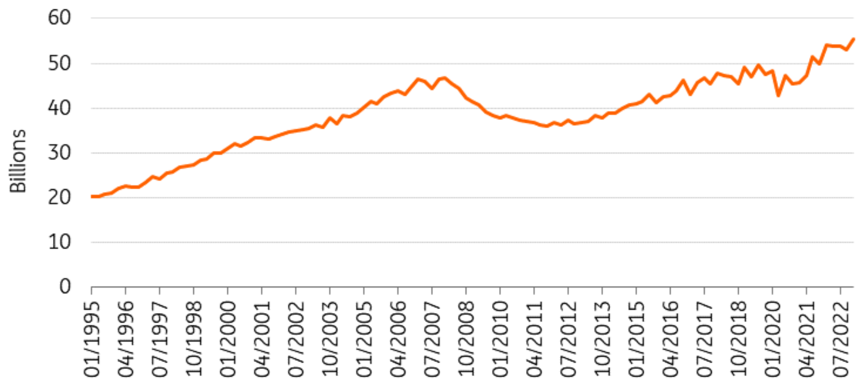
Ireland’s boom continues, for now

The Irish economy appears to be going from strength to strength, growing rapidly following a solid start to 2023. Ireland isn't immune to global headwinds, however, and growth expectations could soon begin to slow as high inflation, rising interest rates and weaker global demand take their toll

Global headwinds weigh on surging growth

It was a confusing start to the year for the Irish economy. We saw GDP shrink by 4.6% quarter-on-quarter – mainly driven by multinational-dominated sectors –while the domestic economy actually bounced back from a few weaker quarters and grew by 2.7%. This signals continued strength in the overall trend for Ireland and suggests that the boom of recent years has not yet come to an end. This year, we continue to expect the Irish economy to outperform compared to its European peers – although Ireland is also not immune to broader drivers of weakness. As a result, high inflation, higher interest rates and weaker global demand are dampening the growth outlook for the year ahead.

Modified domestic demand saw a strong bounce back from weakness at the end of 2022



Source: CSO

Purchasing power and business expectations to provide support

The services sector continues to be a very strong driver of economic activity in Ireland at the moment. The PMI for services was at 57 in June, well above the eurozone average and indicative of strong expansion. The manufacturing PMI indicates contraction, although traditional industrial production continues to show strong year-on-year growth. The strong service sector reflects large business services activities, but also strong domestic consumption activity. Unemployment stands at a very low 3.8%. Wage growth trends above 4% at the moment, not too far from where inflation sits. Over the course of the year, purchasing power is set to improve again, which should provide further support for consumption activity.

The housing market, however, is starting to turn. Price growth has been negative for a few months, although the latest data suggests a bottoming out. Mortgage approvals have increased again in March and April, which adds to tentative signs of a bottom. Keep in mind the full impact of higher interest rates may still have to play out. Still, the market remains tight with structural undersupply, which dampens the negative effect of higher rates on Irish housing. Construction activity is set to rebound in the months ahead. While the PMI has been negative for some time, commencements have been on the rise again and business expectations have been improving. Expect this to support the economy over the rest of the year.

Strength in government finances accompanies economic boom

Overall, this strong economic performance – to a large degree fuelled by multinational activity – is resulting in sound government finances. Windfall corporate taxes are an important contributor to that. Talk of a sovereign wealth fund also appears to be emerging, which is a luxury that many eurozone countries would only dream of. In the fourth quarter of 2022, Irish government debt stood at 44.7% of GDP, which is more than 10 percentage points down from the previous year. Clearly, the economic boom is now accompanied by a strong improvement in government finances.

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