Irish Economy Update

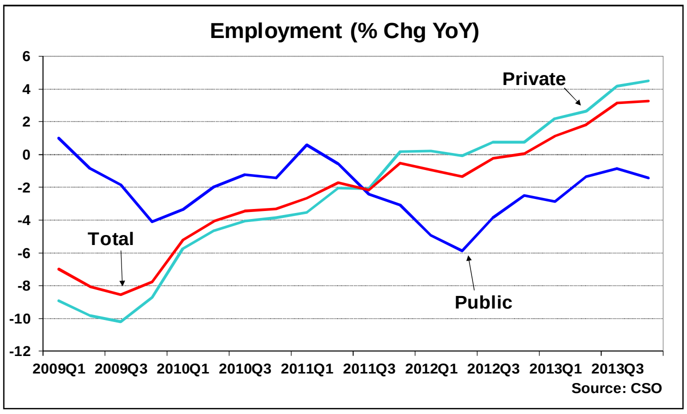
March 2014

AIB Treasury Economic Research Unit

Very Strong Employment Growth

The National Household Survey results for Q4 2013 are one of the most upbeat pieces of data published on the Irish economy in a long time. They show an on-going strong recovery in the Irish labour market. **Employment rose for the fifth consecutive quarter, resulting in an annual gain of 61,000 jobs, or 3.3%, on the corresponding period of 2012.** Furthermore, almost 90% of the rise was in full-time employment, which rose by 3.9% on an annual basis.

On a seasonally adjusted basis, total employment rose by 0.8% in Q4, compared to 1.1% in Q3, and increases of 0.8% in Q2 and 0.6% in Q1. Thus, employment grew at a strong pace right throughout last year.

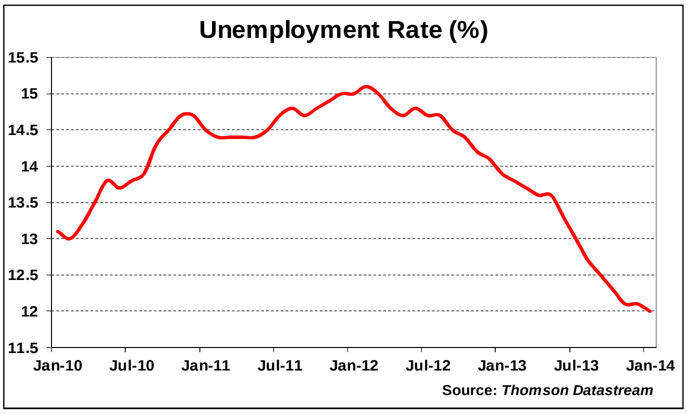


The gains in employment during 2013 were broad based. The main exceptions were the public sector and financial services, where the numbers employed continue to contract, with both sectors losing over 5,000 jobs during the year.

Apart from these two sectors, every other part of the economy registered either job growth or broadly stable employment in 2013. There were particularly large employment gains in agriculture, manufacturing, the hospitality sector (hotels, restaurants, bars) and in professional/technical activities. **Overall, by the fourth quarter of 2013, total private sector employment was up by a very robust 4.5%,** while public sector employment was down by 1.5%, on year earlier levels.

The strong job growth contributed to a marked fall in unemployment during 2013. The jobless rate fell to 12.1% in the final quarter, from 12.7% in Q3 and 14.2% a year earlier. The numbers unemployed stood at a seasonally adjusted total of 263,700 in Q4, a fall of over 41,000 in the year. Meanwhile, the long-term unemployment rate has fallen from 8.2% to 7.2% over the past year. Overall, then, unemployment is now falling rapidly.

This downtrend in unemployment is mirrored in the trend in Live Register figures. The Live Register has fallen in every month since June 2012, with the number 'signing on' declining by almost 50,000 from its peak level reached in August 2011.



There has been no real pick-up in construction employment to date, but the government believes the sector will add significant job numbers over the next three years. Allowing for this, and **given the recent trends in the labour market, the jobless rate could fall below 10% during 2015.** This would be some turnaround, given that only two years ago, the unemployment rate stood at over 15%.

