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WINTER 1991/92

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SUMMARY

It still seems probable that real GNP grew by about 2 per cent in 1991. Domestic demand was stagnant, but the volume of exports increased much more than the volume of imports. With net transfers from the EC also rising substantially, national disposable income also appears to have grown by about 2 per cent in spite of the year on year deterioration in the terms of trade. With inflation remaining low, employment holding roughly steady, the current account balance of payments moving further into surplus and only a minor slippage from budgetary targets, the Irish economy fared better in 1991 than many of its neighbours. Even the rise in unemployment, which highlighted the chronic jobs problem of the Irish economy, slowed considerably in the late months of the year.

Although 1991 appears to have turned out better than was widely feared in the middle of the year, the prospects for 1992 remain very uncertain. This is mainly because of doubts concerning the timing and strength of the hoped-for recovery in the world economy. There are no signs that a sustained upturn has yet started in the US or UK, while the expected slowdown is taking place in Germany and Japan. Thus the possibility of a prolonged and intensified international recession cannot be ruled out, although a gradual and somewhat patchy recovery in the course of the year remains much more likely, and a vigorous expansion from the middle of the year is also still possible.

On the central assumption of a slow international recovery, it seems likely that Irish economic growth will accelerate slightly to about 2½ per cent. Industrial exports should continue to outperform the growth of their major markets, domestic demand should show a moderate increase, but the growth of GNP is likely to be curtailed by a rise in import volumes. Inflation is likely to remain low, the current account balance of payments surplus could reach an astonishing 6 per cent of GNP, and employment could increase by about 9 thousand. Unemployment will continue to depend largely on migration flows, and if the trend of the past 5 months continues, the rise in the Live Register during 1992 would be quite small.

Given the degree of international uncertainty, policy needs to remain both cautious and flexible. On the basis of a conservative growth forecast a target EBR of about 2.1 per cent of GNP or roughly £525 million would seem appropriate. Provided the latest compromise proposal on public service pay is accepted, such a target should prove attainable through some further expenditure cuts and the eschewing of net reductions in taxation. Of course, the deferred payment of retrospection will add to budgetary difficulties in 1993 and 1994.

A prolonged world recession would call into question the nature of economic strategy both within Ireland and internationally. If such a situation were to arise, a new economic consensus would need to be sought in Ireland with the aim of minimising job losses, and many existing policies including the fiscal targets might need to be modified. In the equally possible circumstances of a faster than expected world economic recovery, resulting in the likelihood of significantly bettering the 1992 budgetary targets, there would be a case for bringing forward into 1992 some of the retrospective elements of the compromise pay proposals currently scheduled to be made in later years.

FORECAST NATIONAL ACCOUNTS 1991
A: Expenditure on Gross National Product

	1990	1991	Change in 1991				
	Preliminary	Estimated	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	14231	14812	581	142	4	3	1
Public Net Current Expenditure ...	4021	4406	385	60	9½	8	1½
Gross Fixed Capital Formation ...	4837	4789	– 48	– 166	– 1	2½	– 3½
Exports of Goods and Services (X) ...	15939	16600	661	976	4¼	– 1¾	6
Physical Changes in Stocks	526	420	– 106	– 100			
Final Demand	39554	41027	1473	912	3¾	1½	2¼
less:							
Imports of Goods and Services (M) ...	13861	14406	545	263	4	2	2
GDP at Market Prices	25693	26621	928	649	3½	1	2½
less:							
Net Factor Payments (F)	2782	2907	125	181	4½	– 1¾	6½
GNP at Market Prices	22911	23714	803	468	3½	1½	2

B: Gross National Product by Origin

	1990	1991	Change in 1991	
	Preliminary £m	Estimated £m	£m	%
Agriculture, Forestry, Fishing ...	1964	1817	– 147	– 7½
Non-Agricultural: Wages, etc. ...	12761	13590	829	6½
Other ...	6346	6736	390	6¼
less:				
Adjustments	602	1100	498	83
Net Factor Payments	2782	2907	125	4½
National Income	17687	18136	449	2½
Depreciation	2583	2738	155	6
GNP at Factor Cost	20270	20874	604	3
Taxes less subsidies	2641	2840	199	7½
GNP at market prices	22911	23714	803	3½

C: Balance of Payments on Current Account

	1990	1991	Change in 1991
	Preliminary £m	Estimated £m	£m
X—M	2079	2194	115
F	– 2782	– 2907	– 125
Net Transfers	1567	1950	383
Balance on Current Account ...	864	1237	373
as % of GNP	3¾	5¼	1½

FORECAST NATIONAL ACCOUNTS 1992
A: Expenditure on Gross National Product

	1991	1992	Change in 1992				
	Estimated	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	14812	15627	815	370	5½	3	2½
Public Net Current Expenditure ...	4406	4670	264	0	6	6	0
Gross Fixed Capital Formation ...	4789	5028	239	96	5	3	2
Exports of Goods and Services (X) ...	16600	18199	1599	1399	9¾	1	8½
Physical Changes in Stocks	420	- 10	- 430	- 400			
Final Demand	41027	43514	2487	1465	6	2½	3½
less:							
Imports of Goods and Services (M) ...	14406	15556	1150	782	8	2½	5½
GDP at Market Prices	26621	27958	1337	683	5	2½	2½
less:							
Net Factor Payments (F)	2907	3024	117	83	4	1	2¾
GNP at Market Prices	23714	24934	1220	600	5¼	2½	2½

B: Gross National Product by Origin

	1991	1992	Change in 1992	
	Estimated £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	1817	1817	0	0
Non-Agricultural: Wages, etc. ...	13590	14405	815	6
Other: ...	6736	7125	389	5¾
less:				
Adjustments	1100	1260	160	14½
Net Factor Payments	2907	3024	117	4
National Income	18136	19063	927	5
Depreciation	2738	2875	137	5
GNP at Factor Cost	20874	21938	1064	5
Taxes less Subsidies	2840	2996	156	5½
GNP at Market Prices	23714	24934	1220	5¼

C: Balance of Payments on Current Account

	1991	1992	Change in 1992
	Estimated £m	Forecast £m	£m
X—M	2194	2643	449
F	- 2907	- 3024	- 117
Net Transfers	1950	1850	- 100
Balance on Current Account ...	1237	1469	232
as % of GNP	5¼	6	¾

COMMENTARY

The International Economy

General

In many ways 1991 proved to be the most momentous year since the second world war. The speed with which the former Soviet Union disintegrated took most observers by surprise, and precluded any planned transfer of power in the political, military or economic spheres. The evolution to new structures during 1992 will come about through a series of *ad hoc* responses to events, and will therefore follow an essentially unpredictable course.

Not knowing what will happen in the former USSR, or in Yugoslavia and possibly some other East European countries, it is obviously not feasible to predict the impact of such events on the rest of the world economy. The only tenable assumption which can be made at present is that developments in the former communist states will be broadly neutral in their effects on the general world economy in 1992, with the stimulating consequences of meeting immediate human requirements roughly balancing the depressive influence of greater uncertainty on investment decisions in the western world. The relatively weak economic linkages between the ex-communist states and the rest of the world provide additional justification for this neutral assumption.

It is deeply ironic that the collapse of the communist system coincides with a period of unusual weakness and confusion within the capitalist economies. Although not the deepest, the current recession threatens to be among the longest in the past 50 years, while its uneven spread has resulted in an unco-ordinated and contradictory policy response among the major economic powers. This lack of co-ordination is exacerbated by growing trade tensions between the major blocs, and the increasing likelihood that the current GATT negotiations will end in failure.

The outlook is further clouded by some of the characteristics of the recession. The level of private sector indebtedness, especially in the USA and UK, is unprecedented. Coupled with falling property asset values, this both undermines consumer and business confidence and weakens the position of many financial institutions. Experience of the recovery phases of past economic cycles is thus of limited benefit in offering guidance as to the course of the world economy.

The consensus view internationally is that, despite these uncertainties, the world economy will recover slowly in 1992. A small number of analysts predict that the recession will deepen, while few, if any, anticipate a strong and rapid growth. For the purposes of this *Commentary* we accept the consensus view of a weak and unsteady recovery in world output and trade. While this seems the most likely outcome, we believe that there are slight, but roughly equal, chances of either renewed recession or an unexpectedly vigorous recovery.

The US Economy

The mid-year improvement in the US has not been sustained. The short period of growth in the third quarter of 1991 was followed by virtual stagnation in the closing months of the year. Capital investment has remained depressed, consumer confidence fell sharply during the autumn, although it appears to have stabilised in December, and the earlier strong improvement in net export volumes petered out towards the end of the year.

The levelling off in net export values can largely be explained by the effects on US competitiveness of the temporary strength of the dollar during the first half of 1991. The unusual failure of domestic demand to sustain its initial recovery is more interesting, as it differs from the pattern followed after most previous post-war recessions.

The most widely accepted explanation is that the recovery in domestic demand has been inhibited by the extraordinary level of private sector debt. This overhang in corporate and personal debt is believed to have restrained corporate investment and consumer spending, as both companies and individuals have sought to reduce their outstanding debt rather than enter new borrowing commitments. This tendency has been reinforced by financial institutions tightening their lending criteria, as they in turn seek to reduce their exposure to bad debts caused by previous over-lending and currently depressed property values.

The authorities have reacted to the stagnation in late 1991 by easing monetary policy and significantly reducing interest rates. What is not yet clear, because there is no real precedent, is how far and how fast an over-borrowed economy will respond to an expansionary monetary policy. Theoretically, a period of low interest rates should ease the debt burden, allowing an eventual return to the type of relationships observed in the past. In practice, it is difficult to predict when this transition will take place. It is also uncertain whether fiscal policy will also be used in an attempt to stimulate domestic demand, and, if it is, whether a further deterioration in the already excessive US budget deficit might further damage confidence.

In the face of these uncertainties, the most reasonable forecast is that domestic US demand will remain fairly static in the first quarter of 1992, but that there will be a moderate but sustained upturn from the second quarter onwards. Such an assumption could prove wrong in either direction, as it seems just as possible that the recovery will prove unexpectedly vigorous as that it will fail to take place at all.

The volume of net exports can be expected to increase in 1992, as the weaker dollar encourages exports and restricts import penetration. In conjunction with the modest recovery assumed in domestic demand, improved net exports could result in a GNP growth rate of between 2 and 2½ per cent in 1992.

The European Economy

The continental EC economy fared considerably better than the US in 1991. Buoyed up by strong German growth for most of the year, nearly all EC countries achieved a positive, albeit modest, GNP growth. Except in Germany, domestic demand tended to be weak, with consumption relatively stagnant and fixed capital formation tending to fall. Export growth, especially to the booming German market, was mainly responsible for the increase in GNP.

In the closing few months of 1991 the situation was changing quite rapidly. In response to higher taxes and tight monetary policy the expansion of German domestic demand slowed significantly, while there were some indications that consumer spending in other countries was beginning to accelerate slightly.

It seems probable that the deceleration of German growth will continue in 1992. Although approximate stability of output might be achieved in the former East Germany, after its decline in 1991, consumption and investment in West Germany will be constrained by tighter fiscal and monetary policy. Forecasts for GNP growth in the former West Germany average about 2 per cent for 1992, although several analysts believe it could be considerably lower than this. One key factor in determining growth, and even more in determining policy, will be the outcome of the current German pay round. The fear of inflation engendered by double digit pay claims in several sectors appears to have been the motivation behind the December rise in German interest rates. If the actual settlements are more moderate, and if evidence accumulates that the rise in German domestic demand is indeed abating, then an easing of monetary policy seems likely by the middle of 1992.

