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Irish economy: Outlook 2018 - 2019

Terry Quinn, IEA, September 24th 2018

Overview

Economy continues to expand at a robust pace, in its 6th year of recovery

- GDP growth of 7.2% last year, 4.7 % growth in 2018, 4.2% in 2019
- Exports are performing well but domestic demand accounts for most of the growth
- Employment growing strongly, unemployment falling sharply

GDP is distorted by the multinational sector

- Overstates the strength of the recovery -26% growth in 2015
- Understated the extent of the crisis - resilient exports offset a collapse in domestic demand

Underlying indicators are more informative

- Labour market indicators - employment and unemployment
- Underlying domestic demand - consumer spending and underlying investment
- GNI*

Inflation

- Inflation below EA average, sterling decline feeding through to goods prices, services inflation moderate except for rents



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GDP overstates the size and growth rate of the Irish Economy.....especially since 2015

Figure: Real Output in the Irish Economy (growth)

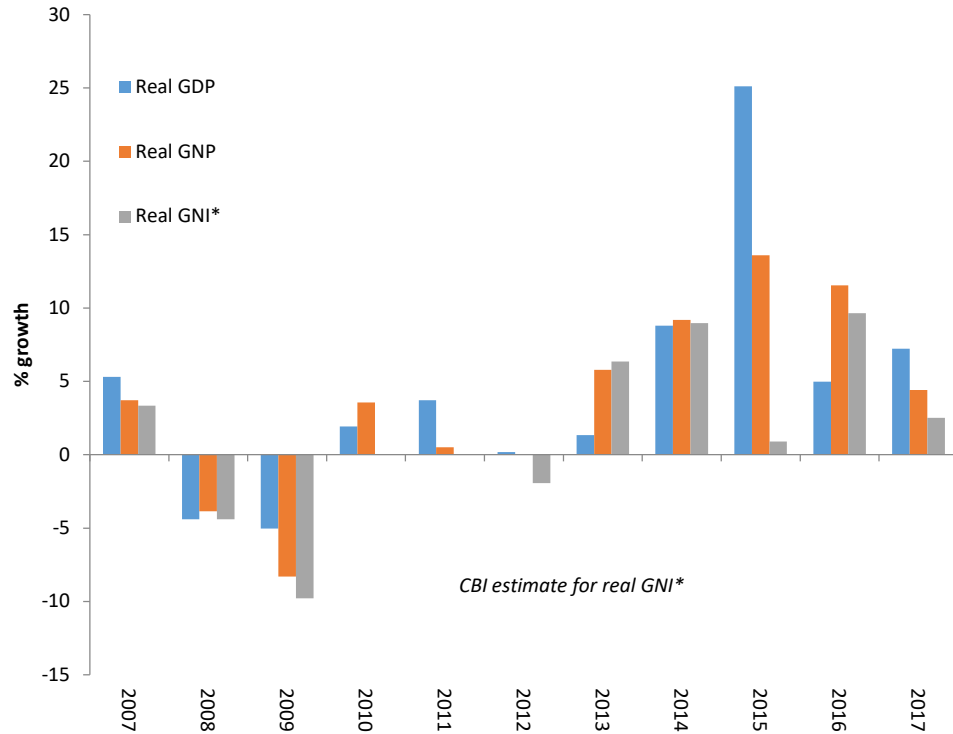
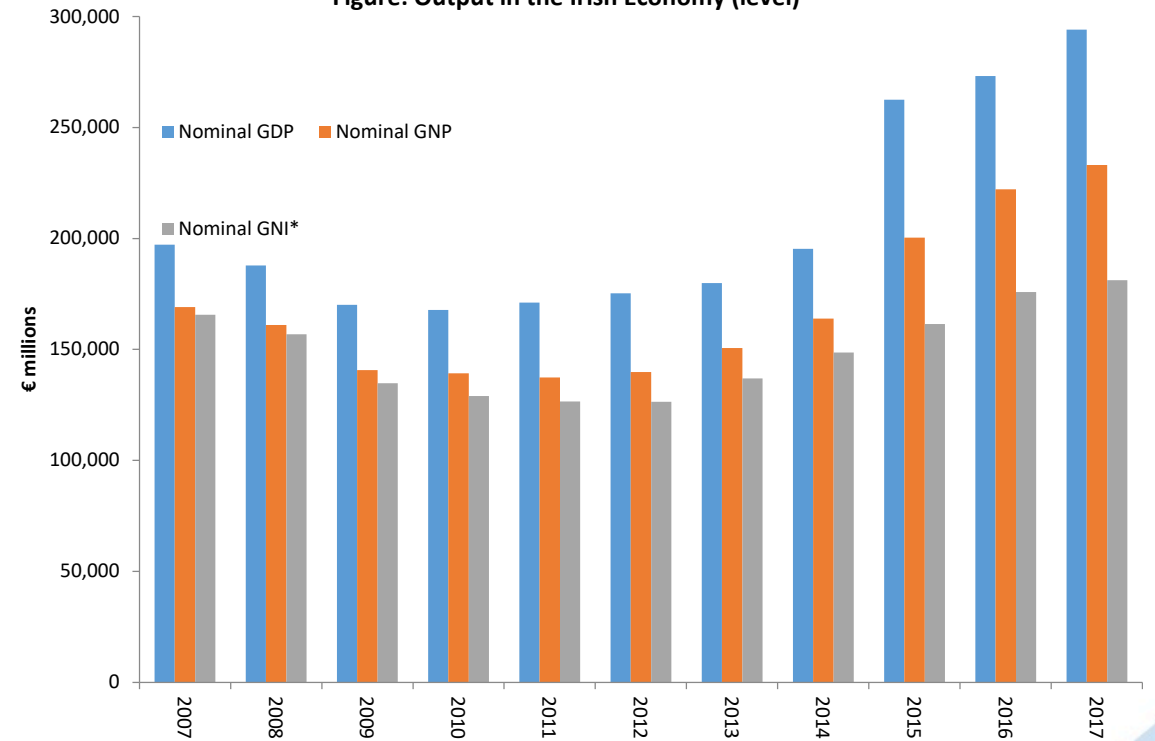


Figure: Output in the Irish Economy (level)



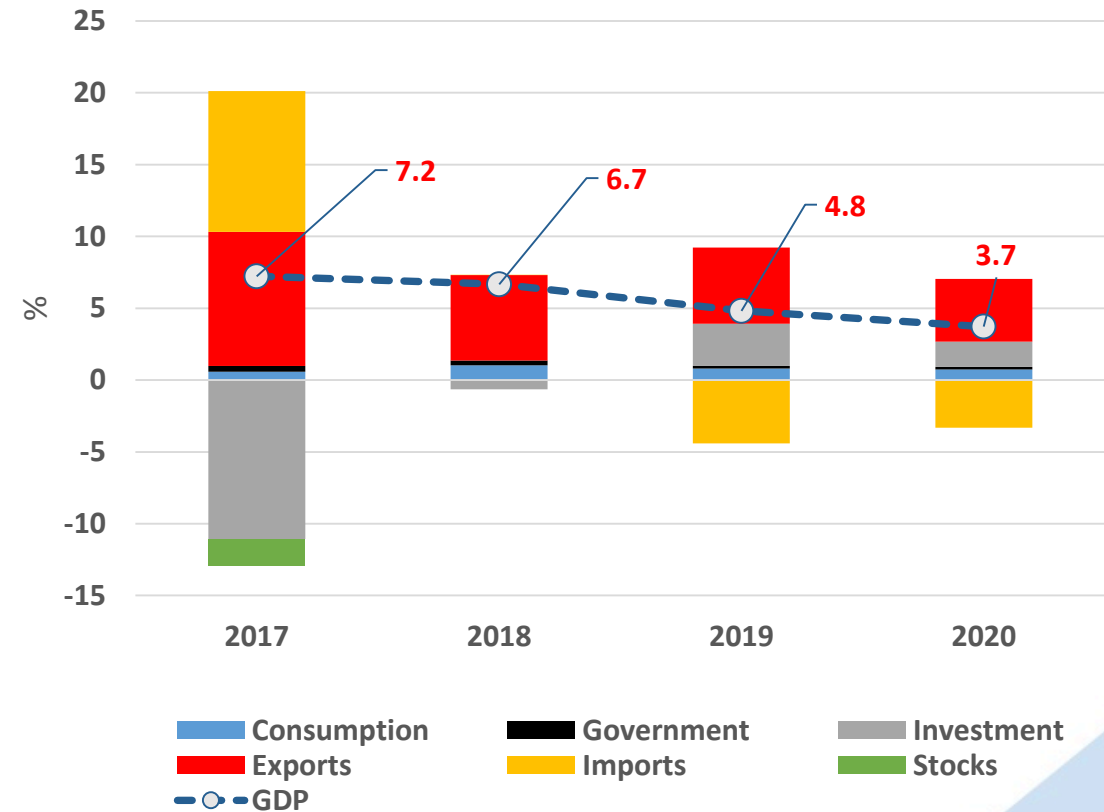
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Irish economy - Outlook

