Ireland Outlook

July 2021

Economic Update

Bank of Ireland

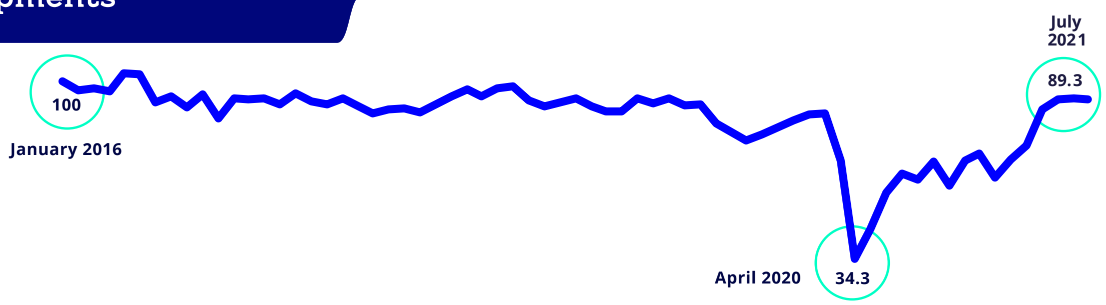
Domestic economy making a comeback

Recent months have seen a big push on the vaccination front and substantial progress in re-opening the Irish economy. Construction has returned, all retail and personal services are back in action, and hospitality has resumed albeit concerns about the Delta variant of COVID-19 led to a delay to the move indoors. High frequency data bear the hallmarks of these developments; they point to a rebound in domestic activity that got going in the second quarter of this year and that is continuing apace. When coupled with the strong first quarter GDP print – which came courtesy of another outperformance by the exporting pharmaceutical and ICT sectors – and assuming no more 'lockdowns', the upshot is an upward revision to our growth forecast for 2021 as whole. GDP is now projected to increase by 9.0% this year (versus 5.8% in May) and by 6.2% in 2022. Looking behind the headline numbers, pent up demand and some unlocking of excess household savings are expected to shore up consumer spending, while investment and exports are set to benefit from reduced uncertainty and the global recovery underway. With respect to the latter, positive spill-overs to Ireland from the huge US fiscal stimulus are likely, while the Government here has committed to boosting capital spending. Policy supports at home are also helping to get businesses back on their feet and people back into jobs. There are risks to this outlook of course, not least the potential for further pandemic and post-Brexit related disruption. On the other hand, it could be that momentum in the domestic economy proves stronger than we have factored into our forecasts.

Economic Overview

Recent Developments

Economic sentiment above pre-pandemic level



Successful vaccine rollout, restrictions eased

Domestic economy in recovery mode

1/3 of households think it is a good time to make major purchases

Unemployment rate to **18.3%**
COVID-19 adjusted June 2021

3 in **5** businesses plan to expand in the next 1-3 years

Brexit after-effects

Global economy on the up

FDI continuing apace

Outlook

	GDP	Consumer Spending	Modified Investment	Exports	Employment	Unemployment Rate	Inflation
2020	5.9%	-10.4%	-3.6%	9.5%	-16.9%	19.4%	-0.3%
2021f	9.0%	5.0%	6.0%	10.0%	-0.4%	18.6%	1.4%
2022f	6.2%	8.2%	8.5%	6.3%	18.5%	7.5%	1.8%

Growth broadening out beyond exports

Consumption & investment back in the mix

Labour market mending but costs rising

Risks

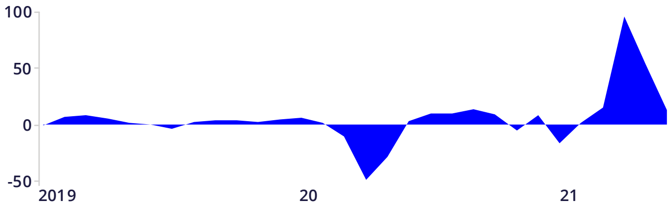
- Delta blues
- Pent up demand

Sources: Bank of Ireland, CSO, Government of Ireland, EU Council, IMF, IDA

Consumer

Spending resuming

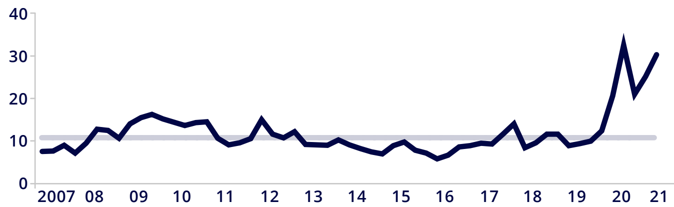
Consumer spending was down 5.9% quarter-on-quarter in Q1 2021 but retail sales are increasing again now that public health restrictions have been substantially eased.



