

Ireland Outlook

July 2019


Economy faring well against a challenging backdrop


These are **testing times** for the Irish economy. The external environment is unsettled with Brexit still up in the air and heightened tensions on the global trade front. At home, available resources are rapidly being used up and as we are now effectively at 'full employment', talk of overheating risks has increased. So far though upward wage and price pressures have been kept in reasonable check, at least at the aggregate level.

Activity has also been **holding its own**. Indeed, **GDP** growth proved stronger last year than the CSO initially thought and surprised to the upside in the opening quarter of this year too, prompting us to nudge up our forecast for **2019** as a whole to **4.8%** (previously 4.5%) and to lift our **2020** number to **3.8%** (from 3.6%). With FDI and relatively acyclical, multinational-dominated sectors like ICT and pharma-chemicals going strong, exports are expected to do well over the coming years. The domestic economy is also set to expand as construction activity and consumer spending continue at a decent clip; albeit sentiment could well be ropery given the uncertain backdrop in the UK and beyond, tempering business investment in particular. While our projections assume that current UK-EU trading arrangements apply over the forecast horizon - consistent with a further extension of Article 50 or a transition period - fears of a **'no deal' Brexit** have risen lately. If the latter was to materialise, then the **picture** would be a lot **less benign**, with substantially lower GDP growth in store and difficult policy choices to be made.

Economic Overview

Investment

Construction activity 

House completions  **23.2%** YoY Q1 2019

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

FDI continuing

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Three in five businesses plan to expand in next 1-3 years

Consumer

Retail sales (ex cars)  **3.6%** YoY May 2019 

Households' income 

Debt ratio 

 Brexit uncertainty keeping a lid on consumer and business sentiment

Labour Market

Jobs 

Unemployment rate **4.5%** June 2019

Net inward migration 

Hourly earnings up **2.3%** YoY Q1 2019

Exports

Exports  **13.8%** YoY Q1 2019

Trading partners growing   

Weak **£** and international trade tensions are headwinds

Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2018	8.2%	3.4%	-21.1%	10.4%	2.9%	5.7%	0.5%
2019f	4.8%	2.9%	5.0%	8.5%	3.2%	4.6%	1.0%
2020f	3.8%	2.7%	4.8%	5.5%	2.3%	4.2%	1.5%

Risks

Stronger domestic activity 

Relocating FDI

Softer global growth 

Brexit

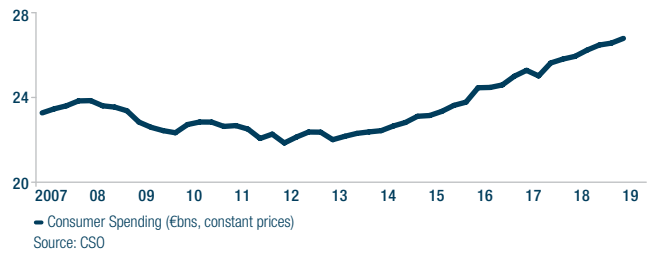
Note: Current UK-EU trading arrangements are assumed to apply over the forecast horizon consistent with a further extension of Article 50 or a transition period

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

Consumer

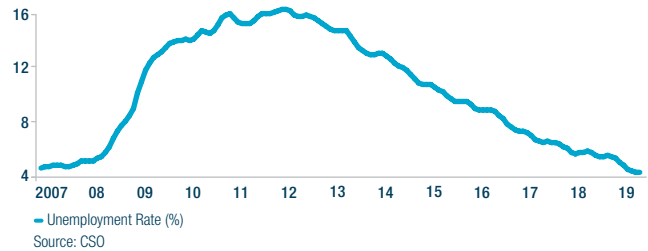
Spending up

Consumer spending was up 2.9% on an annual basis in Q1 2019, with retail sales excluding cars - which have been sluggish - also healthy in April and May.



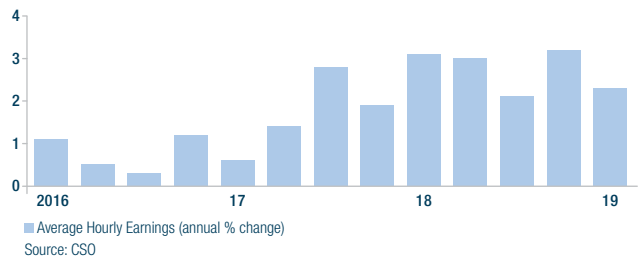
Full employment

81,200 jobs were created in the year to Q1 (an increase of 3.7%) bringing the total number in work to over 2.3 million, while the unemployment rate came in at 4.5% in June.



