QUARTERLY ECONOMIC COMMENTARY

WINTER 1994/5

The forecasts in this Commentary are based on data available by mid-February 1995.

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SUMMARY

As additional information has become available, it has confirmed that 1994 was a year of exceptionally rapid growth. It now seems probable that real GDP grew by about 6½ per cent, with both domestic demand and net exports contributing to the rise. According to preliminary estimates, profit expatriations were surprisingly low in the first half of the year. If these figures are confirmed, it seems likely that the growth of real GNP exceeded that in GDP. Thus our current estimate of a GNP growth rate of 6¾ per cent in 1994 is a major upward revision on our previous forecast.

Rapid, well-balanced, growth is expected to continue in 1995. Favourable export conditions, especially in continental Europe, increased productive capacity, higher disposable incomes, interest rates remaining low by recent historical standards, and buoyant consumer and business confidence should combine to enable another increase of about 6½ per cent in the volume of GDP. However, a resumption of heavy profit outflows could reduce the growth rate of real GNP to about 5¾ per cent, still well above the long-term average.

Two successive years of rapid economic growth should result in a substantial increase in total employment. The annual average number at work is estimated to have risen by 34,000 in 1994 and is predicted to rise by a further 36,000 in 1995. Depending on trends in net emigration and labour force participation, the fall of 12,000 in average unemployment in 1994 could be followed by a reduction of 15,000 in 1995.

Inflation is expected to remain subdued, with the increase of 2.4 per cent in the consumer price index in 1994 being succeeded by a rise of 2.8 per cent in 1995. The current account of the balance of payments remains very strong, with a forecast surplus of about 7½ per cent of GNP in both 1994 and 1995.

The public finances performed strongly in 1994, with the tax amnesty enabling a small current budget surplus to be declared for the first time in 28 years. When allowance is made for a moderate degree of caution in the official forecasts, it seems likely that the fiscal out- turn for 1995 will see both the underlying current budget deficit and the Exchequer Borrowing Requirement at much the same low levels as in 1994.

The 1995 Budget could be interpreted as a refusal to take the opportunity provided by exceptionally favourable circumstances to move the current budget into a secure surplus, and thus to provide a safety margin against future economic shocks. Nevertheless it should result in a further substantial reduction in the vital debt/GDP ratio in 1995, and should not add significantly to inflationary pressures through an undue stimulus to an already buoyant domestic demand.

Not surprisingly the Budget did not signal any radical change in economic strategy. This is largely because of the broad general consensus among political parties and social partners concerning the main elements of the strategy. In turn, this reflects the accurate perception that the strategy has proved relatively successful in recent years. More fundamentally, the consensus recognises that the current strategy represents a realistic balance between Ireland's requirements and the constraints applied by the world economic system. Operated effectively, it enables advantage to be taken of the opportunities offered by free capital movement and corporate globalisation, while attempting to minimise the inevitable costs of this process in terms of intensified competition, growing income disparities and a widespread loss of personal security.

FORECAST NATIONAL ACCOUNTS 1994
A: Expenditure on Gross National Product

	1993	1994	Change in 1994				
	Preliminary[1]	Estimate	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	18065	19555	1490	984	8¼	2¾	5½
Public Net Current Expenditure ...	5167	5625	458	207	8¾	4½	4
Gross Fixed Capital Formation ...	4808	5285	477	329	10	3	6¾
Exports of Goods and Services (X) ...	21883	24881	2998	2487	13¾	2	11¼
Physical Changes in Stocks	–179	–50	129	110			
Final Demand	49744	55296	5552	4117	11¼	2¾	8¼
less:							
Imports of Goods and Services (M) ...	17508	20005	2497	1971	14¼	2½	11½
GDP at Market Prices	32236	35291	3055	2146	9½	2¾	6½
less:							
Net Factor Payments (F)	3804	4110	306	221	8	2	5¾
GNP at Market Prices	28432	31181	2749	1925	9¾	2¾	6¾

B. Gross National Product by Origin

	1993	1994	Change in 1994	
	Preliminary £m	Estimate £m	£m	%
Agriculture, Forestry, Fishing ...	2193	2303	110	5
Non-Agricultural: Wages, etc. ...	15886	16998	1112	7
Other: ...	9258	10410	1152	12½
less:				
Adjustments	1338	1369	31	2¼
Net Factor Payments	3804	4110	306	8
National Income	22195	24232	2037	9¼
Depreciation	3044	3242	198	6½
GNP at Factor Cost	25239	27474	2235	9
Taxes less Subsidies	3193	3707	514	16
GNP at Market Prices	28432	31181	2,749	9¾

C. Balance of Payments on Current Account

	1993	1994	Change in 1994
	Preliminary £m	Estimate £m	£m
X–M	4376	4876	500
F	–3804	–4110	–306
Net Transfers	1890	1607	–283
Balance on Current Account ...	2462	2373	–89
as % of GNP	8¾	7½	–1¼

[1]Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1995
A: Expenditure on Gross National Product

	1994	1995	Change in 1995				
	Estimate £m	Forecast £m	£m Value	£m Volume	% Value	% Price	% Volume
Private Consumer Expenditure ...	19555	21071	1516	959	7¾	2¾	5
Public Net Current Expenditure ...	5625	6047	422	208	7½	3¾	3¾
Gross Fixed Capital Formation ...	5285	6006	721	574	13¾	2¾	10¾
Exports of Goods and Services (X) ...	24881	28149	3268	2629	13¼	2½	10½
Physical Changes in Stocks	–50	120	170	140			
Final Demand	55296	61393	6097	4510	11	2½	8¼
less:							
Imports of Goods and Services (M) ...	20005	22693	2688	2179	13½	2¼	11
GDP at Market Prices	35291	38700	3409	2331	9¾	2¾	6½
less:							
Net Factor Payments (F)	4110	4749	639	522	15½	2½	12¾
GNP at Market Prices	31181	33951	2770	1809	9	3	5¾

B. Gross National Product by Origin

	1994	1995	Change in 1995	
	Estimate £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	2303	2418	115	5
Non-Agricultural: Wages, etc. ...	16998	18103	1105	6½
Other: ...	10410	11898	1488	14¼
less:				
Adjustments	1369	1341	–28	–2
Net Factor Payments	4110	4749	639	15½
National Income	24232	26329	2097	8¾
Depreciation	3242	3469	227	7
GNP at Factor Cost	27474	29798	2324	8½
Taxes less Subsidies	3707	4153	446	12
GNP at Market Prices	31181	33951	2770	9

C. Balance of Payments on Current Account

	1994	1995	Change in 1995
	Estimate £m	Forecast £m	£m
X–M	4876	5456	580
F	–4110	–4749	–639
Net Transfers	1607	1864	257
Balance on Current Account ...	2373	2571	198
as % of GNP	7½	7½	–

The International Economy

General

Recovery in continental Europe and Japan became firmly established in 1994. Growth continued strongly in the English-speaking countries which are at a more advanced stage of the current economic cycle. Thus, by the end of 1994, all major economies were growing simultaneously for the first time since 1989.

This general increase in economic activity is expected to continue throughout 1995. A probable slowing of growth in the US and UK is likely to be at least offset by faster expansion in Japan and continental Europe. Thus world GDP growth is forecast to match, or slightly exceed, the 3 per cent thought to have been achieved in 1994.

Despite the rise in some commodity prices during 1994, there has been no evidence yet of a generalised increase in inflation. The early stage of recovery in most of Europe and Japan suggests that under-used capacity and high unemployment should prevent a significant rise in inflationary pressures in these regions. In the US, and to a lesser extent in the UK, where more established growth could lead to capacity constraints and bottlenecks, the precautionary tightening of monetary policy during 1994 can also be expected to hold inflation to moderate levels in 1995. The fiscal problems which have afflicted many European countries during the recession should ease significantly in 1995 as economic growth boosts revenue, while the global nature of the current upswing should limit the emergence of balance of payments problems in individual countries. While the financial crisis in Mexico has raised interest rates in several developing countries, neither it nor the possible repatriation of Japanese funds to finance earthquake reconstruction are expected to have a major influence on interest rates in the developed countries.

The US Economy

Preliminary indicators show that US growth remained strong in the final quarter of 1994. For the year as a whole it is estimated that real GDP rose by about 4 per cent, well above most forecasts made earlier in the year. Domestic demand was buoyant throughout the year, with personal consumption, investment and stock-building all contributing to the relatively high growth rate.

Although the sustained upward movements in short-term interest rates appear to have had little effect in slowing the increase in domestic demand during 1994, it seems inevitable that they will have a lagged impact in 1995. Allied to the further tightening of monetary policy expected in the course of the year, and, perhaps, to the uncertainties created by political tension between the administration and Congress, they seem likely to result in a significant deceleration in the growth of domestic demand. However, this slowdown should be partly offset by an increase in the volume of net exports, as the rest of the world grows more rapidly. Thus real GDP in 1995 is projected to increase by about 3 per cent, which, given the substantial carryover from 1994, implies a considerable slowing of the quarterly rate of growth in the course of the year.

Such a diminution in the rate of growth should prevent any significant intensification in inflationary pressures in 1995, which, of course, was the purpose of the successive increases in interest rates during 1994 and early 1995.

The annual rise in consumer prices seems unlikely to exceed 3 per cent, little greater than in 1994, and increases in average pay are also likely to remain moderate.

The increase in US interest rates in 1994 and so far in 1995, have taken US short-term rates significantly above German levels for the first time since 1989. If this differential widens further, it could result in a tendency for the US dollar to appreciate against the DM, and also against the Yen, as interest rates in Japan are expected to remain low. However this tendency could be offset by other factors, including political uncertainty, unless satisfactory working arrangements are established between the administration and Congress. At present it seems that any appreciation of the dollar is likely to be quite limited.

The European Economy

All countries of western Europe, and several from the former eastern bloc, appear to have achieved economic growth in 1994. The recovery from recession was earlier and stronger than had been expected at the beginning of the year, with a moderate rise in domestic demand in most countries re-inforcing substantial export growth.

In most continental European countries growth is expected to be faster as the recovery becomes more established. The rise in fixed capital investment is likely to accelerate, consumption should grow moderately, although still constrained by relatively high taxation, and stock-building seems likely to increase in response to rising economic activity. At the same time the volume of exports, both within Europe and to the rest of the world, should remain buoyant. The annual increase in real GNP in continental Europe, which is believed to have averaged about 2 per cent in 1994 is projected at an average of about 3 per cent for 1995. This should be sufficient to permit a modest reduction in unemployment levels in most countries, although the annual average in 1995 will remain very high by historical standards. In general both price and pay inflation should again be moderate, falling somewhat on an annual basis in Germany and rising only slightly in other countries. For most countries, rising national income and falling unemployment should tend to ease the fiscal problems suffered during the recession. In Germany and the countries most closely aligned to its economy, short-term interest rates are not under the upward pressure seen in the US and elsewhere, and any increase in 1995 is likely to be quite modest and quite late in the year.

Although the outlook for the continental EU as a whole in 1995 and beyond is thus very favourable, some countries face individual problems which might preclude their sharing fully in the general low-inflation growth. Thus, although the Italian economy has a long history of prospering in the face of political instability, the present political crisis has forced a 5 per cent differential between Italian and German short-term interest rates, and if this persists it is difficult to see how Italian domestic demand can grow in line with the rest of Europe in 1995. A similar situation, although on a less dramatic scale, currently applies in Spain. In Sweden, which is at a more advanced stage of recovery, a severe fiscal programme, aimed at correcting an unsustainable deficit in the public finances, seems likely to hold back the growth of domestic demand in 1995.