It had been expected that a revival of confidence would lead to a significant recovery in domestic demand in the other continental EC countries in 1992. The delay in US recovery and the December increase in European interest rates cast some doubt on this expectation. Normal cyclical timing suggests that there should be an upturn in domestic demand, but high interest rates and international uncertainty could suppress it. Export volumes should continue to grow, with capacity constraints and declining German competitiveness serving to maintain a fairly high rate of German import growth despite the slowdown in German domestic demand. On balance, it still seems likely that there will be modest GNP growth, perhaps averaging a little over 2 per cent, in most of the continental EC countries. Import volumes are expected to increase a little faster than in 1991.

The UK Economy

Among the major industrial nations, the UK suffered the deepest recession in 1991, with real GNP believed to have fallen by about 2¼ per cent. Although the decline appears to have ended by about the middle of the year, it has been succeeded by stagnation rather than recovery. Inflation fell sharply in 1991, but by the end of the year the rate of increase of both prices and pay remained slightly above the average for EMS member countries, and showed little sign of falling further.

Like the US, the UK economy suffers from a high level of personal and corporate indebtedness, which appears to be inhibiting consumption and investment expenditure. Also like the US, 1992 is an election year, which tends to increase consumer and business uncertainty. The UK authorities probably have more freedom of manoeuvre in fiscal policy than the US, because the starting deficit is lower. However this is outweighed by their lack of freedom in monetary policy. As an EMS member, the UK is essentially tied to German levels of interest rates and thus is precluded from adopting the cheap money policy which the US hopes will stimulate domestic demand. At the same time the UK is tied to an EMS parity which represents an overvaluation of sterling both within the EMS itself and in relation to the major external currencies.

In the face of these handicaps, it appears unlikely that there will be either a strong recovery in UK domestic demand or a surge in the volume of exports. Unless there is an unexpectedly rapid and vigorous recovery in the US, it seems probable that GNP growth in the UK will be no more than 1 per cent in 1992, with slow expansion in domestic demand and export volumes largely offset by a faster rise in import volumes. A considerable proportion of the increase in imports is likely to be in materials, as the de-stocking of 1991 is reversed, while the growth in manufactured imports will show a less dramatic turn-around between 1991 and 1992.

The Rest of the World

The Japanese economy performed much better than any other major country in 1991. Tight monetary policy appears to have succeeded in dampening inflationary pressures while allowing a substantial output growth to continue. GNP growth in 1991 is believed to have been in the region of 4¼ per cent, while unemployment has remained low and price increases moderate. For 1992 a GNP growth rate of about 3½ per cent is predicted with exports remaining buoyant and domestic demand continuing to expand at a moderate rate. The recent cut in interest rates appears to have been a signal that inflationary pressures have eased and that the danger of too great a slowdown in domestic demand should be avoided.

The other Asian industrial countries achieved high growth rates in 1991, helped by their proximity to the Japanese market. Like Japan they are expected to maintain substantial, but slightly slower growth in 1992. Australia and Canada suffered technical recessions in 1991. Their prospects for recovery in 1992 appear tied to the performance of the US economy.

Oil prices seem likely to remain fairly stable in 1992, with higher output tending to raise income in most OPEC countries. Kuwaiti reconstruction could be a further stimulus to activity in the Gulf area. Prices of other primary materials should stabilise or rise slightly as destocking in industrial countries

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992
UK	−2¼	1	5¾	4¼	8	6	8½	9¾	−1¼	−1¾
Germany	3¼	2	3½	3¾	6	6¼	4½	5	−1	−½
France	1½	2¼	3	3	5	5¼	9½	10	−¾	−¾
Italy	1	2	6½	5½	5½	5½	11	11	−1½	−1½
Total EC	1¼	2	4¾	4¼	6	6	8¾	9¼	−1	−1
USA	−½	2¼	4	3¾	5	4	6¾	6¾	−¼	−¾
Japan	4¼	3½	2¾	2¼	5	5	2¼	2¼	2	2
Total (OECD)	1	2¼	4½	3¾	6¼	5¾	7	7½	0	−¼
Ireland	2	2¾	3¼	3	4½	4½	16½	17	5¼	6

Sources: OECD Economic Outlook, IMF World Economic Outlook, and individual country sources.

comes to an end, but world growth is unlikely to be sufficient to generate any major price increases. Incomes in most developing countries should thus show a small improvement. Indebted countries could gain some benefit from the reduction in most international interest rates.

The Context for Ireland

As the preceding pages have indicated, there is considerable uncertainty about the prospects for world output and trade in 1992. The most likely outcome is for rather faster growth than in 1991, especially by the second half of the year. However, the actual result could be significantly worse or better than this cautious central projection.

Among Ireland's major markets, import growth should improve modestly in the UK, most continental EC countries and the USA, but is expected to slow down in Germany and in some other countries with strong economic links with Germany. On balance, the weighted average import growth in Ireland's markets seems likely to be a little more favourable in 1992 than in 1991.

Earlier hopes that 1992 would see a substantial increase in international investment levels are fading, due to the delay in economic recovery in the US and elsewhere. However, some international upturn in investment still appears probable before the end of the year. The fact that Ireland seems to be at least maintaining its degree of cost competitiveness within an EC context suggests that both industrial exports and new industrial investment should continue to grow rather faster than the markets they serve.

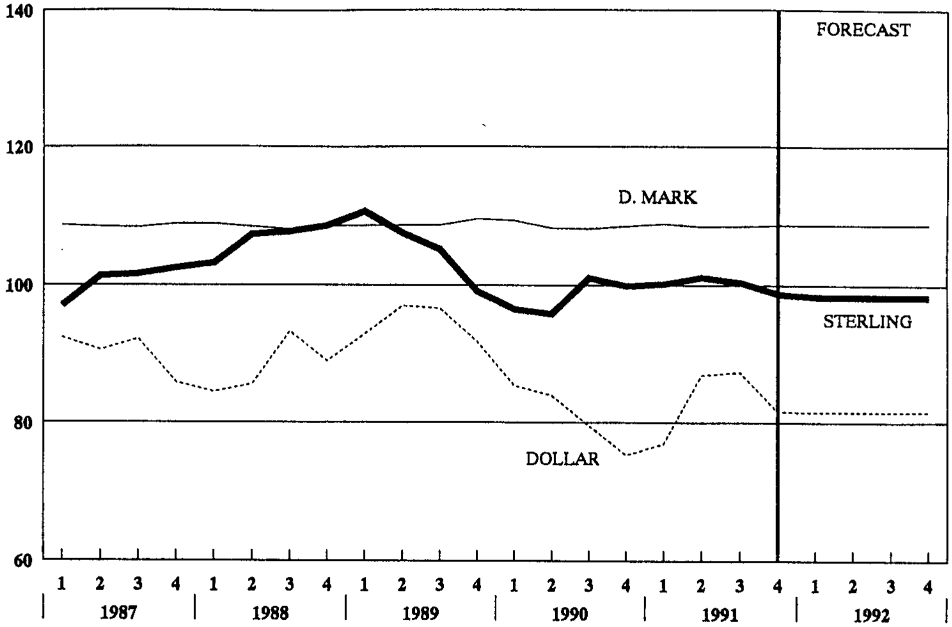
The present extreme divergence in short-term real interest rates between Europe on the one hand and the USA and Japan on the other would not appear to be tenable on more than a temporary basis. It will be very surprising if it is not substantially reduced in the course of 1992. Unless economic recovery is unexpectedly rapid, in which case American and Japanese interest rates are likely to be raised, the adjustment will come about through a reduction in European interest rates. This is especially so since the present high interest rates are inappropriate to the economic condition of most European countries other than Germany. If Germany does not itself take the lead in reducing its rates once the immediate pay-bargaining crisis is past, then it seems certain that it will come under increasing pressure to do so from its EMS partners.

Currency movements are nowadays more related to interest rate differentials than to trade flows. Thus exchange rates in 1992 depend largely on the evolution of short-term interest rates. It seems probable that the present parities do not fully reflect the existing interest rate differentials, as the markets are discounting a probable narrowing of these differentials later in the year. If the perception were to grow that the differentials are likely to persist, then a further appreciation of the EMS currencies against the dollar and yen could be expected. This, in turn, would strengthen the pressure to reduce European interest rates.

For the purpose of this *Commentary*, it is assumed that there will be a significant fall in European interest rates in the course of 1992, probably starting in the late spring. In consequence, it is also assumed that exchange rates between the major currencies will fluctuate around their current values for the remainder of the year. Exchange rate parities within the EMS are also

FIGURE 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1986=100



assumed to remain constant, although the risk of a re-alignment involving a significant devaluation of sterling cannot be ignored.

The Domestic Economy

General

Since the Autumn issue of the *Commentary*, the publication of *National Income and Expenditure 1990* has provided preliminary official National Accounts Estimates. These confirm that there was an exceptionally rapid growth rate in 1990, with the expenditure based estimate of real GNP growth at 8.3 per cent. The level of current-price GNP in 1990 was virtually identical to our final estimates in the *Commentary*, but there were some significant differences in composition which have implications for forecasts of 1991 and 1992. In particular the level of personal consumption in 1990 was surprisingly low, while fixed capital formation was unexpectedly high. The value of physical changes in stocks was lower than expected, mainly because the adjustment for stock depreciation was even larger than we had estimated, while the price deflator for government consumption was significantly lower than anticipated. On the income side of the Accounts, non-agricultural wages were substantially higher, and other non-agricultural income was substantially lower, than in our estimates.

Although our estimates of National Accounts for 1991 are obviously helped by the availability of official base figures for 1990, there are still difficulties which are unusual at this time of year. The most important of these concerns the delay in *Balance of Payments Estimates* caused by alterations in exchange control regulations which have forced the CSO to seek new channels of statistical information. As a result no official balance of payments figures have yet been published for any part of 1991, which means that no check is available as to the accuracy of our estimates of non-tourist exports and imports of services or the level of net factor flows in 1991.

Despite this data gap, however, the information which has become available in recent months has tended to confirm our view that the Irish economy achieved a modest growth rate of about 2 per cent in 1991. The domestic economy may have been slightly weaker than predicted in our earlier forecasts for the year, but conversely the volume of net exports has exceeded our earlier expectations, in spite of the international recession.

Exports

The value of visible exports in the ten months to October 1991 was 3.7 per cent higher than in the same period of 1990. However, average export prices were 5.6 per cent lower in the first half of 1991 than in the first half of 1990. Provisional figures suggest that export prices have remained roughly constant since June, while they were falling sharply during the summer of 1990. For the first ten months of the year, average export prices were thus probably almost 3.3 per cent lower than in the corresponding period of 1990, implying a volume increase of over 7 per cent. Such a rise in export volume, during an international recession which was particularly acute in Ireland's major trading partner, is very reassuring.

This is particularly so when the composition of exports is considered. Manufactured exports rose by 5.1 per cent in value during the first ten months of the year, implying a volume increase of about 8 per cent. After a slight dip during the spring, the volume of manufactured exports appears to have resumed a significant upward trend. Moreover, the value figures show that the growth is broadly spread across industry, and is not dependent on the performance of one or two sectors. Non-manufactured industrial exports are also up in value on their level in 1990. Given the steep fall in metal prices since the first half of 1990, this implies a substantial increase in volume.