Retail Sales (annual % change, volume)
Source: CSO

Savings at a high level

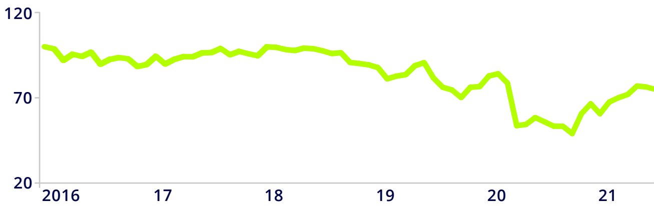
With spending avenues opening up, some of the excess savings accumulated by households during lockdown periods are set to unwind, providing an added impetus to consumption.



Household Savings Ratio (%, seasonally adjusted) Average 2007-2019
Source: CSO

Cautious optimism

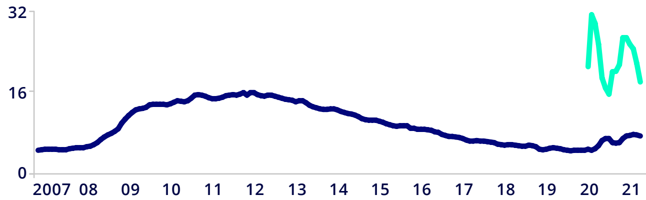
The vaccine rollout and re-opening of the country have done much to lift consumer confidence, albeit concerns about the Delta variant of the virus look to have tempered the mood a little lately.



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

Unemployment falling

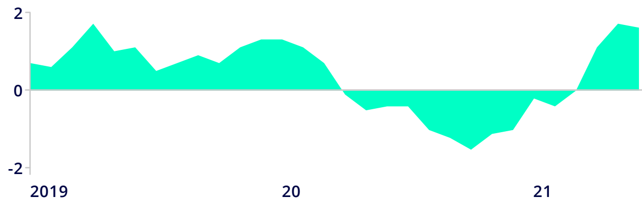
The COVID-19 adjusted unemployment rate stood at 18.3% in June, down from 27% in February, and is set to fall further over the coming months and into next year as the economy moves on to a surer footing.



Unemployment Rate COVID-19 Adjusted Unemployment Rate (%)
Source: CSO

Prices under pressure

Annual consumer price inflation moved back into positive territory in Q2, and with pent up demand, post-Brexit red tape and base effects at play, is expected to stay there over the forecast horizon.



Consumer Price Index (annual % change)
Source: CSO

Positive outlook

A rebound in consumer spending is on the cards for 2021 and 2022 as the economy continues to reboot, the labour market improves and households reduce savings.

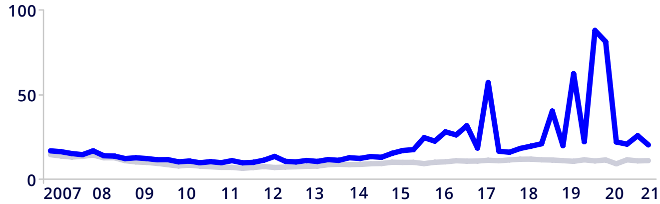
-10.4%	5.0%	8.2%
2020	2021f	2022f

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

Investment

Weak start to the year

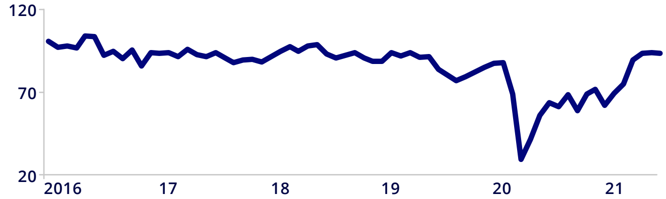
Total investment - which includes R&D intellectual property imports and aircraft leasing - fell sharply in the year to Q1 2021, with the modified measure – which excludes these components - down 2.1%.



