

# Ireland Outlook

May 2023

## Economic Update

### Domestic economy perking up

While high frequency data have been generally indicative of economic expansion during Q1, the early estimate of GDP for the quarter disappointed to the downside coming in at -2.7% quarter-on-quarter. This, however, seems to be driven by multinational activity and indeed it is evident from industrial production data that there was a slowdown in output growth during Q1. This sector can be volatile from time to time so it's far too early to be concerned, and we could well see a rebound over the rest of the year. Nonetheless, taking account of the poor initial outturn we have reduced our headline GDP forecast to 6.0% this year (from 7.0% in our February forecast) and to 5.0% (from 6.0%) in 2024.

Other data have been much more encouraging. The labour market is continuing to perform well with employment increasing by 4.1% year-on-year in Q1 and the unemployment rate dropping to 3.9% in April 2023, its lowest reading since the early 2000s. Indeed, the labour market situation illustrates that the domestic economy is holding up quite well and combined with an increase in retail sales in Q1, we have bumped up our modified domestic demand forecasts to 2.5% (from 1.5%) and 3.5% (from 3.0%) in 2023 and 2024 respectively. Energy prices are dropping on wholesale markets and, with prices at the pump falling too, headline inflation rates are coming back. We do expect inflation to continue to moderate over the forecast horizon even though core inflation excluding energy remains stubbornly sticky for now.

|                          | 2022  | 2023(f) | 2024(f) |
|--------------------------|-------|---------|---------|
| GDP                      | 12.0% | 6.0%    | 5.0%    |
| Modified Domestic Demand | 8.2%  | 2.5%    | 3.5%    |
| Employment               | 6.6%  | 2.5%    | 1.5%    |
| Unemployment             | 4.5%  | 4.0%    | 4.0%    |
| CPI                      | 7.8%  | 6.0%    | 3.3%    |



Bank of  
Ireland

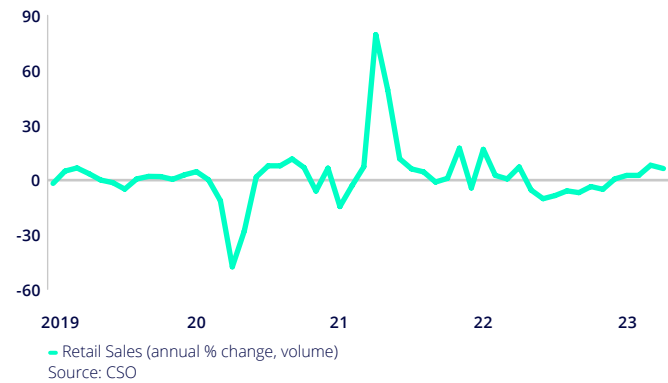
## Consumer

### Confidence coming back

Consumers have been beset by cost of living issues over the past year but there were signs of a nascent recovery in consumer spending during Q1. Consumer sentiment has picked up from its lows of last autumn to a 14 month high of 62.4 in May, though it still remains at a relatively low ebb while the volume of retail sales was up 5.3% year-on-year in Q1. Consumers seem to be helped by a solid labour market and inflation rates that are finally easing back.

### Spending to increase

However, there remain headwinds for households over the rest of the year that may temper spending. Inflation, while easing, is likely to remain elevated and eat into real incomes for a time yet and the interest rate environment – and by extension mortgage and other borrowing rates – are significantly higher for households to bear than compared to 12 months ago. On the flip side, there is also significant household savings – combined with relatively low debt levels – that will lend support with our view remaining that we will see a modest increase in consumer spending.