| Forecast Summary | Bulletin No.4 - October 2018 | | | |
|----------------------------|------------------------------|-------------------|-------------------|-------------------|
| | 2017 | 2018 ^f | 2019 ^f | 2020 ^f |
| GDP | 7.2 | 6.7 | 4.8 | 3.7 |
| Consumption | 1.6 | 3.0 | 2.5 | 2.3 |
| Investment | -31.0 | -2.8 | 13.5 | 7.5 |
| Exports | 7.8 | 5.0 | 4.6 | 3.8 |
| Imports | -9.4 | 0.0 | 5.3 | 4.1 |
| Underlying Domestic Demand | 2.9 | 5.6 | 4.2 | 3.6 |
| Employment | 2.9 | 3.0 | 2.2 | 1.7 |
| Unemployment | 6.7 | 5.6 | 4.9 | 4.7 |
| Inflation (HICP) | 0.3 | 0.8 | 0.8 | 1.1 |

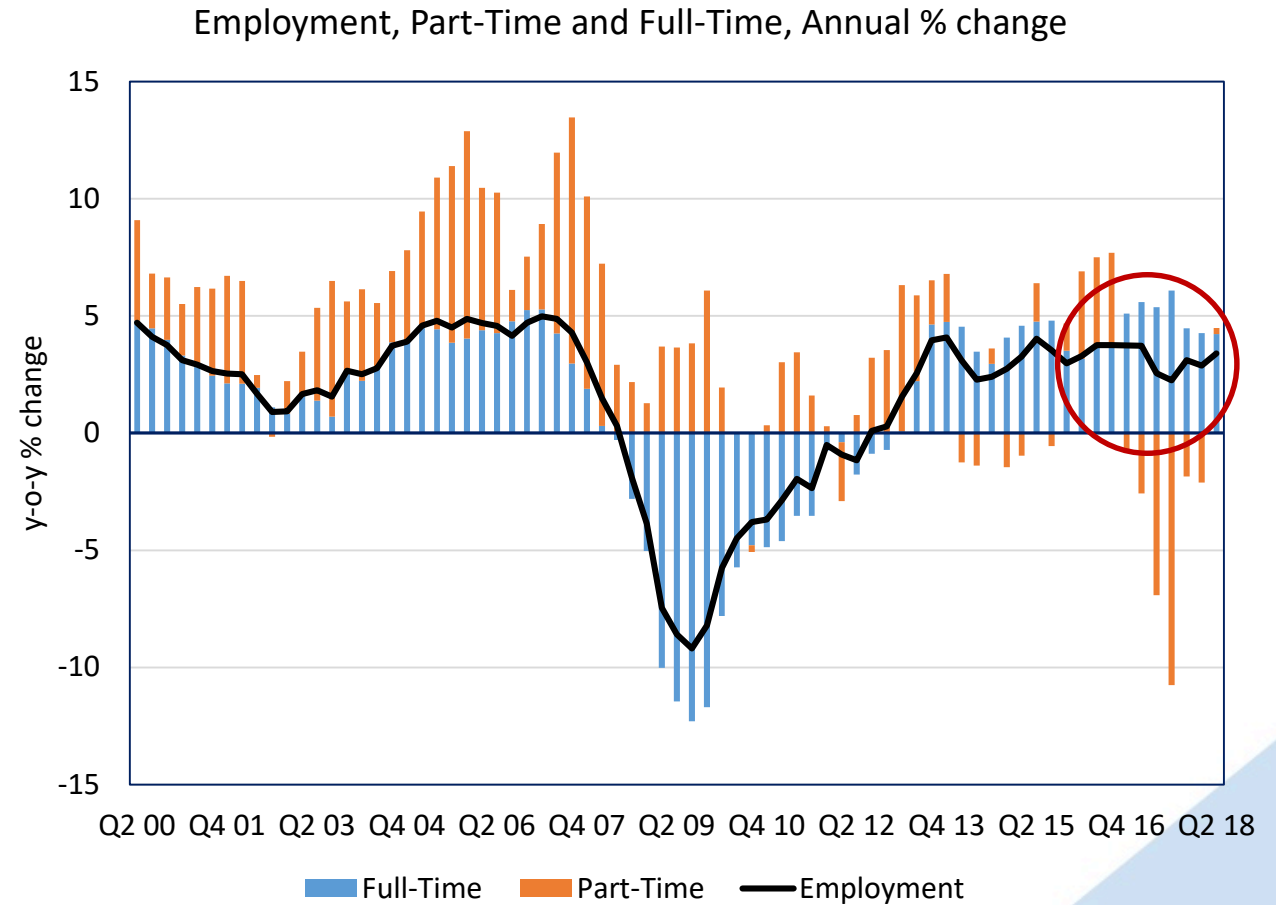
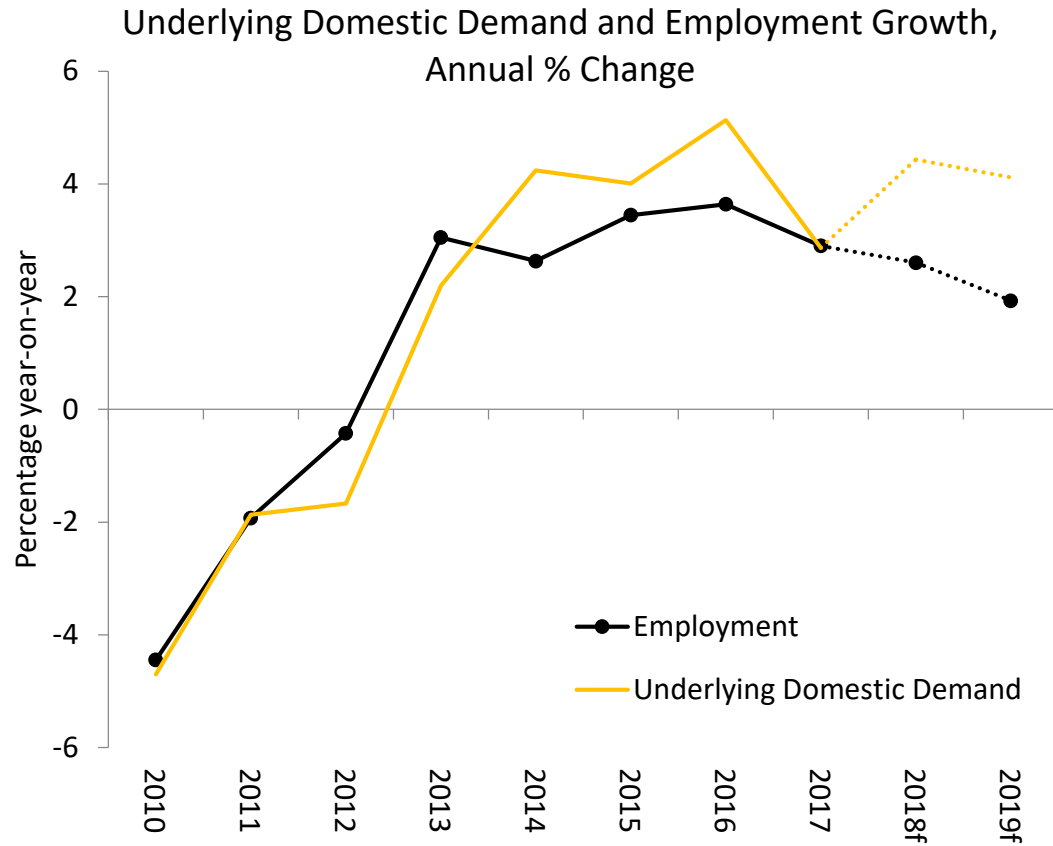
GDP Growth