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

Business confidence returns

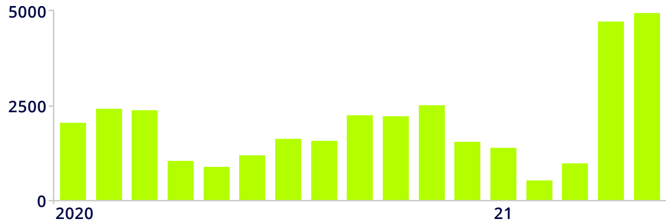
The easing of public health restrictions over the past few months has bolstered business sentiment, with the Industry, Services, Retail and Construction Pulses now all above their pre-COVID levels.



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

Homebuilding picking up

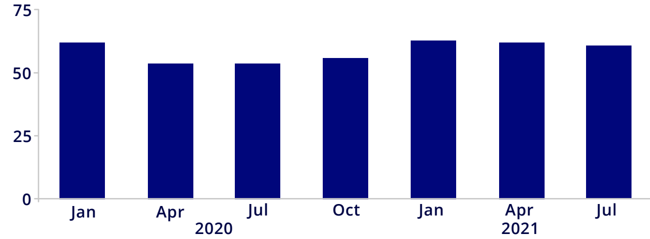
Almost 9,000 new houses were completed in the first half of the year (up 9.7% on the same period in 2020), while the big jump in starts since builders got back on site bodes well for supply next year.



Housing Starts (number of units)
Source: Department of Housing, Local Government and Heritage

Growth ambitions

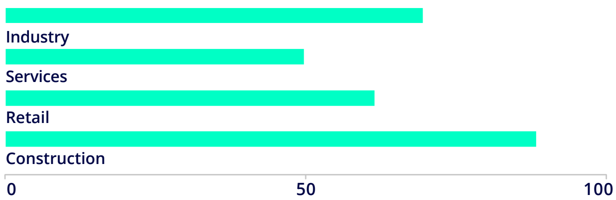
With the re-opening of the domestic economy becoming embedded and increasing opportunities overseas, three in five firms are planning on expanding in the next one to three years.



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

Rising costs

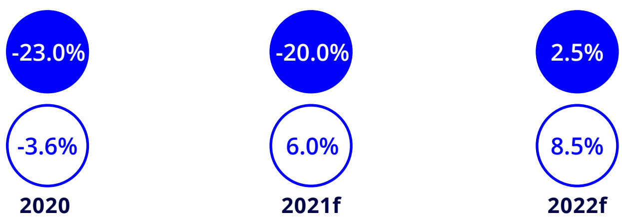
Pandemic and post-Brexit related disruption has given rise to various bottlenecks - businesses are struggling with material, equipment and space shortages as well as staffing shortfalls - and is adding to costs.



Non-Labour Input Costs Past 3 Months (% of firms reporting an increase)
Source: Bank of Ireland

Brighter picture

Globalisation effects are set to dampen headline investment again this year but modified investment is projected to increase in 2021 and 2022 as the recovery takes hold and government capital spending comes on stream.

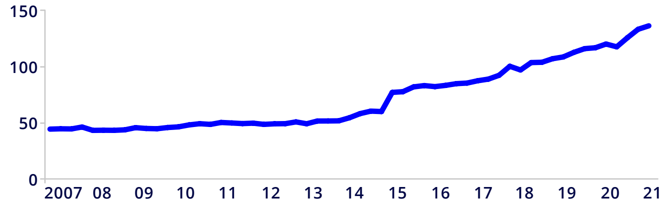


Total Investment Modified Investment (annual % change, constant prices)
Source: CSO & Bank of Ireland

Exports

Robust MNCs

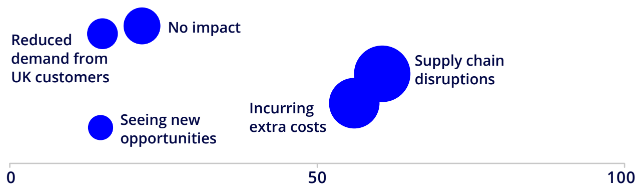
Buoyed by the pharmaceutical and ICT sectors, exports put in another very good performance in the first quarter of 2021, expanding by 14.4% on an annual basis.



