Q2 2021

Ibec Quarterly Economic Outlook

A sustainable recovery

The economy is set to emerge strongly from the COVID crisis. The first half of 2021 has seen the export engine of Ireland's economy continuing to fire and a level of normality is now returning to most domestic sectors. As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable. Ireland faces some unique challenges in the post-COVID era. We have obvious long-standing infrastructural deficits, significant Government policy commitments in areas like health, pensions and the labour market and hugely ambitious climate targets to meet. We are also facing threats to our business model from global corporate tax change. All of these will have challenging implications for economic growth, business competitiveness and tax revenues in the years ahead. At the same time, COVID-19 has left its mark on the State's balance sheet. This needn't mean a return to austerity, but it will constrain options for new, unfunded, day-to-day spending or tax cuts in the future. It will mean we must be more strategic in our decisions. If we are to meet these challenges a new fiscal and competitiveness discipline will be needed.

Key indicators

Annual % change	2020	2021	2022
Consumer spending	-9.1	6.4	4.1
Investment	-32.3	-21.8	8.8
Exports	6.2	5.3	6.3
Imports	-10.0	-4.8	7.3
GDP	2.5	6.5	4.6
Inflation	-0.3	1.2	2.1
Unemployment (annual average %)	16.7	15.6	9.3

Ibec
For Irish Business

Overview

Economic overview

Figures for the first quarter of the year showed remarkable growth on the back of continuing export momentum. This growth, however, is also reflective of a very volatile period with COVID, Brexit and other international dynamics all leading to volatility in the figures. Despite a further fall in personal spending of 12% amid the lockdown in the first months of the year, export growth has driven GDP growth of 11.8% year-on-year in Q1. The data for 2021 will continue to be driven by volatility and by base effects relative to an extremely atypical year in 2020. Despite the comparatively poor performance of domestic sectors in the first quarter of the year, there are signs of light on the horizon, with credit and debit card data and strong VAT returns for March and April indicating the potential for a rapid recovery in consumption. This, in conjunction with positive improvements in employment as sectors reopen, shows an economy well placed to see a rapid recovery in activity as the vaccine is fully rolled out. From a business perspective, the enthusiasm from re-opening has been somewhat dampened by growing fears of competitiveness pressures driven by both rapid international price increases on key goods and freight and by domestic policy. Whilst strong activity on re-opening will be welcomed by business, these additional costs may mean significant margin compression and profitability challenges for some.

Exports

Total Irish goods exports in the first quarter of the year totalled €75 billion with a further €57 billion in services exports from the country. This represents an increase of 25% and 8%, respectively, relative to Q1 2020. The numbers, however, are likely to have been somewhat inflated by goods that are manufactured for Irish firms under contract abroad. On the other hand, customs records of goods exports (recorded as leaving the jurisdiction) showed trade in goods was down marginally in the first four months of the year, albeit up 5% on the same period in 2019. Some of this volatility relative to 2020 is likely to have been driven by COVID effects, Brexit related stockpiling and within sector effects. Overall, the pattern for Irish exports is expected to be strong again in 2021 – rising by over 5% – as secular demand in sectors like food, technology and life sciences continues to drive the Irish recovery.

Ireland's deficit glide-path

Ireland's strong growth potential means that budget deficits should not require deep cuts in non-COVID related spending or tax increases as the economy recovers. The Government does, however, face a tricky glide-path to reducing the deficit to sustainable levels as the economy recovers. In this, they will need to balance their plans with ECB monetary policy and its role in accommodating large Government deficits. ECB policy has been significantly more accommodative than during the global financial crisis with net public sector asset purchases through the Public Sector Purchase Programme (PSPP) sitting at €280bn and Pandemic Emergency Purchase Programme (PEPP) at €1.1 trillion since March 2020 (equivalent to 12% of pre-crisis eurozone GDP). From an Irish perspective, over 25% of Government debt is either PEPP or PSPP at the end of 2020. Given an issuer limit of 33% on PSPP and no issuer limit on PEPP, there is ample room for ongoing support. PEPP is committed to until at least March 2022 with re-investment of maturing bonds until "at least" the end of 2023. The need for support will be driven by a return to normal economic activity levels. ECB baseline projections are for inflation to reach only 1.5% at the end of 2023 – well below its 2% price stability target. Even in a mild scenario, this would grow to 1.9%. Despite some well-grounded hope that interest rates may stay lower for long, these figures will continue to define our window for a return to normal fiscal policy.

Figure 1: GDP, € billion by quarter

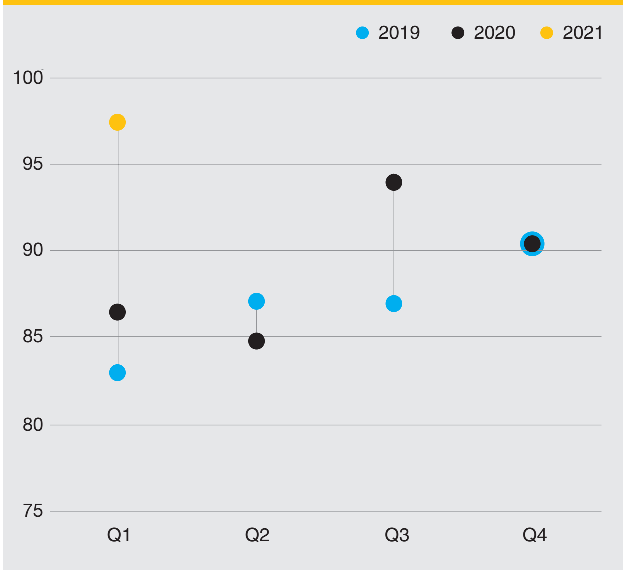


Figure 2: Exports of Irish goods and services

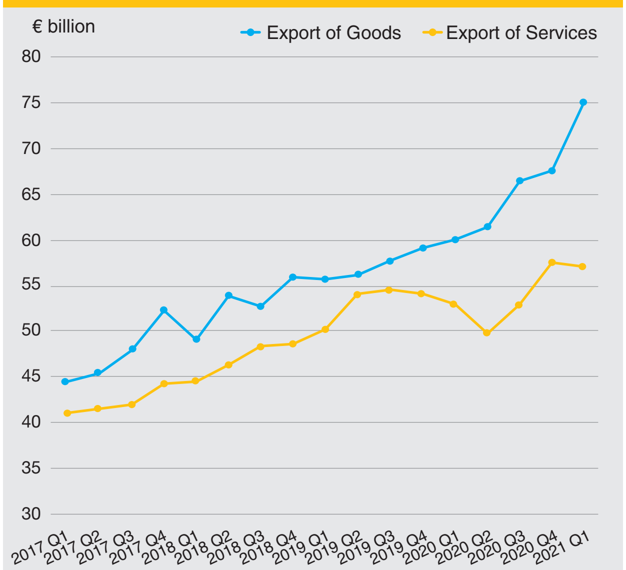
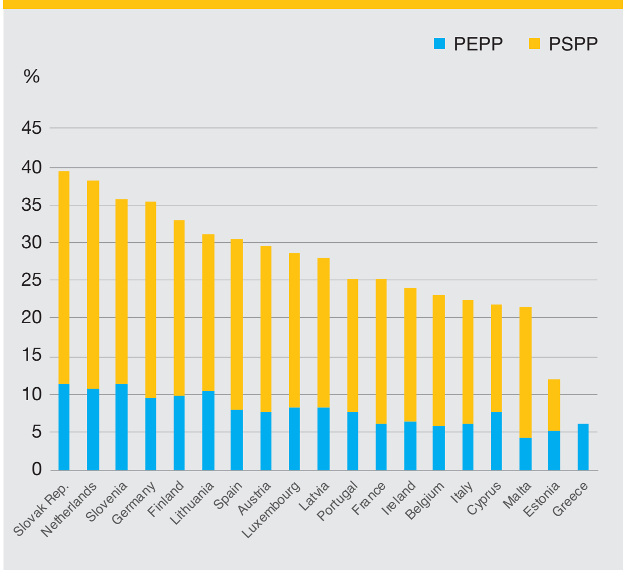


