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
GDP overstates the size and growth rate of the Irish Economy.....especially since 2015
### Irish economy - Outlook

<table>
<thead>
<tr>
<th>Forecast Summary</th>
<th>Bulletin No.4 - October 2018</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>GDP</td>
<td>7.2</td>
</tr>
<tr>
<td>Consumption</td>
<td>1.6</td>
</tr>
<tr>
<td>Investment</td>
<td>-31.0</td>
</tr>
<tr>
<td>Exports</td>
<td>7.8</td>
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<tr>
<td>Imports</td>
<td>-9.4</td>
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<tr>
<td>Underlying Domestic Demand</td>
<td>2.9</td>
</tr>
<tr>
<td>Employment</td>
<td>2.9</td>
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<tr>
<td>Unemployment</td>
<td>6.7</td>
</tr>
<tr>
<td>Inflation (HICP)</td>
<td>0.3</td>
</tr>
</tbody>
</table>

### GDP Growth

- **2017**: 7.2%
- **2018**: 6.7%
- **2019**: 4.8%
- **2020**: 3.7%

### Breakdown of GDP Growth
- **Consumption**: 1.6% in 2017, 3.0% in 2018, 2.5% in 2019, 2.3% in 2020
- **Government**: inferred from the chart
- **Investment**: -31.0% in 2017, -2.8% in 2018, 13.5% in 2019, 7.5% in 2020
- **Exports**: 7.8% in 2017, 5.0% in 2018, 4.6% in 2019, 3.8% in 2020
- **Imports**: -9.4% in 2017, 0.0% in 2018, 5.3% in 2019, 4.1% in 2020
- **Underlying Domestic Demand**: 2.9% in 2017, 5.6% in 2018, 4.2% in 2019, 3.6% in 2020
- **Employment**: 2.9% in 2017, 3.0% in 2018, 2.2% in 2019, 1.7% in 2020
- **Unemployment**: 6.7% in 2017, 5.6% in 2018, 4.9% in 2019, 4.7% in 2020
- **Inflation (HICP)**: 0.3% in 2017, 0.8% in 2018, 0.8% in 2019, 1.1% in 2020
Growth driven by domestic spending – labour market strength

**Underlying Domestic Demand and Employment Growth, Annual % Change**

- **Percentage year-on-year**
- **Q2 00 Q4 01 Q2 03 Q4 04 Q2 06 Q4 07 Q2 09 Q4 10 Q2 12 Q4 13 Q2 15 Q4 16 Q2 18**

**Employment, Part-Time and Full-Time, Annual % change**

- **Full-Time**
- **Part-Time**
- **Employment**
• Strong recovery in employment but has only recently surpassed its pre-crisis peak
Employment Growth by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Q2 2012</th>
<th>Q2 2018</th>
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</thead>
<tbody>
<tr>
<td>Border</td>
<td>118.9</td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>113.7</td>
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<tr>
<td>Mid-West</td>
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<td>South-East</td>
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<tr>
<td>South-West</td>
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<td>Dublin</td>
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<tr>
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<tr>
<td>Midland</td>
<td>124.4</td>
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</tr>
<tr>
<td>State</td>
<td>120.1</td>
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</tr>
</tbody>
</table>
Unemployment Rate by Region: Q2 2012 and Q2 2018
• Labour market – approaching capacity across a range of measures – sources of supply?
Net Immigration, % of LF

![Graph showing net immigration as a percentage of the labour force from 2000 to 2018. The graph indicates fluctuations in net immigration with peaks and troughs over the years.](image)
• Wages and incomes recovering ...consumer price inflation remains subdued
• Consumption gradually approaching it’s pre-crisis peak…. but investment recovery skewed by multinationals
Inflation Developments: Brexit effect through the exchange rate (Reddan and Rice, 2017)

Inflation Contributions

Chart: Irish Inflation and Exchange Rate Changes
• 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.
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
Thank you