

Ireland Outlook

February 2019


Solid economic growth but heightened risks

Strong domestic activity, robust exports and broad-based job creation were the hallmarks of Ireland's economic performance last year. The picture for the coming years is similar, albeit the pace of growth is expected to moderate a little as the economy uses up its available resources. Having expanded by an estimated 6.8% in 2018, **GDP** is projected to increase by **4.5% this year** and by **3.6% in 2020**. A key assumption here is that current UK-EU trading arrangements continue to apply over the forecast horizon. While Brexit is slated for March 29th 2019, things are still very much up in the air. This uncertainty has been chipping away at consumer and business confidence - our Economic Pulse sentiment tracker has headed south in recent months - with softer growth prospects for the US and euro area a further headwind for the economy. But with household incomes rising, building continuing and FDI gains, the outlook for consumer spending, investment and exports is positive in the main. The same goes for the labour market. We expect the **unemployment** rate to fall **below 5%** sooner rather than later meaning 'full employment' is now in sight. Typically, it is at this stage of the economic cycle that wage pressures begin to build and **overheating risks** emerge. In the case of a **'no deal' Brexit** though, substantially lower GDP growth is likely and we will be looking at a whole **other** set of **challenges**.



Economic Overview

Investment

Construction activity 

House completions **c.18,000** in 2018

Majority expect house prices and rents to increase in next 12 months

Ongoing **FDI** investments

2/3

Two in three businesses plan to expand in next 1-3 years

Consumer

Retail sales  **3.8%**
YoY 2018 

Households' income 

Debt ratio 

 One in three expect the economy to improve in next 12 months

Brexit related uncertainty a concern

Labour Market

Jobs 

Unemployment rate **5.3%**
January 2019

Net inward migration 

Hourly earnings up **2.7%** YoY Q1-Q3 2018

Exports

Exports  **9.2%**
YoY Q1-Q3 2018

Trading partners growing   

Weak **£** a headwind

Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2018e	6.8%	3.0%	-2.8%	7.8%	3.0%	5.7%	0.5%
2019f	4.5%	3.0%	6.0%	5.5%	2.5%	5.0%	0.9%
2020f	3.6%	2.7%	5.0%	4.8%	2.0%	4.7%	1.5%

Risks

Stronger domestic activity 

Relocating FDI

Softer global growth

Brexit 

Note: Current UK-EU trading arrangements are assumed to apply over the forecast horizon

Sources: Bank of Ireland, CSO, IDA, IMF, Bloomberg, Central Bank of Ireland

Consumer

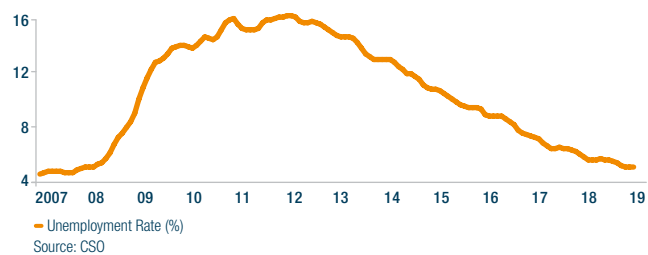
Spending rising

Consumer spending rose by 3.1% year-on-year in the first three quarters of last year. Retail sales in the fourth quarter were also healthy but new car sales continued to struggle as 2019 got underway.



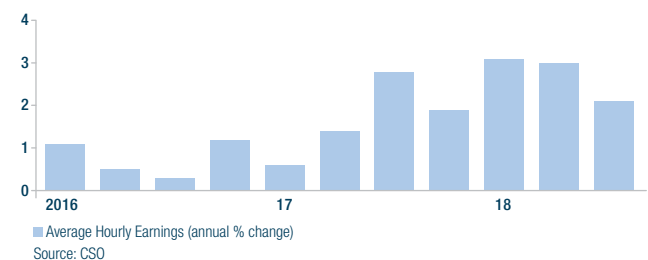
Further job gains

There was an annual employment gain of 66,700 or 3.0% in Q3 2018. The number at work is at a new peak, with the unemployment rate down to 5.3% at the turn of the year.



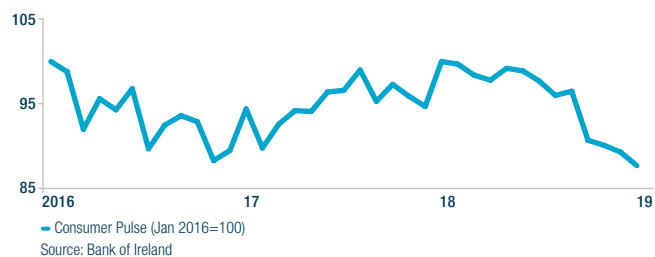
Earnings increasing

Hourly earnings were up 2.7% year-on-year over the period Q1-Q3 2018. Around one in two workers is expecting a pay rise this year, while 44% of firms plan on increasing basic wages.



