

# Irish Economy Watch

AIB Treasury Economic Research Unit



17 January 2018

|  | May-17  | Jun-17  | Jul-17  | Aug-17  | Sep-17  | Oct-17  | Nov-17  | Dec-17  |  |
|--|---------|---------|---------|---------|---------|---------|---------|---------|--|
| <b>MANUFACTURING</b>   |         |         |         |         |         |         |         |         |  |
| Investec Manufacturing PMI   | 55.9    | 56.0    | 54.6    | 56.1    | 55.4    | 54.4    | 58.1    | 59.1    | Manufacturing PMI jumped further to 59.1 in Dec, its highest level since the index began in 1998. Suggests sector performing very strongly                                 |
| OECD Leading Indicator   | 101.1   | 101.0   | 100.9   | 100.7   | 100.4   | 100.2   | 99.9    | #N/A    |  |
| Industrial Production (Ex-Modern)  | 121.4   | 119.8   | 121.4   | 117.1   | 117.4   | 121.8   | 120.8   | #N/A    |  |
| Production (Ex-Modern) : 3mma YoY%   | 1.2     | -1.5    | 0.2     | -1.9    | -3.9    | -3.5    | -2.5    | #N/A    | Production (ex-modern) has been somewhat firmer. However, in contrast to the PMIs, its remains in decline YoY  |
| 3mth / 3mth % seas. adj.   | -1.6    | -3.5    | -1.3    | -2.0    | -1.4    | -1.7    | 0.5     | #N/A    |  |
| <b>SERVICES / RETAIL</b>   |         |         |         |         |         |         |         |         |  |
| Investec Services PMI  | 59.5    | 57.6    | 58.3    | 58.4    | 58.7    | 57.5    | 56.0    | 60.4    | The services PMI jumped to an 8mth high (60.4) in December, suggesting that the sector also ended 2017 strongly  |
| Monthly Services Index (Value)   | 127.8   | 125.2   | 131.7   | 123.1   | 125.6   | 128.4   | 127.6   | #N/A    |  |
| - YoY %  | 3.2     | 0.6     | 8.4     | -2.4    | -0.6    | 2.3     | 0.5     | #N/A    |  |
| - 3mth / 3mth % seas. adj.   | -0.7    | -2.1    | 0.7     | -0.3    | 0.4     | -2.0    | 0.4     | #N/A    | Volatile services index up by a modest 0.4% in 3mths to Nov  |
| SIMI Car Registrations   | 5,994   | 1,401   | 27,707  | 5,730   | 3,897   | 1,944   | 683     | 159     |  |
| - 12 mth cum total   | 136,726 | 136,503 | 134,327 | 132,771 | 131,980 | 131,684 | 131,618 | 131,347 | New car sales were down 10.4% in 2017 vs 2016. But, the decline was more than offset by the rise in imports of second hand cars, largely due to the sharp fall in sterling |
| - 3 mma YoY %  | -12.2   | -17.6   | -7.6    | -10.2   | -10.8   | -18.6   | -15.0   | -18.5   |  |
| Retail Sales Index   | 128.9   | 122.0   | 136.1   | 130.6   | 130.5   | 130.4   | 133.8   | #N/A    | Core retail sales continue to perform strongly—up 2.1% on a 3mth/3mth basis in November  |
| - YoY %  | 4.3     | 4.4     | 2.9     | 4.8     | 5.1     | 4.3     | 6.9     | #N/A    |  |
| - 3mth / 3mth % seas. adj.   | 0.2     | -1.4    | 1.6     | 1.8     | 5.3     | 1.2     | 1.5     | #N/A    |  |
| Ex Autos Index   | 122.9   | 122.8   | 123.4   | 123.7   | 125.2   | 125.0   | 127.3   | #N/A    |  |
| - YoY %  | 7.2     | 7.0     | 7.7     | 6.6     | 7.6     | 6.3     | 7.5     | #N/A    |  |
| - 3mth / 3mth % seas. adj.   | 2.2     | 1.9     | 2.0     | 1.4     | 1.4     | 1.3     | 2.1     | #N/A    |  |
| <b>CONSTRUCTION PMI: Ulster Bank</b>   |         |         |         |         |         |         |         |         |  |
| - Housing Activity   | 63.6    | 58.2    | 56.6    | 55.1    | 56.5    | 54.5    | 56.7    | 58.0    | Construction PMI averaged 56.4 in Q4, points to continued solid growth. Housing activity sub-index averaged strong 57.8  |
| - Commercial Activity  | 69.2    | 59.5    | 57.4    | 57.4    | 56.1    | 55.5    | 58.6    | 59.4    |  |
| - New Orders   | 65.3    | 60.8    | 56.1    | 55.7    | 58.4    | 54.7    | 55.6    | 56.1    |  |
