



Economic Update:

Inflation has eased, central banks starting to cut rates, subdued global macro backdrop

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March 2025

Four themes today

1. Global Macro backdrop
2. The path for interest rates & FX markets
3. Performance of Northern Ireland and Ireland economies
4. Outlook for 2025 and beyond



Global Economic Backdrop

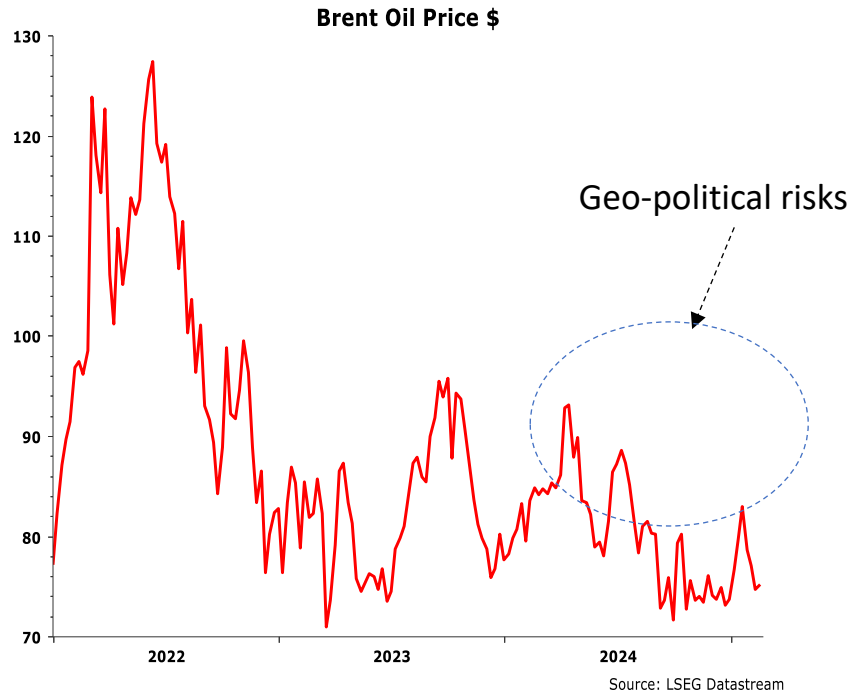
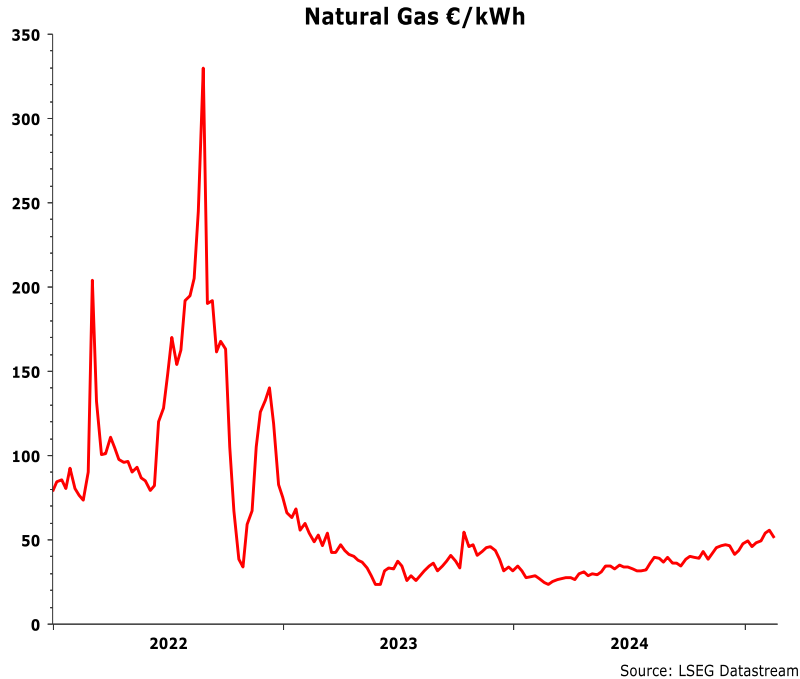
Modest global growth expected, but plenty of downside risks

GDP (Vol % Change)	2022	2023	2024 (e)	2025 (f)	2026 (f)
World	3.5	3.3	3.2	3.3	3.3
US	1.9	2.5	2.8	2.7	2.1
Euro Area	3.4	0.5	0.8	1.0	1.4
UK	4.3	0.1	0.9	1.6	1.5
Japan	1.0	1.9	-0.2	1.1	0.8
China	3.0	5.2	4.8	4.6	4.5

