



pollinating great ideas

Q1 2022

Irish Economic Outlook

“Our Q1 2022 outlook shows most indicators flashing green with the most obvious recent improvement visible in the employment market where unemployment rates have dropped sharply. The new omicron strain may slow economic momentum early in 2022 but we are optimistic any negative drag is likely to be confined to the first half of the year.”

Tom McCabe, CFA
BlackBee Senior Investment Strategist



Irish Economic Outlook Q1 2022

The national accounts for the third quarter of the year showed a more modest gain in output compared to recent quarters with GDP rising by only 0.9% as improvements in consumer spending were offset by lower investment and a weaker trade performance. Activity across the domestic side of the economy also seemed to taper down in Q3 (modified domestic demand rose by 1.4% in Q3 compared to 9.4% in Q2) which we feel is more down to an inevitable slowing in pent up demand following the reopening of the economy in May.

Although the national accounts pointed to a slower recent pace of growth, day to day economic indicators still indicate a very healthy pace of expansion as we can see in our RAG (Red, Amber, Green) table. The year-end government tax receipts were possibly the clearest recent example of this, showing a 20% increase in receipts over the year with gains visible across all tax categories. The Purchasing Manager Index data (PMI) over the course of Q4 also showed 55+ readings in manufacturing services and construction. Meanwhile consumer spending has been solid and is likely to be reinforced further by the rapid improvement we've seen in employment since the economy reopened as well as still healthy savings buffers. In addition, Ireland's sizeable requirement for housing also represents another tailwind for investment spending over the medium term. Budget 2022 was also announced in the fourth quarter, culminating in a total package of approximately €4.7 Billion to support the economy this year.

Overall, Irish GDP growth forecasts for 2022 (+4.1%, see slide 5) still point to continued outperformance from the economy this year. However, the onset of the omicron strain of coronavirus is a development that could impact the economy in early 2022. This has already led to the imposition of some restrictions on the economy. Our view is that the new strain is likely to slow the economy in the early part of 2022. So far we have seen consumer confidence sag on the arrival of Omicron and we think it's likely we will see some softening in consumer oriented indicators over the next few months such as retail sales, service PMIs and spending on certain categories such as hospitality and dining.

Ireland's impressive vaccination and booster programmes together with households and businesses experience of adapting to the virus represent significant risk mitigants for the Irish economy in our opinion though. On top of this, Ireland's relatively defensive export profile should also help shield the economy in the short term. Looking at the hospitality sector which again has been hit most visibly by omicron and the resultant restrictions, we are heartened to see the Irish government reintroduce financial supports which should help the affected sectors. Overall, we are optimistic the Irish economy can weather the new coronavirus strain and that any negative drag will be confined to the first half of the year.

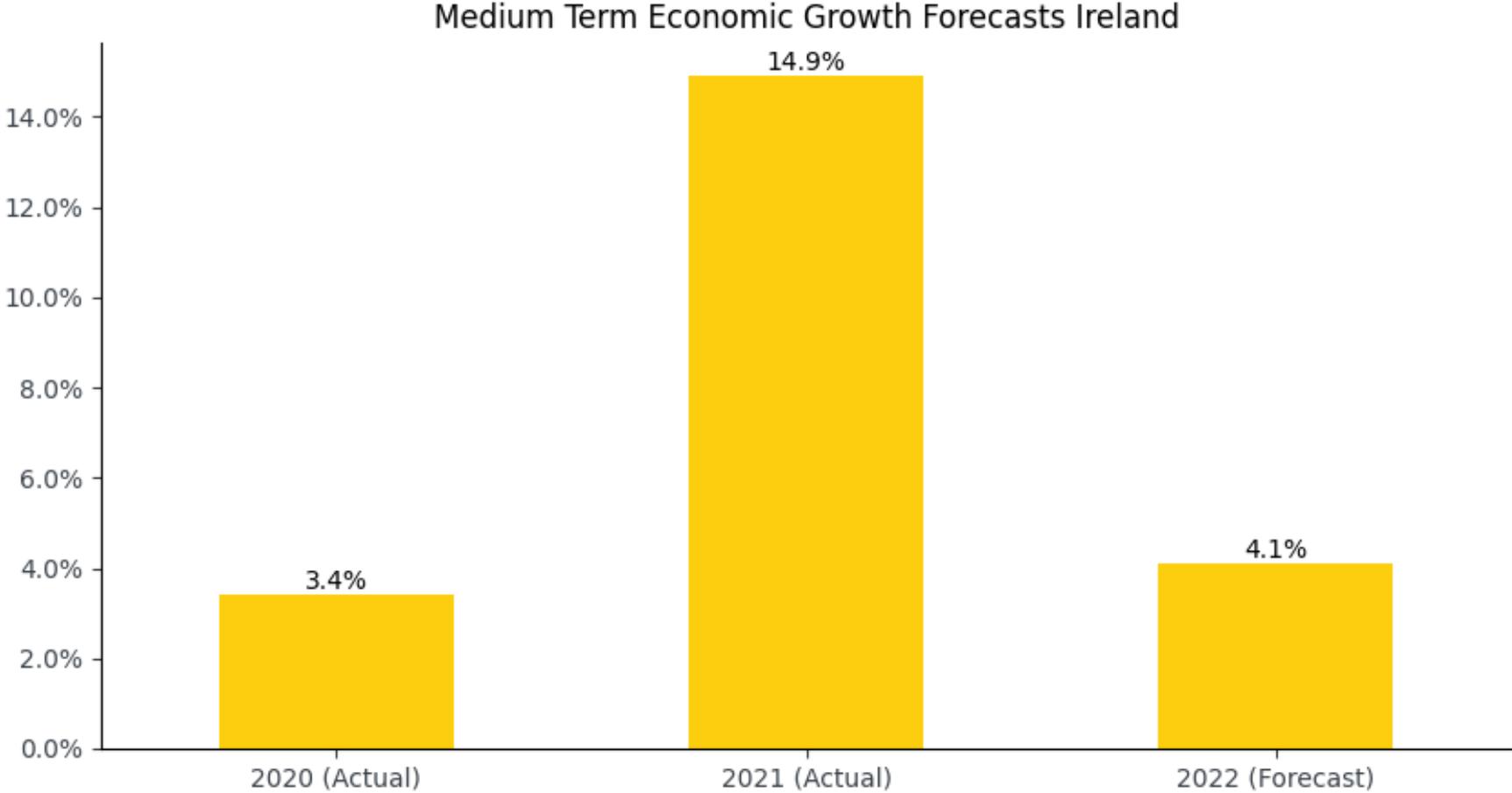
Internationally the global economy is forecast to expand again in 2022 albeit at a slower pace than in 2021. Although the international outlook is complicated by supply chain problems and the arrival of omicron, the continued natural rehabilitation of the world economy from the initial ravages of coronavirus and still supportive fiscal and monetary policies provide an accommodative external backdrop for Ireland's small open economy as we move into the new year.

Ireland Economic Indicators

Indicator	Latest Comment	2022		2021
		Q1	Q4	Q3
Leading Economic Indicators				
Annual Change in Leading Economic Indicators for Ireland	Leading indicator momentum held steady towards the end of 2021 but may slow as we move into early 2022 as Omicron begins to impact data	●	●	●
Irish Yield Curve (10Y-2Y)	Little change in the shape of the Irish yield curve over the past three months	●●	●●	●●
Monetary Economic Indicators				
Credit Impulse	Overall bank lending remained down on a year on year basis in Q3. However the credit impulse is improving in certain sectors of the economy such as housing where mortgage drawdowns (by value and volume) were up over 40% year on year in Q3.	●●	●●	●
Irish inflation rates	Irish inflation continued to rise in the fourth quarter of 2021, hitting a near 20 year high of 5.3% in December. We expect inflation to ease modestly in 2022 but much of this depends on a moderation in energy prices and an easing of global supply chain blockages.	●●	●	●
Coincident Economic Indicators				
Manufacturing, Service and Construction PMI	Readings remained well over the crucial 50 mark in December 2021, indicative of strong growth across the economy	●	●	●
Consumer Confidence	Consumer confidence sagged in December to its lowest level in nearly a year on omicron concerns. We expect confidence to be choppy over the next few months as virus developments unfold but a gradual recovery should support consumer spending this year.	●	●	●
Core Retail Sales (ex Motor Trade) - Year on Year Change	On a year on year basis core retail sales have calmed down compared to earlier in 2021 and grew by 1-3% as we moved into Q4 (October data), a solid performance.	●	●	●
Personal Debit Card Expenditure on Accommodation	Annual spending trends have been volatile through the pandemic. However spending was impressive over the summer season and was still growing on a year on year basis as we entered the Autumn.	●●	●●	●
Business Credit Card Expenditure on Accommodation	The trajectory of business spending on accomodation showed signs of further improvement over the summer and into the Autumn months	●●	●●	●
Business Credit Card Expenditure on Social	Displaying a similar trend to business credit card expenditure on accommodation	●●	●●	●
Employment Growth - Year on Year Change	Total numbers in employment in Ireland rapidly improved as the economy reopened in 2021 - by Q3 the total number employed surpassed its pre COVID peak.	●	●	●
Unemployment Rate	Unemployment rates have fallen sharply since the economy reopened. By November seasonally adjusted unemployment was down to 5.2% whereas COVID adjusted unemployment was down to 6.9% compared to over 20% in November 2020.	●	●	●
Earnings Growth - Year on Year Change	Preliminary data for Q3 2021 showed earnings up 5.4% year over year however the data has been skewed by the COVID pandemic. We continue to expect wages to gradually move in a positive direction as the economy normalises.	●	●	●
Irish House Prices - Year on Year Change	Price gains began to moderate towards the end of the year but the supply demand imbalance in the housing market means the path of least resistance for house prices remains an upward one in the short term at least.	●	●	●
Irish Rental Inflation - Year on Year Change	As in the sale market, the housing stock for rent was critically low in the fourth quarter which should mean rents continue to move higher in the short term even if annual inflation rates moderate.	●	●	●
Mortgage Drawdown Data - Year on Year Change	Mortgage drawdowns in volume and value terms grew by over 40% in Q3, an acceleration compared to Q2 and we continue to believe that increases in mortgage lending should support house prices on a 12 month view.	●	●	●
Housing Completions	On a rolling 12m basis housing completions ran at approximately 21,000 in Q3, stabilising at close to pre pandemic levels but insufficient to address price inflation issues in the sale and rental markets in Ireland.	●●	●●	●

