QUARTERLY ECONOMIC COMMENTARY

SUMMER 1994

The forecasts in this Commentary are based on data available by end-August 1994.

T. J. BAKER, S. CANTILLON and C. O'REARDON

Copies of this paper may be obtained from The Economic and Social Research Institute (Limited Company No. 18269), (Registered Office) 4 Burlington Road, Dublin 4.

Price IR£27.50 per copy or IR£110 per year, (including Medium-Term Review, 1994-2000)

T. J. Baker is a Senior Research Officer, S. Cantillon is an Assistant Research Officer and C. O'Reardon is a Research Assistant of The Economic and Social Research Institute. The *Commentary* has been accepted for publication by the Institute, which is not responsible for either the content or the views expressed therein

CONTENTS

	Page
SUMMARY	5
FORECAST NATIONAL ACCOUNTS	6
COMMENTARY	
The International Economy	8
General	8
The US Economy	8
The European Economy	9
The UK Economy	10
The Rest of the World	10
The Context for Ireland	11
The Domestic Economy	12
General	12
Exports	13
Stocks	14
Investment	15
Consumption	16
Final Demand	17
Imports	18
Balance of Payments	19
Gross National Product	20
Agriculture	20
Industry	20
Services	21
Employment	22
Incomes	23
Consumer Prices	24
Public Finances	25
Interest Rates	26
General Assessment	27
STATISTICAL APPENDIX	31

SUMMARY

After the uncertainties of 1993, the international and Irish economies are firmly embarked upon an upswing in 1994. Moderate, sustainable growth continues in the US and UK, while continental Europe is clearly recovering from recession. International inflation remains relatively low and, despite some recent increases, interest rates are still significantly lower than the average of the past ten years. World output growth should continue in 1995, with the European recovery accelerating as it becomes more firmly established and rising employment levels improve consumer confidence.

Against this favourable external background the Irish economy is expected to grow rapidly in both 1994 and 1995. Moreover, this growth is likely to be well balanced, with domestic demand contributing strongly to overall growth for the first time since 1990. Available indicators show that both personal consumption and productive investment increased sharply in the first half of 1994. Although official trade statistics for 1994 are still lacking, surveys suggest a strong and broad-based export performance, as would be expected given the improving external environment.

Thus the growth rate of real GNP in Ireland is forecast at 5 per cent in 1994 and our initial projection for 1995 is a growth rate of 6 per cent. Because of its balanced nature, this growth is expected to translate into a substantial increase in non-agricultural employment, about 28,000 in 1994 and 30,000 in 1995. If a moderate rate of net emigration continues, average unemployment should decline by some 12,000 in 1994 and 14,000 in 1995.

However, such an outcome would still leave the Live Register of unemployment standing at over 260,000 at the end of 1995. Although this would be far better than the fears of constantly rising unemployment which were widely expressed in recent years, it still represents an intolerable level of economic waste and social deprivation.

The recovery in domestic demand has resulted in a high degree of tax buoyancy, and this is likely to continue in 1995. The consequent easing in budgetary pressures could tempt the authorities to propose substantial tax cuts or new spending measures in an attempt to speed up the rate of fall in unemployment. Any such temptation should be resisted. The economy will be growing rapidly in 1995, and an additional fiscal stimulus would risk pushing the boom to unsustainable heights, as happened in Britain in the eighties, without necessarily having much impact on unemployment.

There is likely to be far greater benefit, including a long-term decline in unemployment, from achieving a modest current budget surplus in 1995, and thus ensuring a substantial reduction in the debt GNP ratio. The aim of economic strategy should be to prolong the period of rapid growth into 1996 and beyond, rather than to intensify the already high rate of expansion likely in 1995. By using fiscal, monetary and incomes policies to maintain or improve competitiveness, while strengthening structural policies to the same end, the authorities can maximise the chances of sustained growth. The erosion of unemployment levels will take a long time, but steady progress year after year offers more hope than a sudden sprint which cannot be maintained.

FORECAST NATIONAL ACCOUNTS 1994
A: Expenditure on Gross National Product

	1993	1994	Change in 1994				
	Preliminary £m	Forecast £m	£m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure ...	18065	19402	1337	813	7½	2¾	4½
Public Net Current Expenditure ...	5167	5555	388	148	7½	4½	2¾
Gross Fixed Capital Formation ...	4808	5337	529	411	11	2¼	8½
Exports of Goods and Services (X) ...	21871	24303	2432	1935	11	2	8¾
Physical Changes in Stocks	–179	0	179	160			
Final Demand	49732	54597	4865	3467	9¾	2½	7
less:							
Imports of Goods and Services (M) ...	17442	19541	2099	1690	12	2	9¾
GDP at Market Prices	32290	35056	2766	1777	8½	3	5½
less:							
Net Factor Payments (F)	3727	4184	457	373	12¼	2	10
GNP at Market Prices	28563	30872	2309	1404	8	3	5

B. Gross National Product by Origin

	1993	1994	Change in 1994	
	Preliminary £m	Forecast £m	£m	%
Agriculture, Forestry, Fishing ...	2193	2237	44	2
Non-Agricultural: Wages, etc. ...	15886	16879	993	6¼
Other: ...	9312	10458	1146	12¼
less:				
Adjustments	1338	1360	22	1¾
Net Factor Payments	3727	4184	457	12¼
National Income	22326	24030	1704	7¾
Depreciation	3044	3227	183	6
GNP at Factor Cost	25370	27257	1887	7½
Taxes less Subsidies	3193	3615	422	13¼
GNP at Market Prices	28563	30872	2309	8

C. Balance of Payments on Current Account

	1993	1994	Change in 1994
	Preliminary £m	Forecast £m	£m
X–M	4429	4762	333
F	–3727	–4184	–457
Net Transfers	1892	1880	–12
Balance on Current Account ...	2594	2458	–136
as % of GNP	9	8	–1

FORECAST NATIONAL ACCOUNTS 1995

A: Expenditure on Gross National Product

	1994 Forecast £m	1995 Forecast £m	Change in 1995 £m Value	Change in 1995 £m Volume	Change in 1995 % Value	Change in 1995 % Price	Change in 1995 % Volume
Private Consumer Expenditure ...	19402	21004	1602	1020	$8\frac{1}{4}$	$2\frac{3}{4}$	$5\frac{1}{4}$
Public Net Current Expenditure ...	5555	5949	394	167	7	4	3
Gross Fixed Capital Formation ...	5337	6000	663	526	$12\frac{1}{2}$	$2\frac{1}{2}$	$9\frac{3}{4}$
Exports of Goods and Services (X) ...	24303	27238	2935	2379	12	2	$9\frac{3}{4}$
Physical Changes in Stocks	0	100	100	80			
Final Demand	54597	60291	5694	4172	$10\frac{1}{2}$	$2\frac{1}{2}$	$7\frac{3}{4}$
less:							
Imports of Goods and Services (M) ...	19541	22015	2474	2011	$12\frac{3}{4}$	$2\frac{1}{4}$	$10\frac{1}{4}$
GDP at Market Prices	35056	38276	3220	2161	$9\frac{1}{4}$	$2\frac{3}{4}$	$6\frac{1}{4}$
less:							
Net Factor Payments (F)	4184	4583	399	305	$9\frac{1}{2}$	2	$7\frac{1}{4}$
GNP at Market Prices	30872	33693	2821	1856	$9\frac{1}{4}$	3	6

B. Gross National Product by Origin

	1994 Forecast £m	1995 Forecast £m	Change in 1995 £m	Change in 1995 %
Agriculture, Forestry, Fishing ...	2237	2349	112	5
Non-Agricultural: Wages, etc. ...	16879	18061	1182	7
Other: ...	10458	11741	1283	$12\frac{1}{4}$
less:				
Adjustments	1360	1330	–30	$-2\frac{1}{4}$
Net Factor Payments	4184	4583	399	$9\frac{1}{2}$
National Income	24030	26238	2208	$9\frac{1}{4}$
Depreciation	3227	3453	226	7
GNP at Factor Cost	27257	29691	2434	9
Taxes less Subsidies	3615	4002	387	$10\frac{3}{4}$
GNP at Market Prices	30872	33693	2821	$9\frac{1}{4}$

