

Economic Update

Chief Economist : Conall Mac Coille

Global Growth – Euro area and UK subdued, US’s remarkable resilience continues

- IMF April forecast for global GDP growth of 3.2% in 2024 and 2025
- Consensus forecast for US GDP growth in 2024, at 2.4%, now double that expected at the turn of the year.
- Euro area (0.6%) and UK (0.5%) GDP forecasts for 2024 subdued.
- Global economic performance ‘remarkably resilient’ despite
 - Supply chain disruption
 - Ukraine war and events in the Middle East
 - Energy and food price hikes
 - Elevated CPI inflation and monetary policy tightening
- Key risks
 - Inflation persistence
 - Fiscal deficits will need to be corrected
 - ECB will have to carefully calibrate towards easing policy
 - Geopolitical risks (further tariffs/trade frictions)

Consensus Forecasts for GDP and CPI inflation

May Survey	Real GDP % increase			Consumer Prices % increase		
	2023	2024	2025	2023	2024	2025
Belgium	1.5	1.1	1.5 ↑	4.1	3.4 ↑	2.1 ↑
Canada	1.1	1.1 ↑	1.8 ↓	3.9	2.5	2.1
France	0.9	0.8 ↑	1.2 ↓	4.9	2.5	1.8 ↓
Germany	-0.3	0.2 ↑	1.1	5.9	2.4	2.0
Italy	0.9	0.8 ↑	1.0	5.7	1.5 ↓	1.8
Japan	1.9	0.5 ↓	1.2	3.3	2.5 ↑	1.9 ↑
Netherlands	0.1	0.7	1.4	3.8	2.7 ↑	2.2
Norway	0.7	0.6 ↑	1.3 ↓	5.5	3.4	2.3
Spain	2.5	2.0 ↑	1.8	3.5	3.1 ↑	2.2 ↑
Sweden	-0.2	0.3 ↑	2.1	8.5	3.1 ↓	1.6 ↓
Switzerland	0.7	1.2	1.6	2.1	1.3	1.1
United Kingdom	0.1	0.5 ↑	1.1 ↓	7.3	2.5	2.2
United States	2.5	2.4 ↑	1.7	4.1	3.2 ↑	2.3 ↑

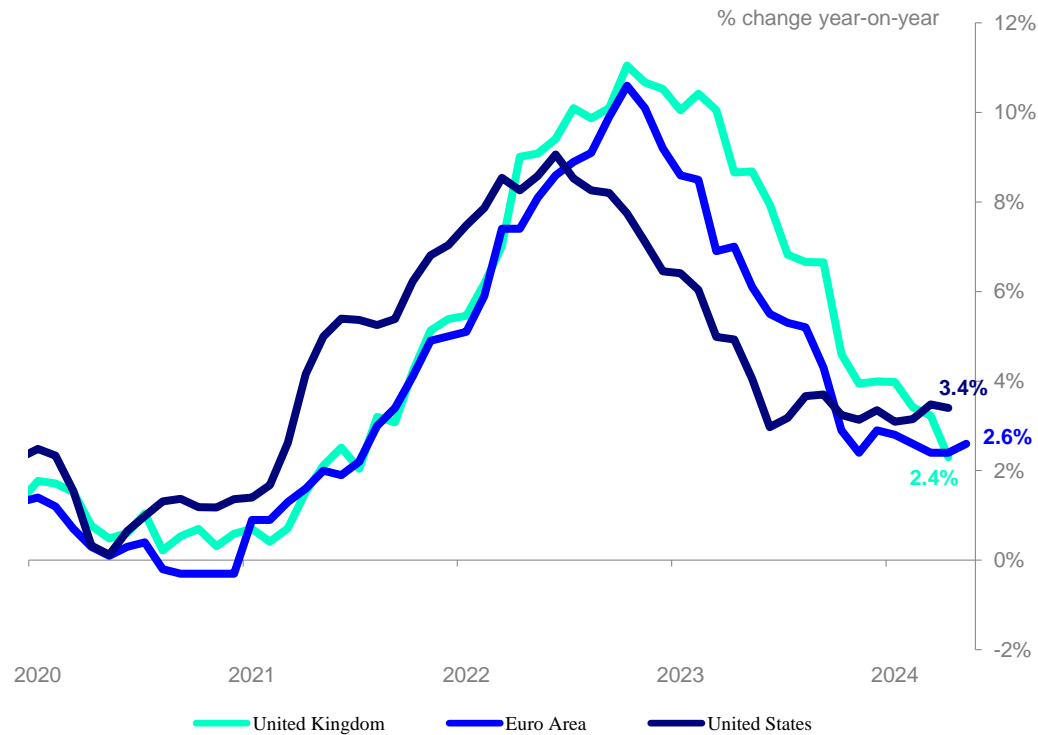
Source: Consensus Economics. Issued May 13th.



Has the battle against CPI inflation been won?

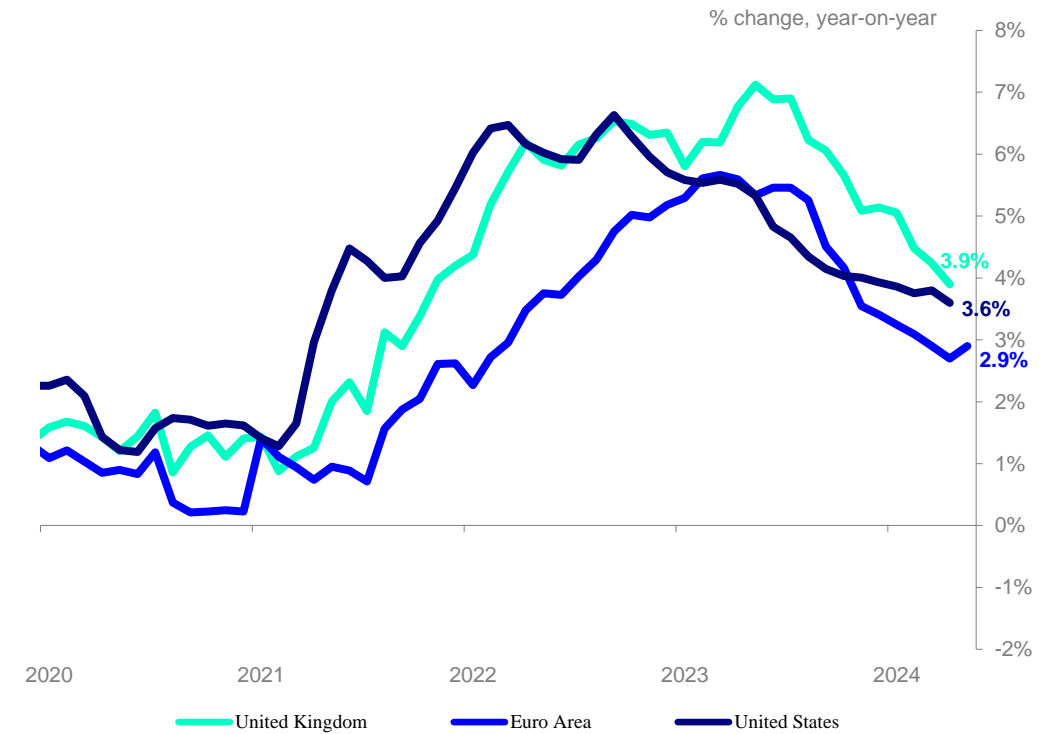
- Headline US CPI inflation ticked-up in March, but the headline and core rates fell back to 3.4% and 3.6% respectively in April
- The euro area has seen the most significant progress, headline inflation at 2.6% in May, core at 2.9%

Headline Consumer Price Inflation Rates



Source: Bloomberg, Refinitiv.

Core Consumer Price Inflation Rates (excluding energy/food)



Source: Refinitiv.



Has the battle against CPI inflation been won?

