

On the cusp of rapid growth

Irish economy

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The Irish economy accelerated into 2024 and is on the cusp of rapid growth, helped by lower inflation. Foreign direct investment (FDI), high-skilled job creation and a rising population underpin the economy's resilience. Our economic growth forecasts are above consensus.

Buoyant activity levels have put pressure on Ireland's infrastructure. Priorities for capital spending include housing and decarbonisation. Threats to competitiveness must be tackled to avoid a slowdown in FDI and job creation.

Demand in the economy is strong and inflation could be reignited if another expansionary Budget is delivered this year. We expect continued Budget surpluses this year and next. Further ahead, funding levels will rise due to higher debt rollovers, increased investment and the costs of an ageing population.

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Executive summary

The Irish economy remains resilient

In this report, we publish our economic forecasts and project real growth of over 4% this year and next. We focus on key drivers of the domestic economy. We estimate that national income (GNI*) remained resilient last year, growing by about 3% in real terms. GNI* is our preferred measure of Ireland's economic activity as it has a more direct link to core tax receipts and aligns better with real-economy variables such as employment, consumer spending and wage income.

We publish our economic forecasts and project real growth of over 4% this year and next

Figure 1: Summary of our new economic forecasts

	2023	2024	2025
Consumer spending	3.1	4.0	3.9
Domestic demand (core)	0.5	3.6	3.9
National income (GNI*)	3.1	4.5	4.3
Government balance, % GNI*	2.8	2.2	2.1
Government debt, % GNI*	74.6	68.9	64.1
Employment growth	3.4	2.0	2.0
Unemployment rate, % labour force	4.3	4.2	4.5
HICP inflation	5.2	2.3	1.7

Source: CSO, Davy

Early signs point to an acceleration into 2024 due to lower inflation and ongoing job creation. We expect above-consensus employment growth of 2% this year and next, helped by FDI and skilled inward migration.

Infrastructure delivery would boost growth

Addressing Ireland's infrastructure shortfalls would unlock rapid economic growth this decade. Undersupply in the economy creates inefficiencies, weakening competitiveness and limiting future prospects. Efforts to increase renewable energy capacity should be expedited as this would deepen Ireland's industrial base, improve energy security and reduce costly energy imports. Furthermore, a lack of housing has contributed to rapid rental inflation over the past decade, which limits opportunities for consumer spending and investment. We forecast an increase to 36,000 new dwelling completions this year and 42,000 next year. However, this remains well short of our estimate of underlying housing need.

Addressing Ireland's infrastructure shortfalls would unlock rapid economic growth this decade

Overheating remains a risk

Proccyclicity has long been a feature of Irish fiscal policy. To limit the risk of overheating and reigniting inflation, the government should focus on adding to supply and avoid overstimulating demand. While capital spending should rise substantially – in recognition of the infrastructure shortfalls in Ireland relative to other high-income countries – current public spending and tax cuts should not become detached from trend economic growth rates. We forecast continued Budget surpluses of about 2% of GNI* in 2024 and 2025.

To limit the risk of overheating, the government should focus on adding to supply and avoid overstimulating demand

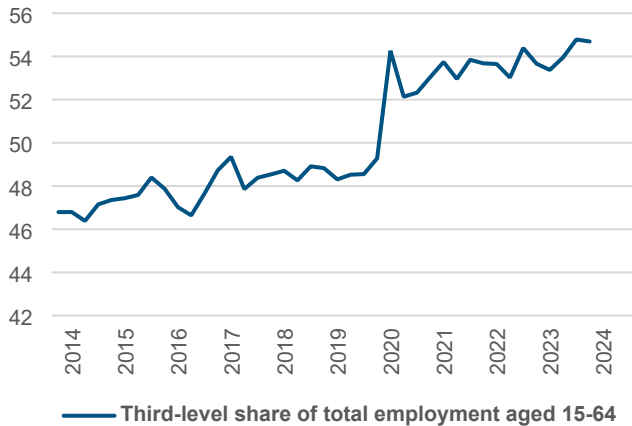
Government bond issuance will rise

Irish government bond issuance will rise as a result of higher debt rollovers and increased spending pressures due to investment needs and the costs of an ageing population. Two sovereign wealth funds will provide an income stream in the form of investment returns to help with future fiscal challenges.

Irish government bond issuance will rise

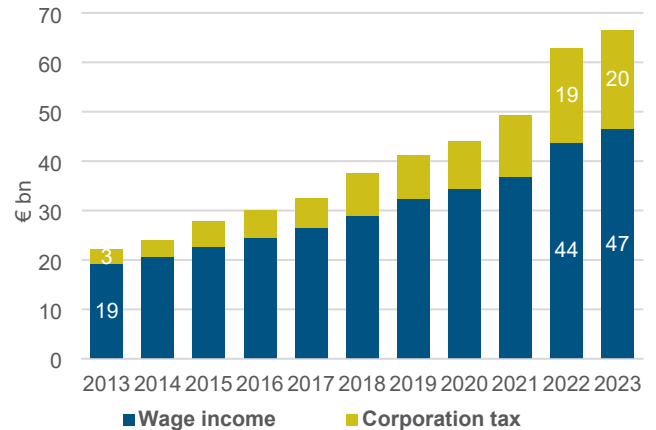
Six key charts

Figure 2: Ireland's workforce has become increasingly well-educated



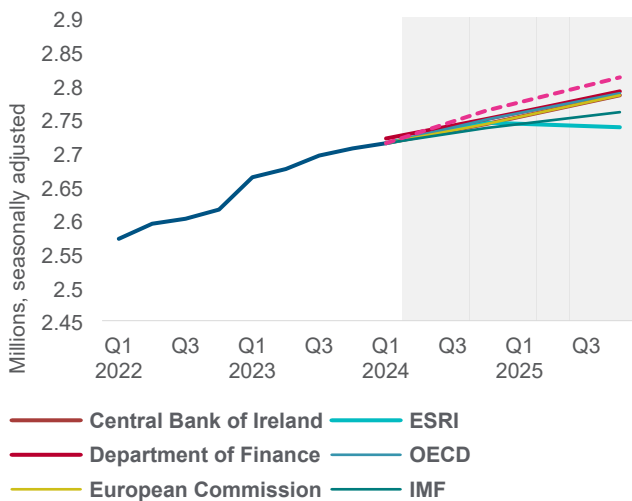
Source: CSO

Figure 3: Foreign-owned firms paid €67bn in wage income and corporation tax in 2023



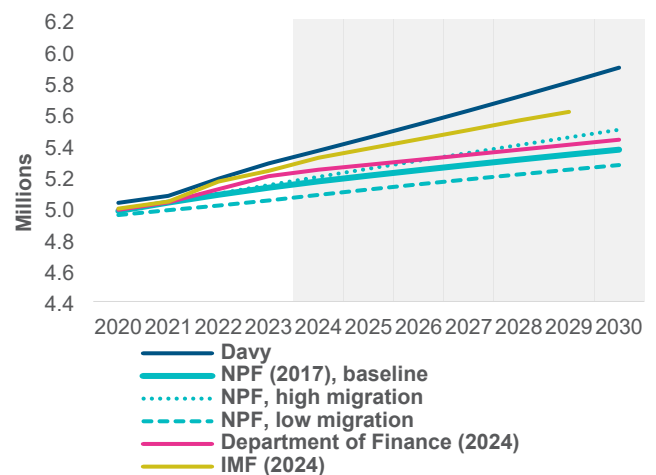
Source: CSO, Revenue Commissioners

Figure 4: We forecast an increase in employment to 2.8m by H2 2025



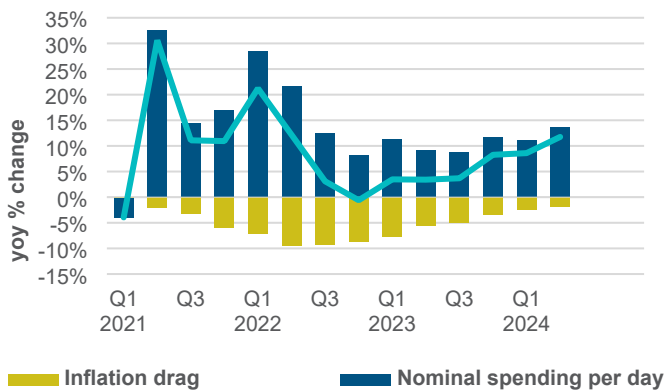
Source: CSO, CBI, ESRI, Department of Finance, OECD, European Commission, IMF, Davy

Figure 5: We forecast a much bigger increase in Ireland's population by 2030



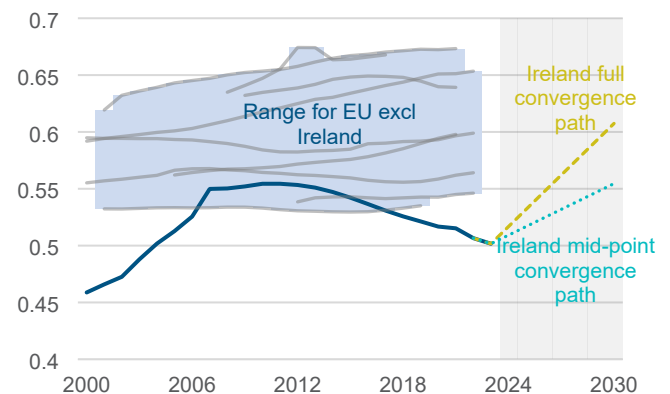
Source: National Planning Framework, Department of Finance, IMF, Davy

Figure 6: Real consumer spending boosted by wage growth and lower inflation



Source: Central Bank of Ireland, Davy

Figure 7: To reach 0.55 dwellings per adult (15+) by 2030, Ireland would need 85,000 new units a year



Source: Irish Fiscal Advisory Council, Eurostat, CSO, Davy

We forecast a broad-based acceleration of economic growth to 4.5% this year

Irish economy: on the cusp of rapid growth

Ireland's economy has remained resilient and looks set to grow rapidly over the coming years. A fall in inflation boosted real income growth in the latter half of 2023. We expect a broad-based acceleration of economic growth (GNI*) to 4.5% in 2024 and 4.3% in 2025. This forecast is underpinned by employment growth of 2% a year and a significant increase in housing output.

Key features of our new economic forecasts

- National income (GNI*) to grow 4.5% in 2024 and 4.3% in 2025.
- Lower inflation of close to 2% provides a boost to consumer spending growth.
- Employment to grow 2% a year, helped by FDI.
- Housing output to reach above 40,000 units next year. Residential property prices to grow 7.5% this year due to a limited increase in transactions.

Figure 8: Davy Irish economic forecasts (yoy % change in volumes unless stated)

	2023	2024	2025
Consumer spending	3.1	4.0	3.9
Government consumption	1.7	3.7	3.0
Investment (core)	-7.1	2.1	4.9
Dwellings	5.7	7.4	12.2
Other building & construction	-5.1	1.4	3.7
Other investment (core)	-13.9	0.0	2.0
Domestic demand (core)	0.5	3.6	3.9
Current account (core)	19.8	9.8	6.3
Real wage income	3.3	5.5	4.5
Profits (core) and other income	2.9	3.6	4.1
National income (GNI*)	3.1	4.5	4.3
Multinational sector post-tax profit	-10.4	-8.4	0.6
Gross domestic product	-3.2	-1.1	2.8
Government balance, % GNI*	2.8	2.2	2.1
Government balance (excl. windfalls), €bn	-0.8	-0.6	-0.3
Government debt, % GNI*	74.6	68.9	64.1
Employment growth	3.4	2.0	2.0
Unemployment rate, % labour force	4.3	4.2	4.5
HICP inflation	5.2	2.3	1.7
New dwelling completions, thousands	32.5	36.0	42.0
Residential property prices, nominal	3.1	7.5	5.0

Source: CSO, Davy

Delivery of housing and renewable energy infrastructure would position the Irish economy well before our ageing population slows future economic growth

If meaningful progress can be made in housing and renewable energy capacity this decade, this would reduce the risk of economic disruption. The government should beware the risks of overheating, which would weaken Ireland's competitiveness. Faster growth could prove unsustainable if current spending and tax cuts flow loosely alongside rapid increases in investment. Demand levels in the Irish economy are high, whereas supply has lagged behind and should be prioritised. Time is of the essence; Ireland's ageing population will reduce potential economic growth over the coming decade. With rising dependency ratios, it is unlikely that value for money will improve (with the possible exception of a recession).