C. Balance of Payments on Current Account

	1994 Forecast £m	1995 Forecast £m	Change in 1995 £m
X–M	4762	5223	461
F	–4184	–4583	–399
Net Transfers	1880	1900	20
Balance on Current Account ...	2458	2540	82
as % of GNP	8	$7\frac{1}{2}$	$-\frac{1}{2}$

COMMENTARY

The International Economy

General

Evidence continues to mount that world output in 1994 is growing more rapidly than was expected at the beginning of the year. Expansion remains steady in the US and rapid in most Asian countries. Despite political instability and yen appreciation, the Japanese economy is no longer declining. In western Europe, the recovery in most continental countries has been earlier and stronger than anticipated, while the UK is maintaining its steady rate of growth. For the OECD countries as a whole, it seems likely that GDP growth in 1994 will be about 2¾ per cent, more than double the growth rate in 1993.

With the continental EU recovery gathering strength, US growth continuing and Japan finally sharing in the general expansion, world economic growth is likely to be significantly faster in 1995, probably exceeding 3 per cent.

The moderate pace, and mixed nature, of growth in 1994 have so far prevented the emergence of strong inflationary pressures, despite the rise in some commodity prices. Faster and more general growth in 1995 could see some increase in international inflation, although this is likely to remain moderate by historical standards. As the authorities in various countries respond to these pressures, 1995 could see some further convergence in short-term interest rates, with the general trend being slightly upwards. The rise in long-term interest rates seen in the first half of 1994 already discounts some increase in the rate of inflation over the next two years.

The US Economy

Growth in the US economy remains steady and broadly based. Over the remainder of the year domestic demand might grow more slowly, under the influence of higher interest rates, but this is likely to be offset by faster growth in the volume of net exports as the European recovery gathers pace. For the year as a whole, a GNP growth rate of about 3½ per cent appears probable.

As the pace of expansion throughout the recovery phase of the cycle has been relatively moderate, it seems likely that US domestic demand will continue to grow in 1995. At the same time, the accelerating recovery in the rest of the world should stimulate exports from the US. Thus a further GNP growth rate of over 3 per cent is widely predicted for 1995. Employment is likely to increase, but more slowly than in the past twelve months, and unemployment will probably decline slightly from its present level of just over 6 per cent.

At present, the financial markets appear to be discounting a substantial acceleration in the rate of inflation in 1995, largely due to the prospect of a tightening labour market. However, there is little evidence yet of a significant increase in inflationary pressures, and the relatively moderate pace of economic growth compared with the expansion phase of most previous cycles seems likely to prevent a rapid rise in either prices or pay-rates.

Nevertheless, as a precaution against consumer price inflation rising significantly over 3 per cent in 1995 it is probable that the authorities will raise short-term interest rates gradually over the remainder of 1994 and 1995. This should contribute to some strengthening of the US dollar over the period, especially if there is a satisfactory resolution of trade problems between the USA and Japan.

The European Economy

The recovery of the continental European economy is now firmly established. Although there are doubts concerning the accuracy of trade data throughout Europe, and thus about the export component of reported growth rates, there is no reason to dispute the evidence of rising industrial production, improved business confidence and domestic demand.

In West Germany, in particular, the upturn in productive investment can be seen as a clear signal of recovery, reinforced by an apparent stabilisation of the unemployment level, several months before it was expected. For Germany as a whole, most recent forecasts suggest a growth rate of almost 2 per cent in 1994, rising to nearly 3 per cent in 1995. Growth is likely to be concentrated on exports and investment, with personal consumption not recovering significantly until the second half of 1995. The upward revisions to growth forecasts, together with the lower projected level of unemployment, should help to alleviate German fiscal problems over the next year or so. In conjunction with a falling rate of price inflation, the prospect of a reduced budget deficit could create the conditions where the Bundesbank might permit a further modest reduction in German short-term interest rates before the end of 1994.

Although Germany has tended to lag behind the other major continental economies in the timing of recovery in 1994, the fact that the German recovery is now established can be expected to improve confidence and thus consolidate the expansion already taking place in its neighbours. Real GNP in the continental EU is thus forecast to increase by about $1\frac{3}{4}$ per cent in 1994, with every country showing growth of over 1 per cent. The rate of growth in 1995 is projected to accelerate to over $2\frac{1}{2}$ per cent, with all major countries growing by at least 2 per cent.

Such rates of growth should be sufficient to check the rise in European unemployment rates, but not to bring about a substantial fall from the very high levels now being suffered in most countries. By the same token, the projected rate of economic growth does not appear to be fast enough to generate major inflationary pressures. For the continental EU as a whole, consumer prices are likely to increase by just over 3 per cent in both 1994 and 1995, with the members of the former narrow band of the ERM averaging price increases of about $2\frac{1}{2}$ per cent.

Public finances in the majority of countries should improve with the faster rate of economic growth. However budget deficits in both 1994 and 1995 are likely to remain above the desired long-term level. Particularly for those countries which also suffer from a degree of political instability, the unsatisfactory fiscal position could lead to some volatility in either interest rates or currency values in the coming twelve months or so.

The countries awaiting entry to the EU generally share the characteristics of the EU economy, with GNP rising moderately, price inflation relatively low, unemployment historically high, and, in the case of Sweden and Finland, the public finances continuing to cause concern. Although manifold problems continue to face most East European countries, the upturn in western Europe is likely to improve their prospects for stabilisation and growth in the next year or so.

The UK Economy

Like the USA, the UK is much further into the recovery phase of the economic cycle than the major continental economies. Real GDP has risen by a total of 5¼ per cent, in the 9 quarters since the winter of 1991/92, and growth seems set to continue. Until recently, growth has been sustained by the rise in consumer spending, with only a minor contribution from net exports.

As explained in our previous *Commentaries*, the gamble of raising taxes in the 1993 Budgets appears to have been successful. The underlying strength of consumer demand, buoyed by historically low interest rates and a receding burden of household debt, has proved sufficient to outweigh the tax increases and maintain personal consumption on a gentle upward path. At the same time the tax increases have helped to avert the danger of an unsustainable consumer boom, while also reversing the rise in the budget deficit.

Thus for the remainder of 1994 and 1995 there is a good prospect that UK economic growth will be better balanced, with exports and productive investment joining a relatively restrained growth in consumption as contributors to steady economic expansion. With the usual proviso that all European trade statistics are currently unreliable and subject to revision, it seems probable that real GDP in the UK will rise by at least 2¾ per cent in 1994 and by about 3 per cent in 1995. This should certainly be sufficient to keep employment rising moderately, with unemployment continuing its gradual fall.

Although both price and wage inflation are subdued at present, it seems likely that both will tend to rise in the coming months. To limit these inflationary pressures, it seems probable that the authorities will raise short-term interest rates before the end of 1994, and continue to tighten monetary policy during 1995. Such action should help to prevent a further significant depreciation of sterling, and could lead to a temporary appreciation, *vis-"-vis* the DM, in the late months of 1994.

The Rest of the World

While the Japanese recession appears to have levelled off, there is still considerable disagreement among commentators over the timing of the recovery. Industrial production has been increasing marginally in 1994, but with the yen remaining excessively strong, political uncertainty continuing and no sign of a successful conclusion to the trade talks with the US, conditions do not appear to be conducive to a sustained improvement in either consumer or business confidence. On balance, a slight increase of under ½ per cent in real GDP in 1994 seems the most likely outcome. Recovery does seem probable in 1995, partly due to normal cyclical timing and partly in response to growth in the rest of the world. A GDP growth rate between 2 and 2½ per cent is expected.

