Ireland Outlook

Insights into the Irish economy

July 2024

Bank of Ireland

Irish economy to grow at healthy pace in 2024

We have revised down our forecasts for Irish GDP growth to 1.0% in 2024 (from 1.5% in our February Outlook) and to 3.9% in 2025 (from 4.0%). This downward revision reflects the multinational sector, where output continued to contract in early 2024 due to measurement distortions related to 'contract manufacturing'. In contrast, indicators suggests the domestic economy continued to expand at a healthy pace in early 2024. Hence, our forecasts for the growth in 2024 of consumer spending (3%), employment (1.7%) indigenous sector output (2.3%) and modified domestic demand (2.5%) have been revised up slightly. We also expect CPI inflation to average 2.3% in 2024, slowing to 2% in 2025. Our forecast is for a government surplus worth €8.1bn, or 1.5% of GDP in 2024.

GDP growth forecast revised down to 1% in 2024

We have tempered our forecasts for GDP growth in 2024 to 1% from 1.5% previously. This follows a partial 0.9% bounce back in Irish GDP in Q1 2024, following five consecutive quarters of contraction, so GDP was still down 6.5% year-on-year. This decline reflects a fall in 'contract manufacturing' through 2023, goods produced abroad but where the associated profits are counted in Ireland. We do not believe this tells us anything about the underlying performance of the multinational sector, or Ireland's attractiveness as a location for FDI. For now, we assume measured multinational sector output will stabilise in 2024. However, just as in 2023 it is possible GDP could contract in 2024, albeit accompanied by a strong performance in most macroeconomic indicators.

Modified domestic demand to expand by healthy 2.5% pace in 2024

Early indicators point to a healthy expansion in Ireland's economy in 2024. Hence, we have revised up slightly our forecasts for consumer spending (3%), employment (1.7%), indigenous sector output (2.3%) and modified domestic demand (2.5%). Household real income gains are now being driven by robust jobs growth, pay growth running at 4.7%, the decline in CPI inflation to 2.6% in May and the tax cuts implemented in Budget 2024. We expect housing completions to rise to 37,000 in 2024 and non-residential construction to stabilise after several years of decline. Meanwhile, investment spending on machinery and equipment has remained at exceptionally high levels. Government spending is also contributing to solid growth in domestic demand.

Cost pressures abating for now

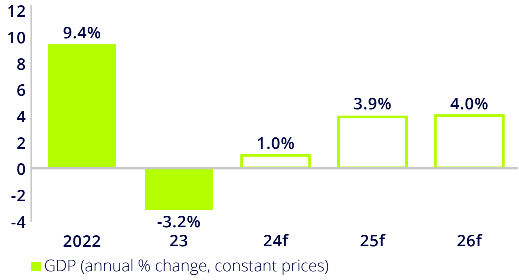
Despite Ireland's strong economic performance, CPI and HICP inflation (2.6% and 2.0% in May respectively) and average weekly earnings growth of 4.7% in Q1 2024 do not stand out relative to the euro area. That said, labour shortages, capacity pressures and infrastructural bottlenecks are becoming an ever more pressing issue for the Irish economy. Fiscal policy is also stimulative, gross voted expenditure expanding by 14.7% in the first five months of 2024, 2.6% ahead of Budget 2024 targets. On that point, our forecast is that the government will run a surplus worth €8.1bn, or 1.5% of GDP this year, lower than official targets due to spending over-runs. There is a clear risk Irish inflation could accelerate above our forecasts if overheating pressures are felt.

House price inflation regains momentum

The official Residential Property Price Index (RPPI) fell for the first five months of 2023, reflecting stretched affordability, particularly in the capital Dublin. However, house price inflation has regained momentum since then – reflecting the exceptionally low level of supply in the existing homes market, but also pay growth of 4-5% translating into homebuyers taking on higher levels of debt. In April, the average mortgage approval was €313,200, up 4.6% on the year.

Forecasts	2024f	2025f	2026f
Personal Consumption	3.0%	2.9%	2.8%
Government Consumption	1.5%	1.5%	1.5%
Total Investment	2.8%	0.9%	0.8%
Modified Investment	2.2%	1.8%	1.5%
Modified Domestic Demand	2.5%	2.4%	2.3%
Exports	6.2%	5.0%	5.0%
Imports	6.0%	4.3%	4.1%
GDP	**1.0%**	**3.9%**	**4.0%**
Employment	1.7%	1.5%	1.5%
Unemployment Rate (average)	4.3%	4.4%	4.4%
CPI	2.3%	2.0%	2.0%

