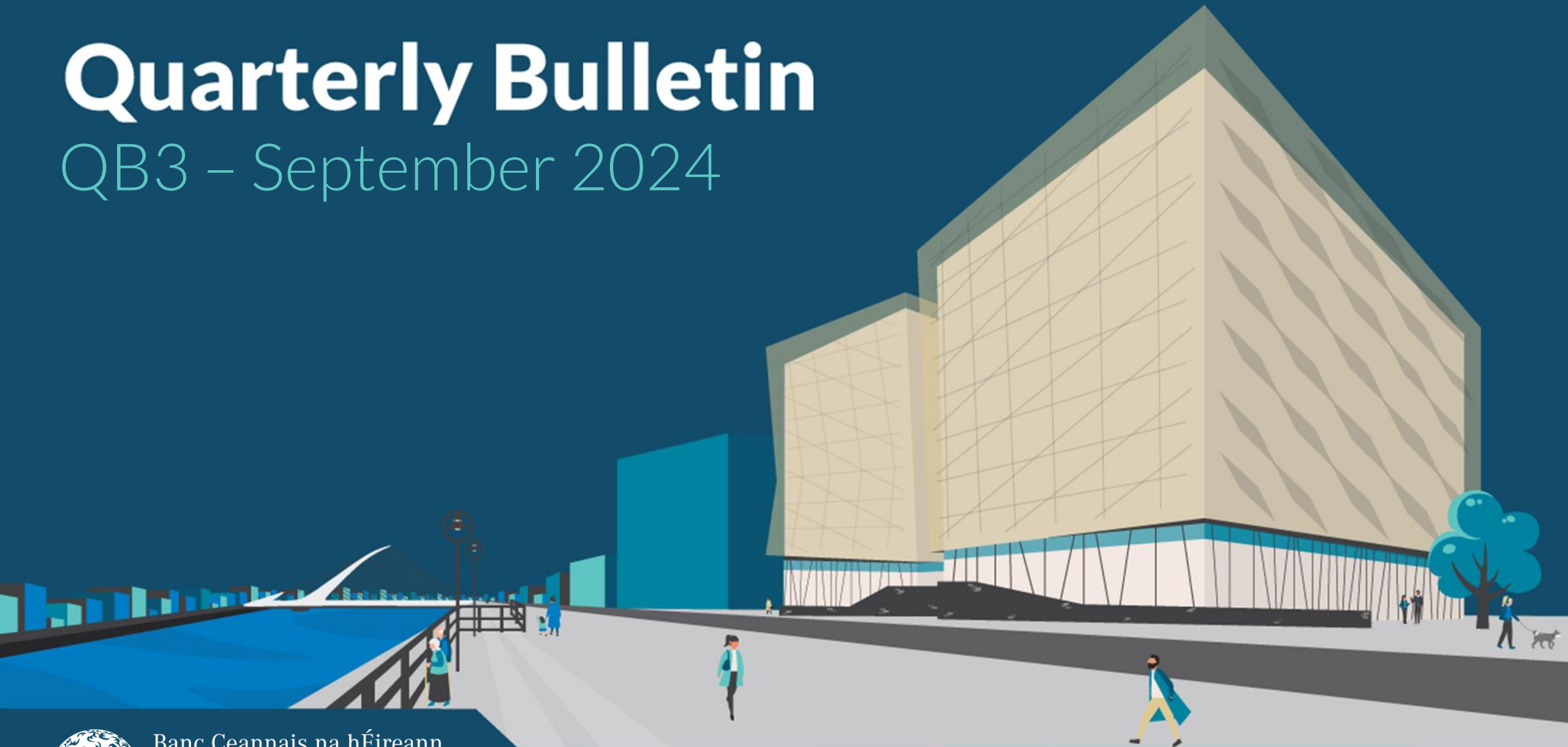


Quarterly Bulletin

QB3 – September 2024



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Quarterly Bulletin Q3 2024: Overview

- **Domestic activity projected to expand at a steady and gradual pace through 2026.**
 - Forward looking indicators point to pick-up in sluggish H1 consumption and housing investment.
 - Additional momentum as revised national accounts data show that economy grew faster than previously reported in 2023.
 - Consumer spending is growing, along with elevated household savings rate.
 - Some weakening in near term outlook for main trading partners but pharmaceutical exports continue to rebound.
- **A relatively broad-based easing of inflation now occurring but domestically driven price pressures remain strong.**
 - Overall inflation remains below 2%, driven by falling energy and imported goods prices.
 - Services inflation is more than double the overall rate and set for a more gradual decline.
 - Public perception of past inflation higher than actual outturn. Inflation expectations (one-year ahead) also higher than current forecasts - risk of prolonging wage pressures.
- **Labour demand levels remain tentatively above labour supply with the unemployment rate close to historic lows.**
 - Vacancy rates bolstered by public sector demand as private sector vacancy rates approach pre pandemic levels.
 - Stronger wage growth in 2024 set to moderate over forecast horizon.
 - Household real disposable income restored to 2019 levels in 2023 with further real income gains projected out to 2026. Incomes boosted by wage growth and fiscal supports since 2022.
- **Starting from this favourable position, fiscal policy has a central role to play in managing capacity constraints while at the same time addressing structural challenges.**



Forecast Summary – QB3 2024

	2024	2025	2026
MDD	2.4% ↑ 0.3 pp	3.1% ↑ 0.6 pp	2.3% =
Unemployment	4.4% ↓ 0.1 pp	4.5% =	4.6% ↑ 0.2 pp
Inflation	1.6% ↓ 0.1 pp	1.9% ↓ 0.1 pp	1.6% ↑ 0.1 pp

Main reasons for the revisions (with respect to QB2 – Jun 2024 Forecast)

- The near-term domestic growth outlook slightly stronger than last *Bulletin*, with more expansionary fiscal plans and higher investment.
- Near term inflation outlook broadly unchanged, with services inflation expected to remain robust while energy, food, and other goods inflation moderates.
- Slightly stronger employment growth profile, with historic data revisions pointing to more substantial wage growth having already occurred.