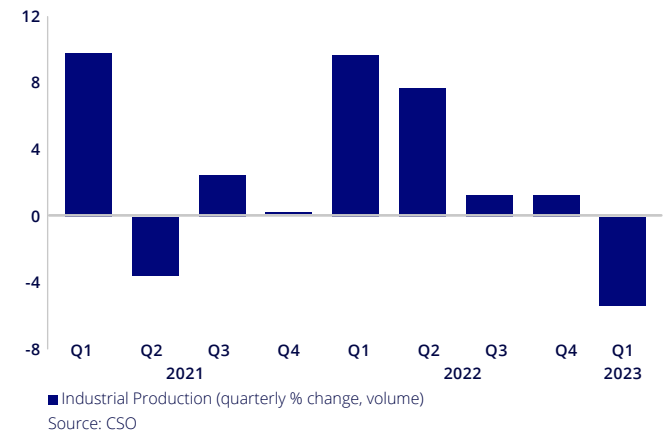
## Business

### Industry struggles in Q1

It's difficult to get a reading on where Irish businesses find themselves after Q1 of this year. On the face of it, the domestic economy appears to have been more resilient than anticipated and this is reflected in the composite PMI which averaged 53.1 in the opening quarter (up from 50.5 in Q4). However, there seems to be slower activity in the multinational sector with industrial production down by over 5% quarter-on-quarter. We won't have a fuller picture until we get the quarterly national accounts data and we have often seen periodic dips in production like this, so we will reserve judgement for now. Nonetheless for SME's and domestic firms, activity in Q1 may have been a bit better than anticipated.

### Completions to ease slightly

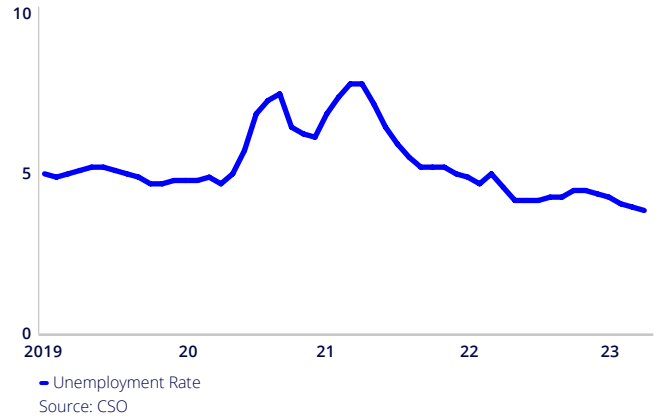
On the construction front, residential completions have held up quite well in Q1, coming in at 6,716, up 19.1% from Q1'22. There was notable increases in output of apartments and houses in developments reflecting continued market demand for new builds. However, the number of completions in Q1 is lower than in each of previous three quarters. This is in line with our expectations for slightly lower home completions this year, as despite demand, builders had slowed housing starts in the second half of last year in the face of rising costs and increased uncertainty. Housing starts in the first four months of this year are holding up, coming in just under 10,000 which, if sustained, should translate into a small pickup in housing output next year.



## Labour Market & Inflation

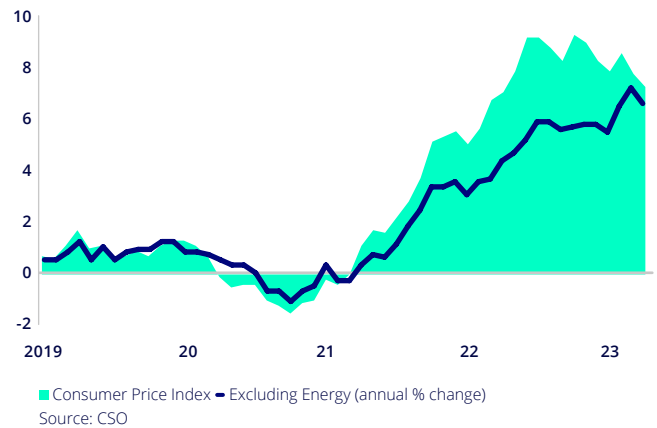
### Labour market in strong position

Strong employment growth has continued, with almost 103,000 new jobs added in the year to Q1 with a record 2.6 million people now in work. There has been healthy employment increases in services, particularly in the retail sector and healthcare. Despite the negative news regarding the tech sector in recent quarters, the information and communication sector is continuing to power on with further jobs gains in Q1. More disappointingly, construction employment grew very slowly in the year to Q1. Labour market conditions are now quite tight, and the unemployment rate has fallen to around 4%, essentially full employment.



