

Where now for the Irish economy? Opportunities, challenges and longer-term developments

DATE

23rd November, 2018

VENUE

Dromoland Castle

SPEAKERS

Kieran McQuinn

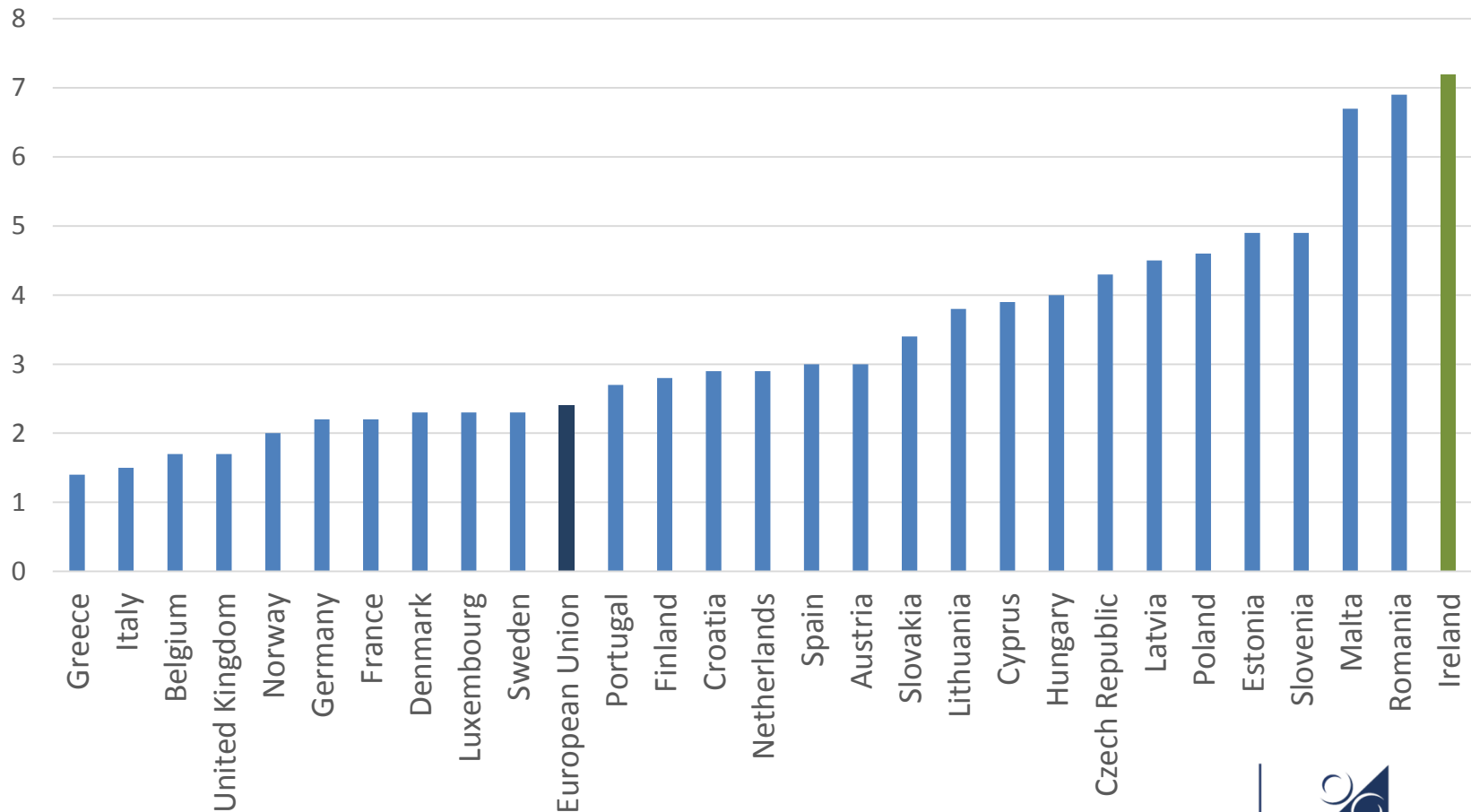


Outline

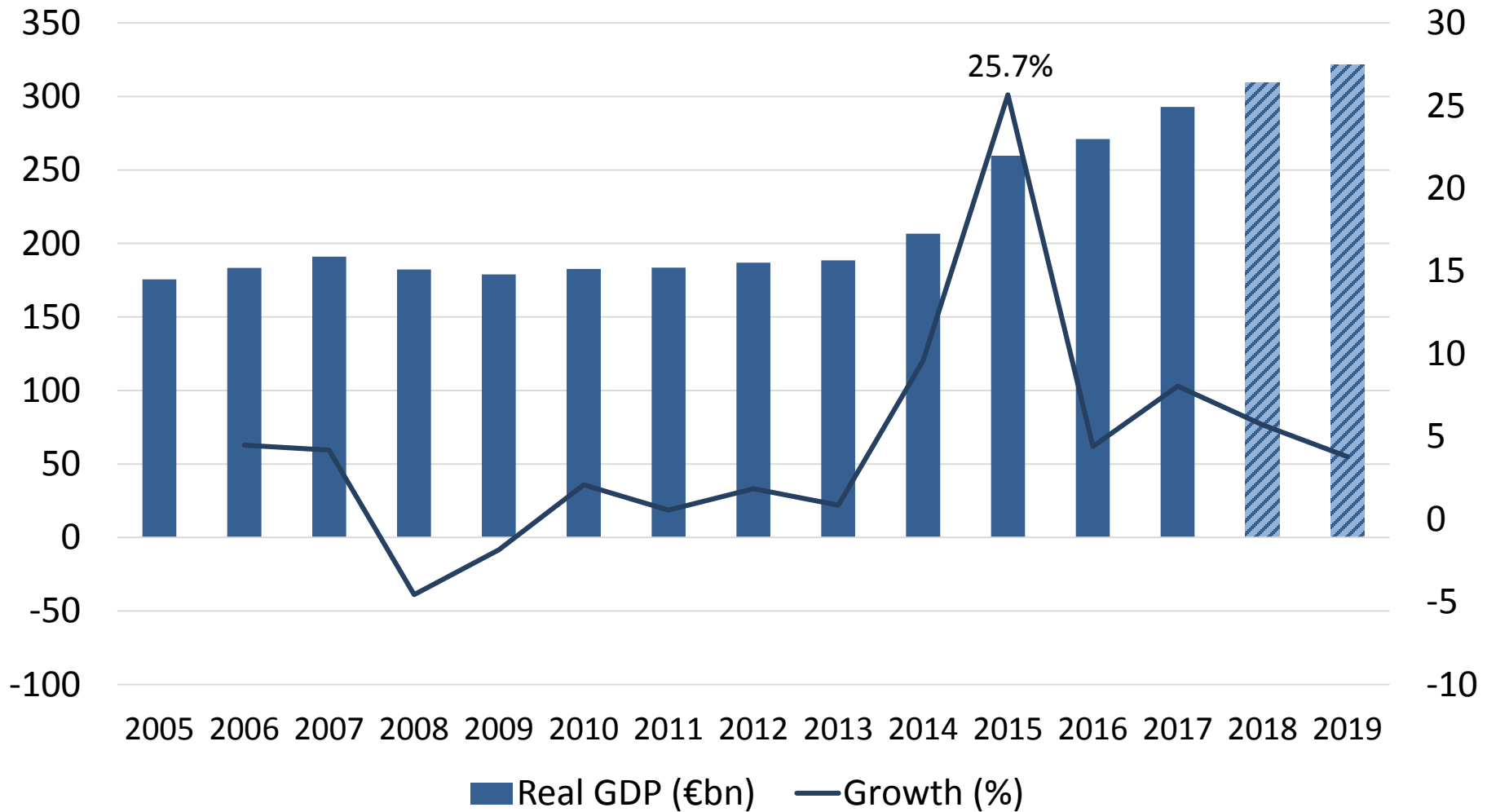
- Recent Performance
- Future Prospects?
- External Risks
- Population Growth