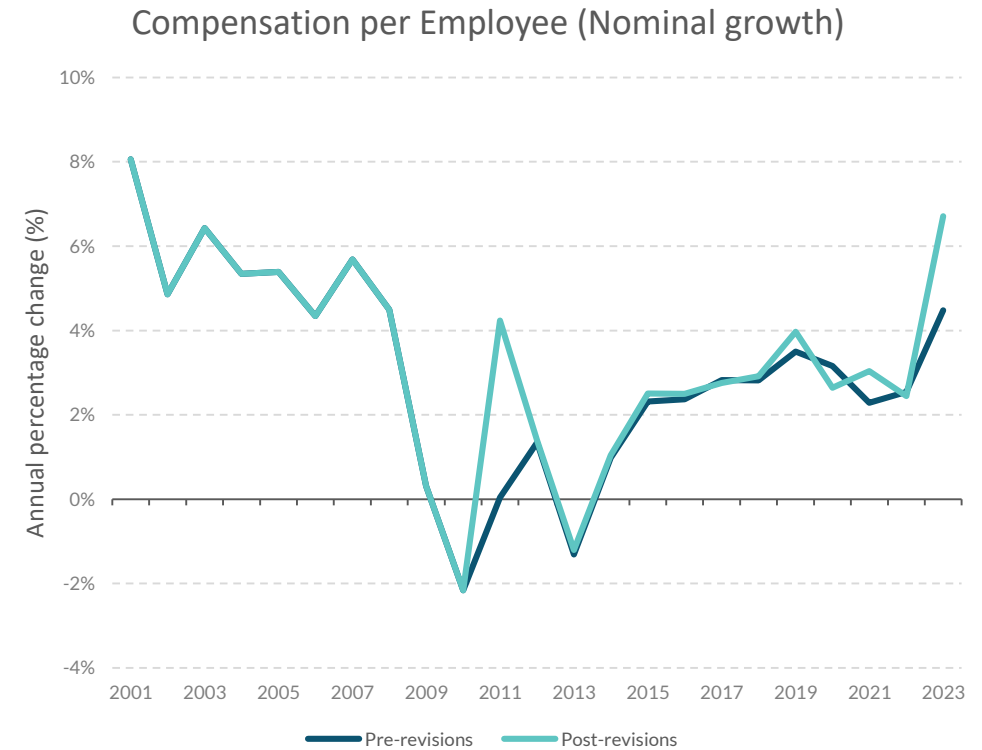
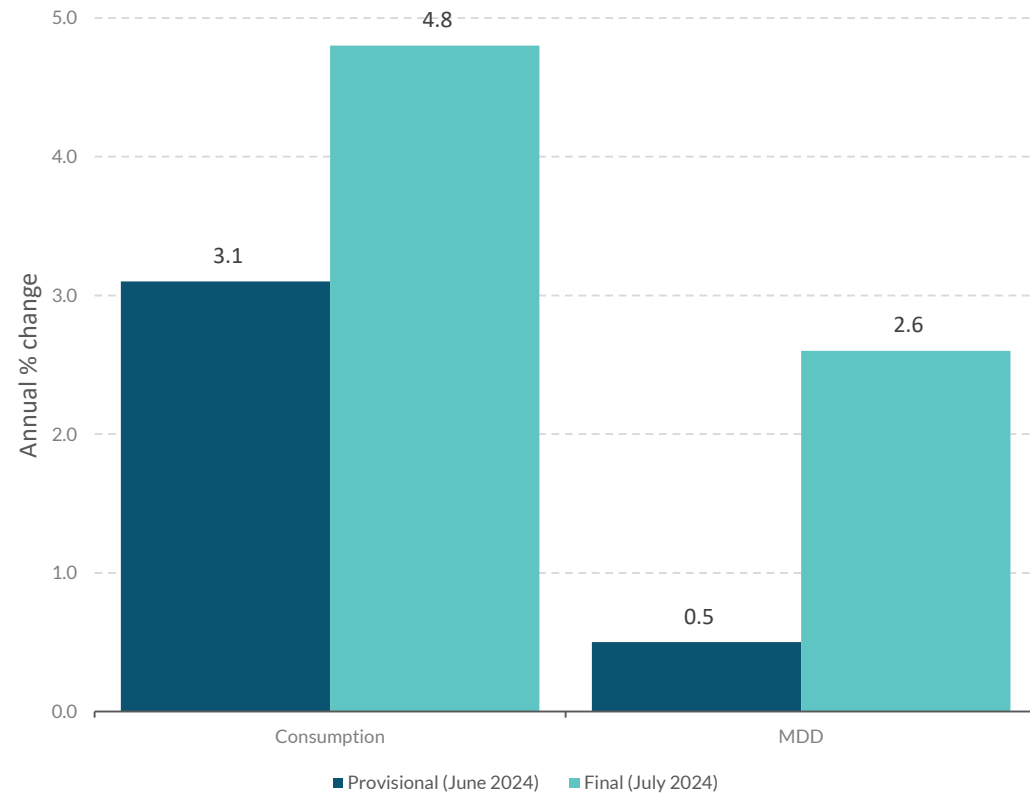
Main sources of forecast uncertainty

- Risks to the growth forecast are tilted to the downside while risks to the headline inflation forecast are broadly balanced.

