CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

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Slew of Irish data point to robust growth picture at present

Last week's Irish GDP data provided the first full breakdown of the economy in Q3 2024. Beneath the volatile GDP data (+3.5% q/q, +2.9% y/y), the domestic indicators point to a robust growth picture during the quarter and year to date. Modified Domestic Demand, which strips out some of the volatility of the multinational-dominated sectors, rose 1.3% q/q, but was up 4.1% y/ y. Within this, consumer spending was down 0.2% q/q and up 1.7% y/y, with the weak trend in consumption slightly jarring with other data sources such as card spending data which point to stronger growth.

Notably, the release also shows both parts of the Irish economy were in growth mode in Q3 2024. FDI-concentrated sectors of the economy grew by 9.1% q/q and +4.7% y/y in Gross Value Added (GVA) terms, driven largely by expansion in the pharmaceutical-dominated industry sector. GVA for the domestic sector grew by 1.5% q/q and +3.3% y/y, driven by increases in Finance & Insurance sector activities, Professional & Admin services, Construction, and Real Estate activities. Other reliable domestic indicators point to continued robust growth in the Irish economy, including compensation of employees, up 3.3% y/y, mirroring the strong growth in employment in Q3 2024. In the medium term we expect Irish growth to persist at a more moderate pace of c.3%, as the economy faces a number of capacity constraints and the recent exceptional labour force growth begins to slow.

Looking ahead, other indicators suggest short-term growth should remain robust. The AIB Services PMI surged to 58.3 in November from 53.8 in October, indicating the sharpest pace of growth since April 2023. Easing inflationary pressures should also support household real incomes and, in turn, consumer spending in the coming year. However, there are potential clouds on the horizon. As highlighted by the Fiscal Advisory Council last week, the Irish economy and Exchequer have become increasingly reliant on a small number of US multinationals. Its remains unclear how President Trump will tilt US trade policy in 2025, but Ireland's reliance on FDI and its large trade surplus with the US puts it at risk to any protectionist shift in trade policy or in the US corporate tax regime.

Turning to the week ahead, the focus will be on the latest ECB monetary policy meeting. The ECB has lowered rates three times this easing cycle, including back-to-back 25bps cuts at the last two meetings in September and October. The Governing Council is expected to cut rates by another 25bps on Thursday. This would bring the deposit rate down to 3% and the re-fi rate to 3.15%. Meanwhile, the ECB's latest batch of staff economic projections will garner close attention. Over recent months, the central bank has grown in confidence that inflation will reach the 2% target sustainably in 2025. At the same time, there have been increasing concerns in relation to the bloc's near-term economic outlook, amid a number of poor data releases and rising uncertainty, including political developments in France and Germany.

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