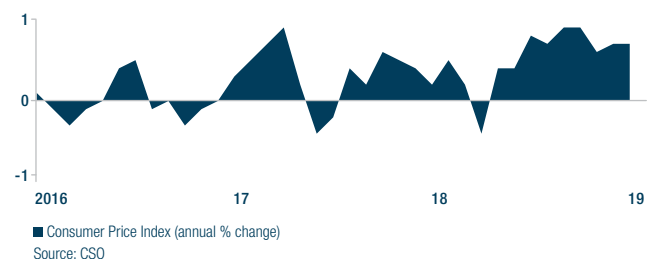
Softer sentiment

The Consumer Pulse has been slipping since last summer and reached a low point at the start of 2019 as households fret about the outlook for the economy amid Brexit concerns.



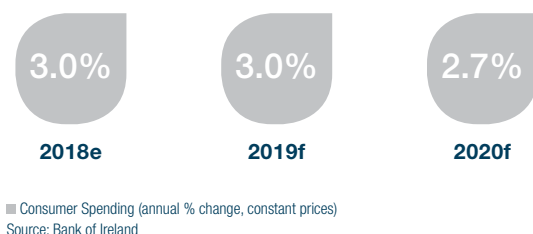
Little inflation yet

Consumer price inflation ticked up very modestly last year to 0.5%. Looking ahead, lower oil prices will keep a lid on things even as domestic pressures and Budget 2019 measures provide some impetus.



Positive demand

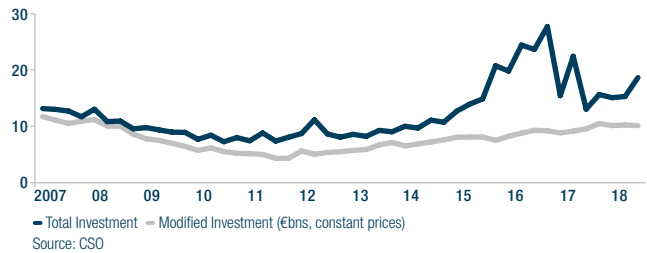
With households' debt falling and disposable incomes rising (the ratio was down to 125.8% in Q3 2018), increases in consumer spending are in prospect for this year and next.



Investment

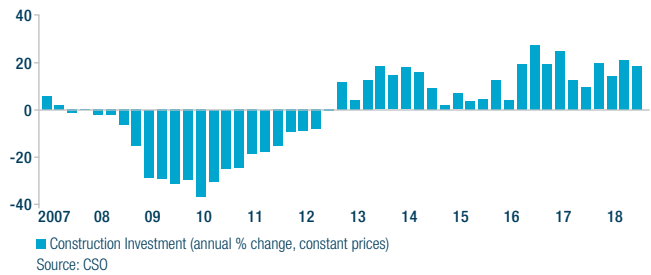
Globalisation distortions

Total investment fell 4.4% year-on-year in the first three quarters of last year, with weak R&D related intellectual property imports accounting for much of the slump. The modified measure which excludes these rose 10.4% though.



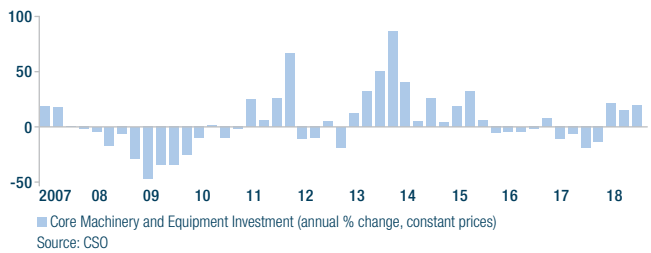
Construction on the up

Construction activity is continuing apace, with healthy gains across the various sectors. On the housing front, 18,072 new units were completed in 2018, up 25.4% on the previous year.