Recent Performance

Relative to EU, Ireland emerged in 2017 with highest real GDP growth

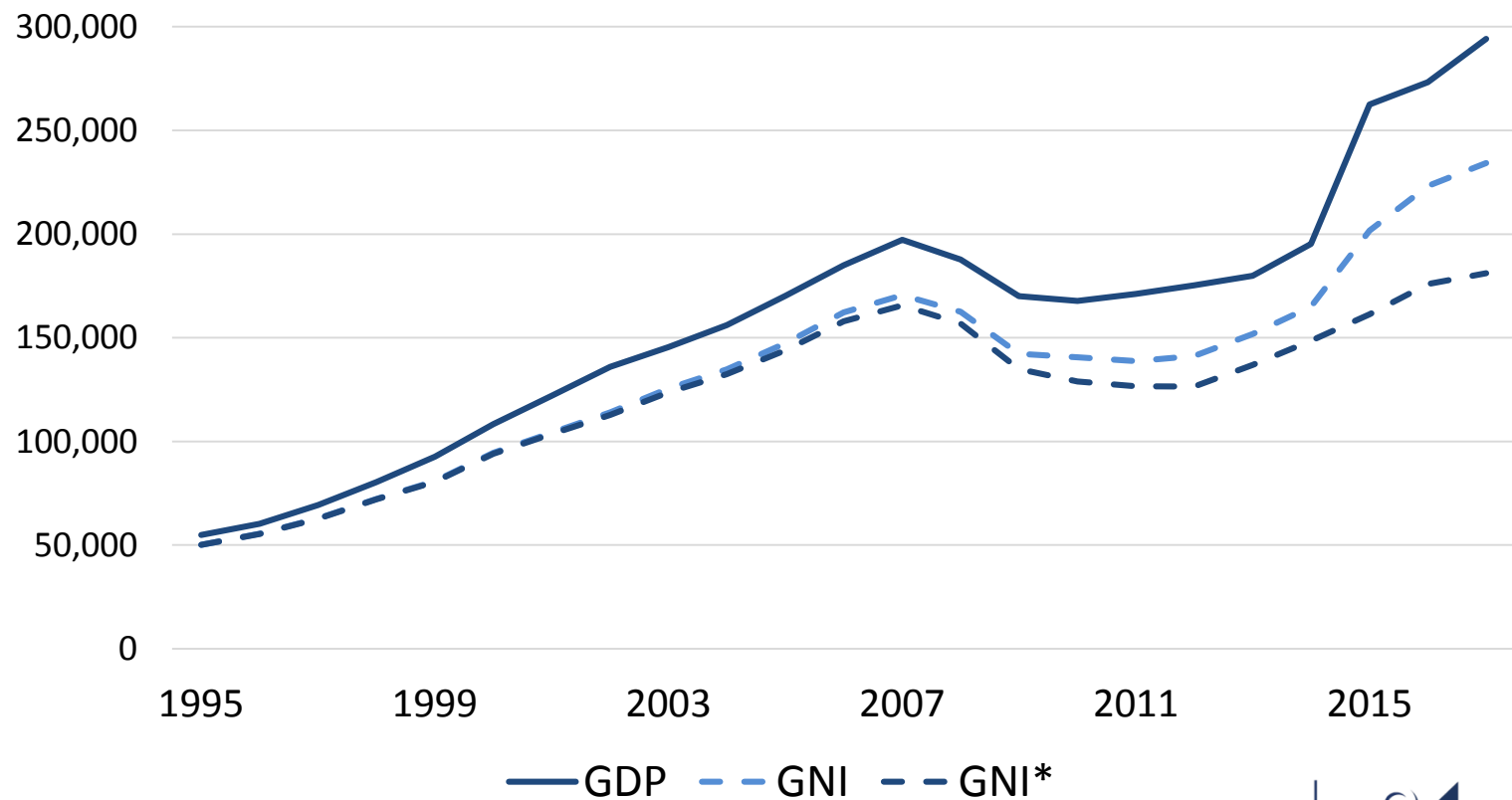


Recent Performance



Difficulties with Measurement

CSO devised an alternative measure of gross national income: **GNI***
Only available using current market prices



Economic Growth in 2018 & 2019

Output

- Real GDP to grow by 8.9% in 2018 and 4.5% 2019.
- Underlying activity to grow by 4.5% in 2018.

Employment

- To reach 2,257m in 2018 and 2,313m in 2019.
- Unemployment rate to average 5.7% in 2018.

Public finances

- General Government Balance, **2018:** -0.2%, **2019:** 0.1%
- Debt-to-GDP, **2018:** 64.2%, **2019:** 60.7%

Unemployment

- Rate 5.3 per cent in September
- Falling to 5.1 per cent in 2019

Employment

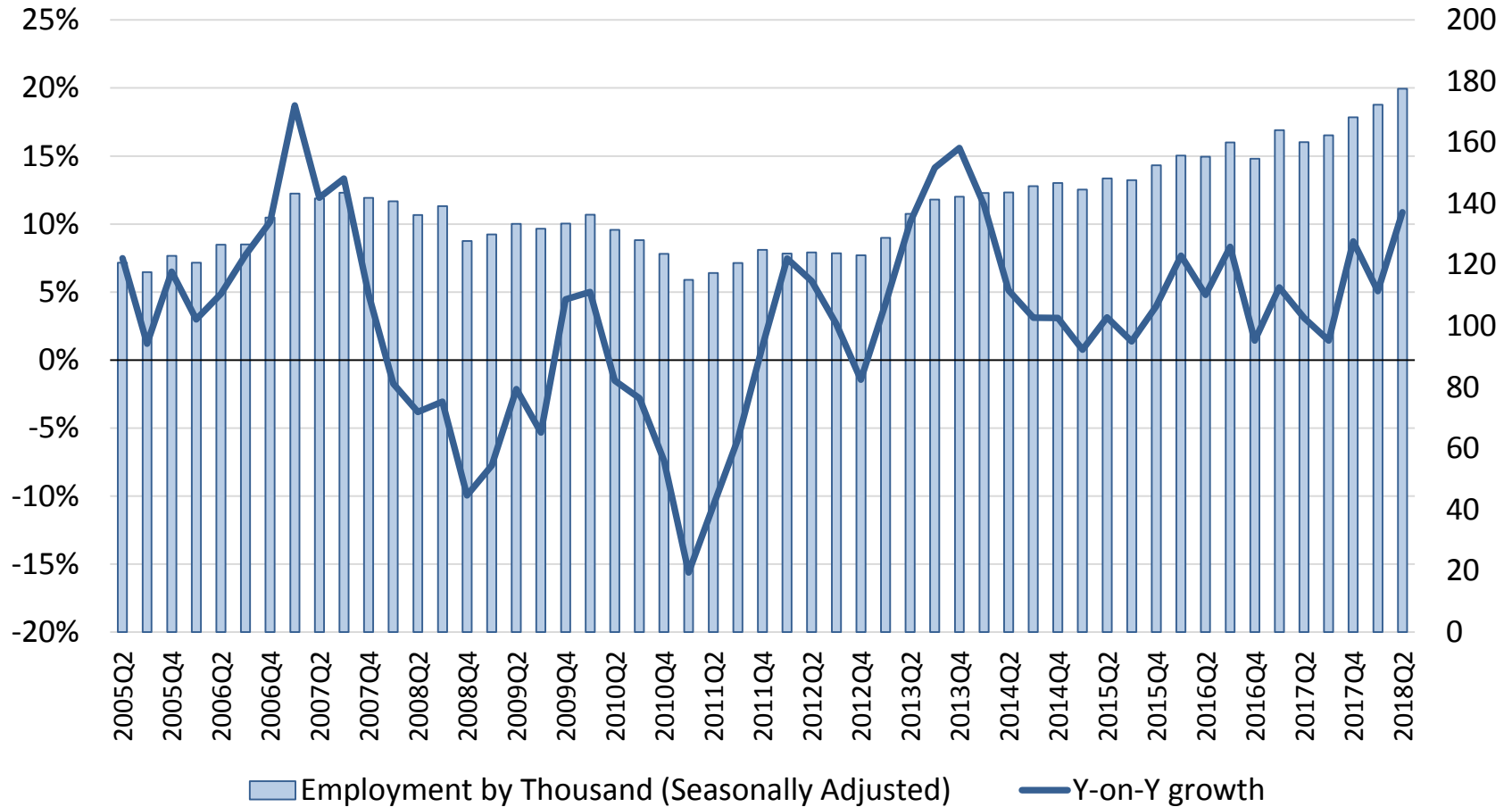
- Increase by 2.9 per cent in 2017 and 2018
- 2.5 per cent increase expected in 2019