- **Raw Materials, Commodity Prices, Energy**

- Brent oil have fallen back to \$82 per barrel, from \$91 peak in early April. European natural gas futures now at €30 megawatt/hour
- Freight rates are now back to close to where they were at the beginning of 2024
- Food price inflation in the euro area fell to 2.8% in April, set to decline further as past falls in raw materials passed through

- **Industrial and Manufactured Goods**

- Covid19 related bottlenecks have been resolved.
- Spare capacity in global manufacturing emerging, euro area industrial production expected to fall 0.7% in 2024.
- The April euro area PMI survey indicated manufacturing output prices fell for a 12th consecutive month

- **Services price inflation**

- Labour markets are gradually loosening, pay growth starting to ease

- **Profit margins and productivity growth**

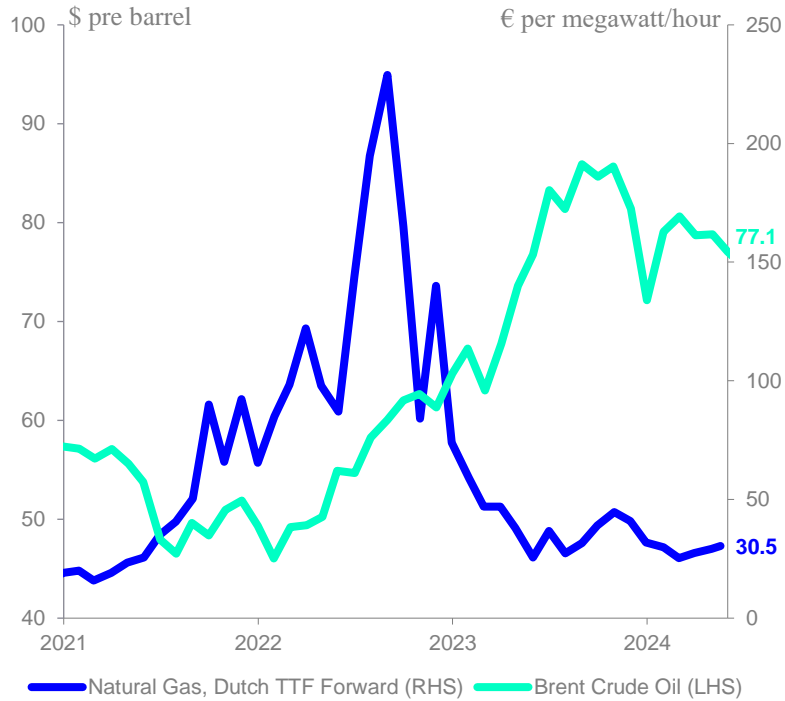
- **Risks**

- Evidence of wage pressures persisting, or services inflation remains high because of excess demand
- The Ukraine war or tensions in the Middle East could lead to further energy/food price hikes
- Trade tensions between US, EU and China re-emerge



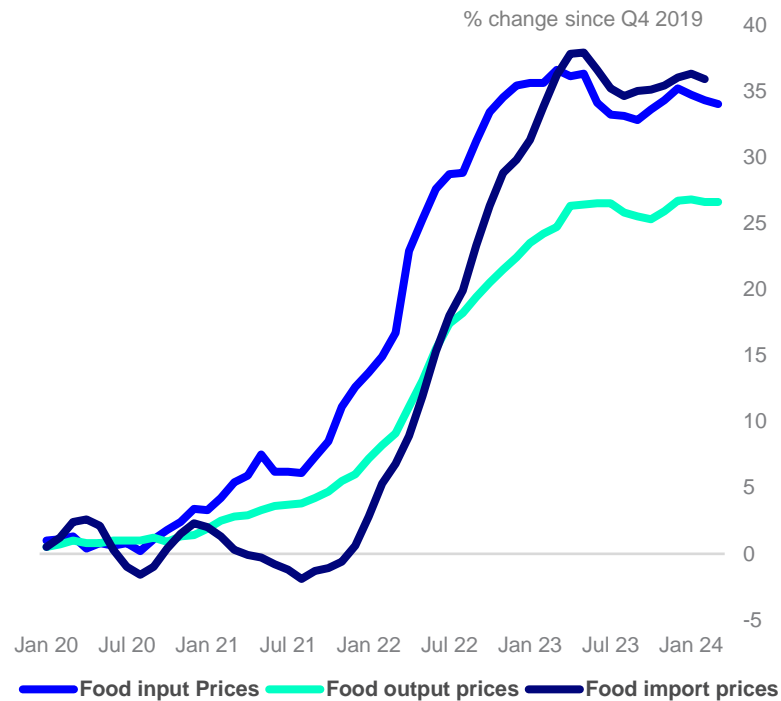
Supply-Chain Price Pressures Waning

Brent Crude Oil and Natural Gas Prices



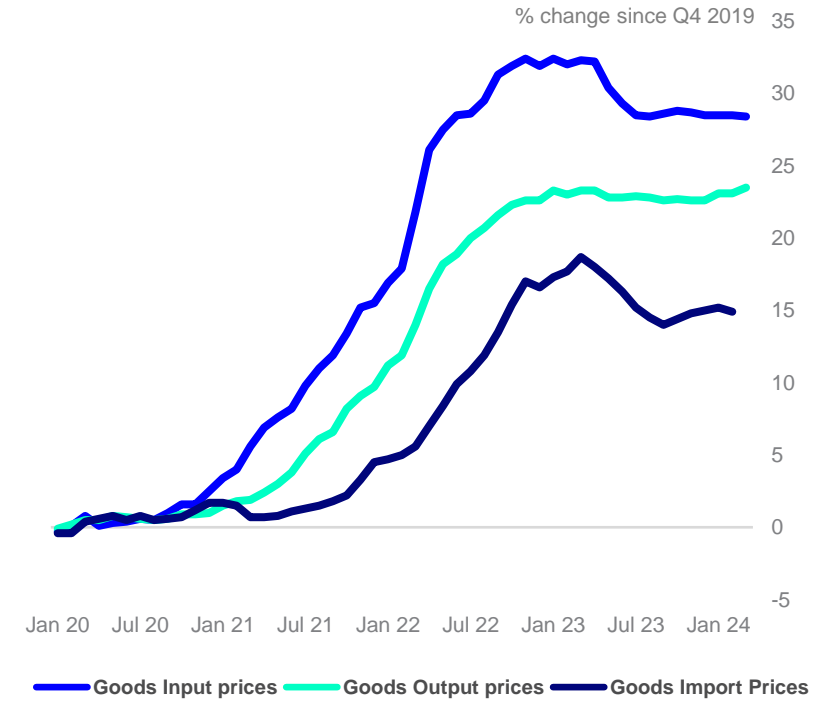
Source: Bloomberg, May 17th

Measures of UK Food Price Inflation



Source: Bank of England, May 17th.

UK Manufactured Goods Prices (ex-food and energy)



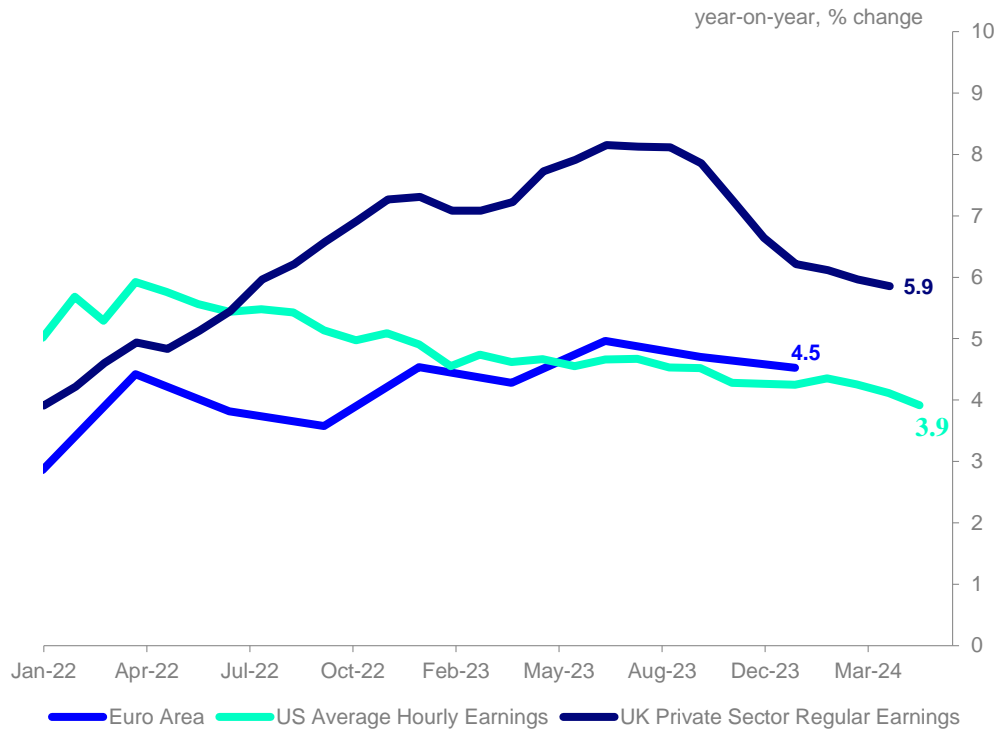
Source: Bank of England, May 17th.



