

# Irish Economy Watch

AIB Treasury Economic Research Unit



22 February 2017

|  | Jun-16  | Jul-16  | Aug-16  | Sep-16  | Oct-16  | Nov-16  | Dec-16  | Jan-17  |   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---|
| <b>MANUFACTURING</b>   |         |         |         |         |         |         |         |         |   |
| Industrial Production (Ex-Modern)  | 122.7   | 120.7   | 121.0   | 126.6   | 119.5   | 122.7   | 121.0   | #N/A    | Production (ex-modern) declined by 1.4% in Q4, after rising by 0.8% in Q3—largely reflects reduced food output  |
| Production (Ex-Modern) : 3mma YoY%   | -1.8    | -4.7    | -3.9    | -3.0    | -1.2    | -0.4    | 0.0     | #N/A    |   |
| 3mth / 3mth % seas. adj.   | 0.5     | -0.4    | 0.7     | 0.8     | 1.2     | 1.2     | -1.4    | #N/A    |   |
| Investec Manufacturing PMI   | 53.0    | 50.2    | 51.7    | 51.3    | 52.1    | 53.7    | 55.7    | 55.5    | Manufacturing PMI remained at a strong level in January, suggesting sector has maintained the improved momentum seen at end 2016                      |
| OECD Leading Indicator   | 99.5    | 99.5    | 99.5    | 99.6    | 99.6    | 99.7    | 99.7    | #N/A    |   |
| <b>SERVICES / RETAIL</b>   |         |         |         |         |         |         |         |         |   |
| Monthly Services Index (Value)   | 123.7   | 125.0   | 124.8   | 125.2   | 125.9   | 127.4   | 127.4   | #N/A    | Services index remains very strong. YoY growth rises further to 9.2% in December  |
| - YoY %  | 6.5     | 0.1     | 6.1     | 4.9     | 5.1     | 6.6     | 9.2     | #N/A    |   |
| - 3mth / 3mth % seas. adj.   | -0.4    | 0.7     | 1.3     | 1.6     | 1.1     | 1.3     | 1.5     | #N/A    |   |
| Investec Services PMI  | 61.2    | 59.5    | 59.7    | 56.2    | 54.6    | 56.0    | 59.1    | 61.0    | Services PMI also continues to improve. Rising to a very strong level of 61 in January, pointing to a strong start to 2017                            |
| SIMI Car Registrations   | 1,624   | 29,883  | 7,286   | 4,688   | 2,240   | 747     | 430     | 38,988  |   |
| - 12 mth cum total   | 143,937 | 146,226 | 147,108 | 147,027 | 146,708 | 146,515 | 146,603 | 145,869 | New car sales jump sharply in Jan on new number plate, but they are down 8% YoY. Big jump in second hand imports from the UK offset this decline      |
| - 3 mma YoY %  | 3.9     | 5.7     | 9.4     | 8.0     | 3.5     | -7.2    | -11.0   | -2.0    |   |
| Retail Sales Index   | 105.0   | 119.6   | 113.0   | 112.8   | 112.5   | 114.5   | 113.7   | #N/A    | Core retail sales recorded a strong 1.5% rise in Q4 (best since Q2'15), after declining slightly in Q3  |
| - YoY %  | 5.1     | 7.8     | 4.3     | 3.7     | 4.2     | 4.3     | 3.4     | #N/A    |   |
| - 3mth / 3mth % seas. adj.   | -2.5    | -0.3    | -0.1    | 4.3     | 0.1     | 0.7     | -1.4    | #N/A    |   |
| Ex Autos Index   | 114.9   | 114.6   | 114.8   | 115.8   | 115.6   | 119.0   | 115.9   | #N/A    | Const' PMI has fallen slightly, while remaining strong overall, as commercial activity weakens.   |
| - YoY %  | 4.9     | 3.2     | 3.1     | 3.5     | 3.8     | 4.4     | 2.0     | #N/A    |   |
| - 3mth / 3mth % seas. adj.   | 1.0     | 0.8     | -0.1    | -0.1    | 0.1     | 1.8     | 1.5     | #N/A    |   |
| <b>CONSTRUCTION PMI: Ulster Bank</b>   |         |         |         |         |         |         |         |         |   |
| - Housing Activity   | 59.7    | 61.0    | 58.4    | 58.7    | 62.3    | 59.8    | 58.9    | 55.7    | Housing registrations total 5,626 in 2016. This represents a 31% increase on 2015   |
| - Commercial Activity  | 61.8    | 61.3    | 63.1    | 59.5    | 63.5    | 63.9    | 60.6    | 59.1    |   |
| - New Orders   | 62.0    | 66.2    | 63.9    | 61.3    | 64.5    | 62.8    | 61.0    | 56.5    |   |
| - Business Expectations  | 59.8    | 60.2    | 60.8    | 61.4    | 65.9    | 59.5    | 62.6    | 58.1    |   |
