

Ireland: Fingers crossed for a deal

The Irish economy continues to show healthy signs of growth despite the Brexit uncertainty. While a [no deal scenario](#) could have significant ramifications, confidence is still high and modified domestic demand doesn't show any signs of slowing either



(L-R) European Commission President Jean-Claude Juncker, Prime Minister of Ireland Leo Varadkar and Belgian Prime Minister Charles Michel during an European Council summit in Brussels

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Consumption catchup possible if cliff-edge situation avoided

The Irish economy continues to grow strongly despite the uncertainty around its future. GDP growth in the first quarter disappointed, but economic fundamentals continue to point to a stronger year for the Irish economy.

A decline in consumption despite continued strength in the labour market seems to reflect some of the uncertainty surrounding [Brexit](#) and trade disputes, but the drop in investment growth seems to reflect the swings in multinational corporation activity, impacting GDP negatively this quarter. This might be due to the changes in the American corporate tax system.

Expectations for the next 12 months, which is now well past the March 2019 Brexit date, don't seem to have adjusted for a worst-

case scenario, so the outlook for consumer remains quite bright

Modified domestic demand, which strips out multinational activity components, actually accelerated in the first quarter, which indicates domestic investment performed well at the beginning of 2018.

Even though consumption weakened in the first quarter, the outlook for consumers remains quite bright as expectations for the next 12 months don't seem to have adjusted for a worst-case scenario. After the referendum, general economic expectations in Ireland deteriorated somewhat, but have actually been recovering since early 2017. Expectations about consumer's financial situation and employment prospects have been stable at historically strong levels, which indicates that without a cliff-edge situation Irish consumption seems to be set for some catch-up in the second half of the year.

The Irish housing market continues to face supply worries, which means house prices are likely to continue to rise throughout the year. The 12.3% year on year growth in Q1 saw Dublin's price growth being outpaced by the rest of the country, indicating housing shortages are broad-based for the moment.

[Read why we think the probability of a 'no deal Brexit' is still relatively low](#)

For Ireland, any deal is better than no deal

The Brexit negotiations are moving into a crucial phase, especially for Ireland. In the coming months, a withdrawal agreement deal needs to be reached, and a statement of intent on the aim of the trade talks will be drawn up. This needs to be ratified by all countries before the end of March 2019, when the UK will formally leave the EU. The Irish border issue is part of the withdrawal agreement and remains the topic with the most uncertainty around it for the moment as both the EU and the UK are miles apart.

A cliff edge scenario that would push the trade relationship to WTO rules would result in a significant chance of a severe recession for the Irish economy

If a deal is not reached on the withdrawal bill, the impact on the Irish economy will be severe. A cliff edge scenario that would push the trade relationship to WTO rules which would result in a significant chance of a severe recession for the Irish economy. Given that 15% of total exports go to the UK at the moment, sectors like agriculture, pharmaceuticals, electrical machinery and wholesale and retail trade are strongly exposed to the British economy.

However, we believe that a deal will be reached as both sides are cautiously showing signs of flexibility. This would mean that a transition period under which existing rules remain active awaits, which would mean a soft landing for the British-Irish trade relationship is still the base case. While that is a positive outcome at this point, it does mean quite a long period of uncertainty

ahead still as the trade relationship will take years to be defined in more detail.

The Irish economy in a nutshell (% YoY)

	2017	2018	2019	2020
GDP	7.2	5.3	3.5	3
Private consumption	1.6	2.9	2.3	1.9
Investment	-31	7.2	6.8	4.9
Government consumption	3.7	3.5	1.6	0.7
Net trade contribution	14.5	0.9	-0.2	0.2
Headline CPI	0.2	0.8	1.7	1.7

Source: Macrobond, all forecasts ING estimates

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