Agricultural exports were sharply lower in the first half of 1991, but have since recovered to the extent that, by October, agricultural export values were similar to those in the first ten months of 1990. These figures include a significant increase in produce sent for intervention storage abroad, and are thus matched by a rise in the negative adjustment to merchandise trade. However, the relative recovery since the middle of the year does suggest that some of the major problems facing agricultural exporters in the past 18 months are beginning to ease.

Assuming that both manufactured and other industrial exports maintained their recent volumes in the last two months of the year, and that agricultural exports were at similar levels to the final months of 1990, it seems likely that for 1991 as a whole visible exports increased by about 6¾ per cent in volume and 4¼ per cent in value, as shown in Table 2.

Tourist receipts in 1991 were more buoyant than had been anticipated, and

TABLE 2: Exports of Goods and Services

	1990 £m	% Change Volume	% Change Value	1991 £m	% Change Volume	% Change Value	1992 £m
Agricultural	2147	3	1	2166	15	10	2383
Manufactured	9954	8	5¾	10526	7½	9½	11526
Other Industrial	1971	8½	4	2050	5½	7	2194
Other	271	– 25	– 28¾	193	0	1½	196
Total Visible	14343	6¾	4¼	14935	8¼	9¼	16299
Adjustments	– 243			– 320			– 280
Merchandise	14100	6¼	3¾	14615	8¾	9½	16019
Tourism	1131	3¾	7	1210	7	10¼	1334
Other Services	708	6	9½	775	6	9¼	846
Exports of Goods and Services	15939	6	4¼	16600	8½	9¾	18199

appear to have risen by about 7 per cent. No data are available concerning the trend in other service exports. When the earnings of the International Financial Services Centre are taken into account, there could have been a very large rise in service exports, but in the absence of any up-to-date figures a moderate estimate of a 9½ per cent increase in other services exports has been adopted. On this basis total exports of goods and services are estimated to have increased by 6 per cent in volume and 4¼ per cent in value.

Even on the cautious assumptions made in this *Commentary* about the pace of international economic recovery in 1992, the environment for Irish industrial exports should be slightly more favourable than in 1991. On the other hand, it might be unrealistic to expect Irish import penetration to be sustained at quite the rate achieved in 1991. Thus we project manufactured exports to grow at almost the same volume rate as in 1991. With export prices likely to be slightly higher than in 1991, this translates into a value increase of 9½ per cent. Other industrial export volumes are also projected to rise a little less in 1992 than in 1991, but here again the value increase should be higher.

Agricultural export levels are always difficult to predict, with the size, price, and timing of flows between exports and intervention stocks posing acute forecasting problems. In 1992, it seems probable that EC food aid to the CIS (the former USSR) will boost export volumes in the early part of the year. It is less clear whether shipments to the CIS financed by EC credits will be sufficient to prevent a renewed build-up of stocks in the second half of the year. The extent to which Middle Eastern markets will re-open to Irish beef exports, and whether such trade will be seriously affected by a limitation on EC export subsidies under a possible GATT agreement remain imponderables at the time of writing. The projections in Table 2, of a 15 per cent volume rise in agricultural exports, with a composition effect outweighing a small rise in market prices to produce a further fall in total unit value, must accordingly be regarded as indicating no more than a possible order of magnitude.

Provided that there is, in fact, a significant rise in agricultural exports, total visible exports could rise in volume rather faster than in 1991, with the value increasing at more than double the 1991 rate.

A moderate increase in the volume of tourist earnings seems probable in 1992, although the slow pace of world economic expansion makes a return to the very high tourist growth rates of the 1988 to 1990 period unlikely. Other service exports are projected to continue growing at the rate assumed for 1991. If these various projections are approximately correct in aggregate, total exports of goods and services will again provide the major stimulus to Irish economic growth in 1992.

Stocks

Preliminary estimates indicate that farm stocks, mainly of livestock, continued to increase in 1991, albeit at a slower rate than in the preceding years. Adverse price movements and general agricultural uncertainty seem likely to reverse this trend in 1992, with a small reduction projected for the value of physical changes in farm stocks.

Intervention and related stocks continued to grow rapidly in the first half of 1991 as agricultural exports remained depressed. With the recovery in agricultural exports in the second half of the year, there was some reduction in stock levels, but nevertheless stock-building over the year as a whole is thought to have almost matched the exceptionally high 1990 increase.

TABLE 3: Stock Changes

	1990 £m	Change in Rate £m	1991 £m	Change in Rate £m	1992 £m
Livestock on Farms	76	– 46	30	– 60	– 30
Irish Intervention Stocks[1]	470	– 30	440	– 440	0
Other Stocks	– 20	– 30	– 50	70	20
Total	526	– 106	420	– 430	– 10

[1]Including subsidised private storage.

The situation in 1992 is certain to be very different. Food aid to the CIS, financed by the EC, should lead to a substantial fall in intervention stocks in the early part of the year. Later in the year, EC credits could permit a continuing offtake of Irish produce by the CIS. There also appear to be realistic hopes of renewed imports of Irish beef by at least some North African or Middle Eastern countries during 1992. Intake into intervention should be limited by a slight fall in gross agricultural output and by a continued expansion in market sales. Thus there seems little likelihood of a further massive build-up of intervention stocks, such as occurred in both 1990 and 1991. However, it is difficult to predict yet whether over the year as a whole there will be a small increase in such stocks, little change, or a large fall, such as occurred in 1988 or 1989. For the purpose of this *Commentary* we assume no absolute change in intervention and related stocks, as shown in Table 3. This is compatible with the projection of agricultural export volumes already discussed.

Industrial and commercial stocks, including work in progress, appear to have fallen slightly in 1990, according to the National Accounts. With no running indicators available, but taking into account the slow rate of economic growth and the almost stagnant import volumes, a rather larger decline is assumed for 1991. With an upturn in activity predicted in 1992, a small increase in industrial and commercial stocks is projected.

Investment

The National Accounts show that the 1990 growth in fixed capital formation, especially in building and construction, was even greater than expected. Apart from raising the base for calculations of investment in 1991, this very high growth in 1990 suggests that there was a substantial carryover into 1991. This is confirmed by relatively buoyant figures for building and construction in the early months of 1991. However, the reduction in new projects led to a decline in activity in the course of the year, and, despite a modestly expansionary public capital programme, it now seems that the total volume of investment in building and construction fell by about 4 per cent in 1991. Although imports of capital goods have not proved a very reliable indicator of investment in plant and equipment in recent years, the fall in such imports does suggest that there was a decline in the volume of investment in plant and equipment in 1991, as shown in Table 4. Sectorally, it seems probable that industrial investment was at least maintained, with the decline being concentrated mostly in agricultural and commercial investment.

TABLE 4: Gross Fixed Capital Formation

	1990 £m	% Change Volume	% Change Value	1991 £m	% Change Volume	% Change Value	1992 £m
Building and Construction	2494	-4	-1	2469	1	4½	2580
Machinery and Equipment	2343	-3	-1	2320	3	5½	2448
Total	4837	-3½	-1	4789	2	5	5028

There will be a considerable negative carryover of building and construction investment into 1992, with the downturn in new commercial projects particularly acute. The public capital programme indicates that the volume of infrastructural investment will continue to expand, while a slight improvement in confidence and reduction in interest rates would lead to a moderate recovery in new house building in the course of 1992. In total a small volume rise of about 1 per cent in the volume of investment in building and construction is forecast for the year. This represents a significant downward revision from our previous forecast, due to the delayed economic recovery in the rest of the world and the recent increase in interest rates.

A slightly higher volume growth of 3 per cent is projected for investment in plant and equipment as the economy gradually picks up momentum in the course of the year. Thus total investment volume is forecast to rise by 2 per cent in 1992, although with such a volatile form of expenditure the actual outcome could prove considerably better or worse than this central projection.

Consumption

The National Accounts estimate of personal consumer expenditure in 1990 was astonishingly low in both volume and value terms. On the basis of these figures, there must have been a much sharper deceleration of consumption growth in 1990 than was indicated by the retail sales index.

The normal divergence between the retail sales index and the National Accounts measure of personal consumption has been for the latter to rise

TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1987	1988	1989	1990	1991 To Date	1991 Forecast	1992 Forecast
Consumption Value							
NIE 1990, Personal Consumption	6.1	6.4	7.6	3.7	—	4.0	5.5
Retail Sales Index, Value	1.6	4.8	9.2	4.8	1.3	1.6	4.7
Divergence	4.5	1.6	-1.6	-1.1	—	2.4	0.8
Consumption Volume							
NIE 1990, Personal Consumption	2.3	3.6	3.7	1.1	—	1.0	2.5
Retail Sales Index, Volume	-1.3	2.1	4.7	2.7	-1.0	-0.6	1.9
Divergence	3.6	1.5	-1.0	-1.6	—	1.6	0.6
Consumer Prices							
NIE 1990, Personal Consumption Deflator	3.7	2.7	3.8	2.6	—	3.0	3.0
Retail Sales Index Deflator	2.9	2.6	4.3	2.0	2.2	2.2	2.8
Consumer Price Index	3.2	2.1	4.0	3.4	3.2	3.2	3.0

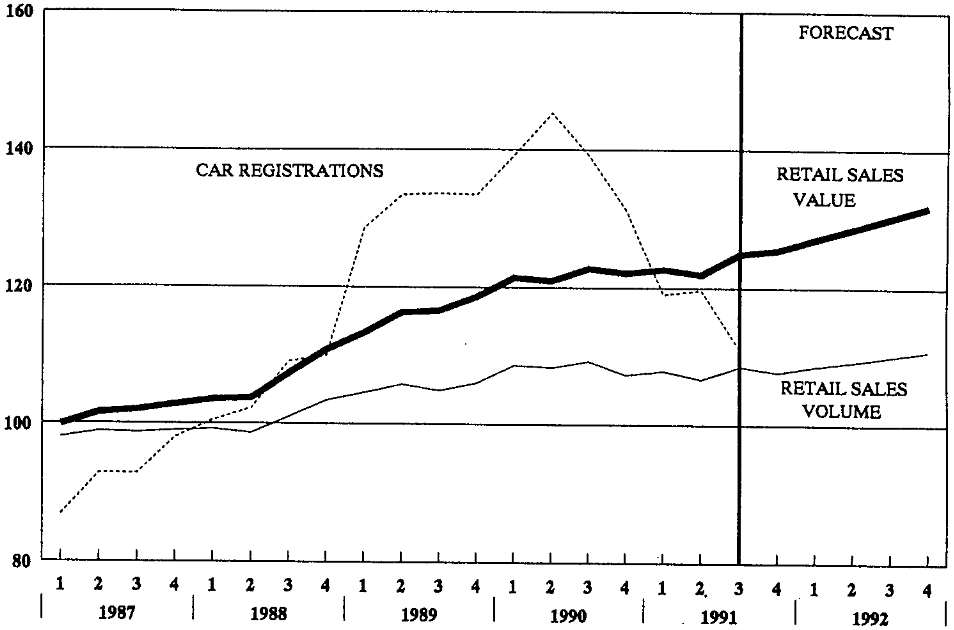
significantly faster than the former. As Table 5 shows, however, this divergence was reversed in both 1989 (on the latest NIE revision) and in 1990. This makes the interpretation of trends in 1991 more difficult than usual. The retail sales index shows a fall in volume of 1.3 per cent in the first nine months of the year, and a rise in value of only 1 per cent in the first ten months. However, the volume fall is concentrated mainly in the sales through garages and filling stations, and clearly reflects the reduction in car registrations. The volume of sales through other outlets shows a growth of over 2 per cent in the same period. Given that a significant proportion of car sales, even through retail garages, are for business use rather than personal consumption, it seems reasonable to assume that the normal divergence will reassert itself in 1992, and that personal consumption in National Accounts terms will be less depressed than the retail sales index.

