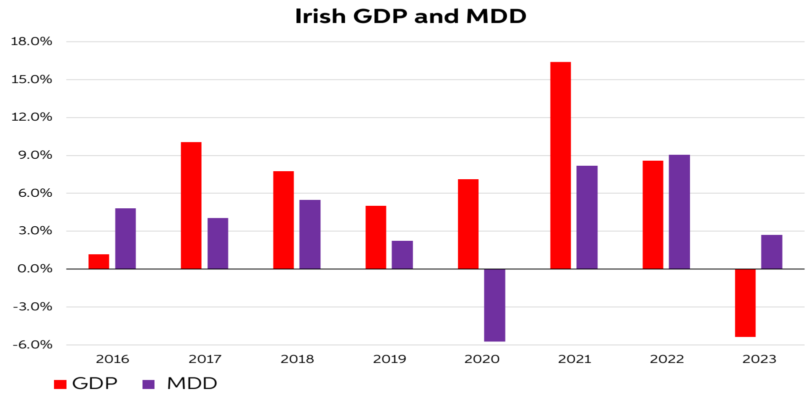
# The Irish Economic Update:

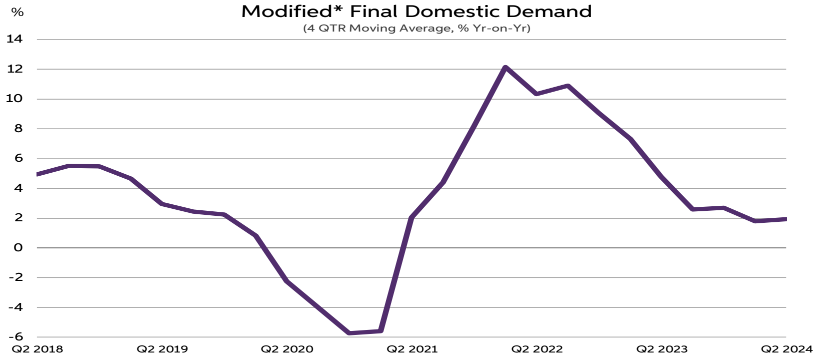
*Economy moves onto a slower growth trajectory*

November 2024

# Irish economy slowed in 2023, but domestic economy remains solid in 2024

- GDP fell by 5.4% GDP, after increasing by 8.6% in 2022
- Surge in FDI, big jump in pharma & ICT output, key factors in rapid growth in 2021-22
- Unwinding of Covid-era revenues in Pharma key driver of GDP fall in 2023
- Underlying/domestic economy grew by 2.7% in 2023
- Domestic indicators point to continued solid underlying growth in H1 2024
  - Modified Domestic Demand: +1.9% y/y
  - Consumer Spending: +1.9% y/y
- Employment continuing to grow strongly, up 2.3% y/y in H1 2024, helped by surge in labour force growth.
- Unemployment rate at 4.2% in October, near to historic lows
- Inflation slowing sharply, HICP measure down to 0.1% in October 2024
- Services PMI remained firmly in expansion mode, rising to 53.8 in October
- Manufacturing PMI also in expansion territory at (51.5) in October, but it was below 50 for six of the ten months YTD
- Consumer confidence recovered significant ground, but not back to pre-Covid levels
- Tax receipts rose by 14.9% YTD to October, driven by personal income and corporate tax



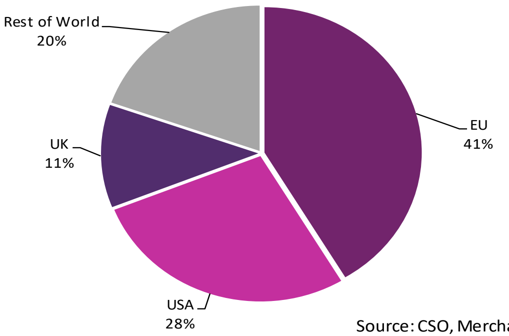




Source: CSO (*Investment excludes imports of I.P. & Aircraft Leasing)