Source: IMF World Economic Outlook, Jan 2025

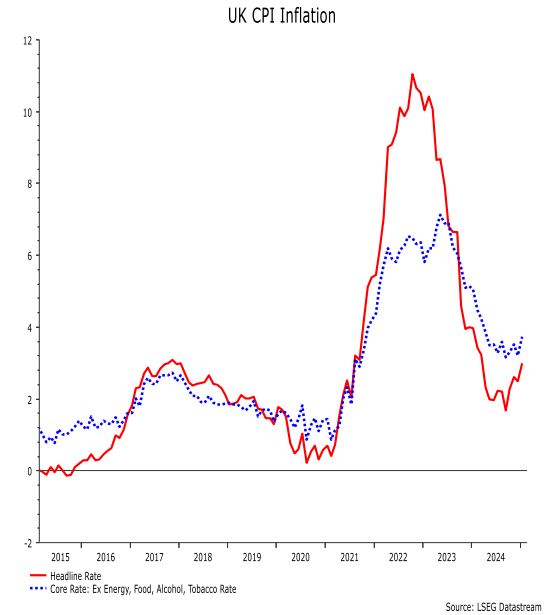
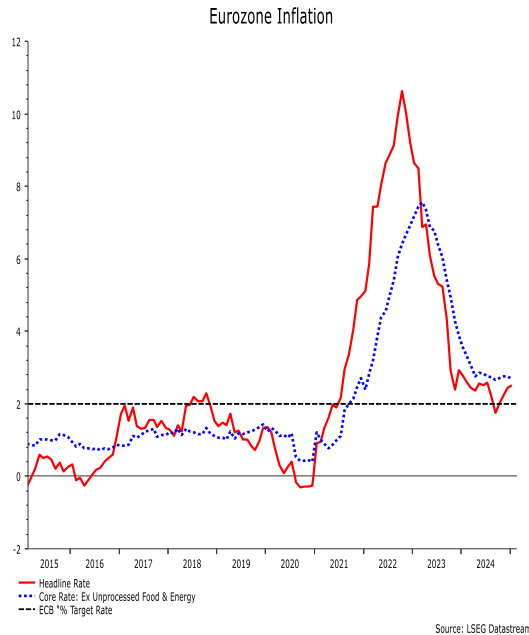
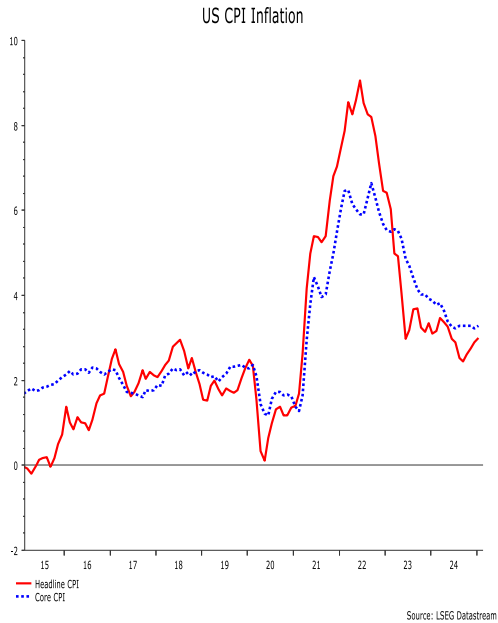
- Severe **recession avoided** to date in most of the main economies, with **inflation now in decline**
- **Modest growth forecast for 2025-26**, as world economy shifts to lower growth path. Risks to downside
- **Policy error still possible** - central banks could be underestimating impact of past hikes and be too slow to ease rates back from restrictive levels
- Ongoing war in Ukraine, conflict in Middle East, faltering recovery in China, geo-economic fragmentation, Trade tensions

Oil prices somewhat volatile in reaction to geo-political events



- Natural gas prices have normalised, driving down energy costs. Some upward pressure recently
- Brent Crude has been volatile owing to geopolitical risks, albeit while remaining comfortably below 2022 peaks

Progress made on inflation but core rates remain elevated

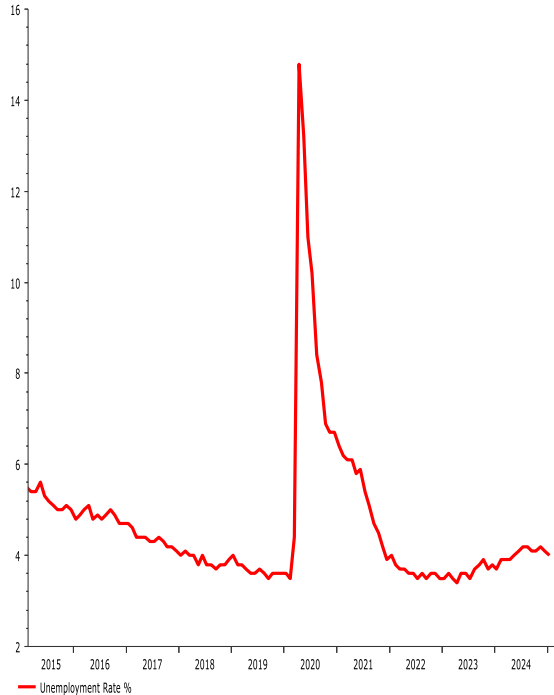


- Inflation continued to fall throughout 2024, driven by lower energy prices and pass through of central bank rate hikes
- Core inflation remains high across key markets due to strong demand-driven inflation in domestic services