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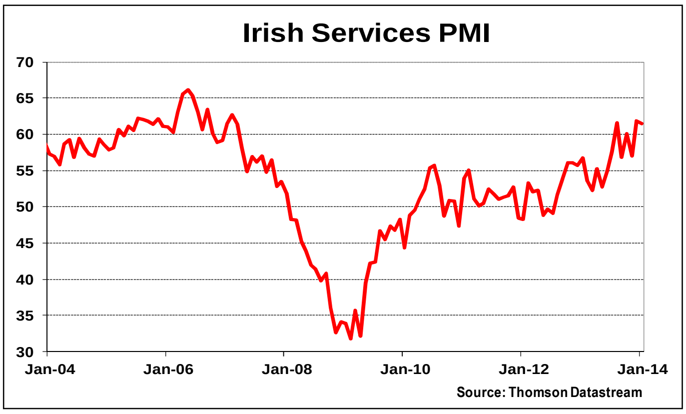
Other Irish Data Also Strong

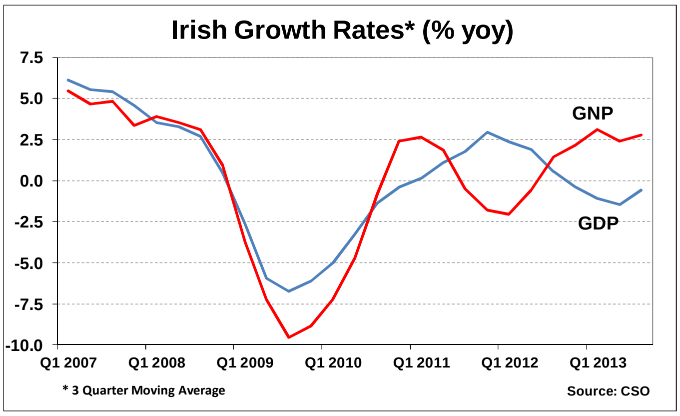
The marked improvement in labour market data is consistent with other evidence of a pick-up in activity in the Irish economy. **Irish PMIs, which are good leading indicators of activity, have picked up strongly in the past year.** The PMI for the services sector has risen to very high levels in recent months, standing at 61.5 in January and 61.8 in December, the best readings since February 2007. The PMI for manufacturing stood at 52.9 in February and 52.8 in January, which is well into growth territory. Meanwhile, the PMI for the construction sector soared in the second half of last year, averaging 58.9 in the fourth quarter and then a still strong 56.4 in January 2014.



The OECD leading indicator index for Ireland has also been rising for some time. It reached its best level since early 2008 in the second half of last year. **Consumer confidence has also picked up strongly** over the past year and by early 2014 had reached its highest level since mid-2007.

There have also been signs of life at last in the housing market, with a pick-up in housing registrations and commencements recently, albeit from very subdued levels. **House prices are also rising strongly.** Dublin prices were up by over 13% year-on-year in January, while prices in the rest of the country have also started to rise on a year-on-year basis.

Meanwhile**,** the domestic economy started to expand in the second half of last year, with domestic spending rising by 1.5% year-on-year in Q3, led by a pick-up in household spending and investment activity. Following growth of 0.9% in Q3, retail sales, excluding the motor trade, rose by a further 1.3% in Q4. By December, these sales were up by 3% year-on-year. Meanwhile, car sales have surged ahead in early 2014, rising by 28% on 2013 levels in the first two months of the year.



On the external trade front, the value of goods exports fell by €4.8bn, or over 5%, in 2013. This was all due to **a marked decline in output in the pharmaceutical sector** following the expiry of patents on a number of key products manufactured in Ireland. This has had **quite a depressing effect on GDP,** which is likely to have been broadly flat last year.

However, the big fall in pharma output has had very little impact on the real economy. It has, though, resulted in a large decline in profit repatriations from the multi-national sector. This is not picked up in GDP data, but it is accounted for in GNP figures. Here, the fall in export earnings has been partially offset by a decline in profit repatriations. Thus, despite flat GDP, **GNP is likely to have risen by over 2% last year.** This good growth in GNP is in keeping with the many other indicators pointing to a strong performance by the Irish economy in 2013. **With the domestic economy now improving and Ireland's main export markets also picking up, the recovery in the Irish economy should continue to gain momentum.** Official forecasts are for GDP growth to pick up to around 2% this year. Growth could accelerate to 3% or above in 2015.

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