Other Asian countries continue to grow rapidly, and there is no obvious reason why this should change in 1995. The more modest growth of other industrialised countries is also expected to continue, and the established recovery in most Latin American countries should persist for at least another year.

Incomes in many primary producing countries should benefit from rising commodity prices, although higher international interest rates could have an adverse

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	2¾	3	2¾	3	3½	4¼	10	9¼	−2½	−2¼
Germany	1¾	3	3¼	2½	2	2¼	9	9	−1	−¾
France	1¾	2½	2¼	2½	2¾	3¾	11½	11¼	¾	½
Italy	1½	2¼	3½	3	4¾	6	10½	10½	−¾	¼
Total EC	2	2½	3	3	4¼	4¾	11	10½	−¼	–
USA	3½	3	2½	2¾	3	3½	6¼	6	−2	−2
Japan	½	2¼	1	1½	½	1½	3¼	3¼	3¼	3¼
Total (OECD)	2¾	3¼	3¼	3½	3½	4¼	8½	8¼	−¼	−¼
Ireland	5	6	2¼	2¾	4	4½	15¼	14½	8	7½

effect on those which are heavily indebted. Larger volumes of oil shipments, combined with higher average prices should raise the income of most OPEC countries in both 1994 and 1995.

The Context for Ireland

The improved trading climate for Irish exporters, resulting from faster world trade growth, and more specifically from the recovery in European domestic demand, is already apparent. Barring unforeseen disasters, these relatively benign exporting conditions should remain in place for the rest of 1994 and 1995. For the first time since early 1990, all major markets should be growing simultaneously.

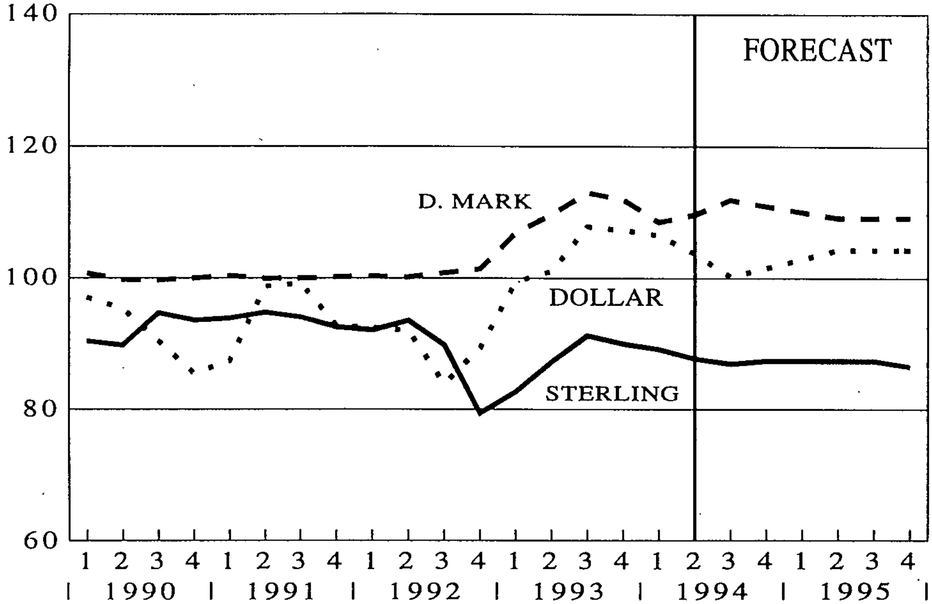
Another consequence of expanding output is that industrial investment is increasing on a world basis, and is likely to rise further in 1995, despite the probable increase in interest rates. While a considerable proportion of such investment will be in the fast-growing economies of the Pacific Rim, the recovery in European demand will ensure that Europe as a whole will share in the investment upturn. With the deficiencies in East European infrastructure still inhibiting many multinational companies from committing major facilities to the countries concerned, despite their low labour costs, western Europe, including Ireland, should experience a substantial increase in productive investment.

Of course, the extent to which Ireland avails of these export and investment opportunities will depend on the level of Irish competitiveness. Issues concerning domestic costs will be discussed in the Domestic section of this *Commentary*. The other major influence on competitiveness in the short to medium term is currency fluctuation. Among the major currencies, it still seems likely that, despite its current weakness, the dollar will appreciate moderately during 1995 against the yen, DM and thus the Irish pound. Its fall in the first half of 1994 appears to have been largely the result of a once-off adjustment in international portfolios, which could now be drawing to a close.

Of more immediate relevance to Ireland, the danger of a further significant depreciation of Sterling against the DM appears to have receded. The more balanced nature of UK economic growth, combined with the earlier than expected recovery in continental Europe, has reduced the likelihood of a serious deterioration of the UK current account deficit in 1995. Thus, for the purpose of this

FIGURE 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1988=100



Commentary we have assumed that Irish pound values of sterling and the major continental currencies will fluctuate slightly around present levels in the remainder of 1994 and 1995.

Underlying these currency assumptions are projections of differential movements in short-term interest rates in the major countries. The upward trend in US rates seems likely to be resumed later in 1994 or in 1995, while UK rates are also likely to rise before the end of 1994. Short-term interest rates in most continental European countries seem unlikely to rise before mid-1995, and may even decline slightly in the remainder of 1994. On average, therefore, it can be said that international short-term interest rates are set to rise in 1995, although the pace of the increase may well prove slower than is currently implied in the yield curves in most financial markets. Long-term interest rates, having risen sooner than expected in the first half of 1994, will probably stabilise for the remainder of this year, but could increase slightly towards the end of 1995 as the volume of worldwide capital formation accelerates.

Another consequence of economic expansion is likely to be a further rise in most commodity prices. However, given the low-base from which such prices will be rising, and the degree of spare capacity in manufacturing, it seems unlikely that rising commodity prices will be reflected in a significant upturn in general international inflation.

The Domestic Economy

General

In common with most other analysts, we are not convinced that the preliminary estimates of economic activity contained in *National Income and Expenditure 1993* are strictly comparable with estimates for earlier years. Thus the preliminary 1993 growth rate of 3.7 per cent could reflect data discontinuities as well as genuine economic expansion. In particular, the estimated increase in the value and volume of merchandise exports appears incompatible with the estimated output of the goods producing sectors of the economy, or with normally reliable indices of industrial turnover and production. Viewed from a different perspective, the recorded increase of almost 42 per cent in the value of exports to non-EU countries is hard to reconcile with the generally sluggish state of world trade in 1993, even when allowance is made for the price effects of currency movements.

Problems with ensuring consistency in trade statistics since the introduction of the Single European Market at the beginning of 1993 are common to all EU members. However, because of the extreme openness of its economy, these problems are probably more acute in Ireland than elsewhere. It seems certain that Irish, as well as other European, trade statistics and national accounts for 1993 will be substantially revised.

Pending such revision, it seems reasonable to use the 1993 national accounts levels as a numerical basis for forward projections, as we have done in the tables in this *Commentary*. Any distortion in calculating future growth rates would be confined to relatively minor weighting problems. What we do avoid is the use of apparent rates of growth in 1993, especially in exports, as the basis for projecting trends in 1994 and 1995.

Exports

As 1994 is the second year of collecting trade statistics by the new method, it is probable that the trends they show should be considerably more reliable than they were in 1993. However, this improvement in the monitoring potential of the trade statistics is rendered academic by the continuing lack of timeliness in their publication. At the time of writing, only January and February estimates of non-EU trade are available for 1994.

Thus, as last year, the principal sources for estimating recent trends in exports are indices of industrial turnover and production, and survey data relating to export performance and expectations. Between them, these sources indicated a substantial increase in export volumes and values in 1993, especially in the second half of the year. Taken collectively, they indicate that export growth remained vigorous in the first half of 1994.