GDP



Source: CSO & Bank of Ireland

Economy

Positive early indicators on economic performance in early 2024

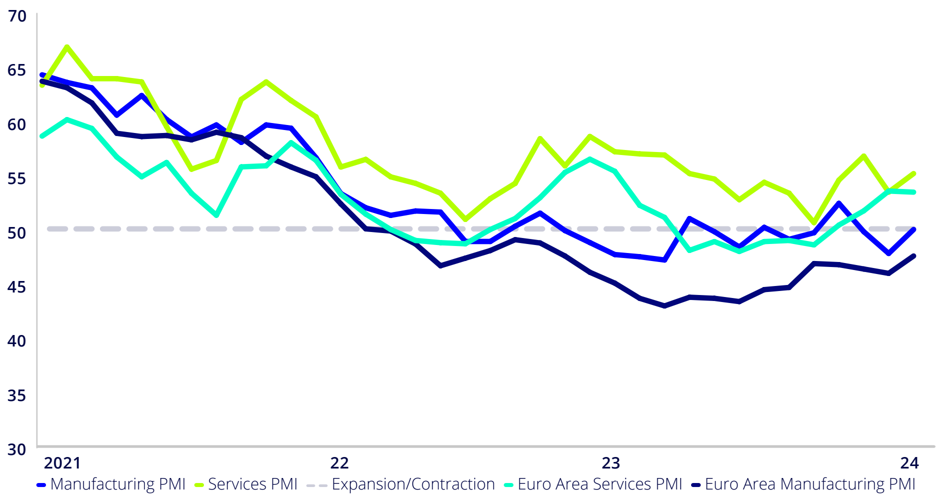
Quarterly GDP growth in Q1

Irish GDP expanded by 0.9% in Q1 2024, the first quarter-on-quarter increase since Q3 2022. The 3.2% contraction in Irish GDP in 2023 reflected the multinational sector, specifically a decline in contract manufacturing in 'high-tech' industrial goods production following a surge in this activity in H2 2022. Industrial production fell 8.1% in Q1 2024, down 17.8% on the year. However, goods exports rose by 2.4% in Q1 2024, suggesting measured multinational sector output may now be beginning to stabilise.

The majority of 'high frequency' monthly data point to Ireland continuing to outperform peers in Europe. Consumer spending (0.6%) and employment (0.3%) saw healthy gains in Q1 2024. Retail sales volumes rose by 1% in the three months to April (over the preceding three months November to January) while the CSO's index of services output rose by 5.3% in the same period. Gross voted public spending of €38.8bn in the first five months of 2024 was up 14.6% on the same period of 2023.

Ireland's PMIs have outperformed their European peers. The Construction PMI was 49.8 in May, pointing to a stabilisation in activity, having been below the 50 no-change level for the majority of 2023. Similarly, the Irish Manufacturing PMI was 49.8 in May, indicative of the global downturn in manufacturing, but well above the 47.4 euro area reading. Despite these subdued conditions it is worth noting Irish 'traditional sector' output in the first four months of 2024 was up 11.9% on 2023. In contrast, Ireland's Services PMI was 55.0 in May, above the 53.3 euro area reading, firms reporting a broad based rise in new business both from abroad and domestically.

Irish PMI Surveys



Source: AIB/Markit/Bloomberg

Rising real incomes to support spending

One tailwind for the Irish economy in 2024 is the decline in CPI and HICP inflation to 2.6% and 2.0% in May. Average earnings grew by 4.7% in the year to Q1 2024 to a fresh high of €50,394. This means the real income squeeze from higher energy bills and double-digit CPI inflation in 2024 is now being partially reversed as pay growth exceeds inflation. Disposable incomes have also benefitted from the tax cuts contained in Budget 2024, worth close to 2% of disposable incomes at the average wage.

Labour Market

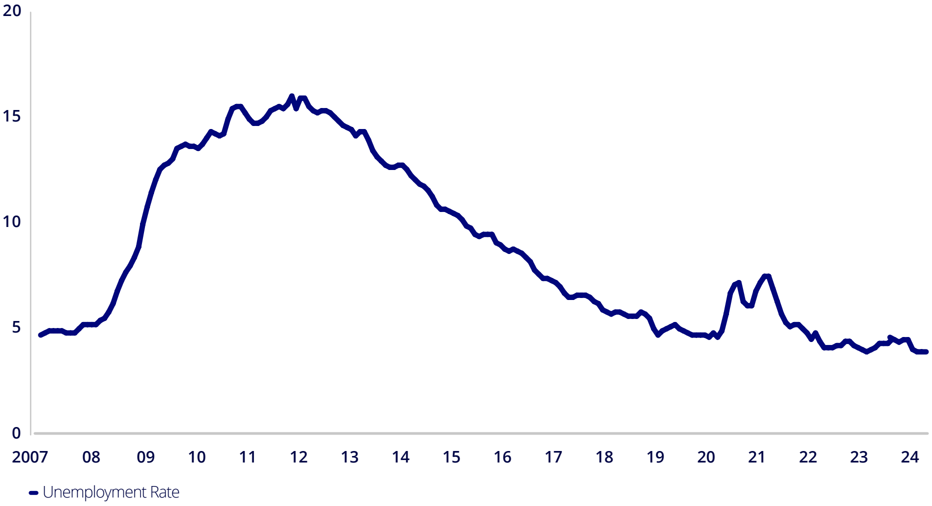
Employment gains continue

Tight labour market

Employment rose by 0.3% in Q1 2024, up 1.9% on the year to just over 2.7 million. The unemployment rate was 4.3% in Q1 2024. However, the CSO's initial estimate of the unemployment rate in May, based off social welfare claims data, fell to 4.0%. The latest payrolls data show the number of employees rose by 0.5% in the three months to April (over the preceding three months November to January), up 1.9% on the year to nearly 2.47 million. The clear picture from the data is that the labour market remains very tight, albeit with labour force growth supported by rising participation and inward migration.

