# Ireland Outlook

July 2022

Economic Update

Bank of Ireland

# Growth in uncertain times

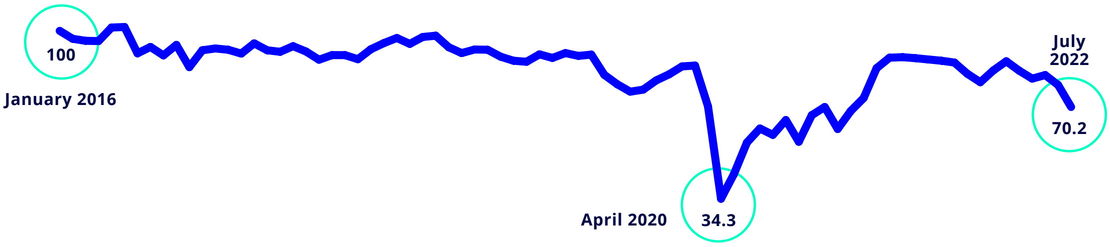
Recent shocks to the Irish economy – Brexit, the COVID-19 virus and Russia's invasion of Ukraine – have been idiosyncratic in nature and their after-effects are still playing out, meaning uncertainty surrounding the outlook is high. The removal of pandemic-related restrictions earlier this year is a tailwind and employment has rebounded strongly, but the recent deterioration in UK-EU relations is a headwind and elevated global energy and other commodity prices as a result of the war are adding to inflation. So after expanding apace in the first quarter of this year, economic activity is set to slow over the coming months. 'Cost of living' supports aside, the squeeze on households' purchasing power and challenging costs and sourcing backdrop for businesses is weighing on confidence, and with the ECB joining the other major central banks in hiking interest rates, financing conditions are becoming less favourable. This points to some softening in consumer spending and investment ahead, though increases are still expected over the forecast horizon underpinned by a further unwinding of excess savings and job gains, along with the need to build more houses and boost productive capacity. On the export front, while Ireland is a small open economy and will be impacted by what happens to global trade, sectors such as pharma-chemicals and ICT are likely to continue doing well. For 2022 as a whole, GDP is forecast to expand by 9.2%, with growth of 4.0% pencilled in for 2023 (a downward revision of 1 percentage point from April's update). Reflecting the buffeting that the wholesale gas market in particular is taking, consumer price inflation is now expected to average 8.3% this year and 5.8% next year (upwardly revised by just under and just over 2 percentage points respectively), with the path for energy prices more generally a key risk.

# Economic Overview

Bank of Ireland

## Recent Developments

Sentiment softening




Post-restrictions tailwinds

Record **2.5** million people in jobs

Inflation @ 9.1% YoY June 2022

Cost of living supports

½ of businesses plan to expand in the next 1-3 years

Ongoing **FDI**

Uncertain global outlook

ECB Refi Rate to 0.5% at July 2022 meeting

## Outlook

| | GDP | Consumer Spending | Modified Investment | Exports | Employment | Unemployment Rate | Inflation |
|---|---|---|---|---|---|---|---|
| 2021 | 13.6% | 4.6% | 8.2% | 14.1% | 6.0% | 6.2% | 2.4% |
| 2022f | 9.2% | 5.2% | 7.0% | 12.0% | 7.0% | 4.9% | 8.3% |
| 2023f | 4.0% | 3.2% | 4.0% | 5.2% | 1.8% | 5.1% | 5.8% |

GDP growth in uncertain times

War fallout tempering pandemic recovery

Inflation biting but further job gains

### Risks

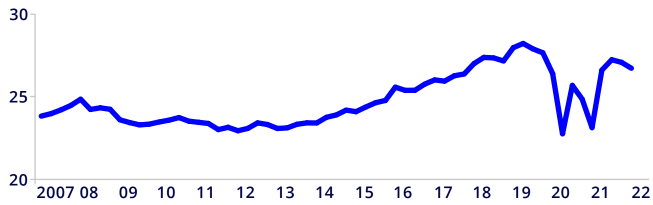
- Geopolitics
- COVID-19 setbacks

Sources: Bank of Ireland, CSO, Government of Ireland, IDA, IMF, ECB

# Consumer

## Mixed picture

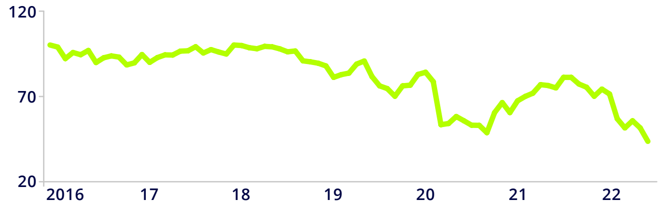
Consumer spending has been benefitting from post-restrictions tailwinds and vigorous employment growth in Q1 2022, though monthly data show some softening in retail sales of late.