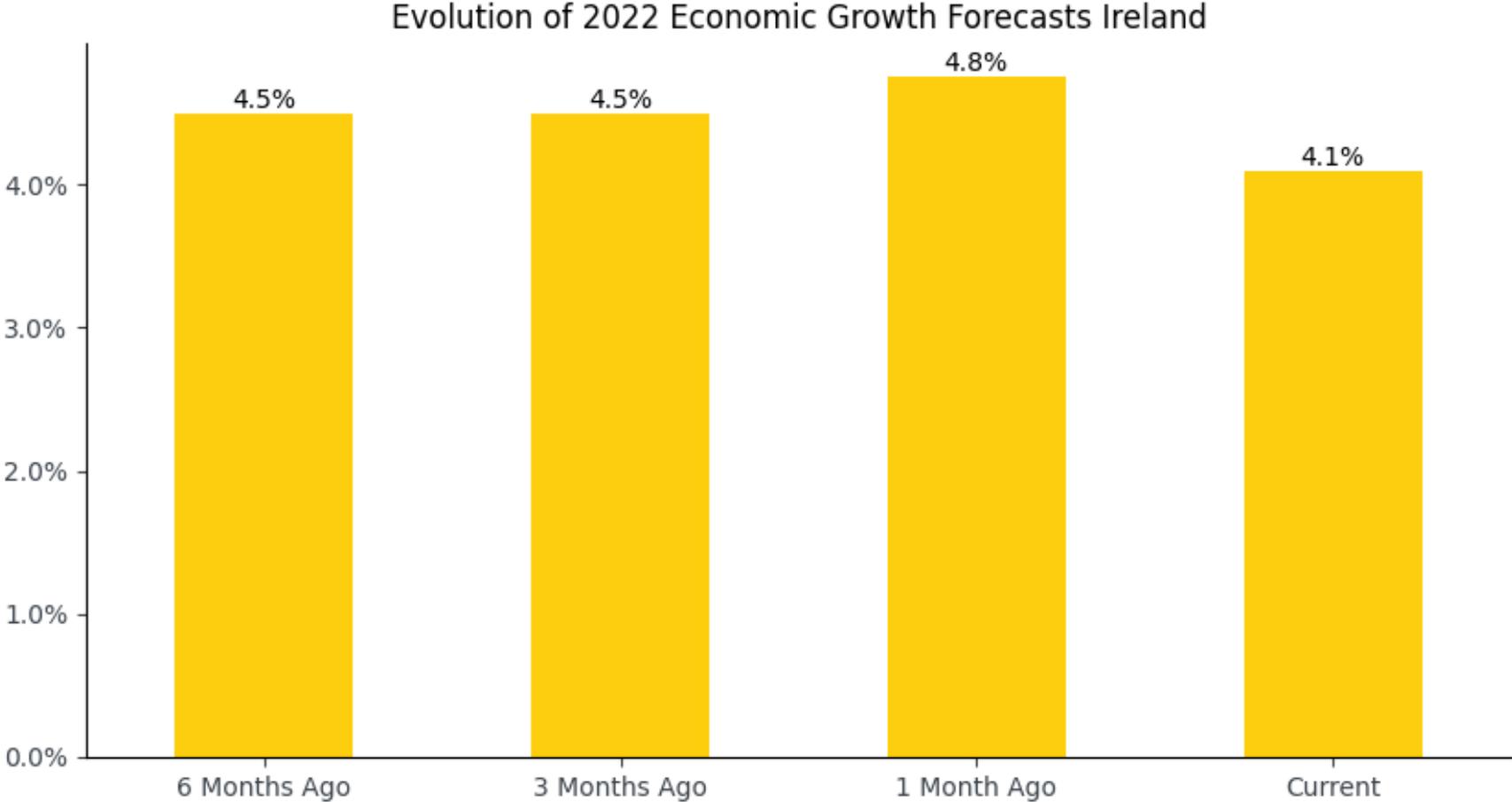
Medium Term Economic Growth Forecasts Ireland

Data source: Bloomberg,
Ticker: EHGDIIEY Index



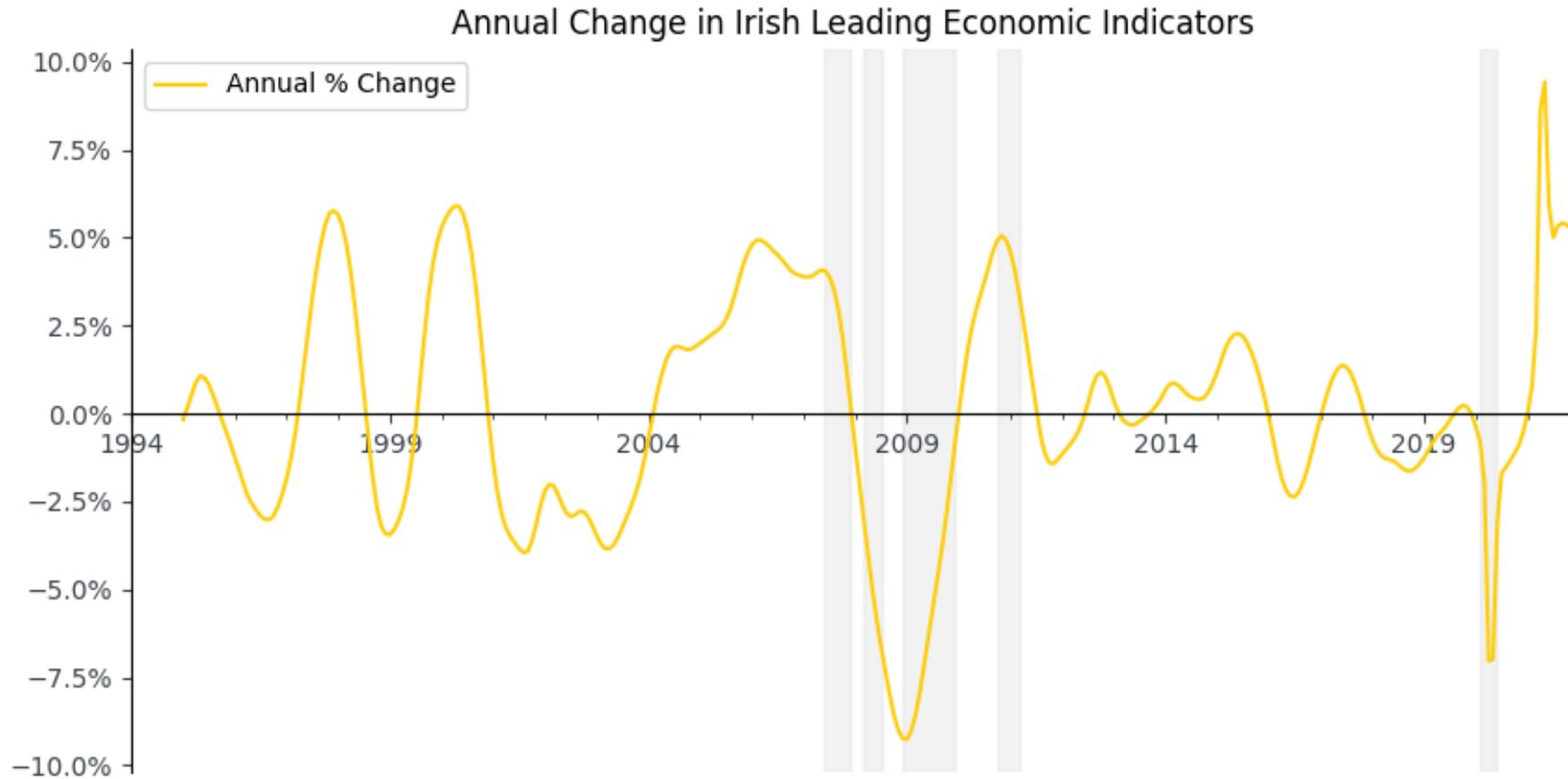
Evolution of 2022 Economic Growth Forecasts Ireland

Data source: Bloomberg,
Ticker: ECGDIE 22 Index



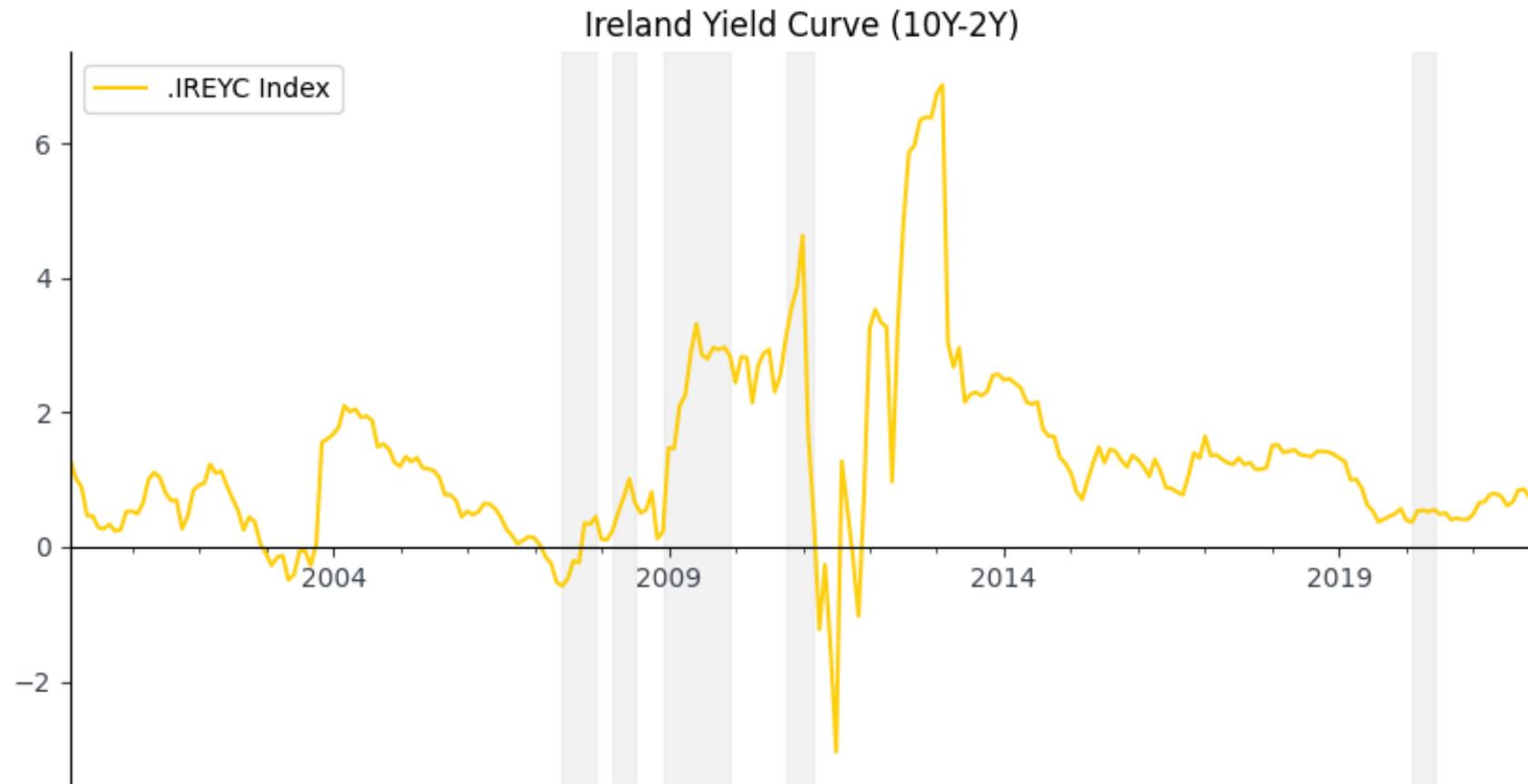
Annual Change in Irish Leading Economic Indicators

