

Ireland: Defying Brexit uncertainty

Brexit, what Brexit? The impact all the uncertainty surrounding the UK's departure from the European Union on Ireland's economy has been very limited so far



Irish Taoiseach Leo Varadkar shares a joke with the outgoing British Prime Minister, Theresa May in June

Ireland's domestic economy's in great shape

The UK's departure from the European Union is a huge worry for Ireland as the latest deadline of 31 October approaches. So far, however, the country's economy is holding up pretty well. While GDP data for Q1 has not been released yet, employment growth has been much better than many had expected given the concerns around a possible no-deal Brexit scenario. Delayed investment may have occurred to some degree, but the domestic economy continues to perform very well, dampening the impact from all the uncertainty for now.

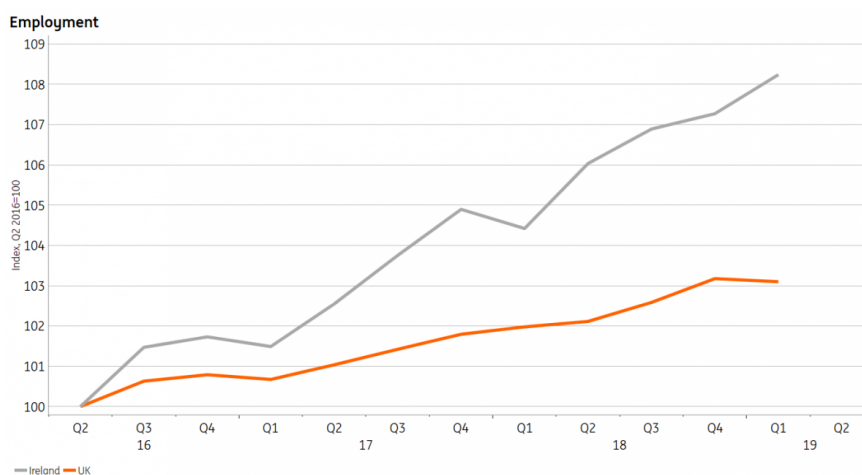
Ireland's domestic economy remains in great shape

Still, Brexit is not going away for the moment and even though the domestic economy seems to be in good health, the external environment is filled with downside risks. The chance of a no deal Brexit has not diminished and uncertainty about the negotiation outcome remains high given the current governing Conservative Party leadership race in the UK. For now, it looks like the extension to Article 50 has only provided prolonged uncertainty, but not much clarity. On top of that, as a

small open economy, Ireland will be impacted by the global trade conflict given its interconnectedness with the global supply chain.

The domestic economy remains in great shape though, which shows that the strong growth rates that Ireland boasts are not just about multinational accounting. Employment continues to grow quickly, which supports consumption growth in an uncertain global economy. Local investment in construction is also picking up as Ireland tries to battle its housing shortage problems. These factors cause the domestic economy to perform well and counteract issues from Brexit and other trade-related issues.

Employment in Ireland continues to grow rapidly despite Brexit concerns



Migration is key for Ireland's longer-term growth

If we are to put all of the external risks aside for a bit and look at the structural shape of the Irish economy, the question is for how long Ireland can maintain its robust growth pace. According to estimates by the OECD, Ireland currently has the largest positive output gap of all Eurozone economies. This means that it is growing well above potential at the moment and that more capital and labour are needed not to run into supply-side reasons for declining growth. Unemployment was as low as 4.4% in May and this unemployment rate resembles that of the Celtic Tiger years prior to the 2008 financial crisis. This was a period that required significant inward migration to sustain the rapid growth in demand for labour. With net migration only recently picking up to levels seen during those years, the question is whether Ireland will be able to use migration as a growth buffer the same way it did in the 2000s.

Ireland is growing well above potential at the moment

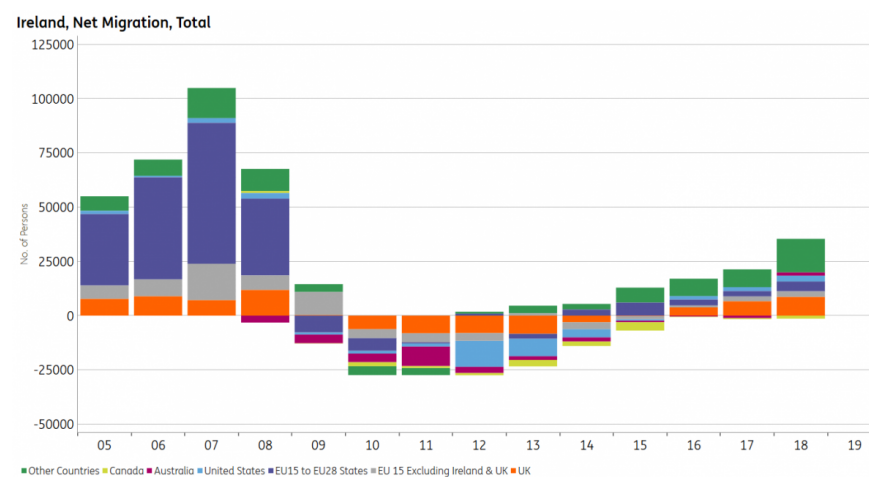
While natural population growth continues to deliver a positive contribution to the labour force – this is not the case in all Eurozone economies – it is likely that continued strong GDP growth would require strong inward flows for the years ahead. The difference between the late 2000s and the current situation is that the pickup in recent immigration has not been dominated by an inflow of

people from Central and Eastern European countries. Relatively cheap labour boosted economic growth back then, which does not seem to be the case at the moment. Is this model for Irish growth therefore not to be repeated?

While labour shortages and wage growth in many CEE economies have been rising significantly, recent years have still seen significant outward migration to other EU countries. It seems that the demand for new workers in Ireland from the rest of the EU has just remained subdued for the moment as the labour shortages have yet to resemble those of the mid-2000s. If the Irish economy maintains a strong growth pace and maintains the pace on the construction of new housing, it could well be that some inward migration from CEE countries increases again to sustain labour demand.

This article is taken from the Eurozone Quarterly which you can find [here](#)

Migration inflows now are different from the Celtic Tiger era



The Irish economy in a nutshell (%YoY)

	2018	2019F	2020F	2021F
GDP (%)	6.7	3.3	2.8	2.7
Private consumption (%)	3.0	2.1	2.0	2.0
Investment (%)	9.7	3.9	3.5	3.4
Government consumption (%)	5.8	5.5	1.5	1.5
Net trade contribution(%)	4.3	0.4	0.2	0.4
Headline CPI (%)	0.7	1.2	1.2	1.4

Source: Macrobond, all forecasts ING estimates

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.