Figure 3: ECB ownership of national debt, %



Consumer and supply chains

Consumer spending

The best leading indicator of spending in the consumer economy continues to be the Central Bank's data series on spending and ATM withdrawals on credit and debit cards. Recent weeks have seen the series boosted by partial re-opening of the economy. Spending over the 7 days ending June 7th saw almost €1.7 billion spent on Irish credit and debit cards. This is an increase from €1.4 billion in the same period in May and €1.3 billion in the same period in April. Overall, the total level of card spending is at its highest level since March 2020, excluding the Christmas period. The easing of restrictions on the 10th and 17th of May have resulted cumulatively in sustained additional spending of over €200 million a week by Irish households. This spending has been spent wholesale in the domestic economy. Online spending or spending where the card was not present (for example over the phone) has plateaued since the ending of restrictions, as expected.

Sectoral consumer recovery

The biggest gains in consumer spending from re-opening between April and the first week in June were in the non-essential retail sector and other consumer spending, excluding retail, transport, and hospitality. Non-essential retail has seen its weekly spend rise by €114 million between April and June, an increase of 34%. This is compared to an increase of 3% in essential retail which had remained open throughout recent months. Whilst spending on other areas such as transport, accommodation and dining has increased on April – this is still off an exceptionally low base. Over the coming months, we will see a significant pick-up in spending across these sectors as they re-open. This spending and questions around margin compression as cost competitiveness pressures grow will be crucial in determining the scale of insolvencies and enterprise survival we will see as Government supports are withdrawn in 2021 and 2022.

Supply chain challenges

Global volatility in prices and supply chain shortages have been a dominant theme for Irish businesses across several sectors in Q1. The AIB/Markit Manufacturing PMI recorded the fastest increase in input prices in a decade and the second fastest on record in April. Member reports suggest shortages of key materials may be as significant a challenge as the price of those materials. In construction, the impacts can also be seen with the CSO's wholesale price index showing increases in the cost of some timber (up 30% annually) and structural steel (up 35% annually) reaching disruptive levels in April and May. Other items like plaster, metal, fittings and PVC all saw increases between 4% and 8% annually in April. These continued price pressures mean that while turnover may recover in the months ahead, many firms are facing an extended period of margin compression. The duration or impact of these costs on consumer prices is deeply uncertain. Whilst May saw the single biggest annual increase in consumer goods prices recorded in Ireland since 2012 this was almost solely driven by global fuel prices. Whilst some supply challenges which initially drove input cost increases may be transitory and fade in normal times, cost recovery dynamics in a post-COVID era might play a dominant role in determining whether increasing supply will lead to a fall back in prices along supply-chains.

Figure 4: Spending on All Cards, 7 day rolling sum

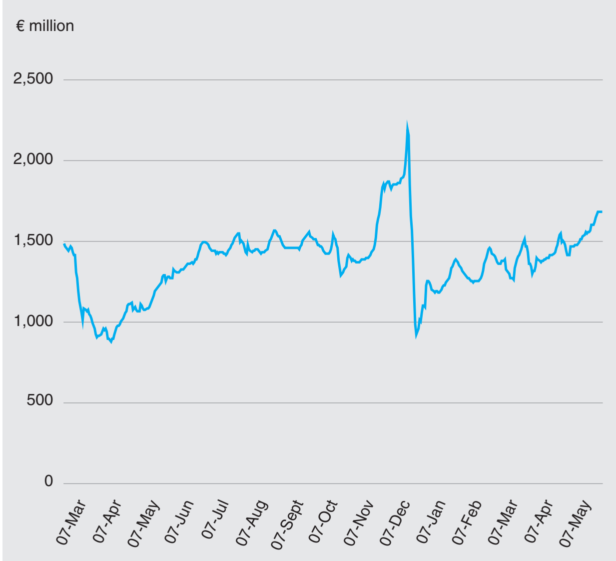


Figure 5: Debit and credit card spending by sector, €mn

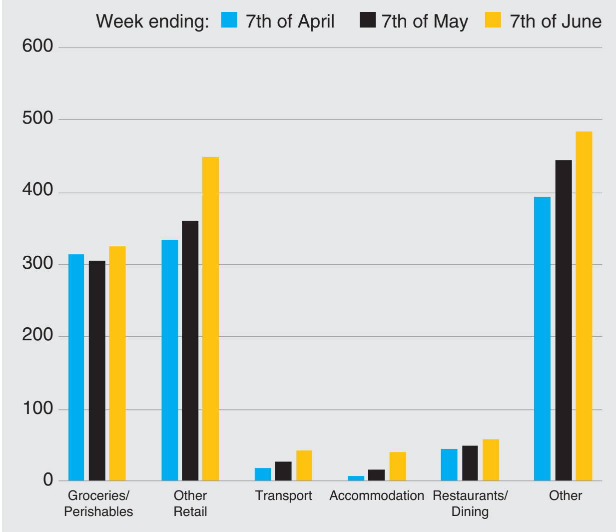
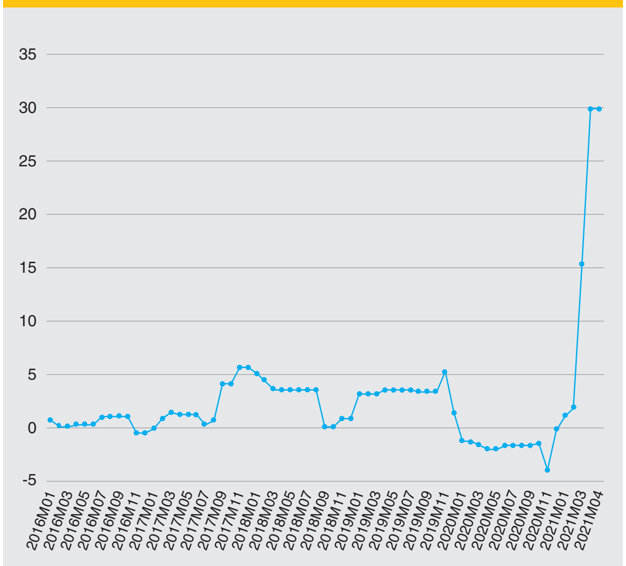


Figure 6: Rough timber prices, % change annual



Labour market

Return to work

After more than a year of unprecedented disruption in the labour market, there are encouraging improvements in employment as the worst impacted sectors of the economy reopen. Numbers on the Pandemic Unemployment Payment (PUP) have fallen sharply over the second quarter of the year, down to 267,000 on the payment in mid-June from a peak of 486,000 in early February, a decrease of 45%. Total numbers receiving the payment have been falling by between 6% and 8% weekly since mid-May. The most improved sectors in terms of employment are construction, retail and hospitality which have collectively made up the majority of PUP recipients over the pandemic. Just under 17,000 hospitality workers transitioned off the PUP in the first half of June. With the duration of COVID-related income supports being extended by the Government, the rapid drop-off in PUP claimants should help to reduce the cost to the State of maintaining the payments.