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

## Confidence at a low ebb

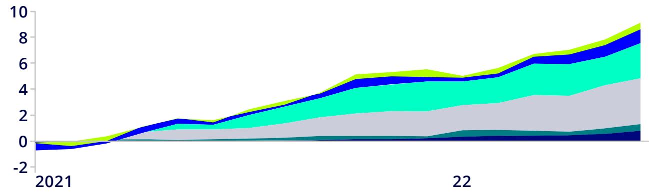
With households feeling the pinch from higher prices and also fretting about the general economic situation, the Consumer Pulse headed south again in July, posting a reading below its COVID-19 nadir.




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

## Increased cost of living

Around €2.4 billion in government support has been provided to help mitigate the impact of elevated consumer price inflation – the annual rate stood at 9.1% in June - with more to come in September's budget.

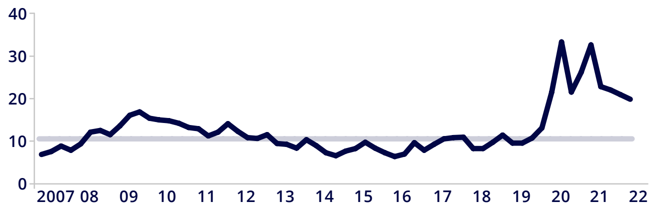



Housing, Water & Energy Transport Food Alcohol Restaurants & Hotels
All Other (annual CPI change, percentage point contribution)

Source: CSO

## Savings buffer

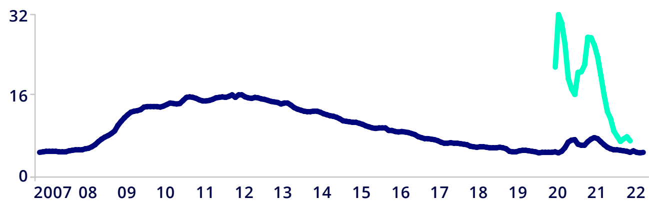
While the savings ratio has normalised somewhat as public health measures have been lifted, it remains well above its long term average and so should cushion the inflation blow for some households.




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

## Tight labour market

62% think it is easy to find or change job currently and with the unemployment rate in and around pre-pandemic levels, wage increases are in prospect, albeit these are set to be outpaced by price rises.




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

## Easing ahead

Helped by employment gains, consumer spending is forecast to increase in 2022 and 2023 but at a slower pace than previously expected amid upward pressure on energy costs and interest rates.

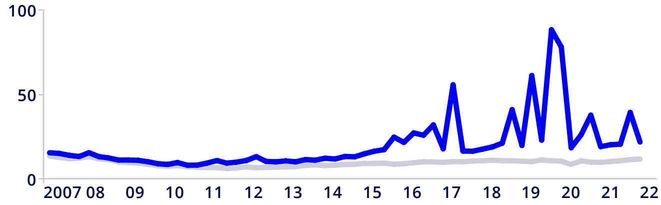
| 4.6% | 5.2% | 3.2% |
|---|---|---|
| **2021** | **2022f** | **2023f** |

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

# Investment

## Positive start

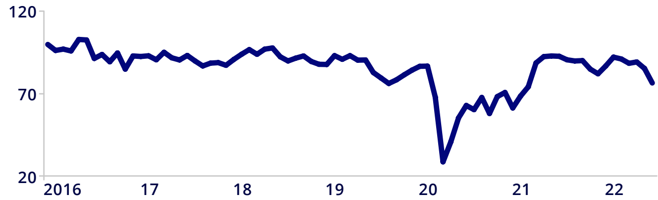
Both total investment and the modified measure which adjusts for globalisation effects (i.e. R&D-related intellectual property imports and aircraft leasing are excluded) registered double digit growth in the year to Q1 2022.




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

## Sentiment slips

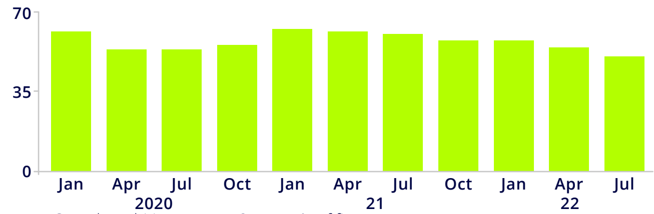
June saw the Business Pulse dip below its pre-pandemic level for the first time in 2022, and with firms more circumspect about activity, the index fell again in July to a sixteen month low.