| <b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>   |         |         |         |         |         |         |         |         |   |
| Housing Registrations: 12Mth Total   | 4,898   | 5,105   | 4,675   | 4,864   | 5,075   | 5,359   | 5,626   | #N/A    | Commencements totalled 13,234 in 2016, a 50% rise versus 2015. However, they remain at a modest level overall   |
| - 3 Month Avg YoY %  | 11.6    | 23.6    | -17.4   | -2.3    | -2.1    | 87.1    | 88.7    | #N/A    |   |
| Commencements: 12mth Total   | 9,553   | 9,646   | 9,906   | 9,965   | 11,053  | 11,667  | 13,234  | #N/A    | Completions came in at 14,932 in 2016, a modest improvement on 2015's 12,666 rise. Still well below market demand                                     |
| - 3 Month Avg YoY %  | 31.8    | 34.4    | 29.2    | 15.2    | 64.1    | 73.3    | 66.3    | #N/A    |   |
| Completions: Month   | 1,055   | 1,110   | 1,415   | 1,340   | 1,290   | 1,579   | 1,556   | #N/A    | The pace of YoY growth in mortgage approvals continues to rise. Suggests impact of CB rules continuing to abate                                       |
| - 12 Mth Total   | 13,683  | 13,673  | 14,139  | 14,259  | 14,411  | 14,728  | 14,932  | #N/A    |   |
| <b>HOUSING MARKET ACTIVITY</b>   |         |         |         |         |         |         |         |         |   |
| BPFI Mortgage Approvals : Month  | 2,909   | 2,908   | 2,948   | 2,766   | 2,628   | 3,155   | 2,255   | #N/A    | CSO house price growth remains above 8% YoY. Price growth outside Dublin (12%) continues to exceed that in the Capital (5.7%); partly due to CB rules |
| - 3 Month Avg YoY %  | 19.9    | 14.5    | 22.9    | 23.5    | 26.6    | 29.8    | 31.1    | #N/A    |   |
| - 12 Mth Total   | 26,388  | 26,638  | 27,474  | 28,030  | 28,391  | 29,436  | 29,935  | #N/A    | CSO rent inflation has slowed somewhat, while remaining at a high level. Now, 12% above previous peak   |
| RPPR Transactions : Month  | 3,977   | 4,390   | 4,001   | 4,365   | 4,444   | 4,205   | 4,403   | #N/A    |   |
| - 3 Month Avg YoY %  | -0.4    | -2.4    | -0.4    | 3.3     | 5.6     | 3.0     | -6.8    | #N/A    | Higher house prices are impacting on mortgage affordability, but it still remains at a favourable level   |
| - 12 Mth Total   | 47,624  | 47,404  | 47,848  | 48,029  | 48,108  | 48,268  | 47,160  | #N/A    |   |
| <b>HOUSING MARKET PRICES</b>   |         |         |         |         |         |         |         |         |   |
| CSO (Stamp Duties) - MoM   | 1.0     | 2.4     | 1.4     | 1.5     | 0.5     | 1.3     | -0.5    | #N/A    | Higher house prices are impacting on mortgage affordability, but it still remains at a favourable level   |
| - YoY %  | 4.9     | 6.6     | 6.8     | 7.6     | 6.8     | 8.2     | 8.1     | #N/A    |   |
| Daft Asking Prices: MoM %  | 1.4     | 0.9     | 0.9     | 0.6     | -1.7    | 0.2     | 1.6     | #N/A    | Higher house prices are impacting on mortgage affordability, but it still remains at a favourable level   |
| - YoY %  | 8.1     | 7.1     | 8.1     | 7.7     | 6.7     | 7.9     | 9.3     | #N/A    |   |
| <b>RENTS: CSO Private Rents - MoM%</b>   |         |         |         |         |         |         |         |         |   |
| - YoY %  | 0.5     | 0.9     | 0.7     | 1.9     | 0.9     | 0.0     | 0.3     | 0.0     | Higher house prices are impacting on mortgage affordability, but it still remains at a favourable level   |
|  | 9.3     | 9.1     | 8.9     | 9.6     | 10.1    | 9.7     | 9.6     | 8.3     |   |
| <b>AFFORDABILITY: Couple on Avg Industrial Wage, 90% LTV, 30 Years, AIB Mortgage Rate, Prices: CSO/Perm' TSB</b> |         |         |         |         |         |         |         |         |   |
| - Mortgage as % of Disposable Income   | 16.1    | 16.0    | 16.3    | 16.6    | 16.6    | 16.9    | 16.8    | #N/A    |   |