Wages and vacancies

Despite a year of dramatic labour market swings, there is evidence that wages are rising amid a tight labour market in certain sectors and for specific skills. Among those who were employed in both Q1 2020 and Q1 2021, average weekly earnings increased by 6.5% annually. However, care must be taken in interpreting the weekly earnings data, with hours worked fluctuating rapidly across sectors and likely to drive weekly incomes as the economy re-opens. As the jobs recovery continues, there is likely to be ongoing pressure on wages in those sectors where competition for skilled labour is already apparent. The full year of 2020 saw increases in the number of jobs advertised but unfilled across most economic sectors, despite the COVID pandemic. The largest number of private sector vacancies were found in retail, professional services and industry – sectors which saw continued demand throughout the crisis.

Figure 7: Numbers on PUP by age group

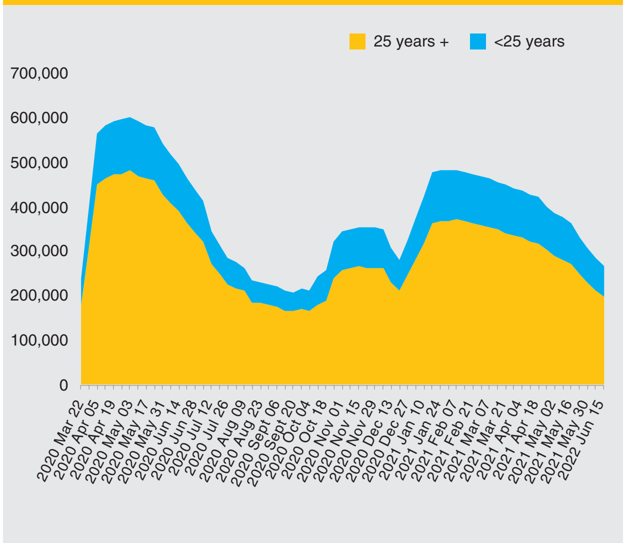


Figure 8: Number of job vacancies by sector

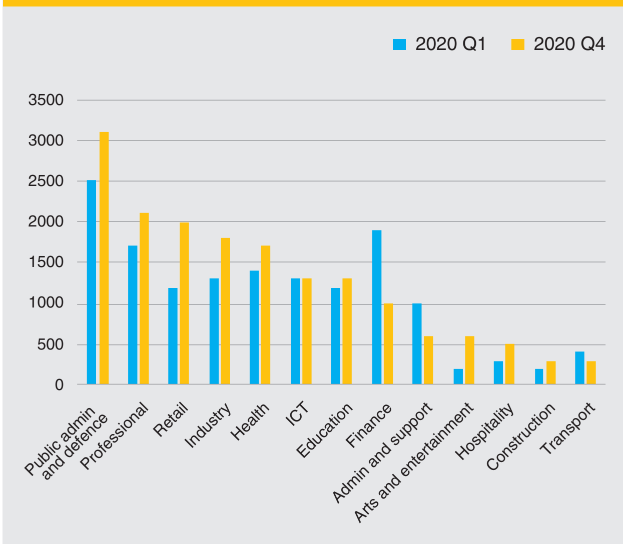


Table 1: Employment, 000s annual average (including PUP as unemployed)

	2020	2021 (f)	2022 (f)
Agriculture	**100**	**98**	**96**
Industry & Construction	**397**	**394**	**425**
Services	**1,567**	**1,600**	**1,727**
Total	**2,064**	**2,092**	**2,248**
Employment growth (%)	**-10.9%**	**1.3%**	**7.5%**
Unemployment rate (annual average %)	**16.7%**	**15.6%**	**9.3%**

Source: Ibec forecasts

Employee wage subsidy scheme

As the labour market outlook improves, the State continues to play a central role in propping up incomes and employment during the pandemic. There are currently more than 300,000 employees supported by the Employee Wage Subsidy Scheme (EWSS). €2.1bn in wage subsidy payments has been paid out so far this year, with 48,000 businesses across Ireland registered for the scheme. In the first quarter of the year, 17% of all those actively employed in the business economy received direct support through the EWSS. The sectors most reliant on the EWSS are hospitality and arts and entertainment, with 71.5% and 40% of active employees receiving the subsidy. In Q1 the subsidy accounted for 5% of all earnings across services, construction and industry but represented half of all earnings in the hospitality sector, highlighting the importance of the subsidy in softening the impact of the pandemic on household incomes for workers in sectors worst hit by the pandemic.

Training and labour market activation

Experience from last year tells us that, while the initial recovery in employment is quick as workplaces reopen, the rebound in employment is likely to slow in the medium-term, with many workers at risk of longer-term unemployment. COVID restrictions have also disrupted and delayed many apprenticeships and schemes throughout the pandemic. As a result, there are longer completion times for those in apprenticeships, with 20,000 apprentices currently in the system and plans to rapidly increase registration on apprenticeship courses over the coming years creating the potential for bottlenecks in the system. To this end, the Government has committed €20m in additional funding for apprenticeships this year. This is expected to provide an additional 4,000 places for prospective apprentices. Meanwhile, numbers on the Live Register accessing labour market activation schemes including back to work grants and educational schemes have been broadly stagnant over the past year, due in part to the closure of many workplaces and education providers. However, lacklustre take-up rates on these programmes before the pandemic highlight the need for additional labour market activation measures to ensure many workers are not left behind.

Migration

Migration has typically acted as a pressure valve for the country, reducing unemployment in lean times and allowing for the injection of additional labour into the market in periods of high employment. With travel curtailed by COVID restrictions, this may present a difficulty over the coming months, as demand for certain skills and additional labour takes off. Net migration had already been falling in recent years, having never recovered to the levels seen before the 2008 financial crash. This year, there were just 293,700 arrivals by air and sea transport from January to April, a 95% reduction on arrivals in the same period in 2019. While much of this is a decrease in tourist numbers it also highlights the limited scope for migration of labour while travel is significantly disrupted. With the job vacancy rate increasing to 1% over recent months, if the pandemic accelerates the trend towards reduced migration this will have wider implications for the Irish labour market over the course of the recovery.