# Exports bouncing back following weak 2023

- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Pharma, medical care products, ICT, business & financial services main components of FDI
- Irish FDI inflows may also be benefitting from Brexit
- 2024 saw global demand normalise post-COVID for Pharma/ICT after exponential growth in 2021-22
- Sharp weakening of exports in 2023, down by 5%
- Goods exports fell 12.3%, due to decline in manufacturing output in Pharma/ICT
- Pharma exports down 5.4% and electrical machinery fall 39% y/y in value terms during 2023
- Service exports though, rose by 3.1% in 2023
- Trade data point to upturn in pharma exports once again in the first three quarters of 2024

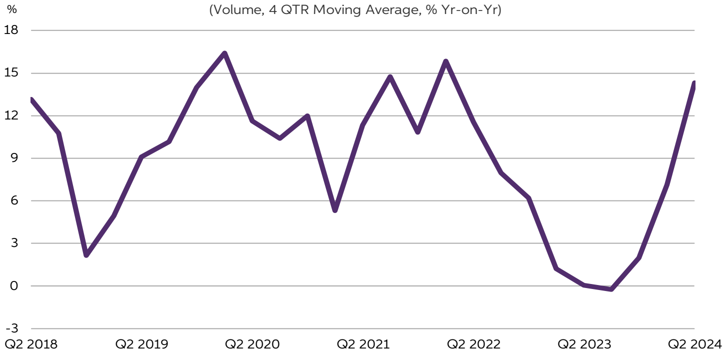
Export Destinations 2023




Source: CSO, Merchandise Trade

Irish Exports of Services

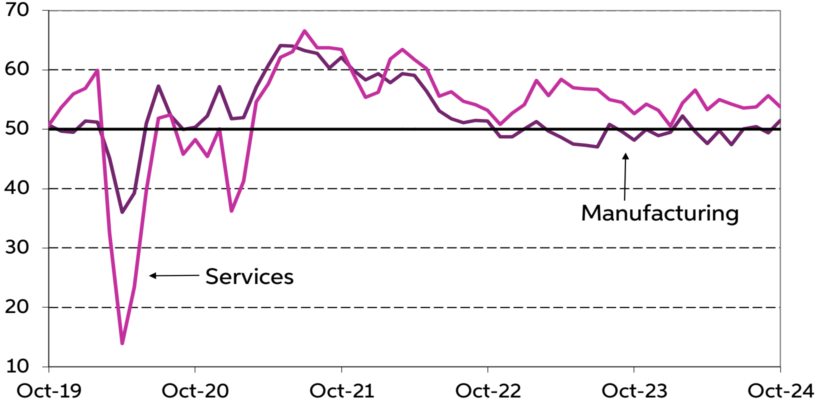
(Volume, 4 QTR Moving Average, % Yr-on-Yr)




Source : CSO

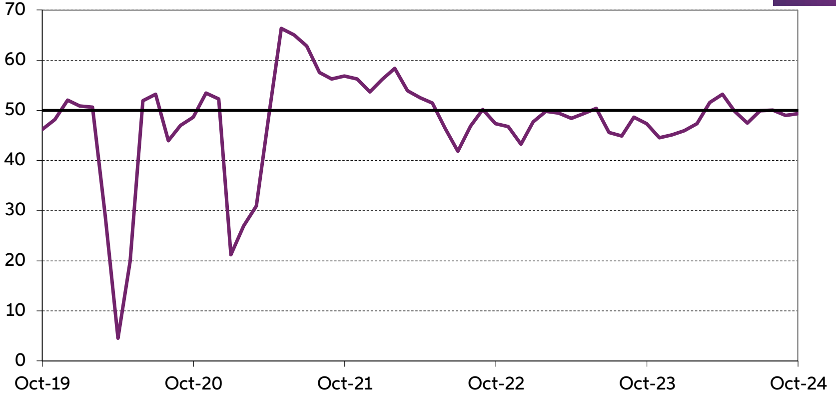
# Survey indicators consistent with continued growth in 2024

