



Economic Backdrop to Budget 2024

*Much slower growth, still elevated inflation,
higher interest rates, but strong finances*

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Modest global growth expected, with plenty of downside risks



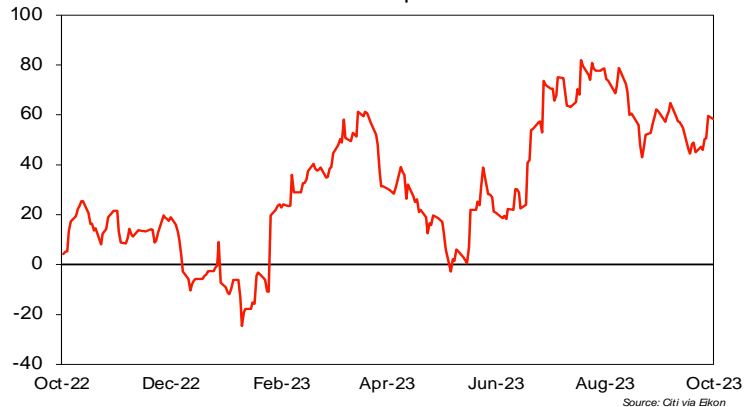
GDP (Vol % Change)	2021	2022	2023 (f)	2024 (f)	2025 (f)
World	6.3	3.5	3.0	2.9	3.2
US	5.9	2.1	2.1	1.5	1.8
Euro Area	5.3	3.3	0.7	1.2	1.8
UK	7.6	4.1	0.5	0.6	1.9
Japan	2.2	1.0	2.0	1.0	0.7
China	8.4	3.0	5.0	4.2	4.1
Source: IMF World Economic Outlook, October 2023					

- Activity holds up better than expected in most economies, with **inflation now in decline**
- **Modest growth** forecast for 2023-25, as world economy shifts to lower growth path
- **Policy error still possible - central banks** could be underestimating impact of hikes and tighten too much
- **Sticky core inflation** and tight labour markets may necessitate further rate hikes, risking a recession
- **Tighter financial and credit conditions** another cloud hanging over the economic outlook
- Continuing war in **Ukraine**, faltering recovery in **China**, geo-economic fragmentation also risks

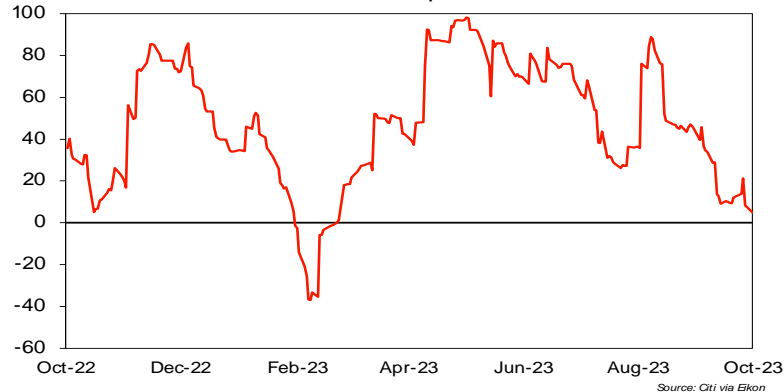
Some economies show resilience in 2023, but others falter