	Growth	Inflation
More pronounced slowdown in global economy	↓	↓
More prolonged downturns in Pharma and ICT manufacturing sectors.	↓	↓
Price and investment shock from geopolitical tensions	↓	↑
Expansionary fiscal policy along with delays in addressing capacity constraints	↑	↑

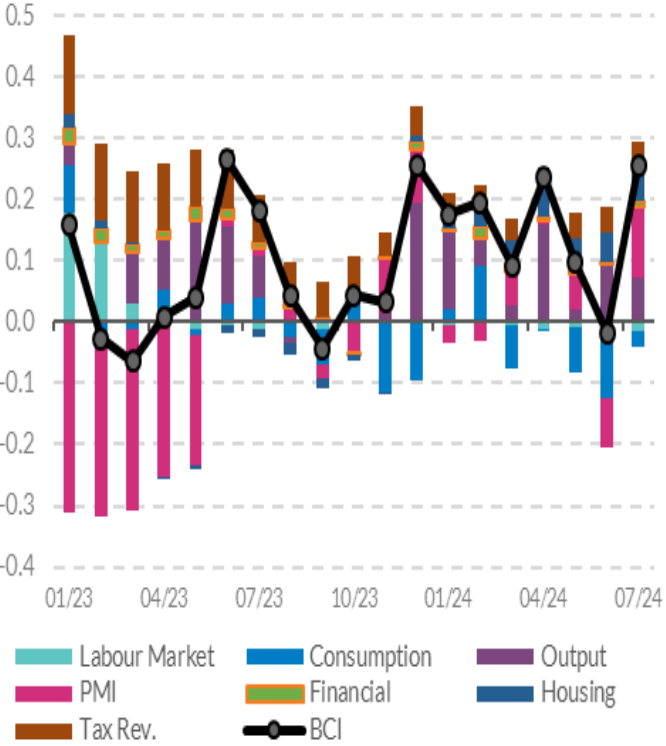


Revised National Accounts data show that economy grew faster than previously reported in 2023, with income growth also revised up

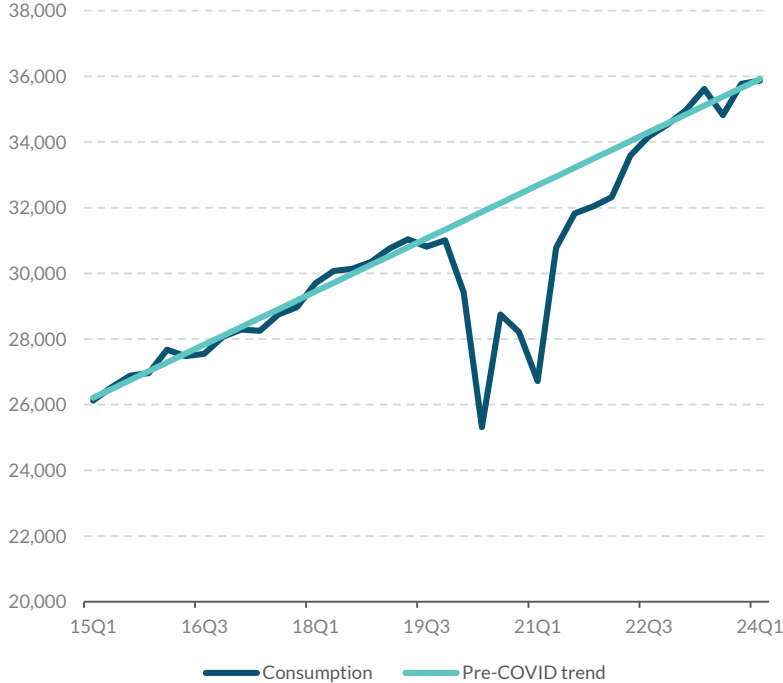


Economic activity continues to grow in 2024. Consumer spending increasing even with elevated savings rate

Business cycle indicator signals continued steady growth Level of consumption is back to its pre-pandemic trend

