While an expected recession in advanced economies in early 2023 has not yet materialised, recent International Monetary Fund and European Commission forecasts remain largely downbeat about prospects for Ireland's main trading partners. Amid fragilities in the financial sector in particular, the risks of recession in the United States have increased. This increases the risk of a slowdown elsewhere, in the context of the recent tightening in global monetary conditions and sharp increases in interest rates worldwide.

Forecasts remain largely downbeat about prospects for Ireland's main trading partners

External demand is a crucial factor for exporting sectors of the Irish economy — especially for tourism and food in a regional sense. Two sectors that performed particularly well despite weaker overall external demand during the Covid-19 pandemic were information and communication technology (ICT) services and pharmaceuticals manufacturing. Since mid-2022, however, thousands of ICT job losses have been announced. Box A investigates recent developments for these sectors, which broadly appear to be more benign than feared.

Box A: Recent developments in the ICT and pharmaceuticals sectors

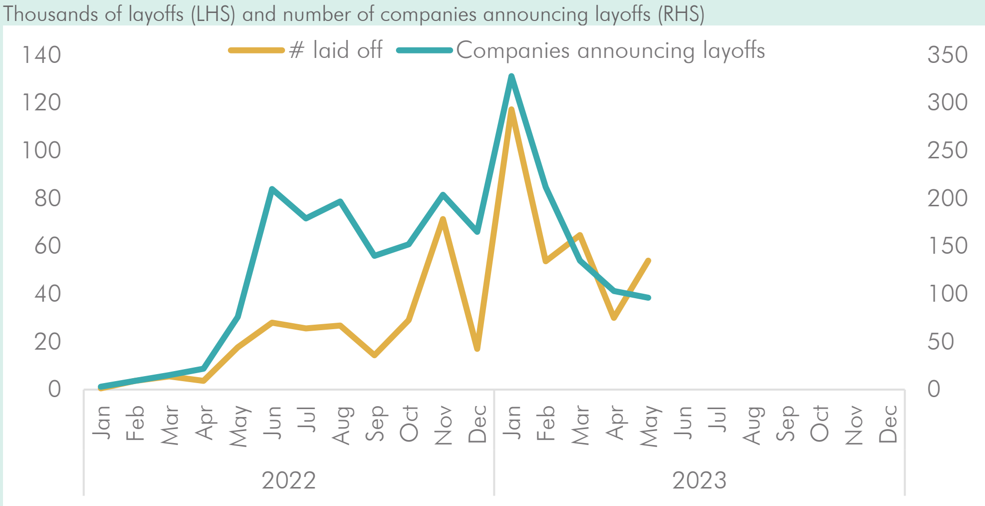
This box examines recent developments for two key high-skill sectors in the Irish economy: information and communication technology (ICT) services, and pharmaceuticals manufacturing.

The Irish economy recovered faster and more strongly than expected from the Covid-19 pandemic, and some of this resilience is down to relatively strong performances globally by ICT and pharmaceuticals. Demand for these sectors' products increased during the pandemic, helped by a shift towards remote working and rapid vaccine development. Ireland was well-positioned to benefit from this global demand, and many foreign-owned multinationals continued to invest significantly in Ireland despite the pandemic.[6]

One concern is that a partial reversal of the strong performance in these sectors could occur. This is especially possible for ICT, as tens of thousands of job losses have been announced globally by a broad range of companies, many with a presence in Ireland (Figure A1). For pharmaceuticals, demand for Covid-19 vaccines is much reduced and the World Health Organisation recently declared that Covid-19 no longer constitutes an international public health emergency.

Figure A1: Global ICT layoffs peaked in January

Thousands of layoffs (LHS) and number of companies announcing layoffs (RHS)



Source: LayoffsTracker.com. Get the data.