Data source: OECD, Dec 2021



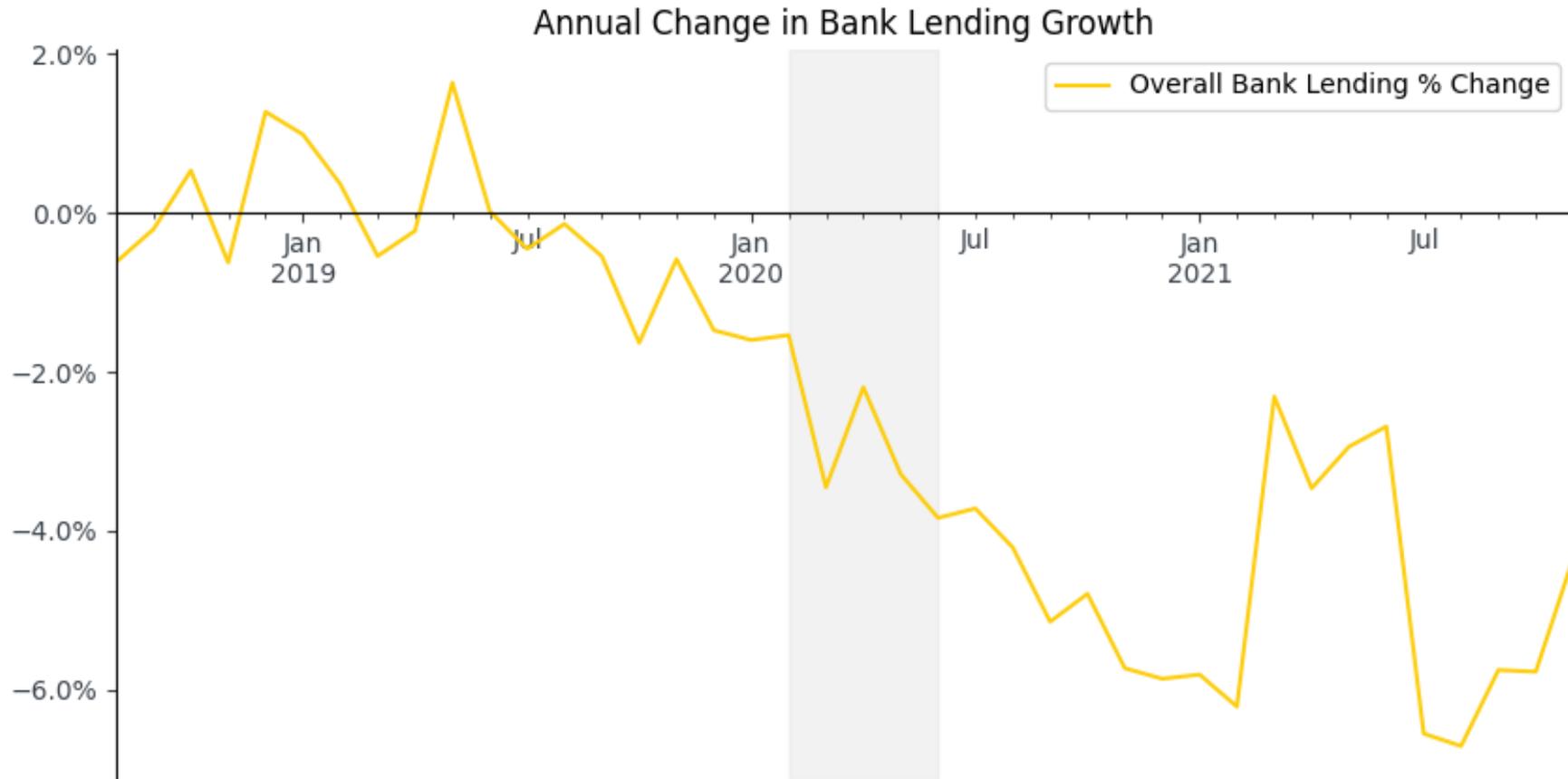
Ireland Yield Curve (10Y-2Y)

