Bank of Ireland

Economic Research Unit

Ireland Outlook

October 2015

Growth revised up further

2015

GDP	EMPLOYMENT	UNEMPLOYMENT	INFLATION
6.2%	2.7%	9.6%	-0.2%

Buoyant exports

Investment gains ground

Consumers spending again

Jobs growth across regions

> "An upward revision to Q1 GDP, a strong Q2 number and continuing positive momentum point to even stronger growth this year"

Loretta O'Sullivan
Chief Economist

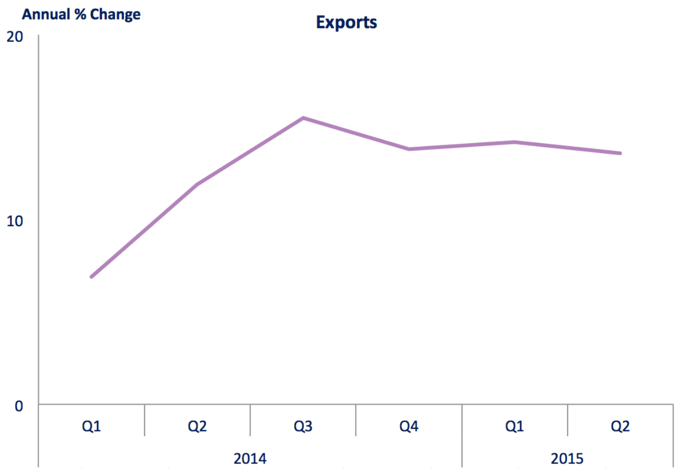
Overview In August we revised up our 2015 headline forecasts for the Irish economy by c.1 percentage point. That upgrade took account of the strong first quarter data which had just been published and the positive signals coming from high frequency indicators. Preliminary national accounts estimates for the second quarter are now available and indicate that the economy has continued to perform very well. GDP expanded by 6.7% year-on-year in Q2, while GNP increased by 5.3%. In addition, the CSO has revised up the outturn data for Q1. The implication of all this is even stronger growth this year. Accordingly, we are raising our 2015 GDP and GNP forecasts further (by just under 1 percentage point this time) to 6.2% and 5.8% respectively. The underlying picture is positive as well, with the recovery continuing to broaden out beyond exports. This is particularly evident in consumer spending which is benefitting from improving labour market conditions and has now risen for 6 consecutive quarters. Investment is increasing too as business investment and residential construction gain ground, while the weaker euro is supporting exports. The 2016 outlook is also bright, and we are leaving our GDP and GNP forecasts for next year unchanged at a solid 4.8% and 4.6%. As ever, there are risks to these forecasts. A weaker external environment is a potential downside risk, though on the upside consumer spending may be stronger than expected.

Outlook

	2014	2015 (f)	2016 (f)
Personal Consumption	2.0%	3.2%	3.2%
Government Consumption	4.6%	2.2%	2.0%
Investment	14.3%	14.2%	8.5%
Exports	12.1%	12.0%	6.5%
Imports	14.7%	13.2%	6.7%
GDP	5.2%	6.2%	4.8%
GNP	6.9%	5.8%	4.6%
Employment	1.7%	2.7%	2.4%
Unemployment Rate (Average)	11.3%	9.6%	8.3%
CPI	0.2%	-0.2%	1.4%