[6] For example, Pfizer invested €300 million and 300 new jobs in November 2020: https://www.pfizer.ie/media/pfizer-announces-300-million-investment-in-irish-operations

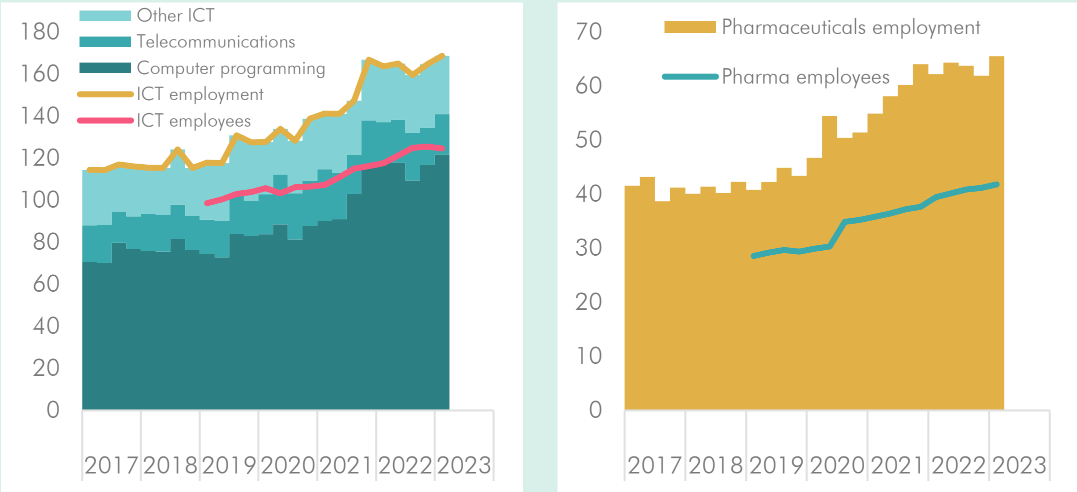
Yet indicators show employment levels in Ireland for ICT and pharmaceuticals achieved during the pandemic have been maintained into early 2023 — for both the *Labour Force Survey*, and employees data (Figure A2). Some workers in Ireland have lost their jobs, but a high level of job vacancies (Figure A3) has provided some opportunities for a return to employment, or perhaps for a substitution of others into these sectors. In net terms, this has so far meant no significant reduction in employment levels.

Conefrey *et al.* (2023) estimated that over 2,300 layoffs had affected Ireland's ICT sector for the year to February 2023. However, CSO data show just over 2,000 job vacancies in ICT on average across Q1–Q4 2022, implying a reasonable capacity for the sector to absorb the announced job losses. Despite this, a less sanguine scenario would depend on the extent to which there is a mismatch between skillsets for job vacancies and those laid off.

Figure A2: Employment levels in ICT and pharmaceuticals remain high

Thousands, not seasonally adjusted

A. ICT employment | B. Pharmaceuticals employment

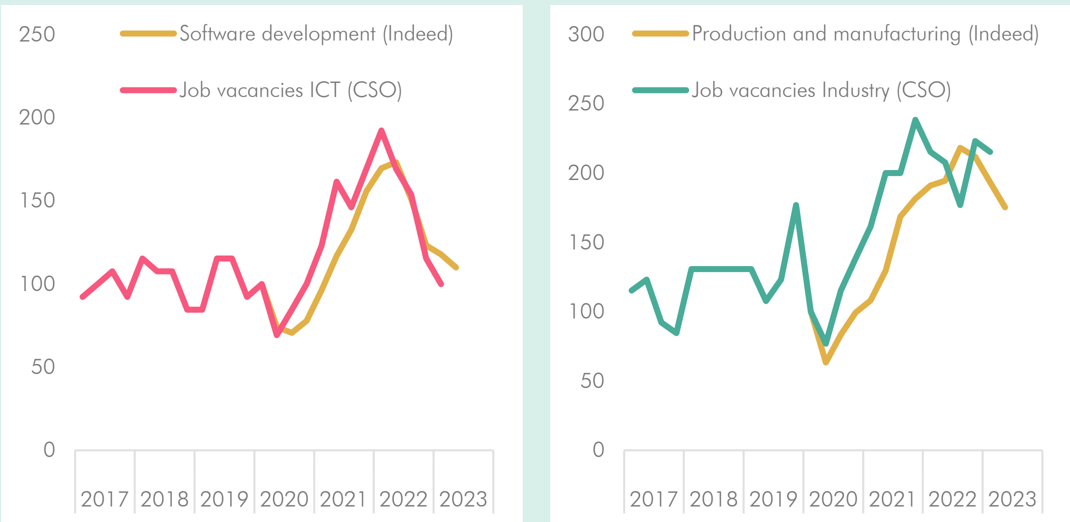


Sources: CSO, and Fiscal Council workings. [Get the data.]
Notes: We thank the CSO for providing the employees in pharmaceuticals series on request.