Whereas most export growth in 1993 was accounted for by the high-technology industrial sectors, it appears that the growth in the first half of 1994 has been much more balanced, with the food and other traditional industries contributing strongly to the increase. From the limited information available, it appears that the increase in export values in 1994 has been shared by all major markets.

These apparent trends in the early months of 1994 are consistent with what would be expected from developments in other countries, such as continued expansion in the UK and US, recovery in continental Europe and the excessive value of the Japanese yen. Given that these external conditions are likely to remain favourable, strong export growth is expected to continue for the remainder of 1994 and in 1995.

Table 2 shows that visible exports are forecast to grow in volume by 9 per cent in 1994 and 10 per cent in 1995. The detailed breakdown of visible exports shown in the table is only indicative, as the composition of 1993 exports on this basis is not yet available.

TABLE 2: Exports of Goods and Services

	1993 £m	% Change Volume	% Change Value	1994 £m	% Change Volume	% Change Value	1995 £m
Agricultural	2850	4	6	3021	4	6	3202
Manufactured	13250	10	12¼	14873	11	13¼	16844
Other Industrial	2550	9½	11	2832	11	13¼	3208
Other	1000	9	11¼	1125	10	12¼	1263
Total Visible	19650	9	11¼	21851	10	12¼	24517
Adjustments	–213			–220			–224
Merchandise	19437	9	11¼	21631	10	12¼	24293
Tourism	1367	10	13	1545	10	13	1746
Other Services	1066	3	5¾	1127	3½	6½	1199
Exports of Goods and Services	21871	8¾	11	24303	9¾	12	27238

In both years the bulk of export growth is expected to come from manufactured and other industrial exports. Following the pattern of early 1994, the composition of export growth is likely to be reasonably balanced, both geographically and by product. Although a few firms have complained that, at present exchange rates, margins on exports to the UK are uncomfortably narrow, it appears that for most exporters current margins are sufficient to encourage an expansion of exports to the UK. Export growth to continental Europe should accelerate as economic recovery strengthens in 1995. Additional industrial capacity becoming available as a result of recent investment decisions will enable export growth to be sustained in 1995 and beyond.

As usual at this time of year, there are mixed reports concerning the performance of the tourist industry. Official statistics show a significant increase in the number of visitors in the first half of the year and it appears likely that there has been a substantial increase in tourist earnings in 1994. This is forecast to be repeated in 1995, with a faster increase in continental European visitors replacing this year's recovery in US visitors as the prime component of growth. Steadily growing capacity in the tourist industry should enable a sustained expansion in tourist numbers to be accommodated, but could also account for the complaints of indifferent business from some existing establishments.

Other service exports are estimated to have fallen in 1993 after several years of rapid growth. A recovery to moderate rates of increase in 1994 and 1995 is projected, in the absence of any current indicators.

Thus total exports of goods and services are forecast to rise by 8¾ per cent in volume and 11 per cent in value in 1994. The projections for 1995 are a 9¾ per cent volume increase and 12 per cent value. It should be stressed that these forecasts are unavoidably tentative, due to the absence of up-to-date, reliable trade statistics. However they are well within the range of past export performance in periods of favourable market conditions, and could, indeed, prove too cautious. Even if there is a downward adjustment to the estimates of 1993 exports, this would affect the level of forecast exports in 1994 and 1995, but not the projected rate of export growth.

Stocks

The overall reduction in the value of physical changes in stocks in 1993 was significantly greater than we forecast in our Spring *Commentary*. In particular there was a fall of over £100 million in non-agricultural, non-intervention, stockbuilding, where we had forecast no change.

TABLE 3: Stock Changes

	1993 £m	Change in Rate £m	1994 £m	Change in Rate £m	1995 £m
Farms Stocks	–10	–20	–30	–	–30
Irish Intervention Stocks[1]	–62	2	–60	40	–20
Other Non-agricultural Stocks	–107	197	90	60	150
Total	–179	179	0	100	100

[1]Including subsidised private storage.

A continuation of a relatively minor run-down in farm and intervention stocks is forecast for both 1994 and 1995. The massive fluctuations in intervention stocks between 1988 and 1992 appear unlikely to be repeated in the foreseeable future. Other stockbuilding, comprising non-agricultural material and product stocks and work in progress, seems likely to increase in both 1994 and 1995 in line with the rapid expansion of the economy. Thus, as shown in Table 3, the value of total stockbuilding could be close to zero in 1994 and about £100 million in 1995. In neither year are stock changes forecast to have a major impact on the rate of economic growth.

Investment

After three years of virtual stagnation, the volume of investment in building and construction appears to be increasing strongly in 1994. The combination of improved economic prospects and low interest rates has stimulated activity in the house-building, industrial and commercial sectors. At the same time, the Public Capital Programme includes a major increase in expenditure on social infrastructure investment, including public authority housing.

Even if interest rates edge upwards in 1995, they are likely to remain relatively low by comparison with the past 12 years. The other conditions conducive to investment in building, such as growing population, employment and disposable incomes, and good trading prospects in domestic and export markets, are all likely to remain in place. The growth in the Public Capital Programme could well be slower than in 1994, but some increase seems probable. For total investment in building and construction the momentum of growth established in 1994 seems likely to carry over a slightly faster annual increase into 1995.

Thus, as shown in Table 4, the volume increase in building investment is forecast at 8 per cent in 1994 and 9 per cent in 1995. Although such rates of growth might appear large, they are below the increases recorded in 1989 and, especially, 1990.

TABLE 4: Gross Fixed Capital Formation

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	2788	8	11	3095	9	12	3466
Machinery and Equipment	2020	9	11	2242	11	13	2534
Total	4808	8½	11	5337	9¾	12½	6000

Despite a small increase of just over 3 per cent in 1993, the volume of investment in machinery and equipment was still more than 18 per cent below its 1990 peak. In the absence of up-to-date import statistics, it is impossible to monitor the trend in imports of capital goods. The only partial indicator of investment trends in this category is the registration of goods vehicles. This shows a massive rise of almost 40 per cent in the early months of 1994. This is in keeping with expectations that investment in machinery and equipment would rise rapidly in 1994 as business confidence improves. For the year as a whole a volume rise of 9 per cent is forecast, followed by an 11 per cent increase in 1995.

Thus the volume of total gross fixed capital formation is forecast to increase by 8½ per cent in 1994 and 9¾ per cent in 1995. Price increases are likely to be moderate in each year, so that the annual value increases are projected at 11 per cent and 12½ per cent. In both volume and value terms the forecast rise in fixed investment is rather slower than the increase in 1989 and 1990.

Consumption

The retail sales index and indirect tax receipts both show that personal consumption was very buoyant in the first half of 1994. For the first five months of the year, the value of retail sales was 10.8 per cent higher than in the corresponding period of 1993. A large increase in car sales contributed to this rise, and to the buoyancy in indirect tax revenue, but, even excluding garages, the increase in the index was 7 per cent. Due to seasonal factors, the impact of cars on the retail sales index will be much less marked in the second half of the year. Allowing for this, and for the strong growth seen in the second half of 1993, it seems likely that the annual increase in the value of retail sales in 1994 will be about 7½ per cent.

Even if there is a moderate increase in retail interest rates in 1995, conditions are likely to remain conducive to a high level of consumer spending. A further increase of 7¾ per cent is therefore projected for the value of retail sales. With consumer prices likely to be subdued, in line with the rest of Europe, annual increases of 4½ per cent and 4¾ per cent are forecast for the volume of retail sales, as shown in Table 5.

