



# The Economic Outlook:

*Subdued growth, but inflation declining,  
while markets look for rate cuts this year*

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March 2024

# Oil and European gas prices well below 2022 level

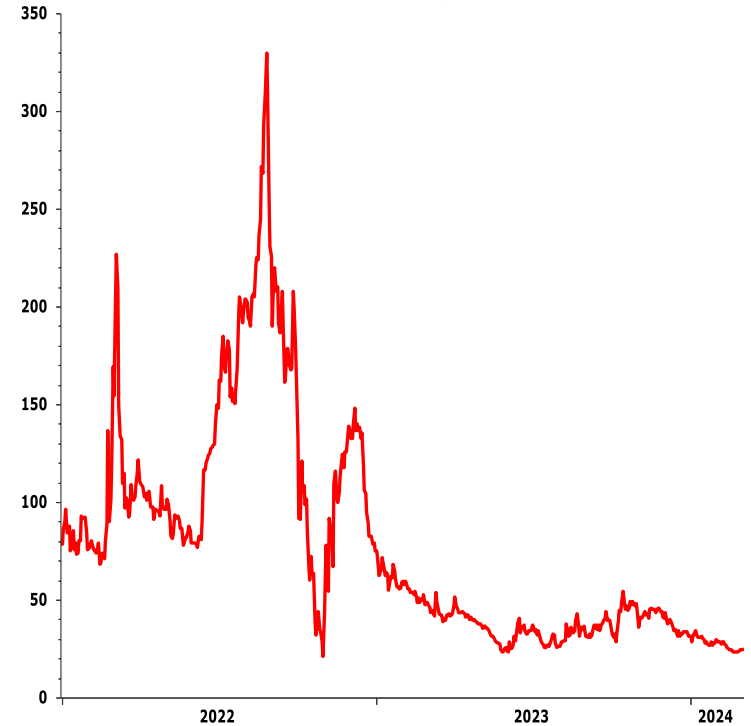


### Brent Oil Price \$



Source: LSEG Datastream

### Natural Gas €/kWh

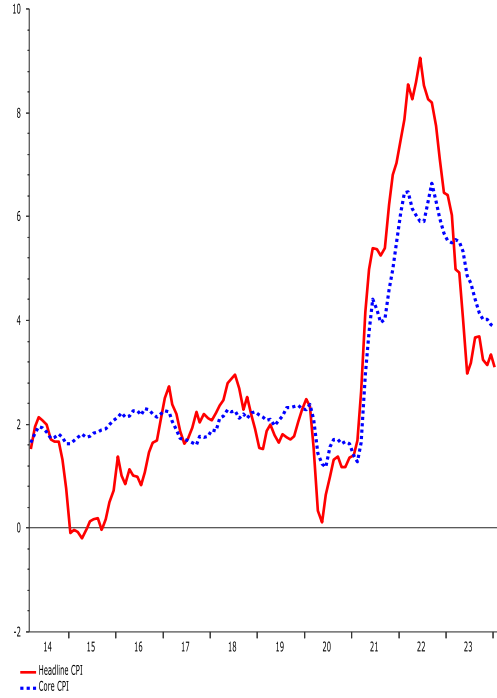


Source: LSEG Datastream

