



An Roinn Airgeadais
Department of Finance

Irish economic developments and outlook

Presentation to Cork Chamber - Thought Leaders Council

John McCarthy

Cork, 20th June 2024

Setting the scene



- Economic developments in Ireland's main trading partners
- Domestic economic developments
- Trends in the public finances
- Beyond the short-term: structural economic change (the "4Ds")
- Conclusion

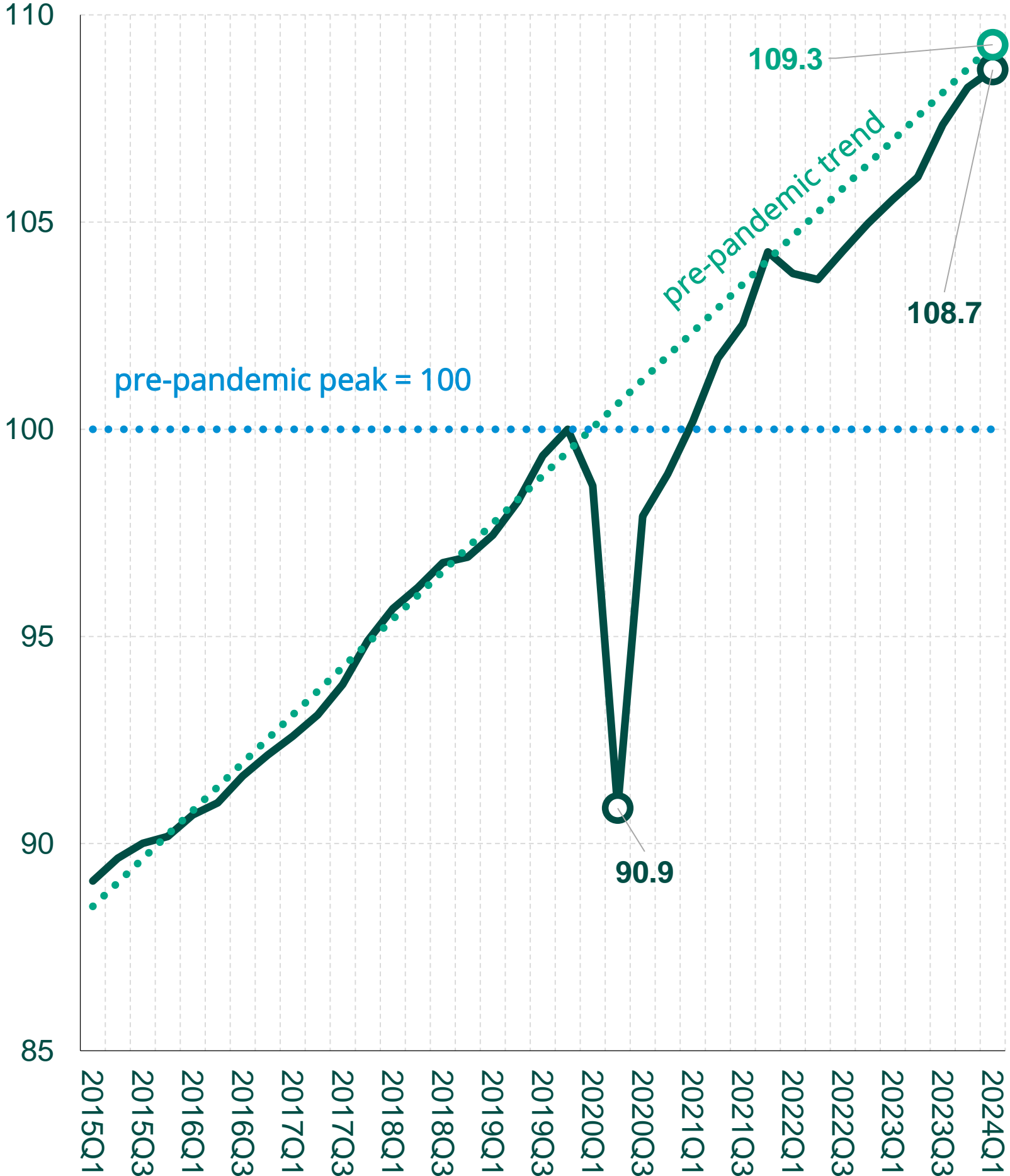


Economic developments in Ireland's main trading partners

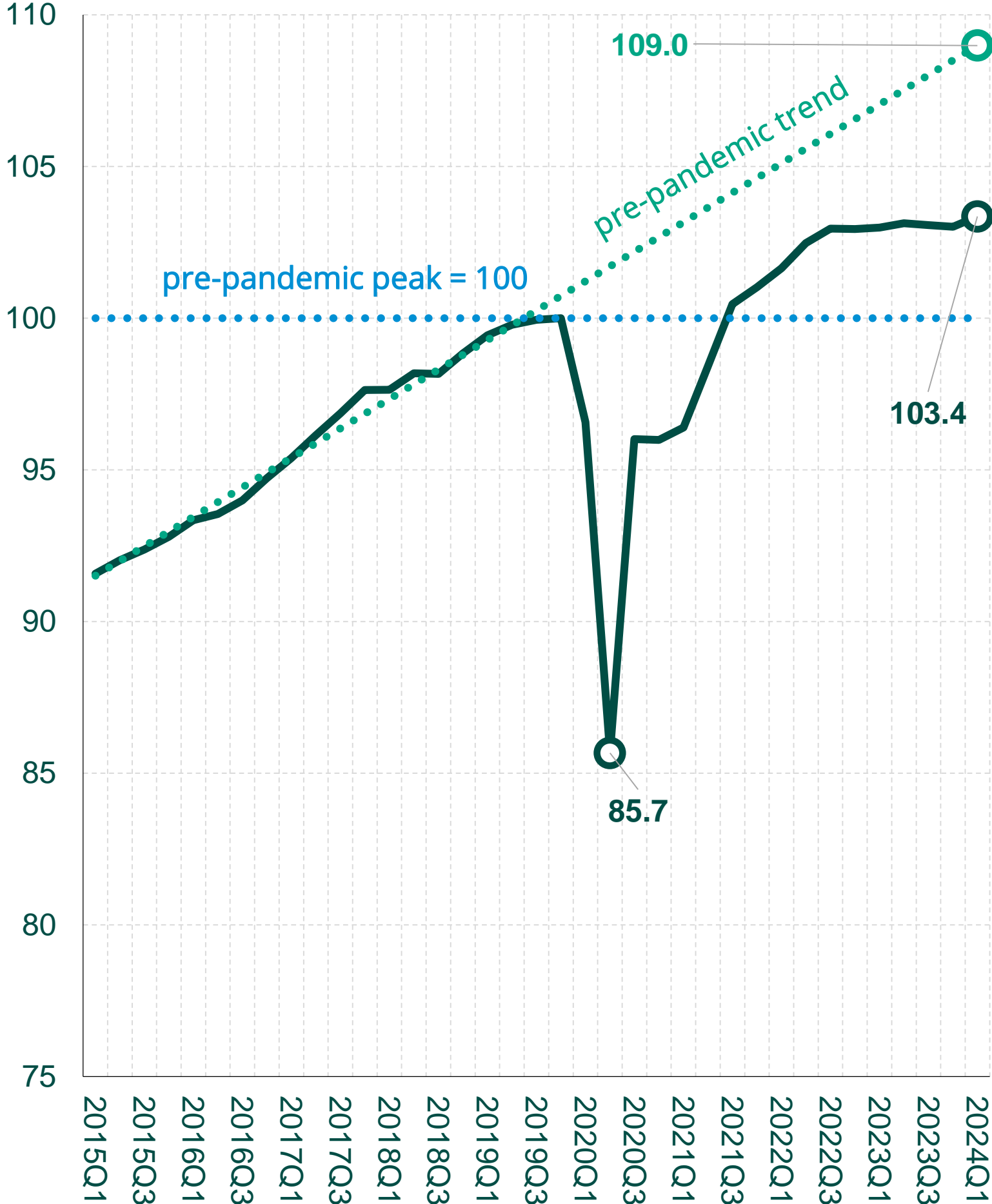
Heterogeneous demand in Ireland's main export markets



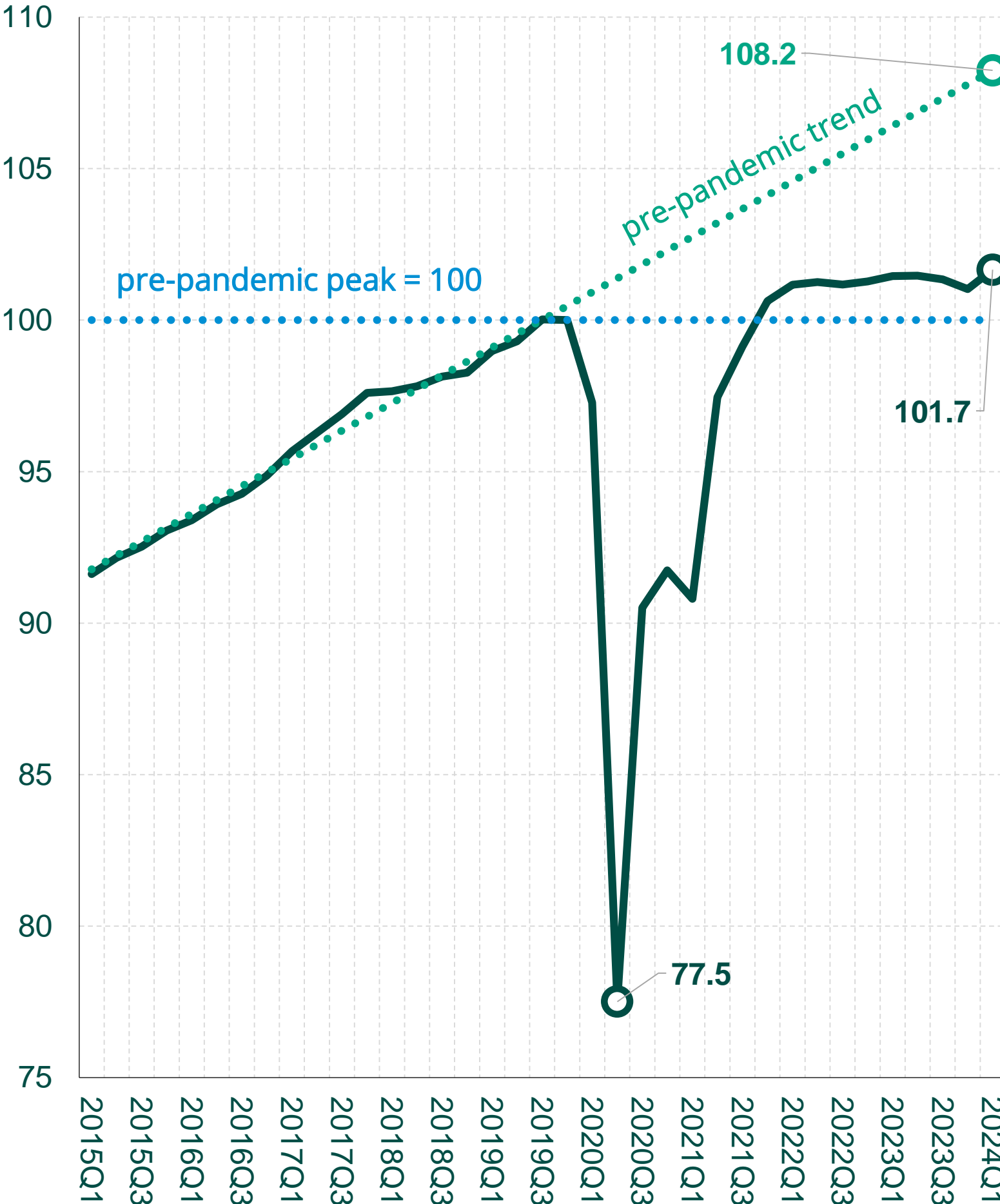
US GDP [covid]



EA GDP [covid + energy]



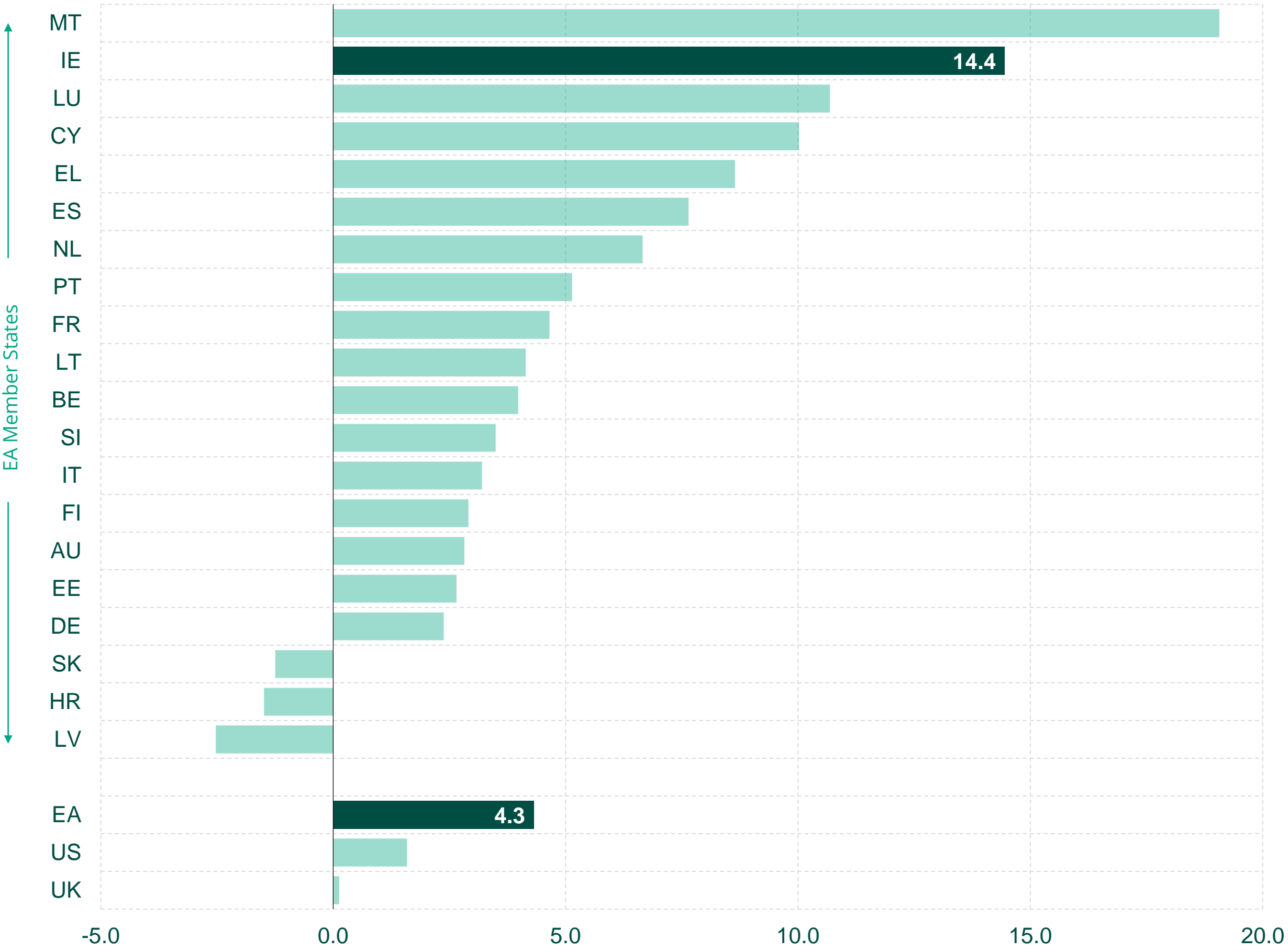
UK GDP [covid + energy + other]



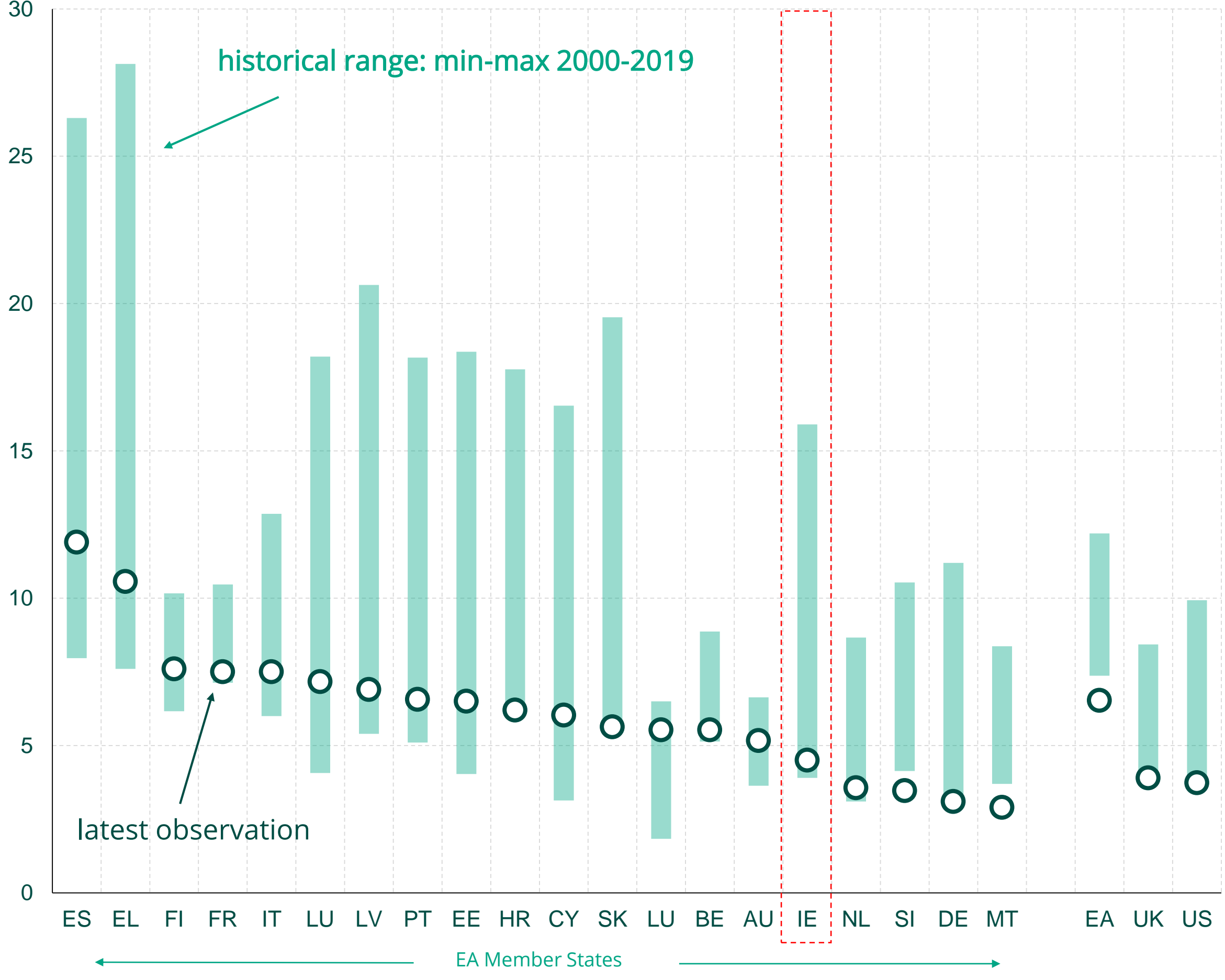
Labour markets very resilient in most advanced economies



