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QUARTERLY ECONOMIC COMMENTARY

July 1997

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ESRI

The Economic and Social Research Institute

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Erratum

The statistical tables printed on pages 6 and 7 appeared incomplete.

The correct tables are reprinted herewith.

FORECAST NATIONAL ACCOUNTS 1997

A: Expenditure on Gross National Product

	1996 Preliminary £m	1997 Forecast £m	Change in 1997 £m Value	Change in 1997 £m Volume	Change in 1997 % Value	Change in 1997 % Price	Change in 1997 % Volume
Private Consumer Expenditure	23,318	25,090	1,772	1,329	7½	1¾	5¾
Public Net Current Expenditure	6,244	6,712	468	162	7½	4¾	2½
Gross Fixed Capital Formation	7,524	8,742	1,218	1,023	16¼	2½	13½
Exports of Goods and Services (X)	33,798	37,589	3,791	3,820	11¼	0	11¼
Physical Changes in Stocks	389	450	61	80			
Final Demand	71,273	78,583	7,310	6,414	10¼	1¼	9
less:							
Imports of Goods and Services (M)	29,169	32,652	3,483	3,294	12	½	11¼
GDP at Market Prices	42,104	45,931	3,827	3,120	9	1½	7½
less:							
Net Factor Payments (F)	5,121	5,653	532	538	10½	0	10½
GNP at Market Prices	36,983	40,278	3,295	2,582	9	1¾	7

B: Gross National Product by Origin

	1996 Preliminary £m	1997 Forecast £m	Change in 1997 £m	Change in 1997 %
Agriculture, Forestry, Fishing	2,426	2,377	-49	-2
Non-Agricultural: Wages, etc.	19,477	21,035	1,558	8
Other:	13,387	14,830	1,443	10¾
less:				
Adjustments	1,846	2,101	255	13¾
Net Factor Payments	5,121	5,653	532	10½
National Income	28,323	30,488	2,165	7¾
Depreciation	4,303	4,798	495	11½
GNP at Factor Cost	32,626	35,286	2,660	8¼
Taxes less Subsidies	4,356	4,992	636	14½
GNP at Market Prices	36,983	40,278	3,295	9

C: Balance of Payments on Current Account

	1996 Preliminary £m	1997 Forecast £m	Change in 1997 £m
X - M	4,269	4,937	308
F	-5,121	-5,653	-532
Net Transfers	1,353	1,380	27
Balance on Current Account	862	664	-198
as % of GNP	2¼	1¾	-½

FORECAST NATIONAL ACCOUNTS 1998

A: Expenditure on Gross National Product

	1997 Forecast £m	1998 Forecast £m	Change in 1998 £m Value	Change in 1998 £m Volume	Change in 1998 % Value	Change in 1998 % Price	Change in 1998 % Volume
Private Consumer Expenditure	25,090	27,022	1,932	1,255	7¾	2½	5
Public Net Current Expenditure	6,712	7,148	436	134	6½	4½	2
Gross Fixed Capital Formation	8,742	9,993	1,251	999	14¼	2¾	11½
Exports of Goods and Services (X)	37,589	42,057	4,468	4,474	12	0	12
Physical Changes in Stocks	450	330	-120	-100			
Final Demand	78,583	86,550	7,967	6,762	10¼	1½	8½
less:							
Imports of Goods and Services (M)	32,652	37,032	4,380	3,455	13½	2¾	10½
GDP at Market Prices	45,931	49,518	3,587	3,307	7¾	½	7¼
less:							
Net Factor Payments (F)	5,653	6,229	576	579	10¼	0	10¼
GNP at Market Prices	40,278	43,289	3,011	2,728	7½	½	6¾

B: Gross National Product by Origin

		1997 Forecast £m	1998 Forecast £m	Change in 1998 £m	Change in 1998 %
Agriculture, Forestry, Fishing		2,377	2,329	-48	-2
Non-Agricultural:	Wages, etc.	21,035	22,402	1,367	6½
	Other:	14,830	16,243	1,413	9½
less:					
Adjustments		2,101	2,311	210	10
Net Factor Payments		5,653	6,229	576	10¼
National Income		30,488	32,434	1,946	6½
Depreciation		4,798	5,302	504	10½
GNP at Factor Cost		35,286	37,736	2,450	7
Taxes less Subsidies		4,992	5,553	561	11¼
GNP at Market Prices		40,278	43,289	3,011	7½

C: Balance of Payments on Current Account

	1997 Forecast £m	1998 Forecast £m	Change in 1998 £m
X - M	4,937	5,025	88
F	-5,653	-6,229	-576
Net Transfers	1,380	1,343	-37
Balance on Current Account	664	139	-525
as % of GNP	1¾	¼	-1½

QUARTERLY ECONOMIC COMMENTARY

JULY 1997

The forecasts in this Commentary are based on data available by late July 1997.

T.J. BAKER, DAVID DUFFY and DELMA DUGGAN

Copies of this paper may be obtained from The Economic and Social Research Institute (Limited Company No. 18269), (Registered Office) 4 Burlington Road, Dublin 4.

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T.J. Baker is a Senior Research Officer, David Duffy is an Assistant Research Officer and Delma Duggan is a Research Assistant of The Economic and Social Research Institute. The *Commentary* has been accepted for publication by the Institute, which is not responsible for either the content or the views expressed therein.

CONTENTS

SUMMARY

The rapid growth of the Irish economy is continuing. It now seems likely that real GNP in 1997 will increase by about 7 per cent, compared with the annual average rise of 7½ per cent shown in official estimates for the past three years. Annual average employment is forecast to rise by just over 50,000, and a further substantial improvement in the public finances is certain, with the EBR perhaps falling to about £100 million or 0.2 per cent of GNP. Some slight acceleration in the rate of consumer price inflation seems likely in the second half of the year, leading to an annual average increase of about 1¾ per cent. However, the achievement of the authorities in maintaining the Irish pound as one of the most stable currencies in Europe, on a trade-weighted basis, over the past twelve months should preclude a more rapid rise in prices in 1997.

Because of continuing currency instability in Europe, some uncertainty must surround economic forecasts for 1998. It is clear that the weakness of the DM and the undue strength of sterling must ultimately be reversed, but the timing of this adjustment cannot be predicted with confidence. On the reasonable assumption that much of the adjustment will take place in 1998, but that the international strengthening of the DM might precede the weakening of sterling, it seems quite likely that the annual average trade-weighted value of the Irish pound could be moderately lower in 1998 than in 1997.

If this assumption is correct, then consumer price inflation in 1998 is likely to rise to an annual average of about 2½ per cent and there could be a significant deterioration in the terms of trade and in the current account balance of payments surplus. Nevertheless, the underlying strength of the economy is such that real GNP should continue to increase rapidly at a projected 6¾ per cent, employment should rise by almost 40,000, and the EBR should be eliminated.

In managing the economy through the inevitable turbulence preceding EMU, the authorities should continue to base key decisions on consideration of the consequences for the long-term competitiveness of the Irish economy. In terms of currency management this implies avoiding the taking of premature irrevocable decisions. In terms of domestic management it means honouring in full the taxation obligations of *Partnership 2,000*, as the maintenance of the consensus approach to moderate pay determination is the surest bulwark against generalised inflationary pressures in the next two years.

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COMMENTARY

The International Economy

General

International agencies envisage reasonably strong growth in most economies in 1997 and 1998. The driving force for the growth is considered to be exports, especially for continental Europe where export levels will benefit from the depreciation of exchange rates *vis-à-vis* the dollar. Export volumes are also expected to benefit from a pick-up in world trade growth in 1997. Steady output growth is expected to continue in the US, while GDP growth in the continental European economies is expected to accelerate as recovery becomes more established.

The positive outlook is not without its negative aspects. Despite the fact that there has been no significant surge in inflation to date, the worry that it will re-emerge remains. The decline in continental European exchange rates may mean an increase in inflation as higher import prices feed through. Thus, an increase in continental European interest rates towards the end of this year or early 1998 is anticipated.

As can be expected, between now and the end of 1999 much of the international macro-economic focus will be on progress towards EMU. The EMU project has suffered from increased uncertainty in recent months which has also contributed to exchange rate fluctuations. While it seems certain that strong political motivation will ensure that EMU starts on time it seems likely that the period to its commencement will be marked by strong exchange rate reaction to progress reports.

The US Economy

Official figures show that the US economy grew by a seasonally corrected rate of rate of 1.4 per cent in the first quarter of this year. The strong growth was quite broadly based, driven mainly by personal consumption expenditure, gross private domestic fixed investment and an increase in business inventories. The strength of growth in the first quarter continues to highlight that the main issue for US economic policy-makers is to balance strong growth with curtailing inflationary pressures. The strong rate of GDP growth is not expected to be sustained over the year. Annual growth of about 2.4 per cent is expected in 1997 with a slight slowdown to 2.1 per cent in 1998.

The strength of the US economy continues to be reflected in the labour market. Having averaged 5.4 per cent in 1996 unemployment has continued to decline and was as low as 4.8 per cent in May 1997, reflecting large increases in private non-farm payroll employment. These large increases in employment and a high participation rate have meant that concerns about a tight labour market and increasing inflationary pressure remain. Average hourly earnings in industry increased by 3.8 per cent in the year to May 1997. Despite these factors the inflation rate appears to be remaining relatively stable. Data showed that the core rate of inflation (excluding food and energy) was 2.5 per cent in the year to May 1997. The annual rate of inflation is expected to increase to average about 3 per cent in 1997 and in 1998 as the increases in earnings have an impact.

In recent years the US economy has tended to experience periods of strong growth followed by periods of slowdown. This pattern is evident in the first half of the year when data releases suggest that the rapid growth of the first quarter appears to have been followed by subdued growth during the second quarter. This seems to have eased pressure for a further interest rate increase during the summer following the upward move in official interest rates to 5.5 per cent in March. However, it remains possible that interest rates could be raised further in late 1997 or in 1998.

The US dollar appreciated significantly during 1996 and has risen further against European currencies in recent weeks. A perception that Japanese monetary policy may change led to the dollar depreciating somewhat against the Japanese yen and now appears to have stabilised at around 116 yen. The general strength of the dollar is underpinned by the interest rate increase in March, the expectation that any further move in US interest rates will be upwards and the present uncertainties surrounding EMU. However, the dollar is expected to weaken towards the end of the year as European economic recovery supports European currencies.

Despite dollar strength, exports contributed 1.3 per cent of growth in the first quarter, a stronger performance than could be expected given the strength of the exchange rate. The current account deficit is projected to narrow to approximately 1.8 per cent of GDP in 1997 and to increase only slightly in 1998. This will be the result of an improving US export performance, benefiting from the growth in world trade levels, and of some slackening in import growth as GDP growth abates.

The European Economy

Both the UK and Ireland enjoyed stronger growth than the major continental European economies during 1996. Although the need for tight fiscal policy to attempt to qualify for EMU will continue to be restrictive, the weakness of European currencies against the dollar and low interest rates should boost investment, the export sector and consumer demand.