In eastern Europe, EU growth is likely to consolidate the economic recovery in the more developed countries. In the Russian Federation, however, the signs of incipient stabilisation which emerged during 1994 appear likely to be reversed by the political tensions associated with the military action in Chechnya.

The UK Economy

Steady, non-inflationary growth in the UK economy continued throughout 1994, with unemployment falling, the fiscal and balance of payments deficits being reduced, and price increases remaining very low by historical standards. Recent figures suggest that the growth in real GNP in 1994 approached 4 per cent, and that this growth was well balanced between a sharp rise in exports, a substantial rise in fixed investment and only a moderate increase in personal consumption.

Present indications are that moderate growth on the same pattern will continue in 1995. European recovery should mean that the volume of exports will continue to increase quite rapidly, the stage of the economic cycle suggests that productive investment will rise further, while tighter fiscal and monetary policy should hold the increase in personal consumption to a very moderate rate. For 1995 as a whole, it seems likely that real GNP will increase by about 3 per cent, with unemployment continuing to fall, price and wage increases remaining low, the public finances improving further and little, if any, deterioration in the balance of payments. Although short-term interest rates are likely to continue rising in the course of 1995, the increases might well be less than is currently discounted in the financial markets. The present weakness of sterling relates to perceived political uncertainty more than to economic factors. Assuming that this uncertainty can be resolved, the sterling - DM exchange rate should revert towards its end-1994 level over the next few months.

Despite the favourable immediate prospects, there remain serious worries concerning the medium-term development of the UK economy. Partly because the depth and nature of the previous economic crisis were never clearly explained, the necessary re-balancing of the UK economy, from consumption towards exports and investment, which commenced in 1994 has proved deeply unpopular politically. There is inevitably a danger that current fiscal policies will be prematurely reversed to encourage a popular but unsustainable consumer boom before the next general election. This would tend to divert resources from the still necessary improvement in the volume of net exports. Also, it seems quite possible that a relaxation of fiscal policy would be accompanied by a further tightening of monetary policy, thus endangering the rise in productive investment which is necessary if UK growth is to match that of the rest of Europe in the remainder of the decade. This potential widening of the fiscal and balance of payments deficits, which could follow a premature easing of fiscal policy, could also place pressure on the sterling exchange rate in future years.

The Rest of the World

The Japanese economy began to emerge from recession in 1994, with an estimated growth of ¾ per cent in real GNP. The recovery is expected to gain momentum in 1995, although the projected growth rate of less than 3 per cent is modest by past Japanese standards. The main contribution to growth is likely to come from domestic demand, with investment, stock-building, personal and public consumption all expected to show a significant volume increase. In spite of more favourable market conditions, Japanese exports will continue to be impeded by the very high value of the yen. A significant reduction in Japan's large current account surplus seems probable, while inflation, short-term interest rates and unemployment are all likely to remain low by international standards. It is too early to assess the economic consequences of the Kobe earthquake.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
UK	4	3	2½	3½	3¾	4¾	9¼	8¼	–½	–¾
Germany	2¼	3	3	2½	3	3	9½	9¼	–¼	–
France	2¼	3¼	1¾	2	2¾	3½	12½	12¼	¾	½
Italy	1¾	2½	4	3¾	4¾	5	11	10¾	2	2¼
Total EC	2¼	3	3	3	4¼	4½	11	10½	–	–
USA	4	3	2¾	3	3	3½	6¼	6	–2	–2
Japan	¾	2¾	1	1½	1¼	1½	3¼	3¼	3¼	2¾
Total (OECD)	3	3	3¼	3½	3½	4	8½	8¼	–¼	–¼
Ireland	6¾	5¾	2½	2¾	4	3¾	14¾	13¾	7½	7½

Massive rebuilding programmes can be expected to boost domestic demand, but the disruption of output and loss of income could have a strong negative effect on GNP.

The other Asian economies continued to expand very rapidly in 1994. Although relatively high growth is expected to continue in most of these countries, there are signs that progress might be less smooth in 1995. The flood of overseas investment into China could be abating and is likely to be further curtailed by the current trade dispute with the US. Hong Kong is suffering from growing uncertainties related to its reversion to China in 1997, and the currencies and capital markets of several Asian countries have been affected by the instability which has followed the depreciation of the Mexican peso.

The severe financial problems of the Mexican economy, coming so soon after the ratification of the North American Free Trade Agreement have already had an adverse impact on some other Latin American economies. It is too early to assess whether these effects will last, or whether the substantial Latin American growth of recent years will be maintained in 1995. The most likely outcome is that growth will continue in most countries, but more slowly than had been hoped.

There is still no evidence that OPEC has regained sufficient discipline to force a substantial rise in crude oil prices in 1995. Member countries are more likely to benefit from increased volumes than from price increases. However, producers of many other primary products could see higher volumes combined with higher average prices in 1995, giving a substantial rise in income. Heavily indebted countries could face intensified problems from the higher average level of international interest rates in 1995, especially as the Mexican crisis has widened the interest differentials which have to be paid by most developing countries.

The Context for Ireland

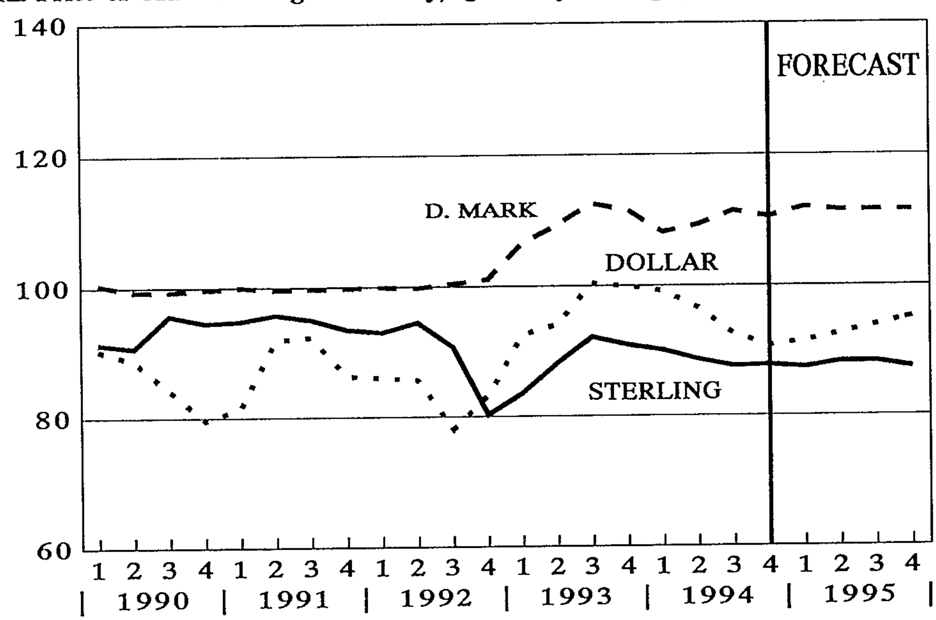
The international climate was undoubtedly favourable for Ireland in 1994. A continuation or resumption of growth in all major export markets, combined with relatively low international interest rates and a strong up-turn in worldwide investment in productive capacity, provided Ireland with the best opportunity for sustainable balanced growth for many years. Despite the rise in some raw material prices, the general rate of international inflation remained low, and there was relative stability in European currency markets.

Favourable conditions are likely to continue in 1995 and beyond. World economic growth is expected to be about the same as in 1994, but growth in the vital European market is likely to be significantly faster. International investment, especially in Europe, should remain buoyant as multi-national companies respond to the prospect of several years of growth in the European economy.

Inflation is expected to remain moderate internationally, although there could be a slight acceleration as margins are restored by some companies after being squeezed in recent years. A more serious deterioration compared with 1994 is the likely rise in average international short-term interest rates. In the USA, the increase within 1995 will probably be less than that within 1994, but, of course, the annual average will be substantially higher. In the UK, both the rise within the year and the annual average rates are likely to be greater than in 1994. In the core countries of continental Europe, the trend is likely to be reversed from a significant fall in 1994 to a modest rise in 1995, although the annual average will probably be only slightly higher. After rising sharply in the first half of 1994 international long-term interest declined slightly in the later months of the year. Only minor changes in the level of long-term interest rates in developed countries are expected in 1995, unless the repatriation of Japanese funds in the aftermath of the recent earthquake unsteadies international capital markets.

Following the collapse of the Mexican peso, it seems possible that currency markets will be more volatile in 1995 than in 1994. So far, instability has been confined mainly to minor currencies, with a limited impact also on the US dollar. Over the remainder of the year it still seems probable that higher US interest

FIGURE 1: Exchange Rates
IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1989=100



rates will lead to a modest appreciation of the dollar against European currencies and the yen. Within continental Europe relationships between the core currencies are likely to remain stable. Other EU currencies, such as the lira and peseta are likely to fluctuate in response to political problems in the countries concerned, but no repetition of the currency crises of 1992 and 1993 is anticipated. Although sterling remains vulnerable in the medium term, there appears no reason why its present weakness should not be overcome, and its late-1994 DM value re-established. Depending on the nature of the next UK Budget however, there is a possibility that sterling could depreciate in the final quarter of 1995.

The Domestic Economy

General

Against a favourable international background, the Irish economy grew strongly in 1994. Because of the lag in the provision of official statistics, especially for such volatile elements as profit expatriations, some uncertainty must remain about the exact rate of growth of real GNP. The most likely growth rate for 1994 is now estimated at about 6¾ per cent, but it would not be surprising if the actual growth for 1994 eventually turns out to have been somewhat higher or lower than this estimate.

Another year of rapid and well balanced growth is expected in 1995. The external environment is likely to remain benign, while a modest rise in interest rates seems unlikely to have a damaging effect on domestic demand. After a minor adjustment for traditional Department of Finance caution, the fiscal outcome for the year which is incorporated in the post-Budget estimates is expected to have about the same expansionary effect on domestic demand as in 1994.

While there is no longer any reason to doubt that current monthly trade statistics accurately reflect the growth of exports and imports, the export growth apparently recorded in 1993 remains suspect. The relatively modest increase of under 15 per cent in profit expatriation in the twelve months from mid-1993 to mid-1994 adds further weight to these doubts, as it does not appear compatible with the massive rise of over 30 per cent in relevant exports recorded for the calendar year of 1993. Nevertheless, for the purpose of constructing our forecast tables, we have no option but to base them on the preliminary national accounts estimates for 1993. As in the *Autumn Commentary,* these have been slightly amended to take account of more recent *Balance of Payments Estimates.*

Exports

Visible exports were 14½ per cent higher in the first half of 1994 than in the corresponding period of 1993. This value rise was spread over most trade sections, although year to year commodity comparisons are still rendered difficult by the presence of a large and growing proportion of unclassified estimates. On the basis of industrial turnover and production statistics which are available up to October, and of business and export surveys, it appears certain that visible exports remained buoyant in the second half of 1994.

For the year as a whole, it now seems likely that the value of visible exports increased by about 14 per cent, a slight upward revision to our previous forecasts. While manufactured and other industrial products accounted for most of this rise, it is probable that agricultural exports also increased, as higher meat and livestock shipments mirrored the reduction in intervention beef stocks.

Given the volatility of export price deflators, and the frequent discrepancies between annual deflators and the sum of monthly indices, there is inevitably some uncertainty about the likely breakdown of the value increase in exports between its price and volume components. On the evidence of monthly deflators for the first half of the year and of the output price index for manufacturing industry, it is likely that the average increase in export prices in 1994 was modest, at about 2 per cent. If this is correct, then the volume of visible exports probably grew by about 11¾ per cent. Such an increase is compatible with trends in industrial production.