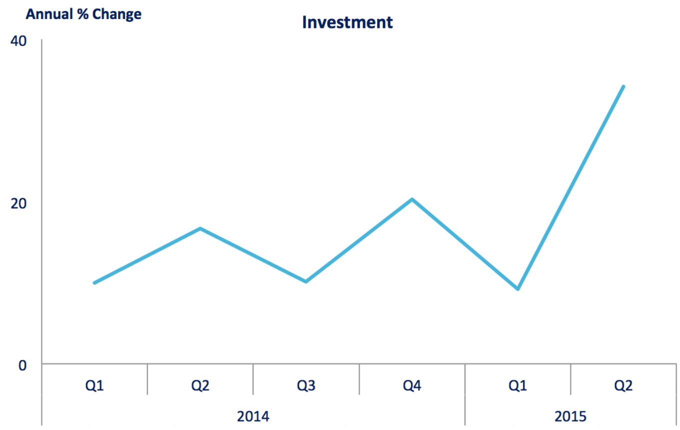
Buoyant exports

Exports continued to grow strongly in Q2, increasing by 5.4% quarter-on-quarter following a 3.0% rise in Q1. The annual increase of 13.6% brought the level of exports in Q2 to a new record high and was underpinned by a robust chemicals and pharmaceuticals performance and double digit services growth. The weaker euro in the first half of the year and ongoing recoveries in Ireland's main trading partners are continuing to help export growth. Recent data, including healthy order books, suggest that exports will also perform well in the second half of the year. This is expected to take full year growth to 12.0% (9.0% in our previous outlook), followed by a more modest but still healthy 6.5% next year. Strong import growth is forecast for both years but net exports should still make a positive contribution. There are some downside risks to the export outlook, such as the potential for a more pronounced slowdown in global growth.



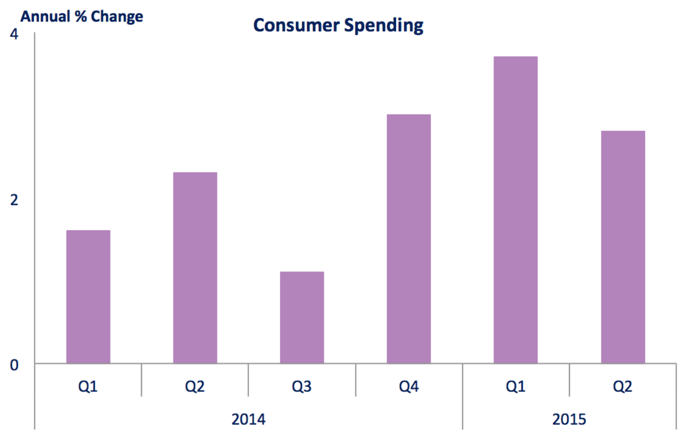
Investment gains ground

The second quarter saw a sharp pick up in investment, which rose by nearly 20% on a quarterly basis and just over 34% in annual terms. This owed much to a large increase in intangibles (including intellectual property), though business and construction investment also gained ground. The strength of 'core' machinery and equipment spending (i.e. excluding planes) supports the view that business activity is improving, while increasing investment in dwellings ties in with rising house completions. On foot of the strong headline rate in Q2 and positive underlying trends, we have revised up our investment forecast to 14.2% for this year and 8.5% for next year (from 10% and 7.5% in our August Outlook). With residential and other building activity still having some way to go, there is scope for further investment growth in the coming years.



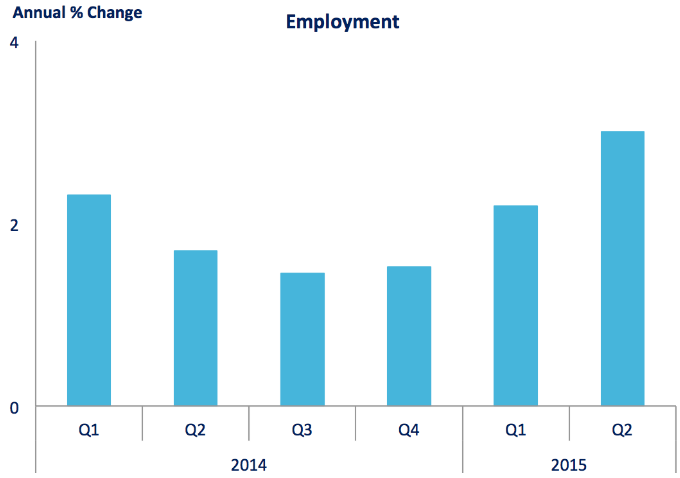
Consumers spending again

A welcome aspect of recent data has been the return of the consumer. Spending in the first quarter of 2015 was up 3.7% year-on-year, while growth of 2.8% in the second quarter took spending back to its highest level since the end of 2008. The rise in new car sales last year signalled an improvement in confidence which has continued into this year. Car sales for the first 9 months of the year are up 31.7% on the same period of 2014 and are on track to reach the 120,000 mark. Retail sales excluding cars are also strong at 7.6% year-on-year in August, with annual increases across a broad swath of categories including clothing, furniture and electrical goods. Further employment and income gains will support spending, which is forecast to increase by 3.2% both this year and next. Given recent momentum there is some upside potential to this outlook, though deleveraging on the part of households is not yet complete. On the Government side, spending growth of 2.2% is projected for this year and 2.0% for next year.



