Continuing Strong Growth Despite GDP Hiccup

The scale of Irish contract manufacturing, whereby a company based in Ireland engages a firm abroad to manufacture products on its behalf, has grown enormously since 2015. The production process is still recorded in the Irish National Accounts as part of imports, exports and GDP, even though none of the activity occurs in Ireland. Contract manufacturing has become a large part of the operations of some multi-national companies based in Ireland.

Not surprisingly, this large scale subcontracting activity has introduced considerable volatility into the Irish Quarterly National Accounts and monthly industrial production data. GDP fell by 4.6% in the first quarter of 2023 as a result of an 18% fall in manufacturing output. With the exception of 2019, every year since 2016 has seen one large quarterly fall in the output of the multi-national sector and thus a decline in GDP, which subsequently unwound in the following quarter.

Industrial production data for April show that Irish GDP is already on course to rebound. Manufacturing output fell by 45% in March, causing the marked decline in GDP. It then rebounded by 70% in April, leaving it 12% above it average level in the first quarter. The very weak opening quarter GDP data, though, are likely to see growth forecasts for the full year revised down. Most forecasts have been that GDP will expand by around 5.5% in 2023. The first official forecast post the recent weak data came from the OECD last week. It looks for Irish GDP to grow by 4.4% this year.

Of course, the recent data highlight yet again that GDP is not a reliable measure of Irish economic activity and it is important to take a wide range of indicators into consideration in assessing the performance of the economy. In this regard, the National Accounts also showed that modified final domestic demand grew by 2.7% in the first quarter to leave it 5.5% higher on a year-on-year basis. Consumer spending rose by 1.7%, while there was very strong growth in investment in both building & construction and machinery & equipment.

On the labour market front, employment rose by 1.9% in the first quarter and was 4.1% higher year-on-year. The unemployment rate fell to 4.1% in the quarter, down from 4.8% a year earlier. Preliminary estimates suggest the unemployment rate has continued fall, reaching a historic low of 3.8% in May. Meanwhile, car sales have been strong this year, with industry data showing new car registrations up 18% to end May. Furthermore, tax receipts continue to grow strongly across all the main revenue headings, increasing by over 10% year-on-year to end May.

Thus, the economy is continuing to perform strongly. That said, the pace of growth is slowing down. The growth in tax receipts has decelerated considerably from the rates of over 20% recorded in both 2021 and 2022. Employment growth has also slowed significantly from the 6-7% rates seen in 2021-22. The marked rise in housebuilding activity appears to be levelling off. Modified final domestic demand is likely to see growth slow in 2023 to less than half the 8.2% rise recorded last year. The growth in

service exports has already slowed sharply. The slowdown, though, is from very high growth rates and the economy is still set to record impressive growth in 2023.

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