| - Business Expectations  | 66.2    | 61.2    | 62.5    | 59.9    | 56.7    | 56.1    | 57.2    | 59.4    |  |
|  | 76.0    | 81.0    | 74.9    | 77.7    | 75.7    | 74.0    | 72.5    | 75.1    |  |
| <b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>   |         |         |         |         |         |         |         |         |  |
| Housing Registrations: 12Mth Total   | 7,155   | 8,281   | 8,468   | 8,623   | 9,265   | 9,441   | 9,511   | 9,466   | Housing registrations totalled 9,466 in 2017 (+68% YoY), but this is still a low level   |
| - 3 Month Avg YoY %  | 34.4    | 132.3   | 107.0   | 104.0   | 67.8    | 68.1    | 60.4    | 12.4    |  |
| Commencements: 12mth Total   | 15,579  | 16,277  | 16,604  | 16,945  | 17,323  | 17,151  | 17,633  | #N/A    | Continued rise in commencements in the 12mths to Nov, but still at a low level   |
| - 3 Month Avg YoY %  | 81.8    | 62.7    | 47.1    | 46.0    | 34.7    | 14.3    | 16.5    | #N/A    |  |
| Completions (ESB Connection): Month  | 1,686   | 1,541   | 1,744   | 1,606   | 1,647   | 1,529   | 2,247   | #N/A    | Steady improvement in level of completions, which should total over 19k in 2017. But, still well below market demand   |
| - 12 Mth Total   | 16,340  | 16,826  | 17,460  | 17,651  | 17,958  | 18,197  | 18,865  | #N/A    |  |
| <b>HOUSING MARKET ACTIVITY</b>   |         |         |         |         |         |         |         |         |  |
| BPFI Mortgage Approvals : Month  | 3,509   | 3,682   | 3,415   | 3,380   | 3,081   | 3,224   | 3,243   | #N/A    | YoY growth in mortgage approvals has continued to slow—at 12% in 3mth to November. Transactions growth still close to 11% as lack of supply remains an issue               |
| - 3 Month Avg YoY %  | 37.0    | 23.8    | 25.8    | 19.5    | 14.5    | 16.1    | 11.7    | #N/A    |  |
| - 12 Mth Total   | 34,111  | 34,884  | 35,391  | 35,823  | 36,138  | 36,734  | 36,822  | #N/A    |  |
| RPPR Transactions : Month  | 4,143   | 4,596   | 4,761   | 4,372   | 4,761   | 4,918   | 4,921   | #N/A    | CSO house price growth still 11-12%. Ex-Dublin growth (11.7%) still outpacing price inflation in the Capital (11.3%)   |
| - 3 Month Avg YoY %  | 9.7     | 7.4     | 9.8     | 10.2    | 10.6    | 10.8    | 10.9    | #N/A    |  |
| - 12 Mth Total   | 48,867  | 49,453  | 49,802  | 50,135  | 50,929  | 51,379  | 52,020  | #N/A    |  |
| <b>HOUSING MARKET PRICES</b>   |         |         |         |         |         |         |         |         |  |
| CSO Price Index - MoM  | 1.5     | 1.4     | 2.4     | 1.6     | 1.3     | 0.4     | 1.1     | #N/A    | CSO rent prices grew by 7.2% in 2017, a slight slowdown vs 9.5% in 2016. Rents 18.5% above previous peak in December   |
| - YoY %  | 10.9    | 11.4    | 11.6    | 11.8    | 12.0    | 11.8    | 11.6    | #N/A    |  |
| Daft Asking Prices: MoM %  | 0.9     | -0.9    | 0.6     | 0.4     | -0.7    | 0.6     | -1.8    | 2.9     | Decline in mortgage interest rates helps affordability, counteracting somewhat rising house prices   |
| - YoY %  | 12.6    | 10.0    | 9.7     | 9.1     | 7.7     | 10.2    | 7.9     | 9.4     |  |
| <b>RENTS:</b> CSO Private Rents - MoM%   | 0.1     | 0.8     | 0.4     | 0.8     | 0.7     | 0.5     | 0.0     | 0.8     |  |
| - YoY %  | 7.6     | 7.9     | 7.3     | 7.3     | 6.1     | 5.6     | 5.6     | 6.1     |  |
| <b>AFFORDABILITY:</b> Couple on Avg Industrial Wage, 90% LTV, 30 Years, AIB Mortgage Rate, Prices: CSO/Perm' TSB |         |         |         |         |         |         |         |         |  |
| - Mortgage as % of Disposable Income   | 17.2    | 17.4    | 17.9    | 18.2    | 18.4    | 18.5    | 17.9    | #N/A    |  |