Central Banks reassured by signs pay growth waning

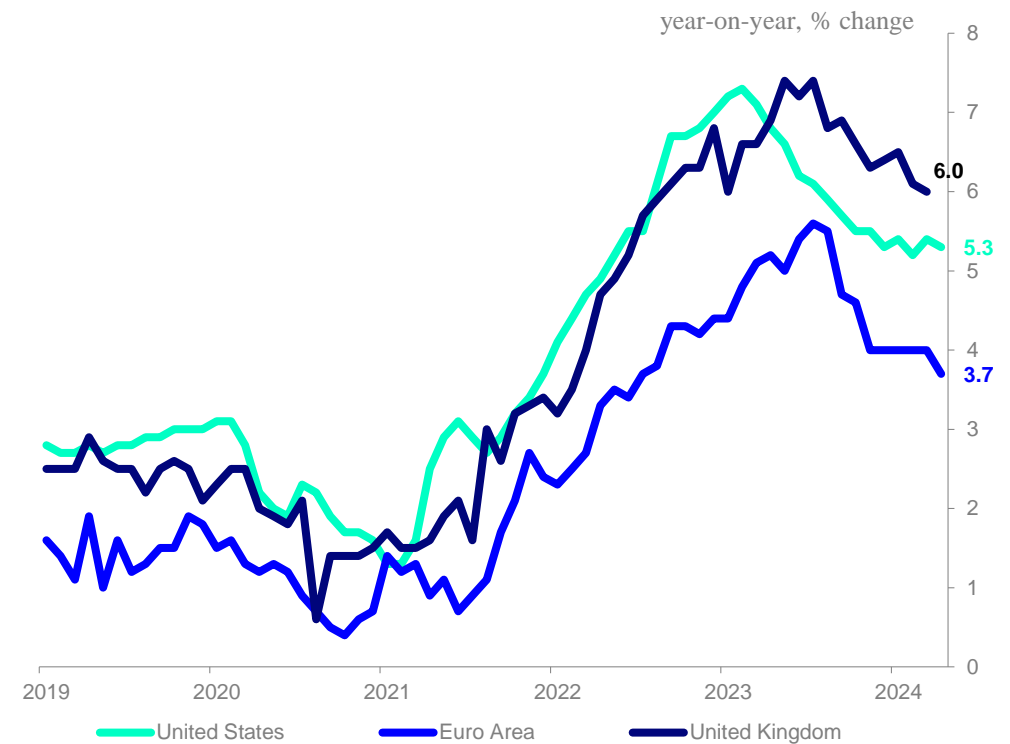
- ECB Chief Economist Philip Lane has highlighted the fall in euro area HICP Services inflation to 3.7% as encouraging
- Both pay growth and services price inflation in the UK stand out as exceptionally high

Pay growth measures still elevated but easing



Source: Bloomberg, Refinitiv. May 17th

Services price inflation still strong

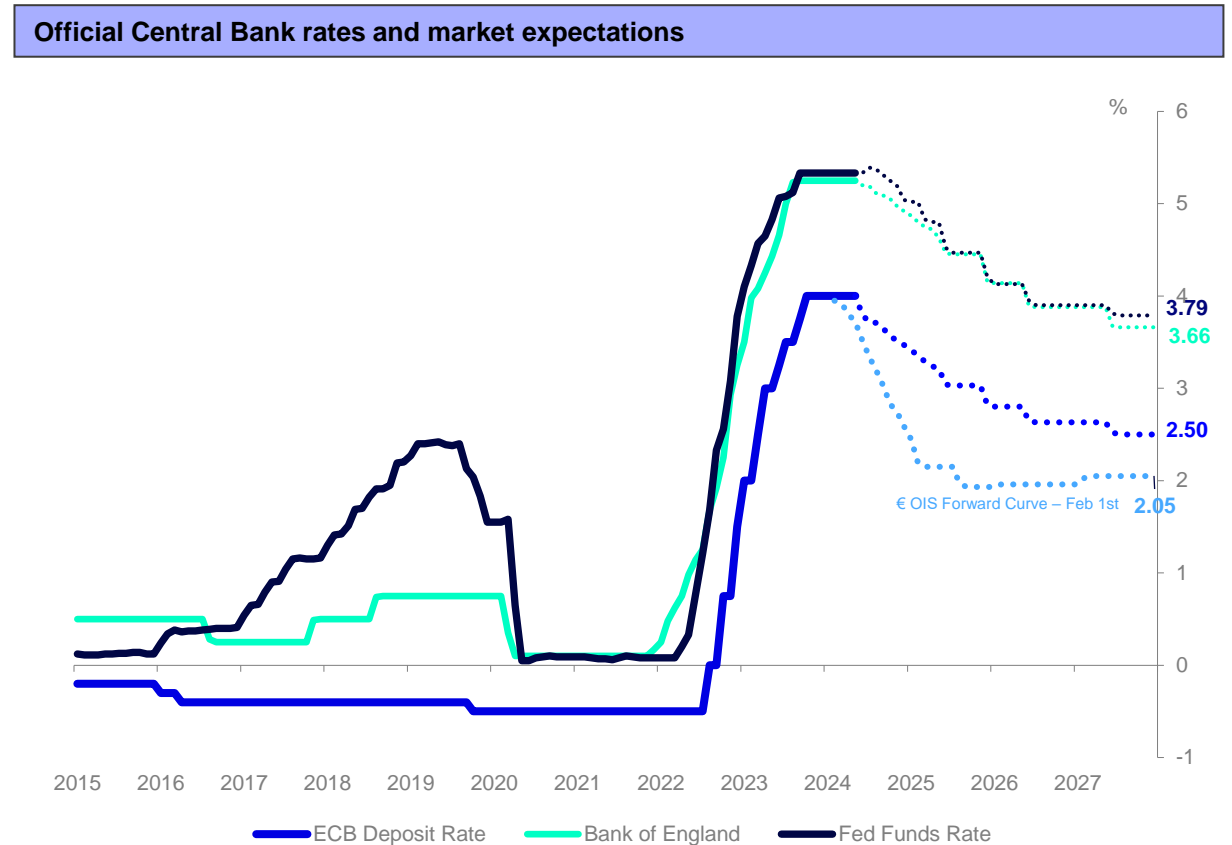


Source: Refinitiv. May 17th



Markets still expect Central Banks to start cutting rates in 2024

- ECB cut priced in as a near certainty at the June 6th policy meeting.
- ECB deposit rate expected to fall from 4% to 3.5% end-2024 and gradually to 2.5% by end-2027
- Only one rate cut from the Federal Reserve fully priced in for 2024, rates expected to fall to 4.2% end-2025
- Options imply a 5% probability the Bank of England will start to cut rates on June 20th.
- Bank of England rate expected to fall to 4.9% by end-2024, 4.1% by end-2025



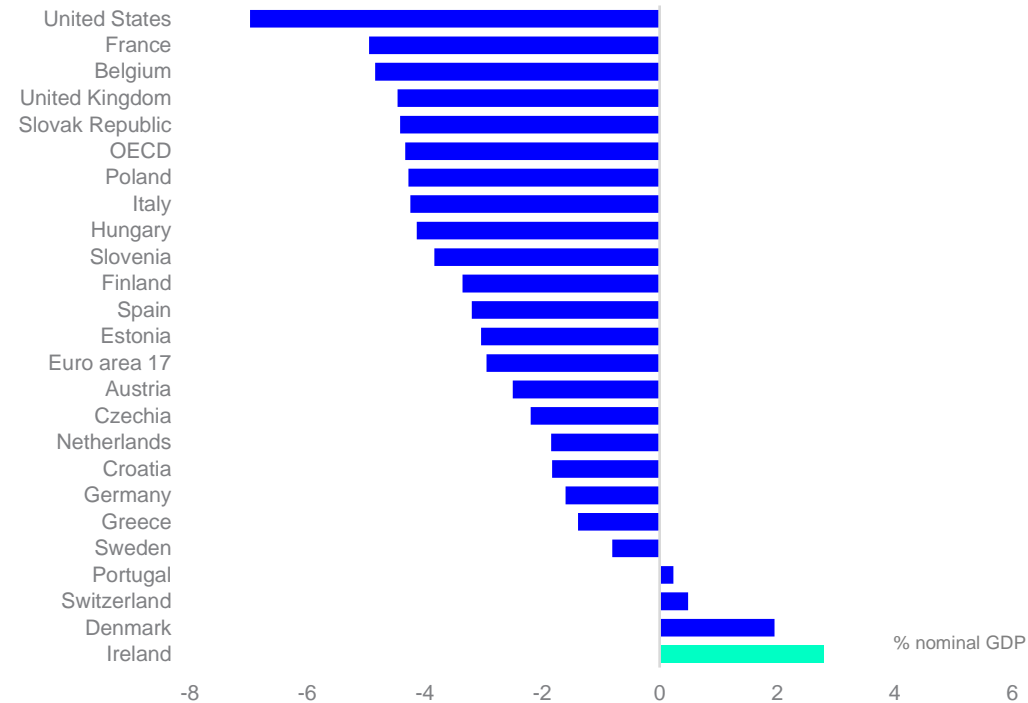
Source: Bloomberg, June 2nd.



