Irish Economy Update

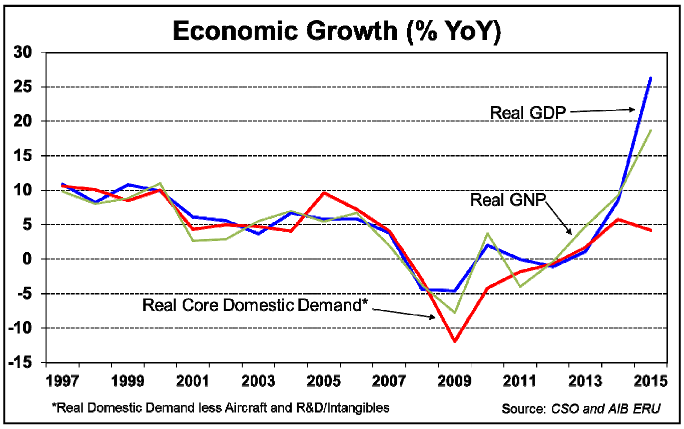
September 2016

AIB Treasury Economic Research Unit

Irish growth loses some momentum

The publication by the CSO of National Accounts and Balance of Payments data for the second quarter of the year did not attract the same degree of public commentary as usual. These are **key figures showing how the Irish economy performed and its interactions with the rest of the world.**

The data have become discredited, though, as the figures for 2015 were greatly inflated by corporate restructuring and balance sheet changes by some multi-national companies. As a result, **GDP and GNP no longer represent an accurate measure of the value of goods and services produced in Ireland.**

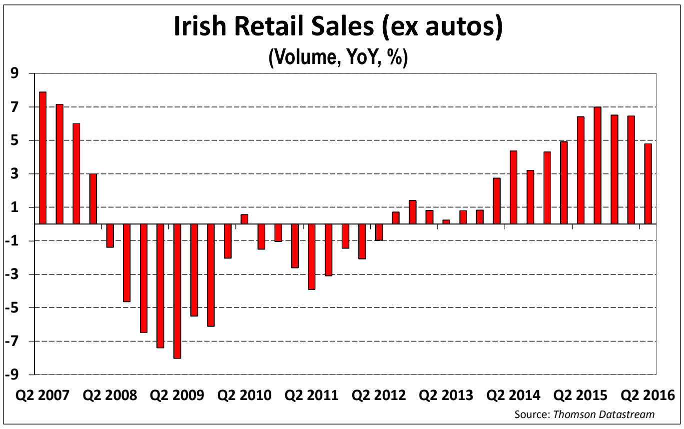


The small and open nature of the Irish economy and complex and varied nature of the operations of many of the companies that are based here, makes it increasingly difficult for single headline indicators like GDP or GNP to accurately represent economic activity in Ireland, as the CSO itself has acknowledged. **Instead, one needs to look at a broad range of indicators to provide the best gauge on how the economy is performing.**

In this regard, the **National Accounts data still provide lots of useful information on the economy.** For a start, the **CSO estimate that GDP grew by 4% year-on-year in the first half of 2016** looks broadly correct and is consistent with other data on the economy. However, it **represents a slowdown in the underlying growth rate of the economy compared to 2015 and 2016.**

The National Accounts **data reveal quite a slowdown in the rate of growth in core domestic demand this year.** Growth in core domestic spending—consumer and government spending plus investment—slowed to around 2.5% in the first half of 2016 from an average of 5.5% in the past couple of years. **Business investment in particular has fallen back somewhat this year, after surging ahead in 2014 and 2015**.

Meanwhile, consumer spending has not sustained the strong growth rate of 4.5% seen last year. This is evident from other indicators also. Indirect tax receipts are running behind schedule, while after a strong start to the year, new car sales have lost some of their upward momentum. Meantime, there has been a marked deceleration in growth in retail spending since the spring.



The CSO has indicated that a fall-off in spending abroad by Irish tourists also

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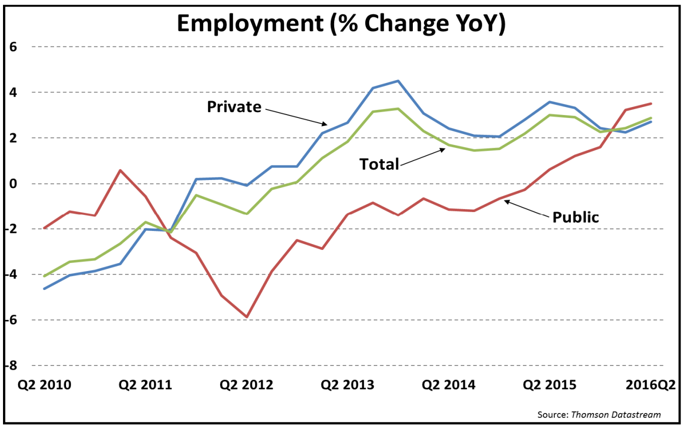
contributed to a slowdown in consumer spending in the second quarter of the year. Thus, **a broad range of indicators suggest that consumer spending has lost momentum since the earlier part of the year.**

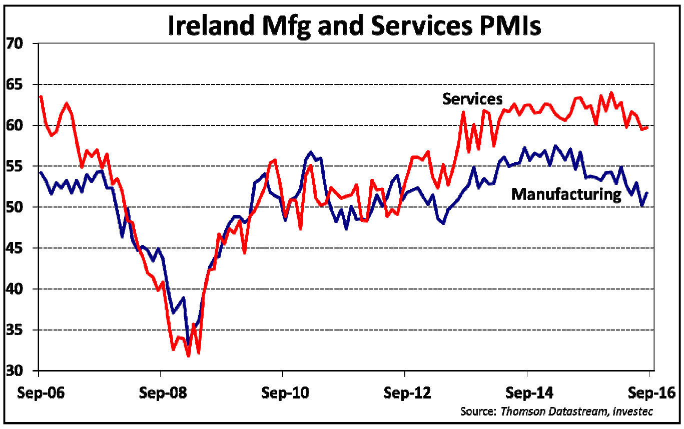
Meanwhile on the external front, CSO data suggest that **growth in service exports has slowed.** Furthermore, the PMI for the manufacturing sector has fallen to its lowest levels in more than three years in the past couple of months.



Overall then, there are a broad range of indications suggesting that the Irish economy has lost some of its mojo this year**. It would appear that the uncertainty around the vote for Brexit in the UK is having a bigger impact on the Irish economy than the British economy at present**. The **economy has also had to cope with a very sharp fall in sterling this year**. Growth in the US economy, a key export market for Ireland, has also lost considerable momentum in 2016.

However, we should be careful not to overstate the extent of the slowdown in the economy. Many indicators are still pointing to a strong performance and, as already indicated, GDP did grow by 4% year-on-year in the first half of the year.

The PMI for the key services sector remains close to a ten year high and is pointing to on-going robust growth in activity. The recovery in construction is continuing, albeit from a low base, with house building in particular remaining on a strong upward trajectory. Consumer confidence is close to fifteen year highs.



Labour market data also remain strong with employment growth being sustained at over 2.5% year-on-year in the first half of 2016, while the downtrend in the Live Register is still firmly in place.

In summary, then, the economy seems to be performing reasonably well in 2016, but growth has lost some momentum and will be lower than in the last two years. GDP growth for this year could average around 3.5%. However, GNP growth is likely to be higher, at c. 5.5% because of a decline in profit repatriations from multinational corporations. **With the uncertainty of Brexit likely to persist, GDP growth may remain in the region of 3-3.5% over the next couple of years**.