|                                | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>CONSUMER PRICES</b> - YoY % | 0.2    | -0.4   | -0.2   | 0.4    | 0.2    | 0.6    | 0.5    | 0.4    |
| - MoM %                        | -0.2   | 0.1    | 0.0    | 0.4    | -0.6   | -0.1   | -0.2   | -0.1   |
| HICP - YoY %                   | 0.0    | -0.6   | -0.2   | 0.4    | 0.2    | 0.5    | 0.5    | 0.5    |
| - MoM %                        | -0.2   | 0.1    | 0.1    | 0.4    | -0.6   | -0.1   | -0.1   | -0.1   |

CPI inflation remains very soft in December at just 0.4%, as goods prices remain a drag

Overall, CPI rose by just 0.4% in 2017 after 0% in 2016. HICP inflation rose 0.2% in 2017

#### PERSONAL / FINANCIAL

|                               |       |       |       |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| KBC/ESRI Consumer Confidence  | 100.5 | 105.0 | 105.1 | 102.9 | 105.8 | 104.8 | 103.6 | 103.2 |
| Credit Growth YoY %           |       |       |       |       |       |       |       |       |
| - Private Sector (Underlying) | -5.8  | -6.0  | -6.1  | -5.7  | -4.8  | -3.7  | -2.7  | #N/A  |
| - of which : Household        | -2.0  | -1.9  | -1.8  | -1.7  | -1.5  | -1.6  | -1.5  | #N/A  |
| - of which : Mortgage Lending | -2.6  | -2.5  | -2.4  | -2.3  | -2.1  | -2.1  | -1.9  | #N/A  |

Consumer confidence has edged back from Sept's 20mth high, while remaining strong. Sub-indices show some 'concern' on personal finances

Pace of decline in private sector credit has continued to ease, though it is still down 2.7% YoY

#### LABOUR MARKET

|                            |         |         |         |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Live Register              | 263,900 | 259,300 | 256,600 | 249,500 | 249,300 | 246,900 | 244,200 | 241,300 |
| - Change In Month          | -2,700  | -4,600  | -2,700  | -7,100  | -200    | -2,400  | -2,700  | -2,900  |
| Unemployment Rate %        | 6.7     | 6.6     | 6.7     | 6.7     | 6.7     | 6.5     | 6.4     | 6.2     |
| Redundancies               | 374     | 230     | 252     | 337     | 249     | 291     | 288     | 175     |
| -12 Mth Total              | 3,359   | 3,171   | 3,086   | 3,085   | 2,973   | 3,052   | 3,083   | 3,056   |
| PMI Employment Indices     |         |         |         |         |         |         |         |         |
| - Investec Manufacturing   | 57.5    | 54.9    | 53.4    | 53.3    | 51.8    | 53.7    | 57.1    | 60.2    |
| - Investec Services        | 55.8    | 58.6    | 59.4    | 58.5    | 58.6    | 58.3    | 57.6    | 58.4    |
| - Ulster Bank Construction | 60.8    | 59.7    | 60.7    | 60.9    | 56.0    | 54.8    | 56.7    | 53.7    |

Live Register declined by 41k in 2017, close to 2016's 45k

The unemployment rate declined for a third consecutive month in December, falling to a 9½-year low of 6.2%

The PMI employment sub-indices suggest jobs growth remained solid in Q4. The manufacturing index averaged 57.0, services 58.1 and construction a solid 55.1