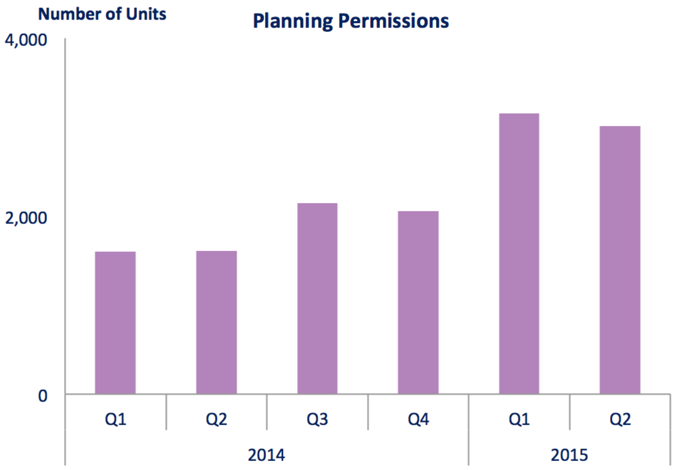
Jobs growth across regions

Employment grew by 3.0% year-on-year in Q2, compared to 2.2% in Q1, with 57,100 new jobs created. Job gains were widespread across regions and sectors with annual increases in agriculture, construction, industry and services. The labour force also rose in Q2 (by 0.6% year-on-year), helped by a small increase in the participation rate and a fall in net outward migration. On the unemployment front, the numbers out of work have continued to decline. The unemployment rate was 9.6% in the second quarter and has fallen further since, to an estimated 9.4% in September. Q2 also saw a sizable annual fall in both long term and youth unemployment. Looking ahead, the improving domestic economy is expected to underpin employment gains in the region of 2.7% this year and 2.4% in 2016. The unemployment rate is forecast to fall to close to 9% by year end and circa. 8% by the end of next year.



Housing market activity increasing

Activity in the residential housing sector continues apace with transactions up 30% in the first 7 months of 2015, while the volume of mortgages for house purchase increased by almost 44% year-on-year in the first half of the year. The annual pace of house price gains has eased since the turn of the year, possibly impacted in part by the Central Bank's new macro-prudential rules. However, demand remains strong with higher employment and incomes, along wtih demographics, continuing to support activity. On the supply side, residential construction is picking up from a low base, with house completions on the rise and planning permissions up 92% year-on-year in H1 (with a notable increase in permissions for multi-unit developments). That said, there is still a mismatch between demand and supply as evidenced by the strong growth in private rents.