Data source: Bloomberg, Dec 2021
Ticker: .IREYC Index



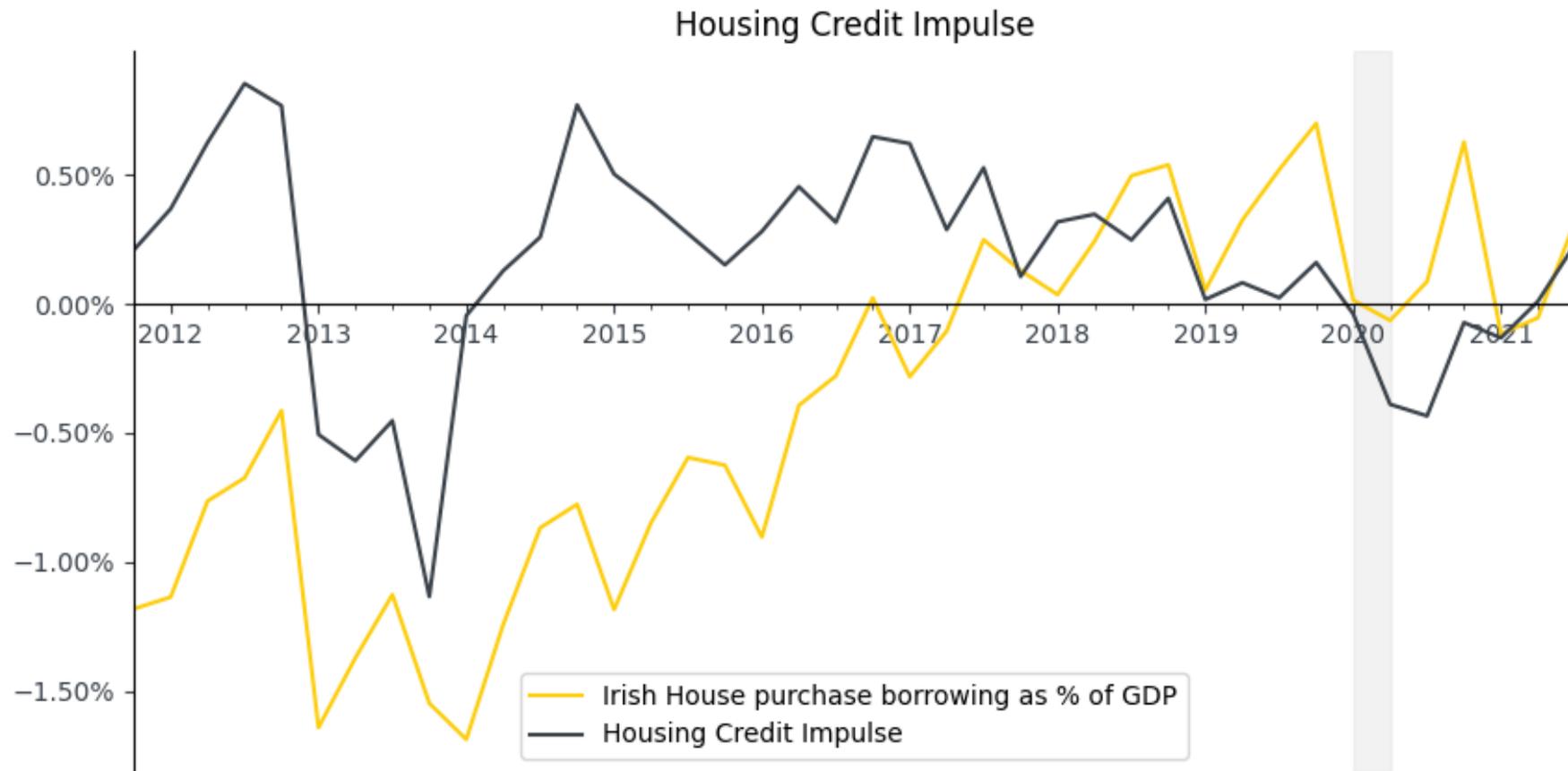
Annual Change in Bank Lending Growth

Data source: CBI, Nov-2021



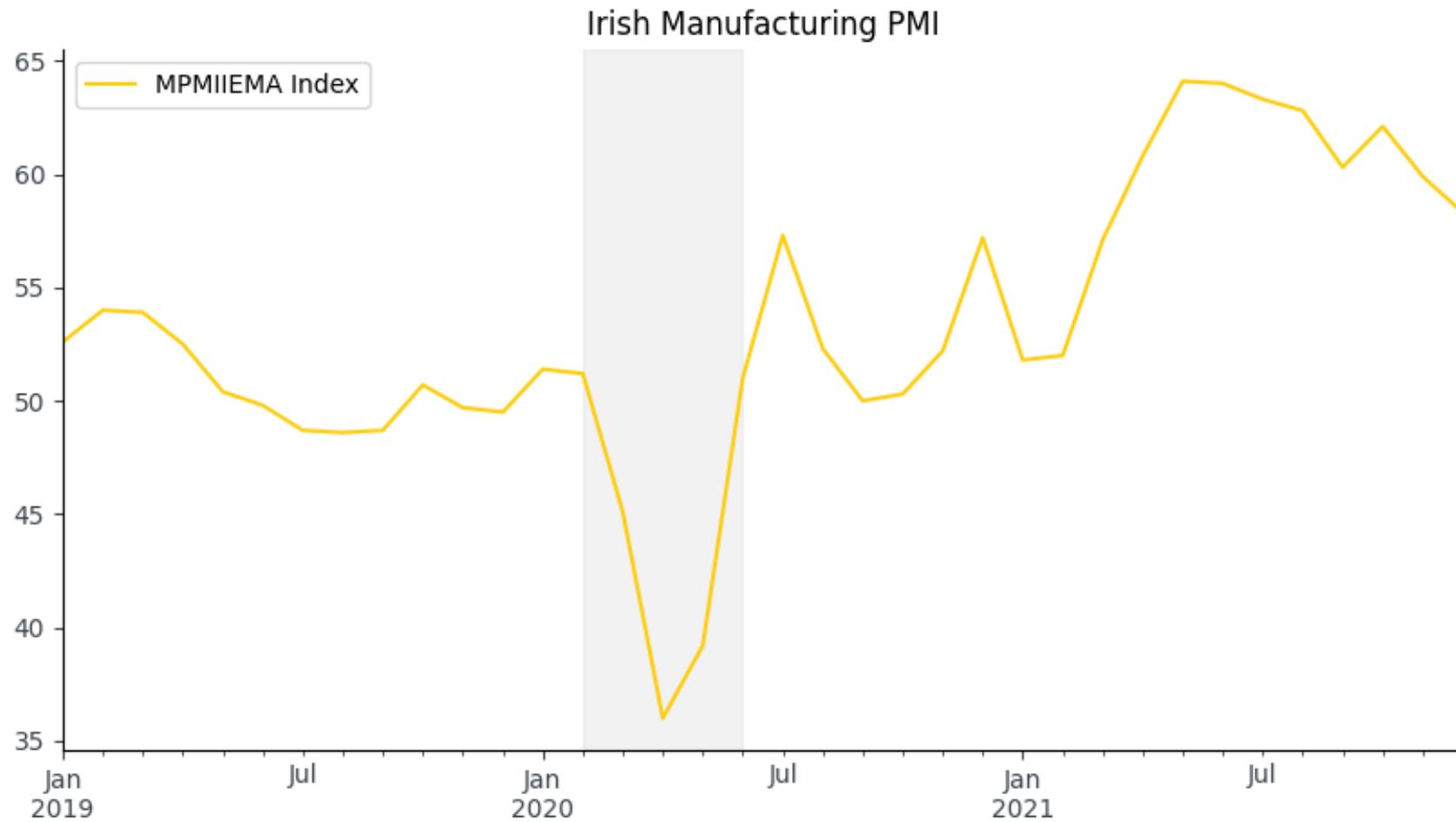
Housing Credit Impulse

Data source: CBI, Sep 2021



Irish Manufacturing PMI

Data source: Bloomberg, Dec 2021
Ticker: MPMIEMA Index