# Headline inflation falls rapidly, core rates now moving down

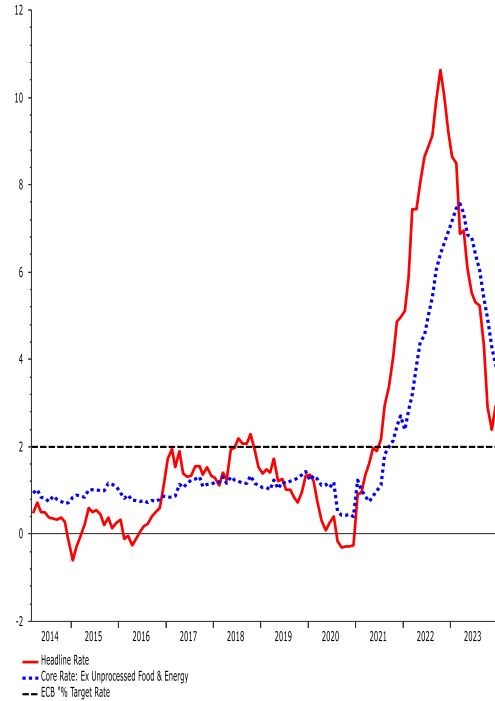


US CPI Inflation



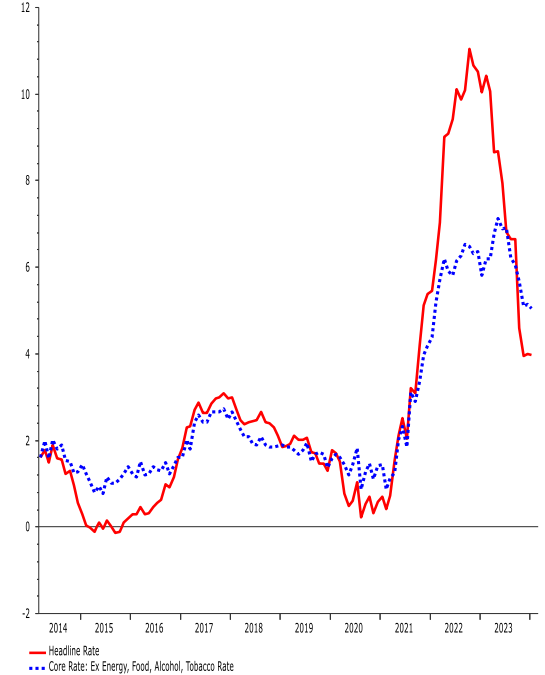
Source: LSEG Datastream

Eurozone Inflation



Source: LSEG Datastream

UK CPI Inflation

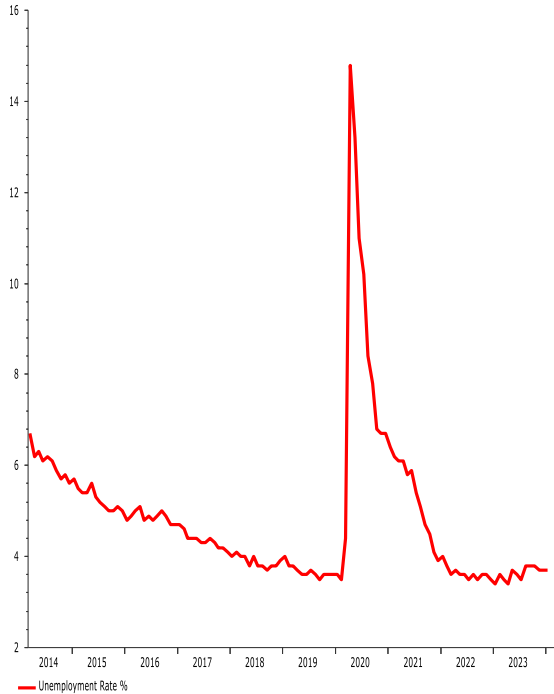


Source: LSEG Datastream

# Tight labour markets, unemployment remains very low

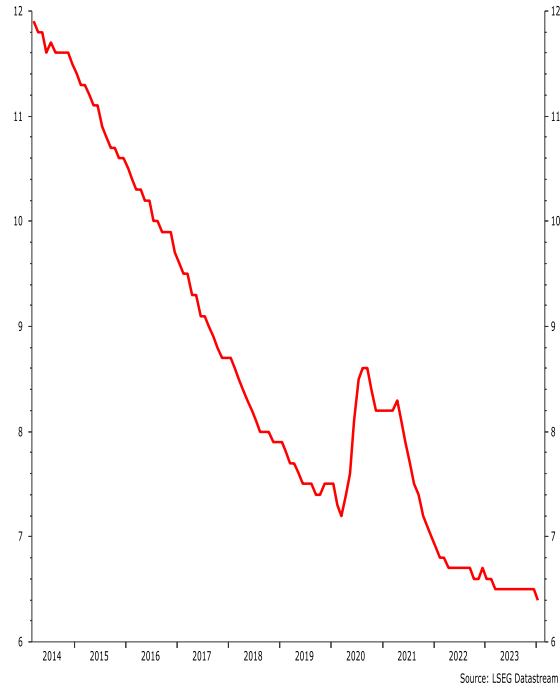


### US Unemployment Rate

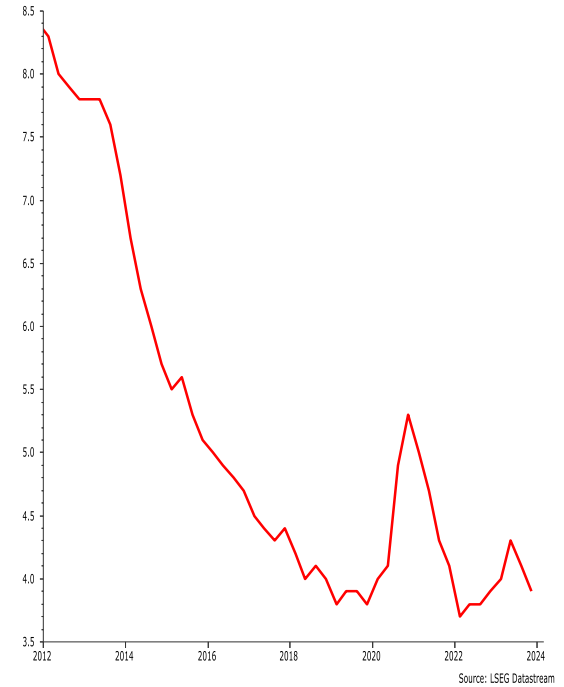