The PMI surveys point to jobs growth continuing in 2024. The manufacturing and services PMIs indicated the pace of employment growth rose to eight-month and three-month highs respectively in May. Nonetheless, we still expect jobs growth to slow, from circa 3% per annum in recent years, to 1.7% in 2024 and 1.5% in 2025. Unemployment is set to remain low, averaging 4.3% in 2024 and 4.4% in 2025 and 2026.

Unemployment rate



Source: CSO

Restrained earnings growth

A remarkable aspect of labour market is the relatively subdued growth in earnings. Despite tight labour market conditions and the pressure on real incomes from elevated CPI inflation, earnings growth has been subdued. Average weekly earnings grew by 4.7% in the year to Q1 2024 to €969 and average hourly earnings by 4.5% to €29.82. Our forecasts are conditioned on the assumption that average pay growth continues at this pace, 4.5% in 2024 and 2025.

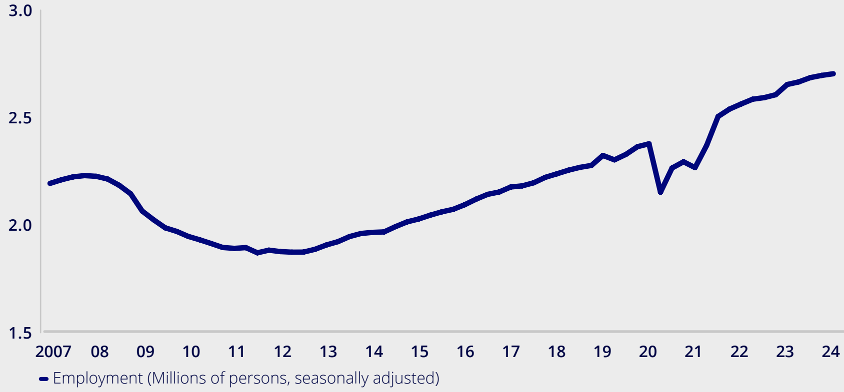
Labour Market	2023	2024f	2025f	2026f
Employment Growth	3.4%	1.7%	1.5%	1.5%
Unemployment Rate	4.3%	4.3%	4.4%	4.4%

Labour Market

Shifting patterns in the labour market

The Irish labour market has performed remarkably well coming out of the COVID-19 period. In Q1 of this year, the Labour Force Survey showed that, on a seasonally adjusted basis, there was 2.71 million people in employment - a record high number. This is 14% over the pre-Covid level, representing an extra 340,000 people in work. This is an exceptionally strong performance outpacing the Euro area average (c.+4%) and the UK (more or less flat). The jobs gain in Ireland have been fairly broad based with increases across a number of sectors with information and communication up 36%, professional, scientific and technical up 41% and industry up 10%. In addition, the unemployment rate has ticked down and in Q1 2024 was 4.3%, below the Q4 2019 figure of 4.8%, essentially full employment.

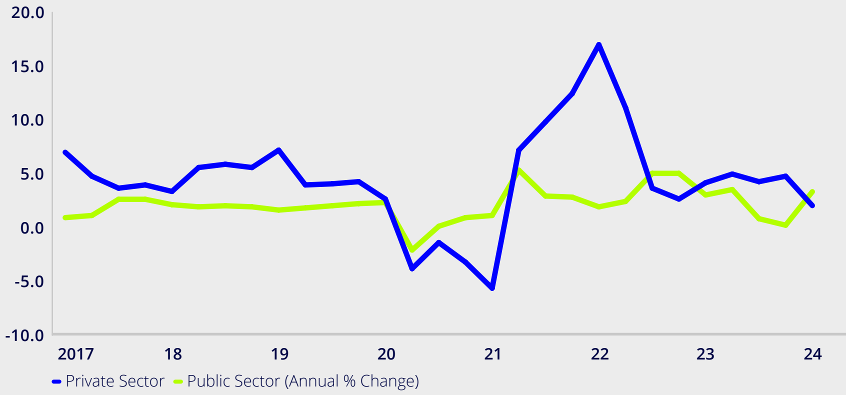
Total Employment



Source: CSO

The gains continued into Q1 of this year with employment rising by 1.9% year-on-year and the CSO estimating in May the unemployment rate has fallen to 4.0%. However, that data is hiding shifting patterns in the labour market. To begin with employment gains have moved away from the multinational sector and toward indigenous sectors. Employment in the multinational sector grew strongly in both 2021 (+6%) and 2022 (+8%) and the IDA reported that 300,583 were employed in the sector in 2023 but this was down 0.3% on 2022 levels – with employment in the ICT and industry sectors under pressure. This small fall is despite a 3.4% gain in overall employment in the economy last year. We can see that this shift is continuing into this year, as payrolls data shows that employment in the ICT sector is down 4.2% year-on-year in April. The employment gains we are now seeing are increasingly in the domestic services sectors – such as transportation and storage +4.3% year-on-year and also in the public sector with public administration up 6.1% and health up 5.0%. This is supported by other CSO data which shows that public sector numbers were up 3.2% in the year to Q1, far stronger than the private sector gain of 1.9%. This reverses the position of this quarter in 2023 where private sector gains were up 4.0% compared to the public sector growing by 2.9%.

