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Irish growth expected to continue at moderate pace as economy nears full capacity – AIB Economic Forecast Report October 2024

- Continued robust, but moderate rise in economic growth
- Labour market to continue to grow and employment to reach 2.8 million by 2026
- Strong real wage growth will underpin consumer spending, but cautious households continue to save
- Risks to this outlook remain tilted to the downside for Ireland's open economy

A moderate pace of economic growth is expected, with modified domestic demand (MDD), a less volatile gauge of domestic activity than Gross Domestic Product (GDP), expected to grow by 2.3% in 2024, following several years of rapid growth. The domestic economy is expected to be underpinned by employment growth and a renewed rise in real wages as inflation normalises. That's all according to **AIB's Economic Outlook, October 2024**.

Moderate growth expected

Following a fall in GDP in 2023 due to a downturn in the pharmaceuticals sector, Ireland's industrial output and goods exports have bounced back in 2024. However, GDP remains a volatile indicator of activity, as evident in the sharp swings in growth in recent quarters, with MDD a better gauge of domestic activity. More moderate growth is expected in the coming years as the economy and labour market reach full capacity. MDD is expected to grow by 2.8% next year and 2.7% in 2026.

Inflation normalising, wage growth strong

Inflation has returned to its normal range and is expected to remain there for the near term, with the annual harmonised index (HICP) of consumer prices expected to fall to 1.9% for 2024 from 5.2% last year, and to 2% in 2025 and 2026. Despite this, Ireland remains exposed to movements in international commodity prices and domestic price pressures in capacity-constrained domestic sectors. Strong gains in wages, which are now outpacing inflation, will continue to underpin robust growth in consumer spending. However, spending growth has been more muted than expected, with households continuing to maintain a high level of precautionary savings.

Strong population growth underpins employment gains

The report expects unemployment to remain close to the current low levels, with employment to top a record 2.8 million people by 2026, supported by strong population growth. However, with the economy reaching full capacity, and employer demand softer, we expect the rate of jobs growth to cool in the coming years to 1.5-2% per annum, compared to a gain of over 2% in 2024.

Outlook for currencies

Each AIB Economic Outlook has a theme in focus, with the spotlight in this edition on the medium term outlook for the US dollar. The dollar remains the world's reserve currency, with strong appreciation in recent years against other major currencies. However, given the current historically-elevated level, looming economic and political headwinds could yield downward pressure on the 'greenback' in the coming years. The upcoming US Presidential Election remains neck and neck and could be a source of volatility for the dollar in the immediate aftermath.

David McNamara, AIB Chief Economist said “Our latest forecasts point to continued moderate growth in the Irish economy in the coming years. This will be underpinned by strong jobs growth and real wage increases, with inflation now back to normal ranges. Rate cuts by the ECB will also support growth over the longer term. However, the globalised nature of the Irish economy means we remain exposed to international geopolitical events and the risks to the outlook remain tilted to the downside at present.”

AIB’s Economic Outlook Report is produced by AIB’s Economic Research Unit, consisting of David McNamara, John Fahey and Daniel Noonan, and is published bi-annually. The report is published [here](#).

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