# Irish Economy Update

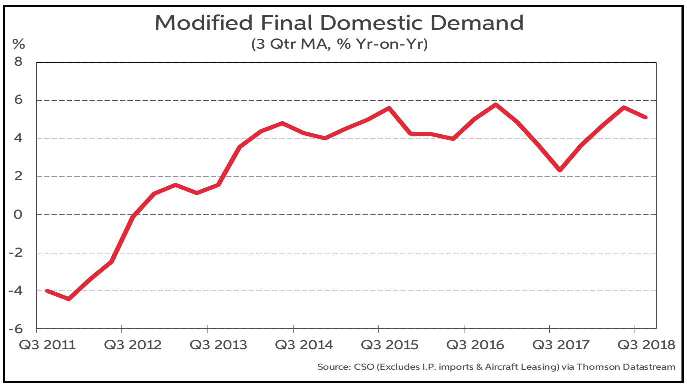
AIB Treasury Economic Research Unit

February 2019

## 2018 was another strong year for the Irish economy...

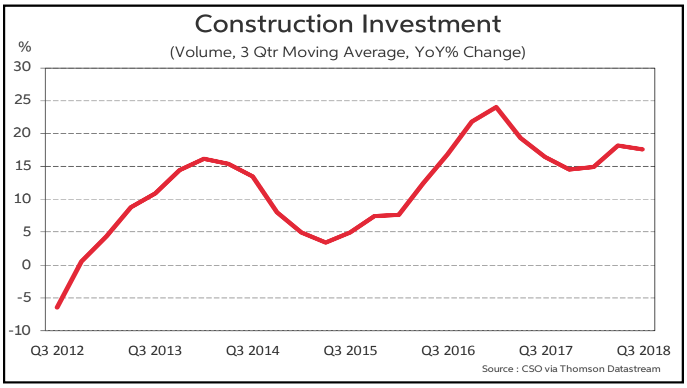
The latest CSO data on the Irish labour market, which are for the final quarter of 2018, show further solid jobs growth. **Total employment increased by 2.3% year-on-year in Q4 to 2.28 million. It rose by 2.9% in 2018 as a whole.** The growth in employment was broad based in 2018, with particularly strong increases in construction and a range of service sectors. This was the sixth consecutive year that annual employment growth has been in a circa 2.5-3.5% range. This strong jobs growth has resulted in a steep decline in unemployment, with the jobless rate declining from over 16% in 2012 to 5.7% in H2 2018.

**GDP rose by 7% year-on-year in the first three quarters of 2018** and is generally estimated to have grown by 7-8% last year. However, GDP continues to be distorted by the activities of some multi-national companies, especially in relation to aircraft leasing, contract manufacturing and the movement of intellectual property rights. A good measure of underlying economic activity is **modified final domestic demand, which excludes the above distortions. It grew by 5% year-on-year in the first three quarters of 2018.** The ESRI in its latest Quarterly Update on the Irish economy, says that “underlying economic activity grew somewhere in the region of 4.5 to 5 per cent” in 2018.




Strong growth was evident across the Irish economy last year. **Exports continued to perform very well in 2018,** rising by over 9% year-on-year in the first three quarters of the year, although again the data can be distorted by the activities of some multi-nationals. **The value of goods exports rose by 15%** in 2018 to €141 billion, led by very strong growth in exports of organic chemicals, medical and pharmaceutical products.

Last year also saw strong growth in all the main components of domestic demand. **Consumer spending was up by 3% in the first three quarters.** Core retail sales (i.e. excluding the motor trade) rose by close to 4% in the full year. Meanwhile, there was **particularly strong growth in government spending,** which rose by 5% in the first three quarters of 2018. Investment also grew strongly. **Construction output was up by 17% in the first three quarters** of the year. There was particularly strong growth in house building, with **completions for the year rising by 25% to over 18,000 units.** Business investment, which can be volatile, rebounded, having declined in 2017, according to CSO data.




**The agricultural sector, though, that had a challenging year.** Adverse movements in the terms of trade for the sector compounded difficulties caused by unfavourable weather which resulted in much higher inputs costs. As a result, farm incomes fell by 17% in 2018. Notably, CSO data also show that employment fell in the sector last year.

