Irish Economy

Health Check June 2022

Data Insights by Goodbody Analytics

Economic Research — 27 Jun 2022 — 06:30 BST

Fuel in the tank

Big COVID rebound in 2022, headwinds for 2023

Having bounced impressively from its COVID nadir, the Irish economy is facing into an array of external pressures over the coming twelve months. Carryover effects and a normalisation of household savings will contribute to an above trend performance in 2022, but we are reducing our forecasts for domestic demand in 2023 (2.5%) because of a real income squeeze due to higher inflation.

FDI flows remain impressive despite rising risks

As a small, open economy, Ireland is an exposed to fluctuations in the international economy more than most. Its most important investment partner, by far, is the US. FDI flows into Ireland have been exceptional in recent years and the most recent evidence suggests that these trends have continued in 2022. However, there are some warning signs in the ICT sector in the US that suggest the sector is beginning to weaken that may have knock-on implications for Ireland.

Household balance sheets in good shape ahead of ECB rate rises

The ECB will begin to raise interest rates in July and look set to return to a more normal setting much earlier than expected. Given the housing shortages, low lending levels and prudent mortgage rules, we do not expect this to have a dramatic impact on the Irish housing market as it did in the last major rate-hiking cycle. Indeed, we believe that the increase in new housing completions will stall as construction cost pressures and planning issues impact in the coming 18 months.

Economic Indicators

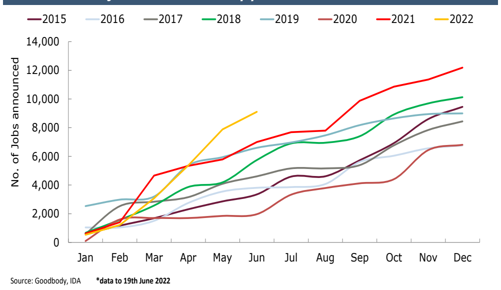
	2020	2021f	2022f	2023f
Growth Components				
Consumption	-10.4%	5.7%	5.8%	2.8%
Government	10.9%	5.3%	-1.2%	1.9%
Investment	-23.0%	-37.6%	4.5%	2.1%
- Modified Investment	2.1%	5.2%	6.2%	4.4%
Domestic Demand (DD)	-15.3%	-16.6%	4.1%	2.4%
- Modified DD	-4.9%	6.5%	4.7%	2.5%
Exports	6.9%	16.4%	9.3%	4.4%
Imports	-8.8%	-1.6%	12.6%	4.6%
GDP	4.5%	13.0%	4.4%	2.8%
GNP	2.5%	11.1%	2.9%	2.4%
Prices				
Consumer Price Inflation	-0.3%	2.4%	7.8%	3.7%
House Price Inflation (end-year)	2.2%	14.2%	5.2%	4.1%
Wage Inflation (GBS)	5.0%	4.8%	4.7%	5.0%
Fiscal				
GGB / GDP	-4.9%	-2.0%	-0.3%	0.5%
Debt/GDP	58%	57%	53%	51%
Consumer Profile				
Employment Growth (end year)	-3.4%	10.1%	2.7%	1.0%
Unemployment Rate (end-year)	6.3%	5.2%	4.3%	4.8%
Exchange Rates (Avg for the year)				
€/$	1.14	1.18	1.05	1.08
€/£	0.89	0.86	0.84	0.87

Irish growth forecasts

	2021f	2022f	2023f
Consumption	5.7%	5.8%	2.8%
Investment	-37.6%	4.5%	2.1%
Core investment	*7.3%*	*7.6%*	*2.0%*
Government	5.3%	-1.2%	1.9%
Domestic Demand	-16.6%	4.1%	2.4%
Mod. dom. demand	***6.5%***	***4.7%***	***2.5%***
Exports	16.4%	9.3%	4.4%
Imports	-1.6%	12.6%	4.6%
GDP	**13.0%**	**4.4%**	**2.8%**
GNP	**11.1%**	**2.9%**	**2.4%**

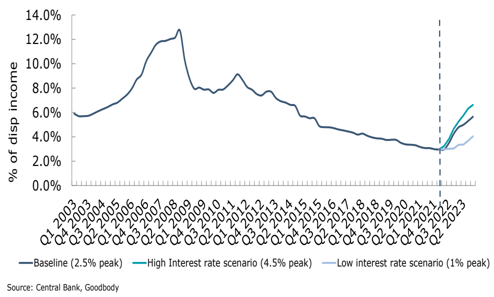
Source: Goodbody, CSO

IDA related FDI job announcements by year*



Source: Goodbody, IDA *data to 19th June 2022

Household interest bill to remain low despite rate rises



Source: Central Bank, Goodbody

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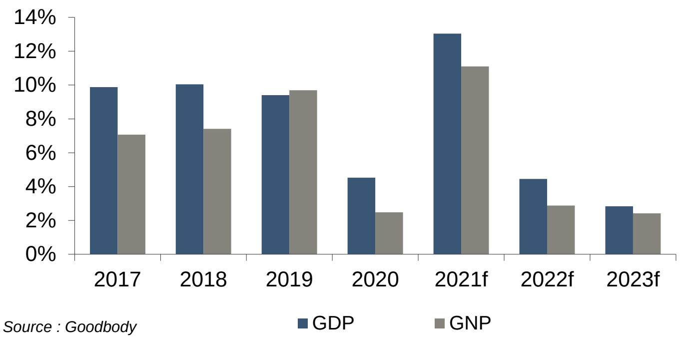
DOMESTIC MACRO DATA	2019a	2020a	2021f	2022f	2023f
Growth Components					
Consumption	3.3%	-10.4%	5.7%	5.8%	2.8%
Government	7.1%	10.9%	5.3%	-1.2%	1.9%
Investment	99.5%	-23.0%	-37.6%	4.5%	2.1%
- Modified Investment	4.3%	2.1%	5.2%	6.2%	4.4%
Domestic Demand (DD)	42.8%	-15.3%	-16.6%	4.1%	2.4%
- Modified DD	1.6%	-4.9%	6.5%	4.7%	2.5%
Exports	14.0%	6.9%	16.4%	9.3%	4.4%
Imports	44.5%	-8.8%	-1.6%	12.6%	4.6%
GDP	9.4%	4.5%	13.0%	4.4%	2.8%
GNP	9.7%	2.5%	11.1%	2.9%	2.4%
Housing Statistics					
Completions	21,051	20,514	20,473	24,548	27,030
Average House Price (€k)	274,240	280,363	320,159	336,947	350,885
House Price Inflation (end-year)	0.4%	2.2%	14.2%	5.2%	4.1%
Mortgage Credit Growth (end-year)	1.9%	0.9%	1.2%	2.1%	2.7%
Prices					
Consumer Price Inflation	0.9%	-0.3%	2.4%	7.8%	3.7%
Wage Inflation (GBS)	3.7%	5.0%	4.8%	4.7%	5.0%
Fiscal					
Exchequer Balance	649	-12,315	-7,372	-245	3,514
Exchequer Balance / GNP	0.2%	-4.3%	-2.3%	-0.1%	1.0%
General Government Balance	1,854	-18,415	-8,522	-1,499	2,270
GGB/GDP	0.5%	-4.9%	-2.0%	-0.3%	0.5%
GGB/GDP - ex banking costs	0.5%	-4.9%	-2.0%	-0.3%	0.5%
Debt/GDP	57%	58%	57%	53%	51%
Consumer Profile					
Employment Growth (end year)	3.6%	-3.4%	10.1%	2.7%	1.0%
Employment Growth (Full-year avera	2.9%	-2.8%	6.0%	6.6%	1.3%
Unemployment Rate (end-year)	4.8%	6.3%	5.2%	4.3%	4.8%
Debt/Disp. Income	115%	104%	99%	99%	97%
Interest Rates (At year end)					
ECB	-	-	-	1.25%	2.50%
BoE	0.75%	0.10%	0.25%	2.50%	3.50%
Fed	1.75%	0.25%	0.25%	2.75%	4.00%
Trade					
Current Account (€m)	-179,823	-69,747	68,465	56,969	57,923
CA as a % of GDP	-50.4%	-18.5%	16.0%	12.8%	12.4%
Exchange Rates (Average for the year)					
€/$	1.12	1.14	1.18	1.05	1.08
€/£	0.88	0.89	0.86	0.84	0.87

SOVEREIGN ANALYSIS	2019a	2020a	2021f	2022f	2023f
Debt/GDP					
Austria	74%	71%	83%	83%	79%
Belgium	100%	98%	113%	113%	113%
Cyprus	99%	94%	115%	104%	98%
Finland	60%	60%	70%	71%	71%
France	98%	98%	115%	115%	114%
Germany	62%	60%	69%	71%	69%
Greece	186%	181%	206%	203%	197%
Ireland	57%	58%	57%	53%	51%
Italy	134%	135%	156%	154%	151%
Luxembourg	21%	22%	25%	26%	26%
Malta	45%	42%	53%	61%	62%
Netherlands	52%	49%	54%	58%	57%
Portugal	122%	117%	135%	128%	124%
Slovakia	50%	48%	60%	62%	60%
Slovenia	70%	66%	80%	78%	76%
Spain	97%	96%	120%	121%	118%
Eurozone avg.	88%	86%	99%	100%	98%
GGB/GDP					
Austria	0.6%	-8.3%	-5.9%	-2.3%	-1.3%
Belgium	-1.9%	-9.1%	-7.8%	-5.1%	-4.9%
Cyprus	1.5%	-5.7%	-4.9%	-1.4%	-0.9%
Finland	-0.9%	-5.5%	-3.8%	-2.4%	-1.1%
France	-3.1%	-9.1%	-8.1%	-5.3%	-3.5%
Germany	1.5%	-4.3%	-6.5%	-2.5%	-0.5%
Greece	1.1%	-10.1%	-9.9%	-3.9%	-1.1%
Ireland	0.5%	-4.9%	-2.0%	-0.3%	0.5%
Italy	-1.6%	-9.6%	-9.4%	-5.8%	-4.3%
Luxembourg	2.4%	-3.5%	-0.2%	0.2%	0.3%
Malta	0.4%	-9.7%	-11.1%	-5.8%	-4.7%
Netherlands	1.8%	-4.2%	-5.3%	-2.1%	-1.0%
Portugal	0.1%	-5.8%	-4.5%	-3.4%	-2.8%
Slovakia	-1.3%	-5.5%	-7.3%	-4.2%	-3.2%
Slovenia	0.4%	-7.7%	-7.2%	-5.2%	-4.4%
Spain	-2.9%	-11.0%	-8.1%	-5.2%	-4.2%
Eurozone avg.	-0.6%	-7.2%	-7.1%	-3.9%	-2.4%

10Y Spread to Germany	2017a	2018a	2019a	2020a	Current
Austria	0.25	0.19	0.14	0.25	0.52
Finland	0.31	0.21	0.15	0.26	0.42
France	0.47	0.31	0.23	0.38	0.54
Netherlands	0.14	0.13	0.08	0.15	0.31
Belgium	0.53	0.27	0.19	0.36	0.62
Spain	1.17	0.65	0.61	0.75	1.10
Italy	2.51	1.61	1.12	1.35	1.98
Portugal	1.47	0.61	0.60	0.64	1.06
Greece	4.13	1.64	1.19	1.50	2.32
Ireland	0.65	0.30	0.26	0.43	0.64

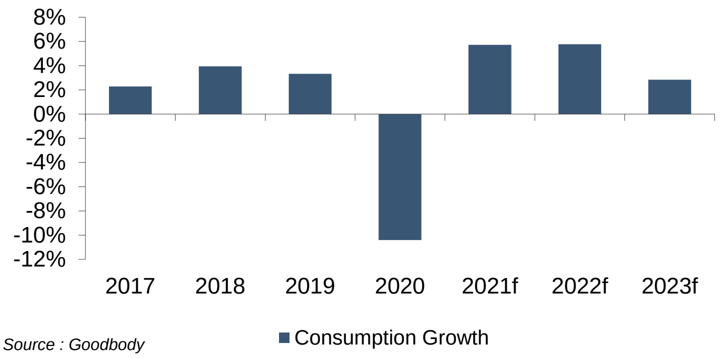
Source: FactSet & European Commission

Irish economic growth



Source : Goodbody

Consumption Growth



Source : Goodbody

Contents

Health Check – Fuel in the tank – Key themes

Solid growth in 2022, international storm clouds gathering for 2023

- Ireland emerged from the pandemic in relatively good shape. GDP is well above pre-pandemic levels thanks to a robust international sector, domestic spending has rebounded swiftly, and the labour market is back to full employment. With strong carryover effects from 2021, modified domestic demand, our preferred indicator of Irish growth is expected to grow by 4.7%, one of the fastest expansions in the euro area. This is down on our previous estimate of c.6% due to a weaker start to 2022 for real consumer spending.
- Inflation is now starting to eat into household incomes, and we have pulled down our forecast for growth in 2023 also as a result. We now expect MDD to grow by 2.5% in 2023 (down from 3.3% previously). As a small, open economy, Ireland is heavily influenced by international events. Rising recession risks in the US pose the biggest threat. We have not yet seen these impacts feed through to FDI flows into Ireland, but the risks are rising that a slowdown in the ICT sector in the US will feed through in Ireland.
- Unlike 2007, the Irish economy is in much better shape to deal with these international headwinds. Balance sheets of households and businesses are in much better shape, while the buffer of household savings built up will shield households from the immediate threat of inflation on their real incomes

Inflation to approach 10%; households may need to dip into buffers

- Inflation is now the biggest near-term concern. Like the US and UK, inflation in Ireland is expected to approach 10% by the end of the summer on our forecasts, the highest since the early 1980s. Broadening inflation pressures, including food, higher producer prices and wage inflation are all contributing to the current price pressures. International influences on energy and commodities could turn deflationary in 2023, but real earnings are expected to fall by up to 4% in 2022, the biggest fall since the aftermath of the GFC.
- Fortunately, Irish households, in aggregate, are in a good position facing into this squeeze. Household net wealth is at all-time highs and households have built up deposits of €23bn (17% of disposable income) over the pandemic period. Moreover, Irish households saved more than any other country during the past two years. A normalisation of this savings behaviour should also limit the negative impact on consumer spending. There will, however, be a need for further government support for some households over the coming months and will feature heavily in Budget 2023.