AIB Irish Mfg and Services PMIs



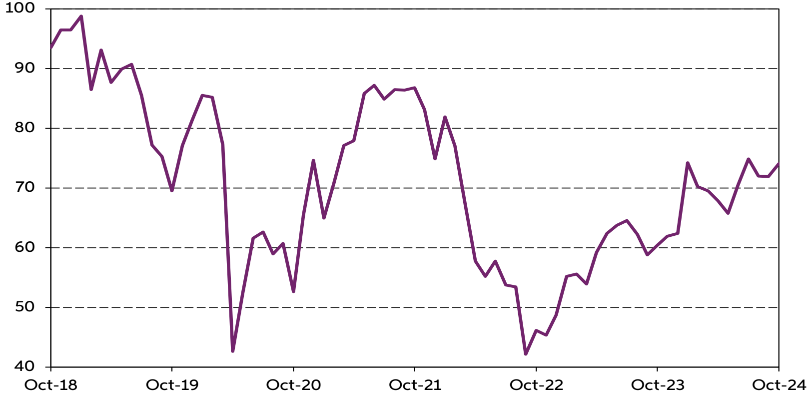

Source: S&P Global

BNP Paribas Irish Construction PMI



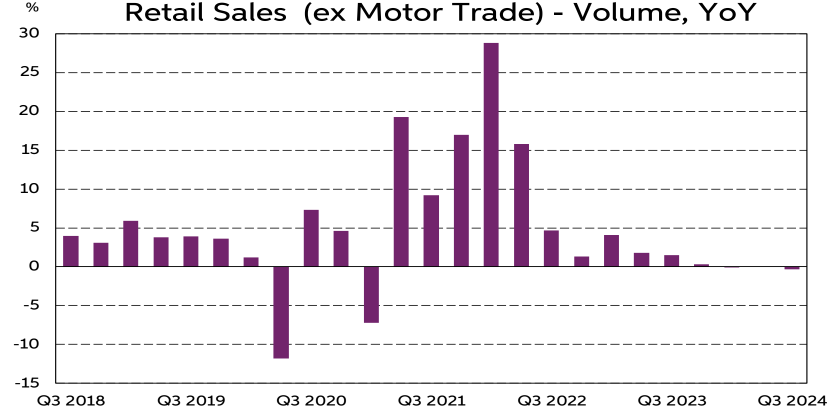

Source: S&P Global

Consumer Confidence (ILCU)



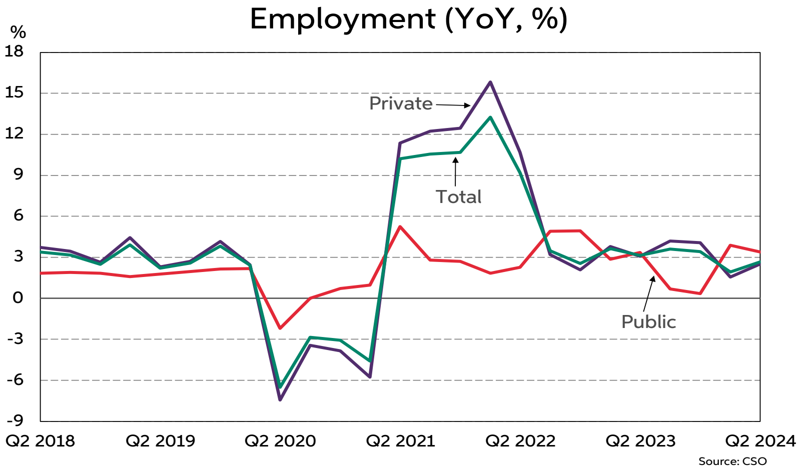

Source: ILCU

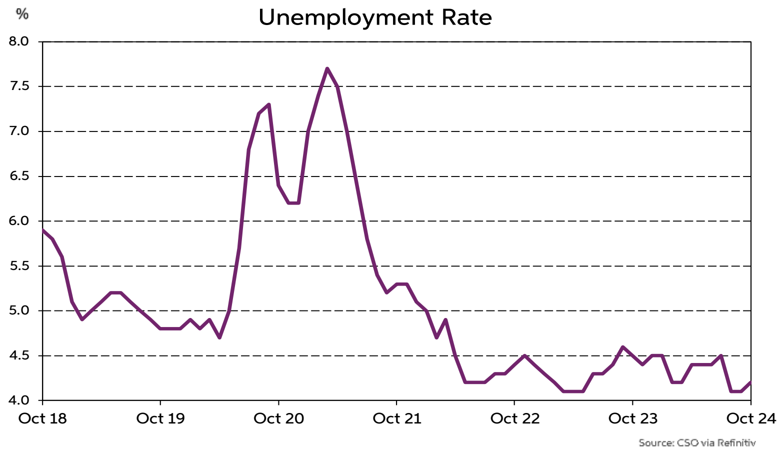
Retail Sales (ex Motor Trade) - Volume, YoY