Public and private sector employment growth

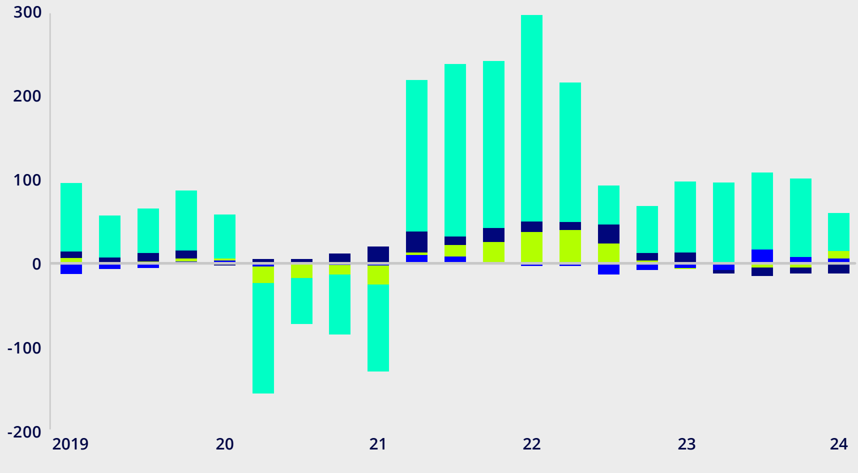


Source: CSO

Labour Market

Shifting patterns in the labour market (cont'd)

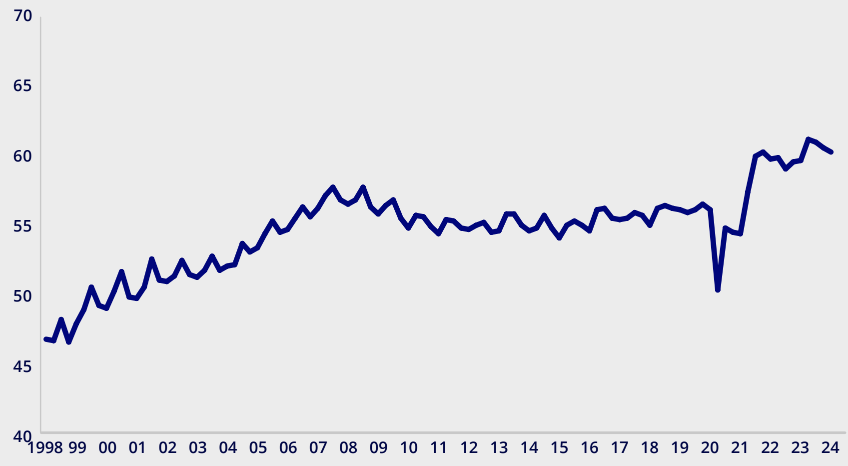
Compostion of Employment Gains



Source: CSO

The employment gains recently have been supported by a growing labour force which is helped by structural factors such as changes in the size of working age population. This is heavily influenced by migration patterns and the strong inward migration means that the demographic effect is positive at the moment and added nearly 43,000 to the labour force in Q1 2024. In addition, changes in female participation has been very positively contributing to labour force growth. Female participation stood at 60.1% in Q1, a little short of record levels, but still making a positive impact on the labour market. This labour force growth with a young, well-educated English speaking population is a one of the key pull factors that has attracted FDI into Ireland. Flows of inward economic migration will be necessary to support a growing economy and the strong growth in the labour force has kept the vacancy rate low with a steady flow of potential employees moving into jobs. The vacancy rate has ticked down to 1.1% in Q1 of this year from 1.6% during 2022. This indicates the labour market is still quite tight and there were only 24,700 vacancies, down 6,600 from Q1 2023. The CSO job churn data does give us some early signs of softening in the labour market however, with the number of hirings in Q1 falling to a three year low while the number of job creations was the lowest since Q2 2020. The data indicates a greater number of people are staying in their current job which indicates there are somewhat less incentives economy-wide to move position. The job churn figure itself fell to 11.8%, down 0.8 percentage points on Q1 2023 pointing to a slightly less active labour market.