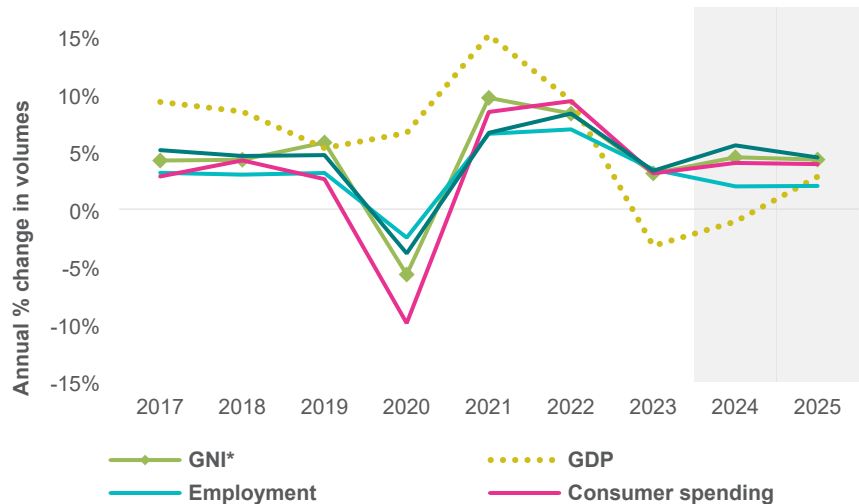
Ireland's real economy grew by about 3% last year

Much ink has been spilled about Ireland's economic model as being export-led growth, driven by FDI. However, exports and gross domestic product (GDP) are increasingly unreliable as yardsticks of real economic activity in Ireland. As such, we focus on GNI* rather than GDP and emphasise relevant measures of activity in the domestic economy throughout this report.

Compared to GDP, GNI* has grown more in line with employment, consumer spending and wage income

In 2023, we estimate that national income (GNI*) grew by about 3%, whereas Central Statistics Office (CSO) data show that GDP fell by 3.2%. The below chart compares these with other relevant indicators of the domestic economy: employment (3.4%), consumer spending (3.1%) and real wage income (3.3%) are all consistent with a growing economy.

Figure 9: GNI* is a more relevant measure than GDP of Ireland's real economy



Source: CSO, Davy

The difference between GNI* and GDP is post-tax profit flowing back to foreign-owned firms. We estimate that this fell by over 10% in 2023 – hence the decline in GDP despite a solid increase in GNI*.

Weaker profits in biopharma and information/communication technology (ICT) explain this decline. This was mainly due to a correction from unusually high profits arising from COVID-19, a period when vaccines and a shift to remote working significantly boosted global sales in these sectors.

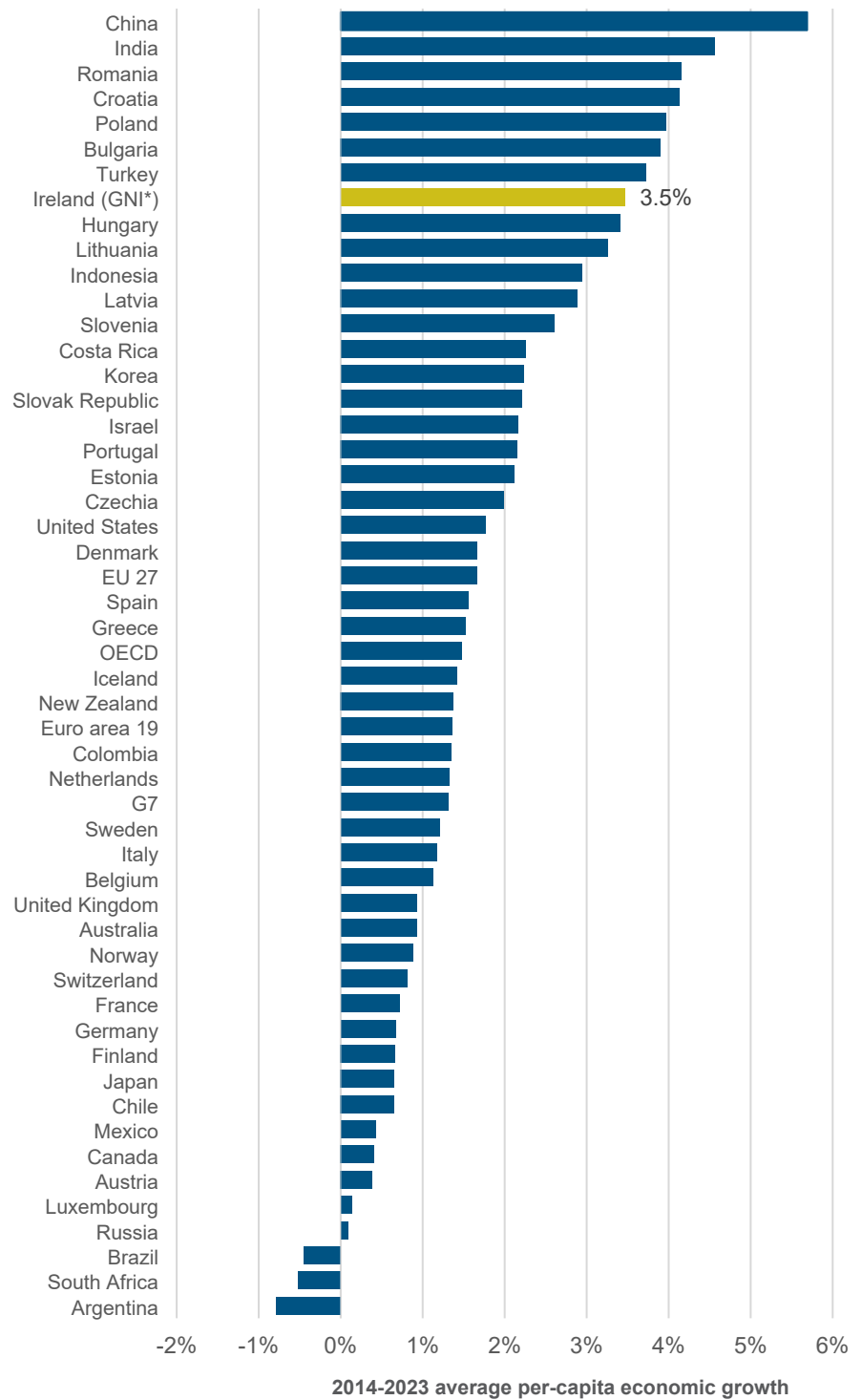
The outlook for these sectors appears more favourable this year, which should benefit Ireland's real economy. However, we note that this component of GDP is highly volatile and difficult to forecast. We expect some further volatility in multinationals' post-tax profit, meaning there would be little or no growth in Ireland's GDP this year.

Total exports reached close to €700bn in 2022 compared to just €273bn for national income or GNI*. Given this imbalance, it is more intuitive to understand GNI* developments in bottom-up terms rather than starting with GDP and making top-down adjustments.

A typical starting point for forecasting Irish GDP is to project exports with reference to external demand from Ireland's main trading partners (the US, UK and euro area). However, this is not a useful approach when it comes to forecasting GNI* given that its composition is rooted in the real domestic economy (see following section for more detail).

Over the past decade, Ireland’s per-capita growth has been the seventh-fastest in the OECD.

Figure 10: Ireland’s per-capita rate of economic growth has been relatively fast over the past decade



Source: OECD, CSO, Davy

In 2024, Ireland’s real GNI* growth rate looks to be on course to meet our forecast of 4.5%. Non-corporation tax and PRSI receipts are up by 7.6% for January-May compared with the same period in 2023. This is consistent with real growth of about 4.5% after adjusting downwards by 3 percentage points for an approximate GNI* deflator growth rate. This is among the fastest growth rates in the EU, where Malta (4.7%) and Croatia (4.6%) grew similarly rapidly in the first quarter of the year.

Drivers of Ireland's national income

To understand the relatively strong performance of the Irish economy over the past decade, we examine the components of GNI* and their main drivers. Labour supply has been boosted by skilled net inward migration and a long-term trend increase in labour force participation.

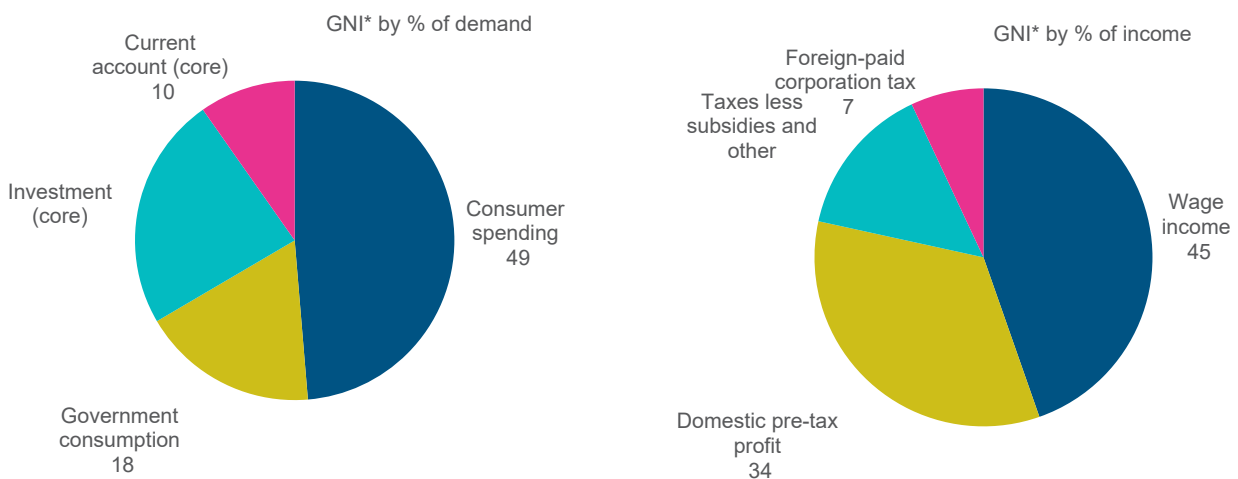
The largest component of GNI* is consumer spending, which grew by 3.1% last year. However, factoring in government consumption and core gross fixed capital formation (investment) gives core domestic demand, which grew just 0.5% in 2023.

Consumer spending and real wage income grew by about 3% last year, in line with our estimate of GNI* growth

This weaker outcome was due to a significant decline in investment of core machinery and equipment, which excludes aircraft for leasing. This fall reflects activity by a small number of firms whose investments can be very large and therefore introduce volatility to domestic demand. Since much of the equipment investment is directly imported, however, we believe the core current account position was boosted in 2023 by these base effects.

Another way to understand GNI* is to look at income flows. Wages comprise 45% of GNI*, pre-tax profits of domestic firms account for one-third, taxes less subsidies and other income 15%, and the remaining 7% is corporation taxes paid by foreign firms. The chart below shows GNI* in terms of aggregate demand and income flows.

Figure 11: GNI* is driven by consumer spending and wage income



Source: CSO, Irish Fiscal Advisory Council (2023)

The income side of GNI* has been analysed in detail by the Department of Finance (2022, 2024) and the Irish Fiscal Advisory Council (2023). An important conclusion that arises is that GNI* is not boosted by foreign profits. Rather than via exports, the major net contribution of FDI to national income is through job creation (wage income) and, to a lesser extent, corporation taxes.

Ireland's economy is exposed to FDI risks

US multinationals provide significant FDI to Ireland, and such location decisions are not within Ireland's control. This creates a dependency and vulnerability to this key driver of Ireland's national income – if all foreign-owned multinationals scaled back their operations in Ireland, the country would clearly be far worse off. This risk has prompted many to call for policies to enhance growth of indigenous Irish companies. While this is a good policy objective, it remains of paramount importance that Ireland continues to be an attractive location for FDI.

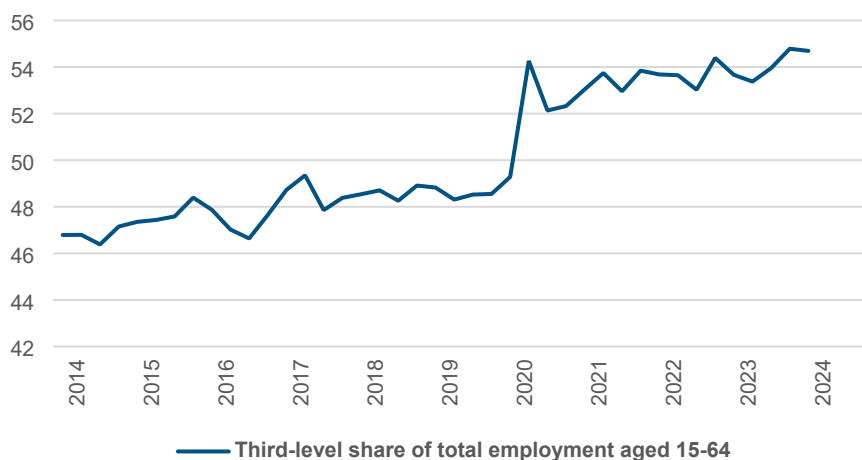
Ireland's advantages include an increasingly well-educated population

However, other important drivers of Ireland's national income are directly within the country's gift. These include:

- an esteemed reputation for institutional governance¹;
- strong ties with the US;
- European Union membership;
- a competitive and predictable corporation tax regime;
- a young and increasingly well-educated workforce, predominantly comprising native English language speakers.

Recent CSO data (see below chart) show that since 2020, the third-level-educated share represented the majority of total employment for those aged 15-64. Over the last ten years to Q1 2024, this share increased by 7.9 percentage points to 54.7%.