Figure A3: Elevated job vacancies have helped maintain employment levels

Q1 2020 = 100, not seasonally adjusted (CSO) and seasonally adjusted (Indeed)

A. ICT job vacancies | B. Pharmaceuticals job vacancies

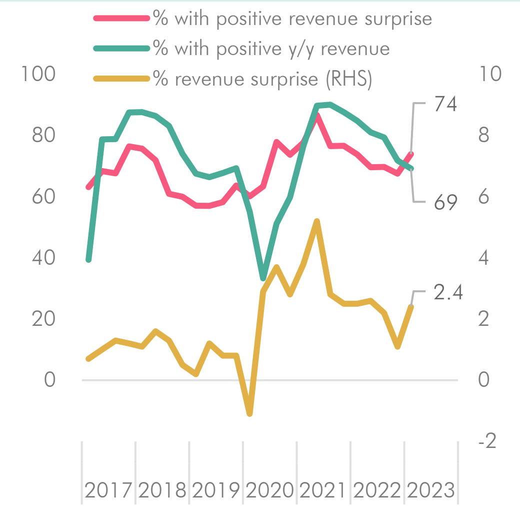


Sources: CSO, Indeed, and Fiscal Council workings. [Get the data.]
Notes: We again thank Indeed for providing the job vacancies in ICT and production/manufacturing series on request. The closest available matches for job vacancies data in pharmaceuticals are for production and manufacturing on Indeed, and for Industry (sectors B to E) for the CSO's earnings, hours, and employment costs (EHECS) data. As January 2020 data are not available, February and March 2020 Indeed data are used in place of the full Q1 data.

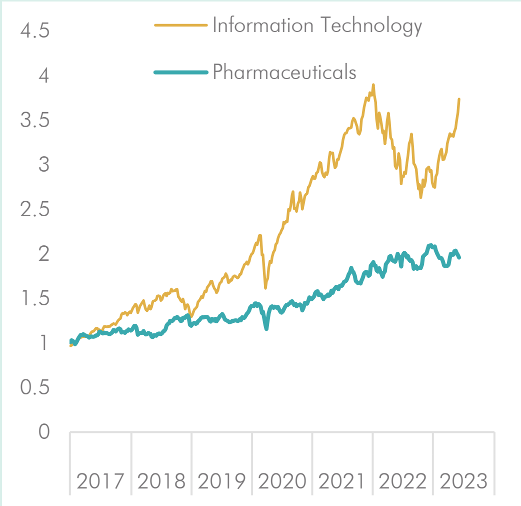
Turning to equity markets, revenue generation for firms in the S&P 500 picked up in Q1 2023 relative to a weaker Q4 2022. This was helped by a strong rebound for ICT, and a continuing upward trend for pharmaceuticals. Figure A4.A shows that revenue was ahead of expectations in nearly three-quarters of firms, whereas 69% of firms saw positive revenue growth in Q1 2023. Relative to expectations, revenues overall were 2.4% higher, up from 1.1% in Q4 2022. The more positive performance by ICT firms is reflected in the total return index for information technology (Figure A4.B), which by mid-2023 had recovered much of the losses seen in 2022. Overall, this suggests a more positive outlook for ICT and pharmaceuticals as key sectors behind Ireland's economic growth.

Figure A4: ICT and pharmaceuticals have helped the S&P 500 to a stronger start to 2023, following a weak end to 2022

A. Revenue performance for the S&P 500
%



B. Industry classifications of the S&P 500
USD thousands, total return index



Sources: Yardeni Research (accessed 9 May 2023), Macrobond, and Fiscal Council workings. Get the data.