Unemployment is low but labour markets are softening

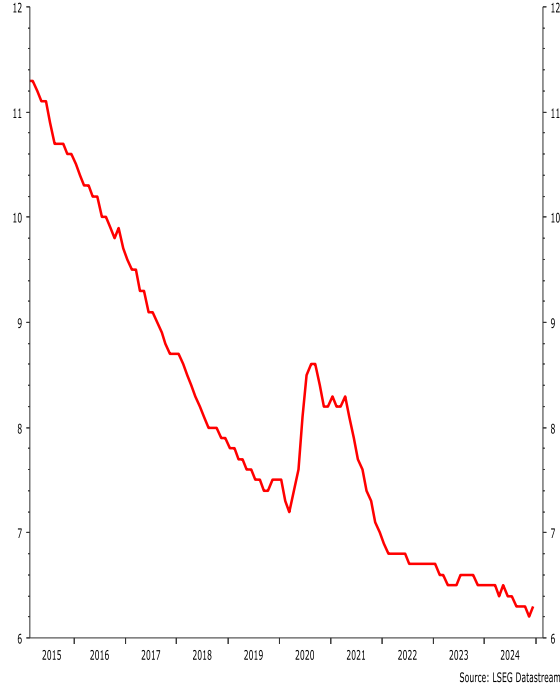


US Unemployment Rate



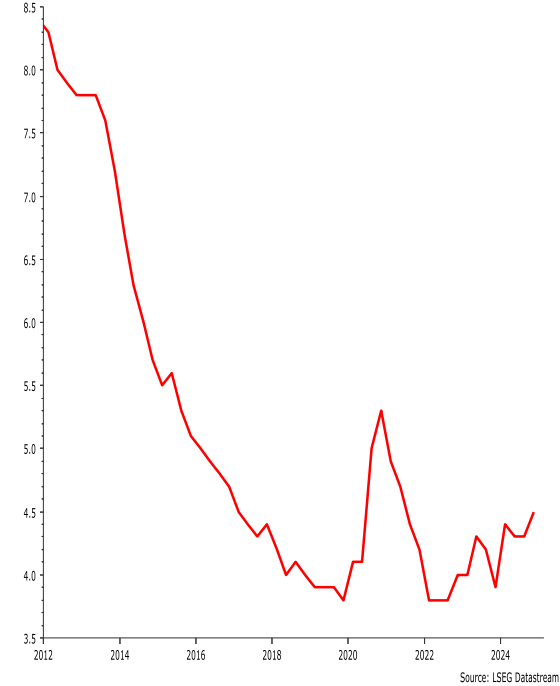
Source: LSEG Datastream

Eurozone Unemployment Rate %



Source: LSEG Datastream

UK ILO Unemployment

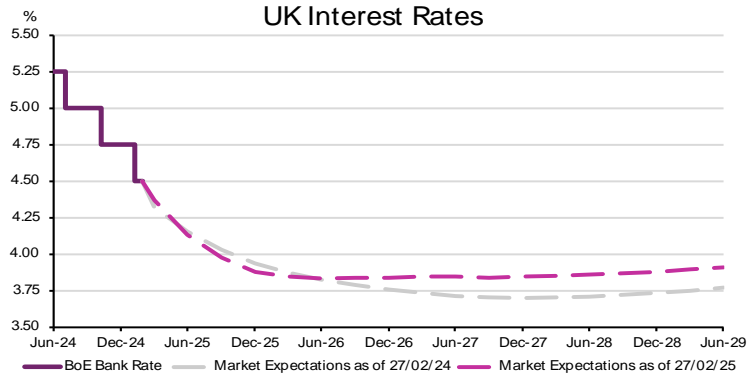


Source: LSEG Datastream

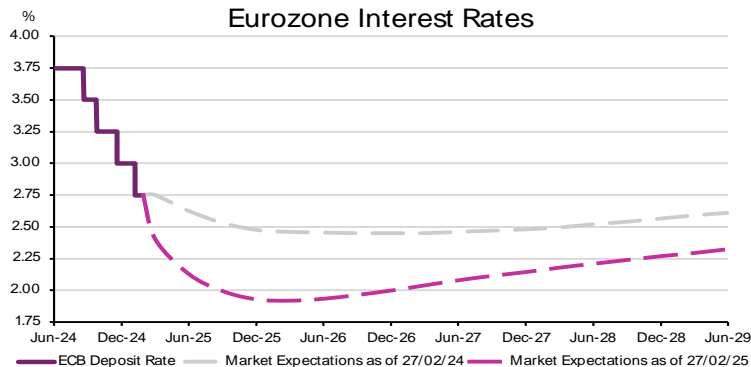


The path for Interest Rates & FX markets

Central banks have started to cut. Proceeding cautiously

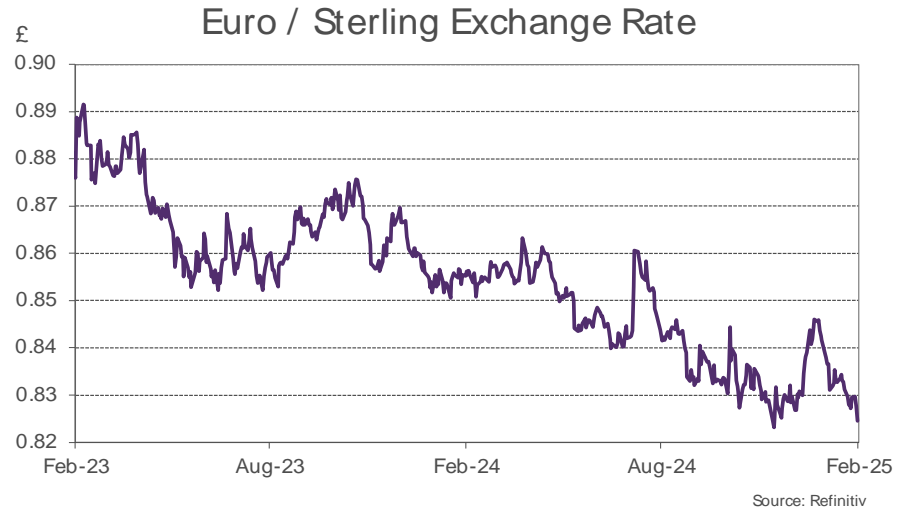
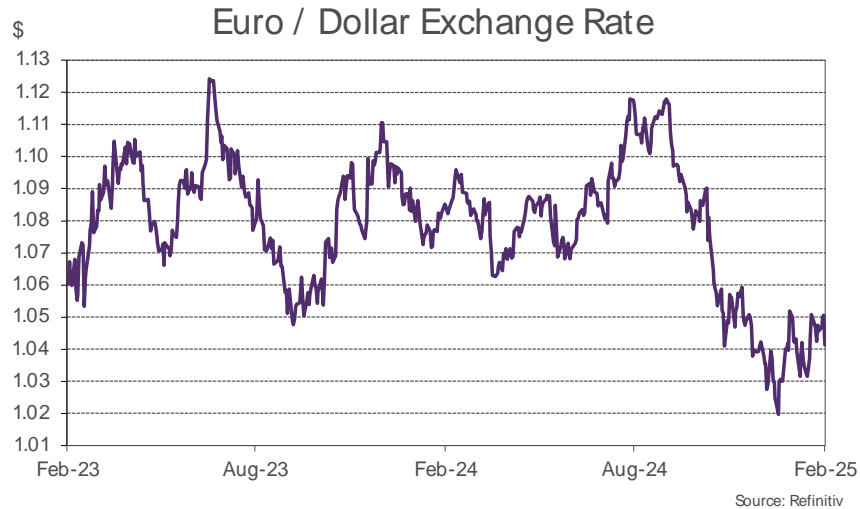