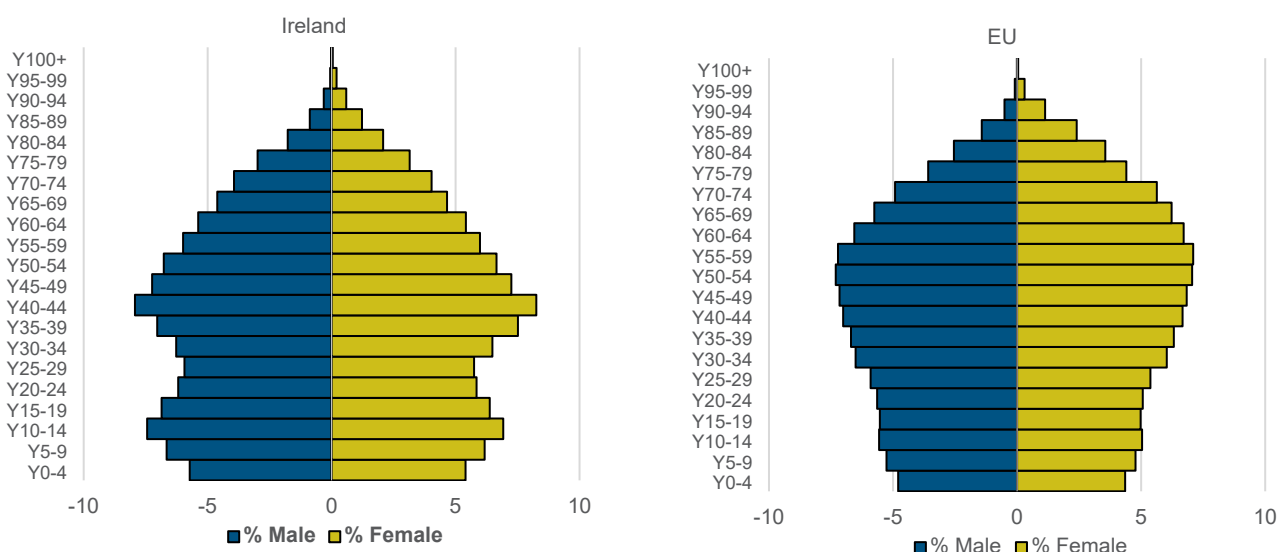
Figure 12: Ireland's workforce has become increasingly well-educated



Source: CSO

The relatively young population in Ireland compared to the EU is shown below.

Figure 13: Ireland's population will remain younger relative to the EU for many years to come



Source: CSO, Eurostat

¹ The *Chandler Good Governance Index* for countries ranks Ireland 10th overall for 2024.

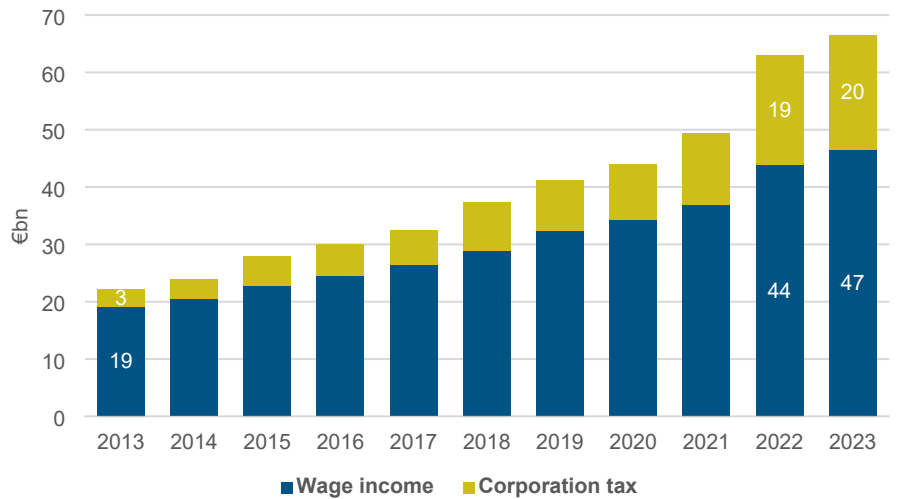
Foreign-owned firms grew their wage bill in Ireland by 10% last year to €47bn

Wage income paid by FDI firms grew 10% in 2023

CSO data show that more than one-third (€47bn) of all wage income in Ireland was paid by foreign-owned firms in 2023 and that corporation taxes from these firms increased to €20bn. These flows paid by foreign firms have trebled over the past ten years – in 2013, FDI firms in Ireland paid wage income and corporation tax of €22bn.

Moreover, Ireland’s wage income paid by FDI firms grew by 10% compared to 2022. This is despite IDA Ireland data, which showed a net decline in FDI-supported jobs of just over 1,000 positions during the year. The following chart captures the increasing direct contribution of foreign firms to Ireland’s GNI*.

Figure 14: Foreign-owned firms paid €67bn in wage income and corporation tax in 2023



Source: CSO, Revenue Commissioners

The multiplier impact associated with these income flows is likely to be very large given that the profits financing the wage and tax payments are not included in GNI*. This is particularly important in different regions of the economy. For non-Dublin counties, [Ibec \(2019\)](#) estimated that one IDA-supported job supported three other jobs in non-IDA-supported sectors. Job creation by foreign-owned firms has therefore been a crucial driver of living standards in Ireland.

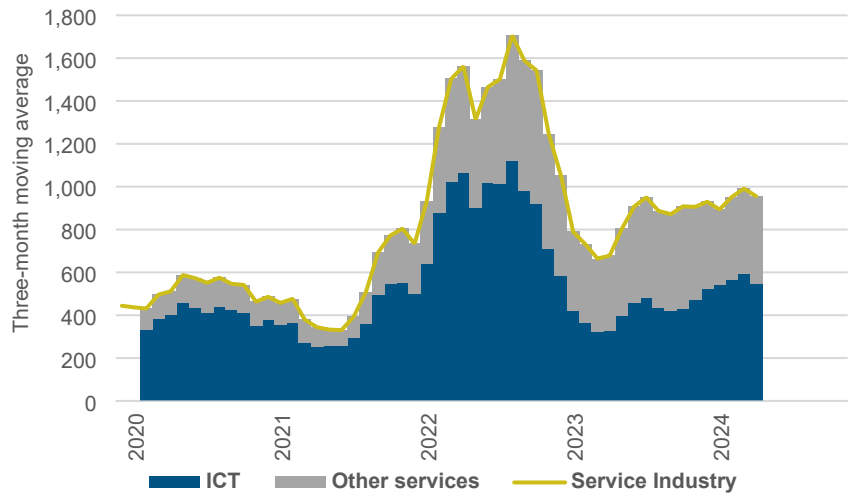
Given the international customer base of foreign-owned firms, their activities in Ireland involve hiring workers both domestically and from abroad. This is especially necessary where foreign language speakers are not readily available in the existing labour force.

Work permits data provide a monthly indication of the demand for labour via inward migration. These are needed for workers from countries other than the European Economic Area, Switzerland and the UK. Overall, January-May 2024 work permits amount to 16,000 workers, which is 33% higher than the same period in 2023. For context, total employment increased by just over 50,000 workers in Q1 2024 compared to Q1 2023.

Work permits for the ICT sector are up 56% for January-May 2024

Year to date, 2,741 work permits have been issued for ICT, which is 56% higher than the same period in 2023. Given the prevalence of FDI firms in the ICT sector, wage income paid by foreign-owned firms will likely grow strongly again this year.

Figure 15: Work permits for ICT services have increased in 2024

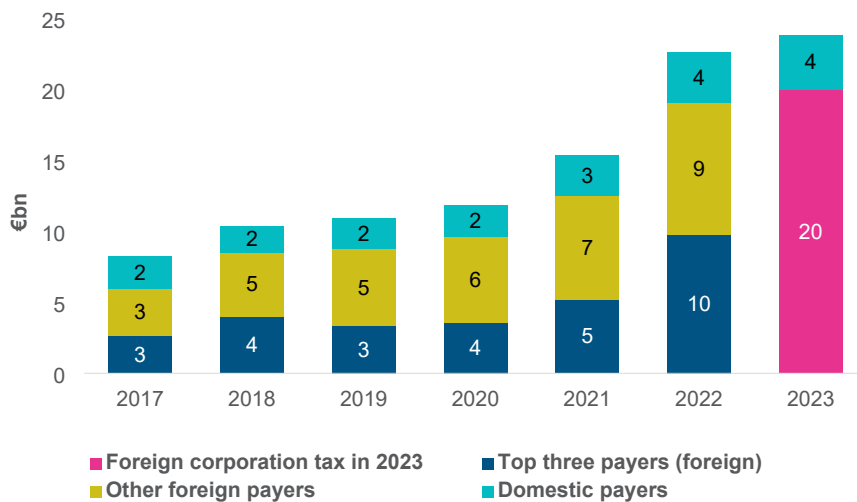


Source: Department of Enterprise, Trade and Employment, Davy

Foreign-owned firms paid the Irish Exchequer €20bn in corporation tax last year

It is well-documented that a significant share of the corporation taxes paid by foreign-owned multinationals is volatile. This is because these receipts have grown at a rate far in excess of national income. Analysis by the Revenue Commissioners (2024) and the Irish Fiscal Advisory Council (2023) indicates that the receipts are extremely concentrated among a small number of payers. Up to 43% of corporation tax receipts in 2022 are understood to be paid by just three firms – this means receipts from these firms doubled in 2022. Concentrated tax bases are less reliable and therefore should not be used to fund current budgetary policies.

Figure 16: Corporation tax from the top three payers doubled to €10bn in 2022



Source: Irish Fiscal Advisory Council, Revenue Commissioners, CSO, Davy

Recognising this, the Irish government has elected to save about half of the excess receipts in two sovereign wealth funds, whose remits differ. While undoubtedly beneficial to GNI* and fiscal balances, the real economy spillovers of the excess corporation tax receipts are limited by this decision. As such, the major risk to Ireland’s real economy is less to do with corporation tax receipts and much more the risk that foreign-owned firms could scale back their operations in Ireland, reducing their employment levels and the positive spillovers that are derived from them.

Early indications for Ireland's labour market in 2024 show a low unemployment rate and ongoing rapid job creation

Employment to grow 2% in 2024 and 2025

Employment in Ireland has grown substantially in recent years. In just over four years since Q4 2019, employment increased by 14% or 343,000 workers. Employee payrolls data point to another strong start to this year, although survey data for total employment in Q1 2024 were less buoyant. Nonetheless, we forecast above-consensus employment growth of 2% this year and next year (see below table). We expect the unemployment rate to remain at 4.2% this year before rising to 4.5% next year.

Figure 17: We forecast above-consensus employment growth

	2024	2025
Davy	2.0	2.0
Department of Finance	1.9	1.5
Central Bank	1.6	1.5
ESRI	1.6	0.4
OECD	1.7	1.5
European Commission	1.6	1.5
IMF	1.5	1

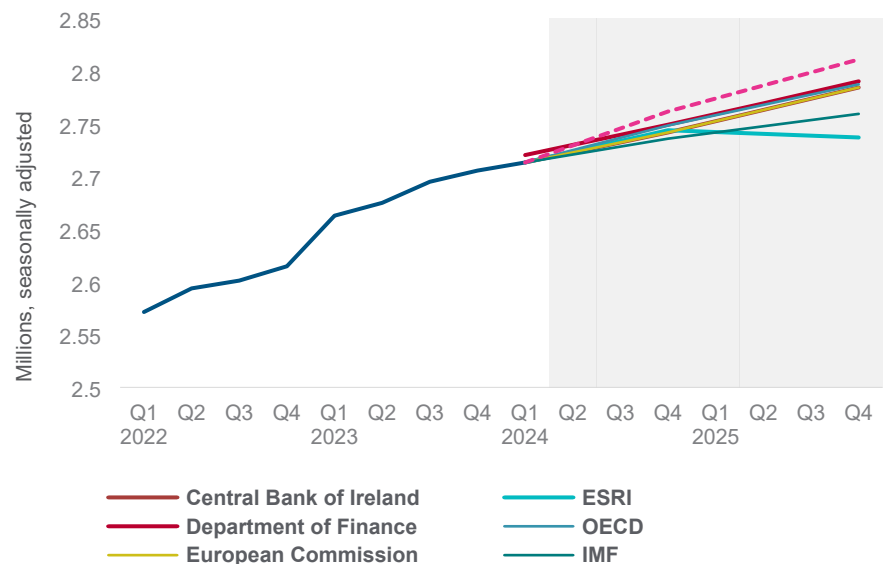
Source: CSO, CBI, ESRI, Department of Finance, OECD, European Commission, IMF, Davy

Labour demand has been elevated since the pandemic, with job vacancies only gradually returning towards pre-pandemic levels in recent months. As of end-May 2024, new job postings for Ireland on Indeed were still 36% above February 1st 2020 levels.

We are bullish on Ireland's potential for job creation and forecast that employment will rise by 2% a year in 2024 and 2025

The following chart compares our employment projection to quarterly level profiles implied by other forecasts. We expect a pick-up in FDI job creation in 2024 along with a boost to domestic employment as spending on infrastructure rises.