Employment growth in Ireland vs main trading partners
(latest) 2024q1 vs (pre-pandemic) 2019q4 - % change



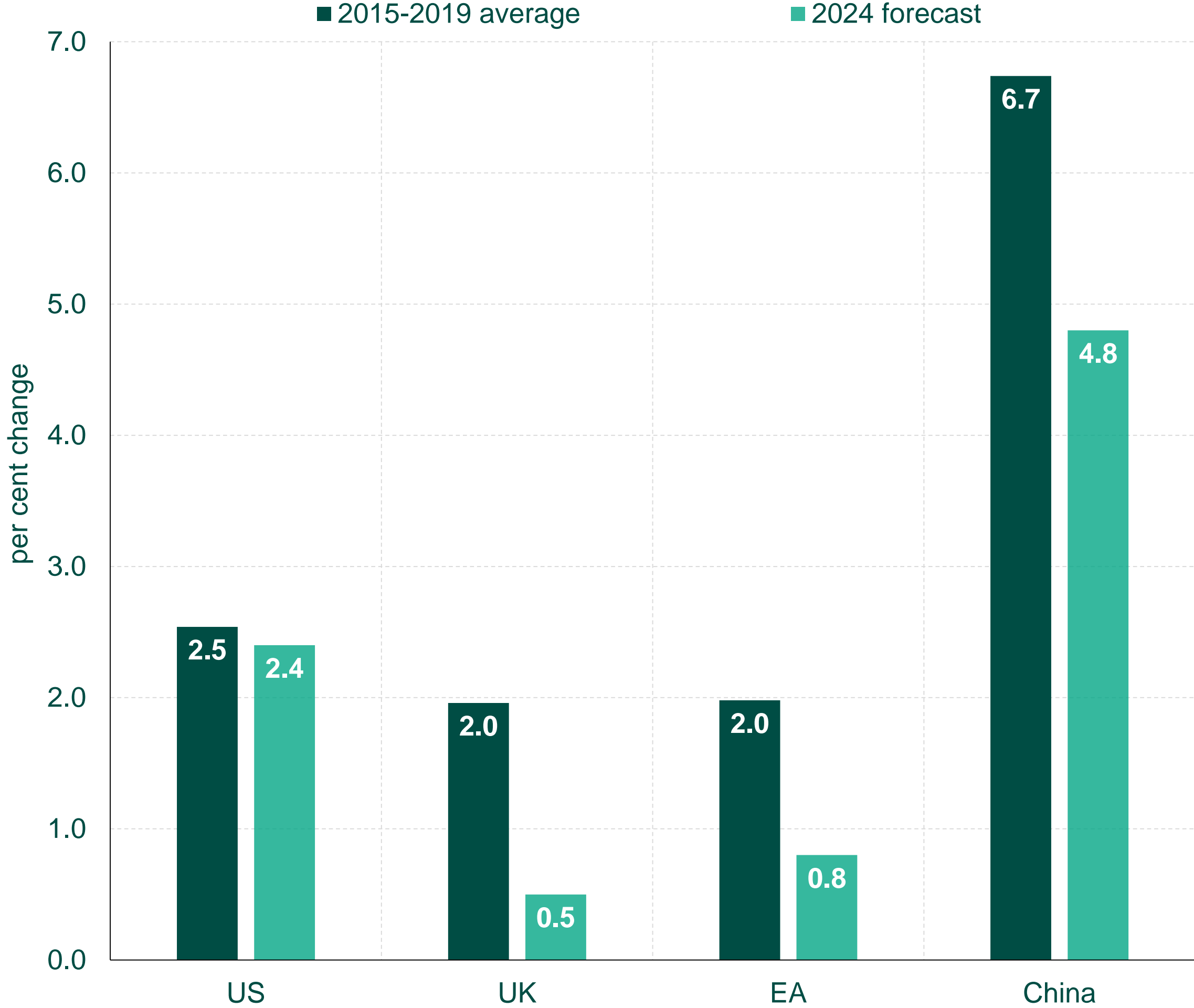
Unemployment close to historical lows in Ireland's MTPs



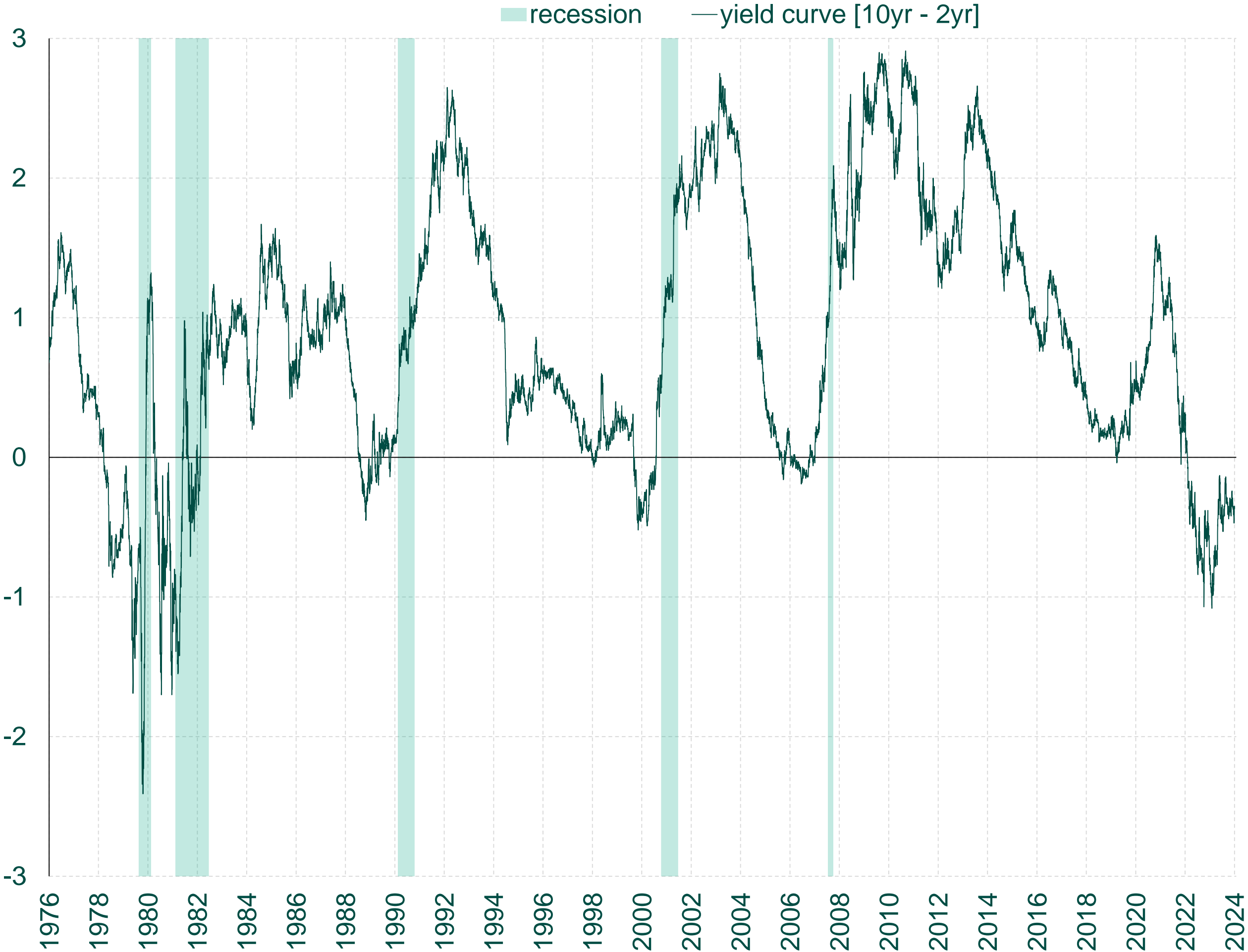
Outlook: modest external demand growth with risks to downside



Near-term growth = weaker growth than in recent past



Signalling power of the (US) yield curve



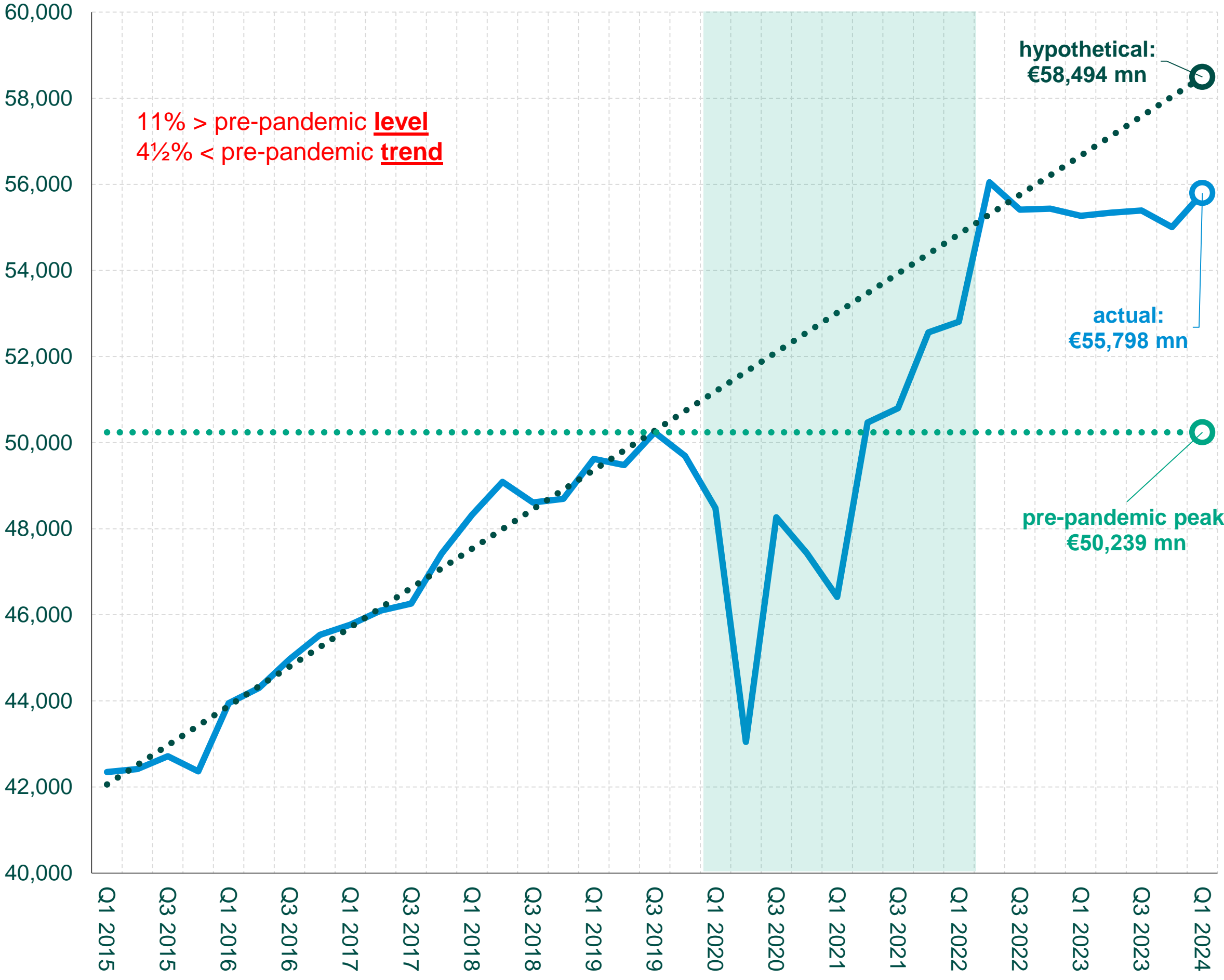


Domestic economic developments

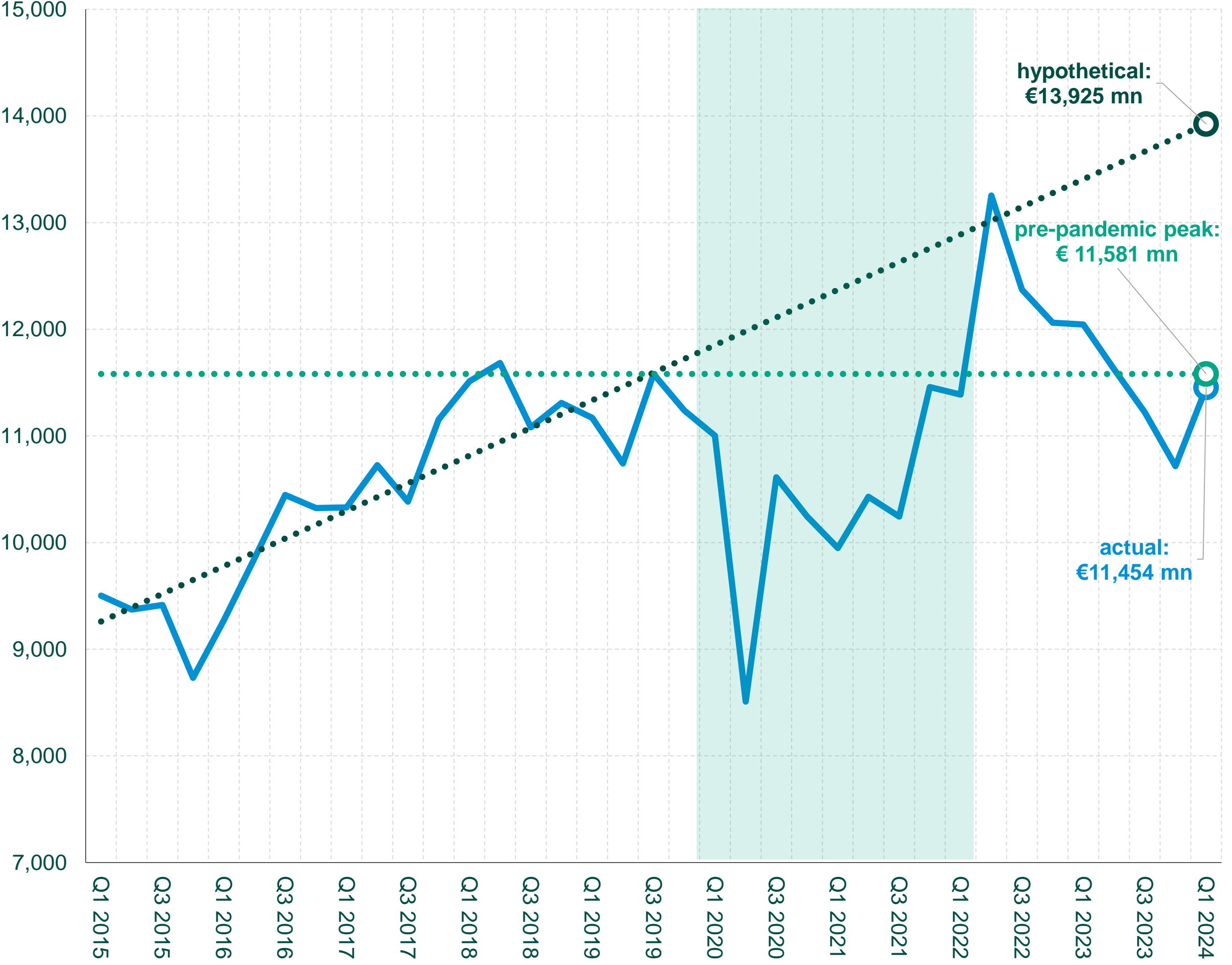
Modified domestic demand = key macro-metric for Ireland



MDD: jump in first quarter following sideways moves...



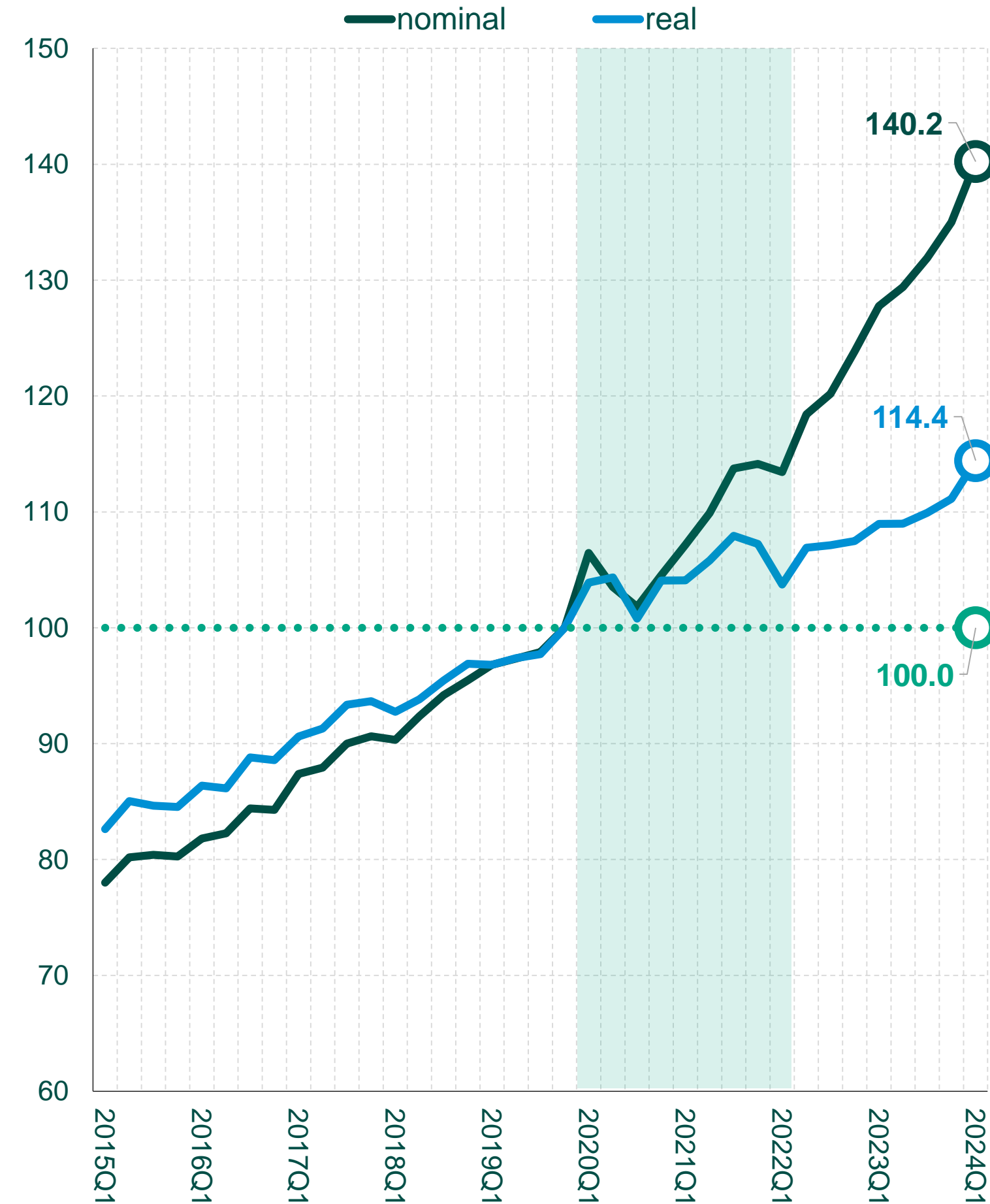
...mainly to (modified) investment spending



