Ireland Outlook

Insights into the Irish economy

January 2025

Bank of Ireland

Irish GDP to expand 4% in 2025

We have revised up our projections for the growth of Irish GDP (4.3%), modified domestic demand (4%) and employment (2.2%) in 2025. This reflects data for H2 2024 indicating the economy had stronger momentum than we anticipated. Also, distortions from 'contract manufacturing' have dissipated so GDP should rise in 2025. We still expect a 3% rise in consumption in 2025 as pay growth (4.5%) exceeds CPI inflation (2%) and tax cuts help disposable incomes. Housing completions of 42,500 and a modest recovery in non-residential construction will help core investment to grow 7%. Finally, public spending continues to rise rapidly and a 5% rise in 2025 will help domestic demand.

Export sector performing well, global trade relations a key risk

Irish export performance was robust in 2024. Key sectors; business services (6.8%), computer services (17%), pharmaceuticals (36%) all saw robust nominal growth in the year to Q3. The traditional manufacturing sector also saw output up 4% in 2024. A key risk for the Irish economy is a potential breakdown in global trade relations. Should US-EU tariffs be imposed, Ireland should be relatively insulated, given the defensive nature of the export sector, the low price elasticity of demand for pharmaceuticals and the concentration in business and financial services. Our Irish economic forecasts are based on moderate export growth of 3.4% in 2025 and 5% in 2026.

Domestic economy expanding rapidly, ahead of forecasts

We have revised up our forecast for employment growth in 2025 to 2.2% (vs 1.7% previously) and the unemployment rate down slightly to 4.3% in 2025. The tight labour market should gradually slow the pace of job creation. We still expect positive growth in real wages to drive a 3% rise in consumer spending in 2025. A rise in housing completions to 42,500 and modest recovery in non-residential construction will help investment. We expect a 5% rise in public expenditure in 2025, also supporting domestic demand, but with the government still running a surplus of €8.5bn, 2.6% of GNI* this year, with the debt/GNI* ratio falling to 66%.

House price inflation of 5% in 2025, credit cycle turning up

We have revised up our forecast for Irish residential property price inflation to 5% in 2025. This reflects our view the process of rising leverage in the mortgage market has yet to still fully play out, despite stretched affordability and 9% price inflation in 2024. Despite challenged housing market liquidity, Ireland is now seeing the strongest growth in bank lending to the household sector in fifteen years, up 2.9% in the twelve months to November, to €103bn. After a long process of de-leveraging bank lending to non-financial corporates in November was also up 3.1%, to €30bn.

Trade fragmentation and infrastructural constraints key risk to outlook

It remains to be seen what, if any, tariffs, the new US administration will impose on global trade. We believe Ireland's defensive export sector is relatively well placed to withstand tariffs. However, a period of uncertainty on global tax and trade relations could lead some firms to delay investment and expansion plans. That said, Ireland's economic expansion is increasingly domestically driven and job creation has consistently beaten forecasts. Here, delays to infrastructure and the National Development Plan (NDP) could mean bottlenecks/capacity pressures increasingly weigh on growth.

Forecasts	2024(e)	2025(f)	2026(f)
Consumer Spending	2.2%	3.0%	2.9%
Government Expenditure	4.1%	3.5%	3.5%
Investment	-25.4%	18.2%	1.1%
Building & Construction	-2.1%	11.9%	4.2%
Machinery & Equipment (Core)	-1.3%	-4.5%	-5.0%
Modified Investment	4.0%	7.0%	1.8%
Exports	10.3%	3.4%	5.0%
Imports	6.7%	4.8%	4.4%
Modified Domestic Demand	**3.0%**	**4.0%**	**2.8%**
GDP	**0.3%**	**4.3%**	**3.9%**
Multinational Sector	-3.5%	5.3%	5.0%
Indigenous Sector	2.9%	3.0%	2.5%
Government Balance, % GDP	4.3%	1.5%	1.4%
Government Debt, % GDP	42.3%	38.5%	36.4%
Employment Growth	2.9%	2.2%	1.5%
Unemployment Rate	4.3%	4.3%	4.2%