Female participation rate



Source: CSO

Consumer

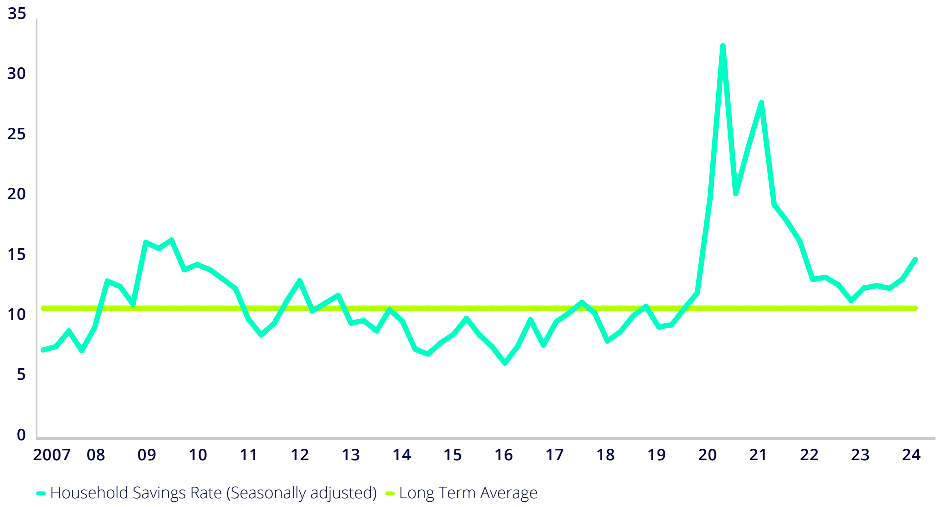
Consumer spending to grow 3% in 2024

Household spending holding up

Consumer spending grew by a solid 0.6% in Q1 2024. This was despite a pick-up in the household savings ratio to a 14.7%, helped by a sharp 3.9% rise in disposable incomes on the quarter, in part related to the tax cuts and social welfare rises implemented in Budget 2024. Initial indicators point to this momentum being sustained into Q2. Core retail sales volumes rose by 0.1% in April, after 0.4% monthly gains in both February and March. Credit and debit card payments and cash withdrawals were €9.2bn in April, up 13.7% on the year.

Of late, the household savings ratio has been volatile, picking-up to a historically high level of 14.7% in Q1 2024, up from 13.1% in Q4 2023 and 12.6% on average last year. In fact, the savings ratio has only exceeded this level on two occasions, during the Covid19 pandemic and in 2009/10 during the global financial crisis, both periods in which consumer spending was restrained. However, this was clearly not the case in early 2024. We have treated the rise in household savings ratio to 14.7% in Q1 2024 as volatile, likely to fall back so the savings ratio averages 14% through 2024.

Household savings



Source: CSO

Our forecast is for consumer spending to grow by 3% in 2024 and 2.9% in 2025. Real household spending will be driven by 7.7% growth in disposable incomes in 2024 and the fall in inflation towards 2%.

Household incomes and spending	2023	2024f	2025f	2026f
Compensation	8.4%	6.2%	6.1%	5.5%
Gross Disposable Income	10.2%	7.7%	5.0%	4.5%
Savings Ratio	12.6%	14.0%	13.9%	13.6%
Nominal Spending	10.1%	6.0%	5.2%	4.9%
Consumer Expenditure Deflator	7.0%	3.1%	2.2%	2.0%
Real Spending	3.1%	3.0%	2.9%	2.8%

Investment

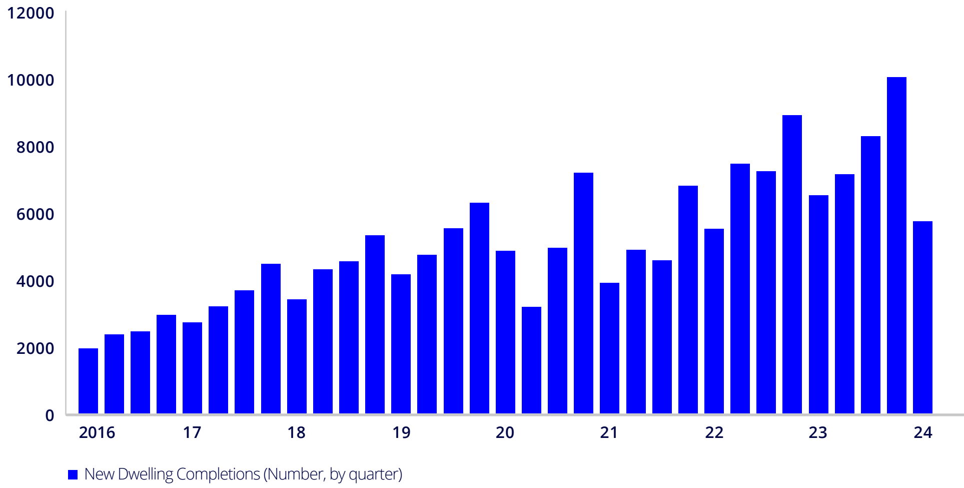
Investment spending to remain at high level

Headline investment impacted by external factors

Gross investment spending fell by 2.5% in the year to Q1 2024, but largely reflected the volatile negative contribution from the 45% fall in 'other transport equipment', related to the aircraft leasing sector. Construction activity in Q1 2024 may also have been depressed by the early timing of Easter, down about 13% on the year. Housing completions came in at 5,841 down 12.1% year-on-year.

However, May's Construction PMI painted a more upbeat picture; a broad based expansion across housing (52.0) and commercial activity (51.4). The PMI indicated 90% of construction firms expect to see their business expand over the next twelve months.

House Completions



Source: CSO

Residential activity to gain ground

The outlook for housing completions is now especially uncertain. The expected expiration of the waiver on development levies has led to a rush of housing commencements. There were 18,182 starts in April alone (equivalent to over half of the 32,800 in 2023) bringing the total over the past twelve months to 53,011. Commencements will now likely fall back sharply in the coming months. Our forecast is that housing completions will rise to 37,000 in 2024, 41,000 in 2025 and 45,000 in 2026.