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

## Uncertainty at play

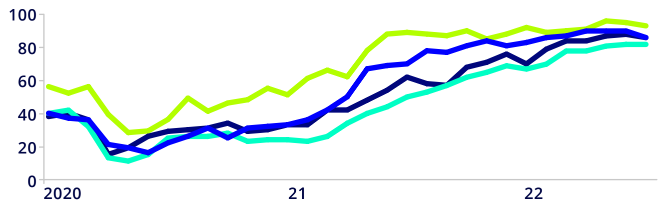
The war in Ukraine, monetary policy tightening and the ratcheting up of UK-EU tensions over the workings of the Northern Ireland Protocol have contributed to a tempering of business expansion plans.




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

## Some respite

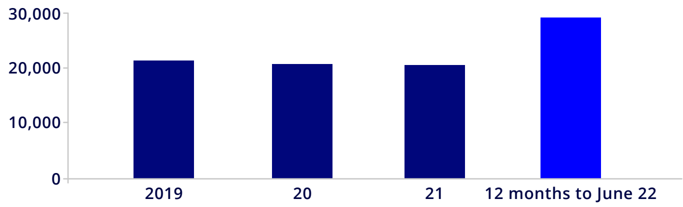
The share of firms struggling with material, equipment and space shortages has edged lower and non-labour input costs – while still elevated - look to be stabilising, tentatively pointing to an easing in supply chain strains.




Non-Labour Input Costs Industry Services Retail Construction
(% of firms reporting an increase over the past 3 months)
Source: Bank of Ireland

## Homebuilding on the up

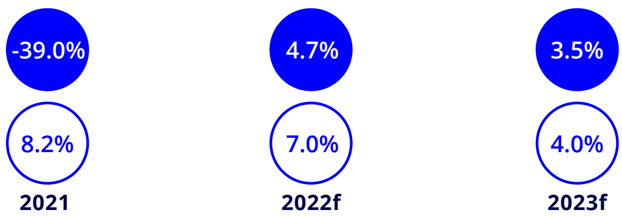
Labour constraints in the construction sector are one of the reasons why new house completions this year are likely to number 25,000 or so, less than suggested by the commencements data but up on 2021.




New Dwelling Completions Housing Starts (number of units)
Source: CSO & Department of Housing, Local Government & Heritage

## Cloudier outlook

Investment growth is on the cards for this year and next as the domestic economy expands and FDI lends support, though heightened uncertainty means the outlook is not quite as bright as before.

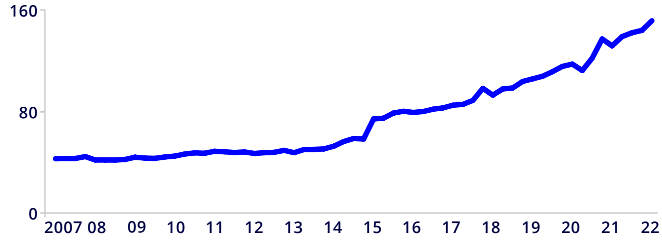



Total Investment Modified Investment (annual % change, constant prices)
Source: CSO & Bank of Ireland

# Exports

## Rapid expansion

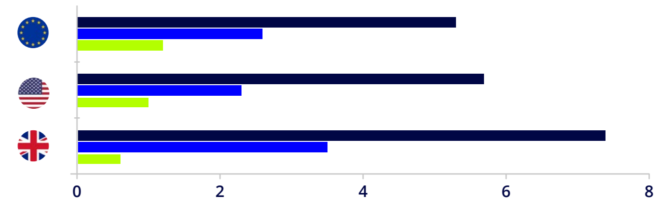
Exports of goods and services rose by 14.8% in Q1 2022, a strong year-on-year performance that continued into April and May on the goods side according to available high frequency trade data.




Exports (€bns, constant prices)
Source: CSO

## External headwinds

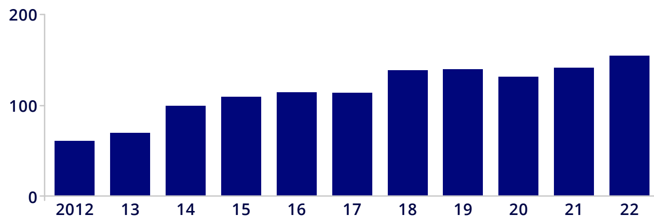
Global growth is set to slow over the forecast horizon with the risks to the downside, especially for the EU which is experiencing disruption to gas supplies from Russia and preparing for flows to fully stop.