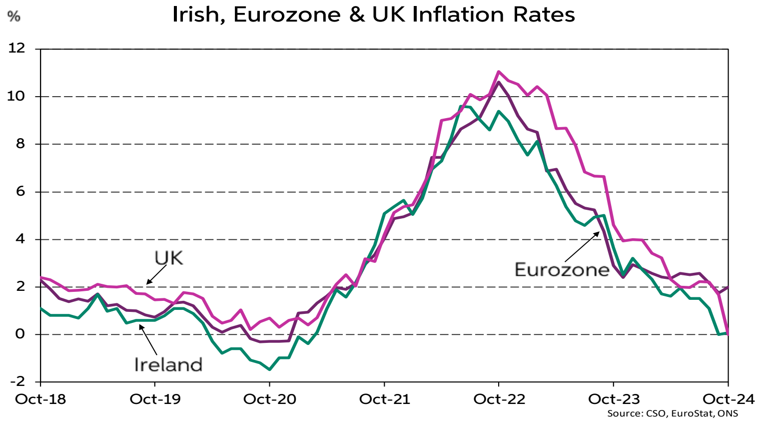


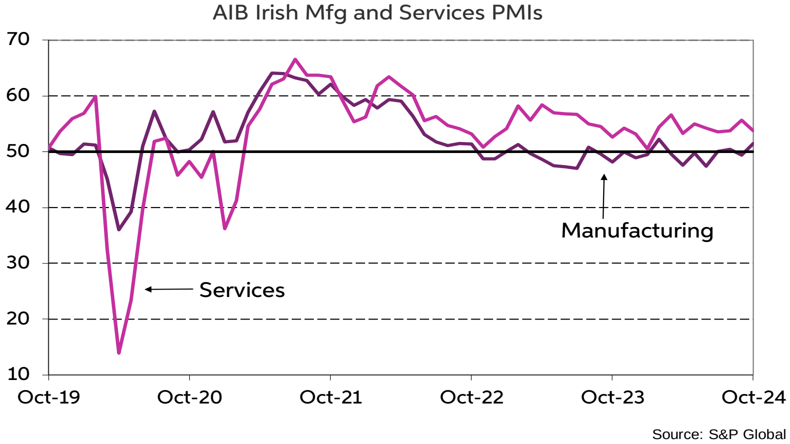

Source: CSO

# Unemployment rate at low level, inflation falls sharply. Overall, data consistent with more modest growth



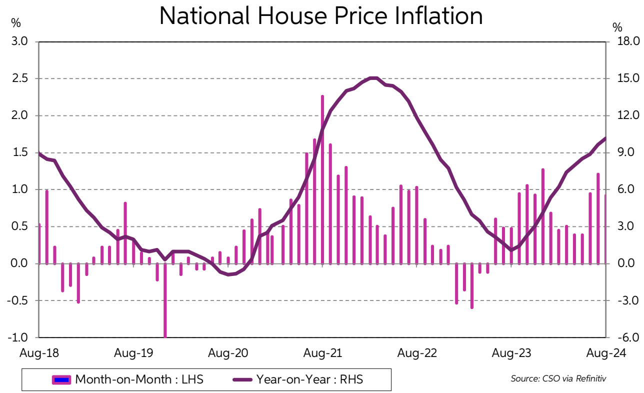



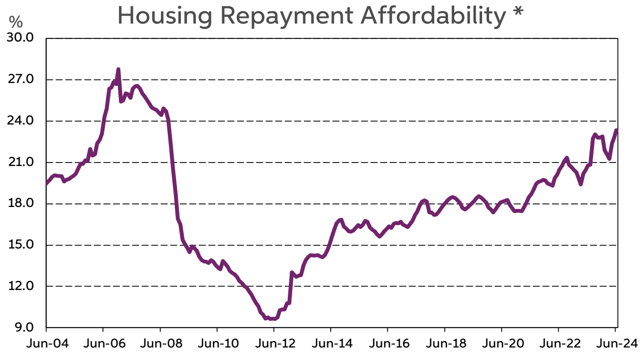



# House price inflation gathers momentum

- House prices declined sharply, by 55% from 2007-2013. Prices have fully recovered - back above 2007 peak level
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, high personal savings, pent-up demand all supportive of house prices
- Nationally, house prices rose 3.1% in 2023, compared to a 12.4% increase in 2022
- House price have been on a accelerating trend since H2’23, up by 10.1% y/y in August