Combination of central bank balance sheet reduction and substantial fiscal deficits lies ahead

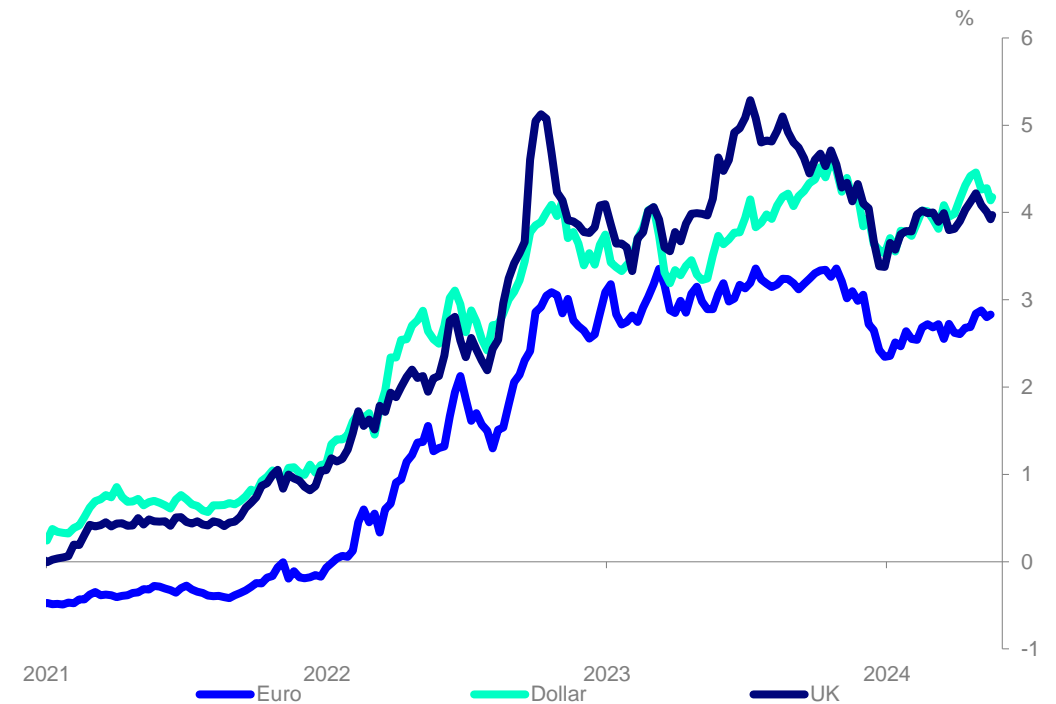
- ECB Public Sector Purchase Programme declined at €17.8bn “*measured and predictable*” pace over the past year, or €212bn cumulatively, €255bn redemptions in next 12-months.
- ECB intends to reduce the Pandemic Emergency Purchase Programme by €7.5bn monthly pace from H2 2024, will discontinue reinvestments from end-2024.
- Quantitative Tightening could put a little more upward pressure on longer-term interest rates, even as official ECB rates cut, especially with large fiscal deficits that need funding.

Government Balances as % of nominal GDP. Forecasts for 2024.



Source: Organisation for Economic Cooperation and Development. November 2023

5-year Swap Rates



Source: Bloomberg. May 17th.

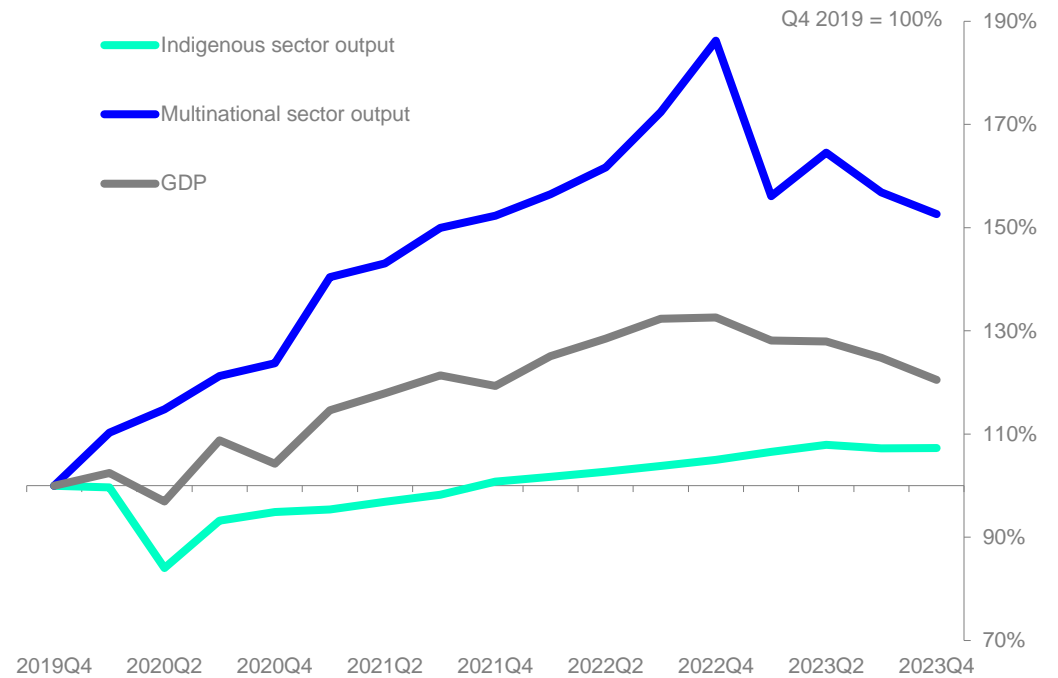


How worried should we be by Ireland's negative GDP growth figures?

Economic Research Unit Forecasts for the Irish Economy, February 2024

	2023	2024	2025	2026
Household Consumption	3.3%	2.9%	3.0%	3.0%
Government Consumption	0.5%	2.5%	2.2%	2.2%
Investment	-12.5%	1.0%	2.0%	2.0%
<i>Modified Investment</i>	-5.6%	0.3%	3.5%	3.5%
Exports	-4.0%	3.0%	5.0%	5.0%
Imports	-5.1%	2.8%	4.0%	4.2%
GDP	-1.9%	1.5%	4.0%	4.0%
--Domestic Sector GVA	3.7%	2.5%	2.7%	2.7%
--MNC Sector GVA	-6.6%	0.5%	5.2%	5.2%
MDD (Final)	0.7%	2.3%	3.0%	3.0%
GNP	5.0%	1.5%	3.0%	3.0%
Employment	3.8%	1.6%	1.5%	1.5%
Unemployment Rate	4.3%	4.5%	4.5%	4.5%
CPI	6.3%	2.5%	2.0%	2.0%

Level of Irish GDP split into multinational and indigenous sector output



Source: Central Statistics Office, December 2023.

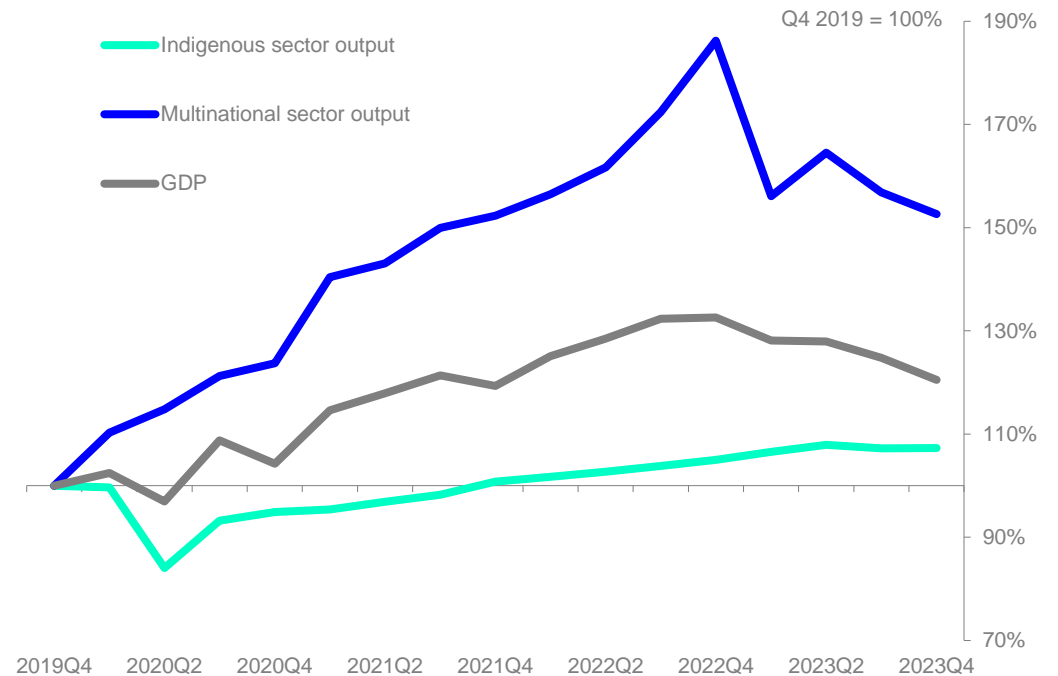


Ireland's negative GDP growth figures reflect multinational sector distortions

Monthly indicators point to strong start to 2024 for Irish economy

	2022	2023	2024ytd	Latest data point
Composite PMI (50 = no change)	54.5	52.0	52.2	April
Manufacturing	54.0	49.1	49.7	April
Services	57.4	56.7	57.0	April
Construction	49.6	47.6	49.5	April
Industrial Production, yoy%	18.9%	-7.7%	-19.7%	March
Modern Sector	22%	-9.9%	-22.3%	March
Traditional Sector	4.5%	6.2%	10.6%	March
Goods Exports, yoy%	26.0%	-5.9%	4.5%	March
ex- pharma & other transport equipment	20.3%	-5.1%	-1.1%	March
Services output	14.9%	4.5%	8.4%	March
Retail Sales, yoy%	-0.6%	4.2%	2.6%	March
ex- motor trades	1.7%	1.0%	1.2%	March
Tax Revenues, yoy%	21.5%	6.0%	2.6%	April
Unemployment Rate, %	4.5%	4.3%	4.4%	April
Employees, % yoy	10.9%	3.1%	2.5%	March

