



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Irish economy: Outlook 2018 - 2020

Terry Quinn and Thomas Conefrey (IEA), Civic Society Roundtable, November 30th 2018

Overview

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

- 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, underlying indicators are more informative

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

As the recovery matures, risks of overheating emerge

- Risk of pro-cyclicality in policy

In a Small Open economy External risks predominate

- Sensitivity to international financial conditions, global taxation and trading environment
- Brexit-related vulnerabilities even with 'softer' outcomes



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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 overstates a strong underlying growth dynamic

Exports are performing well
but domestic demand is the main growth driver

Employment growth of 3 per cent will moderate as the economy approaches full capacity

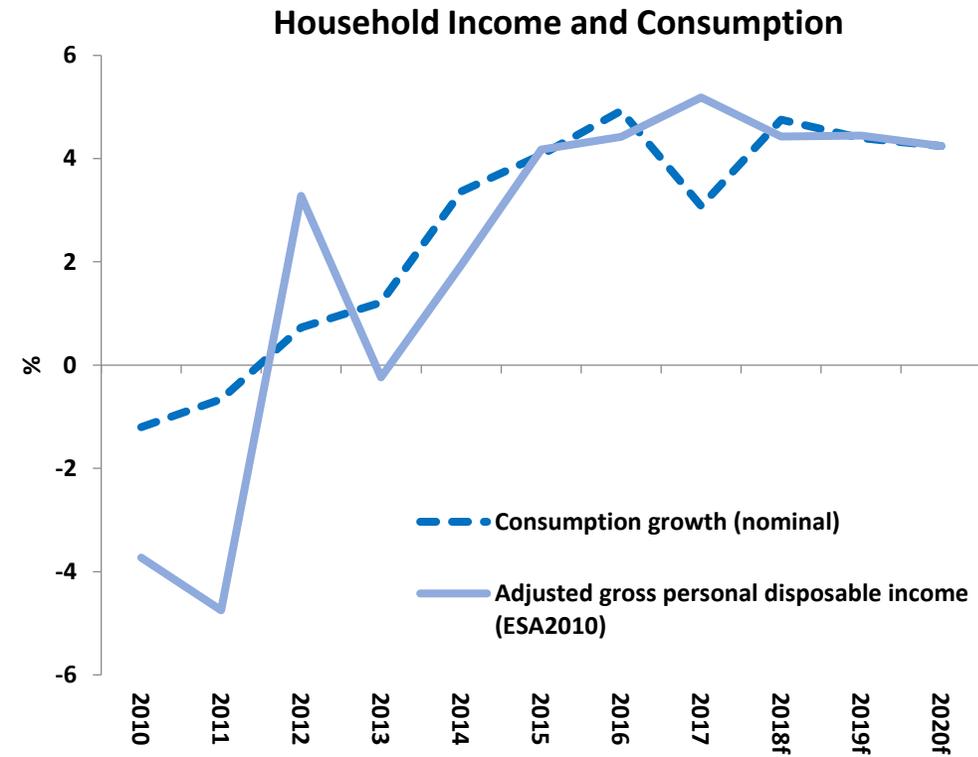
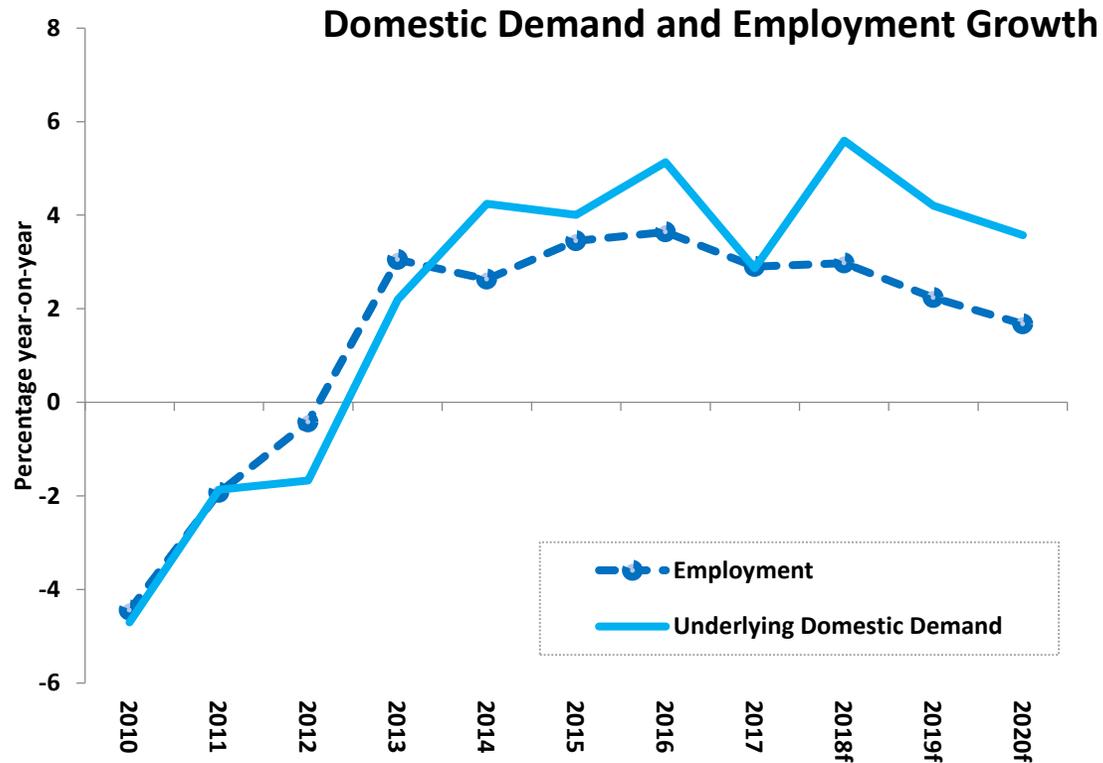


Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Growth driven by domestic spending – labour market strength

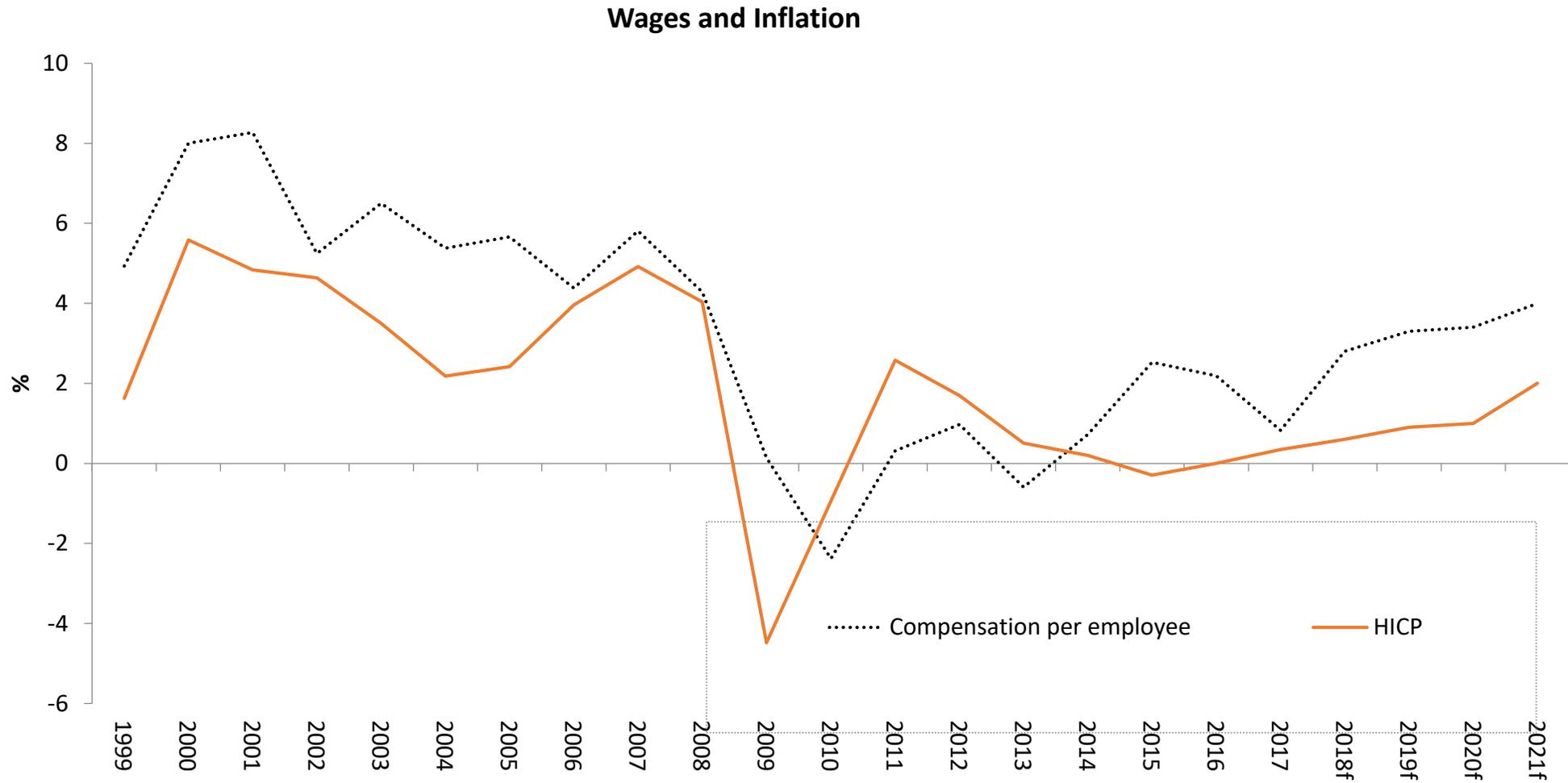
Consumer spending recovering, supported by income growth, but remains below pre -crisis peak



