Ireland Outlook

February 2020

Economic Update

Bank of Ireland

Economy facing into uncertainty of the home-grown kind

With Brexit looming large and global trade tensions elevated, uncertainty was very much to the fore last year. This weighed on sentiment and tempered activity, though it looks like the Irish economy still put in a stellar performance. A full-year outturn figure for GDP isn't available for 2019 yet but based on the data to hand, an increase in the order of 5.8% is likely. The labour market tells a similar story, with employment at record levels and wages rising. These developments augur well for consumer spending in the period ahead and now that the UK has left the EU in an orderly manner – the revised Withdrawal Agreement provides for a 'status quo' transition period until end 2020 - as opposed to crashing out, some of the business investment that had been put on hold should get the green light. Add in an export-orientated multinational sector that is going strong and GDP is forecast to expand by 4.8% this year (+1.0 percentage point on our July number). Our first projection for 2021 sees further growth, albeit moderating to 3.6% as slack in the economy reduces and new trading arrangements with the UK kick in. Regarding the latter, we assume that only a limited deal, mainly covering goods, is struck between Downing Street and Brussels meaning higher trade frictions than currently and headwinds for exposed indigenous sectors. Another cloud on the horizon is the inconclusive outcome of the recent general election; in that the longer it takes to get clarity on a Programme for Government, the greater the risk that households and firms press the pause button on their spending plans. So uncertainty, just of a different kind, remains on the economic agenda.

Economic Overview

Bank of Ireland

Consumer

Retail sales (ex cars) ↑ **4.3%** YoY 2019

Confidence rebounding ✓

Households' income ↑

Debt ratio ↓

Investment

Construction activity ↑

House completions ↑ **18.3%** YoY 2019

FDI continuing

3/5 Three in five businesses plan to expand in next 1-3 years

Labour Market

Jobs ↑

Unemployment rate 4.8% January 2020

Net inward migration

Hourly earnings up **3.3%** YoY Q1-Q3 2019

Exports

Exports ↑ **12.1%** YoY Q1-Q3 2019

Trading partners growing

Global trade tensions ↓

€ ↓

Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2019e	5.8%	3.4%	42.8%	12.0%	2.9%	5.0%	0.9%
2020f	4.8%	3.0%	2.5%	7.0%	2.4%	4.6%	1.3%
2021f	3.6%	2.8%	2.2%	5.0%	1.8%	4.6%	1.8%

Risks

Stronger domestic momentum ↑

MNC activity ↑ ↓

Softer global growth ↓

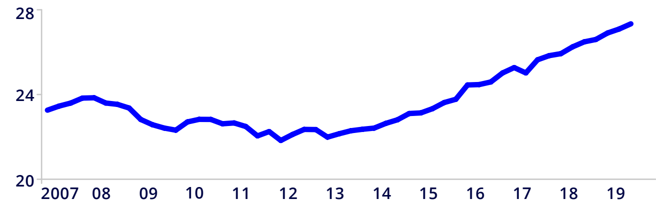
Brexit & domestic policy uncertainty ↓

Sources: Bank of Ireland, CSO, IDA, IMF, Bloomberg, Central Bank of Ireland

Consumer

Spending rising

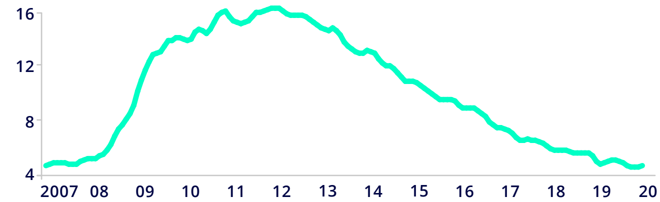
Consumer spending rose by 3.4% year-on-year in the first three quarters of last year and retail sales were solid in Q4. Car registrations have been muted though, with sector-specific factors likely to impact the market in 2020.