Level of Irish GDP split into multinational and indigenous sector output



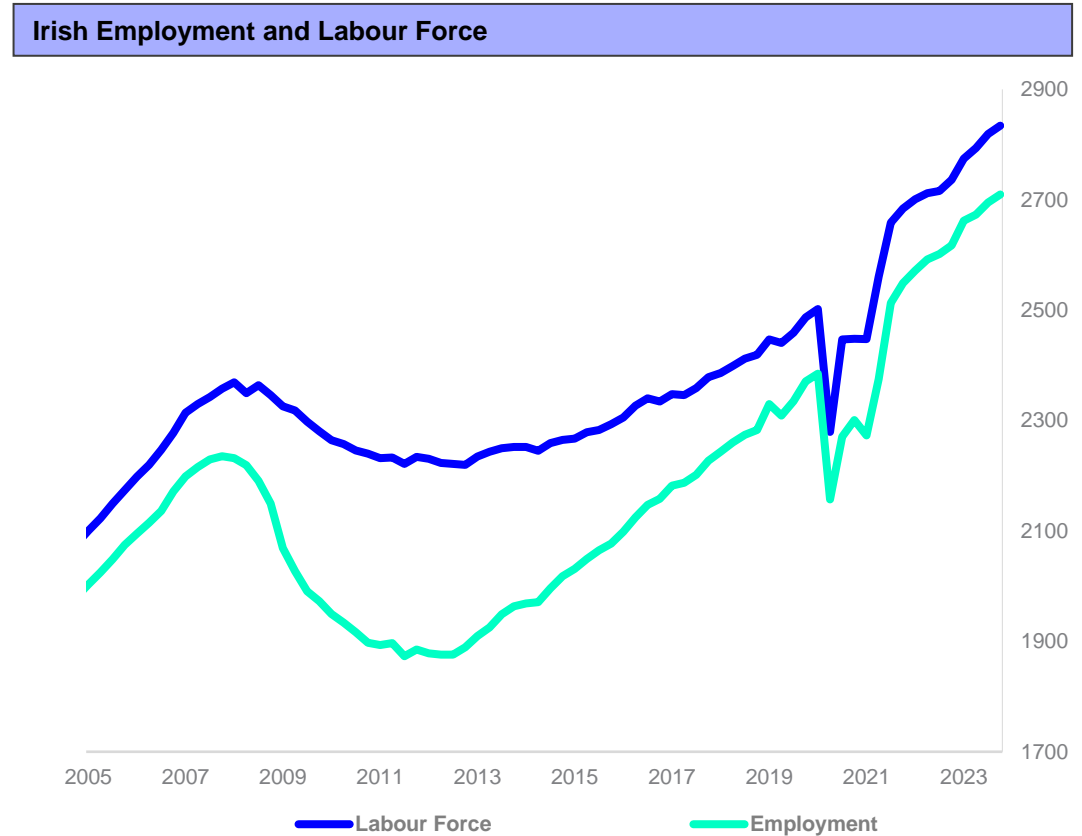
Source: Central Statistics Office, Markit.

Source: Central Statistics Office.



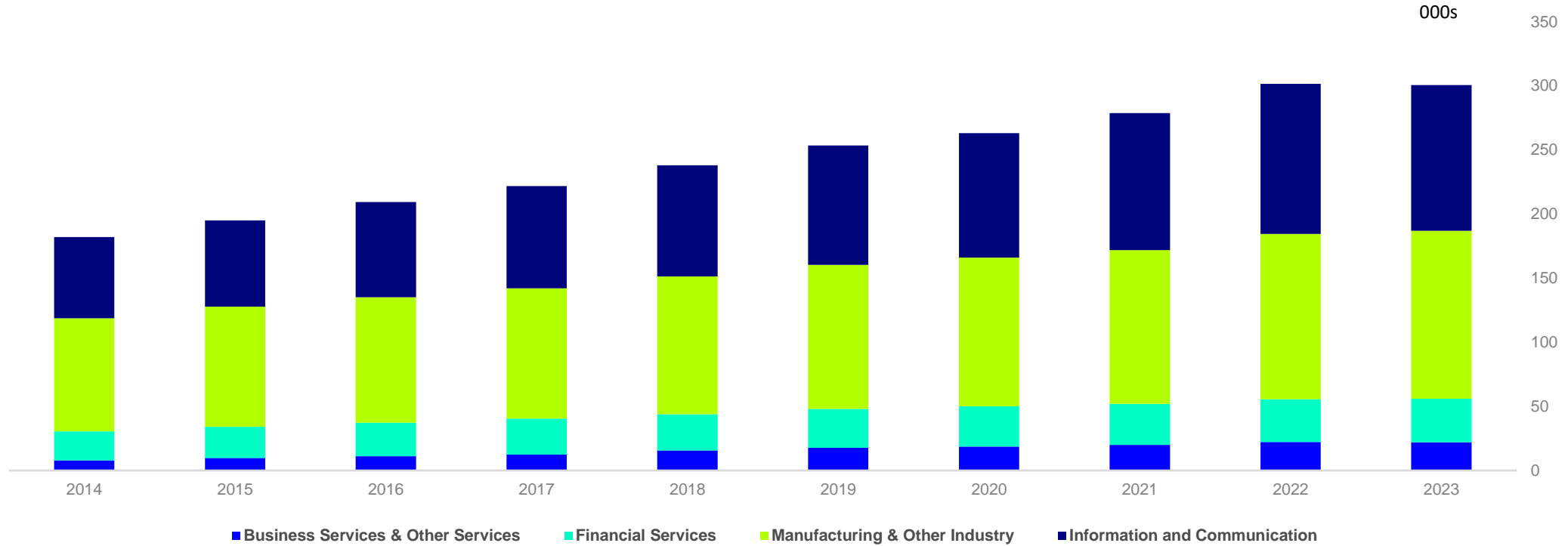
Another quarter of exceptional job creation, despite labour shortages

- Irish employment grew by 0.5% in Q4 2023, up 3.4% on the year and now 13% or 308,000 above pre-pandemic levels.
- Job creation has been facilitated by labour force growth, also 14.3%, or 338,000 above pre-pandemic levels.
- Participation rate now at 16-year high of 65.6%.
- Labour shortages will act as a constraint on further jobs growth
- Employment forecast to grow 1.6% in 2024
- Average weekly earnings grew by 3.8% in 2023 and hour early earnings by 4.4%