Figure 18: We forecast an increase in employment to 2.8m by H2 2025



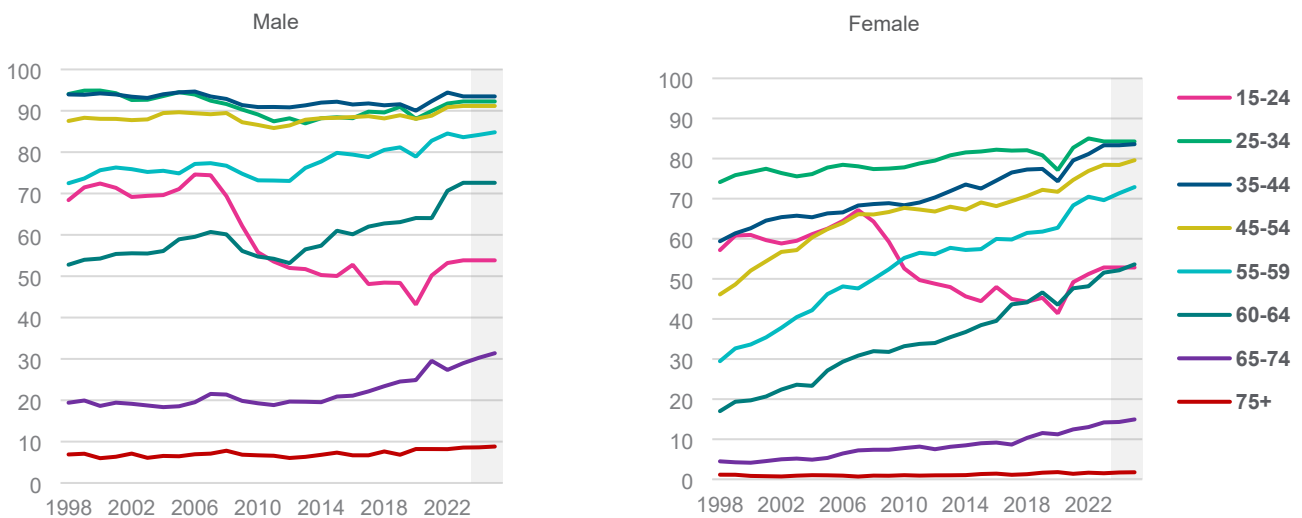
Source: CSO, CBI, ESRI, Department of Finance, OECD, European Commission, IMF, Davy

In terms of supply, a large upshift has taken place in the labour force participation rate, especially for women. Inward migration has also been high. Remote working could explain the recent increase in participation, although the rise in migration to Ireland is likely to be another factor. OECD data show that the participation rate of immigrants in Ireland in 2022 was higher at 81% than for the native-born population (75%). This is a feature of many high-income countries.

Labour force participation rates for females have increased considerably in recent years

The following chart illustrates how labour force participation rates across age groups have changed over time. Over the past 25 years, participation has doubled among women aged 45-74. More recently, since the COVID-19 pandemic, female participation has increased further.

Figure 19: Labour force participation rates have increased in recent years, especially for women



Source: CSO, Davy

While an ageing population poses significant challenges for fiscal policy, there can also be some benefits in the form of higher participation. Longer life expectancy for working-age populations could be encouraging more workers to remain employed or seeking work as they age. Less benignly, however, it is also possible that higher costs of living are nudging participation upwards.

Our labour force forecast takes account of age-specific developments with participation, ensuring that labour force projections are underpinned by demographics and relevant population dynamics.

Hourly wages to grow 3.3% in 2024 and 4.1% in 2025

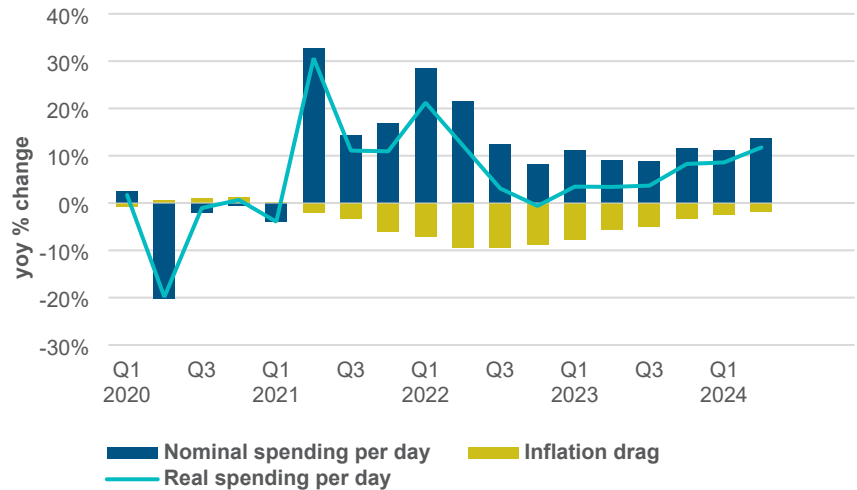
Using our overall employment growth forecast, we allocate the total to employee hours worked across different sectors of the economy. We assume continued upward hourly wage growth in line with recent years. An exception is for public administration, education and health sectors; for these, we grow hourly wages by 4.1% this year and again next year, based on the agreed public sector pay deal. From this bottom-up approach, we arrive at an hourly wage growth forecast of 3.3% in 2024 and 4.1% in 2025.

Slower inflation has boosted real consumer spending growth rates

Consumer spending growth has accelerated

The latest data show that consumer spending to end-April grew rapidly as inflation eased. Data from the Central Bank of Ireland show that card payments and ATM withdrawals, adjusted for HICP, have grown rapidly (see below chart).² We expect a continued easing of HICP inflation to 2.3% this year and 1.7% in 2025. However, it remains a risk that Budget 2025 could overstimulate the economy, reviving higher inflation next year.

Figure 20: Real consumer spending boosted by wage growth and lower inflation

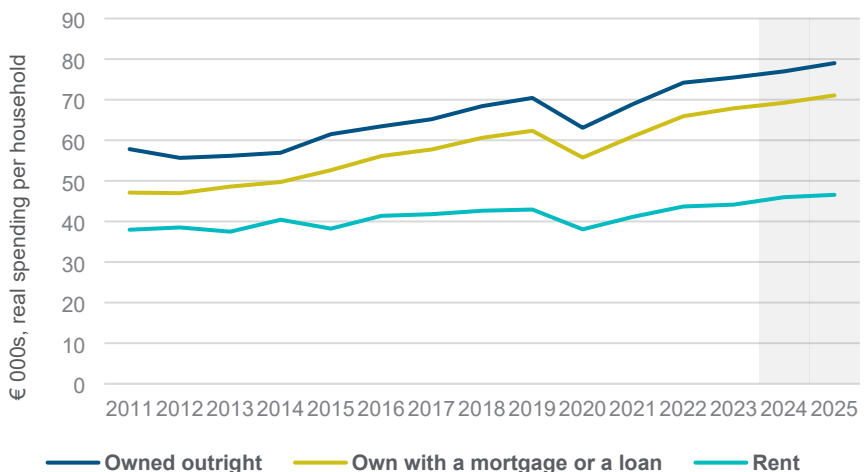


Source: Central Bank of Ireland, Davy

We estimate that real household spending for homeowners has grown twice as fast as for renters

To forecast consumer spending, we estimate real spending of households by housing tenure.³ We find that renters have experienced real spending increases of 1.3% a year on average since 2011, whereas homeowners have grown their spending by 2.6% a year (see below chart). We assume faster growth across tenures this year as real incomes accelerate with lower inflation.

Figure 21: Real spending per household has grown faster for homeowners than for renters



Source: CSO, Davy

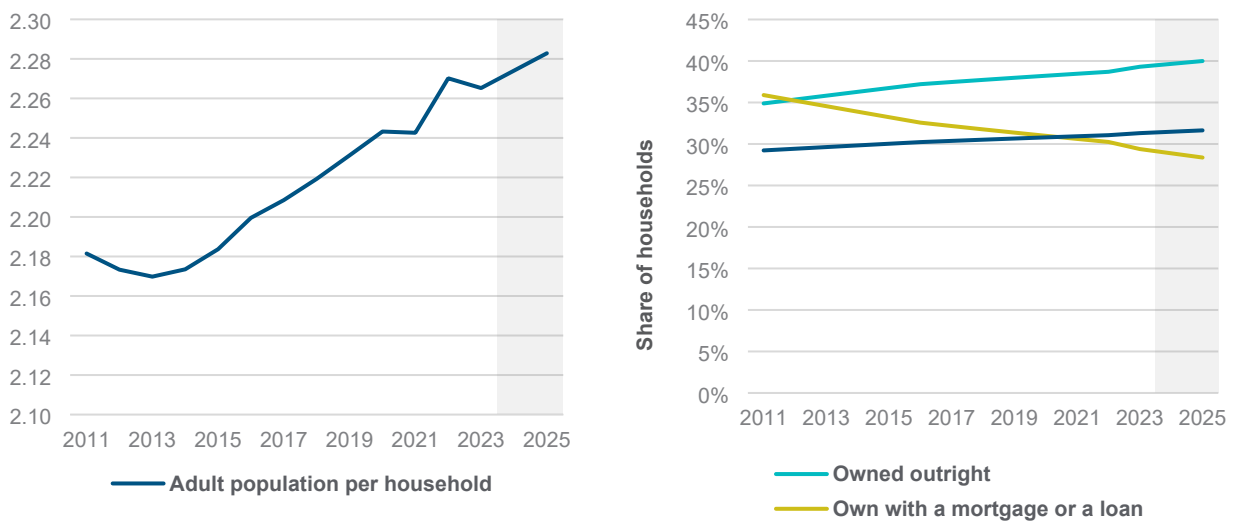
² We back-cast the latest cards/ATM data from March 2023 using the monthly change in [Table A.13](#).
³ We use CSO data from the Census, household distributional accounts and consumer price inflation by housing tenure. We allocate household consumption with trend extensions in the share of household consumption by tenure for 2016-2023. We interpolate between censuses for tenure shares and extend trends thereafter.

Renters are more likely to need savings as higher property prices have increased deposit requirements for prospective homebuyers. Conversely, homeowners tend to have higher incomes and benefit from wealth effects due to rising property prices. This explains their higher level (on average) of consumer spending.

We forecast 4% growth in real consumer spending this year and 3.9% in 2025, driven by lower inflation and a rising population

Using our estimates of per-household real spending in Figure 21, we scale these up to an economy-wide consumer spending forecast of 4% growth in 2024 and 3.9% in 2025 – considerably faster than the European Commission’s EU forecast of 1.3% and 1.7%. We use projections of the number of households by tenure as a basis for our forecast. Starting with our population projection, we assume a continued upward trend in the average number of adults per household.⁴ We also extend trends in shares of homeowner compared to renter households (as below).

Figure 22: Forecasts of adult population per household and the share of homeownership versus renting



Source: CSO, Davy

Although higher housing completions could help to reverse the upward trend in adult population per household, we believe this will take some time since rents remain expensive. As researched by the Housing Commission (and many other researchers), this defers household formation and compels many adults to live with their parents or with other adults longer than they would otherwise prefer. Given the near-term horizon of our forecast, we believe high rents and consequently lower headship rates will take a number of years to meaningfully reverse.

Based on the above assumptions, we predict 1.9m households in Ireland this year and 1.93m in 2025. The share of homeowner households (with or without a mortgage)⁵ is expected to decline slightly from 68.7% in 2023 to 68.2% in 2025.

However, the homeownership rate for those with a mortgage is expected to continue its trend decline. This reflects an ongoing deleveraging for household debt, with a larger outflow of households paying off the last of their mortgage debt compared to the inflow of first-time buyer (FTB) mortgages. The share of renting households is expected to rise further, which is consistent with high expected levels of net inward migration.

⁴ As assessed in the report of the Housing Commission (2024), this trend has been driven by the shortage of homes and is likely to continue for a number of years until new dwelling completions increase for a sustained period.

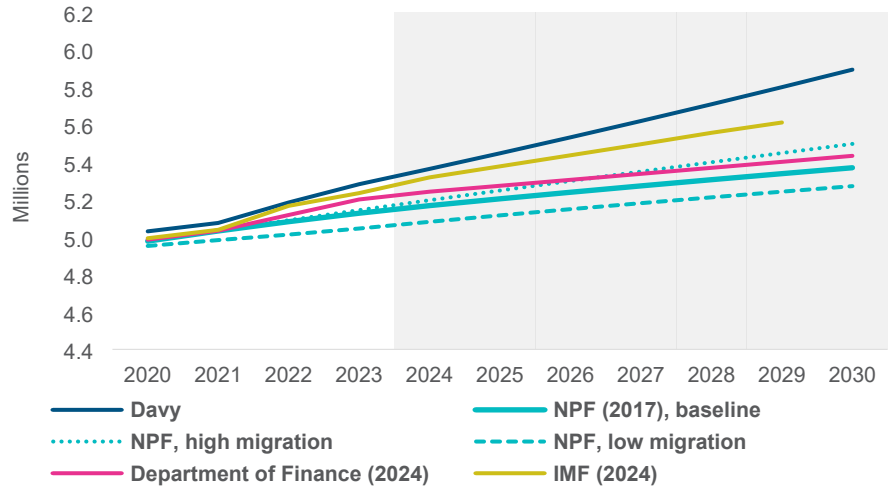
⁵ A “not stated” category is excluded from the total in calculating tenure shares, as in Coffey (2024).