Earnings

- Average weekly earnings rose 2.8 per cent in 2018Q2
- Low inflation and falling unemployment suggests
- Further real wage growth in 2019

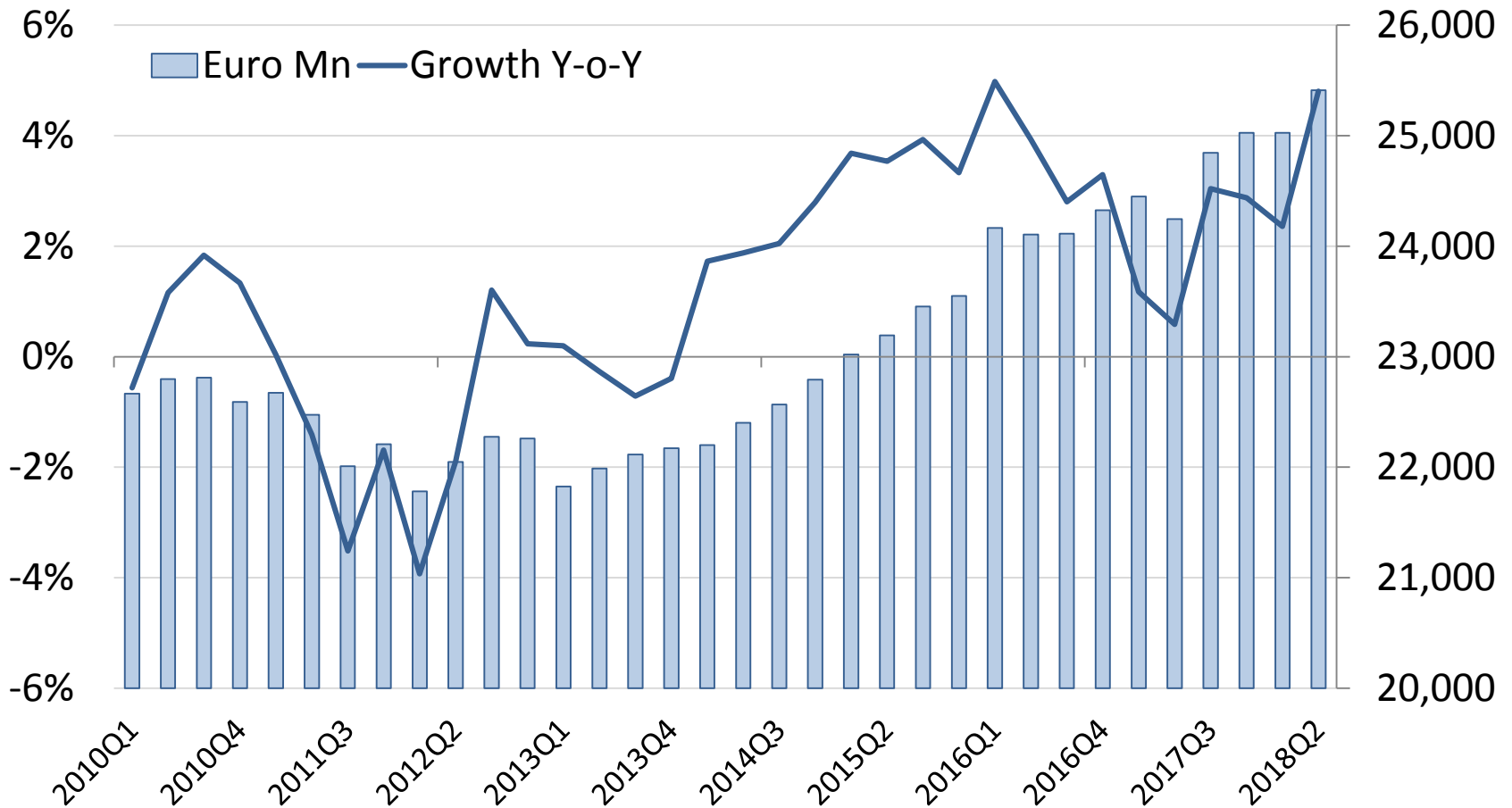
Labour Market

Accommodation and food service activities



Source: Central Statistics Office

Personal Consumption of Goods and Services



Source: Central Statistics Office

Housing Market

- Large component of domestic sources of growth
 - Value of mortgage drawdowns up 22% YoY Q2
 - Completions increased by 34% YoY Q2
- Continued upward pressure on
 - Prices – up 8.2% September YoY
 - Rents – up 8% Dublin and 6% outside Dublin
- With supply still below levels of structural demand:
 - Structural demand estimated 25 – 30,000 units p.a.
 - Upward pressure on prices/rents expected to continue

Housing Market Affordability:

- Corrigan et al. (2018):
 - Recent research on affordability issues in the Irish housing market
- Persistent affordability difficulties
 - Low income urban households renting privately
 - Finding it difficult to access home ownership
- McQuinn (2018) updating earlier work:
 - Housing demand set to increase in coming years
 - Likely to exacerbate affordability issues
- Policies to increase housing supply critical
 - Social and affordable housing
 - Case for public capital investment

External Risks



US-China Trade War

- COSMO estimates a 1-to-1 relationship between global GDP and Irish GDP

Brexit deadline

- Brexit is filled with uncertainty. Research by ESRI aims to compare possible outcomes and their effects

Macro-Effects of Brexit

- COSMO uses projections of key external variables from the NIESR NiGEM world model.
- The scenarios considered are an EEA style agreement, a Switzerland/EU style of agreement (EFTA) and a WTO scenario.
- Each of these scenarios combines a range of assumptions on trade, FDI and lower contributions to the EU budget to generate alternative paths for the UK economy and also for the wider international economy