Figure 9: Numbers receiving the temporary wage subsidy scheme or employee wage subsidy scheme payments

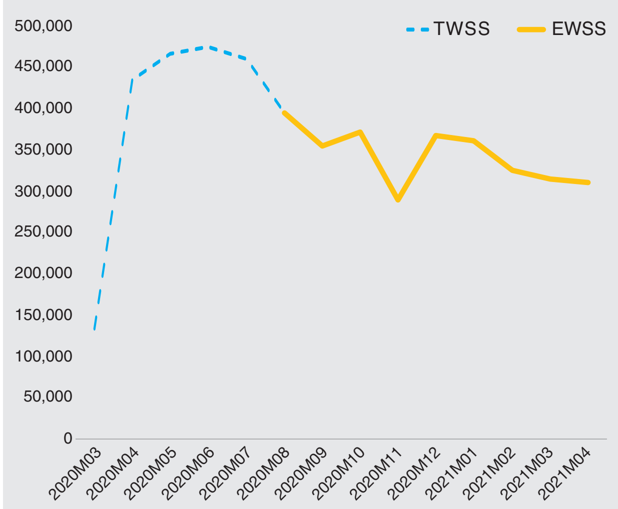


Figure 10: Numbers on live register activation schemes

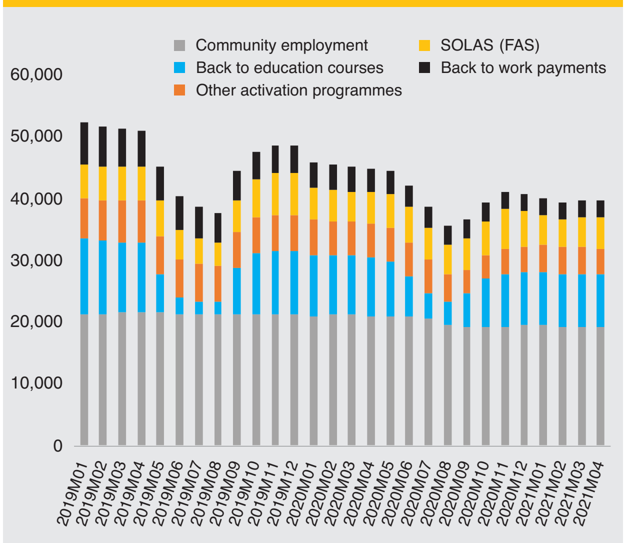
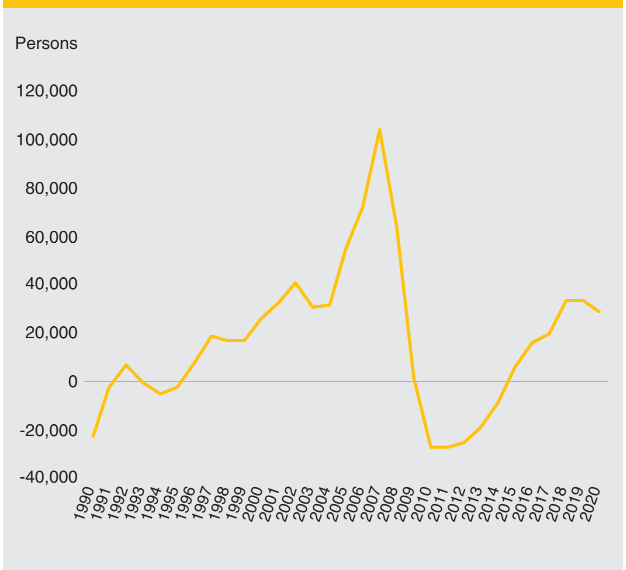


Figure 11: Annual net migration to April of each year



Consumer trends

Consumer sentiment

Reflecting the positive backdrop of the vaccine rollout and corresponding economic reopening, consumer sentiment has been improving rapidly over recent weeks. After dipping amid the uncertainty of another lockdown in January, consumer sentiment has improved to a 23-month high. The last time Irish consumers felt this positively was the summer of 2019. Consumers felt increasing confidence both in their current conditions and in the outlook for the future. There is renewed optimism around employment and individuals' financial circumstances over the next twelve months. This is likely driven by the prospect of a consistently reopened economy and expectations of a strong recovery in employment. Improved prospects in employment and finances for Irish households are having a knock-on effect on households' purchasing intentions, with consumers anticipating they will increase spending over the coming months as opportunities to spend once again become available to them.

EU retail sales

Retail sales across the EU have recovered strongly since January when many countries faced stricter COVID restrictions. Despite a dip in retail sales volumes over April of around 3% annually, current volumes of retail sales in the EU are just 1% below the levels seen in February 2020 immediately before the pandemic. While sales of food and non-food products are now close to their pre-pandemic levels, postal and internet orders are still 40% higher than before the pandemic, possibly a sign of a lasting shift towards online retail. As the vaccine rollout progresses, the outlook for retail in the EU is positive with retailers and shoppers largely able to return to normal activity. Lessons from last year indicate that after an initial bounce in retail activity as restrictions are lifted, this should moderate in the medium term. With Ireland a few weeks behind much of the EU in terms of reopening, this retail recovery augurs well for Ireland, with a similarly positive bounce in retail expected here.

Summer tourism and travel

The lifting of COVID travel restrictions has seen increased movements of people as leisure and retail opportunities open once again for consumers. According to CSO estimates, car traffic increased by 18% in May the week after inter-county travel restrictions were lifted, although this still left car traffic significantly below pre-pandemic levels. Similarly, numbers making journeys using bus and rail links also increased rapidly as restrictions were lifted, although the weekly number of journeys made using public transport is still lower than the usual levels seen in 2019. The traffic data is reflective of a society beginning to move again. In a Q1 CSO survey of travel intentions, 69% of respondents said they intended to take a holiday in Ireland sometime this year, with 51% intending to take short breaks and 40% expecting to take a break of at least one week. In contrast, just 16% of people expect to take an international flight sometime this year. As we face into the summer season, domestic tourism may be a lifeline for many regional tourism and hospitality businesses and their suppliers which have been unable to operate for much of the previous year.