We forecast a population of 5.9m by 2030, 10% higher than the baseline projection of the National Planning Framework

Ireland's population to reach 5.9m by 2030

Ireland's population has often exceeded long-term projections in recent decades. We expect it to reach 5.9m by 2030, which would be 524,000, or 10%, ahead of the National Planning Framework (NPF) baseline of 5.36m.

Figure 23: We forecast a much bigger increase in Ireland's population by 2030



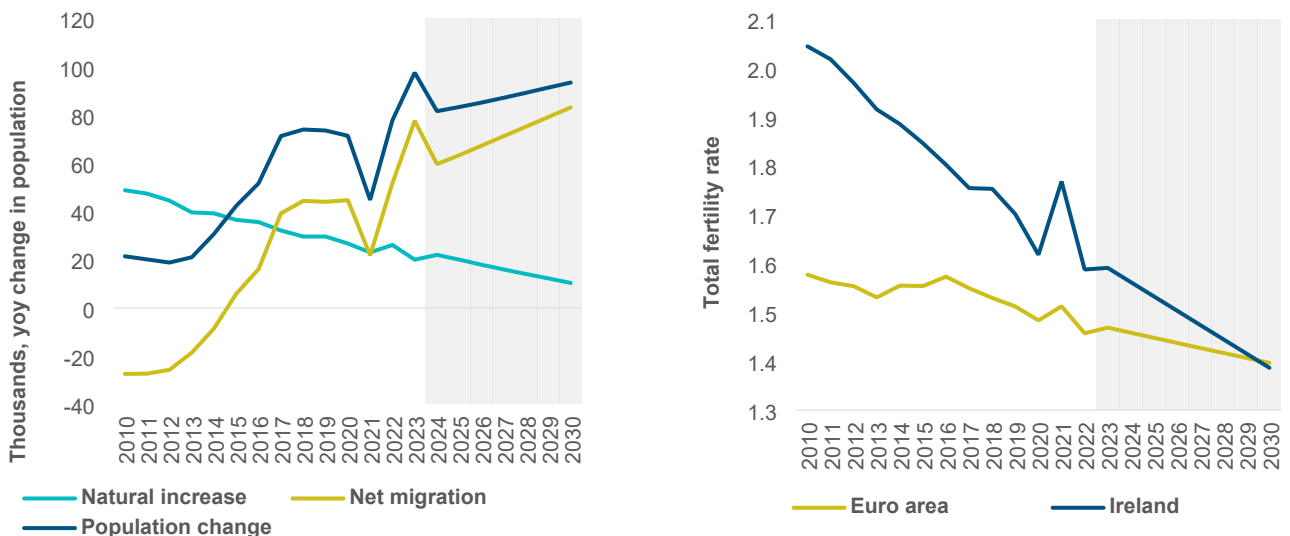
Source: National Planning Framework, Department of Finance, IMF, Davy

In a "high migration" scenario, the NPF expects a population of 5.5m by 2030 and close to 6m by 2040. We therefore expect the population to reach 6m nearly a decade faster than the "high migration" scenario in the NPF. This forecast has significant implications for housing demand over the coming years.

We expect population growth will be driven by higher net inward migration, offset by a further decline in fertility rates

We arrive at our forecast using trend extensions of age-dependent fertility rates, mortality rates and migration flows. The chart below shows our forecast components of population change and fertility rates in Ireland and the euro area. We expect that Ireland's fertility rate will converge with the euro area in 2030 but that a falling natural increase will be outweighed by a rise in net inward migration.

Figure 24: Net migration to drive population growth as fertility converges on European rates



Source: CSO, Davy

Since 2016, net inward migration has been larger than the natural increase (births minus deaths). Contemporary forecasts of the Irish economy often predict a fall in net migration over time as a consequence of capacity constraints and, in particular, housing shortages. However, we have a different outlook.

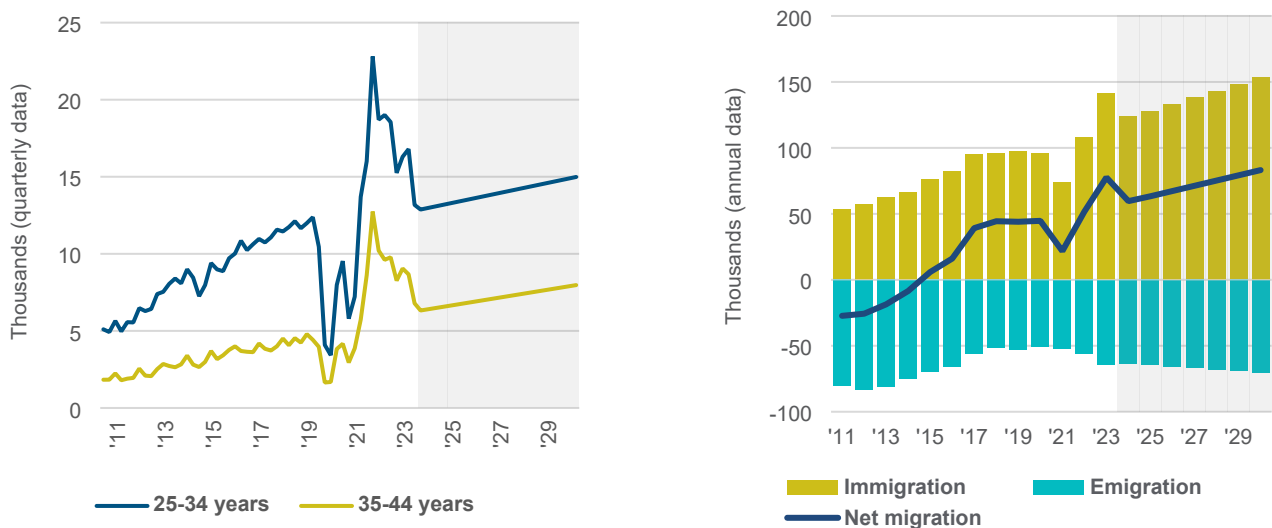
We note that despite a long-standing shortfall of dwellings in Ireland, immigration has been trending upwards for well over a decade. Rather than cyclical factors which likely explained increases until about 2016, the trend in more recent years could represent a structural change due to factors like Brexit, wars and climate change. Furthermore, the consensus expectation is that housing output will increase over the coming years, which would alleviate the expected cause of slower net migration.

Therefore, we instead expect a steady increase in immigration until 2030. It is true that migration flows are difficult to measure and that revisions to annual migration estimates for intercensal years tend to be large. However, a reasonable steer on immigration by the key 25-44 age group is provided by monthly data on Personal Public Service Numbers (PPSNs) issued to non-Irish nationals.

Higher inward migration looks likely based on trends in monthly PPS numbers issued to non-Irish nationals

We extend pre-pandemic trends in PPSN data to project likely immigration for the 25-44 age group. Historically, for every four such PPSNs issued, three have been counted as immigrants – since some attrition can be explained when the person arrives and leaves within the same year. The chart below shows our PPSN and net migration forecasts. To 2030, we also assume rising emigration. COVID-19 delays in 2021 and 2022 could affect the eight-year-high emigration level seen in 2023. Our emigration forecast could therefore be somewhat too high. However, rapid rent increases in recent years are another plausible explanation.

Figure 25: We forecast a trend rise in PPSNs for non-Irish 25-44 year-olds, driving net migration higher



Source: Department of Social Protection, CSO, Davy

As the population ages rapidly, higher net migration will benefit Ireland's dependency ratios

A higher level of net migration will help dependency ratios and offset some (though not most) of the fiscal costs associated with an ageing population. More labour supply is also necessary for tackling Ireland's capacity constraints. However, it is also true that a higher population will add to existing challenges in terms of housing and other infrastructure shortfalls. It is essential that new plans for housing are made on the basis of a much higher population over coming years than accounted for by the NPF.

Housing remains significantly undersupplied

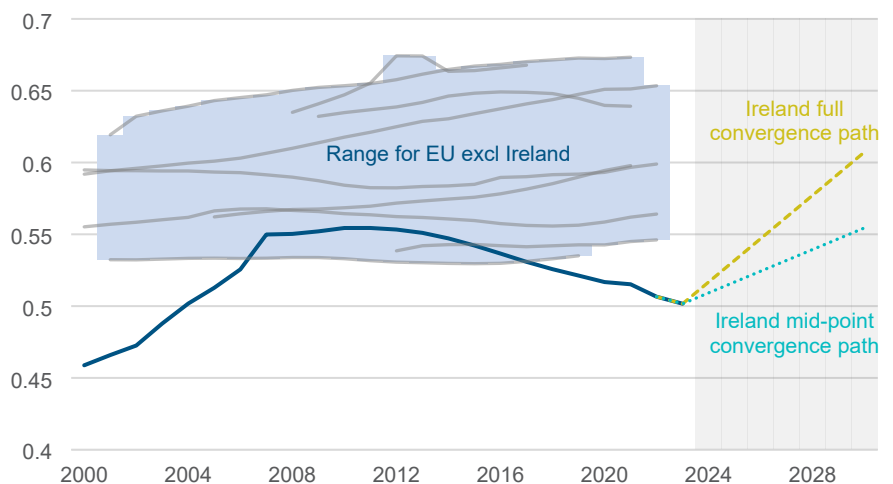
Housing construction has finally emerged from the long shadow of a lost 15 years. However, the economy – aside from construction – recovered far faster from the 2008-2012 Great Recession. As described below, Ireland has long had an insufficient number of dwellings.

Ireland has a shortfall of housing units of 10-20% of the housing stock

The report of the Housing Commission (2024) calculated an underlying shortfall of dwellings in Ireland of 212,000-256,000 units compared to a housing stock in 2023 of about 2.14m. According to the Irish Fiscal Advisory Council (2023), Ireland’s housing stock per adult was 0.51 in 2022 compared to 0.61 on average for Belgium, Denmark, Finland, France, Netherlands, Portugal, Spain and Sweden. Scaled to Ireland’s adult population of 4.17m in 2022, closing a gap of 0.1 dwellings per adult would require about 408,000 additional units. Based on these estimates, Ireland’s shortage of housing is 10-20% of the current housing stock.

However, other than this historical shortage of housing, forward-looking annual need is also a function of expected population growth and the number of adults per household. The following chart compares Ireland’s housing stock per adult (ages 15 and older) with other European countries. Based on our population projections, to close this gap by 2030 would require a housing stock of 3.02m dwellings. Taking account of expected obsolescence (assumed as the annual rate between Census 2016 and Census 2022 of 0.13%), this implies an annual need for about 122,000 new dwelling completions on average. This would be close to a quadrupling of current housing output, which seems unlikely to be feasible.

Figure 26: To reach 0.55 dwellings per adult (15+) by 2030, Ireland would need 85,000 new units a year



Source: Irish Fiscal Advisory Council, Eurostat, CSO, Davy

Closing Ireland’s per-adult housing shortfall compared to other European countries would require just under 85,000 units a year until 2030

Even with a longer horizon for closing this gap — for example, to reach the mid-point of the difference (0.55 units per adult) by 2030 — would require just under 85,000 units a year, or 2.6 times the 2023 level of completions. This illustrates the scale of Ireland’s structural housing shortage if, as we forecast, the population reaches 5.9m by 2030.

As shown above, even at the height of the property bubble, Ireland had only begun to catch up with other European countries in terms of housing. However, the distribution of many new-build units around the country during the 2000s was not well-aligned to where demand for homes was highest.

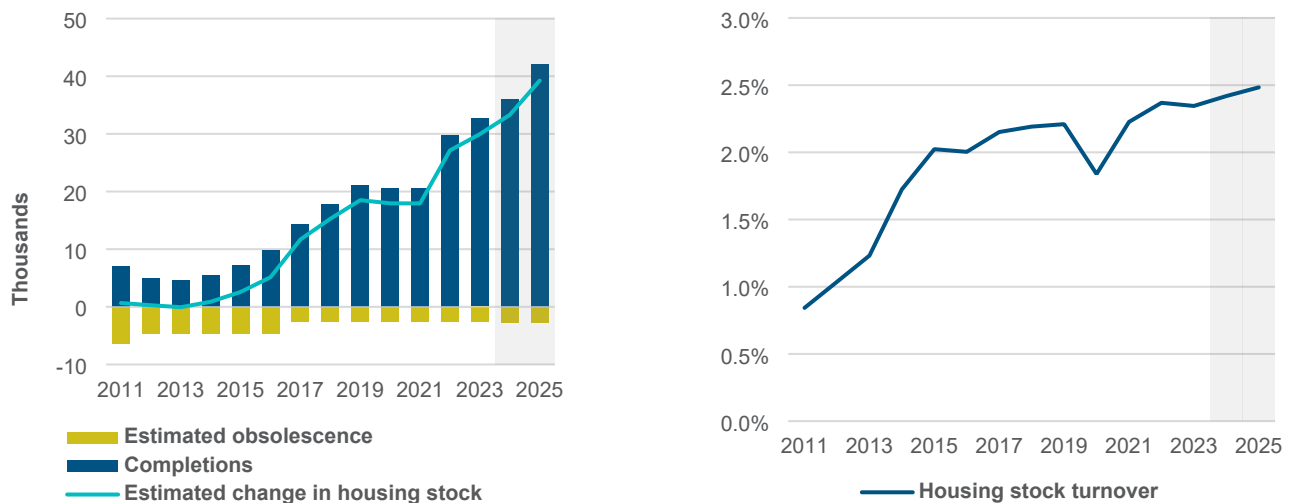
New dwelling completions in Ireland increased above 30,000 last year, and this amount looks set to ramp up further over the coming years. Construction capacity has shifted away from non-residential towards residential, and availability of construction labour appears to be less of a constraint to increased housing output than it was a few years ago. Apartments have represented a rising share of total completions, and they are less labour-intensive than houses — although it also takes longer from commencement to complete an apartment than a house.