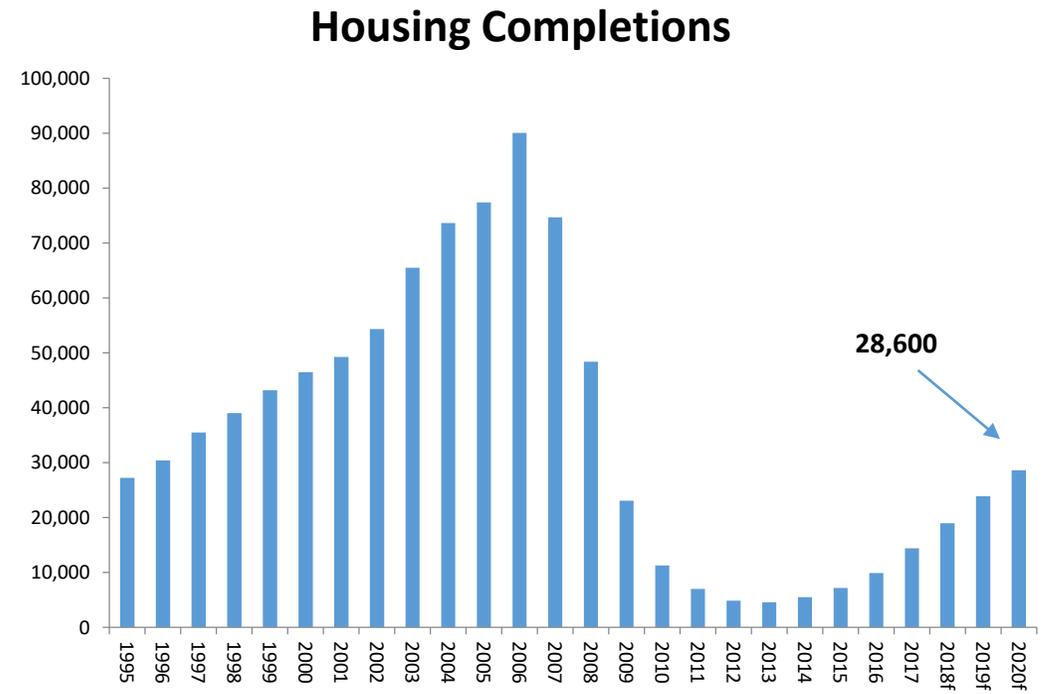
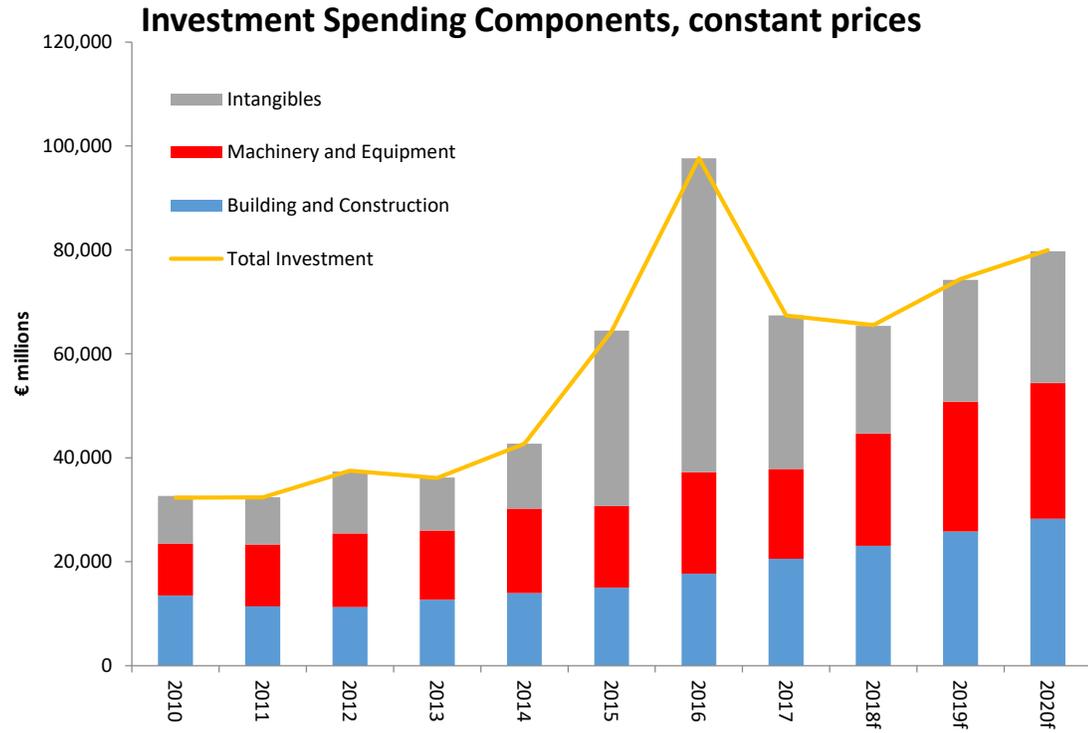
Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Wage inflation is moderate, as is inflation – mind the gap!