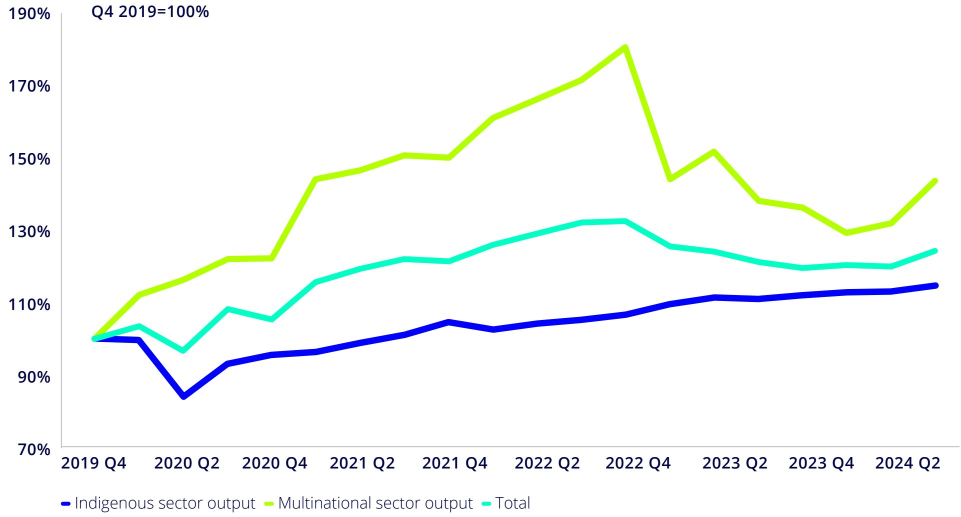
Economy

Irish economy saw underlying rapid expansion in 2024

Irish GDP rose by 3.5% in Q3 2024

Irish GDP rose by 3.5% in Q3 2024, having contracted in five of the previous six quarters, broad based across both the multinational (9.1%) and indigenous (1.5%) sector output and modified domestic demand (1.3%). Employment also saw an enormous 1.4% gain in Q3 2024, to 2.78 million, up 3.7% on the year. The far better-than-expected out-turns in Q3 2024 are a key reason we have revised up our projections for calendar year GDP growth in 2024 and 2025.

GDP Bounced Back Stronger than Expected in Q3 2024



Source: Central Statistics Office.

Most indicators point to continued expansion in Q4 2024 and into 2025.

Most indicators point to continued expansion in Q4 2024 and into 2025. The preliminary estimate of the unemployment rate, based off social welfare claims, fell to 4.2% in December from 4.5% in Q3. Core retail sales volumes were up 1.0% in the three months to December. Nominal goods exports of €64bn in the 3-months to November were up 30% on the year, in part possibly due to pharmaceutical trade being brought forward ahead of potential tariffs on the sector.

The bigger picture is that the statistical distortions related to the multinational manufacturing sector that artificially pushed Ireland's GDP growth figures into negative territory have now dissipated – so the underlying pace of expansion has become clear.

This is evident in strong gains in consumer spending (2.4%), public expenditure (4.2%) and core investment (4.1%) in the first three quarters as well as employment (2.8%). This has manifested in a 3% expansion in service sector output, offsetting a small 1.5% fall in construction and measured 10% fall in industry.

Ireland's PMI surveys have painted a relatively upbeat picture, vs the more concerning readings for the Euro Area. Ireland's Composite (52.1), Construction (51.6) and Services (57.1) PMIs were all above the 50 no-change level in December. That said, the manufacturing PMI at 49.1 indicated contraction. However, job creation was recorded in all sectors, and in services at the fastest pace since August. Furthermore, expectations for the 12-month outlook have improved across all three sectors, with 40-50% of firms anticipating expansion, well in excess of those seeing contraction.