Big resurgence in the labour market leading to wage pressures

- Having been one of the worst hit labour markets in Europe during the pandemic, Ireland has experienced a Great Resurgence while the rest of the world is battling with the Great Resignation. A record sized labour force, record levels of employment and historically tight labour market conditions characterised by low unemployment (4.7%) and booming labour demand (job postings are 67% above February 2020) all portray an upbeat image of the labour market. Wage growth in Ireland of 5% is running ahead of European averages. Strong FDI flows have contributed to the tight labour market and the latest evidence suggests that this has continued into 2022. An expected slowdown in the coming 18 months should take some of the steam out of the labour market

Households and businesses in good shape for interest rate rises given scale of deleveraging

- The ECB is set to begin increasing interest rates in July 2022, with rates expected to rise to 2.5% in this cycle. For households, two-thirds of loans are either variable or fixed for less than one year. A further 13 are fixed for less than 3 years. Therefore, consumers should start to feel the impact of rates relatively soon. Our scenario analysis shows that the interest burden will indeed rise over the coming years but will peak at less than half of the 2008 peak level.
- After falling heavily over the pandemic period, there are tentative signs of a pick-up in business lending in recent months. This coincides with the swift rebound in domestic spending and an end to government supports. While we expect an increase in insolvencies to emerge over the quarters, they are not visible just yet. Low levels of business debt after a decade of deleveraging means the impact of rate rises on business should be relatively modest.

Increase in housing supply may not be sustained

- The most notable feature of the reopening of the construction sector has been the boom in housing commencements. While the annual rate of commencements rose to 35K, more recent data suggests that this is now starting to roll over. Goodbody Analytics work shows that the increase in housing commencements has been increasingly due to apartments, with the number of new houses in decline, particularly in Dublin. This is a function of national planning policy, but with viability issues in the apartment sector growing, this trend may not be sustained. We are pulling back our housing supply forecast from 29K to 27K for 2023.

House price growth to slow, but growth of 5% in 2022 and 4% in 2023 expected

- Like other countries, Ireland experienced rapid house price growth over the pandemic period due to a combination of supply and demand factors. In Ireland, the growth is being driven by the second-hand market. We believe that house price growth has now peaked, with prices expected to grow close to incomes in the coming two years.

Inflation a double-edge sword for the public finances

- Ireland’s public finances have continued to improve in 2022, with a budget surplus now in sight. This is despite record pandemic-era fiscal supports, the costs of the Ukrainian refugee influx and pressures to react to the cost-of-living crisis. We expect further targeted support in Budget 2023, where the government is expected to use some of the overshoots in revenues. The biggest overshoot has been in corporation tax once again. These surprises, while welcome and sustained over several years already, are unlikely to be permanent. The use of rainy-day fund for revenues above a certain level would help to reduce some of the risks from this eventuality.

Q2 2022 Health Check – Fuel in the tank

Having successfully negotiated the challenge of the pandemic, Ireland, like other economies, has been immediately faced with the twin challenges of high inflation and war in Europe. Tighter monetary policy in Europe and the US to reduce worryingly high inflation readings has also increased the probability of a recession in 2023.

Ireland is heavily influenced by international events so is much more than a casual observer of the recent deterioration in the international environment. The IMF has just pushed through a sizeable downgrade to the global growth outlook for this year and next. There is an increasing likelihood that the conflict in Ukraine will be elongated, keeping energy prices and inflation high throughout 2022. This puts pressure on Europe in particular. Second, the Fed now appears intent on moving interest rates to restrictive territory much quicker than initially suspected. This raises the risks that the US economy will slow sharply in 2023. The US is a vitally important trading and investment partner for Ireland, so much so that we have dubbed Ireland as the "51st State" for the past decade.

Countering these headwinds, the domestic Irish economy continues to bounce back strongly from its pandemic-related hibernation and balance sheets remain in very good shape going into this period of heightened risks. We expect real household disposable incomes in Ireland to decline at their fastest pace since the aftermath of Ireland's sovereign and banking crisis of a decade ago this year. This will require households to use some of their savings built up since the start of the pandemic. We expect they will, but some households are likely to require some targeted government support too.

Balance sheets are, however, in good shape and are substantially improved since the GFC recession. Household net wealth, in aggregate, has never been higher, buoyed by the growth in deposits and increase in house prices over the pandemic period. Higher interest rates will pose a threat for some borrowers, but the expected rise in the interest burden will be small by historical comparison, helped by the very prudent lending practices that have been in place in the mortgage market since 2015.

Businesses in Ireland are a mixed bag. Our latest analysis of FDI job announcements suggests that positive trends have continued up to very recently. Ongoing growth in FDI since 2019 has shown that the multinational sector has been relatively immune to a pandemic. However, the combination of slower economic growth and a collapse in financial market valuations points to risks in the ICT sector. The ICT sector has been the biggest contributor to the FDI boom in Ireland over recent years.

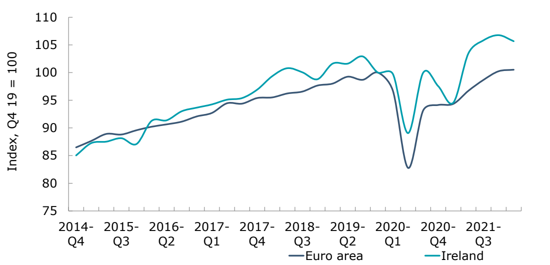
In the domestic sectors, the housing market has experienced an impressive rebound in starts since the full reopening of the sector last April. At a headline level, this suggests that the supply/demand imbalance is at last closing. However, our analysis suggests that this trend may not be on firm foundations and may indeed reverse over the coming months. Cost increases and structural issues are impacting here.

The rebound in the Irish economy has been highly impressive but has led to the emergence of supply-side pressures in labour, infrastructure and housing. A slowdown caused by tightening monetary, squeezed real incomes and war in Europe will take some steam out of this situation. However, it is cyclical. Ireland will experience significant growth in its population and economy over the medium-term. The work must continue to prepare for this.

Forecast update: Solid growth in 2022, international storms clouds for 2023

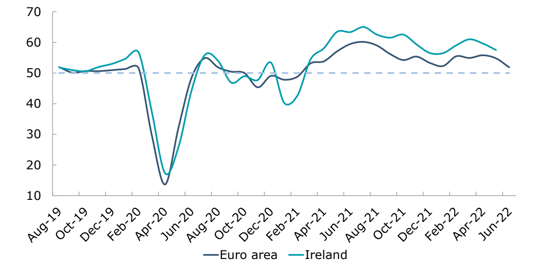
In economic terms, Ireland fared relatively well during the pandemic. GDP and exports boomed on the back of the fast-growing multinational sector, but even domestic spending has returned to above its pre-pandemic level quicker than the rest of the euro area. Entering 2022, our expectation was that spending would grow rapidly, propelling the Irish economy to the fastest expansion in the euro area. This has proven to be the case so far this year, with spending rebounding strongly from its lockdown lows and PMIs remaining above its European peers.

Faster rebound in domestic demand* in Ireland, but some stalling in Q1 2022



Source: CSO *Modified Domestic Demand for Ireland

PMIs still pointing to stronger growth in Ireland relative to euro area



Source: Factset

Rising international risks around geopolitics, tighter financial conditions and high inflation all provide downside impetus to economic growth in the short-term. The latest national accounts suggested that higher inflation is already having an impact on consumer spending. This is the key driver of our downgrade to economic forecasts for 2022 in this *Health Check*. We are forecasting that modified domestic demand will increase by 4.7% this year.

We are also reducing our estimates for growth in 2023. We now expect modified domestic demand to grow by 2.6%, following expansion of 4.7% in 2022. The consumer continues to be the primary driver of the growth in 2022 as savings behaviour normalises. Rising construction output and business investment will also contribute to growth. In contrast, government spending, after two years of largesse, will negatively contribute to growth for the first time since 2013.

Irish growth forecasts

	2019	2020	2021f	2022f	2023f
Consumption	3.3%	-10.4%	5.7%	5.8%	2.8%
Investment	99.5%	-23.0%	-37.6%	4.5%	2.1%
Core investment	-1.0%	-3.7%	7.3%	7.6%	2.0%
Government	7.1%	10.9%	5.3%	-1.2%	1.9%
Domestic Demand	42.8%	-15.3%	-16.6%	4.1%	2.4%
Modified domestic demand	**1.6%**	**-4.9%**	**6.5%**	**4.7%**	**2.5%**
Exports	14.0%	6.9%	16.4%	9.3%	4.4%
Imports	44.5%	-8.8%	-1.6%	12.6%	4.6%
GDP	**9.4%**	**4.5%**	**13.0%**	**4.4%**	**2.8%**
GNP	**9.7%**	**2.5%**	**11.1%**	**2.9%**	**2.4%**

Source: Goodbody

How is Ireland positioned for an international slowdown?

Domestically, memories of the economic collapse in Ireland post-2007 loom large when confronted with the prospects of an economic downturn. But no two recessions are the same. The following table shows the some of the key differences between the two periods. The most notable difference is the absence of credit growth and the relatively low leverage of the private sector at this point. Bank's balance sheets and capital ratios are also in a healthy position.

The most negative change has been to the government debt position, but this is tempered by the redemption profile of Irish government bonds over the coming years.

Tale of two – Key metrics for Ireland in 2022 versus 2007

	2007	2022
Household debt (% of income)	199%	99%
Credit growth in preceding 3 years	26.8%	-0.90%
Housing completions	78,027	25,099
Government debt*	29%	103%
Gov. Interest bill*	1.20%	1.7%
Bank loans/deposits	157%	62%
Bank capital (CET1)**	6%	17%
Development loans (% of Total)	17%	2%
Employment	2.2m	2.5m

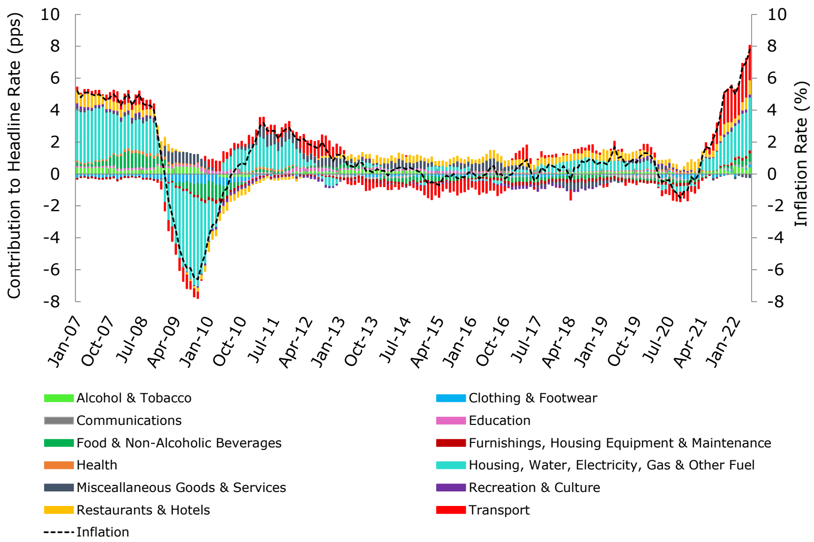
Source: CSO, DoHELG, CBI, NTMA, AIB, Goodbody *% of GNI* ***AIB

Inflation – Chipping Away at the Consumer

In line with most of the developed world, Irish inflation has been hitting multi-decade highs over recent months. The headline rate of CPI inflation hit 7.8% in May 2022, and we expect a further rise to 9.5% by August as food inflation increases further and the contribution of energy remains high.

Energy is the biggest contributor to inflation currently, accounting for just under half of the annual increase in May. However, as shown below, an increasing number of components are contributing positively to CPI gains. Two sources provide upside risks. Firstly, global food prices are on the rise due to pressures on the global food chain as a result of the Ukraine war. Food inflation in Ireland reached its highest level since 2008 in May (4.4%) and we expect this to rise further given international experience (9% in the UK). Second, services prices (9.1%) are now increasing strongly as demand remains elevated and employers try to pass on cost increases.