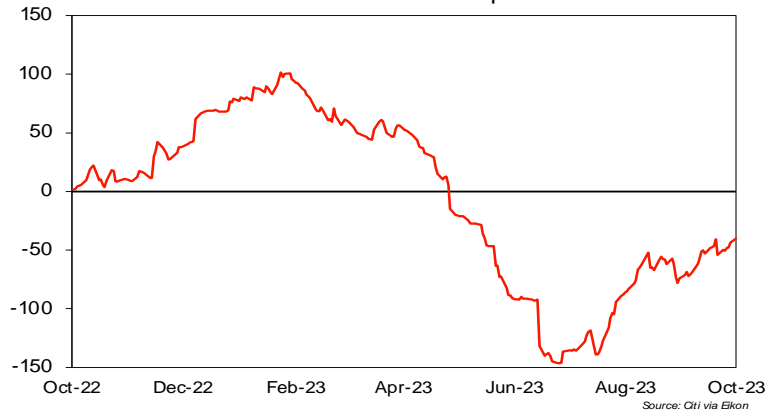
US Economic Surprise Index



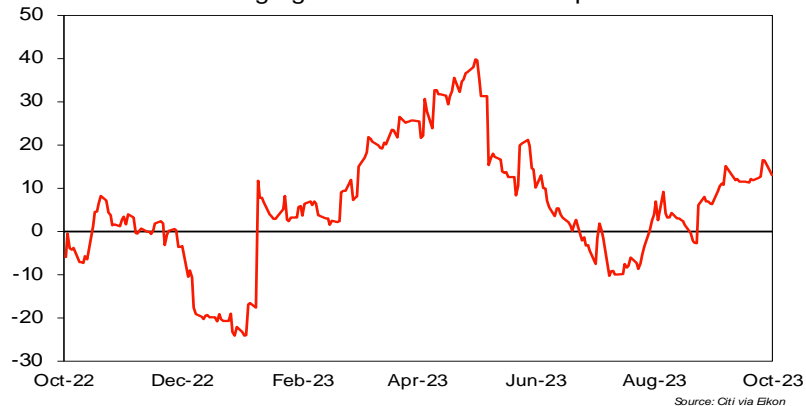
UK Economic Surprise Index



Eurozone Economic Surprise Index



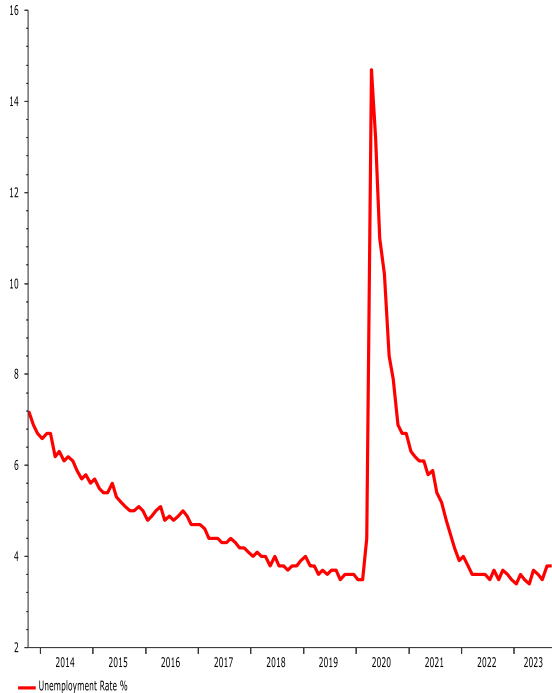
Emerging Markets Economic Surprise Index



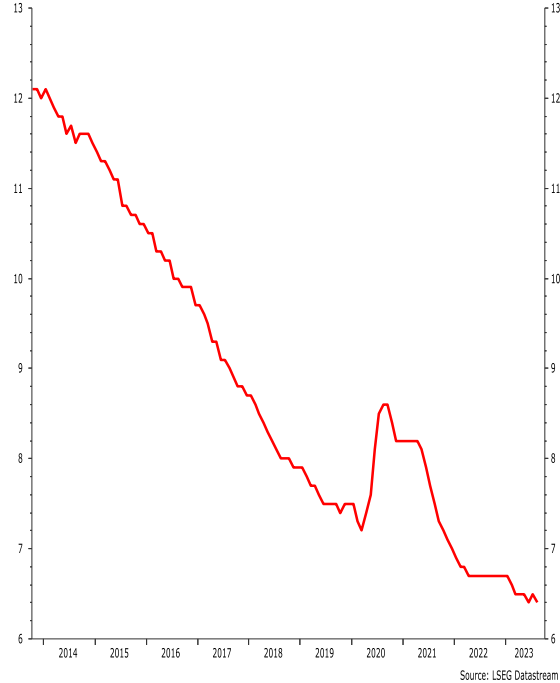
Tight labour markets, unemployment remains very low