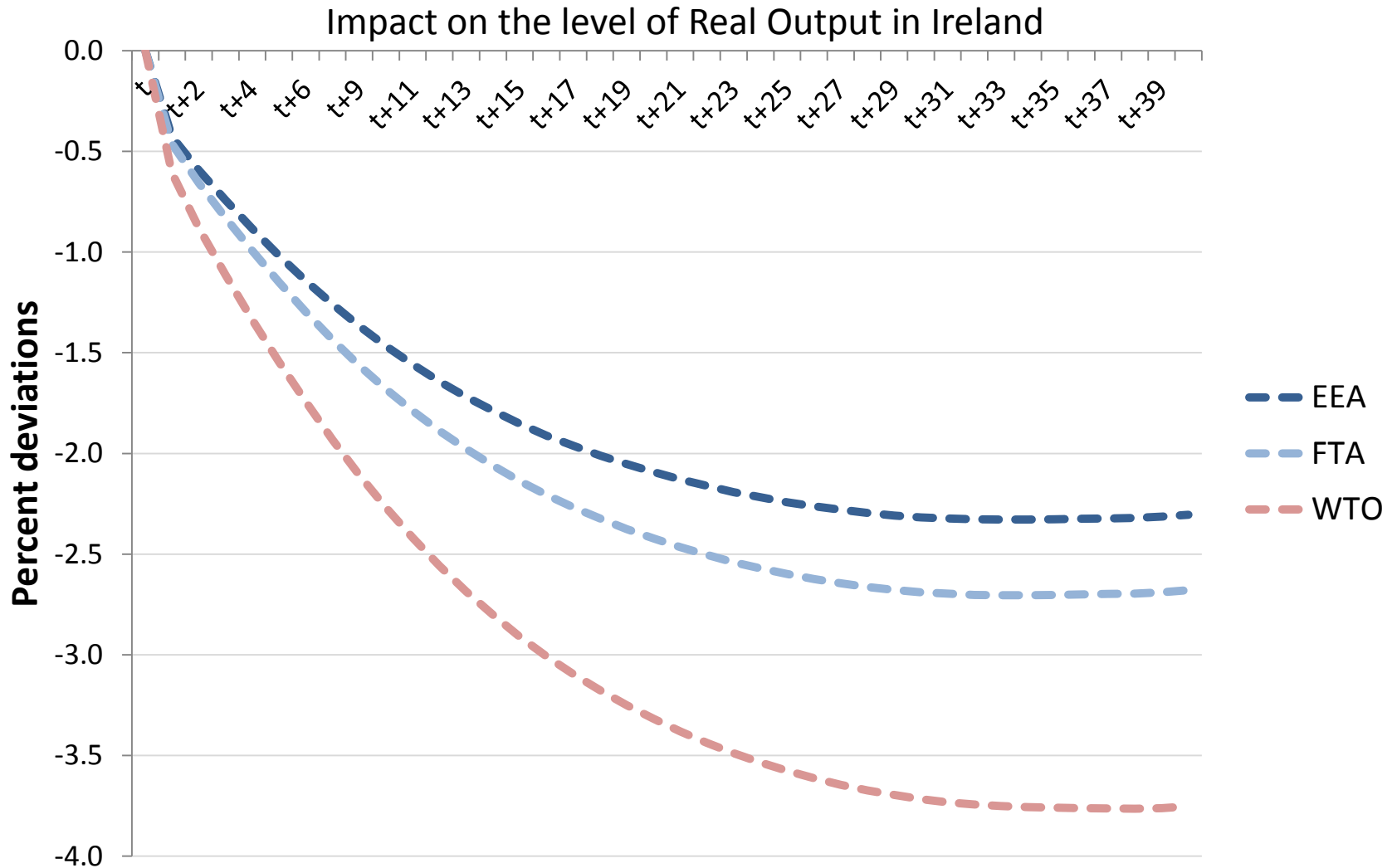
Macro-Effects of Brexit

	EEA	EFTA	WTO
<u>Percent deviation from Baseline Level:</u>			
Gross value added at basic prices	-2.3	-2.7	-3.8
Gross value added at basic prices, Traded sector	-2.6	-3.0	-4.3
Gross value added at basic prices, Non-traded sector	-2.3	-2.7	-3.6
Exports of goods and services	-3.0	-3.5	-4.9
Personal consumption of goods and services	-2.2	-2.5	-3.4
Employed persons	-1.2	-1.4	-2.0
Average wage €	-2.2	-2.5	-3.6
<u>Deviation from Baseline:</u>			
Personal Consumption Deflator, %	-0.2	-0.2	-0.3
GDP Deflator, %	-0.2	-0.2	-0.3
Personal savings rate, %	-0.3	-0.3	-0.5
Unemployment rate, %	1.2	1.4	1.9
General Government Balance, % GDP	-0.6	-0.8	-1.0

From Bergin et al. "Modelling the Medium- to Long-Term Potential Macroeconomic Impact of Brexit on Ireland". *The Economic and Social Review*, Vol 48, No 3, Autumn (2017)

- Ireland is very exposed to Brexit due to close economic relation with the UK
- Uncertainty surrounding the process invites to consider different scenarios
- Estimates in line with other forecasts
- Shock to foreign demand hurts traded sector and exports
- Lower employment and wages affect the non-traded sector
- Lower tax collection worsens Government balance

Macro-Effects of Brexit



Brexit and Irish Consumers

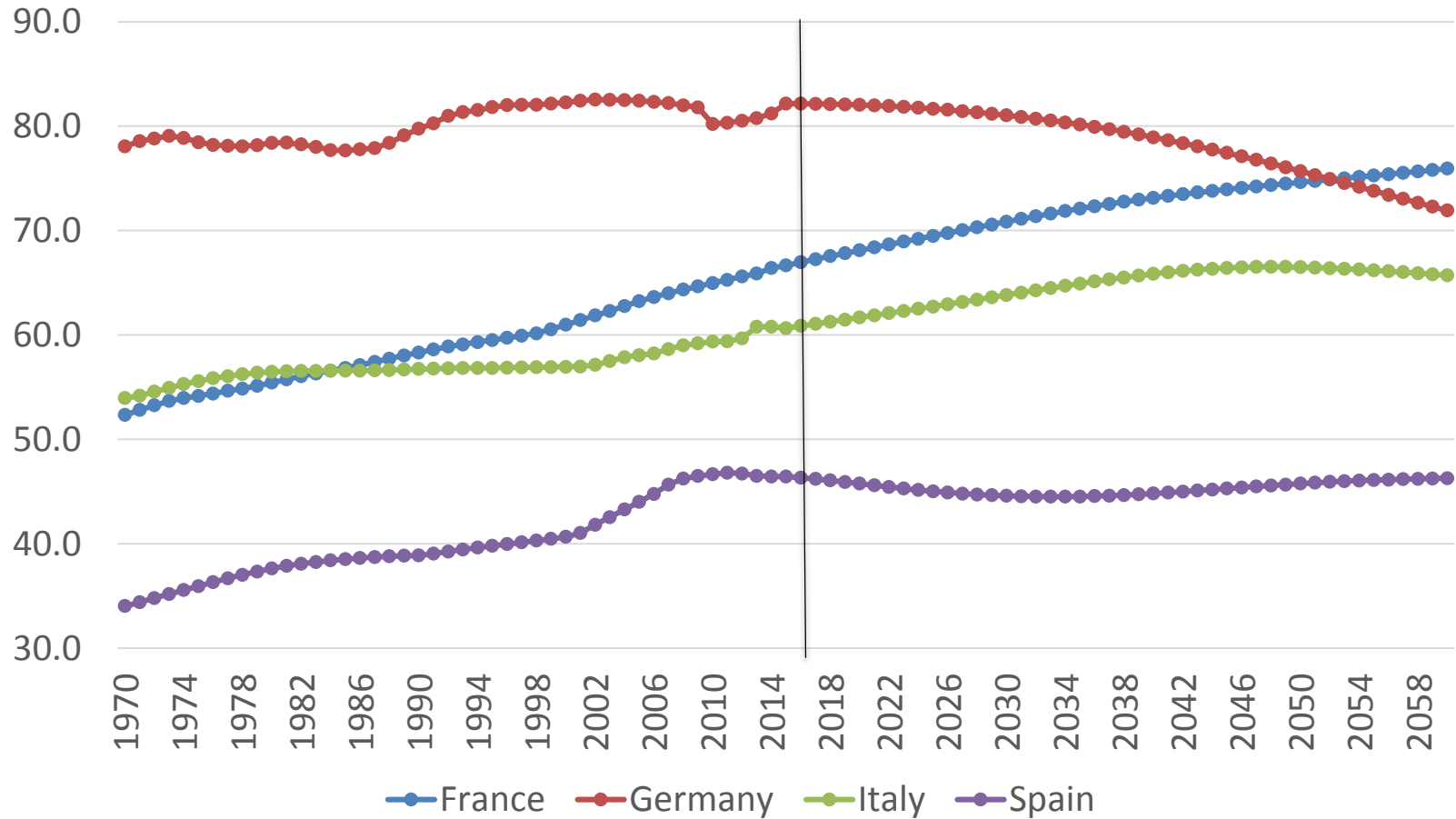
- Combines trade, tariffs and non-tariff barriers costs to estimate the potential impact of Brexit on Irish imports.
- Share of household expenditure on food key determinant of impact.
- Price increases from **2% in the NTB** scenario to **3.1% for both NTBS and tariffs** when all products are considered.
 - €892 to €1,360 increase in average annual spend.
 - But assumes full pass-through of increases and no change in consumer spending patterns.
- Grocery sector drives aggregate effects: increases of 6% in tariff scenario and 18% when other costs also added.