Labour Market

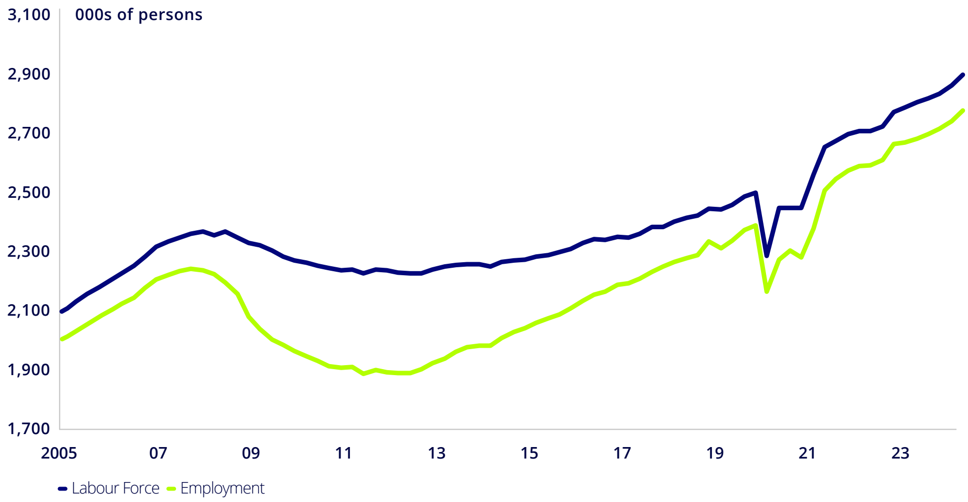
Employment to slow more current exceptional pace

Record numbers at work...

The Labour Force Survey (LFS) indicates that Irish employment grew by 1.4% in Q3 2024, up 3.7% on the year, to a fresh record high of 2.78 million. However, this rapid job creation has been matched by net inward migration of 79,000 in 2024 and the expansion of the labour force, also up 3.5% year-on-year to 2.9 million. This has meant the unemployment rate has remained steady, at 4.5% in Q3 2024, but with the initial estimate based off social welfare claims falling to 4.2% in December.

We still expect that Ireland's rapid pace of job creation will slow from the current exceptional pace, albeit revised up from our September projections. This reflects growing evidence of labour shortages, with net migration likely to slow and participation rates at 66.3% already at peak Celtic Tiger era levels. We now expect Irish employment to expand by 2.2% in 2025 to 2.825 million on average and by a further 1.5% in 2026.

Ireland's Exceptional Pace of Job Creation Matched by the Labour Force



Source: Central Statistics Office

...but pace of employment growth to ease

Thus far, pay growth in the Irish economy has not stood out relative to rates in the euro area. Average weekly earnings grew by 5.3% in the 12-months to Q3 2024 to €955 (or €49,700 annually). We expect the tightness of the Irish labour market will lead to sustained average earnings growth of 4.5% in 2025 and 4% in 2026.

Labour Market Forecasts	2024(e)	2025(f)	2026(f)
Employment	2.9%	2.2%	1.5%
Unemployment Rate	4.3%	4.3%	4.2%

Source: Bank of Ireland, Central Statistics Office

Consumer

Consumer spending to accelerate to 3% in 2025

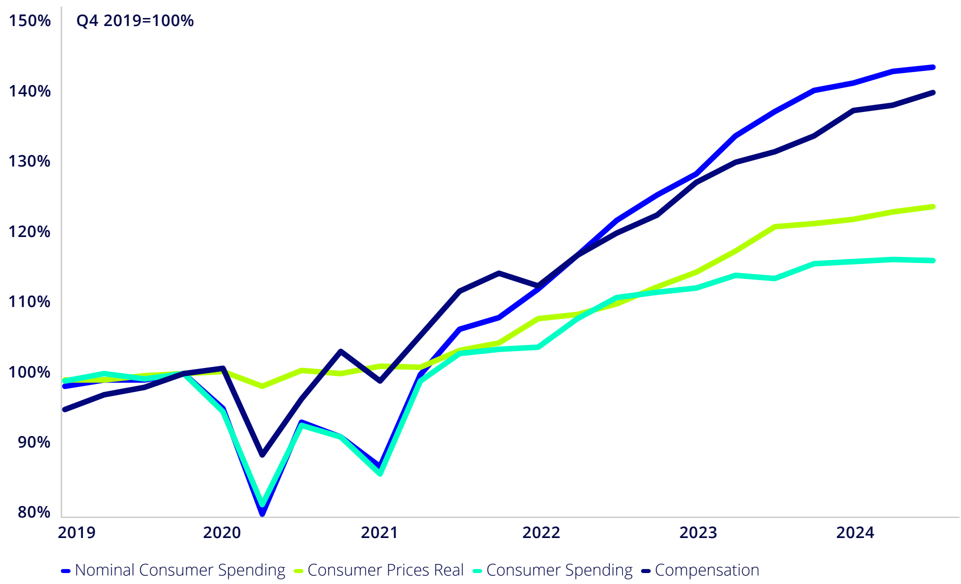
Irish consumer spending growth revised down