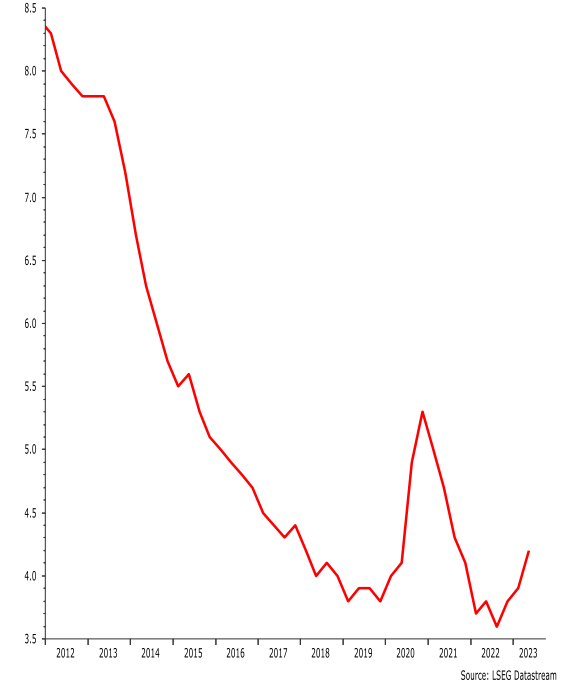
US Unemployment Rate



Eurozone Unemployment Rate %



UK ILO Unemployment

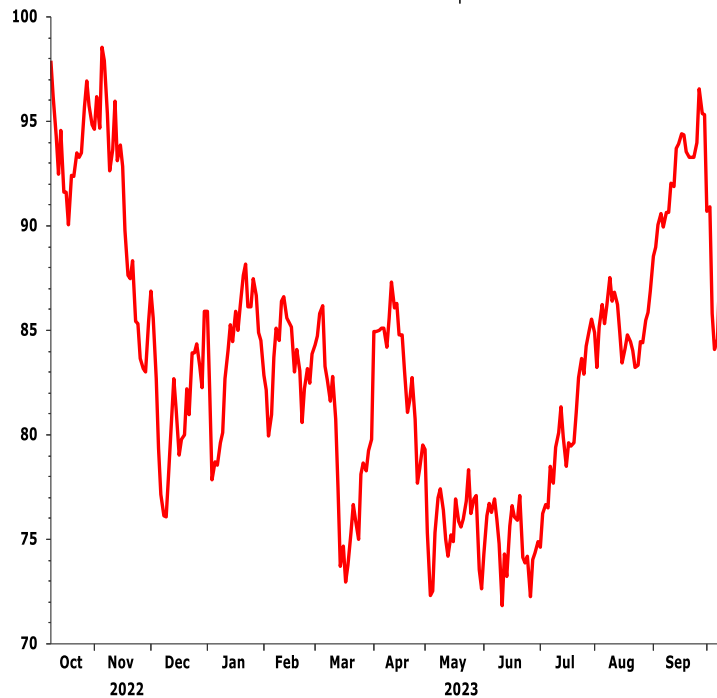


Higher oil prices recently, gas prices well below 2022 level



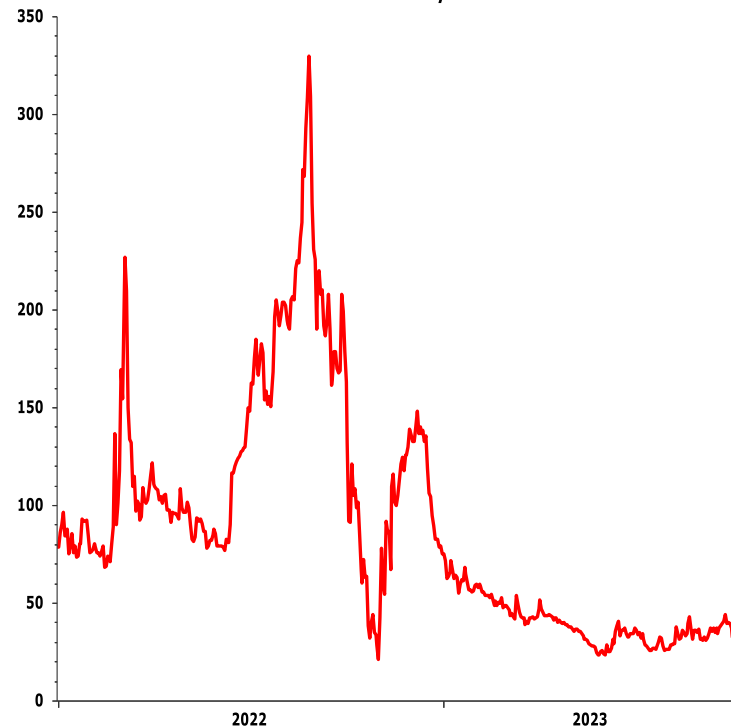
Last 12 months

Brent Oil Price \$



Source: LSEG Datastream

Natural Gas €/kWh

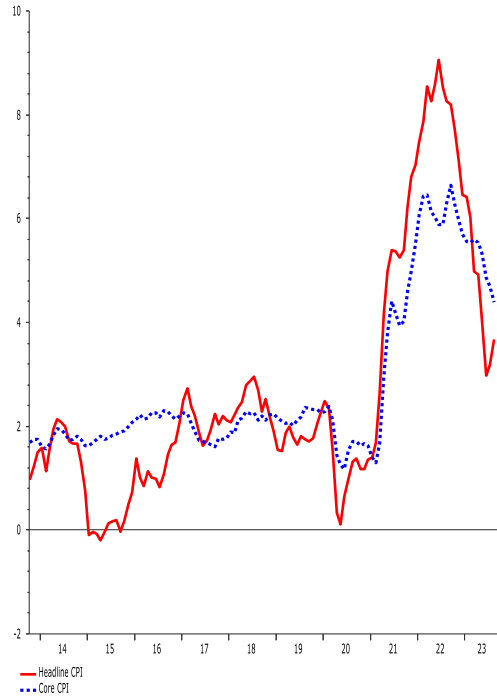


Source: LSEG Datastream

Headline inflation falls rapidly, core rates start to move down