Inflation Contributions by COICOP Division

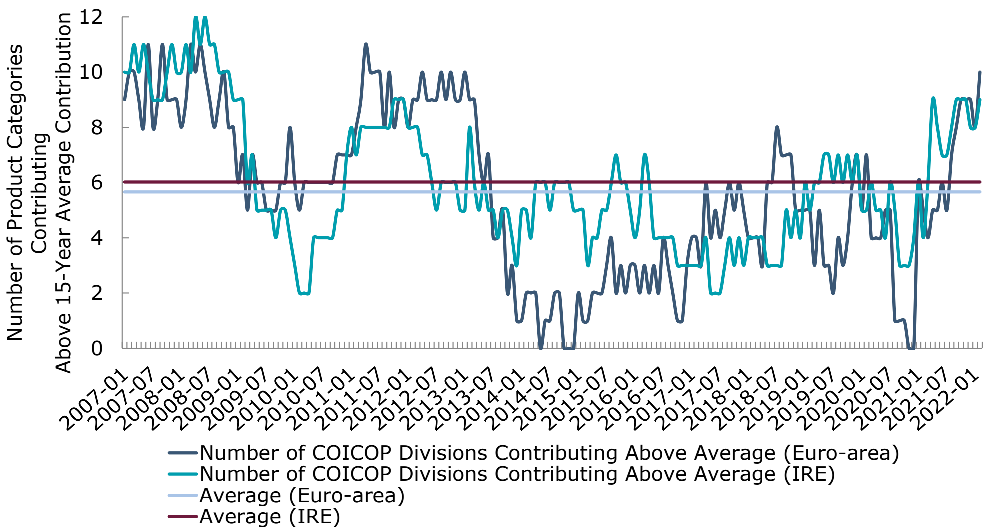


Source: Goodbody, CSO

Broadening of inflation pressures…

The chart below shows that of the twelve COICOP product categories, ten are currently contributing to headline inflation at above average rates in both Ireland and Europe. This is consistent with what is being seen in the rest of the euro area. However, wage inflation is higher in Ireland, suggesting that there are larger upside risks to core inflation here.

Number of COICOP Divisions Contributing to Inflation at an Above-Average Rate

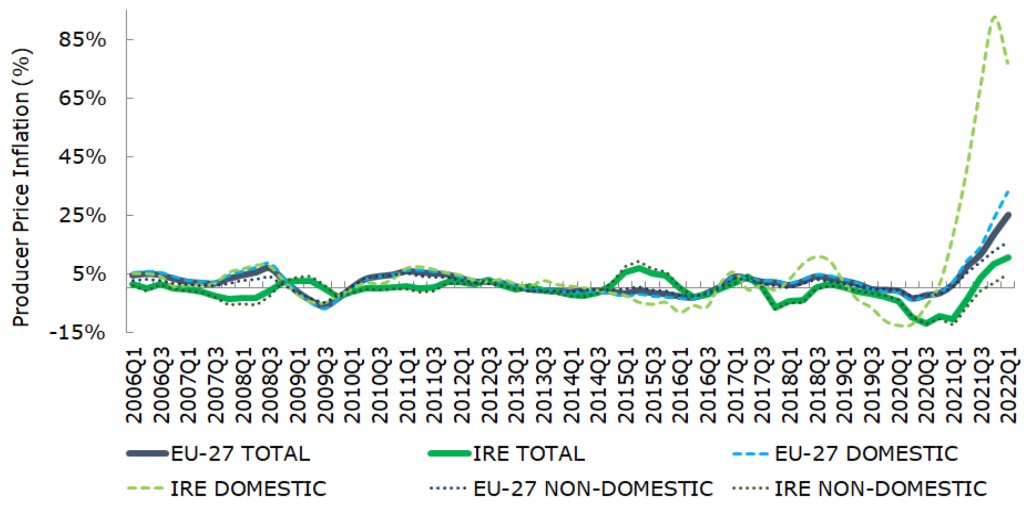


Source: Goodbody, CSO, Eurostat

…with pipeline inflation pressures remaining intense

Pipeline inflation pressures also remain strong, and firms have an ability to pass these price increases on to the end consumer. The latest data for Ireland shows producer output prices increased by 7% yoy in May, below the European average. However, this is being dragged down by the price that exporters are achieving. Domestic producer price inflation in Ireland is rising at the fastest pace in the EU (+62% yoy in April) currently, with strong growth in dairy (+46% yoy), meat (+17% yoy) and building materials (+19% yoy).

Producer Price Inflation (%) 2006-2022

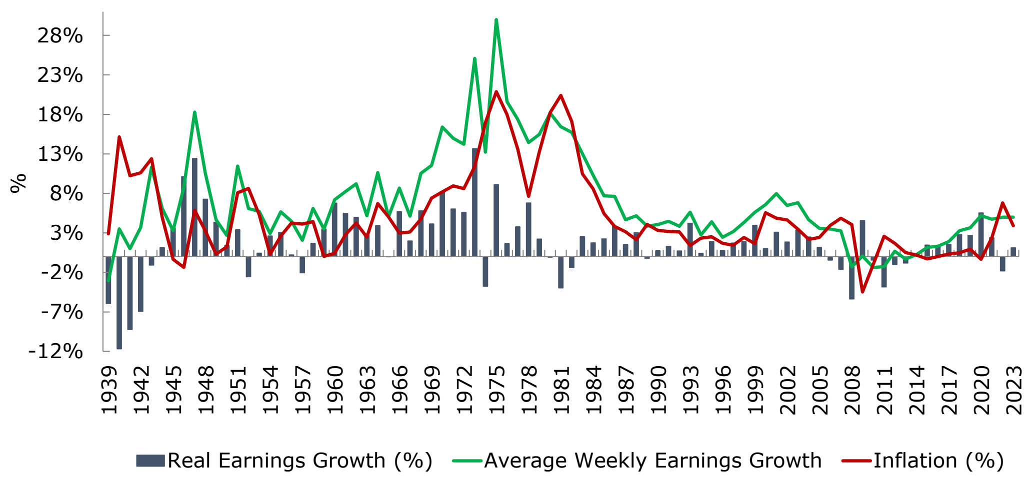


Source: Goodbody, Eurostat

Households starting to feel the pain from the price squeeze…

Having been the star performer throughout 2021, the consumer is starting to feel the pinch of inflation in 2022 despite tight labour market conditions. The chart below puts this in a long-term context. Outside of wartime, a decline in real earnings growth is rare. In the eighty-four years between World War II and the end of our forecast horizon in 2023, real earnings deterioration will have occurred on just seventeen occasions. With inflation expected to average 7.8% this year and 3.7% next year, and wage growth expected to average 4.7% and 5.0% in the same two years, real earnings are expected to decline 3% in 2022 before experiencing a return to growth in 2023.

Real Earnings Growth 1939-2023*

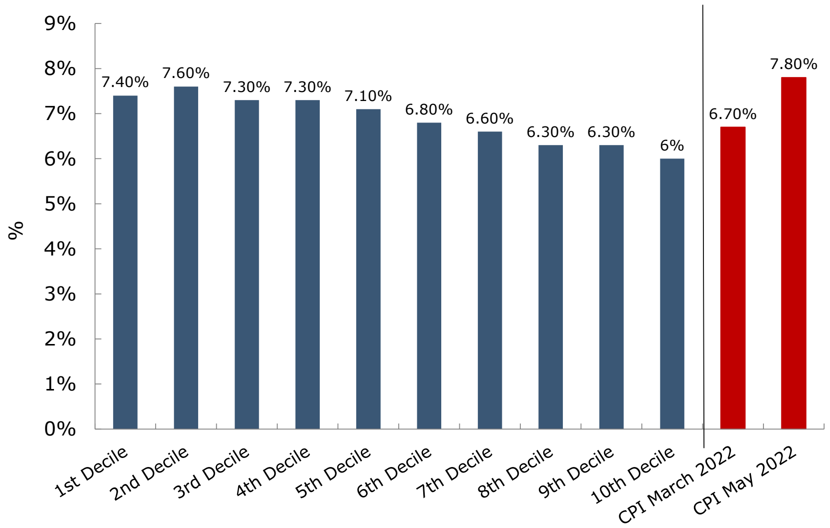


Source: Goodbody, CSO ***2022 and 2023 are based on Goodbody Economics forecasts**

…especially by those at the lower end of the distribution

While inflation will hit households across the income distribution, it will be felt more among poorer households. This is shown in research by both the *Economic and Social Research Institute (ESRI)* and the *Central Bank of Ireland*. The most recent piece of work on this was published by the ESRI last week, and shows that due to higher spending on energy and food, lower income households tend to experience higher rates of inflation than those in the upper echelons of the distribution. As of March 2022, those in the bottom 20% of earners experienced inflation of 7.5%, while those in the top 20% experienced inflation of just 6% compared to an economy-wide rate of 6.7% at the time. Since then, inflation has climbed to 7.8% in May 2022.

Inflation by Income Bracket, March 2022



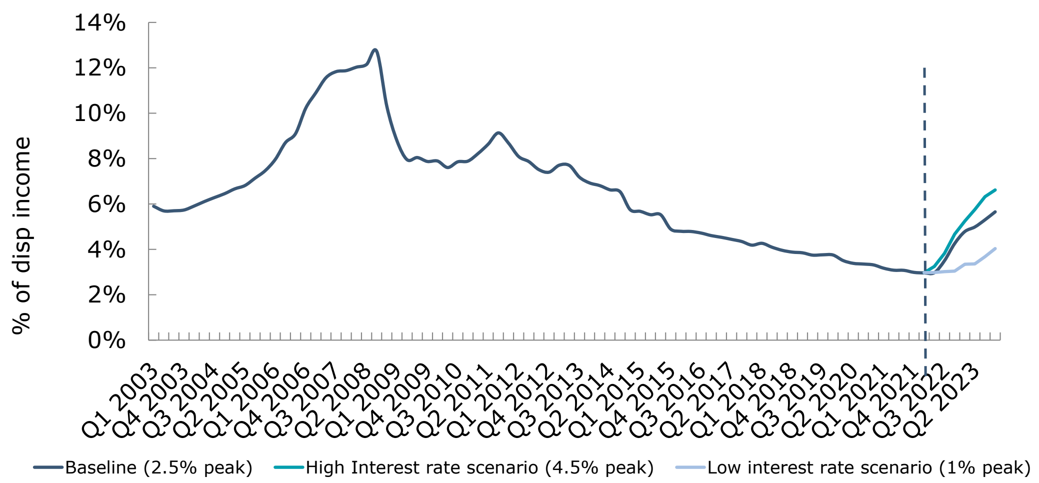
Source: Goodbody, ESRI

How will Irish households deal with higher interest rates?

The ECB is set to embark on its first sustained period of interest rate increases since the mid-2000s in July. In a baseline scenario, this will see the ECB base rate rise to 2.5% by the end of 2023. This will still be below the expected peaks in the cycles in the US and the UK but substantially higher than expectations at the start of the year.

To gauge the potential impact of these rate rises on households, we have simulated a number of interest rate scenarios on the expected stock of household liabilities over the period to the end of 2023. Under all scenarios, the interest bill rises. Under our baseline scenario, the interest bill (relative to disposable income) increases to 5.7%, up from 3% currently. As the chart shows, this is well below the peak reached in 2008 (12.7%).

Household interest bill will rise but remain well below levels reached previously



Source: Central Bank, Goodbody

Consumers in aggregate are well positioned to deal with a temporary real income shock

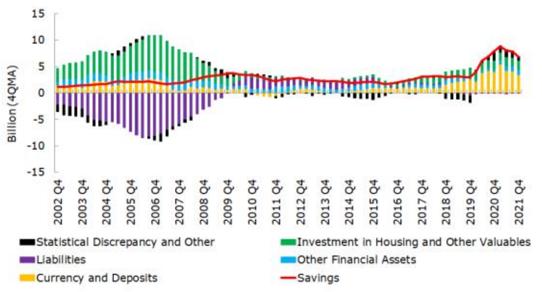
With inflation at forty-year highs, household purchasing power is clearly being eroded, particularly for those at the lower ends of the income distribution. In aggregate though, Irish households enter this period of higher inflation in relatively good financial health, with record high employment, rising earnings, and healthy balance sheets.

1. **Abundance of household savings:** Irish households experienced the largest increase in its savings ratio of any country in Europe during the pandemic, owing to a combination of ongoing strong income growth and heavy restrictions on economic activity during the pandemic. At its peak in Q1 2021 Irish households were saving €9bn per quarter, with the household savings ratio standing at c.30%. The bulk of these savings were being accumulated through household deposits, which now stand at €143bn, €31bn (27%) above the pre-pandemic level.

2. **Record high net wealth:** The sustained increase in savings, an increase in asset values and the ongoing fall in liabilities has resulted in household net worth rising to over €1trn for the first time at the start of this year. Beneath this, financial assets rose in share relative to housing assets.

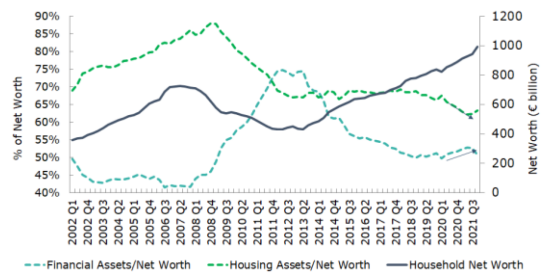
3. **Record low debt to income ratio:** The debt to disposable income ratio currently sits just below 100% for the first time in modern Irish history, down from over 200% a decade ago. While Ireland previously had the highest debt/income ratio in Europe, it is now in line with the European average after more than a decade of deleveraging. Irish household's exposure to rising interest rates over the coming years has thus been significantly reduced.