- Non-Dublin prices up 9.6%, Dublin prices up 10.8%
- Housing affordability has deteriorated since end 2020 on higher house prices and increases in mortgage rates
- Rents jumped sharply over 2021-23. Annual rate peaked at 12.9% in July 2022. Slowed to 4.0% in Aug 2024



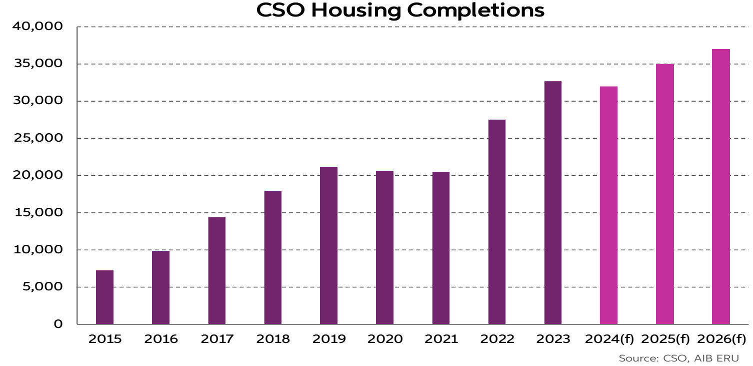



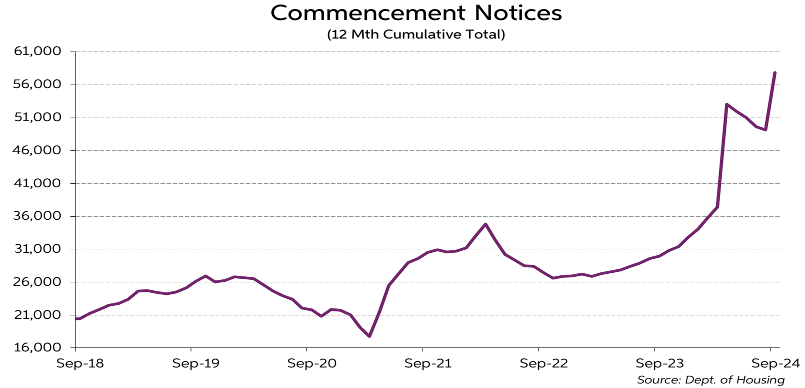

* % of disposable income required for mortgage repayments for 2 average income household, 30 year, 90% LTV, AIB variable mortgage rate. Based on Permanent TSB/ESRI national house price & CSO residential property price index

*Source: AIB, Permanent TSB/ESRI, CSO, Dept. of Finance*

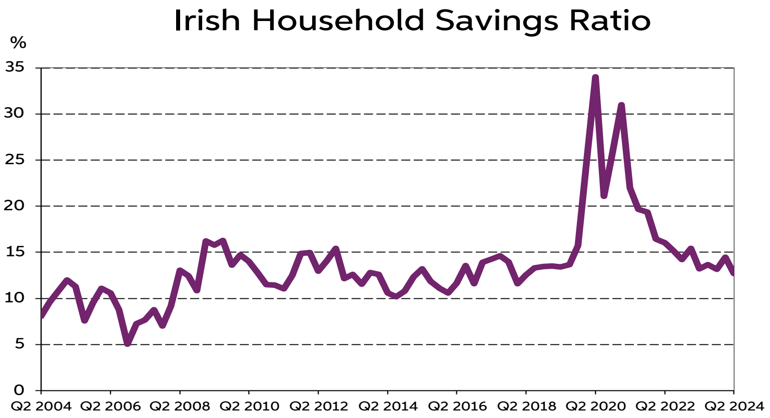
# House completions rise above 30k level