We have revised down our forecast for Irish consumer spending growth in 2024 to 2.2%. This reflects the surprising 0.2% fall in Q3 2024, up 1.7% on the year, despite robust jobs and income growth on the quarter. Hence, there was quite a sharp rise in the household savings ratio to 14.1% in Q3 2024, above the long-run average.

At face value, the data suggest Irish households have decided to raise savings, rather than sustain real spending, given pressure on real incomes from CPI inflation. However, credit card data and VAT receipts have pointed to stronger spending than the official CSO data suggest. In the fullness of time consumer spending growth could be revised up.

Core retail sales volumes rose by 1.0% in the three-months to December. The broad picture remains that Ireland's exceptional pace of employment growth has driven robust gains in consumer spending in 2024.

Household Incomes and Spending



Source: Central Statistics Office

Looking forward to 2025 we are sticking with our forecast for a robust 3% rise in real consumer spending. Although, we expect jobs growth to slow to 2.2%, wage growth of 4.5% will exceed CPI inflation so that real incomes continue to expand. We also assume only a slight drop in the household savings ratio to 13.6% in 2025 and 13.2% in 2026. One upside risk to our projections is that the savings ratio falls more rapidly.

Forecasts for Consumer Spending	2023	2024(e)	2025(f)	2026(f)
Compensation	10.9%	6.7%	6.8%	5.5%
Gross Disposable Income	11.0%	6.5%	5.0%	4.5%
Savings Ratio	13.9%	13.8%	13.6%	13.2%
Nominal Spending	13.2%	6.5%	5.3%	5.0%
Consumer Expenditure Deflator	8.1%	3.9%	2.2%	2.0%
Real Spending	4.8%	2.2%	3.0%	2.9%

Source: Bank of Ireland, Central Statistics Office

Investment

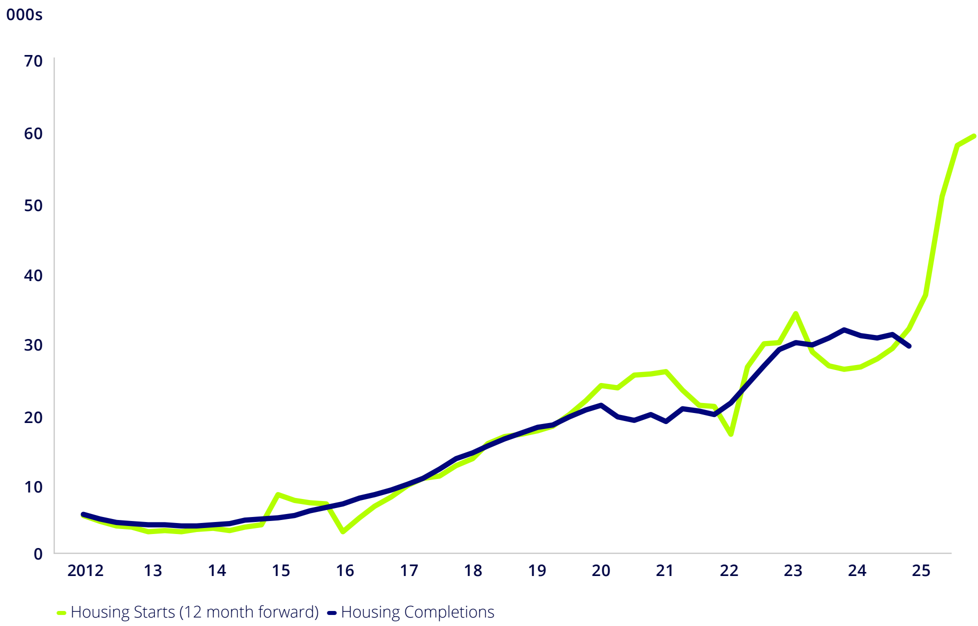
Investment spending to be spurred on by construction sector