Preliminary estimates suggest that tourist earnings increased by about 13 per cent in value, implying a volume increase of about 10½ per cent. The *Balance of Payments Estimates* show a significant rise in other service exports in the first half of the year. Assuming that this continued in the second half of the year, total exports of goods and services in 1994 are estimated to have increased by 11¼ per cent in volume and 13¾ per cent in value, as shown in Table 2.

TABLE 2: Exports of Goods and Services

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Agricultural	2850	4	7	3050	2	4½	3187
Manufactured	13271	13½	15½	15328	12½	15	17627
Other Industrial	2550	11¾	14	2907	11	13½	3299
Other	1000	11	14	1140	10	12½	1282
Total Visible	19671	11¾	14	22425	10¾	13¼	25395
Adjustments	–221			–235			–250
Merchandise	19450	11¾	14	22190	10¾	13¼	25145
Tourism	1367	10	13	1545	11	14	1761
Other Services	1066	4¾	7½	1146	5½	8½	1243
Exports of Goods and Services	21883	11¼	12¾	24881	10½	13¼	28149

With most major markets growing at least as rapidly as last year, and with several major export companies increasing capacity, there seems no reason why the volume of exports should not again rise substantially in 1995. Because the recorded carryover from 1994 to 1995 might be rather lower than from 1993 to 1994, the annual volume increase projected is slightly lower than in 1994. Price increases are likely to remain moderate, although the annual rise may be a little greater. Thus the value of visible exports in 1995 is projected to rise by 13¼ per cent. As in 1994, most categories of export are expected to show a significant value increase, with high-technology products obtaining the highest rate of growth.

Continued economic growth in the US and UK, the recovery in continental Europe, and, it is to be hoped, the absence of violence in Northern Ireland, should all contribute to a further substantial rise in tourist earnings in 1995. Assuming a moderate increase in other service exports, in line with the growth of European domestic demand, total exports of goods and services in 1995 are projected to increase by 10½per cent in volume and 13¼ per cent in value.

Stocks

After rising steadily for the previous six years, farm stocks showed a marginal decline in 1993. The December Livestock Survey suggests that there was little change in 1994, and it is assumed that virtual stability will continue in 1995. Intervention stocks grew massively in 1990 and 1991, and fell dramatically in 1992 as large stocks of dairy produce were disposed of. The reduction in 1993 was less extreme, at 62 million. Preliminary data suggest that with the virtual cessation of intervention purchases in the course of the year, the rate of decline in intervention stocks accelerated in 1994. Purchases are likely to remain very low in 1995, and with sales out of intervention continuing, a further decline in intervention stocks is expected. However, because the level of stocks is already relatively low, the scale of net stock reduction is likely to be less than in 1994.

TABLE 3: Stock Changes

	1993 £m	Change in Rate £m	1994 £m	Change in Rate £m	1995 £m
Farm Stocks	–10	20	10	–10	–
Irish Intervention Stocks	–62	–58	–120	90	–30
Other Non-agricultural Stocks	–107	167	60	90	150
Total	–179	129	–50	170	120

Fluctuations in changes in other stocks tend to be large and difficult to predict in the absence of any short term indicators. After their unexpected fall of 107 million in 1993 it seems likely that such stocks, comprising industrial material and products, work in progress and distribution stocks, will have been rebuilt to some extent in 1994. It is assumed in Table 3 that such stock-building was quite limited in 1994 and that it will accelerate moderately in 1995. In total, however, it is forecast that stock-changes will not have a major impact on the growth rate in either 1994 or 1995.

Investment

The volume of gross domestic fixed capital formation fell sharply in 1991, slightly in 1992 and marginally in 1993. It is certain that it recovered significantly in 1994, although the extent of the increase is still subject to uncertainty.

Under the stimulus of low interest rates and in response to returning confidence, housebuilding increased strongly in 1994. However, most other forms of building and construction were slower to respond to improved conditions than had been expected, and, with a negative carryover from 1993, appear to have shown little annual increase in 1994. At the same time, expenditure on building and construction under the Public Capital Programme was significantly below

TABLE 4: Gross Fixed Capital Formation

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	2788	6	9½	3053	10	13	3450
Machinery and Equipment	2020	8	10½	2232	12	14½	2556
Total	4808	6¾	10	5285	10¾	13¾	6006

the targeted level. Accordingly we have revised downward our estimate of the increase in the volume of investment in building and construction in 1994 to 6 per cent, mostly accounted for by the rise in housebuilding.

Despite the probability of some increase in the course of 1995, mortgage interest rates will remain relatively low. With employment and disposable incomes growing and confidence remaining high, the housing market should continue to strengthen in 1995. It would be unrealistic, however, to expect as fast a percentage growth in new housebuilding as in 1994, if only because the starting base is now so much higher. On the other hand, it is entirely realistic to predict a strong increase in commercial and industrial building, as projects planned in 1994 are implemented in 1995. Even allowing for some shortfall, the Public Capital Programme for 1995 is likely to result in a significant rise in infrastructure and other public sector building. Thus total investment in building and construction is forecast to rise by 10 per cent in volume, and 13 per cent in value, as shown in table 4.

With the delay in publishing trade statistics and the problems of disaggregation where a significant proportion of imports is unclassified, it has become almost impossible to monitor recent trends in investment in machinery and equipment. However, the buoyancy of total imports in the first half of 1994, and the strong increase in commercial vehicle registration in the year as a whole, suggest that there must have been a substantial growth in investment in machinery and equipment in 1994. This is tentatively, and perhaps cautiously, estimated at an 8 per cent volume rise in 1994. A larger volume increase, of 12 per cent , is projected for 1995, as industry and services respond to the need to raise capacity.

Total fixed investment is thus forecast to increase by almost 11 per cent in volume and nearly 14 per cent in value in 1995, after corresponding rises of almost 7 and 10 per cent in 1994. Although these estimates and projected rates of increase are lower than those recorded in 1989 and 1990, it should be borne in mind that they are occurring after a considerably shorter period of declining investment than that between 1981 and 1987, and that they come at an earlier stage of the current international economic cycle.

Consumption

On the basis of figures for the first eleven months of the year, it seems probable that the retail sales index for 1994 increased by about 8.1 per cent in value and 5.3 per cent in volume. Because the increase in the index was heavily weighted by car sales, with their strongly seasonal pattern, total retail sales appear to have jumped very sharply in the first quarter of 1994, declined significantly in the second quarter, stagnated in the third and resumed a moderate growth in the fourth. Thus the annual average of the index was almost certainly below the first quarter level, implying a negative carryover into 1995.

However, if garages and filling stations are excluded from the index, the three monthly moving average of the volume of sales shows a gentle but fairly steady increase through the year. Thus for non-car retail sales there is likely to be a significant positive carryover into 1995.

Car sales seem likely to remain buoyant in 1995, although they are unlikely to increase as fast as in 1994. Other retail sales will probably grow a little more rapidly than in 1994. Thus the annual increase in the total retail sales index in 1995 is projected to be 7.6 per cent in value and 4.7 per cent in volume, as shown in Table 5.

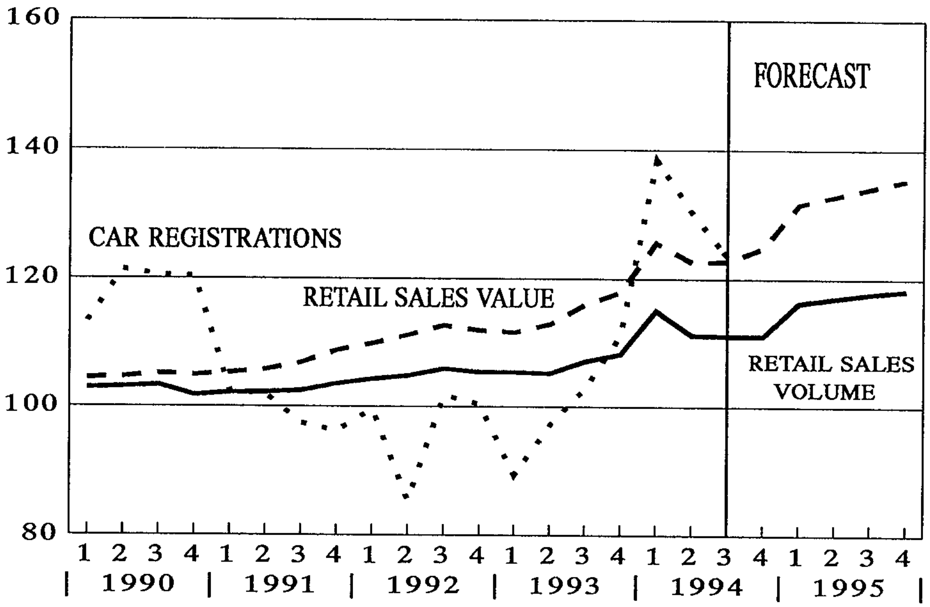
TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1990	1991	1992	1993	1994 To Date	1994 Forecast	1995 Forecast
Consumption Value							
NIE 1993, Personal Consumption	2.7	5.1	5.8	2.8		8.2	7.8
Retail Sales Index, Value	4.8	1.8	4.3	3.0	8.3	8.1	7.6
Divergence	-2.1	3.3	1.5	-0.2		0.1	0.2
Consumption Volume							
NIE 1993, Personal Consumption	1.3	2.6	2.9	1.2		5.5	4.9
Retail Sales Index, Volume	2.7	-0.1	2.3	1.4	6.0	5.4	4.7
Divergence	-1.4	2.7	0.6	-0.2		0.1	0.2
Consumer Prices							
NIE 1993, Personal Consumption Deflator	1.4	2.4	2.8	1.6		2.7	2.7
Retail Sales Index Deflator	2.0	1.9	2.0	1.6	2.5	2.6	2.7
Consumer Price Index	3.4	3.2	3.0	1.5	2.4	2.4	2.8

When allowance is made for tourist expenditure, both export and import, and for other non-retail consumption, the rise in personal consumer expenditure in both years could be slightly greater than the increase in the retail sales index. Thus total personal consumption is estimated to have risen by 8.3 per cent in value and 5.5 per cent in volume in 1994, and is forecast to increase by 7.8 per cent in value and 4.9 per cent in volume in 1995. Such increases could be interpreted as comprising a reasonable response to rising disposable income combined with relatively low interest rates. They do not imply any dramatic decline in the underlying personal savings ratio, and would not appear to constitute evidence of the onset of an unsustainable consumer boom.

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



Until the publication of the *National Accounts Classification of the Budget*, it is difficult to convert the budgetary arithmetic of the Estimates to the national accounts concept of public consumption. In broad terms, it seems likely that public consumption, or net expenditure by public authorities on current goods and services, increased in 1994 by about 4 per cent in volume and 8¾ per cent in value. On the basis of the post-Budget Estimates, 1995 could see a volume increase of about 3¾ per cent and a value rise of about 7½ per cent. It is noteworthy that in both 1994 and 1995 the rate of increase in public consumption, even in value terms, is below that for domestic demand as a whole, in marked contrast to most recent years. This is largely because domestic demand had recovered from a period of near stagnation, but it also reflects a significant reduction in the price deflator for public consumption, as average public service pay increases have declined towards parity with private sector pay rises. Although it remains below the rate of increase in total domestic demand, the volume rise in public consumption is substantial, and could pose adjustment problems in future when less buoyant economic conditions return.