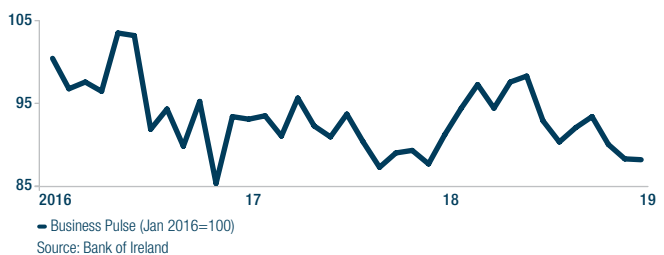
Business investment gains ground

Helped by the expanding global economy and increasing activity at home, core machinery and equipment investment rebounded in 2018, rising 18.8% year-on-year in the first three quarters.



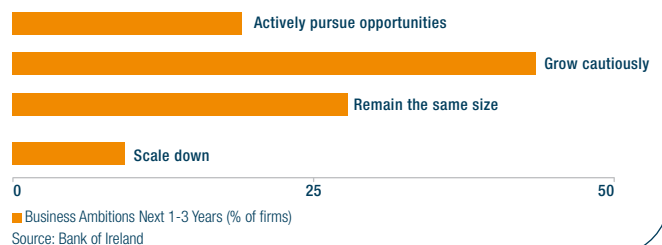
Sentiment at a low ebb

Brexit uncertainty is weighing on sentiment – international trade tensions have not helped either - with the Business Pulse easing over the latter half of last year and starting this year on a soft note.



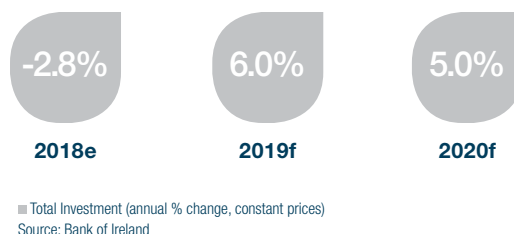
Ambitions mixed

While a number of firms impacted by the UK's decision to leave the EU have put their investment plans for 2019 on hold, about two in three businesses remain on a growth trajectory and plan to expand over the next one to three years.



Outlook broadly favourable

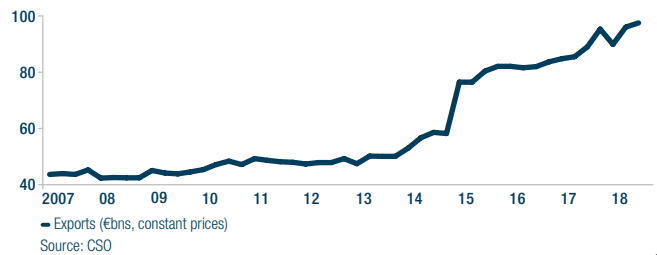
Looking past globalisation effects, underlying investment is expected to put in a solid performance over the forecast horizon.



Exports

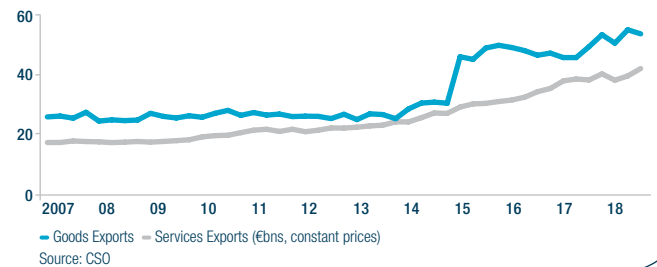
Exports growing

Exports were up 9.2% on an annual basis in the first three quarters of last year, while imports increased by 2.4% over the same period.



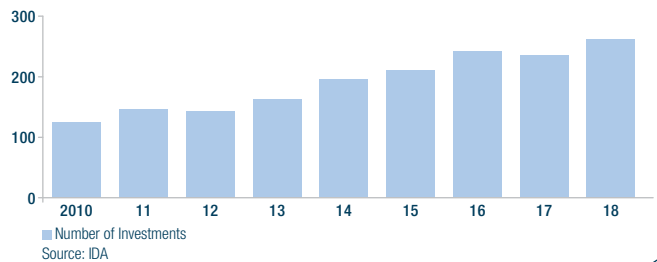
Goods leading the charge

Both goods and services exports rose year-on-year in Q1-Q3 2018, with goods - driven by the pharmaceutical / chemical sector - posting especially strong growth.



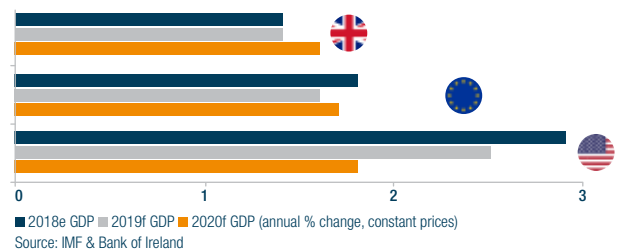
Ongoing FDI

FDI is delivering export orientated business and jobs. The number of investments rose in 2018, with the IDA securing over 55 Brexit related investments in the past couple of years.