Investment recovery distorted by Multinationals

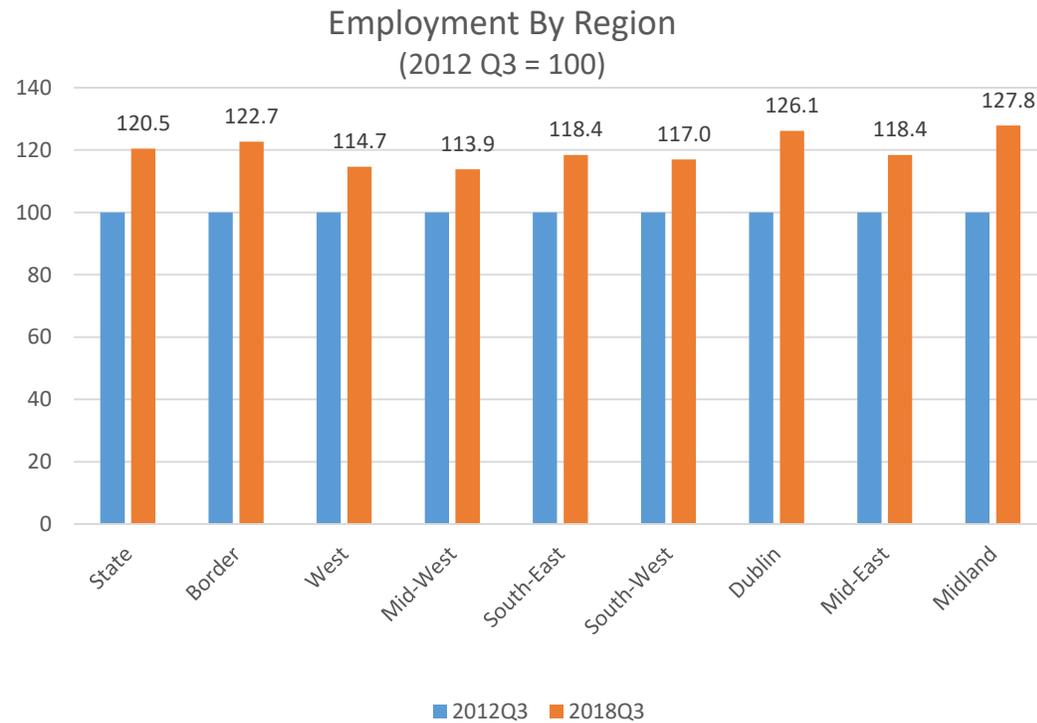


Banc Ceannais na hÉireann
Central Bank of Ireland

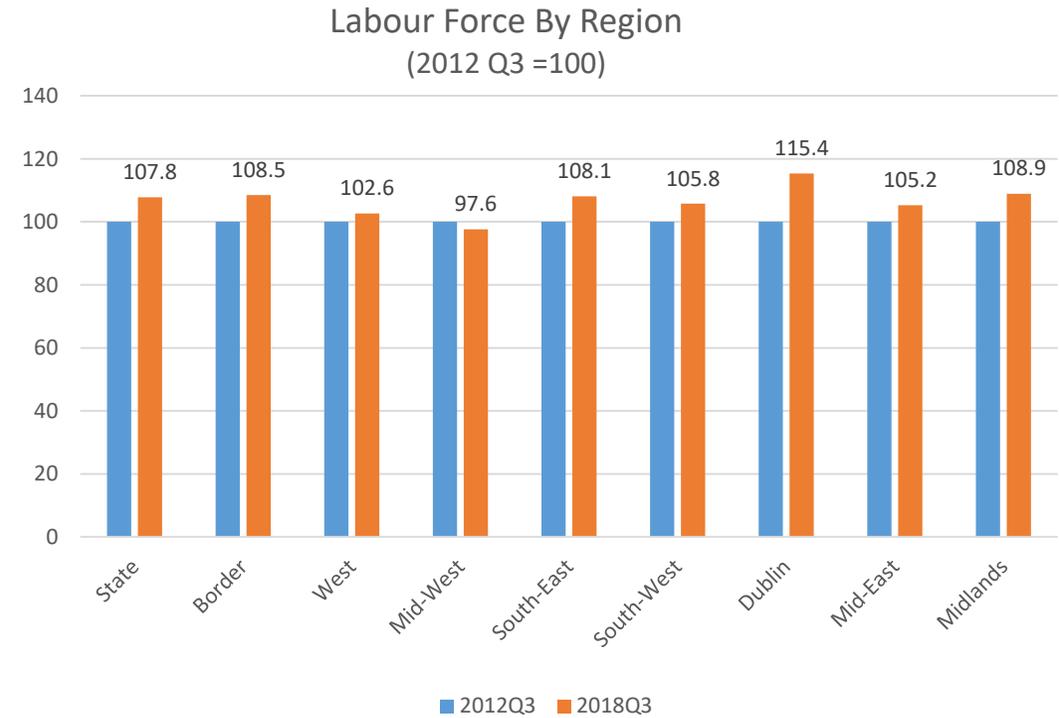
Eurosystem

Regional employment and labour force growth

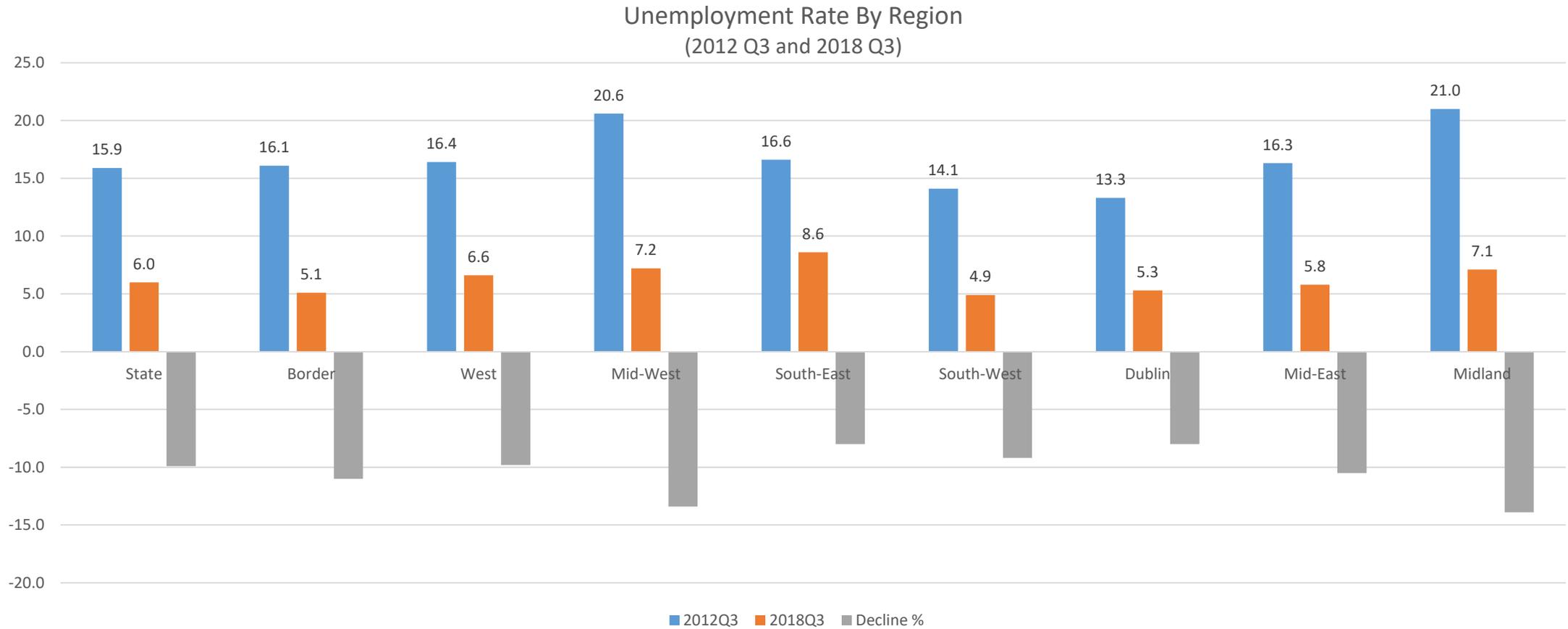
Dublin well above average but highest employment growth in the Midlands



Strong Dublin labour market is stimulating labour supply growth. Mid-West labour force has declined as employment growth lags



Unemployment Rates have converged



Risks and Challenges

Domestic challenges:

