

Ireland Outlook

April 2022

Economic Update

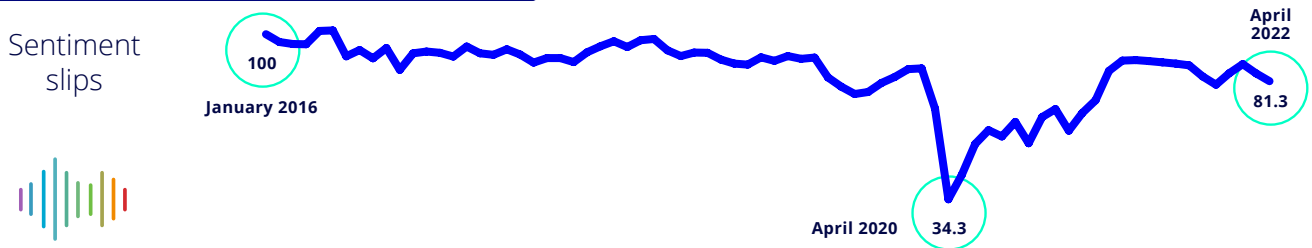


Bank of
Ireland

Lower but still healthy growth

Having expanded apace last year, the Irish economy remains on a positive trajectory in the main. As the COVID-19 fog lifts, increases in consumer and business spending are in prospect for this year and next, albeit the inflationary environment is a headwind for households and firms alike. Existing price and cost pressures are being exacerbated by Russia's invasion of Ukraine, which has led to a humanitarian disaster and clouded the outlook for the world economy. The fallout from the war - increased uncertainty, higher global energy and non-energy commodity prices, and the spill-over effects of sanctions to growth in key trading partners - will dampen activity here too and has prompted some revisions to our forecasts. Compared with February's update, GDP has been lowered; growth in the region of 6.0% and 5.0% is now envisaged for 2022 and 2023 respectively (-1½ and -½ percentage points), while consumer price inflation has been upped; to 6.5% on average this year and 3.5% next year (+1.8 and +1.0 percentage points). Energy prices are assumed to come down in line with the futures market as of late April though and bottlenecks are also expected to abate over the projection horizon. And with the domestic economy benefiting from the removal of pandemic-related restrictions, public infrastructure projects coming on stream, and the exporting multinational sector doing well, further job gains are on the cards. There are risks to this outlook of course, not least the fraught geopolitical situation which, inter alia, could result in more restrictions on the supply of oil and gas from Russia.

Recent Developments



Public health restrictions removed



Excess savings unwinding



Spike in global energy prices



Inflation

@ 6.7%

YoY March 2022

5669 New Dwellings Completed



Q1 2022

55%

of businesses plan to expand in the next 1-3 years

Brexit after-effects



Ongoing FDI



Outlook

	GDP	Consumer Spending	Modified Investment	Exports	Employment	Unemployment Rate	Inflation
2021	13.5%	5.7%	9.7%	16.6%	6.0%	6.2%	2.4%
2022f	6.0%	6.7%	7.5%	7.0%	4.0%	5.5%	6.5%
2023f	5.0%	4.7%	6.5%	6.0%	2.0%	5.2%	3.5%

War cloud descends as COVID fog lifts

Job gains to continue, inflation a headwind

Lower but still healthy economic growth

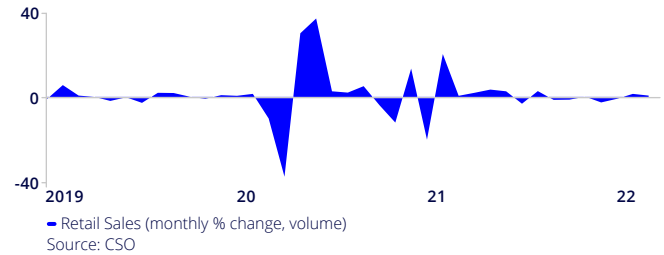
Risks

- Geopolitics
- COVID-19 setbacks

Consumer

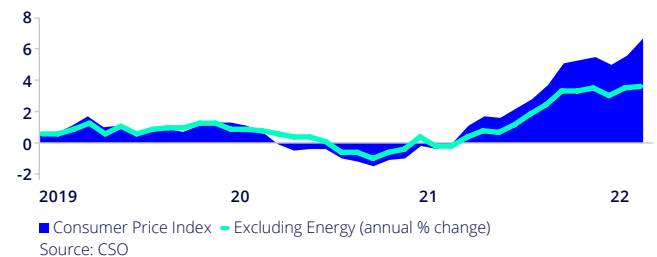
Spending increasing

Consumer spending sounded a soft note around the turn of the year as Omicron spread, but with public health restrictions lifted in full, retail sales were up on the month in February and March.