Exports (€bns, constant prices)
Source: CSO

Post-Brexit disruption

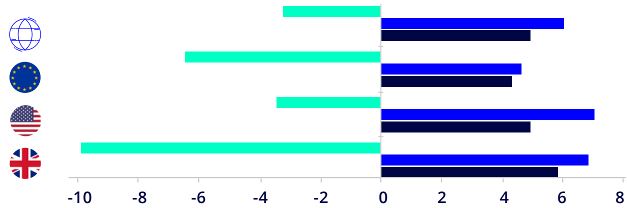
Implementation difficulties related to the new UK-EU trade agreement have taken a toll on imports though, with the value of goods coming in from Great Britain down some 35% year-on-year in the January to May period.



Main Business Impacts of New UK Trading Arrangements (% of firms)
Excludes firms Brexit is not relevant for
Source: Bank of Ireland

Global economy on the mend

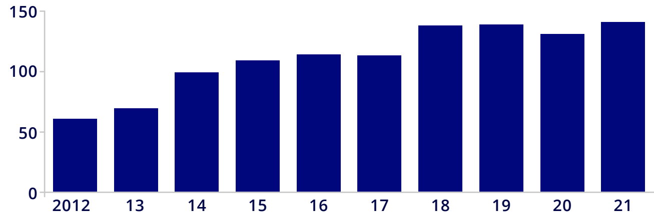
Helped by accommodative fiscal and monetary policies, our main trading partners are back on a growth path after the COVID-19 shock pushed them and the world economy into deep recession in 2020.



GDP 2020 2021f 2022f (annual % change, constant prices)
Source: IMF & Bank of Ireland

FDI continuing

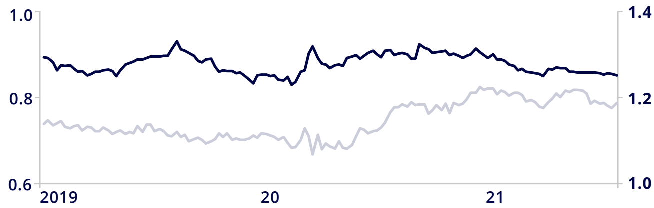
The IDA secured another 142 foreign direct investments in the first half of the year but proposed changes to international corporation tax arrangements pose a challenge for the public finances going forward.



Number of Investments (first half of year)
Source: IDA

Limited currency moves

With the US recovery further ahead, the euro has weakened a little against the dollar - to the benefit of Irish exporters - while it has been trading in a relatively narrow range against the pound recently.



€/£ (LHS) €/$ (RHS)
Source: Bloomberg

Good prospects

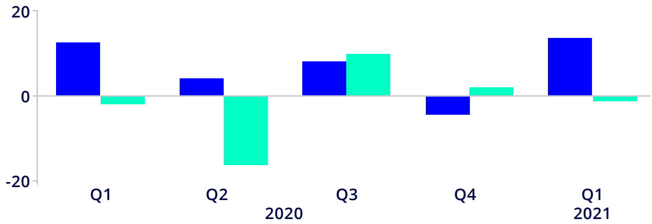
Post-Brexit trade frictions aside, the global upturn and the resilience of Ireland's product mix augur well for strong export growth over the forecast horizon.

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

Overall Activity

Tale of two economies

With many domestic sectors locked down in Q1 2021, it was the foreign-owned multinational dominated sector that drove the 8.6% quarter-on-quarter increase in GDP.



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

Growth broadening out

The combination of the strong Q1 outturn, healthy exports and the rebound in domestic activity now underway means robust GDP growth is in prospect for this year as a whole, with further gains expected in 2022.

5.9%	9.0%	6.2%
2020	**2021f**	**2022f**

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

Mixed bag of risks

The Delta variant of COVID-19 is a downside risk, as are Brexit after-effects and global tax reform, while upside risks include pent up demand which could deliver a bigger than expected boost to the economy.

Risks

- Pent up demand
- MNC activity
- Virus mutations
- Post-Brexit trade frictions

Forecasts

	2020	2021 (f)	2022 (f)
Personal Consumption	-10.4%	5.0%	8.2%
Government Consumption	10.9%	3.0%	3.0%
Total Investment	-23.0%	-20.0%	2.5%
Exports	9.5%	10.0%	6.3%
Imports	-7.4%	-2.6%	5.4%
GDP	5.9%	9.0%	6.2%
GNP	3.4%	7.2%	6.4%
Employment	-16.9%	-0.4%	18.5%
Unemployment Rate (Average)	19.4%	18.6%	7.5%
CPI	-0.3%	1.4%	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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