Source: LSEG Datastream

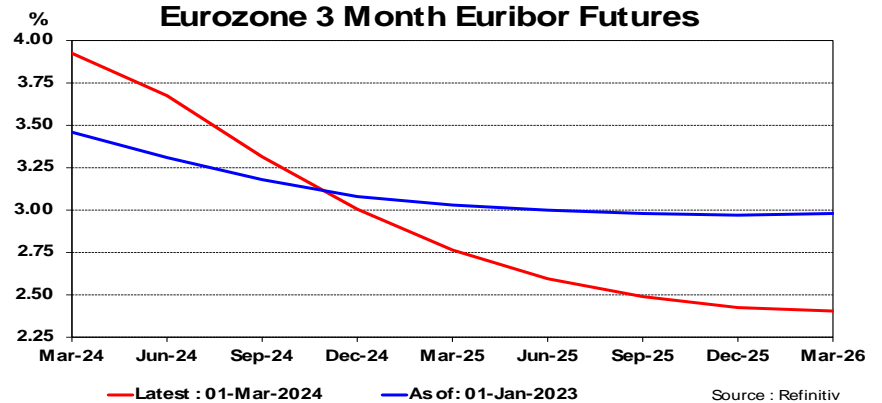
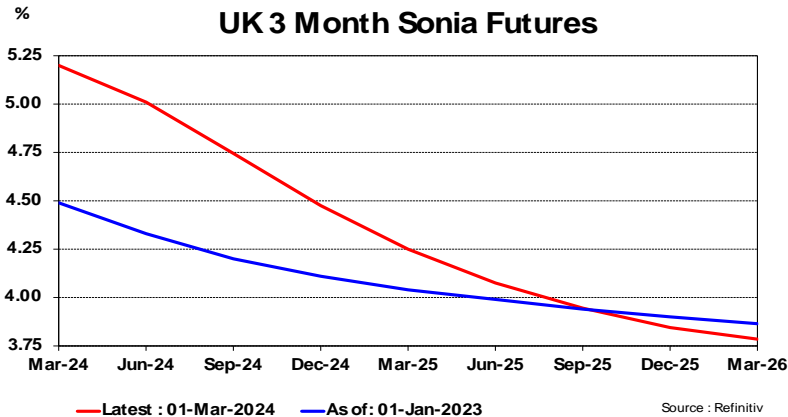
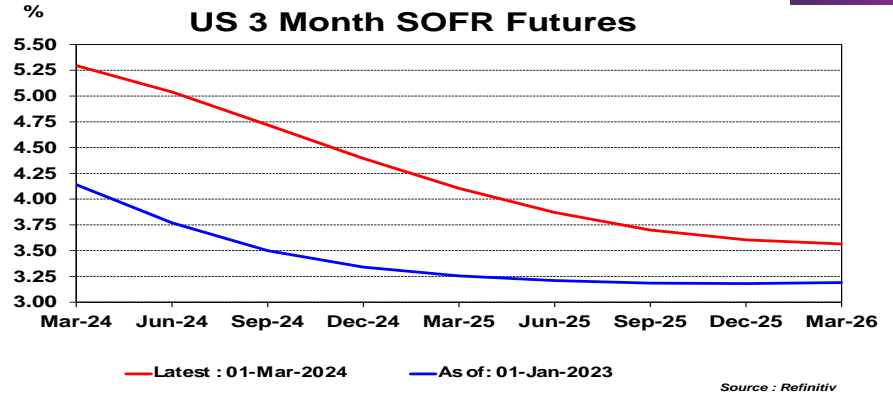
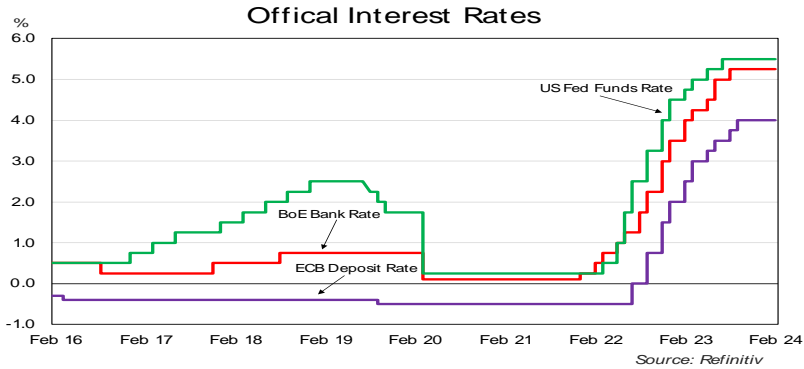
### Eurozone Unemployment Rate %



### UK ILO Unemployment



# Markets look for rate cuts in 2024-25



# Modest global growth expected, but plenty of downside risks

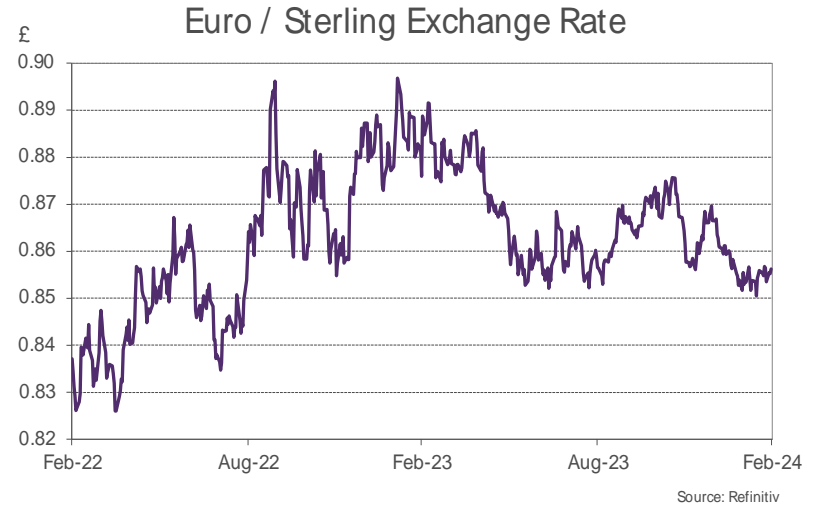
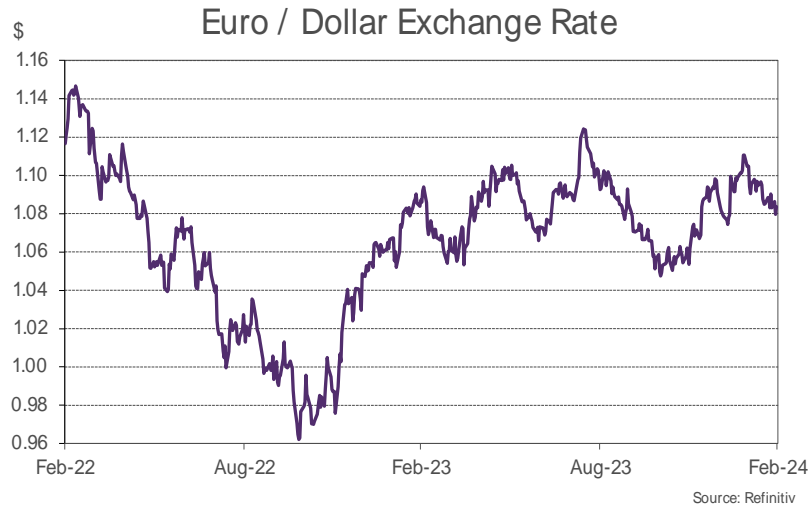


