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Irish growth expected to continue at a more moderate pace than recent years as economy nears full capacity – AIB Economic Outlook Report May 2024

- Labour market to continue to grow and employment to reach 2.8 million by 2026
- Central bank interest rate decreases will support real economy in coming years
- Real wages to rise as inflation normalises
- Key trading partners' performance provides a steady backdrop for Irish economy

A more moderate pace of economic growth is expected this year, with gross domestic product (GDP) and modified domestic demand (MDD), a less volatile gauge of domestic activity, expected to grow by 2.4% and 2.2% respectively following several years of rapid growth. The domestic economy is expected to continue to expand at a robust pace, underpinned by employment growth and a renewed rise in real wages as inflation normalises. That's all according to the inaugural **AIB Economic Outlook**.

Future growth moderates

More moderate growth is expected in the coming years as the economy and labour market reach full capacity. GDP is forecast to grow by 2.6% in 2025 and 2.4% in 2026, while MDD is expected to grow by 2.4% next year and 2.6% in 2026.

Inflation normalising

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 2.2% for 2024 from 5.2% last year, and to 1.9% and 2% in 2025 and 2026. Despite this, Ireland remains exposed to movements in international commodity prices and domestic price pressures in capacity-constrained domestic services sectors

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. This is as a result of strong population growth and the female participation rate surging since the pandemic, rising to 60.5% of the working age population in Q1 2024 from 56.4% in Q4 2019. The introduction of flexible working since the pandemic may have driven the increase in female participation. However, there are signs this exceptional growth will cool as the labour market nears full capacity.

Impact of central bank rate cuts

Each AIB Economic Outlook has a theme in focus, with the spotlight in this edition on the outlook for interest rates. Central banks have indicated rate cuts are on the way, and the ECB has guided that it will cut its base rate in June, with the markets having factored in a further two cuts in 2024. However, the final landing zone remain uncertain beyond that point.

David McNamara, AIB Chief Economist said "Our latest forecasts point to continued growth in the Irish economy in the coming years. However, this growth will be more moderate than the exceptional pace of recent years as the economy bounced back from the pandemic. The Irish economy continues to create jobs, and inflation has returned to normal ranges. However, the globalised nature of the

Irish economy means we remain exposed to international macro and geopolitical events and the risks to the outlook are tilted to the downside at present.”

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

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