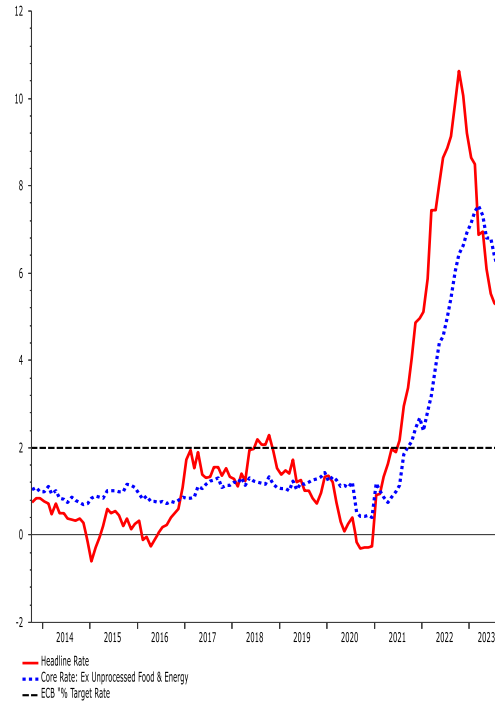


US CPI Inflation



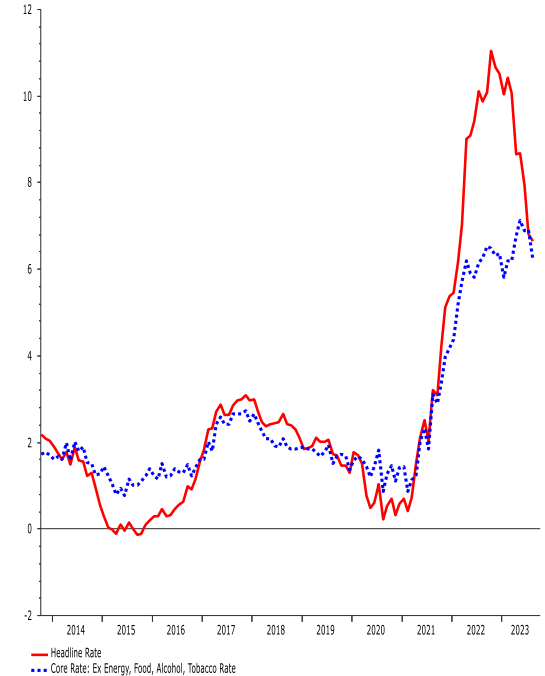
Source: LSEG Datastream

Eurozone Inflation



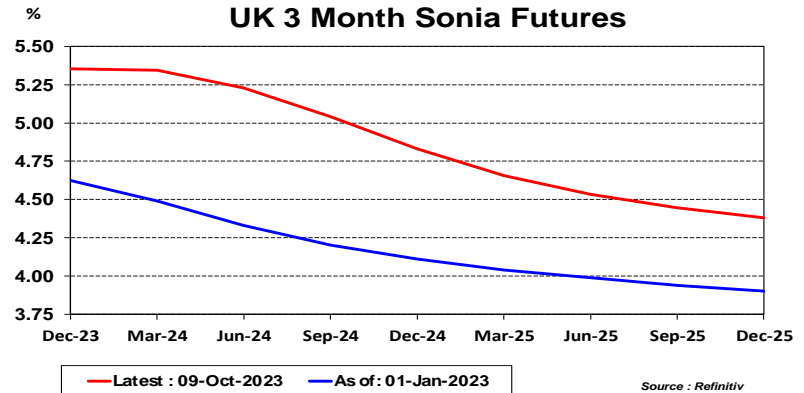
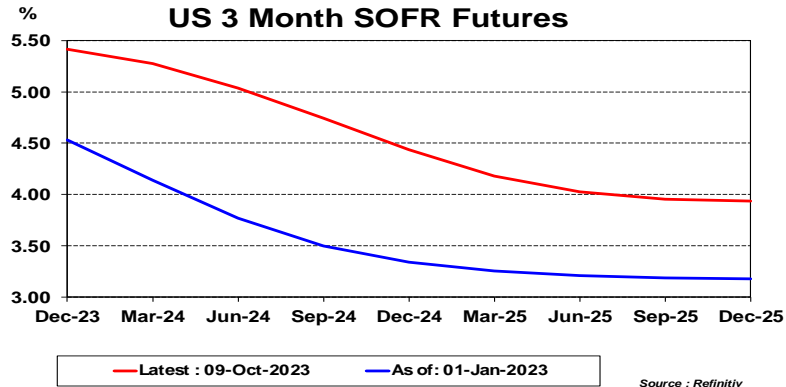
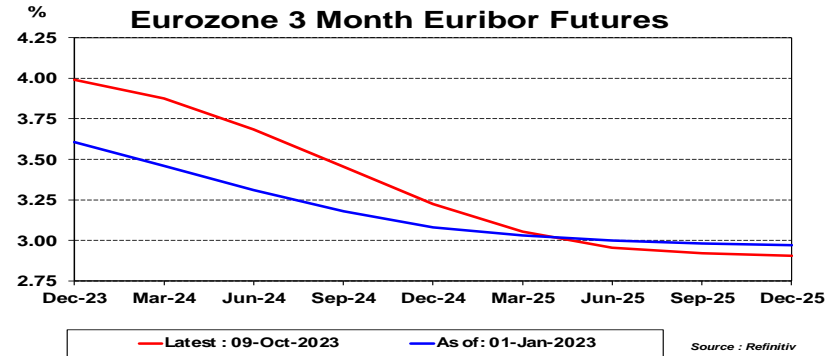
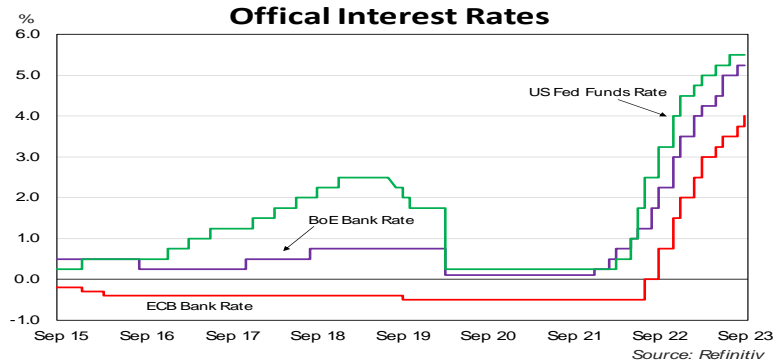
Source: LSEG Datastream

UK CPI Inflation

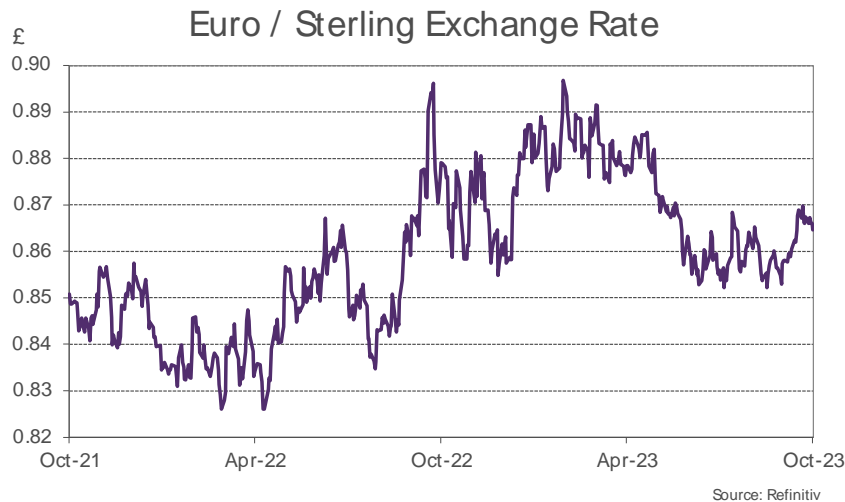
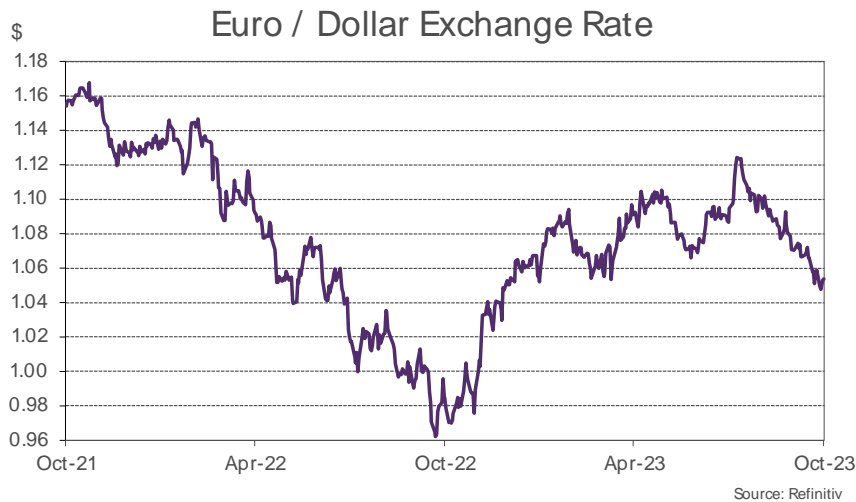