This view is confirmed by consideration of the trend in indirect taxes. When allowance is made for both the corporate element in car-related taxes and the carryover effect of real cuts in indirect tax rates in the 1990 Budget, excise and VAT receipts in 1991 suggest that the rise in the value of personal consumption could have been in the region of 4 per cent. Such an increase implies a further significant rise in the personal savings ratio, after the substantial rise which now appears to have taken place in 1990. A 4 per cent increase in the value of personal consumption indicates a volume increase of only 1 per cent.

It seems probable that there was a slight upward trend in the value and volume of consumption in the closing months of 1991. Thus there should be a small positive carryover into 1992. Whether this recovery continues into 1992, and especially whether it gathers pace, depends mainly on whether improving confidence leads to a fall in the savings ratio after its increases of the past two years. The savings ratio tends to be volatile, so that quite large changes cannot be ruled out. However, in the present uncertain international economic climate, it is prudent to expect only a marginal fall in the ratio, especially as significant reductions in interest rates seem likely to be delayed until at least the middle of the year. On this basis, an increase of about 5½ per cent in the value of personal consumption is forecast for 1992. On expected price trends this would result in a volume increase of about 2½ per cent.

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1986=100



The current price increase in public authorities' net expenditure in current goods and services, or government consumption is thought to have been about 9½ per cent in 1991, only slightly above the budgeted level. In the light of the price deflators used for government consumption in 1989 and 1990 in the National Accounts, the deflator for 1991 seems likely to be about 8 per cent, giving a volume increase in government consumption of about 1½ per cent. For 1992 a technical assumption of zero growth in the volume of government consumption is made, implying some further budget cuts compared with the published Estimates for 1992. At the time of writing it is not clear whether agreement will be reached regarding public service pay for 1992. On the assumption that actual pay increases will be in line with the latest compromise proposals, the deflator for government consumption could lie in the region of 6 per cent. On this basis, the current price increase in government consumption would also be about 6 per cent. If this can be achieved it would be much less out of line with the general growth of the economy than the increases in 1990 and 1991.

Final Demand

It is estimated that final demand grew by 2¼ per cent in volume and 3¾ in value in 1991. Exports accounted for the entire volume rise, but because of divergent price trends they accounted for less than half of the increase in the value of final demand. With personal consumption, especially of cars, investment and non-agricultural stock-building all very weak in 1991, the import intensity of final demand was exceptionally low.

On the moderate recovery forecast, final demand in 1992 is projected to increase by 3½ per cent in volume and 6 per cent in value. With some upturn forecast in personal consumption and investment, and with a significant turn-round expected in non-agricultural stock-building, final demand in 1992 is likely to be considerably more import intensive than in 1991.

Imports

The value of visible imports in the first ten months of 1991 was only 3 per cent higher than in the corresponding period of 1990. As average import prices in the period were almost 2 per cent up on the previous year, the increase in the volume of imports was little over 1 per cent. Import volumes were particularly weak in the last two months of 1990, so the annual increase in imports in 1991 is likely to have been slightly higher than the average for the first ten months.

On the basis of the ten-month figures, it appears that only imports of consumer goods showed any buoyancy in 1991, which is surprising considering the near stagnation in consumer spending. As Table 6 shows, the volume of capital goods, materials for agriculture and miscellaneous imports are all thought to have fallen, while the rise in the volume of materials for industry was lower than would have been expected given the growth in manufacturing production. This is probably due to a degree of material de-stocking in industry.

TABLE 6: Imports of Goods and Services

	1990 £m	% Change Volume	% Change Value	1991 £m	% Change Volume	% Change Value	1992 £m
Capital Goods	1969	−5	−3	1910	3½	6½	2034
Consumer Goods	3358	6¼	9	3660	7	10	4026
Intermediate Goods:							
Agriculture	467	−5	−5	444	−2	0	444
Other	6600	2½	4	6859	6	8	7416
Other Goods	86	−3	−1	85	0	2	87
Total Visible	12480	2	3¾	12958	5½	8	14007
Adjustments	−194			−195			−200
Merchandise	12286	2	4	12763	5¾	8¼	13807
Tourism	701	0	3¼	723	4	7	774
Other Services	874	2	5¼	920	3	6	975
Imports of Goods and Services	13861	2	4	14406	5½	8	15556

Tourism estimates for the first three quarters of 1991 suggest that, at most, there was stagnation in the volume of Irish tourist spending abroad. No data are available for other services imports in 1991, so a modest growth in line with the average for recent years has been assumed. Imports of goods and services thus appear to have risen by about 2 per cent in volume and 4 per cent in value in 1991.

If our investment projections are correct, there should be a small increase in the volume of capital goods imports in 1992. The steady increase in the volume of consumer goods imports seems likely to continue, while a resumption of industrial stock-building could lead to a considerably larger increase in materials imports, especially as the growth of manufacturing production is forecast to be rather faster than in 1991.

Thus the volume of visible imports is forecast to rise by about 5½ per cent in 1992. The slow pace of recovery in the world economy is assumed to preclude any rapid increase in import prices. An increase of about 2½ per cent is projected, resulting in a forecast rise of 8 per cent in the value of visible imports. If general consumer spending increases more rapidly in 1992, it is reasonable to expect an upturn in tourist spending abroad. In the absence of any recent information, a further moderate increase in the volume of other services imports is assumed. Imports of goods and services are thus projected to increase by 5½ per cent in volume in 1992, reflecting the faster and more import intensive growth in the domestic economy. The value of imports of goods and services is forecast to rise by 8 per cent, almost exactly double the rate in 1991.

Balance of Payments

For most of the year it seemed likely that 1991 would see a reduction in the visible trade balance. However, trade trends in the autumn were more favourable than had been expected, and it is now almost certain that there was an increase in the visible trade surplus in 1991. The export and import estimates already discussed place the rise in the surplus at £116 million, taking it to £1,977 million. Because the adjustment factors have moved adversely, due mainly to the allowance for intervention storage abroad, the surplus on merchandise trade is estimated to have risen by only £38 million to £1,852 million. The surplus on trade in services is believed to have continued its growth of recent years, rising by £78 million to £342 million in 1991.

Thus, as shown in Table 7, the surplus on trade in goods and services in 1991 is estimated to have increased by about 5½ per cent to £2,194 million.

TABLE 7: Balance of Payments

	1990 £m	Change %	1991 £m	Change %	1992 £m
Trade in Goods and Services	2079	5½	2194	20½	2643
Factor Flows:					
Profits etc.	– 2145	4	– 2231	8	2409
National Debt Interest	– 1009	7	– 1080	3	– 1112
Other Debit	– 1204	10	– 1324	8	– 1430
Total Debit	– 4358	6¼	– 4635	6¾	– 4951
Credit Flows	1576	9¾	1728	11½	1927
Net Factor Flows	– 2782	4½	– 2907	4	– 3024
Net Transfers	1567	24½	1950	– 5¼	1850
Balance on C.A.	864		1237		1469

The absence of official quarterly balance of payments estimates for 1991 obviously renders the calculation of factor flows for the year rather speculative. The value of export by the sectors generating most profit outflows was significantly lower between mid-1990 and mid-1991 than in the previous twelve months. On past relationships this suggests that there could have been a fall in profit expatriation in 1991. However, the relationship is seldom exact, and it seems more reasonable to assume that there was a small increase in profit outflows in 1991. With overseas holdings of Irish government securities rising in the first half of the year, it seems probable that there was a substantial increase in national debt interest paid abroad in 1991. A continuation of the high but declining rate of increase in other debit flows is assumed, giving an estimated rise in gross factor outflows of 6¼ per cent.

Gross factor inflows should be related both to the rate of increase in Irish holdings of foreign capital assets and to the rate of return on such assets. Balance of payments estimates show a very high rate of capital outflow in recent years which should result in a rapidly rising flow of current factor payments. Conversely the international recession in 1991 could well have lowered the rate of return on many overseas assets, particularly where these are in the form of direct investments. Accordingly we have assumed that the rate of increase in gross factor inflows was considerably slower than in 1989 or 1990, at just under 10 per cent. On this basis the increase in net factor outflows is tentatively estimated at 4½ per cent in 1991.

Because of the massive build up of intervention stocks and increases in social and structural fund payments, net international transfers in 1991 rose much faster than expected, and are believed to have reached about £1,950 million.

Taking all current flows into account it seems certain that there was a large increase in the current account balance of payments surplus in 1991, although the actual estimate of £1,237 million is obviously subject to a wide margin of error in either direction.

If we are correct in assuming a large volume rise in agricultural exports, there should be a substantial increase in the visible trade surplus in 1992. A surplus of about £2,300 million is projected which implies a merchandise trade surplus of over £2,200. With a recovery expected in the tourist industry, the surplus on services should increase by almost £100 million, giving an increase of about £450 million in the surplus on trade in goods and services.

A considerably faster increase in profit expatriation seems probable, but this could be offset by a slower rate of increase in overseas national debt interest. Allowing for a slight pick-up in the rate of increase in gross factor inflows, the rise in net factor outflows could be about 4 per cent in 1992, marginally slower than in 1991.

Even assuming a slight reduction in net EC transfers, the projected current account surplus is an astonishing £1,469 million, or about 6 per cent of GNP. The figures might be totally wrong, but this seems unlikely unless there is a major revision to past balance of payments estimates. If the projection is broadly correct then it could perhaps be interpreted as an indication of the extent to which Ireland is falling behind its growth potential, especially in view of the very high level of current transfers being received from the EC. This is a matter which needs to be addressed more fully in future issues of the *Commentary* when firmer estimates of the 1991 surplus are available.

Agriculture

Preliminary Department of Agriculture estimates show that the volume of gross agricultural output rose by 1.8 per cent in 1991, with increases in output of all main livestock types outweighing minor falls in milk and crop output. Input volumes increased only marginally, so that the volume of gross agricultural product rose by just over 3 per cent. Trade statistics suggest that forestry and fishing output continued to grow in volume terms in 1991, so that net output in the broad agricultural sector is likely to have increased by more than 3 per cent.

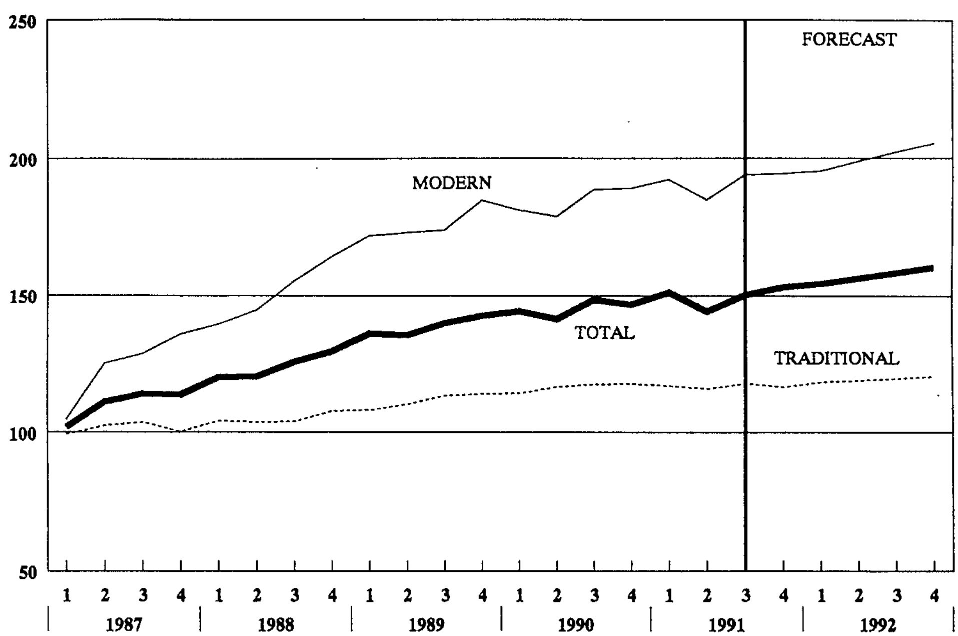
With livestock numbers still tending to rise in 1991, it seems probable that livestock production in 1992 will show a small increase. However, due to quota restrictions, milk output will fall, and a small overall reduction seems likely in gross agricultural output. Input volumes may show little change, unless weather conditions are abnormal, so a decrease of about 2 per cent is projected for the volume of gross agricultural product. Assuming a continued increase in the output of forestry and fishing, the volume of value added in the broad agricultural sector is forecast to decline by 1 per cent in 1991.