Final Demand

If our estimates of its components are correct, final demand in 1994 grew by 8¼ per cent in volume and 11¼ per cent in value. This represents another slight upward revision to our previous forecast, and is the largest increase since 1989. The growth in final demand was well balanced, with domestic demand increasing by just over 5 per cent in volume, and exports by about 11¼ per cent. With personal consumption, investment in machinery and equipment, manufactured exports and non-agricultural stock-building all contributing strongly to its growth, the composition of final demand in 1994 is likely to have been considerably more import-intensive than in most recent years.

On the basis of the projections already discussed, final demand in 1995 is forecast to continue its rapid growth, with increases of 8¼ per cent in volume and 11 per cent in value. The balance between domestic and export demand is likely to be repeated, and the overall composition of final demand is expected to remain import intensive.

Imports

The value of visible imports in the first half of 1994 rose by 15½ per cent compared with the first half of 1993. As with exports, the presence of a substantial unclassified category diminishes the scope for meaningful disaggregation, but it appears that the rise in import values was spread over most SITC Sections. So far as it provides any guide to the course of price changes, the monthly unit value index suggests that import prices were about 5 per cent above their level in the first half of 1993, but that there was virtually no upward trend within the period itself.

There are virtually no indicators which can be used as a guide to the trend of imports in the second half of 1994. The general buoyancy of the economy suggests that imports must have continued to rise. However, imports also rose substantially in the second half of 1993, and it seems probable that the annual rate of increase in the value of imports in 1994 was slightly less than the rate in the first half, at about 15 per cent. The annual price deflator, when it becomes available, will probably show a smaller price increase than that implied by the monthly figures for the first half of the year. An average annual price rise of 2¾ per cent is assumed, giving an estimated increase of 12 per cent in the volume of visible imports.

Tourist spending abroad by Irish residents appears to have risen very sharply in 1994. Surprisingly, the *Balance of Payments Estimates* for the first half of 1994 show only a modest rise of under 5 per cent in the value of other service imports. Assuming some upturn in the second half of the year, the annual rise in the value for other service imports is estimated at 7 per cent. Thus total imports of goods and services in 1994 are estimated to have increased by 11½ per cent in volume and 14¼ per cent in value, as shown in Table 6.

TABLE 6: Imports of Goods and Services

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Capital Goods	1820	9½	12	2038	14	16½	2374
Consumer Goods	4020	10	12¾	4534	8½	11	5033
Intermediate Goods:							
Agriculture	490	5	7¾	528	4	6	560
Other	7966	14	17	9340	12½	15	10741
Other Goods	500	12¼	15	575	11¼	13¾	654
Total Visible	14796	12	15	17015	11¼	13¾	19362
Adjustments	–175			–175			–180
Merchandise Imports	14621	12¼	15¼	16840	11½	14	19182
Tourism	836	13	16	970	10	13	1096
Other Services	2051	4	7	2195	7	10	2415
Imports of Goods and Services	17508	11½	14¼	20005	11	13½	22693

If our final demand forecasts are broadly accurate, imports can be expected to increase strongly once more in 1995. On the projected pattern of final demand, imports of capital goods seem likely to increase more rapidly than in 1994, but imports of consumer goods and materials for industrial processing could rise a little more slowly, partly because the build up of stocks is expected to be less marked. Thus, for 1995, total visible imports are forecast to increase by 11¼ per cent in volume and by 13¾ per cent in value.

Another substantial increase in tourist spending overseas is projected, together with some acceleration in the rate of increase in other service imports. At 11 per cent and 13½ per cent, the forecast increases in the volume and value of total imports of goods and services in 1995 are only marginally below those estimated for 1994.

Balance of Payments

The export and import estimates already discussed indicate that the balance of visible trade in 1994 is likely to have improved by about 11 per cent, to a surplus of over 5,400 million. The surplus on trade in goods and services, after adjustments to a balance of payments basis, is estimated to have risen by 11½ per cent.

According to the preliminary *Balance of Payments Estimates* for the first half of 1994, net factor outflows were less than 4 per cent higher than in the first half of 1993. This unexpectedly small increase results from the fact that profit expatriation rose by only 6 per cent in the quarter, much less than would have been expected from the apparent increase in multinational exports in the second half of 1993.

Even allowing for a strong recovery in the second half of the year, it now seems unlikely that profit expatriations rose by more than 13 per cent in 1994 as a whole, a major downward revision from our previous estimate of 17½ per cent. National debt interest paid abroad rose very sharply in the first half of 1994, but other debit flows fell. Assuming a return to more normal patterns in the second half, total debit flows are estimated to have increased by 8¼ per cent in 1994 as a whole.

Credit flows were about 13 per cent higher in the first half of 1994 than in the corresponding period of 1993, when they were relatively depressed. An annual rise of about 9 per cent in credit flows seems a reasonable estimate for 1994 as a whole. Thus, taking the preliminary first half figures into account but assuming a less favourable pattern in the second half, net factor outflows in 1994 are estimated to have risen by 8 per cent. This is a major downward revision to our previous estimate of 14 per cent.

Both from Exchequer figures and from the first half *Balance of Payments Estimates*, it is clear that there was a substantial fall in net transfers in 1994, as receipts declined and payments increased. The annual reduction in net transfer receipts could have been of the order of 15 per cent. Placing these various estimates together, as in Table 7, it seems likely that the Balance of Payments current account surplus in 1994 was in the region of £2,370 million, or just over 7 per cent of estimated GNP. Although this is below the 8¾ per cent provisionally estimated for 1993, the decline in the surplus is much milder than we had previously forecast.

TABLE 7: Balance of Payments

	1993 £m	Change %	1994 £m	Change %	1995 £m
Visible Trade Balance	4875	11	5410	11½	6033
Adjustments	–46		–60		–70
Merchandise Trade Balance	4829	10¾	5350	11½	5963
Service Trade Balance	–453	4¾	–474	7	–507
Trade Balance in Goods and Services	4376	11½	4876	12	5456
Factor Flows:					
Profits etc.	–3426	13	–3871	16	–4490
National Debt Interest	–1021	11	–1133	2	–1156
Other Debit Flows	–983	–½	–978	4	–1017
Total Debit Flows	–5430	8¼	–5882	14	–6663
Credit Flows	1626	9	1772	8	1914
Net Factor Flows	–3804	8	–4110	15½	–4749
Net Transfers	1890	–15	1607	16	1864
Balance on Current Account	2462	–3½	2373	8¼	2571

Both the surplus on visible trade and the surplus on trade in goods and services are projected to increase in 1995 at much the same rate as in 1994. If past relationships hold, profit outflows can be expected to increase in the region of 16 per cent in 1995, reflecting the strong growth in the exports and profits of multinational companies. Modest increases are forecast in other debit flows, and a larger increase in credit flows is projected to continue. In total, net factor outflows are forecast to increase by 15½ per cent, almost double the estimated rate of increase in 1994. With the receipt of some payments delayed from 1994, net transfers in 1995 are expected to recover to almost their 1993 levels. On this basis, a current account surplus of just over 2,500 million is forecast for 1995. This would represent a record level in absolute terms, but as a percentage of estimated GNP it would remain at about 7½ per cent, somewhat below the peak proportion of 1993.

Gross National Product

Our current estimates for expenditure on GNP in 1994 show minor upward revisions for the volume of personal consumption and exports, partly offset by slight downward revisions in the volumes of fixed investment and stockbuilding. As a result, the estimated increase in the volume of GDP has been marginally raised from 6¼ per cent to 6½ per cent. The publication of more recent data has forced a major downward revision to our estimate of net factor outflows, with the consequence that the estimated increase in the volume of GNP is now 6¾ per cent, compared with out previous forecast of 5½ per cent. The scale of this revision highlights the uncertainties created by late publication of official estimates for such important and volatile elements as profit outflows.

For 1995, our forecast increase in real GDP remains unchanged at 6½ per cent, although there have been minor changes in its composition. On the prudent assumption that factor outflows grow faster from a smaller base, the forecast rise in real GNP has been revised downwards slightly from 6 per cent to 5¾ per cent.

Taking the two years together, real GNP growth is now forecast to rise by 12¾ per cent , roughly 1 per cent higher than in our previous forecast, or than in the 1994 *Medium Term Review.* However, it must be stressed that the forecasts for both 1994 and 1995 remain unavoidably tentative, and could, of course, be significantly affected by any revisions to official data already published.

Agriculture

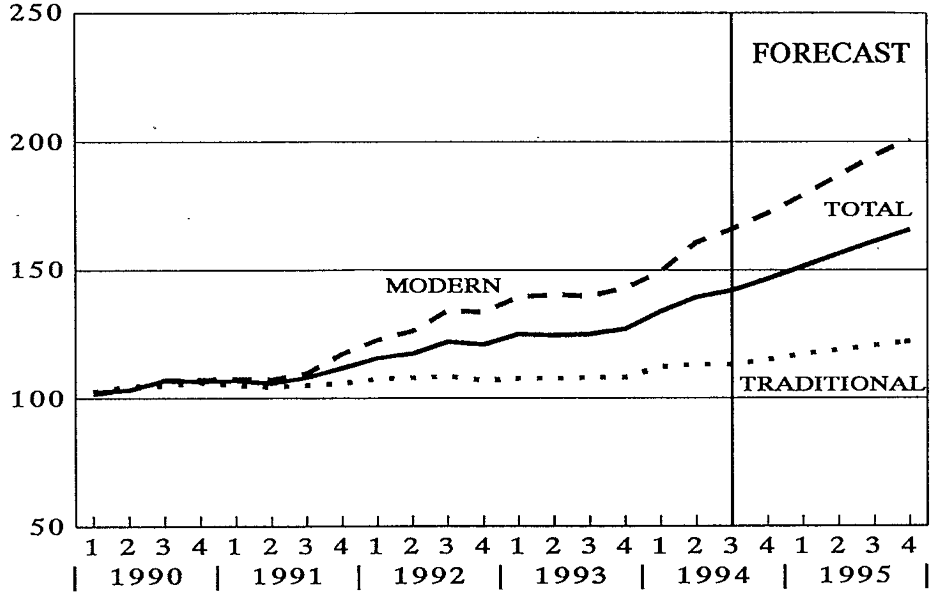
Official preliminary estimates show that the volume of gross agricultural output in 1994 fell by about 1¼ per cent, mainly due to a reduction in livestock output. The volume of inputs rose by 5¾ per cent, partly as a result of poor weather conditions, so that the volume of gross agricultural product is estimated to have declined by 6½ per cent. In the broad agricultural sector, including forestry and fishing, the fall in the volume of net output was probably of the order of 5 per cent.

The volume of gross agricultural output and the volume of inputs in 1995 will obviously be affected by weather conditions. Despite the poor start to the year, a return to more normal conditions in the key summer months could permit both a small increase in gross output and a slight decline in the volume of inputs compared with 1994. An increase of about 3 per cent in the volume of gross agricultural product is thus projected for 1995, with a slightly higher increase in the volume of net output in the broad agricultural sector.

Industry

The volume of production index for manufacturing was 11 per cent higher in the first ten months of 1994 than in the same period of 1993. The trend through

FIGURE 3: Manufacturing Output
Quarterly Averages Seasonally Adjusted, 1989=100



the year has been strongly upward, with each month except January and September setting a new seasonally- corrected record. Given this trend, and the positive responses to the IBEC/ESRI Business Survey in the closing months of the year, it is likely that the annual increase in manufacturing production in 1994 was about 12 per cent, roughly 1 per cent higher than in our previous forecast.

As expected, the high-technology sectors of industry have shown the highest rates of growth, but the rise in output has been broadly based, with several traditional industries showing rapid rates of increase. With production in the extractive industries and utilities growing significantly, but less rapidly than manufacturing, and building output increasing by about 6 per cent, the volume of net output in the broad industry sector in 1994 is estimated to have risen by about 10½ per cent.

