

Some Projections for 1966

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At the time of writing this note, in December 1965, there is still some uncertainty about the final result of the year 1965 for the Irish economy. It is, however, clear that some of the projections given in the Second Programme for Economic Expansion Progress Report for 1964 (in future referred to as the Progress Report) have to be revised in the light of experience gained in the course of the year. The first task to be undertaken, before making projections for 1966, will, therefore, be to obtain a 1965 basis and to consider its implications.

It will be assumed that public authorities' current expenditure and gross fixed capital formation at both current and constant prices, and personal expenditure at current prices, do not turn out to be substantially different from the levels envisaged in the Progress Report; the figures given therein for the items mentioned will, therefore, be used. In so far as these and other assumptions prove unrealistic, the 1966 projections given later may be correspondingly adjusted.

The element of price increase in personal expenditure is, however, assumed to be 5% and thus somewhat higher than that implied in the Progress Report; the increase in real personal expenditure is consequently lower.

Furthermore, merchandise imports and exports for the first three quarters of 1965 are known. Imports in the fourth quarter of 1965 are assumed to be the same as in the corresponding 1964 period. Exports exceeded their 1964 level by £1 million in October and a similar excess is assumed for November and December. Invisible imports (including corrections of merchandise imports for balance of payments purposes) are taken as £46 million as in the Progress Report; invisible exports are assumed to be £148 million, a little higher than originally projected. The implied price increase in imports and exports of all goods and services is taken as 2%. Finally, stockbuilding is put at £18 million as in 1964, above the Progress Report projection, indicating higher cattle stocks. The result is as follows:

Category	Current prices: £ mill.			1958 prices: £ mill.		
	1964	1965		1964	1965	
		Progress Report	Present Estimate		Progress Report	Present Estimate
Personal expenditure	660	711	711	564	586	579
Government expenditure	116	123	123	88	90	90
Fixed capital formation	175	200	200	151	166	166
Stockbuilding	+18	+12	+18	+16	+10	+15
Exports	361	382	370	318	326	320
Total	1,330	1,428	1,422	1,137	1,178	1,170
Imports	392	412	415	369	379	383
Gross national product	938	1,016	1,007	768	799	787
Total	1,330	1,428	1,422	1,137	1,178	1,170

One implication of this set of estimates is that real gross national product appears to have increased by about 2½% between 1964 and 1965, instead of

by 4% as envisaged in the Progress Report. Furthermore, a balance of payments deficit of £45 million is estimated; earlier in the year the anticipated deficit came to £50 million, but the policy measures adopted may have had some effect on the level of imports.

It may be noted that the increase in imports between 1964 and 1965 is not much above that of the Progress Report projection and seems, indeed, to be very much in keeping with the increase in total final demand. The unforeseen factor which is chiefly responsible for the excess of the balance of payments deficit over the originally projected £30 million is the stagnation in merchandise exports (in real terms a decline), implying only a slight rise in exports of goods and services at current prices. In such circumstances, an increased unfavourable trade balance and payments balance seem inevitable, in the absence of any mechanism which would produce a quick adjustment.

When it comes to assessing the outlook for 1966, new problems arise, since economic activity in Ireland is likely to be influenced by a number of unknown factors. Such factors are: credit supply, government current and capital expenditure, the national wage agreement, the Irish and British import levies, the Free Trade agreement, new manufacturing projects and associated capital inflow. Some of these are at least partly within the power of the government to determine; in the case of other factors, the information about their operation and effect should in any event be known to the government before anyone else.

If various alternative possibilities are considered, the results obtained may be fairly wide apart. It is possible to make a medium projection of what seems likely to result in normal circumstances,

in the absence of special policy measures. A medium set of assumptions includes the virtual disappearance of the British and Irish import levies but no further drastic move towards free trade in the course of 1966, and a more moderate rise in incomes and prices produced by the next wage agreement than by that of 1964.

A basic quantitative assumption will be made to the effect that total final demand at current prices will be about $7\frac{1}{2}\%$ higher in 1966 than in 1965.

Experience based on econometric relations and other considerations suggests then that the increase may amount to 7% for personal and government expenditure, 8% for fixed capital formation and 10% for exports, with stockbuilding at £12 million. Price increases may account for about 1% in the case of exports and 3% in the case of other demand categories.

