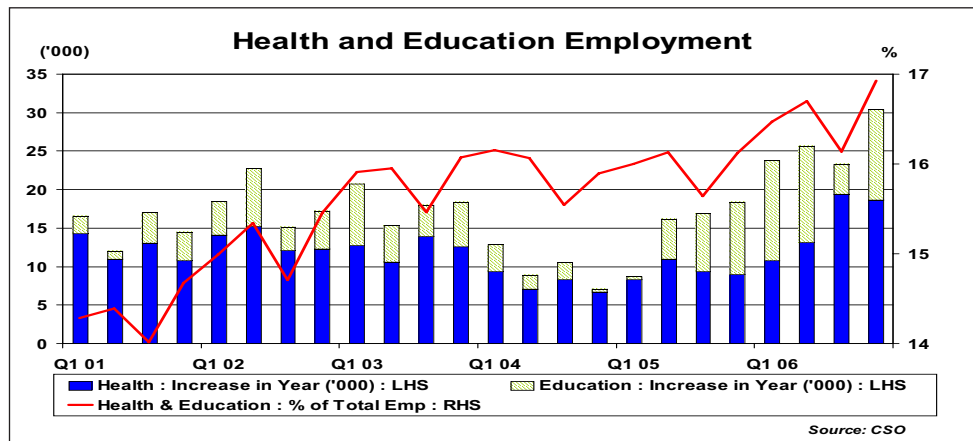
PUBLIC SECTOR

Public sector continuing major source of employment growth

The health and education sectors are dominated by public sector employment. Between them health (+15,500) and education (+10,300) added 25,800 jobs on average in 2006. With continuing pressures to improve the health services and to cut school class sizes, we would expect further strong employment growth in these areas. In addition, while these

are traditionally public sector areas of employment, it shouldn't be forgotten that both of them have increasingly important, and growing, private sectors.

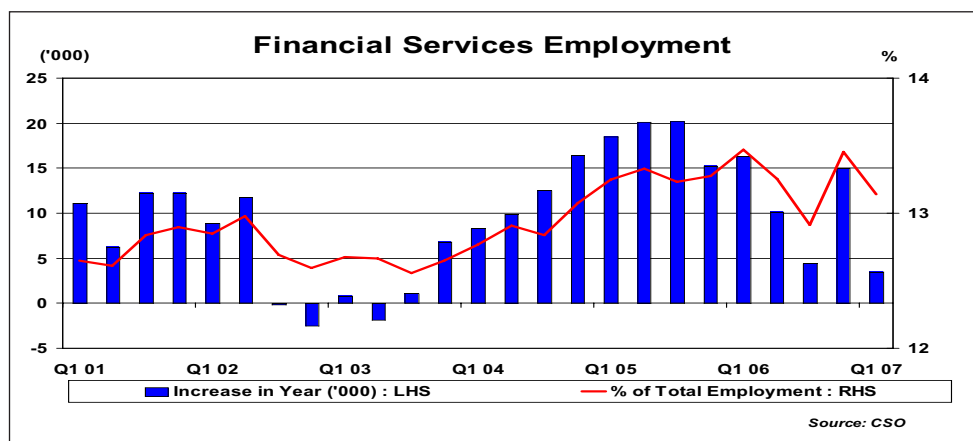
In total, employment in these public sector dominated areas, along with public administration, grew by 7.7% or 31,500 in 2006. Jobs growth in these areas has averaged close to 6% in the last six years. A similar performance can be expected in 2007, which would boost employment by around 27,000.



PRIVATE SECTOR SERVICES

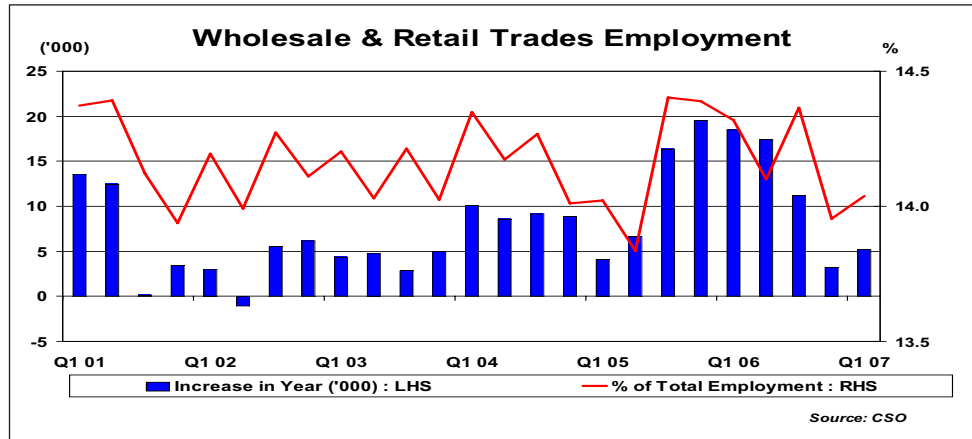
Financial services sector has also performed strongly