- After 6 years of strong growth, how much spare capacity is there in the domestic economy?

External risks:

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



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Brexit Scenarios

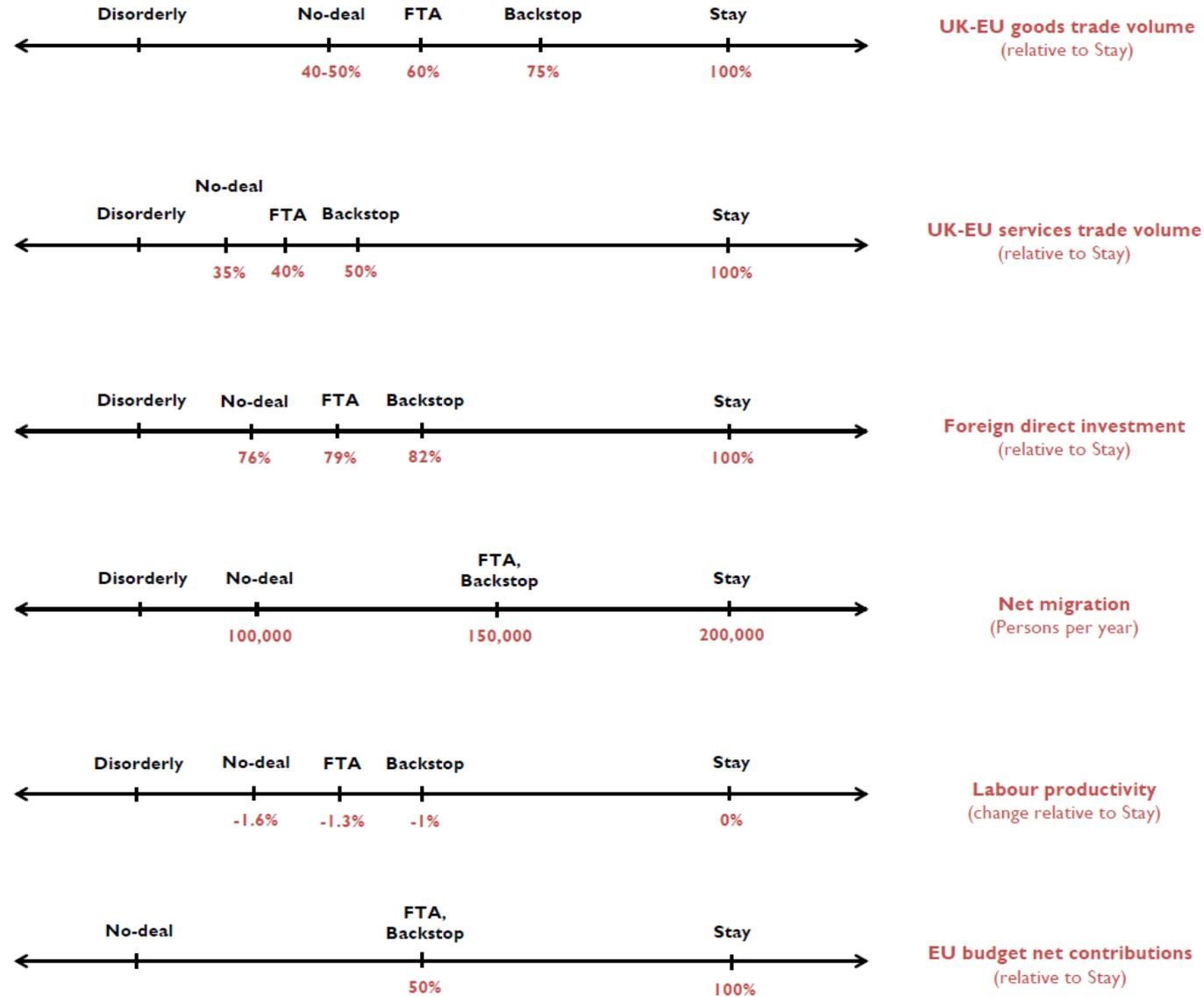
- The nature of the future relationship between the EU and UK is still uncertain.
- Assuming WA is passed by UK parliament, two outcomes possible:
 - Deal + FTA (as envisaged in the Political Declaration)
 - Deal + Backstop (Protocol on Ireland in Withdrawal Agreement)
- If the agreement is not passed, a range of scenarios are possible.