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|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>CONSUMER PRICES - YoY %</b> | 0.5    | 0.5    | -0.1   | 0.0    | -0.3   | -0.1   | 0.0    | 0.3    |
| - MoM %                        | 0.7    | -0.2   | -0.2   | -0.4   | -0.5   | -0.1   | 0.0    | -0.5   |
| HICP - YoY %                   | 0.1    | 0.1    | -0.4   | -0.3   | -0.4   | -0.2   | -0.2   | 0.2    |
| - MoM %                        | 0.7    | -0.3   | -0.2   | -0.4   | -0.4   | -0.1   | -0.1   | -0.5   |

CPI inflation rises to 0.3% in January, from 0%. This primarily reflects a further rise in petrol and diesel prices versus year earlier levels

Meantime, HICP inflation is back in positive territory at 0.2%

| <b>PERSONAL / FINANCIAL</b>   |       |      |       |       |      |      |      |       |
|-------------------------------|-------|------|-------|-------|------|------|------|-------|
| KBC/ESRI Consumer Confidence  | 103.4 | 99.6 | 102.7 | 102.0 | 97.3 | 97.8 | 96.2 | 103.1 |
| Credit Growth YoY %           |       |      |       |       |      |      |      |       |
| - Private Sector (Underlying) | -4.9  | -5.2 | -5.5  | -4.9  | -3.8 | -3.9 | -3.8 | #N/A  |
| - of which : Household        | -2.2  | -2.0 | -1.9  | -1.9  | -1.5 | -1.2 | -1.0 | #N/A  |
| - of which : Mortgage Lending | -2.2  | -2.1 | -2.0  | -1.9  | -1.7 | -1.6 | -1.4 | #N/A  |

Consumer confidence jumped to a 7-month high of 103.1 in Jan. May suggest a more positive post-Christmas mood and abating political concerns

Pace of decline in private sector credit continued to slow in December, now -3.8%

| <b>LABOUR MARKET</b>       |         |         |         |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Live Register              | 305,200 | 300,200 | 298,600 | 291,000 | 287,900 | 285,400 | 282,100 | 278,600 |
| - Change In Month          | -3,400  | -5,000  | -1,600  | -7,600  | -3,100  | -2,500  | -3,300  | -3,500  |
| Unemployment Rate %        | 8.3     | 8.1     | 7.9     | 7.5     | 7.3     | 7.1     | 6.9     | 6.8     |
| Redundancies               | 418     | 337     | 338     | 361     | #N/A    | #N/A    | #N/A    | #N/A    |
| -12 Mth Total              | 4,511   | 4,481   | 4,480   | 4,581   | #N/A    | #N/A    | #N/A    | #N/A    |
| PMI Employment Indices     |         |         |         |         |         |         |         |         |
| - Investec Manufacturing   | 53.5    | 52.6    | 52.8    | 49.9    | 52.1    | 55.5    | 56.4    | 56.1    |
| - Investec Services        | 57.2    | 54.9    | 58.7    | 54.4    | 54.7    | 56.4    | 60.7    | 60.1    |
| - Ulster Bank Construction | 57.1    | 58.5    | 59.7    | 54.7    | 60.2    | 61.5    | 61.5    | 63.3    |

Live Register continues to decline at a solid pace. The unemployment rate fell to 6.8% in January, its lowest level since July 2008

