

Ireland Outlook

February 2018

Economy powering on

Momentum in the Irish economy remains strong, with activity in the first three quarters of 2017 ahead of expectations and high frequency data indicating that this year got off to a good start. **GDP** is now estimated to have expanded by 7.0% last year (revised up from 4.8%) and we are bumping up our forecast for **2018** to **4.7%** (from 3.8% previously). Our first projection for **2019** sees **sustained growth**, albeit moderating a little to **3.8%** as spare capacity in the economy reduces (the status quo in terms of current UK-EU trading arrangements is also assumed). Looking beyond the headline numbers, **further job gains** and rising incomes are expected to underpin solid consumer spending in the period ahead. Underlying investment, especially construction activity, is set to expand as well, with exports continuing to benefit from the upswing in global activity. On the back of all this, employment growth in the region of 2.4% is in prospect for this year and 2.0% for next year, taking the **unemployment rate down to around 5%** by the end of 2019. There are clouds on the horizon however, not least uncertainty related to Brexit, the external policy environment and exchange rates. These aside, it is clear that the economy is back on its feet with a range of indicators above their previous peak and others not far off.

Economic Overview

Investment

Construction activity 

House completions  **29.1%** YoY 2017

Majority expect house prices and rents to increase in 2018

Steady flow of **FDI**

2/3

Businesses plan to expand in next 1-3 years

Brexit related uncertainty a concern

Consumer

Retail sales  **4.3%** YoY 2017 

New & imported cars  **1.1%** YoY January 2018 

Households' Income  Debt ratio 

 Over half expect the economy to improve in next 12 months

Exports

Jobs 

Unemployment rate **6.1%** January 2018

Net inward migration 

Exports  **5.1%** YoY Q1-Q3 2017

Trading partners growing   

48% of workers expect a pay rise in 2018

Strong **€** a headwind

Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2017e	7.0%	2.2%	-18.0%	5.0%	2.6%	6.8%	0.4%
2018f	4.7%	3.0%	2.5%	5.2%	2.4%	5.8%	0.8%
2019f	3.8%	3.0%	5.0%	4.5%	2.0%	5.2%	1.2%

Risks

Stronger domestic / global activity 

Relocating FDI

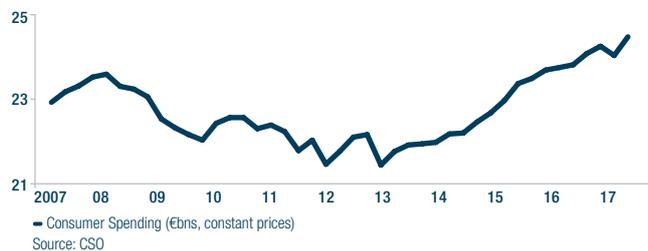
External policy environment 

Brexit

Consumer

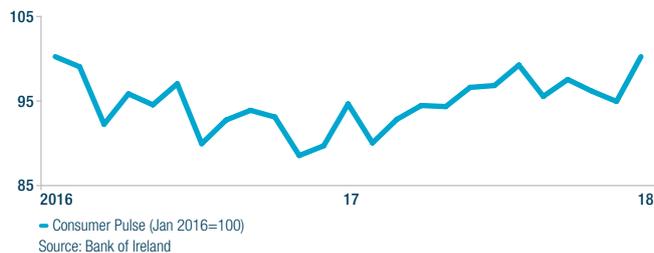
Spending at a new peak

Consumer spending rose by 1.9% year-on-year in the first three quarters of last year. The Q4 retail sales figures are also encouraging and while new cars started 2018 on a softer note, used imports surged.



Households upbeat

Household confidence has been on a broad upward trend in recent months and with the Budget 2018 changes to social welfare payments and income taxes lining pockets, the Consumer Pulse posted a two year high in January.



Job gains continuing

Employment growth averaged 2.8% year-on-year in Q1-Q3 2017, taking the number at work to 2.2 million and not far off its previous peak. At 6.1% in January, the unemployment rate remains on a firm downward path.



Finances in better shape

Hourly earnings were up 2.3% in the year to Q3 2017, with the prospect of further increases this year. The ratio of household debt to disposable income stood around 140% in Q3, well below its high point of c.215%.