Trends in Population Changes



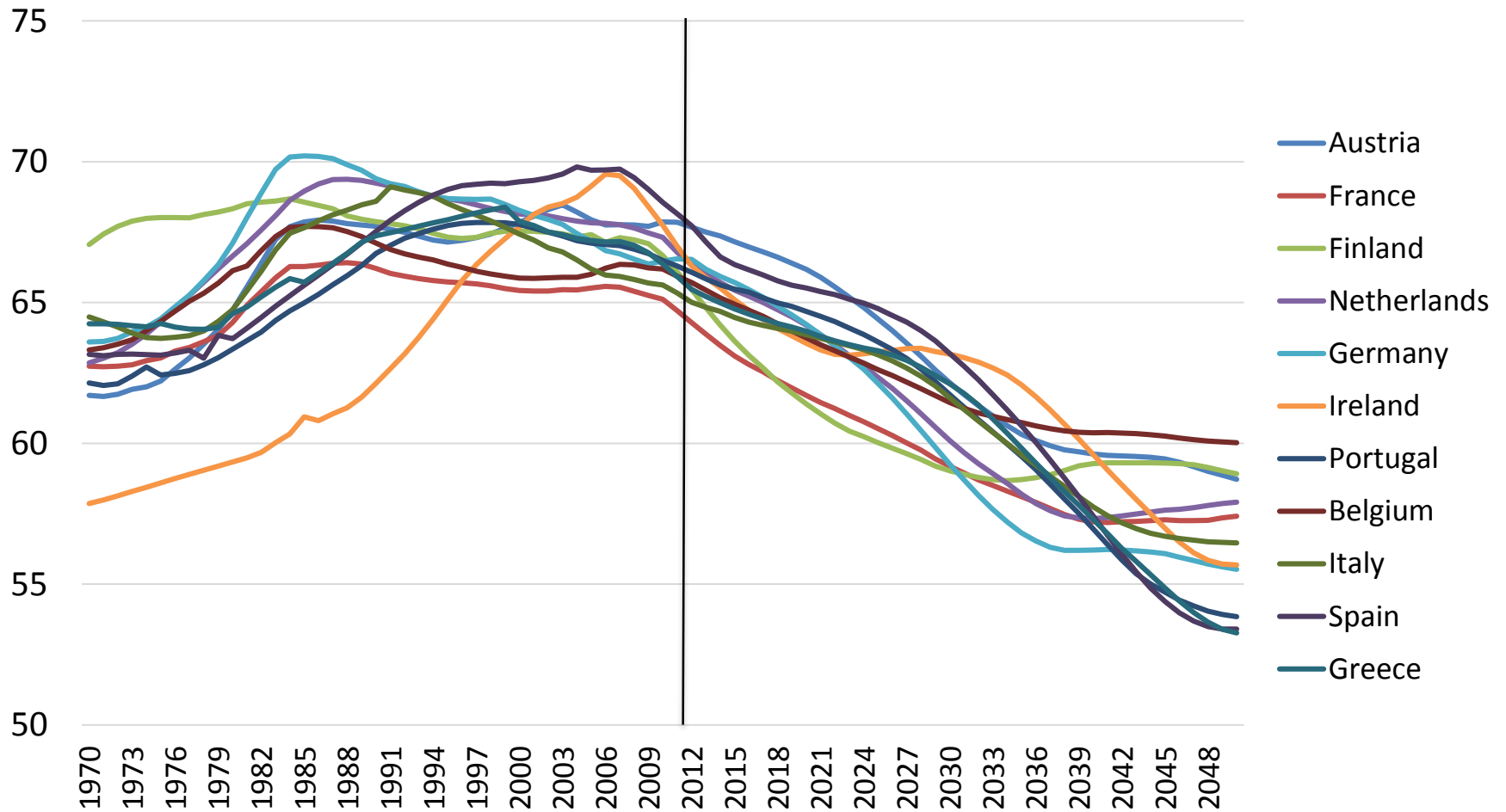
- Key challenge facing developing economies: demographic changes
- Population in Ireland expected to grow by 28 per cent between 2018 and 2080
- Age dependency ratio expected to decline across the next six decades

EU Population Forecasts (million)

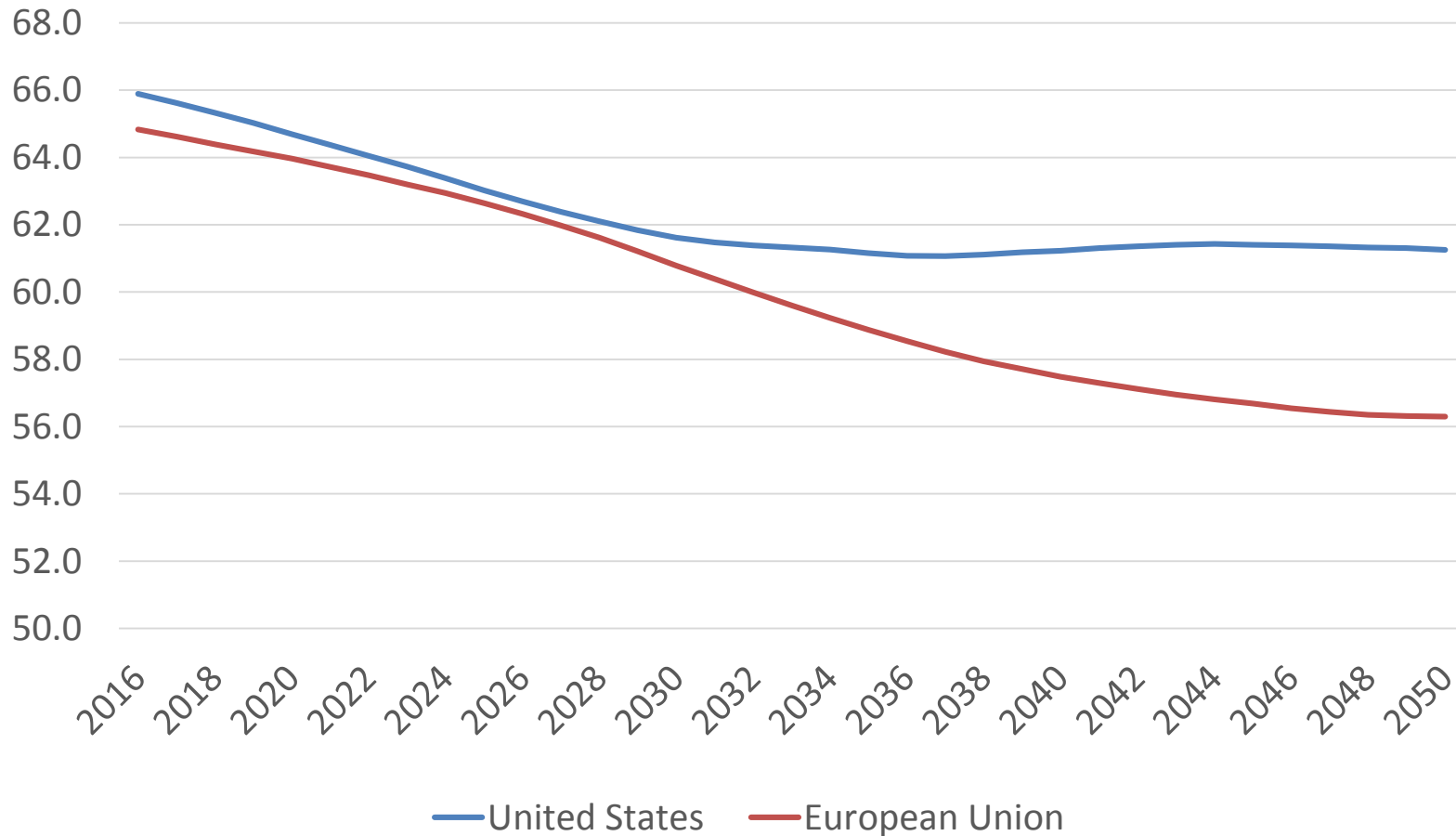


Source: McQuinn, K. & Whelan, K. (2016). *'The Prospects for Future Economic Growth in the Euro Area'*, *Intereconomics* (2016) 51: 305