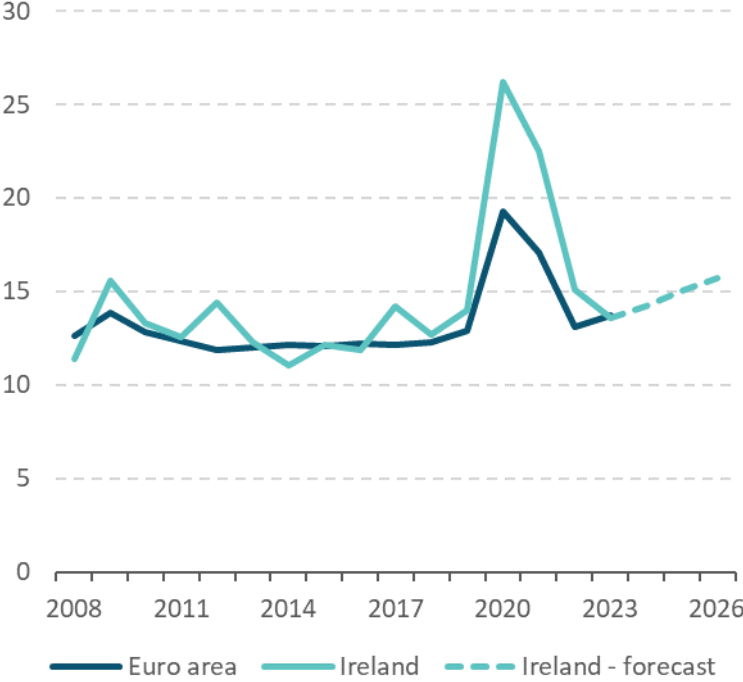


Source: Central Bank of Ireland, last updated on 15th June.



Source: CSO, Central Bank of Ireland.

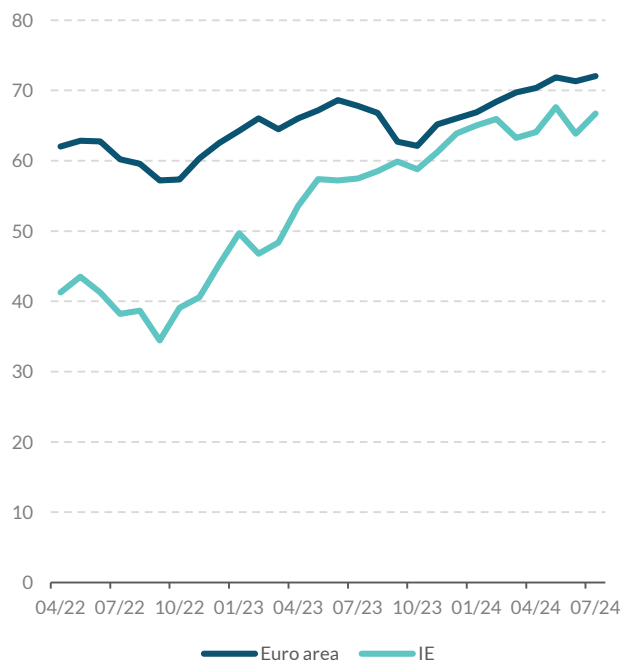
Savings rate has increased in 2024 and remains above long-run Irish and euro area average.



Source: CSO, Eurostat, Central Bank of Ireland.

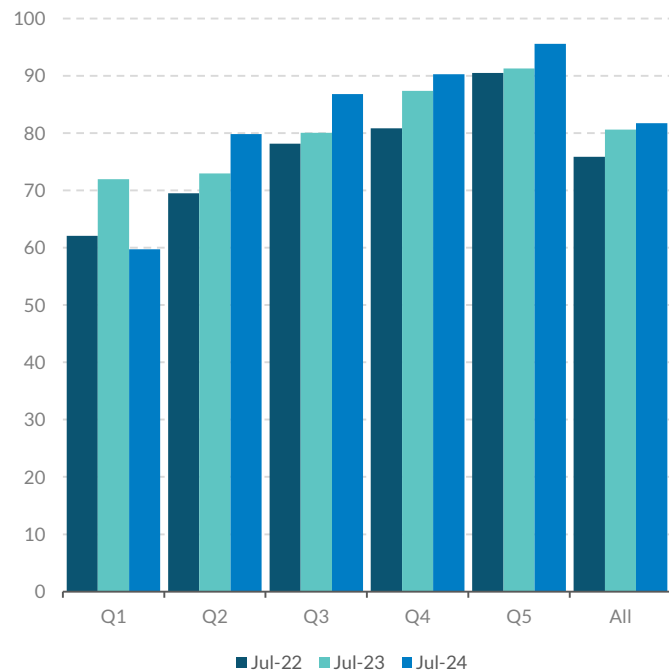
Irish households optimistic about financial situation over next 12 months with increase in proportion planning to save – differences across HHs

Irish households are increasingly optimistic about their personal financial situation, but a third still expect to be worse off over the coming year



Source: ECB (Consumer Expectations Survey), July 2024
 Note: Share of households who expect their personal financial situation to be similar or better off a year from now (%).

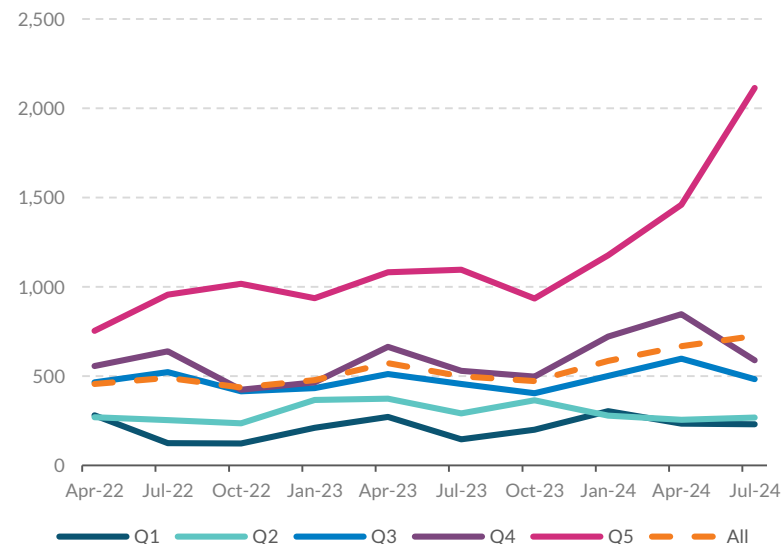
Share of Irish households planning to save has been rising



Source: ECB Consumer Expectations Survey, July 2024.