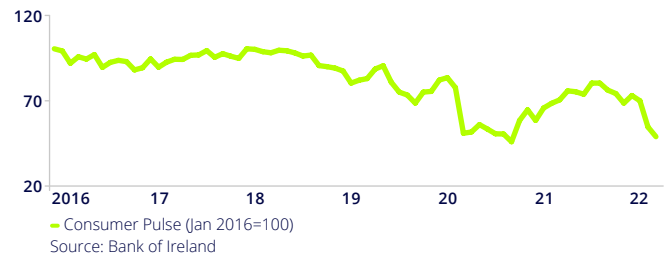
Elevated inflation

Consumer price inflation has risen sharply in recent months and is squeezing purchasing power, though Government measures to mitigate high energy costs will provide some relief.



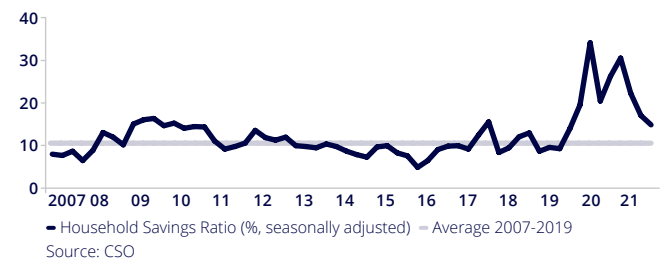
Sentiment taking a hit

The war in Ukraine has shaken households' confidence about the economy and added to cost of living woes, with the April reading of the Consumer Pulse not far off its COVID-19 low point.



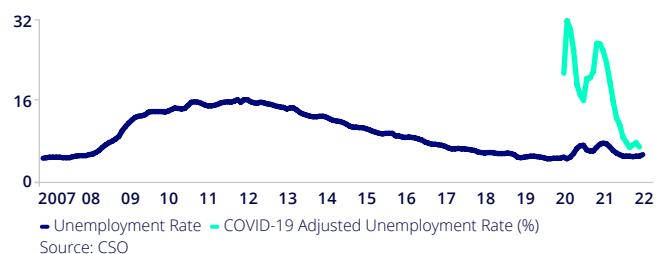
Healthy balance sheets

There is scope for more of the excess savings accumulated during the pandemic to unwind, while after over a decade of deleveraging, household debt has dipped below 100% of disposable income.



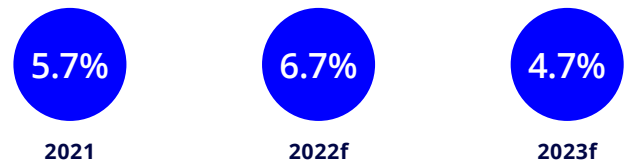
Labour market improving

Continuing employment gains - a new peak of 2.5 million people in jobs was reached in Q4 2021 - should take unemployment close to its pre-pandemic rate by the end of the forecast horizon.



Further growth

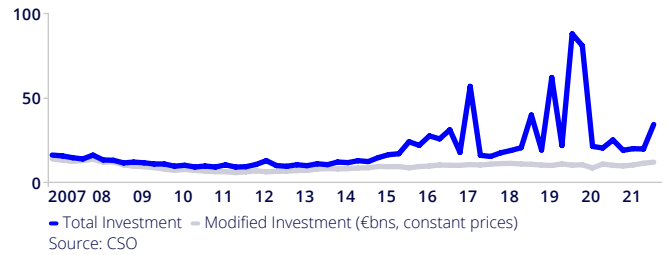
Inflation headwinds notwithstanding, increases in consumer spending are projected for this year and next supported by additional job creation and the normalisation of the savings ratio.



Investment

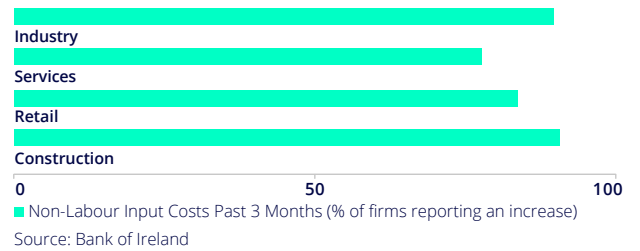
Globalisation effects

Total investment contracted in 2021, whereas the modified measure - which excludes R&D-related intellectual property imports and aircraft leasing - rebounded, rising by 9.7% on an annual basis.