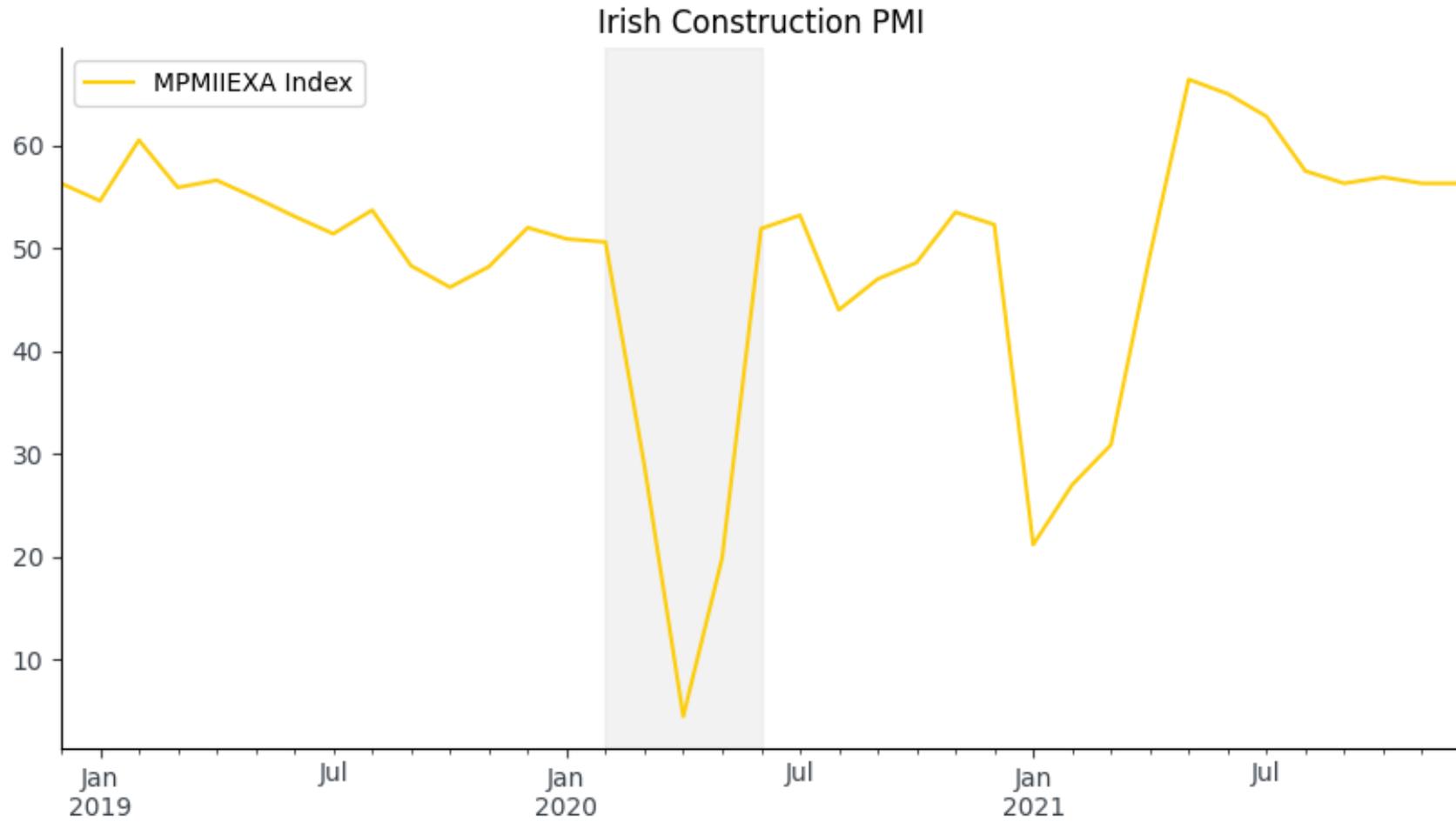
Irish Service PMI

Data source: Bloomberg, Dec 2021
Ticker: MPMIIESA Index



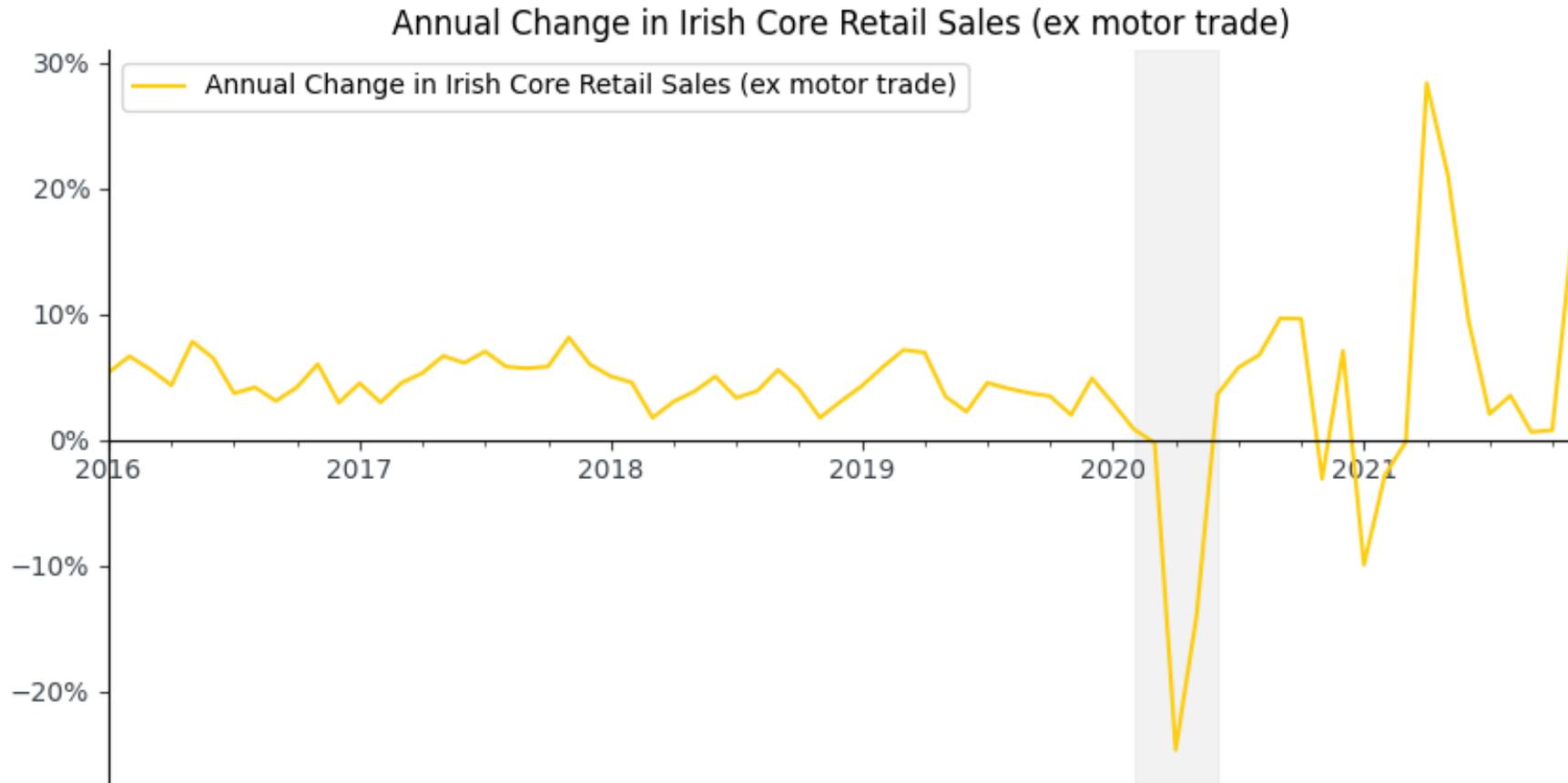
Irish Construction PMI

Data source: Bloomberg, Dec 2021
Ticker: MPMIIEXA Index



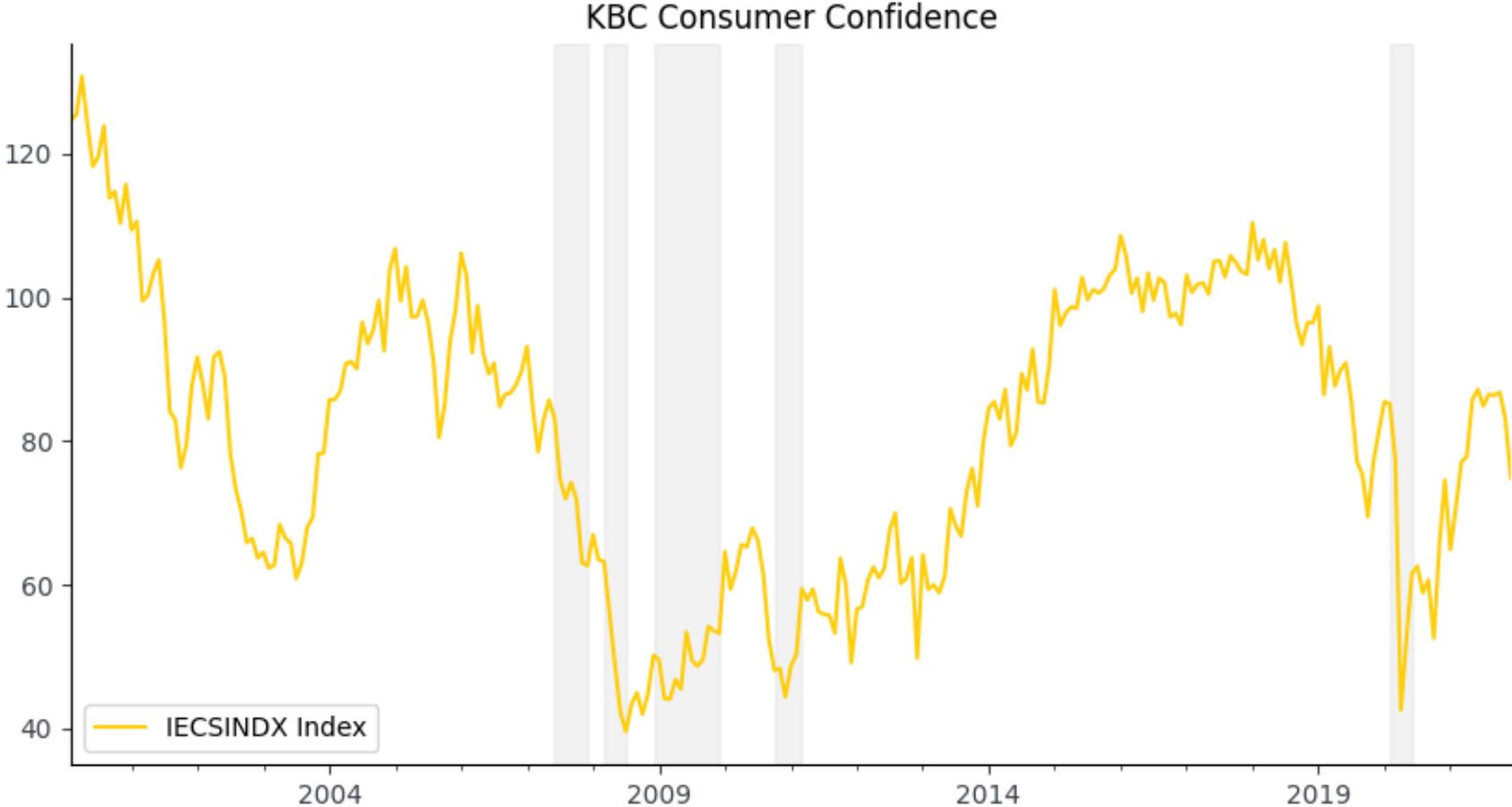
Annual Change in Irish Core Retail Sales (ex motor trade)