Source: Central Statistics Office

Multinational sector employment fell back in 2023 for the first time since GFC

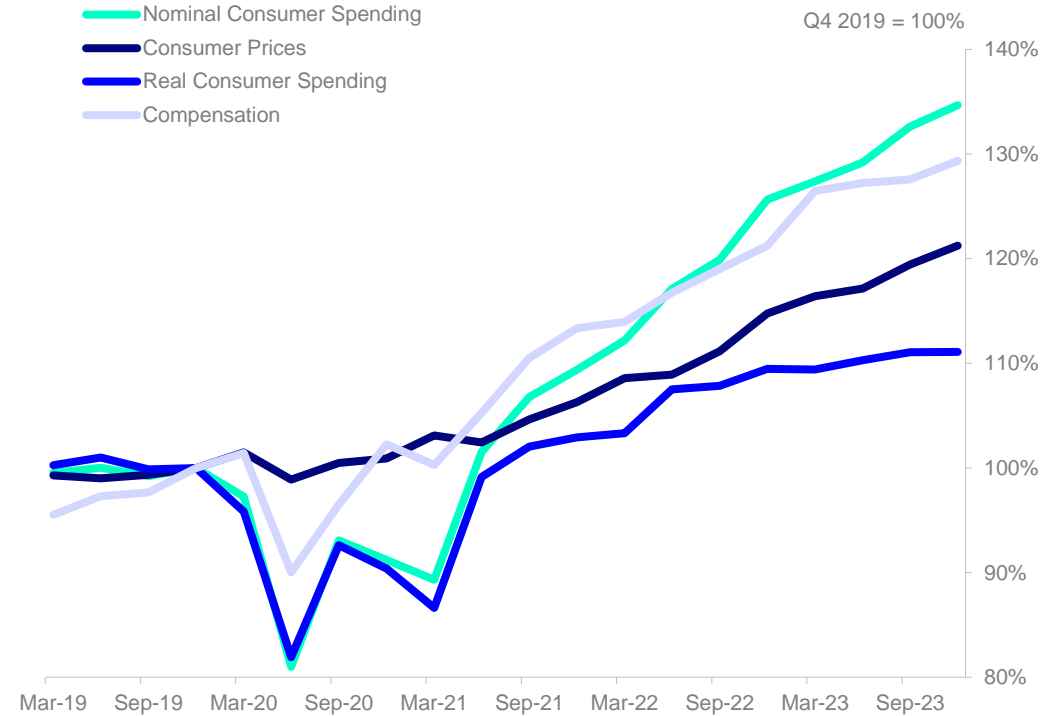


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		23/14	22/21	23/22
Business Services & Other Services	8,026	9,755	11,133	12,557	15,595	17,785	18,694	20,047	22,209	22,173		176%	10.8%	-0.2%
Financial Services	22,547	24,340	26,172	28,059	28,311	30,403	31,403	31,954	33,399	33,888		50%	4.5%	1.5%
Information and Communication	63,262	67,217	74,301	79,754	86,813	93,069	97,148	106,950	117,062	113,632		80%	9.5%	-2.9%
Manufacturing & Other Industry	88,273	93,751	97,897	101,557	107,448	112,314	115,894	119,891	128,927	130,890		48%	7.5%	1.5%
Total	182,108	195,063	209,503	221,927	238,167	253,571	263,139	278,842	301,597	300,583		65%	8.2%	-0.3%

Consumer spending has been more resilient than expected

- Consumer spending in Q4 2023 was 11% above pre-pandemic levels despite squeeze on households' real incomes
- The rapid pace of job creation and fiscal supports (tax cuts, energy credits) has offset the headwinds from energy prices, CPI inflation
- Also, Budget 2024 implemented income tax cuts worth 2% of disposable incomes, close to the average wage.
- Retail sales volumes expanded by 1.4% in the three months to February 2024
- Nominal wages should grow faster than CPI inflation in 2024, helping consumer spending to expand

Consumer Spending and Household Incomes

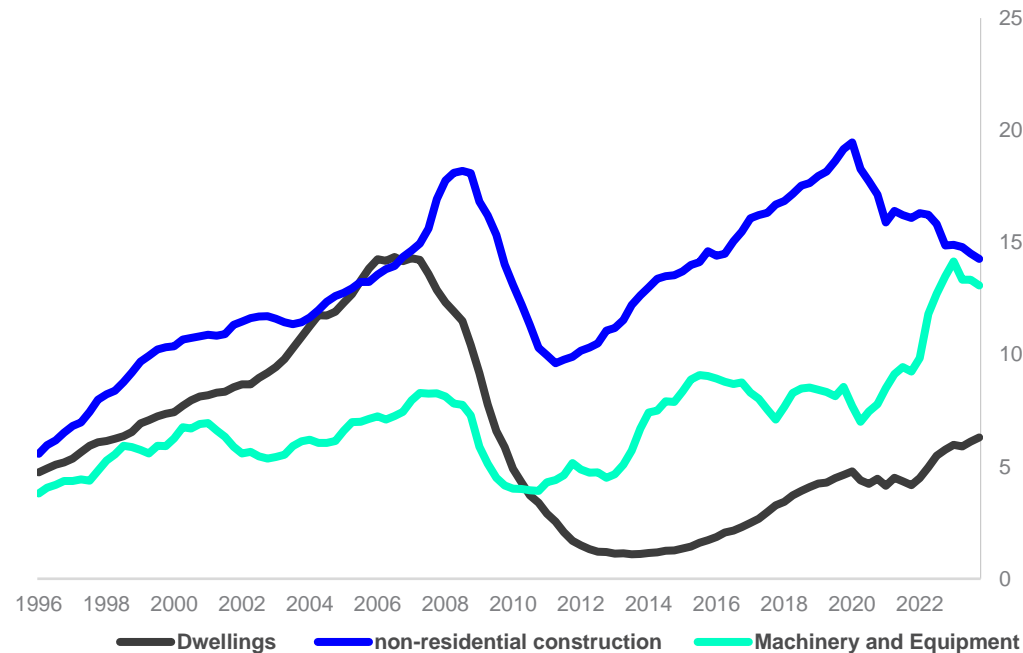


Source: Central Statistics Office

Investment spending has remained resilient, led by the multinational sector

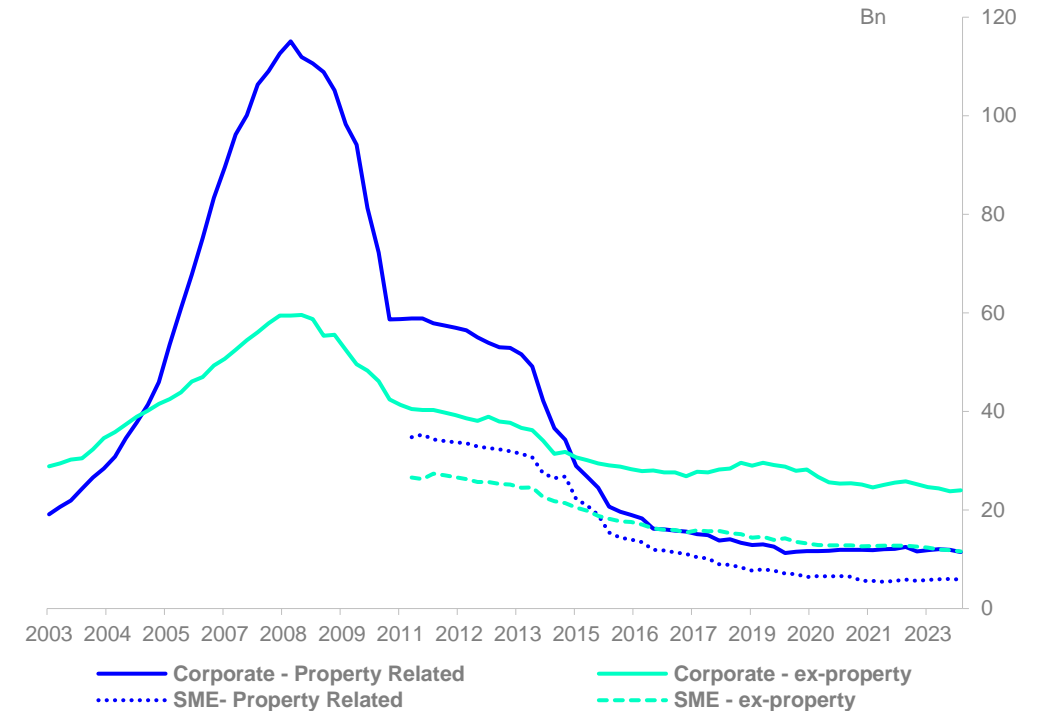
- There has been a surge in investment spending on machinery and equipment (excluding other transport equipment) which continued in 2023
- The stock of total lending to PNFCs fell 0.6% in the year to Q3 2023 to €35.4bn, of which lending to SMEs fell by 4.4% to €17.5bn.