The German economy recovered somewhat during the first half of the year. Figures for the first quarter of 1997 show that the economy grew by 0.5 per cent compared with the previous quarter. The return to growth following the stagnation of the final quarter of 1996 was due mainly to increased exports of goods and services which also boosted industrial production. It is expected that growth in 1997 will continue to be driven mainly by exports. In the first four months of 1997 the value of exports rose by 8.4 per cent compared to a year earlier. A recovery of domestic and consumer sectors should aid growth in 1998. Real GDP growth of 2.4 per cent is forecast for 1997, increasing to 2.8 per cent in 1998.

Despite the improving growth performance, the labour market continues to be in a weak state and unemployment levels remain high, climbing by 11,000 in

June to just under 4.4 million. The poor condition of the German labour market means that any improvement will be gradual, and unemployment is expected to average 11 per cent in 1997. The upturn in the economy should eventually result in increased employment, with the unemployment rate averaging about 10.5 per cent in 1998.

The DM has remained weak against the dollar since the April *Commentary*. The difference in the interest rate outlook between these two economies, together with EMU uncertainties, means that the DM is unlikely to appreciate for several more months. Despite the depreciation of the currency, and the continuing low interest rates, inflation remains subdued, with provisional figures for June 1997 showing an annual rate of consumer price increase of 1.6 per cent.

The French economy grew by approximately 1.3 per cent in 1996. Despite climbing unemployment levels, this growth appears to have been underpinned by increasing consumer expenditure, although most of the rise occurred in the first half of the year. Growth was also supported by an increase in export levels as a result of the depreciation in the exchange rate.

Events in France this year have been dominated by EMU and the general election. The election of a new government, following the rejection by the electorate of President Chirac's call for a mandate to pursue EMU-related austerity measures, has raised concerns about the implications for monetary union. The new government is committed to France being amongst the first group of members. However, four demands have been outlined by the new government of a competitive rate for the euro, an emphasis on employment, Italy and Spain to be included from the beginning and a political counterweight to the European Central Bank. Threats by the new government to refuse to sign the Stability and Growth Pact at Amsterdam were overcome when it was agreed that there would be an increased EU focus on tackling unemployment. The new administration has announced an increase in the national minimum wage, a halt to public sector job cuts and a halt to the previous government's privatisation plans. These measures raise further concerns about the size of the French budget deficit which was already expected to cause difficulties for French qualification. The recent audit of French public finances estimated that the deficit is in the range of 3.5 - 3.7 per cent. Additional measures announced by the French government include significant taxes to be borne by the corporate sector, which are expected to reduce the deficit to between 3.0 and 3.5 per cent.

Meanwhile, as in Germany, increasing export volumes should lead to a significant recovery in economic growth, with real GDP rising by about 2.8 per cent in 1998.

Both the Spanish and Italian governments continue to stress their commitment to the first wave of EMU. However, the outlook for Italian entry is at present the less certain of the two. Preliminary figures for the first quarter show that the Italian economy contracted by 0.4 per cent compared with a year earlier. This is the second successive quarter in which Italian GDP has shown negative growth. Despite a series of measures, several of them temporary, it is expected that the Italian budget deficit will continue to exceed the 3 per cent reference value in 1997, while, of course, the level of debt remains excessive. In contrast, increases in employment in Spain and in domestic consumption have helped to ease the budget deficit while recent inflation figures are within the Maastricht criteria. Given the strength of the Spanish government's commitment to the EMU process it is likely that if the budget deficit target is going to be narrowly missed, further measures will be implemented to ensure qualification.

The UK Economy

The UK economy has been growing quite rapidly in the first half of 1997, and real GDP is expected to rise by over 3 per cent for the year as a whole. However, the unbalanced nature of the growth is a cause for considerable concern.

Personal consumption is increasing rapidly, with retail sales volumes rising by about 5 per cent on 1996 levels, buoyed by a large injection of liquidity from the windfall returns from the de-mutualisation of some building societies and insurance companies. Conversely, fixed capital investment, especially in manufacturing industry, is inhibited by relatively high interest rates and by falling profit margins, while export volumes are beginning to be adversely affected by a severe loss of competitiveness.

The new government's first budget was focused on changes which aim to address the imbalance between consumption and investment in the medium-term and did little to tackle the short-term problem of excessive personal demand. Thus the burden of restricting demand in the short term is being carried by monetary policy, now delegated to the Monetary Policy Committee of the Bank of England. The resultant increases in interest rates, and the widespread expectation of further rises, have been a principal factor in the renewed appreciation of sterling in recent weeks.

The present, grossly overvalued, sterling exchange rate is the key to assessing the prospects of the UK economy over the next eighteen months. Given the normal lags in economic relationships, the effects of the massive appreciation of the currency have not yet worked through to many of the basic indicators of economic performance. Thus the current account of the balance of payments, still seemingly on the initial favourable section of the J-curve, has yet to exhibit any significant deterioration, while the consumer price index is not yet showing the full deflationary effects which will ultimately result from currency appreciation in a relatively open economy. However, leading indicators such as export order books and business surveys are clearly pointing to severe trading effects from the loss of competitiveness.

If market expectations are realised, and further interest rate increases take place, there is a very real danger that the UK's problem in 1998 will be recession rather than inflation. The simultaneous effects of the lagged reaction to the currency appreciation since mid-1996, high interest rates, the fiscal tightening already scheduled and a probable diminution in the flow of windfall income could be dramatic.

Because this danger is obvious to any analyst with a medium-term time horizon, there is a reasonable hope that the Monetary Policy Committee will refrain from further interest rate increases, and that it will gradually become clear that UK interest rates are at or very near to their peak for the current cycle. How market sentiment will respond to such a course of action is difficult to predict, and the timing and scale of the eventual depreciation of sterling remains uncertain.

Although the fall could come earlier, the most likely outcome is that sterling will remain strong for most of the remainder of 1997, but will decline significantly in the course of 1998. On this assumption, and the allied assumption that there will be little further change in UK interest rates this year, an increase of about 2¼ per cent in UK real GDP is forecast for 1998, with price inflation remaining at about 2½ per cent and the current account deficit widening to about 1½ per cent of GDP. It must be stressed, however, that the actual outcome could diverge substantially from this forecast in either direction.

The Rest of the World

While the recovery of the Japanese economy appears to continue, it remains subdued. The economy grew by 1.6 per cent in the first quarter of 1997 compared to a year earlier. Growth was boosted by strong consumer spending in the first quarter as consumer spending plans were brought forward to avoid a scheduled increase in sales tax in April. Fiscal consolidation is expected to continue as the government tackles the budget deficit. Having depreciated against the dollar during the latter half of 1996 and early 1997 the yen appreciated sharply during May as the perception increased that official sources would prefer a stronger yen, the expectation that recovery in the Japanese economy could bring about an interest rate increase and strong trade figures. It is expected that interest rates will not increase until towards the end of the year when economic recovery appears more established. Real GDP is expected to grow by approximately 2 per cent in 1997, increasing to about 2.5 per cent in 1998.

Most other Asian countries are expected to continue growing in 1997 and 1998, although growth rates will not be as high as in the early nineties and are expected to average about 7 per cent. In contrast to historic trends, consumption has contributed significantly to recent growth. The previous high contribution of exports has been depressed in the past two years due to low demand levels as many industrialised countries experienced recession. However, exports will make an increasing contribution as recovery in the main industrial markets fuels demand levels, and fixed investment will continue to grow. A number of South East Asian countries have decoupled their currencies from the dollar following market speculation. Interest rates have risen to prevent too great a depreciation of their currencies. Some currency stability has returned following the opening of talks between the IMF and the Thai government. However, in the countries concerned, which also include the Philippines, Indonesia and Malaysia, continuing high interest rates are likely to inhibit the growth of domestic demand.

The Context for Ireland

Looking purely at trends in world output and trade, the economic environment for Ireland should be reasonably favourable in both 1997 and 1998. All major economies are growing, albeit at a moderate pace, and recovery in continental Europe should be somewhat stronger next year. As a consequence of global output growth, investment in productive capacity remains strong, particularly in the modern industrial sectors of most importance to Ireland.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
UK	3	2¼	2½	2½	4½	4½	6¼	6	-¾	-1½
Germany	2½	2¾	1½	2	2¾	3	11	10½	-½	-¼
France	2	2¾	1½	1¾	3	3	12¾	12½	1	1
Italy	1¼	2	2½	2½	3	3	12¼	12¼	3	3
Total EC	2½	2¾	2½	2½	3	3¼	11¾	11¾	1¼	1¼
USA	2½	2	3	3	3½	3½	5¼	5¼	-1¾	-2
Japan	2	2½	1	1	1¼	2	3½	3½	1½	2
Total (OECD)	2½	2½	3	3	3½	3½	7¾	7¾	0	0
Ireland	7	6¾	1¾	2½	3¼	3	10¼	9¾	1¾	¼

Thus, in terms of overall market growth, conditions for most exporters should be quite good and tending to improve, while some specific problems, such as those affecting cattle and beef sales, are likely to abate. At the same time, the inflow of foreign direct investment on which the continuation of rapid output and export growth is largely dependent, can be expected to remain high.

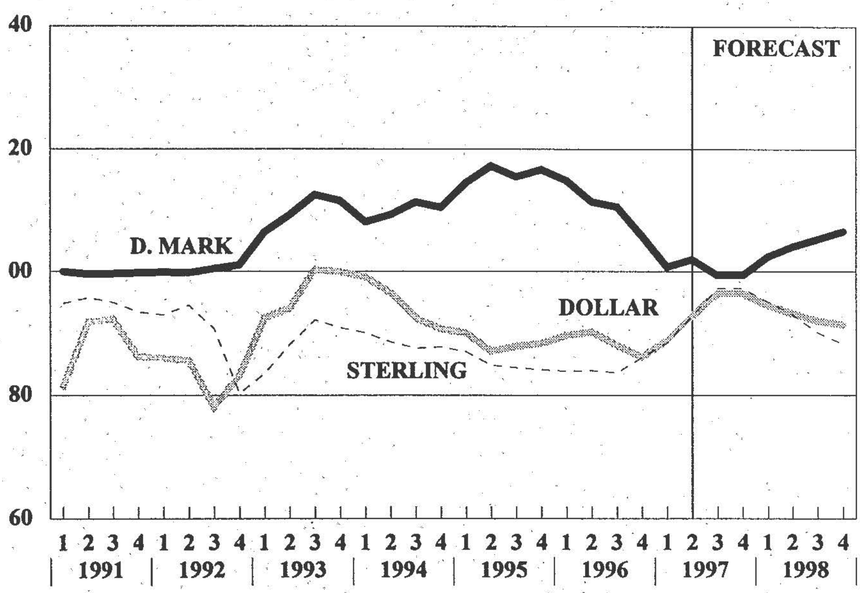
This generally benign external background tends to be obscured by the exceptionally turbulent foreground of currency volatility. The past twelve months have seen global fluctuations in exchange rates between major currencies, with the greatest instability affecting those currencies most important to Ireland, namely sterling and the DM. The situation that has arisen as a result of these movements has generally been characterised within Ireland as one of extraordinary sterling strength. It has been less noted that the DM, and its satellite currencies, are extraordinarily weak.