Completions down 7% on the year

There were 30,330 housing completions in 2024, below our previous forecast for 33,000. This error mainly reflected volatile apartment completions in the final quarter, which could bounce back. Looking forward the outlook for completions is exceptionally uncertain.

There were 60,000 housing starts in 2024, at face value pointing to a rapid acceleration in activity. However, this reflects a rush of activity ahead of the expiration of waivers on local authority development levies and water infrastructure charges. It remains to be seen when these starts will translate into final completions. For now, we are sticking with our forecast for 42,500 completions in 2025, but this forecast is especially uncertain.

Housing Starts and Completions



Source: Central Statistics Office

Non-residential construction to contract again this year

Non-residential construction looks set to contract for a fifth consecutive year, down 2.3% in calendar year 2024, but was up 3.4% in the year to Q3 2024. We see this modest rebound continuing in 2025. Here, the expansion of public sector capital investment will help. Machinery and equipment spending has started to contract, but from exceptionally high levels, largely driven by data centres. Total core investment is expected to rise 7%, driven by homebuilding.

Forecasts for Investment Spending	2024(e)	2025(f)	2026(f)
Residential	-6.9%	40.3%	5.9%
Non-Residential Construction	-1.3%	2.5%	3.5%
Machinery and Equipment (Core)	-1.3%	-4.5%	-5.0%
Intangible Assets	-50.0%	43.4%	0.0%
Total Investment	-25.4%	18.2%	1.1%
Core Investment	4.1%	7.0%	1.8%

Source: Bank of Ireland, Central Statistics Office

Housing Market

Revising up our forecast for 5% rise in house prices in 2025

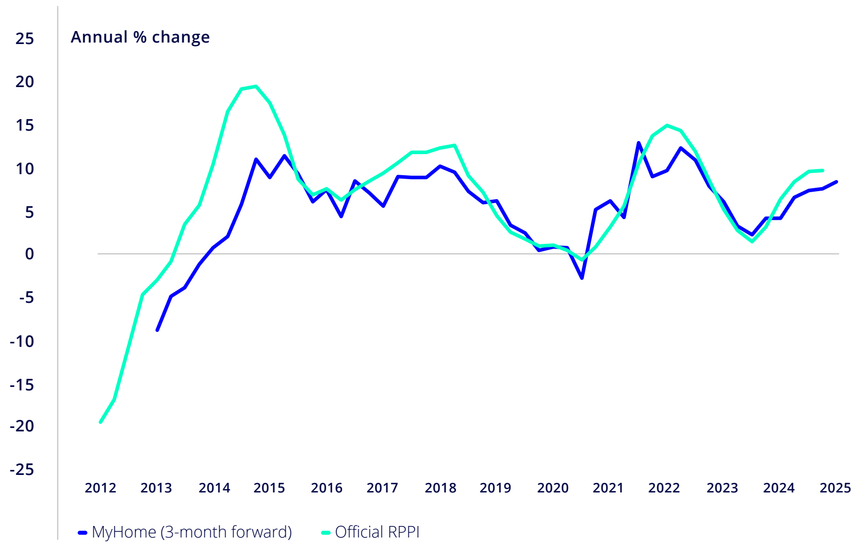
The Residential Property Price Index (RPPI) rose by 9.4% in the year to November.