Consumer Spending (€bns, constant prices)
Source: CSO

Healthy labour market

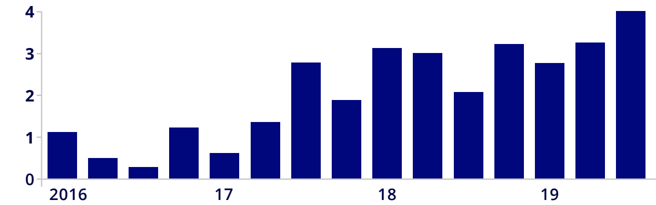
Continuing job creation - there was an annual gain of 65,000 or 2.9% in 2019 - has taken the number of people employed to over 2.3 million while the unemployment rate has fallen below 5%.



Unemployment Rate (%)
Source: CSO

Earnings on the up

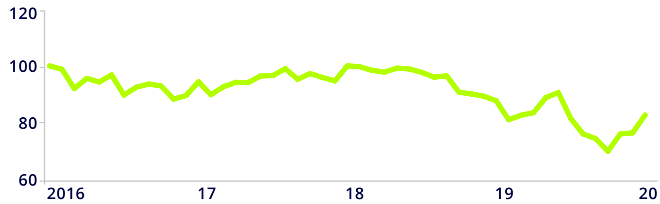
Hourly earnings growth averaged 3.3% year-on-year in Q1-Q3 2019 and with the labour market tightening, almost half of workers are expecting a pay rise this year while just over two in five firms plan on giving one.



Average Hourly Earnings (annual % change)
Source: CSO

Brexit worries ease

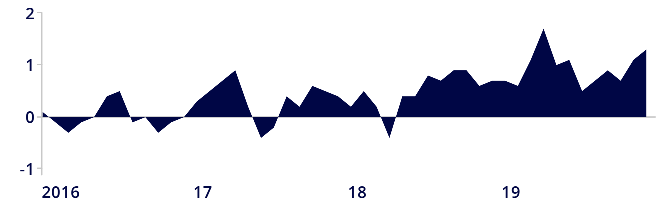
The Consumer Pulse posted an all-time low last October but with a 'no deal' Brexit avoided and a transition period applying until end 2020, the mood among households has taken a turn for the better lately.



Consumer Pulse (Jan 2016=100)
Source: Bank of Ireland

Some price pressures

Consumer price inflation picked up to 0.9% in 2019 and is expected to firm over the coming years as spare capacity in the economy reduces and more red tape in trade with the UK adds to costs.



Consumer Price Index (annual % change)
Source: CSO

Supportive environment

With Brexit-related uncertainty taking a back seat for now and ongoing job and wage gains providing support, further consumer spending growth is in prospect over the forecast horizon.

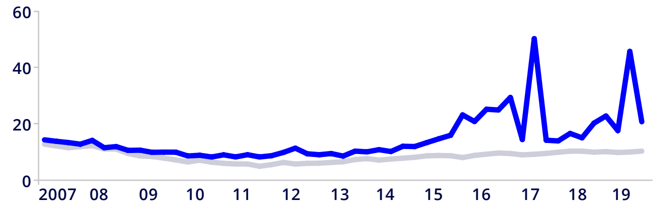
2019e	2020f	2021f
3.4%	3.0%	2.8%

Consumer Spending (annual % change, constant prices)
Source: Bank of Ireland

Investment

Globalisation distortions

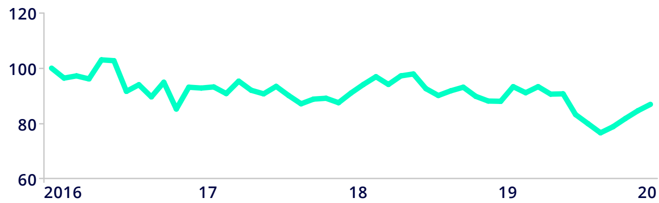
A sharp rise in R&D-related intellectual property imports boosted headline investment in the first three quarters of 2019, whereas the modified measure which excludes globalisation effects was down 1.5% year-on-year.



Total Investment Modified Investment (€bns, constant prices)
Source: CSO

Brexit uncertainty

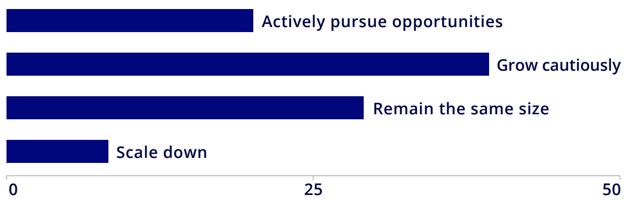
Last year's intense Brexit drama weighed on business sentiment and spending on machinery and equipment but with some of the fog lifting and global trade tensions also easing, the Business Pulse is trending up again.



