

Quarterly Economic Commentary

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Special Articles

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Summary Table

	2012	2013	2014	2015	2016
Output (Real Annual Growth %)					
Private Consumer Expenditure	-0.8	-0.3	2.0	3.6	3.4
Public Net Current Expenditure	-2.2	1.4	4.6	1.3	1.0
Investment	8.6	-6.6	14.3	27.2	19.2
Exports	2.1	2.5	12.1	13.1	7.6
Imports	2.9	0.0	14.7	15.7	10.1
Gross Domestic Product (GDP)	0.2	1.4	5.2	6.7	4.8
Gross National Product (GNP)	1.6	4.6	6.9	5.2	5.3

Prices (Annual Growth %)					
Consumer Price Index (CPI)	1.7	0.5	0.2	-0.1	1.0
Growth in Average Hourly Earnings	0.2	-0.4	1.7	2.0	2.3

Labour Market					
Employment Levels (ILO basis (000s))	1,842	1,880	1,914	1,967	2,018
Unemployment Levels (ILO basis (000s))	316	282	243	200	173
Unemployment Rate (as % of Labour Force)	14.7	13.0	11.3	9.3	7.9

Public Finance					
General Government Balance (€ bn)	-14.1	-10.2	-7.3	-2.3	-1.2
General Government Balance (% of GDP)	-8.0	-5.7	-3.9	-1.1	-0.5
General Government Debt (% of GDP)	120.2	120.0	107.5	94.9	86.7

External Trade					
Balance of Payments Current Account (€ bn)	-2.7	5.6	6.8	11.6	14.5
Current Account (% of GNP)	-1.5	3.1	3.6	5.4	6.2

Demand					
Final Demand	1.5	0.9	9.4	11.1	7.5
Domestic Demand	0.7	-1.2	5.7	8.4	7.4
Domestic Demand (excl. Stocks)	1.0	-1.5	5.2	8.8	7.4

The Irish Economy - Forecast Overview and Summary

The Irish economy is set to register a substantial growth performance in 2015 with the expected 6.7 per cent year-on-year increase in output unsurpassed since 2005. While the Irish recovery has benefitted from a weak Euro and strong economic performance amongst key trading partners, it is noteworthy, particularly given a variety of countervailing factors; the ongoing difficulties in the Irish financial sector, the related low levels of credit extended, the persistent high levels of private sector debt and the anaemic performance of many European economies since 2010.

The Nowcasting model (summarised in the Appendix) indicates that the economy grew by 6.8 per cent during 2015 with the highest rates of growth occurring in Q2 and Q3. Based on the strong performance through the year, we also revise upwards our outlook for 2016 with an expected output growth rate now of 4.8 per cent.

While investment began to contribute to the Irish recovery in 2014, private consumption saw a significant increase in 2015 with expenditure on items such as motor cars, retail sales and household goods registering the largest year-on-year growth. This increase in expenditure occurred as the overall burden of household debt in the Irish economy fell back to 2006 levels. Notwithstanding this increase, the level of consumption in real terms in 2015 is still set to be less than that which prevailed in 2008.

External trade is likely to continue as a significant source of growth in 2016, however we note a number of potential downside risks in that regard. The OECD, amongst others, is concerned about the performance of key emerging economies in 2016, while any unwinding of the ongoing vulnerabilities in the Chinese economy could have serious implications for key Irish trading partners such as the United States, the United Kingdom and Europe. Next year may also see a referendum in the UK on its membership of the European Union. The recent report by the ESRI,¹ which teases out some of the likely implications of a British withdrawal, illustrates the negative trade implications for the Irish economy of such a development.

¹ Barret, A., A. Bergin, J. FitzGerald, D. Lambert, D. McCoy, E. Morgenroth, I. Siedschlag and Z. Studnika (2015). *Scoping the Possible Economic Implications of Brexit on Ireland*. ESRI, available at www.esri.ie.