GDP (Vol % Change)	2021	2022	2023 (e)	2024 (f)	2025 (f)
World	6.3	3.5	3.1	3.1	3.2
US	5.9	2.1	2.5	2.1	1.7
Euro Area	5.3	3.3	0.5	0.9	1.7
UK	7.6	4.1	0.5	0.6	1.6
Japan	2.2	1.0	1.9	0.9	0.8
China	8.4	3.0	5.2	4.6	4.1

Source: IMF World Economic Outlook, January 2024

- Recession avoided to date in most of the main economies, with **inflation now in decline**
- **Modest growth** forecast for 2024-25, as world economy shifts to lower growth path. Risks to downside
- **Policy error still possible - central banks** could be underestimating impact of hikes and be slow to cut
- **Sticky core inflation** and strong wage growth may necessitate keeping rates high... risking recession
- **Tighter financial and credit conditions** another cloud hanging over the economic outlook
- Ongoing war in **Ukraine**, conflict in **Middle East**, faltering recovery in **China**, geo-economic **fragmentation**

# Dollar past its peak, Sterling recovers some ground

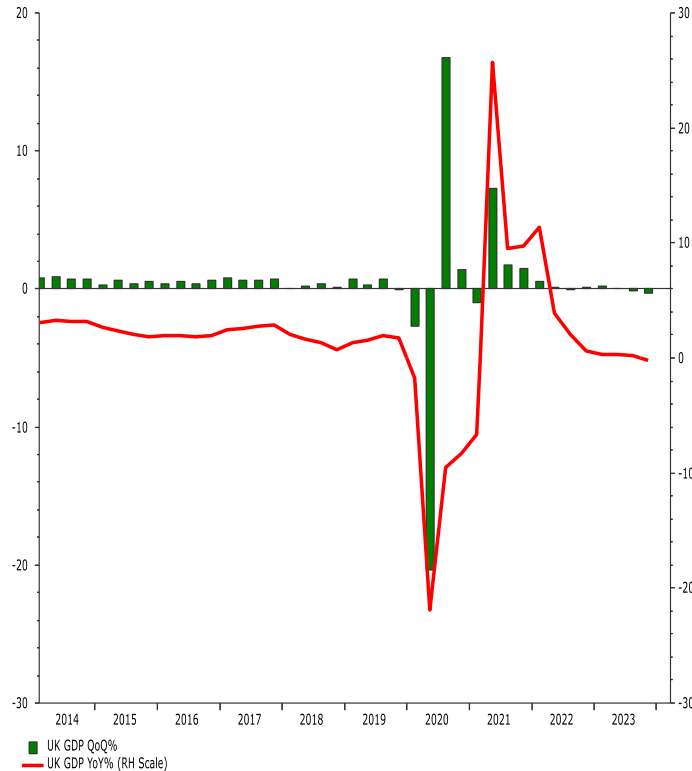


- Dollar benefitted from perfect storm in 2021-22 of higher US rates, geo-political tensions and risk aversion
- US currency did lose some ground in late 2022 as other central banks hiked rates aggressively
- Dollar largely range bound last year, remains at elevated levels .
- Sterling was somewhat firmer in 2023 on more resilient UK economy and rising UK rates. Still at low levels
- Overall though, relatively narrow trading ranges on FX markets last year. EUR/GBP mostly within 85-89p (GBP/EUR 1.12-1.18)
- Dollar supported in early 2024 by further strong US macro data but could weaken during 2024 on slower growth/Fed rate cuts

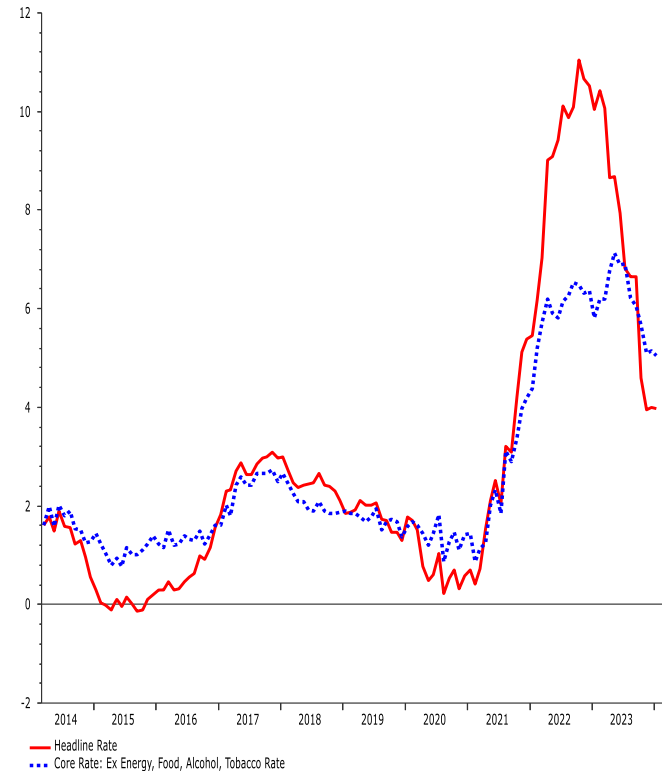
# UK economy in recession in H2'23. Overall, GDP flat-lines in past year. UK inflation slower to fall back than elsewhere