- Completions jumped sharply to 30,000 in 2022.
- New supply rose to 32.7k in 2023.
- Lead indicators for 2024 suggest upward momentum in supply may have stalled
- Supply could rise to 35k over next couple of years
- Estimated that 52,000 units needed per annum (out to 2050) to meet demand (annual and accumulated pent-up)
- Commencements remain distorted. Having surged in April and September ahead of the Government waiver/rebate deadlines. 12 month total at 58k.
- Mortgage approvals seen softening trend recently. 12 mth running total at 42.1k. FTBs remain key driver of activity.

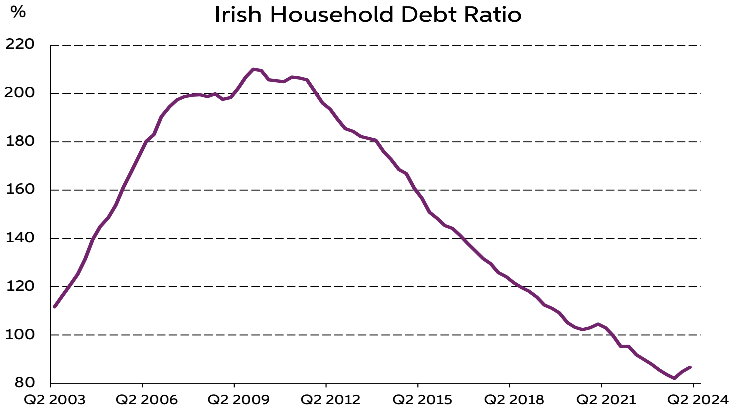


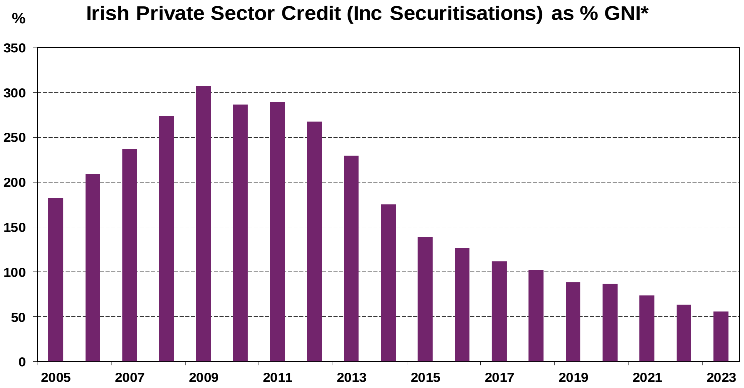
# Public & private sector balance sheets in robust shape