From exceptionally low levels in the early 2010s, housing stock turnover – the number of market-based transactions as a share of the housing stock – has picked up in recent years. In 2023, the turnover ratio was 2.3 times, which implies that a dwelling changes hands about once every 43 years.

We forecast 36,000 housing completions this year and 42,000 next year

We expect this will alleviate as new housing supply increases this decade. We forecast 36,000 completions in 2024 and 42,000 in 2025 (see below chart). The waiver of development levies and refund for water connection charges, which were due to expire in April 2024, prompted a very large number of commencement notices to be filed (18,000) that month before the waiver was extended. While many of these commencements may take longer than usual to be completed, we nonetheless expect that the policy will achieve its goal and expedite new dwelling completions.

Figure 27: New dwelling completions to reach 42,000 in 2025 but housing turnover to remain limited to 2.5%



Source: CSO, Davy

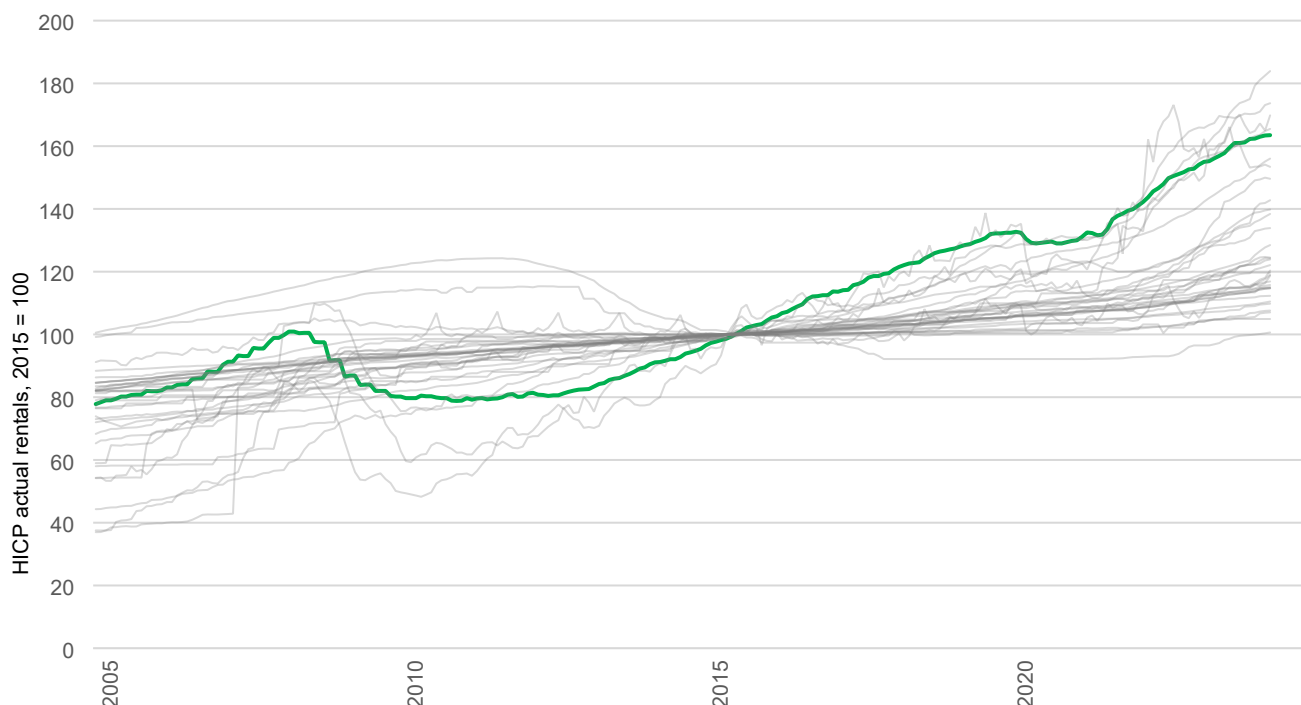
Despite a rise in completions in 2022 and 2023, the implications of this for housing turnover were limited. This is because the number of transactions was constrained by a large number of new dwellings built for renters rather than for purchasers. A slowdown in transactions also likely reflects higher mortgage interest rates.

Rental inflation has slowed lately, but rents in Ireland have risen very rapidly over the past decade relative to other European countries

As many build-to-rent completions have increased, this appears to have alleviated some of the pressure on an acutely undersupplied rental sector. Rental inflation has declined in recent months, up by 0.2% a month on average so far in 2024 from 0.4% and 0.8% for the same periods in 2023 and 2022 respectively.

However, rents in 2024 to date are 67% higher than in the first four months of 2015. As shown in the following chart, rents in Ireland have risen far in excess of the relative increases in most other European countries over that period. Hungary, Lithuania and Slovenia are three exceptions, showing higher rent growth than Ireland.

Figure 28: Rents in Ireland have grown considerably faster than in most European countries



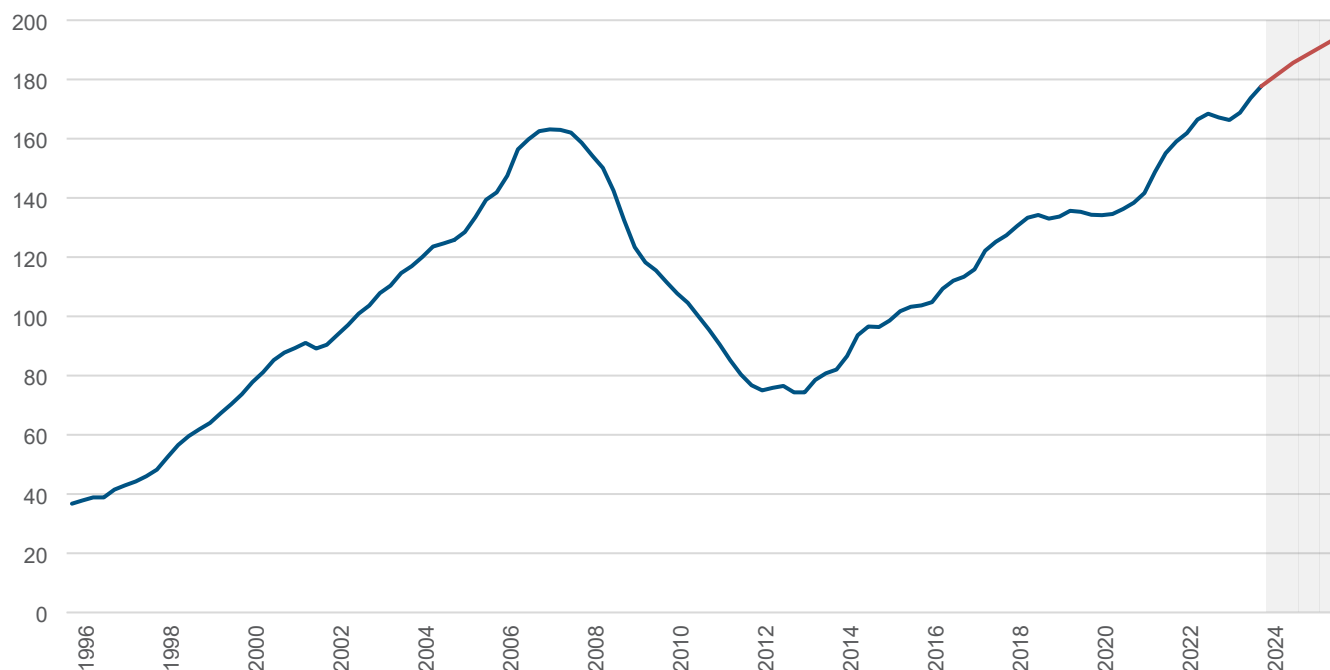
Source: Eurostat

If new dwellings continue to be largely absorbed into the rental stock rather than being available for purchase, this is likely to alleviate rent inflation over time. However, this would limit the availability of new dwellings for purchase. Additional purchases of dwellings by FTBs also free up rental capacity.

Higher interest rates have likely slowed property price growth. However, looser macroprudential rules likely contributed to higher residential property prices, and the recent ECB interest rate cut will similarly add to effective housing demand. Fundamental demand for purchase of dwellings is likely to remain strong as long as rents remains more expensive than a corresponding mortgage would cost a homeowner. With a limited change in housing stock turnover, property prices have begun to increase again, having briefly declined in early 2023.

Mortgage approvals for FTBs increased by a strong 8% for January-April 2024 compared to the same period last year. We expect upward pressure on house prices to continue. The following chart illustrates a quarterly path to our forecast of 7.5% growth in 2024 and 5% in 2025. With no change in prices for the remainder of this year, the “carry-over” growth would still be 5.5%.

We forecast property prices to increase 7.5% this year and 5% in 2025

Figure 29: Residential property prices to continue rising this year and next

Source: CSO, ESRI/PTSB, Davy

In real terms, residential property prices adjusted for HICP are still 12% lower than 17 years ago

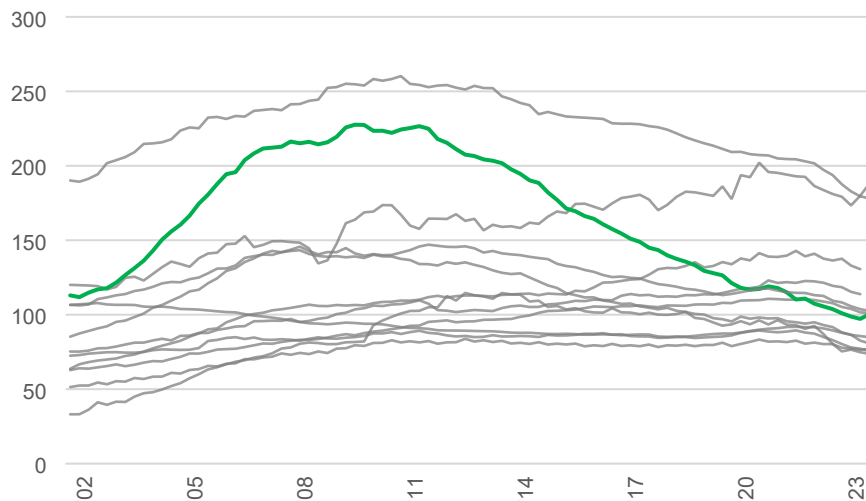
In 2022, residential property prices surpassed the 2007 bubble-era peak. Adjusting for HICP, however, prices in January 2024 remained 12% lower than 17 years earlier in January 2007. Amidst high nominal prices for residential property, debate has recently broken out regarding the decision by the Central Bank of Ireland – effective from January 2023 – to loosen its macroprudential rules.

Under the revised limit, first-time buyers can borrow up to 4x gross household income for a mortgage rather than 3.5x previously. The ESRI (2024) shows that the ratio of average mortgage loan to household disposable income has returned to 4.6x, which has not been seen since 2006 in the property bubble era. The authors also claim that the policy shift could have been a driver of recent house price increases and that a certain cohort of buyers are now highly leveraged as a result – albeit they believe the scale of the issue is not large given a relatively low volume of mortgage transactions in 2023.

The Central Bank recently defended the loosening decision and noted that the macroprudential rules are not in place to control house prices but rather to safeguard financial stability. Overly stringent lending limits require higher deposits and therefore impose opportunity costs on households looking to buy residential property. As shown in the chart below, Irish household debt as a share of disposable income has halved over the past decade.