Data source: CSO, Nov 2021



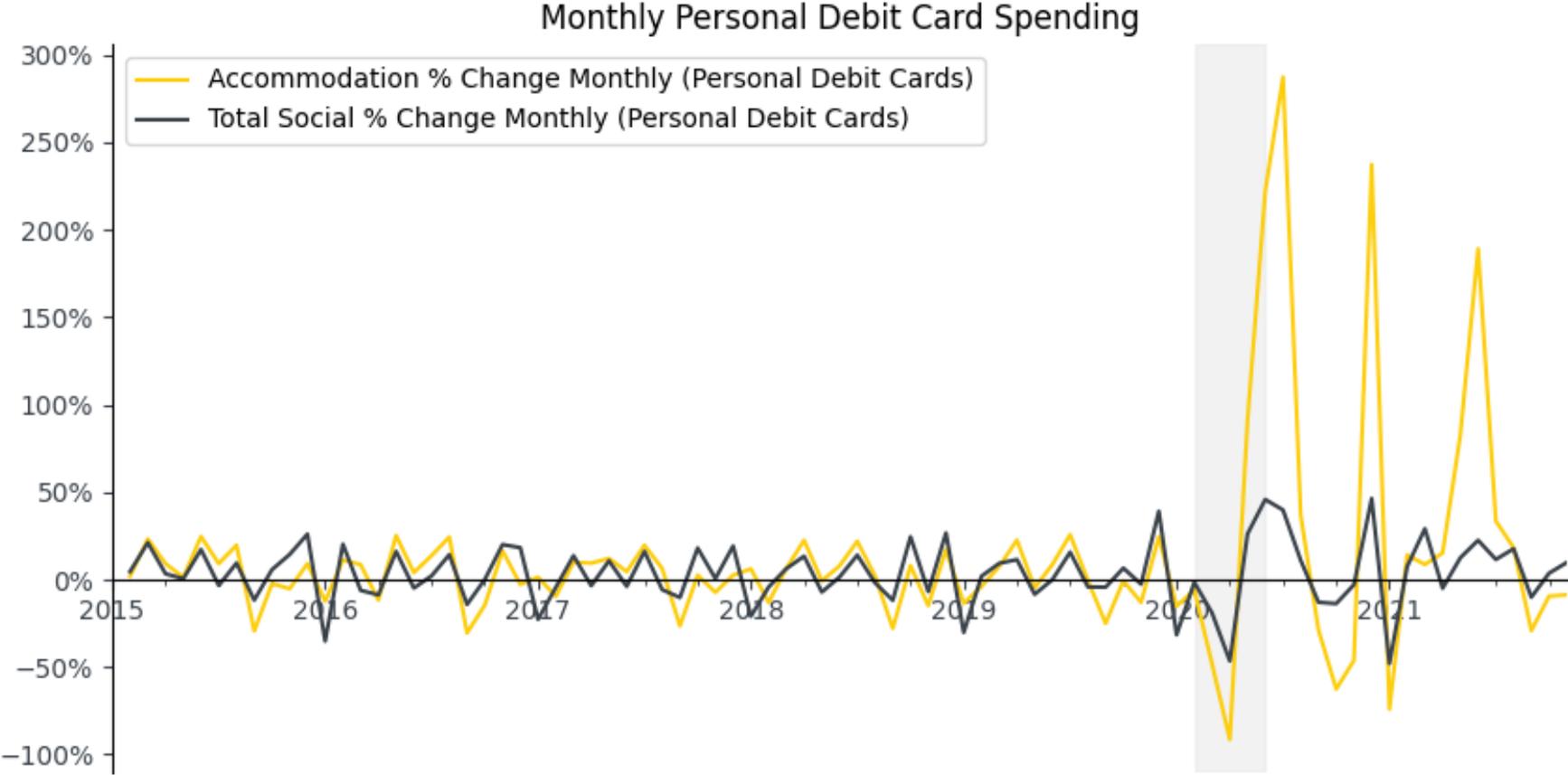
KBC Consumer Confidence

Data source: Bloomberg, Dec 2021
Ticker: IECSINDX Index



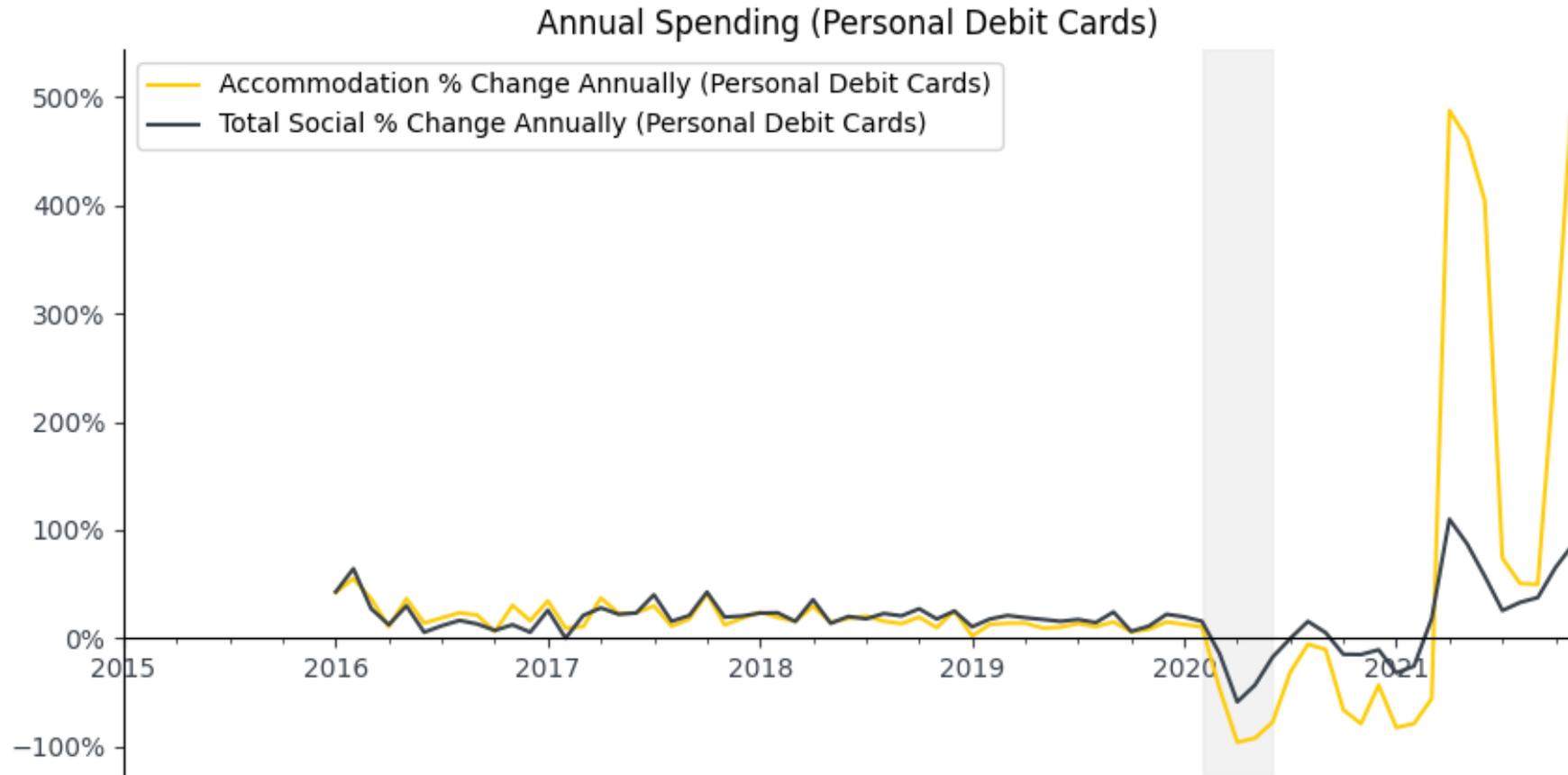
Monthly Personal Debit Card Spending

Data source: CBI, Nov 2021



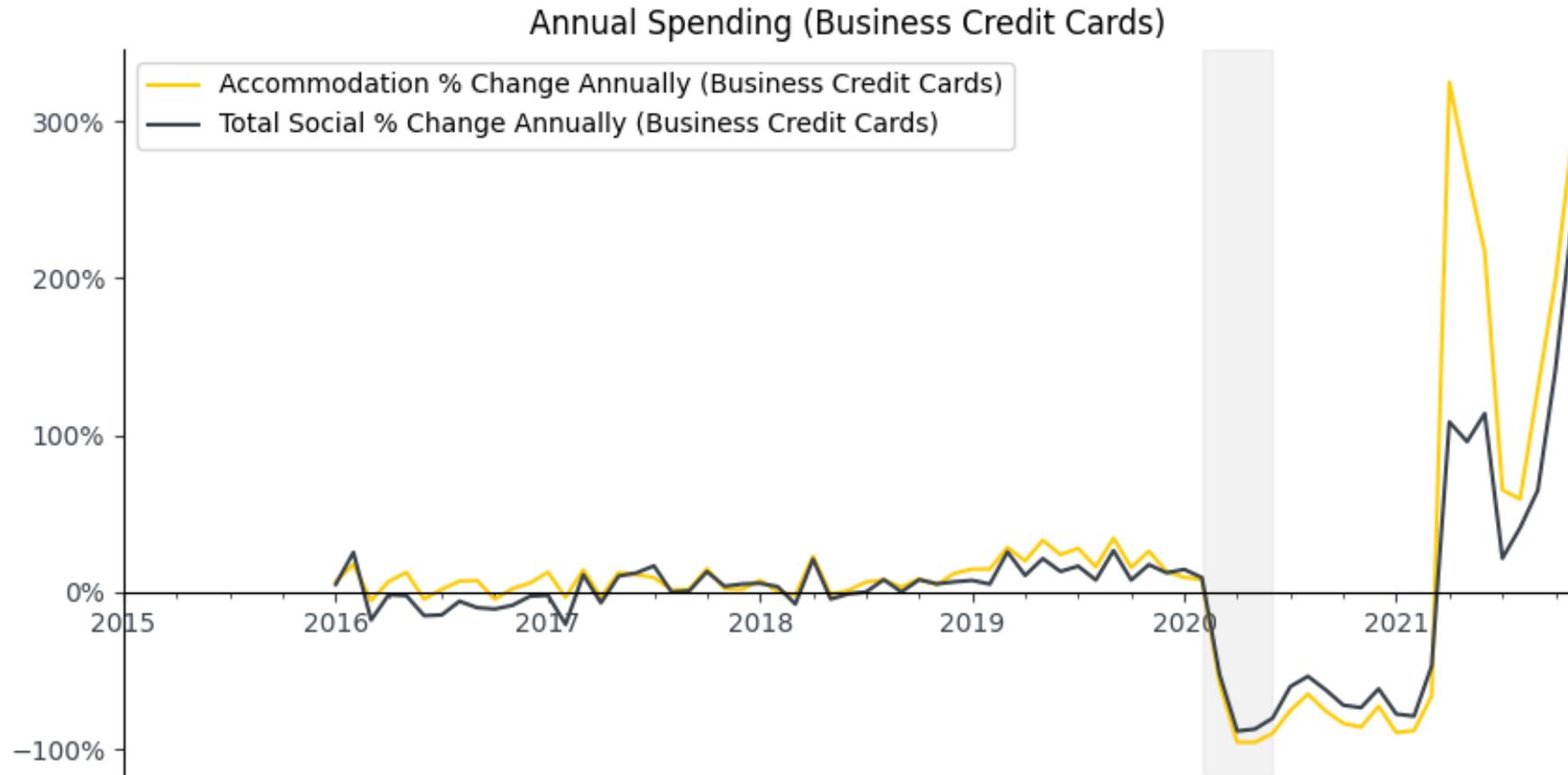
Annual Spending (Personal Debit Cards)

Data source: CBI, Nov 2021



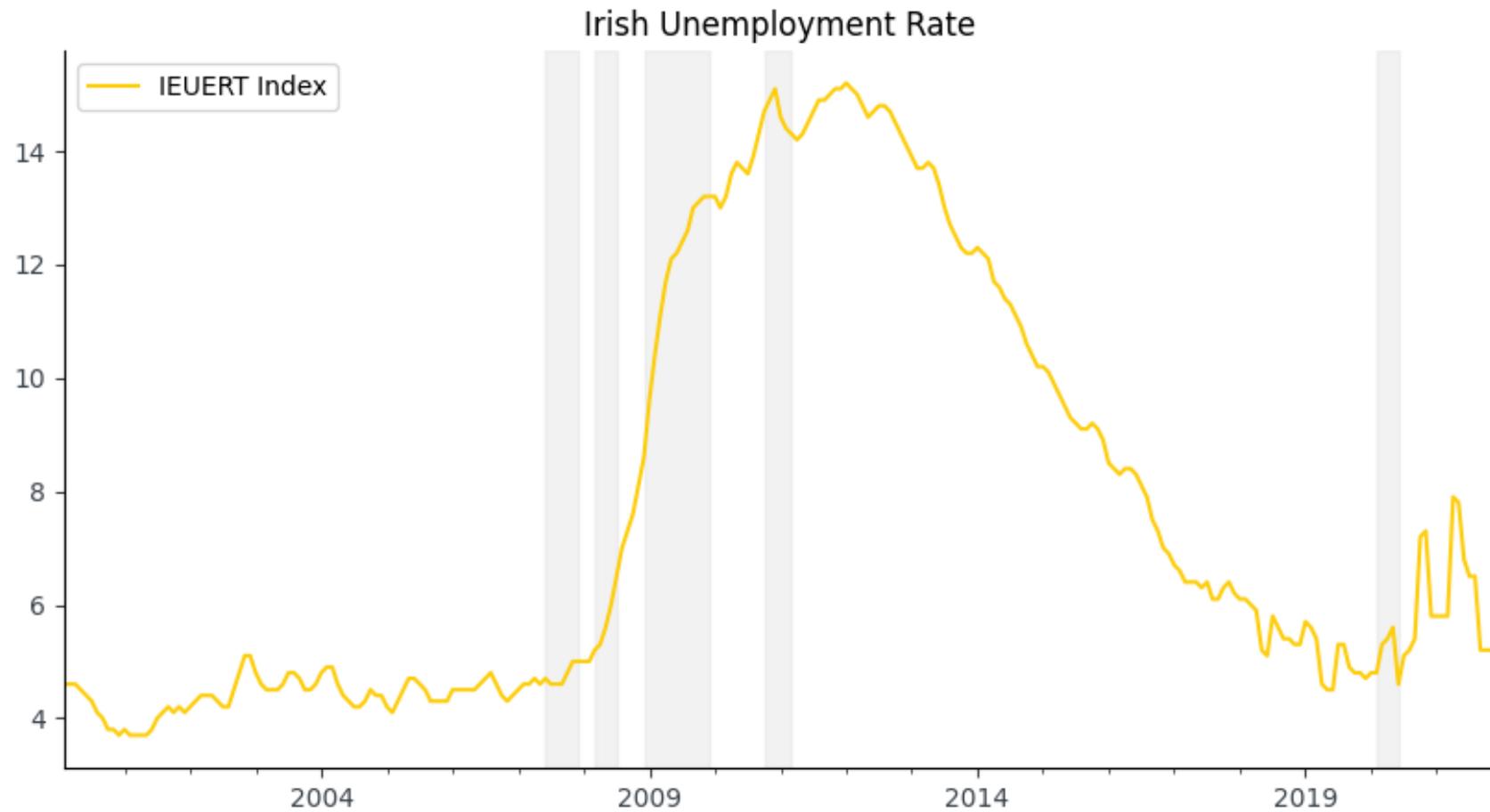
Annual Spending (Business Credit Cards)