Source: *CSO*

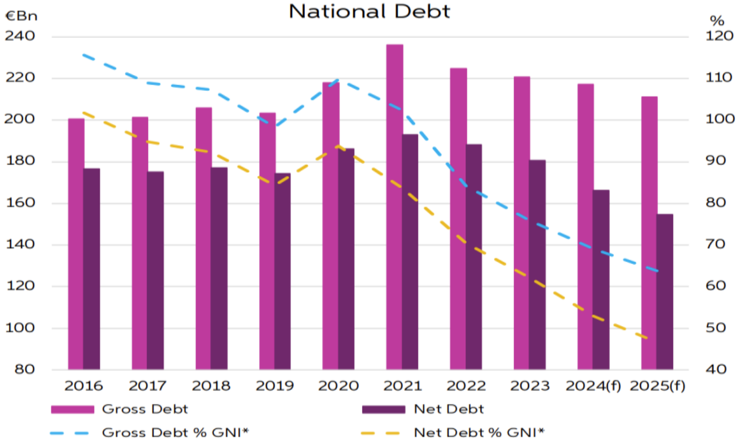



Source: *CSO, Central Bank, AIB ERU*



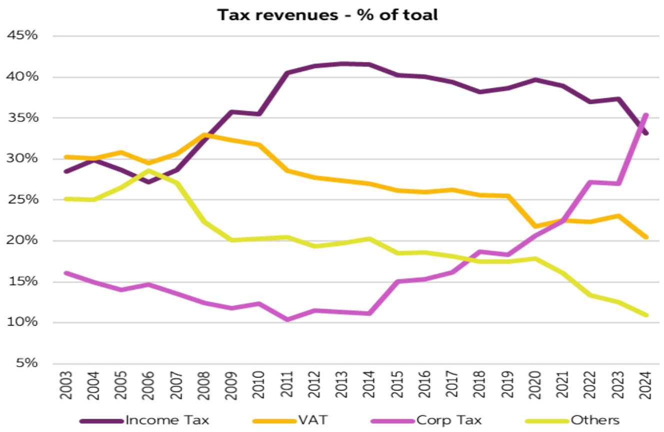

ǂ GNI* Forecast

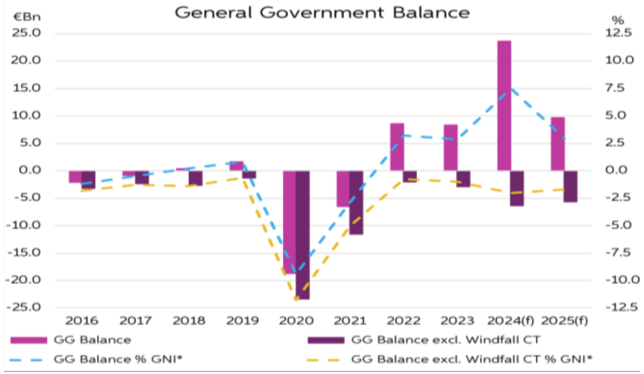
**Sources: Central Bank, CSO, AIB ERU Calculations**



# Strong economy leads to large budget surpluses

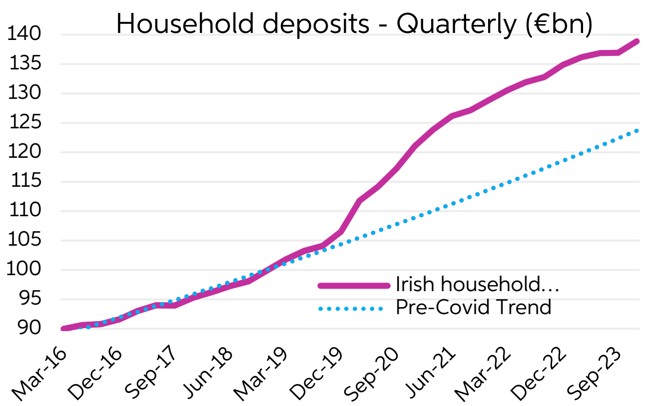
- Budget 2025: **€10.5bn** in new measures
  - Including **€2.2bn** in largely one-off payments in 2024 – welfare, energy credits etc.
  - **€8.3bn** package guided in the Budget, €6.9bn spending, €1.4bn in tax
  - Within this a **€1.6bn increase** in the Capital budget in 2025 to record high of €15bn
- Apple proceeds drawn down (€14bn), and framework on the use of these funds to be delivered in new year – will also flow into infrastructure
- Marks one of the largest Budget day packages ever, and does not come without risks of overheating the economy
- Another large budget surplus expected in 2024 of €23.7bn, €9.7bn in 2025 and €8.3bn in 2026
- Ireland has established sovereign wealth and capital spending stabilisation funds to house surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 52.9% of GNI*in 2024, 43% by 2026
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA, Moody's Aa3, Fitch AA.