Figure 12: KBC Consumer sentiment index

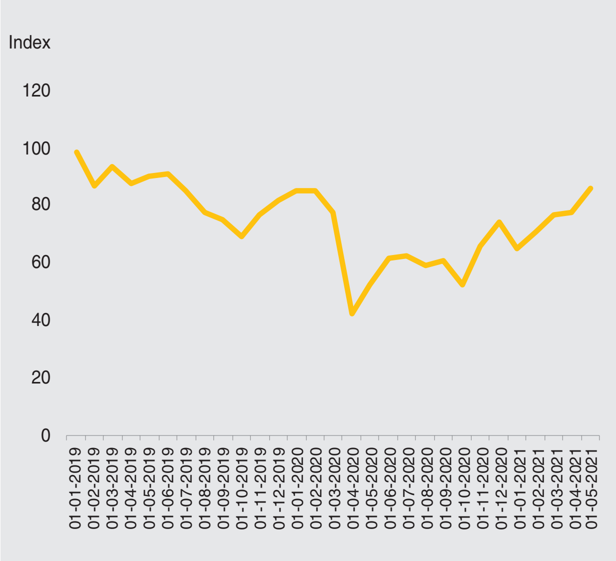


Figure 13: Retail sales volumes index, EU27

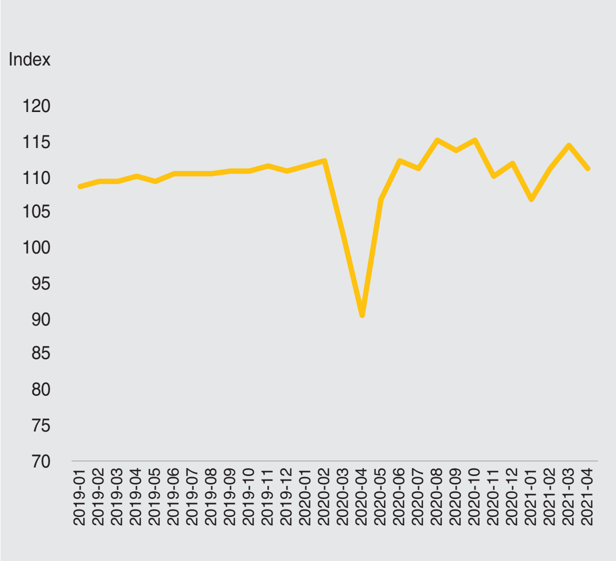
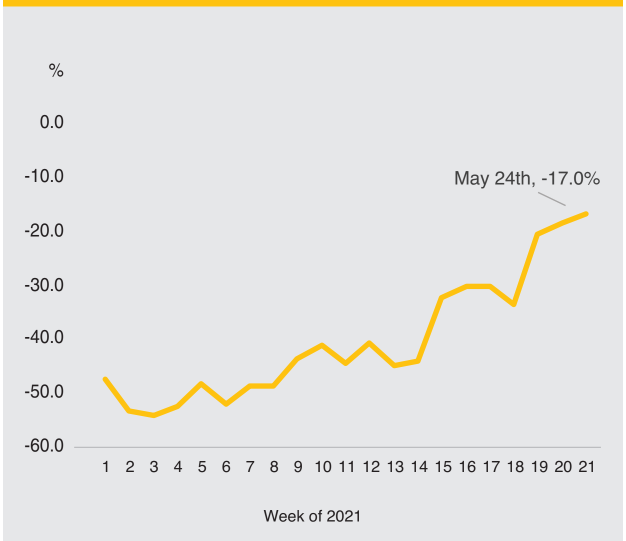


Figure 14: Average weekly car traffic at selected regional locations as a share of 2019 traffic, %



International

Major advanced economies

Of the G7 group of large, advanced economies only Italy and the UK are expected to have not returned to their 2019 level of economic activity by the end of 2022. Italy is expected to remain 1.7% below its pre-crisis level of economic activity next year, whilst the UK is expected to remain marginally lower (-0.3%). The US, on the other hand, is expected to have by far the quickest recovery from the crisis amongst the G7 group with GDP rising to 6.3% above its 2019 level by the end of 2022 and to 11% above its pre-COVID level by 2025. In the longer term, the IMF expect that the UK's recovery will begin to converge on other European G7 members France and Germany. All developed economies are expected to remain well behind a North American economy boosted significantly by stimulus measures introduced by the new Biden administration. Given Ireland's strong trade and investment links with the US, this will stand to benefit Ireland above most EU countries.

Uneven global recovery

The impact of COVID-19 on the global economy was felt unevenly across regions in 2020 and will be again in 2021. Whilst GDP fell by 3.7% in advanced economies there was much greater divergence in developing economies. Developing Asian economies saw no fall in GDP in 2020. On the other hand, GDP in Latin America and the Caribbean countries fell by over 6%. When it comes to 2021, Asia will again be the star performer. The IMF expect GDP in developing Asian economies to expand by 10% this year, relative to a rate of 5.8% in other developing economies and 7% in advanced economies. By the end of 2022, economic activity will be back to 9% above its pre-crisis level in other developing countries, but 20% higher in developing Asia. As a result, the growth of developing Asia as a proportion of the global economy will continue – growing to 36% by 2025, up from 16.5% in 2000.

Global transport costs

One major challenge facing companies during the recovery from the pandemic is rising trade costs globally. This is a particular challenge for imports to Northern Europe from East Asia. The Freightos Baltic Global Container Index which measures median prices for port-to-port, standard forty-foot, non-refrigerated containers, showed that container shipping costs from East Asia to Northern Europe have increased from $1,900 per container on average in 2020 to over $10,000 in June 2021. The average increase across all Global shipping routes, weighted by volumes of trade, increased from $1,600 last June to almost $6,000 in June 2021. These costs, in effect, act as a tax on trade and if they are sustained could have real impacts in terms of the structure and volume of global trade. Fortunately, early signs are that investment in capacity is responding to increased prices. The impact of this might, however, take time to come through in pricing with low existing investment levels in recent years due to low prices and rising emissions reduction costs.

Figure 15: GDP change in G7 economies, 2019 to 2025

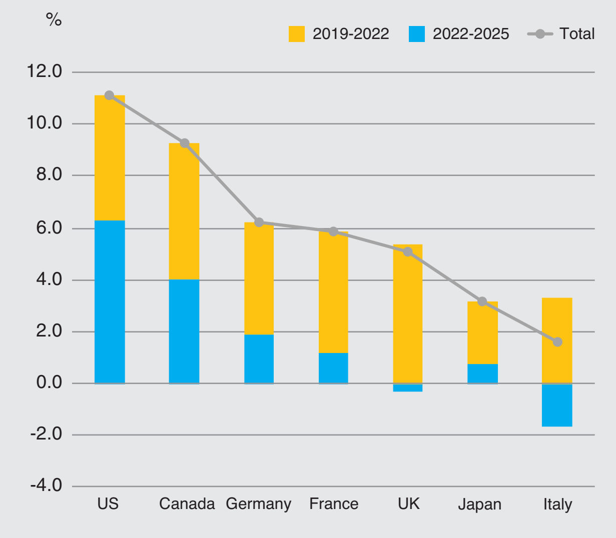


Figure 16: Global GDP by region, %

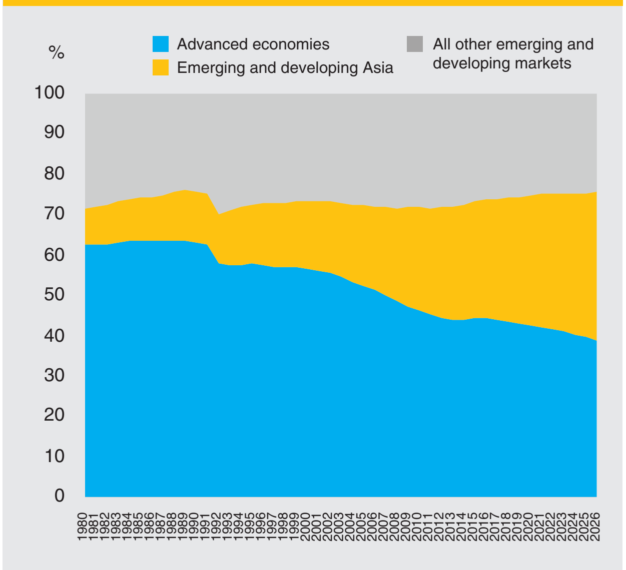
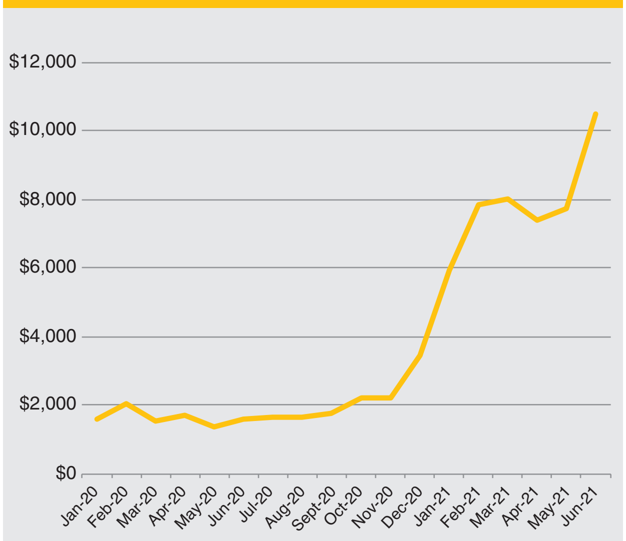