- 1. No Brexit**
- 2. EEA arrangement (Norway):**
- 3. Bilateral trade arrangement with EU (Canada/Switzerland):**
- 4. WTO**
- 5. Disorderly Brexit**



Brexit Scenarios: Channels and Assumptions

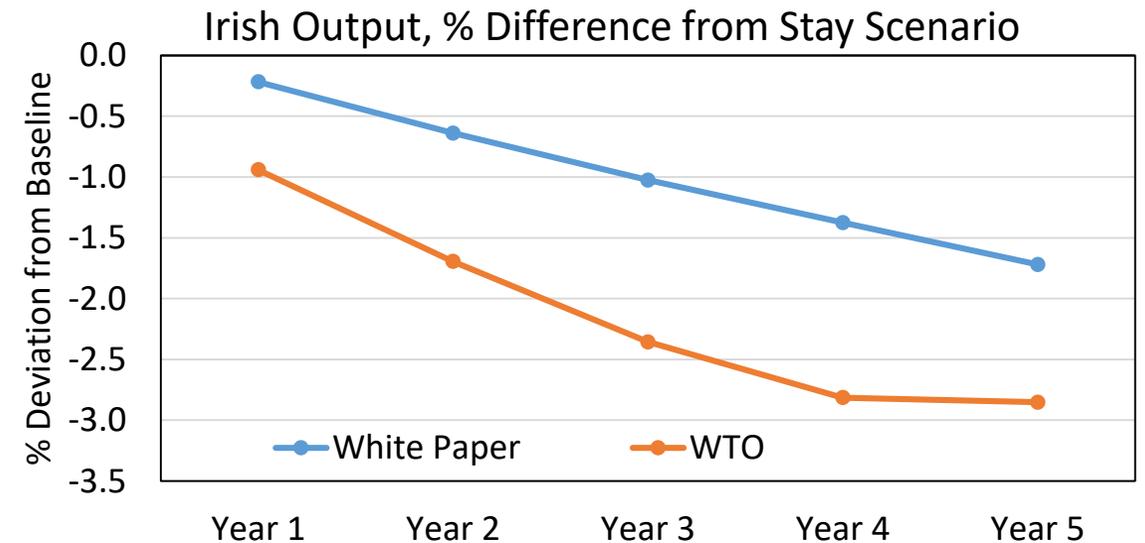


Macroeconomic Implications

- Compared to status quo, impact on UK economy will be negative. Main transmission channels:
 - Trade
 - Migration
 - Productivity
- Implications for Irish economy:
 - Transition period would avoid short-term disruption and allow time for adjustment.
 - Slower UK growth would negatively affect the Irish economy but losses less than in WTO case.
 - Projected effects on output should be considered in context of favourable current forecasts.
 - Unprecedented event: models capture only some of the transmission channels.

	UK GDP, % Difference from Stay Scenario in 2030
Deal + FTA (proposed deal)	-3.9
Deal + Backstop	-2.8
Orderly no deal	-5.5

Source: NIESR.



Source: Own calculations based on COSMO.

Notes: Chart shows the deviation in the level of GDP from the baseline in a WTO Brexit scenario and in a scenario based on the UK's White Paper proposals.