# Economy moves to slower growth path, but in good shape

- Continuing global headwinds and capacity constraints, but Irish economy is underpinned by positive factors
- FDI inflows continuing, boosting investment, exports and employment
- Fiscal policy to remain supportive of growth
- Economy has deleveraged; low private sector debt
- A rundown of some of the 40% surge in private sector deposits during 2020-2023, could support spending
- Inflation, higher interest rates, slow global growth and potential trade tensions, are significant headwinds, though, for Irish economy
- Capacity constraints emerge also – housing, labour, electricity, water, infrastructure, planning
- Strong fundamentals suggest economy should continue to perform well in period ahead
- Forecasting underlying growth of 2-3% over period 2024-26



# AIB Irish Economic Forecasts – October 2024

| *% change in real terms unless stated* | 2022 | 2023 | 2024 (f) | 2025 (f) | 2026 (f) |
|---|---|---|---|---|---|
| **GDP** | **8.6** | **-5.4** | **-0.3** | **2.8** | **2.8** |
| **GNP** | 2.3 | 5.5 | 1.3 | 2.3 | 2.3 |
| **Modified Final Domestic Demand** | **8.8** | **2.6** | **2.3** | **2.8** | **2.7** |
| **Personal Consumption** | 10.7 | 4.8 | 2.7 | 3.0 | 2.9 |
| **Government Spending** | 3.0 | 4.3 | 2.9 | 2.8 | 2.1 |
| **Fixed Investment** ** | 3.7 | 2.8 | -23.7 | 16.3 | 2.2 |
| **Exports** | 13.5 | -5.8 | 8.1 | 2.7 | 2.9 |
| **Imports** ** | 16 | 1.2 | 5.2 | 4.0 | 2.8 |
| **Employment (%)** | 6.8 | 3.5 | 2.2 | 1.6 | 1.5 |
| **Unemployment Rate (%)** | **4.5** | **4.3** | **4.5** | **4.4** | **4.4** |
| **HICP Inflation (%)** | **8.1** | **5.2** | **1.9** | **2.0** | **2.0** |
| **Budget Balance (GGB % GNI*)** | **3.1** | **2.9** | **2.8** | **3.0** | **2.6** |
| **Gross General Gov Debt (% GDP)** | 44.4 | 43.7 | 41.5 | 39.5 | 37.8 |
| **Net General Gov Debt (% GNI*)** | 68.9 | 62.2 | 58.7 | 56.5 | 53.8 |

**2021-22 data very distorted by aircraft leasing and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts (except public debt)

# Risks to the Irish economy

- Very open Irish economy vulnerable to weaker global outlook, including FDI inflows
- Concentration risk from heavy reliance of economy on a small number of multi-nationals in terms of investment, output, employment, exports and tax receipts
- Higher interest rates headwinds for Irish economy
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation tax regime still possible, could negatively impact FDI
- Supply constraints in new house building activity, with output still at relatively low levels
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit growth subdued; tight lending rules, low housing supply, weak loan demand, high savings

# Changes to Global Corporate Tax Regime

## Importance of FDI:

- Some 1,800 multinational companies are based in Ireland, accounting for over 300,000 jobs in direct employment
- Corporation tax receipts of €23.8bn in 2023 or 27% of total tax revenue – well over 80% comes from MNCs

## Changes to Corporate Tax Regime:

- Ireland’s 12.5% corporate tax rate in place for last two decades and a key cornerstone in attracting FDI
- Ireland signed up to OECD proposal of minimum global corporate tax rate of 15% for very large companies
- Larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made. Details to be agreed
- Government has allowed for a €2bn hit to Irish corporation tax receipts from changes to global tax system
- Ireland retaining its 12.5% rate – will be 2.5% top-up for larger companies. Took effect from 1 Jan 2024 in line with EU
- Close watch still needs to be kept for any changes in US Corporate tax rate on companies overseas earnings (Gilti rate)
- Doubts also remain about whether all countries will ratify the new Global Corporate tax deal, most notably the US

## Ireland Remains Attractive FDI Location :

- Ireland’s main competitor for FDI has been UK, but it is now out of EU, Single Market & Customs Union
- Ireland has many other attractions –English speaking, well educated mobile workforce, common law legal system
- Key industries have large presence in Ireland, with its strong pro-enterprise culture, leading R&D and innovation
- Irish corp tax rates still comparatively low by European standards. UK rate raised from 19% to 25% in 2023
- Strong inflows of FDI continue despite the changes to global corporate tax rules. Brexit may be helping inflows