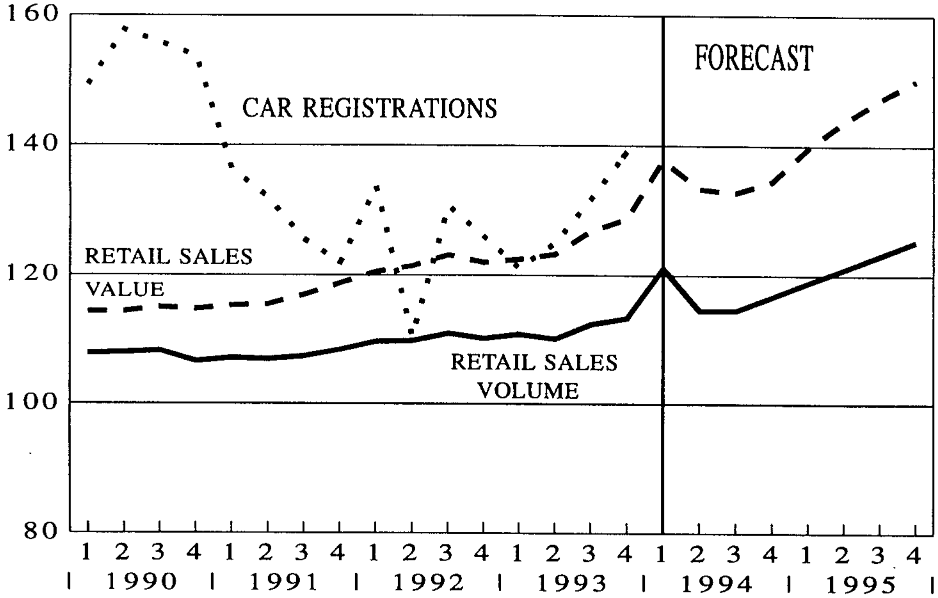
TABLE 5: Consumption Indicators

	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		7.4	8.2
Retail Sales Index, Value	4.8	1.8	4.3	3.0	10.8	7.5	7.7
Divergence	–2.1	3.3	1.5	–0.2		–0.1	0.5
Consumption Volume							
NIE 1993, Personal Consumption	1.3	2.6	2.9	1.2		4.5	5.2
Retail Sales Index, Volume	2.7	–0.1	2.3	1.4	8.0	4.5	4.7
Divergence	–1.4	2.7	0.6	–0.2		—	0.5
Consumer Prices							
NIE 1993, Personal Consumption Deflator	1.4	2.4	2.8	1.6		2.8	2.8
Retail Sales Index Deflator	2.0	1.9	2.0	1.6	2.9	2.8	2.8
Consumer Price Index	3.4	3.2	3.0	1.5	2.2	2.3	2.8

The change in total personal consumption, as defined in the National Accounts, should not diverge significantly from the increase in retail sales in either year. Given the projected increase in personal disposable incomes, the personal consumption forecasts imply a significant fall in the personal savings ratio in 1994, but little further change in 1995.

FIGURE 2: Consumption

Quarterly Averages Seasonally Adjusted, 1988=100



Net expenditure by public authorities on current goods and services, or government consumption, seems likely to increase by about 7½ per cent in 1994, if the amnesty-related measures to reduce public sector debt are excluded. This value increase suggests that the volume rise will be about 2¾ per cent. Obviously, government consumption in 1995 will depend to a considerable extent on budgetary decisions yet to be taken. For forecasting purposes, we assume that the moderate increase in the volume of government consumption will continue, with a rise of about 3 per cent. With average public service pay rises due to be restrained by the operation of the Programme for Competitiveness and Work, the public consumption deflator is likely to continue its gradual reduction from the 6.9 per cent it reached in 1991. A deflator of 4 per cent is assumed for 1995, so that the value of government consumption is assumed to increase by just over 7 per cent next year.

Final Demand

On the basis of the expenditure categories already discussed, final demand is forecast to increase in 1994 by 9¾ per cent in value and 7 per cent in volume. The corresponding forecasts for 1995 are marginally higher, at 10½ per cent and 7¾ per cent. In contrast to recent years, when domestic demand has virtually stagnated while export volumes rose, the forecast growth in both 1994 and 1995 is reasonably balanced. The projected volume growth in domestic demand, excluding stock-changes, is almost 5 per cent in 1994 and 5¾ per cent in 1995.

In both years the composition of final demand is likely to be considerably more import intensive than in the recent past. The forecast increases in personal consumption, especially of durable goods, investment in machinery and equipment, and non-agricultural stockbuilding are all likely to raise the import intensity of demand.

Imports

As in the case of exports, the preliminary estimates of import values and volumes for 1993 must be regarded as tentative and subject to revision. Also in common with exports, few data have yet been published for 1994, while the usual disaggregation for 1993, as incorporated in Table 6, is not yet available.

Despite these uncertainties, it does seem probable that the volume of imports in 1994 will increase more rapidly than in any year since 1989. Imports of capital goods, consumer goods and goods for industrial processing will all rise strongly if our forecasts of final demand components are correct. Import prices seem likely to increase only modestly, unlike 1993 when they were affected by devaluation. Only a minor proportion of imports comprises basic commodities whose prices have risen substantially in 1994, while international prices of manufactured products, which comprise the bulk of imports, have remained subdued.

TABLE 6: Imports of Goods and Services

	1993	% Change		1994	% Change		1995
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	1820	10	13	2057	12½	14½	2355
Consumer Goods	4020	9	11	4462	8½	11	4953
Intermediate Goods:							
Agriculture	490	4	6	519	4	6	550
Other	7970	11¼	13¼	9032	11¾	14	10299
Other Goods	500	10¼	12½	563	10¾	13	636
Total Visible	14800	10¼	12½	16633	10¾	13	18793
Adjustments	–177			–181			–185
Merchandise Imports	14623	10¼	12½	16452	10¾	13	18608
Tourism	836	8	11	928	8	11	1030
Other Services	1983	6	9	2161	7	10	2377
Imports of Goods and Services	17442	9¾	12	19541	10¼	12¾	22015

A similar pattern of rapid volume growth in most categories of imports, combined with modest price increases, seems likely to be repeated in 1995. Thus in both years merchandise imports are forecast to increase by between 10 and 11 per cent in volume and by 12¾ or 13 per cent in value.

In line with generally buoyant consumer spending, tourist expenditure abroad is forecast to increase substantially in both 1994 and 1995. Revised balance of payments estimates show a small rise of 4¼ per cent in the value of other service imports in 1993. With faster economic growth in 1994 and 1995 a more rapid increase in other service imports seems likely.

Thus the volume of total imports of goods and services is forecast to rise by just under 10 per cent in 1994 and just over 10 per cent in 1995. The corresponding value forecasts are for increases of 12 per cent in 1994 and 12¾ per cent in 1995. As with exports, revisions to the level of imports would not necessarily have any significant effect on the projected rate of growth.

Balance of Payments

Estimates of the trade and current account balances in 1993 are obviously subject to the uncertainty which attaches to the trade statistics. As they stand, the preliminary estimates show the surplus on the merchandise trade balance as almost 17 per cent of GNP and the current account surplus as just over 9 per cent of GNP.

Although our forecasts for 1994 and 1995 show imports growing at a slightly faster rate than exports, the greater initial size of the latter means that the absolute size of the surplus on merchandise trade is forecast to increase moderately in each year. A projected increase in the deficit in service trade is not sufficient to offset this, so that the surplus on trade in goods and services is also forecast to increase in both 1994 and 1995, as shown in Table 7.