Source: LSEG Datastream

The outlook for interest rates - Higher for longer

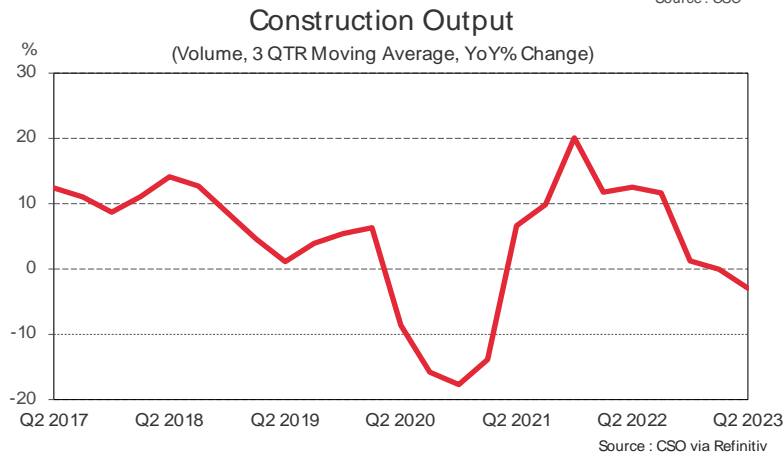
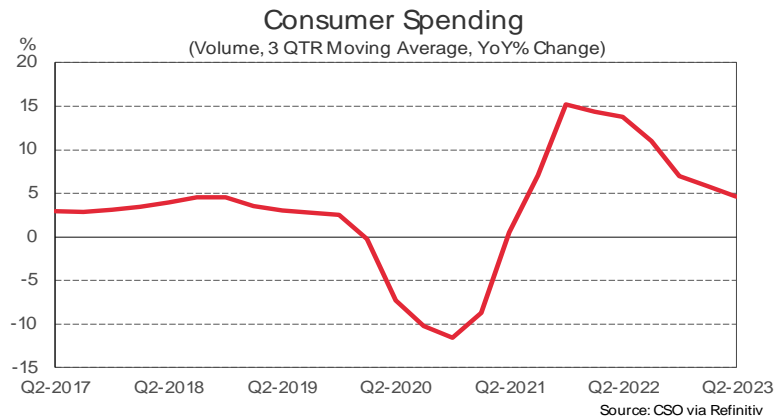
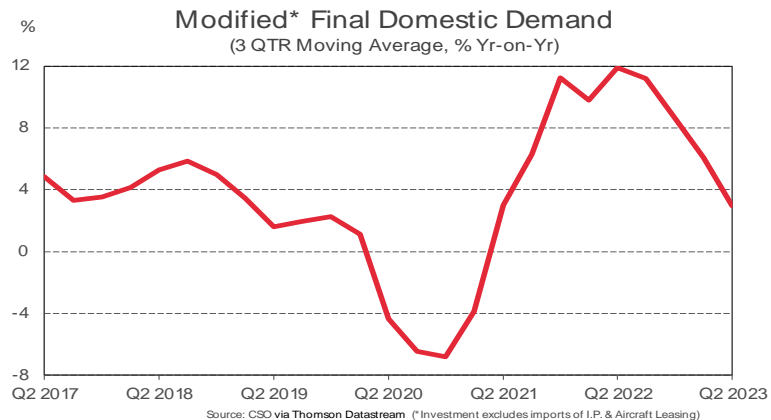


Dollar remains at elevated levels, Sterling firmer in 2023



- 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 and H1 2023 as other central banks hiked rates aggressively
- Dollar, though, remains at elevated levels, and rallies again since mid-year as US rates expected to stay high
- Sterling somewhat firmer in 2023 on more resilient UK economy and rising UK rates. Still at low levels
- Overall, relatively narrow range trading on currency markets in 2023, but dollar now nearing its year highs.