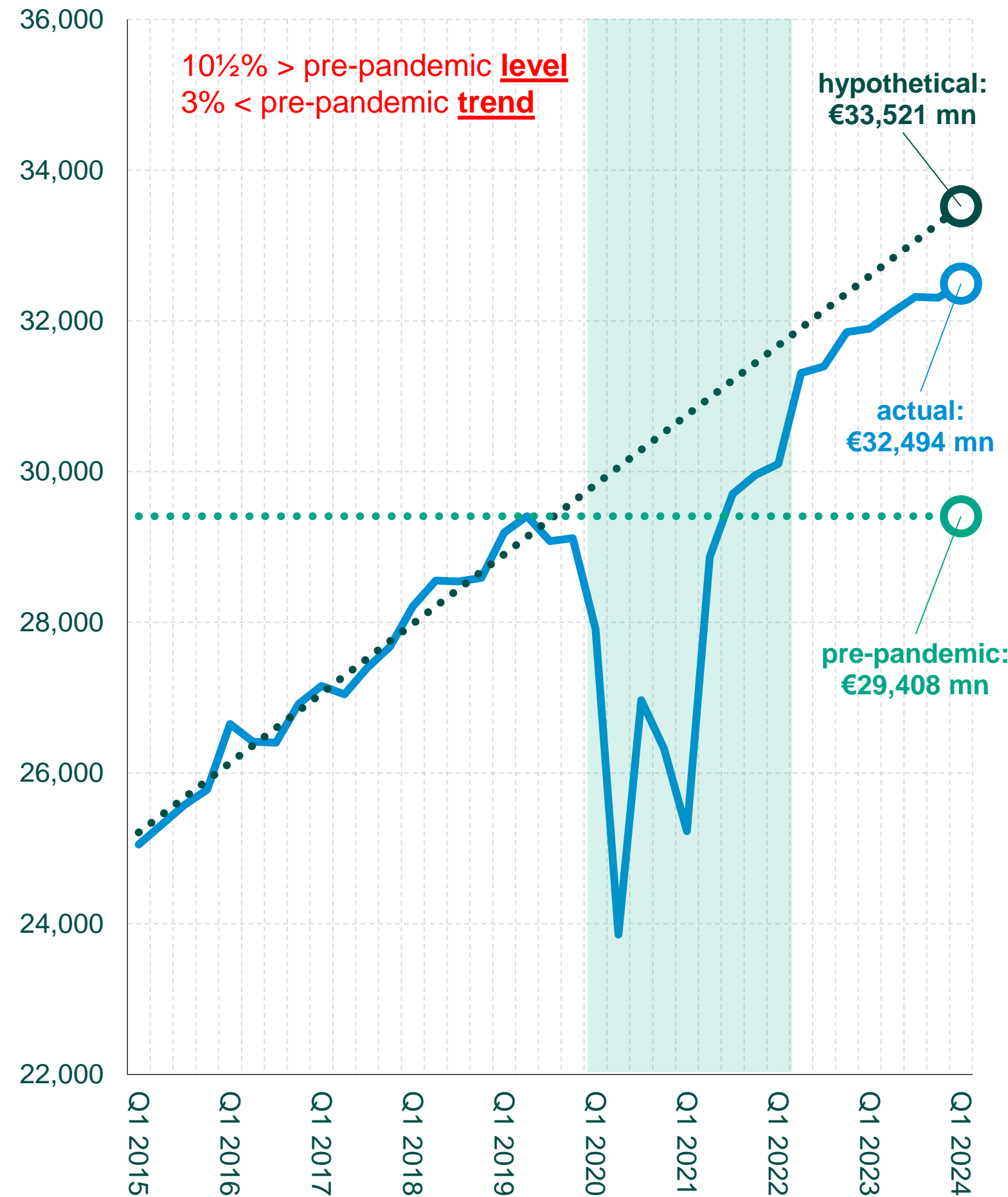
Consumer spending: real incomes rising once again



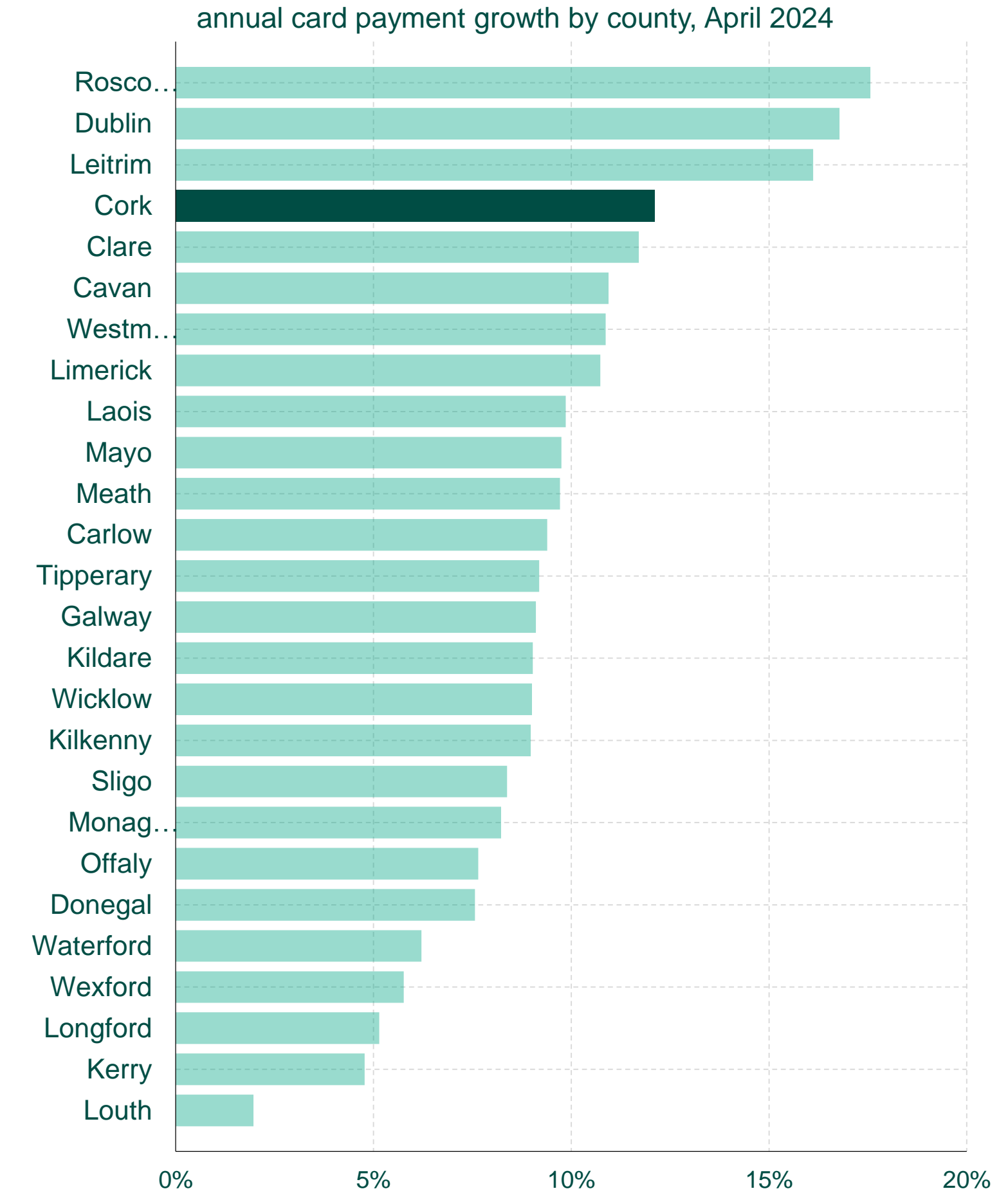
HH disposable income, 2019q4 = 100



Consumer spending supported by lower savings



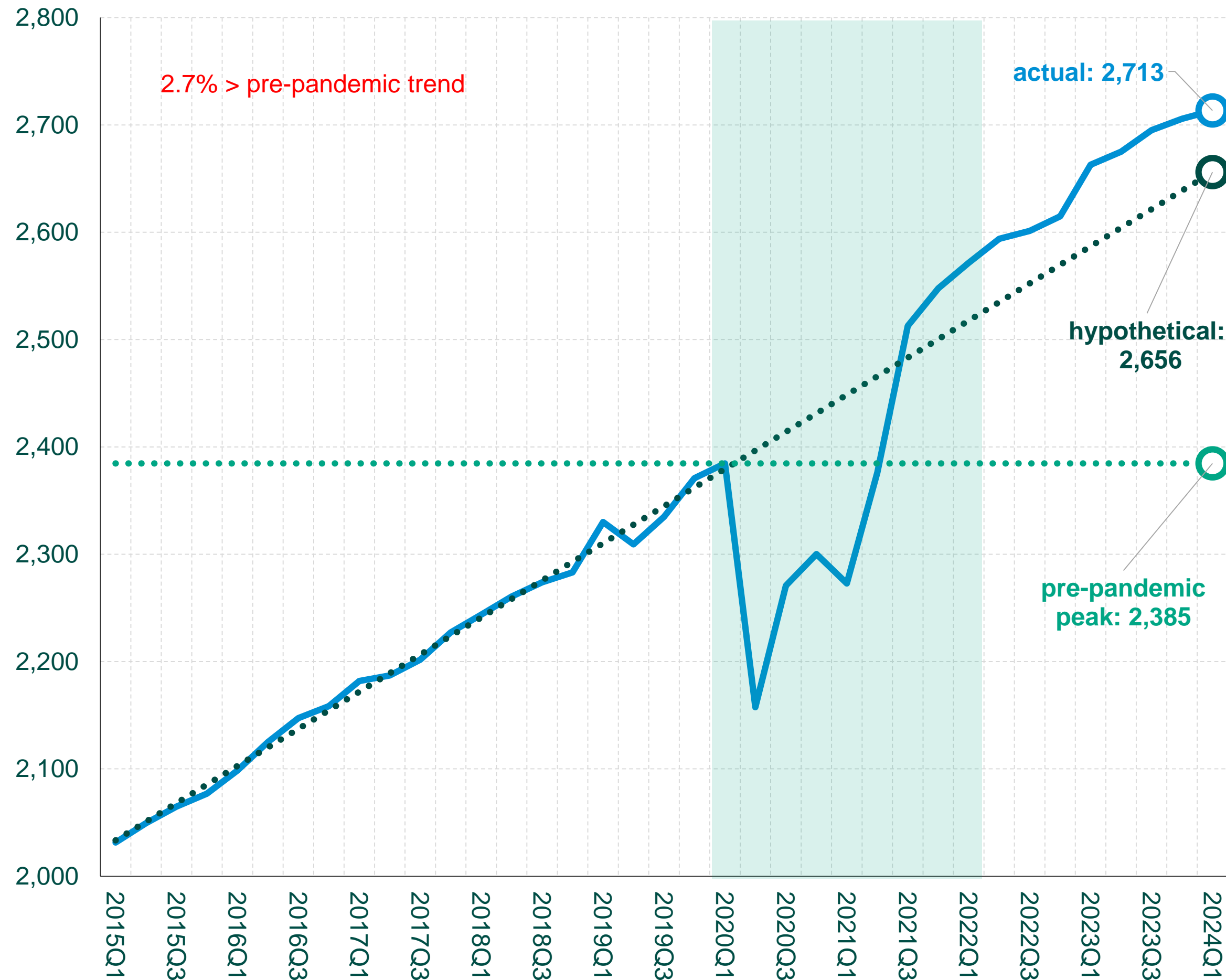
Strong spending growth in Cork



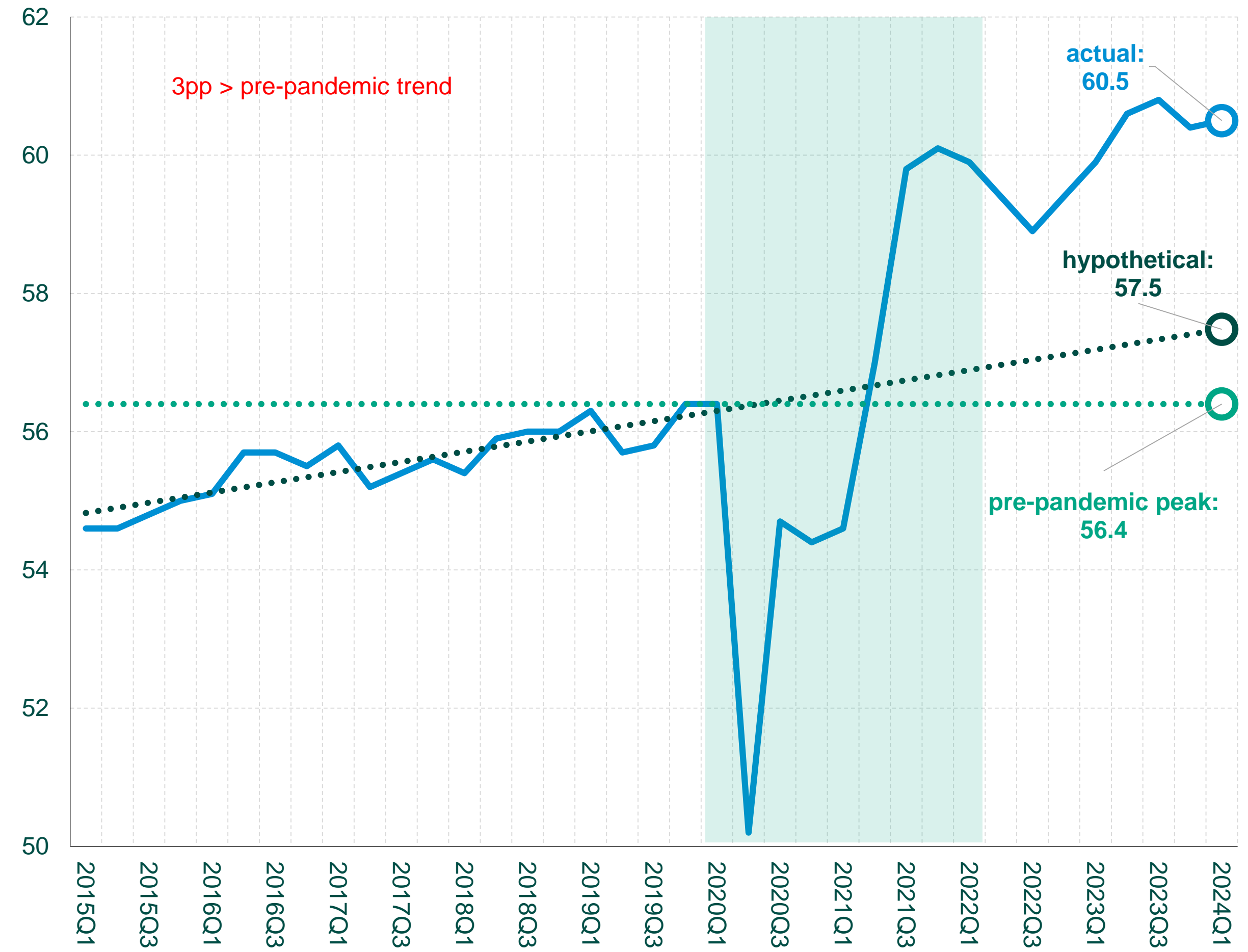
Employment v. strong – supported by positive supply-side developments