The trend of manufacturing production in 1994 means that there will be a substantial carryover into 1995. With both domestic and export demand expected to remain strong and new capacity due to come into production, output growth in manufacturing is expected to continue throughout 1995. The annual increase in manufacturing production in 1995 is projected at 13 per cent, with growth continuing to be broadly based. When extractive industries and building are taken into account, the volume of net output in the broad industry sector is forecast to grow by nearly 12 per cent.

Services

In the absence of up-to-date indicators of service output, estimates and forecasts must be based on general relationships between economic growth and service production. Although past relationships have not always been entirely stable, it does seem likely that the rapid growth in GDP, and especially in domestic demand, in 1994 can be expected to have been accompanied by an increase of about 5 per cent in the volume of net output in the service sector.

With both real GDP and domestic demand projected to grow at a similar rate in 1995, service output could again show a volume increase approaching 5 per cent. As in 1994, the private service sector is expected to grow slightly faster than public services, with the volume growth in the latter likely to be in the region of 3 per cent.

Employment

In the Autumn Commentary, we revised upwards our estimates of total employment in the light of the 1994 *Labour Force Survey*. In the absence of significant further data, there seems little reason to make further major revisions to our employment forecasts. It still seems probable that the rapid growth in GDP experienced in 1994 and expected in 1995 will result in a substantial increase in employment in the industrial, building and service sectors. Especially in the service sector, employment is likely to be further boosted through the expansion in job schemes.

In total, non-agricultural employment seems likely to increase by about 70,000 over the two years from April 1994 to April 1996. On an annual average basis, non-agricultural employment is estimated to have risen by 38,000 in 1994 and is projected to increase by the same amount in 1995, as shown in Table 8.

Despite the very strong employment growth in 1994, unemployment, as recorded in the live register, fell by an annual average of only 12,000. This implies that net emigration remained relatively low, and was at least

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1992	1993	1994	1995	1996
Agriculture	153	144	140	137	135
Industry	318	312	328	342	354
Services	668	690	708	729	752
Total at Work	1139	1146	1176	1208	1241
Unemployed	221	230	221	209	196
Labour Force	1360	1375	1397	1417	1437
Unemployed Rate %[1]	15.3	15.8	14.9	14.2	13.5
Live Register	281	295	285	273	260

B: Annual Averages '000

	1992	1993	1994	1995
Agriculture	149	142	138	136
Industry	316	318	334	350
Services	680	698	720	742
Total at Work	1145	1158	1192	1228
Unemployed	225	227	215	200
Labour Force	1370	1385	1407	1428
Unemployed Rate %[1]	15.5	15.8	14.8	13.8
Live Register	283	294	282	267

[1]Official Standardised Unemployment Rate, based on ILO definitions. This cannot be derived directly from the figures in Table 8.

counterbalanced by an increase in labour force participation. The rapid rise in the proportion of women at least nominally participating in the labour force is illustrated by the fact that there was virtually no decrease in the level of female unemployment in the course of 1994, despite the substantial rise in service sector jobs, many of which must have been filled by women. Conversely, male unemployment fell fairly steadily throughout the year, with the seasonally-corrected December figures some 15,000 below the January.

Labour markets in the UK and other countries should remain reasonably favourable in 1995, encouraging the contribution of a modest level of net emigration. However, the trend towards increased female labour force participation is also likely to continue. The balance between these trends is difficult to predict, and thus the level of unemployment likely to be associated with a particular level of predicted employment is subject to considerable uncertainty. Given that there is a larger downward carryover of the seasonally adjusted live register entering 1995 than there was entering 1994, it is not unreasonable to forecast a reduction of about 15,000 in the annual average live register in 1995. One effect of the unexpectedly large increase in the labour force revealed in the 1994 *Labour Force Survey* has been to reduce significantly the standardised unemployment rate for 1994. The official average for 1994 is now 14.8 per cent, and it seems likely that this will fall to little over 13½ per cent in 1995. If this rate is genuinely comparable to unemployment rates quoted for other European countries, then Ireland is steadily moving towards the European norm, although this itself remains unacceptably high.

Incomes

In spite of the significant fall in gross agricultural product in 1994, incomes in the broad agricultural sector are believed to have risen by about 5 per cent. This is due almost entirely to a large increase in net subsidies received by farmers. With this factor likely to be less marked in 1995, the small increase expected in the volume of net output could also result in an income increase of about 5 per cent.

Average earnings in the non-agricultural private sector are thought to have increased by about 4 per cent, although there is an absence of up-to-date statistics to confirm this. Average public service pay rose slightly faster, largely because it had a higher carryover from 1993. The increase in full-time equivalent non-agricultural jobs was probably just over 2½ per cent. Thus aggregate non-agricultural earnings are estimated to have increased by 7 per cent in 1994.

Even allowing for a considerable element of pay drift in response to buoyant economic conditions, average earnings in both the public and private sectors are likely to grow more slowly in 1995, under the terms of the Programme for Competitiveness and Work. The increase in average earnings is projected at about 3¾ per cent, so that another rise of about 2½ per cent in effective employment levels would result in aggregate earnings increasing by 6½ per cent, as shown in Table 9.

With nominal GDP increasing at about 9½ per cent in each year, other non-agricultural income can be expected to rise substantially. An increase of 6 per cent is estimated for 1994 with a similar rise projected for 1995. Thus total personal income received from economic activity is estimated to have risen by 6¾ per cent in 1994 and is forecast to increase by 6¼ per cent in 1995.

TABLE 9: Personal Disposable Income

	1993	Change		1994	Change		1995
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2193	5	110	2303	5	115	2418
Non-Agricultural Wages, etc.	15886	7	1112	16998	6½	1105	18103
Other Non-Agricultural Income	3480	6	213	3693	6	222	3915
Total Income Received	21559	6¾	1435	22994	6¼	1442	24436
Current Transfers	5167	6¼	317	5484	4¼	230	5714
Gross Personal Income	26726	6½	1752	28478	5¾	1672	30150
Direct Personal Taxes	5869	7½	447	6316	–1¼	–85	6231
Personal Disposable Income	20857	6¼	1305	22162	8	1757	23919
Consumption	18065	8¼	1490	19555	7¾	1516	21071
Personal Savings	2792	–6¾	–185	2607	9¼	241	2848
Savings Ratio	13.4			11.8			11.9

Current transfers are estimated to have increased by about 6 per cent in 1994. With a lower carryover from the previous year, a smaller overall percentage increase on most benefits and a further reduction in the average number on the Live Register, a slower percentage rise can be expected in 1995, even when special factors are taken into account. A rise of about 4¾ per cent in total transfer receipts is projected for 1995. Accordingly, the increase in gross personal income is forecast to decline from as estimated 6½ per cent in 1994 to 6 per cent in 1995.

Direct personal taxes, including amnesty receipts of income tax, rose sharply in 1994. In the absence of an amnesty, and taking into account the Budget changes to tax allowances and bands and to PRSI contributions, there is likely to be a small decline in direct personal taxation in 1995. Thus personal disposable income is projected to increase significantly faster in 1995 than in 1994.

With the value of personal consumption estimated to have risen by 8¼ per cent, compared with an increase of 6¼ per cent in disposable income, there was a large apparent fall in the personal savings ratio in 1994. However, this reduction in the savings ratio can be regarded as distorted by the effect of the tax amnesty. Much of this was presumably paid by companies which had already deducted the tax from their employees, but not yet passed it on to the Exchequer. Insofar as the amnesty was paid directly by individuals, it probably was financed out of accumulated savings rather than out of current income. If amnesty payments are accordingly disregarded, the underlying reduction in the savings ratio in 1994 appears to have be quite modest, falling by about 0.8 per cent to 12.6 per cent of disposable income.

With interest rates tending to rise, and with the composition of income increases marginally less consumption intensive, it is reasonable to suppose that the fall in the underlying savings ratio will be slightly smaller in 1995. Thus a ratio of 12 per cent is projected, implying a reduction of 0.6 per cent in the underlying ratio, but a rise of 0.2 per cent in the apparent savings ratio. Such a savings ratio, in conjunction with the forecast increase of 8 per cent in personal disposable income, would permit the value of personal consumption to rise by about 7¾ per cent.

Consumer Prices

The annual increase in the consumer price index in 1994 was 2.4 per cent, exactly in line with the forecast in the *Autumn Commentary*. On an annual basis,

TABLE 10: Consumer Price Index – Recent Trend and Forecast

	Quarterly Trend							Annual		
	1993			1994				1993	1994	1995
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.			
Index Nov. 1989 = 100										
Housing	115.8	109.7	111.0	110.6	111.4	111.8	112.2	117.4	111.5	116.0
Other	108.6	110.2	110.5	111.2	111.2	113.1	113.2	109.2	112.5	115.5
Total CPI	109.1	110.2	110.5	111.2	112.1	113.0	113.1	109.8	112.4	115.5
Annual % Change										
Housing	–3.7	–8.2	–15.9	–17.0	–3.8	1.9	1.1	–4.2	–5.0	4.0
Other	1.3	2.1	3.2	3.5	3.3	2.6	2.4	1.9	3.0	2.7
Total CPI	0.9	1.4	1.5	1.7	2.7	2.5	2.4	1.5	2.4	2.8
Quarterly % Change										
Housing	–13.1	–5.3	1.2	–0.4	0.7	0.4	0.4			
Other	1.1	1.5	0.3	0.6	0.9	0.8	0.1			
Total CPI	–0.2	1.0	0.3	0.6	0.8	0.8	0.1			

the index of housing costs fell by 5 per cent, reflecting the dramatic fall in mortgage interest rates in the course of 1993. Conversely, the index for all other prices showed an annual increase of 3 per cent, largely because of substantial post-devaluation increases in mid-1993.

As can be seen from Table 10, these influences had largely worked themselves out by the end of 1994. On either a quarterly or a twelve month basis, housing items had virtually no effect on the total consumer price index for November. Similarly, when allowance is made for seasonality, the annual rate of increase in other prices had slowed to two per cent or less in the second half of 1994, indicating that post-devaluation adjustments were no longer in evidence.

The second half of 1994 probably represented the low point in the current inflationary trend. The appreciation of the Irish pound against sterling and the US dollar which occurred in 1994 is not expected to be repeated in 1995. Prices in the UK itself, the major source of Irish imports, are beginning to rise more rapidly, and some widening of margins by Irish distributors can be expected in response to economic expansion. Thus it seems likely that non- housing prices will accelerate gradually in 1995, perhaps to an annual rate of about 2.7 per cent. At the same time, housing costs, especially mortgage interest rates, are expected to increase more rapidly than other prices, although not to the extent of seriously distorting the index as a whole. Thus the annual increase in the consumer price index in 1995 is forecast at 2.8 per cent, with perhaps a slightly faster rise over the twelve months from November to November.

Public Finances

As expected, the public finances proved very strong in 1994. Tax revenue was £377 million or 3.6 per cent above the budget target. This was largely due to the economy, especially domestic demand, growing faster than had been forecast when the 1994 Budget was prepared. However it also reflects a degree of official caution in calculating tax elasticities and the benefits of improved tax collection. Total current revenue exceeded target by £357 million, or 3.3 per cent.