Data source: CBI, Nov 2021



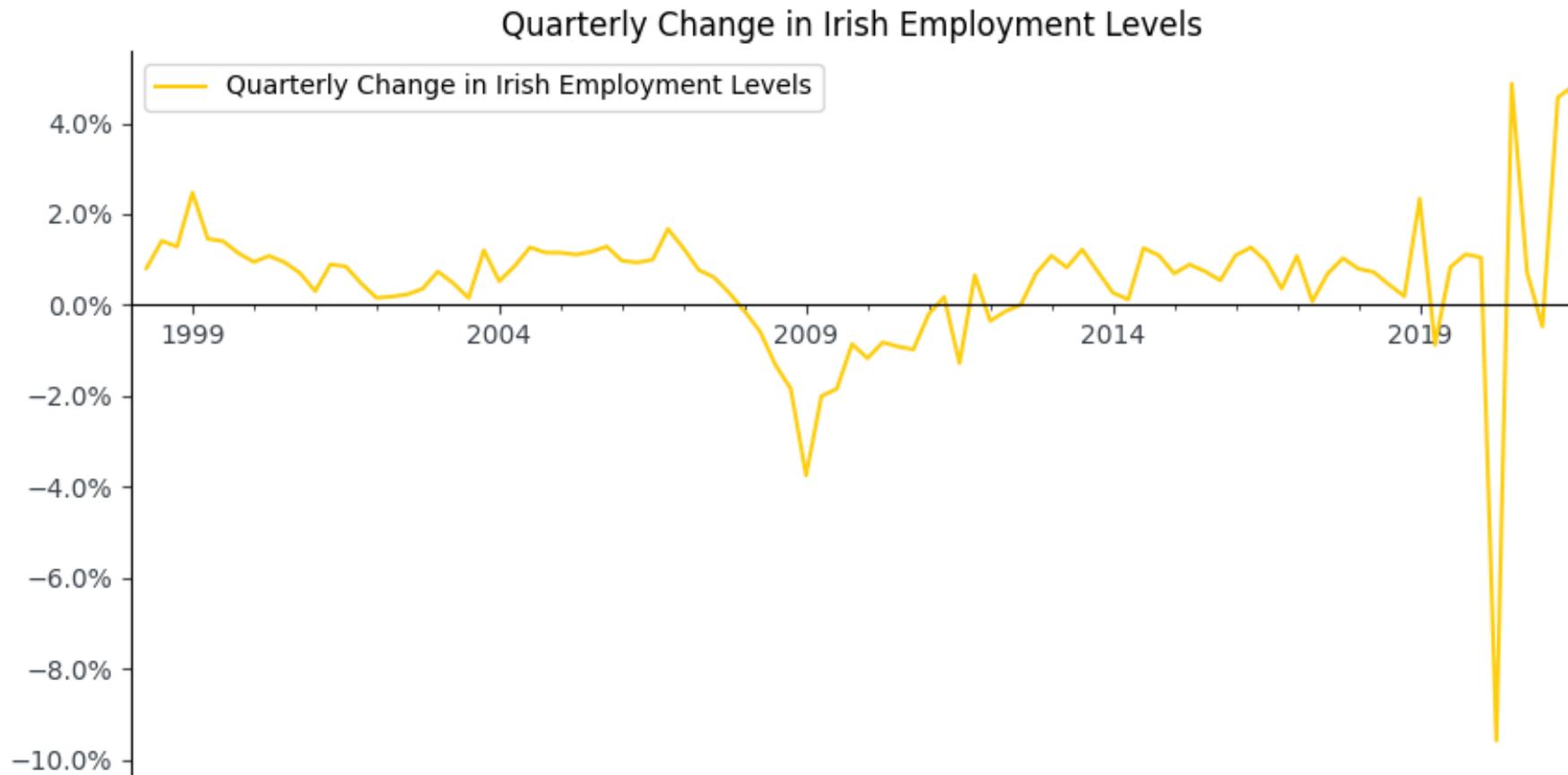
Irish Unemployment Rate

Data source: Bloomberg, Dec 2021
Ticker: IEUERT Index



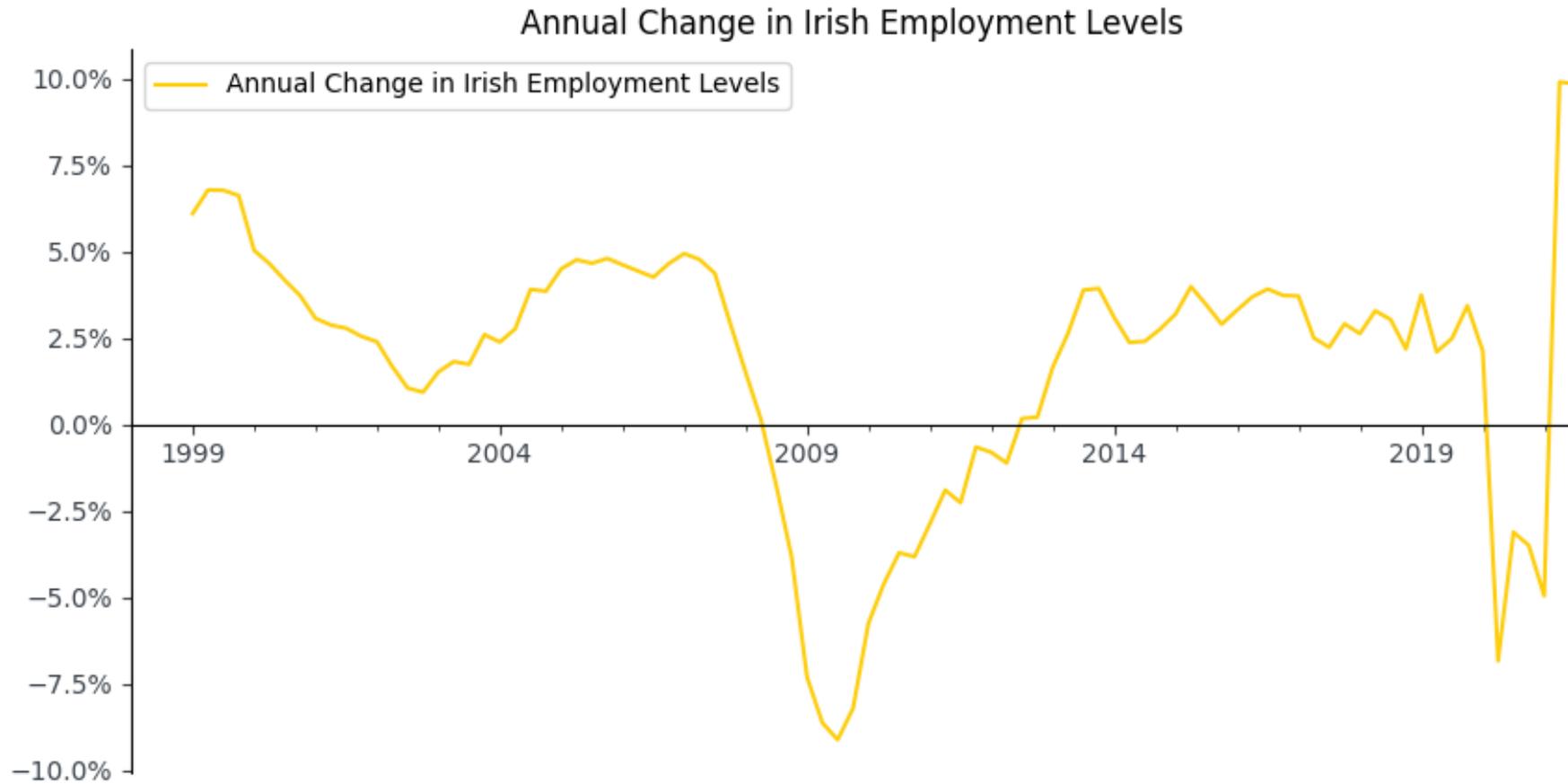
Quarterly Change in Irish Employment Levels

Data source: CSO, 2021Q3



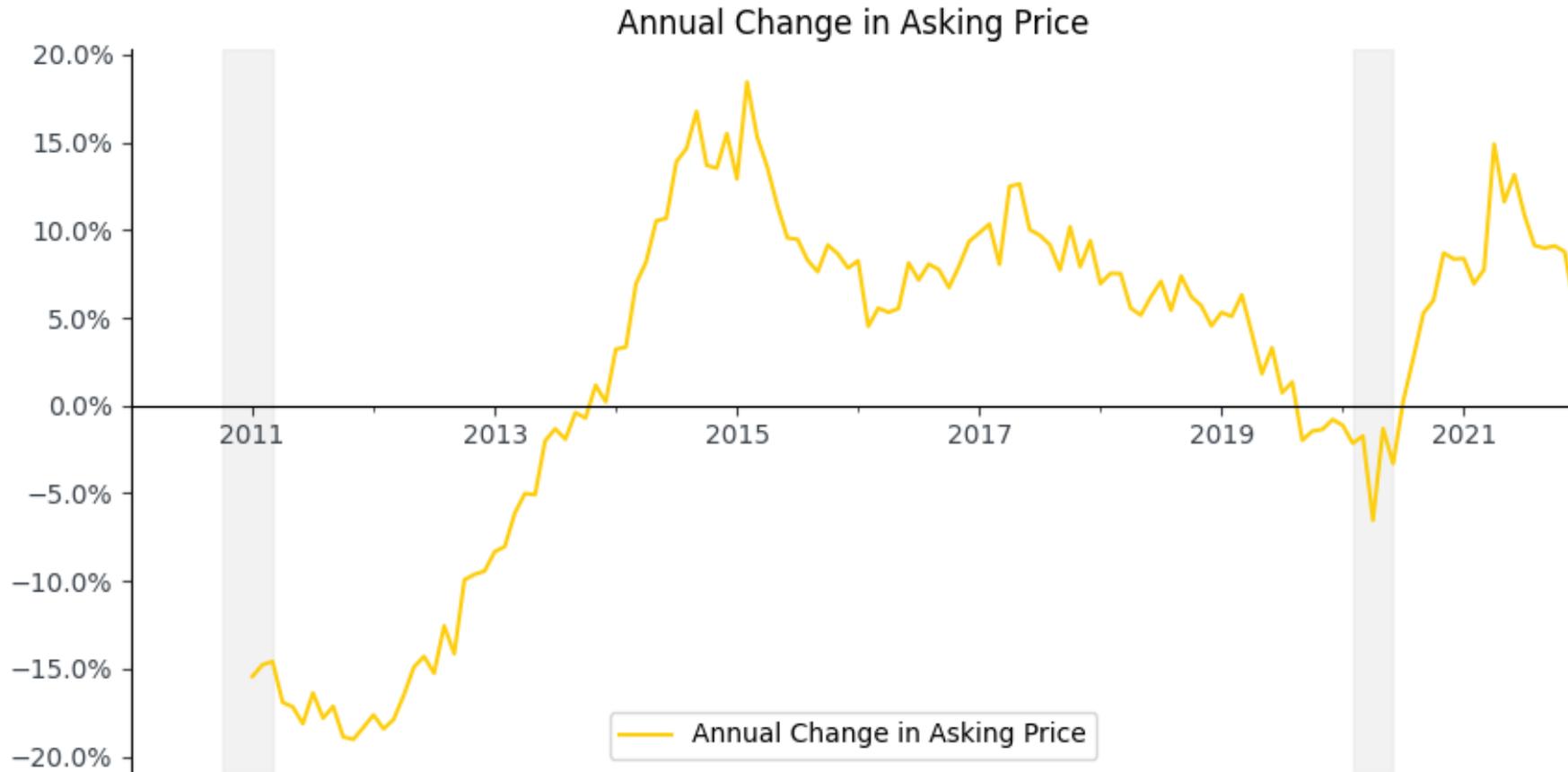
Annual Change in Irish Employment Levels