### Inflation on the turn

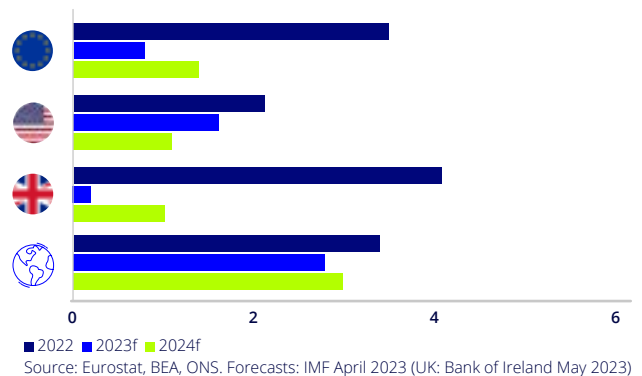
Headline inflation has turned and, helped by a drop in wholesale energy prices, the annual rate of CPI has fallen from over 8% at the end of 2022 to 7.2% in April 2023. Core inflation excluding energy has also fallen back, though at a slower pace, and April's reading was down to 6.6%. We still see inflation dropping back over the course of the year but the journey may not be smooth – for example the removal of temporary measures such as fuel duty cuts may boost prices at times - and month to month we may see some upside surprises, as we did in February when the annual rate picked up to 8.5%, so we have revised up our inflation forecast very slightly to average 6% this year.



## External Environment & Markets

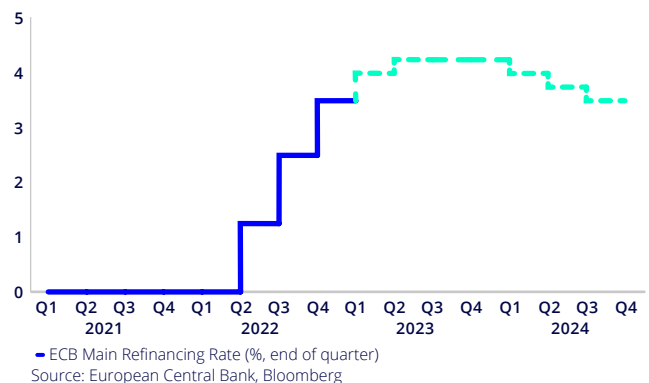
### Subdued global picture

Activity in Ireland's trading partners remains weak but the situation is a bit brighter with modest growth recorded in Q1 in the Euro Area, United States and United Kingdom. Exports of goods were weak in Q1, falling 2.6% year-on-year in value terms (we have no services export data as yet), though it should be kept in mind that this data can be volatile due to multinationals and we could well get a rebound in later quarters of this year and the outlook for exports as a whole remains healthy.



### ECB has further to go

The ECB continues to raise rates with the main refinancing rate now up to 3.75%. The market currently expects another two 25bps increases by the end of the summer with the rate peaking at 4.25%. However, as there are now tighter credit conditions in Europe and beyond, and combined with easing inflation, it's expected the Governing Council may pause at that point for a time but could cut rates at the start of next year to help economies once the ECB is sure inflation is being tamed. The euro has had a relatively eventful time in 2023 so far, trading at as low as \$1.05 and as high as above \$1.10 to the USD during the first five months of year, though its been on the slide a little of late and is trading at around \$1.07



## Contact Us

economics@boi.com

+353 1 250 8900

### Patrick Mullane

Senior Economist

ext. 44269

### Conn Creedon

Senior Economist

ext. 35134

### Mark Leech

Head of Media Relations

+353 87 905 3679

#### Disclaimer

This document has been prepared by the Economic Research Unit at The Governor and Company of the Bank of Ireland ("BOI") for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Union (Markets in Financial Instruments) Regulations 2017 as may be amended from time to time, and under the Financial Conduct Authority rules (where the client is resident in the UK), for any loss or damage caused by any act or omission taken as a result of the information contained in this document. Any decision made by a party after reading this document shall be on the basis of its own research and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 30 May 2023 and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI. Bank of Ireland is authorised and regulated by the Central Bank of Ireland. Authorised by the Prudential Regulation Authority and with deemed variation of permission. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office 40 Mespil Road, Dublin 4, Ireland. Registered Number C1.