Economist's Weekly Market View

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Solid Irish macro data ahead of key ECB decision

Last week's Irish GDP data provide the first full breakdown of the economy in Q2 2024. Beneath the perennially volatile GDP data, the domestic indicators point to a moderate growth picture so far in 2024. Modified Domestic Demand, which strips out some of the volatility of the multinational-dominated sectors, fell 0.5% q/q, but was up 1.5% y/y. However, within this, consumer spending was up 1.1% q/q and 1.3% y/y, while modified investment fell 7% q/q (-0.8y/y), reflecting a drop in machinery and equipment investment on a sector-specific basis, which might unwind in the coming quarters.

Other reliable domestic indicators point to continued robust growth in the Irish economy, including compensation of employees, up 3.7% y/y, mirroring the strong employment and wage growth in Q2. In the medium term we expect Irish growth to persist at a more moderate pace, as the economy faces a number of capacity constraints, and the recent exceptional labour force growth begins to slow.

Elsewhere, last week's exchequer returns also signalled ongoing growth in the Irish economy, with VAT receipts up 6% y/y in the three months to end-September, while income taxes were up 7% over the same period. The exceptional growth in corporation taxes continues, with receipts more than doubling in August compared to August 2023, while year-to-date, the Irish Exchequer has collected €16.2bn in corporation taxes, a 28% rise on the same period in 2023. This gives significant leeway to the Minister for Finance as he prepares his first Budget for October 1st, but these multinational-driven tax revenues are highly concentrated amongst a small number of firms and subject to medium term risks. In this context, a commitment to directing more revenues than planned towards the new sovereign wealth funds might be a prudent measure in the upcoming Budget to build up buffers for the next economic downturn.

Turning to the week ahead, the monetary policy spotlight will be on the ECB meeting this Thursday. Having cut rates by 25bps in June, the ECB left policy on hold in July, but refused to rule out a rate cut in September if warranted by the data. Since then, headline HICP inflation has declined to 2.2% in August, its lowest level since July 2021, although there has been little progress in core inflation which remains at 2.8%, amid elevated services inflation at 4.2% in August. Thus, despite market expectations for a 25bps rate cut this week, the decision from the ECB is likely to be a close call, although the meeting minutes from July indicate that a rate cut is likely this week. A lot of attention will also be on the ECB's updated macro-projections and the press conference with President Lagarde, as investors gauge the ECB's view on the future path of interest rates. Currently the market is pricing in around 60bps of policy easing between now and year end. Our view is that the ECB will cut rates twice more this year, on Thursday and again in December. However, given the anaemic growth picture across the Eurozone, there is a strong case for the ECB to move even quicker in the coming months.

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