Challenging environment

Existing disruption to supply chains and upward pressure on costs is being exacerbated by the war in Ukraine, while over a third of firms are struggling with labour shortages at present.



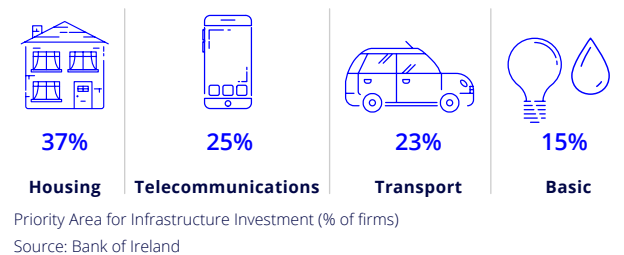
Confidence eases

Even though firms have tempered their expansion plans a little and the Business Pulse has lost some ground of late, sentiment is proving relatively resilient and remains above its pre-pandemic level.



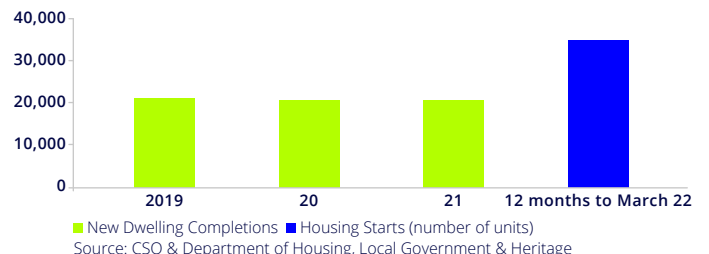
Infrastructure needs

The National Development Plan provides for a major programme of public works this decade, with housing topping the list of priorities for businesses, followed by telecommunications and transport.



Homebuilding on the cards

Just over 20,000 new homes were built last year and commencements data point to a higher number this year, though cost and capacity issues in the construction sector mean supply still won't meet demand.



Room to grow

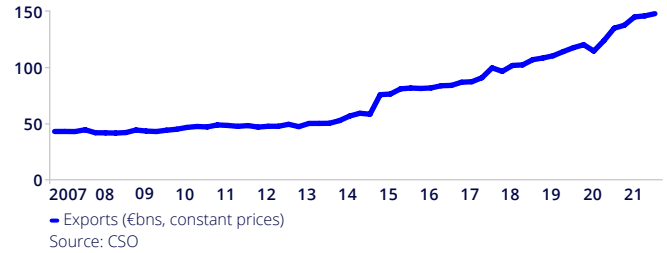
Current strains and uncertainty will be a drag, but with the expanding economy spurring the private sector and government capital spending helping, investment is forecast to rise in 2022 and 2023.



Exports

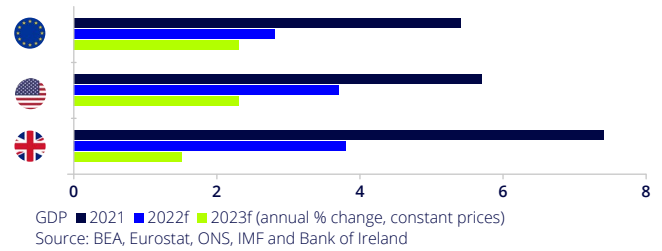
Strong run continuing

The value of goods exports rose by 25% year-on-year in the January to February period, buoyed by the performance of both the pharma-chemicals and the more indigenous food sectors.



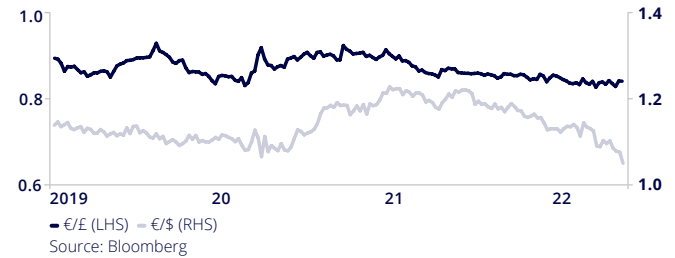
Weaker external outlook

Although direct trade links with Russia and Ukraine are limited in aggregate, the war is a setback for the world economy, with slower growth now envisaged for each of our main export markets.