The financial services sector has been one of the other major areas of employment growth over the past couple of years. On average, 11,500 jobs were added in 2006, though this was down from 18,500 in 2005. The strong employment growth in the sector in part reflects new companies entering the market, with the IDA actively targeting the financial services sector. Provided Ireland can continue to attract new entrants, there should continue to be strong employment growth in the sector. While there was an increase of only 3,500 (+1.3%) in the sector in the year to Q1 2007, the CSO has indicated that this may in part reflect survey effects (and follows Q4 2006 exceptionally strong increase of 15,000). We expect this sector to continue to add jobs in the coming year and would not be unduly worried unless the Q2 2007 data also show only modest jobs growth in the sector. However, the rate of employment growth seems to have peaked and the quarterly trend has been more volatile.



Retail sector's contribution to employment growth appears to be slowing

The retail and wholesale trades sector has also been a significant contributor to employment growth in the recent past. Notably, a rapid expansion in retail floor space was reflected in the strength of employment growth in the sector in the latter half of 2005 and H1 2006. However, the pace of growth appears to have slowed considerably. While the retail and wholesale trades sector added 12,700 jobs on average in 2006, in Q1 2007 employment in the sector was up just 5,200 (+1.8%) on year earlier levels.



Further, the April FÁS/ESRI survey reports a balance of 5% of employers predicting a decline in employment in the retail sector over the coming months. However, this is a marked improvement on the situation in March when the net employment indicator stood at -15 which had been the most pessimistic sentiment reading for the sector since May 2003. Meanwhile, just 1% of retail sector firms reported vacancies in April 2007. That being said, positions for sales personnel and managers in the retail sector were amongst those most often cited as being difficult to fill.

Looking forward, employment growth in the sector may well remain at more modest levels. However, the outlook would not seem to be unduly pessimistic, given the scale of planned expansion of retail space in shopping centres. Jones Lang LaSalle report that the square footage of shopping centre space under construction amounts to some 23% of the current total shopping centre stock. Also, notably, Tesco are planning to increase floor space by 10% this year as well as opening a major distribution centre.

Concerns over employment growth in some other services sectors

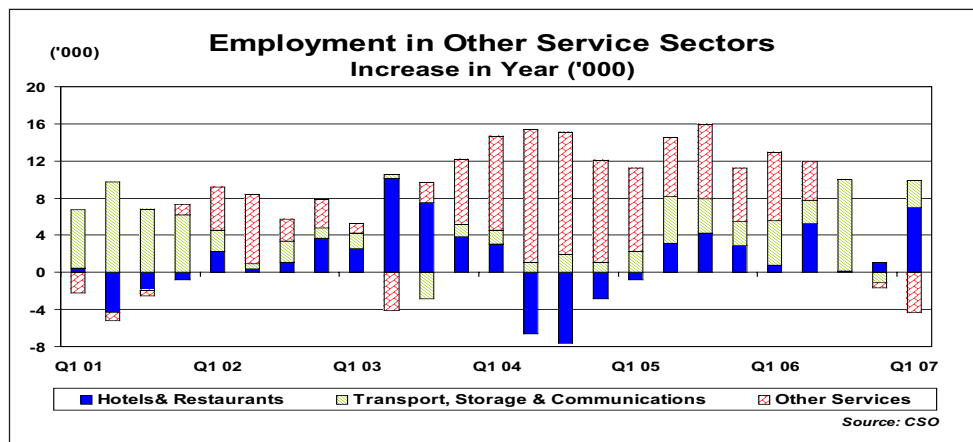
Trends in employment growth in some of the other services sectors have been volatile in recent quarters. Together the hotels and restaurant sector and transport, storage and communications sector along with other services saw a net gain of 5,800 jobs in Q1 2007, compared with year earlier levels, in contrast to the net loss of 500 jobs recorded in Q4 2006. The Q1 2007 performance was more in line with the 2006 experience when, on average, these sectors saw some 8,600 additional jobs created.