Projections of 15-64 Age as a % of Total Population



EU & US Working Age Forecasts (%)



Source: McQuinn & Whelan + US Census Bureau

McQuinn Whelan (2016) Findings

- Key implications for growth:
 - Work-age population of the euro area has been declining since 2010.
- Given these demographic trends
 - Project real GDP growth of less than half of one percent over the medium & longer term
- Significant implications for future consumption patterns

Thank You

Monetary and Financial Conditions

- New mortgage lending remains in double digits year-on-year
 - Q2 2018 saw 16.5% increase.
- Lending to SMEs up, particularly for construction & real estate and hotels & restaurants.
- Given pace of acceleration in new lending, careful monitoring required

Irish Tourism



- Service balance for **Tourism and Travel** reached €842m deficit in 2017

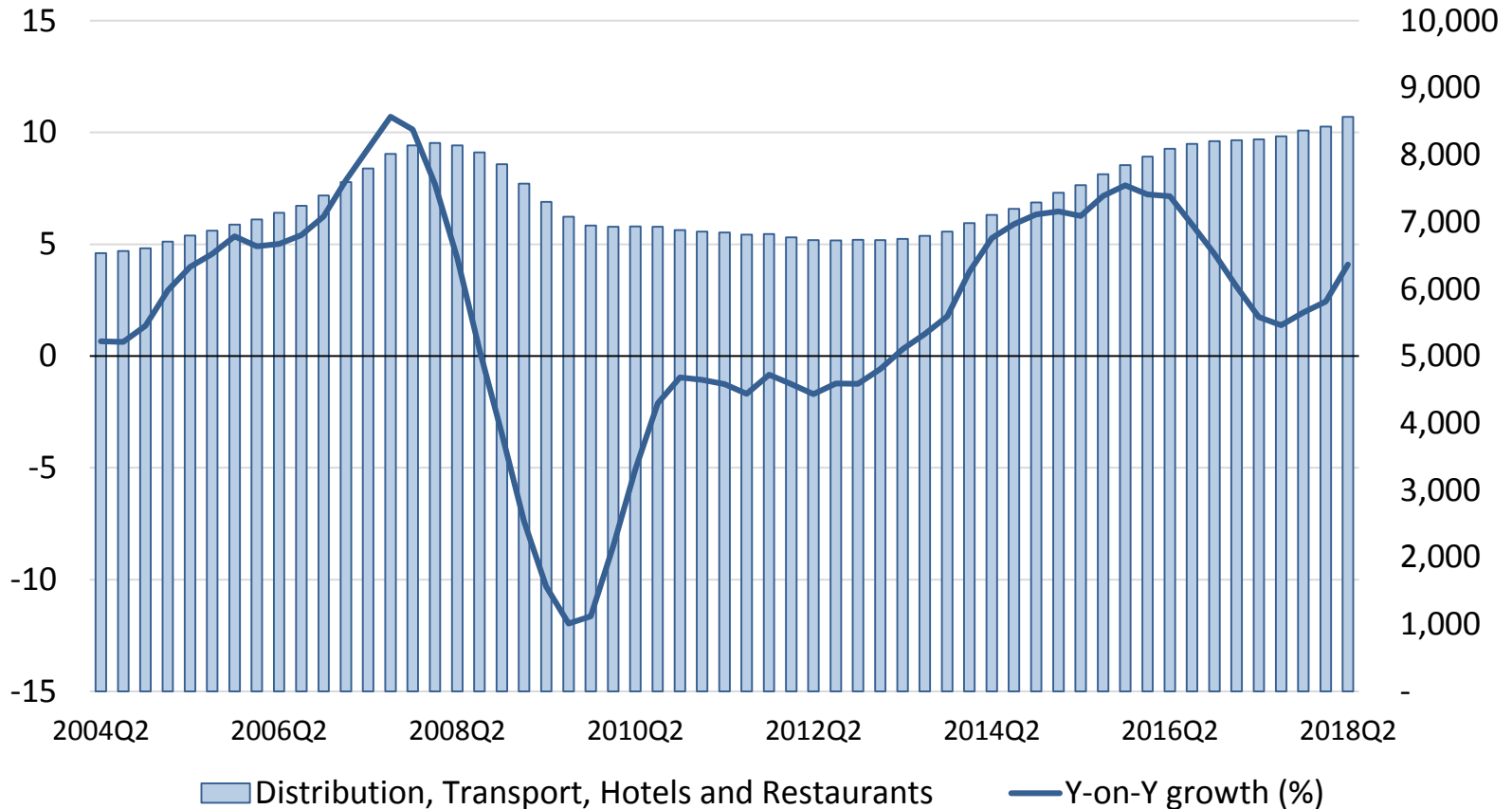
Exports: €4.97bn (+6.1% y-on-y)

Imports: €5.81bn (+3.4% y-on-y)

- 9.9 million non-Irish residence visitors
- €4.87bn annual expenditure (excl. fares)

Tourism-related performance

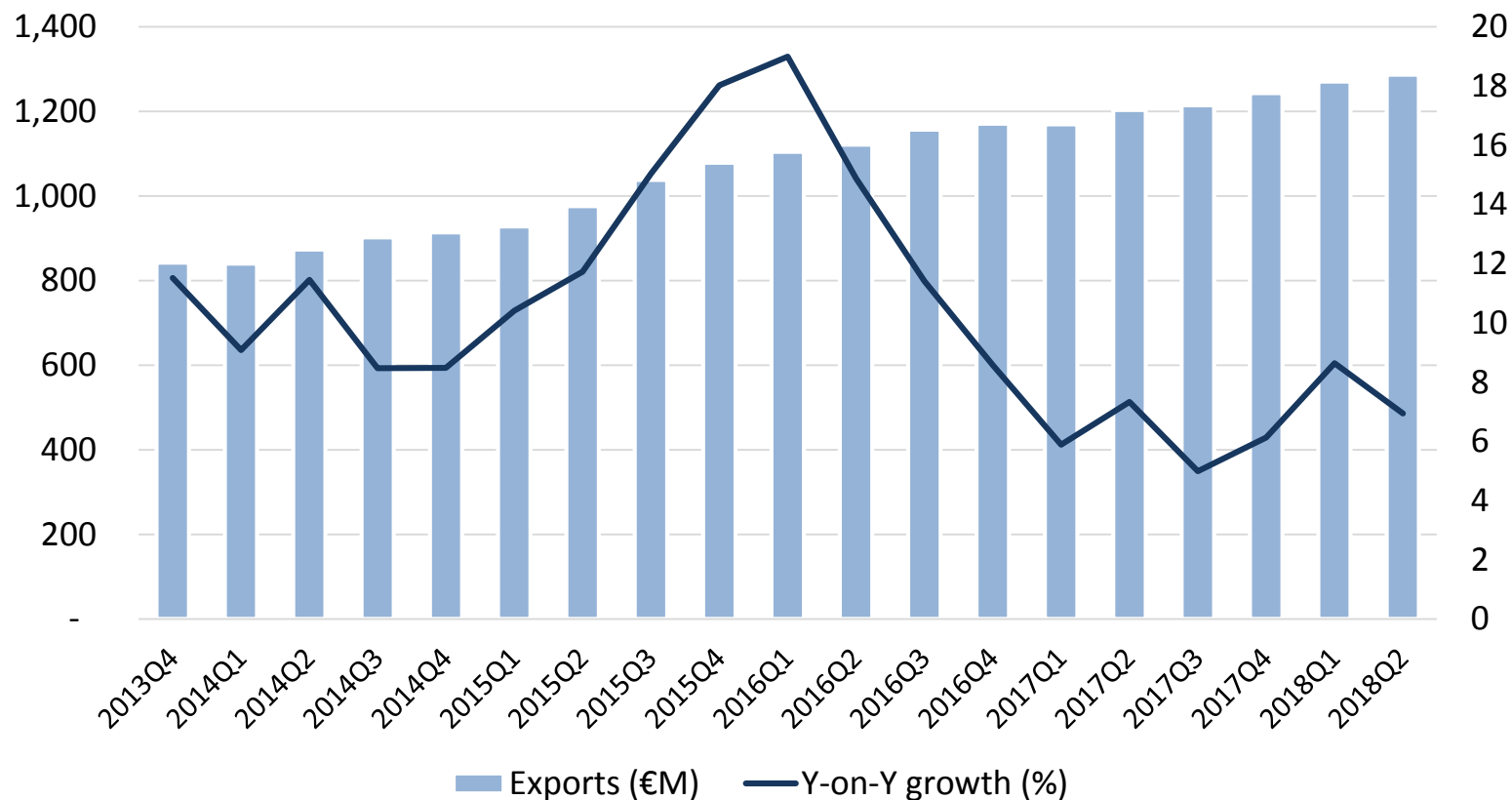
Gross Value Added at Constant Basic Prices (Seasonally Adj) €M