Non-residential construction has been a drag on investment spending in recent years, down 6% in 2021, 7.7% in 2022 and 4% in 2023. This reflected the decline in office construction. However, our forecast is for a modest rebound in 2024 of 0.5%, followed by 1.5% growth in 2025 and 3% in 2026, helped by plans for further increases in public capital expenditure.

Business investment to revert to normal levels

Core machinery and equipment spending (excluding planes), which can be used as a proxy for business investment, fell by 3.0% in 2023 following a very strong increase over the course of 2022 related to a large number of high tech investments i.e. data centres. We continue to anticipate it will gradually revert to more normal levels, falling 1% in 2024, 4.5% in 2025 and 5% in 2026.

Investment forecasts	2023	2024f	2025f	2026f
Residential	9.4%	13.2%	13.5%	7.1%
Non-residential construction	-4.0%	0.5%	1.5%	3.0%
Machinery and equipment (core)	-3.0%	-1.0%	-4.5%	-5.0%
Intangible Assets	9.1%	3.5%	0.0%	0.0%
Total Investment	2.9%	2.8%	0.9%	0.8%
Modified Investment	-7.1%	2.2%	1.8%	1.5%

Housing Market

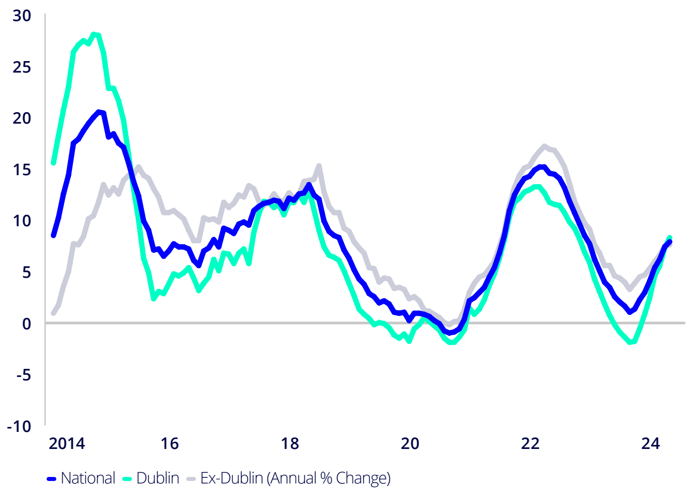
Residential prices accelerating

Fresh momentum in housing market

The Irish Residential Property Prices Index (RPPI) has now risen for eleven consecutive months up to April 2024, following five months of price falls in early 2023. The RPPI rose by 0.4% in April, with annual inflation running at 7.9%, broadly based across the capital Dublin and the rest of Ireland. This momentum looks likely to continue. The MyHome report showed asking prices rose by 2% in Q1 2024, annual inflation accelerating to 6.5%. Similarly, asking price inflation according to Daft was 5.8% over the same period. The My Home data also show that in May the median residential transaction was being settled 4.8% above the original asking price.

In addition, there is limited supply in the market with just under 12,250 homes for sale in June, still close to the record low recorded in Q1 2024. The market has moved past the point post-Covid where valuations had become stretched and ECB rate increases hit sentiment. Hence, we see residential property prices rising by 4% in 2024.

Residential Property Prices



Source: CSO

Median Gap between Transaction and Original Asking Price

Source: Bank of Ireland/MyHome

Supply increasing but below demand

The buoyant labour market, wage and employment growth are all driving demand for housing. Also, the Central Bank's decision to ease the macro-prudential rules – allowing more first time buyers to borrow up to 4-times income - has allowed additional leverage. Hence, the average mortgage approval for a first time buyers was €305,000 in April, up 5.1% on the year.

There is little sign of latent housing demand being satiated in the near future. The recent Housing Commission report suggests that upwards of 50,000 homes per annum are required for the foreseeable future. This estimate is well above the Government's 'Housing for All' target of 33,000 per year for the next decade. House completions were 32,626 last year but got off to a weak start in Q1 coming in at under 6,000 for the quarter.

Exports

Export performance to re-emerge as distortions fall away

MNC impacts cause export fall in 2023

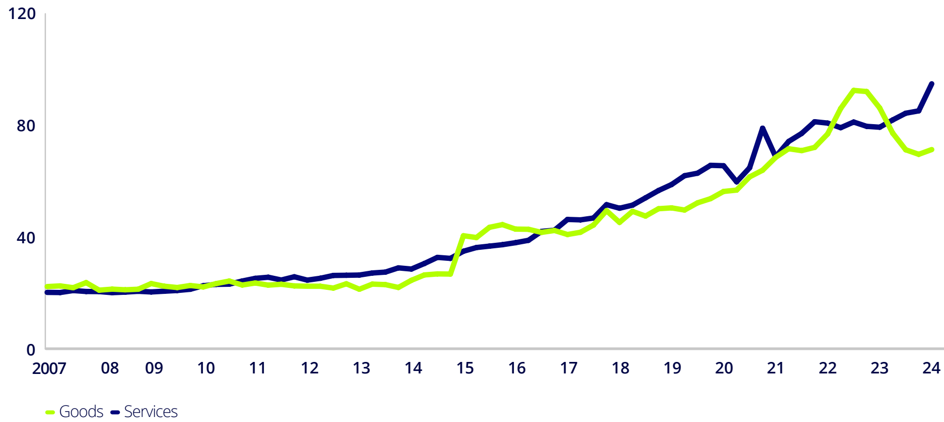
Irish exports fell by 4.8% in 2023, but starkly split between a 12.2% contraction in goods exports and 3.3% expansion in services exports. Notably, despite a correction in staffing levels in information and communications technology (ICT), activity in the sector has continued to grow, value added up 7.3% in the year to Q1 2024 to €23bn.

Rather, the apparent weakness in Ireland's export performance has reflected the modern manufacturing sector. Specifically, a decline in 'contract manufacturing', where an Ireland based multinational produces goods in another country for export to a third country. A surge in this activity helped push up Ireland's GDP growth rate to 9.4% in 2022, but has subsequently reversed. The value of contract manufacturing exports fell 41% in the twelve months to Q1 2024 to €20.6bn, but for normal merchandise trade rose 4.7% to €53bn.

Goods exports improving

There are signs the measurement distortions from contract manufacturing have now played out. Q1 2024 saw 2.4% growth in goods exports, the first quarterly rise since Q3 2022. Nominal goods exports equalled €19bn in April 2024, up from €15bn in April 2023.

Goods and services exports



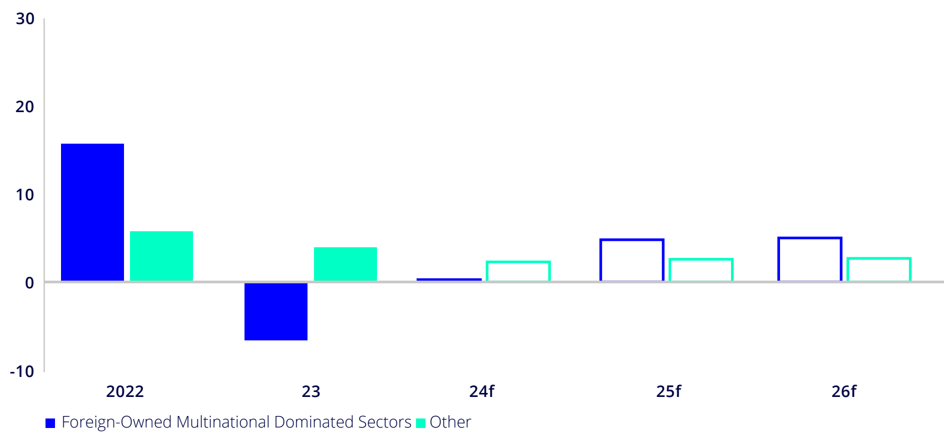
Exports (€bns, constant prices)
Source: CSO

Exports to recover this year and next

The bigger picture is that Ireland's export mix tends to be defensive in nature and, outside of specific niche issues affecting goods, exports have continued to perform well despite challenging global conditions. For example, Irish traditional manufacturing output rose by 6.2% in 2023 despite both the euro area and UK suffering technical recessions in H2 2023. However, the OECD's May Economic Outlook forecast that Irish export markets, having contracted by 0.4% in 2023 will see growth of 1.2% in 2024 and 2.9% in 2025.

Hence, we expect export growth to recover going forward, seeing 6% growth in 2024 and 5% growth in both 2025 and 2026.

Multinational and indigenous sector output



Source: CSO and Bank of Ireland

Inflation

Inflation eases further

Inflation trending down

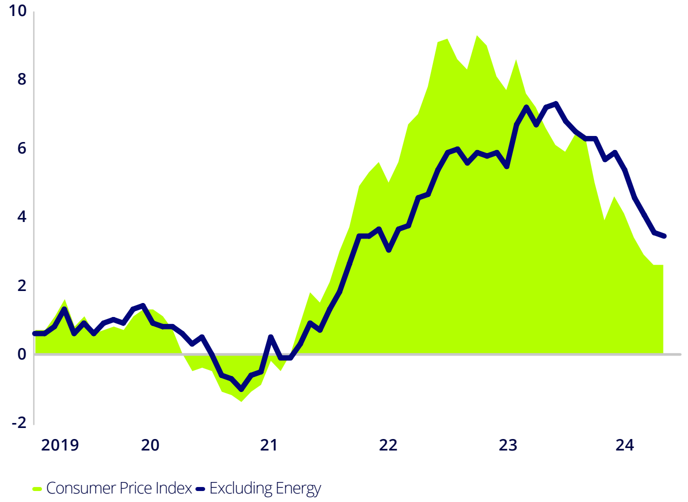
Inflation and increases in the cost of living have been a dominant theme for consumers and businesses. Inflation rates began to ease during 2023, as the upward contribution from food and energy prices faded and aggressive interest rate hikes by central banks began to dampen demand. Irish CPI inflation was 2.6% in May 2024, well down from the 9.2% peak in October 2022.

Energy prices fell by 3.6% year-on-year in May, having pushed up inflation in 2022 and 2023. Similarly, food price inflation has receded from 13% in early 2023 to just 2.6% in May. Goods inflation was 1.3% in May, helped by the Covid19 related bottlenecks in global supply chains being resolved.