Business Pulse (Jan 2016=100)
Source: Bank of Ireland

Business ambitions steady

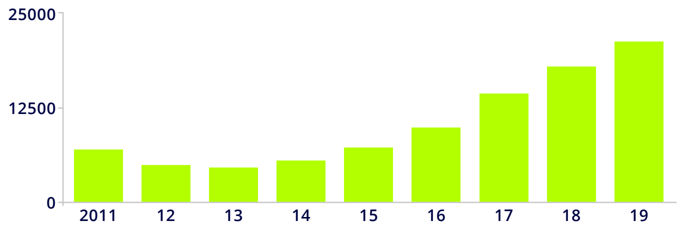
The majority of firms remain on a growth trajectory, with three in five planning to expand in the next one to three years, which bodes well for business investment over the forecast timeframe.



Business Ambitions Next 1-3 Years (% of firms)
Source: Bank of Ireland

Construction gains

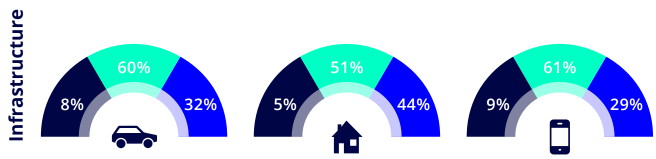
Total construction activity is continuing to increase, with housing leading the way. 21,241 new homes were completed in 2019 and starts data indicate that more will be coming on stream.



New Dwelling Completions (number of units)
Source: CSO

Infrastructure under strain

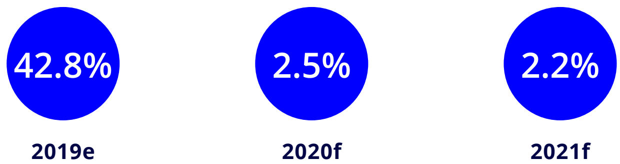
Years of solid growth means the country's infrastructure is feeling the pinch. Housing supply is still shy of demand, while many firms consider the transport and telecommunications networks to be sub-par.



More than Adequate Adequate Less than Adequate (% of firms)
Source: Bank of Ireland

Modest growth

Domestic policy uncertainty is set to tick up in the wake of the general election but with external policy uncertainty less elevated, investment growth is being pencilled in for this year and next.



Total Investment (annual % change, constant prices)
Source: Bank of Ireland

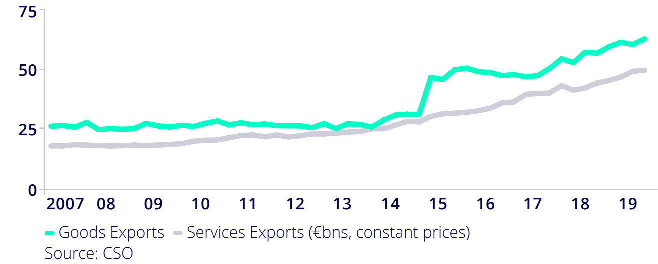
Exports

Exports going strong

Exports were up 12.1% on an annual basis in the first three quarters of last year, while imports increased by some 30% over the same period (a large chunk of this related to R&D intellectual property imports).

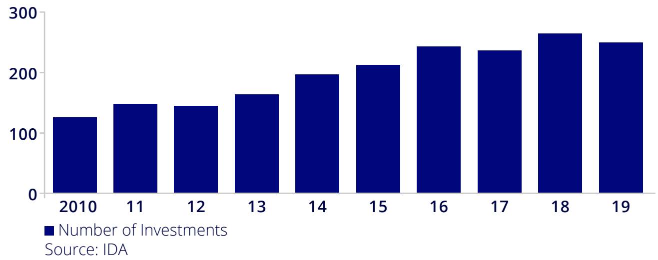
Growth on both fronts

Goods and services exports put in a robust performance in 2019, with the former up 10.7% year-on-year in Q1-Q3 buoyed by pharma-chemicals, and the latter - led by the multinational ICT sector - up 13.8%.