However, while employment growth in the hotels and restaurants sector would appear to have recovered from the Q4 2006 downturn, there has been a further fall in employment in the 'other services' sector. Indeed, this sector shed 4,300 jobs in Q1 2007 compared to year earlier levels.

The 'other services' sector is a combination of employments that do not fall easily into one of the other main categories (it includes the media, entertainment, business organisations

High level of redundancies amongst 'other services'

and personal services). The weakness of employment in this residual category is in line with the trend in redundancies in the sector, which were up 42% year-on-year in the four months to April. Indeed, the sector accounted for some 36% of all redundancies in the period whereas its share of total employment is less than 6%.

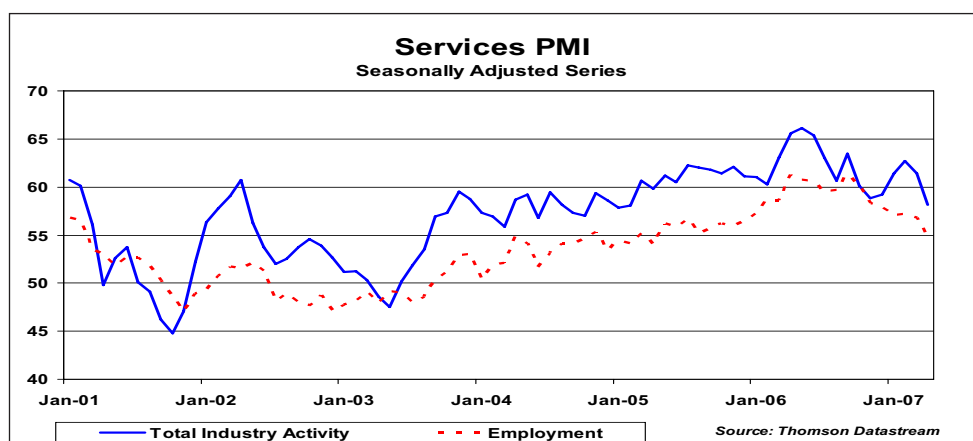


Optimistic signals for services employment

However, overall, we remain optimistic about private sector service employment. Indeed, it is worth noting the FÁS/ESRI vacancy and employment surveys for both March and April cite the services sector as the only one that reported an increase in vacancies in the month. The balance of firms reporting vacancies rose to +25% in April from 23% in March and 16% in February, though down on the exceptionally high level of 31% in April 2006. Furthermore, virtually all (some 96%) of service sector firms with vacancies reported that these were difficult to fill. In particular, positions for clerical staff, sales personnel and drivers in the services sector were cited as being difficult to fill.

In addition, there was a further increase in employers' employment expectations in April this year. The percentage of service sector employers anticipating an increase in employment rose to 13% in the month from 12% in March and 9% in February. This is the highest level of employment sentiment in the sector since May 2002 and compares to a balance of +11% a year ago, in April 2006.

The services PMI also points to further employment growth in the sector. While the employment component is well back from its 2006 highs it is still significantly above the 50 level indicating further solid service sector jobs growth.



Another indication of the strength of the services sector, in Dublin at least, comes from the strength of activity in the office market. According to CB Richard Ellis, the take up of office space in Dublin was up 31% year-on-year in Q1 2007, with two thirds of the increase being for business services tenants.