Surging savings during the pandemic…



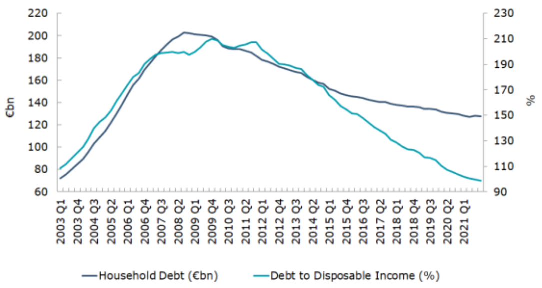
Source: Goodbody, Central Bank of Ireland

…leads to record net wealth



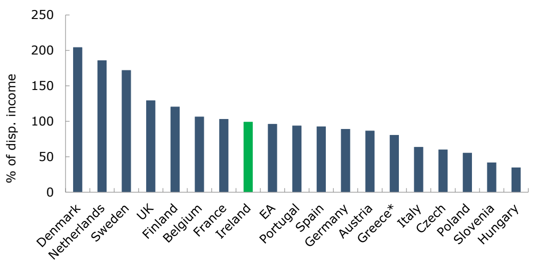
Source: Goodbody, Central Bank of Ireland

Household debt ratio at historical low…



Source: Goodbody, Central Bank of Ireland

…and now in line with euro area average

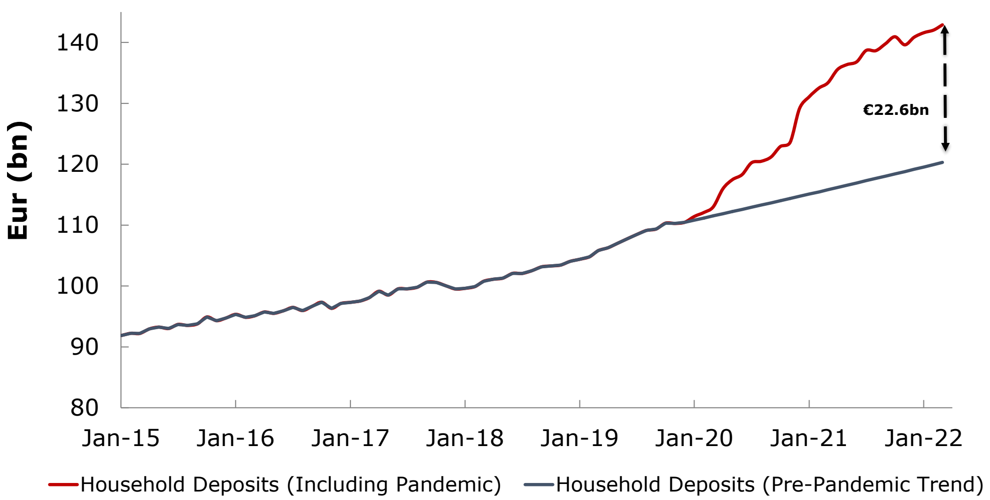


Source: Goodbody, Central Bank of Ireland

Substantial pool of excess deposits that can guard the consumer from inflation…

As shown below, household savings remain well above the pre-pandemic trend. We estimate there is an excess stock of €23bn, equating to 17% of household disposable income. We do not have data in Ireland on the ownership of these savings, but if UK experience is replicated, they are likely to be concentrated in the higher income households who would have a lower propensity to spend in any case. The pool of savings, however, acts as an important buffer overall, while we also expect further targeted fiscal support in Budget 2023 for lower-income households. As shown later, cost-of-living supports have already amounted to 0.9% of disposable income in 2022.

Excess savings of €23bn have emerged during the past two years

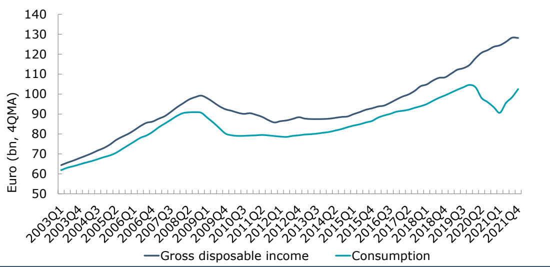


Source: CSO, Goodbody

…and a normalisation of savings behaviour also helps

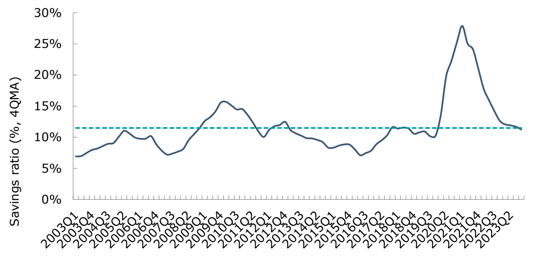
In addition to the excess *stock* of savings, a normalisation of the *flow* of savings should also help cushion the blow from the fall in real disposable incomes. At its peak, the household savings ratio in Ireland reached 34% in Q2 2020. The latest reading for Q4 2021 puts the savings ratio at 14.9%. Our forecasts suggest that the savings ratio will fall to its long-term average and could dip lower if inflation proves to be higher than our expectations. This is despite an assumption that (nominal) disposable incomes grow by just 2% in 2022, half the rate of growth seen in 2021.

Incomes continued to grow during the pandemic in Ireland



Source: CSO

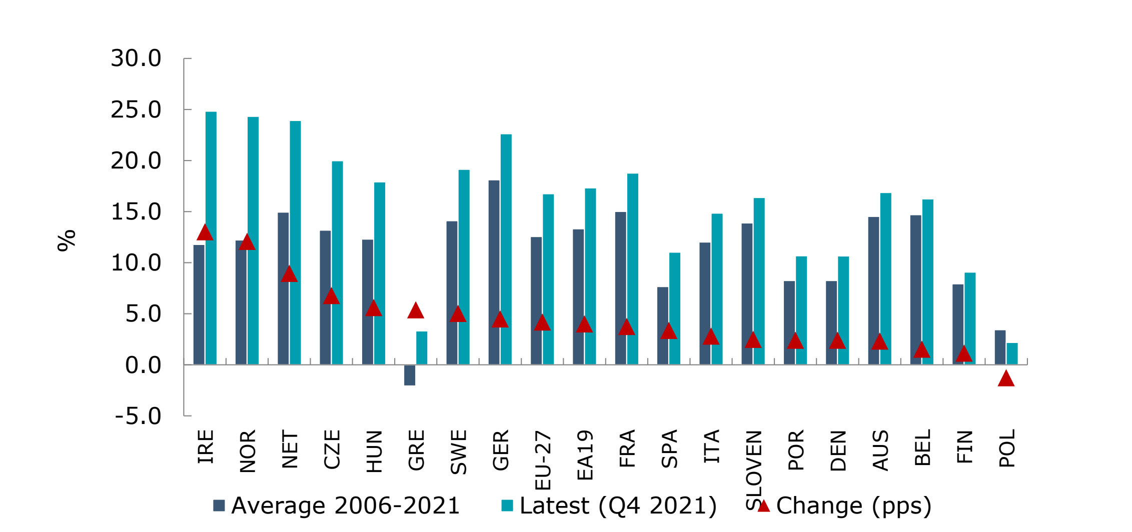
Savings ratio is expected to return to normal, and could go lower



Source: CSO, Goodbody

A boom in household savings during the pandemic is not something that is confined to Ireland, but the scale of the increase in Ireland has been larger due to the ongoing growth in earnings coupled with the extent and duration of lockdowns. This is illustrated in the following chart which shows the gap between the current (Q4 2021) level of the savings ratio and its pre-pandemic average. While the household savings ratio for the euro area lies 4% above its pre-pandemic average, it is thirteen percentage points higher in Ireland.

Ireland had the biggest spike in the household savings ratio in the EU

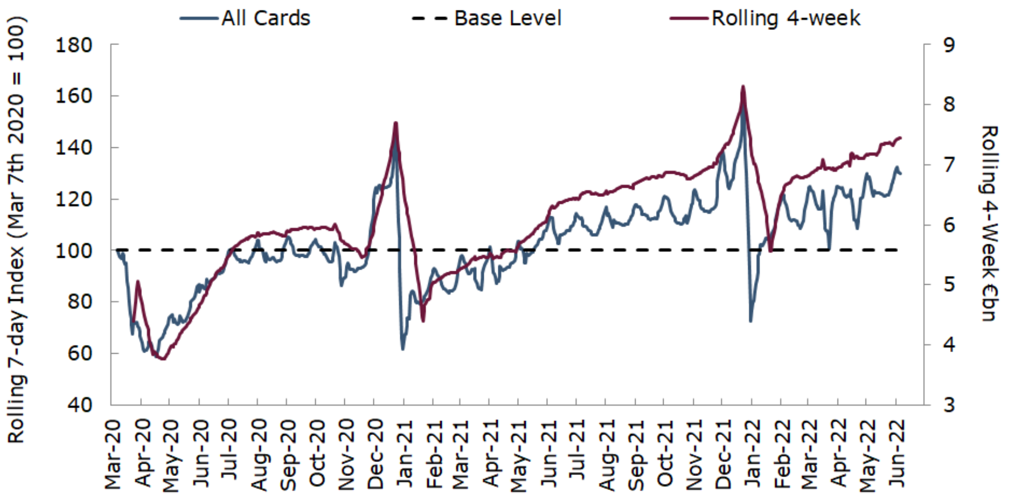


Source: Eurostat, Goodbody

Recent high-frequency spending data points to ongoing increases in nominal spending

While Q1 saw a slowing in real spending, the most recent high-frequency spending data does not suggest any change in the upward trend in nominal spending. In the latest four weeks to 12 June, spending and ATM transactions were 30% above its pre-pandemic levels.

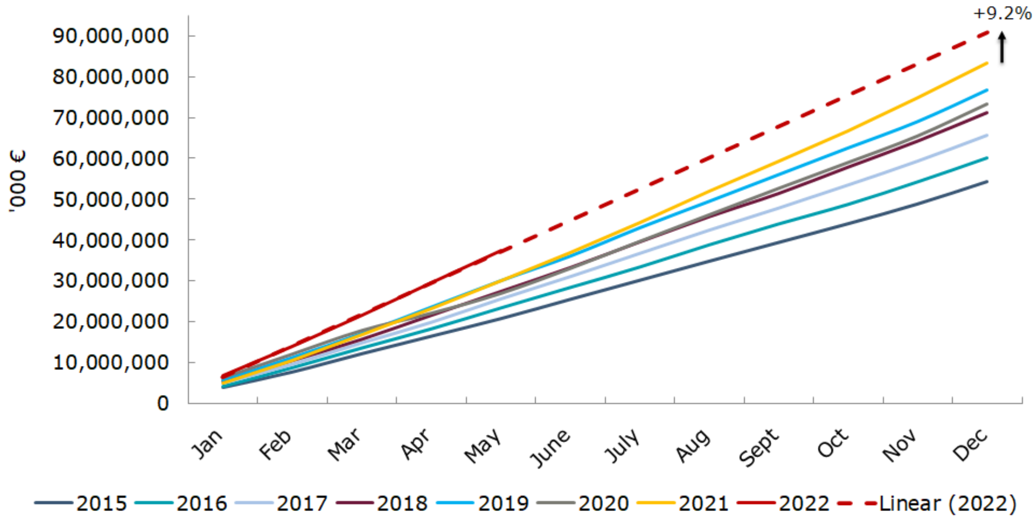
Spending on Credit and Debit Cards*



Source: Goodbody, Central Bank of Ireland ***Data used are up to June 5th, 2022.**

If spending continues to grow linearly through the rest of the year, total card spending will finish the year at €91bn, 9.2% above its 2021 level.

Cumulative Spending on Credit and Debit Cards*



Source: Goodbody, Central Bank of Ireland

***Data for 2022 are taken as the sum of the Monthly Credit and Debit Card Statistics from January to March 2022, added to the sum of the Daily Credit and Debit Card Statistics up to the 30th of April 2022. The end-year cumulative spending figure for 2022 is then reached assuming spending continues along its current trend in a linear fashion.**

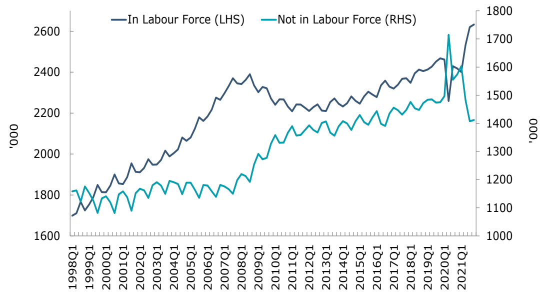
Irish labour market is tight, wage pressures evident

Ireland experienced a *Great Resurgence* while the world battled with The *Great Resignation*…

Like other developed economies, demand for labour has bounced strongly in Ireland since lockdowns ended. Unlike other countries though, the labour force has also continued to grow. The "Great Resignation" theme has not taken place in Ireland. Indeed, participation rates have risen across the board in Ireland, and particularly for females. The participation rate for females now stands at its highest ever level, while the rate for males is the highest in a decade.

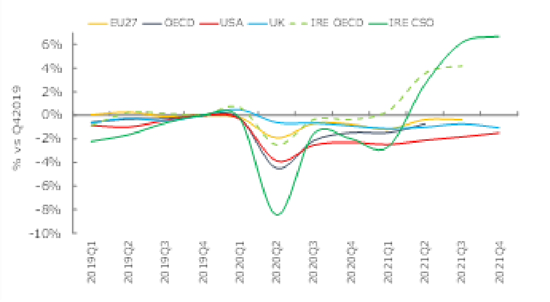
Having come out of what were among the tightest restrictions across the world during the pandemic, the working-age population in Ireland flocked back to the labour market, with the number of people in the labour force climbing to an all-time high of 2.63mn in Q1 2022 (6% above pre-pandemic levels). This has been accompanied by a large fall in the numbers of people not in the labour force.