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- Growth driven by domestic spending – labour market strength

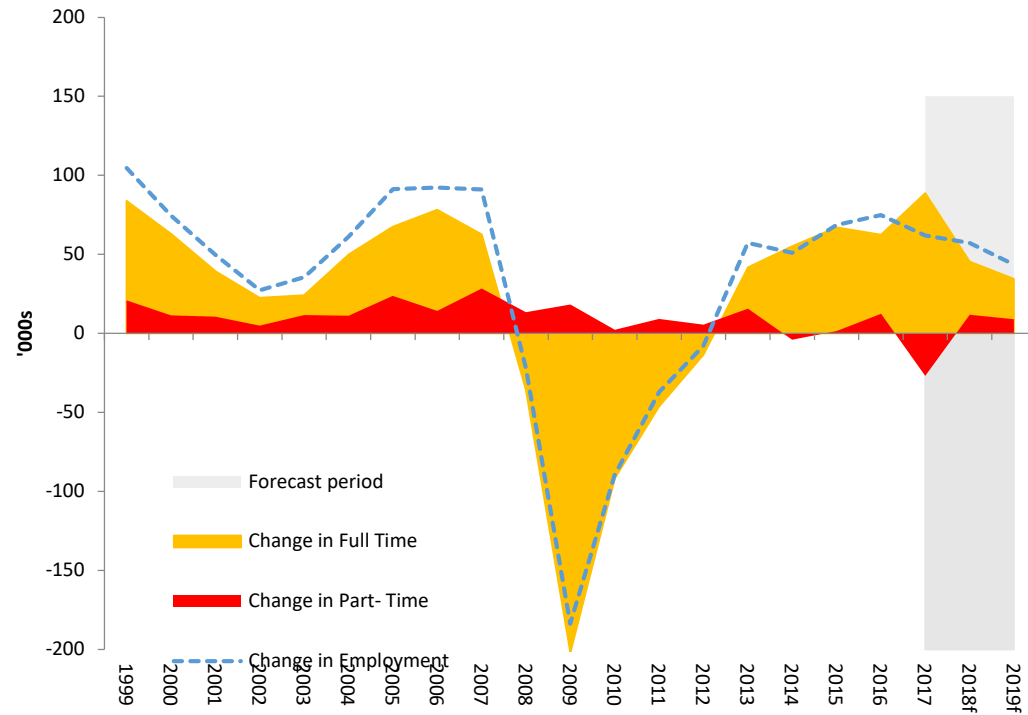


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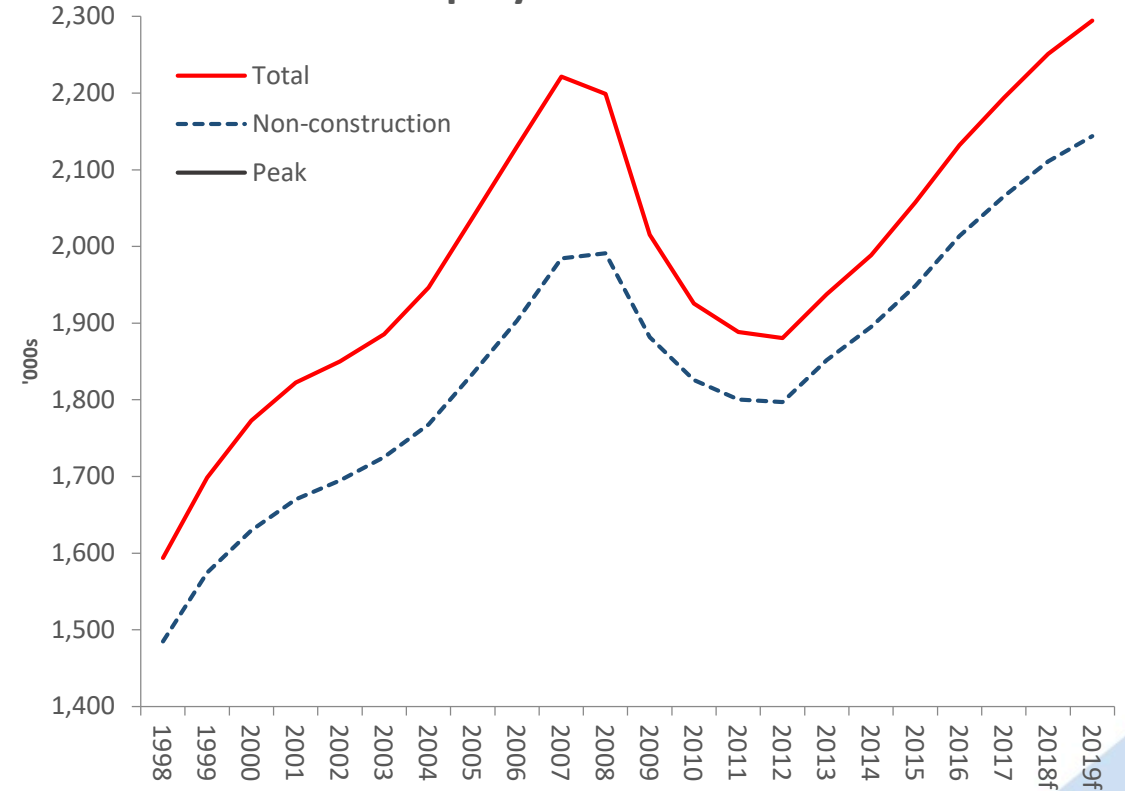
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- Strong recovery in employment but has only recently surpassed it's pre-crisis peak