The Residential Property Price Index (RPPI) rose by 9.4% in the year to November. That MyHome asking price inflation was 8.4% in Q4 2024, points to this momentum being sustained into 2025, given the usual 5-6 month lag between properties listed for sale and final transaction being completed (see chart below).

Recent mortgage market data also point to further house price rises. The average mortgage approval for house purchase was €325,500 in November, up 7.9% on the year. This is being driven by a combination of rising incomes and leverage. That is, that average earnings rose by 5.3% in the year to Q3 2024. The average first-time-buyer loan-to-income ratio rose to 3.37x in H1 2024, up from 3.3x in 2023.

We have revised up our forecast for Irish residential property price inflation to 5% in 2025. This reflects our view the process of rising leverage in the mortgage market has further to play out, and also the greater momentum we have already seen in house prices in H2 2024.

MyHome Asking Price and Residential Property Price Inflation



Source: MyHome, Central Statistics Office

Residential transaction volumes fell slightly

We estimate that residential transaction volumes fell slightly, by 1%, to 62,900 in 2024. This fall was entirely accounted for by lower mortgage lending volumes to movers (already with mortgage debt), falling 3.4%. In contrast, first-time-buyer lending volumes rose slightly by 1.8%. Hence, despite the dis-improvement in housing market liquidity, the stock of mortgage lending rose by 2.9% in the year to November, to €85.4bn.

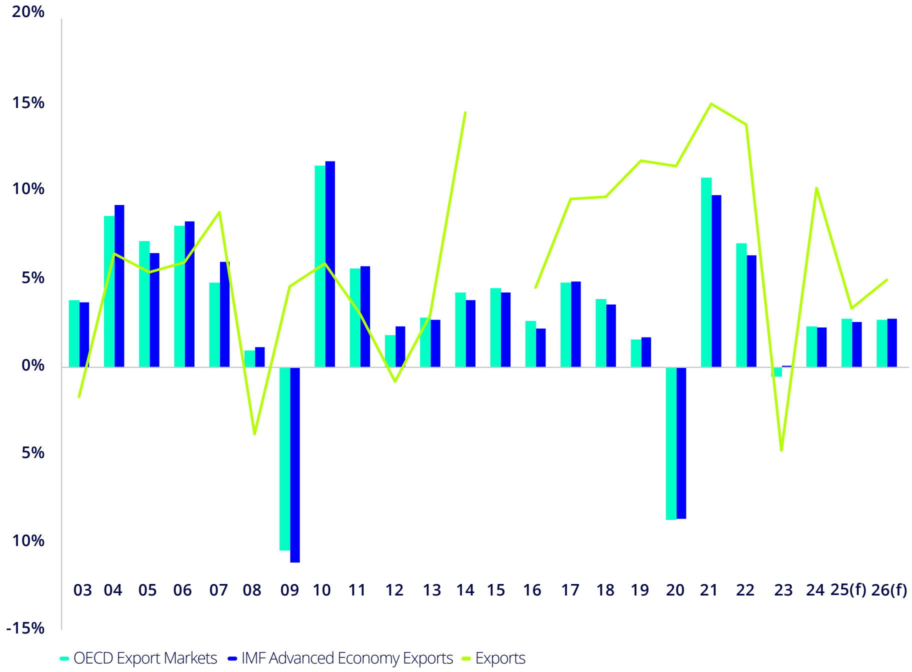
Exports

Ireland's defensive export sector still resilient

Ireland's export performance in 2024 looks to have been resilient

Once statistical issues related to the multinational sector are stripped out Ireland's export performance in 2024 looks to have been resilient despite challenging global demand conditions. Once again, the 'defensive' nature of the Irish export sector been evident. That is, the concentration in less cyclical sectors such as agri-food, information communications technology and pharmaceuticals/med-tech.

Irish Export and Export Markets



Source: Central Statistics Office

...but underlying position appears healthy

The table below illustrates that Irish services exports have performed particularly well in 2024. This included a 17% rise in the nominal value of computer services exports to €66.5bn in Q3 2024 and a 7% rise in business services to €19.3bn. Pharmaceuticals have recorded particularly strong growth in 2024, up 18.5%. However, even excluding the pharmaceutical sector and volatile other transport equipment, goods exports have expanded by a healthy 7.4% pace in 2024. The small 0.5% contraction in goods exports, highlighted in the table below, entirely reflects 'contract manufacturing', goods produced abroad but where the revenues are counted in Ireland.