Note: Data reflects respondents who reported “Yes, definitely” and “Yes, probably” to the CES question

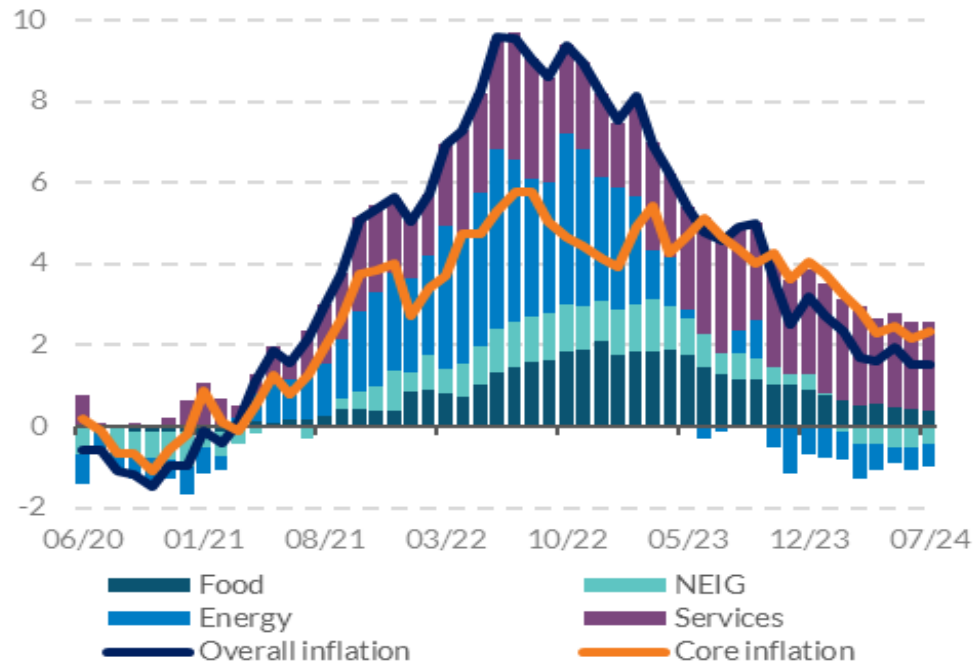
Savings flows concentrated among higher income households



Source: ECB (Consumer Expectations Survey), July 2024

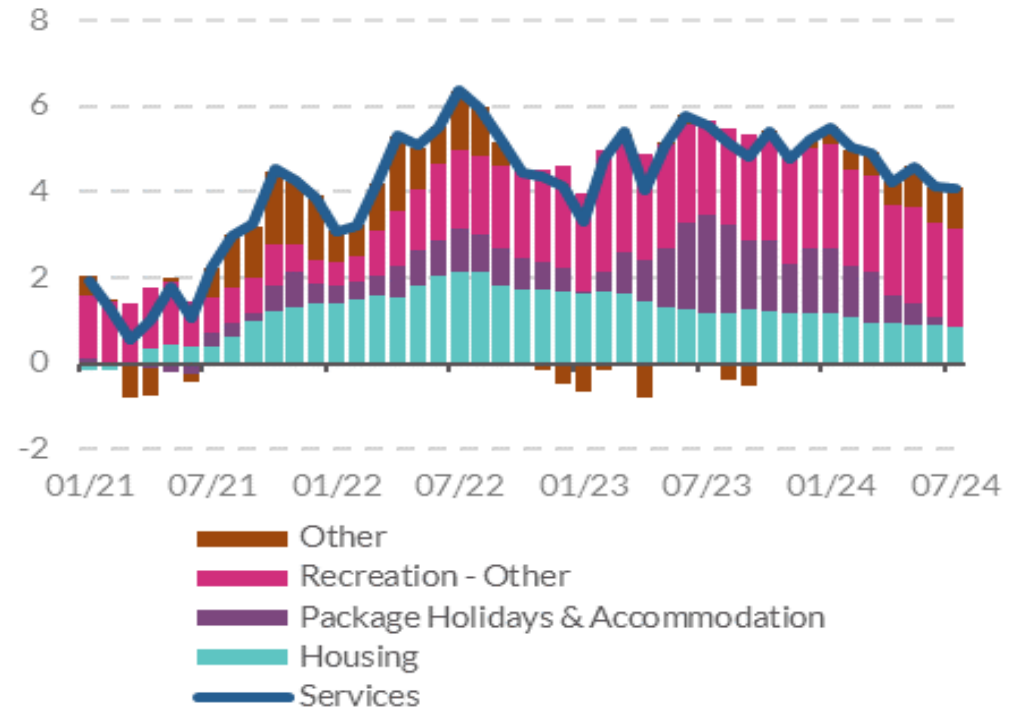
Inflation expected to remain below 2%, with domestically determined inflation proving more persistent

Services remains the main contributor to headline inflation



Source: CSO, author's calculations.