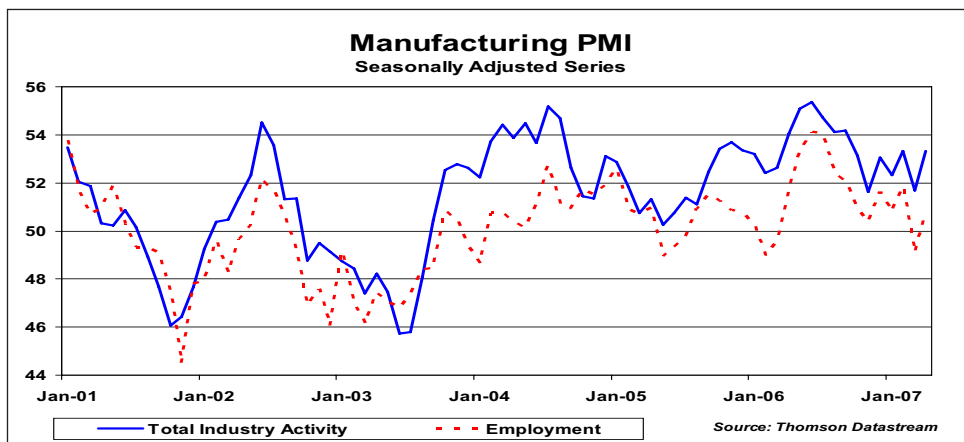
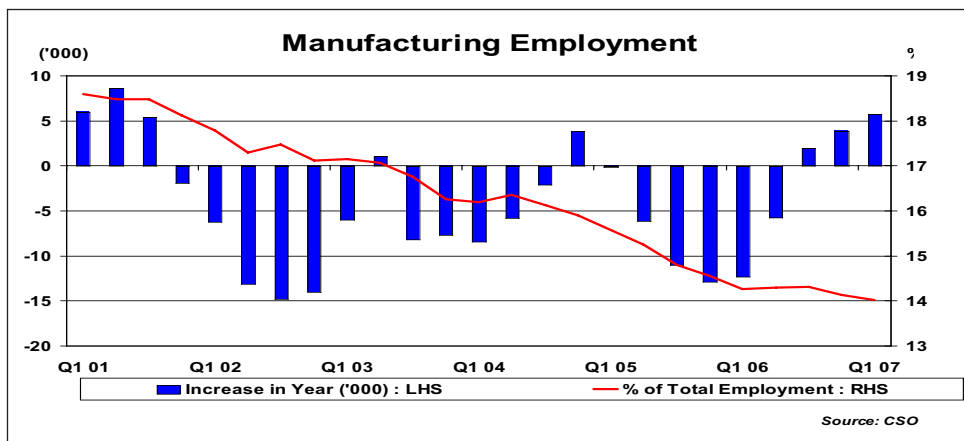
Continuing growth in service sector employment anticipated

These survey data support our generally optimistic view of private sector services employment. Given the favourable prospects for consumer spending and service exports, we anticipate broad based jobs gains in the overall sector this year, possibly approaching 30,000 jobs this year, after job creation of 32,700 in 2006.

MANUFACTURING

Manufacturing sector under pressure

Manufacturing's share of employment had been in decline for several years. However, there has been some reversal in the fortunes in this sector in recent quarters with a modest improvement in the number employed in the last three quarters compared to year earlier levels.



However, based on the recent spate of negative jobs announcements it is quite possible that this year will see the manufacturing sector resume its decline. It is notable that some 24% of the redundancy notices issued in the first four months of 2007 were in the 'other manufacturing' sector, where the number of redundancies was up by 11%. However, in

many instances, it will take some time for the recent job announcements to translate into actual job losses.

There is no strong support for the sector from survey data. The employment component of the manufacturing PMI survey has been in a marked downtrend since mid 2006. It did, though, rise back above 50 in April having dropped below this key level in March.

Meanwhile, the April FÁS/ESRI survey shows the net employment expectations indicator at zero, unwinding March's spike upwards to +5. Thus, in April, there was no difference in the percentage of firms expecting a decrease of employment and those expecting an increase. This compares with a positive balance of +9 at April 2006. The survey also shows that the percentage of firms reporting vacancies remained stable at 15% in April, the third consecutive month at this level. However, only 57% of these firms described their vacancies as difficult-to-fill. This is a much lower percentage than in other sectors of the economy where typically some 90% plus of vacancies, are reported as difficult-to-fill.

***Renewed contraction
in manufacturing
employment likely***

Employment in industry rose modestly over the course of 2006 but this trend seems likely to be reversed during 2007, following the stream of negative job announcements in recent months. By end year, employment in the sector could well be in decline as the marked downtrend in industrial employment evident in the first half of the decade resumes.

Irish Employment by Sector				
Sector	2006 Average	2006	Increase in Year 2007f	2008f
Agriculture Forestry and Fishing	116,900	1,600	500	1,000
Other Production Industries	290,600	-3,000	-1,000	-6,000
Construction	269,000	23,800	12,500	-10,000
Wholesale and Retail Trade	289,200	12,600	9,500	9,000
Hotels and Restaurants	116,700	1,800	2,500	2,000
Transport, Storage and Communication	121,700	4,000	2,500	2,500
Financial and Other Business Services	270,600	11,500	13,000	14,500
Public Administration and Defence	104,800	5,700	3,500	3,500
Education	132,900	10,300	9,000	7,000
Health	204,700	15,500	14,500	14,000
Other Services	121,900	2,800	1,500	2,500
Total Employment	2,038,600	86,600	68,000	40,000

Source: CSO, Forecasts AIB ERU



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