#### MERCHANDISE TRADE

|                           |      |      |      |      |       |      |      |      |
|---------------------------|------|------|------|------|-------|------|------|------|
| Export Values - 3M / 3M % | -1.5 | -6.4 | -4.7 | -6.5 | -3.3  | -3.2 | -0.7 | #N/A |
| - 3MMA YoY %              | 8.1  | 2.4  | 2.4  | -4.4 | -4.9  | -6.4 | -6.1 | #N/A |
| Import Values - 3M / 3M % | 6.0  | 13.0 | -1.7 | -7.2 | -12.5 | -5.7 | -2.7 | #N/A |
| - 3MMA YoY %              | 8.3  | 8.3  | 1.4  | -1.8 | -4.4  | -0.5 | -5.7 | #N/A |

Value of goods exports down 6.1% YoY in 3mths to Nov, largely due to fall in value of chemical & aircraft related sales

Import values down by similar 5.7% YoY, also reflecting fall in value of chemicals and aircraft

#### PUBLIC FINANCES

|                                |      |       |        |     |       |       |       |       |
|--------------------------------|------|-------|--------|-----|-------|-------|-------|-------|
| Total Tax Receipts: Cum YTD %  | 2.9  | 4.0   | 4.5    | 4.9 | 5.4   | 6.2   | 5.8   | 6.0   |
| Voted Spending : Cum YTD %     | 5.3  | 5.0   | 5.1    | 5.2 | 5.2   | 5.0   | 5.0   | 5.2   |
| Exchequer Bal: 12 Mth Total €m | -504 | 2,615 | -1,874 | 477 | 1,357 | 1,743 | 2,063 | 1,908 |

Tax receipts broadly on profile in 2017. Spending slightly above expectations

Thus, Government deficit of 0.3% of GDP in 2017 likely

#### QUARTERLY DATA

|                                   | Q4-15 | Q1-16 | Q2-16 | Q3-16 | Q4-16 | Q1-17 | Q2-17 | Q3-17 |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>GDP</b> - YoY %                | 26.6  | 2.5   | 5.4   | 2.7   | 9.9   | 5.1   | 6.3   | 10.5  |
| *Domestic Demand - YoY% (3Q Avg)  | 7.6   | 5.7   | 3.3   | 3.2   | 5.0   | 6.2   | 6.2   | 4.9   |
| Consumer Spending - YoY %         | 4.4   | 5.9   | 3.1   | 1.9   | 2.2   | 1.6   | 1.5   | 2.7   |
| Services Exports - YoY % (3Q Avg) | 14.7  | 12.4  | 10.7  | 10.2  | 10.6  | 13.4  | 14.0  | 12.9  |

\* Excludes Some Investment Related to the Multinational Sector

Irish GDP grew by 10.5% YoY in Q3, but data remain distorted

Growth in modified domestic spending (excludes some multinational investment) rose by a strong 4.9% in Q1-Q3, suggesting firm 'underlying' domestic growth

#### EMPLOYMENT & EARNINGS

|                        |      |      |      |     |      |     |     |     |
|------------------------|------|------|------|-----|------|-----|-----|-----|
| Employment YoY %       | 3.0  | 3.4  | 3.8  | 3.8 | 3.8  | 3.7 | 2.5 | 2.2 |
| Labour Force YoY %     | 1.4  | 1.4  | 2.3  | 2.3 | 1.7  | 1.8 | 0.1 | 0.5 |
| Average Earnings YoY % |      |      |      |     |      |     |     |     |
| - Hourly               | -0.7 | 0.9  | 0.4  | 0.2 | 1.0  | 0.6 | 1.2 | 2.3 |
| - Weekly               | 1.2  | 1.5  | 0.9  | 1.3 | 0.7  | 1.5 | 1.8 | 1.7 |
| Weekly Earnings YoY %  |      |      |      |     |      |     |     |     |
| - Private Sector       | 1.0  | 2.7  | 2.1  | 1.9 | 1.4  | 1.7 | 1.4 | 1.5 |
| - Public Sector        | 1.8  | -0.5 | -1.0 | 1.2 | -0.7 | 1.7 | 3.2 | 2.7 |

First iteration of new CSO Labour Force Survey (LFS) shows YoY employment growth of 2.2% in Q3. Surprising weakness in labour force growth

Weekly earnings growth modest in Q3 (1.7%). Dichotomy between sectors, with some showing strong growth, while others flat or declining



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