### UK GDP



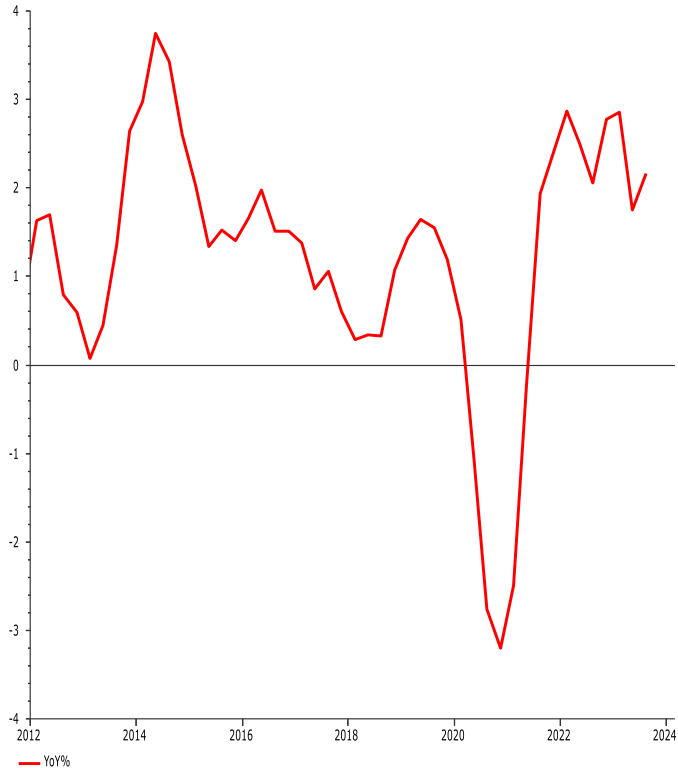
### UK CPI Inflation



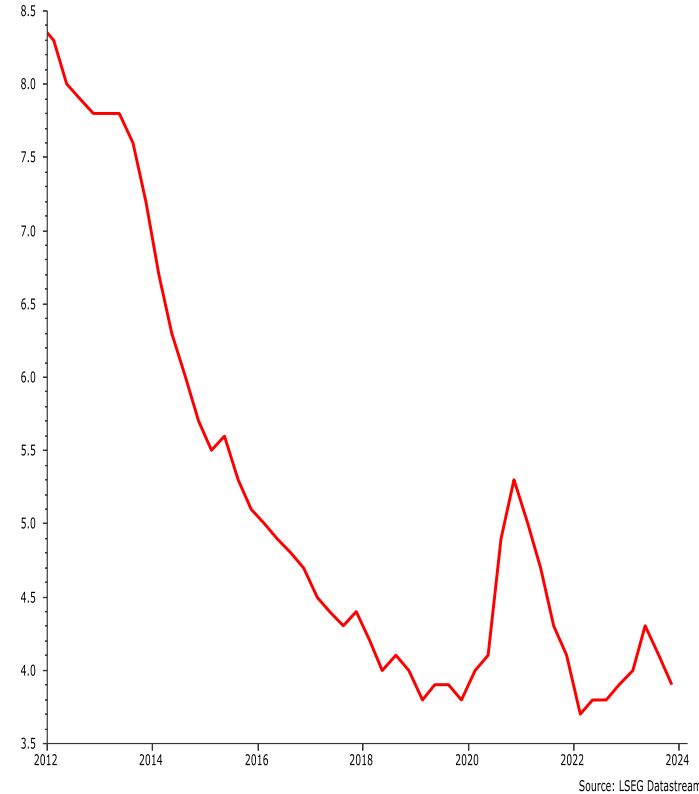


# Unemployment rate remains at very low level. Overall, labour market conditions remain very tight

UK Employment Growth



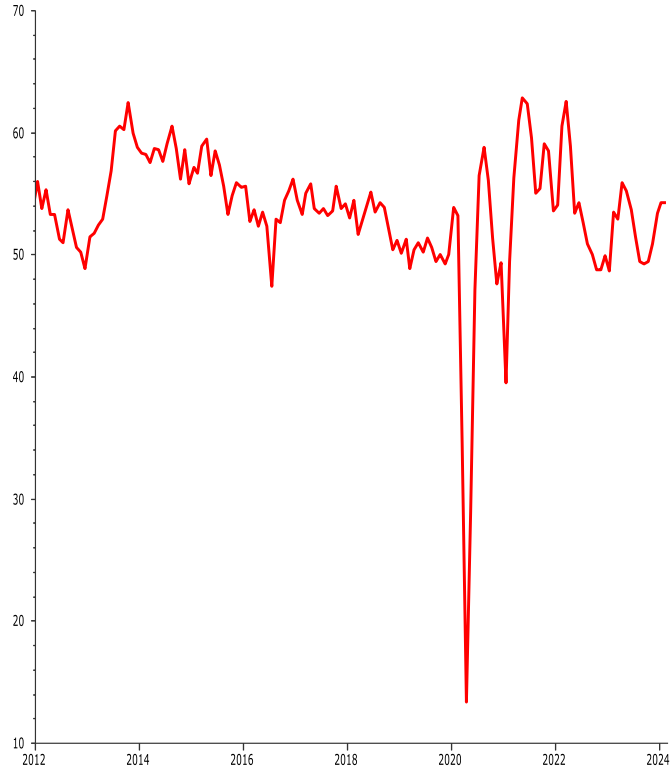
UK ILO Unemployment



# UK Services performing well, Manufacturing remains in contraction territory

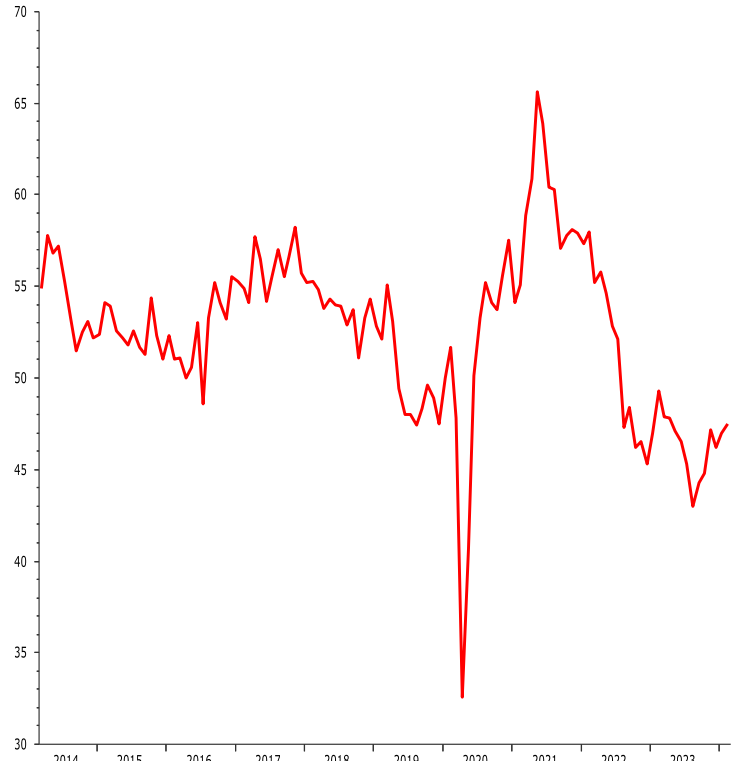


UK Markit/CIPS Services PMI



Source: LSEG Datastream

UK Markit/CIPS Manufacturing PMI