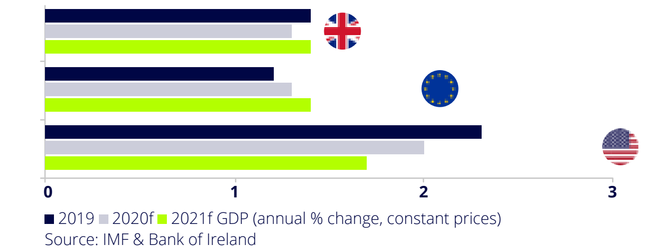
More FDI wins

FDI inflows continued last year. The IDA announced another 250 investments, adding to Ireland's hub status and supporting export-orientated business and jobs into the future.



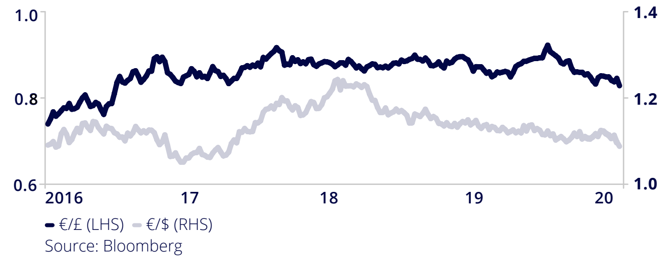
Trading partners expanding

The US and Euro area economies are growing and Irish firms have been making inroads into new markets like China, but changed trading arrangements from 2021 on will impact exports to the UK.



Weaker euro

Sterling has strengthened against the euro in recent months - from 92p during the summer to around 83p currently - providing some relief for Irish exporters, with the dollar also gaining ground vis-à-vis the single currency.



Favourable outlook

While the coronavirus is a downside risk for global activity, solid export growth is on the cards for 2020 and 2021, helped by the relatively acyclical nature of our product mix and some reduction in international trade tensions.

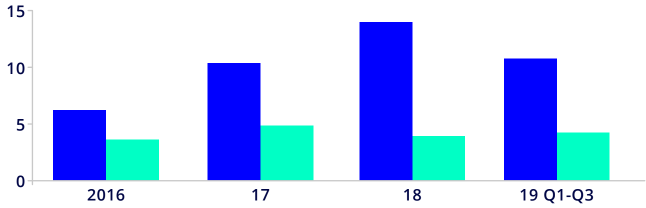
12.0%	7.0%	5.0%
2019e	2020f	2021f

Exports (annual % change, constant prices)
Source: Bank of Ireland

Overall Activity

Economy faring well

GDP growth averaged 5.9% year-on-year in Q1-Q3 2019 on the back of another out-performance by the foreign-owned multinational dominated sector and solid growth on the part of the domestic economy.



GVA ■ Foreign-Owned Multinational Dominated Sectors ■ Other
(annual % change, constant prices)
Source: CSO

Further gains in store

With the outlook for consumer spending, investment and exports positive in the main, GDP is projected to expand again this year and next, albeit the pace of growth is set to moderate somewhat.

5.8%	4.8%	3.6%
2019e	**2020f**	**2021f**

● GDP (annual % change, constant prices)
Source: Bank of Ireland

Headwinds aplenty

Risks to this picture abound and include the possibility that the economy starts to overheat and heightened Brexit uncertainty should the negotiations on the future EU-UK relationship run into trouble.

Risks

Upside / Two-way	Downside
Stronger domestic momentum ↑	Softer global growth ↓
MNC activity ↑ ↓	Brexit & domestic policy uncertainty ↓

Forecasts

	2019 (e)	2020 (f)	2021 (f)
Personal Consumption	3.4%	3.0%	2.8%
Government Consumption	4.2%	3.8%	3.3%
Investment	42.8%	2.5%	2.2%
Exports	12.0%	7.0%	5.0%
Imports	23.2%	6.0%	4.6%
GDP	5.8%	4.8%	3.6%
GNP	2.8%	3.8%	2.9%
Employment	2.9%	2.4%	1.8%
Unemployment Rate (Average)	5.0%	4.6%	4.6%
CPI	0.9%	1.3%	1.8%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices

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