Figure 17: FBX freight container index, China/East Asia to North Europe



Brexit

UK Ireland trade

There was a potential Brexit effect in Irish imports from the UK in the first quarter of 2021. Using data on import shares – to strip out COVID related volatility – goods from Great Britain as a share of Irish imports fell to 10.1% in Q1 2021 from an average of 20.7% in 2020. At the same time, there was a very marginal increase in the share of imports coming from Northern Ireland. Whilst imports from Britain fell to 9% of total Irish imports in January this began to recover during the following months, rising to 11.4% of total imports in both March and April. Although it is yet too early to separate the impact of Brexit from other trade disruptions, if these figures remain consistent over time this might suggest that the effect of stockpiling and short-term disruption has washed out of the figures.

UK-EU trade

Ireland was not alone in seeing a significant fall in the share of its imports coming from the UK in Q1 of 2021. Most EU countries witnessed similar reductions in UK imports in the early part of the year. For large EU countries with more significant UK import shares such as the Netherlands, Sweden, Belgium, France, Germany, Spain and Denmark the share of UK imports in their total imports fell from an average of around 4% in 2019 and 2020 to an average of 2.7% in Q1 of 2021. What is notable and indicative of a broader Brexit impact is that the scale of the changes was experienced consistently across almost all EU Member States. It will, however, be another year or more before we understand how Brexit has impacted supply-chain re-alignment throughout Europe.

GB Ireland trade by category

The drop in Irish imports from GB was again clear when it was broken down by goods category. Rather than being concentrated in some goods, the impact on imports was spread broadly across the major import sectors. Indeed, there was again a remarkably similar pattern across quite different categories of goods. In major food import categories, such as meat, dairy, prepared consumer foods and confectionary, the UK accounted for between half and three-quarters of all Irish imports in pre-Brexit years. Across these categories, we saw falls of between 10 and 15 percentage points (pp) in the share of Irish imports coming from the UK in Q1 2021. Similar patterns played out in raw materials like iron and steel (-16pp), paper (-10pp), chemicals (-14pp) and minerals (-10pp). It was also clear in industrial equipment and consumer goods such as specialised machinery (-10pp), industrial machinery (-13pp), telecoms equipment (-14pp), clothing (-12pp) and electrical appliances (-13pp). It is at this category level of detail that we will see the true re-shaping of supply-chains because of Brexit over the coming years.

Figure 18: GB and NI, % of total Irish imports

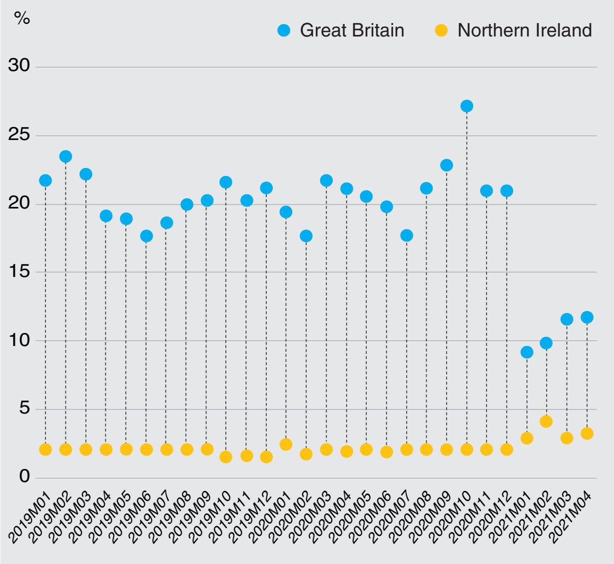


Figure 19: UK import share by EU country

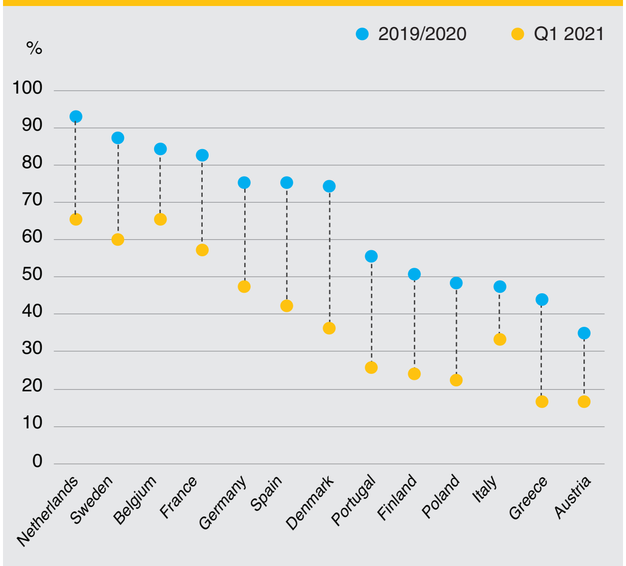
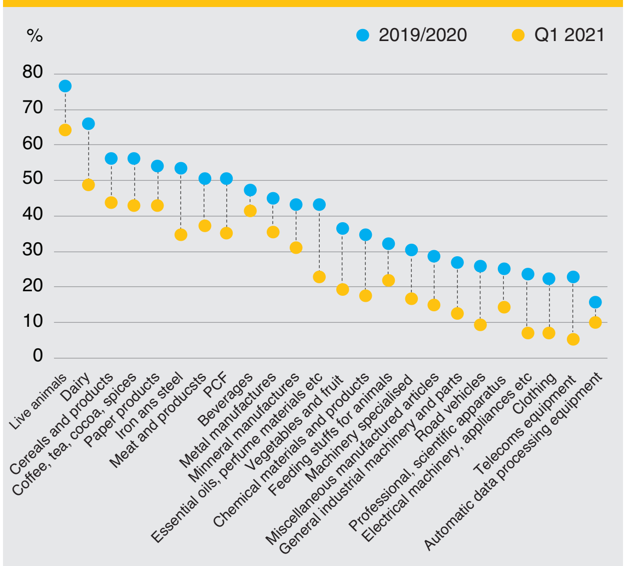


Figure 20: UK as a % of Irish imports



Low carbon transition

Ambitious targets

The recently approved Climate Action Bill aims to halve emissions by 2030 and to achieve carbon neutrality by 2050. This is amongst the most ambitious legally committed climate targets internationally. Today Ireland emits around 58 million tonnes of greenhouse gases annually. The new plan will aim to achieve reductions to 30 million tonnes by 2030 initially through a process of economy-wide five-year carbon budgets, including sectoral targets, on a rolling 15-year basis, starting this year. This may drive significant change amongst many sectors of the economy, but it will need radical additional policy effort. Recent modelling by the Environmental Protection Agency (EPA) showed that under pre-2019 policy ambitions Ireland would have achieved effectively no overall reduction in its climate emissions by 2030. Post-2019 measures – which include a move to a €100 carbon tax by 2030, a 70% renewable energy target, targets for 1 million electric vehicles by 2030, 500,000 home retrofits, the delivery of key public transport projects and €22 billion of spending under the existing National Development Plan – would reduce emissions from 58 million tonnes by 2030 to 48 million tonnes. However, our new targets have set a cap for the whole economy by 2030 of around 30 million tonnes annually. As a result, new policy measures will be needed to drive a reduction in emissions over the next decade which is almost three times as ambitious as already planned under existing policies. This level of change would be transformative but will require public and private investment and coordination on an unprecedented scale.