Size of labour force in Ireland hit new high…



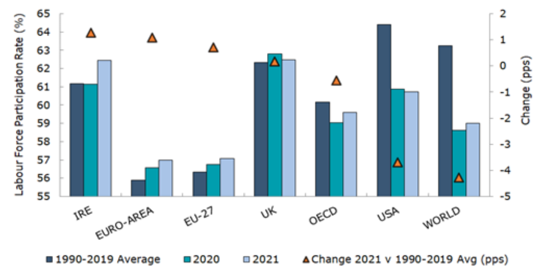
Source: Goodbody, CSO

…which did not occur in other geographies



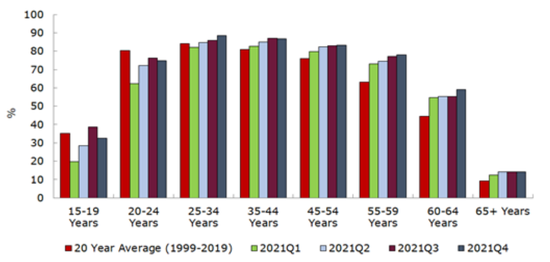
Source: Goodbody, OECD, CSO

Labour force participation vs LT average



Source: Goodbody, World Bank

Participation rates by age cohort

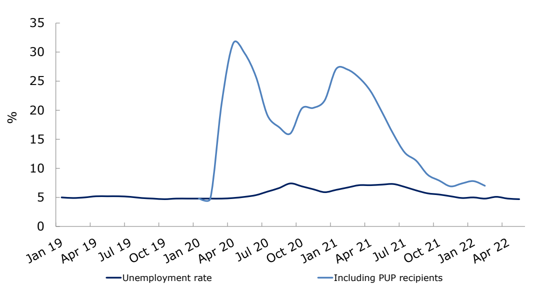


Source: Goodbody, CSO

Headline employment at new peaks, unemployment

Employment hit a new peak of 2.5m people in Q1 2022, 7% above its pre-pandemic level. Having soared to over 30% at the time of the first lockdown in 2020, the unemployment rate has now returned to its pre-pandemic level of 4.7%. Hours worked, our preferred metric of the labour market during the pandemic, has also enjoyed a swift resurgence.

Unemployment back to pre-pandemic levels



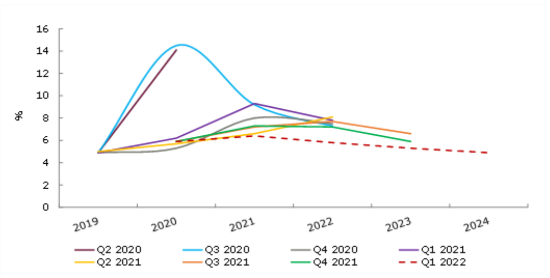
Source: CSO

Labour market aggregates vs Q4 2019

Source: CSO

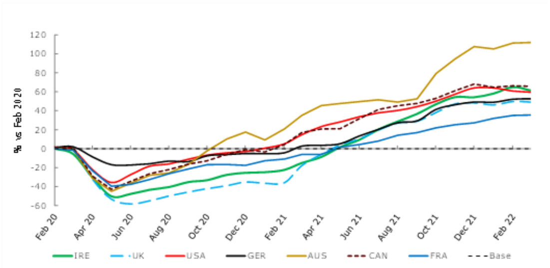
The chart below shows the extent of changes to views on the labour market over recent quarters by the Central Bank. While some labour market scarring was initially expected, this has not proven to be the case. The latest evidence suggests that labour demand continues to remain high. High-frequency data by the *Indeed Hiring Lab* shows that job postings by firms climbed upward from summer 2020 onwards, proceeding to reach boom-like levels of between 40% and 120% above their February 2020 levels globally in March 2022. Ireland was among the economies that experienced a surge in labour demand, with postings climbing to 67% above their pre-pandemic level by June 2022, a rate of growth that was the third fastest among the economies for which data are available.

Unemployment rate forecast developments



Source: Central Bank

Job postings versus pre-pandemic levels



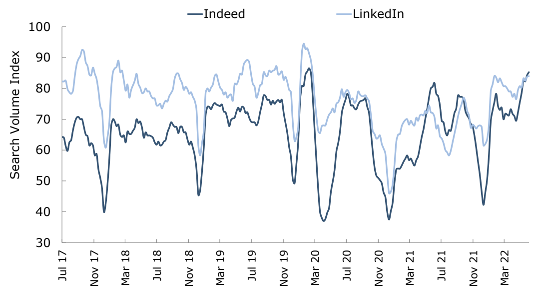
Source: Indeed

Labour supply still lagging demand despite increases

To gauge the level of labour supply, the chart below shows Google Trends data for leading jobs websites Indeed and LinkedIn. In both cases, searches remain below pre-pandemic level. Thus, the supply of people searching for jobs is weak, particularly when measured against the level of demand available relative to February 2020.

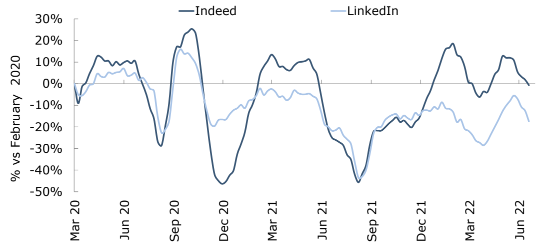
While google trends data suffice in giving an indication of where things currently stand, we look to official data before drawing any meaningful conclusion. The latest *Labour Force Survey* and *Employee Hours, Earnings, and Labour Costs Survey* from Q4 2021 are the latest available data that will provide us with adequate evidence. Despite employment climbing to 6% above its Q4 2019 level at the end of 2021, the vacancy rate of 1.4% remained above its seven-year average, implying that the gap between labour supply and labour demand is indeed wider than it was prior to the pandemic.

Google search volumes for job sites



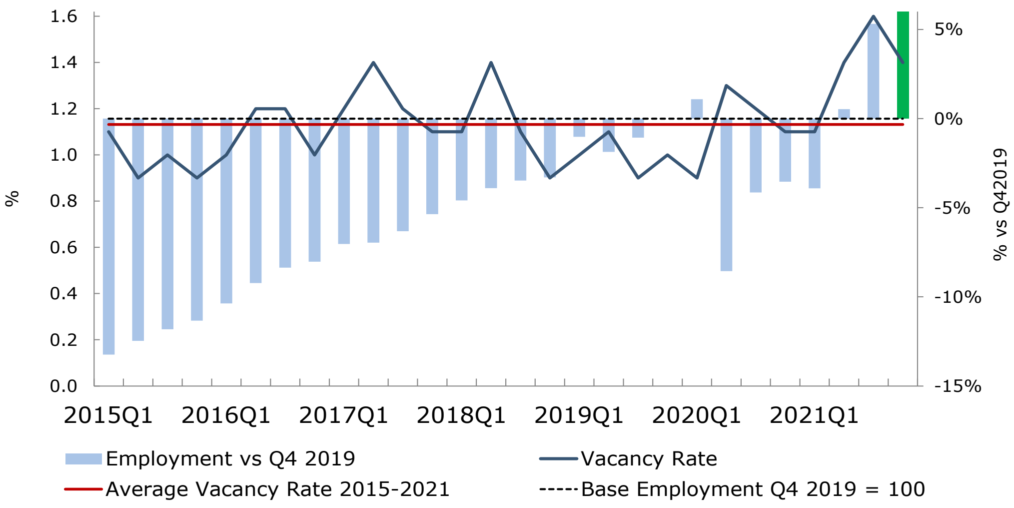
Source: Goodbody, Google

Supply at or below pre-pandemic levels



Source: Goodbody

Economy Wide Vacancy Rate Above Average While Employment Soaring Above Q4 2019

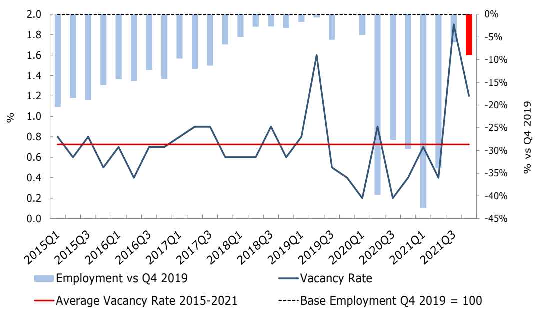


Source: Goodbody, CSO

Shortages are sector-specific, driven by churn and job creation

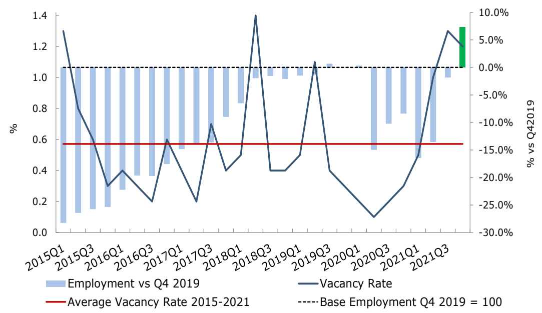
Whilst the labour supply shortage is rooted in elevated demand, delving into individual sectors of the economy suggests that the drivers of labour supply issues are more acute in some sectors. In growth sectors that adapted to working from home and were thus less impeded by restrictions, shortages are being driven by new job creation. We know this because employment in these sectors (ICT, Finance & Real Estate, and Professional & Technical are examples) has surged to above pre-pandemic levels while the vacancy rates in these sectors continue to sit comfortably above their respective average rates. In contrast, shortages in sectors that were severely weighed on by restrictions, such as Accommodation & Food and Transport, are being influenced by a shift in the supply of labour to these roles rooted in a reshuffling of labour between sectors.

Accommodation and Food



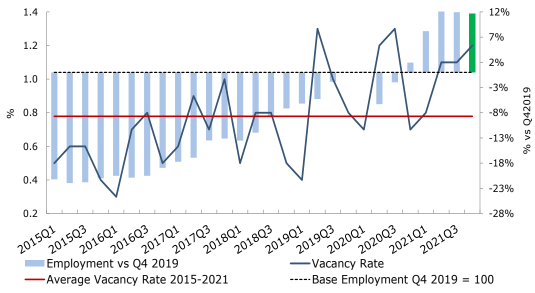
Source: Goodbody, CSO

Construction



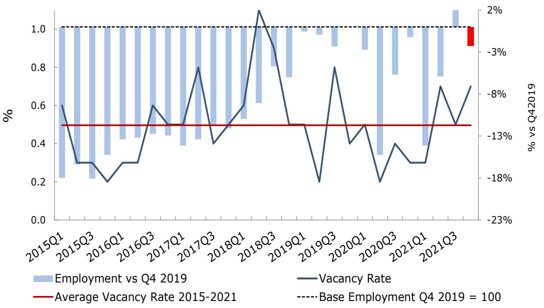
Source: Goodbody, CSO

Education



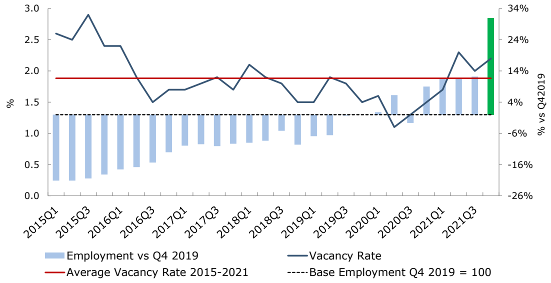
Source: Goodbody, CSO

Transport and Storage



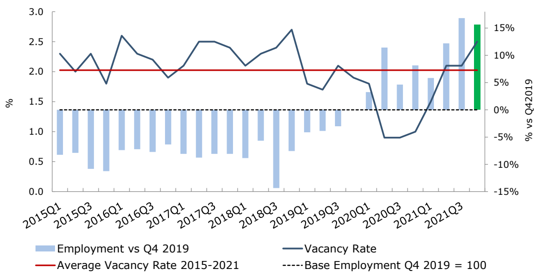
Source: Goodbody, CSO

ICT



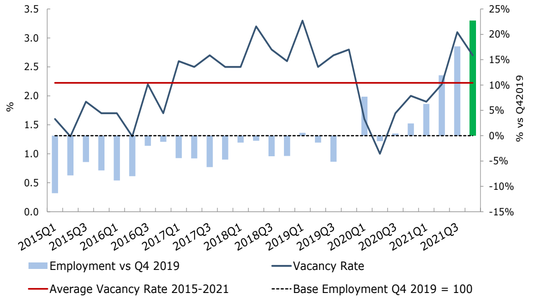
Source: Goodbody, CSO

Finance and Real Estate



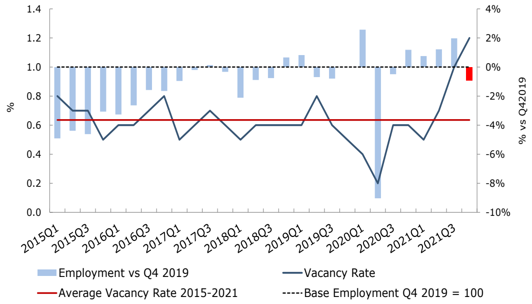
Source: Goodbody, CSO

Professional, Scientific, and Technical



Source: Goodbody, CSO

Wholesale and Retail Trade

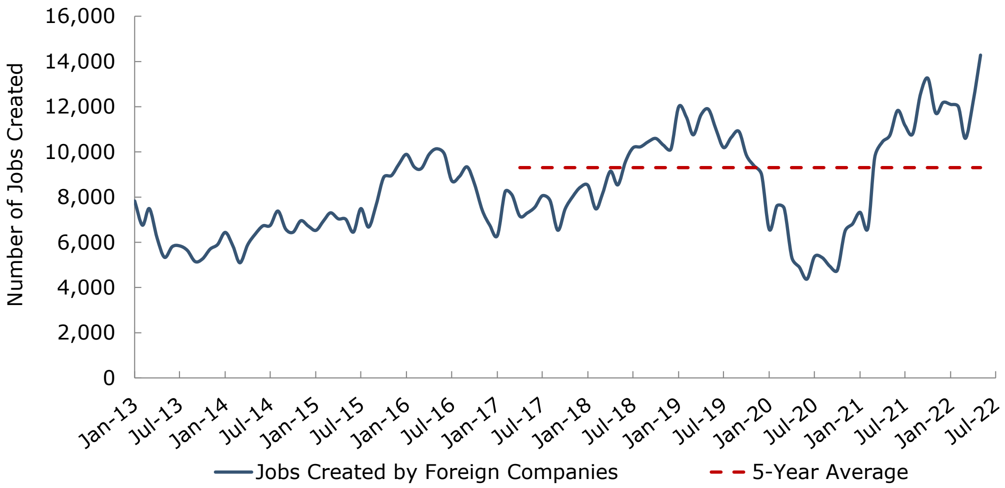


Source: Goodbody, CSO

FDI remains a major source of employment demand

Based on *The Goodbody IDA Investment Tracker*, the number of jobs announced by companies locating here in the past twelve months is estimated to have reached a new all-time high of 14k in June 2022.