PMI employment indices remain at very strong levels in January, pointing to further solid growth in the sector after Q4's robust performance. Construction employment component has risen to its highest level since November 2004

| <b>MERCHANDISE TRADE</b>  |      |     |     |     |      |      |       |      |
|---------------------------|------|-----|-----|-----|------|------|-------|------|
| Export Values - 3M / 3M % | 7.0  | 2.9 | 4.4 | 1.5 | 8.0  | 3.0  | 1.4   | #N/A |
| - 3MMA YoY %              | 3.9  | 2.4 | 8.4 | 8.6 | 6.4  | 3.2  | -0.8  | #N/A |
| Import Values - 3M / 3M % | 10.8 | 9.4 | 2.7 | 0.6 | -6.3 | -2.7 | -6.5  | #N/A |
| - 3MMA YoY %              | 5.4  | 5.4 | 4.4 | 3.2 | -2.9 | -3.0 | -11.8 | #N/A |

Value of goods exports declined slightly YoY in Q4—lower value of goods sent to the UK, reflecting the weaker sterling

The value of imports weighed down by weak sterling in Q4

| <b>PUBLIC FINANCES</b>         |      |       |       |     |      |       |        |      |
|--------------------------------|------|-------|-------|-----|------|-------|--------|------|
| Total Tax Receipts: Cum YTD %  | 9.2  | 8.4   | 6.2   | 5.7 | 4.7  | 6.5   | 5.0    | 6.0  |
| Voted Spending : Cum YTD %     | 1.8  | 5.9   | 1.2   | 2.0 | 1.3  | 2.7   | 2.6    | 4.7  |
| Exchequer Bal: 12 Mth Total €m | -912 | 1,448 | 1,558 | 17  | -307 | 1,116 | -1,012 | -740 |

Exchequer tax receipts were strong in January, up 6% YoY. VAT receipts were particularly buoyant in the month

| <b>QUARTERLY DATA</b>               |       |       |       |       |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                     | Q1-15 | Q2-15 | Q3-15 | Q4-15 | Q1-16 | Q2-16 | Q3-16 | Q4-16 |
| <b>GDP - YoY %</b>                  | 28.1  | 24.3  | 24.4  | 28.4  | 3.9   | 3.1   | 6.9   | #N/A  |
| *Core Domestic Expd - YoY% (3Q Avg) | 6.4   | 6.7   | 7.0   | 5.6   | 4.4   | 3.7   | 3.0   | #N/A  |
| Consumer Spending - YoY %           | 4.9   | 4.0   | 5.0   | 4.2   | 5.3   | 2.2   | 2.1   | #N/A  |
| Services Exports - YoY % (3Q Avg)   | 15.7  | 13.4  | 12.0  | 10.4  | 7.0   | 6.2   | 6.5   | #N/A  |

Irish GDP rose by 6.9% YoY in Q3; averaging 4.6% YTD. Data show that Q3 growth was boosted by strong improvement in net exports

'Underlying' core domestic spending measure of growth is around 3%

| <b>EMPLOYMENT &amp; EARNINGS</b> |      |      |     |      |      |      |     |      |
|----------------------------------|------|------|-----|------|------|------|-----|------|
| Employment YoY %                 | 2.2  | 3.0  | 2.9 | 2.3  | 2.4  | 2.9  | 2.9 | 3.3  |
| Labour Force YoY %               | -0.2 | 0.6  | 0.6 | 0.8  | 0.6  | 1.5  | 1.5 | 1.2  |
| Average Earnings YoY %           |      |      |     |      |      |      |     |      |
| - Hourly                         | -0.2 | 0.3  | 1.4 | -0.7 | 0.9  | 0.4  | 0.2 | #N/A |
| - Weekly                         | 0.4  | 0.8  | 2.4 | 1.2  | 1.5  | 0.9  | 1.2 | #N/A |
| Weekly Earnings YoY %            |      |      |     |      |      |      |     |      |
| - Private Sector                 | 0.5  | 1.3  | 3.3 | 1.0  | 2.7  | 2.1  | 1.8 | #N/A |
| - Public Sector                  | 0.4  | -0.1 | 0.3 | 1.8  | -0.5 | -1.0 | 1.0 | #N/A |

Employment grows at a very strong 3.3% YoY in Q4. Underlying data show improvement in all job sectors. Labour force growth slowed slightly

YoY earnings growth improved slightly in Q3. Underlying data show unbalanced growth, with wages falling in some sectors, while rising strongly in others



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