Ireland's household debt ratio has halved over the past decade, and is now aligned with levels in other European countries

Figure 30: Ireland's household debt ratio has halved over the past decade

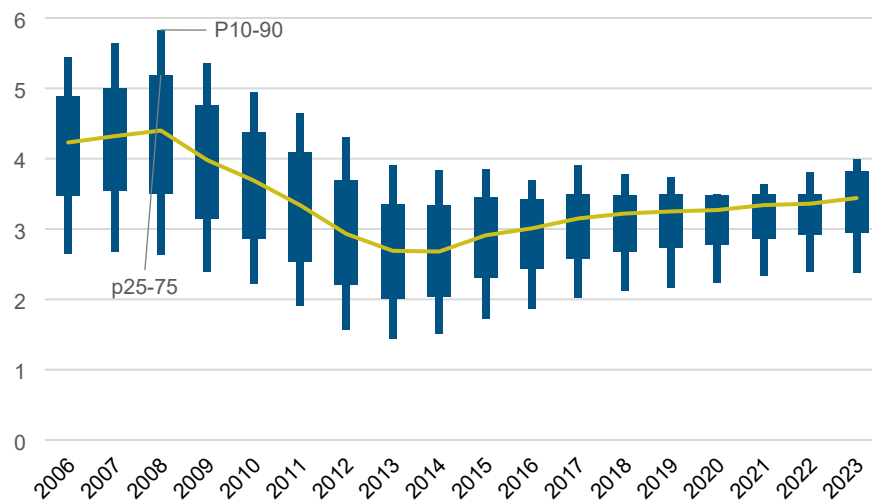


Source: Eurostat, Davy

90% of first-time buyers in 2023 had a loan-to-income ratio of 4 or under compared to less than half of such borrowers in 2006

The Central Bank's analysis – replicated below – shows that the risk profile of lending to first-time buyers remains well under control. The median ratio increased slightly in 2023 (from 3.36 to 3.44). Only the top 10% of first-time buyers had loan-to-income ratios of 4 or above last year.

Figure 31: High loan-to-income ratios for first-time buyers were prevalent in the 2000s but are not in the 2020s



Source: Central Bank of Ireland

This percentile breakdown of loan-to-income data over time offers relevant insight into possible borrower distress. By contrast, a crude ratio of average mortgage loan to household disposable income does not capture the varying risk profile across actual borrowers.

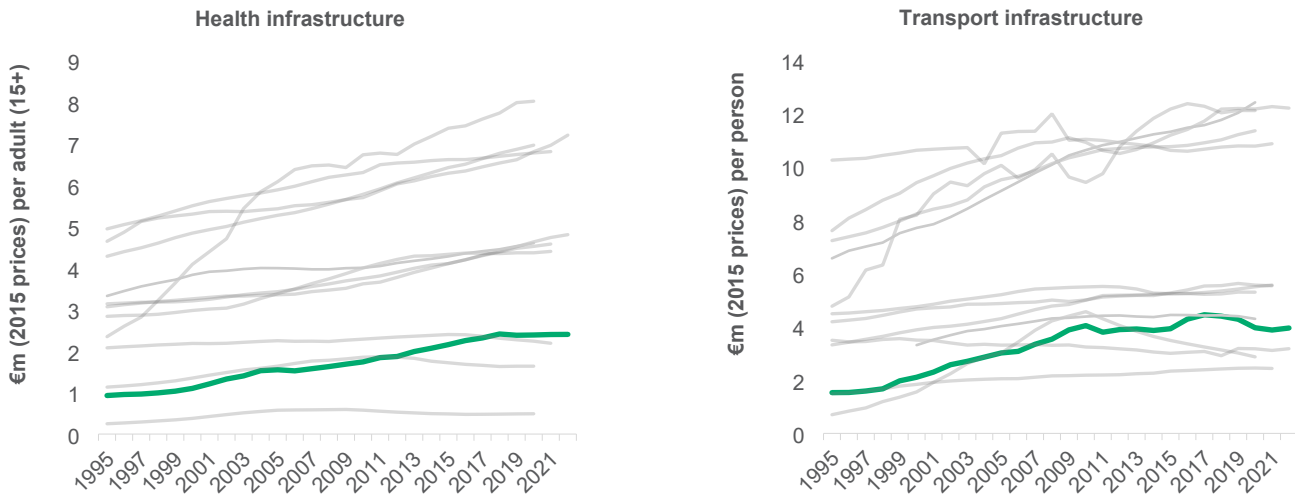
We believe the Central Bank's decision to loosen the macroprudential rules was reasonable, even if prices may have risen somewhat as a result. Credit does not currently appear to be a major factor underpinning the price of residential property in Ireland.

If not addressed soon, Ireland’s infrastructure needs will harm the economy’s competitiveness

While wealthy in terms of income, Ireland’s infrastructure lags behind peer countries in several key areas

Ireland’s convergence with other high-income countries for per capita national income has been a relatively recent development. While income data show that Ireland is a wealthy country, the stock of infrastructure often suggests otherwise. As discussed above, the housing stock per adult is a clear example. Similarly, Ireland also lacks health and transport infrastructure relative to other European countries (Irish Fiscal Advisory Council, 2023).

Figure 32: Ireland has a low capital stock of health and transport infrastructure compared to other European countries



Source: CSO, Davy

Addressing infrastructure shortfalls is challenging when the labour market is tight as there is a limited amount of slack in the economy to accommodate a higher level of construction output. Immigration can help with otherwise unmet labour demand, although offering higher pay to entice more workers into the construction sector is another possible avenue.

While investment spending needs are high, the opportunity cost of failing to address infrastructure shortfalls would be very significant

In addition, it is important to consider the opportunity cost of failing to address infrastructure shortfalls. Ireland’s competitiveness will be significantly weakened if strategically important physical capital formation is not delivered, and recent media reports suggest that it is already affecting Ireland’s attractiveness to multinational firms. Much lower FDI-driven job creation – if not the worst-case scenario of outright declines in existing FDI employment – is assured unless delivery accelerates where needs are greatest.

Other than health and transport, Ireland’s need for capital investment is evolving over time as a function of global technological progress. While often considered in relation to the recurring investment and other costs, decarbonisation technologies could lead to very significant benefits for the Irish economy.

Benefits of decarbonisation include import substitution, possible energy exports, health benefits and a boost to the economy’s total factor productivity

Apart from the attendant job creation that would arise from a deepening of Ireland’s domestic industrial capacity, the substitution of renewable energy for expensive imports of gas and oil would directly add to national income, as would green energy exports if domestic production capacity allowed. Furthermore, a number of less-appreciated benefits of decarbonisation could be among the most beneficial to living standards. A healthier population is likely to result from lower exposure to carbon emissions. Rapid adoption of new technology enhances the efficiency of activity in

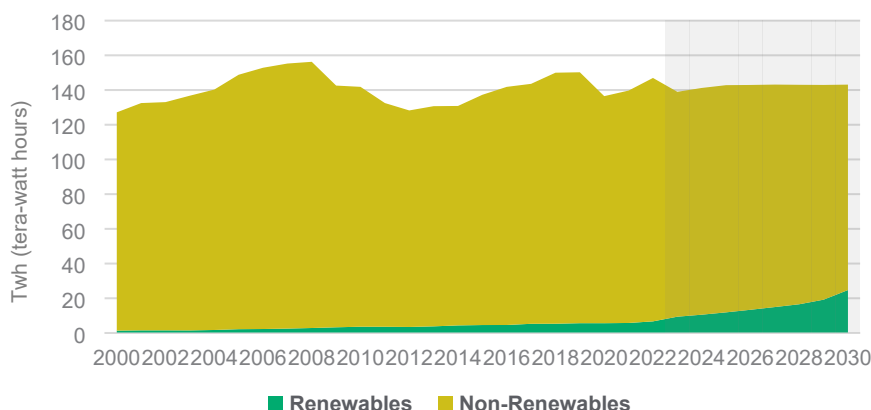
the economy through higher total factor productivity, which is the main source of long-run economic prosperity.

As noted recently by the Environmental Protection Agency (2024), Ireland is significantly off-course to meet its 51% emissions reduction target by 2030 compared to 2018. Carbon budgets are set to be exceeded by 17-27%. Offshore wind has long been identified as providing a potentially transformative contribution to lowering emissions. Failure to achieve this would result in fines paid to the EU, among other costs.

Despite an ambitious target to reach 80% of electricity generation from renewables by 2030, non-renewable energy would continue to dominate energy use

The chart below shows Ireland’s energy uses by final consumption across renewable/non-renewable sources. Targets for electricity generation are ambitious, although they will in turn require a significant investment in grid capacity to enable higher wind and solar capacity (as noted by Davy Research (2023)). Renewables are expected to outweigh non-renewables by 2027 in the SEAI National Energy Projections (2023) and would reach 80% of electricity generation by 2030, according to the Climate Action Plan (2024). However, in terms of overall energy – which factors in transport, built environment, agriculture and industry along with electricity generation – the renewables share of energy by final consumption is projected to reach just 20.8% by 2030.

Figure 33: Ireland’s renewables target would be just 20% of final consumption by 2030



Source: SEAI

Investment of about €30bn is needed over the remainder of this decade to meet the government’s target of 5GW offshore and 11GW of onshore wind and solar capacity by 2030

As part of the Climate Action Plan, the government targets 5GW of capacity in offshore wind by 2030. For context, the reported investment cost of the proposed 0.8GW SSE Arklow Bank Phase 2 is €2.5bn. Scaled up, this suggests an overall investment need in the region of €15.6bn across 2026–2030.⁶ Overall, the investment need to meet renewable targets is likely in excess of €30bn when including more than 11GW of additional onshore wind and solar capacity needed by 2030. The private sector will undoubtedly play a significant role in funding this investment, but public funding will also need to be utilised if offshore wind targets are to be achieved.

⁶ This is the timeline assumed for delivery in the SEAI’s National Energy Projections; see Table 6.

The government should prioritise supply of infrastructure and avoid policies that will add to demand-driven overheating risks

Overheating is a risk if fiscal policy remains loose

We believe the government should remain mindful of the risk of overheating the economy with loose fiscal policy. Current spending measures net of tax cuts should remain tethered to estimates of the potential growth rate of the economy. However, higher capital spending is warranted given shortfalls of infrastructure. Addressing these shortfalls should be the government's priority.

We forecast continued surpluses of about €7bn this year and next and a declining debt ratio

Ireland's public finances are strong at a headline level – Ireland was one of only four countries (with Denmark, Portugal and Cyprus) in the EU with a surplus last year. Unexpectedly strong corporation tax receipts have flattered revenues over time, and spending levels have risen faster than planned. However, revenues excluding corporation tax have also performed well, reflecting the strength of the economy. On balance, we expect spending pressures will cause a decline in the headline fiscal balance this year and next to about €7bn, lower than official forecasts of €8.5-9.7bn.

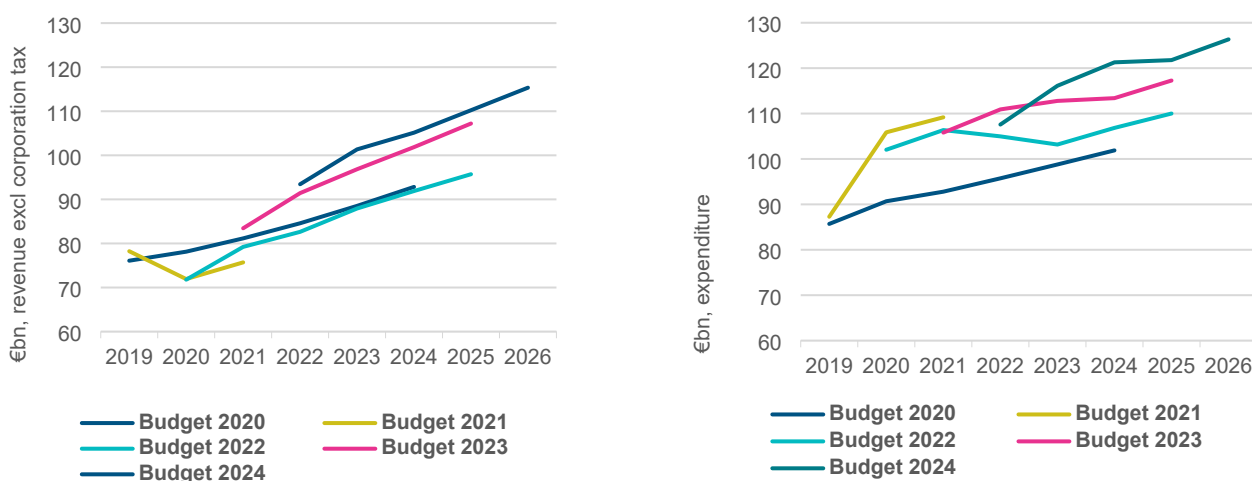
Figure 34: We forecast continued surpluses and a declining debt ratio

	2023	2024	2025
Tax and other revenue	104.4	110.1	116.4
Voted spending	-94.7	-99.9	-105.2
Other balances	-1.3	-3.3	-4.2
General government balance	8.3	6.9	7.1
Balance, % GDP	1.70%	1.40%	1.40%
Balance, % GNI*	2.80%	2.20%	2.10%
Balance excluding windfall CT, % GNI*	-0.80%	-0.60%	-0.30%
General government debt	220.7	219.2	219
Debt, % GDP	43.70%	44.30%	42.00%
Debt, % GNI*	74.70%	69.00%	64.10%

Source: CSO, CBI, ESRI, Department of Finance, OECD, European Commission, IMF, Davy

Upward revisions to revenue and spending when economic growth is robust suggest that Ireland's fiscal policy has been procyclical. Projections of revenue excluding corporation tax and spending have both drifted higher over the last five Budgets, as shown below, albeit higher spending as a result of COVID-19 was countercyclical.