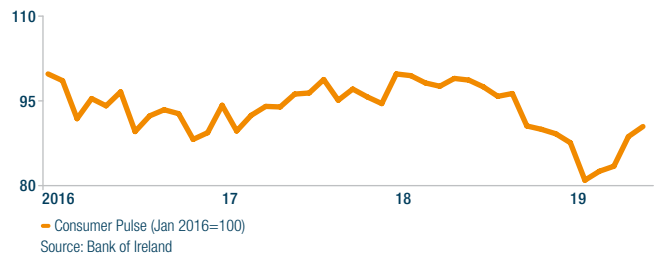
Earnings rising

Hourly earnings grew by 2.3% year-on-year in the first quarter with further gains on the cards as the labour market continues to tighten.



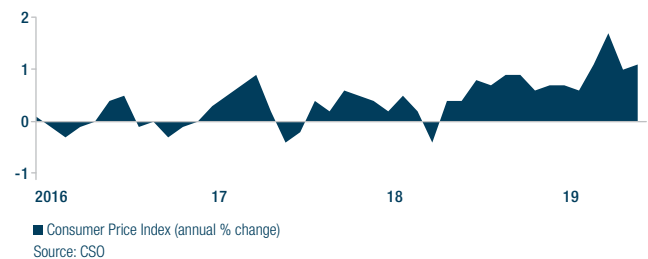
Brexit jitters

The Consumer Pulse hit a low point in early 2019 before recovering some ground but households remain nervous about Brexit and what it might mean for the economy.



Inflation edging up

Annual consumer price inflation averaged 1.0% in the first half of this year and is expected to tick up a little next year as domestic pressures build.



Positive outlook

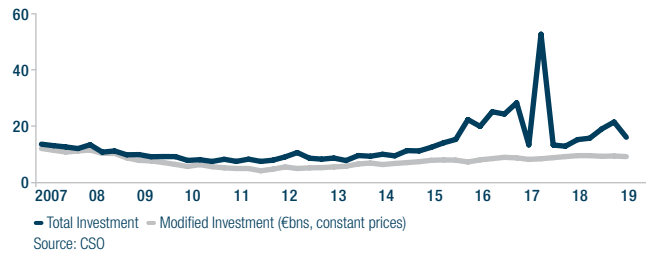
Buoyed by favourable labour market conditions, consumer spending is set to put in a good performance over the forecast horizon.



Investment

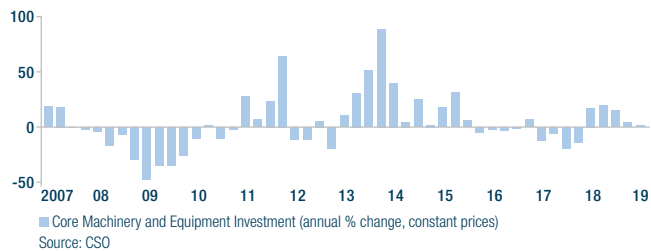
Mixed picture

Total investment rose by 4.9% year-on-year in Q1 2019, but was down 3.7% on a modified basis (which excludes volatile R&D-related intellectual property imports and aircraft leasing).



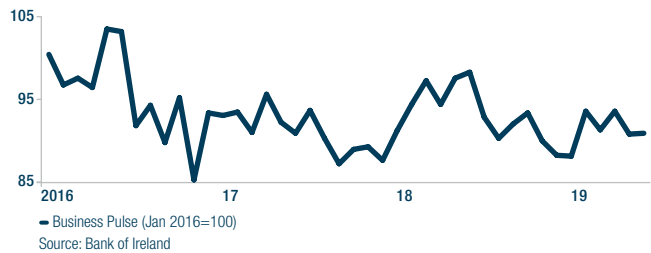
Weak business investment

With a number of firms impacted by the UK's decision to leave the EU putting their plans on hold, core machinery and equipment investment growth was weak in Q1 at 1.2% year-on-year.



