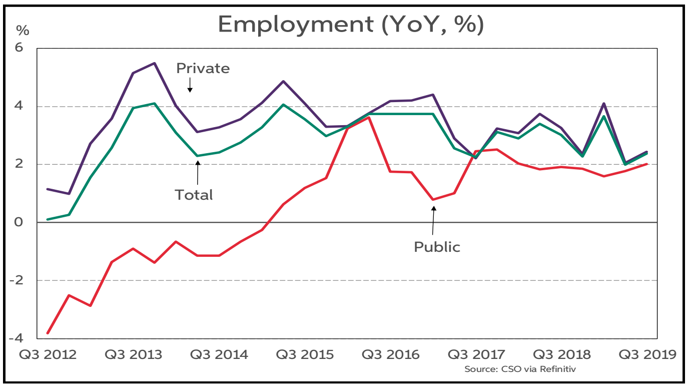
Irish Economy Update

AIB Treasury Economic Research Unit

November 2019

Irish economy proving resilient to external headwinds...

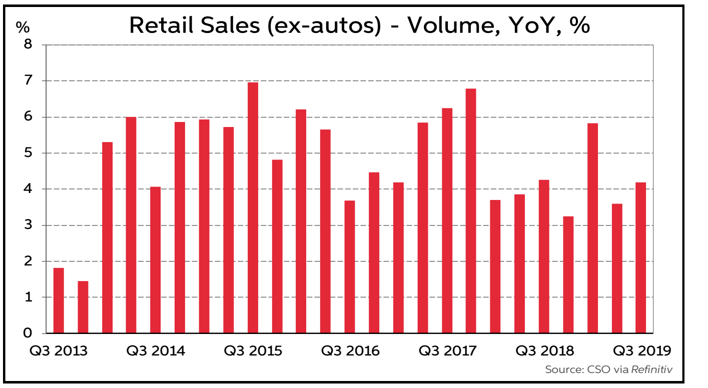
The labour market data published by the CSO last week for the third quarter of the year paint a very encouraging picture of the Irish economy, given the loss of momentum seen in other economies this year. Employment rose by over 17,000 or 0.8% in the quarter. This left employment 2.4% higher on an annual basis, with the economy adding almost 54,000 jobs in the year.



Granted, employment growth has slowed somewhat in 2019 from the 3.0-3.5% range seen in recent years. However, the Irish economy is still enjoying strong jobs growth even though it is getting closer to full employment and at a time when the global economy has lost considerable momentum. Inward migration is an important source of new labour supply, with over one-third of the growth in employment in the past year accounted for by non-Irish nationals, in particular non-EU workers.

The unemployment rate continues to move lower, albeit at a slower pace than in recent years. The jobless rate fell to 4.9% in the third quarter, down from 5.2% in the previous quarter. Most encouragingly, the long-term unemployment rate has fallen to just 1.4%. The economy, then, is getting very close to full employment.

Other data also show that the Irish economy is holding up well in the face of weaker global growth and the considerable uncertainty surrounding Brexit this year. Core retail sales (i.e. excluding the motor trade) rose by 1.6% in quarter three for a year-on-year gain of 4.6%. Total car registrations (new and second hand imports) to date in 2019 have matched the high levels reached last year. Overall, growth in consumer spending has remained solid this year, underpinned by rising employment and wages.



Exports are also performing well, though the data can be distorted, especially on the goods side. Notably, service exports rose by almost 15% in the first half of the year. Business investment, however, has been held back this year by the uncertainty around Brexit.

Construction output was up by 7% in the opening half of the year, driven by the continuing pick-up in house building activity. New house completions rose by 18% in the first three quarters on the year and are on track to reach around 21,500 in 2019, up from 18,000 in 2018. This is still well short of estimated annual housing demand, put at circa 35,000 units.

The impressive performance of the economy is reflected in good growth in tax receipts, which were up by 6.7% to end October. Corporation tax receipts are again ahead of expectations, while the other main tax heads are in line with forecast. As a result, the budget surplus is expected to increase modestly this year.

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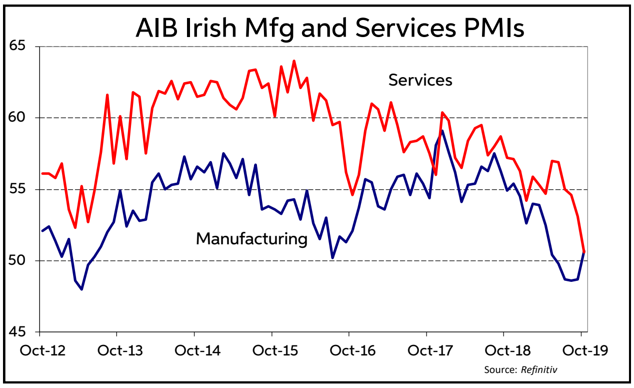
...but survey data have weakened a lot



There are some warning signs, though, on the economy. Business activity surveys have weakened considerably since earlier in the year, while consumer confidence has fallen sharply in recent months. New orders, hiring intentions, investment activity, household sentiment and business expectations have all taken a hit since mid-year.

While the Irish economy has been able so far to weather the global slowdown and Brexit uncertainty, surveys such as the Purchasing Manager Indices for the manufacturing, services and construction sectors suggest that activity will soon weaken if these headwinds persist. Thus, as we look to 2020, it is important that the global economy regains some momentum and Brexit risks subside if the Irish economy is to continue to perform strongly.

GDP growth has been inflated in recent year by the activities of some multi-national companies. GDP grew by over 8% in 2017 and 2018, but modified final domestic demand grew by average of 3.75%. It was up 3% yoy in Q2 2019, well below GDP growth. GDP is forecast to grow by 3.25% in 2020 and 3% in 2021 on the basis that the data are no longer distorted. This would be a good performance by an economy at virtual full employment.

AIB Irish Economic Forecasts

% change in real terms unless stated	2017	2018	2019 (f)	2020 (f)	2021 (f)
GDP	**8.1**	**8.2**	**5.0**	**3.25**	**3.0**
GNP	5.1	6.5	3.0	3.0	2.75
Consumption	3.0	3.4	3.0	2.5	2.2
Government Spending	3.9	4.4	4.0	3.0	3.0
Fixed Investment	-6.6	-21.1	51.5	6.0	5.0
Core Fixed Investment*	4.0	13.0	5.0	5.0	5.0
Exports	9.2	10.4	10.0	5.0	4.5
Imports	1.1	-2.9	23.5	5.5	5.0
HICP Inflation (%)	0.3	0.7	0.9	1.0	1.2
Unemployment Rate (%)	6.8	5.8	5.0	4.8	4.7
Budget Balance (% GDP)	-0.2	0.1	0.2	0.4	0.7
Gross General Gov Debt (% GDP)	68.0	63.5	59.3	55.5	55.0

*Excludes investment in aircraft and intangibles

Source: CSO, D/Finance, AIB ERU Forecasts

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