Source: Central Statistics Office

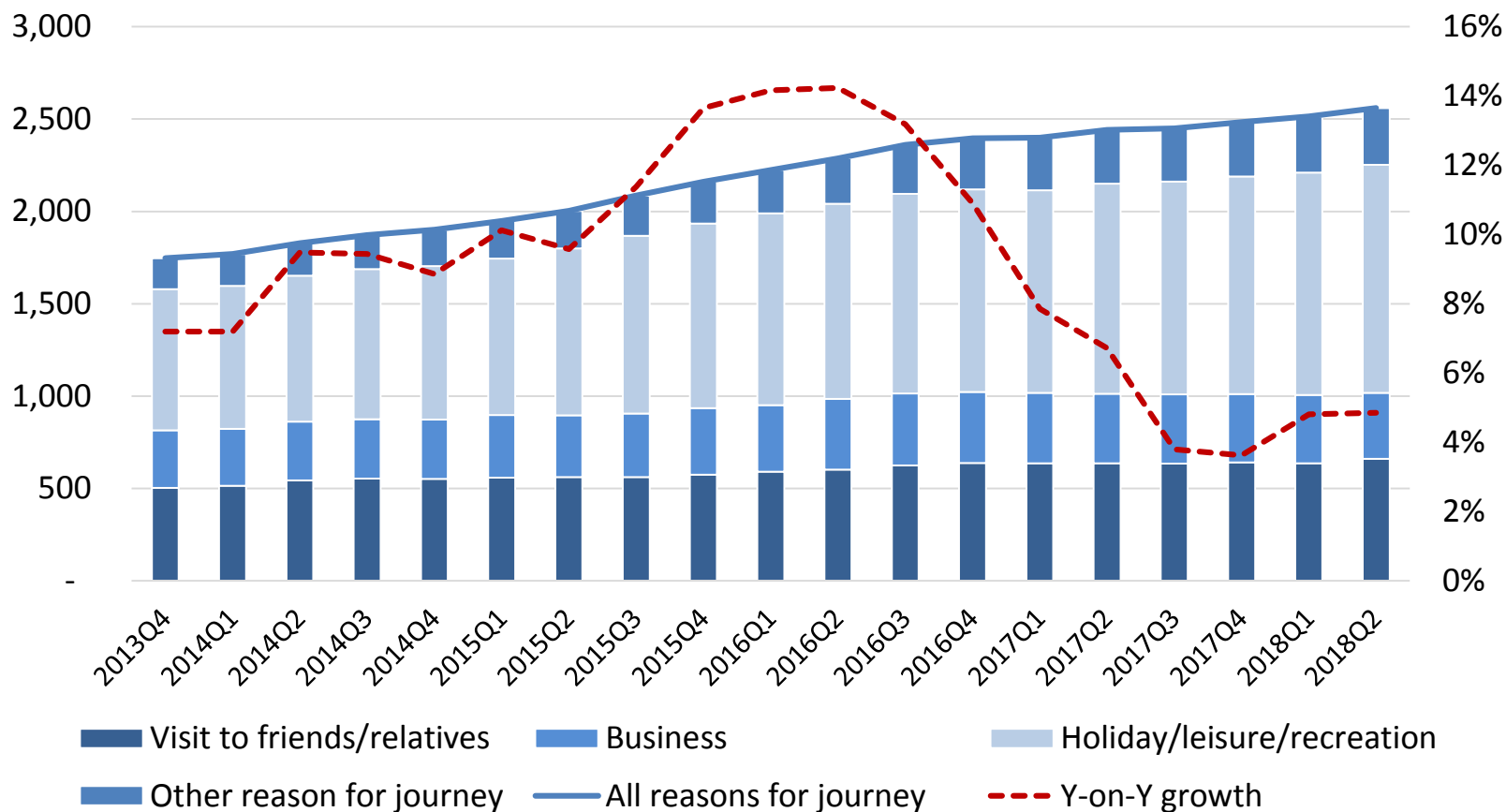
Services Exports

Tourism and travel, 4Q Rolling Average



Travel

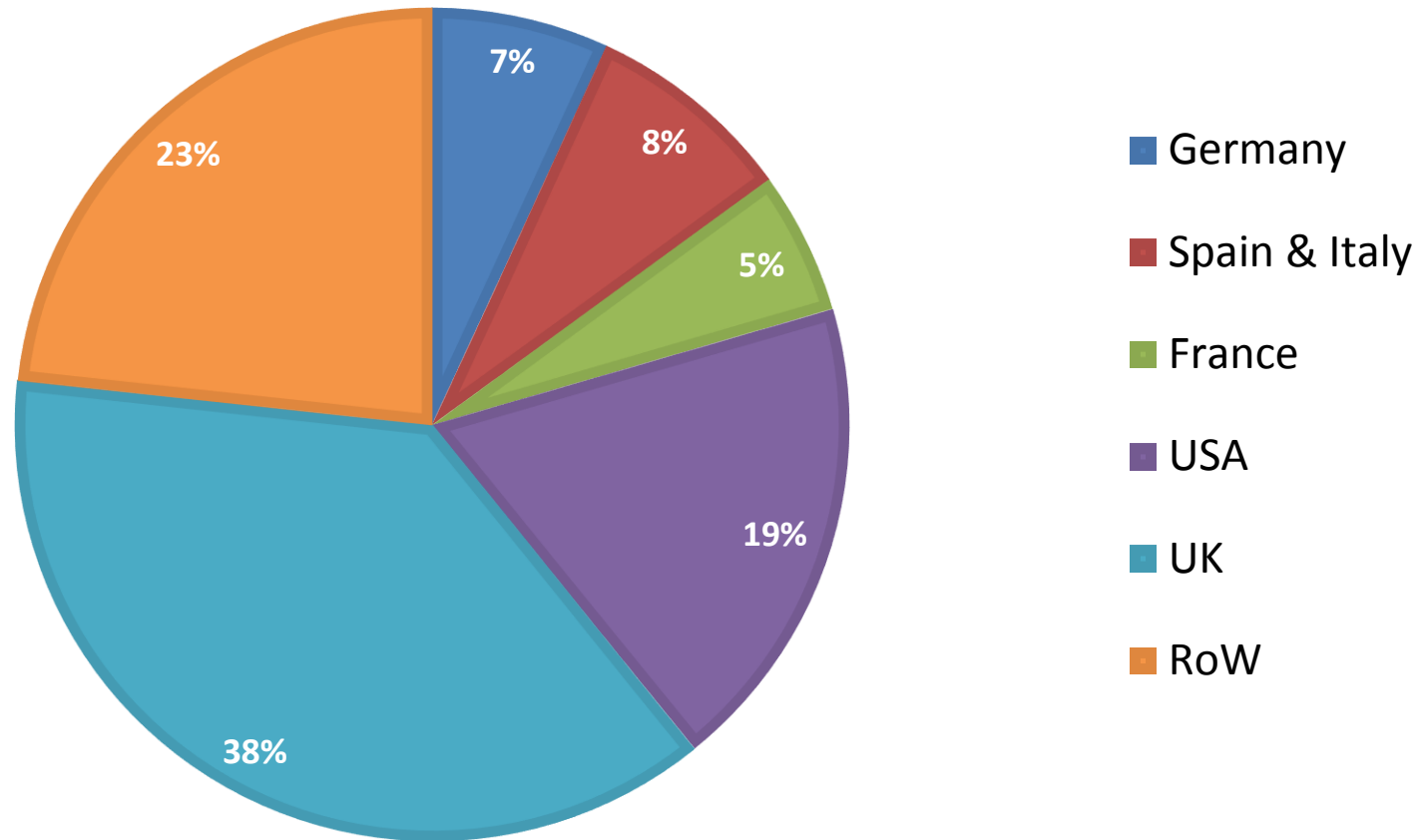
4Q Rolling Average of Non-resident visits by reason for journey ('000)



