Economic Outlook

KPMG Strategy

December 2023 | ROI Edition

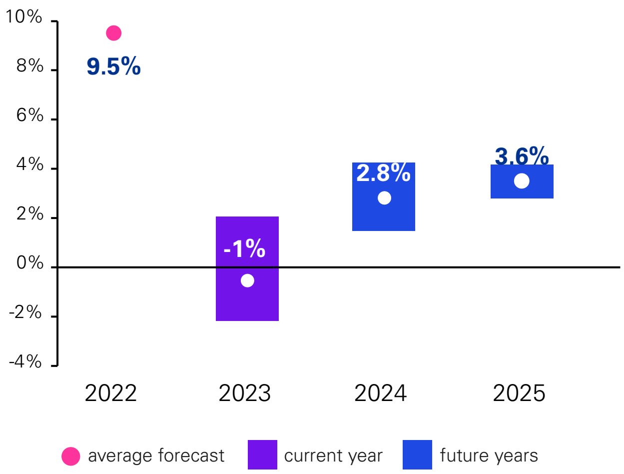
Following on from a strong emergence after the Covid-19 pandemic, the Irish Economy is now set to experience more **nominalised and moderate growth rates.** The performance of **GDP** is under uncertainty in the short-medium term with the decline in performance of the MNE sector and other factors such as global conflict and geo-political/trade tension**. Unemployment** is set to remain steady at around 4.4% throughout the forecast period with moderate increase owing to factors such as limited housing supply playing a key role. With new and emerging factors such as high food costs influencing the performance of **inflation**, the ECB continues to implement strict monetary tightening measures in order **to reach the 2% target by 2025**.

Forecast for 2024

4.4%	2.8%	2.8%
Unemployment rate	Inflation rate	Real GDP growth rate

GDP growth rate

Range and average forecasted, 2022 - 2025



Since the beginning of 2023, GDP momentum slowed, with forecasters anticipating more modest growth rates: **DoF expects a 2% growth while the ESRI expects negative growth of -2.7% for 2023.**

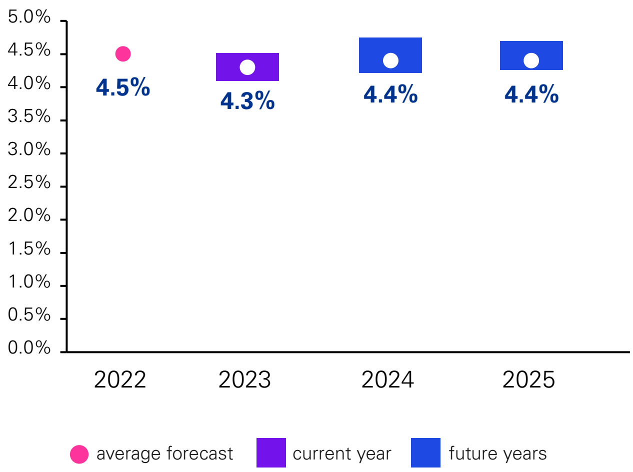
Economic growth for Ireland is anticipated to surpass European peers in the medium-long term, with external forecasters foreseeing more moderate to negative growth rates in 2023, driven mainly by high uncertainty arising from the volatility of the MNE sector, which constitutes over 50% of Irish GDP since 2020.

MNE-dominated sectors have experienced a slowdown since the beginning of the year, with a 3.8% contraction in the months leading up to the year end. This was most pronounced in the pharmaceutical sector with reduced exports and external demand experienced post-COVID-19.

Despite ongoing challenges, a GDP rebound is anticipated in 2024, exceeding the EU average growth rate, propelled by increasing real wages, abating price pressures, and heightened investment and exports.

Unemployment rate

Range and average forecasted, 2022 - 2025



Unemployment rates remained very consistent throughout 2023 reflective of almost full employment in the economy, **with the average forecasted rate being 4.3%**