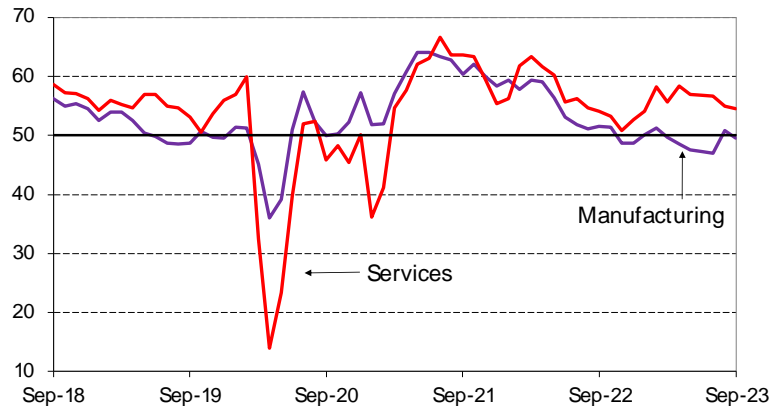
Irish growth slows sharply in 2023, after buoyant 2021-22



Survey data also consistent with slower growth in 2023

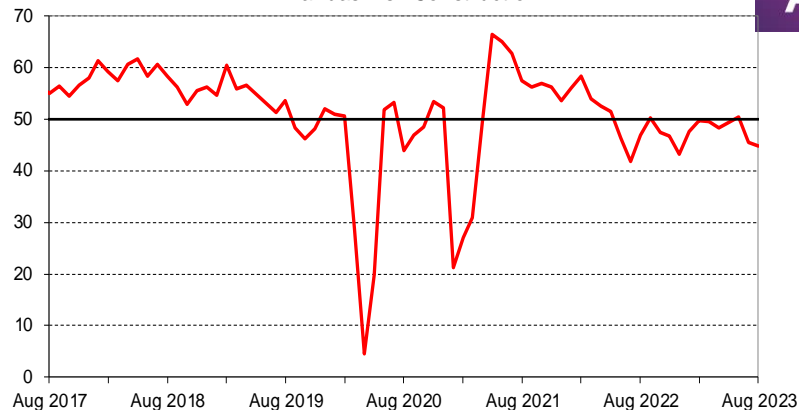


AIB Irish Mfg and Services PMIs



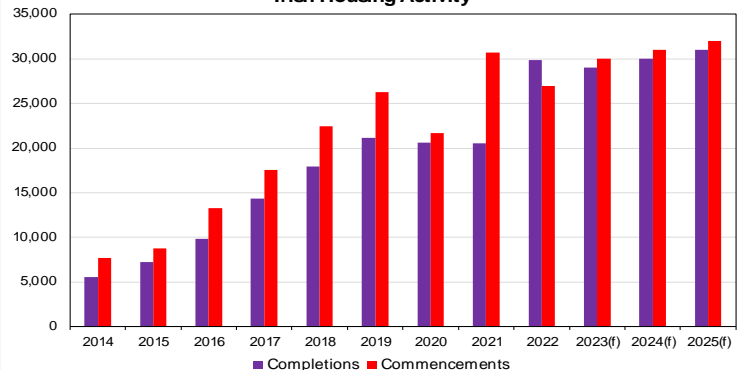
Source: Markit via Refinitiv

BNP Paribas Irish Construction PMI



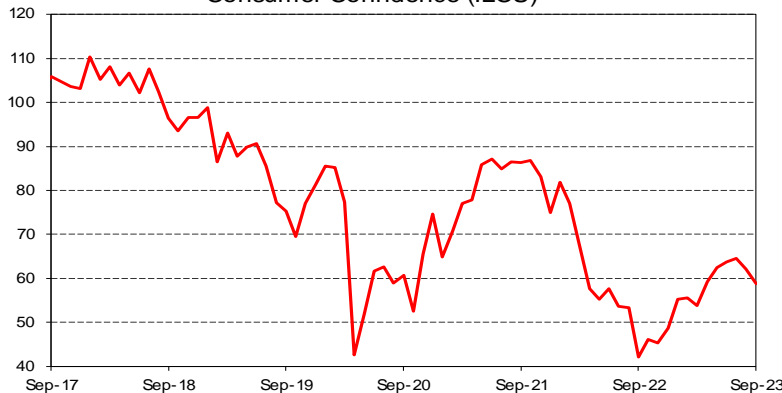
Source: Refinitiv

Irish Housing Activity



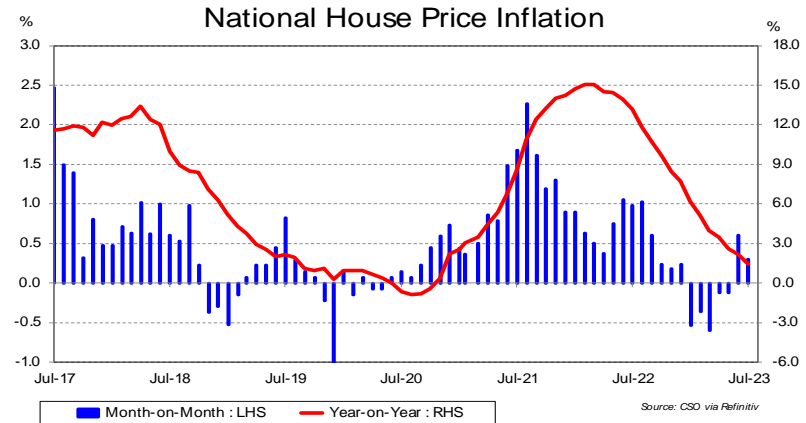