Industry

The volume of production index for manufacturing industry for the first three quarters of 1991 showed a 2.6 per cent rise over the corresponding period of 1990. Seasonally corrected figures show a significant recovery in August and September after a weak performance in the early summer. The trend of manufactured exports and responses to the CII-ESRI Survey of Business both suggest that this recovery continued into the final quarter of the year. For 1991 as a whole it seems probable that manufacturing output increased by almost 3½ per cent, while output of 'all industries',including the extraction sector and the utilities, rose by over 3 per cent.

FIGURE 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1986=100



Output in building and construction is now estimated to have fallen by about 4 per cent, so that the volume growth of the broad industrial sector was probably less than 2½ per cent, the lowest rise since 1986.

The modest but broadly based recovery in manufacturing output is expected to continue in 1992. On the basis of the consumption and trade forecasts in this *Commentary* an annual increase of about 5 per cent in manufacturing output could be expected. However, with building output projected to remain depressed for most of the year, the growth of the broad industrial sector in 1992 is forecast at about 4 per cent.

Services

Public service output is now believed to have increased by about 1½ per cent in 1991. Output of private services is difficult to monitor, but on the evidence of employment in the financial sector and in line with the general trend of economic activity, it seems likely that the volume of private services rose by about 2½ per cent in 1991. Thus total service output is estimated to have grown at just over 2 per cent.

The modest recovery forecast for the domestic economy in 1992 should result in a faster growth in private service output, perhaps at about 3 per cent. However, on the technical assumption of constant public service output, the volume growth of total services is projected to remain at a little over 2 per cent.

Employment

Short-term indications of sectoral employment tend to confirm the evidence of employment-related tax receipts that there has been no major change in job levels in the course of 1991. Increases in other non-agricultural employment,

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000	1989	1990	1991	1992	1993
Agriculture	163	167	155	153	150
Industry	306	320	318	320	328
Services	621	639	648	652	658
Total at Work	1090	1126	1121	1125	1136
Unemployed	202	179	210	230	232
Labour Force	1292	1305	1331	1355	1368
Unemployed Rate %	15.6	13.7	15.8	17.0	17.0
Live Register	233	221	248	268	270

B: Annual Averages '000	1989	1990	1991	1992
Agriculture	165	161	154	152
Industry	315	319	319	324
Services	632	645	650	656
Total at Work	1112	1125	1123	1132
Unemployed	188	188	220	231
Labour Force	1300	1313	1343	1363
Unemployed Rate %	14.5	14.3	16.4	17.0
Live Register	232	225	254	268

including the public service, could have slightly outweighed the reduction in building employment. The small rise in non agricultural jobs, however, was probably offset by a continued decline in agricultural employment, leading to a marginal decline in the annual average total at work, as shown in Table 8.

If our general forecast of a modest recovery in the rate of economic activity in 1992 is correct, then some increase in non-agricultural employment can be expected. However, at the rate of economic growth projected, it is most unlikely that net job creation will be fast enough to absorb the natural increase in the labour force.

The balance between net emigration and domestic unemployment continues to defy analysis, at least in the short term. The extremely rapid increase in the Live Register in the first half of 1991 was clearly due to the elimination, or even the reversal, of net emigration flows during the period. This was seen, probably correctly, as an unexpectedly vigorous response to the depressed state of the UK labour market. UK unemployment continued to rise, although at a rather slower rate, in the second half of 1991. The rate of increase in the Irish Live Register, however, declined from a monthly average of 4,700 between January and July to an average of only 800 between July and December. It seems clear that net emigration must have resumed since about July 1991, although it is not clear why.

This failure to understand trends in 1991 makes it difficult to project them with confidence into 1992. If the apparent rate of net emigration in the second half of 1991 were to continue in 1992, then, allied to the slightly better job prospects domestically, it would probably serve to reduce the number on the Live Register from its current seasonally corrected level. This seems at present an unduly strong assumption to make, so we have projected a further small rise in the seasonally corrected total on the Live Register in the course of 1992. The figures shown in Table 8 make no allowance for the possible impact of new training or employment schemes due to be introduced in 1992.

Incomes

In spite of the increase in the volume of gross agricultural product, the adverse movement in farm prices reduced income arising in agriculture by over 9 per cent in 1991. When forestry and fishing are taken into account, the fall in incomes in the broad agricultural sector is thought to have been about 7½ per cent. With input and output prices less likely to diverge sharply in 1992 agricultural incomes could roughly match the slight decline expected in gross agricultural product. Forestry and fishing incomes should increase, so there could be little or no change in the aggregate income of the broad agricultural sector.

Aggregate non-agricultural wages, salaries and pensions are believed to have increased by about 6½ per cent in 1991, as shown in Table 9. Public service pay rose by over 9 per cent in aggregate, implying an average pay increase of more than 8 per cent. Aggregate private sector pay is thought to have risen by almost 5½ per cent, with an increase in average earnings of a little over 4½ per cent.

Private sector earnings are likely to increase at a similar rate in 1992, both in aggregate and on average, with productivity-based pay increases in some

TABLE 9: Personal Disposable Income

	1990 £m	Change %	Change £m	1991 £m	Change %	Change £m	1992 £m
Agriculture etc.	1970	−7½	−147	1823	0	0	1823
Non-Agricultural Wages, etc.	12761	6½	829	13590	6	815	14405
Other Non-Agricultural Income	2612	4½	118	2730	5½	150	2880
Total Income Received	17343	4½	800	18143	5¼	965	19108
Current Transfers	3886	9¼	357	4243	5½	233	4476
Gross Personal Income	21229	5½	1157	22386	5¼	1198	23584
Direct Personal Taxes	4653	7	328	4981	6	299	5280
Personal Disposable Income	16576	5	829	17405	5¼	899	18304
Consumption	14231	4	581	14812	5½	815	15627
Personal Savings	2345	10½	248	2593	3¼	84	2677
Savings Ratio	14.1			14.9			14.6

industries offsetting the slightly lower basic increase due under the PESP. A rise of about 7½ per cent is assumed in aggregate public service pay, on the basis of the compromise PESP proposals. Thus total wages, salaries and pensions are projected to increase by about 6 per cent in aggregate in 1992.

The slack domestic economy is likely to have restricted the growth of income from non-agricultural self employment in 1991. Income from interest, dividends and rent is also likely to have increased more slowly than in the two previous years. A rise of 4½ per cent in 'other non-agricultural personal income' is accordingly estimated for 1991. With the improved growth in domestic activity forecast for 1992, a slightly higher increase of 5½ per cent in such incomes is projected.

Current transfers to households rose very rapidly in 1991, partly because of the steep rise in unemployment. With the rise in unemployment likely to be considerably slower in 1992, and the improvement in benefit rates assumed to be held to little more than the inflation rate because of budgetary difficulties, the increase in personal transfer receipts is expected to be much smaller in 1992. A rise of 5½ per cent is projected.

Gross personal income is thus estimated to have increased by about 5½ per cent in 1991 and is projected to grow marginally more slowly at 5¼ per cent in 1992. Direct personal taxes are believed to have increased by about 7 per cent in 1991, and are set to rise by about 6 per cent in 1992 on the underlying assumptions of this *Commentary*. Personal disposable income, accordingly is estimated to have grown by 5 per cent in 1991 and is forecast to grow at 5¼ per cent in 1992.

Although detailed official National Accounts estimates are not available for 1990, the summary figures for the year indicate a substantial rise in the personal savings ratio, from 12.8 per cent in 1989 to our estimate of 14.1 per cent in 1990. On our income and consumption estimates for 1991, there was a further rise in the personal savings ratio to 14.9 per cent. Our projections for 1992 show a personal savings ratio of 14.6 per cent, a marginal fall which would be in keeping with the early stages of a gentle economic recovery. Of course it is quite possible that the ratio will decline more rapidly, enabling a faster growth in the value of personal consumption but it would be imprudent to anticipate such a development before there is evidence that it is taking place.

Consumer Prices

The annual rise of 3.2 per cent in the consumer price index in 1992 was disappointing, even though it left Ireland as one of the lower-inflation countries within the EMS. It indicates that little of the fall in import prices in the second half of 1990 ever found its way through to the retail level.

At first sight the rising trend in the twelve-month inflation rate from quarter to quarter throughout the year could appear worrying. However, on closer inspection this does not signal a gradual return to a higher rate of price inflation. To some extent it is a mere reflection of the slowing rate of price increases in the course of 1990. More crucially it resulted from identifiable temporary factors during 1991, such as the short-lived surge in the value of the dollar in the first half of the year and the massive rise in the price of potatoes and some other vegetables during the summer. Both of these factors either have been reversed or are likely to be so in the course of 1992.

Provided the increase in import prices remains modest, it seems likely that the annual average rise in the consumer price index in 1992 will be about 3 per cent. Because of the pattern of increases in 1991, a 3 per cent annual rise implies twelve-monthly rises gradually declining from about 3½ per cent in February to about 2½ per cent in November 1992.

Public Finances

After the alarmist projections made by some commentators in the middle of the year, there must be wry satisfaction in the Department of Finance that the budget forecasts for tax and total revenue in 1991 have turned out to be the most accurate ever made!

Of course, the near perfect prediction of aggregate tax receipts conceals significant variations at a disaggregated level. Because of the unforeseen weakness of consumer demand, and especially the downturn in vehicle sales, indirect tax receipts were approximately £130 million below target. This shortfall was almost exactly balanced by additional receipts of direct taxes. Corporation tax revenue rose in the year by 25 per cent to £593 million, some £66 million above target, while income tax, including DIRT, yielded £47 million more than forecast, partly because of continuing improvements in collection.

Net current expenditure in 1991 exceeded budget targets by £57 million, which was much less than had been anticipated for most of the year. The over-run was entirely due to additional social welfare expenditure resulting from the extraordinarily rapid rise in unemployment, the extent of which had not been foreseen by any commentator at the time when the Budget was framed. Other minor over-runs were more than offset by the now traditional saving compared with Central Fund estimates.

At £300 million, the current budget deficit for 1991 represented 1.3 per cent of GNP. Borrowing for capital purposes was slightly below target, so that the Exchequer Borrowing Requirement (excluding receipts from the flotation of Irish Life) was £501 million, or about 2.1 per cent of GNP. Despite the mid-year scare, it thus appears that the public finances in 1991 remained well on course for meeting the medium term fiscal objectives for 1993. In a year of slow economic growth, when most European countries experienced a significant deterioration in their budgetary situation, this represents a considerable achievement.