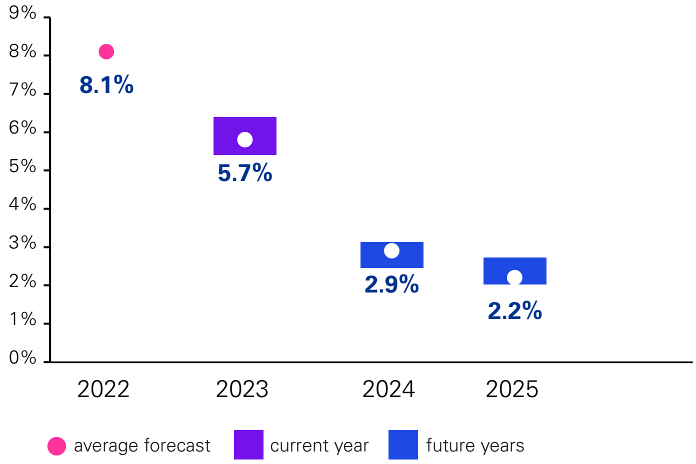
Throughout 2023, unemployment levels remained stable; however, moderate increases are likely in 2024 and after, arising from a potential slowdown in MNE sector productivity, which employs 10% of the labour force.

Tight labour market conditions, with an unemployment rate near 4%, are expected to exert upward pressure on wages, with nominal wage growth projected at 5% in 2023 and 5.5% in 2024, reflecting a recovery from the decline experienced in 2022.

2023 saw bumper job numbers, with over 100,000 jobs created over the course of the year. More moderate growth is expected in 2024 and 2025, reflecting continued growth in the domestic economy.

Inflation rate

Average forecasted, 2022 - 2025



It is anticipated that inflation will continue to decrease as energy prices fall, with some uncertainty amongst forecasters around the extent of the decrease. **ESRI expect a rate of 6.4% while CBI expect 5.2% inflation**

Inflation remained elevated throughout 2023, but gradually fell over the course of the year due to decreasing energy prices and announced cuts by domestic energy retailers

However, persistently higher energy costs, delayed retail price adjustments, and increased housing and food expenses still impact inflation and domestic consumption

Inflation is expected to contract to around 2% in 2025 in line with the ECB's target, influenced by factors such as the ECB's monetary tightening, moderated growth, and a less tight labour market.

Interest rate

Growing inflation, driven by surging energy and food prices, prompted the ECB in 2022-2023 to introduce tighter financing conditions to achieve the 2% target.

At its December 2023 meeting, the ECB announced that there will be no further increases. External forecasters anticipate a pause in the tightening cycle until mid-2024, though market analysts offer a more optimistic view.

Property price indices

Ireland's residential property market grew strongly over the past several years, buoyed by strong economic growth, low unemployment, and high levels of foreign direct investment.

Commercial property market witnessed a downturn in 2023, largely driven by investment stagnation, linked to price uncertainty, higher borrowing costs and elevated rental risks, as well as a reduction in occupier demand due to the establishment of long term hybrid working models. The trend is expected to continue in 2024 with a recovery in 2025.

Ireland: Recent strong growth moderating to typical levels

Strong multi-year economic growth arrested in the latter half of 2023.

Exchequer revenue boom slowing as corporation tax take moderates.

Demand-led economy generating opportunities and challenges.

Following on from a strong bounce-back after the Covid pandemic, Ireland's economic growth evolved in 2023, with the domestic economy becoming the predominant driver of growth. GDP performance slowed in 2023, ending with a fall of -0.5-1.0%, while the domestic economy was relatively flat over the year (0.0-0.5%).

A key issue for Ireland remains that dual economy challenge. In 2023, the slowdown in global demand triggered marked reductions in export volumes, adding to the post-pandemic contraction in exports of pharmaceutical and medical products. Other factors, such as a renewed surge in commodity prices, an intensification of conflicts, and tighter-than-expected global financial conditions, all weigh heavily on the domestic economy. As the Multinational Enterprise (MNE) sector has accounted for more than 50% of Irish GDP since 2020, global shifts can have large local impacts. In 2023, Modified Domestic Demand (MDD, a measure of the domestic economy) continued to grow, albeit at a more moderate pace in the context of high inflation that is curbing spending by households and businesses.

Over the coming years, Ireland is expected to see more nominalized and moderate growth rates, as consumption recovers with rising real wages, subsiding price pressures, and a strengthening in investment and exports as external demand picks up. Most forecasters are anticipating GDP growth in 2024 and 2025 in the range of 3%-3.5%, and slightly lower growth in MDD, at 2%-2.5% over the same period.