Chart: Annual Employment Change



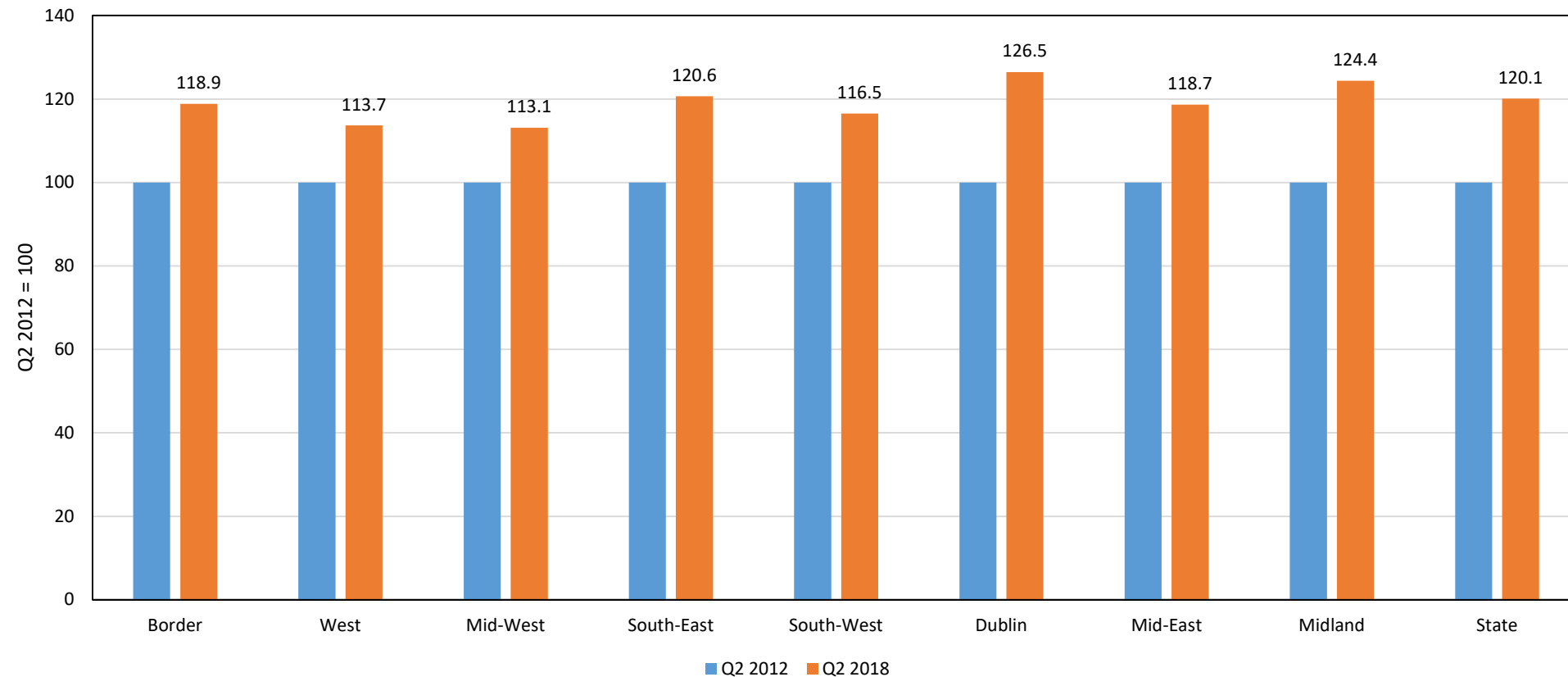
Employment Level



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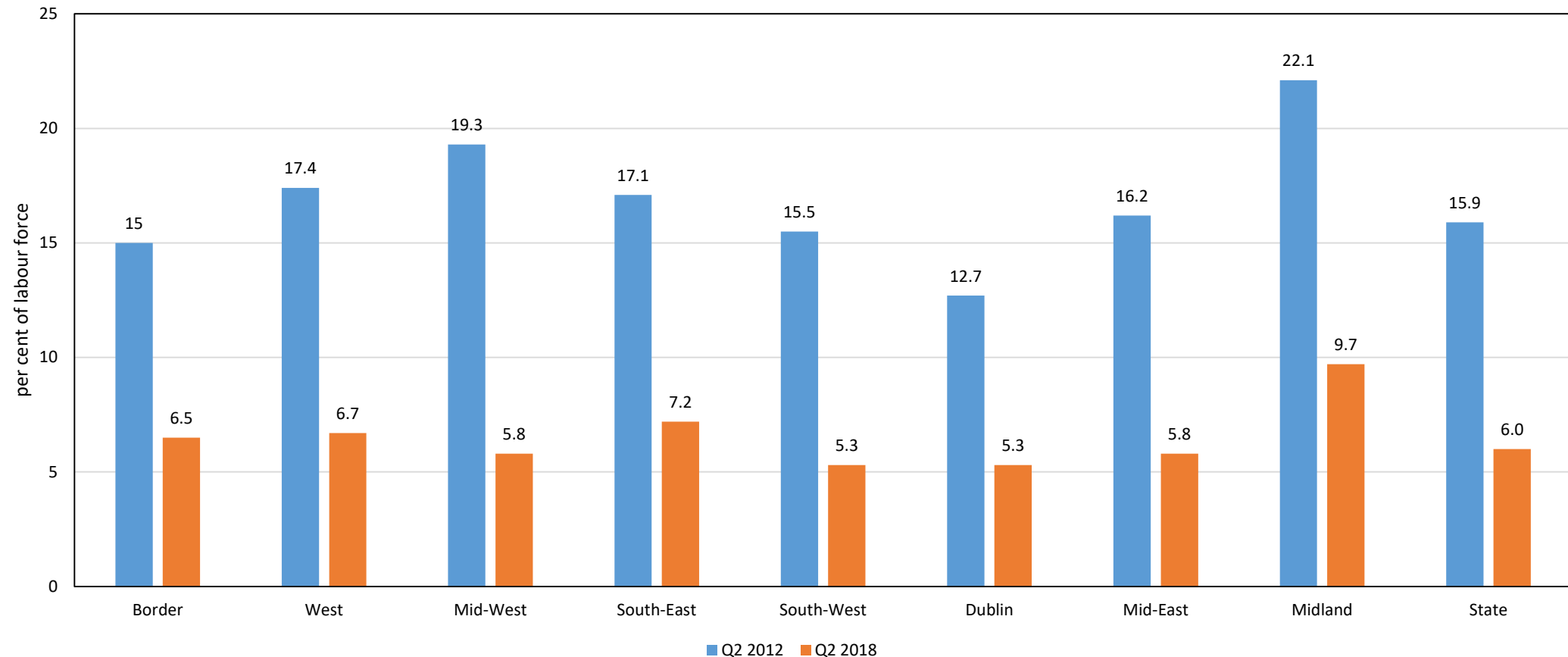
Employment Growth by Region



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Unemployment Rate by Region: Q2 2012 and Q2 2018