1-7 currently employed were not so on eve of pandemic



Female participation rates – cyclical and structural factors

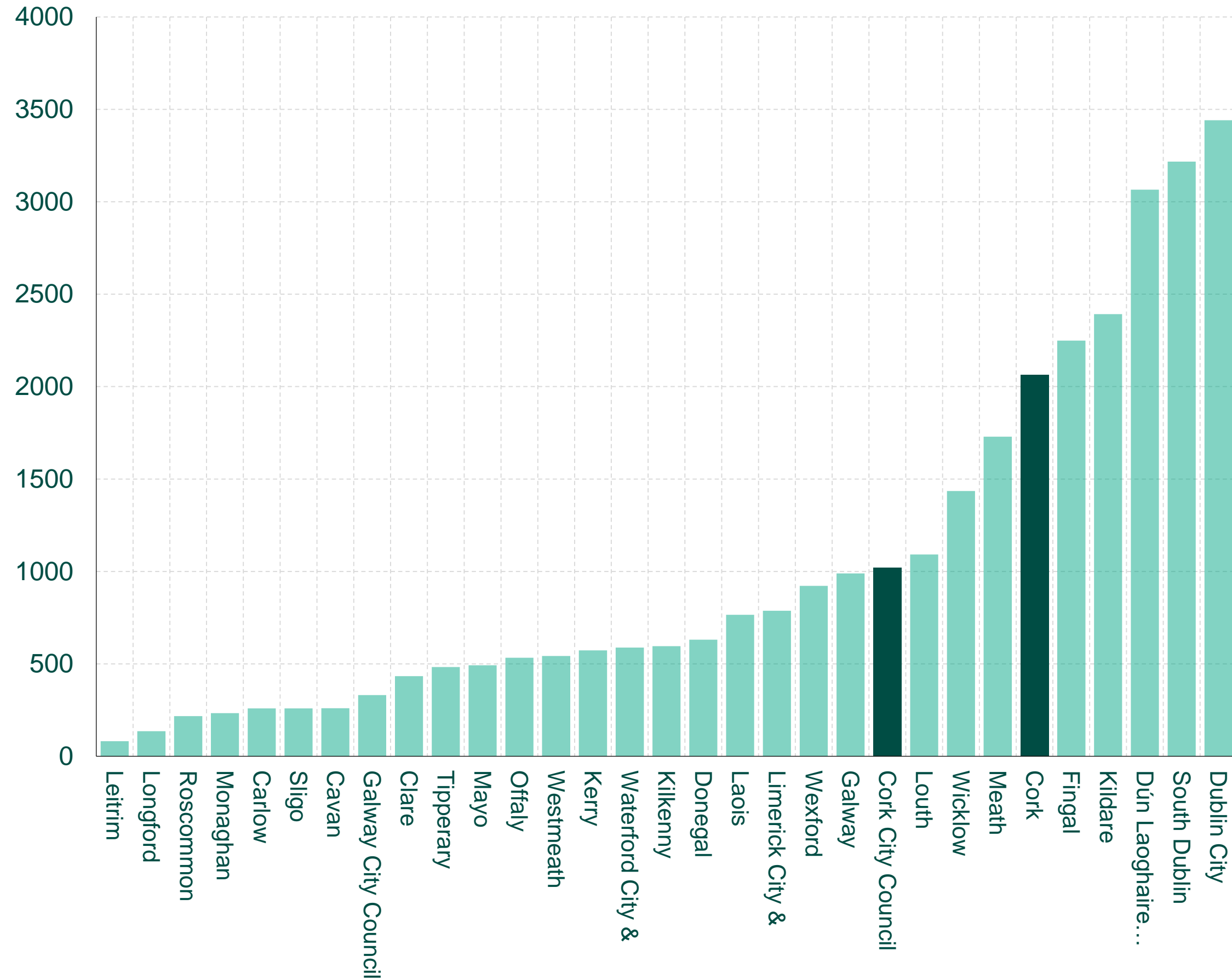


Strong labour market adding to demand for housing



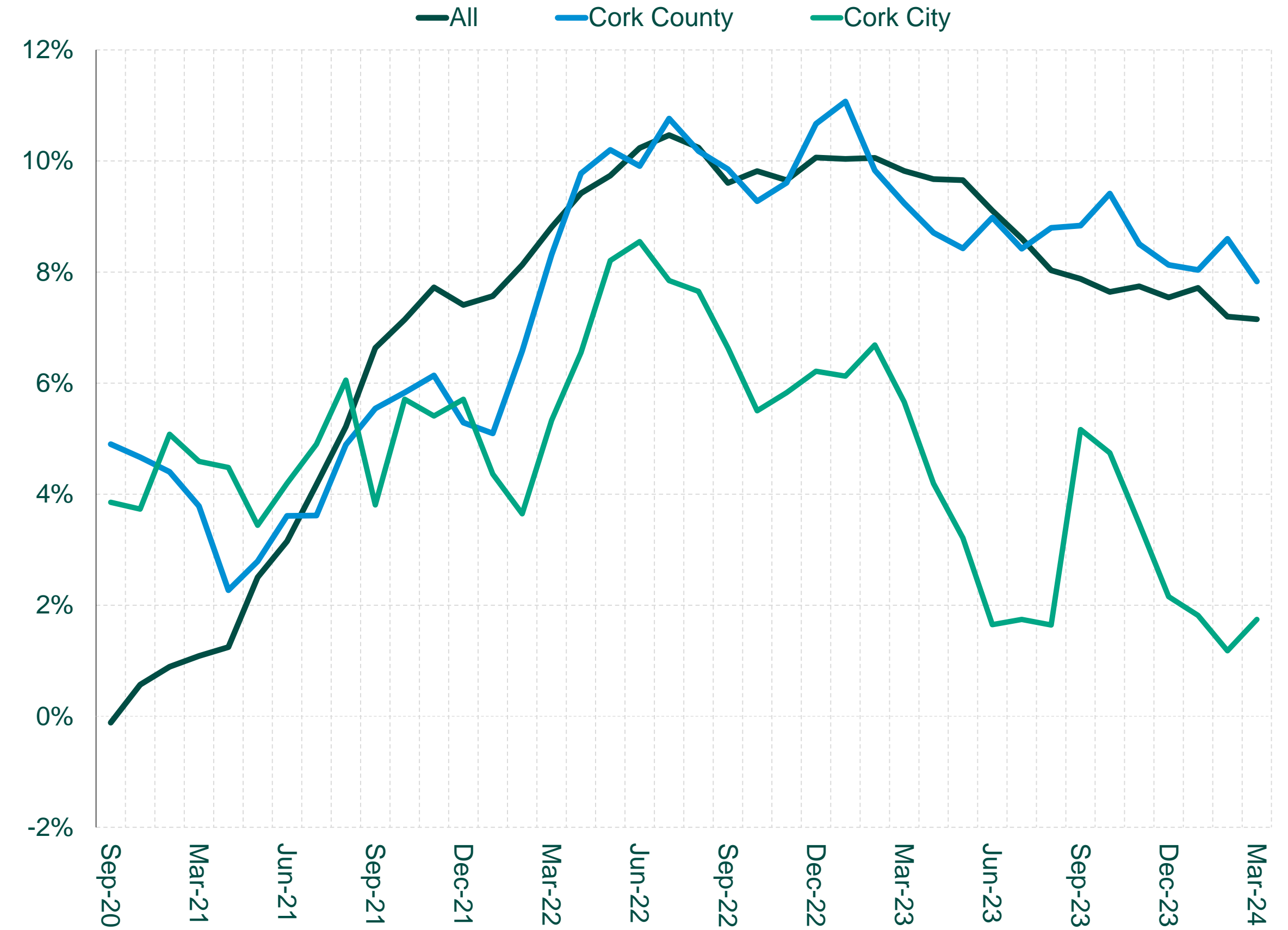
Supply response improving but still lagging demand...

Dwelling Completions, 4Q's sum to first quarter of 2024



...with D + S mismatch impacting on prices

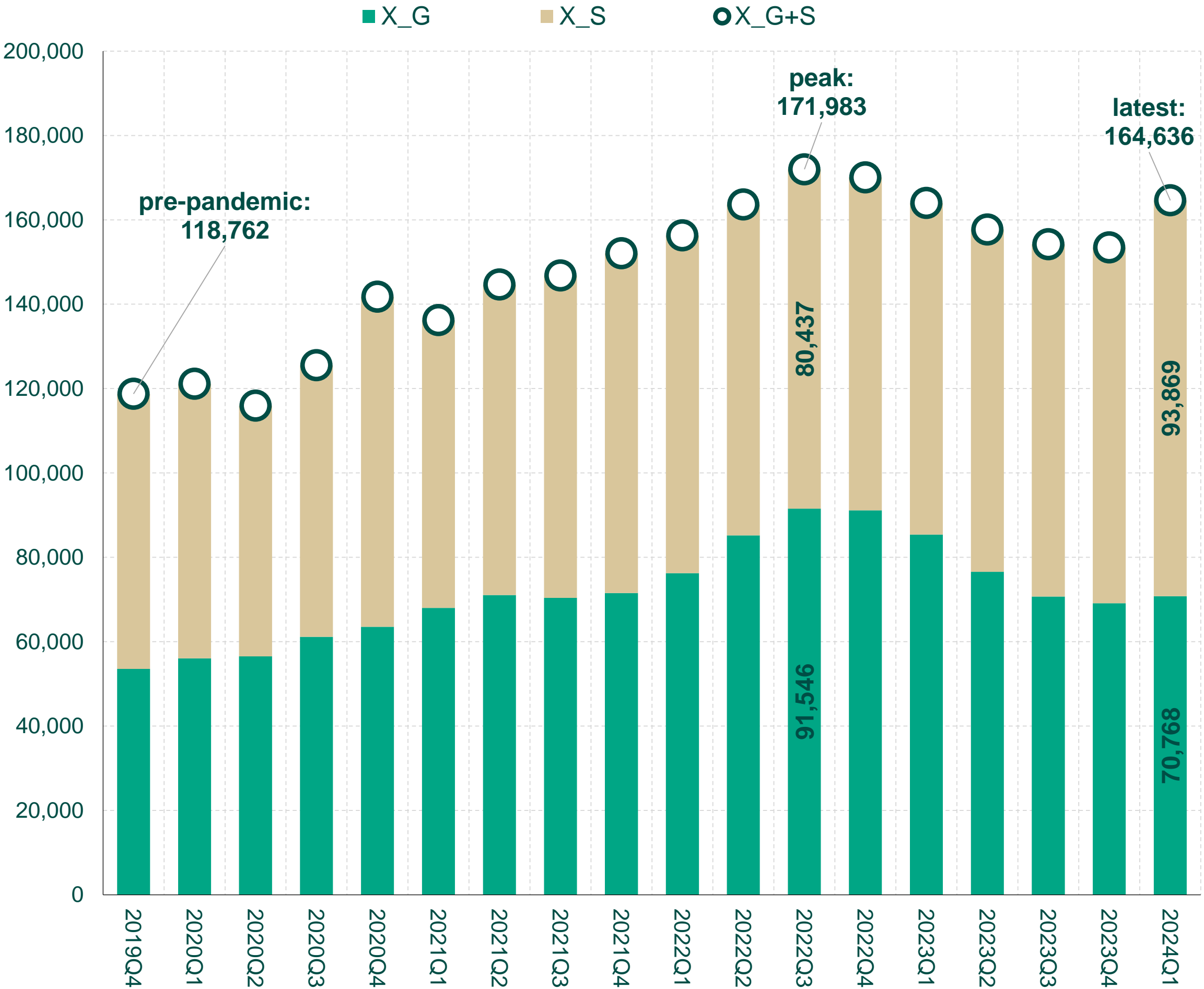
annual growth median house prices, 12 month average



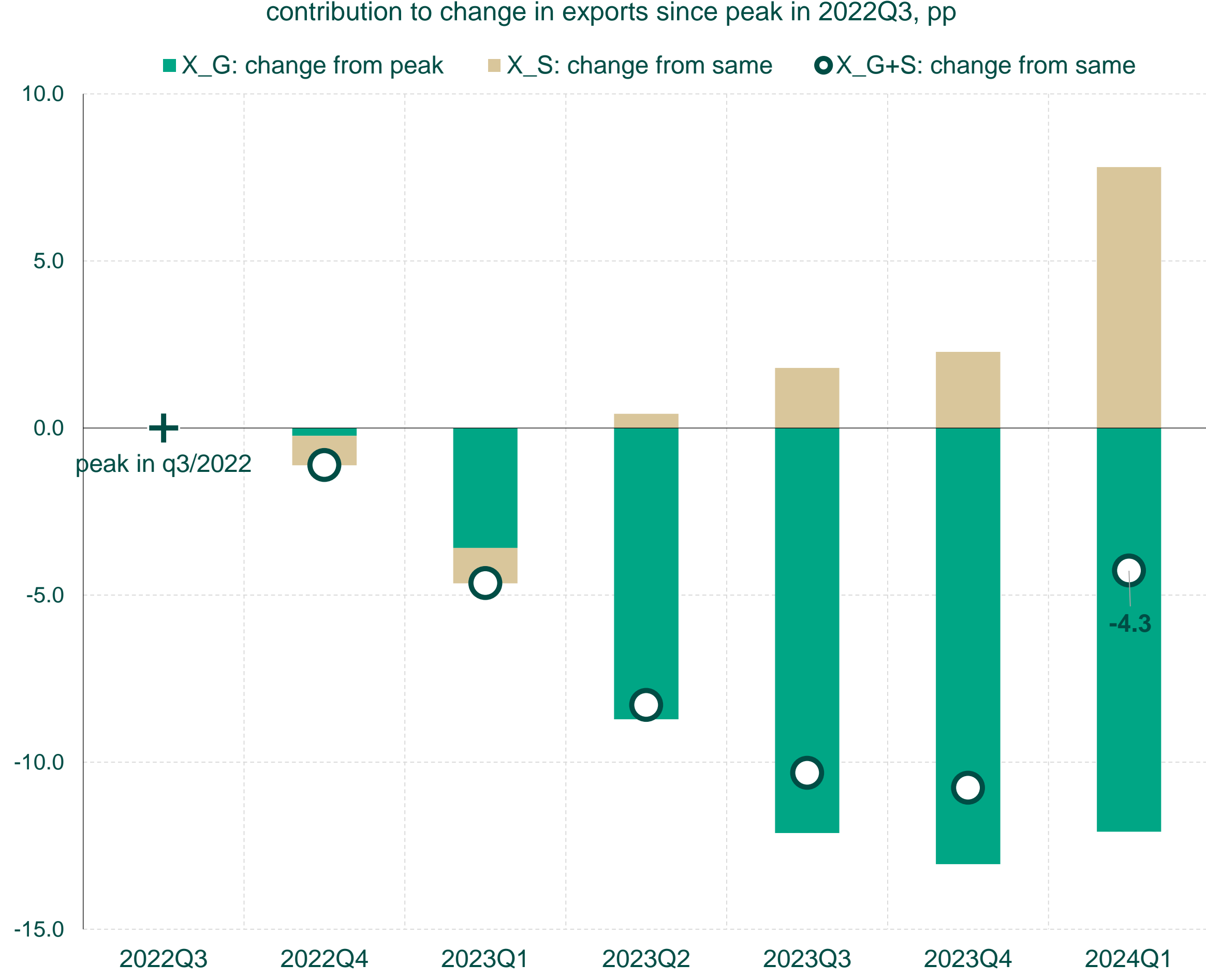
Sector-specific factors and their impact on Irish exports



Exports recovered in q1 following 'covid reversal'...



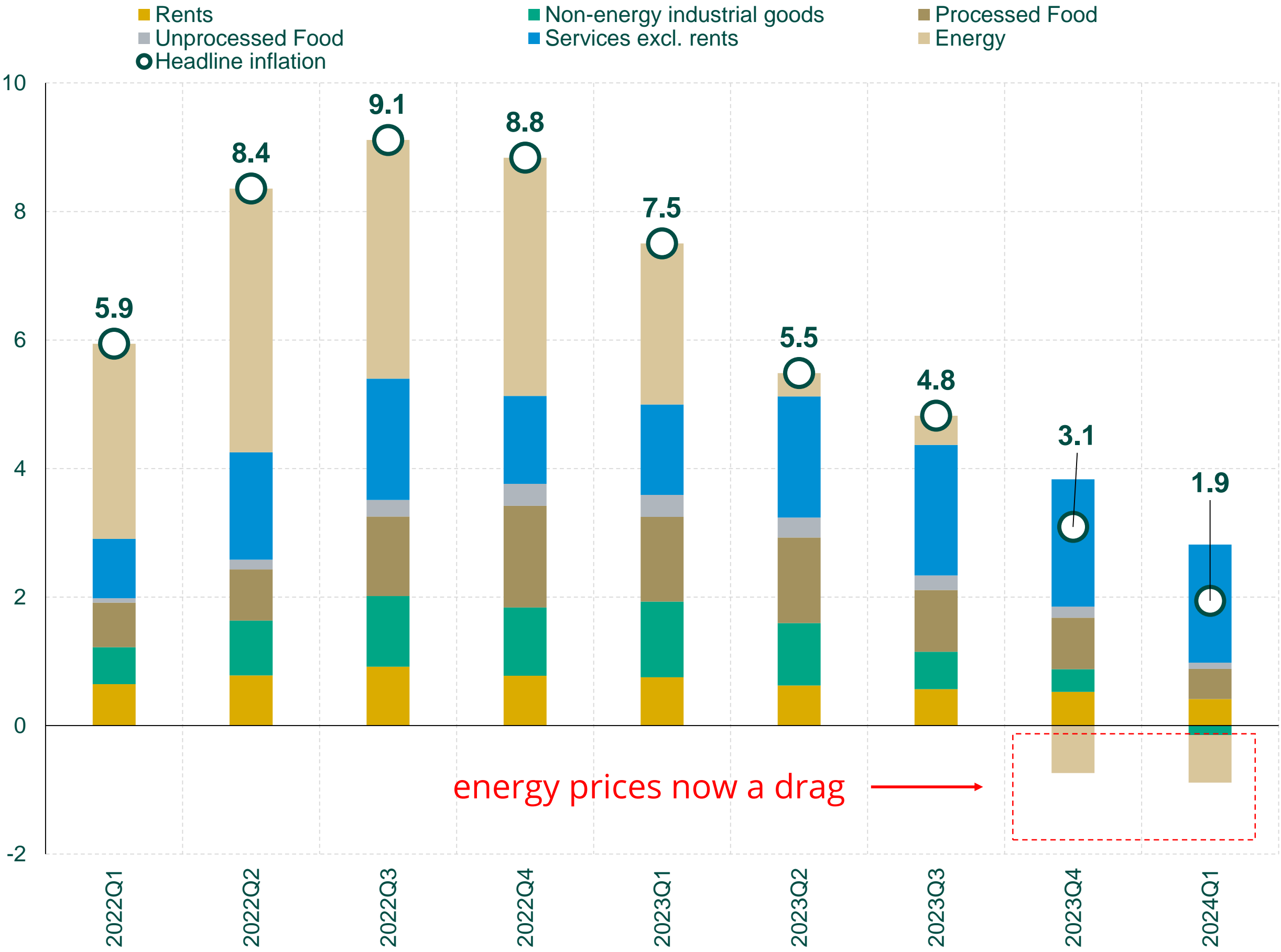
...partly reflects reversal of the "covid dividend"



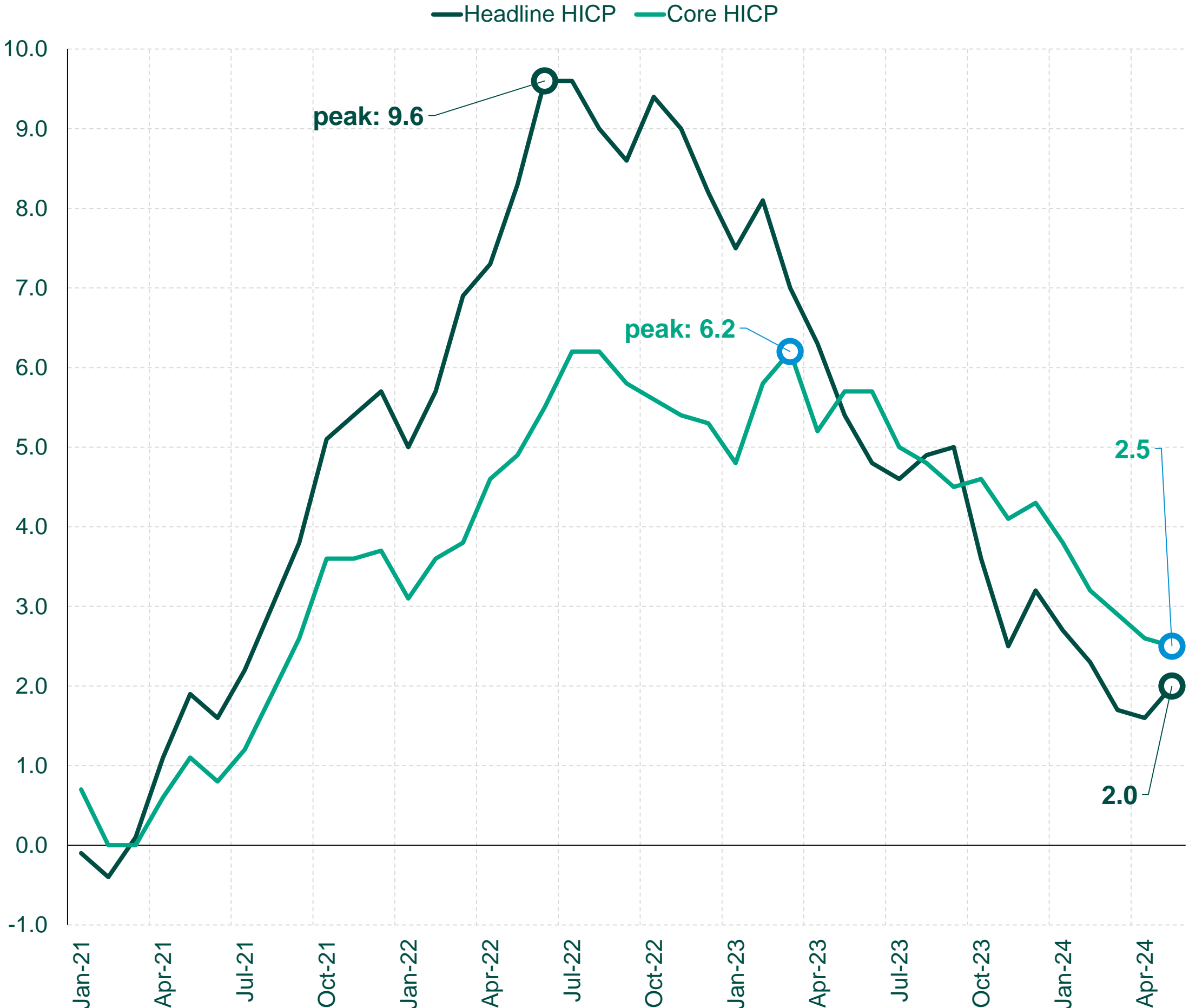
Price dynamics – last mile a problem ?