Since the end of June 1996, sterling has appreciated by about 27 per cent against the DM, 7½ per cent against the US dollar and 16½ per cent against the yen. The obvious, but sometimes overlooked, corollary is that over the same period the DM has depreciated by 18 per cent against the dollar and 9 per cent against the yen. These massive changes are far greater than can be attributed to actual differentials in short-term interest rates, and must therefore embody expectations of a substantial widening of interest rate differentials in the months ahead, as well as a subjective assessment of the relative strengths of the economies involved.

While forecasting currency movements is fraught with difficulty, and predicting interest rate trends only slightly less uncertain, there do appear to be solid grounds for expecting a reversal of recent currency trends over the next year and a half.

Figure 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1989=100



As already discussed, the consequences of a combination of high interest rates and a grossly overvalued currency make it likely that the Bank of England will disappoint the market's expectation of repeated increases in interest rates over the remainder of 1997. The lagged effects of the sterling appreciation and interest rate rises which have already taken place seem likely to reduce the UK growth rate to below the European average in 1998, undermining market perceptions that the UK will remain the strongest major economy in Europe. Thus a substantial depreciation of sterling, already overdue, is very probable in the second half of 1997, or, more probably, in 1998.

Conversely, the recovery of the German economy, allied to the possible lagged effects on German inflation of the period of DM weakness, is likely to prompt a gradual raising of German interest rates, perhaps before the end of 1997. Thus an appreciation of the DM against non-ERM currencies seems probable, especially after EMU uncertainties lessen in 1998.

Although the most likely direction of the next major movements in exchange rates seems clear, the timing is impossible to predict. Past experience suggests that the markets are often very slow to react to obvious situations of disequilibrium, but that when they do the movements are both sudden and large. However, because of the difficulty of basing forecasts on sudden large currency changes at unknown times in the future, this *Commentary* is based on the technical assumption that exchange rates will remain close to their present levels until late in 1997, but that 1998 will see a fairly steady depreciation of sterling and appreciation of the DM, so that by the end of 1998, the bilateral sterling-DM rate will be close to 2.50. It is further assumed that the trade-weighted value of the Irish pound will tend to depreciate somewhat in the course of 1998, as depreciation against the DM commences sooner than eventual appreciation against sterling.

The Domestic Economy

General

The preliminary national accounts for 1996 confirm that it was the third successive year of very rapid economic growth. Real GNP increased by 6.9 per cent, which, taken with upward revisions to estimates for 1994 and 1995, indicate that the annual average growth rate in the past three years was 7½ per cent.

TABLE 2: Exports of Goods and Services

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,788	0	-4	2,676	2	3	2,756
Manufactured	23,122	14	14	26,359	14½	14	30,049
Other Industrial	3,736	7	7	3,998	7	7	4,278
Other	456	0	0	456	0	0	456
Total Visible	30,102	11½	11¼	33,499	12½	12	37,539
Adjustments[1]	198			204			210
Merchandise	30,300	11½	11¼	33,703	12¼	12	37,749
Tourism	1,888	10	12	2,115	9	11¾	2,364
Other Services	1,610	8	10	1,771	7	9¾	1,944
Exports of Goods and services	33,798	11¼	11¼	37,589	12	12	42,057

1 Since July 1996, sales of software licences have been included in the balance of payments adjustment rather than in visible exports as previously. While reducing visible export totals, this change has resulted in the adjustment moving from a negative to a positive item. Estimates of merchandise exports are unaffected by the change.

Although the preliminary official estimates of real GDP and GNP growth in 1996 were only ½ per cent above our final estimates as shown in the April *Commentary*, there were some significant differences in composition. The volumes of both exports and imports were higher than we had forecast, due mainly to revisions of earlier quarterly statistics. More crucially, both the level and rate of growth of fixed capital formation were substantially above our forecasts. Coupled with upward revisions for previous years, the volume increase of 15.9 per cent in 1996 took the level of gross fixed investment to over 20 per cent of GNP, thus partially resolving the previous apparent mystery of how Ireland was enjoying such a rapid growth rate while running a relatively low investment rate.

The publication of the preliminary national accounts for 1996 provides a firmer base for projecting economic performance in 1997 and 1998. However, data for the current year remain limited and the normal assumption of essentially unchanged economic policies might not prove justified following a change of government. Thus, while it is already clear that 1997 will be another year of rapid economic growth, the forecasts of both the precise growth rate itself and its composition are subject to a considerable margin of error.

Exports

Visible exports in 1996 increased by 8.2 per cent in value and 8.7 per cent in volume. This was a rather stronger performance than had seemed likely, due mainly to upward revisions in the trade statistics. In value terms, exports of agricultural, forestry and fishing products fell by about 13 per cent, reflecting both a BSE-related reduction in the volume of cattle and beef exports, and steep declines in both beef and dairy prices. Manufactured exports rose by 12½ per cent and other industrial exports by 9¾ per cent, although the balance between these two categories was affected by some technical reclassifications.

Tourism receipts were roughly in line with expectations, with a rise of just over 12½ per cent in value. Due mainly to some service items now being treated on a gross rather than a net basis, other service exports rose by over 10 per cent in value, whereas on the basis of earlier data they appeared likely to rise at less than half that rate. In total, exports of goods and services in 1996 increased by 10.6 per cent in value and 10 per cent in volume. This was significantly below the average rate of increase over the previous five years, and represented in part a reaction from the exceptional growth in 1995.

With some markets re-opening for cattle and beef exports, it is expected that the volume of agricultural and related exports in 1997 may be broadly the same as in 1996. Although export prices started the year at well below the 1996 average, some increase is likely in the course of the year, so that the fall in annual average export prices for agricultural products is likely to be quite modest. With considerable uncertainties continuing to affect the prospects for agricultural exports, small increases in both volume and price are projected for 1998.

The volume of manufactured exports appeared to be on an upward trend in the second half of 1996, and this is believed to have continued in the first half of 1997. With extra capacity becoming available, the volume of high-technology exports is expected to continue the rapid expansion which was temporarily in abeyance in the first half of 1996. Traditional manufactured exports to the UK should benefit in 1997 from the relative strength of sterling, although this could be a less important factor in 1998. The volume of total manufactured exports is forecast to increase by 14 per cent in 1997 and marginally faster in 1998.

Manufactured export prices are difficult to predict in the face of severe currency instability. The Irish pound price of those exports which are generally denominated in US dollars will be automatically higher, due to the appreciation of the dollar, but this effect may be largely offset by a downward trend in the dollar price of these high-technology products. Export prices to the UK can also be expected to rise, either through the currency conversion factor for products priced in sterling or through an increase in Irish pound prices in response to the wider margins available following sterling appreciation. Conversely, export prices to continental Europe, other than those denominated in dollars, are likely to be significantly lower than the 1996 average. Taking these conflicting tendencies into account, it seems clear that there will be considerable disparities in price trends between different products and markets. However, on balance, there may be little change in the annual average Irish pound price of manufactured exports as a whole in either 1997 or 1998.

TABLE 3: Stock Changes

	1996	Change in Rate	1997	Change in Rate	1998
	£m	£m	£m	£m	£m
Livestock on Farms	91	-60	31	-21	10
Irish Intervention Stocks	169	50	219	-99	120
Other Stocks	129	71	200	0	200
Total	389	61	450	-120	330

Other industrial exports are projected to grow in volume at about half the rate of manufactured exports. Similar considerations apply to the likelihood of divergent price trends cancelling out. Allowing for no change in the volume or value of unclassified exports, the volume of total visible exports is thus forecast to increase by about 11½ per cent in 1997 and 12½ per cent in 1998. A fall of about ¼ per cent in average prices is projected for each year, so that, as shown in Table 2, the value of visible exports is predicted to rise by 11¼ per cent this year and about 12 per cent next year.

As is usual at this time of year, there are conflicting reports as to the progress of the current tourist season. On the evidence of the first quarter figures and in keeping with previous experience, a value increase of about 12 per cent, marginally below the 1996 increase, seems likely. A broadly similar rise is projected for 1998. With other service exports now presented on a gross basis, substantial increases of about 10 per cent in value are forecast for both 1997 and 1998.

Thus total exports of goods and services are forecast to grow by about 11¼ per cent in 1997 and almost 12 per cent in 1998. In both years the projected increases are similar in both volume and value terms, implying little or no change in average prices. These projected increases are close to the annual average rise between 1990 and 1996.

Stocks

The change in the rate of stock-building in 1996 was very close to our estimate in the April *Commentary*, although the level was higher due to official revisions to the 1995 figures. The composition of the change differed from our estimates, with intervention stock- building rising faster and both farm and non-agricultural stocks more slowly than we had anticipated.

For 1997, a substantial reduction in the rate of increase in farm stocks seems probable, as the unplanned element in increases in the number of cattle held over the winter declines. Intervention stocks are likely to increase further, although the rate of change will be much lower than in 1996 when a previous substantial fall in stocks was replaced by a significant rise. Non agricultural stocks of materials, products and work-in-progress seem likely to rise a little faster than in 1996.

Thus total physical changes in stock in 1997 are forecast at £450 million, an increase of £61 million on 1996, as shown in Table 3.

Reductions in the rate of both farm and intervention stocks are projected for 1998, as the markets for agricultural products settle to a post-BSE condition and as adjustments are made to the changing structure of the CAP. Although non-agricultural stock changes tend to be volatile there is little evidence on which to base forecasts of major swings. It is thus assumed that, with economic growth remaining robust in 1998, there will be a similar rate of stock-building to this year. Thus total stock-building in 1998 is projected at £330 million, a reduction of £120 million compared with 1997.

Investment

The growth in gross domestic fixed capital formation in 1996 was unexpectedly high, at 18.5 per cent in value and 15.9 per cent in volume. At the same time the level of fixed investment in previous years was revised upwards in the latest national accounts. As a consequence of these two factors, the current price level of fixed investment in 1996 was some £700 million higher than our estimate in the April *Commentary*, with over £500 million of the increase relating to investment in building and construction.

TABLE 4: Gross Fixed Capital Formation

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	4,877	15	19	5,804	12	16	6,732
Machinery and Equipment	2,647	11	11	2,938	10	11	3,261
Total	7,524	13½	16¼	8,742	11½	14¼	9,993

In the light of the faster growth in 1996 and of the available indicators for 1997, we have revised our forecasts for 1997 substantially upwards. Investment in both residential and other building appears to be still growing rapidly. Given the higher base, the rate of volume increase might be slightly lower than in 1996 at about 15 per cent but the absolute rise is forecast to be of the same order of magnitude, at about £730 million. Investment in machinery and equipment is forecast to increase by about 11 per cent in both value and volume, marginally slower than in 1996, but still very high by historical standards. Thus, as shown in Table 4, total gross fixed capital formation in 1997 is forecast to rise by 13½ per cent in volume and 16¼ per cent in value.