TABLE 7: Balance of Payments

	1993 £m	Change %	1994 £m	Change %	1995 £m
Visible Trade Balance	4850	7½	5218	9¾	5724
Adjustments	–36		–39		–39
Merchandise Trade Balance	4814	7½	5179	9¾	5685
Service Trade Balance	–385	8¼	–417	10¾	–462
Trade Balance in Goods and Services	4429	7½	4762	9¾	5223
Factor Flows:					
Profits etc.	–3350	15	–3852	12½	–4333
National Debt Interest	–1021	–2	–1000	–4	–960
Other Debit Flows	–982	2½	–1007	2½	–1032
Total Debit Flows	–5353	9½	–5859	8	–6325
Credit Flows	1626	3	1675	4	1742
Net Factor Flows	–3727	12¼	–4184	9½	–4583
Net Transfers	1892	–¾	1880	1	1900
Balance on Current Account	2594	–5¼	2458	3¼	2540

Even if substantial revisions are made to the trade statistics, it would not alter this prediction of a gradually increasing trade balance, although the rate of growth of the surplus would be slightly slower. A greater problem posed by the 1993 trade statistics concerns the likely evolution of profit outflows in 1994. If the recorded increase in exports in 1993 is correct, then a massive rise in profit outflows could be expected in 1994, given that there is normally some lag between export sales and the subsequent profit expatriation. Conversely, if the rise in 1993 exports has been overstated, then profit outflows could be expected to increase at a more normal, although still rapid, rate in 1994. At present, we believe it is reasonable to take the latter view, forecasting a rise of 15 per cent in 1994, followed by 12½ per cent in 1995.

National debt interest paid abroad is forecast to decline slightly in both 1994 and 1995. This year a significant fall in average interest rates is expected to be partly offset by an increase in the average overseas holdings of Irish pound denominated government stock. Although current international interest rates are expected to rise in 1995, average interest rates paid on external Irish debt could still decline due to the maturing of some high interest past debt issues and a slackening in the growth of foreign holdings of Irish gilts.

After falls in both debit and credit categories of other factor flows in 1993, the resumption of moderate growth in both items is assumed for this year and next. Thus net factor outflows are forecast to increase by about 12¼ per cent in 1994 and 9½ per cent in 1995. It must be conceded, however, that a considerable degree of uncertainty attaches to these projections of an aggregate which has frequently proved very volatile.

Only minor changes in net transfer payments seem likely in 1994 and 1995. Small increases in total transfer receipts will probably be more or less offset by higher gross transfers to the EU.

If these various projections prove to be of the correct order of magnitude, or if errors approximately cancel each other out, then the surplus on current account would decline slightly in 1994 and increase marginally in 1995. As a proportion of GNP, if the initial 1993 base were to prove accurate, the current account surplus would fall from 9 per cent in 1993 to 8 per cent in 1994 and 7½ per cent in 1995.

Gross National Product

Despite minor changes in composition, our growth forecasts for 1994 remain unaltered at 5½ per cent for real GDP and 5 per cent for real GNP. The GNP price deflator likewise is unchanged at about 3 per cent.

Growth is projected to accelerate slightly in 1995, to 6¼ per cent for real GDP and 6 per cent for real GNP. These projections for 1995 are slightly below the rate of growth predicted in the *Medium Term Review 1994-2000.* This downward revision for 1995 is due almost entirely to the upward revision to the 1994 forecast since the *Medium Term Review* was prepared. In effect, some of the growth then predicted for 1995 has been brought forward into 1994, as evidence has accumulated that the upturn in consumer and investment spending has come earlier and more strongly than appeared probable in the early months of 1994. Projected growth over 1994 and 1995, taken together, is very close to that predicted in the *Medium Term Review.*

Agriculture

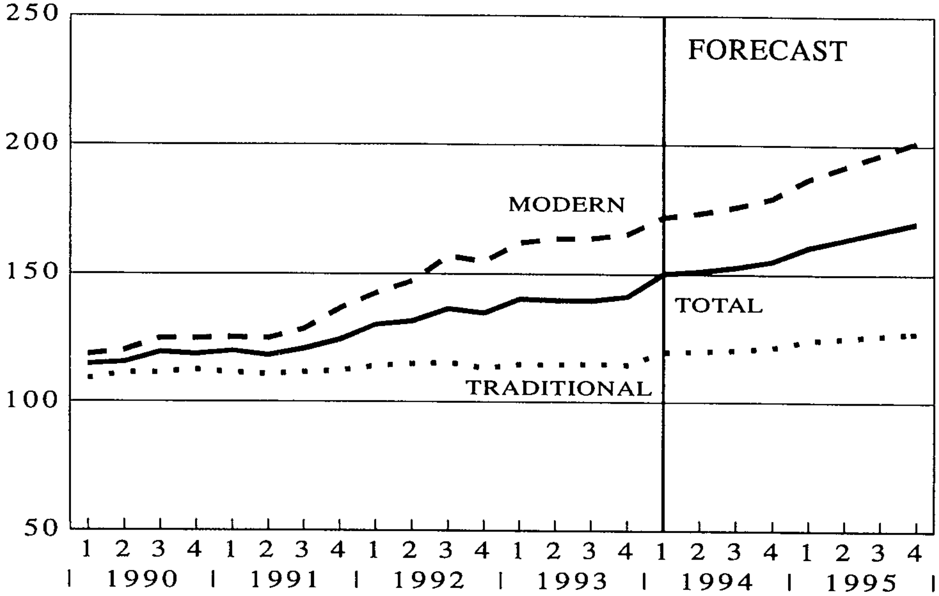
It is still too early to obtain a clear picture of the likely level of agricultural output in 1994. Poor weather in the early months of the year is likely to have had some adverse effect on production, but conditions in the remainder of the year can still influence annual output. With set-aside due to have less impact on the rate of change than in 1993, a reduction of about 2 per cent, compared with a decline of over 3 per cent last year, seems a reasonable expectation for the volume of gross agricultural output. Input volumes could increase slightly, resulting in a fall of about 3½ per cent in the volume of gross agricultural product. Net output in the broad agriculture sector is forecast to decline by about 3 per cent.

On the assumption of less unfavourable weather conditions, a small increase in gross agricultural output is projected for 1995, in keeping with a virtually static medium-term trend. Inputs could continue to rise, giving an even smaller increase in gross agricultural product. With some further expansion in forestry and fishing, net output in the broad agriculture sector is projected to increase by 2 per cent.

Industry

The volume of production index for manufacturing industry was 7¼ per cent higher in the first quarter of 1994 than in the first quarter of 1993. This rise was broadly based, with all industry groups showing an increase, and very few individual industries recording a decline. The IBEC/ESRI Business Survey suggests that production remained quite buoyant in the second quarter, and that expectations are positive for the coming months. For 1994 as a whole, an increase of about 9 per cent in the manufacturing production index now looks likely. With increases in the extractive industries and utilities likely to be slightly lower and building output projected to rise by about 8 per cent, the increase in net output in the broad industry sector is forecast at 8 per cent.

FIGURE 3: Manufacturing Output
Quarterly Averages Seasonally Adjusted, 1988=100



Industrial output is expected to maintain this rapid and broad-based growth in 1995. Both domestic and export markets should remain buoyant and new capacity should permit a substantial increase in output. Increases of 10 per cent in manufacturing production and 9 per cent in the net output of the broad industry sector are thus forecast for 1995.

Services

The preliminary national accounts for 1993 show an increase of 3.9 per cent in the volume of service output, which is surprisingly large given the subdued state of domestic demand. In the context of faster and more balanced economic growth in 1994, one would normally expect an increase in the volume of service output. However, in the circumstances it appears more reasonable to forecast a basically unchanged rate of growth of about 4 per cent, which would appear to be in keeping with the expected increase in overall economic growth in 1994. A similar rate is also projected for 1995.

In both years, the bulk of the increase is likely to be accounted for by private services, with the volume rise in public services assumed to be just under 3 per cent. The projected increases in total service output of 4 per cent in each year compare with a rise of 6.2 per cent in 1990, the most recent year of rapid economic growth.

Employment

With virtually no change in our forecast for GNP growth in 1994, there seems no reason to amend our employment forecast. It still seems likely that all forms of non-agricultural employment will increase in the course of the year, with the largest gain in market services. As shown in Table 8, the annual average number at work is forecast to increase by 23,000, with non-agricultural employment rising by 27,000.