Source: LSEG Datastream

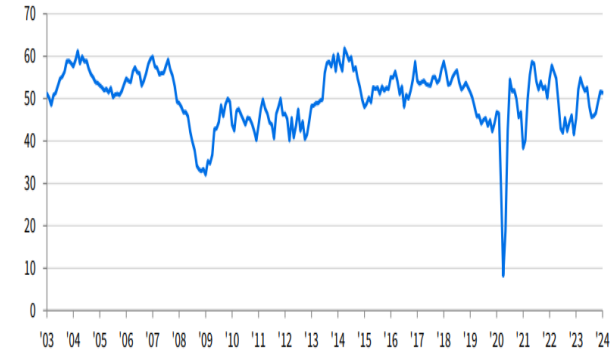
# Unique Opportunity to Transform NI Economy



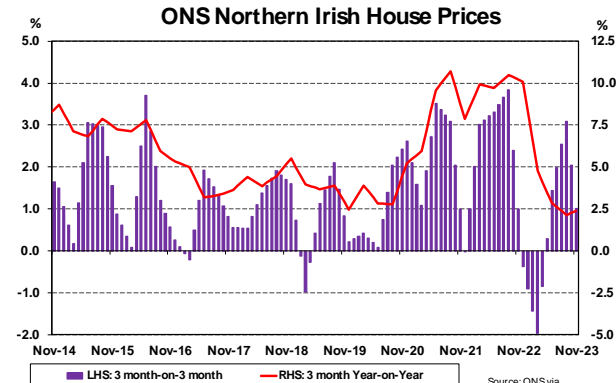
- Pace of economic **activity decelerated in NI** as elsewhere in 2023, but some encouraging signs recently
- **Full employment** with jobless rate below 3%
- **Strong growth in house prices** over the past couple of years
- Unique opportunity for NI to thrive on back of **access to both UK & EU Single market**
- Potential to unlock economic benefits via attracting large scale FDI to NI