The authorities possess an element or choice in determining the exact level of current expenditure in a particular year. Depending on decisions whether to defer or bring forward specific items of expenditure, the annual total of current spending, and thus the current budget deficit, can be determined anywhere within a range of £100 million or so. By deciding to bring forward into 1994 some £50 million of the future liabilities to An Post and Telecom superannuation funds, and to draw down only two thirds of NTMA's accumulated interest savings, the authorities ensured that there would not be an embarrassingly large and unsustainable current budget surplus in 1994. By not bringing forward other items of future spending commitments, they permitted the recording of the first current budget surplus since 1966/7.

Some degree of choice also attaches to the recorded annual level of borrowing for capital purposes. Probably, little could have been done to prevent the shortfall of £124 million in Structural and Cohesion Fund receipts, as these arose out of delays in implementing the relevant programmes. However, the decisions not to proceed with state equity disposals pending more favourable market conditions, and to bring forward the 1995 phase of the equity commitment to Aer Lingus were voluntary, and contributed significantly to the overrun of £154 million in Exchequer capital borrowing.

Thus the holding of the Exchequer Borrowing Requirement to £672 million, a marginally lower absolute level than in 1993, and some £131 million better than the target, represents a conservative account of the actual strength of the public finances in 1994. Had it been so desired, an EBR of some £150 million less could have been announced, but at the cost of rendering the 1995 budgetary arithmetic that much harder.

At first sight, the budgetary targets for 1995 are disappointing, representing as they do a considerable slippage from the 1994 outcome during a period of exceptional economic growth. However, when due allowance is made for the impact of amnesty receipts of £238 million on the 1994 result and for the probability that the 1995 projections once more contain a significant element of official caution, the actual outcome for 1995 is more likely to be a consolidation of the fiscal position than a significant deterioration.

Although tax revenue is most unlikely to be as far above target as in 1994, it does seem possible that a margin of up to £100 million will be achieved, provided, of course, that the economy as a whole grows as fast as expected. Given the relatively large increase in estimated current expenditure, it is vitally important that strict control is maintained to prevent any significant overruns. If such control is exercised, then it is possible that savings on such items as interest payments will result in current spending being below its estimated level.

Thus a current budget deficit of just over half the Budget forecast of £310 million seems the most likely outcome for 1995. At 0.5 per cent of GNP, this would be roughly the same as the underlying deficit in 1994 when the once-off elements of the tax amnesty are taken into account. It would also, of course, remain one of the lowest current deficits within the EU. Nevertheless, such a result would constitute a failure to take advantage of an obvious opportunity to move the current budget into clear surplus. This could create difficulties in future years when economic growth, and thus revenue buoyancy, falls below its medium-term trend.

Borrowing for capital purposes is almost impossible for non-official commentators to predict at the beginning of the year. There is thus no reason at present to dispute the official forecast of £503 million. If this proves accurate, along with our prediction of the current budget deficit, then the 1995 EBR would be of the same absolute order of magnitude as in 1994. At roughly 2 per cent of GNP this would be well within the Maastricht guidelines, and, more importantly, would enable another large reduction to be made in the debt/GNP ratio.

Interest Rates

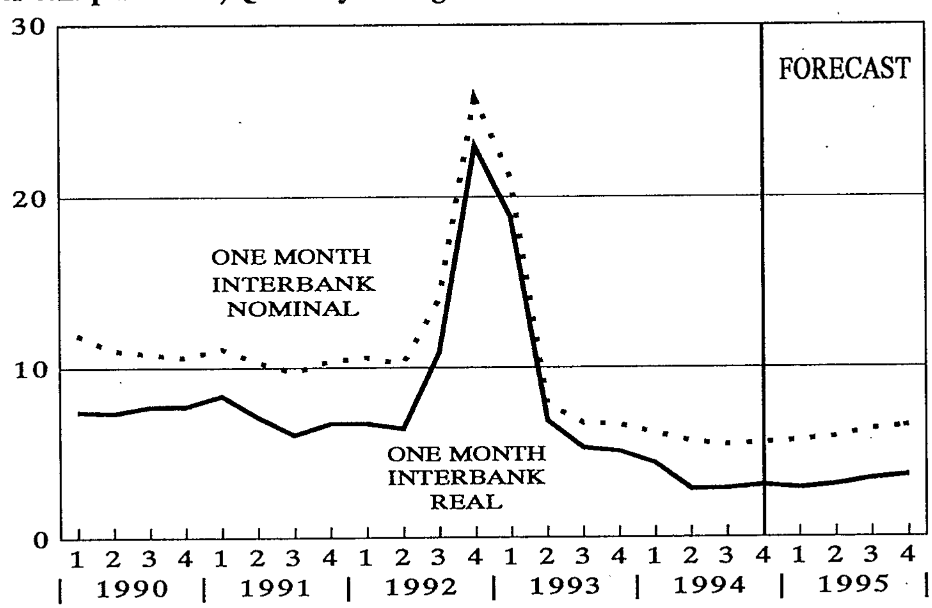
Irish short-term interest rates have experienced only minor fluctuations since the second quarter of 1994. The widespread expectation that Irish rates would follow British rates upwards in the later months of 1994, built in to the structure of term rates since last summer, has proved unfounded. Thus the annual average of the one-month interbank rate in 1994, at under 5.7 per cent, was the lowest in decades, and the "real" interest rate of 3.1 per cent was the lowest since the negative real rates of the 1970s. Mortgage and other retail interest rates, which are linked to the one-month interbank rate, were similarly very low by recent historical standards in 1994.

So far in 1995, the one-month and its related retail rates have remained virtually steady in spite of a further rise in the UK base rate. This demonstrates that the authorities are attempting to confirm the greater influence of German than British movements on Irish interest rate policy, and that the market is prepared to accept this renewed interest rate decoupling from London. Despite the growing margin by which short-term UK interest rates exceed Irish, the Irish pound has tended to strengthen against sterling. This largely reflects the impact of perceived political uncertainty on sterling, and illustrates the complex relationships between the capital and currency markets.

It remains likely that there will be some rise in short-term Irish interest rates in 1995. This could result from a domestic decision if evidence arises that inflationary pressures are increasing within Ireland. More probably it could

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



reflect yet further increases in UK rates, coupled with a significant strengthening of sterling. Most likely of all it could follow a decision by the German authorities to raise their rates as economic recovery becomes stronger, a move that would undoubtedly be followed by Ireland. However, it still seems likely that any increase in Irish short term interest rates will be quite modest, at no more than 1 per cent by the end of the year. The annual average of short-term Irish interest rates in 1995 will probably be less than ½ per cent higher than in 1994, with the annual increase in long-term rates between ½ and 1 per cent.

General Assessment

It is quite clear that economic growth in 1994 was both rapid and well balanced. On the basis of the latest available information, we have revised our estimated increase in real GDP marginally upwards from 6¼ per cent to 6½ per cent. It now seems likely, in the light of the first half *Balance of Payments Estimates*, that profit outflows in 1994 failed to reflect fully the general upturn in economic activity. Unless there are revisions to the preliminary estimates, or there was an explosive increase in profit expatriations in the second half of the year, the increase in real GNP in 1994 will have exceeded that in GDP. Our current estimate of a 6¾ per cent growth rate in real GNP is a substantial upward revision to our previous forecast, and represents by far the fastest annual rate of growth since 1990.

Most of the factors underlying this 1994 performance remain in place, with the world, and especially the European, economy growing steadily, competitiveness being maintained, interest rates staying relatively low and both business and consumer confidence remaining strong. Thus, in 1995 Irish economic growth should again be high and balanced, resulting in a further substantial increase in employment, a moderate reduction in unemployment and the retention of a large current account balance of payments surplus. Consumer price inflation could increase slightly to about 2.8 per cent, while a more rapid rise in profit expatriation could result in a virtually unchanged growth in real GDP being associated with a reduced growth of under 6 per cent in real GNP.

In such favourable circumstances, which might not persist fully into succeeding years, the opportunity might have been taken to use 1995 to obtain a substantial strengthening of the public finances. The recent Budget obviously cannot be interpreted as an attempt to seize such an opportunity. However, when due allowance is made for the traditional caution of official forecasts, it seems probable that the fiscal out-turn for 1995 will represent approximate stability in the public finances. Both the underlying current budget deficit and the EBR are likely to be of the same order of magnitude as in 1994. Thus there will certainly be another large reduction in the debt/GNP ratio, and the Budget measures, while remaining expansionary, are unlikely to so over-stimulate domestic demand as to risk significant inflationary consequences.

Apart from the usual discussion about its macro-economic effects, the first Budget of a new government is generally scrutinised for any evidence of a change in economic strategy. Not surprisingly, despite minor changes in emphasis, the 1995 Budget demonstrates continuity in economic strategy rather than a significant alteration in approach. This was to be expected for several reasons.

The timing of the change in government meant that much of the framework for expenditure and taxation decisions for 1995 was already in place, with inadequate time to prepare for radical new initiatives, even if they had been desired. The participation of the Labour Party in both the new government and its predecessor, with the current Minister for Finance a senior member of the previous Cabinet, is obviously a factor conducive to a strong element of continuity. The existence of the Programme for Competitiveness and Work with its commitments to income tax reductions was another inhibition on a radical change in approach.

More fundamental, because it suggests that strategy will be modified only cautiously in future years when time constraints no longer apply, is the degree of consensus within Ireland on the major components of economic policy. This broad consensus embraces almost all political parties represented within the Dail, the leadership of the social partners and most commentators, academic or commercial.

The central feature of this consensus is that a prolonged and substantial increase in sustainable employment is essential in order to tackle the related problems of forced emigration, unemployment and poverty. It is broadly agreed that the aim of job creation should be pursued within the context of a full commitment to the European Union, and within the constraints of low inflation, implying a strong currency, fiscal responsibility, embodied in a steadily falling debt-GNP ratio, tax reform, characterised by reductions in average rates of direct personal taxation, and social equity, interpreted as the enhancement of the real income of social welfare recipients.

Obviously there are differences between political parties and among interest groups concerning the balance of priorities within this package, on the detail of policy within specific areas, and about peripheral matters such as the precise mix between public and private ownership. Nevertheless the core consensus is both broad and strong, and it is seen as remarkable by observers from many other countries.

Among the reasons for this unusual degree of consensus is the relatively minor role of economic ideology in the evolution of the major political parties in Ireland. A second major explanation is the comparative success of this economic strategy in bringing Ireland out of its fiscal crisis in the late '80s, and in minimising the impact on Ireland of the world recession of the early '90s. The most important reason, however, is that the consensus strategy is correctly seen as a sensible accommodation to the external conditions which constrain policy choice in Ireland.

The most obvious and formal of these constraints is membership of the EU. This precludes a protectionist approach to economic management, and strictly limits the nature and extent of subsidising industries or jobs. The benefits in terms of access to larger European markets and of transfer receipts clearly outweigh this notional loss of freedom to pursue policies which might prove to have a temporary advantage, but which would in any case offer no long-term gain in employment or living standards.

The more interesting set of EU constraints on policy is related to meeting the Maastricht criteria for a monetary and economic union which might or might not come about within the foreseeable future. There can be little doubt that full monetary union would benefit Ireland, provided it also included the UK, while other aspects of economic union would probably be beneficial if they include a moderate degree of resource transfer from the centre to the periphery. However, given the uncertainty that union will come about, and the problems which Ireland could face if it were to proceed without UK participation, the prospect of monetary union in itself might no longer seem a compelling reason to adhere closely to the Maastricht guidelines. The point, of course, is that the formal obligation to follow the guidelines coincides with Ireland's own interest in implementing inflation, fiscal and interest rate policies which happen to lie within the Maastricht parameters, regardless of whether there is eventual monetary union.