Jobs Announced by Foreign Companies Locating or Expanding in Ireland (Rolling 12-Months)*

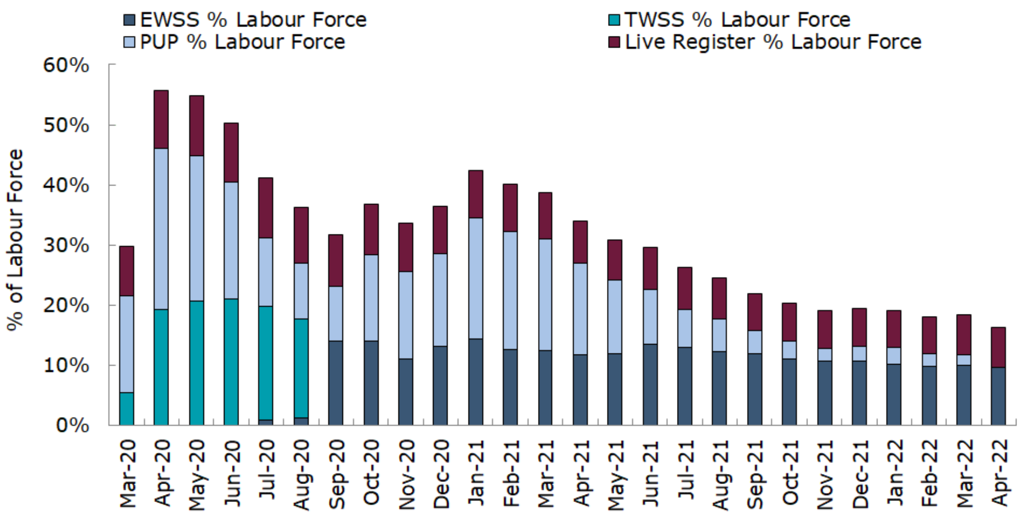


Source: Goodbody, IDA ***Data up to and including 19[h] June 2022**

Ending of supports has been a smooth process in the labour market

The ending of government programmes such as PUP and EWSS was one of our primary labour market concerns at the start of 2022, but it appears that their closure has not had a discernible negative impact on labour demand. Our forecasts suggest that this will lead to a further fall in the unemployment rate over the second half of 2022, ending the year at 4.3%. With a slowing of domestic demand in 2023, we expect the unemployment rate to rise to 4.8% by the end of 2023.

Proportion of the Labour Force Dependent on Government Support*



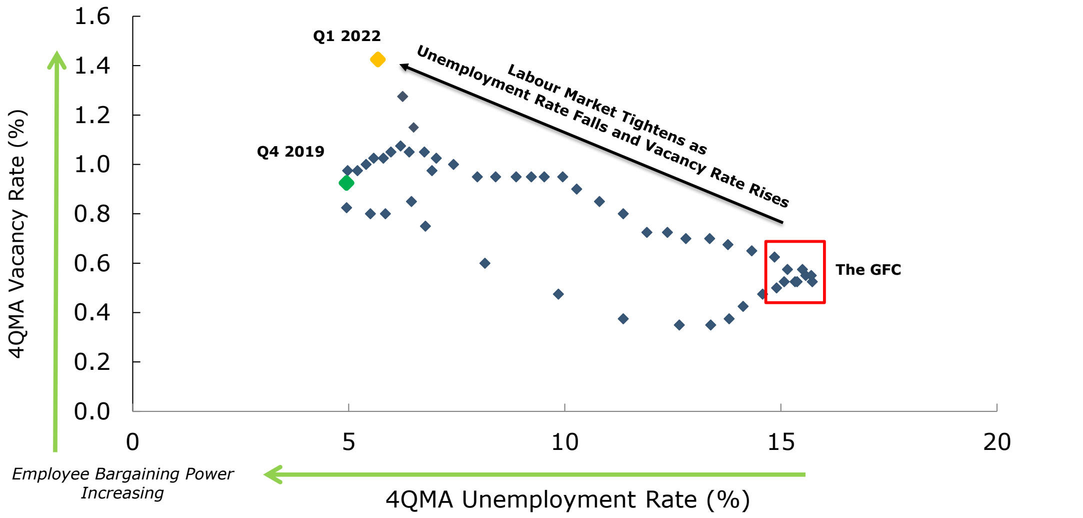
Source: Goodbody, CSO, Revenue

***Ireland's metric of the labour force is produced as part of the Labour Force Survey conducted on a quarterly basis. We therefore assume the quarterly labour force to be applicable as constant across the three months in any given quarter. The latest Labour Force Survey was for Q42021. It is thus recommended that 2022 numbers are viewed as provisional and subject to notable revision upon release of the Q12022 Labour Force Survey.**

Ireland is experiencing almost its tightest labour market conditions since the GFC

A swift recovery in labour demand has resulted in the vacancy rate in Ireland rising to the highest on record. This is illustrated on Ireland's *Beveridge Curve* below, which is a term used to describe the relationship between unemployment, vacancies, labour market tightness and thus, employee bargaining power. Typically, as the unemployment rate falls and the vacancy rate rises, bargaining power shifts in the workers' favour.

Ireland's Beveridge Curve*

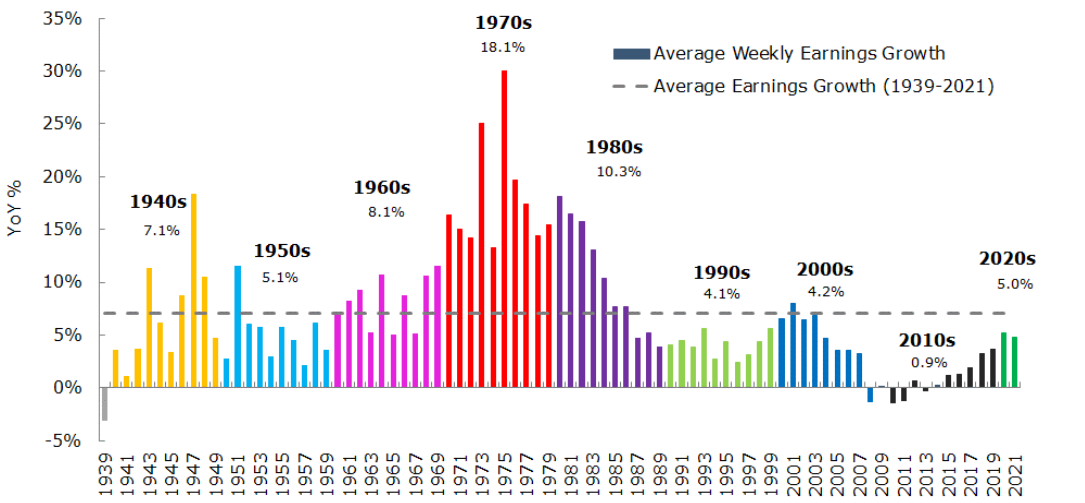


Source: Goodbody, CSO

Implying wages are set to grow further

Tight labour market conditions are reflected in rising wage pressures. Wage growth is expected to average 5% per annum over our forecast horizon. This is below the long-term average of 7%, but this period includes the high inflation period of the 1970s. We do not expect a repeat of the 1970s experience, but there are challenges that must be faced in the coming quarters for the government to offset some of the large inflationary pressures.

Average Weekly Earnings Growth in Ireland (1939-2021)*



Source: Goodbody, CSO

***Data are based on the same annual growth in average weekly earnings metric throughout the entire series. Data prior to 2008 are taken from a special analysis by the CSO published in 2017 on Irish earnings from 1939-2015, while data from 2008 onwards are taken from the Employment, Hours, Earnings and Labour Costs Survey that is conducted quarterly by the CSO and did not begin until the foot of the Global Financial Crisis in 2008. In years where an economy-wide average weekly earnings figure was not available, we utilise the average weekly earnings in the industrial sector instead. This proxy is adopted for the years 1939-1942 and 1969-1974.**

Labour market forecasts

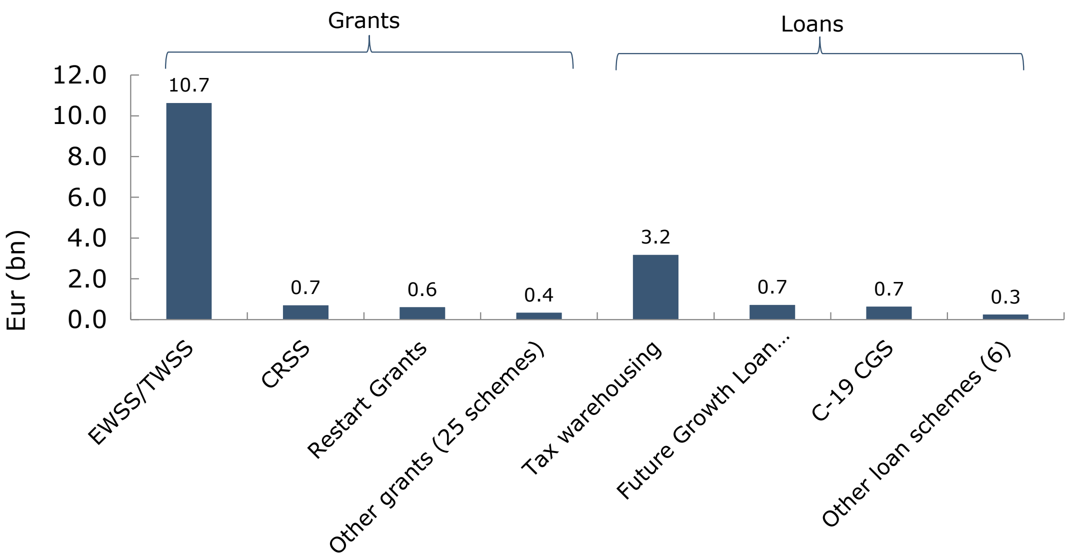
	2018	2019	2020	2021	2022	2023
Total at work ('000, end-year)	2,267	2,348	2,268	2,496	2,564	2,590
Employment Growth (end-year)	2.3%	3.6%	-3.4%	10.1%	2.7%	1.0%
Employment Growth (Average)	2.8%	2.9%	-2.8%	6.0%	6.6%	1.3%
Unemployment Rate (end-year)	5.7%	4.8%	6.3%	5.2%	4.3%	4.8%
Wage Inflation	3.2%	3.7%	5.0%	4.8%	4.7%	5.0%

Source: Goodbody

Back in business – most firms survived COVID-19

Having been among the largest recipients of government support in the world during the pandemic, the ending of the Employment Wage Subsidy Scheme (EWSS) at the end of April means that Irish businesses must now fend for themselves in a post-pandemic world. As noted previously, support for businesses affected by the pandemic came mainly in grant form in Ireland, rather than the lending schemes that were prevalent on other parts of Europe. These supports are now coming to an end; thus, we will find how many firms are viable without these supports.

Breakdown of government business supports since 2020 – Total of €17bn



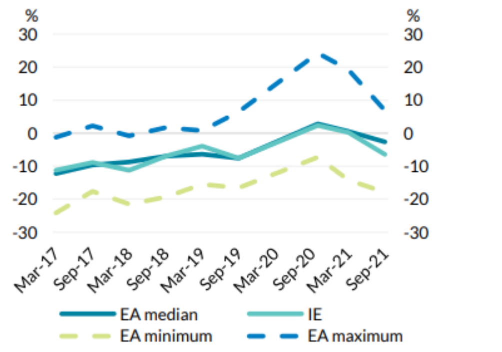
Source: DETE, Goodbody

The deferment of €3.2bn in tax liabilities, through the tax warehousing scheme, provides the biggest risk to businesses. Unsurprisingly, the wholesale and retail sector accounts for the biggest proportion of this warehoused debt (€670m), followed by the accommodation and food (€402m) and construction (€369m) sectors. This debt is "parked" until the end of the year at a 0% interest rate, but it is notable that the tax authorities have expressed a willingness to be "flexible" in the repayment plan beyond this date. This highlights how it is in the government's power to ensure this debt does not lead to widespread problems for businesses.

The evidence to date suggests that most firms will indeed survive, but we still expect an increase in business failures in the coming quarters. A recent Central Bank report shows that turnover among Irish firms was recovering strongly in the second half of 2021, like the trends in the rest of the euro area. Profitability was also improving strongly. The accommodation and food sector was the exception here, with "close contact" sector continuing to be impacted by COVID restrictions up to early 2022.

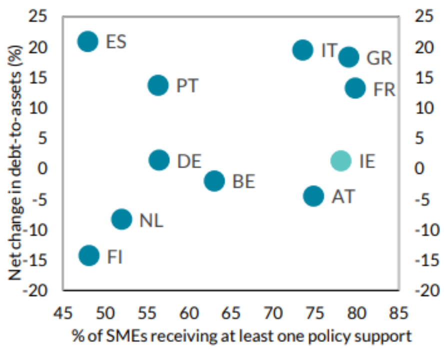
As can be seen in the following charts, Irish SMEs are in a relatively good position compared to peers in the euro area, with leverage decreasing and relatively no change in their debt-to-assets position over the most recent period.

