Ireland: Looks can be deceiving

Positive growth in 2020 masks underlying weakness in the economy, although Ireland does seem well positioned to recover from the crisis compared to other eurozone economies

Irish Taoiseach Micheal Martin

Source: Shutterstock

That GDP is hardly a measure of how the Irish economy is performing is a well-known fact at this point, which is once more confirmed by the 3.4% growth rate for 2020. Yes, that is positive and comfortably higher than the Chinese 2.3% for example. This is thanks mainly to strong outflows of multinationals' profits and growth in the very globalised ICT and industry sectors. The modified domestic demand statistic that the Irish Central Statistics Office prefers as a measure for underlying domestic activity decreased by -5.4% in 2020. This is much more in line with economic contractions in other eurozone economies and better reflects the economic reality in Ireland at the moment.

A rough start to 2020

After a hard lockdown in 4Q, Ireland briefly reopened before being hit with a significant increase in cases at the start of January. This severe spread of the virus was met with another strict lockdown, lasting for most of 1Q. Some of the restrictions put in place in January have now been lifted, but most remain in place. This includes measures like the closure of non-essential construction and non-essential retail. These measures will now remain in place until 5 April, meaning that even the start of 2Q will be affected by the measures.

Another factor adding to this rough start to the year for the Irish economy is the end of the Brexit transition period. Stockpiling caused a surge in exports from Ireland to the UK in November, but the start of the year is expected to have been poor. With several checks yet to be phased in, disruptions could continue to plague Irish exports to their largest trade partner for a while to come. That makes it difficult to gauge the longer-term impact.

Upside for the rest of the year

In terms of vaccinations, Ireland has made an encouraging start and outpaces the EU average. At the time of writing, Our World in Data reports a 10% uptake of the first dose, compared to 8.7% for the EU average. Of course, Ireland is similarly bound by supply constraints like other EU countries, meaning that the pace of vaccinations will be limited by supply over the coming months. Once the economy reopens, there is a chance of a quick bounce back though as government subsidies continue to curb unemployment and boost household incomes. Savings have been running high, which bodes well for a rapid consumption recovery.

So while the start to the year is set to be severe once more, the base case scenario for Ireland is one of a relatively decent recovery for the latter part of the year. As vaccinations pick up and initial Brexit teething troubles fade, modified domestic demand should improve and start a more sustainable recovery.

The Irish economy in a nutshell (%YoY)

	2020	2021F	2022F	2023F
GDP	3.4	3.2	3.7	2.8
Private consumption	-9	11.4	7.4	3.1
Investment	-32.3	14.3	14.1	5.1
Government consumption	6.6	-0.1	-0.8	0
Net trade contribution	22	-4.5	-3.6	-0.5
Headline CPI	-0.5	1.5	1.5	1.7

Source: Macrobond, ING Research

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