CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

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Rowing Hard Against the Tide

The past week saw both the OECD and World Bank make dramatic cuts to their growth forecasts for the world economy in 2022, largely on the back of the fall-out from the War in Ukraine. The OECD is now projecting global growth of 3% for this year, down from its previous estimate of 4.5% made at end 2021. The World Bank has cut its 2022 forecast from 4.2% to 2.9%. Meanwhile, we have also seen the Central Bank of Ireland, ESRI, Dept. of Finance and others lower their growth forecasts for Ireland in recent months.

Recent data, though, suggest that we could well see Irish GDP growth forecasts revised upwards again, in marked contrast to the trend elsewhere. CSO data released last week show a very robust opening quarter to the year, despite some sluggishness in spending. Output rose strongly across the economy.

We know the multi-national sector is performing very well, with output up by 13.4% on year earlier levels in the first quarter. Meantime, output in the rest of the economy picked up strongly in the first quarter as the last of the COVID restrictions on activity were lifted, rising by 7.6% on its level in the previous quarter. This was led by a 12% increase in hospitality, transport and distribution, but output rose strongly across all private sector services as the economy reopened fully.

The one soft spot in the economy in the opening quarter was domestic spending, which was held back by COVID restrictions still in place during the first month of the year, as well as ongoing disruptions to supply chains, most notably in the motor trade. Consumer spending fell by 0.7% in the first quarter. This is consistent with the trend in retail sales data for the period. Overall, modified final domestic demand (which excludes certain categories of global investment activity that distort the data) fell by 1%.

However, when one includes the rebuilding of inventories, modified total domestic demand rose strongly in the quarter, in line with the increase in output in domestic sectors of the economy. The available data for the second quarter point to ongoing strong growth in activity, with a large rise in retail sales in April, strong services and manufacturing PMI surveys for April and May, as well as a further decline in unemployment and continuing buoyant tax receipts.

The latest forecasts are for Irish GDP to grow by around 6% this year. However, even if GDP remained unchanged over the remainder of the year from it level in quarter one, it would grow by 8% in 2022. Thus, we can expect to see Irish GDP forecasts revised upwards over the summer. Meantime, the domestic economy looks to be on course to grow by around 5%.

The strength of the economy is likely to see the Irish government finances move back into surplus in 2022 in marked contrast to the deficit of €8.25bn projected in the Budget. It is also resulting in much lower unemployment. The forecasts were for the Irish unemployment rate to average 6% or above this year. However, the rate had dropped to 4.7% by May, so expect big downward revisions to these forecasts. The Irish economy will eventually be impacted by a slowing world growth, elevated inflation and higher interest rates, but for now it is bucking the global trend of weakening activity.

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