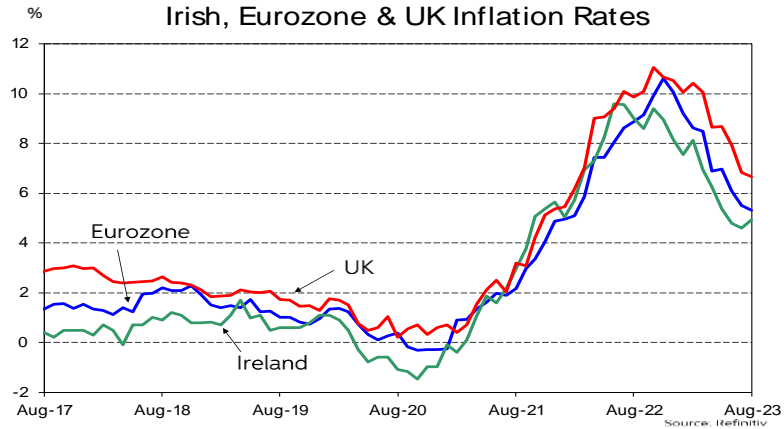
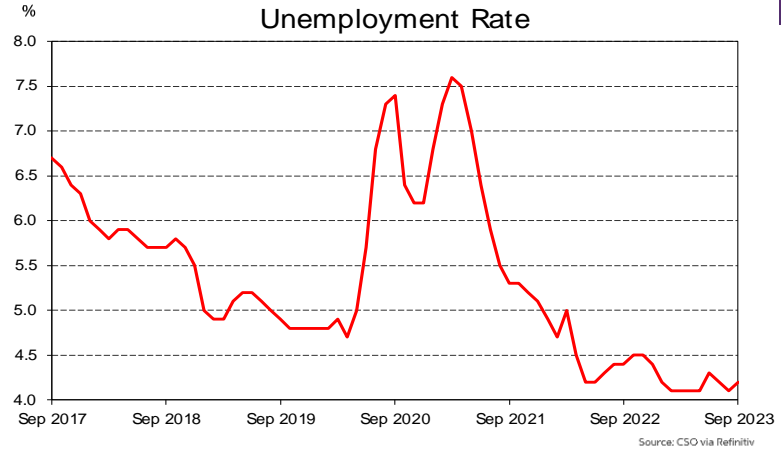
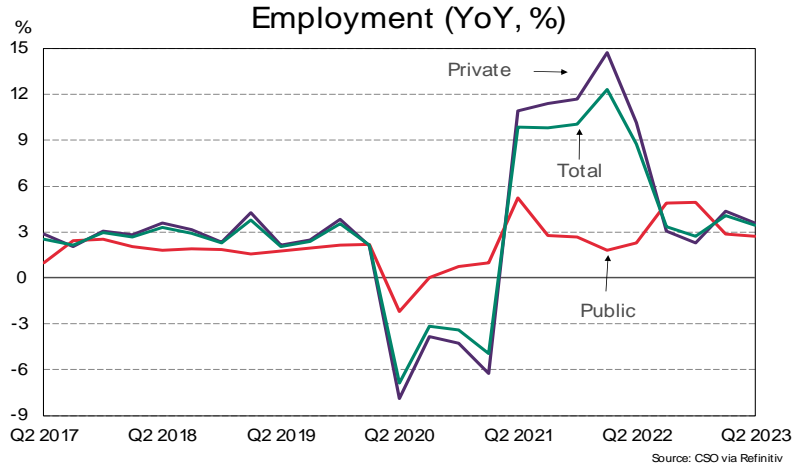
Source: CSO, Dept. of Housing, AIB ERU calculations

Consumer Confidence (ILCU)



Source: ILCU via Refinitiv

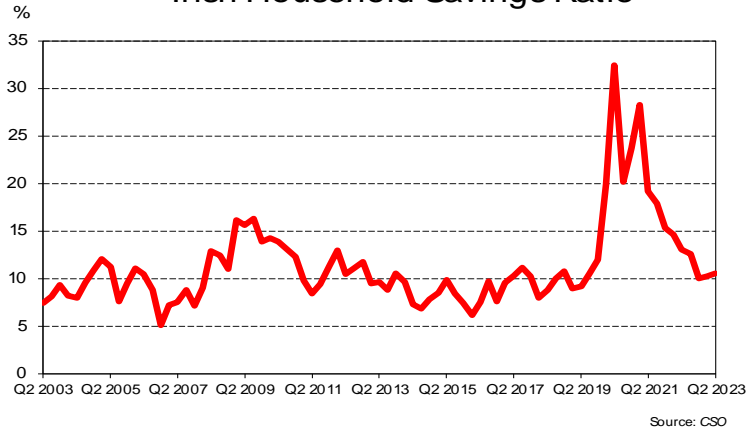
Unemployment rate falls to very low level, inflation easing



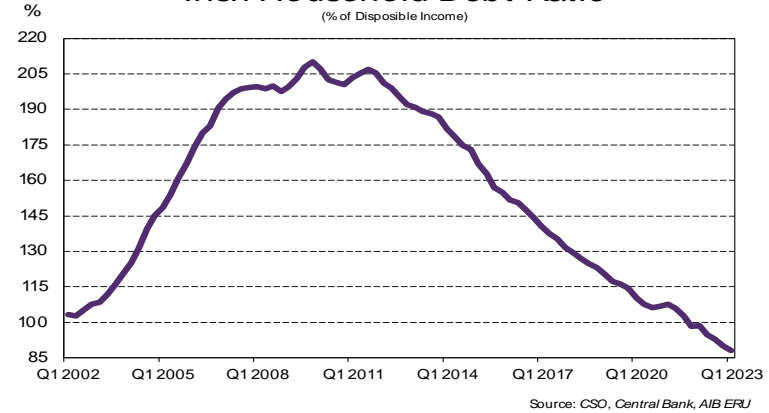
High household savings, while Debt ratios fall to low levels