Fixed investment is one of the more volatile elements of the economy and can swing rapidly between strong growth and significant decline, as happened between 1990 and 1991. However, there seems no indication that such a reverse is likely in 1998, with the underlying factors of continuing population growth, strong public finances, relatively stable interest rates, and general economic buoyancy all suggesting a further rise in fixed investment next year. It still seems probable that the provision of new dwellings is approaching its ceiling, and that a significant slackening in the rate of growth in housing investment can be expected in 1998. However, with the margin of unlet office space continuing to decline, commercial building is likely to strengthen further. The volume of total investment in building and construction is thus projected to increase by 12 per cent in 1998. A volume increase of 10 per cent in investment in machinery and equipment is projected, reflecting the continued expansion of the industrial and market services sectors of the economy.

Thus total gross fixed capital formation is projected to rise by almost 11½ per cent in 1998. Assuming that prices continue to rise by an average of 3½ per cent in building and construction, and increase by almost 1 per cent for machinery and equipment, the value increase in total fixed investment in 1998 is projected at about 14¼ per cent.

Consumption

According to the preliminary national accounts, the volume of personal consumption in 1996 rose by 6.3 per cent, almost exactly in line with the estimate in the April *Commentary*. However, the consumption deflator was unexpectedly low at 1.1 per cent, significantly less than the rise in the consumer price index of 1.6 per cent or the retail sales deflator of 2.0 per cent. Thus the value of personal consumption increased by 7.5 per cent, compared with our previous estimate of 8.5 per cent and the retail sales value increase of 8.3 per cent.

Figures for the early months of 1997 indicate that the volume of retail sales was continuing to grow strongly, and that the retail sales deflator remained very low at about 1 per cent. Over the remainder of the year, it seems likely that the rate of growth of retail sales volume will abate marginally, and that the retail sales price deflator will tend to rise. Thus for the year as a whole it is forecast that the retail sales index will increase by 5.5 per cent in volume and 7.3 per cent in value. With tourist spending abroad likely to increase more rapidly than its unusually small rise in 1996, the normal relationship of personal consumption growing faster than retail sales should be restored. Thus total personal consumption is forecast to rise by 5.7 per cent in volume and 7.6 per cent in value, as shown in Table 5.

A broadly similar increase in the value of personal consumption is forecast for 1998, with a slightly slower rise in gross personal income partly offset by a significantly slower increase in personal taxation. As consumer prices are expected to increase rather faster in 1998, albeit still at a very moderate rate by historical standards, the volume increase in personal consumption is projected to decline to 4.6 per cent.

Government consumption in 1996 increased by 2.9 per cent in volume and 5.0 per cent in value, according to the preliminary national accounts. A marginal reduction in the volume rate of growth to 2.6 per cent in 1997 and 2.0 per cent in 1998 is assumed on the basis of current policies. However, the price deflator for government consumption is certain to increase, given recent pay settlements, so that the value rise in government consumption is forecast at 7.5 per cent in 1997 and 6.5 per cent in 1998.

Final Demand

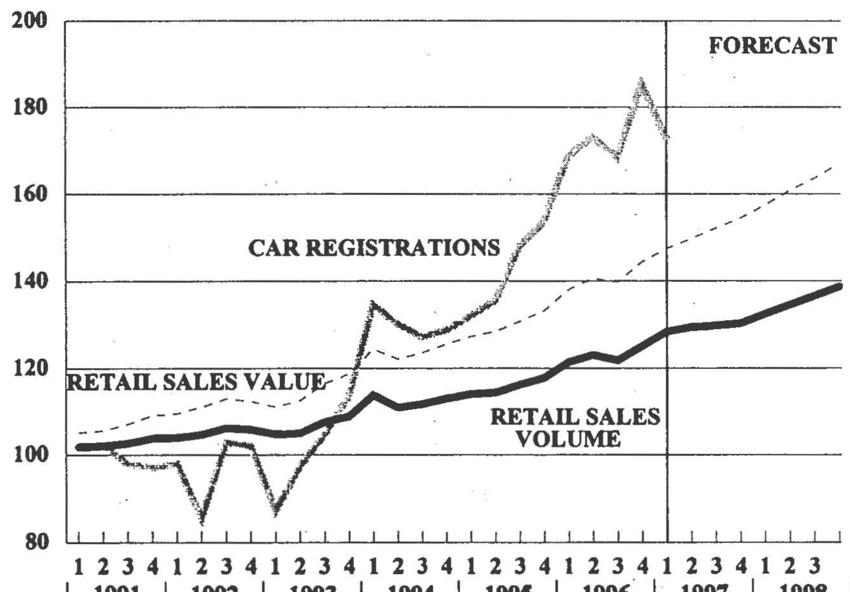
Final demand in 1996 increased by 9.2 per cent in volume and 9.6 per cent in value, with the volume of domestic demand, excluding stocks, rising by an exceptional 7.5 per cent and export volumes by 10 per cent, somewhat below the average since 1990.

TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1993	1994	1995	1996	1997 To Date	1997 Forecast	1998 Forecast
Consumption Value							
NIE 1996, Personal Consumption	4.2	9.0	6.3	7.5		7.6	7.7
Retail Sales Index, Value	3.0	7.9	4.8	8.3	6.9	7.3	7.4
Divergence	1.2	1.1	1.5	-1.2		0.3	0.3
Consumption Volume							
NIE1996, Personal Consumption	2.2	6.1	4.2	6.3		5.7	5.0
Retail Sales Index, Volume	1.4	5.5	2.8	6.2	5.8	5.5	4.6
Divergence	0.8	0.6	1.4	0.1		0.2	0.4
Consumer Prices							
NIE 1996, Personal Consumption Deflator	1.9	2.8	2.0	1.1		1.8	2.6
Retail Sales Index Deflator	1.6	2.3	1.9	2.0	1.0	1.7	2.7
Consumer Price Index	1.5	2.4	2.5	1.6	1.5	1.8	2.5

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



In 1997, final demand is forecast to rise by 9 per cent in volume and by 10.2 per cent in value. In volume terms, domestic demand is forecast to increase by 6.8 per cent and exports by 11.3 per cent. As in 1996, the detailed composition of final demand is expected to be relatively import intensive. Although the rate of increase may decline slightly in 1998, rapid growth in final demand is projected to continue, with a volume rise of 8.6 per cent and a value rise of 10.1 per cent. Export growth is projected to accelerate marginally to 11.9 per cent, close to the long-term average, while the rise in domestic demand, in volume terms, is projected to abate slightly to 5.9 per cent. The composition of demand is again likely to be import intensive.

Imports

Visible imports in 1996 increased by 9.6 per cent in volume and by 8.4 cent in value, thus showing an unexpected decline of just over 1 per cent in average import prices. With tourist spending abroad rising by an unusually modest 7 per cent in value and other service imports, now on a gross basis, by a very rapid 22 per cent, total imports of goods and services increased by 11.4 per cent in volume and 10.6 per cent in value.

Visible import volumes are forecast to rise slightly faster in 1997, at 10.3 per cent. As in the case of exports it is difficult to predict average import prices under conditions of severe currency fluctuations. On balance, it seems possible that the various price and currency trends will broadly cancel out, although there could be a moderate rise in the price of imports of consumer goods.

Tourist spending abroad seems likely to recover from its low rate of growth last year, while other service imports, including royalty payments, are likely to continue their rapid expansion. Thus, as shown in Table 6, total imports of goods and services are forecast to increase in 1997 by 11.3 per cent in volume and 11.9 per cent in value.

The volume of imports of both capital and consumer goods will continue to rise strongly in 1998, if our demand projections are correct. In keeping with the pattern of recent years, which contrasts markedly with the pattern of earlier decades, material import volumes are likely to grow less rapidly than the volume of industrial production. Thus the total volume of visible imports is projected to rise by 9.6 per cent in 1998, the slight slowdown reflecting the slower forecast growth of final demand.

If our currency assumptions are correct, average import prices could rise moderately in 1998, so that the increase in the value of visible imports is projected at 12.5 per cent. Assuming that there is little change in the rate of increase in the value of tourist spending and other service imports, total imports of goods and services are projected to increase by 10.6 per cent in volume and 13.4 per cent in value in 1998.

Balance of Payments

After significant revisions to estimates of both merchandise trade and other current account items, the fourth quarter *Balance of Payments Estimates* showed that the current account surplus in 1996 was £862 million. This was considerably stronger than had been anticipated, but nevertheless was a moderate decline from the revised 1995 surplus of £1,070 million. Increased surpluses on merchandise trade and transfers were more than offset by wider deficits on services and factor incomes.

TABLE 6: Imports of Goods and Services

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	4,403	12	12	4,931	11	14	5,621
Consumer Goods	4,739	10	12	5,308	9	11½	5,918
Intermediate Goods:							
Agriculture	581	2	2	593	1	4	617
Other	11,243	9½	9	12,255	9	12	13,725
Other Goods	1,386	4	4	1,441	3	5½	1,520
Total Visible	22,352	9½	9¾	24,528	8¾	11¾	27,401
Adjustments	-468			-470			-482
Merchandise Imports	21,884	9¾	10	24,058	9	12	26,919
Tourism	1,355	11	13	1,531	10	12¾	1,726
Other Services	5,930	17	19	7,063	16	18¾	8,387
Imports of Goods and Services	29,169	11¼	12	32,652	10½	13½	37,032

The forecasts for exports and imports already discussed indicate the likelihood that the surplus on trade in goods and services will increase quite slowly in 1997, and especially in 1998, when an assumed deterioration in the terms of trade will have an adverse effect on the surplus.

Profit expatriation and reinvested earnings, on the other hand, are likely to rise substantially in both years, as the output and earnings of multinational companies continue to grow. National debt interest paid abroad is forecast to remain on a downward trend, and the volatile item of other debit flows is projected to return towards its longer term average after very rapid increases in 1995 and 1996.

Investment income from Irish direct investment abroad rather surprisingly fell in 1996, and a recovery is projected for 1997 and 1998. Other credit flows are assumed to increase in both years at a somewhat slower rate than in the past two years. Thus net factor outflows are projected to rise by 10.4 per cent in 1997 and10.2 per cent in 1998, as shown in Table 7.

After falling in the two preceding years, net current transfers rose by 21.9 per cent in 1996. Only small changes in the level are projected for 1997 and 1998.