Share of SMEs reporting lower leverage



Source: Central Bank

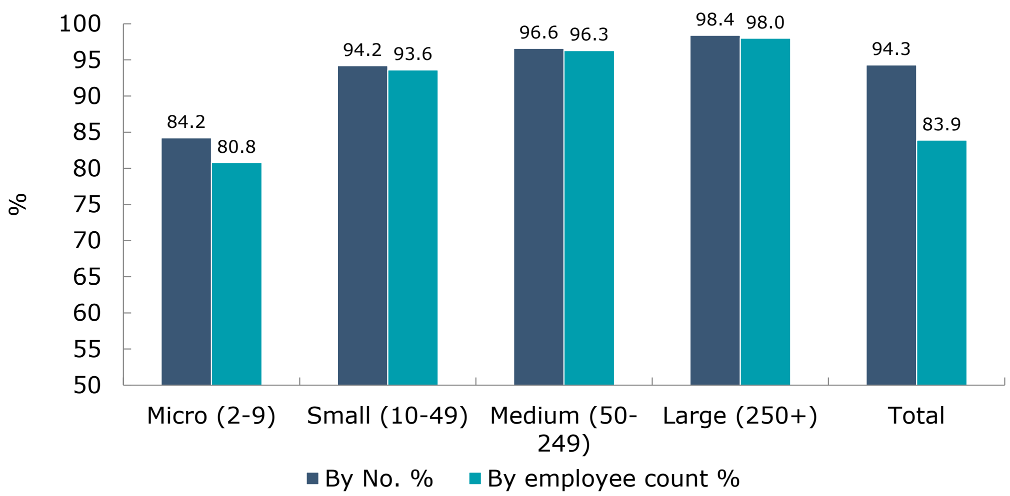
Little change in debt/assets in Ireland



Source: Central Bank

An analysis of numerous administrative data sources by the CSO recently also suggests that risks remain around the viability of businesses in certain sectors, but the rates of business failure are not substantially above pre-pandemic levels overall. The following table summarises these results. It shows that 5.8% of businesses that were operating in 2019 "appears closed" at the end of 2021, but with a further 10.4% of businesses "at risk of closing" (meaning that there has been very little activity recently that would indicate a going concern). Micro businesses (less than 10 employees) have a greater risk of failure, with 19% either closed or at risk of closing. This compares to just 2% of larger firms (250+ employees). Compared with the 16% of troubled firms, this translates to 5.7% of firms when counted by persons employed. While the data is not available, this latter figure should be a better approximation of the scale of potential loan losses.

Business survival rates* – greater stress in micro-sized businesses



Source: CSO *figures relate to businesses that were trading in 2019 and also trading at the end of 2021

As the following chart shows, the level of "stress" (as measured by closed firms or those at risk of closing) was about 25% higher than a "normal" year, but some sectors (ICT for example) have seen lower levels of business stress, while stress is significantly higher in others (transport & storage, accommodation & food).

Post-pandemic position of firms that were trading in 2019

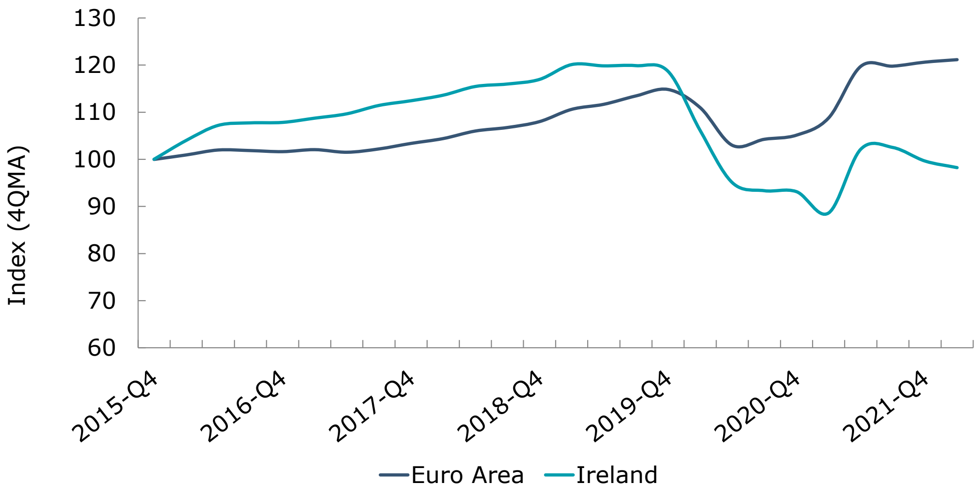
	Appears Closed	At Risk of Closing	Still in Business	% closed or at risk	Per year	Pre-pandemic average
Industry	3.5%	6.6%	89.8%	10.2%	5.1%	5.5%
Construction	4.4%	14.5%	81.1%	18.9%	9.4%	6.5%
Wholesale & retail	5.4%	7.3%	87.3%	12.7%	6.4%	5.7%
Transport & storage	7.1%	9.4%	83.4%	16.6%	8.3%	4.8%
Accommodation & food	9.4%	13.9%	76.7%	23.3%	11.6%	7.4%
ICT	5.4%	6.2%	88.4%	11.6%	5.8%	8.4%
Real estate	10.3%	9.2%	80.5%	19.5%	9.8%	8.1%
Prof. & science	4.7%	7.7%	87.6%	12.4%	6.2%	6.5%
Admin.	5.6%	10.6%	83.7%	16.3%	8.1%	6.4%
Arts/entertainment	6.2%	8.5%	85.3%	14.7%	7.3%	n/a
Other services	6.3%	18.4%	75.3%	24.7%	12.4%	n/a
All Sectors	**5.8%**	**10.4%**	**83.9%**	**16.1%**	**8.1%**	**6.4%**

Source: CSO

Business registrations & lending on a recovery path

In the *Q1 2022 Health Check* we commented upon the recovery in business registrations in Ireland in 2021 despite the pandemic. Subsequently revised data from Eurostat paint a much less rosy picture of this recovery. As the chart below shows, there was indeed a significant recovery in business start-ups in 2021, but the level of new business registrations lags the rest of the euro area relative to pre-pandemic norms.

Company registrations bounced back but lagging the rest of the euro area*

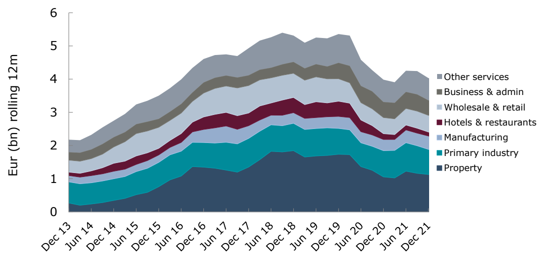


Source: Eurostat *Previous version of this data has been revised substantially by Eurostat

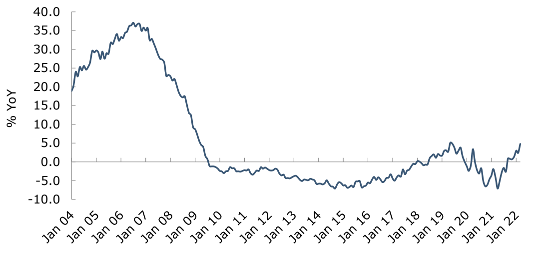
SME lending finally in positive territory after a decade of deleveraging

After a decade of deleveraging, there is tentative evidence of a recovery in business lending. In April, net lending to non-financial corporates grew by 5.0% yoy, the fastest since mid-2019. We say tentative as two-thirds of this growth stems from short-term (<1 year) loans. Data for Q1 shows that new lending to SMEs was flat on an annual basis (-1% yoy) and remained 20% below Q1 2020 levels. Property (-36%), hotels and restaurants (-65%) and other services (-29%) saw the biggest shortfalls in new lending relative to pre-pandemic levels. Given the rebound in the demand for these services, we would expect new lending to increase as the year progresses.

New SME lending down since 2019…	…but tentative recovery begun in early 2022



Source: Central Bank

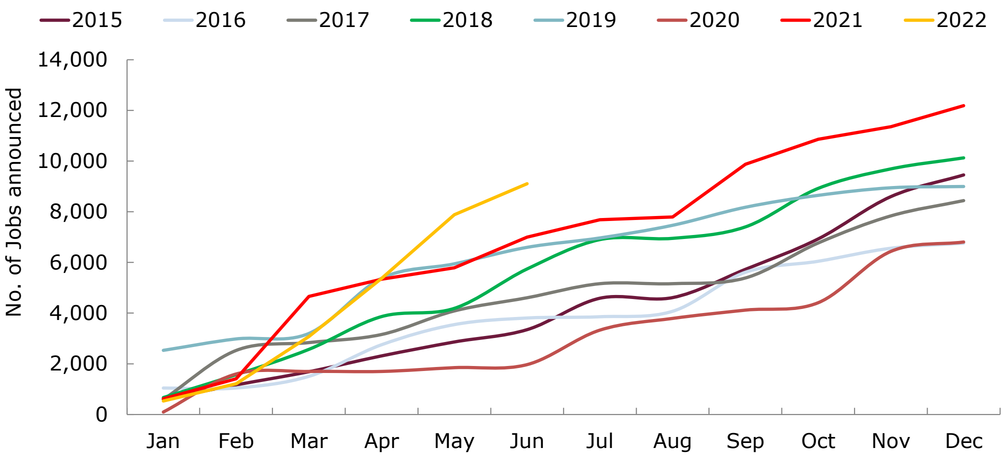


Source: Central Bank Chart relates to net lending in NFC credit

Multinationals still in expansion mode

Rapid growth in Ireland's multinational base appears to have continued in 2022 despite the numerous global uncertainties. This is reflected in our IDA FDI Tracker, which tracks announcements by the IDA.

IDA jobs tracker points to another record year in 2022 despite rising international risks



Source: Goodbody, IDA

Housing market – Supply rising but vulnerable

Our main housing forecasts are shown in the table below.

Key housing metrics

	2018	2019	2020	2021	2022f	2023f
New dwellings	17,899	21,051	20,514	20,473	24,548	27,030
Average house price (€, end-year)	273,220	274,240	280,363	320,159	336,947	350,885
Price inflation (% YoY, end-year)	6.3%	0.4%	2.2%	14.2%	5.2%	4.1%
- Dublin (% YoY, end-year)	3.8%	-1.7%	1.4%	12.9%	4.2%	5.0%
- Non-Dublin (% YoY, end-year)	8.8%	2.4%	3.0%	15.2%	6.0%	3.7%
Gross mortgage lending (€m)	8,723	9,542	8,365	10,467	11,888	12,882
Growth in gross lending	19.7%	9.4%	-12.3%	25.1%	13.6%	8.4%
Net mortgage lending growth (end - year)	1.4%	1.9%	0.9%	1.2%	2.1%	2.7%
Rental growth	6.4%	4.5%	-3.2%	8.1%	7.2%	4.0%
Gross rental yield (end-year)	5.4%	5.7%	5.4%	5.1%	5.1%	5.1%

Source: CSO, BPFI, DoHLG, Goodbody

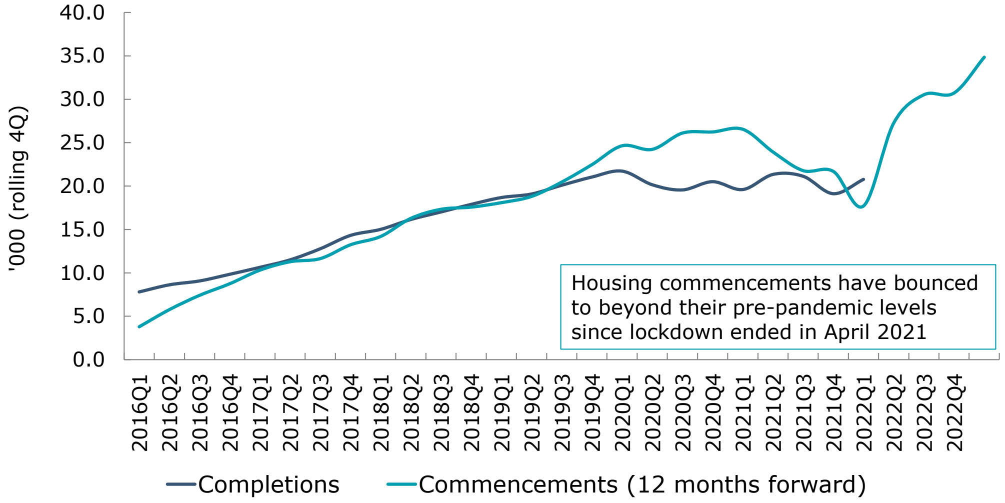
We summarise the key developments in the Irish housing and mortgage markets under three main headings:

- **Supply** – The available stock for sale is at all-time lows. The surge in commencements in the past twelve months is dominated by apartments, with a decline in the new supply of owner-occupied housing on the cards.
- **Demand** – Interest levels in purchasing property remain high, with mortgage approvals for property purchase standing over the past twelve months (43K) standing at the highest levels since prior to the GFC.
- **Prices** – Having boomed during the pandemic, price growth is now moderating from high levels. We are reducing our house price inflation forecasts by one percentage point in both 2022 (5%) and 2023 (4%) to reflect weaker household income growth and higher interest rates.

New supply approaching to grow further but may stall below 30K

New housing supply stalled at close to an annual pace of 20K since the start of the pandemic but is set to grow over the coming six quarters based upon the surge in housing commencements seen since the reopening of the sector after lockdown in April 2021. As shown, housing commencements amounted to 35K in the twelve months to March 2022, up 31% relative to the twelve months prior to the pandemic. Dublin, Dublin commuter counties and outside the Greater Dublin Area (GDA) all contributing to the increase. The biggest percentage increase is in Dublin's commuter counties, where commencements have increased by 43% relative to pre-pandemic levels.

