Irish Economy Update

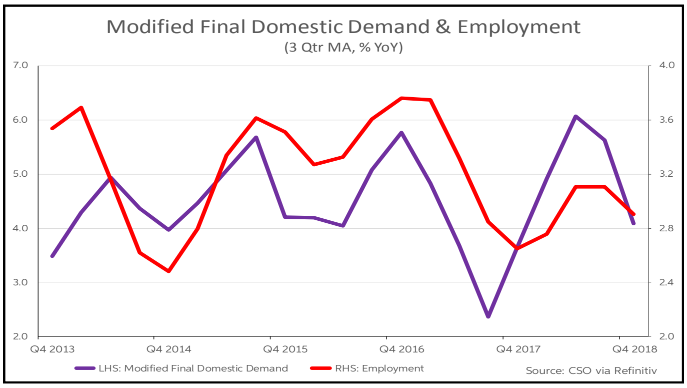
AIB Treasury Economic Research Unit

April 2019

Strong start by Irish economy to 2019…

The Irish economy has been confronted with a slowdown in global growth this year, most notably in its main export markets in Europe, as well as the deepening uncertainty in relation to Brexit. The past two weeks have seen updated forecasts published on the Irish economy by the Dept. of Finance, Central Bank and IMF, but these have not seen any major changes.

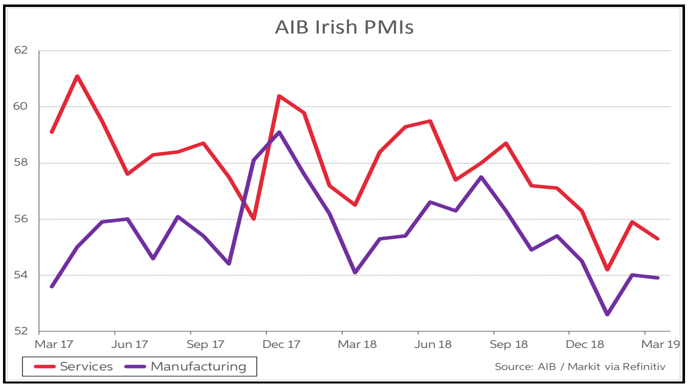
All three forecasters continue to expect a strong performance by the Irish economy in 2019, with GDP projected to grow by around 4% this year, which is in line with AIB's forecast. This would represent a moderation on the underlying growth rate of the economy of recent years, which has been put at between 4.5 to 5%. However, it would still be a very impressive growth performance given the more challenging external environment.



Certainly the indicators published for the opening months of the year point to an economy that is continuing to grow at a relatively strong pace. There have been some areas of weakness, such as declining new car sales and a fall back in consumer confidence from its elevated levels in 2018. However, core retail sales (i.e. excluding the motor trade) have continued to grow very robustly, rising by an impressive 0.7% in January and 1.4% in February.

On the construction side, the housing component of the PMI rose to very high levels in February and March, of 64.3 and 60.8, respectively. Furthermore, both new house building registrations and commencement notices were up by 40% year-on-year in the three months to February, signaling that the recovery in the sector is continuing to gain momentum.

Meantime, the latest AIB PMIs for the manufacturing and services sectors show both have continued to perform strongly in the first quarter of the year, although the indices are down somewhat from their very high levels in 2017-18. The Manufacturing PMI averaged 53.5 in quarter one, well above the 50 level that signals expansion. The Services PMI averaged 55.1, pointing to ongoing strong growth in the sector.



External trade data for the first two months of 2019 show very robust growth of 17% in the value of goods exports. However, the figures can be distorted by the activities of some multi-national companies, especially in relation to contract manufacturing abroad. Encouragingly, though, growth was recorded in most sectors and in exports to the UK.

The employment sub-components of the PMIs point to continuing strong jobs growth in the economy, with strong readings for the services, construction and manufacturing sectors in the first three months of the year. This is consistent with the fall in the unemployment rate to 5.4% by March, from 5.7% in December. Meanwhile, the Live Register fell by a further 8,700, to below 195,000 during the first quarter.

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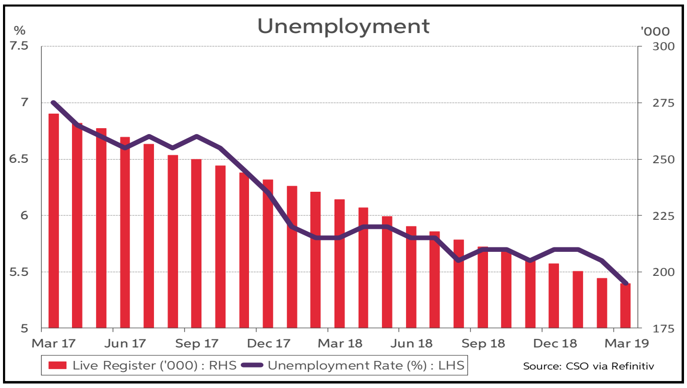
...but some signs of a moderation in pace of activity

The broad based strength of economy activity is reflected in a 7% rise in tax receipts in the opening quarter of the year, which was above expectations. Both VAT and income tax receipts rose by a healthy 6.5%, while corporation tax receipts are again running ahead of target. As a result, **the Minister of Finance now expects the budget surplus will be slightly higher than forecast this year.**



All in all, then, the data show that the Irish economy has made a strong start to the year, despite the weaker global backdrop and continuing uncertainty in relation to Brexit. **Growth in 2019 is likely to be somewhat below the very buoyant levels of recent years, but looks set to still be strong nonetheless.**

% change in real terms unless stated	2016	2017	2018	2019 (f)	2020 (f)
GDP	**5.0**	**7.2**	**6.7**	**4.0**	**3.5**
GNP	11.5	4.4	5.9	3.7	3.2
Personal Consumption	4.0	1.6	3.0	2.5	2.5
Government Spending	3.5	3.9	6.4	4.0	3.0
Exports	4.4	7.8	8.9	4.5	4.3
Imports	18.5	-9.4	7.0	4.5	4.5
Fixed Investment	51.7	-31.0	9.8	7.0	6.0
Modified Final Domestic Demand*	5.6	3.2	4.5	4.0	3.8
HICP Inflation (%)	-0.2	0.3	0.7	1.1	1.3
Unemployment Rate (%)	8.4	6.8	5.8	5.3	5.1
Budget Balance (% GDP)	-0.5	-0.2	0.1	0.1	0.3
Gross General Gov Debt (% GDP)	72.8	68.0	64.0	61.0	56.5

* Excludes investment in aircraft and intangibles

Source: CSO, AIB ERU Forecasts

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