Figure 35: Government revenue and expenditure plans have both drifted higher in recent Budgets



Source: Department of Finance, Davy

When economic growth is strong and unemployment low, it is important to build up fiscal resilience that can be relied upon if a sudden reversal takes place. If access to the bond market remains in a downturn, then – as with the COVID-19 pandemic – the government can confidently provide counter-cyclical support to demand.

Alternatively, fast spending growth when economic growth is high can result in overheating. This adds to price pressures in the economy and makes the country more exposed in a recession. If sufficiently vulnerable, bond yields will rise sharply at the moment of greatest need for sovereign borrowing. This outcome limits options for fiscal support; history is littered with economies whose prospects were adversely affected as a result of boom-bust fiscal policies.

Activity in the Irish economy has become more high-productivity intensive since the 2000s, and this has boosted resilience to shocks

Clearly, Ireland has recent experience in this regard. A combination of lax banking regulation, weak lending standards and procyclical fiscal policy manifested into a property bubble. This resulted in a concentration of economic activity in low-productivity construction, which left the economy and public finances hugely exposed. While there is some evidence of procyclicality in the 2020s, it is important to recognise that the broader circumstances for the Irish economy this decade are vastly different to those of the 2000s. The Irish economy has been up-skilling and intensifying its high-productivity activities in recent years, and this has boosted resilience against external shocks such as Brexit, the COVID-19 pandemic and higher inflation.

If corporation tax receipts suddenly fell, the strength of the underlying economy could help to underpin a higher level of government borrowing – unlike in the late 2000s

If corporation tax receipts fell sharply, a deficit could rapidly emerge in Ireland's public finances. However, this could be manageable with modest amounts of additional borrowing given the strength of the underlying economy and its concentration in high-skill activities. This was not possible in the late 2000s due to the deep recession that arrived when property values collapsed. This cast households into negative equity, banks into insolvency and the unemployment rate up to 15%. While procyclical fiscal policy contributed to these adverse outcomes, the failures in bank regulation and lending standards were arguably more damaging.

Higher bond issuance by the NTMA is likely as debt rollovers and spending pressures rise

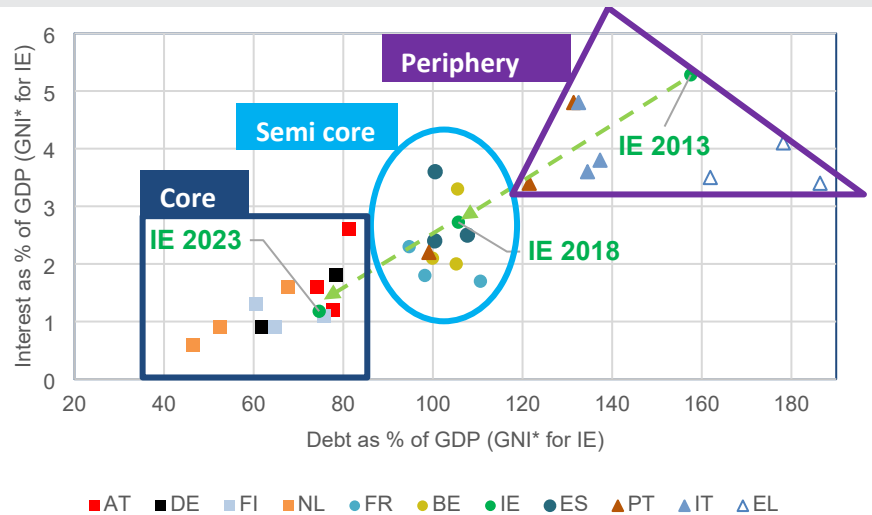
Government bond issuance will rise

Annual bond issuance by the NTMA is set to increase over the next number of years due to higher debt rollovers and rising spending pressures. Costs will be driven up by an ageing population and investment in housing and decarbonisation.

Ireland's debt ratio and interest burden are now akin to "core" Euro area sovereign issuers

Notwithstanding these pressures, Ireland's debt dynamic remains favourable. The debt ratio halved in a decade – from over 150% of GNI* in 2013 to under 75% in 2023 – thanks to rapid growth, low fixed rates and rising budget balances. As noted by the NTMA (2024), Ireland's debt ratio and interest burden have become increasingly similar to "core" Euro area sovereign issuers such as Austria, Netherlands, Finland and Germany.

Figure 36: Ireland's debt ratio and interest burden have been transformed over time

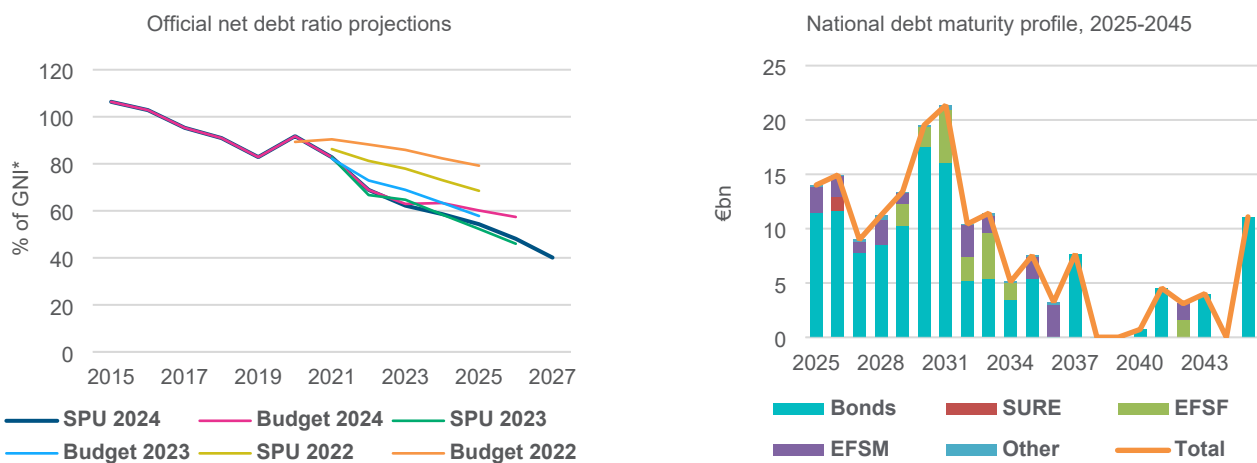


Source: Eurostat, NTMA, CSO, Davy

The share of Ireland's debt maturing within five years is currently the lowest in Europe

The debt ratio has been falling faster than expected, and the maturity profile is manageable. Refinancing risk is the lowest in Europe, with just 35% of total outstanding debt maturing within five years. In 2024, the NTMA has limited funding needs and is already close to the lower end of its target range of €6-10bn.

Figure 37: Ireland's debt ratio has declined faster than expected, but future government bond issuance will increase



Source: Department of Finance, NTMA

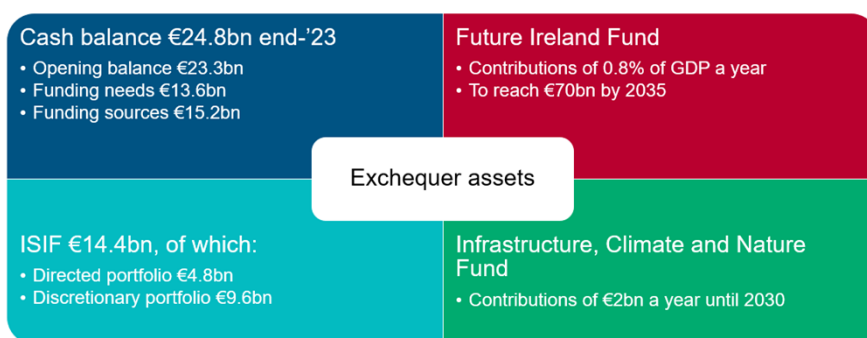
However, an increase in Irish sovereign bond issuance looks likely into the next decade due to the following (as noted above):

- rollover requirements will increase;
- an ageing population will increase borrowing needs in the near term and reduce economic growth in the long term;
- investment in housing and decarbonisation is also likely to increase borrowing needs.

The Future Ireland Fund is expected to accumulate significant amounts of savings and investment returns over the next decade

Before these challenges intensify, it is sensible to plan ahead. At end-2023, the government had €25bn in cash and €14bn in the Ireland Strategic Investment Fund and had made plans to save about €6bn or about half of its estimate of windfall corporation tax receipts in two new sovereign wealth funds. Crucially, the Future Ireland Fund will have a long-term investment horizon, meaning it should provide an income stream as well as savings to meet some additional costs.

Figure 38: The government plans to save substantial amounts in two new sovereign wealth funds



Source: NTMA, Davy

Placing money in these funds, rather than using the funds for current spending/tax cuts or to pay down debt, is sensible. The majority of Ireland's national debt is paying low and fixed interest rates for many years to come. The NTMA has successfully overseen an effort to smooth out the maturity profile of debt. This makes it more predictable for markets to anticipate Ireland's issuance needs over time.

Housing shortfalls and decarbonisation will be more challenging to address when a rapidly ageing population will slow future economic growth

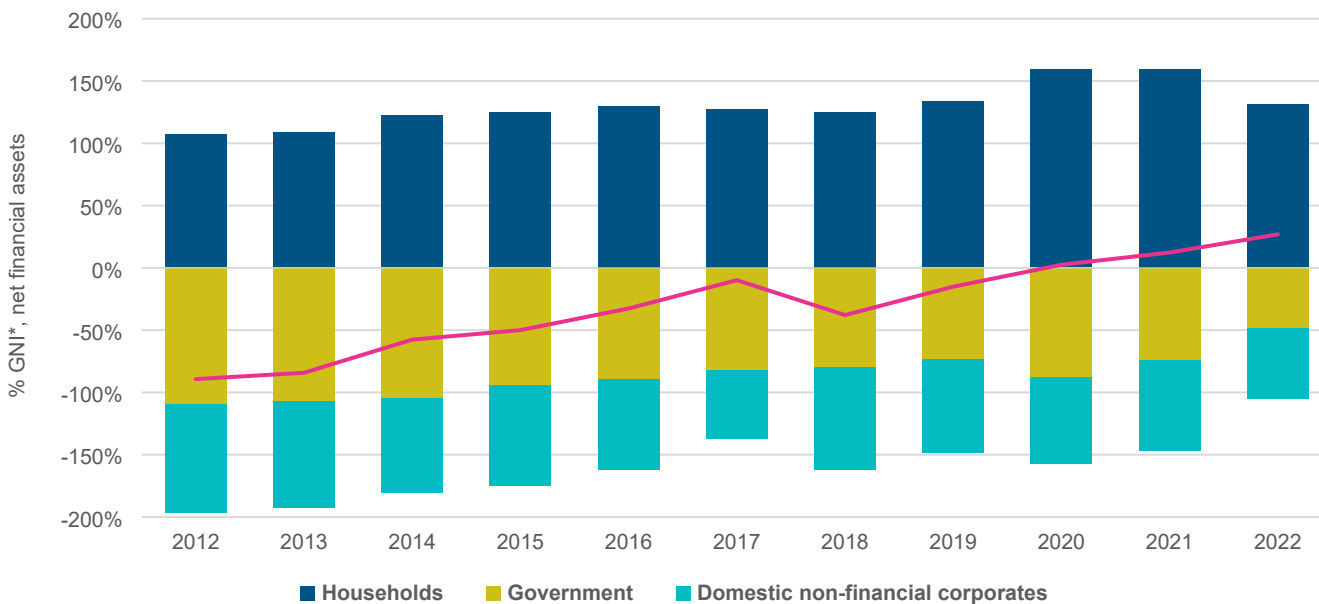
Making progress with long-term ambitions, such as the National Development Plan, will be more difficult when future economic growth has slowed. If costs continue to rise rapidly and workers become more scarce, the shortfalls will be more expensive to address. As such, there is also a strong case for using some of the receipts to ramp up necessary investment in infrastructure. Aside from large financial outlays, it is important to recognise that addressing infrastructure shortfalls will boost growth and reduce inefficiencies in the economy. This will help to avoid adverse outcomes such as a slowdown in FDI job creation or even outright FDI retrenchment.

The government should therefore prioritise delivery in housing and decarbonisation to future-proof Ireland's economy and avoid adding to overheating risks with high spending growth or tax cuts.

Ireland's public and private sectors have deleveraged significantly, and this underpins a capacity for higher investment

Since the Great Recession, Ireland's public and private sectors have deleveraged significantly, whereas assets have appreciated in value. In recent years, Ireland's stock of assets less debts has changed considerably. For sectors of the economy most relevant to GNI* – that is, excluding foreign-owned multinational sectors and re-domiciled PLCs – since 2020, Ireland has become a net foreign lender of assets to the rest of the world. Furthermore, household debt as a share of disposable income has halved in just over a decade and is now at a broadly similar level compared to the Euro area on average. This favourable position underpins the economy's capacity for higher investment.

Figure 39: Deleveraging and asset accumulation have resulted in an underlying net financial asset position for Ireland since 2020



Source: CSO, Davy

Important Disclosures

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Outperform: Outperforms the relevant E300 sector by 10% or more over the next 12 months.

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Neutral	22	24	0	0
Underperform	2	2	0	0
Under Review	0	0	0	0
Suspended	0	0	0	0
Restricted	1	1	0	0

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