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

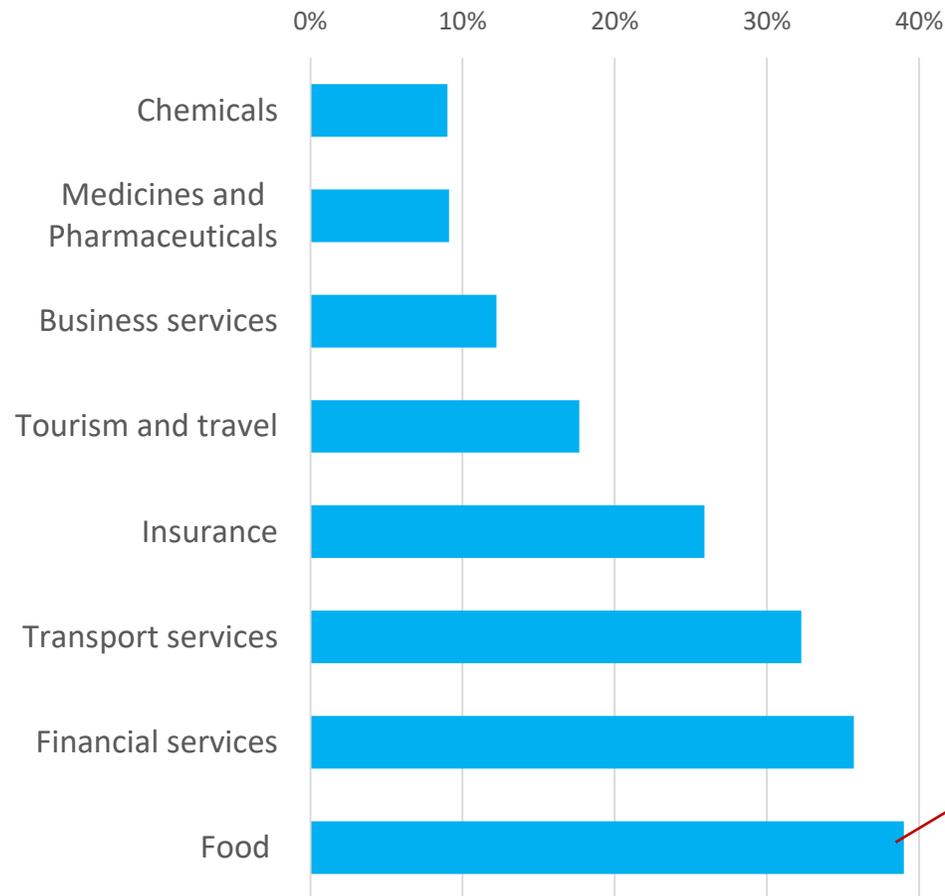
Regional and Sectoral Exposure

- Exposure to Brexit varies significantly across products/sectors.
- Given that sectors are not evenly divided across Ireland, this implies that Brexit effects will be felt differently across regions.
- Counties in the border area more dependent on north-south trade.
- Any positive FDI effect likely to benefit urban areas where existing FDI is concentrated.



