2.4. IRELAND

Ireland's domestic economy maintained its momentum in the first half of 2019. In 2019-Q1, employment soared by 3.7% year-on-year and the unemployment rate fell to 5%, a level last seen in 2007. Average weekly earnings rose by 3.4% compared to the same period last year, supporting household disposable income. Resilient retail sales in the first five months of 2019 suggest robust private consumption. Industrial production rebounded in the first four months of 2019 after a decline at the end of 2018. On a year-on-year basis, construction output increased by 5.9% in 2019-Q1 and new dwelling completions accelerated to 23.2%.

Ireland's trade and investment figures remain volatile and heavily influenced by the activities of multinationals. The high share of pharmaceuticals and ICT services makes Irish exports less sensitive to changes in overall global demand. Nevertheless, the positive net export contribution to GDP growth is forecast to decrease over the forecast horizon in line with the expected weakening of external demand in key export markets.

Domestic activity is projected to continue growing at a solid pace with robust private consumption growth underpinned by strong growth in employment and wages. Investment in construction is forecast to expand at a brisk pace. As a result, real GDP is forecast to grow by 4.0% in 2019 and to moderate to 3.4% in 2020, on the back of less favourable prospects in key export markets, increasing capacity constraints and a slowdown in government expenditures.

HICP inflation averaged 1.1% in the first five months of 2019, driven by rising service and energy prices. The average for the whole of 2019 is forecast at the same rate, with the bottoming out of energy price inflation in line with oil price assumptions. Inflation is then forecast to rise to 1.3% in 2020, mainly driven by service prices as wage pressures build up in a tight labour market.

The economic outlook remains clouded by uncertainty, particularly relating to the terms of the UK's withdrawal from the EU and changes in the international taxation environment. More generally, the difficult-to-predict activities of multinationals could drive headline growth in either direction.

In the absence of major negative external shocks, the risk of overheating could increase in the near term. The tight labour market and diminishing spare capacity point to an economy possibly operating above its potential. The use of volatile and potentially short-lived foreign-company sourced corporation tax receipts to stimulate domestic demand would also fuel overheating.

Graph 2.4: **Ireland - Real GDP growth and contributions**