- BoE cut by 50bps in 2024
- Cut by a further 25bps in early February'25
- Bank Rate currently at 4.50%
- BoE continues to hold an easing bias
- However, it has emphasised a gradual and careful approach to further rate cuts
- The market is pricing/expecting that UK official rates will fall to at least 4% by year end



- ECB cut rates by 100bps in 2024
- Started 2025 with another 25bps cut in January
- Deposit rate currently at 2.75%
- ECB retains a clear bias to ease policy further
- ECB President Lagarde's comments suggest another rate cut could occur in March
- The market is pricing/expecting that rates will fall to at least 2% by year end

Dollar rally losing some momentum

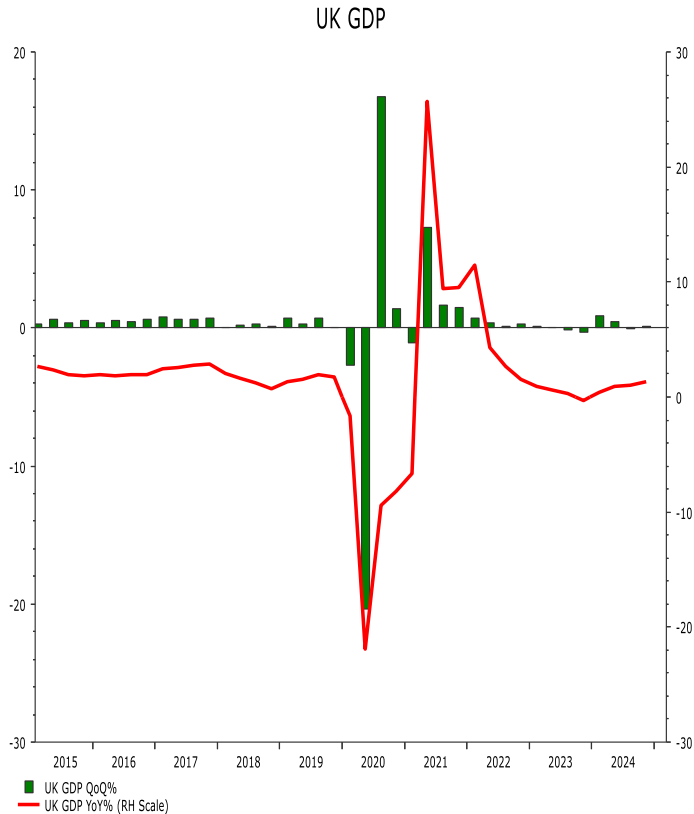


- **Dollar** had been in the ascendency against backdrop of Trump presidency, expectation of rates remaining higher for longer amid potentially more inflationary environment (incl. impact of tariffs)
- **Euro** not helped by sluggish EZ recovery, rate expectations and political uncertainty
- **Sterling** had been supported by more resilient UK economy and less dovish BoE
- More recently, dollar rally has lost some momentum.

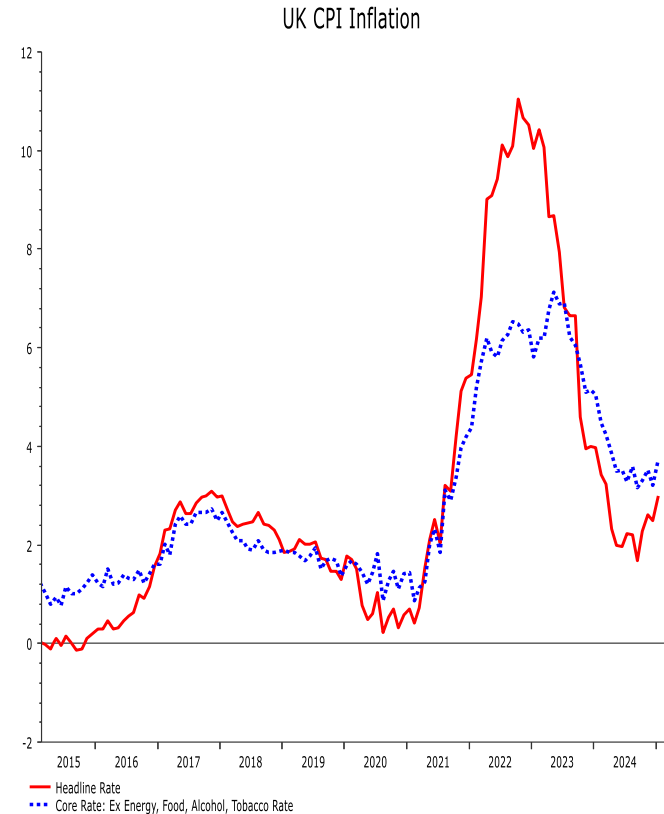


All-island economy: Northern Ireland & Ireland's economic backdrop

UK economy saw sluggish growth in 2024. UK inflation has fallen back but expected to rise again in the near term



Source: LSEG Datastream

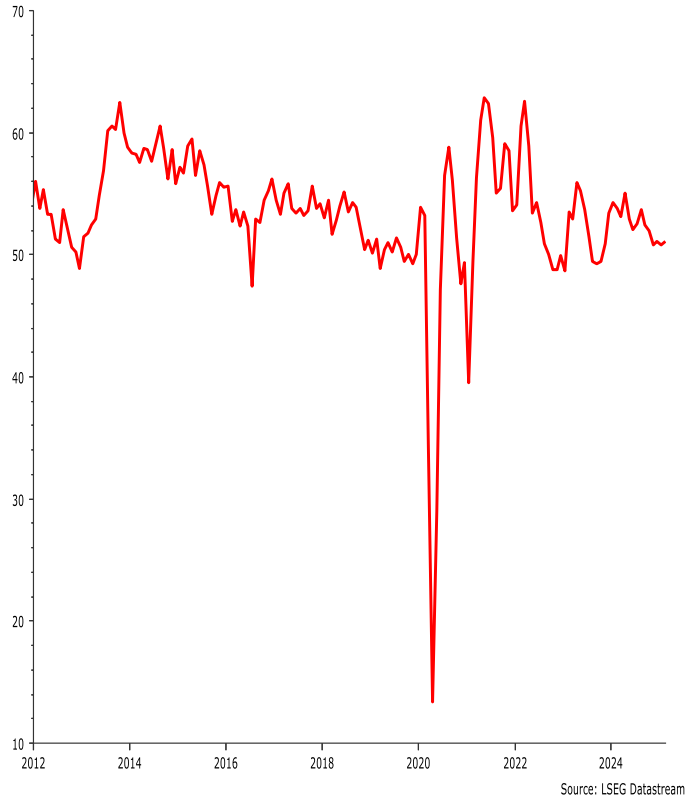


Source: LSEG Datastream

UK Services performing well, Manufacturing in contraction territory



UK Markit/CIPS Services PMI



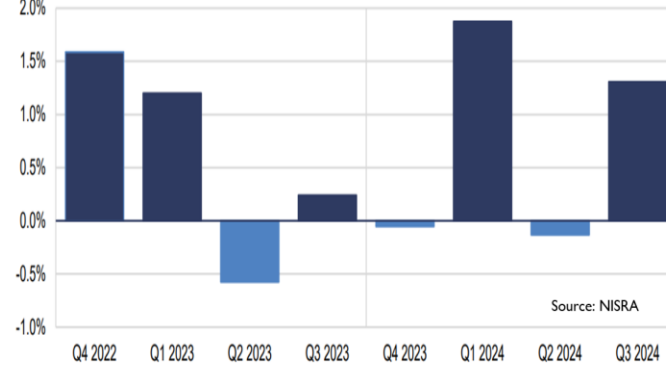
UK Markit/CIPS Manufacturing PMI



Some encouraging signs from NI Economy in 2024

- **NI Composite Economic Index (NICEI)** indicates activity levels improved in 2024
- NICEI increased by 1.3% q/q and 3.0% y/y in Q3'24
- NI Output is now 9.7% above pre-pandemic level (c. 2.9% for UK overall)
- **Full employment** with jobless rate below 2%
- **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
- Capacity constraints acting as a headwind to growth/opportunities

Chart 1: Northern Ireland Composite Economic Index (NICEI) Quarter on quarter change (%), last 8 quarters

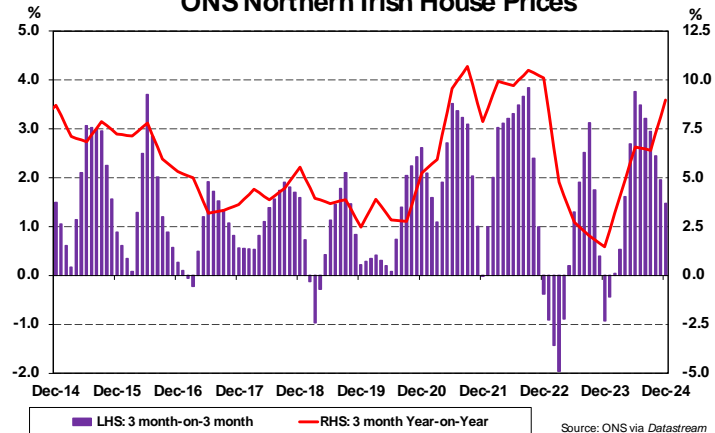


Northern Ireland Unemployment Rate

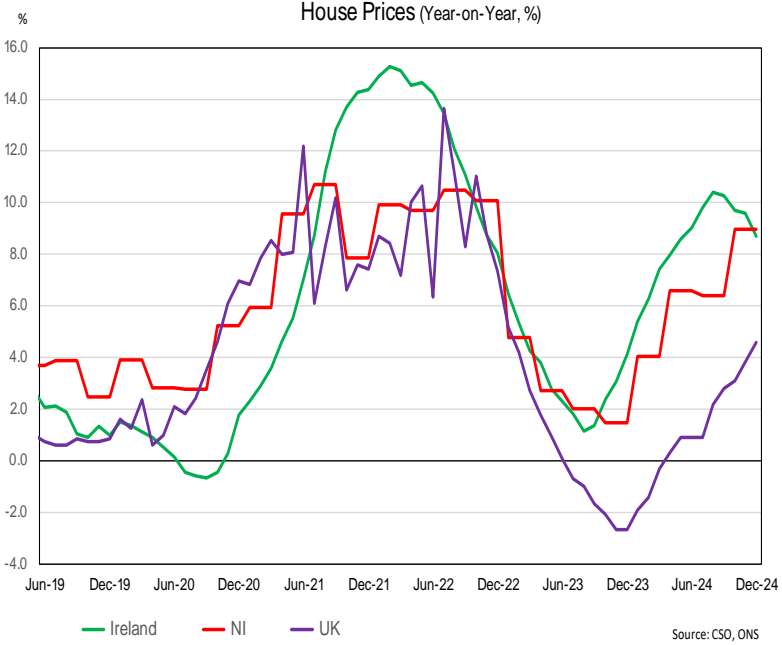
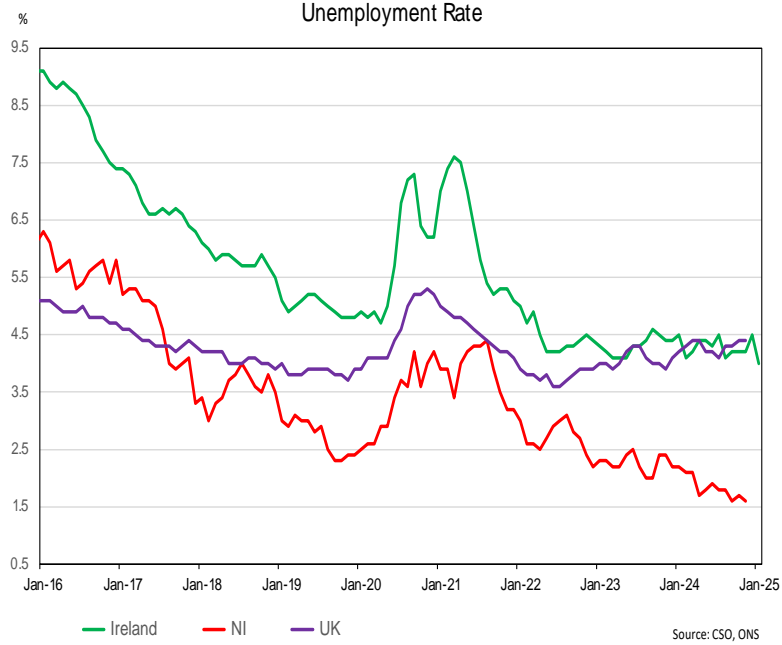


Source: ONS via Datastream

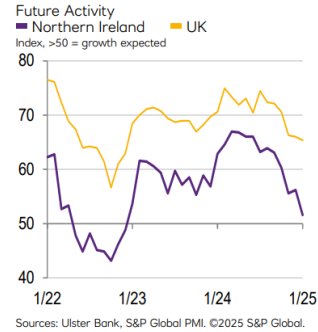
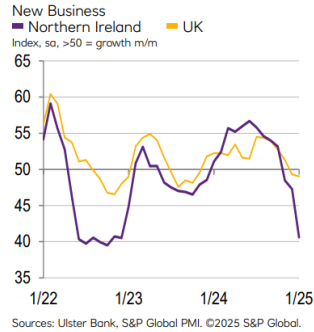
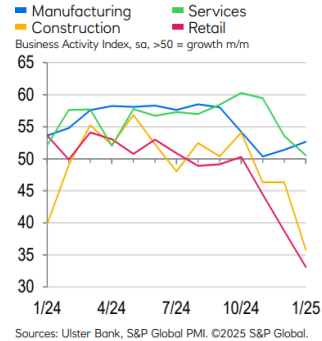
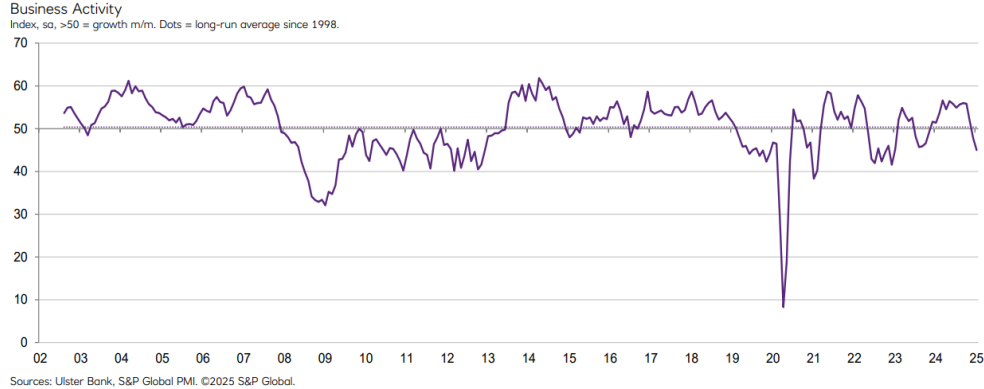
ONS Northern Irish House Prices



NI economic performance relative to UK and RoI

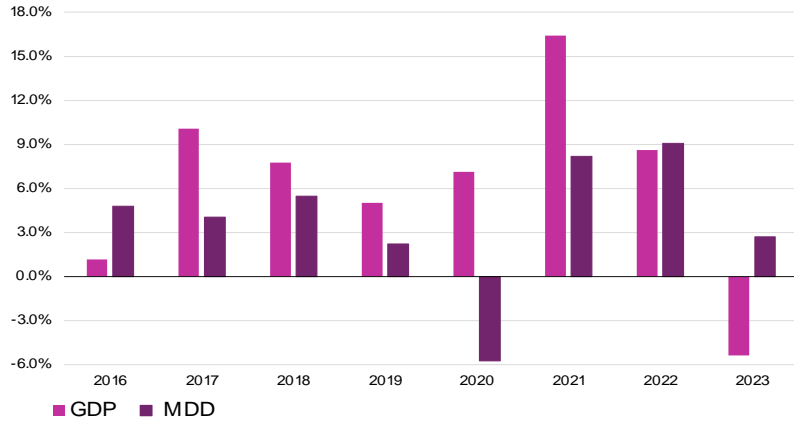


Survey data indicate weak start to the year for NI economy



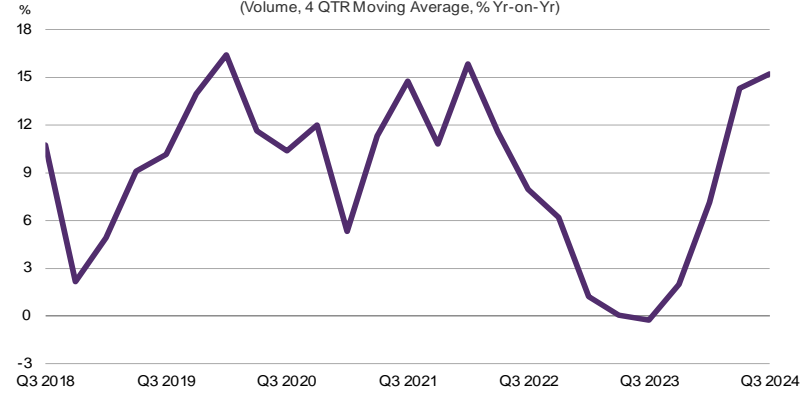
Some key components of Irish growth registered solid performance in 2024

Irish GDP and MDD



Irish Exports of Services

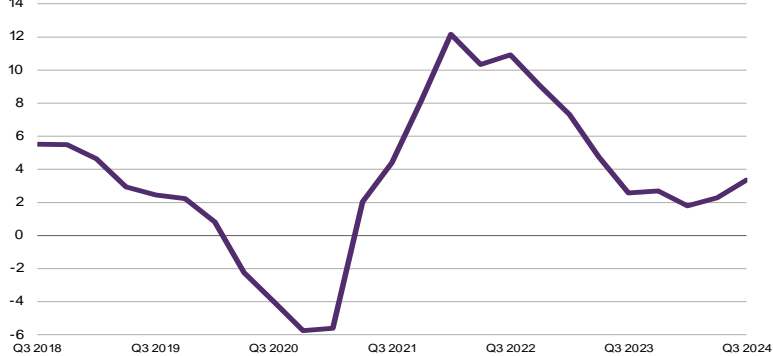
(Volume, 4 QTR Moving Average, % Yr-on-Yr)



Source : CSO

Modified* Final Domestic Demand

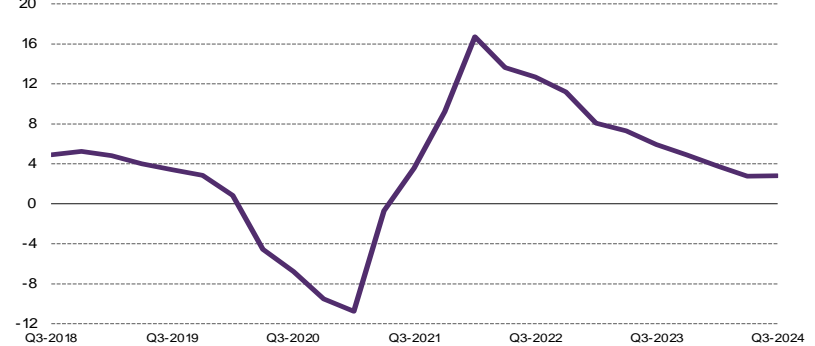
(4 QTR Moving Average, % Yr-on-Yr)



Source: CSO (*Investment excludes imports of I.P. & Aircraft Leasing)

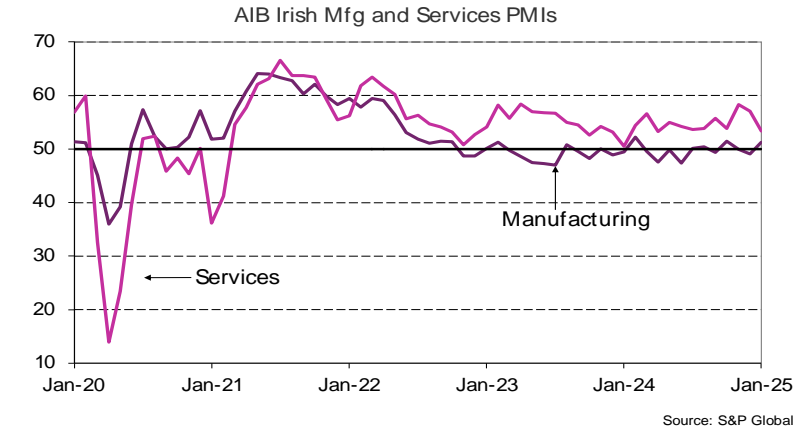
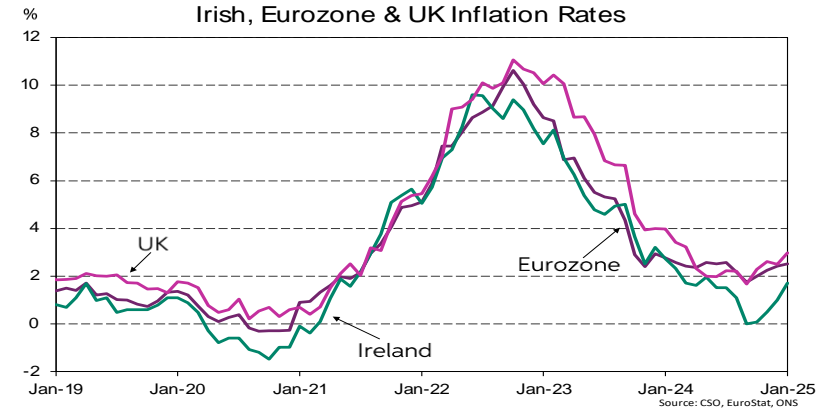
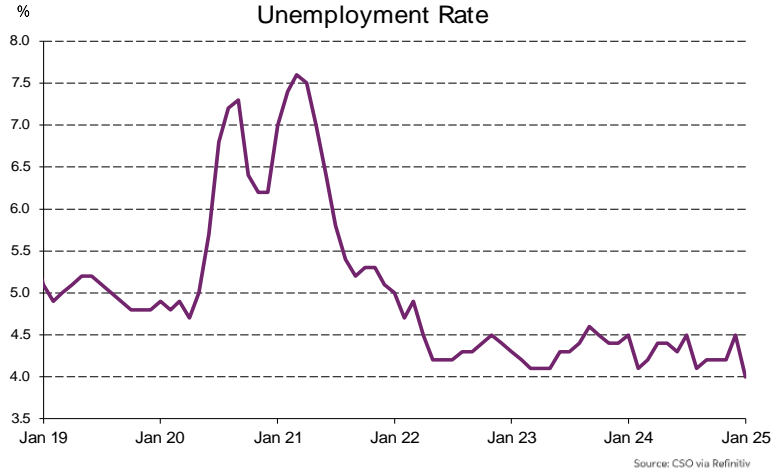
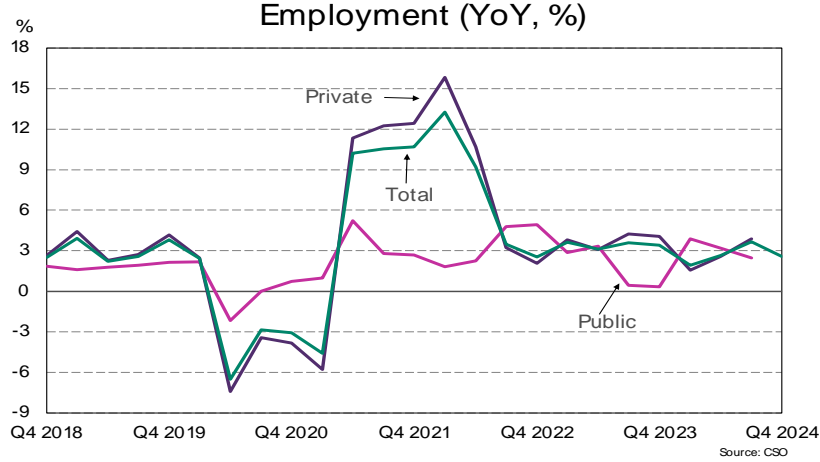
Consumer Spending

(Volume, 4 QTR Moving Average, % Yr-on-Yr)



Source: CSO

Unemployment rate at low level, inflation falls sharply. Overall, data consistent with slower growth trajectory





Outlook for 2025 and beyond

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

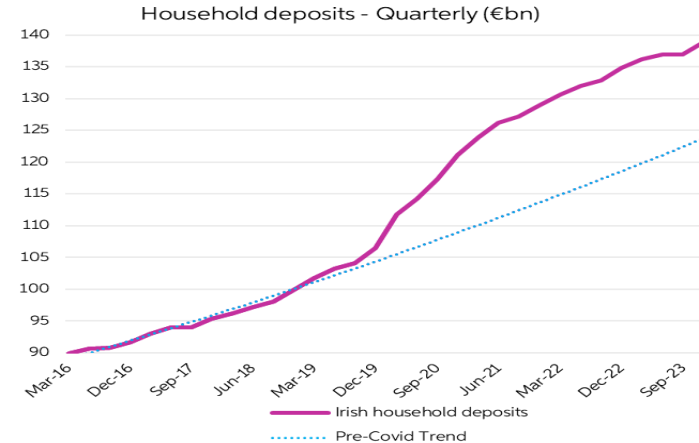
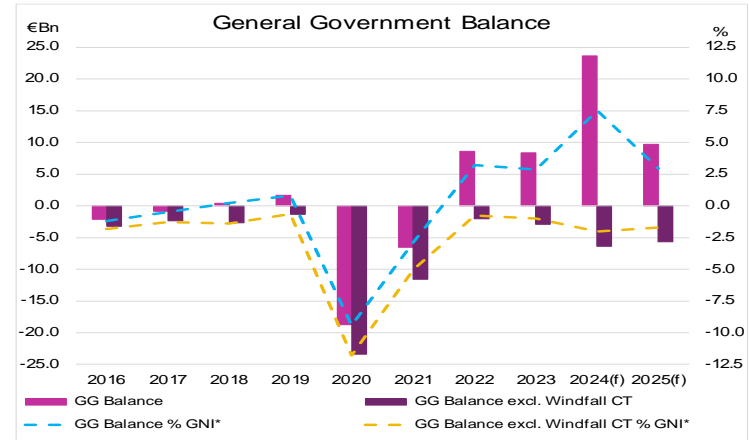


Irish economy is well underpinned by many positive factors

- **Strong labour force growth** helped by large scale net inward migration of workers
- **Fiscal policy** to remain supportive of activity – Budget 2025 provides for c.6% rise in net gov. spending in 2025, including fresh income supports and income tax cuts
- Economy has deleveraged; **low private sector debt**
- **Very high household savings** – capacity to support spending
- Underlying growth is seen averaging 2-3% over 2025-2026

Risks/Challenges/Opportunities

- Persistent inflation, restrictive interest rates and **subdued global growth & trade tensions**
- **FDI concentration**
- **Energy import reliance**
- **Capacity constraints** – housing, labour, electricity, water, infrastructure
- **Competitiveness** issues
- **Demographic Transition** – Ageing Population
- **Transforming to a more Sustainable Economy**
- **Technological Innovation** – further AI developments

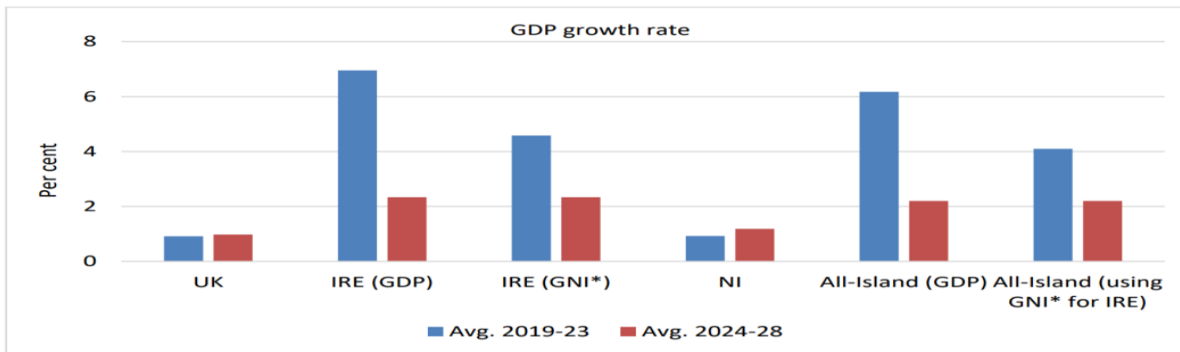


All-Island economy Macro Forecasting – new developments

- **New model** developed for the **All-Island economy** (ESRI/NIESR research)
- Model designed for **medium term** projections
- Research shows that **goods trade** between Ireland and Northern Ireland has **increased** since Brexit
- Evidence of **increased numbers** travelling from **NI to ROI to work**
- Estimated that All-Island economy grew by around **4% p.a.** over the past 5 years
- Forecast that All-Island economy could grow by **around 2% p.a. over the next 5 years**



GROWTH IN THE ALL-ISLAND ECONOMY, IRELAND, NORTHERN IRELAND AND THE UNITED KINGDOM



Source: ESRI Jan 2025

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.