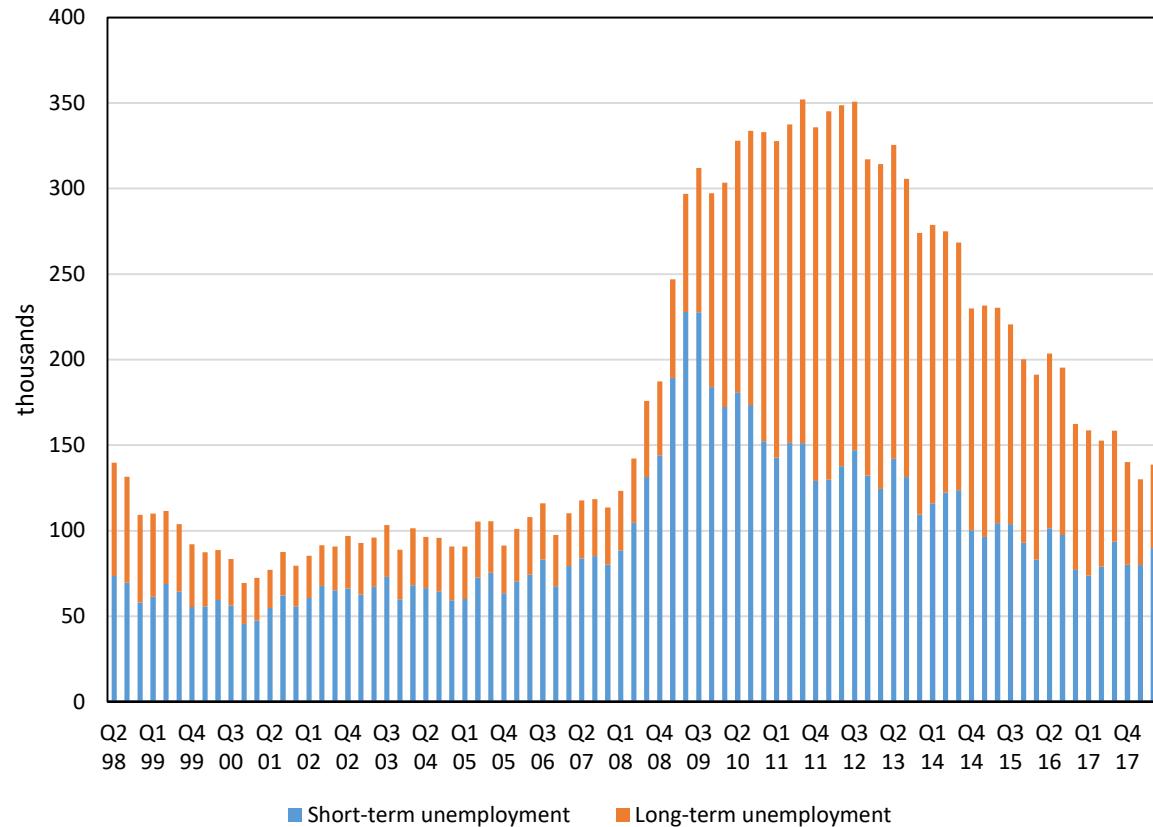


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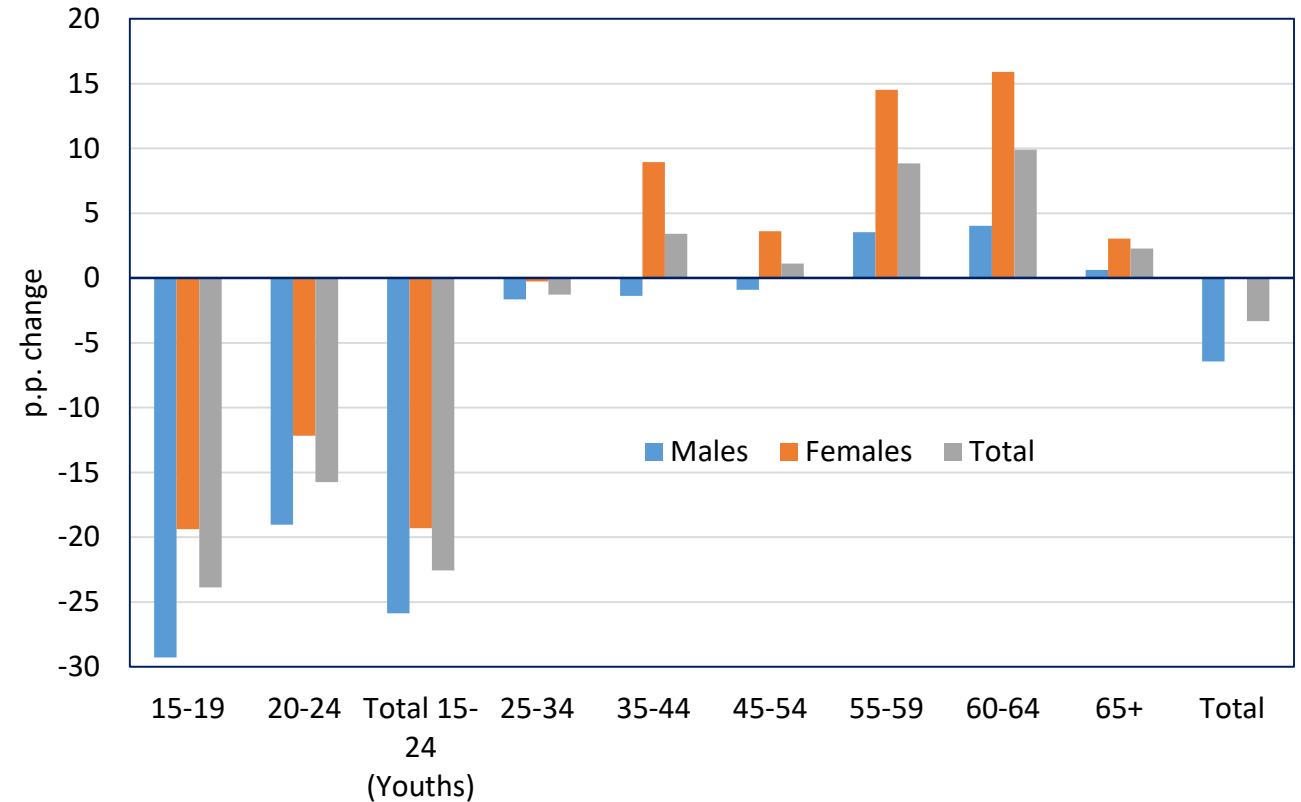
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- Labour market – approaching capacity across a range of measures – sources of supply?

Labour Supply: Stock of Unemployed Workers



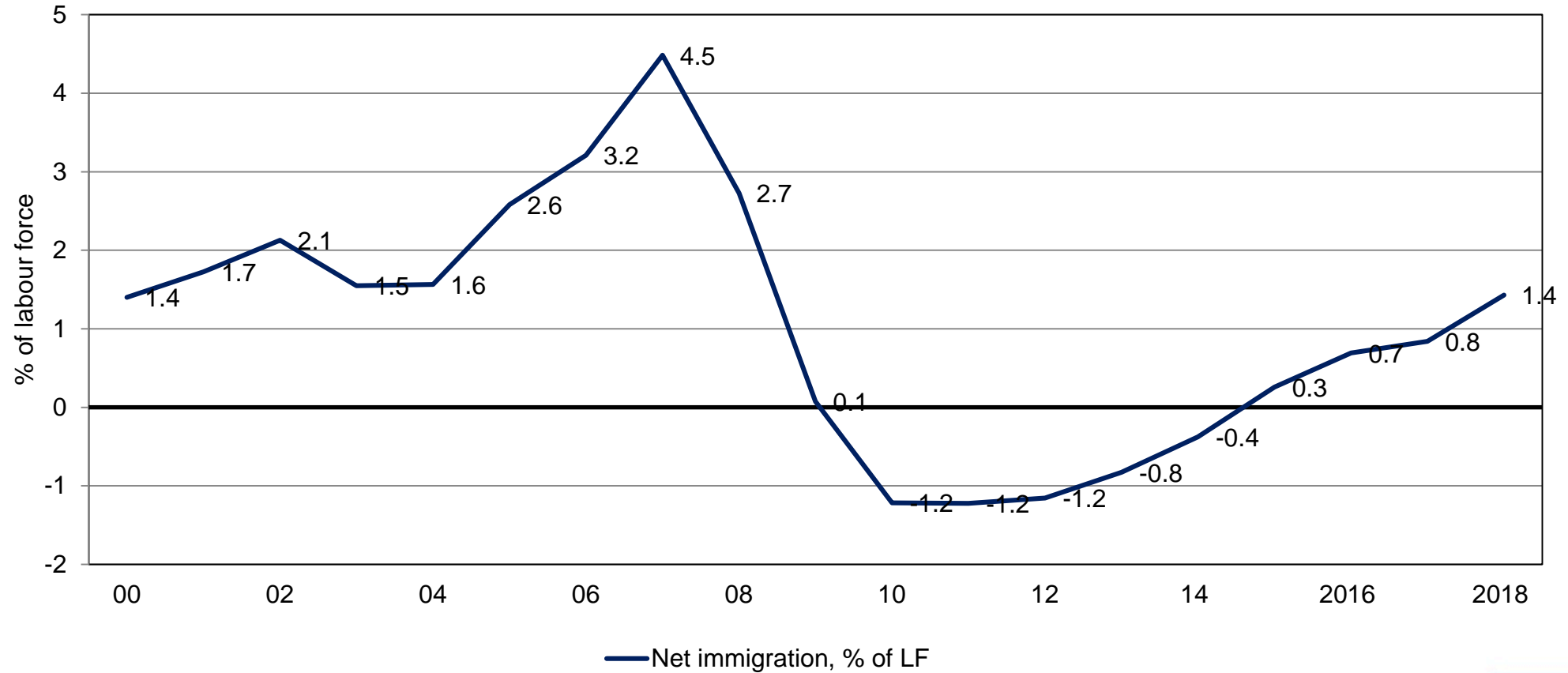
Change in Labour Force Participation Rate by Gender and Age, 2007Q2-2018Q2, Percentage Points