Brexit – Sectoral Exposures

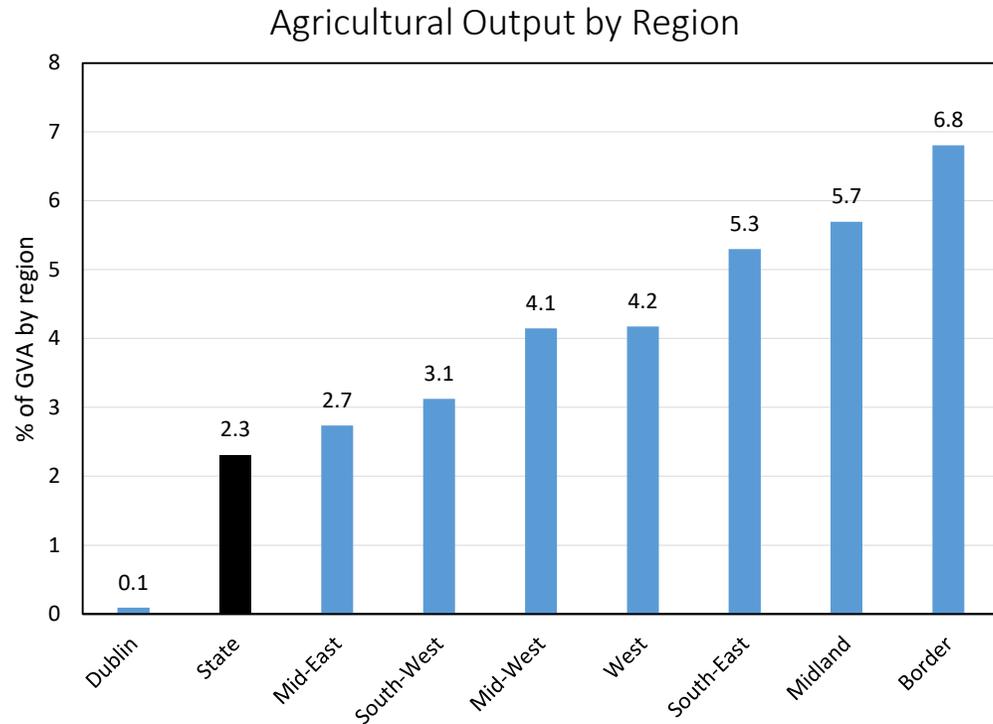
Proportion of exports to UK by sector



	All destinations, € billion	% of total goods exports	Great Britain (€ billion)	Northern Ireland (€ billion)	GB, % of exports	NI, % of exports
Total food and live animals (0)	11.38	9.3	4.00	0.61	35.2	5.4
Live animals except fish etc. (00)	0.45	0.4	0.25	0.08	55.3	18.4
Meat and meat preparations (01)	3.85	3.1	1.74	0.19	45.2	5.0
Dairy products and birds eggs (02)	2.39	2.0	0.75	0.09	31.2	3.7
Fish, crustaceans, molluscs and preparations thereof (03)	0.62	0.5	0.05	0.01	8.1	1.5
Cereals and cereal preparations (04)	0.42	0.3	0.30	0.08	70.6	19.2
Vegetables and fruit (05)	0.30	0.2	0.20	0.05	68.1	15.6
Sugar, sugar preparations and honey (06)	0.16	0.1	0.04	0.01	27.8	4.2
Coffee, tea, cocoa, spices and manufactures thereof (07)	0.37	0.3	0.23	0.02	62.4	4.4
Feeding stuffs for animals, excluding unmilled cereals (08)	0.32	0.3	0.16	0.07	50.8	21.9
Miscellaneous edible products and preparations (09)	2.50	2.0	0.28	0.02	11.3	0.8
Beverages (11)	1.36	1.1	0.21	0.08	15.6	5.7
Other agri-food products	0.36	0.3	0.07	0.02	18.5	4.7

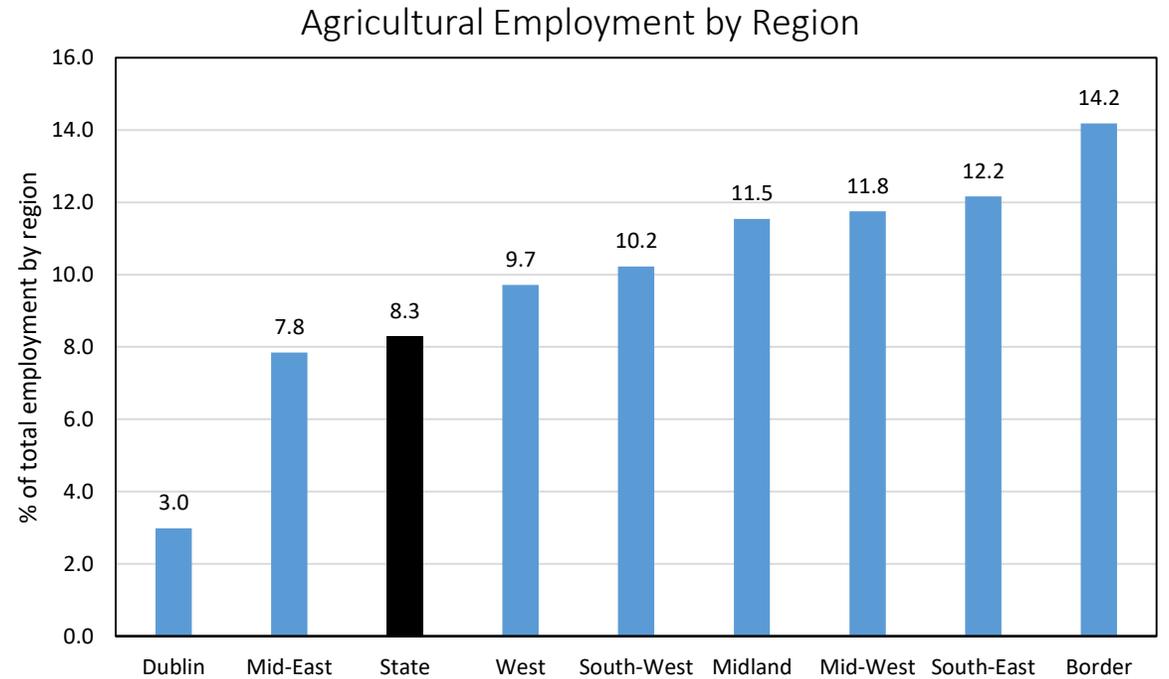


Agricultural Employment and Output by Region



Source: CSO, County Incomes and Regional GDP.

Notes: Chart shows GVA in primary agriculture in each region as a proportion of overall GVA in the region in 2014.



Source: Census 2016, CSO.

Notes: Chart shows employment in the agri-food sector in each region as a proportion of overall employment in the region.



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Thank you



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Further Reading

- Central Bank of Ireland Quarterly Bulletin, [October 2018](#)
- [Non-tariff Barriers and Goods Trade: A Brexit Impact Analysis](#)
by Stephen Byrne and Jonathan Rice., Central Bank of Ireland Research Technical paper, Vol. 2018, No.7.
- [Brexit Task Force Reports](#) Parts 1 and 2 , September 2018



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem