

## Economic Research Unit



### Distortions to Irish GDP data looked to have played out

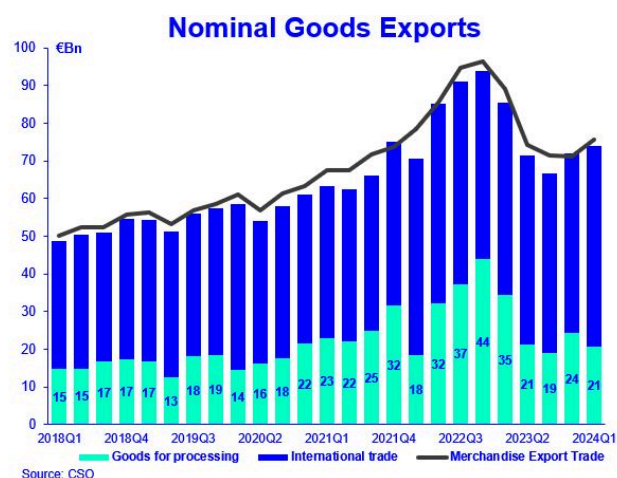
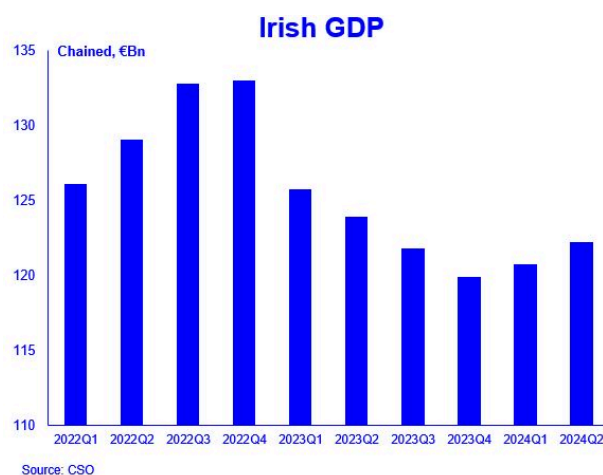
*This week's preliminary Irish GDP data for Q2 2024 showed a 1.2% quarter-on-quarter expansion, after a 0.7% gain in Q1. This suggests the measurement distortions related to the multinational sector that led to a 5.5% contraction in Irish GDP in 2023 have now played out. That said, the rebound in H1 may not be sufficient to deliver our forecast for a 1% expansion of Irish GDP in calendar year 2024. A negative GDP growth rate in 2024 is certainly possible. Peering through the statistical fog by looking at a range of indicators, rather than just the volatile GDP data, points to an Irish economy still expanding at a healthy pace. Employee numbers rose by 0.5% in the three months to May, up 2.2% on the year, to a fresh record high of 2.48 million. Similarly, H1 2024 saw robust 9.3% growth in tax revenues, including sharp gains in income taxes (7.5%), VAT (6.2%) and corporation taxes (15.4%).*

**Irish GDP expands by 1.2% in Q2 2024, but still down 1.4% on the year:** This week the CSO published the initial estimate of Irish GDP growth in Q2 2024. GDP rose by 1.2% quarter-on-quarter. However, the level of GDP was still down 1.4% on Q2 2023 (see chart below). The out-turn for H1 highlights that calendar year GDP growth (the sum of all four quarters) in 2024 could fall below our forecast for a 1% expansion. Irish GDP will need to expand by 1.5% quarter-on-quarter in both Q3 and Q4 to achieve flat calendar year growth in 2024. There is clearly a risk this may not occur, so calendar year GDP growth slips into negative territory in 2024.

**Distortions from 'contract manufacturing' look to have played out:** It is now well understood that Ireland's GDP growth figures have been distorted by the multinational sector. Specifically, 'contract manufacturing' pushed up on measured GDP growth in 2022, but down in 2023. That is, goods produced abroad, but where the associated profits are counted in Ireland because intellectual property assets reside here. There was a surge in this activity in H2 2022, with 'goods for processing' exports rising to a peak of €44bn (see chart below) but falling back to just €21bn in Q1 2024. That Irish GDP has expanded again in Q2 2024, suggests the distortions seen in 2023 have played out.

**A range of indicators point to healthy pace of expansion in 2024:** Given the distortions to the GDP data it is important to look at a range of indicators. A key gauge of the health of the Irish economy is employment. The CSO's estimate of pay-rolled employees rose by 0.5% in the three months to May to a fresh high of 2.48 million. Retail sales data paint a mixed picture, core sales down -0.1% in Q2, but after a sharp 0.9% rise in Q1. Tax revenue data have been more upbeat, pointing to resilient growth in consumer spending and the labour market. Tax revenues in the first half of 2024 were up 9.3% on 2023, including sharp rises in income taxes (7.5%), VAT (6.2%) and corporation taxes (15.4%).

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