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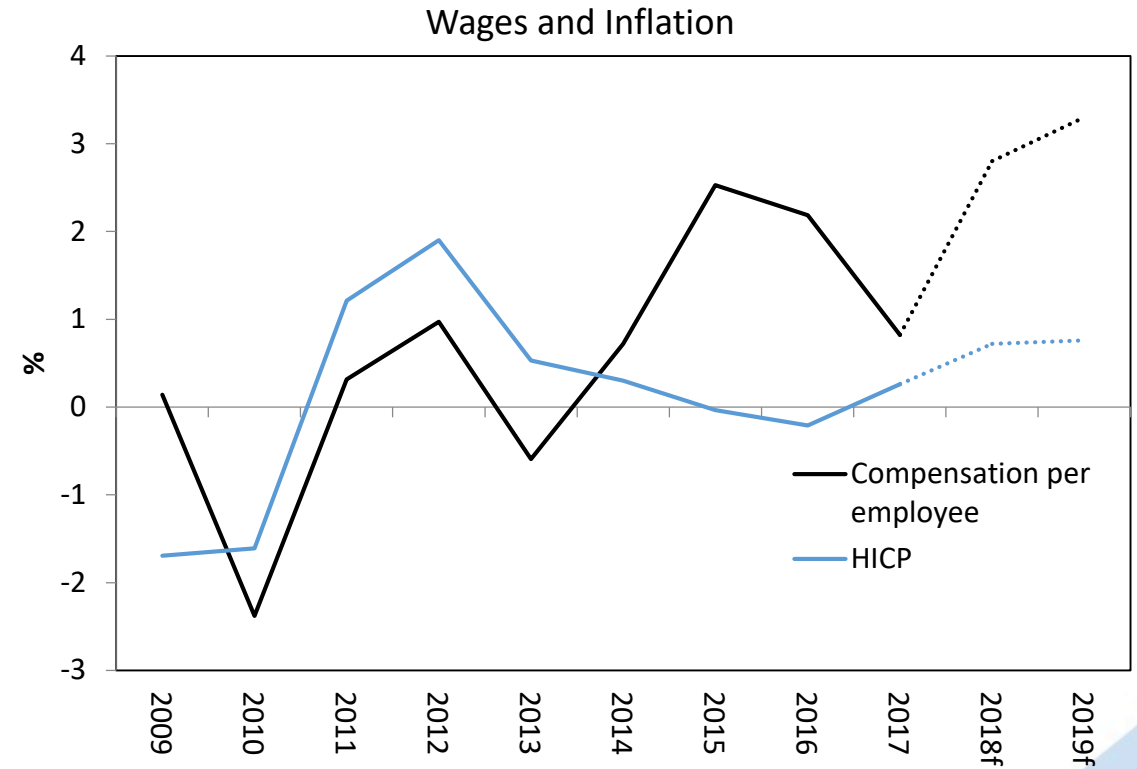
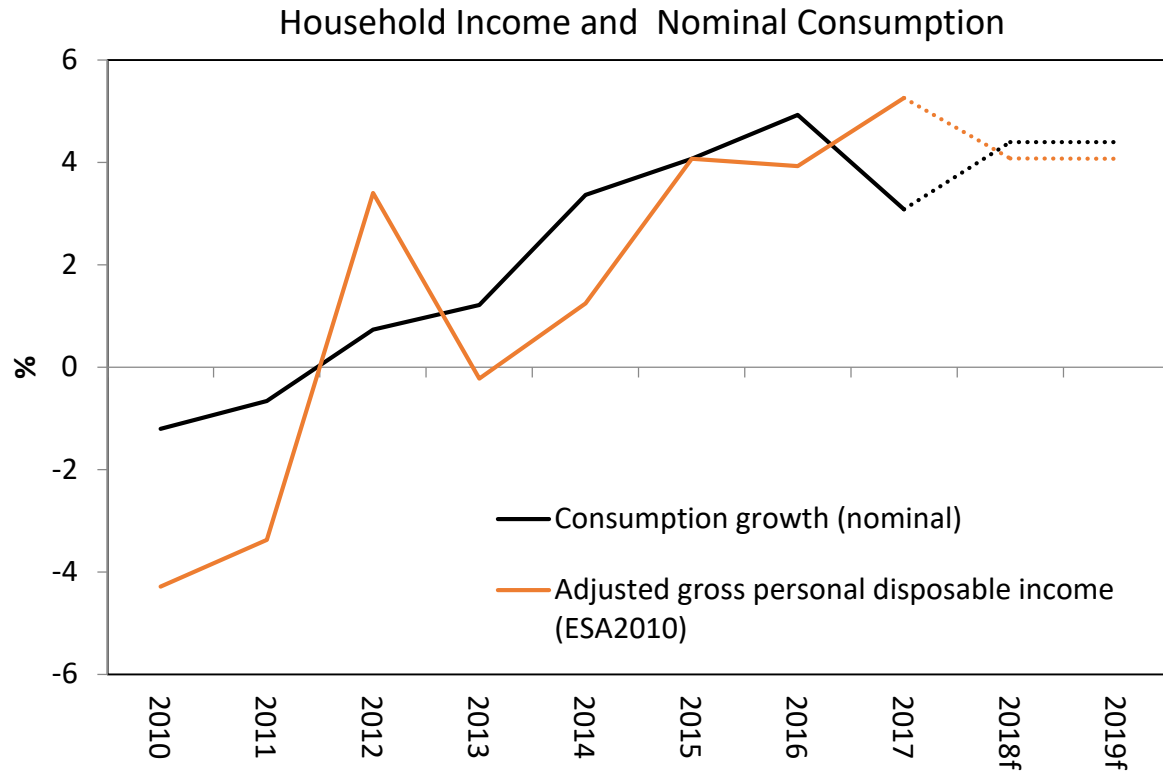
Net Immigration, % of LF



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- Wages and incomes recovering ...consumer price inflation remains subdued

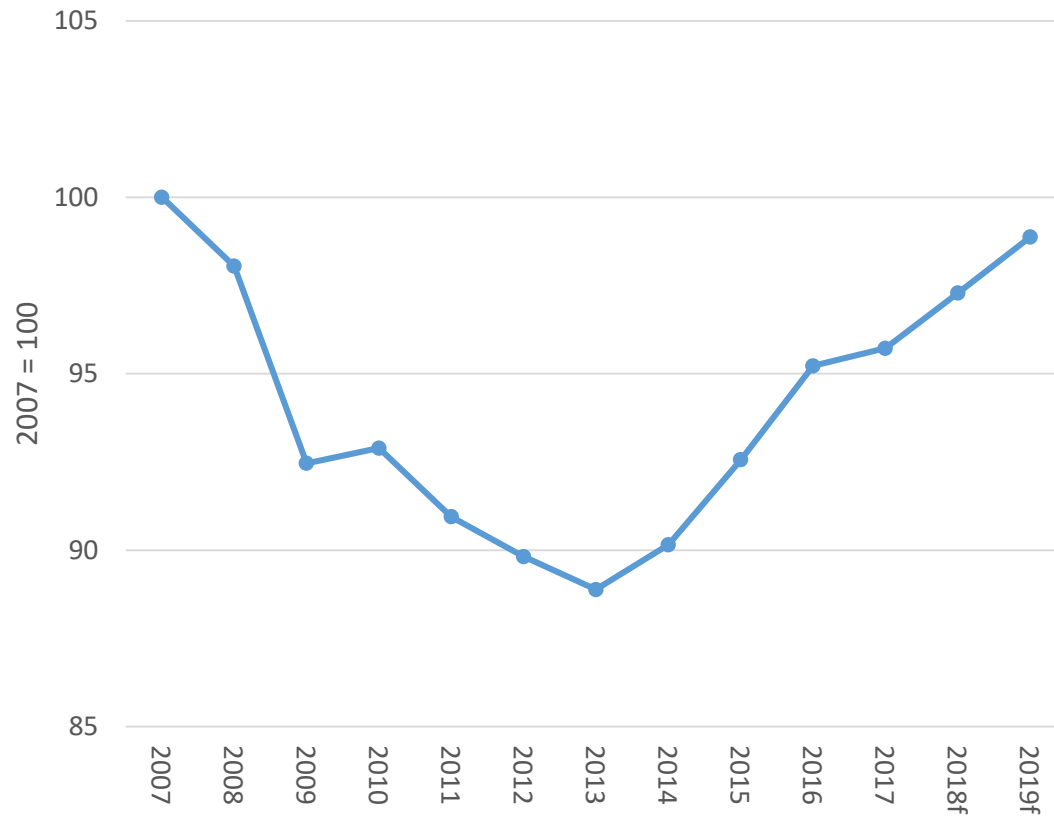


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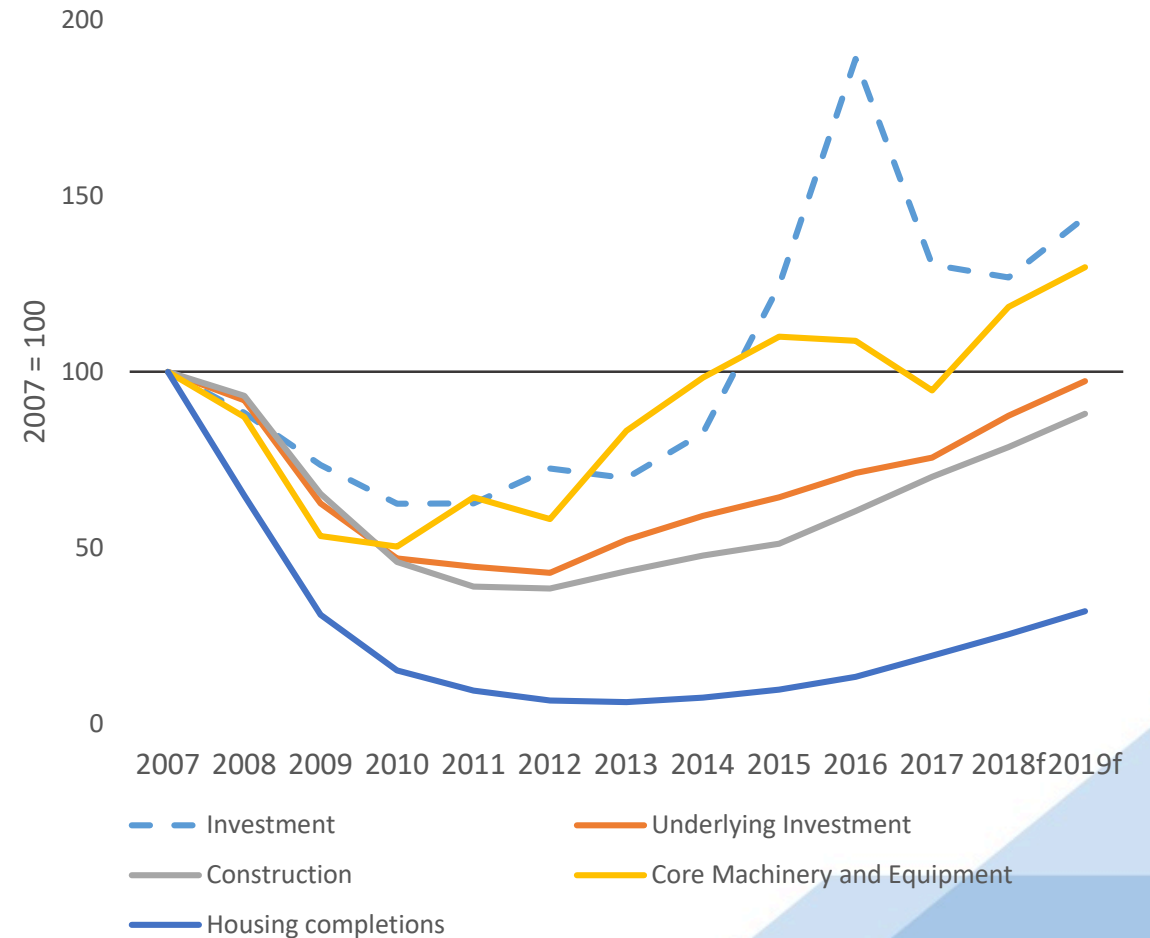
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- Consumption gradually approaching its pre-crisis peak... but investment recovery skewed by multinationals

Consumption per capita (volumes)



Investment (volumes)



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Inflation Developments: Brexit effect through the exchange rate (Reddan and Rice, 2017)