Housing and recreation services are driving services inflation



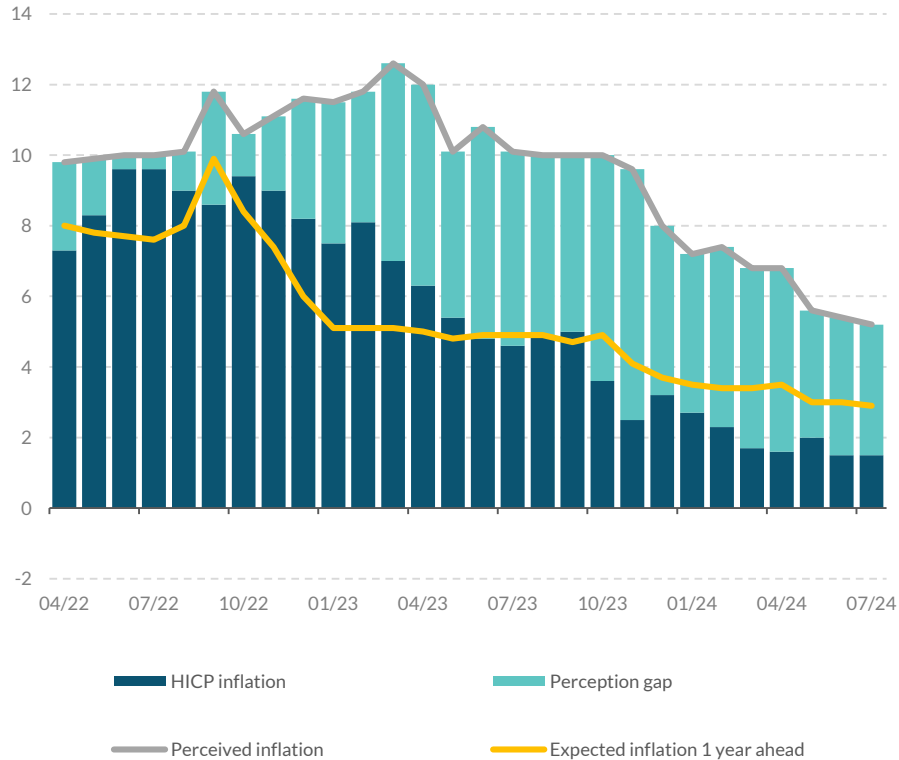
Source: CSO, author's calculations.

Note: Notes: Decomposition of services inflation into its component parts. Recreation - Other is primarily restaurants and takeaways.

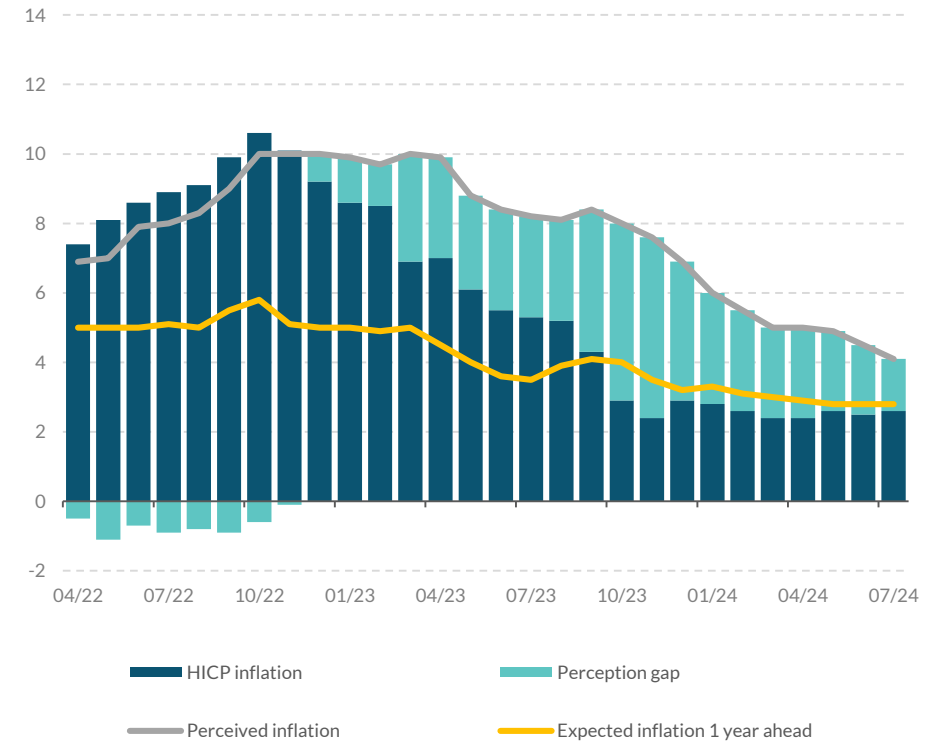


Irish households' perceived inflation, while declining, still remains far above recorded inflation. Perceptions gap in IE wider than in EA