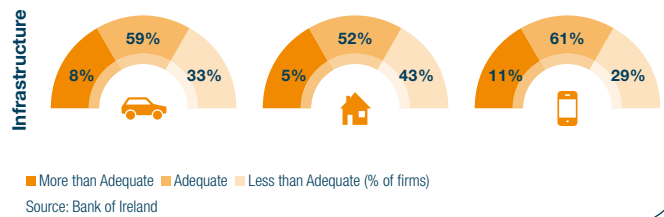
Sentiment subdued

The Business Pulse has been soft in recent months, with fears of a 'no deal' Brexit and global trade tensions weighing on the mood.



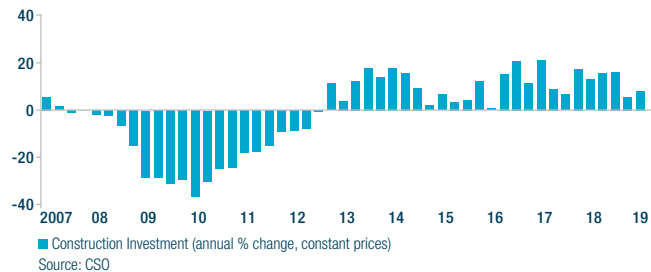
Infrastructure bottlenecks

With the economy operating more or less at full capacity, infrastructure in areas like transport, housing and telecommunications is coming under strain.



Construction advancing

Positively though new home completions were up 23.2% year-on-year in the first quarter, while total construction activity posted an annual gain of 8.3%.



Investment growth

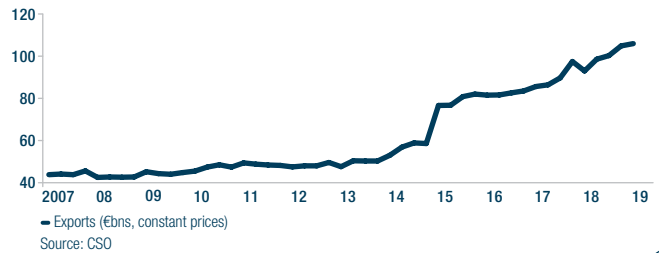
Brexit uncertainty is a concern but with FDI and housing demand lending support, investment growth is on the cards in 2019 and 2020.



Exports

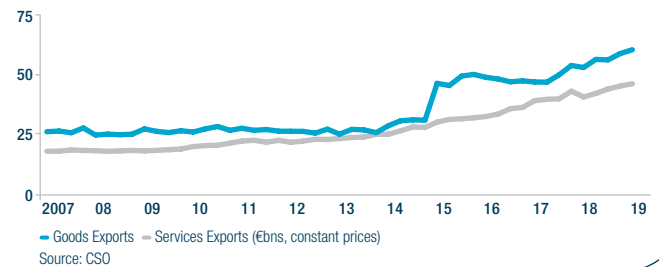
Robust exports

Trade made a positive contribution to GDP growth in the opening quarter of 2019 on foot of a 13.8% year-on-year increase in exports.



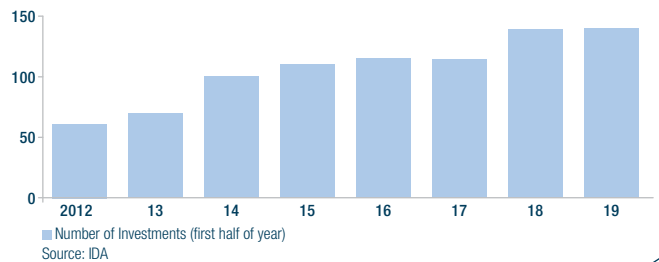
High tech sector doing well

Goods exports were up 14.1% in the year to Q1 with services - boosted by the multinational ICT sector - posting growth of 13.4%.



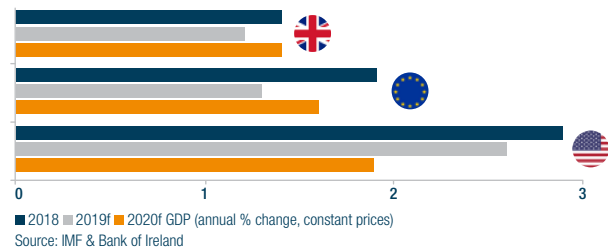
FDI continuing

FDI remains healthy, with the IDA reporting another 140 investments in the first half of this year and over 80 Brexit-related projects since June 2016.