On this basis the current account surplus is forecast to fall by almost £200 million to £664 million in 1997. A more substantial reduction to £139 million is projected for 1998, largely due to the impact of the assumed deterioration in the terms of trade on the visible trade balance. This outcome in turn results mainly from our currency assumptions, and if these prove invalid then the current account projection could obviously be erroneous. In any case, the addition of

TABLE 7: Balance of Payments

	1996 £m	Change %	1997 £m	Change %	199 £m
Visible Trade Balance	7,750	15¾	8,971	13	10,1
Adjustments	666		674		6
Merchandise Trade Balance	8,416	14½	9,645	12¼	10,8
Service Trade Balance	-3,787	24¼	-4,708	23¼	-5,80
Trade Balance in Goods and Services	4,629	6¾	4,937	1¾	5,02
Factor Flows:					
Debit Flows:					
Remuneration of Employees	-51	2	-52	2	-5
Distributed Profits, etc.	-4,521	14	-5,154	14	-5,87
Reinvested Earnings	-1,276	10	-1,404	10	-1,5
National Debt Interest	-915	-10	- 824	-10	-7
Other Debit Flows	-1,899	10	-2,089	8	-2,25
Total Debit Flows	-8,662	10	-9,523	10	-10,4
Credit Flows:					
Remuneration of Employees	241	4	251	4	2
Direct Investment Income	478	8	516	10	56
Other Credit Flows	2,821	10	3,103	10	3,4
Total Credit Flows	3,540	9¼	3,870	9½	4,2
Net Factor Flows	-5,121	10½	-5,653	10¼	-6,22
Net Current Transfers	1,353	2	1,380	-2¾	1,34
Balance on Current Account	862	-23	664	-79	13
Capital Transfers	489	10½	540	5	5
Effective Current Balance	1,351	-11	1,204	-41¼	7

capital transfers, which create no offsetting liabilities, are likely to keep the effective balance in comfortable surplus in both years.

Gross National Product

According to the preliminary national accounts, real GDP rose by 7.8 per cent and real GNP by 6.9 per cent in 1996. With a substantial rise in net transfers and a marginal improvement in the terms of trade, real gross national disposable income, adjusted for the terms of trade (GNDI) rose by 7.7 per cent. This exceptionally large increase in GNDI was well above our April forecast of 5½ per cent.

The expenditure forecasts discussed in preceding pages show that in 1997 real GDP is forecast to increase by 7.4 per cent and real GNP by 7.0 per cent. With approximate stability in net current transfers and a marginal deterioration in the terms of trade, real GNDI is forecast to increase by about 5½ per cent.

Real GDP and GNP growth is projected to decline only slightly in 1998, to 7.2 and 6.8 per cent respectively. However, with a small reduction forecast in the volume of current transfers and a significant deterioration expected in the terms of trade, real GNDI in 1998 is projected to increase by about 3½ per cent, well below the average level of recent years.

Agriculture

The official June estimate shows that the volume of gross agricultural output rose by 1.8 per cent in 1996, the volume of inputs by 0.5 per cent and the volume of gross agricultural product at factor cost by 2.3 per cent.

It is too early to assess the impact of weather conditions on agricultural output and inputs in 1997. On the assumption that the weather will not match last year's favourable conditions and that the multiple uncertainties facing agriculture will have some adverse effect on output, a slight fall in the volume of both gross agricultural output and gross agricultural product seems a reasonable forecast for 1997. When allowance is made for continuing increases in the output of forestry and fishing, little change is forecast in the gross domestic product of the broad agriculture sector.

With quotas still operating, output prices remaining relatively low and uncertainties persisting, the volume of gross agricultural product is projected to decline marginally further in 1998. Again, the growth in forestry and fishing could lead to an unchanged level of gross domestic product in the broad agriculture sector.

Industry

The volume of production index for manufacturing industry rose by 8.2 per cent, slightly below the average annual increase since 1990. To a large extent the apparent slowdown in 1996 was a reaction to the exceptionally rapid rise of 20 per cent in 1995, and represented a period of consolidation.

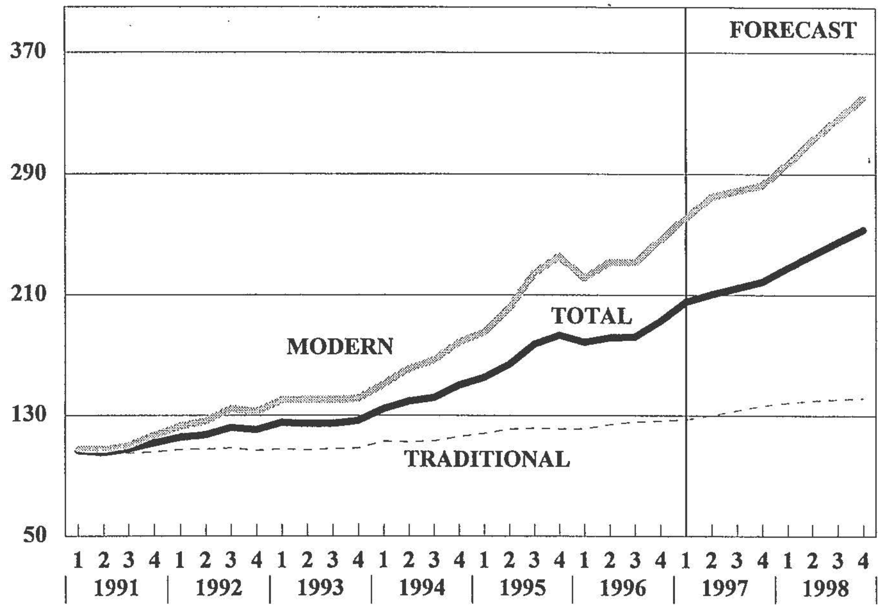
By the last quarter of 1996 manufacturing production was again rising strongly, and rapid growth continued in the first quarter of 1997. The IBEC-ESRI Survey indicates that output was continuing to increase during the second quarter. For 1997 as a whole, it is forecast that the volume of production index for manufacturing industry will increase by about 15 per cent. As usual, the high-technology sectors are expected to grow most rapidly, in spite of a probable narrowing of margins on sales to their main continental markets, but many traditional sectors should also record substantial growth in response to their improved competitiveness in relation to the UK.

Allowing for a more modest rate of growth in the extractive industries and the utilities, for a slightly slower increase in depreciation and for continued buoyancy in building and construction output, the volume of gross domestic product in the broad industry sector is forecast to increase by about 11 per cent in 1997, compared with 7.4 per cent in 1996.

Although some traditional sectors could be adversely affected by the reversal of currency trends, total industrial growth is expected to remain vigorous in 1998,

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



with increasing capacity in high technology sectors enabling a further strong rise in output. Increases of about 14 per cent in the volume of production index for manufacturing and 9 per cent in the volume of gross domestic product in the broad industry sector are projected for 1998.

Services

The volume of gross domestic product in the services sector rose by 8.7 per cent in 1996, but this outcome is somewhat distorted by the impact of substantial intervention stock-building on the distribution sector.

With intervention stocks likely to be less of a factor this year, a more normal, but still substantial, increase of about 5 per cent in the volume of gross domestic product in the services sector, after adjustment for financial services, is forecast for 1997. The growth rate of public administration and defence seems likely to decline further in 1998, while the slightly slower increase in the volume growth of domestic demand is likely to be reflected in a somewhat smaller increase in the output of the other service sectors. Thus, total volume growth in the service sector in 1998 is projected at about 4 per cent.

Employment

Despite the slowdown in industrial production in 1996, quarterly series indicate that manufacturing employment continued to grow throughout the year. Responses to the IBEC- ESRI Business Survey, corrected for their normal downward bias, suggest that manufacturing employment has continued to increase in the first half of 1997. The monthly index of building and construction employment is still rising, so that total industrial employment is likely to be substantially higher in 1997 than in 1996. Although available statistics for the public services and financial sectors show only a modest increase in the numbers engaged in 1996, it is believed that employment in the remainder of the service sector rose sharply. Revenue returns for the first half of 1997 suggest that total employment during the period was continuing the strong increase of recent years.

In the light of the latest indicators we have revised upwards our estimates of employment in April 1997 and for the year of 1996, and our forecasts of employment in April 1998 and the calendar years 1997 and 1998. As Table 8 shows, we now forecast that average employment in 1997 will increase by 52,000 to 1,368,000, with the rise in non- agricultural employment marginally higher. When allowance is made for part-time working, an increase of about 4 per cent in full-time equivalent non-agricultural employment seems likely in 1997.

With economic growth, and particularly domestic demand, expected to slacken in 1998, employment growth is also likely to be less rapid. A rise of 37,000 to 1,405,000 is projected for the total at work, with effective non-agricultural employment rising by almost 3 per cent.

If these employment projections are broadly correct, they should result in significant reductions in unemployment on a labour force basis, even allowing for a continued increase in female participation rates and for some net immigration. A larger reduction in the average level of the Live Register in 1997 seems probable, given trends in the first half of the year, but this, of course, will result partly from the more stringent approach taken to eligibility since the autumn of 1996.

This problem of assessing the impact of administrative changes makes it difficult to interpret the significance of the age-by-duration analysis of the Live Register for April 1997. At first sight, the figures are encouraging in showing that the decline in the Live Register of 26,300 or 9.3 per cent over the preceding twelve months was fairly evenly shared between those who had been out of work for less than one year and those with over one year's continuous unemployment. The percentage declines were 9.8 per cent for short-term and 8.8 for long-term registrees. However, it seems possible that the reduction in ineligible claimants in late 1996 was concentrated among the long-term unemployed, so that the reduction in their numbers is not firm evidence of their absorption into the increasing number at work. The publication of the ILO table in the 1997 Labour Force Survey should eventually clarify this issue.

What is clear from the Live Register analysis is that the reduction in the numbers on the Live Register in the year to April 1997 was heavily concentrated in the younger age groups. The percentage fall in both short and long-term unemployment registration was in double figures for male age groups under 45 years of age and for female age groups under 25 years old. By contrast, there were only small reductions in the numbers of males over 45 on the Register, while among women over 45 the numbers on the Register, both long and short-term, increased. This continuation of an established trend reflects a rise in eligibility,

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1995	1996	1997	1998	1999
Agriculture	142	136	134	132	130
Industry	346	350	379	398	413
Services	751	798	830	855	875
Total at Work	1,239	1,284	1,343	1,385	1,418
Unemployed	191	190	167	157	150
Labour Force	1,430	1,474	1,510	1,542	1,568
Unemployment Rate %[1]	12.2	11.9	10.7	10.0	9.5
Live Register	276	281	256	245	239

B: Annual Averages '000

	1995	1996	1997	1998
Agriculture	139	135	133	131
Industry	350	369	390	407
Services	771	812	845	867
Total at Work	1,260	1,316	1,368	1,405
Unemployed	188	178	162	155
Labour Force	1,448	1,494	1,530	1,560
Unemployed Rate %[1]	12.2	11.3	10.3	9.7
Live Register	278	279	253	243

[1] Official Standardised Unemployment Rate, based on ILO definitions. This cannot be derived directly from the figures in Table 8.

and cannot be interpreted as resulting from a deterioration in job prospects for older women.

Incomes

Income arising in agriculture, forestry and fishing fell marginally in 1996 to £2,426 million. A substantial fall in the value of gross agricultural product was roughly offset by a large rise in subsidies received. Although this pattern was exaggerated in 1996 by the effects of the BSE crisis, it also represents a continuing trend in the nature of the Common Agricultural Policy. Thus the small reductions in income in the broad agriculture sector forecast for 1997 and 1998 are the product of expected falls in the value of agricultural product at market prices, partly offset by rising subsidy levels.

