Economist's Weekly Market View

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Still Motoring

The task of forecasting how the Irish economy will perform in 2024 is made all the more difficult by the contradictory indicators on its performance in 2023. The headline growth figures point to a very weak outturn for last year. The latest data show that GDP declined by 1.3% year-on-year over the first three quarters of 2023. This reflected a sharp fall in output and exports in the pharmaceutical and technology sectors as activity returned to more normalised levels following its surge during the COVID pandemic.

However, growth in modified domestic demand also slowed sharply to less than 1% year-on-year up to end September. Here again, though, investment by multi-national companies fell back from the very elevated levels reached in 2022. Other indicators, though, point to a resilient performance by the economy. Consumer spending rose by over 3.5% year-on-year in the first three quarters of 2023, while employment was up by close to 4% during this period.

Meanwhile, the Government recorded another large budget surplus of almost €8bn last year underpinned by solid growth of 6% in tax receipts. Inflation also fell sharply over the course of the year to stand at 3.2% by December. Overall then, while the pace of economic activity slowed considerably last year from the very rapid growth rates seen in 2021 and 2022, the economy enters the new year in relatively good shape.

Turning to 2024, another year of sluggish growth is anticipated for the global economy. However, recent forecasts from the ESRI and Central Bank of Ireland (CBI) show they expect stronger Irish growth, assuming the drag on output and investment in the multi-national sector abates. Carryover effects, though, from the weakness of output in 2023 will depress annual growth rates in the early part of this year.

The ESRI and CBI are projecting that growth in GDP and modified domestic demand will average in the range of 2.0-2.5% in 2024. The CBI also provides longer term forecasts and sees GDP growth picking up to a 4.25-4.5% range in 2025-26. Furthermore, labour market conditions are projected to

remain tight out to 2026, with the unemployment rate staying below 5%. The downtrend in inflation evident over the past year is also expected to continue. The CBI sees HICP inflation rate averaging 2.3% this year, down from an average of 5.2% in 2023. It is projected to fall to circa 2% in 2025.

The CBI warns that the economic outlook is uncertain and its growth forecasts are subject to downside risks. There are also domestic capacity constraints on growth in terms of a tight labour market, shortage of housing and pressures on the public infrastructure. Nonetheless, inflation is on the wane and interest rates are expected to be cut over the next couple of years. Combined with solid wage growth, this will boost real household disposable incomes.

Fiscal policy is also set to remain expansionary in the context of the healthy state of the public finances. The IDA also reports that the pipeline for foreign direct investment is reasonably strong heading into 2024. Meantime, private sector balance sheets remain characterised by low debt and high levels of savings. Overall then, it is hardly surprising that the ESRI and Central Bank projections paint a favourable outlook for the economy in the period ahead.

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