Investment need

Significant investment will be needed to meet the goals set out in the low-carbon roadmap. At an international level, the International Energy Agency recently estimated that clean energy investment alone would need to rise globally from $1.2 trillion to north of $4 trillion annually by 2030. In the UK, the Climate Change Committee (CCC) estimated that reducing emissions by 63% (relative to 2019) by 2035 would require investment to reach £50 billion annually by 2030, up from £10 billion in 2019. The IEA estimates this additional investment will create up to 30 million new jobs Globally by 2050 in a 'Net Zero' scenario. 14 million of those would be in clean energy employment. This is relative to 7.4 million jobs under an existing scenario with no policy change. On the other hand, overall employment in oil, gas and coal would decline by around 5 million in a 'Net Zero' scenario. The key challenge, however, is something that has been a difficult lesson in recent years following the impact of labour market adjustments to trade globalisation – those people and communities who gain from the transition will not be the same as those who lose. This will require significant compensation mechanisms globally.

Private-sector funding

Private and public bodies will need significant private financing to meet climate targets. The Paris Agreement commitments to de-carbonise financial flows have been mirrored in growth in ESG (Environmental, Social, and Corporate Governance) investing. Since the first Government 'Green' Bond in 2016, the total market has grown from $84 billion to $290 billion annually in 2020. From a practical perspective, evidence shows ESG framing on 'Green' bonds can deliver lower yields of 5 to 30 basis points and demand may be more robust to inflation than traditional products. For many companies borrowing for low carbon investments, this may provide an opportunity to diversify their funding mix. As the market for 'Green' finance matures the EU framework to facilitate sustainable investment and subsequent Eurosystem decision on sustainability-linked bonds (with a coupon structure linked to clear metrics) of September 2020 means access to a deeper market for debt will rely on credible plans and greater scrutiny. As such yield premia faced by both business and Governments will be extremely sensitive to product credibility and verification.

Figure 21: Total GHG emissions (million tonnes) - to meet 2030 target

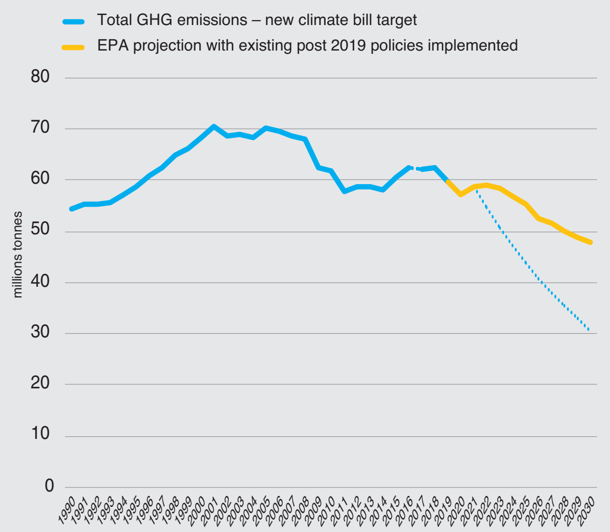


Figure 22: Workers needed for low carbon transition globally

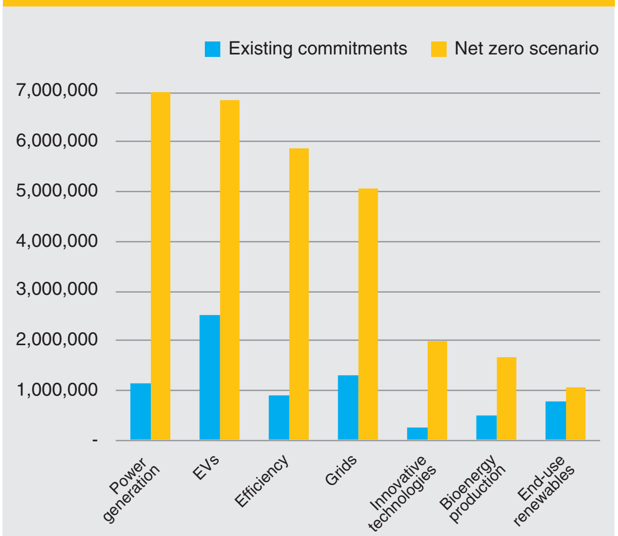
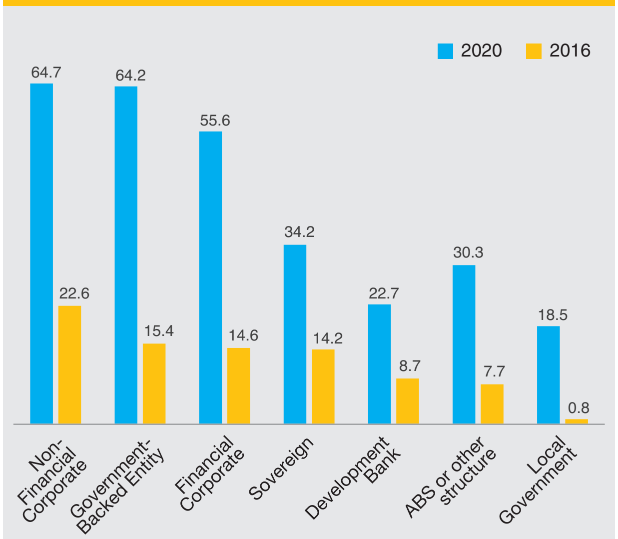


Figure 23: Green bonds issuance globally, by issuer, €bn



Housing and construction

Construction difficulties

A rapid bounce back in construction activity since the reopening of the sector in April has marked a welcome change of pace for a sector shuttered for much of the pandemic. While the jobs recovery in construction is a success story, with the number of construction workers on the PUP falling by 74% between early May and June, we are likely to return to the difficulties of the pre-pandemic labour market, when labour shortages in construction was an ongoing issue. As a result, we may see rising labour costs within the industry. This combined with sharp increases in input costs as Brexit, higher global shipping costs to our island economy and a sudden increase in demand for basic materials globally are all biting and introducing high-cost pressures on construction activity. Given both the built-up demand for housing and commercial construction over the pandemic, alongside Government commitments to large infrastructure projects as part of the recovery programme, there is an outlook of high demand for a sector struggling to keep up. This is borne out in the Ulster Bank Construction PMI, which is showing a rapid jump in activity across all construction types, with record levels of new orders in recent months.