The relatively favourable fiscal out-turn for 1991 does not, unfortunately, signal any real easing of the budgetary difficulties facing the authorities in 1992. Part of the unexpectedly strong improvement in the public finances in the closing weeks of 1991 was due to the early receipt of some EC Social Fund payments, and to some exceptional non-tax revenue resulting from the mid-year fiscal measures. These flows, while boosting the 1991 position tend to weaken the 1992 prospects.

If the economy follows roughly the path forecast in this *Commentary*, unchanged real tax rates could be expected to yield an increase of about 6 per cent in total tax revenue. When allowance is made for the need to move closer to harmonised indirect tax rates in preparation for the Single European Market in 1993, a more realistic rise in tax receipts of about 5½ per cent is indicated.

On the basis of the Estimates for 1992, the compromise proposals concerning public service pay under the PESP and likely movements in Central Fund spending, total current expenditure could increase by at least 6 per cent. This would add over £100 million to the current budget deficit compared with 1991. Borrowing for capital purposes is expected to increase in 1992, so that the EBR could rise by almost £200 million, taking it to roughly 2.7 per cent of GNP.

Such an outcome would not appear to be compatible with the medium-term fiscal targets of an EBR of no more than 1.5 per cent of GNP and a current budget deficit of less than 1 per cent of GNP in 1993. It seems clear therefore that some additional spending cuts compared with the Estimates, some broadening of the tax net, or, less probably, some increase in real tax rates, will need to be imposed in the 1992 Budget.

Assuming that the latest compromise proposals regarding public service pay are implemented, then the 1993 budgetary situation is also likely to prove difficult, especially as revenue losses from DIRT and some indirect taxes can also be foreseen. In these circumstances, compliance with the medium-term fiscal targets would appear to dictate that there should be no deterioration in the major public finance ratios in 1992. In other words, the target EBR should be no more than 2.1 per cent of GNP, or about £525 million, while some reduction in the current budget deficit should be sought. A tight 1992 Budget seems inescapable.

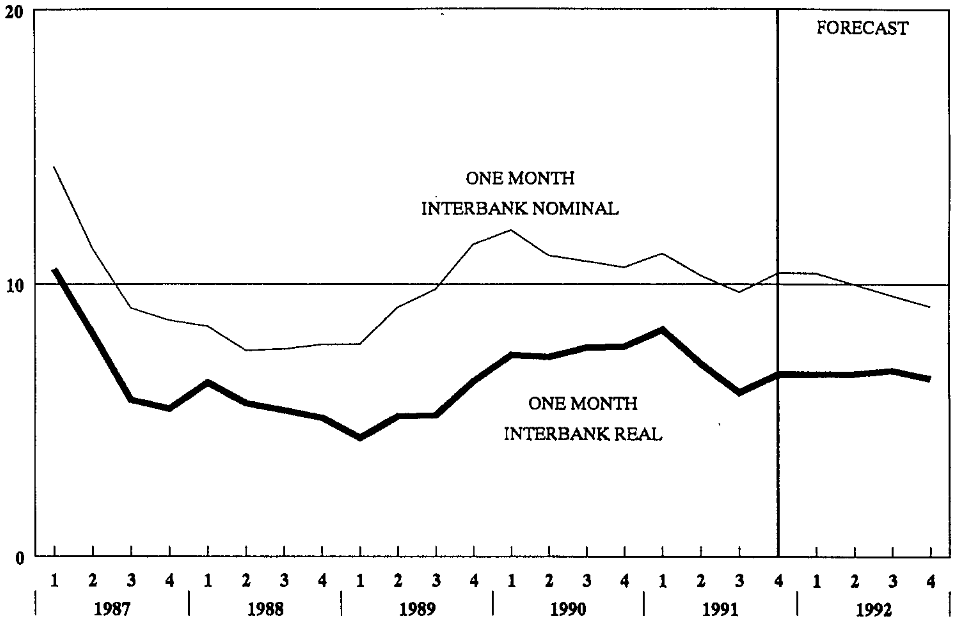
Interest Rates

Despite the divergence in economic circumstances between Germany and the EMS countries, with the former alone facing significant inflationary pressures, there is no sign yet that the financial markets are prepared to accept a reverse differential in short-term interest rates between Germany and its neighbours. Thus Ireland, in common with the majority of EMS members, was forced to follow the ½ per cent rise in German interest rates in December 1991, although it was directly contrary to domestic economic requirements.

Theoretically, the monetary authorities in the other EMS countries, acting in concert, could force a reduction in German interest rates, or, alternatively, a revaluation of the German mark which would enable a reverse interest rate differential to persist. In practice, such a direct confrontation appears unlikely, although increasing moral pressure is likely to be placed on Germany to reduce its rates once the pay-bargaining season is over.

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



For the present, it must be assumed that Irish short-term interest rates, and thus retail borrowing rates including mortgages, will continue to be tied to German rates. Provided the Budget is perceived as responsible, a slight further narrowing of the differential seems possible in 1992, although it is likely to remain positive.

German interest rates themselves are likely to remain at their current high levels throughout the first quarter of 1992, but will probably fall later in the year, perhaps by as much as 1 per cent. If German interest rates do follow this trend, and if the Irish differential narrows, Irish interest rates can be expected to fall by between 1 and 1½ per cent by the end of the year. The reduction, however, seems unlikely to commence before the late spring, which could limit its effect in stimulating the economy in the course of 1992.

General Assessment

Although several important pieces of information are still not available, it looks increasingly likely that real GNP growth in 1991 will prove to have been in the region of 2 per cent. The domestic economy appears to have been virtually stagnant, with small increases in consumption, both personal and public, outweighed by volume declines in investment and the rate of stock-building. However, net exports, the difference between export and import volumes, grew substantially. Industrial exports performed very well in the face of the international recession, confirming hopes that there has been a lasting improvement in Ireland's industrial competitiveness. Agricultural exports, net of overseas storage of intervention stocks, would appear to have almost matched 1990 volumes, suggesting a significant element of recovery from their slump of last autumn and winter. Meanwhile import volumes remained virtually static for most of the year, reflecting weak domestic demand and probably an element of industrial de-stocking.

This modest, but positive, rate of GNP growth in 1991 seems to have been sufficient to maintain total employment at roughly the same average level as in the previous year. The exceedingly sharp rise in registered unemployment in the first half of the year can be attributed mainly to a cessation or reversal of net emigration in response to the deteriorating UK labour market. The much slower rise in the seasonally-corrected Live Register since July suggests that a moderate rate of net emigration has resumed, despite the continued rise in UK unemployment. Price inflation remained low in 1991, although somewhat boosted by temporary factors, and initial indications are that the current account surplus on the balance of payments rose to almost £1¼ billion. After the mid-year scare, the public finances ended the year almost on target, with revenue exactly in line with Budget predictions and current spending over-running by less than the additional costs of the unforeseen rise in unemployment.

Viewed objectively, Irish economic performance in 1991 must be regarded as fairly robust, particularly in comparison with many other European economies. It is not many years since a decline of 2¼ per cent in UK GNP, such as occurred in 1991, would have had a devastating effect on the Irish economy. Both the diversification of trade in recent decades and the more recent control established over Irish industrial costs have acted as effective protection for the Irish economy in 1991.

Despite this relative success, it cannot be denied that the general perception of the economy is less than favourable. To a certain extent this perception might appear justified. The annual terms of trade deteriorated significantly because export prices fell more steeply than import prices in the later months of 1990. Thus farm incomes, in particular, fell substantially in 1991 although the volume of farm output, which contributes to GNP growth, actually rose. Nevertheless, the fall in the terms of trade was offset by a rise in net transfers, so that national disposable income, adjusted for the terms of trade, increased roughly in line with real GNP.

However, apart from the genuine and substantial terms of trade effect, there are several other factors which have probably contributed to an unnecessarily gloomy mood concerning the economy in 1991. One is an element of insularity which concentrates on the slowdown in the Irish growth rate since the boom period of 1989 and 1990, rather than on the comparative performance of the Irish economy in the context of international recession. This same insularity has also led to excessive importance being attached to the suspicions of financial scandal which arose during the year. If Ireland's reputation for product quality in the beef industry were to be damaged, this would indeed be serious. However, purely financial irregularities are unlikely to have lasting macro-economic consequences. Obviously such scandals, if proven, cannot be condoned, but sight should not be lost of the unhappy fact that they appear to be endemic to the capitalist system throughout the world, and that economies such as the Japanese continue to operate successfully despite massive financial malpractices.

A further factor contributing to gloom in 1991 was the unfortunate, if unavoidable, sequence in which economic information becomes available. Thus the soaring rate of unemployment was recorded well before statistics were released indicating that job numbers appeared to be holding steady. Export value figures in the early months of the year appeared to suggest a falling trend before the subsequent publication of price indices showed that industrial export volumes were in fact well up on the previous year. Exchequer returns appeared to indicate a major deterioration in the public finances before it became clear that much of the apparent over-run in net expenditure was due simply to a temporary delay in receiving EC funds.

The effects of this information sequence were intensified by the interpretation placed on the figures by some commentators in the course of the year. Perhaps influenced by the deep and genuine recession in the UK, they attributed to Ireland a recession, as distinct from a slowdown, which the available data never really suggested. More seriously, they postulated a fiscal deterioration which would have made the medium-term targets unattainable.

The combination of these factors tended to depress both business and consumer confidence in 1991 below the level which would have been a reasonable response to actual economic performance, and thus intensified the slowdown the volume of domestic demand.

Some improvement in confidence seems likely in 1992, buoyed by the realisation that 1991 saw positive real growth in the economy, by the fiscal out-turn for 1991 and, it is to be hoped, by the successful resolution of the PESP public pay crisis. However, while the purely domestic factors damaging confidence might now be easing, the state of the world economy still dictates a reasonable degree of caution.

The most likely course for the world economy in 1992 is a gradual and somewhat patchy recovery, with a resumption of growth in the US and most other industrial countries more than compensating for a reduction in growth in Germany and Japan. However, the actual course of events could be very different. There is no sign yet of a sustained recovery in either the US or the UK, and it remains possible that the expected upturn will fail to materialise. In this case the projected slowing down of growth in Germany and Japan could be more acute than currently predicted, and the tentative recovery already under way in most other European countries would probably atrophy. The recession would thus be prolonged and become truly world-wide. Conversely, the recovery in the US, delayed from 1991, could prove more vigorous than expected, lifting growth rates not only in America but throughout the world as investment and consumption respond to the improved outlook.

Obviously the Irish economy will be affected by the economic environment which evolves internationally. Directly, industrial exports and manufacturing investment will depend in large part on the strength of world growth, although it is reasonable to expect that Irish industry will continue to out-perform its major markets. Indirectly, the level of confidence will be heavily influenced by international developments so that consumer spending and investment in domestically-consumed services will tend to respond as much to international as to domestic prospects.

On the central assumption of a slow international recovery, with the UK market tending to remain depressed, the forecast in this *Commentary* is for a small improvement in the Irish growth rate, from 2 per cent in 1991 to 2½ per cent in 1992. This projection conceals a rather faster recovery in domestic demand, and especially in personal consumption, because this is likely to be matched by a large increase in the volume of imports. Price inflation is likely to remain low, at about 3 per cent, the terms of trade are likely to stabilise, the current account balance of payments is likely to move even further into surplus, and there could be a modest rise in total employment. Unemployment levels are difficult to predict due to the volatility of migration flows. A small further increase in the Live Register is projected, on the assumption that the apparent migration trends of the second half of 1991 continue.