**Overall though, it was another good year for the economy,** with impressive gains in employment across most sectors, consistent with the picture painted by the National Accounts of strong, broad based economic growth.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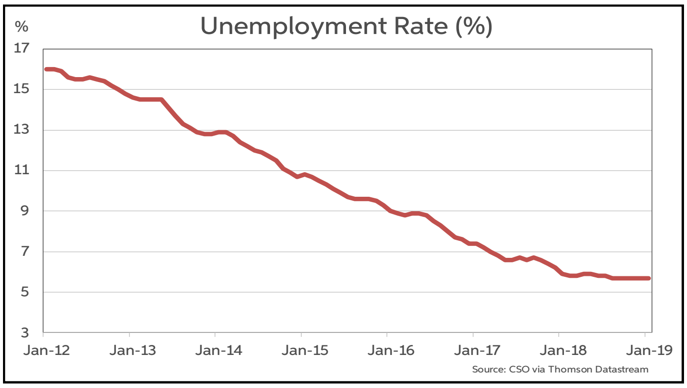
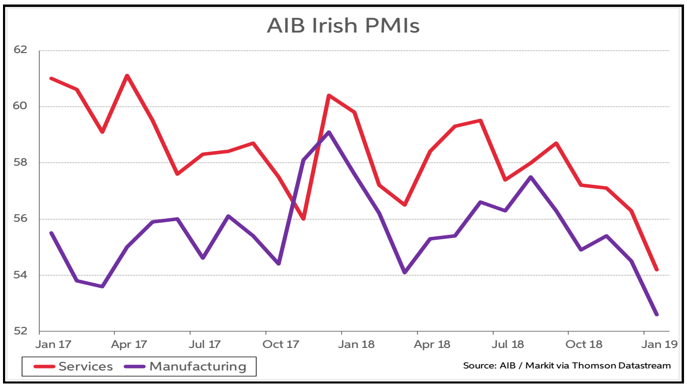
## ...but signs that growth is likely to slow somewhat in 2019

After six years of very robust growth, **there are signs that while still performing strongly, the Irish economy will lose some momentum this year.** This is hardly surprising for a very open economy like Ireland, given that the rate of growth in the global economy is already past its peak. There has been a marked slowdown in the pace of activity in the European economy during the past year, and growth there is expected to remain moderate in 2019. Meanwhile, the continuing uncertainty over Brexit is an additional headwind for the Irish economy. Labour market constraints may also start to emerge, with the jobless rate now down to 5.7% and just moderate growth in the labour force.




Indeed, some data for 2018 suggest that the Irish economy may have slowed somewhat over the course of last year. In particular, **employment growth slowed in the second half of the year,** with employment in the final quarter expanding at less than half the pace of the first quarter. The unemployment rate has also been stuck at 5.7% since August, although this is hard to reconcile with the continuing steady decline in the Live Register. It has fallen by 15,000 since August, with no decline in the jobless rate, which seems rather odd.

Other indicators have been on a softening trend since the summer. The **AIB Manufacturing PMI fell to an over two year low in January 2019 of 52.9,** well down on its level of 57.5 reached last August. Meanwhile, the **AIB Services PMI declined to 54.2 in January, its lowest level since May 2013.** It was at 57.1 as recently as November and 59.5 back in July. The **Construction PMI moved down to 54.6 last month.** In July it stood at 60.7. It is important to note, though, that all three PMIs are still at levels consistent with strong growth by the Irish economy.




On the consumer side of the economy, **confidence has also slipped back from its highs of last summer,** though it still remains at strong levels. Total car sales (new plus second-hand imports) flat-lined in 2018 after a number of years of strong growth and then fell by over 10% year-on-year in January 2019. There was **a particularly sharp decline of 13.7% in new car sales**. Core retails sales (i.e ex motor trade) also lost a bit of momentum in the closing months of last year. Thus, some of the fizz appears to be going out of the Irish economy.

Nonetheless, **growth this year should be underpinned** by continuing very low interest rates, rising employment and incomes, low inflation which is boosting real spending power, the on-going rebound in construction activity, as well as a more expansive stance to fiscal policy. Overall, on the assumption that there is a soft Brexit, **we expect the economy to expand by around 4% this year, somewhat lower than in recent years, but still a strong rate of growth.** Recent forecasts from the Central Bank, ESRI and European Commission are for GDP to increase by between 4.1% and 4.4% in 2019.