48%

of workers expect a pay rise in 2018

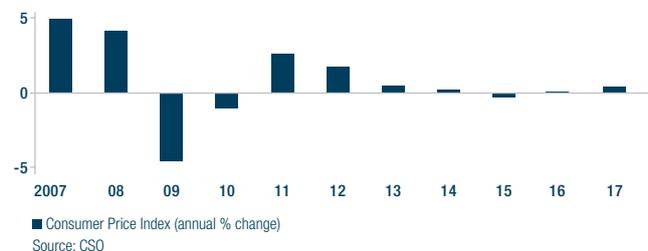
44%

of firms plan to increase basic pay

Source: Bank of Ireland

Subdued inflation

Consumer price inflation was subdued at 0.4% last year. The weak pound has been putting downward pressure on prices for some time now, but with spare capacity in the economy reducing, the rate of increase should start to edge up.



Strong tailwinds

Further job gains and rising incomes are expected to underpin consumer spending increases of the order of 3.0% in the coming years.

2.2%

2017e

3.0%

2018f

3.0%

2019f

Consumer Spending (annual % change, constant prices)
Source: Bank of Ireland

Investment

Globalisation effects at play

Total investment recorded a sharp year-on-year decline over the first three quarters of last year, whereas modified investment (which excludes volatile R&D related intellectual property imports & aircraft leasing) averaged double digit growth.



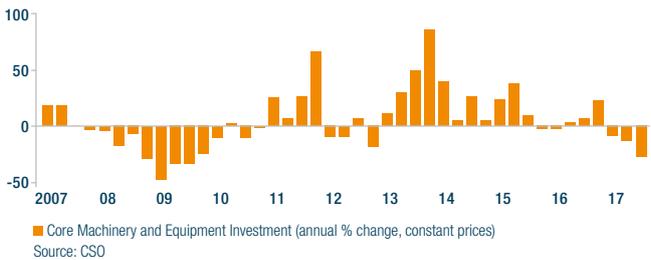
Construction activity on the up

Strong residential and commercial demand is supporting construction activity, though new housing is still in short supply and putting upward pressure on prices and rents.



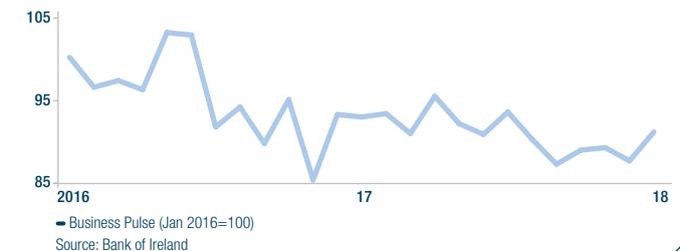
Weak business investment

Core machinery and equipment investment was down 16.6% year-on-year in Q1-Q3 2017, while a number of firms affected by the UK's decision to leave the EU have put their investment plans for this year on hold.



Brexit worries

Brexit related uncertainty has taken a toll on business sentiment over the past year and a half, though firms were in a more upbeat mood in January.



Businesses still ambitious

The majority of firms remain on a growth trajectory, with two in three looking to expand their business in the next one to three years.



Mixed outlook

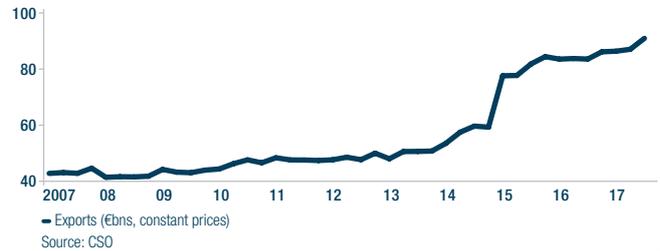
Some unwinding of the globalisation factors that boosted investment in recent years is likely over the forecast horizon. This will weigh on the total figures, but with the domestic and global economies growing, underlying investment is expected to expand at a solid pace.



Exports

A good showing

Exports were up 5.1% on an annual basis in the first three quarters of 2017 and with imports down 5.8%, net exports made a significant contribution to GDP growth.



Services leading the way

Services exports put in a strong performance last year, whereas weak contract manufacturing activity weighed on goods in the first half. Goods exports staged a rebound in Q3 though and available data for Q4 is flashing green.