Given the degree of inescapable uncertainty concerning the world economy, Irish economic policy must be cautious, but also, as far as possible, flexible. Monetary policy is externally determined, and, apart from lending their lightweight support to the international pressure on Germany to relax its monetary policy, there is little discretion available to the Irish authorities. Fiscal policy is constrained by the continuing need to adhere to the medium-term targets for 1993. Longer-term structural policy is less constrained, but the results of any structural initiatives are unlikely to be seen within 1992.

Adherence to the 1993 targets implies holding the 1992 EBR, projected on the basis of a cautious macro-economic forecast, to roughly the same proportion of GNP as in 1991. In absolute terms, an EBR of about £525 million would thus be an appropriate target. Provided the latest compromise proposals on public service pay can be implemented, such an EBR projection should be a difficult, but attainable, target. It will demand the setting of tight expenditure limits, including some further cuts from the published 1992 Estimates, and of course rigorous monitoring to ensure that they are complied with. It would also seem to preclude any significant reduction in aggregate taxation, with any lowering of particular tax-rates compensated by additional revenue from widening the tax base or from increasing other tax-rates.

Within the context of the tight budgetary situation in 1992, the compromise PESP proposals have much to recommend them. Although most economists, including ourselves, would argue that the majority of special arbitration awards since the mid-80s have grossly exceeded the ability of the economy to pay for them, the principle that agreements, once accepted, should be honoured by both sides is the cornerstone of industrial relations, and should not lightly be discarded. In the longer term there is an overwhelming case for modifying the public service arbitration system, or at least the criteria used by the arbitrator. The chances of negotiating this vital modification should be improved by an agreement to pay past commitments in full on a timescale which can just be afforded.

If economic recovery follows the time-path which currently seems most likely, the proposed deferment of the bulk of retrospection into 1994 should match an upward trend in revenue as growth accelerates in 1993 and 1994. Budgets will have to remain tight in each year, and paying retrospection on public service pay will obviously curb the possibilities for improving the volume of public services or for cutting real tax-rates in those years. Nevertheless, under the proposed schedule the vital fiscal targets for 1993 should be attainable and further reductions in the debt ratio in 1994 and beyond should remain feasible.

If the world recession were to persist or intensify in 1992, and if, in consequence, there were to be no real growth in the Irish economy, then clearly a very difficult situation would arise. Not only would there be a failure to meet fiscal targets, but there would also be a falling trend in employment. In such critical circumstances, which would of course be shared by most other countries, there would need to be a total re-assessment of economic policy. This would have to embrace not only the fiscal targets themselves, but also employment and both public and private sector pay policy. In other words a new, defensively orientated economic consensus would be required urgently, to replace the present one which would have become outmoded through external factors.

Conversely, if the world recovery is more rapid than currently expected, and if the Irish economy and tax revenue grow significantly faster than projected, then various possibilities would open up. One would simply be to accept the larger than expected reduction in the EBR and the debt/GNP ratio. This has obvious attractions in limiting the deadweight cost of net foreign interest payments, and in bringing the economy closer to its 1993 fiscal targets. This is the policy which was adopted from 1988 to 1990 when GNP and revenue growth exceeded predictions. Given the size of the debt ratio in that period this was undoubtedly the correct policy at the time. However, the experience of those years did demonstrate one potentially serious problem with that approach. This was the ratchet effect on financial market expectations, whereby each occasion on which fiscal targets were bettered resulted in stiffer expectational targets being set for future years. Subsequent failure to meet these new targets would have risked a loss of confidence and a possible pushing up of the interest rate differential. Now that the economy is within sight of its medium-term fiscal targets this danger is less acute, but there would still seem to be a case for steady, rather than dramatic, progress towards finally reaching the targets on schedule. In the interests of smooth progress, there is a case for placing a notional floor under the size of the EBR being sought in 1992. An EBR of, say, 1.9 per cent in 1992 followed by 1.5 per cent in 1993 is preferable to 1.5 per cent in 1992 followed by 1.9 per cent in 1993.

It would demonstrate sensible flexibility, therefore, if the Budget contained a commitment that, if economic recovery proves faster than expected, the reduction in the EBR will be limited. It would be far too dangerous to apply this limitation through increasing the volume of expenditure or reducing tax-rates, either of which would also inflate the EBR in future years. It would however make excellent sense to apply it through bringing forward the existing obligation to pay retrospection on the PESP increases from the time schedule now proposed. This would demonstrate good faith in relation to the pay agreement and would ease the potential budgeting problems in future years.

If however, the economy follows its expected path there will be no room for such actions in 1992. Tight control on spending will be needed to ensure that budgetary targets are met. The most fruitful policy issues will be those that address long-term structural reform which could raise the growth potential of the economy and could improve the job content of future economic development.

STATISTICAL APPENDIX

	Output Indicators					Employment		
	1	2	3	4	5	6	7	8
	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Electricity Output	Houses Completed	Total Manufacturing	Modern Manufacturing	Traditional Manufacturing
	1985 = 100	1985 = 100	1985 = 100	G.W.H.	Total Number	'000s	'000s	'000s
1985	100.0	100.0	100.0	11919	23948	186.9	39.4	147.5
1986	102.9	107.1	100.0	12466	22680	184.2	40.2	143.8
1987	113.6	132.6	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	162.1	105.8	13068	15654	182.9	43.3	139.6
1989	142.5	189.4	112.3	13640	18068	187.4	46.2	141.3
1990	149.2	198.4	117.6	14325	19539	193.0	49.2	143.8
1991								

Quarterly Averages or Totals

1988 I	123.0	156.7	98.9	3516	4114	180.2	42.2	138.0
II	131.0	165.0	106.3	3043	3591	181.0	42.3	138.7
III	119.1	149.3	97.0	3013	4127	185.0	44.0	141.1
IV	137.8	173.9	111.5	3496	3822	185.3	44.8	140.5
1989 I	139.2	193.0	102.4	3522	3663	182.9	44.1	138.8
II	147.3	196.8	112.9	3250	4203	185.3	44.9	140.7
III	132.1	167.0	105.8	3160	5467	190.1	47.6	142.7
IV	151.8	196.3	118.1	3708	4735	191.2	48.1	143.0
1990 I	147.6	203.4	108.2	3782	4372	189.4	47.1	142.1
II	153.3	203.0	119.3	3368	4667	192.0	48.0	144.0
III	139.8	181.4	109.8	3272	5313	195.4	50.7	144.8
IV	156.3	201.1	122.1	3903	5187	195.2	50.9	144.3
1991 I	154.2	215.9	110.7	4018	4785	192.2	49.6	142.8
II	156.1	209.7	118.7	3484	4156	193.4	49.6	143.9
III	141.9	186.5	110.1	3455		196.1	51.3	144.9
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1988 I	123.6	149.5	102.6	3231	No Seasonal Pattern	181.8	42.7	139.2
II	123.9	154.8	102.2	3223		181.9	43.0	138.8
III	129.6	166.2	102.4	3303		183.4	43.4	140.0
IV	133.5	175.8	106.1	3302		184.4	44.1	140.3
1989 I	140.1	184.0	106.5	3250		184.6	44.7	140.0
II	139.6	185.2	108.6	3442		186.2	45.6	140.8
III	144.0	186.1	111.7	3462		188.3	46.9	141.6
IV	146.8	197.8	112.3	3495		190.2	47.4	142.7
1990 I	148.5	193.9	112.6	3497		191.2	47.8	143.4
II	145.5	191.4	114.8	3568		193.0	48.8	144.1
III	152.9	202.1	115.8	3582		193.5	49.9	143.7
IV	151.0	202.3	116.0	3677		194.2	50.1	144.0
1991 I	155.6	205.8	115.3	3719		193.8	50.3	144.1
II	148.4	197.9	114.2	3691		194.4	50.5	144.0
III	154.8	207.9	116.2	3781		194.2	50.5	143.8
IV								

Output per Head			Money Earnings	Real Earnings	Unemployment			
9	10	11	12	13	14	15	16	
Total Manufacturing	Modern Manufacturing	Traditional Manufacturing	Manufacturing	Manufacturing	Live Register Male	Live Register Female	Live Register Total	
1985 = 100	1985 = 100	1985 = 100	1989 = 100 Av. Weekly	1989 = 100 Av. Weekly	'000s Av. Monthly	'000s Av. Monthly	'000s Av. Monthly	
100.0	100.0	100.0	81.3	92.5	170.2	60.4	230.6	1985
104.4	104.9	102.5	87.3	95.7	172.0	64.4	236.4	1986
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.3	111.8	96.1	100.0	169.7	71.7	241.4	1988
142.2	161.5	117.2	100.0	100.0	160.0	71.6	231.6	1989
144.5	158.9	120.7	103.9	100.5	152.1	72.6	224.7	1990
					170.5	83.5	254.0	1991
Quarterly Averages								
127.6	146.2	105.7	94.0	98.8	177.9	72.1	250.0	1988 I
135.3	153.6	113.0	95.7	100.1	168.2	70.3	238.4	II
120.3	133.6	101.4	97.3	100.8	167.0	73.3	240.3	III
139.0	152.8	117.0	97.5	100.5	165.9	71.0	236.9	IV
142.3	172.3	108.9	97.9	99.6	169.5	73.0	242.6	1989 I
148.6	172.6	118.4	99.1	99.8	159.7	70.9	230.7	II
129.9	138.2	109.4	100.9	100.1	155.9	72.7	228.6	III
148.4	160.7	121.8	102.1	100.5	154.7	69.7	224.4	IV
145.7	170.1	112.3	100.9	98.5	158.3	71.7	230.0	1990 I
149.3	166.6	122.2	103.1	100.3	148.2	71.2	219.4	II
133.7	140.9	111.9	105.1	101.3	149.7	75.0	224.7	III
149.7	155.5	124.8	106.3	101.9	152.1	72.6	224.7	IV
150.0	171.4	114.4	105.5	100.3	165.8	77.9	243.7	1991 I
150.9	166.5	121.6	109.0	102.8	167.2	81.1	248.3	II
135.3	143.2	112.1			173.1	88.7	261.8	III
					175.7	86.3	262.0	VI
Quarterly Averages (Seasonally Corrected)								
125.9	138.7	108.5	94.8	99.8	172.2	71.6	243.7	1988 I
128.4	142.2	108.7	95.8	100.1	169.9	71.2	241.0	II
131.5	150.4	107.9	97.1	100.7	169.6	71.8	241.4	III
136.6	156.3	111.8	96.8	99.6	167.2	72.2	239.4	IV
140.3	162.8	112.0	98.8	100.5	163.8	72.5	236.3	1989 I
141.2	160.6	113.8	99.3	99.9	161.6	71.8	233.4	II
142.1	155.9	116.3	100.6	99.9	158.3	71.2	229.5	III
145.6	163.7	116.2	101.4	99.7	156.0	71.0	227.0	IV
143.6	160.5	115.7	101.8	99.4	152.6	71.2	223.7	1990 I
141.9	155.3	117.5	103.3	100.4	150.2	72.0	222.2	II
146.3	159.2	118.9	104.8	101.1	152.1	73.4	225.5	III
146.6	158.1	119.0	105.6	101.1	153.5	74.0	227.4	IV
147.9	161.7	117.9	106.4	101.2	160.0	77.3	237.3	1991 I
143.6	155.4	117.0	109.2	102.9	169.2	81.9	251.2	II
148.1	161.9	119.2			175.5	87.1	262.6	III
					177.1	87.6	264.7	IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Price Index	Import Unit Value	Export Unit Value	Terms of Trade	Price of Stocks + Shares (ISEQ)
	Nov. 1989 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	1985 = 100	Jan. 1988 = 1000
1985	86.5	100.0	100.0	100.0	100.0	100.0	100.0	580.4
1986	89.8	98.8	97.8	99.5	88.8	92.7	104.3	907.7
1987	92.6	100.4	98.4	103.5	88.8	92.7	104.4	1326.2
1988	94.6	104.5	102.4	114.4	94.6	99.3	105.0	1294.6
1989	98.5	109.5	108.1	120.1	100.7	105.9	105.1	1633.6
1990	101.7	107.8	105.1	106.5	95.7	95.9	100.2	1562.2
1991								1382.4