Services inflation still hot

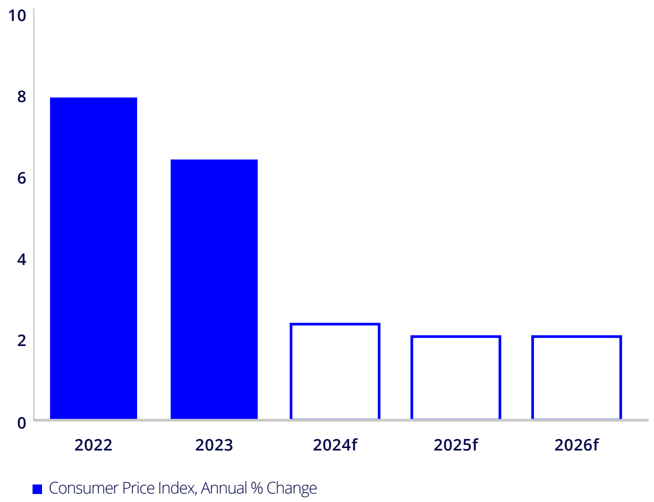
Services inflation was 3.7% in May, an improvement from double-digit levels, but still elevated. This is an area of concern, reflecting labour shortages and pay pressures in the Irish economy. Mortgages are also included in CPI services inflation. Mortgage interest added 0.6 percentage points to headline inflation in May, offsetting the negative contribution of -0.35 percentage point from energy prices.

CPI inflation



Source: CSO

Inflation outlook



Source: CSO and Bank of Ireland

CPI to come back to 2%

Core inflation, which excludes food and energy, was 3.5% in May. This elevated core rate of CPI inflation is more reflective of cost-price pressures in the economy currently, easing back at slower pace than the headline rate. Ireland's HICP inflation rate was 2.0% in May - in line with the ECB's target and below the Euro Area average rate of 2.6%. Our forecast is for CPI inflation to average 2.3% in 2024 before easing back to 2% in 2025 and 2026.

Public Finances

Government to remain in surplus

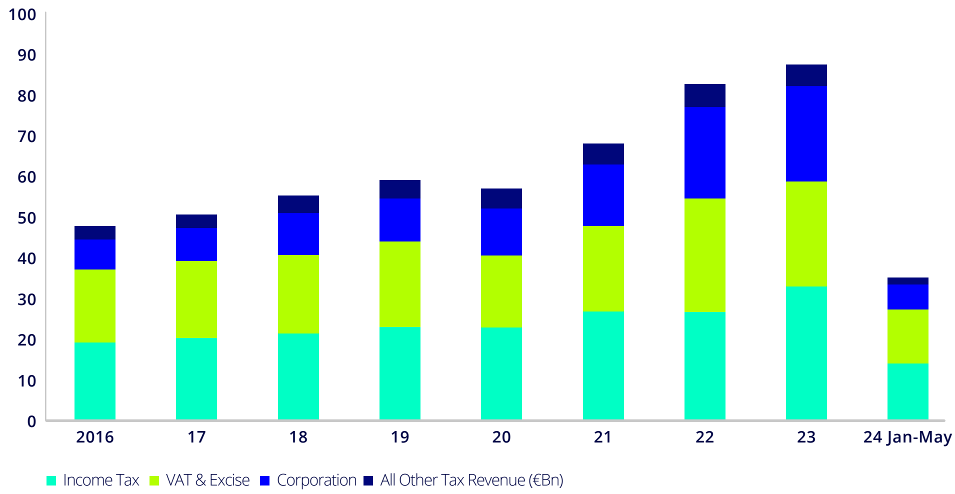
Tax revenues continue to increase

The Irish public finances are in good shape as we approach the mid-point of the year. Ireland has enjoyed rapid growth in tax revenues in recent years, driven by a surge in corporation taxes. However, Irish tax revenues grew by just 6% in the first five months of 2024 to €35.2bn, supported by robust increases in income tax (7%) and VAT (8%) but with corporate taxes (-0.2%) broadly flat. This shows the public finances are still being supported by employment gains and the growth of consumer spending.

Some overspending evident already

Gross expenditure was €38.8bn in the five months to May, nearly 15% higher than in the same period of 2023. While a huge rise, it in part reflects timing issues and spending is so far only 2.6% ahead of Budget 2024 plans. Nonetheless, the Department of Health has already seen current spending overrun by €872m. In the April Stability Programme Update, the Department of Finance highlighted the risk spending could continue to exceed budget allocations through 2024.

Composition of tax revenue



Source: Department of Finance

Restraint required to avoid pro-cyclical budget

Our forecast is for continued budget surpluses, but a little narrower than official Budget 2024 projections. We expect a general government surplus of €8.1bn in 2024, or 1.5% of GDP, rising slightly to 1.6% of GDP in 2025. This means the debt/GDP ratio is expected to fall below 40% in 2025.

Given the bottlenecks, capacity pressures and labour shortages in the Irish economy there is a risk that fiscal policy proves to be too stimulatory, adding to overheating pressures and inflation. The Central Bank of Ireland and Irish Fiscal Advisory Council (IFAC) have warned budget policy should not be overly expansionary and restraint on spending is required.

	2024(f)	2025(f)	2026(f)
Government Balance (% of GDP)	1.5%	1.6%	1.4%
Government Debt (% of GDP)	41.8%	39.8%	37.9%

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