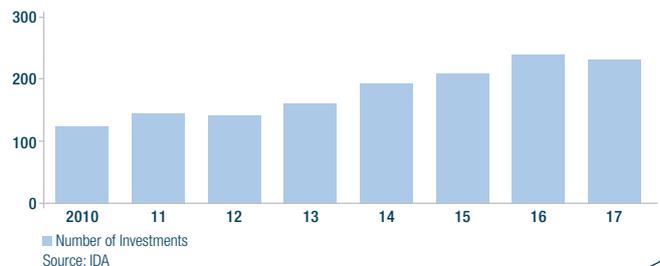
Trading partners expanding

Euro area GDP increased at its fastest pace in a decade last year and the US economy also stepped up a gear. Solid growth is on the cards for both regions again this year and next, while the outlook is for a moderate expansion in the UK.



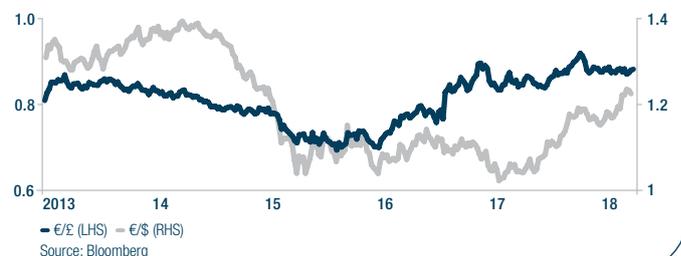
Ongoing FDI

Foreign direct investment flows were stable in 2017, with the IDA securing a number of Brexit related investments. While this is a positive, Ireland remains vulnerable to changes in the external policy environment including the recent US tax reforms.



Currency headwinds

The euro has gained ground against sterling and the dollar which is good news for importers but a headwind for exporters. The pound remains off its levels pre the Brexit vote and will be sensitive to the ebb and flow of the withdrawal negotiations.



Steady growth

Exports are set to benefit from the continuing upswing in global activity, and assuming no change in current UK-EU trading arrangements, are forecast to increase by 5.2% this year and by 4.5% in 2019.

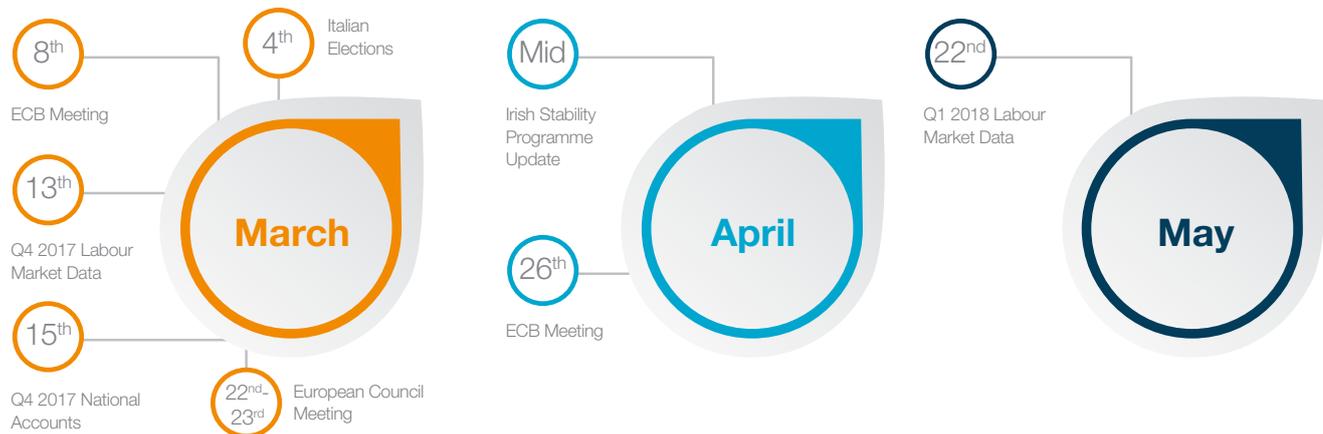


Forecasts

	2017 (e)	2018 (f)	2019 (f)
Personal Consumption	2.2%	3.0%	3.0%
Government Consumption	2.2%	2.5%	2.5%
Investment	-18.0%	2.5%	5.0%
Exports	5.0%	5.2%	4.5%
Imports	-5.4%	3.8%	4.5%
GDP	7.0%	4.7%	3.8%
GNP	6.0%	4.3%	3.6%
Employment	2.6%	2.4%	2.0%
Unemployment Rate (Average)	6.8%	5.8%	5.2%
CPI	0.4%	0.8%	1.2%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices

Upcoming Events



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