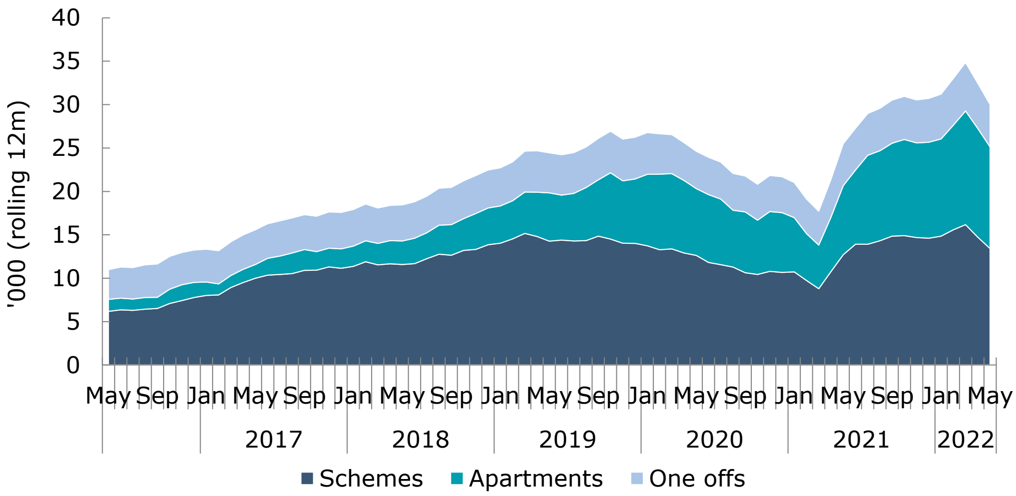
Big post-lockdown bounce in housing starts



Source: Goodbody, DoHELG, CSO

More recently, commencements have not maintained their post-lockdown highs, with the annualised rate of commencements in the three months to May 2022 standing at c.31K. In the first five months of 2022, a total of c.12K units have been commenced, 14% higher than the same period in 2019. Within this, there are important divergences between houses and apartments. We estimate (using BCMS data) that the number of units commenced in housing schemes is down 6% in the five months to May 2022 relative to the same period in 2019. In contrast the number of apartments commenced is up 78%. The trends are starker in Dublin, where scheme commencements are 53% lower, but apartment commencements have doubled.

Breakdown of housing starts by type – apartments account for an increasing share



Source: Goodbody

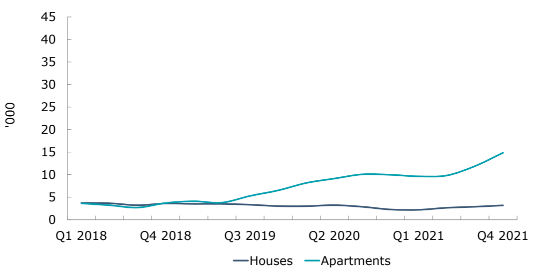
Housing commencements Jan-May 2022 versus 2019

	Total	Dublin	Mid-East	Rest of Ireland
Levels				
Schemes	5,370	711	1,983	2,676
Apartments	4,466	3,331	574	561
One-offs	2,030	59	289	1,682
Total	11,867	4,101	2,846	4,920
% change from 2019				
Schemes	-6%	-53%	11%	10%
Apartments	78%	107%	-1%	78%
One-offs	-5%	-53%	-4%	-2%
Total	14%	26%	7%	10%
Actual change from 2019				
Schemes	- 367	- 801	202	232
Apartments	1,960	1,720	- 7	247
One-offs	- 112	- 66	- 13	- 33
Total	1,482	853	182	447

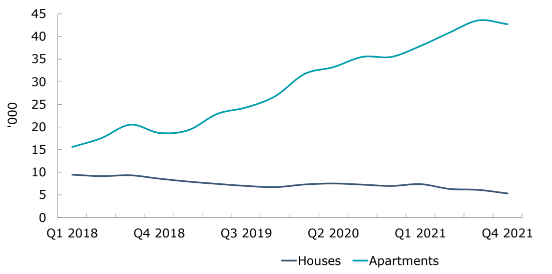
Source: BCMS, Goodbody Analytics

This important shift in tenure looks set to continue. As the following charts show, apartments made up over 80% of the residential units under construction in Dublin at the end of 2021. In addition, 89% of units with planning permission but not yet commenced in Dublin are apartments. Although government policies (Croí Conaithe) are being introduced to assist owner-occupier purchasing of apartments, it is likely that most of these units will be taken by the Build-to-Rent Sector (PRS), thus the number of new owner-occupier homes is likely to fall in Dublin over the coming years. The rising cost of building materials and interest rates also threatens the viability of some PRS schemes.

Units under construction in Dublin dominated by apartments...



...while the number of houses with planning permission not yet commenced falls further



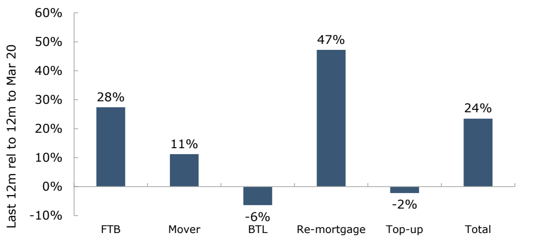
Source: Housing Supply Coordination Task Force

In addition to the increased share from the PRS sector, the government aims to increase the number of direct social builds significantly over the coming years. There were 5,200 direct builds (including turnkeys) in 2020, but this is expected to increase to an annual average of 10.3K units over the life of the Housing for All programme. An additional 4.1K cost rental and affordable homes are projected. This suggests that c.7K homes per annum will be available for the private owner-occupier sector over the life of the plan. This appears low based upon the scale of demand in the mortgage market for instance.

Demand supported by tight labour market & ongoing positive trend in mortgage approvals

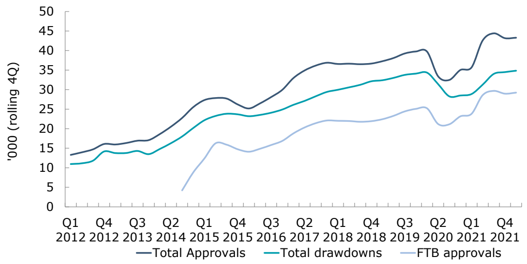
Housing demand continues at to hover at a high level, as evidenced by the ongoing high level of mortgage approvals. A total of 43K mortgages for home purchase were approved in the twelve months to April 2022, 8% higher than the twelve months prior to the pandemic (24% by value). Within this, the number of First-Time Buyer approvals are 16% higher than pre-pandemic levels. As shown in the chart below, there were 29K mortgages approved for first-time buyers in the past twelve months. This compares to just c.10K homes (including one-offs) that were added to the owner-occupier stock over the past twelve months. Unsurprisingly given this lack of supply, average prices and average mortgage sizes have risen over the period (+13%).

Mortgage approvals are high relative to pre-pandemic levels...



Source: BPFI *chart relates to value of mortgages approved

...driven by increase in volume of first-time buyers



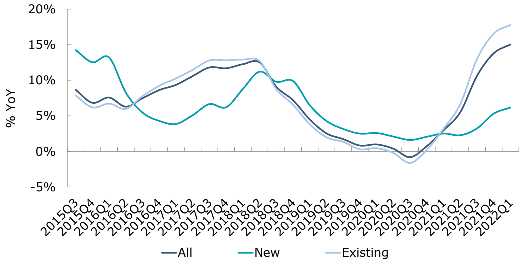
Source: BPFI *chart shows volume of mortgages approved

Price growth to ease from high levels but prices to go above previous peaks this summer

Have accelerated markedly following the initial weakness at the start of the pandemic, house prices in Ireland are now just 2% below their 2007 peak. We expect this peak will be surpassed this summer. This is despite an expected slowdown in the rate of growth over the coming quarters reflecting an easing of the pandemic rush, rising external uncertainties and higher interest rates. As the chart below shows, quarterly annualised price growth peaked at 25% in September 2021, but has eased to 9% nationally in the first quarter of 2022. The fastest price growth continues to be in the cheaper areas of the Border (+23% annualised growth in Q1) and the West (+22% annualised in Q1). Dublin, meanwhile, has seen the greatest slowdown in prices, growing at a quarterly annualised pace of 7% in Q1 2022.

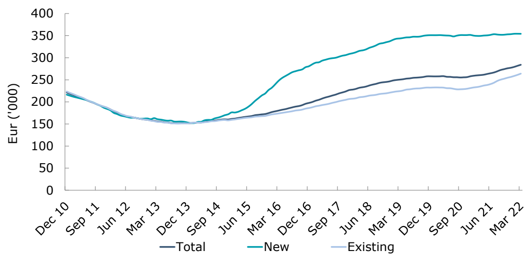
A significant gap remains between new and second-hand price inflation. Existing homes prices increased by 18% yoy in Q1, relative to just 6% yoy for new homes. For the full series since 2010, second-hand prices have grown by 49% relative to the 15% growth in new home prices. Despite this, the median new home price is still higher than the median second-hand home, but this is comparing apples with oranges given the quality differences that exist between new and second-hand homes around the country.

Existing home prices rising at a much faster pace than new homes...



Source: CSO

...closing the price premium paid on new homes, but quality differences matter



Source: CSO

Public Finances - Inflation a double-edged sword

Tax revenues have continued to benefit from the reopening rebound at the start of 2022. In the four months to April, tax revenues grew by 31% yoy and are up 37% compared to the same period in 2019. Three tax headings are contributing to this improvement in particular – income tax (+27%), corporation tax (+153%) and VAT (+43%). The performance of the multinational sector is a major explanatory factor within the first two of these, with record levels of profitability and hiring pushing taxes higher.

While still early in the year, there is a possibility that the deficit may be gone completely by the end of the year. This compares to a general government deficit forecast of €8bn in Budget 2022. It is, however, early days, with further spending pressures emanating from the Ukrainian migrant and cost-of-living crises still to come.

Fiscal forecasts - Ireland

	2018	2019	2020	2021	2022f	2023f
Budget deficit (Eur m)	487	1,823	-18,417	-8,522	-1,499	2,270
Budget Deficit (% of GDP)	0.1%	0.5%	-4.9%	-2.0%	-0.3%	0.5%
Budget Deficit (% of GNI*)	0.2%	0.7%	-6.5%	-3.9%	-0.6%	0.9%
Gen. Gov. Debt (Euro m)	205,847	203,981	217,912	240,184	238,929	239,614
Gen. Gov. Debt (% of GDP)	63%	57%	58%	57%	53%	51%
Debt/GNI*	104%	95%	105%	109%	103%	98%
Interest/GDP	1.6%	1.2%	1.0%	1.0%	0.9%	0.8%
Primary balance	1.8%	1.8%	-3.9%	-1.1%	0.5%	1.3%
Average interest rate	2.5%	2.2%	1.8%	1.7%	1.6%	1.6%

Source: DoF, NTMA, Goodbody

Expenditure is down by 5% yoy, with the easing of PUP payments being the big explanatory factor. Excluding Social Protection, spending is up 6% for the first four months. This is close to the target for the full year (+5.6%). The ending of the EWSS at the start of this month will exert further downward pressure on spending in the coming months.

At this stage, we are pencilling in a small deficit of just 0.4% of GNI for 2022, with a move to surplus in 2023. Given the uncertain environment that currently exists there are notable risks around this forecast. On the revenue side, the biggest risk surrounds an unwind of the boom in corporation tax receipts, which are expected to represent 22% of tax revenues in 2022, a doubling of its share since 2014. A boom in profitability in the multinational sector has been a major contributory factor in this, particulalry in the technology and pharmaceutical sectors. With profitability likely to weaken over the coming quarters, taxes from the multinational sector (from income and corporation tax) are under some threat.

Rising inflation and the cost of Ukrainian refugees are the two major pressures on the public finances. The table below list some of the fiscal measures that have been introduced in 2022 in relation to cost-of-living measures. We include the extension of the 9% VAT rate on hospitality in this table. Given the onoing high cost of energy, we expect further actions to be taken later this year at the time of Budget 2023. The full cost of housing Ukrainian refugees is unknown at this stage, but the government has committed to utilise the remaining €2.5bn (of €3.9bn in total) of the COVID reseve fund for 2022 for this purpose.

Cost-of-living measures introduced in 2022 to date		
Date	**Measure**	**Eur cost**
10 February	Energy credit (E200)	505
	20% reduction in transport fares	
	€125 lump sum fuel allowance	
	Reduction in Drug Payment Scheme threshold	
	Lower school transport fees	
9 March	Lower excise duty	320
11 March	E100 haulier support scheme	18
13 April	VAT reduction on electricity & gas	180
	€100 lump sum fuel allowance	
	Extension of excise duty reduction	
	Reduction in PSO levy	
10 May	Extension of 9% VAT rate for hospitality	250
	Total	**1,273**

Source: Goodbody, DoF

With ECB bond purchasing ending imminently, there is expected to be further upward pressure on government bond yields over the coming years. For 2022, the NTMA has already cancelled its bond auction planned for June as a result of its large cash balances and is likely to borrow below its previously stated targeted range of €10-€14bn this year.

It is in Ireland's interest to continue to limit its borrowing requirement. However, while borrowing rates are rising, it is important to note that the bonds maturing in both 2023 (€7bn, 3.9%), 2024 (€8bn, 3.4%) and 2025 (€11.5bn, 5.4%) are at coupons well in excess of current interest rates. From an interest servicability perspective, therefore, debt sustainability can improve further over the coming years.

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