In the Autumn *Commentary* we outlined our view that a neutral budgetary strategy was the optimal policy to follow, especially given the strong growth rates evident in the economy. This was framed against the official position announced in the Stability Programme Update (SPU) in May that there would be a €1.5 billion stimulatory package split evenly between expenditure and taxation. However, it was particularly disappointing that the degree of the expansionary package was compounded by the greater than expected current Government expenditure in 2015 announced just prior to the budget. This suggests that the Government is putting almost €2.8 billion into the Irish economy at a time of already significant growth.

In light of the remarkable growth rates for 2014 and 2015, in the domestic section of the *Commentary*, we tease out the actual output levels vis-à-vis potential in the Irish economy at present. While unemployment at 9 per cent would suggest that there is still a large degree of spare capacity, current rates of productivity (both total factor and labour) are particularly high. Were these rates to converge back to long-run trends, as is likely, particularly as greater factor inputs are employed in the economy, then the degree of spare capacity would not be as large as previously thought. Consequently, in 2015, we believe a negative output gap of 1 per cent exists.

Finally, as with a number of recent *Commentaries*, we devote some attention to the housing market. Recent research² suggests that it may take up to three years for supply in the Irish market to reach the underlying structural demand of approximately 25,000 units per annum. However, it is also clear that the targets for social housing set out in Social Housing 2020 (2014)³ for the period 2015-2018 are also unlikely to be met. One possible way of achieving a significant increase in social housing provision is for the State to provide this through local authority schemes as it used to prior to 2009.

² Duffy D., D. Foley and K. McQuinn (2015). 'Cross-country residential investment rates and the implications for supply response in Ireland', Paper to the joint EU Commission / ESRI Seminar: Housing Ireland's Recovery: Policy perspectives, Dublin, November.

³ Social housing 2020 (2014). 'Support, supply and reform', Department of Environment, Community and Local Government, available at www.environ.ie/en/PublicationsDocuments/FileDownload,39622,en.pdf.

National Accounts 2014

A: Expenditure on Gross National Product

	2013	2014	Change in 2014		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	85.7	89.0	3.8	1.7	2.0
Public Net Current Expenditure	26.1	27.2	4.3	-0.2	4.6
Gross Fixed Capital Formation	31.7	36.5	15.3	0.8	14.3
Exports of Goods and Services	191.4	215.0	12.3	0.2	12.1
Physical Changes in Stocks	0.8	1.9			
Final Demand	335.7	369.6	10.1	0.7	9.4
less:					
Imports of Goods and Services	156.8	180.3	15.0	0.3	14.7
Statistical Discrepancy	0.5	-0.2			
GDP at Market Prices	179.4	189.0	5.3	0.1	5.2
Net Factor Payments	-27.4	-26.2			
GNP at Market Prices	152.0	162.9	7.1	0.2	6.9

B: Gross National Product by Origin

	2013	2014	Change in 2014	
	€ bn	€ bn	€ bn	%
Agriculture	3.2	3.4	0.2	6.4
Non-Agriculture: Wages, etc.	67.7	70.0	2.4	3.5
Other	64.0	68.4	4.4	6.9
Adjustments: Stock Appreciation	0.6	-0.3		
Statistical Discrepancy	-0.5	0.2		
Net Domestic Product	135.0	141.9	6.8	5.0
Net Factor Payments	-27.4	-26.2	1.2	-4.5
National Income	107.6	115.7	8.0	7.5
Depreciation	28.4	29.3	0.9	3.3
GNP at Factor Cost	136.0	145.0	9.0	6.6
Taxes less Subsidies	16.0	17.9	1.9	11.6
GNP at Market Prices	152.0	162.9	10.8	7.1

C: Balance of Payments on Current Account

	2013	2014	Change in 2014
	€ bn	€ bn	€ bn
X – M	34.6	34.9	0.2
F	-27.4	-26.2	1.2
Net Transfers	-2.9	-2.7	0.2
Balance on Current Account	4.3	6.0	1.6
as % of GNP	2.8	3.7	1.0