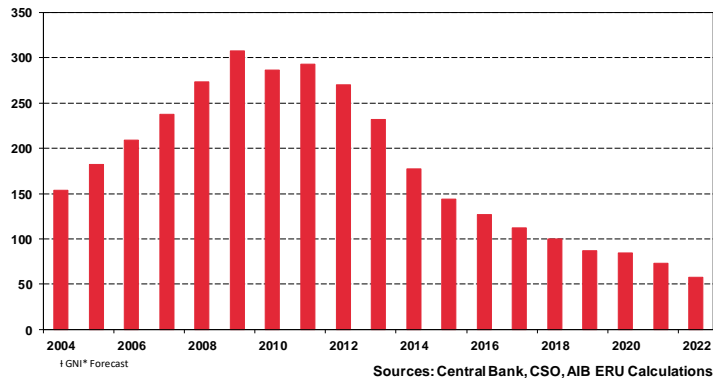
Irish Household Savings Ratio



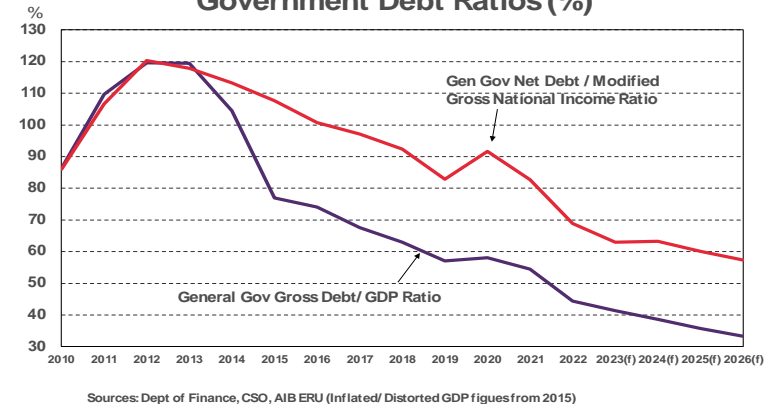
Irish Household Debt Ratio



Irish Private Sector Credit (Inc Securitisations) as % GNI*



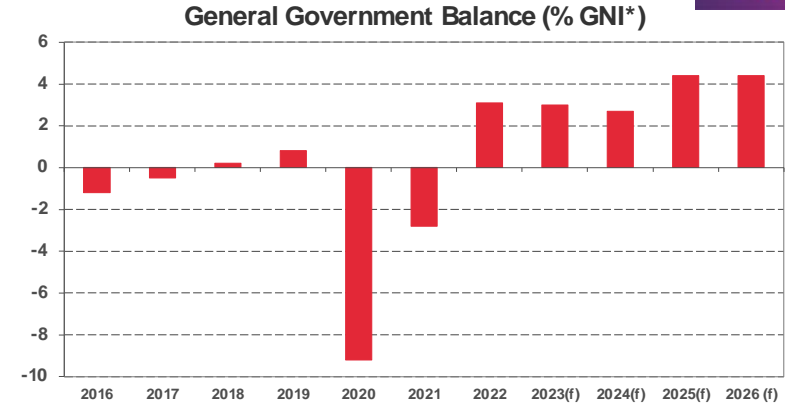
Government Debt Ratios (%)



Budget 2024 – supportive of economic activity



- Strong economy sees large **fiscal surpluses** emerge, giving the government room **for supportive Budget**
- Income tax cuts package of €1.3bn
- **Some €2.7bn in fresh income supports**, mainly targeted at households most impacted by the cost of living crisis
- Increase of 6.1% in core public spending, which includes big rise of 8.8% in voted Exchequer capital expenditure
- **Warnings** that the budget **should avoid adding to inflationary pressures** - Central Bank, ESRI and Irish Fiscal Council
- Fiscal policy **remains supportive of economic activity** with increased government spending and income tax cuts
- Marked **slowdown in growth in tax receipts** in 2023, notably corporation tax, but rate rises to 15% for bigger firms in 2024
- Government **targets budget surplus of €8.4bn** (2.7% of GNI*) in 2024 and continuing large surpluses thereafter
- DoF estimates that up to €11bn of corporation tax receipts may be **‘windfall’**, so big budget surpluses appropriate
- Government setting up **two Funds to house the large surpluses** to address future spending pressures (e.g. ageing)



Source : CSO & Dept of Finance

Dept of Finance Economic Forecasts					
%	2022	2023 (f)	2024 (f)	2025 (f)	2026 (f)
GDP	9.4	2.0	4.5	4.5	4.4
GNP	3.9	1.0	4.0	4.0	3.9
Mod Domestic Demand	9.5	2.2	2.2	2.5	3.0
Private Consumption	9.4	3.3	3.2	2.3	2.8
Gov Expenditure	3.5	1.7	1.4	0.1	1.0
Mod Fixed Investment	15.9	-0.2	0.1	5.0	5.3
Exports	13.9	2.1	5.3	4.8	4.6
Modified Imports	18.9	2.1	4.1	3.5	3.7
HICP	8.1	5.3	2.9	2.4	1.9
Employment	6.6	3.4	1.3	1.3	1.4
Unemployment Rate	4.5	4.1	4.2	4.3	4.4

Economy moves to slower growth path, but in good shape

- Irish **economy is well underpinned by many positive factors**, despite mounting headwinds and capacity constraints,
- **Large FDI inflows** continue in 2023, boosting investment, exports and employment
- **Strong labour force growth** helped by large scale new 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
- Economy has deleveraged; **low private sector debt**
- **Very high household savings** – a rundown of some of the 40% surge in private sector deposits during 2020-2023, could support spending
- High inflation, rising rates and slowing global growth are **significant headwinds**, though, for Irish economy
- **Capacity constraints** emerging also – housing, labour, electricity, water, infrastructure
- **Sharp slowdown in growth in 2023**; big falls in manufacturing output and goods exports
- Wide range to 2023 GDP forecasts given volatility of mfg. output, but growth will be much lower than in 2021-2022
- Strong fundamentals suggest **economy should continue to perform well** over the next couple of years, despite challenging backdrop

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.