Housing completions

A period of sustained under-delivery in housing has continued into 2021, with housing completions in the first quarter down by more than one-fifth annually. The outlook is even more difficult in Dublin, where housing completions fell by 40% annually amid the closure of the construction sector in recurring lockdowns. After a strong performance in the last quarter of 2020, national housing completions were also down quarter-on-quarter by 56%. Of the dwellings that were finished, the majority were part of multi-unit developments, making up 57% of all new dwellings. The trend of apartments making up a growing proportion of all new dwellings has reversed somewhat with apartment completions in the first quarter down by 26% compared to the same period in 2019. There are also significant regional differences in where completions are located, with Dublin accounting for just under 70% of all apartments completed. Before the pandemic, the provision of new housing was still below the circa 35,000 needed annually to meet demand. Housing completions are expected to increase over the coming months, but it will be several years before supply can begin to match demand.

Urban and rural housing demand

Property prices outside of Dublin are currently growing at a faster rate than in the capital for both apartments and houses. While housing costs in the rest of the country are still significantly below Dublin levels, the speed up in residential property price growth indicates the shift of some housing demand away from cities and towards towns and rural areas on the back of the pandemic and remote working. According to the Residential Tenancies Board, by the end of 2020 rents outside of Dublin were growing at a faster rate than in the capital. Dublin rents were 2% higher than the end of 2019, while rents outside of Dublin had grown by 2.7% over the same period. Similarly, house and apartment rental prices have been growing the fastest in the Dublin commuter belt, by 4.2% and 7.5% respectively, reflecting the shift in location demand precipitated by the pandemic as Dublin workers move further out. To what extent this trend will persist into the future depends largely on how remote-working and socialising develop in a post-pandemic world.

Figure 24: IHS Markit-Ulster bank construction PMI (>50 indicates growth)

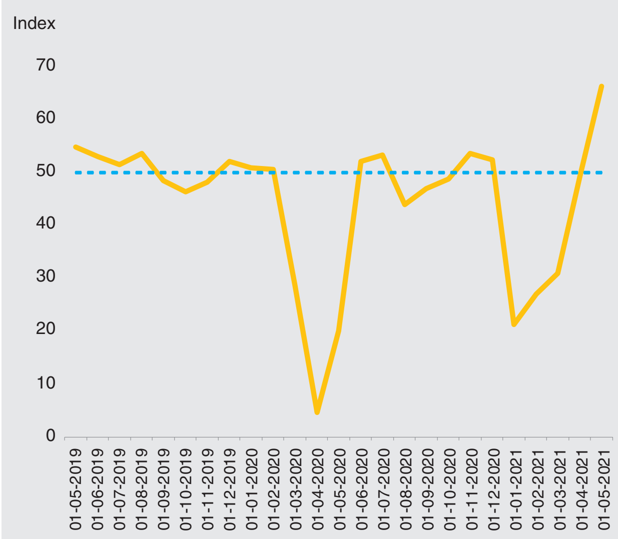


Figure 25: Housing completions

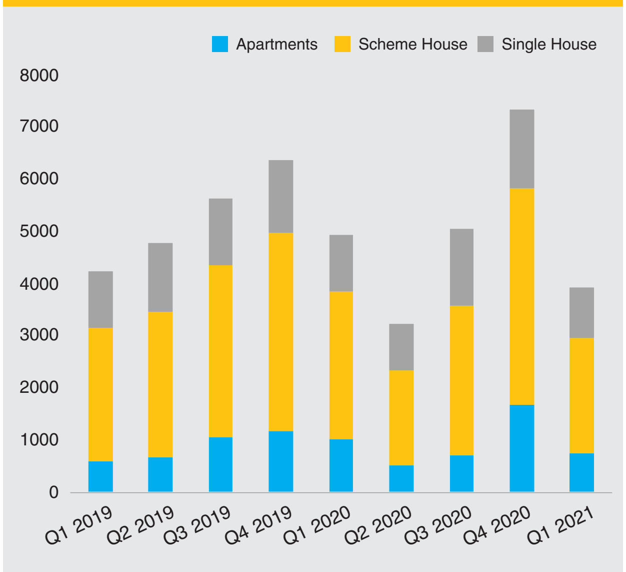
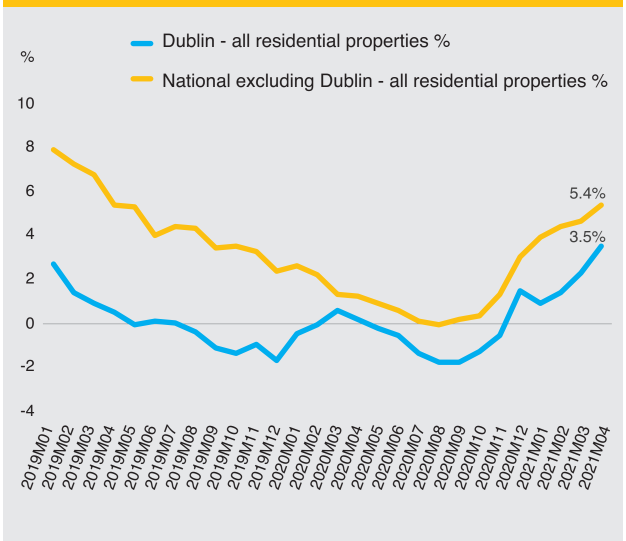


Figure 26: Residential property price index, Dublin vs rest of country, annual % growth



Further information

Fergal O'Brien
Director of Policy and Public Affairs
T: 01 605 1544
E: fergal.obrien@ibec.ie

Gerard Brady
Chief Economist
T: 01 605 1515
E: gerard.brady@ibec.ie

Hazel Ahern-Flynn
Economist
T: 01 605 1603
E: hazel.ahern-flynn@ibec.ie

Web: www.ibec.ie
Twitter: Join the conversation @ibec_irl

Ibec Head Office
84/86 Lower Baggot Street
Dublin 2
T: + 353 1 605 1500
E: membership@ibec.ie
W: www.ibec.ie/membership

Galway
Ross House
Victoria Place
Galway
T: + 353 91 561109
E: galway@ibec.ie
W: www.ibec.ie/west

Cork
Knockrea House
Douglas Road
Cork
T: + 353 21 4295511
E: cork@ibec.ie
W: www.ibec.ie/cork

Brussels
Avenue de Cortenbergh
89, Box 2
B-1000 Brussels
BELGIUM
T: + 32 (0)2 512.33.33
F: + 32 (0)2 512.13.53
E: europe@ibec.ie
W: www.ibec.ie/europe

Limerick
Gardner House Bank Place
Charlotte Quay Limerick
T: + 353 61 410411
E: midwest@ibec.ie
W: www.ibec.ie/midwest

Donegal
3rd Floor, Pier One Quay Street
Donegal Town Donegal
T: + 353 74 9722474
E: northwest@ibec.ie
W: www.ibec.ie/northwest

Waterford
Waterford Business Park
Cork Road Waterford
T: + 353 51 331260
E: southeast@ibec.ie
W: www.ibec.ie/southeast