Similarly, the formal obligations under GATT and other international trade agreements cannot be regarded as onerous constraints on policy, as the interests of a small and very open economy, such as Ireland, demand the freest possible access to other, larger, markets.

Basically, the codified constraints on policy under the EU, GATT and other organisations and agreements do little more than reflect the underlying limitations imposed by the nature of the modern world economy. The policy options of the government, corporate management, trade unions, farm organisations and other economic interest groups are all constrained by the need to adjust to the changing dynamics of an international economic system which is becoming increasingly integrated. There are three main aspects to this growing integration, or globalisation as it is frequently called. Technical improvements in communications, and to a lesser degree transport, have reduced the need for production facilities to be close to either major markets or head office locations. The steady reduction in tariffs and other barriers to trade has reduced the benefit of locating within major markets or trading blocs. The almost complete freeing of capital movements has enabled both manufacturers and financiers to respond much more rapidly to perceived opportunities or threats.

Taken together, these three aspects have encouraged the rapid concentration of industry, and, to a lesser extent, of services. Most large companies are now multinational in their operations, frequently as a result of transnational acquisitions of competing companies. One important consequence of this concentration is that a growing proportion of competition is between different plants or branches of the same company rather than between different companies. Intra-firm competition tends to be more simply cost based than competition between companies, as many other elements of competitiveness, such as research effort, product design, brand establishment and marketing networks, may not be available to an individual plant within an integrated multi-plant firm. The role of the plant is frequently to produce the output of a prescribed product of particular quality at the lowest feasible cost.

Apart from their impact on the way industrial decisions are taken, the growing concentration of ownership and dispersion of operations have significantly strengthened the bargaining power of industry vis-à-vis both national governments and trade unions. The real danger of closure of local firms if they lose competitiveness, and the possibility of plant relocation by multinational companies have tended to circumscribe the ability of either unions or governments to impose conditions or costs on companies operating in their territories.

One aspect of globalisation has had a particularly pervasive influence in limiting the freedom of government policy. The virtual freeing of all capital movements means that the international capital markets now possess greater financial power than any individual government, as was proved by the European currency crisis of 1992/93. Of course, the capital markets are not monolithic, in the sense of consciously taking centralised policy decisions on any issue. However, the various components of the markets, quite apart from seeking the maximum return on their assets, also tend to share a common set of criteria in assessing risks and opportunities. Many of these criteria are obviously reasonable guidelines to minimise or compensate for risk. Thus a strong aversion to political instability, or to a history of financial mismanagement, amount to no more than a prudent regard for the security of the funds they invest.

However, other common criteria are less obviously pragmatic. These include a strong antipathy to inflation, a marked preference for private rather than public expenditure or production, a tendency to attach great weight to monetary measures of performance or objectives, and, in the case of many financial institutions, an emphasis on short-term rather than long-term returns. Taken collectively, international capital markets can be said to have long memories but near-sighted vision.

Any government, and especially one in a country which has a former history of inflationary economic management, must heed these market preferences. Failure to do so is likely to be penalised by substantial interest differentials, by downward pressure on its currency and, in the last resort, by an inability to raise capital except in the context of an externally monitored programme of fiscal and monetary stabilisation.

These two characteristics of the modern international economy, corporate globalisation and the quasi-political role of capital markets, need not be detrimental to an individual country. Indeed, Ireland itself has benefited greatly from both in recent years; as a location for efficient modern industries and through the forced improvement in fiscal management. However, these benefits can only be reaped if policy continues to be sensitive to the changes in the nature of corporate competition and, above all, to the criteria of the capital markets. This is why the current economic strategy, which has proved itself successful in adapting to these needs, can only be cautiously modified rather than radically altered. Job creating initiatives which ran seriously counter to the received wisdom of the capital markets would be liable to result in a significant increase in the Irish interest rate differential over the European norm, and would thus ultimately prove to be self-defeating.

Similarly, Ireland can only modify, rather than reject, those consequences of corporate globalisation which do not accord with traditional Irish mores. It would be fair to characterise the prevailing Irish ethos as relatively egalitarian, reasonably compassionate, and, on the whole, placing a high value on security and continuity.

In most advanced industrial countries, globalisation has tended to widen income differentials, both before and after tax, reduce job security, particularly in occupations formerly seen as permanent careers, and to promote changes in lifestyle at an almost unprecedented rate. Greatly improved opportunities for some have been accompanied by a greater insecurity for many and effective economic and social marginalisation for a substantial minority.

The resolution of this divergence between international trends and Irish desiderata poses some of the most difficult problems in economic policy formulation. There seems no way to avoid the tendency for the burden of corporate cost-cutting to fall on the pre-tax earnings of the lower paid, on those made redundant, and on the job security of many workers, manual, clerical or managerial.

Government can seek only to offset the effects of these trends, by maintaining the conditions in which job creation outstrips the loss of jobs through rationalisation, and to mitigate their impact on specific groups. The current strategy aims to encourage net job creation through the maintenance of competitiveness, and the steady expansion of demand. It also seeks to mitigate the unfavourable effects through support for the EU Social Chapter, through fiscal policies which reduce the tax-wedge affecting the lower-paid, and through education, training and re-employment policies designed to limit the growth of long-term unemployment and to re-integrate some of those already in this situation. However, such policies tend to be costly, and achieving an appropriate balance between taxation and transfers is among the most difficult of political problems.

Trade unions also have a central role in this process of adjusting to unwelcome international trends. It is noteworthy that the high-profile industrial disputes in 1994 were all essentially defensive, with unions seeking to limit the extent of redundancies, real pay cuts or deteriorations in working conditions, in situations where substantial cost savings were necessary for the survival of the company or plant concerned. This is in marked contrast to most disputes in the '60s or '70s, which resulted from unions seeking to improve real pay or conditions. The transformation in the outlook of most unions operating in the competitive sector over the past decade or so has been dramatic. In their realistic acknowledgement of the strength of international trends, and in their advocacy of improved corporate planning and better work methods as an alternative to simplistic cost-cutting, they are much closer to a positive adaptation to changing circumstances than most official or political bodies, or unfortunately, their colleagues in most public service unions.

To summarise, Ireland's general economic strategy is largely determined by the combination of external developments and Ireland's own economic history. Future modifications of policy, both by government and by sectoral decision-makers need to be informed by this consideration. Corporate globalisation and the free movement of capital offer opportunities, from which Ireland has benefited substantially in recent years, but the cost of such opportunities is that for many people the world has become a more competitive, and generally nastier, place.

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
1987	113.6	132.7	101.4	12866	18450	182.4	41.1	141.2
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	188.9	112.3	13640	18068	187.0	45.4	141.7
1990	149.2	197.9	117.6	14325	19539	191.8	48.4	143.4
1991	153.9	208.6	118.0	14990	19652	192.7	50.4	142.3
1992	169.6	243.6	121.0	15682	22464	192.1	51.9	140.2
1993	178.8	265.7	121.3	16161	21391	191.9	54.5	137.7
1994								
Quarterly Averages or Totals								
1991 I	154.2	215.3	110.5	4018	4785	190.3	49.1	141.3
II	156.1	209.3	118.4	3484	4164	191.9	49.5	142.4
III	141.9	186.0	109.8	3455	5228	193.8	50.7	143.2
IV	163.8	218.7	121.2	4033	5475	194.8	52.3	142.3
1992 I	167.6	245.9	113.2	4187	4372	190.3	51.2	139.1
II	173.4	245.6	122.5	3644	5920	191.4	50.9	140.5
III	161.0	227.5	113.9	3602	6284	193.7	51.9	141.7
IV	176.8	248.9	122.2	4249	5888	193.0	53.5	139.6
1993 I	182.0	280.2	113.7	4239	4004	189.8	53.4	136.3
II	184.1	272.6	122.2	3810	5051	191.5	53.6	138.0
III	164.4	237.6	113.5	3726	5764	193.3	55.0	138.3
IV	185.2	266.1	123.5	4386	6572	194.3	56.0	138.3
1994 I	195.2	299.8	118.8	4484		190.9	55.0	135.9
II	206.1	312.2	128.6	4016				
III	186.2	282.5	118.9	3874				
IV								
Quarterly Averages or Totals (Seasonally Corrected)								
1991 I	152.3	202.0	114.9	3720	No Seasonal Pattern	192.5	49.7	142.9
II	150.7	201.5	114.2	3704		192.7	50.2	142.6
III	154.1	206.2	115.1	3777		191.9	50.3	141.9
IV	159.6	220.3	115.9	3784		193.6	51.5	141.8
1992 I	164.8	230.2	117.6	3883		192.5	51.7	140.8
II	167.4	237.0	118.3	3872		192.1	51.6	140.6
III	174.2	252.0	119.1	3938		191.9	51.6	140.5
IV	172.6	250.8	117.1	3984		191.8	52.6	139.0
1993 I	178.2	262.0	117.9	3936		192.0	53.9	138.0
II	177.7	263.5	117.9	4046		192.2	54.3	138.1
III	178.3	262.7	118.5	4074		191.6	54.7	137.1
IV	181.2	268.4	118.5	4112		193.1	55.1	137.7
1994 I	190.8	280.3	123.2	4164		193.2	55.4	137.7
II	198.8	301.9	124.1	4265				
III	202.6	312.1	124.1	4234				
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	
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.6	111.7	96.1	100.0	169.7	71.7	241.4	1988
142.5	164.0	116.9	100.0	100.0	160.0	71.6	231.6	1989
145.4	161.0	121.1	103.9	100.5	152.1	72.6	224.7	1990
149.3	163.0	122.4	108.4	101.7	170.5	83.5	253.9	1991
165.0	184.9	127.3	112.8	102.6	187.2	96.0	283.1	1992
173.9	192.0	129.9	118.8	106.6	193.8	100.5	294.3	1993
					184.4	98.0	282.4	1994

Quarterly Averages

151.5	172.6	115.4	105.5	100.3	165.8	77.9	243.7	1991 I
152.1	166.5	122.6	108.7	102.6	167.2	81.1	248.3	II
136.9	144.4	113.2	108.6	101.1	173.1	88.7	261.8	III
157.2	164.7	125.7	110.9	102.6	175.7	86.3	262.0	IV
164.6	189.1	120.0	109.6	100.6	186.7	91.4	278.1	1992 I
169.3	190.0	128.7	112.5	102.5	183.9	93.1	277.0	II
155.4	172.6	118.6	113.2	102.5	188.5	101.8	290.2	III
171.2	183.2	129.1	115.7	104.6	189.5	97.6	287.2	IV
179.2	206.6	123.0	115.5	104.0	197.9	101.7	299.6	1993 I
179.7	200.2	130.6	117.1	105.7	193.7	98.9	292.6	II
159.0	170.1	121.0	119.7	106.7	192.9	102.1	294.9	III
178.2	187.1	131.8	123.0	109.6	190.5	99.5	290.0	IV
191.1	214.6	128.9	122.4	108.4	194.1	99.6	293.7	1994 I
					183.7	96.3	280.0	II
					181.6	99.5	281.1	III
					178.2	96.7	274.9	IV

Quarterly Averages (Seasonally Corrected)