Gross Fixed Capital Formation



Source: Central Statistics Office

Bank Lending to Private Non-Financial Corporations

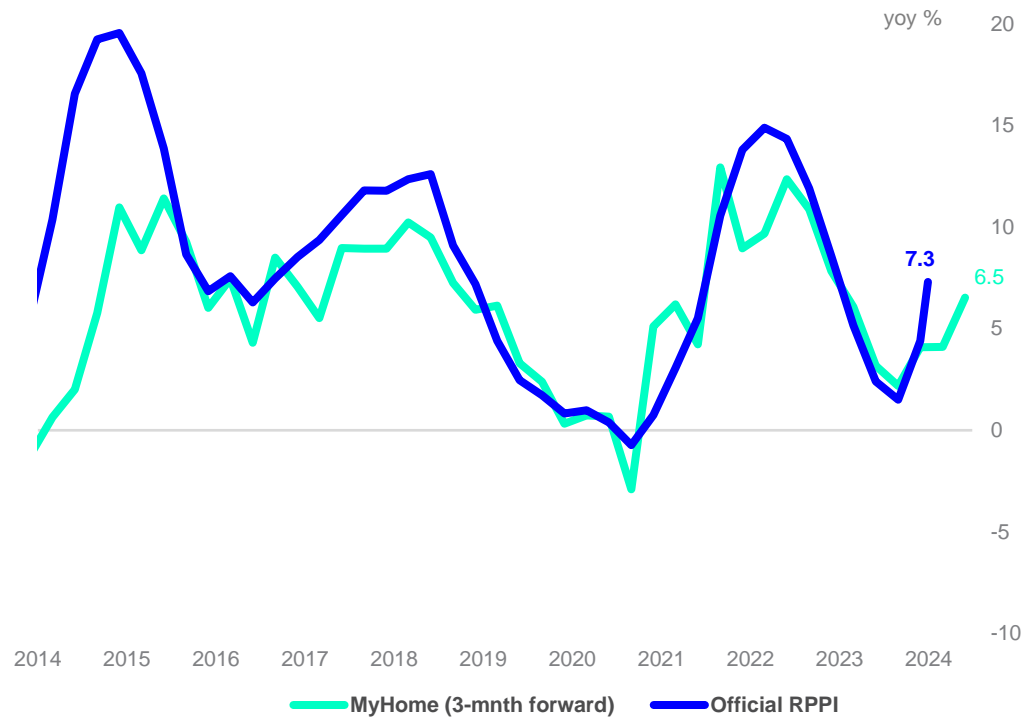


Source: Central Bank of Ireland

Residential Property Price Inflation stronger than expected

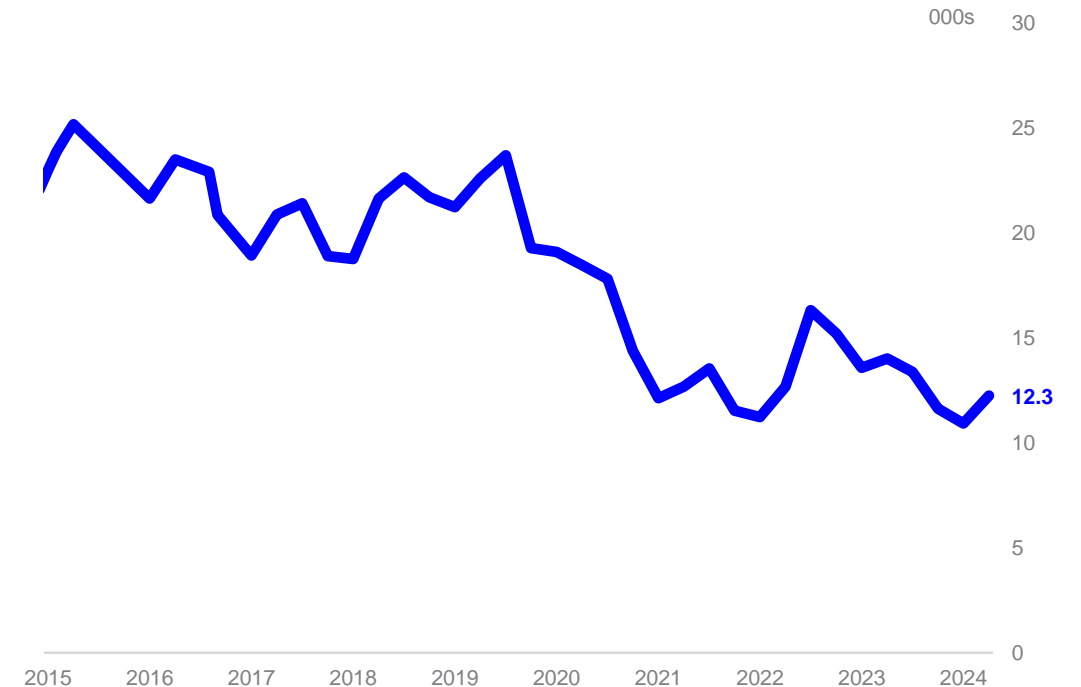
- MyHome asking prices rose by 2% qoq in Q1 2024, the annual rate of inflation accelerating to 6.5%, vs official CSO residential property price index (RPPI) up 7.3%
- Transactional activity is being hurt by lack of stock for sale, just 12,250 listed for sale on MyHOME in early June, marginal improvement on historic low in March of 10,900.

MyHOME Asking Price Inflation and CSO RPPI Transaction price inflation



Source: Central Statistics Office and MyHOME. May 17th

Stock of Homes Listed for Sale on MyHome



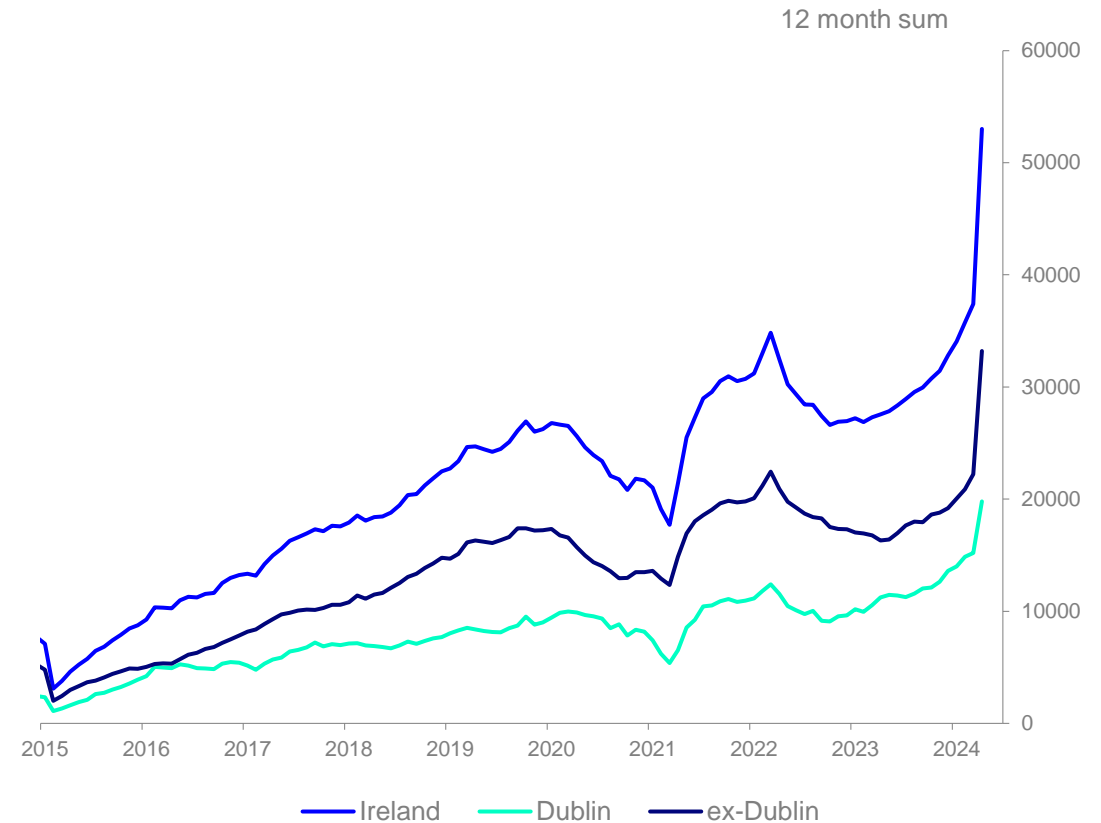
Source: MyHome, Property Price Register. May 17th



Homebuilding activity picking-up in 2024

- Housing starts accelerated to 32,801 in 2023 and completions to 32,695 in 2023
- This is a far better out-turn than predicted twelve months ago, when cost inflation was seen as threatening viability
- Public purchases offsetting reduced demand from institutional investors for apartments
- Housing starts in early 2024 have been artificially inflated by the expected expiration of waiver on local authority levy
- There may have been a rush to get ahead of expected expiration of waiver on local authority levies.
- Commencement notices on 30,138 units were given in the first four months of 2024, up 204% on 2023

