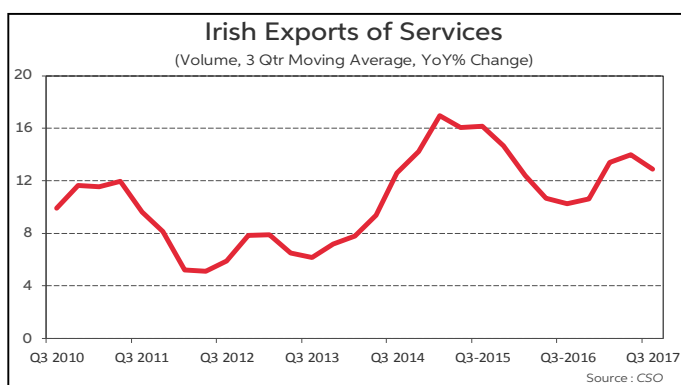


## Irish economy continuing to grow strongly

The past number of years have seen a stronger than expected recovery by the Irish economy. This has been led by robust export growth, but there has also been a strong rebound in domestic demand, including business investment, construction and consumer spending.

The economy performed strongly again in 2017. The latest National Accounts data show that GDP grew by 7.4% in the first three quarters of the year. However, Irish GDP figures are distorted by large flows related to the activities of some multi-national companies. A better measure of underlying activity is modified final domestic demand, which excludes factors such as intellectual property rights and aircraft leasing that distort GDP figures. It grew by 4.9% in the first three quarters of 2017.

Exports maintained their strong uptrend in 2017, with service exports rising by 13% in the first three quarters of the year. Construction continued to rebound, with output up by 17% to end September. House building continued to rise steadily, albeit from low levels. Housing commencements were up by 35% to end October and are likely to have totalled close to 18,000 last year. Completions were up by 27% to end October and are forecast at 19,000 for the year as a whole.

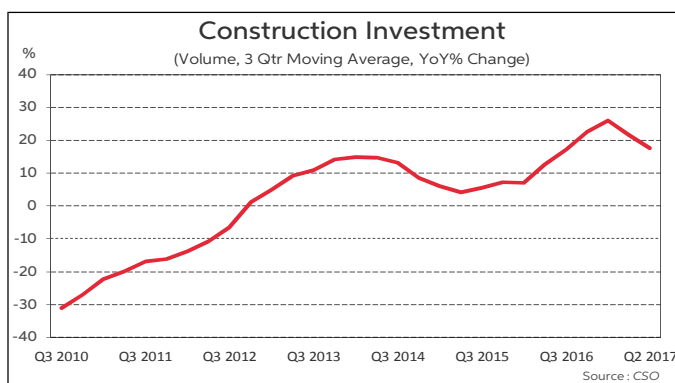


Business investment fell back in 2017, having doubled in the previous four years. After a prolonged period of weak activity, there may have been an element of 'catch-up' to the robust growth of business investment in recent years, which proved difficult to sustain in 2017. It may also be that the uncertainty around Brexit dampened business investment somewhat last year.

Consumer spending rose by 2% in the first three quarters of the year, well below the strong growth rates of 4.2% and 3.3% seen in 2015 and 2016, respectively. Core retail sales (i.e. excluding the motor trade), though, maintained their robust growth rate, rising by 6.6% in the first ten months of 2017.

However, there was a marked slowdown in the growth of car sales last year, following their return to relatively high levels by 2016.

Meantime, spending on services was particularly sluggish, showing no growth in the first three quarters of 2017. This looks very low, but could be revised higher as more data become available.



## Good growth expected again in 2018

The labour market remained strong this year, with employment expanding by an estimated 2.5%. Job growth was evident across nearly all sectors of the economy, with particularly strong employment gains in construction, I.T., and healthcare. Meanwhile, the unemployment rate had declined to 6.1% by November from 7.4% at end 2016.

Consumer price inflation remained very subdued reflecting global trends, modest wage growth and the strength of the euro against sterling. The HICP is expected to have risen by 0.3% in 2017, well below inflation in the Eurozone, UK and US.

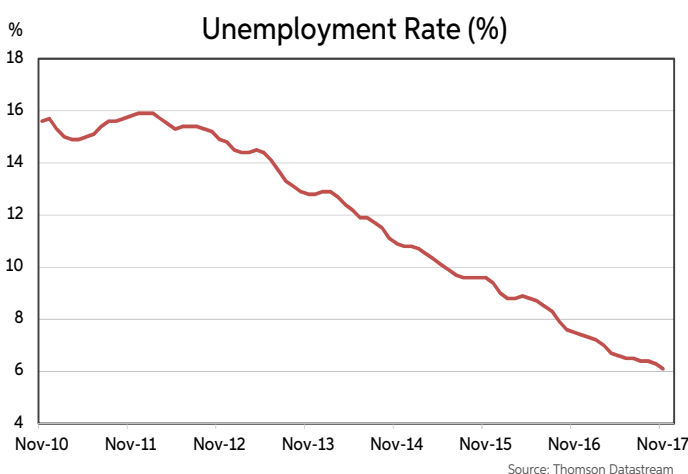
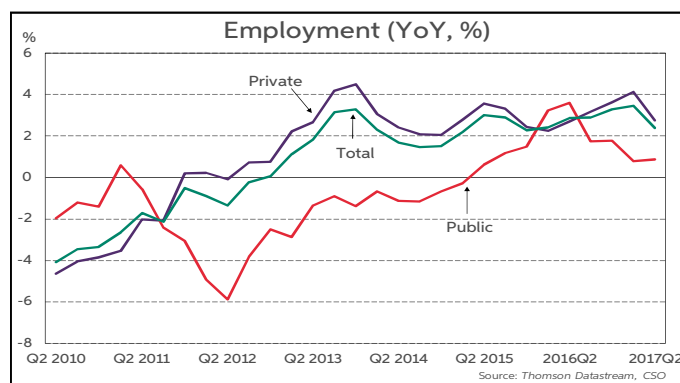
Most forecasters see economic growth slowing somewhat to 3.5-4.0% in 2018, with the uncertainty around Brexit, a slowdown in UK economic activity and the rise of the euro, especially against sterling, all seen as headwinds. However, this would still be a very good performance by the economy.

The favourable external environment will support exports, with domestic spending underpinned by continuing low interest rates and rising employment and incomes, as well as the ongoing rebound in construction activity. Leading indicators of activity also remain strong, pointing to continuing good growth.

Brexit, though, remains a concern. To date, there has been little impact on the Irish economy from Brexit. The associated sharp weakening of sterling, though, has clearly impacted those trading with the UK, as well as the number of British tourists coming to Ireland.

Overall though, Irish companies have become used to dealing with a weak and volatile sterling during the past decade. Furthermore, the Bank of England has observed that the progress made at the end of last year in the EU-UK Brexit negotiations has “reduced the likelihood of a disorderly exit”.

This is welcome news for Ireland. It is hoped that agreement can be reached in spring 2018 on a transition period being put in place when the UK departs the EU in March 2019 that leaves the current trading arrangements largely in place until 2021. This should allow for a soft Brexit and permit the talks to proceed to discussing the future trading relationship between the UK and EU.



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