Inflation Contributions

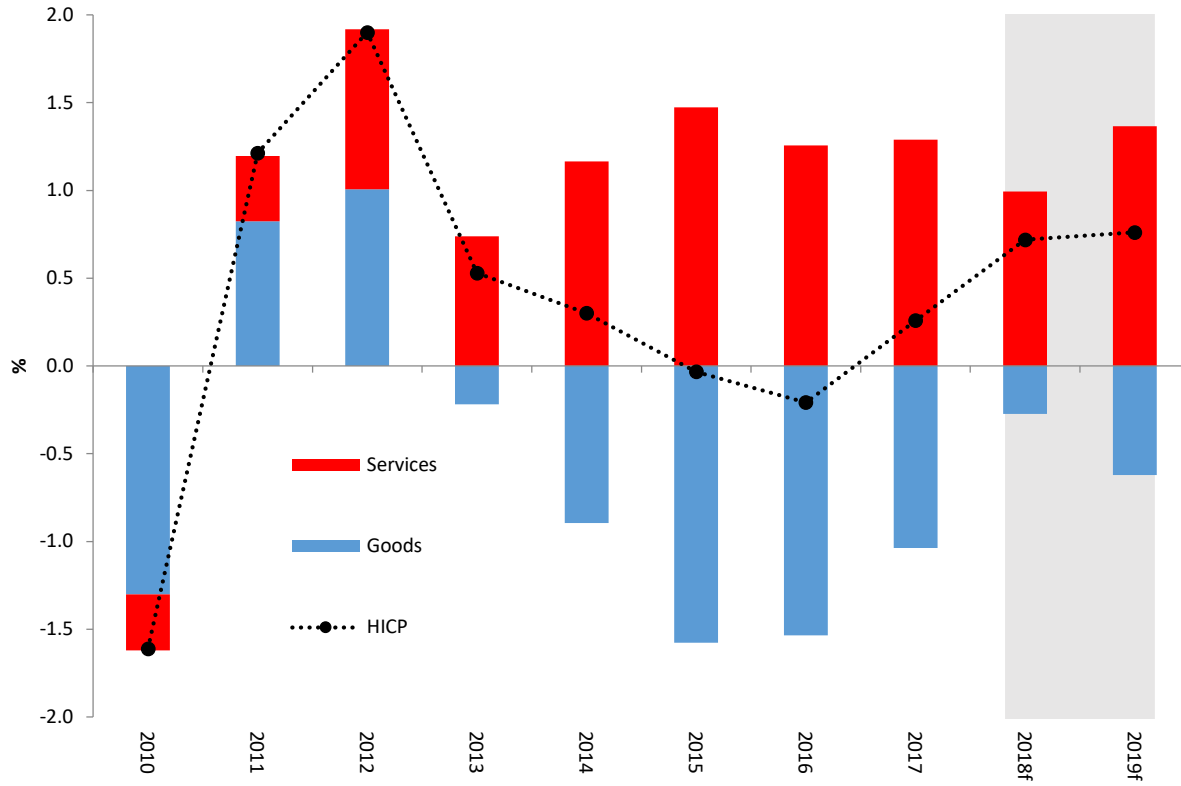
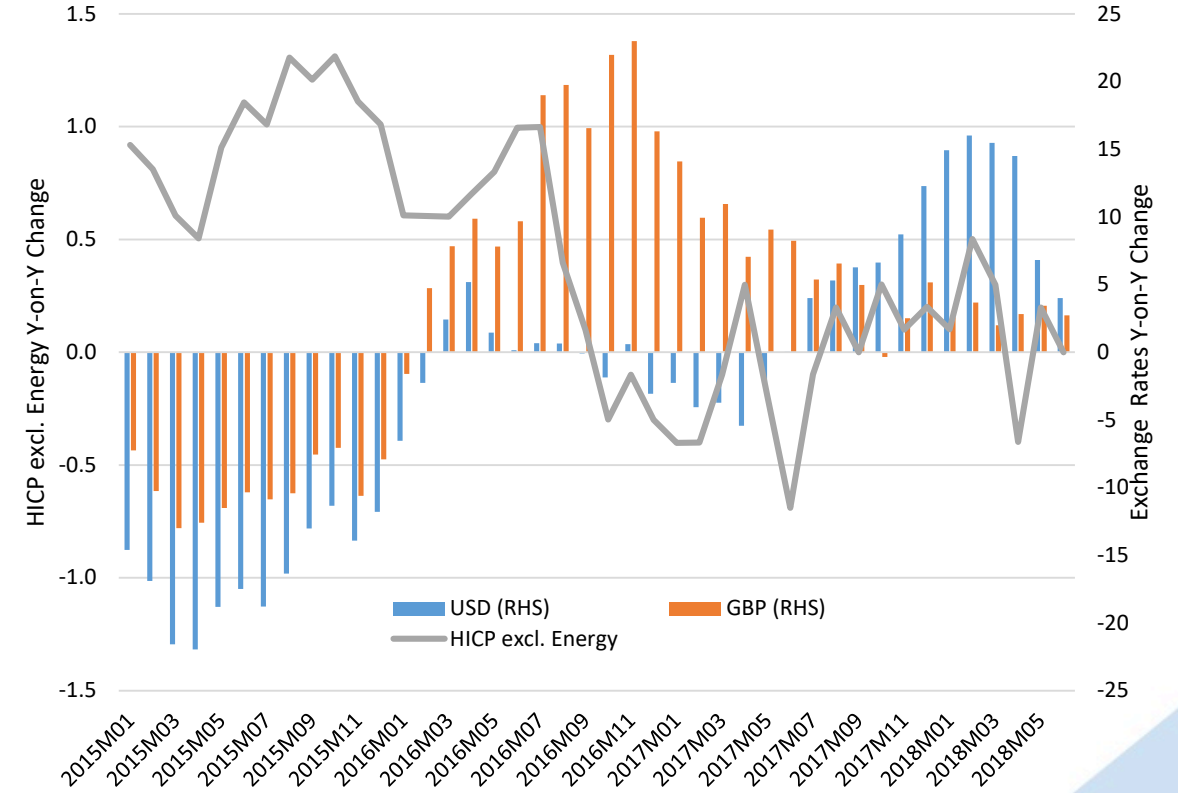


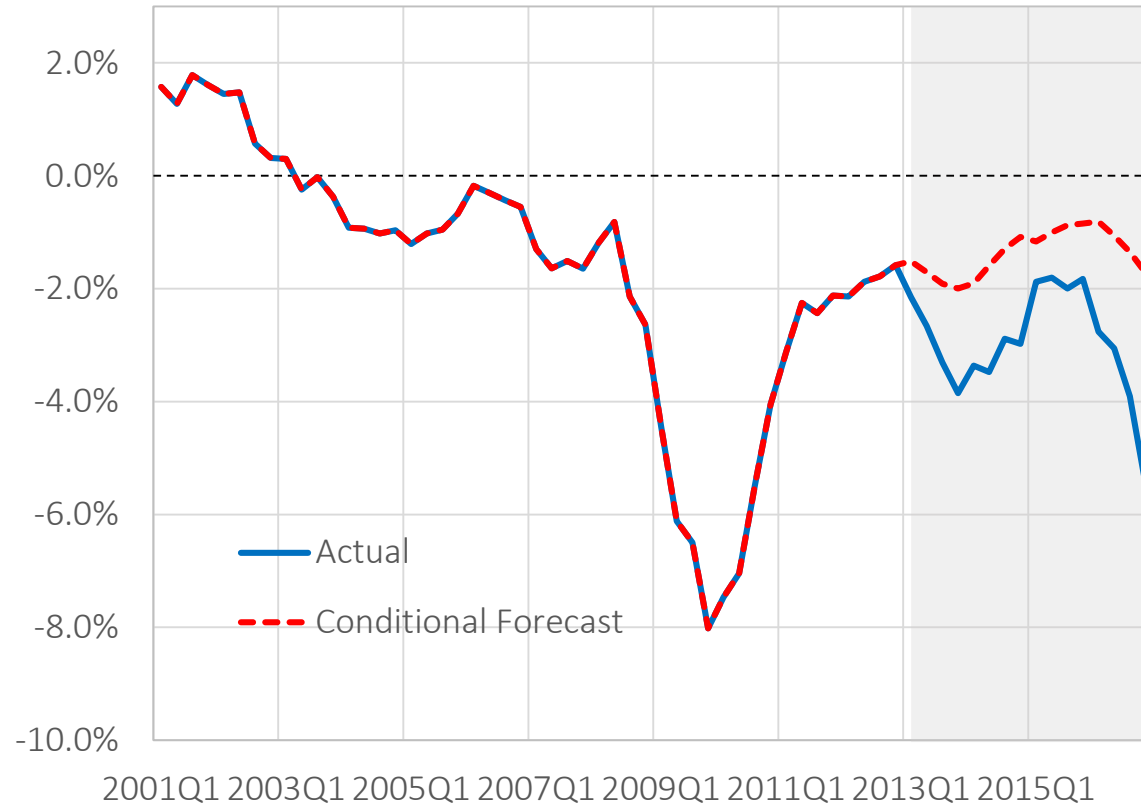
Chart: Irish Inflation and Exchange Rate Changes



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- Goods inflation weaker than can be explained by drivers



- Recent Box (QB 2018.3) examined the case of Non Energy Industrial Goods.
- Clothing, appliances, furniture etc.
- Lower than expected given developments in main drivers (GBP, oil prices, domestic demand)
- Possible measurement issues related to quality adjustment, particularly in IT products and clothing.



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Risks and Conundrums

Risks of pro-cyclicality

- Economy is approaching full employment with capacity constraints beginning to emerge

Risk of complacency

- Ireland is vulnerable given its openness and extensive trade, tech and financial linkages

Domestic challenges:

- How much spare capacity is there in the domestic economy?
- Avoiding pro-cyclicality in policy

External risks:

- Brexit
- Protectionism
- Impact of international tax regimes on FDI decisions



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Thank you



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