147.2	160.0	118.7	106.5	101.4	160.8	77.6	238.5	1991 I
146.6	158.3	118.2	108.7	102.5	168.8	82.2	251.1	II
149.4	161.9	119.6	108.4	101.0	174.4	86.1	260.5	III
154.6	169.0	120.4	110.0	101.8	177.8	88.0	265.7	IV
159.4	174.5	123.2	110.7	101.6	182.0	91.2	273.1	1992 I
163.7	181.2	124.2	112.5	102.4	185.4	94.3	279.7	II
169.5	193.1	125.0	113.1	102.5	189.6	99.0	288.6	III
168.7	188.3	124.1	114.8	103.7	191.7	99.4	291.1	IV
173.1	190.3	126.1	116.5	105.0	193.3	101.5	294.8	1993 I
174.0	191.3	126.2	117.1	105.5	195.0	100.1	295.2	II
173.4	190.1	127.6	119.7	107.0	193.9	99.2	293.2	III
175.7	192.5	126.7	122.0	108.7	192.8	101.2	294.0	IV
184.3	197.5	132.0	123.5	109.4	189.5	99.4	288.9	1994 I
					185.0	97.6	282.6	II
					182.6	96.6	279.2	III
					180.5	98.5	279.0	IV

	Prices							
	17	18	19	20	21	22	23	24
	Consumer Price Index	Output Price Index Manufacturing	General Wholesale Price Index	Agricultural Output 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	1990 = 100	1990 = 100	1990 = 100	Jan. 1988 = 1000
1987	92.6	100.4	98.4	103.5	92.8	96.7	104.2	1326.2
1988	94.6	104.5	102.4	114.4	98.9	103.6	105.0	1294.6
1989	98.5	109.5	108.1	120.1	105.3	110.5	105.1	1633.6
1990	101.7	107.8	105.1	106.5	100.0	100.0	100.2	1562.2
1991	105.0	108.7	106.4	103.1	102.3	99.3	97.2	1382.4
1992	108.2	110.5	107.3	106.2	100.2	96.6	96.6	1311.1
1993	109.8	115.6	112.4	113.3	105.4	103.9	98.6	1576.0
1994	112.4	116.9						1853.4
Quarterly Averages								
1991 I	103.5	107.3	105.1	104.9	101.1	96.9	95.9	1241.3
II	104.3	108.8	106.4	106.1	101.6	97.8	96.3	1466.9
III	105.7	109.2	106.9	101.6	102.9	99.7	96.9	1413.3
IV	106.4	109.5	107.3	103.6	103.0	100.3	97.3	1408.3
1992 I	107.3	110.2	107.8	107.4	102.1	99.3	97.2	1426.9
II	108.1	111.3	108.3	109.7	101.4	102.2	100.7	1398.8
III	108.7	110.6	107.2	106.7	99.1	97.5	98.4	1263.1
IV	108.9	109.8	106.0	104.5	96.6	93.8	97.1	1164.5
1993 I	109.3	112.9	109.9	109.2	103.1	97.9	95.0	1313.5
II	109.1	115.2	111.9	115.4	104.4	100.7	96.5	1532.2
III	110.2	117.2	114.0	114.6	106.2	101.6	95.6	1685.6
IV	110.5	116.9	113.8	113.7	106.6	102.0	95.7	1772.6
1994 I	111.2	117.0		118.4	108.3	103.7	95.8	1966.3
II	112.1	117.1		121.2	109.6	106.1	96.8	1806.3
III	113.0	116.6		114.0				1817.7
IV	113.1	116.8						1823.1
Quarterly Averages (Seasonally Corrected)								
1991 I	103.5	107.6	105.3	103.9	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	104.4	108.4	106.2	103.9				
III	105.5	108.9	106.6	102.7				
IV	106.4	109.9	107.6	105.7				
1992 I	107.3	110.5	108.0	106.5				
II	108.2	110.8	108.0	107.3				
III	108.5	110.3	107.0	107.9				
IV	108.9	110.2	106.4	106.6				
1993 I	109.4	113.2	110.2	108.3				
II	109.2	114.7	111.5	112.9				
III	110.0	117.0	113.7	115.9				
IV	110.5	117.4	114.3	116.1				
1994 I	111.3	117.3		117.4				
II	112.2	116.6		118.5				
III	112.8	116.4		115.2				
IV	113.1	117.2						

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Registered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expenditure	Current Deficit	1 month inter bank Rate	Long term Gilt Rate	
Total	1990 = 100	1990 = 100	£m	£m	£m	Per cent per annum	Per cent per annum	
59231	NA	NA	7152	8332	1180	10.8	11.3	1987
68126	NA	NA	7690	8006	317	7.8	9.5	1988
88452	NA	NA	7756	8019	263	9.6	8.9	1989
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.8	99.9	8776	9076	300	10.4	9.3	1991
85492	106.2	102.2	9360	9806	446	15.2	9.1	1992
87352	109.4	103.6	10140	10519	379	10.6	7.8	1993
			11203	11188	–15	5.7	8.2	1994

Quarterly Averages or Totals

29267	94.7	93.6	1886	2313	427	11.1	9.3	1991 I
28583	99.8	98.3	2074	2390	316	10.3	9.1	II
20211	101.8	99.6	2295	2071	–224	9.7	9.6	III
11528	109.6	106.6	2521	2302	–219	10.4	9.0	IV
28411	99.0	95.8	2055	2538	483	10.6	8.7	1992 I
23950	104.7	100.7	2299	2374	75	10.2	8.8	II
21112	107.5	103.1	2473	2307	–166	14.0	9.3	III
12019	112.5	108.3	2533	2587	54	25.8	9.6	IV
25583	100.7	96.9	2170	2763	593	21.1	9.0	1993 I
27135	106.0	100.8	2363	2408	45	7.8	8.1	II
21329	110.7	104.3	2842	2622	–220	6.7	7.4	III
13305	118.7	111.3	2764	2725	–39	6.6	6.6	IV
37941	113.1	105.8	2709	2962	253	6.1	6.9	1994 I
36317	115.0	106.5	3041	2651	–390	5.6	8.4	II
25637	117.2	108.2	2642	2646	4	5.4	8.7	III
			2811	2929	118	5.5	8.7	IV

Quarterly Averages or Totals (Seasonally Corrected)

22858	100.1	99.1	2081	2164	83	No Seasonal Pattern	No Seasonal Pattern	1991 I
22750	100.6	99.2	2140	2428	288			II
21755	101.6	99.4	2251	2211	–41			III
21490	103.4	100.5	2290	2281	–9			IV
22236	104.4	101.2	2264	2365	102			1992 I
19068	105.7	101.7	2363	2422	59			II
22719	107.1	102.8	2414	2465	51			III
22417	106.4	102.3	2321	2559	238			IV
19952	106.1	102.3	2390	2568	178			1993 I
21682	107.3	102.1	2413	2469	55			II
22945	110.2	103.9	2777	2802	24			III
24814	112.1	105.0	2541	2690	148			IV
30926	119.3	111.6	2983	2751	–232			1994 I
29090	116.5	107.9	3097	2723	–373			II
27552	116.6	107.8	2582	2825	243			III
			2591	2890	299			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£	PerIR£
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	12540.7	2506.0	13855.9	2891.7	68.31	0.9302	1.6585	2.6729
1991	13024.6	2502.2	13553.2	3256.0	67.33	0.9131	1.6144	2.6710
1992	14203.3	2946.7	14410.7	2112.8	69.48	0.9692	1.7073	2.6562
1993	17510.9	2829.5	14910.5	4277.9	66.01	0.9771	1.4680	2.4240
1994		3285.7	16655.2		66.16	0.9776	1.4982	2.4262
	End-Period Totals				Quarterly Averages			
1991 I	12187.3	2382.0	13776.7	3200.9	68.28	0.9126	1.7429	2.6646
II	12306.1	2288.9	13928.7	3422.0	66.55	0.9038	1.5430	2.6753
III	12650.2	2380.5	13973.3	3471.2	66.68	0.9108	1.5355	2.6740
IV	13024.6	2505.2	13553.2	3256.0	67.87	0.9257	1.6433	2.6693
1992 I	12555.4	2399.4	13614.2	3495.8	67.97	0.9303	1.6479	2.6663
II	12960.9	2449.1	13685.4	3223.6	67.63	0.9156	1.6555	2.6691
III	12998.8	2792.2	14010.9	2130.2	69.81	0.9538	1.8160	2.6528
IV	14203.3	2946.7	14410.7	2112.8	72.50	1.0784	1.7048	2.6363
1993 I	15741.2	2463.4	14509.0	3571.0	68.91	1.0361	1.5320	2.5018
II	16177.9	2601.0	14643.3	4255.9	66.41	0.9818	1.5073	2.4386
III	17095.2	2683.0	14574.9	4315.6	63.99	0.9390	1.4129	2.3674
IV	17510.9	2829.5	14910.5	4277.9	64.73	0.9516	1.4197	2.3881
1994 I	17312.8	2723.7	15249.3	4422.2	65.51	0.9606	1.4299	2.4636
II	17553.2	2901.6	15759.5	4477.1	65.93	0.9762	1.4685	2.4382
III	18470.8	3230.6	16067.8	4391.8	66.39	0.9879	1.5325	2.3916
IV		3285.7	16655.2		66.81	0.9858	1.5620	2.4112
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1991 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
1992 I II III IV								
1993 I II III IV								
1994 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	1990 = 100	1990 = 100	£m	£m	
9158.4	10727.0	1568.5	79.1	77.4	–2113	–60	1987
10213.1	12300.7	2087.6	82.8	82.9	–2663	62	1988
12287.8	14596.9	2309.1	93.6	92.2	–3233	–348	1989
12475.5	14342.5	1866.9	100.0	100.0	–3131	37	1990
12850.8	15018.9	2168.1	100.8	105.6	–2864	924	1991
13194.8	16628.8	3434.1	105.6	120.1	–3294	1432	1992
14795.8	19671.2	4875.1	112.3	132.3	–3804	2461	1993
							1994

Av. Monthly Totals Quarterly Averages or Totals

1073.4	1173.5	100.1	102.2	101.3	–655	–16	1991	I
1072.2	1258.6	186.4	101.6	107.6	–845	–90		II
1034.6	1228.0	193.4	96.8	103.1	–550	751		III
1103.4	1346.3	242.9	103.1	112.3	–814	279		IV
1107.8	1346.6	238.8	104.5	113.6	–847	297	1992	I
1108.3	1453.4	345.1	105.1	119.0	–808	374		II
1060.2	1338.6	278.4	103.0	114.9	–840	458		III
1122.0	1404.4	282.4	111.8	125.3	–799	303		IV
1212.9	1529.2	316.3	112.7	130.9	–839	589	1993	I
1185.5	1636.2	450.7	109.0	136.4	–997	684		II
1225.3	1583.6	358.2	110.7	130.7	–865	582		III
1308.3	1808.1	499.8	117.8	148.7	–1103	606		IV
1400.6	1752.0	351.4	124.2	141.6	–920	305	1994	I
1371.4	1874.6	503.2	120.0	148.1	–985	646		II
								III
								IV

Av. Monthly Totals (S.C.) Quarterly Averages or Totals (S.C.)

1066.0	1192.8	126.8	101.3	102.7	No Seasonal Pattern	No Seasonal Pattern	1991	I
1066.4	1216.0	149.6	100.8	104.3				II
1075.0	1275.8	200.8	101.3	108.1				III
1076.8	1325.0	248.3	100.0	109.6				IV
1080.6	1355.4	274.8	102.0	114.0			1992	I
1101.3	1404.6	303.3	104.3	115.3				II
1101.1	1381.4	280.3	107.4	119.5				III
1107.0	1387.6	280.6	109.8	123.0				IV
1195.2	1544.4	349.2	111.4	131.9			1993	I
1177.3	1583.0	405.7	108.3	132.4				II
1271.0	1645.1	374.1	115.1	137.1				III
1293.9	1789.7	495.8	115.9	145.9				IV
1382.1	1772.4	390.2	122.5	143.1			1994	I
1362.6	1813.3	450.7	119.4	143.7				II
								III
								IV