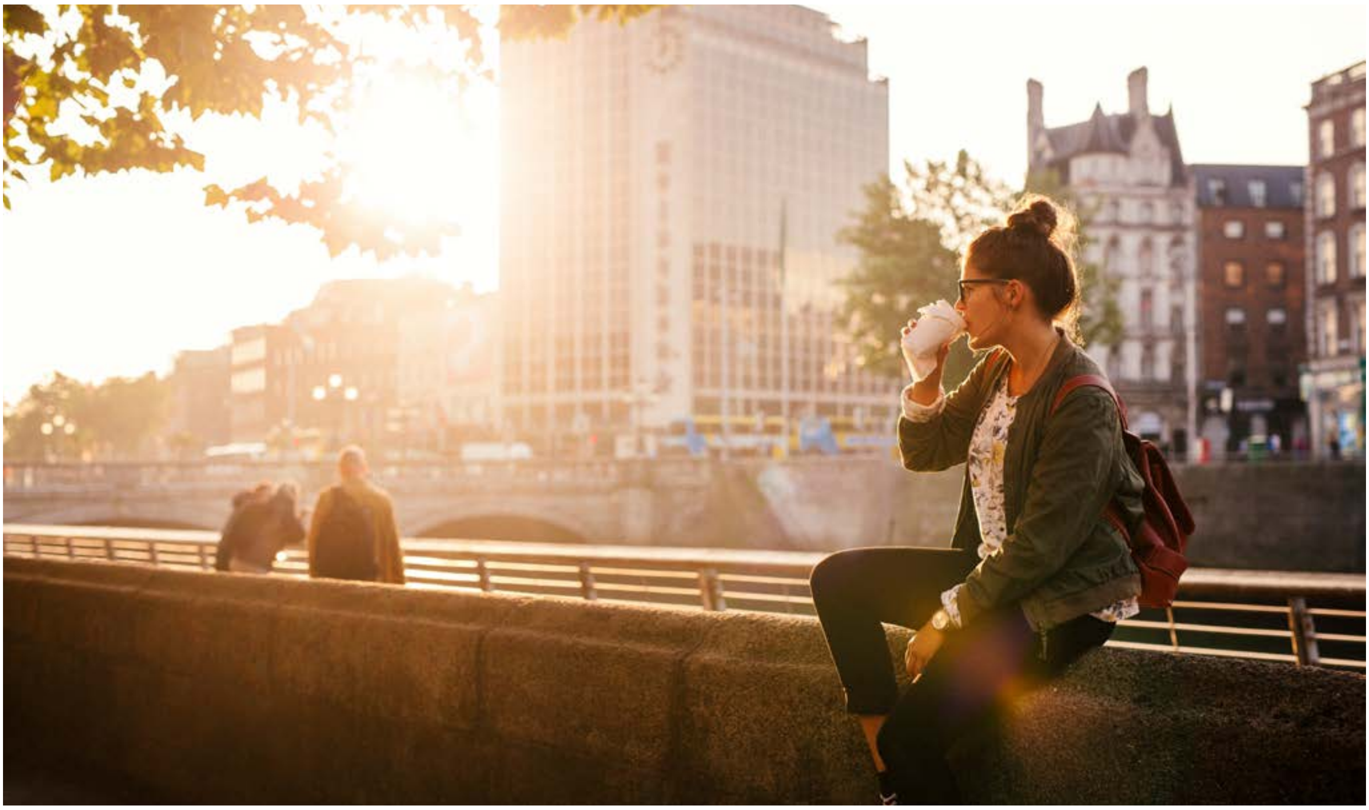
Against this backdrop, unemployment is expected to remain at low levels over the forecast horizon (4%-4.5%), with net migration and employment growth driving higher job numbers overall. These tight labor market conditions could see an intensification of the upward pressure on wages, potentially leading to nominal wage growth of 5%-5.5% in 2023 and 2024, reflecting a catch-up following the hits to real incomes in 2022 and 2023.

KPMG forecasts for Ireland

	2023	2024	2025
GDP growth rate	-0.5%	3.0%	3.5%
Inflation rate	5.5%	3.0%	2.0%
Unemployment rate	4.2%	4.3%	4.4%

Source: CBI, CSO, DOF, EC, ESRI, KPMG forecasts.
Note: Average % change on previous calendar year except for unemployment rate, which is average annual rate. Inflation measure used is the HICP.