‘First-round’ effects from energy price shock are unwinding



Reducing (not eliminating) risk of ‘second-round’ effects



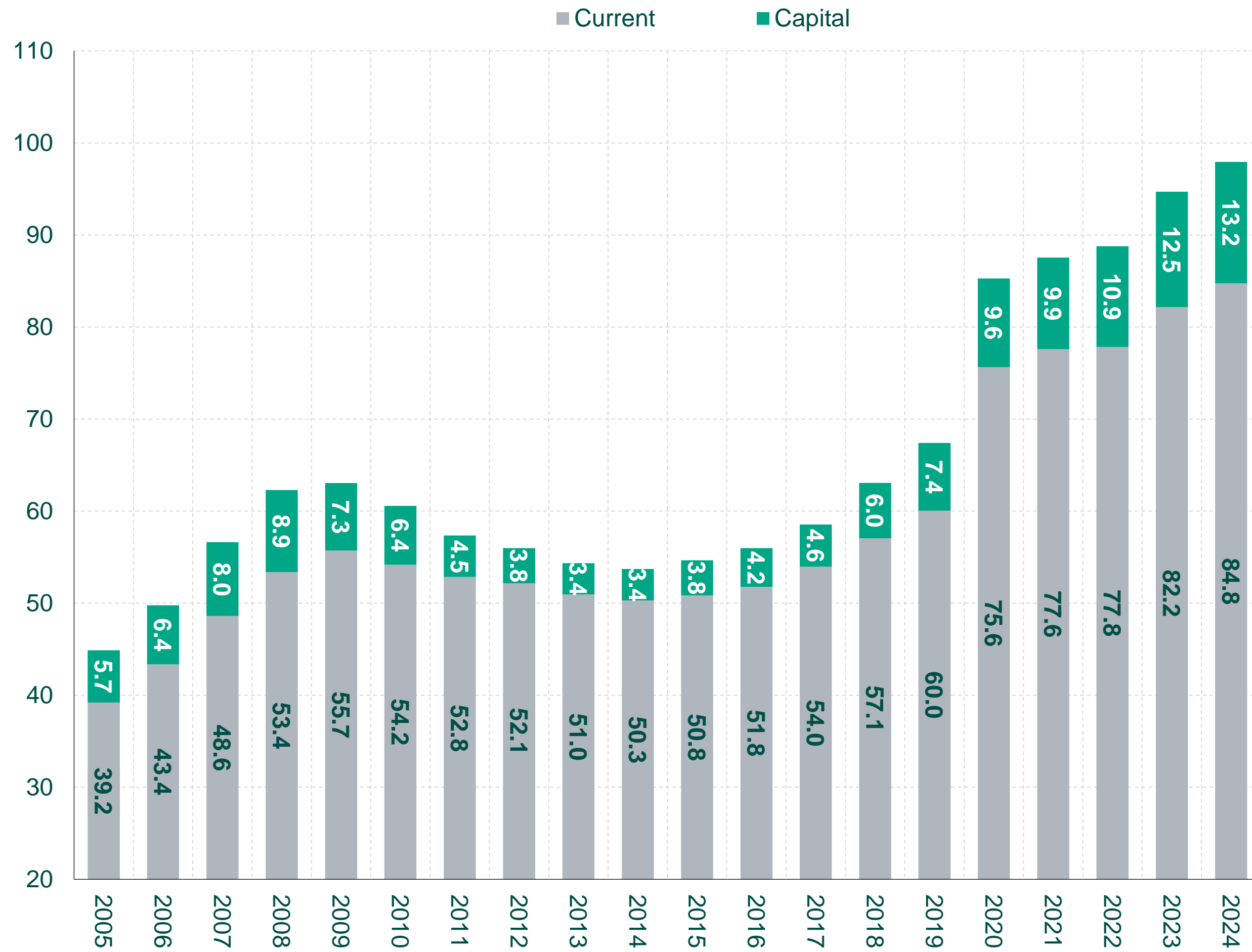


Trends in the public finances

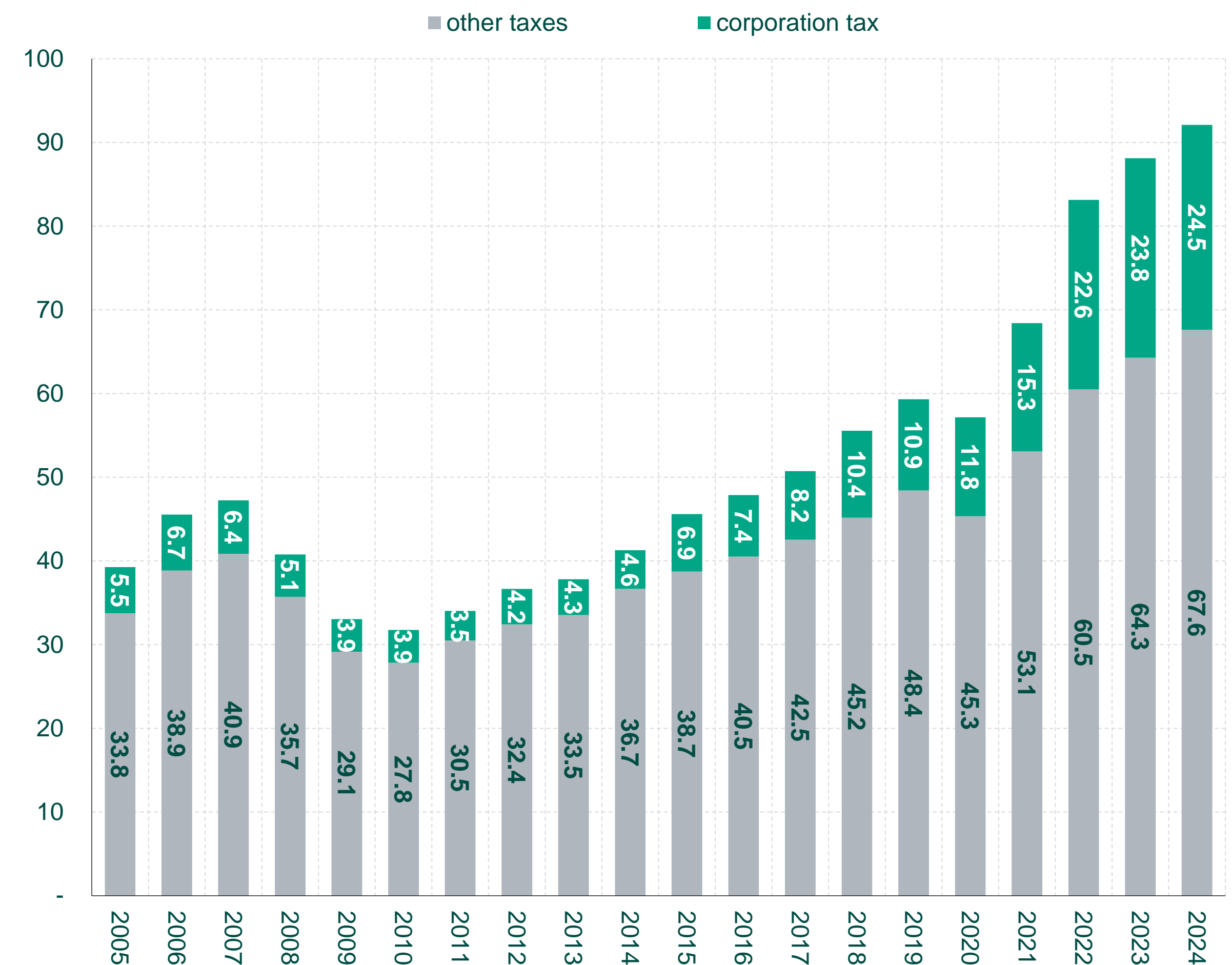
Headline fiscal developments



Public expenditure up c. 45% since pre-pandemic, € bn



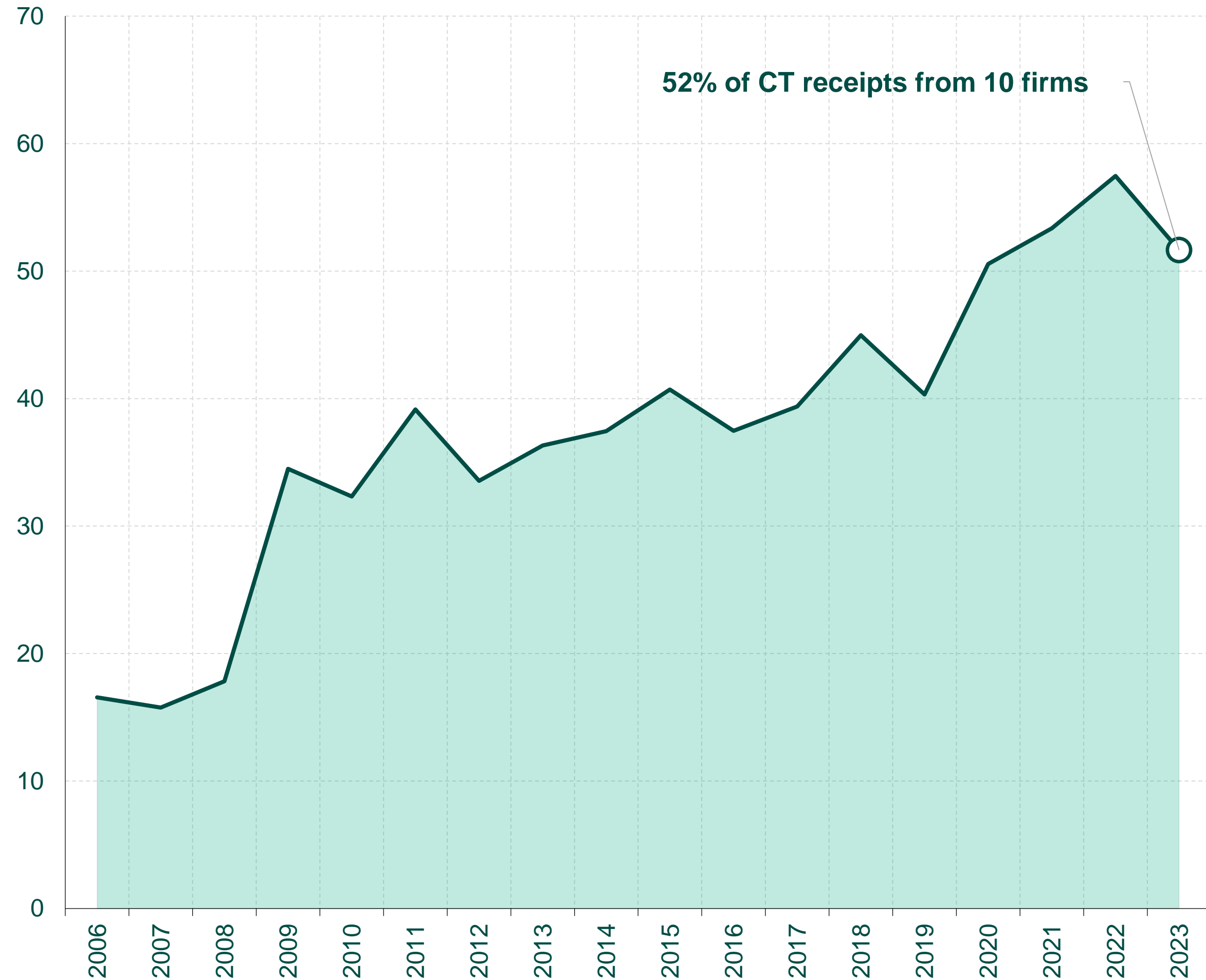
Funded by sharp increase in tax receipts, € bn



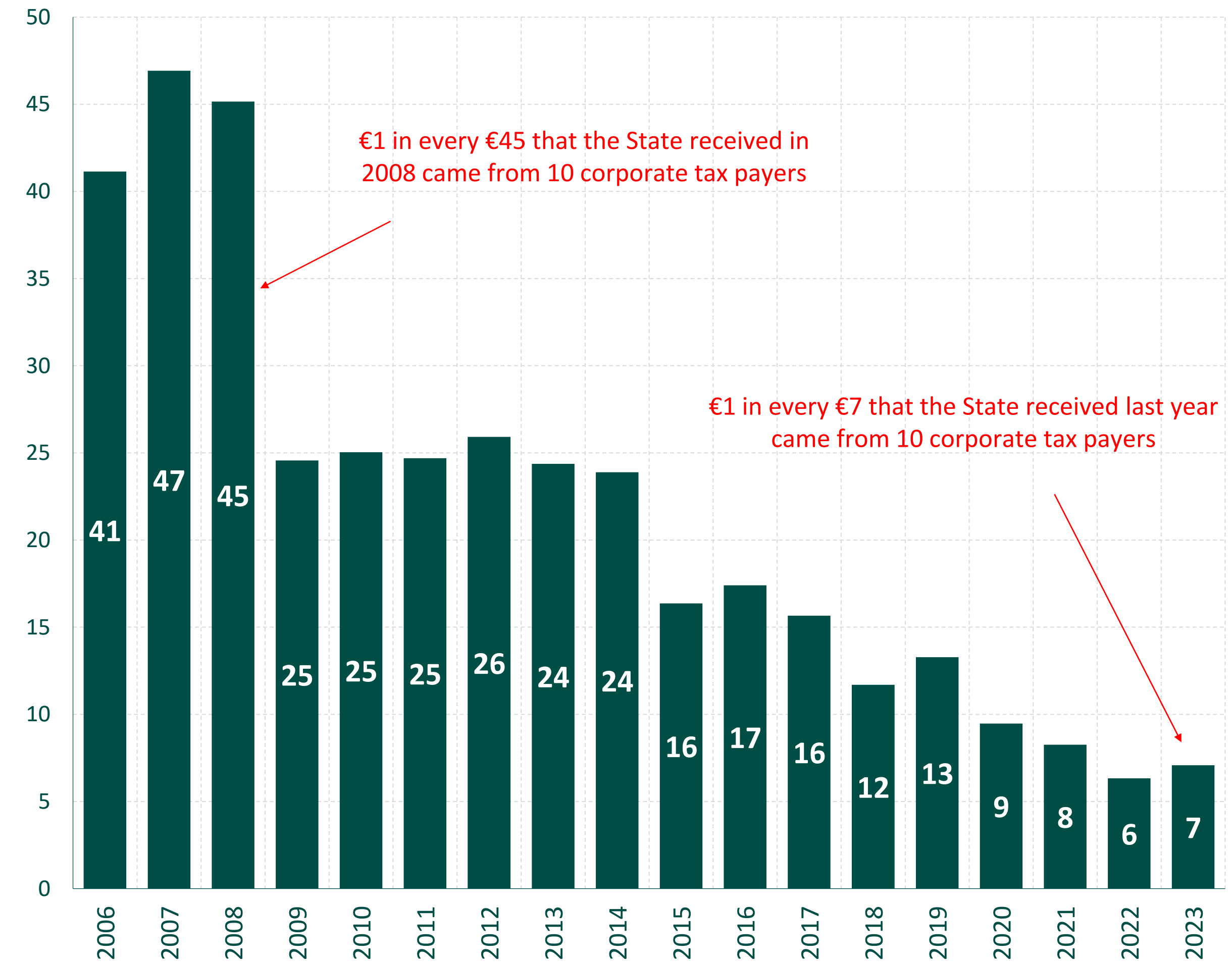
State's revenue highly concentrated within a small number of firms



Share of corporation tax receipts from 10 firms



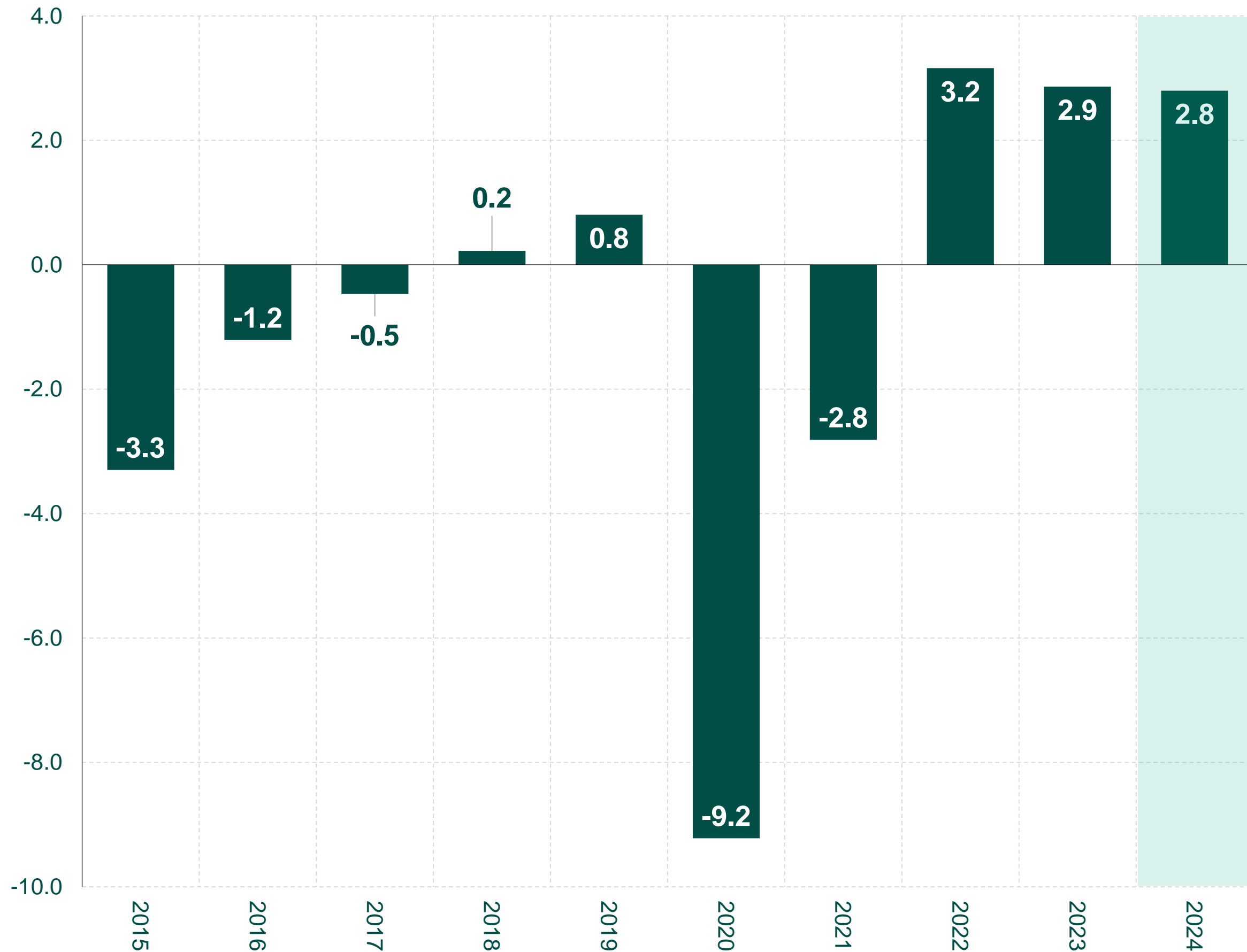
€1 in every €X of total tax receipts from 10 firms