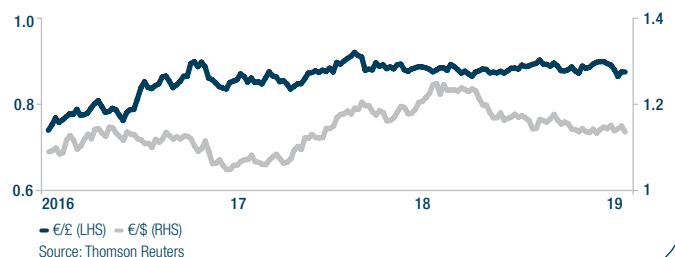
Trading partners expanding

Growth in the US and the euro area is set to moderate a bit but to remain positive over the forecast horizon, while the outlook for the UK economy is Brexit dependent.



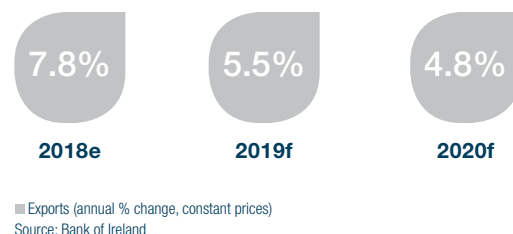
Weak pound

Sterling has firmed to about 88p against the euro lately. This level still puts exporters at a competitive disadvantage, with Brexit related volatility likely over the coming months.



Some headwinds

Solid export growth is on the cards for 2019 and 2020, although a pronounced global slowdown and Brexit developments are risks.

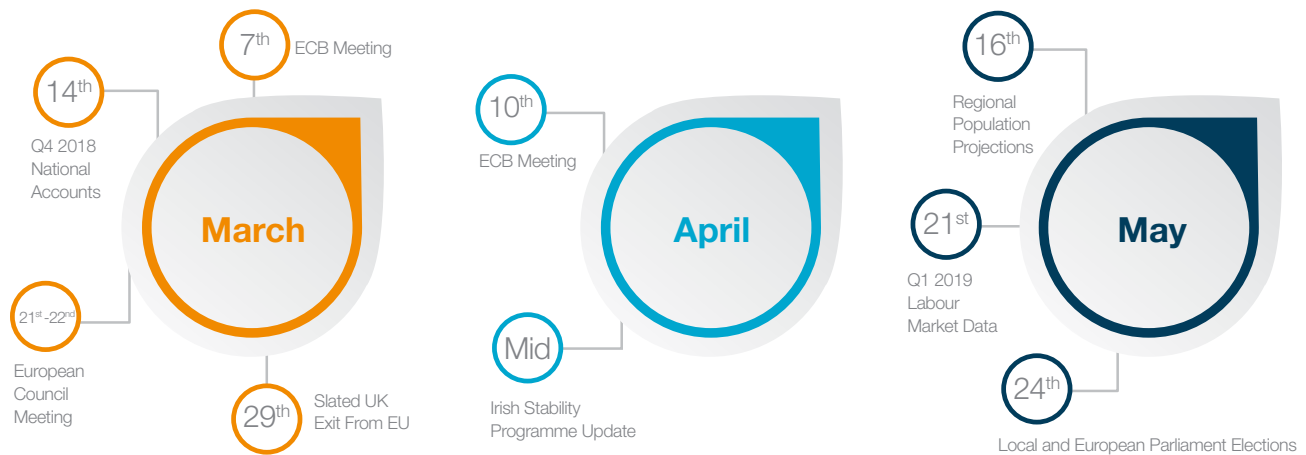


Forecasts

	2018 (e)	2019 (f)	2020 (f)
Personal Consumption	3.0%	3.0%	2.7%
Government Consumption	5.0%	4.5%	3.0%
Investment	-2.8%	6.0%	5.0%
Exports	7.8%	5.5%	4.8%
Imports	3.7%	5.3%	4.8%
GDP	6.8%	4.5%	3.6%
GNP	6.8%	4.2%	3.3%
Employment	3.0%	2.5%	2.0%
Unemployment Rate (Average)	5.7%	5.0%	4.7%
CPI	0.5%	0.9%	1.5%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices
Current UK-EU trading arrangements are assumed to apply over the forecast horizon

Upcoming Events



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