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global/Ulster Bank

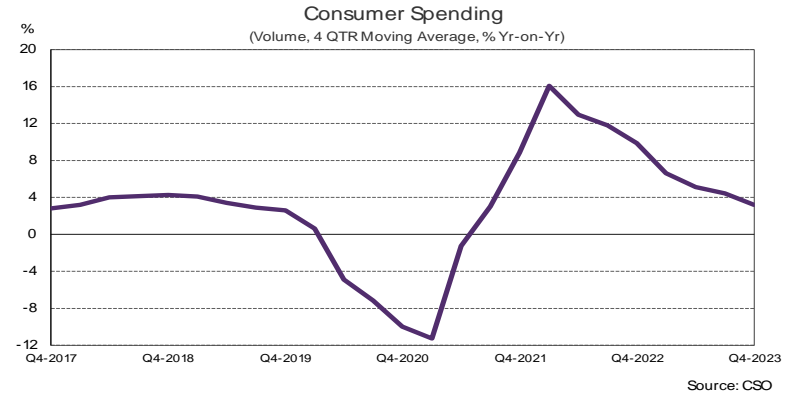
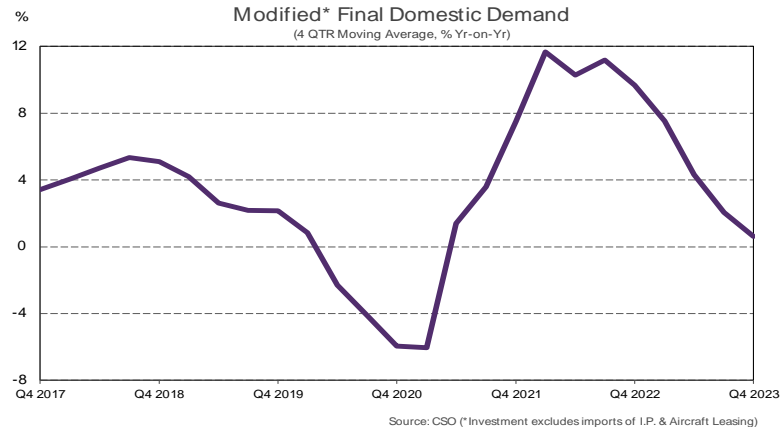
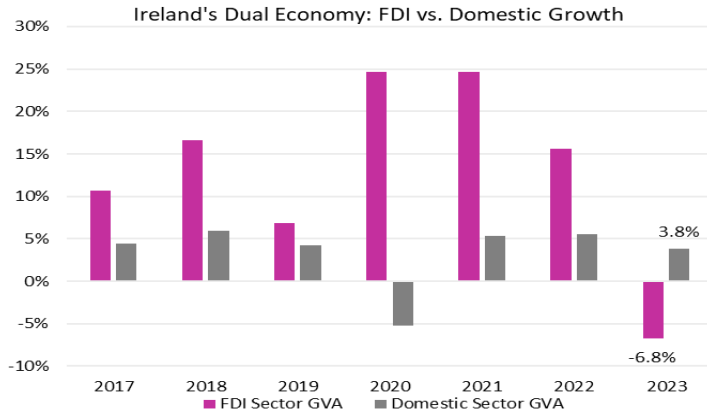


# Sharp slowdown in Irish growth, but still a strong economy

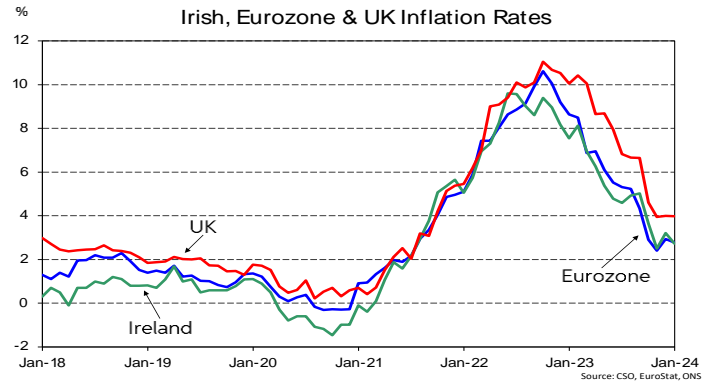
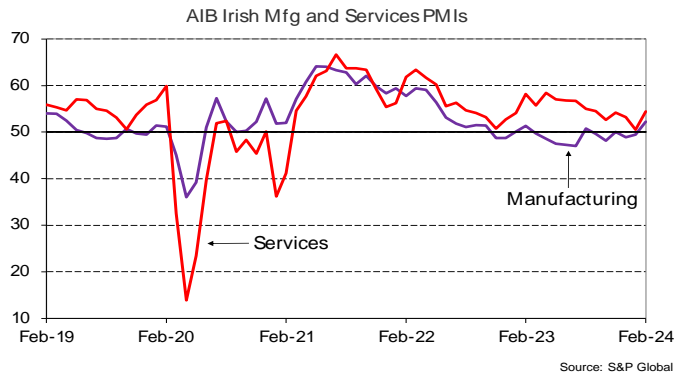
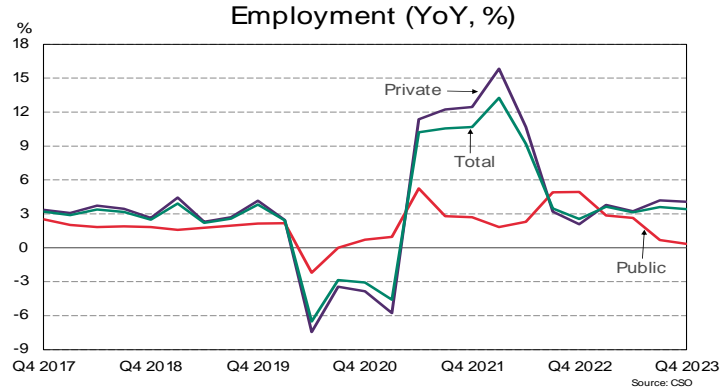
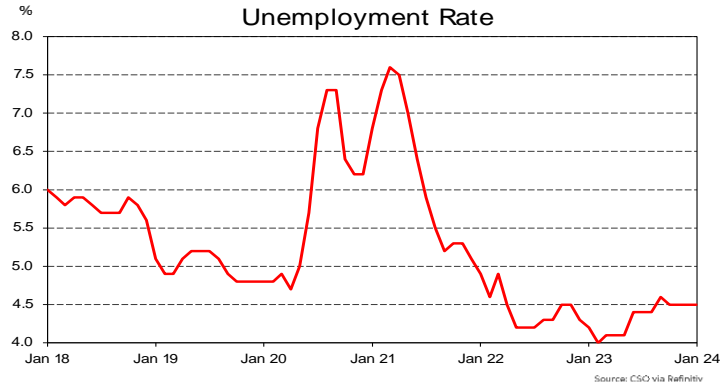