Our forecast is for Irish exports to grow by 3.4% in 2025 and 5% in 2026, returning close to the historical average, once statistical distortions dissipate.

Irish Export Performance	2021	2022	2023	2024(e)
Total Exports	14.1%	13.5%	-5.8%	10.3%
Goods	18.4%	22.6%	-13.8%	-0.5%
Services	10.2%	5.4%	2.2%	18.0%

Source: Bank of Ireland, CSO, OECD

Inflation

Public spending will support domestic demand in 2025

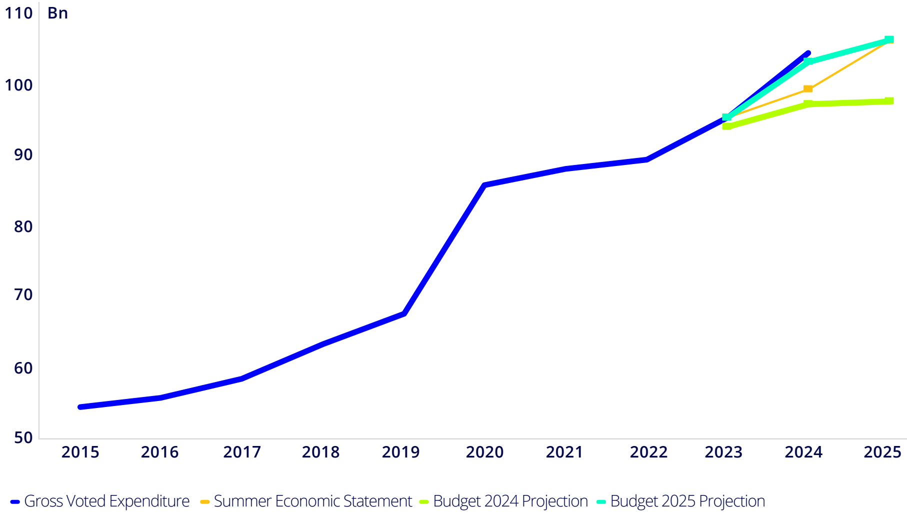
The Department of Finance has indicated that a general government surplus worth €21.9bn is likely

Following the publication of December's exchequer returns the Department of Finance has indicated that a general government surplus worth €21.9bn, or 7% of GNI*, is likely following the collection of the final tax revenue and spending data for 2024.

The chart below illustrates that total gross voted expenditure in 2024 was €103.7bn, up 9.5% on the year, and also well above the €96.6bn originally forecast. Budget 2025 had indicated this rapid growth of expenditure would slow rapidly, so spending would rise by just 3% to €105.5bn in 2025.

The Irish Fiscal Advisory Council (IFAC) has drawn attention to a number of factors which suggest spending growth will once again beat the official projections in 2025. For example, the Budgetary projections did not include a €2bn spending over-run expected in 2024. Hence, we have pencilled in 5% growth in nominal public spending in 2025, making a stronger contribution to domestic demand.

Gross Voted Expenditure



Source: Department of Finance

Looking ahead to 2025 we are forecast a general government surplus of €8.5bn

Looking ahead to 2025 we are forecast a general government surplus of €8.5bn, or 2.6% of GNI*. This means the government debt/GNI* ratio will fall to 66%. This is only slightly smaller than the Department of Finance's projection for a €9.7bn surplus. This small gap, despite our spending assumption, is because we also believe the official forecast for just 3% underlying growth in tax revenues is also too cautious. Our assumption is that tax revenues will grow by 6%.

	2024(e)	2025(f)	2026(f)
General Government, Bn	21.9	8.5	8.4
% GNI*	7.1%	2.6%	2.5%
Debt Bn	217	211	213
% GNI*	71%	66%	63%

Source: Bank of Ireland, Department of Finance

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