Because of the crucial role which exports will play in the performance of the economy in 1966, they have been subjected to a more detailed analysis. For this purpose, merchandise exports have been broken down into broad groups by category and by destination. It is then estimated that whilst total merchandise exports remained at the same level in 1964 and 1965, some changes in composition took place. In particular, the value of cattle exports in 1965 is estimated to be £8 million or 12% below the 1964 figure, whilst exports of manufactured goods to countries other than the United Kingdom appear to be £6 million or 37% higher.

For 1966 the following developments appear most likely. The recovery in cattle and beef exports which is already apparent should continue, giving 1966 exports in volume terms rather above the 1964 total,

and as average prices are also likely to be higher than at that time, the value of cattle and beef exports may be expected to be around £5 million higher than in 1964. Manufactures' exports to the United Kingdom are affected both by the U.K. import levy and by arrangements which may be made under the Free Trade Area discussions; accordingly they may either be near the 1964 level or substantially above. Other exports to the U.K. are less affected by the levy but could benefit from free trade proposals. Exports to other countries, particularly of manufactures, should continue to rise though at a slower rate than in 1965.

The results of these considerations may be summarised as follows, giving minimum and maximum estimates for 1966:

Category and destination	Value of exports (£ million)			
	1964	1965 estimate	1966 estimates	
			minimum	maximum
Total cattle (live and meat)	69.1	61.0	72	77
To the United Kingdom:				
Other food, drink and tobacco	55.9	57.1	58	61
Manufactured goods	37.7	36.2	38	43
Miscellaneous (incl. re-exports)	13.1	15.1	16	17
To other countries:				
Other food, drink and tobacco	14.5	14.7	15	14
Manufactured goods	16.6	22.7	28	27
Miscellaneous	15.5	15.3	16	16
Total merchandise	222.4	222.1	243	255

Visible exports can therefore be expected to rise in value somewhere between 10% and 15% from 1965 to 1966. With regard to invisible items, the most plausible forecast would appear to be a continuation

of the steady rise by $6\frac{1}{2}$ - 7% per annum which was obtained recently, which would give a 1966 total of £158 million. The likely range of all exports at current prices in 1966 thus seems to be from £401 million to £413 million, or from $8\frac{1}{2}$ % to $11\frac{1}{2}$ % above the 1965 figure. A 10% increase thus constitutes indeed a medium forecast.

With a $7\frac{1}{2}$ % increase in total final demand, imports of goods and services at current prices may be expected to be about 9% higher, and gross national product almost 7% higher, in 1966 than in 1965. Of these increases, about 2% would be accounted for by rising prices in the case of imports and somewhat above 3% in the case of gross national product. This implies a growth rate in real gross national product of about $3\frac{1}{2}$ % between 1965 and 1966. The projected set of national accounts data is as follows:

Category	1966 (£ million)	
	Current prices	1958 prices
Personal expenditure	761	602
Government expenditure	131	93
Fixed capital formation	216	174
Stockbuilding	+12	+10
Exports	407	345
Total	1,527	1,224
Imports	452	409
Gross national product	1,075	815
Total	1,527	1,224

It may be noted that this projection implies a balance of payments deficit of the same order of magnitude as that likely to be incurred in 1965. To

some extent, of course, the correct answer to the question "how large will be the deficit in the current account of the balance of payments in 1966?" is "as large as the government permits it to be". Some risk of curtailing the economy's growth is of course involved.

Among the possible governmental policy measures, credit restriction and its consequences are familiar enough: a decline in the purchase of consumer durables, in employment and in construction output. The first of these effects may be necessary, the other two are not. The objective of restraining consumer demand can be satisfied without incurring the undesirable side effects of credit restriction, by imposing sales taxes on consumer goods. If these taxes are further designed to discriminate against consumer goods with a high import content, they will simultaneously perform the function of an import levy.

Again, a rapidly rising price level affects the balance of payments, apart from its redistributive effect. If an effective curb on prices can be maintained, inflationary increases in money incomes may be minimised.

Even without special policy measures, the tentative conclusion of a £45 million balance of payments deficit may be modified by the operation of one or more of the following factors: a quicker levelling off with regard to investment and thus a lesser rise in imports; more favourable terms of trade; or a greater expansion of the export volume. Import substitution appears to be a continuous process which must make itself felt in the future but which has a limited effect in the short run.

Emphasis might therefore lie on an expansion of exports rather than on reduction or restriction of imports. Indeed, without a renewed export growth there seems little hope for any sustained increase in home production.