- **Output from Irish high-tech manufacturing doubled over 2020-22, goods exports surged**, largely driven by pharma and ICT sectors, though much of this was off-shore activity
- The leap in output driven by **short-term factors** associated with COVID and supply side disruptions – boosted demand for medical products, vaccines, semiconductors, IT
- **Normalisation of demand in 2023** with rundown of accumulated stocks also, sees marked decline in output and exports in the Irish high-tech manufacturing sector
- Following circa 20% growth in goods exports in 2021 & 2022, they fell 12% in 2023
- **GDP down 3.2% in 2023** after growth of 9.4% in 2022, 15.1% in 2021
- Growth in domestic economy was at 9.5% in 2022 & 7.3% in 2021, so much less scope for economy to grow strongly again in 2023 as **capacity constraints more binding**.
- **Domestic demand** rose by a modest 0.5% in 2023. **Consumer spending** still robust at 3.1%, but **core investment** contracted by 7% (weakness in Machinery & Equip, construction activity)
- Volatility in corporation tax receipts. DoF had warned about this
- **Underlying economy continues to perform well**, with continuing FDI, strongly rising employment, sizeable budget surplus and inflation easing

# Irish GDP fell in 2023, but domestic economy still growing



# Strong labour market, encouraging survey data, inflation declining



# Irish economy moves to slower growth path, but in good shape



Irish **economy** is well **underpinned** by many **positive factors**

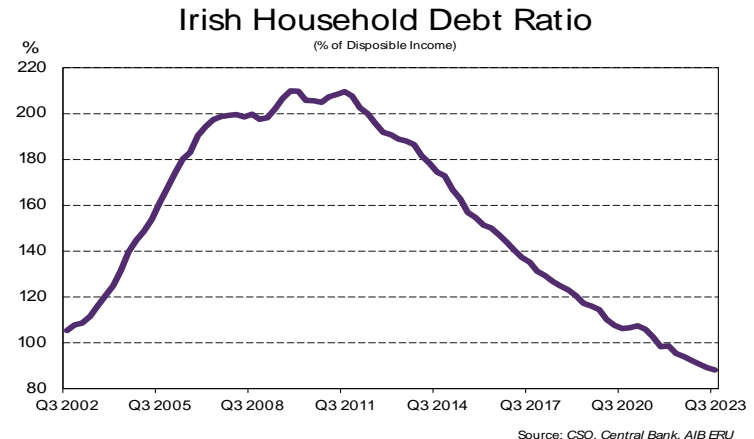
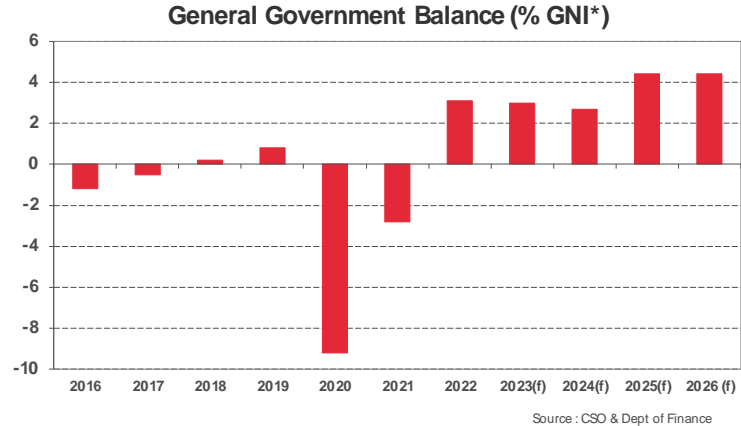
- **Large FDI inflows** continued in 2023, boosting investment, exports and employment
- **Strong labour force growth** helped by large scale net inward migration of workers
- **Fiscal policy** to remain supportive of activity – Budget provides for 6% rise in core gov. spending, fresh income supports and income tax cuts in 2024
- Economy has deleveraged; **low private sector debt**
- **Very high household savings** – capacity to support spending

## Risks/Challenges

- High inflation, sharp hikes in interest rates and slowing global growth
- **FDI concentration**. Energy **import reliance**
- **Capacity constraints** – housing, labour, electricity, water, infrastructure
- **Competitiveness** issues

## Outlook

- Strong fundamentals suggest **economy should continue to perform well** over the next couple of years, despite challenging backdrop. Central Bank of Ireland sees growth averaging around 3.5% over the period 2024-26





Note: All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank Northern Ireland (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.