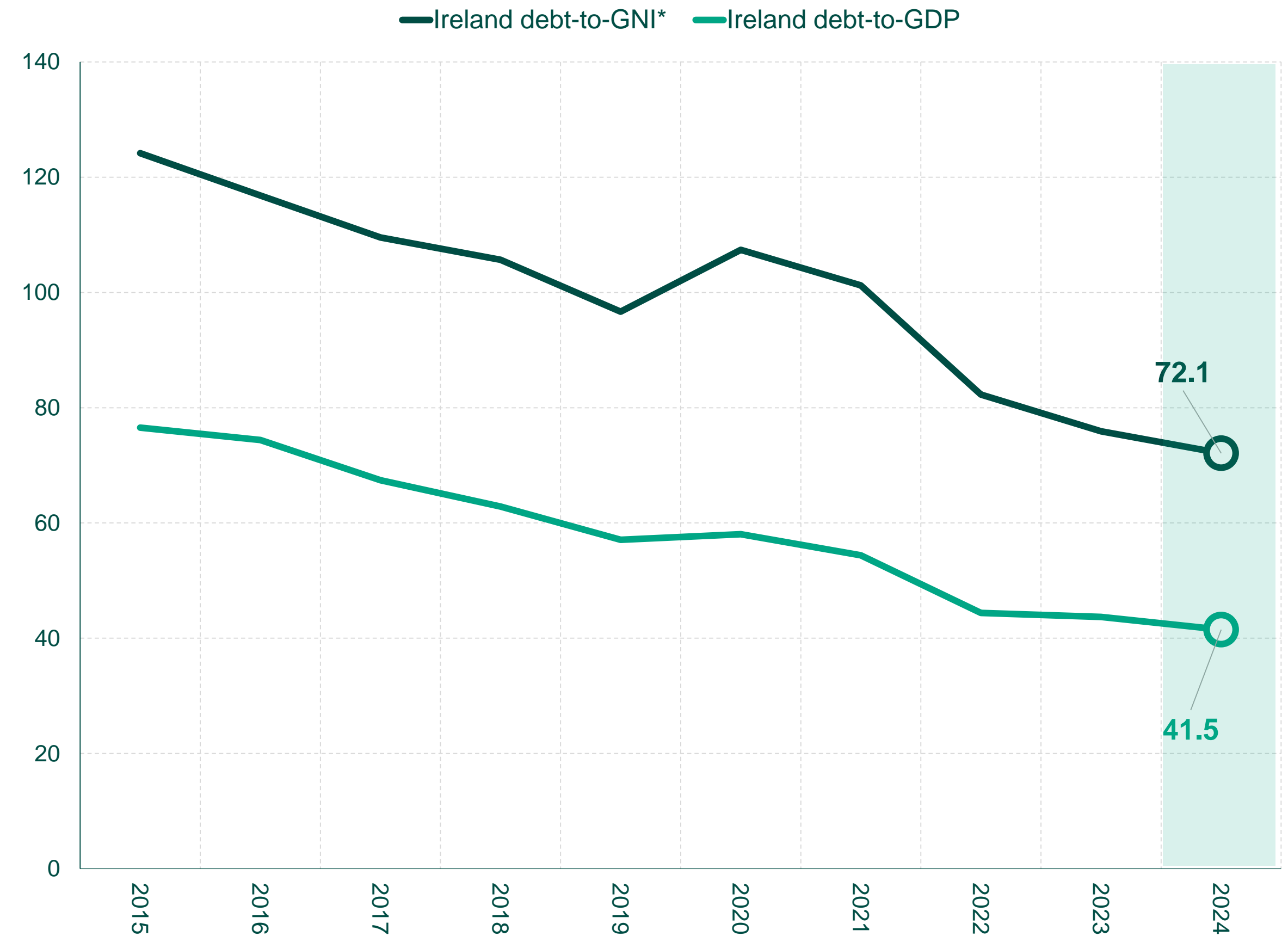
Headline fiscal position: flattered by cycle and one-off revenues



GG balance, per cent GNI*



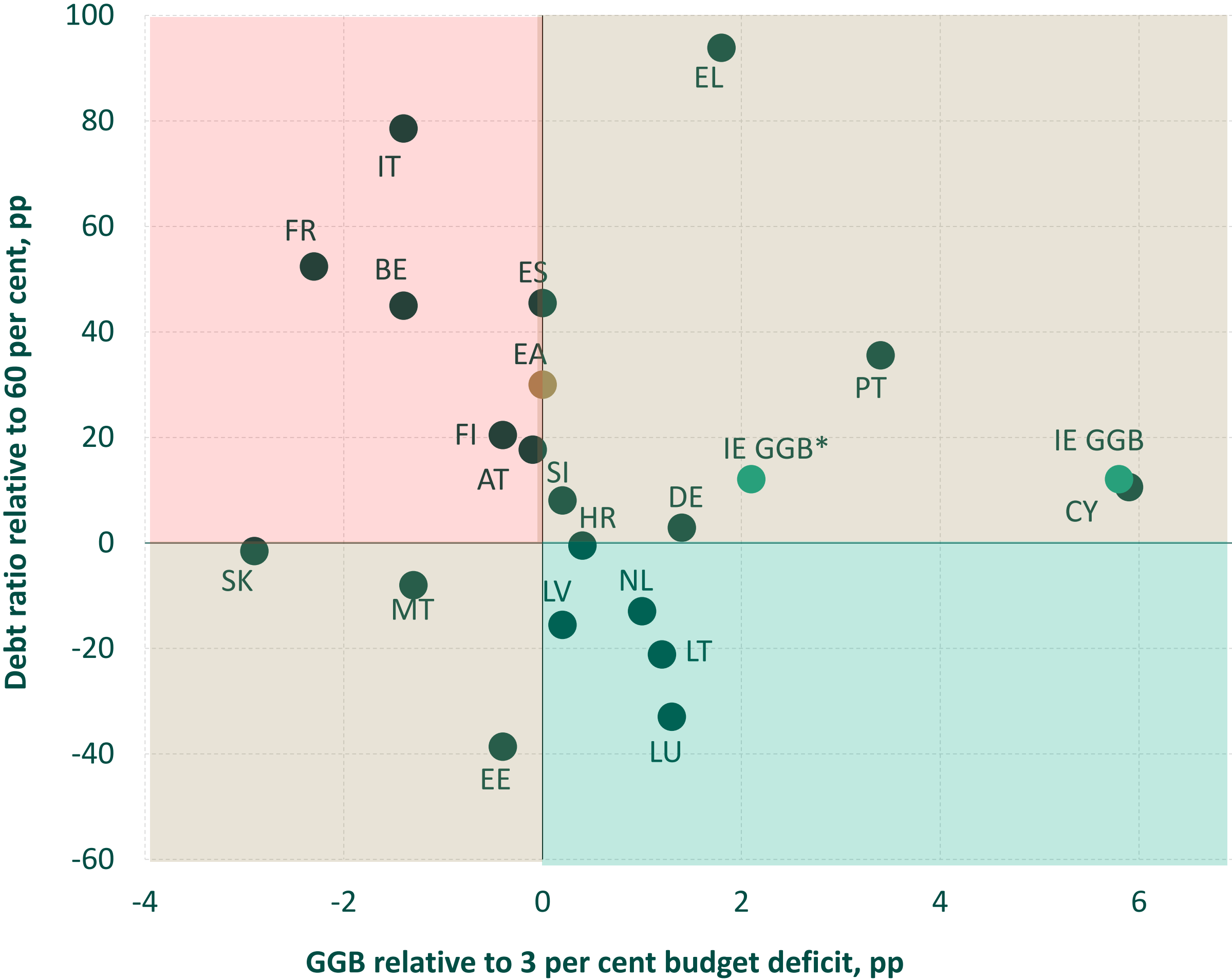
PB, R > G generating favourable debt dynamics



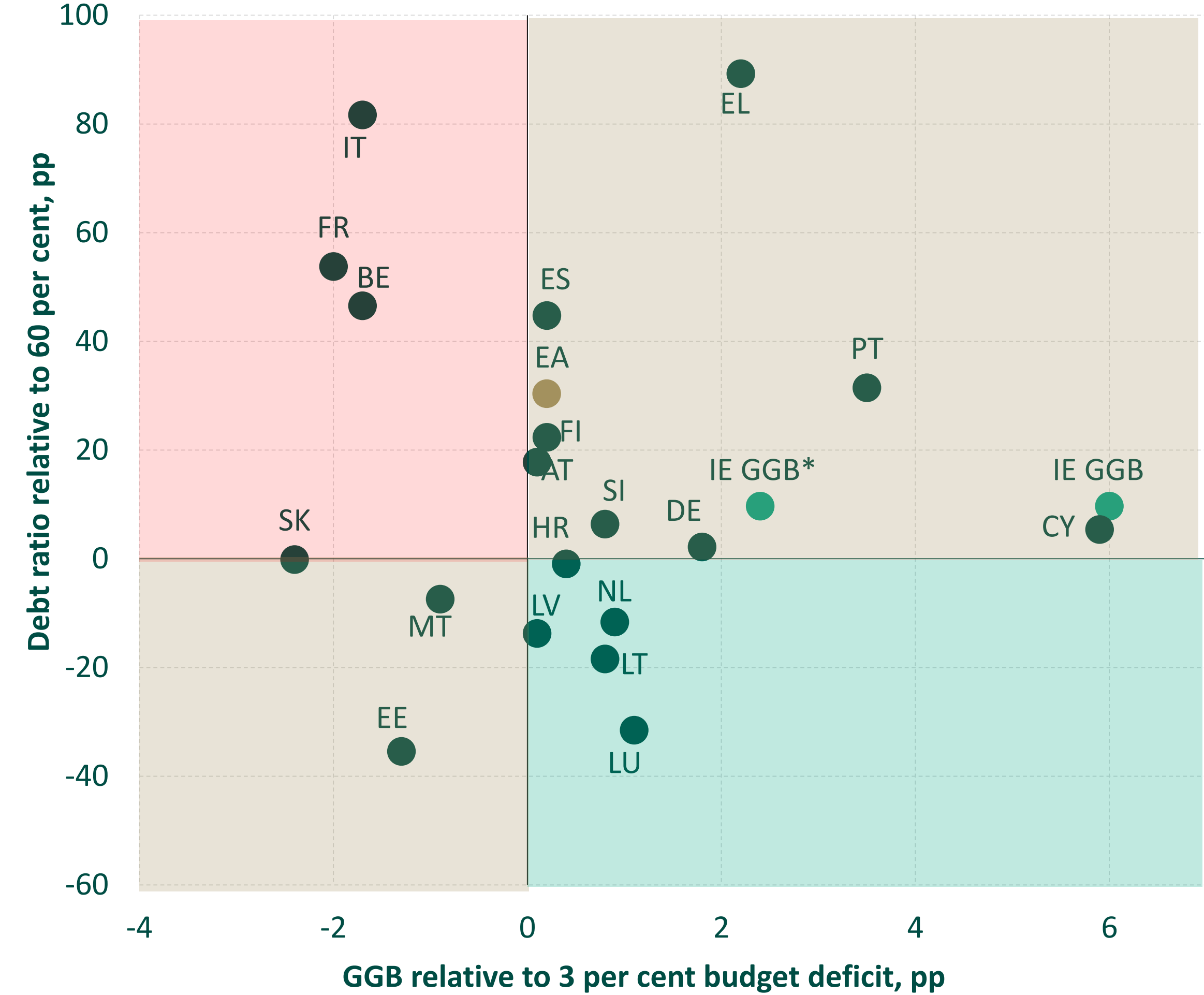
Public finance developments in the euro area: how does IE compare?



EA_MS Maastricht values – 2024



EA_MS Maastricht values – 2025



red=miss both criteria; green=meet both criteria; brown=meet one criterion

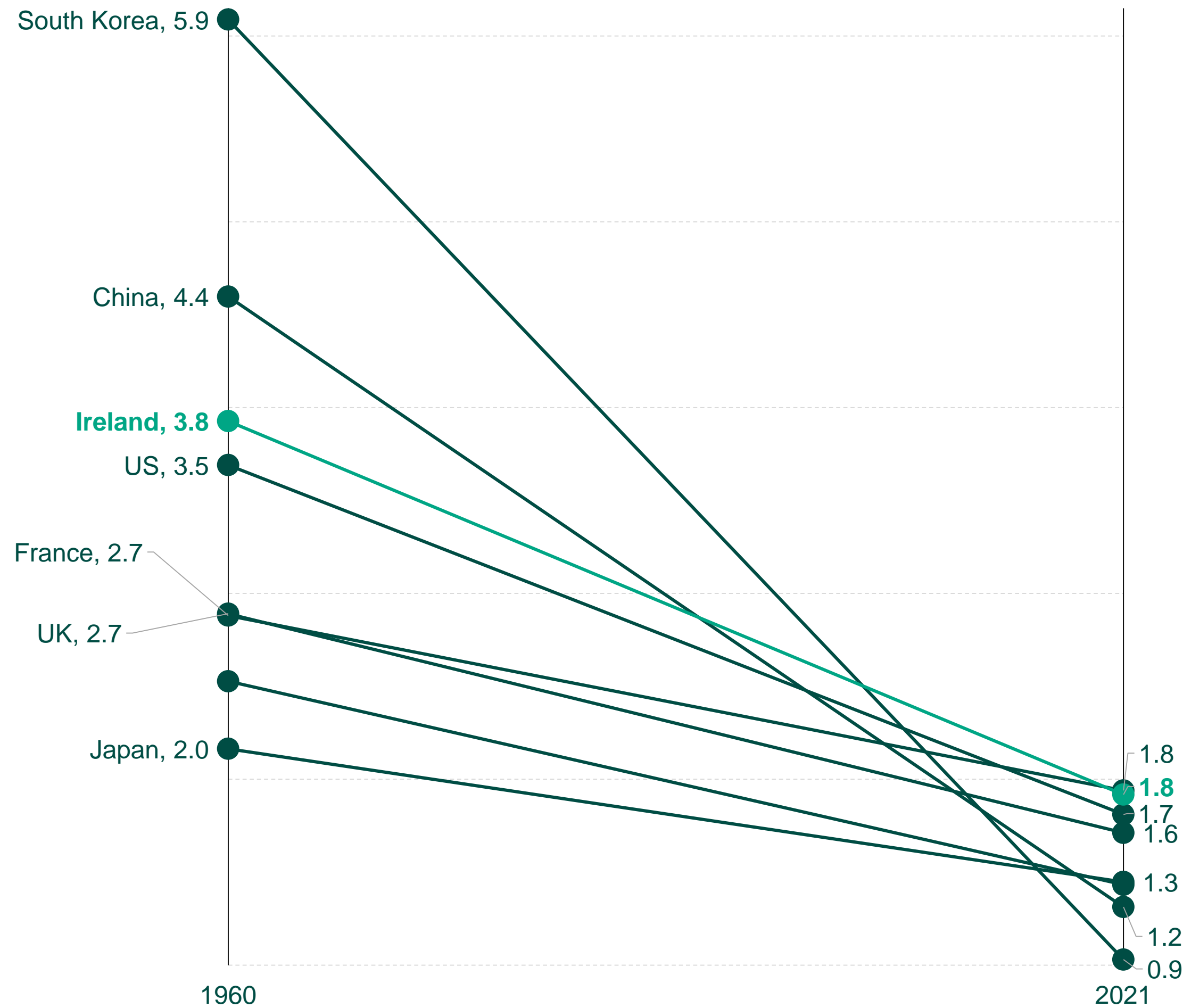


Beyond the short-term: structural economic change (the “4Ds”)

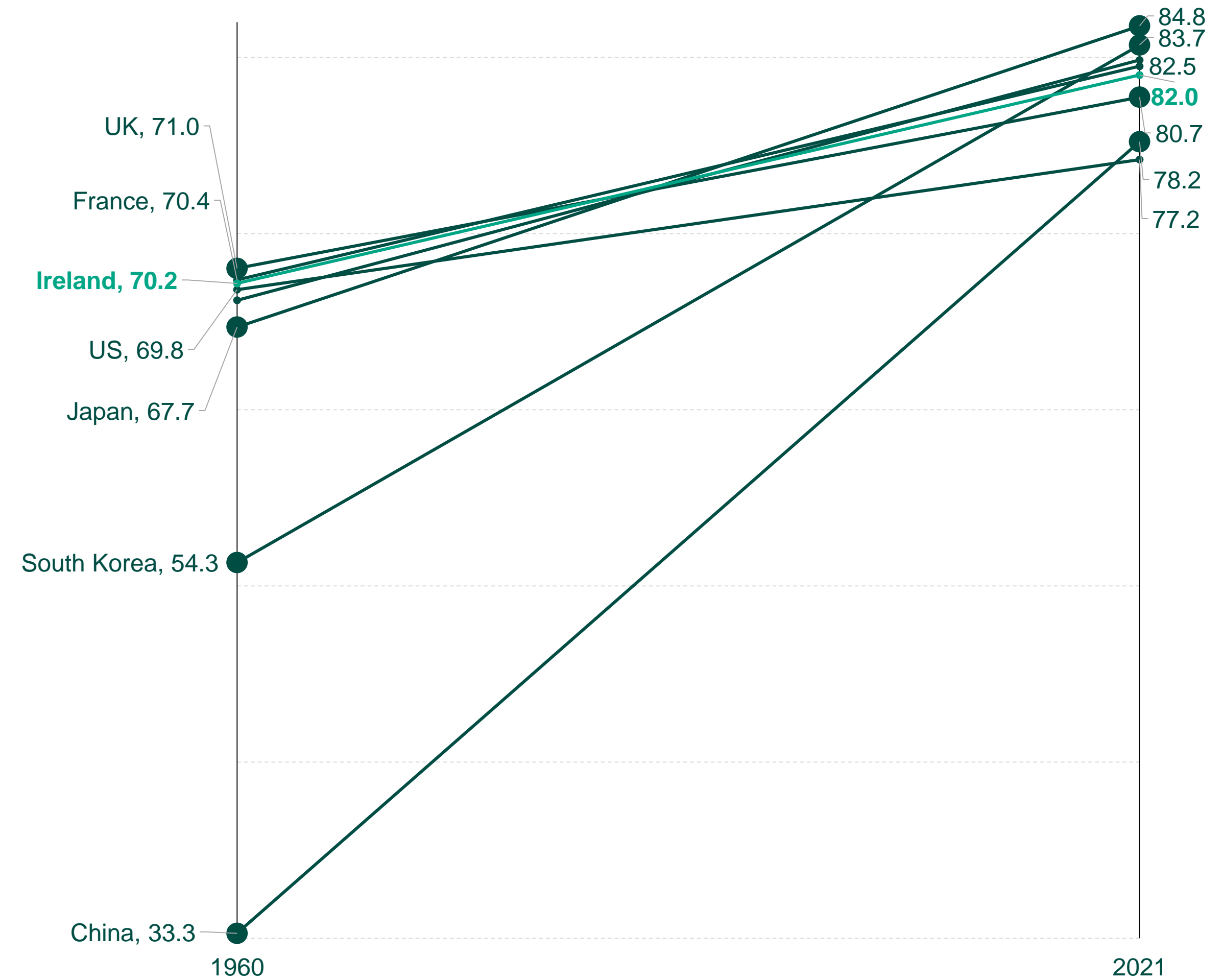
Demographic tipping point – in Ireland and most other countries



Fertility rates below population replacement rates...