Quarterly Averages

	17	18	19	20	21	22	23	24
1988 I	93.7	102.5	100.2	110.2	89.8	95.8	106.6	1097.9
II	94.2	104.0	101.6	114.3	91.1	95.8	105.2	1247.0
III	95.0	105.5	103.5	115.9	94.4	98.0	103.9	1436.8
IV	95.5	106.2	104.4	117.0	95.5	99.2	103.8	1396.7
1989 I	96.8	108.2	107.2	121.2	100.9	104.3	103.4	1473.5
II	97.8	109.7	108.4	125.1	101.4	106.4	104.9	1638.9
III	99.2	110.5	109.0	121.0	101.7	108.0	106.2	1710.6
IV	100.0	109.7	107.7	116.7	98.7	104.3	105.6	1711.3
1990 I	100.9	108.4	105.8	115.6	95.4	100.0	104.8	1813.2
II	101.2	107.9	104.6	111.4	92.3	97.9	106.1	1673.2
III	102.1	108.0	105.4	103.4	96.5	95.8	99.3	1523.7
IV	102.7	106.7	104.7	101.2	97.8	92.5	94.6	1238.8
1991 I	103.5	107.3	105.1	104.9	96.7	93.0	96.1	1241.3
II	104.3	108.8	106.6	105.5	97.2	93.8	96.5	1466.9
III	105.7	109.2		100.8				1413.3
IV	106.4							1408.3

Quarterly Averages (Seasonally Corrected)

	17	18	19	20	21	22	23	24
1988 I	93.6	102.5	100.3	108.2	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	94.2	103.9	101.7	112.5				
III	94.9	105.2	103.2	117.2				
IV	95.7	106.6	104.5	119.5				
1989 I	96.7	108.3	107.4	119.5				
II	97.8	109.6	108.6	123.2				
III	99.1	110.1	108.6	122.0				
IV	100.2	110.1	107.7	119.2				
1990 I	100.8	108.6	106.0	114.1				
II	101.2	107.8	104.8	109.7				
III	102.0	107.6	105.0	104.3				
IV	102.9	107.1	104.8	103.4				
1991 I	103.4	107.4	105.2	103.6				
II	104.4	108.7	106.8	103.9				
III	105.6	108.7		101.6				
IV	106.5							

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
New Cars Regis-tered	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter bank Rate	Long term Gilt Rate	
Total	1980 = 100	1980 = 100	£m	£m	£m	Per cent per annum	Per cent per annum	
59592	155.9	91.0	6331	7615	1284	11.9	12.6	1985
58760	158.8	90.5	6709	8104	1395	12.4	11.1	1986
54341	161.3	89.3	7152	8332	1180	10.8	11.3	1987
61888	169.1	91.1	7690	8006	317	7.8	9.5	1988
78383	184.5	95.4	7756	8019	263	9.6	8.9	1989
83407	193.5	98.0	8269	8421	152	11.1	10.1	1990
			8776	9076	300			1991

Quarterly Averages or Totals

20070	161.5	88.0	1628	2132	504	8.4	10.4	1988 I
19476	162.5	88.0	1812	1959	147	7.5	9.7	II
14832	167.3	89.9	1846	1933	87	7.6	9.5	III
7510	182.9	97.3	2403	1982	− 421	7.8	8.4	IV
25672	177.1	93.2	1807	2057	250	7.8	8.7	1989 I
25536	182.3	94.6	1812	2011	199	9.2	9.1	II
18192	181.4	93.2	2008	1924	− 84	9.8	8.8	III
8983	195.9	99.8	2129	2027	− 102	11.4	9.2	IV
27830	189.9	96.6	1872	2236	364	11.9	10.2	1990 I
27883	189.8	96.8	2004	2036	32	11.0	10.0	II
18928	190.9	96.9	2101	1970	− 131	10.8	10.2	III
8766	201.6	100.8	2293	2180	− 113	10.6	10.0	IV
23797	191.8	95.9	1886	2313	427	11.1	9.3	1991 I
23006	191.2	95.5	2074	2390	316	10.3	9.1	II
15094	194.6		2295	2071	− 224	9.7	9.6	III
			2521	2302	− 219	10.4	9.0	IV

Quarterly Averages or Totals (Seasonally Corrected)

14947	164.1	89.6	1830	2039	210	No Seasonal Pattern	No Seasonal Pattern	1988 I
15205	164.5	89.1	1818	1968	151			II
16227	170.1	91.3	1911	2056	145			III
16346	175.5	93.4	2100	1950	− 150			IV
19137	179.5	94.5	2006	1961	− 46			1989 I
19844	184.3	95.6	1844	2025	181			II
19869	184.7	94.8	2064	2039	− 25			III
19854	188.0	95.8	1863	2002	139			IV
20716	192.5	98.1	2065	2125	61			1990 I
21608	191.8	97.8	2057	2056	− 1			II
20690	194.6	98.7	2149	2079	− 70			III
19527	193.6	96.9	2010	2162	151			IV
17701	194.5	97.4	2074	2197	123			1991 I
17804	193.3	96.4	2138	2417	279			II
16506	198.1	98.0	2342	2181	− 161			III
			2212	2287	75			IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
	Money Supply M3	Licensed Banks Domestic Credit: Gov.	Licensed Banks Domestic Credit: Non-Gov.	External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	Per IR£
1985	8924.8	2514.1	8441.1	2271.9	62.41	0.8234	1.0659	3.1134
1986	8836.9	2725.7	9065.5	2205.3	66.65	0.9147	1.3424	2.9080
1987	9799.5	2754.9	9494.5	2821.4	66.15	0.9089	1.4879	2.6717
1988	10421.0	2636.4	10853.4	3161.0	65.08	0.8568	1.5249	2.6743
1989	10945.0	2417.7	12538.3	2521.0	64.39	0.8665	1.4175	2.6650
1990	12635.6	2506.0	13872.3	2891.7	68.31	0.9302	1.6585	2.6729
1991								
	End-Period Totals				Quarterly Averages			
1988 I	9774.9	3011.0	9458.2	3075.1	66.31	0.8853	1.5890	2.6637
II	9967.9	2827.1	9714.0	3511.8	65.27	0.8513	1.5672	2.6749
III	10286.0	2744.5	10173.8	3301.6	64.25	0.8487	1.4387	2.6840
IV	10421.0	2636.4	10853.4	3161.0	64.53	0.8419	1.5084	2.6741
1989 I	10231.7	2435.4	11057.8	2735.8	63.49	0.8262	1.4440	2.6708
II	10506.9	2302.0	11764.9	2497.5	63.64	0.8500	1.3831	2.6698
III	10712.5	2350.7	11815.0	2886.7	64.21	0.8693	1.3877	2.6691
IV	10945.0	2417.7	12538.3	2521.0	66.32	0.9226	1.4621	2.6490
1990 I	11289.9	2526.0	12681.5	2457.8	68.07	0.9475	1.5703	2.6539
II	11381.6	2506.6	13082.8	3097.3	68.73	0.9542	1.5981	2.6809
III	12421.6	2454.7	13230.6	3705.6	67.85	0.9046	1.6850	2.6828
IV	12635.6	2506.0	13872.3	2891.7	68.65	0.9154	1.7817	2.6735
1991 I	12348.6	2382.0	13746.5	3200.9	68.28	0.9126	1.7429	2.6646
II	12511.9	2288.9	13912.2	3422.0	66.55	0.9038	1.5430	2.6753
III	12923.2	2380.5	14047.2	3471.2	66.68	0.9108	1.5355	2.6740
IV					67.87	0.9257	1.6433	2.6693
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1988 I II III IV	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
1989 I								
II								
III								
IV								
1990 I								
II								
III								
IV								
1991 I								
II								
III								
IV								

Visible Trade Indicators					Balance of Payments		
41	42	43	44	45	46	47	
Imports (Value)	Exports (Value)	Trade Surplus (Value)	Imports (Volume)	Exports (Volume)	Net Factor Flows	Current Account	
£m	£m	£m	1985 = 100	1985 = 100	£m	£m	
9428.2	9743.0	314.8	100.0	100.0	- 1966	- 650	1985
8621.3	9374.3	753.0	103.0	104.0	- 1957	- 509	1986
9155.2	10723.5	1568.3	109.4	118.8	- 1957	239	1987
10214.8	12304.8	2090.1	114.5	127.1	- 2542	437	1988
12284.3	14597.0	2312.8	129.3	141.4	- 3039	371	1989
12479.5	14343.0	1863.5	138.3	153.5	- 2782	864	1990
							1991
Av. Monthly Totals			Quarterly Averages or Totals				
803.0	915.8	112.8	113.6	117.6	- 557	- 65	1988 I
811.5	1024.5	213.0	113.5	131.6	- 666	220	II
828.8	1037.2	208.3	111.7	130.1	- 540	374	III
961.0	1122.8	161.8	128.1	139.4	- 777	- 93	IV
1003.0	1118.7	115.7	126.5	131.8	- 635	113	1989 I
1042.8	1270.6	227.8	130.7	146.9	- 896	8	II
974.5	1214.9	240.4	121.9	138.3	- 590	363	III
1075.7	1261.4	185.8	138.5	149.1	- 918	- 113	IV
1043.7	1218.1	174.4	138.7	149.9	- 677	251	1990 I
1048.0	1257.2	209.2	144.4	158.1	- 745	158	II
995.8	1110.2	114.5	131.3	142.7	- 555	362	III
1071.5	1195.6	124.1	139.4	159.2	- 805	93	IV
1075.2	1173.4	98.3	141.4	155.4			1991 I
1072.4	1258.6	186.2	140.5	165.2			II
1036.0	1229.0	192.4					III
							IV
Av. Monthly Totals (S.C.)			Quarterly Averages or Totals (S.C.)				
777.3	941.2	164.0	109.9	120.7	No Seasonal Pattern	No Seasonal Pattern	1988 I
814.1	988.7	174.6	113.3	127.1			II
876.3	1067.2	190.9	119.1	134.8			III
930.1	1091.0	160.9	123.8	134.3			IV
984.4	1176.0	191.6	124.2	138.7			1989 I
1047.8	1228.6	180.8	130.7	142.2			II
1038.6	1230.7	192.1	130.9	140.6			III
1037.3	1239.6	202.3	133.3	145.4			IV
1024.3	1260.3	236.0	136.2	154.9			1990 I
1051.1	1216.2	165.1	144.2	153.2			II
1061.7	1140.7	79.0	141.1	147.4			III
1021.4	1176.5	155.1	132.6	155.4			IV
1071.4	1221.3	149.9	140.9	161.5			1991 I
1076.1	1212.1	135.9	140.3	159.5			II
1089.5	1269.0	179.5					III
							IV