Housing Starts, 12-month rolling sum



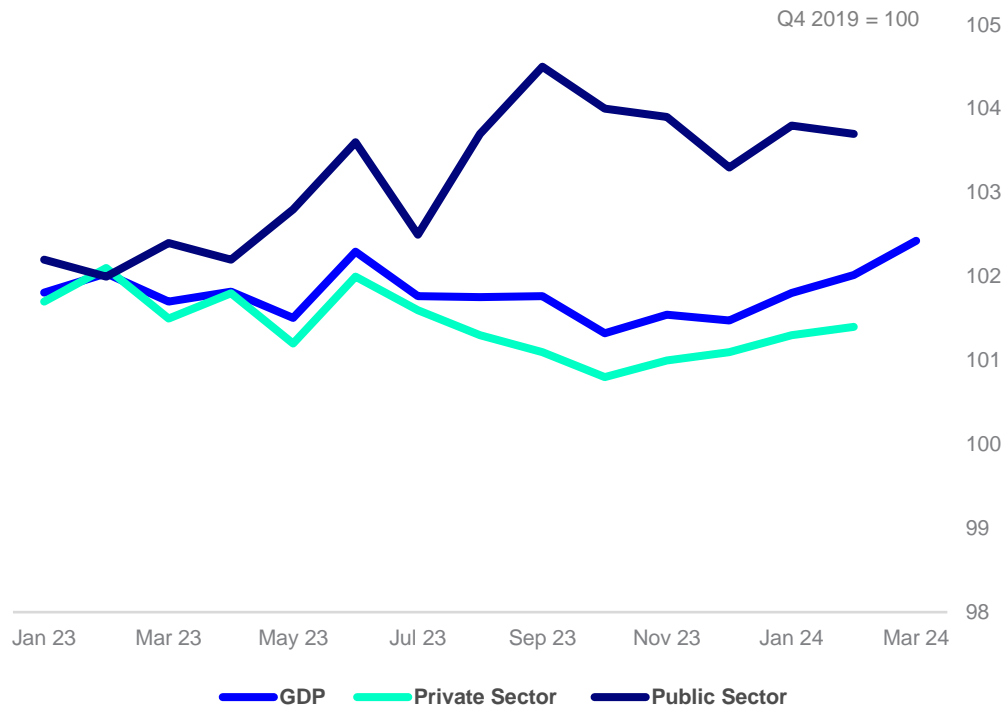
Source: Department of Housing



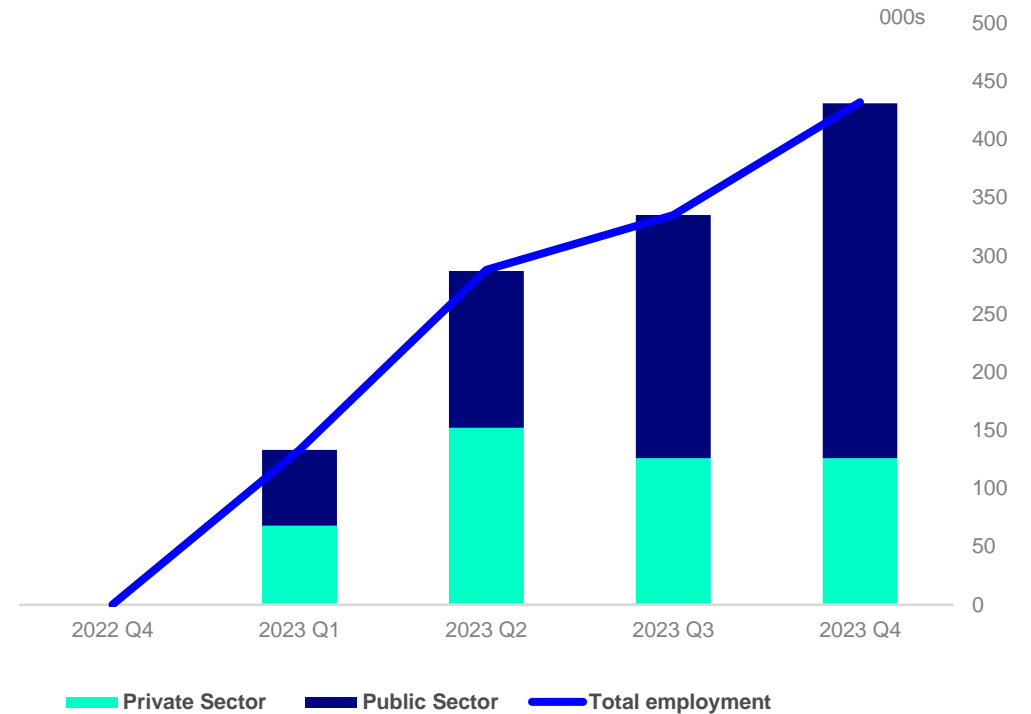
UK suffered technical recession in H2 2023, but rebounded in Q1

- UK GDP contracted in both Q3 and Q4 2023, before seeing a 0.6% rebound in Q1 2024
- The Bank of England estimates private sector output fell by 1% in the six months to October
- The public sector accounted for 70% of the 432,000 jobs created through 2023. The unemployment rate ticked-up to 4.3% in three months February-April.

Level of UK GDP, Q4 2019 = 100



UK pay-rolled employees, change since end-2022



Source: Bank of England, Office for National Statistics. May 17th

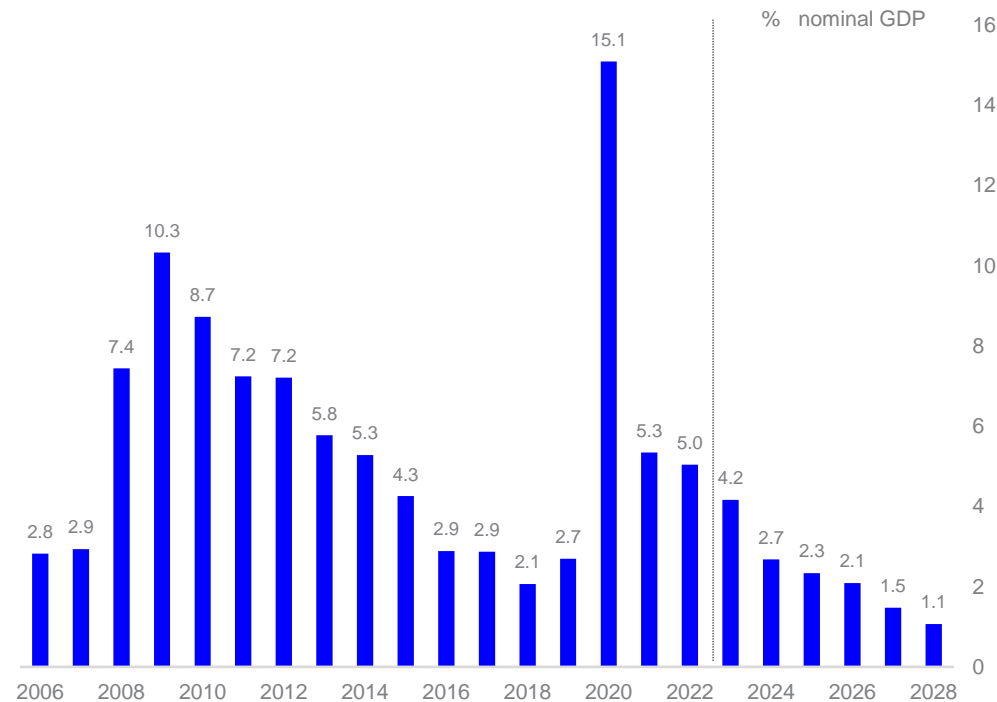
Source: Office for National Statistics. May 17th.



March budget leaves little room for manoeuvre for next UK government

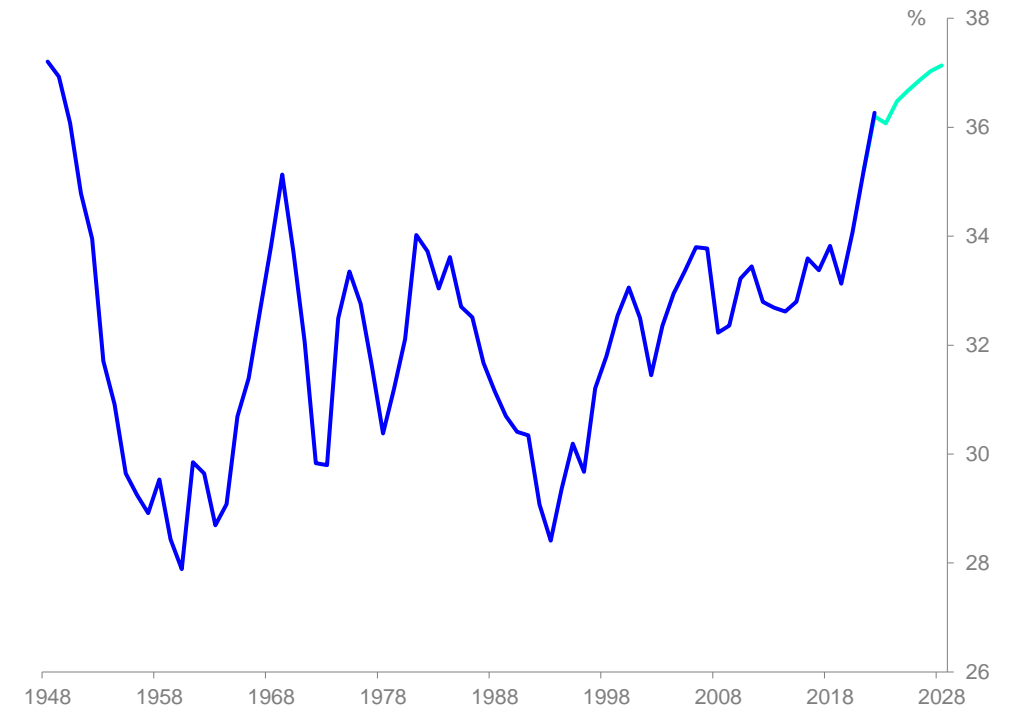
- The key giveaway in the March Budget was a 2 percentage-point (pp) cut in national insurance contributions (£10.7bn), and another freeze in fuel duty (£3.1bn)
- However, taxes as % of nominal GDP are already at their highest level since the 1940s and expected to rise further
- Reflects rise in corporation tax rate to 25%, but also freeze on income tax bands/thresholds will mean an additional 2.7 million workers will pay the higher income tax rate

Official projections for public sector net borrowing, % nominal GDP



Source: Office for Budgetary Responsibility.

Taxes as % of UK GDP



Source: Office for Budgetary Responsibility.



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