Non-agricultural wages, salaries and pensions, including employers' social welfare contributions, increased by 7.5 per cent in 1996, with moderate average pay increases augmented by a considerable rise in the numbers employed. In 1997 it is forecast that the rise in average wages will be slightly higher, especially in the public services, while the increase in employment is likely to be only a little less than last year. Thus aggregate non-agricultural wages etc. are forecast to increase by about 8 per cent, representing a rise of about 3.7 per cent in average earnings and of over 4 per cent in effective employment. For 1998 rather smaller increases in both average pay, at just under 3.5 per cent and effective employment, at about 3 per cent are projected, resulting in a forecast increase of about 6.5 per cent in aggregate earnings.

The preliminary national accounts do not contain sufficient detail to establish an authoritative estimate of other non-agricultural personal income in 1996, but it seems likely it was in the region of £4,273 million. Increases of about 8 per cent are projected for both 1997 and 1998. On this basis, total income received is forecast to increase by about 7.2 per cent in 1997 and 6.1 per cent in 1998, as shown in Table 9.

Transfers rose rapidly in 1996 and are set to do so again this year, as compensation payments swell the underlying rise in social transfer payments. A more moderate increase in total transfer payments is projected for 1998.

Direct personal taxation increased by about 7.5 per cent in 1996, and on the evidence of the revenue returns is likely to rise even faster this year, despite

TABLE 9: Personal Disposable Income

	1996	Change		1997	Change		1998
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,426	-2	-49	2,377	-2	-48	2,329
Non-Agricultural Wages, etc.	19,477	8	1,558	21,035	6½	1,367	22,402
Other Non-Agricultural Income	4,273	8½	363	4,636	8½	397	5,033
Total Income Received	26,176	7¼	1,872	28,048	6	1,716	29,764
Current Transfers	6,260	9	564	6,824	5¼	353	7,177
Gross Personal Income	32,436	7½	2,436	34,872	6	2,069	36,941
Direct Personal Taxes	6,883	9¼	632	7,515	4½	331	7,846
Personal Disposable Income	25,553	7	1,804	27,357	6¼	1,738	29,095
Consumption	23,318	7½	1,772	25,090	7¾	1,932	27,022
Personal Savings	2,235	1½	32	2,267	-8½	-194	2,073
Savings Ratio	8.7			8.1			7.1

reductions in effective average rates of income tax. With aggregate incomes expected to rise less rapidly, and tax cuts likely to be larger, a much slower increase in direct personal taxation is projected for 1998.

Thus personal disposable income, which increased by about 6.2 per cent in 1996, is forecast to rise by 7.1 per cent in 1997 and by 6.4 per cent in 1998. With the rate of growth of consumption volumes forecast to decline only gradually from its 1996 peak, price changes seem likely to keep the value of personal consumption rising by about 7.7 per cent in each year. This implies a significant further reduction in the personal savings ratio in both 1997 and, especially, 1998. These ratios are low by historical Irish standards, but against a background of improving government savings and expectations that interest rates will tend downwards in 1998, they appear reasonable.

Consumer Prices

The consumer price index rose by an annual average of 1.6 per cent in 1996, while the twelve-monthly rise in both February and May 1997 was 1.5 per cent. Although the rise in the index of housing costs has been somewhat greater than that in other items, it has not had a significant impact on the total index.

There has been some surprise expressed that the rate of price inflation has remained so low, in the face of prolonged rapid economic growth and of the substantial depreciation against sterling in the past year. So far as the former worry is concerned, it has long been established that the inflation rate in a small economy as open as Ireland's is externally determined, and the international environment remains one of unusually low inflation. So far as the sterling exchange rate is concerned, the present situation, where sterling has appreciated against all other currencies and the Irish pound has moved part of the way with it, is unfamiliar. Thus previous econometric models provide only limited guidance. Recent trends suggest that current fears concerning the inflationary effects of the sterling exchange rate are probably exaggerated, and that the trade-weighted value of the Irish pound has at least as great an influence on Irish prices. Moreover, lags in adjusting to currency movements remain very long, especially when exchange rate trends are perceived as temporary.

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1995		1996				1997		1996	1997	1998
	Aug.	Nov.	Feb.	May.	Aug.	Nov.	Feb.	May			
Index Nov. 1989 = 100											
Housing	120.8	118.8	116.7	117.1	117.6	120.0	119.8	123.0	117.9	123.1	124.3
Other	115.3	115.6	116.3	116.8	117.4	117.9	118.0	118.3	117.1	118.9	122.0
Total CPI	115.7	115.8	116.3	116.8	117.4	118.0	118.1	118.6	117.1	119.2	122.2
Annual % Change											
Housing	8.1	5.9	3.2	-1.8	-2.5	1.0	2.7	5.0	-0.1	4.4	1.0
Other	2.0	2.1	1.9	1.7	1.8	2.0	1.5	1.3	1.8	1.5	2.6
Total CPI	2.4	2.4	2.0	1.4	1.5	1.9	1.5	1.5	1.6	1.8	2.5
Quarterly % Change											
Housing	1.3	-1.7	-1.8	0.3	0.4	2.0	-0.2	2.7			
Other	0.3	0.3	0.6	0.4	0.5	0.4	0.1	0.2			
Total CPI	0.4	0.1	0.4	0.4	0.5	0.5	0.1	0.2			

Thus, although some uncertainty is unavoidable, the most likely development is that the rate of price inflation will increase gradually in the remainder of 1997 and for most of 1998. As shown in Table 10, the consumer price index is forecast to show an annual average increase of 1.8 per cent in 1997, implying that the twelve-month rise will be about 2 per cent by the end of the year. On the underlying assumptions of this *Commentary*, consumer price inflation in 1998 is likely to lie in the range from 2 to 3 per cent. An annual average increase of 2½ per cent seems the most realistic projection.

Public Finances

Revenue returns for the first half of 1997 indicate that the very strong fiscal performance in 1996 is continuing unabated. After allowing for timing factors, it now seems likely that tax revenues in 1997 will exceed Budget targets by about £600 million, with an annual increase in the region of 10.7 per cent.

Although the half yearly expenditure figures are harder to interpret, it appears that a firm grip is continuing to be held on general public spending. As in recent years, forced additional spending on obligations arising from the past, in this case mainly Hepatitis compensation, seems likely to take total annual expenditure a little over the Budget targets, with likely savings on debt interest probably again used for some end-year pre-payment of future liabilities.

The current budget surplus could thus exceed £700 million, compared with less than £200 million targeted in the Budget. If borrowing for capital purposes is roughly in line with target, the Exchequer Borrowing Requirement (EBR) could thus be in the region of £100 million, and the General Government Deficit about 0.2 per cent of GDP, although a decision to increase end-year pre-payments could well lead to a larger deficit being declared.

On the basis of our general economic forecast, tax revenue should continue to be buoyant in 1998. Of course, the actual rise in tax revenue will depend to a considerable extent on decisions yet to be taken regarding effective average tax rates. Taking the declared policy of the new government as a guideline, it seems probable that the increase in income tax receipts will be much lower than in 1996 and 1997, while the slight slowdown in the economy could somewhat restrict the rate of growth of other tax receipts. However, an increase of over 6 per cent in total tax receipts seems a reasonable projection for 1998.

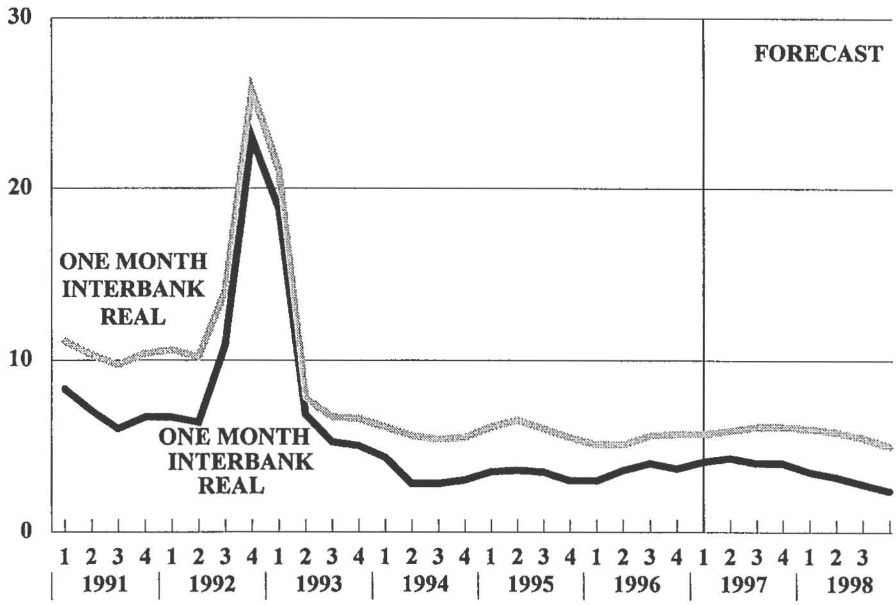
Given the impact on interest payments of the very low level of exchequer borrowing in 1997, the government target of a 4 per cent rise in total net current expenditure in 1998 does not appear unreasonable, although it will certainly call for very stringent control over day-to-day spending. Even allowing for some slippage, a current budget surplus in the region of £1,000 million in 1998 could well be achieved, implying that the EBR will be replaced by an overall Exchequer Surplus, and that the General Government Deficit will likewise be at or below zero.

Interest Rates

Short-term interest rates were unexpectedly raised by ½ per cent shortly after the publication of the April *Commentary* and the one-month interbank rate has tended to fluctuate slightly at just over 6 per cent since early May. Despite currency tensions, little change is expected in the remainder of 1997. Long-term rates tend to move in line with international trends, and no major movement seems likely in the next few months.

Figure 4: Interest Rates

Per Cent Per Annum, Quarterly Averages



The course of interest rates, long and short-term, in 1998 will be closely related to the development of EMU, and especially to the timing and nature of decisions on entry rates. On the assumption that EMU proceeds on schedule, Irish and German interest rates will become almost identical from the beginning of 1999. As already discussed, it seems likely that German interest rates will rise in the course of 1998, but it is still probable that for the current differential to be eliminated Irish interest rates will need to fall. The assumption in this *Commentary* is that this reduction in Irish rates will take place quite late in 1998, so that the annual average of both long and short-term interest rates will be only slightly lower than in 1997.

General Assessment

All available indicators suggest that the Irish economy in 1997 is heading for its fourth successive year of very rapid, low inflation, growth. After three years in which official estimates show an average increase in real GNP of 7½ per cent, our current forecast is that real GNP will rise by 7 per cent this year. Annual average employment seems likely to increase by over 50,000, average unemployment to fall significantly, the public finances to improve further, the current account of the balance of payments to stay in reasonable surplus, and annual average price inflation to remain at under 2 per cent.

Despite considerable uncertainties, mainly induced by international currency instability, it seems likely that rapid growth in output and employment will continue in 1998, with real GNP projected to increase by 6¾ per cent. If this growth rate is achieved, then it is probable that the Exchequer Borrowing Requirement will be eliminated in 1998 and there should be a further moderate reduction in unemployment. However, because of the lagged effects of the currency movements which have already taken place and the assumption that there will be some decline in the annual trade weighted value of the Irish pound next year, a moderate acceleration in price inflation to about 2½ per cent, and a substantial reduction in the current account surplus are projected for 1998.