Ireland



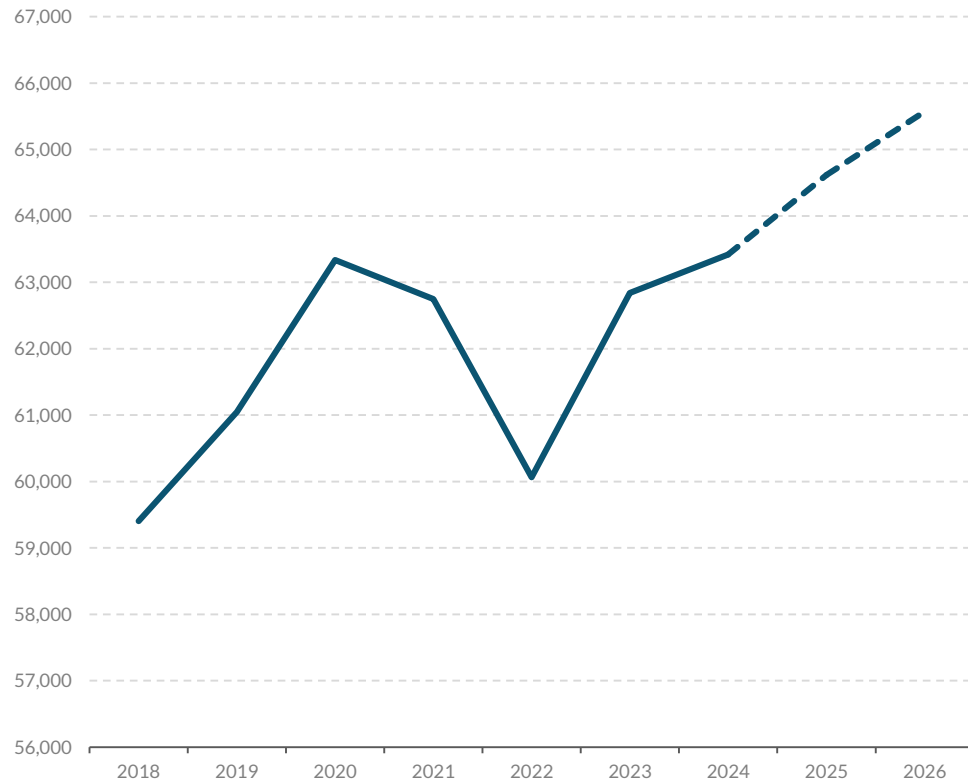
Euro area



Source: ECB (Consumer Expectations Survey), July 2024

Source: ECB (Consumer Expectations Survey), July 2024

Real disposable income per household restored to 2019 level in 2023 with further gains projected



Source: CSO, Central Bank of Ireland.

- However, [previous analysis by the Central Bank in QB4 2023](#), comparing the real income profiles of households over the past two decades highlights the heterogeneous impact of the recent period of high inflation on households at different points in the income distribution. E.g., results suggested:
 - Real disposable income of households in the first quintile in 2023 was similar to 2017 levels.
 - Improvement along the distribution, with households in the third quintile showing a real income profile in 2023 that sits between its 2019 and 2020 profiles
 - Households in the top quintile have higher real incomes than in all previous years.



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Disposable incomes supported by large scale, mostly untargeted cost of living supports ~ 3% of national income (GNI*)

Government fiscal supports for cost of living pressures since 2022

Measures	€mn
CoL measures Jan-October 2022	1,327
Estimated percentage targeted	10%
CoL measures in Budget 2023	3,434
Estimated percentage targeted	32%
CoL measures announced in February 2023	1,283
Estimated percentage targeted	28%
CoL measures announced in Budget 2024	2,917
- Additional social protection payments	906
- Energy credit	900
- Education measures	250
- Business supports	250
- Tax measures	611
Estimated percentage targeted	30%
TOTAL	8,961
Estimated percentage targeted	27%

Sources: 'The fiscal response to the cost of living crisis', Department of Finance, April 2023; 'Budget 2024, Expenditure Report', Department of Public Expenditure, NDP Delivery and Reform, October 2023; 'Temporary Business Energy Support Scheme Preliminary Statistics', Revenue, October 2023; Central Bank of Ireland calculations for percentage targeted.

Note: Measures are defined as targeted if they are directed towards those most exposed to increases in the cost of energy. For individuals, this generally relates to having low income, while for firms, it relates to the extent to which the firm's energy costs increased.



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Labour market tightness is easing, while steady growth supports further increases in wage rates and disposable incomes

Slowing labour demand shows slight labour market loosening



Source: CSO Value of Merchandise Trade, author's calculations.

Notes: Three month moving average of the value of merchandise exports decomposed into its constituent parts

Stronger than previously estimated wage growth in 2023, with wage rate growth in excess of inflation expected over the forecast horizon



Source: CSO and authors' calculations

Note: Central forecasts out to 2026 are presented in dashed line.



QB3: Housing deep dive - Policy action can support the viability of delivering more new homes

- The ability to deliver ~50,000 new homes fundamentally hinges upon making construction **both financially and practically viable**.
- Such viability is linked to three interconnected pillars: **Preparation** of zoned and serviced land, an efficient **planning processes**, and construction **productivity**.
- Multifaceted approach encompassing fiscal and non-fiscal policy interventions
 - Carefully calibrated to ensure macro stability & fiscal sustainability, but clear motivation to prioritise capital spending to create 'build ready' serviced land.
 - Efficient planning system to enable delivery and avoid macro and private investment cost of delays.
 - Prominent role for productivity enhancement in policy design.
- Will require an estimated **additional €6.5-€7 billion euro in development financing** over 2023 levels.
 - Diversity of financing is essential across the State, international investment and the domestic banking system.
 - Domestic banks, non-banks lenders and the State (HBFi) have capacity to provide additional debt financing.
 - Indications suggest a lack of equity in the homebuilding sector is a challenge to growth.



