

2.7. IRELAND

Encouragingly, both the labour market and construction investment have maintained their strong momentum in the first half of 2018. Employment recovered its pre-crisis levels in 2018-Q1 and unemployment continues to fall. Household real disposable income continues to grow, driven by robust growth in full-time employment, rising wages and low inflation, thereby also supporting consumer confidence. Total construction output increased by 20.6% in 2018-Q1 on an annual basis, though from low levels. Planning permissions for residential units grew by 80.8% in 2018-Q1 (y-o-y) and the construction PMI remains high.

Headline trade and investment figures have recently been very volatile and heavily influenced by the activities of multinational companies. While the outlook for the euro area slightly worsened, the overall external economic environment is expected to remain broadly supportive of Irish exports over the forecast horizon.

Domestic economic activity is projected to continue growing at a solid pace in the short term. The strong momentum in the labour market is expected to further support private consumption. Investment in construction is forecast to expand at a brisk pace driven by the housing shortage and various government policy measures. As a result, real GDP is estimated to grow by 5.6% in 2018 and 4.0% in 2019, with domestic demand as the main contributor.

HICP inflation remained subdued in the first five months of 2018, dragged down by lower import prices due to the appreciation of the euro against sterling. HICP inflation is projected to reach 1.0% in 2018 and to rise to 1.3% in 2019, mainly driven by higher energy and services prices, as a further tightening in the labour market is expected to put upward pressure on wages.

Risks to the macroeconomic outlook are tilted to the downside. Uncertainty relates primarily to the ongoing negotiations between the UK and the EU. As a highly open economy, Ireland is particularly exposed to changes in the international taxation and trade environment. Activities of multinational companies could swing headline GDP growth in either direction.