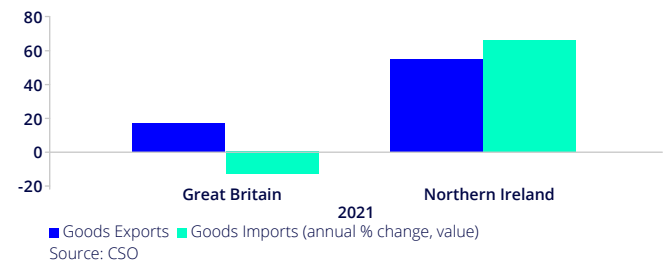
Euro on the back foot

Geopolitics and the Fed's interest rate 'lift-off' have contributed to the single currency's recent slide against the dollar – a positive for Irish exporters – though it has been fairly stable against the pound.



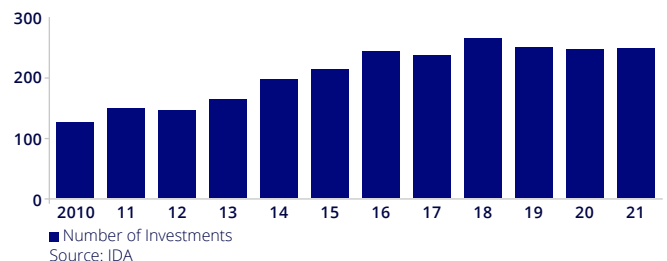
Brexit after-effects

It is difficult to disentangle Brexit and COVID impacts but the shift in trade patterns last year likely owes something to the imposition of new customs arrangements by the EU. As for this year, UK checks on Irish goods are pending.



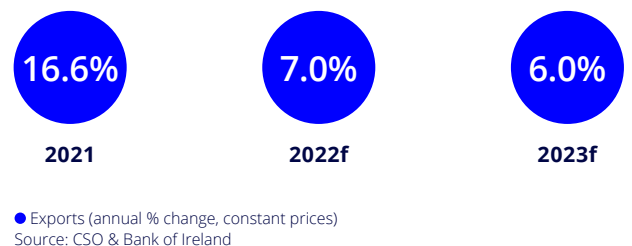
Record FDI jobs

The IDA reported another 249 foreign direct investments in 2021 and the highest job creation figures ever in a single year, taking the number directly employed by multinational companies to over 275,000.



Decent prospects

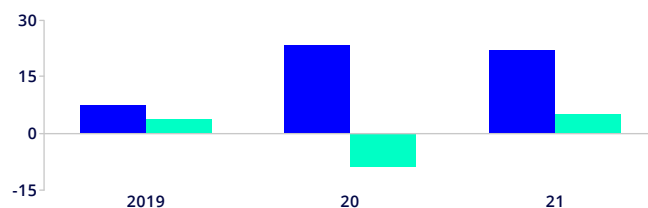
While Ireland is a small open economy and sensitive to what happens to global trade, the robustness of our export model means solid growth on this front is expected over the forecast horizon.



Overall Activity

Growth broadening out

Last year's GDP print was underpinned by increased activity domestically as well as in foreign-owned multinational dominated sectors, with high-frequency data painting a similar picture for Q1 of this year.



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

Source: CSO

Cloudier outlook

Economic growth in 2022 and 2023 has been revised down on the back of the fallout from the war in Ukraine, though GDP is still forecast to expand at a healthy pace as the recovery from the pandemic continues.

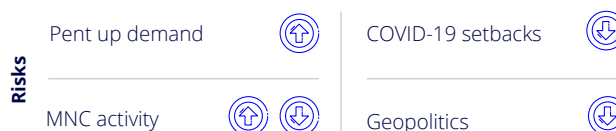


● GDP (annual % change, constant prices)

Source: CSO & Bank of Ireland

Risks abound

A further escalation of geopolitical conflict, tensions over the Northern Ireland protocol and new virus waves are all downside risks for the economy at this time, whereas pent up demand is an upside risk.



Forecasts

	2021	2022 (f)	2023 (f)
Personal Consumption	5.7%	6.7%	4.7%
Government Consumption	5.3%	0.0%	2.5%
Total Investment	-37.6%	7.5%	5.0%
Exports	16.6%	7.0%	6.0%
Imports	-3.7%	7.3%	6.0%
GDP	13.5%	6.0%	5.0%
GNP	11.5%	6.0%	4.8%
Employment	6.0%	4.0%	2.0%
Unemployment Rate (Average)	6.2%	5.5%	5.2%
CPI	2.4%	6.5%	3.5%

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

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