The increase in non-agricultural employment is expected to continue quite strongly in 1995. Once more the increase is likely to be shared between manufacturing, building and most services. Non-agricultural employment is projected to increase by about 30,000 and total employment by 28,000, on an annual average basis. As in most recent years, a significant proportion of the growth in non-agricultural employment is likely to be of a part-time nature. Even so, the increase in full-time equivalent jobs is projected at about 2½ per cent.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1992	1993	1994	1995	1996
Agriculture	153	144	141	138	136
Industry	318	312	315	324	331
Services	668	690	703	723	740
Total at Work	1139	1146	1159	1185	1207
Unemployed	221	230	220	208	198
Labour Force	1360	1375	1379	1393	1405
Unemployed Rate %[1]	15.3	15.8	15.2	14.6	14.2
Live Register	281	295	285	273	263

B: Annual Averages '000

	1992	1993	1994	1995
Agriculture	149	143	139	137
Industry	316	313	320	329
Services	680	694	714	735
Total at Work	1145	1150	1173	1201
Unemployed	225	228	216	202
Labour Force	1370	1378	1389	1403
Unemployed Rate %[1]	15.5	15.8	15.2	14.4
Live Register	283	294	282	268

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

As has frequently been explained, it is difficult to relate employment forecasts to possible trends in unemployment. Improving job prospects can encourage higher labour force participation, while migration flows are affected both by domestic employment trends and by the state of the labour market in the UK and other countries. Continued growth in the UK and USA and the upturn in most European economies in 1994 and 1995 can be expected to balance the improvement in the Irish rate of growth, and thus sustain a moderate rate of net emigration in both years. Allowing for this, but also for an increased rate of labour force participation, it seems probable that registered unemployment will continue the fairly steady decline seen since the beginning of 1994. Annual average Live Register totals of 282,000 and 268,000 are forecast for 1994 and 1995. Converted via the Labour Force Estimates to the official unemployment rate, this is likely to decline from 15.8 per cent in 1993 to 15.2 per cent in 1994 and about 14.4 per cent in 1995.

Incomes

Despite the fall of over 8 per cent in the volume of gross agricultural product, agricultural incomes rose by 2¾ per cent in 1993 due to favourable movements in relative output and input prices, and to higher net subsidies. These factors should continue to operate in 1994, although not so strongly as last year. Thus the reduction in output of 3 per cent would appear to be compatible with an increase of 2 per cent in the income of the broad agriculture sector. A rise in incomes of 5 per cent in 1995 is projected, on the assumption that output volume recovers by about 2 per cent.

Aggregate non-agricultural earnings are estimated to have risen by 6¾ per cent in 1993. As the increase in full-time equivalent jobs was probably less than 1 per cent, this implies a rise of about 5¾ per cent in average non-agricultural earnings. Even allowing for a considerable element of wage drift, the terms of the Programme for Competitiveness and Work should result in a smaller increase in average earnings in 1994, in both the public and private sectors.

Average private sector wages, salaries and pensions are forecast to increase by about 4 per cent in 1994, with average public sector pay rising slightly faster. With total non-agricultural employment set to increase by about 2 per cent, aggregate non-agricultural earnings are forecast to increase by 6¼ per cent in 1994. With the improvement in the labour market more established, the degree of wage drift can be expected to strengthen in 1995. Thus it seems possible that average earnings will increase by about 4½ per cent, even though public service pay should no longer be outstripping private sector pay rises. With non-agricultural employment likely to increase by some 2½ per cent on a full-time equivalent basis, aggregate earnings are projected to rise by 7 per cent, as shown in Table 9.

TABLE 9: Personal Disposable Income

	1993	Change		1994	Change		1995
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2193	2	44	2237	5	112	2349
Non-Agricultural Wages, etc.	15886	6¼	993	16879	7	1182	18061
Other Non-Agricultural Income	3480	6	213	3693	7	259	3952
Total Income Received	21559	5¾	1250	22809	6¾	1553	24362
Current Transfers	5167	6¼	317	5484	5¼	284	5768
Gross Personal Income	26726	5¾	1567	28293	6½	1837	30130
Direct Personal Taxes	5869	7¼	421	6290	¾	41	6331
Personal Disposable Income	20857	5½	1146	22003	8¼	1796	23799
Consumption	18065	7½	1337	19402	8¼	1602	21004
Personal Savings	2792	−6¾	−191	2601	7½	194	2795
Savings Ratio	13.4			11.8			11.7

Other non-agricultural income rose by about 2 per cent in 1993. With faster economic growth, and especially the upturn in domestic demand, income from self-employment and property can be expected to increase considerably faster in 1994 and 1995. Thus total income received from work or property is forecast to rise by 5¾ per cent in 1994 and 7 per cent in 1995.

Despite the fall in the average level of unemployment, total transfer payments are likely to increase by just over 6 per cent in 1994, mainly due to higher rates of benefit and assistance and to some increase in the number of recipients other than the unemployed. An increase of 5¼ per cent is projected for 1995, when the number of unemployed should again fall substantially. Gross personal income is thus forecast to increase by 5¾ per cent in 1994 and by 6½ per cent in 1995.

The total of direct personal taxation in 1994 is distorted by the amnesty receipts, most of which can be attributed to the personal sector. Thus a projected underlying increase of about 3¾ per cent in each of the years is converted, when amnesty receipts are included, into a rise of over 7 per cent in 1994 and less than 1 per cent in 1995.

The amnesty thus introduces a significant distortion to the path of personal disposable income, which is forecast to increase by 5½ per cent in 1994 and by 8¼ per cent in 1995. By its nature, much of the payment of back-taxes under the amnesty must have come from savings, thus technically reducing the personal savings ratio even further than it would otherwise have fallen in 1994. The apparently unchanged savings ratio projected for 1995 in fact implies the continuation of the relatively modest underlying fall forecast for 1994. On the basis of these savings ratios it seems that the value of personal consumption could rise by about 7½ per cent in 1994 and 8¼ per cent in 1995.

Consumer Prices

From November 1992 until August 1993, quarterly movements in the consumer price index were heavily influenced by the rise and fall of mortgage interest rates. As Table 10 shows, the housing element of the index, which incorporates mortgage interest rates, has since ceased to have a major impact on quarterly movements in the index as a whole. Until May 1994 it continued to distort the annual change in the index, but even this should cease from August 1994 onwards.

TABLE 10: Consumer Price Index – Recent Trend and Forecast

	Quarterly Trend							Annual		
	1992	1993				1994		1993	1994	1995
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May			
Index Nov. 1989 = 100										
Housing	132.0	133.3	115.8	109.7	111.0	110.6	111.4	117.4	112.0	117.2
Other	107.1	107.4	108.6	110.2	110.5	111.2	112.2	109.2	112.4	115.4
Total CPI	108.9	109.3	109.1	110.2	110.5	111.2	112.1	109.8	112.3	115.5
Annual % Change										
Housing	15.1	12.8	–3.7	–8.2	–15.9	–17.0	–3.8	–4.2	–4.6	4.6
Other	1.2	0.8	1.3	2.1	3.2	3.5	3.3	1.9	2.9	2.7
Total CPI	2.3	1.9	0.9	1.4	1.5	1.7	2.7	1.5	2.3	2.8
Quarterly % Change										
Housing	10.5	1.0	–13.1	–5.3	1.2	–0.4	0.7			
Other	–0.7	0.3	1.1	1.5	0.3	0.6	0.8			
Total CPI	0.2	0.4	–0.2	1.0	0.3	0.6	0.8			

For the remainder of 1994 and in 1995 the housing index is likely to rise rather faster than the remainder, but not to an extent which seriously affects the index as a whole. With regard to other items, the post-devaluation quarterly increases peaked in August 1993 and have since continued at a modest rate. This trend is likely to continue for the rest of 1994, so that the annual rise in the non-housing index will be seen to have peaked in February 1994, at 3½ per cent, and should fall to about 2½ per cent by the end of the year. This should result in an annual average increase of 2.9 per cent in the non-housing index and 2.3 per cent in the total consumer price index for 1994 as a whole.