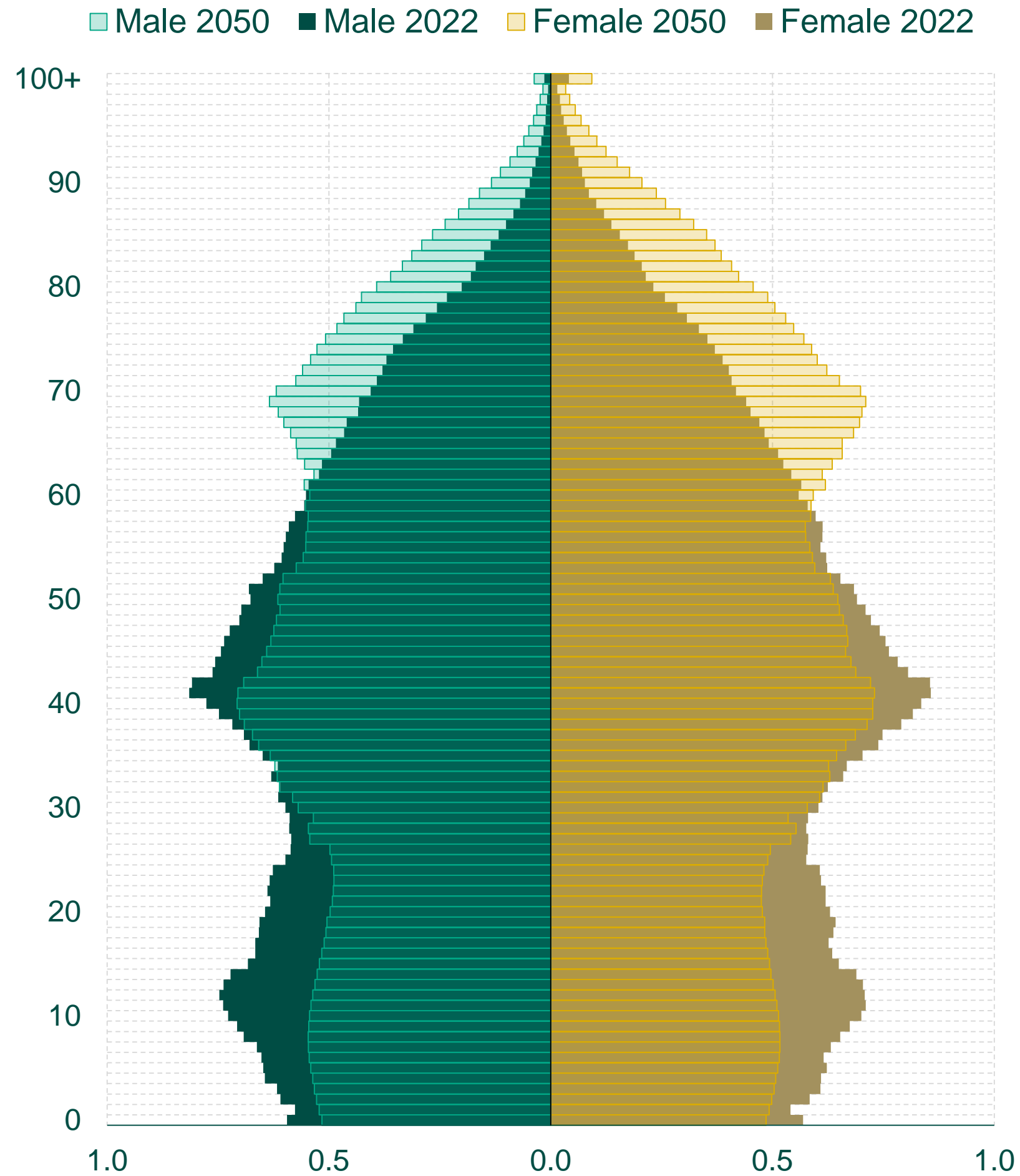
...while life-expectancy (at birth) has increased



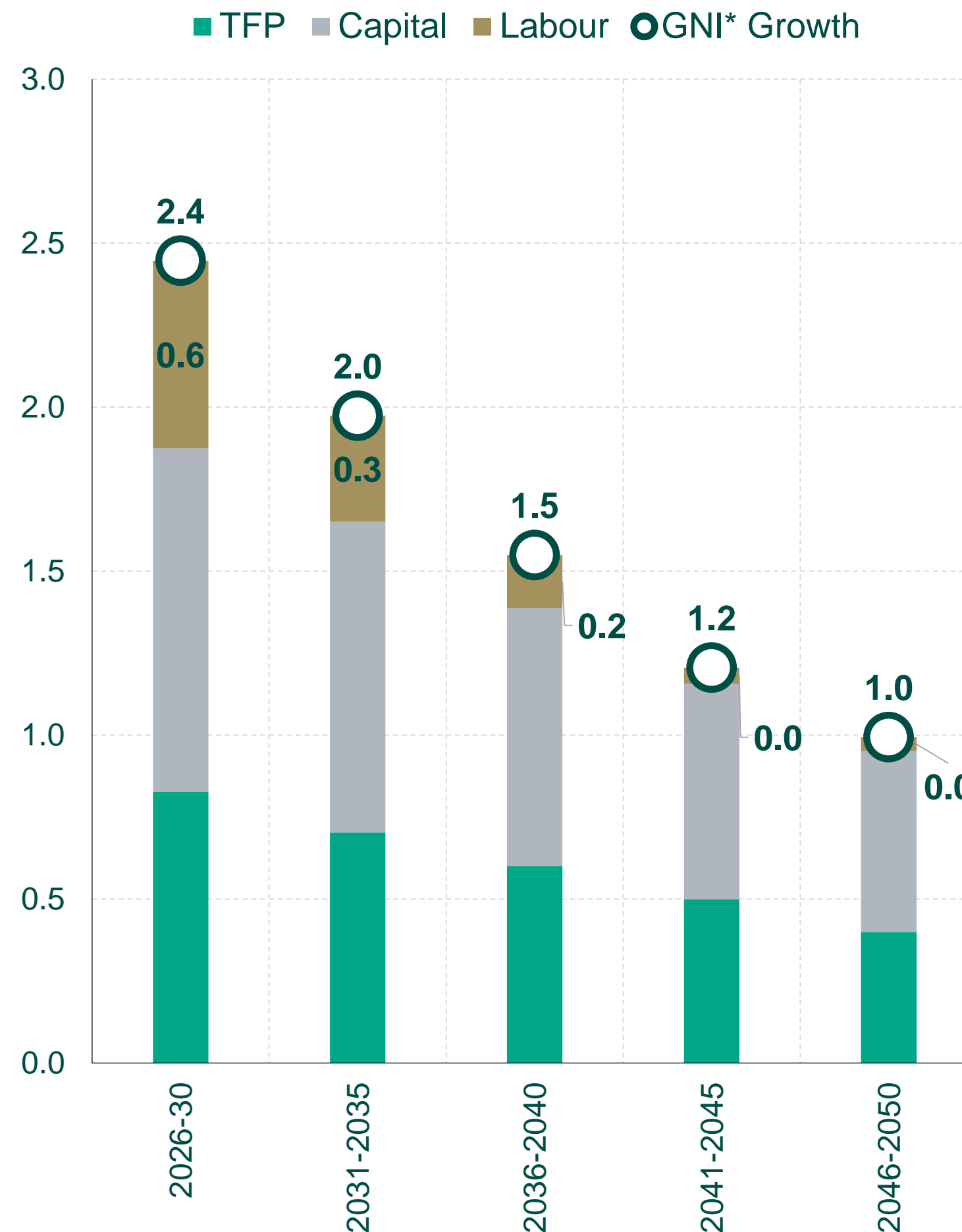
Irish population structure is changing...with economic & fiscal implications



Ireland's population pyramid set to invert...



...slowing economic growth



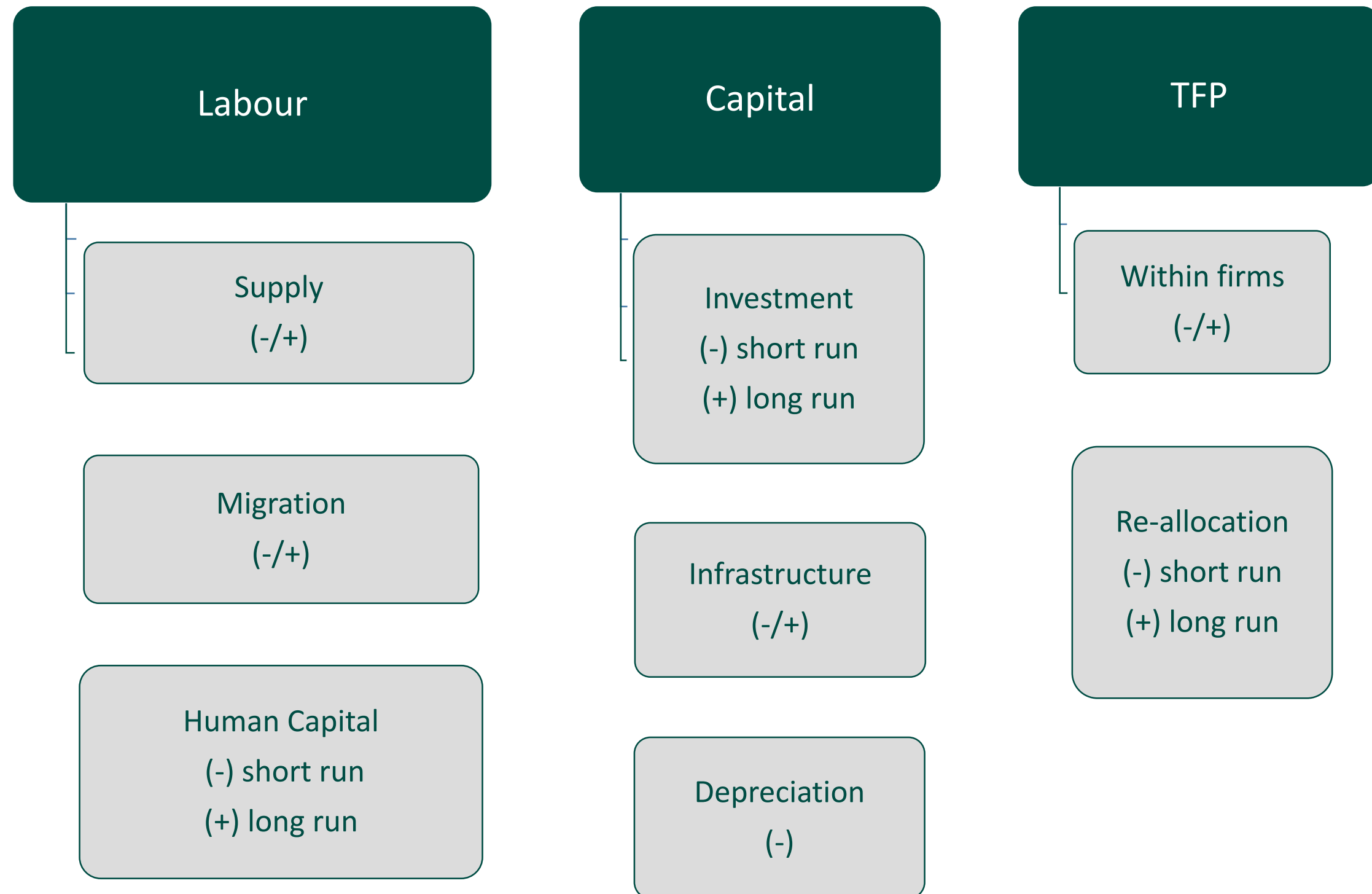
...and fiscally costly

age-related expenditure projections			
	2022	2050	Δ 2050-22
Pension costs	7.0	11.0	4.0
Health Care	7.6	9.3	1.7
Long-term care	2.3	3.6	1.3
Education	5.2	4.2	-1.0
Total age-related	22.0	28.0	6.0

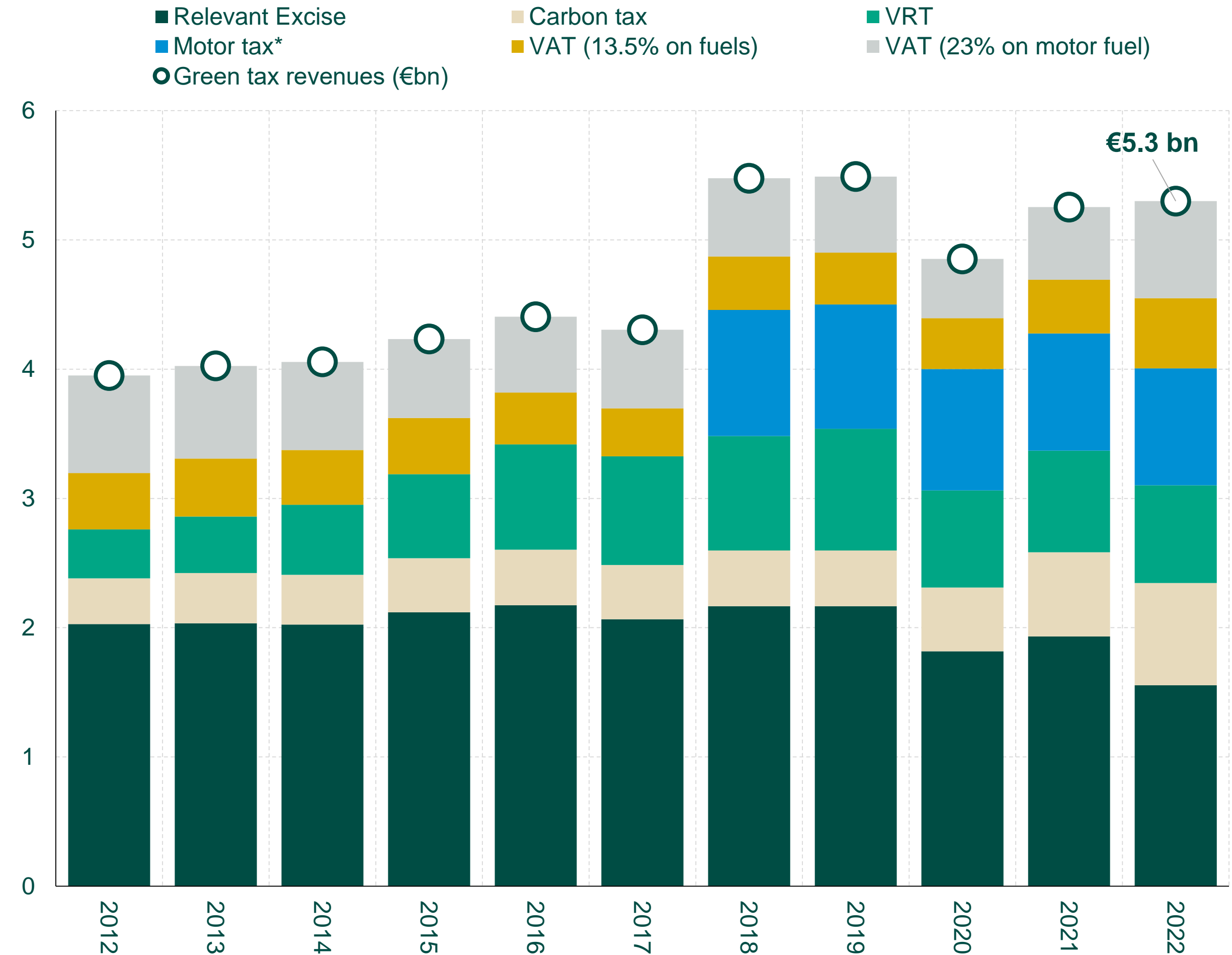
D#2: De-carbonisation – economic and fiscal impacts