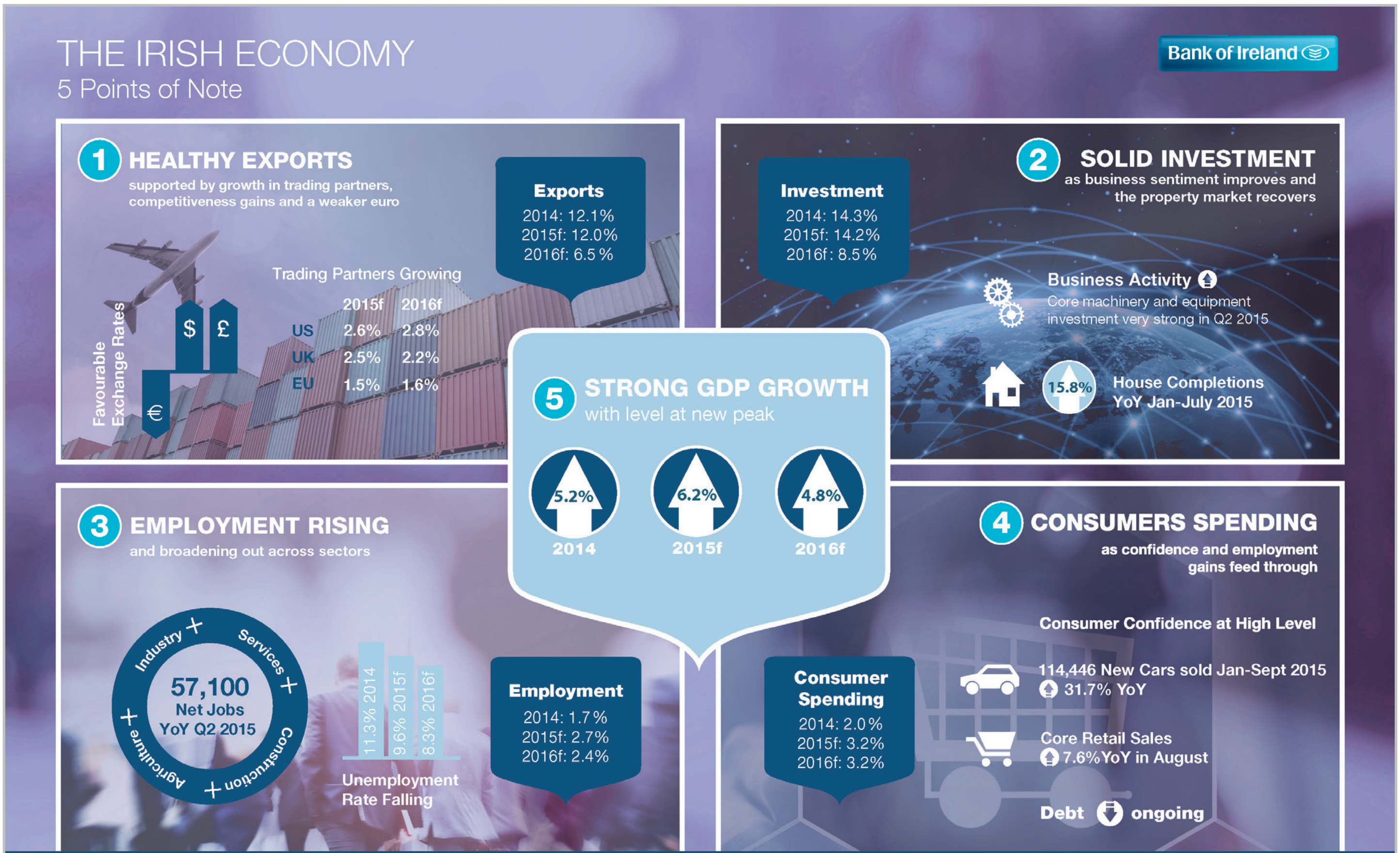


Subdued inflation environment

The inflationary environment remains subdued with annual CPI inflation averaging -0.4% in the year to date. Indeed, the August reading of 0% marked the first non-negative reading of 2015. Muted inflationary pressures are not unique to Ireland, but are a global phenomenon due in large part to declining oil prices. This will continue to have a negative impact on headline inflation over the rest of the year, and we have revised down our forecast to reflect this. Next year, the drag from oil should wane while stronger domestic demand is expected to boost inflation. CPI inflation is forecast to average -0.2% this year (down from 0.1% previously) before rebounding to 1.4% in 2016. On a HICP basis, inflation is projected to be 0% and 1.6% in 2015 and 2016 respectively.

Public finances in good shape

The public finances are in good shape ahead of Budget 2016, which the Government has signalled will provide for a tax reduction/spending increase package of between €1.2 and €1.5 billion. Tax revenues for the first three quarters are up 9.5% year-on-year (5.8% ahead of profile), with spending broadly in line with profile. The exchequer deficit was €0.1 billion over this period, down from €6 billion in the first nine months of 2014. Taken together with a higher level of nominal GDP, the General Government Deficit for the year looks set to come in below the official projection of 2.3% of GDP. In addition, the debt to GDP ratio may fall below 100% by the end of 2015, ahead of schedule.



Prepared by: Bank of Ireland Economic Research Unit
Sources: Central Statistics Office, IMF, Bank of Ireland, Central Bank of Ireland, Department of the Environment, ESRI and Bloomberg.

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