Lower Growth Path for Economy in 2023

Recently published National Accounts data by the CSO underline the exceptional performance of the Irish economy in 2021 and 2022, as it rebounded strongly from the COVID-19 pandemic. GDP increased by 15.1% in 2021 and 9.4% last year. Modified Gross National Income (GNI*), an indicator designed specifically to measure the size of the Irish economy excluding some globalisation effects, rose by 13.9% in 2021 and 6.7% in 2022, having contracted by 3.6% in 2020.

Meanwhile, modified domestic demand increased by 7.3% in 2021 and 9.5% last year, recovering well from a fall of 5.9% in 2020, which reflected the negative impact of COVID-19 on domestic activity in that year. Both exports and the domestic economy performed very strongly in 2021-22, helped by a robust global economy, record levels of foreign direct investment and the substantial amount of fiscal supports provided for households and businesses during the pandemic.

The backdrop is much less favourable for the Irish economy in 2023, with a marked deceleration in the pace of global growth, interest rates on the rise, high inflation, and significant capacity constraints emerging within the economy. Industrial production data show a sharp decline in manufacturing output from the multi-national sector so far this year, after it surged in 2021-22.

Corresponding to this, there have been marked falls of 18% and 34% in the value of pharmaceutical and electrical machinery exports, respectively, during the first five months of the year, from the very elevated levels seen in 2022. Meanwhile, service exports have levelled off at a high level in recent quarters. The weakness in exports points to a marked slowdown in the pace of growth in the Irish economy in 2023. Indeed, GDP contracted by 2.8% in the first quarter on the back of the fall in industrial production and the softening in external trade.

These data are quite volatile and subject to significant revisions. Not surprisingly, then, the latest official forecasts on the Irish economy show quite a marked divergence of views on the outlook for GDP growth this year. The ESRI sees GDP flat lining, rising by a meagre 0.1%, while the Central Bank is forecasting that it will increase by 5.3%. However, they are much more aligned on modified domestic demand, which they both expect will grow by slightly above 3.5% in 2023.

As is widely acknowledged, GDP can give a misleading picture of the underlying performance of the Irish economy. Hence, it is important to use a wide range of indicators in assessing how the economy is faring. In this regard, most indicators point to a continuing strong performance over the first half of the year. Employment rose by 1.9% in the first quarter, while preliminary estimates from the CSO are that the unemployment rate fell to an all-time low of 3.8% during the second quarter.
Meantime, housing completions have continued to trend upwards in early 2023, while there was a strong 18% rise in new car sales to mid-year, with retail sales excluding the motor trade showing steady growth. Furthermore, very high readings have been recorded for the services PMI year-to-date, while the inflow of FDI has remained strong. The strength of general activity has seen further good growth

in tax revenues, which rose by 11% in the opening half of 2023. Thus, while GDP growth may turn out to be relatively weak this year on the back of sluggish exports, the domestic economy is continuing to perform quite well.

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