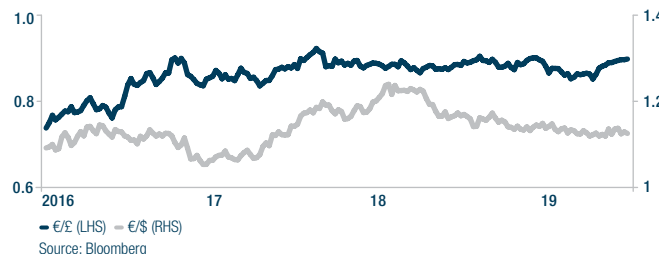
Global headwinds

Our main trading partners are growing, albeit trade tensions are a downside risk for the US and Euro area while Brexit is clouding the situation in the UK.



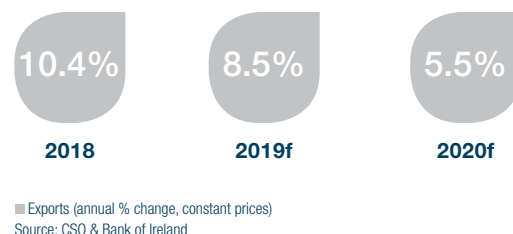
Currency moves

Though more or less steady against the dollar, the euro has firmed lately against sterling, touching off 90p and putting Irish exporters under pressure.



Further gains

Notwithstanding the unsettled external backdrop, export growth is expected to hold up well this year and into next.

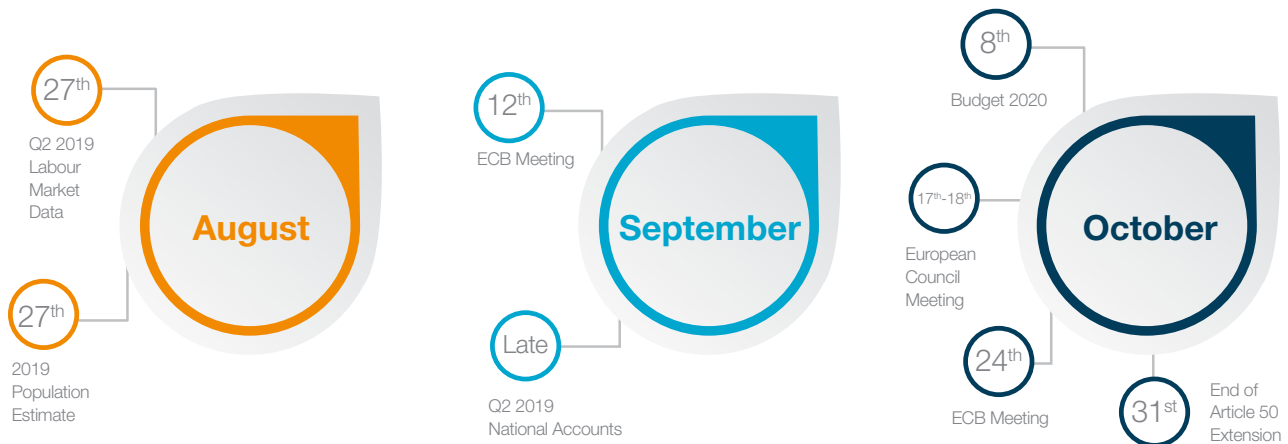


Forecasts

	2018	2019 (f)	2020 (f)
Personal Consumption	3.4%	2.9%	2.7%
Government Consumption	4.4%	4.5%	3.0%
Investment	-21.1%	5.0%	4.8%
Exports	10.4%	8.5%	5.5%
Imports	-2.9%	9.3%	5.8%
GDP	8.2%	4.8%	3.8%
GNP	6.5%	4.2%	3.3%
Employment	2.9%	3.2%	2.3%
Unemployment Rate (Average)	5.7%	4.6%	4.2%
CPI	0.5%	1.0%	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 consistent with a further extension of Article 50 or a transition period

Upcoming Events



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