Marketing & Communications Toolkits



Inflation remained elevated throughout 2023, but gradually fell over the course of the year. Although energy prices fell earlier in 2023, these were not passed on to consumers until several quarters later. While the central outlook is for a gradual easing in energy prices and a restoration of real incomes to pre-2022 levels, retail energy prices are likely to stay elevated and will remain vulnerable to further volatility in the energy market. Despite ongoing government support, arrears in retail energy markets indicate that a cohort of consumers are facing difficulties with meeting higher costs.

In addition, inflation is now being driven by higher housing costs and food costs, which are in turn dragging on domestic consumption. Overall, it appears that that ECB's tighter monetary policy since 2022 will bear fruit, but slowly.

Other factors at play in Ireland's economic outlook are its property market and the Government's finances. Ireland's residential property market grew strongly over the past several years, buoyed by strong economic growth, low unemployment, and high levels of foreign direct investment. Although households showed resilience in 2022-2023 and benefited from robust income growth, some are facing repayment challenges, with the full extent of higher interest rates and monetary policy pass-through still to come. The market remains broadly balanced, with competing forces of a continued lack of supply and increasingly stretched affordability leading to the leveling off in growth.

Higher ECB interest rates are expected to weaken mortgage demand, with negative implications for house prices. However, a major threat to the housing market is the lack of housing supply, which could drive more aggressive price gains over the next one to two years. After a marked increase in housing completions in 2022, and weathering of supply pressures in 2023, there is an indication of further growth in 2024.

A key indicator for the medium-term outlook is the strength of the public finances. Most forecasters were anticipating that the long period of high levels of corporation tax receipts would end in 2023, but receipts summing to a peak of 27% of total income were collected nonetheless. 2024 will provide clarity around the overall trend and potential risks to central government spending plans.

Taken together, there are reasons to be pragmatic about Ireland's economic outlook in 2024 and beyond. While positive growth is expected, this would be more modest than in the past. The period of high corporation tax receipts is passing, meaning more cautious budgetary policy, while significant levels of investment are needed to meet demand and investment in infrastructure, housing, healthcare, and renewables. While open economies typically face greater challenges during global downturns, they are also best placed to take advantage of underlying global growth potential during recoveries.

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Appendix 1: Summary of forecasts

GDP growth rate

Forecaster	Forecast date	2023	2024	2025	2026	2027	2028
DoF	October '23	2.0%	4.5%	4.5%	4.4%	-	-
CBI	December '23	-1.3%	2.5%	4.5%	4.2%	-	-
ESRI	December '23	-2.7%	2.3%	-	-	-	-
IMF	October '23	2.0%	3.3%	3.2%	2.7%	2.7%	2.7%
EC	November '23	-0.9%	3.0%	3.4%	-	-	-
OECD	November '23	-0.6%	2.4%	2.9%	-	-	-
EIU	December '23	-2.0%	1.4%	2.9%	2.7%	3.1%	3.1%
Average	**2023**	**-1.0%**	**2.8%**	**3.6%**	**3.5%**	**2.9%**	**2.9%**

Unemployment rate

Forecaster	Forecast date	2023	2024	2025	2026	2027	2028
DoF	October '23	4.1%	4.2%	4.3%	4.4%	-	-
CBI	December '23	4.5%	4.8%	4.7%	4.6%	-	-
ESRI	December '23	4.4%	4.3%	-	-	-	-
IMF	October '23	4.1%	4.2%	4.4%	4.4%	4.6%	4.6%
EC	November '23	4.2%	4.2%	4.3%	-	-	-
OECD	November '23	4.4%	4.7%	4.6%	-	-	-
EIU	November '23	4.4%	4.3%	4.4%	4.2%	4.1%	4.0%
Average	**2023**	**4.3%**	**4.4%**	**4.4%**	**4.4%**	**4.4%**	**4.3%**

Inflation rate

Forecaster	Forecast date	2023	2024	2025	2026	2027	2028
DoF	October '23	6.3%	2.9%	2.1%	2.0%	-	-
CBI	December '23	5.2%	2.3%	2.1%	1.4%	-	-
ESRI	December '23	6.4%	2.9%	-	-	-	-
IMF	October '23	5.2%	3.0%	2.4%	2.0%	2.0%	2.0%
EC	November '23	5.3%	2.7%	2.1%	-	-	-
OECD	November '23	5.3%	3.1%	2.6%	-	-	-
EIU	November '23	6.3%	2.5%	2.1%	-	-	-
Average	**2023**	**5.7%**	**2.8%**	**2.2%**	**1.8%**	**2.0%**	**2.0%**

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