Transmission channels to the economy

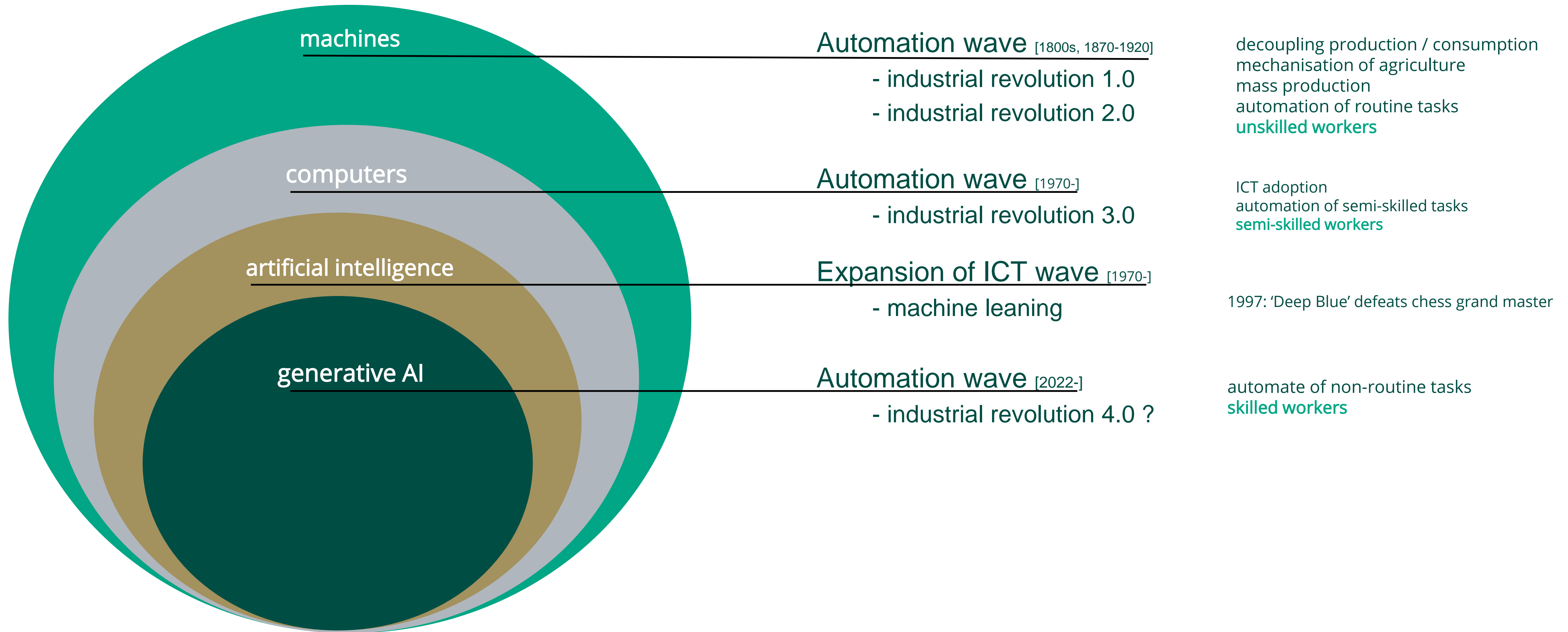


Fiscal: need to mobilise new revenue streams



* motor tax part of exchequer since 2018

D#3: Digitisation – Artificial Intelligence and automation



The economics of A.I. – important and open questions



MACRO-ECONOMIC ISSUE	OPEN QUESTION	MACRO-ECONOMIC CHANNEL
LABOUR MARKET	COMPLEMENT	RAISES AGGREGATE PRODUCTIVITY / LIVING STANDARDS
	OR	
	SUBSTITUTE	ZERO SUM / UNEMPLOYMENT
INCOME DISTRIBUTION / POLARISATION	FLATTEN	INCREASES SUPPLY OF SKILLED LABOUR AND BOOSTS DEMAND FOR UNSKILLED LABOUR
	OR	
	SKEW	INCREASES THE WAGE PREMIUM ASSOCIATED WITH SKILLED LABOUR
RETURNS TO K, L	HIGHER RETURNS TO K	OWNERS OF CAPITAL CAPTURE GAINS FROM LABOUR-SAVINGS TECHNOLOGIES
	OR	
	HIGHER RETURNS TO L	RETURNS TO LABOUR ARE IN LINE WITH PRODDUCTIVITY GAINS
MARKET CONCENTRATION	MORE COMPETITION	HELPS LEVEL THE PLAYING FIELD
	OR	
	LESS COMPETITION	GENERATES WINNER-TAKES-MOST DYNAMICS
CONSISTENCY WITH OTHER POLICY OBJECTIVES	ENHANCES CONSISTENCY	FACILITATES ACHIEVEMENT OF OTHER MACRO OBJECTIVES – LIVING STANDARDS
	OR	
	INCONSISTENT	COMPROMISES OTHER MACRO OBJECTIVES – CLIMATE / GEOPOLITICAL / MACRO STABILITY

The labour market: complement or substitute – a (very) preliminary first look

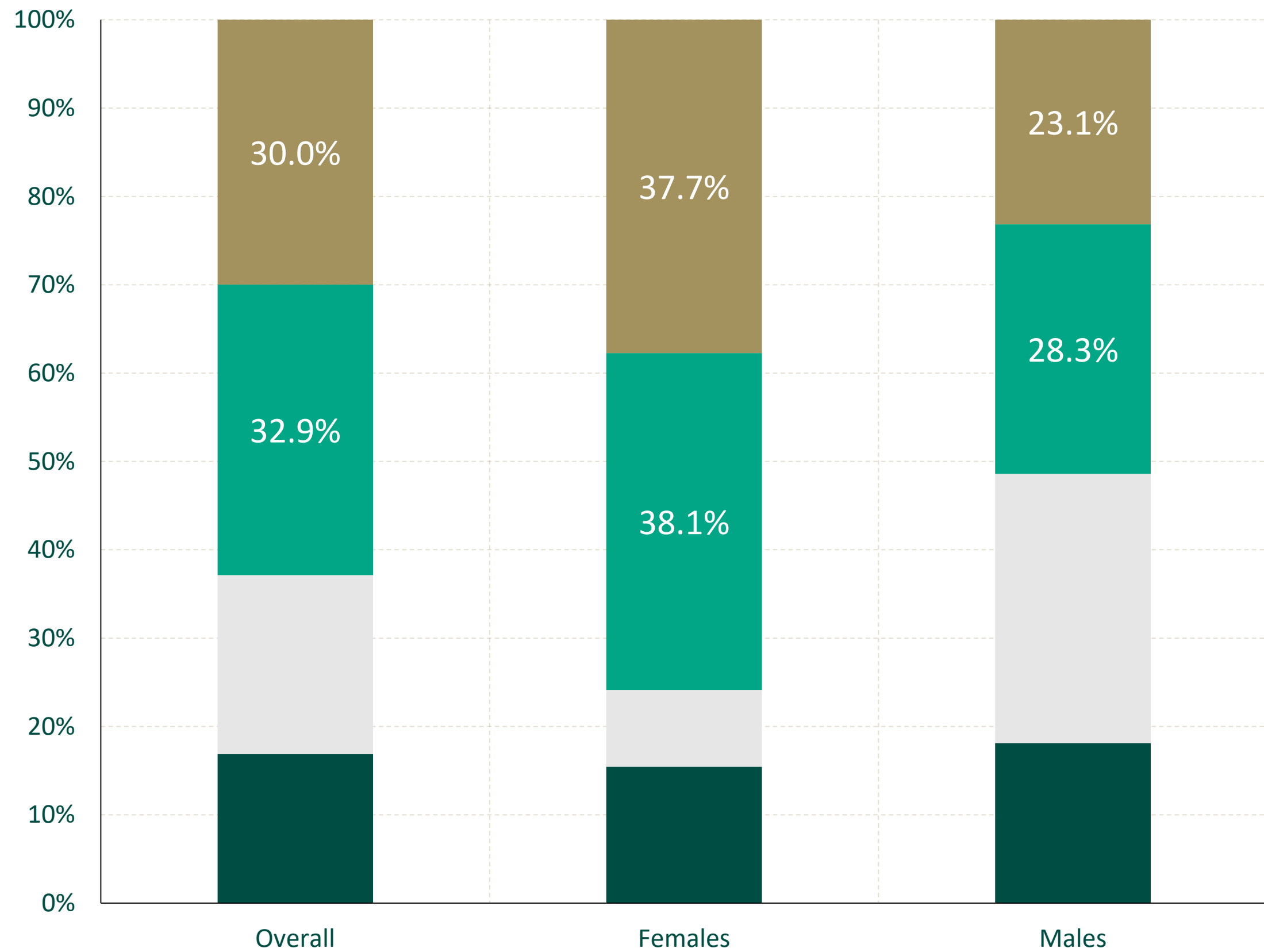


Distributional issues: along various dimensions



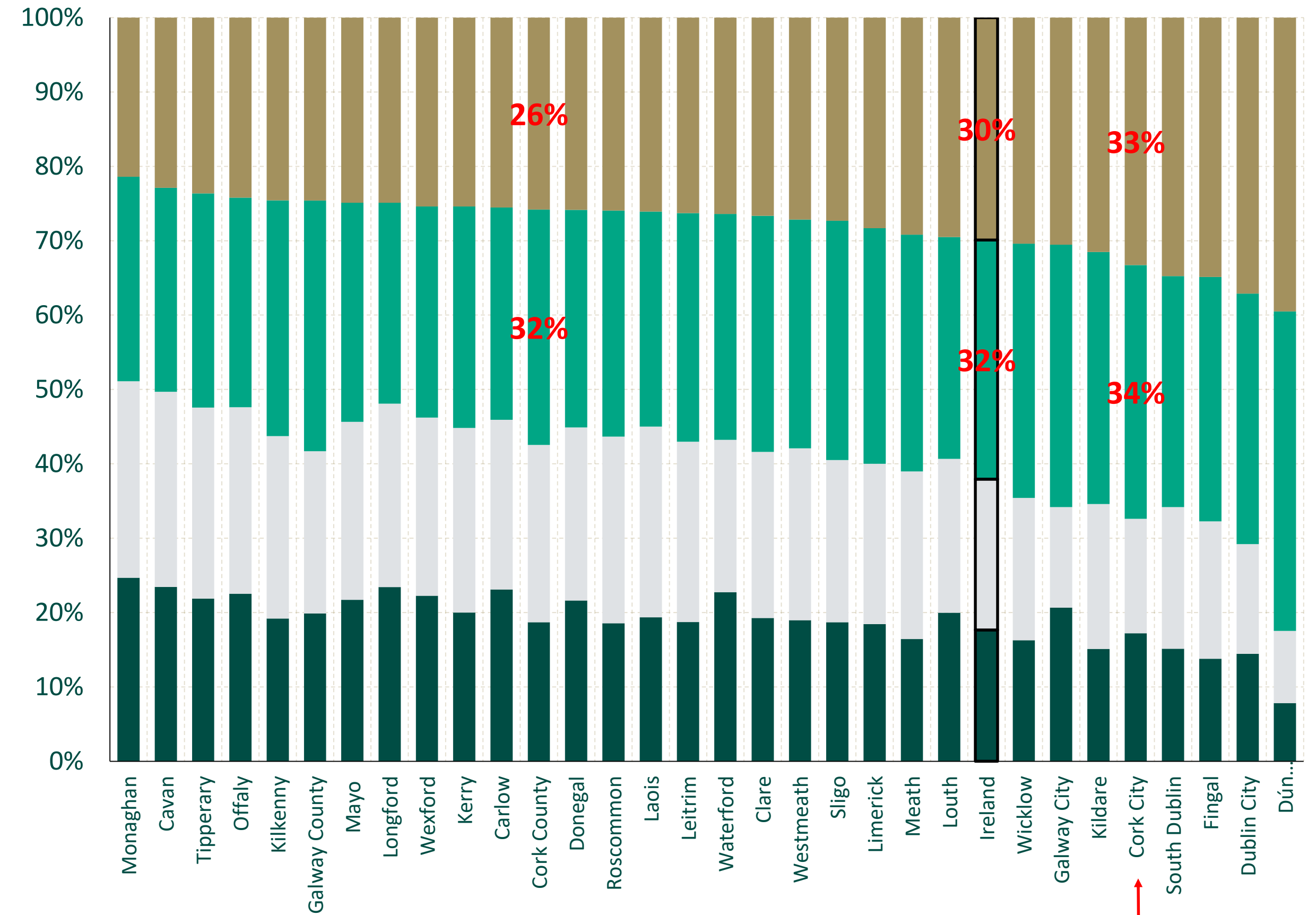
by gender

- Low Exposed Low Complementarity
- Low Exposed High Complementarity
- High Exposed High Complementarity
- High Exposed Low Complementarity



by region

- Low Exposed Low Complementarity
- Low Exposed High Complementarity
- High Exposed High Complementarity
- High Exposed Low Complementarity



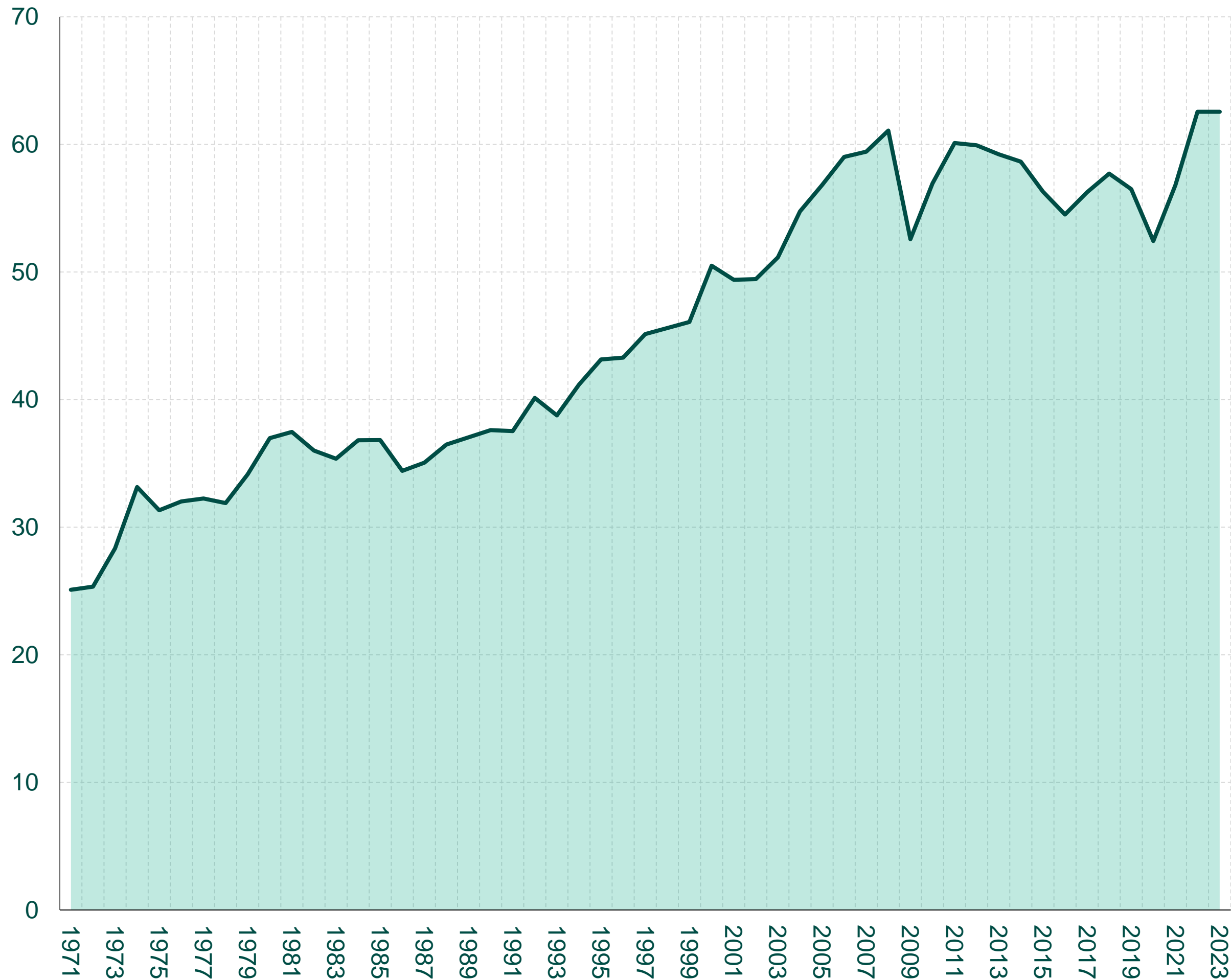
Cork: county

Cork: city

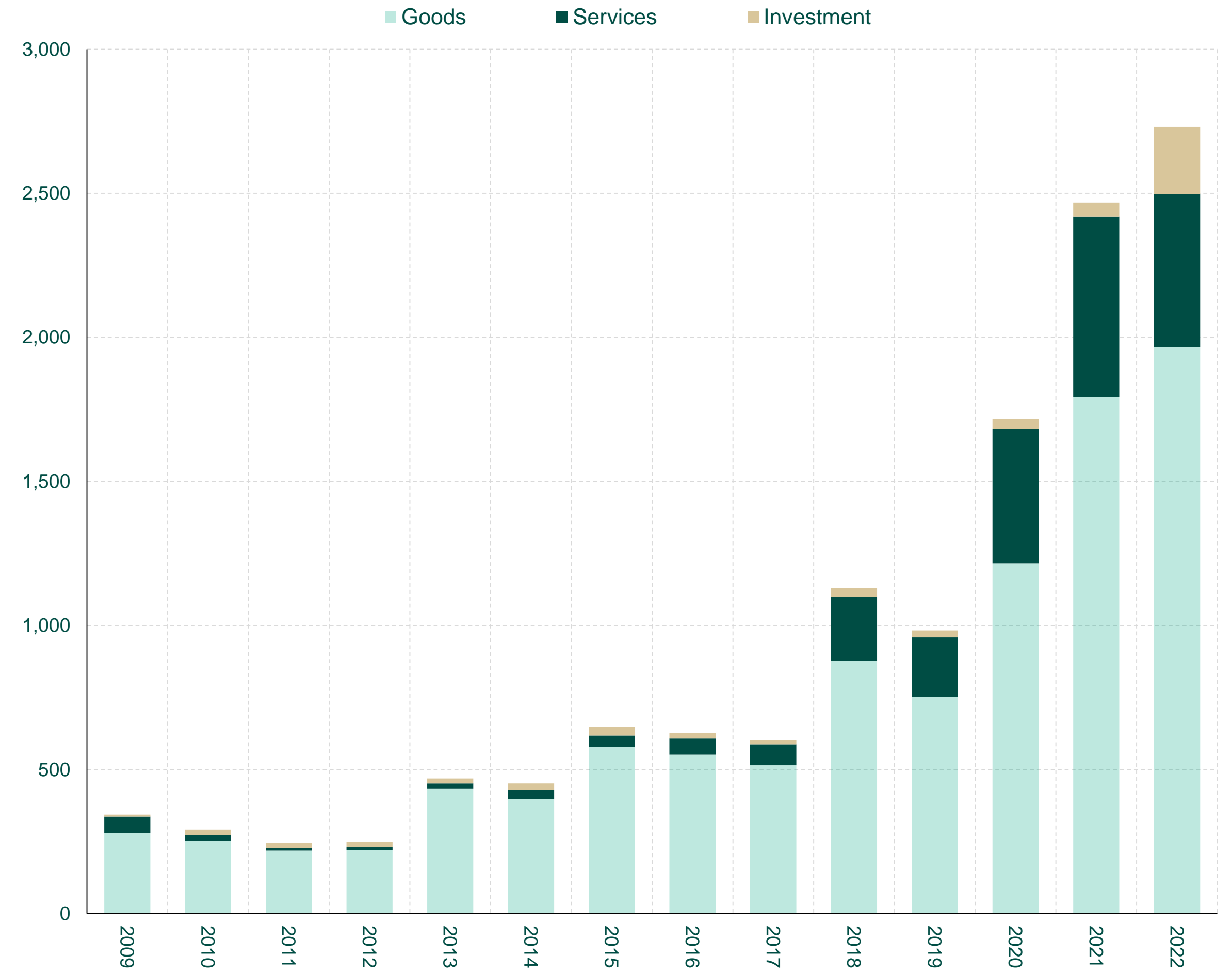
D#4: De-globalisation – geopolitics driving de-coupling and fragmentation



Trade-intensity of production has stalled



Global economy: # of trade restrictions introduced





Conclusion

Summary and conclusion



- More modest growth in near-term as inflation recedes
- Intersecting with powerful structural forces
- Policy challenges = boost resilience
 - focus on competitiveness
 - build fiscal buffers
 - boost productivity
 - training and skills
 - medium-term planning
- Administrative challenges [civil service / economics]
 - enhance understanding of forces at work
 - mobilise better evidence
 - scenario analysis



Disclaimer and other information:

The forecasts in this presentation are those of the Department of Finance set out in its spring forecasts (Stability Programme Update, April 2024). Data are as per end-May 2024

Views are those of the presenter and not necessarily those of the Minister or Department of Finance.

Outturn data are sourced from a variety of sources including the Department of Finance, Central Statistics Office, European Commission (AMECO), macrobond and Central Bank of Ireland.

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