GDP ■ 2021 ■ 2022f ■ 2023f (annual % change, constant prices)
Source: BEA, Eurostat, ONS, IMF & Bank of Ireland

## FDI going strong

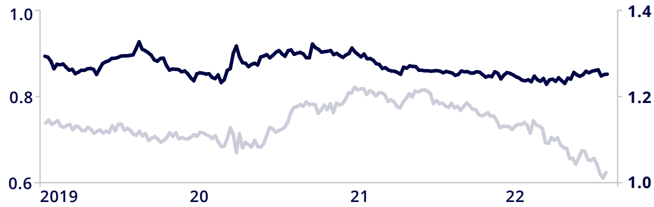
The IDA announced 155 new investments in the first six months of 2022, the strongest ever for a half year period, and said the pipeline for the second six months is relatively positive all things considered.




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

## Sterling steady

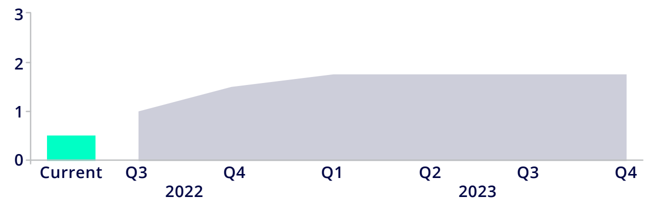
Prime Minister Johnson's resignation has triggered a leadership election in the UK Conservative Party but has had little impact on the pound, which has been trading in a narrow range against the euro for some time.




€/£ (LHS) €/$ (RHS)
Source: Bloomberg

## Weaker euro

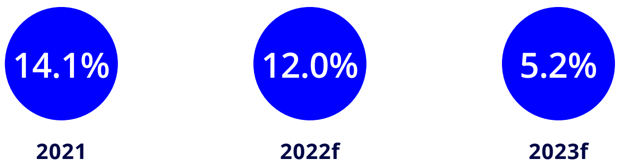
The single currency's recent slide against the dollar is a boon for Irish exporters, though ECB interest rate hikes should help it to recover some ground later this year and into next.




■ ECB Main Refinancing Rate (%) ■ Market Expectations
Source: ECB & Bloomberg

## Healthy prints

Notwithstanding the soft patch in store for our main trading partners – the UK, US and Euro area - robust export growth is projected for 2022, followed by some moderation in 2023.

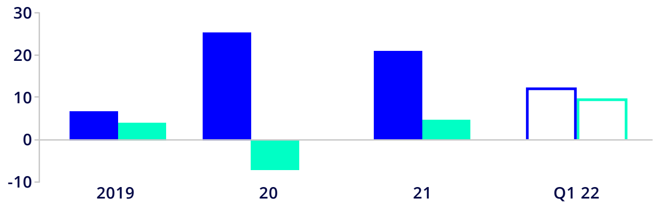



● Exports (annual % change, constant prices)
Source: CSO & Bank of Ireland

# Overall Activity

## Strong Q1 outturn

While the 10.7% year-on-year and 6.3% quarter-on-quarter increases in GDP in Q1 2022 owed much to the foreign-owned MNC dominated sector, non-MNC dominated sectors of the economy also made a positive contribution.




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

## Losing momentum

The Q1 outturn implies high single-digit GDP growth this year, even as the pace of economic activity slows over the coming months and into next year as the fallout from the war tempers the recovery from the pandemic.

| 13.6% | 9.2% | 4.0% |
|---|---|---|
| **2021** | **2022f** | **2023f** |

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

## Risks aplenty

A further escalation of the geopolitical conflict and new virus waves, which could see fresh lockdowns in China, are among the downside risks; on the upside, the exporting pharma-chemicals and ICT sectors could beat expectations.

**Risks**

| | |
|---|---|
| Pent up demand ⇧ | COVID-19 setbacks ⇩ |
| MNC activity ⇧ ⇩ | Geopolitics ⇩ |

# Forecasts

| | 2021 | 2022 (f) | 2023 (f) |
|---|---|---|---|
| Personal Consumption | 4.6% | 5.2% | 3.2% |
| Government Consumption | 6.5% | 1.0% | 2.5% |
| Total Investment | -39.0% | 4.7% | 3.5% |
| Exports | 14.1% | 12.0% | 5.2% |
| Imports | -8.3% | 10.0% | 5.0% |
| GDP | 13.6% | 9.2% | 4.0% |
| GNP | 14.7% | 8.6% | 3.3% |
| Employment | 6.0% | 7.0% | 1.8% |
| Unemployment Rate (Average) | 6.2% | 4.9% | 5.1% |
| CPI | 2.4% | 8.3% | 5.8% |

*Assumes ECB Refi Rate of 2.0% at end-2023*
*Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices*

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