Source: CSO, Tourism and Travel Quarterly Series

Travel in 2017

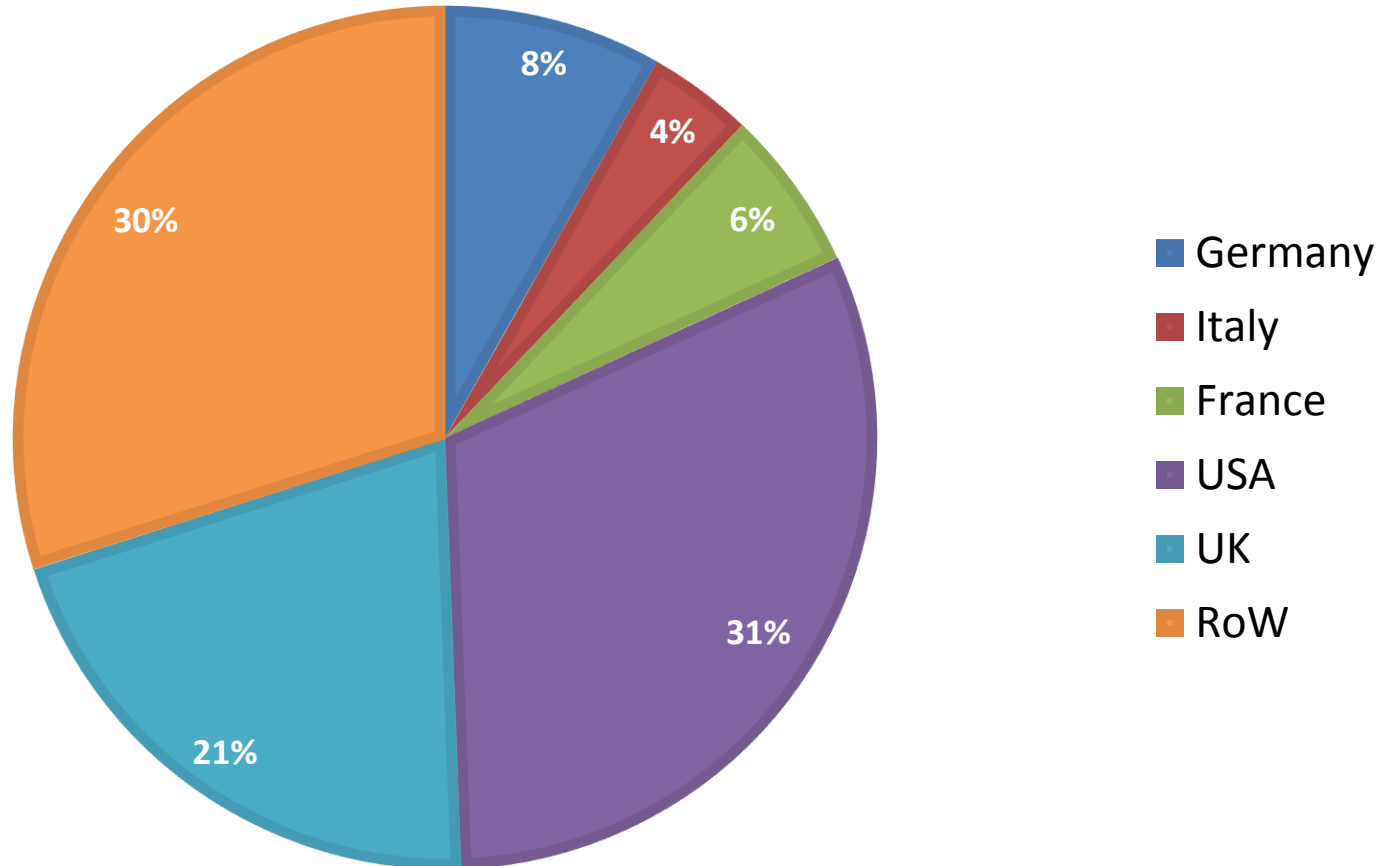
NON-RESIDENT TRIPS TO IRELAND ('000) BY AREA OF RESIDENCE



Source: CSO, Tourism and Travel Quarterly Series

Travel in 2017

EXPENDITURE (EXCL. FARES) BY AREA OF RESIDENCE



Source: CSO, Tourism and Travel Quarterly Series

Travel

Average expenditure of non-resident visitor per night stayed (€)

	2012	2013	2014	2015	2016	2017
France	51.28	51.40	49.52	53.41	54.00	53.63
Great Britain	63.44	61.31	61.43	63.43	63.89	64.44
Germany	56.35	61.83	61.91	65.87	68.55	68.54
Italy	45.09	55.30	52.26	53.18	61.13	55.74
United States and Canada	85.39	87.06	94.26	102.29	102.45	91.08
Rest of Europe	47.57	54.16	51.48	55.01	51.42	54.64
Australia and New Zealand	74.66	76.68	74.71	77.99	80.06	77.27
Other countries	49.93	54.66	57.62	56.27	59.09	49.92
All Countries	60.57	63.57	64.00	68.22	68.43	66.17

Source: ESRI calculations & CSO, Tourism and Travel Quarterly Series

Investment by asset type

- Intangible asset investments fell for six consecutive quarters.
- B&C Share; 20% of investment in Q2 2017 to 33% in Q2 2018.

B&C by asset type

- Dwellings +37.8%
(low base, one third of dwellings investment in 2005)
- Other B&C +10%

Housing completions forecast:

- 18,550 in 2018 and
- 24,500 in 2019.

Quarterly Economic Commentary Forecasts

Real Annual Growth %	2016	2017	2018	2019
Consumption	4.0	1.6	2.9	2.5
Govt. Expenditure	3.5	3.9	4.0	4.5
Investment	51.7	-31.0	-6.3	9.8
Exports	4.4	7.8	7.5	5.2
Imports	18.5	-9.4	-0.7	6.0
Gross Domestic Product (GDP)	5.0	7.2	8.9	4.5
Gross National Product (GNP)	11.5	4.4	8.9	4.7

Irish Economy

Long Term Trends	2014-16	2017	2018	2019
Population (million)	4.69	4.79	4.87	4.95
GDP (EUR bn)	247.2	293.0	319.1	333.4
GDP per capita (EUR bn)	52,150	61,130	65,540	67,340
GDP growth (%)	13.0	7.2	8.9	4.5
Fiscal Balance (% of GDP)	-2.0	-0.4	-0.2	0.1
Public Debt (% of GDP)	84.8	68.4	64.2	60.7
Inflation (%)	0.0	0.3	0.7	1.1
Current Account (% of GDP)	0.6	10.7	16.0	16.6

Irish-UK Services Trade and Brexit

- Estimated reduction in imports from UK of 33%
 - Equal to reduction in total services imports of 3.5%
- Estimated reduction in exports to UK of 45%
 - Equal to reduction in total services exports of 9%
- Largely driven by effects on insurance and operational leasing
- Effect on computer services also important on export side.
- Estimate is based on no policy change or mitigating actions such as market diversification.