The underlying strength of the economy, based on a combination of favourable structural factors, should permit a continuation of rapid and balanced economic and employment growth beyond 1998. However, such an outcome is not guaranteed, and long- term economic progress will only be maintained if overall competitiveness remains strong. Competitiveness is an amalgam of many elements. The more fundamental elements, such as the return on past investment in human capital and physical infrastructure, and the presence of essentially honest and effective state institutions will remain positive. However, the more ephemeral elements, such as the perception of economic stability and relative labour costs, depend largely on the policy decisions taken in regard to the macro-economic management of the economy.

It is vital that the decisions made in these areas focus on the medium to long-term competitiveness of the economy, even under the pressure of reacting to the essentially short-term currency turbulence which seems inevitable in the period before EMU.

The perception of long-term Irish economic stability rests largely on the record of the past few years, especially in relation to the public finances and wage moderation. The primary recent aim of overall fiscal policy, that of eliminating the current budget deficit, which amounted to 7.9 per cent of GNP as recently as 1986, has been achieved, with a substantial budget surplus recorded in 1996 and due to be extended in 1997 and 1998. The new aim of eliminating the EBR will come close to realisation in 1997, and, on our projections, is likely to be fulfilled in 1998. It is important to obtain a negative borrowing requirement in 1998 and 1999, both to maintain Ireland's reputation for prudent fiscal management and, more crucially, to provide room for domestic funding of necessary infrastructural investment as EU funding is scaled down after 1999. There now seem good grounds for confidence that, given reasonably stringent control of public expenditure, the public finances can absorb a gradual reduction in EU funding even if the rate of economic growth slackens from its current exceptional level.

Wage moderation, which was born of desperation at the gloomy employment prospects of the late 1980s, has since been sustained by a prolonged trade-off against falling effective rates of personal income tax, and by a high level of labour availability resulting from demographic trends, a reversal of net emigration, rising female participation and a rate of unemployment, which although falling is still high by historical standards. It can be argued that these factors would have delivered pay moderation in an unstructured labour market, but there can be little doubt that the incorporation of the central pay-tax trade-off in a series of national agreements has been beneficial in achieving the results in an atmosphere of relative industrial peace and with a fair degree of co-operation in restructuring and improving flexibility. Moreover, by providing reasonable certainty concerning both future pay trends and lack of industrial disputes, the agreements have undoubtedly helped to create the climate of economic stability which has encouraged a steady flow of productive investment and substantial job creation.

As well as contributing to stability, the long period of pay moderation has also been a key factor in improving and maintaining competitiveness. However, unless settlements were to include a totally unrealistic degree of flexibility, pay moderation alone cannot ensure that labour costs will remain internationally competitive. Exchange rate movements obviously also affect the level of relative labour costs between countries.

In the currency turbulence of the past twelve months, the Irish authorities are to be complimented on keeping the Irish pound among the most stable currencies in Europe, with its trade-weighted average value fluctuating within 3 per cent either side of its mid-1996 level. This has ensured that the temporary losses of competitiveness *vis-à-vis* most continental countries have been more or less balanced by a temporary gain in competitiveness against the UK, and to a lesser extent the USA.

With international currency instability likely to continue for at least a further nine months it would seem premature to modify significantly this undeclared policy of overall balance between the conflicting trends of other currencies. As it is clear that much of the currency movement of the last twelve months must ultimately be reversed, although the timing of the reversal is impossible to predict, it is to Ireland's advantage to retain its freedom of action for as long as possible.

The ultimate issue of the entry rate to EMU is one of great significance to the long-term future of the Irish economy. The decision on this issue must be based on an assessment of long-term sustainability, and pressures to pre-empt this assessment in response to temporary short-term developments and exaggerated fears of likely price inflation should be firmly resisted.

If our projections are correct, an overall surplus in the public finances should replace the long-familiar Exchequer Borrowing Requirement in 1998, even after allowing for significant reductions in direct tax rates. Such a development is entirely appropriate for Ireland's current economic circumstances. However, the more extreme calls for an even greater tightening of fiscal policy appear to be misplaced.

The existing evidence of inflationary pressures, such as rising property prices and the emergence of some bottlenecks in the supply of specific labour skills, are strictly sectoral and would not be addressed by a general fiscal squeeze. The warnings of a more widespread overheating of the economy rest mainly on economic theories evolved in relation to large, relatively closed economies. As a small, exceptionally open, economy with a flexible international supply of both capital and labour, the output constraints on Ireland are much weaker than in the standard economic models. Moreover, the overall savings ratio is still tending to rise, with a large increase in government saving offsetting the decline in the personal savings ratio.

The principal danger of overheating highlighted in standard economic models is that of an inflationary rise in pay settlements. In the Irish context, this danger is best averted for the next two years through ensuring adherence to the moderate pay terms embodied in *Partnership 2000*. This places clear obligations on both unions and employers. It also has obvious implications for government policy. Pay increases in the public service must not be allowed to exceed those envisaged in the agreement. On the other hand, it is vital that the tax commitments in the agreement are, and are perceived to be, fully honoured.

The consensus approach to pay determination over the past decade has yielded large benefits, especially in the form of a spectacular rise in employment. Making sure that this approach survives under *Partnership 2000* is the most effective method of preserving the competitiveness on which the future growth of jobs depends.

STATISTICAL APPENDIX

	Output Indicators					Employment		
	1	2	3	4	5	6	7	8
	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Electricity Output	Houses Completed	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing
	1985=100	1985=100	1985=100	G.W.H.	Total Number	'000s	'000s	'000s
1990	149.2	197.9	117.6	14325	19539	191.9	48.4	143.5
1991	153.9	208.6	118.0	14990	19652	193.9	50.7	143.4
1992	169.6	243.6	121.0	15682	22464	194.0	52.1	141.9
1993	178.8	265.7	121.3	16161	21391	194.0	54.5	139.6
1994	201.6	309.9	127.7	16844	26863	199.3	58.2	141.1
1995	242.1	398.9	135.5	17598	30575	211.5	66.5	145.0
1996	261.9	439.2	139.9	18935	33725	221.2	73.8	147.5
1997								

Quarterly Averages or Totals

1994 I	195.2	299.8	118.8	4484	4692	194.6	55.9	138.4
II	206.1	312.2	128.6	4016	5889	197.7	56.9	141.0
III	186.2	282.5	118.9	3874	7799	200.7	58.6	142.1
IV	219.5	337.7	132.1	4470	8483	204.2	61.2	143.0
1995 I	224.7	368.7	124.1	4674	6296	204.9	62.0	142.7
II	242.4	390.6	138.6	4151	7156	210.6	64.7	146.1
III	233.3	379.5	127.9	4080	7684	213.8	68.2	145.5
IV	268.7	446.7	138.0	4693	9439	216.7	71.1	145.6
1996 I	257.4	438.8	127.2	5084	7216	215.9	72.4	143.7
II	268.8	449.2	142.3	4455	7931	220.7	73.0	147.7
III	239.9	390.9	132.2	4316	8403	223.5	74.0	149.5
IV	282.3	467.4	143.9	5080	10175	224.6	75.6	148.9
1997 I	295.9	516.4	133.3		8081	225.9	76.9	149.1
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1994 I	191.3	282.5	123.8	4159	No Seasonal Pattern	197.0	56.4	140.1
II	198.2	302.4	123.3	4239		198.3	57.4	140.5
III	201.8	313.4	124.0	4235		199.1	58.4	141.0
IV	215.3	335.3	127.2	4222		203.2	60.4	142.8
1995 I	220.6	348.4	129.5	4336		207.1	62.4	144.5
II	233.2	378.2	132.6	4371		210.9	65.3	145.5
III	253.0	421.3	133.4	4464		212.3	68.0	144.5
IV	263.2	442.4	132.9	4437		215.6	70.3	145.4
1996 I	254.9	415.3	133.0	4716		218.1	72.8	145.6
II	259.3	434.9	135.9	4685		221.1	73.7	147.0
III	260.2	434.3	137.9	4723		222.2	74.7	148.4
IV	274.8	462.0	138.6	4808		223.7	74.8	148.7
1997 I	293.1	489.5	139.4			228.2	77.3	151.0
II								
III								
IV								

Output Per Head			Money Earnings	Real Earnings	Unemployment			
9	10	11	12	13	14	15	16	
Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Manufacturing	Manufacturing	Live Register Male	Live Register Female	Live Register Total	
1985=100	1985=100	1985=100	1989=100 Av. Weekly	1989=100 Av. Weekly	'000s Av. Monthly	'000s Av. Monthly	'000s Av. Monthly	
145.0	160.9	121.0	103.9	100.5	152.1	72.6	224.7	1990
148.3	162.1	121.5	108.4	101.7	170.5	83.5	253.9	1991
163.5	184.2	125.8	112.8	102.6	187.2	96.0	283.1	1992
172.3	192.0	128.1	118.8	106.6	193.8	100.5	294.3	1993
189.1	209.8	133.5	122.3	107.2	184.4	98.0	282.4	1994
214.0	236.2	137.9	125.0	106.9	178.5	99.3	277.8	1995
221.3	234.5	140.0	128.2	107.8	175.6	103.6	279.2	1996
								1997

Quarterly Averages

187.5	211.2	126.6	121.0	107.1	194.1	99.6	293.7	1994 I
194.9	216.0	134.5	122.1	107.2	183.7	96.3	280.0	II
173.4	189.8	123.4	121.3	105.7	181.6	99.5	281.1	III
200.9	217.3	136.3	124.9	108.7	178.2	96.7	274.9	IV
205.0	234.2	128.3	123.3	106.5	181.8	97.8	279.6	1995 I
215.2	237.7	140.0	124.7	106.6	176.9	96.8	273.7	II
204.0	219.1	129.7	125.2	106.6	177.7	101.5	279.2	III
231.8	247.4	139.8	126.7	107.7	177.7	100.9	278.6	IV
222.9	238.6	130.6	125.5	106.3	182.0	103.3	285.3	1996 I
227.7	242.3	142.1	128.0	107.9	176.9	102.8	279.7	II
200.6	208.0	130.5	126.5	106.1	177.0	107.9	284.9	III
234.9	243.4	142.6	132.8	110.8	166.7	100.3	267.0	IV
244.8	264.4	131.8			164.7	100.5	265.2	1997 I
					155.7	97.1	252.8	II
								III
								IV

Quarterly Averages (Seasonally Corrected)