National Accounts 2015

A: Expenditure on Gross National Product

	2014	2015	Change in 2015		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	89.0	92.6	4.1	0.5	3.6
Public Net Current Expenditure	27.2	28.2	3.4	2.0	1.3
Gross Fixed Capital Formation	36.5	46.9	28.5	1.0	27.2
Exports of Goods and Services	215.0	259.0	20.5	6.6	13.1
Physical Changes in Stocks	1.9	1.0			
Final Demand	369.6	427.6	15.7	4.1	11.1
less:					
Imports of Goods and Services	180.3	214.4	18.9	2.8	15.7
Statistical Discrepancy	-0.2	-0.2			
GDP at Market Prices	189.3	213.2	12.6	5.5	6.7
Net Factor Payments	-26.2	-30.5			
GNP at Market Prices	162.9	182.0	11.7	6.2	5.2

B: Gross National Product by Origin

	2014	2015	Change in 2015	
	€ bn	€ bn	€ bn	%
Agriculture	3.4	3.4	0.0	1.0
Non-Agriculture: Wages, etc.	70.0	73.5	3.4	4.9
Other	68.4	92.0	23.6	34.5
Adjustments: Stock Appreciation	-0.3	-0.3		
Statistical Discrepancy	0.2	0.2		
Net Domestic Product	141.9	168.9	27.1	19.1
Net Factor Payments	-26.2	-31.0	-4.8	18.5
National Income	115.7	137.9	22.2	19.2
Depreciation	29.3	25.0	-4.3	-14.7
GNP at Factor Cost	145.0	162.9	17.9	12.3
Taxes less Subsidies	17.9	19.1	1.2	6.7
GNP at Market Prices	162.9	182.0	19.1	11.7

C: Balance of Payments on Current Account

	2014	2015	Change in 2015
	€ bn	€ bn	€ bn
X – M	34.9	44.5	9.7
F	-26.2	-31.0	-4.8
Net Transfers	-2.7	-2.7	0.0
Balance on Current Account	6.0	10.8	4.8
as % of GNP	3.7	5.9	2.7

National Accounts 2016

A: Expenditure on Gross National Product

	2015	2016	Change in 2016		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	92.6	96.7	4.4	1.0	3.4
Public Net Current Expenditure	28.2	28.9	2.8	1.8	1.0
Gross Fixed Capital Formation	46.9	57.4	22.3	2.6	19.2
Exports of Goods and Services	259.0	290.9	12.3	4.4	7.6
Physical Changes in Stocks	1.0	1.0			
Final Demand	427.6	474.9	11.1	3.3	7.5
less:					
Imports of Goods and Services	214.4	242.4	13.0	2.7	10.1
Statistical Discrepancy	-0.2	-0.2			
GDP at Market Prices	213.2	232.5	9.1	4.0	4.8
Net Factor Payments	-31.0	-32.0			
GNP at Market Prices	182.0	200.3	10.1	4.5	5.3

B: Gross National Product by Origin

	2015	2016	Change in 2016	
	€ bn	€ bn	€ bn	%
Agriculture	3.4	3.5	0.1	2.5
Non-Agriculture: Wages, etc.	73.5	77.1	3.7	5.0
Other	92.0	104.7	12.7	13.8
Adjustments: Stock Appreciation	-0.3	-0.3		
Statistical Discrepancy	0.2	0.2	0.0	0.0
Net Domestic Product	168.9	185.3	16.4	9.7
Net Factor Payments	-31.0	-32.0	-1.0	3.2
National Income	137.9	153.3	15.4	11.2
Depreciation	25.0	26.5	1.5	6.0
GNP at Factor Cost	162.9	179.8	16.9	10.4
Taxes less Subsidies	19.1	20.4	1.4	7.3
GNP at Market Prices	182.0	200.3	18.3	10.1

C: Balance of Payments on Current Account

	2015	2016	Change in 2016
	€ bn	€ bn	€ bn
X – M	44.5	48.5	3.9
F	-31.0	-32.0	-1.0
Net Transfers	-2.7	-2.7	0.0
Balance on Current Account	10.8	13.7	2.9
as % of GNP	5.9	6.9	1.5