Appendix



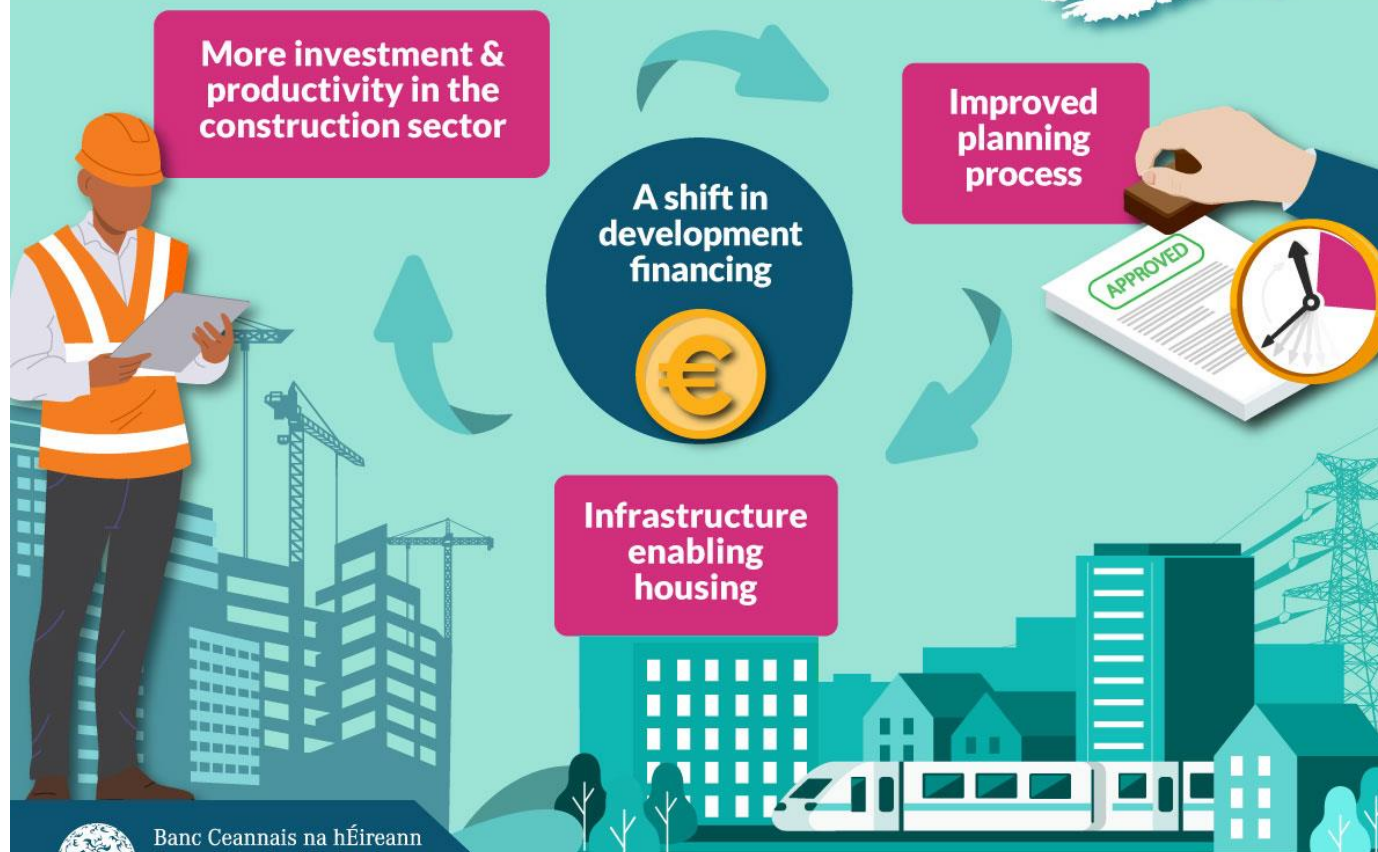
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Economic policy issues in the Irish housing market



What policies can help Ireland build
52,000 new homes per year?



Macroeconomic Projections for the Irish Economy

(annual percentage changes unless stated)

	2023	2024f	2025f	2026f	
Constant prices	Modified Domestic Demand	2.6	2.4	3.1	2.3
	Gross Domestic Product	-5.5	-0.9	4.6	4.4
	Final Consumer Expenditure	4.2	2.6	3.0	2.4
	Public Consumption	5.6	3.3	3.4	1.9
	Gross Fixed Capital Formation	2.8	-32.3	2.8	2.3
	Modified Gross Fixed Capital Formation	-4.4	0.6	2.9	2.5
	Exports of Goods and Services	-5.8	9.3	4.9	5.5
	Imports of Goods and Services	1.2	5.8	4.1	4.7
Total Employment	3.4	2.3	1.9	1.7	
Unemployment Rate	4.3	4.4	4.5	4.6	
Harmonised Index of Consumer Prices (HICP)	5.2	1.6	1.9	1.5	
HICP Excluding Food and Energy (Core HICP)	4.4	2.5	2.0	1.6	
Compensation per Employee	6.7	5.1	4.4	4.1	
General Government Balance (% GNI*)	2.7	3.5	2.6	2.9	
'Underlying' General Government Balance (% GNI*)	-1.5	-1.2	-2.0	-2.1	
General Government Gross Debt (%GNI*)	77.1	71.8	68.4	65.4	