182.0	197.7	130.4	122.3	108.2	189.8	99.3	289.0	1994 I
188.5	206.9	129.3	123.5	108.4	185.2	97.9	282.9	II
189.6	211.7	129.5	122.0	106.5	182.4	97.4	279.8	III
196.5	218.5	131.6	121.1	105.3	180.2	97.6	277.7	IV
199.2	220.1	132.3	124.8	107.7	177.6	97.5	275.1	1995 I
208.2	227.6	134.4	126.8	108.4	178.3	98.4	276.7	II
223.3	244.4	136.1	126.1	107.5	178.4	99.5	277.9	III
226.2	247.9	134.9	122.0	103.6	179.6	101.7	281.2	IV
216.7	224.9	134.9	127.2	107.6	177.9	103.0	281.0	1996 I
220.3	232.1	136.3	82.2	69.3	178.3	104.4	282.7	II
219.8	229.2	136.9	127.4	107.0	177.8	105.9	283.7	III
229.0	243.5	137.5	127.4	106.2	168.6	101.0	269.6	IV
238.3	249.6	136.4			160.7	100.2	260.8	1997 I
					157.1	98.4	255.9	II
								III
								IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Output Price Index	Import Unit Value	Export Unit Value	Terms of Trade	Price of Stocks + Shares (ISEQ)
	Nov. 1989 =100	1985=100	1985=100	1990=100	1990=100	1990=100	1990=100	Jan 1988=1000
1990	101.7	107.8	105.1	100.0	100.0	100.0	100.0	1562.2
1991	105.0	108.7	106.4	97.3	102.3	99.3	97.0	1382.4
1992	108.3	110.5	107.3	98.4	100.2	96.6	96.4	1311.1
1993	109.8	115.6	112.4	103.9	105.4	103.9	98.6	1576.0
1994	112.4	116.9	113.5	106.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8	115.9	108.2	112.7	105.6	93.7	1992.9
1996	117.1	120.6	116.5	104.0	111.4	105.1	94.3	2494.3
1997								
	Quarterly Averages							
1994 I	111.2	117.0	113.5	108.5	107.3	102.4	95.5	1966.3
II	112.1	117.1	113.9	111.2	108.7	104.5	96.1	1806.3
III	113.0	116.6	113.2	104.6	108.1	105.6	97.7	1817.7
IV	113.1	116.8	113.4	103.1	108.3	102.7	94.8	1823.1
1995 I	114.0	118.3	115.4	107.8	111.7	104.0	93.2	1863.6
II	115.2	119.5	116.6	110.5	113.7	107.4	94.4	1893.2
III	115.7	120.2	115.3	106.5	112.2	105.6	94.1	2055.7
IV	115.8	121.3	116.3	108.1	113.2	105.5	93.2	2159.2
1996 I	116.3	121.3	117.7	109.5	113.4	108.1	95.3	2304.7
II	116.8	121.2	117.1	106.9	112.1	106.6	95.1	2496.1
III	117.4	120.3	116.2	100.4	111.1	103.8	93.5	2511.0
IV	118.0	119.6	115.1	99.0	109.1	101.9	93.4	2665.6
1997 I	118.1	118.8		96.9				2891.3
II	118.6	119.6						3127.4
III								
IV								
	Quarterly Averages (Seasonally Corrected)							
1994 I	111.3	117.0	113.5	107.5	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	112.0	116.7	113.4	108.1				
III	112.8	116.5	113.2	106.1				
IV	113.3	117.1	113.9	105.4				
1995 I	114.1	118.4	115.3	106.8				
II	115.1	119.2	116.1	107.5				
III	115.5	120.2	115.3	108.2				
IV	116.0	121.5	116.9	110.5				
1996 I	116.4	121.4	117.5	108.4				
II	116.7	120.8	116.6	104.0				
III	117.2	120.3	116.2	102.1				
IV	118.2	119.8	115.7	101.2				
1997 I	118.2	118.9		95.9				
II	118.5	119.3						
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Registered (New+S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expenditure	Current Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.5	99.5	8776	9076	300	10.4	9.3	1991
85492	105.9	102.0	9360	9806	446	15.2	9.1	1992
87352	109.0	103.4	10140	10519	379	10.6	7.8	1993
116636	118.0	109.3	11203	11188	-15	5.7	8.2	1994
124595	123.7	112.4	11667	12029	362	6.1	8.3	1995
153833	134.0	119.4	12954	13522	568	5.8	8.1	1996
								1997

Quarterly Averages or Totals

39741	113.1	105.8	2709	2962	253	6.1	6.9	1994 I
36317	115.0	106.5	3041	2651	-390	5.6	8.4	II
25637	117.2	108.2	2642	2646	4	5.4	8.7	III
14941	125.3	115.4	2811	2929	118	5.5	8.7	IV
39283	116.0	106.3	2537	2771	234	6.1	8.7	1995 I
37934	121.0	109.9	3156	2956	-200	6.5	8.4	II
29536	123.9	112.4	2914	2827	-87	6.0	8.3	III
17842	132.9	120.1	3060	3475	415	5.5	7.8	IV
50295	126.1	113.3	2678	3118	440	5.1	7.8	1996 I
48571	132.6	118.2	3298	3063	-235	5.1	7.7	II
33460	132.2	117.7	3607	2892	-715	5.6	7.5	III
21507	143.9	127.4	3372	3590	218	5.7	6.9	IV
51641	134.8	120.0	3101	3200	99	5.7	6.8	1997 I
			4151	3083	-1068			II
								III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

30068	118.1	110.4	3004	2834	-171	No Seasonal Pattern	No Seasonal Pattern	1994 I
29061	116.0	107.6	2946	2731	-215			II
28399	117.3	108.4	2587	2838	251			III
28757	119.2	109.7	2708	2756	48			IV
29494	120.9	110.6	2824	2689	-135			1995 I
30283	122.0	111.0	3004	3042	38			II
33057	124.2	112.7	2858	3038	180			III
34344	126.6	114.3	2978	3225	247			IV
37695	131.2	117.8	2993	3069	76			1996 I
38669	133.6	119.3	3097	3139	42			II
37636	132.7	118.1	3552	3112	-440			III
41452	137.0	121.0	3293	3309	16			IV
38617	140.0	125.0	3475	3178	-297			1997 I
			3871	3144	-728			II
								III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
		Licensed Banks Domestic Credit						
	Money Supply M3	Gov.	Non-Gov	External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971=100	Per IR£	Per IR£	Per IR£
1990	11690.7	2506.0	13855.9	2996.1	68.33	0.9305	1.6588	2.6729
1991	12579.9	2502.2	13553.2	3328.0	67.35	0.9133	1.6162	2.6708
1992	13141.2	2946.7	14410.7	2923.4	69.48	0.9695	1.7062	2.6561
1993	16287.1	2829.5	14910.5	3928.5	66.01	0.9771	1.4682	2.4241
1994	17970.1	3285.7	16655.2	4288.4	66.16	0.9777	1.4984	2.4263
1995	20027.1	3332.1	19916.6	4781.4	67.12	1.0168	1.6038	2.2971
1996	23608.9	2814.0	23548.0	5300.0	68.48	1.0255	1.6008	2.4092
1997								

	End-Period Totals				Quarterly Averages			
1994 I	17328.3	2723.7	15249.3	4175.7	65.51	0.9607	1.4300	2.4640
II	17540.1	2901.6	15759.5	4362.7	65.93	0.9763	1.4687	2.4380
III	18187.1	3230.6	16067.8	4442.8	66.39	0.9880	1.5327	2.3920
IV	18824.9	3285.7	16655.2	4172.6	66.81	0.9857	1.5623	2.4113
1995 I	19212.0	3031.4	17454.4	4192.0	66.58	0.9943	1.5733	2.3263
II	19333.2	2939.9	18383.8	4366.6	67.05	1.0197	1.6270	2.2717
III	20207.0	3279.6	19036.5	5213.2	67.42	1.0247	1.6117	2.3067
IV	21356.3	3332.1	19916.6	5353.6	67.43	1.0283	1.6033	2.2837
1996 I	22088.2	3873.5	20584.8	5394.9	67.60	1.0317	1.5797	2.3193
II	22669.5	3572.2	21595.3	5113.2	68.07	1.0307	1.5703	2.3913
III	23853.7	3019.0	22218.0	5249.0	68.78	1.0347	1.6090	2.4090
IV	25824.3	2814.0	23548.0	5443.0	69.45	1.0050	1.6443	2.5170
1997 I	27230.3	3013.0	25647.0	5817.3	69.66	0.9780	1.5943	2.6433
II					67.45	0.9316	1.5250	2.6126
III								
IV								

	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1994 I II III IV	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
1995 I II III IV								
1996 I II III IV								
1997 I II III IV								

Visible Trade Indicators					Balance of Payments		
41	42	43	44	45	46	47	
Imports (Value)	Exports (Value)	Trade Surplus (Value)	Imports (Volume)	Exports (Volume)	Net Factor Flows	Current Account	
£m	£m	£m	1990=100	1990=100	£m	£m	
12475.5	14342.4	1866.9	100.0	100.0	-2921	-224	1990
12850.8	15018.9	2168.1	100.8	105.4	-2796	209	1991
13194.8	16743.8	3549.1	105.7	121.2	-3209	320	1992
14884.9	19829.7	4945.0	112.9	133.3	-3521	1248	1993
17251.2	22753.7	5502.6	127.6	153.2	-3575	998	1994
20619.1	27824.7	7205.8	146.3	184.1	-4508	1070	1995
22346.3	30084.4	7738.1	160.4	200.1	-5121	862	1996
							1997
Av. Monthly Totals			Quarterly Averages or Totals				
1419.4	1773.8	354.4	127.0	145.1	-1192	-369	1994 I
1415.0	1868.3	453.3	124.9	149.9	-994	149	II
1345.0	1827.3	482.3	119.4	145.0	-687	557	III
1571.0	2115.2	544.1	139.2	172.8	-702	662	IV
1656.8	2154.8	498.0	142.3	173.6	-1163	-19	1995 I
1649.9	2280.9	631.1	139.2	178.2	-1192	360	II
1625.1	2255.2	630.2	139.0	179.0	-1084	377	III
1941.3	2583.9	642.6	164.6	205.5	-1070	352	IV
1945.9	2588.5	642.6	164.7	201.0	-1460	-199	1996 I
1862.3	2514.4	652.1	159.3	197.7	-1305	28	II
1700.0	2343.2	643.3	147.0	189.2	-1177	578	III
1940.6	2582.0	641.5	170.6	212.4	-1179	454	IV
							1997 I
							II
							III
							IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)				
1385.5	1784.6	399.2	123.9	144.8	No Seasonal Pattern	No Seasonal Pattern	1994 I
1413.1	1838.0	424.9	125.8	149.5			II
1419.8	1915.2	495.5	126.0	153.0			III
1542.5	2023.7	481.2	135.5	163.9			IV
1599.4	2184.9	585.5	137.6	174.0			1995 I
1651.4	2252.8	601.4	140.7	178.3			II
1740.5	2351.3	610.8	148.4	188.0			III
1898.3	2491.5	593.2	159.6	196.4			IV
1872.4	2594.7	722.3	158.5	198.8			1996 I
1865.8	2485.4	619.6	161.3	198.0			II
1802.1	2463.1	661.0	155.7	200.3			III
1871.3	2471.7	600.4	163.0	202.0			IV
							1997 I
							II
							III
							IV