Data source: CSO, 2021Q3



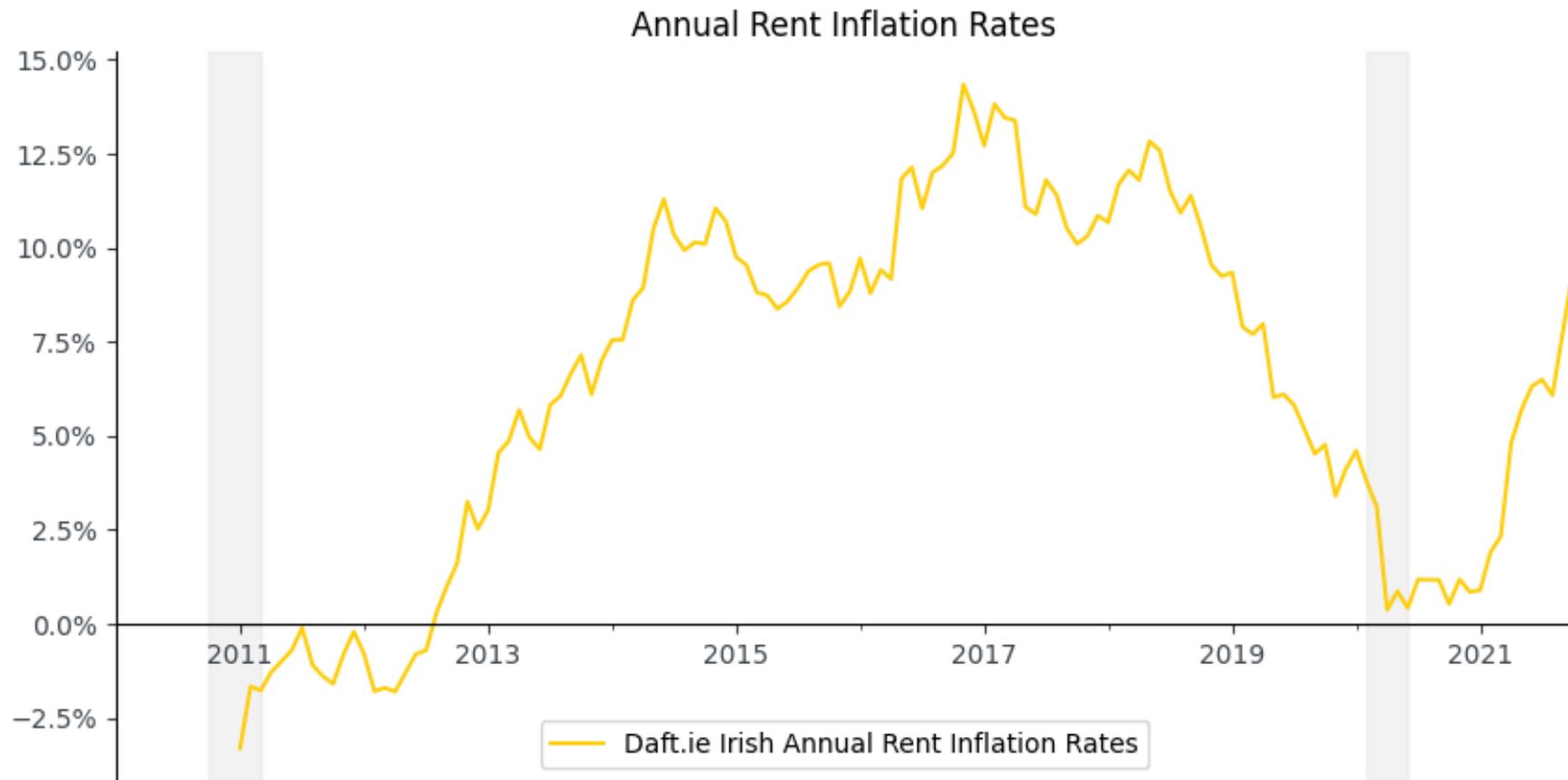
Annual Change in Asking Price

Data source: Daft, Dec 2021



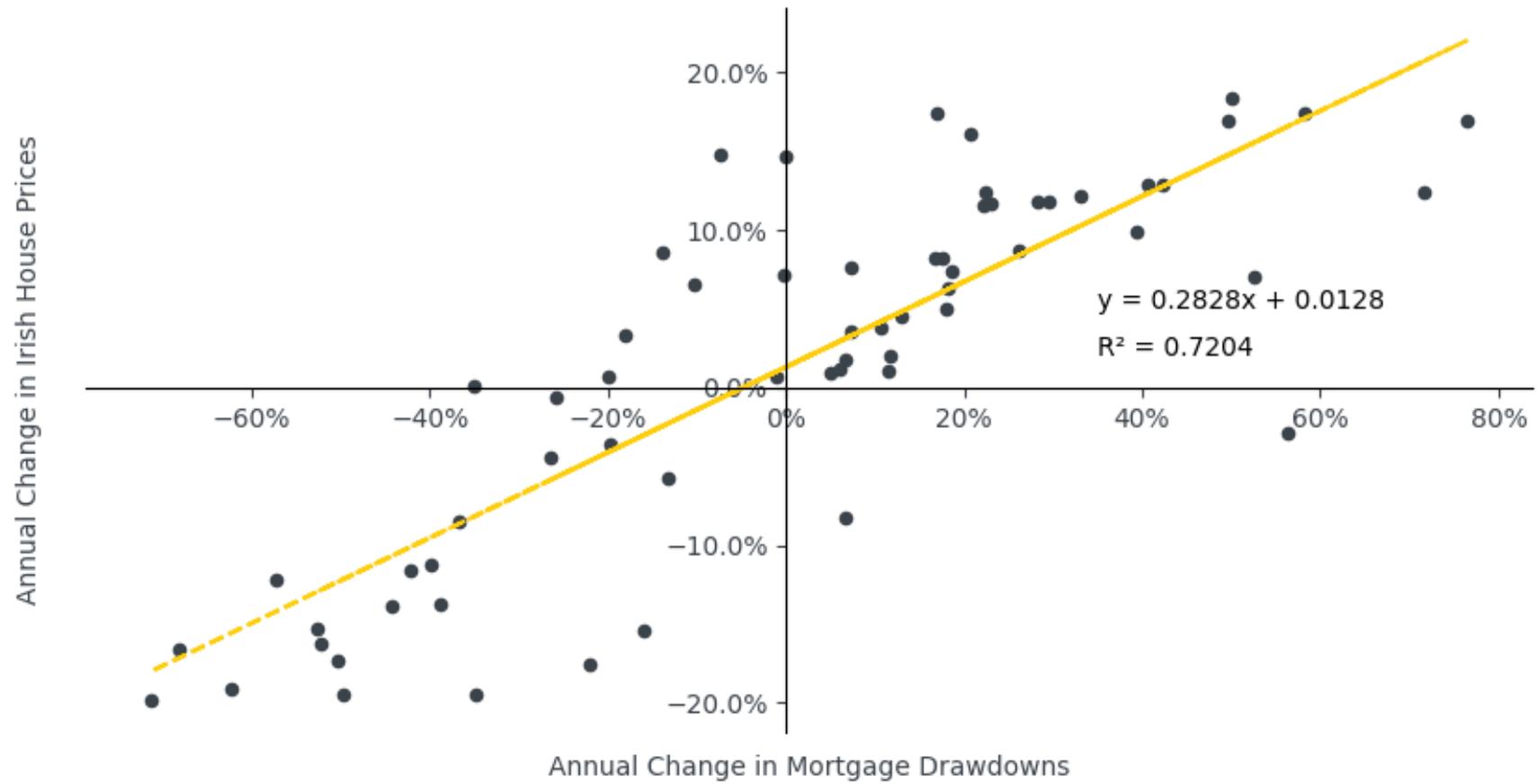
Annual Rent Inflation Rates

Data source: Daft, Oct 2021



Growth in House Prices and Mortgage Drawdowns

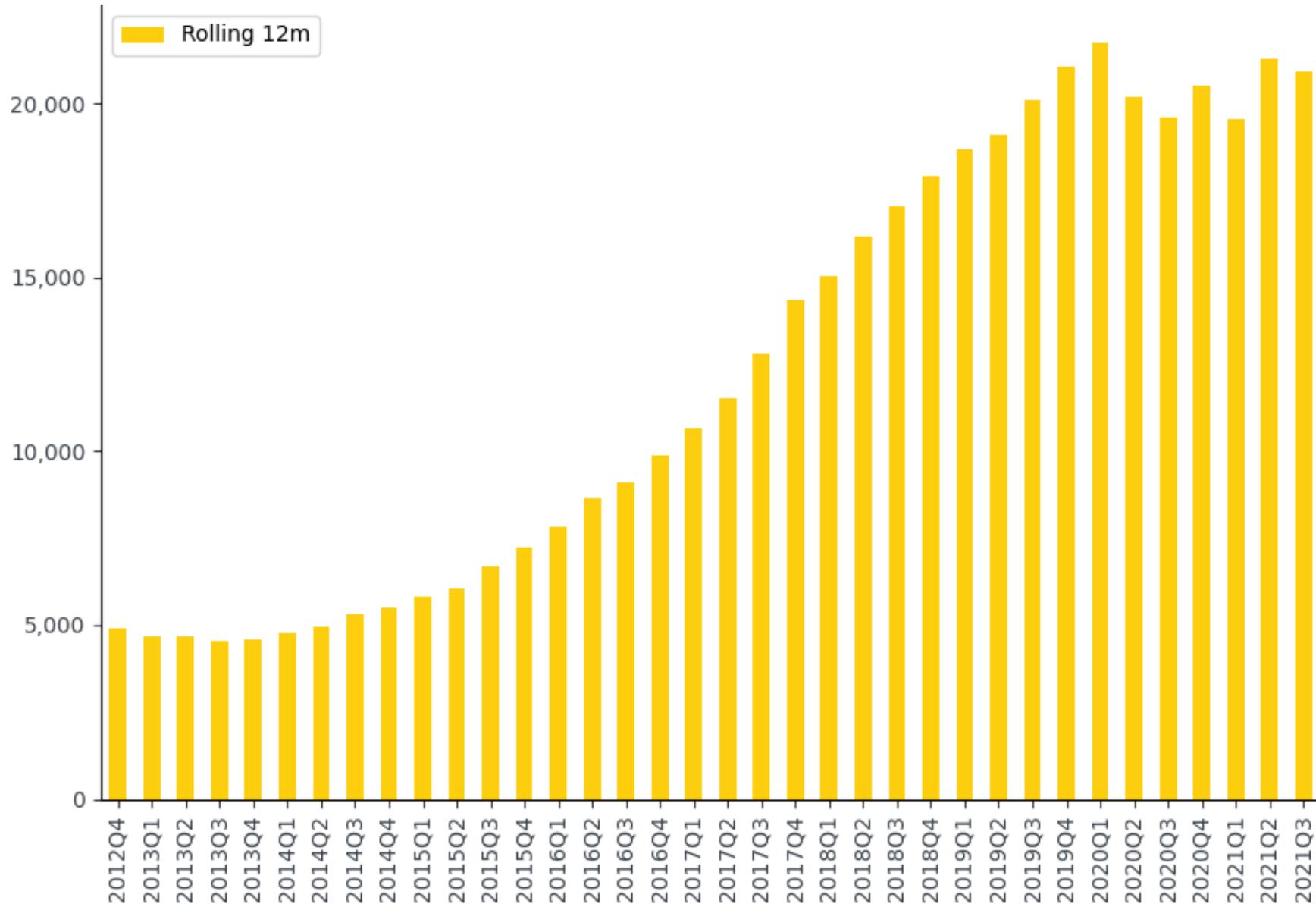
Data source: BFPI, 2021-Q3



Rolling 12m New Housing Completions in Ireland

Data source: CSO, 2021Q3

Rolling 12m New Housing Completions in Ireland





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