

Irish economy is cautiously optimistic as normality returns

Households and businesses across the Irish economy are demonstrating a mood of cautious optimism, according to the Bank of Ireland Economic Pulse for July.

The Bank of Ireland Economic Pulse came in at 89.3 in July 2021. The index, which combines the results of the Consumer and Business Pulses, was 0.5 lower than last month but up 27.4 on a year ago.

The Delta variant of Covid-19 and the delay to the resumption of indoor hospitality dominated the news flow this month but did little to dent the mood of cautious optimism.

While households were a touch more circumspect, business sentiment moved sideways and with the recovery taking hold and an additional push on the vaccination front, the headline Economic Pulse remained above its pre-pandemic level.

“The Economic Pulse was marginally softer this month but remains above its pre-pandemic level,” explained Dr Loretta O’Sullivan, group chief economist for Bank of Ireland.

“The July findings suggest a mood of cautious optimism as households, firms and the economy navigate their way back to some semblance of normality.

“Pandemic-related disruption is not over yet though, with various bottlenecks becoming apparent and impacting a range of sectors. Over a quarter of the businesses surveyed this month said they are struggling with material, equipment and space shortages for example. Labour shortages are a concern for another one in four and with firms looking to retain and attract staff, some upward pressure on pay appears to be in prospect over the coming year.”

The Bank of Ireland Economic Pulse survey is conducted in conjunction with the European Commission, with the data feeding into the EU Commission’s Joint Harmonised EU Programme of Business and Consumer Surveys, a Europe-wide sentiment study running since the 1960s.

The Economic Pulse surveys are conducted by Ipsos MRBI on behalf of Bank of Ireland with 1,000 households and 1,350 businesses on a range of topics including the economy, their financial situation, spending plans, house price expectations and business activity.

Consumers upbeat

The Consumer Pulse slipped in July but buying sentiment held up as 43pc of workers are

expecting a pay rise.

“Delta blues look to have curbed households’ enthusiasm this month, albeit not by much,” said O’Sullivan.

At 74.8 in July 2021, the Consumer Pulse was down 1.4 on last month but 19.3 higher than a year ago. While concerns about the new strain of the virus tempered expectations a bit, households were more upbeat about the current state of the economy this month.

Labour market sentiment has also improved as the re-opening of the country has progressed, with two fifths of survey respondents indicating that it is easy to find or change jobs at present (up from 18pc at the beginning of the year) and two in five workers anticipating a larger pay packet over the next 12 months.

Businesses keep their cool

The Business Pulse moved sideways in July. Although firms saw an improvement in trading conditions, 27pc say they were studying with labour shortages.

“After a run of gains, it was a case of steady as she goes for the Business Pulse in July,” said O’Sullivan.

The Business Pulse came in at 92.9 in July 2021. This was 0.2 lower than last month’s reading but 29.5 higher than a year ago. The sectoral picture was mixed this month, with the Industry Pulse ticking up, the Services Pulse more or less flat and the Retail and Construction Pulses dipping a little. Each of the four indices remained above its pre-pandemic level though.

On the pay side, the July survey finds that 44pc of firms are planning on increasing basic wages in the next 12 months – up from 29pc in April and driven in part by staffing shortfall worries as the recovery takes hold – while on the growth front, three in five have ambitions to expand their business in the next 1 to 3 years.

Housing high

The Housing Pulse saw rises in July. Buying is still trumping rent and 35pc of people expected to spend on home improvements over the coming year.

“Buoyed by new ways of working and elevated savings, home improvements are firmly on the agenda,” O’Sullivan said.

The Housing Pulse stood at 119.5 in July 2021, up 3.3 on last month and 69.1 higher than a year ago. This was the fifteenth consecutive gain for the series which is now just shy of its all-time high.

Four in five households think house price increases are on the cards over the next 12 months, with almost half (45pc) expecting them to go up by more than 5pc. Even so, seven in ten consider it cheaper to buy than rent in their area when the typical monthly mortgage repayment and the typical monthly rent for similar properties are compared.

Mixed picture across regions

The Bank of Ireland Regional Pulses bring together the views of households and firms around the country. The results for July 2021 (3 month moving average basis) show that sentiment was down a little in Dublin, up in the Rest of Leinster and Munster and flat in Connacht/Ulster.

Three month moving averages:

- Dublin Pulse = 87.4 (-1.1 points on the previous survey)
- Rest of Leinster = 92.8 (+5.0)
- Munster = 88.2 (+1.0)
- Connacht/Ulster = 89.9 (No change)