The quarterly rate of increase in non-housing prices could accelerate slightly in 1995, as advantage is taken of improved trading conditions to widen margins. However, because the carryover from this year will be smaller than that from 1993, the annual average increase is likely to be slightly smaller than this year, at about 2.7 per cent. When a more substantial rise in housing prices is taken into account, the annual increase in the consumer price index as a whole in 1995 is projected at 2.8 per cent.

Public Finances

The revenue receipts shown in the exchequer returns for the first half of 1994 were boosted by such exceptional factors as the amnesties, the bringing forward of corporation tax payments and the concentration of improved car sales in the early months of the year. However, even when these factors have been discounted, it is clear that underlying tax revenue was very buoyant, and that the collection of direct taxes was continuing to improve. On fairly conservative projections for the second half of the year it now seems likely that tax revenue in 1994, including amnesty receipts, will increase by over 10 per cent, compared with the Budget estimate of 7¾ per cent.

Current expenditure is also likely to be somewhat above the revised Budget estimates, despite some additional saving on unemployment benefit. Nevertheless, the expenditure over-run will be much lower than the additional revenue. The current budget deficit still looks likely to be under £100 million, as forecast in our Spring *Commentary*.

Assuming that borrowing for capital purposes is close to the budgeted level, the Exchequer Borrowing Requirement for 1994 seems likely to be somewhat over £600 million, almost £200 million better than target and representing roughly 2 per cent of GNP.

Obviously the budget deficit and EBR for 1995 will be heavily influenced by expenditure and taxation decisions yet to be taken. However, if our general economic forecast is correct, there should be a considerable element of tax buoyancy in 1995. On the assumptions of a declining benefit from improved tax collection and of modest cuts in real rates of direct tax, probably through a further raising of thresholds and widening of bands, underlying tax revenue could increase by just over 7 per cent in 1995, compared with a likely outcome of 7¾ per cent in 1994. When the 1994 amnesty is taken into account, and assuming little change in the level of non-tax revenue, a rise of 4½ per cent in total current revenue is assumed for 1995.

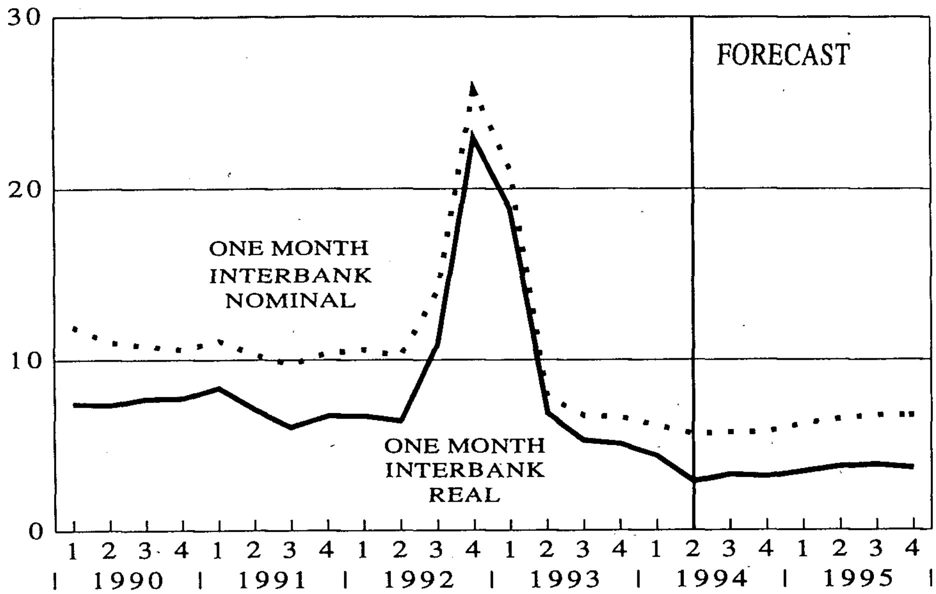
Provided the public service pay terms of the Programme for Competitiveness and Work are adhered to, the rate of increase in the pay element of current expenditure should be lower in 1995 than in most recent years. Average unemployment levels should continue to decline, while, despite some rise in current interest levels, total national debt interest payments could continue to fall as rates in 1995 will be below those on much of the older debt which is due to be retired. In total therefore, provided that the planned increase in the volume of expenditure is modest and strict control is maintained to ensure that spending over-runs are avoided, the increase in total current expenditure in 1995 should be less than the rise in revenue. When allowance is also made for the once-off amnesty-related expenditure in 1994, the 1995 increase in current spending could be of the order of 2½ per cent. Such an out-turn would result in a small current budget surplus in 1995, which would be entirely appropriate to the prevailing economic conditions. It is difficult to predict the likely level of borrowing for capital purposes, but, if it is of the same order of magnitude as in 1994, the EBR for 1995 could be about £500 million, or roughly 1½ per cent of GNP.

Interest Rates

Since their reduction of almost ½ per cent during the spring, Irish short-term interest rates have fluctuated around 5½ per cent, and the associated retail interest rates have remained unchanged. Although recent pressure has tended to be upwards, it remains possible that a reduction in key German rates within the next month or so could permit a small decline in Irish short-term rates. What is not clear is how either the market or the Central Bank would react to a downward move in German official rates, or, conversely, to any upward move in British rates. For the purpose of this *Commentary*, it is assumed that both the one-month interbank rate and its associated retail rates will remain basically unchanged for the remainder of 1994.

FIGURE 4: Interest Rates

Per cent per annum, Quarterly Averages



Some increase in short-term rates seems almost certain in 1995. However, it seems likely that the rise will be smaller than the 2 per cent implied by the current yield curve on the interbank market. Although the recovery in the world economy will increase the private sector demand for funds for investment, it will simultaneously reduce the borrowing requirements of most governments, especially in Europe, as revenue buoyancy erodes their current budget deficits. At this stage of the trade cycle, improved growth seems unlikely to result in a surge of inflation. Thus it is difficult to see German short-term rates, which are still the primary influence on rates in the rest of Europe, including Ireland, rising by anything like 2 per cent in the coming twelve months.

Long-term interest rates are even harder to predict. Irish rates tend to follow general international trends, with domestic factors nowadays having only a marginal influence. The rise in international rates in the first half of 1994 was unexpectedly large and early. They now discount an acceleration in the rate of international inflation considerably above the forecasts of most non-market analysts, at least for 1994 and 1995.

Thus for forecasting purposes we have assumed that there will be little change in long-term interest rates until late in 1995. Average short-term and associated rates are assumed to be roughly one per cent higher in 1995 than in 1994.

General Assessment

The difficulty of maintaining consistent trade statistics within the context of the Single European Market means that preliminary estimates of 1993 growth in all EU countries, including Ireland, must be treated with considerable reserve. However, uncertainties concerning the true outcome of 1993 do not affect the clear evidence of improved economic performance in 1994. The recovery in continental Europe is now firmly established, while growth continues at a sustainable pace in the UK and USA.

In Ireland, all available indicators show rapid and balanced growth in the first half of the year, with both personal consumption and capital investment contributing to a strong revival in domestic demand. For 1994 as a whole, it seems likely that the growth of real GNP will be in the region of 5 per cent, with employment increasing substantially, average unemployment falling by about 12,000 and price inflation remaining under 2½ per cent on an annual basis.

Barring unforeseen mishaps, rapid economic growth should continue in 1995. The external environment appears likely to improve further. Because of its relatively modest pace compared with some earlier cycles, economic expansion in the USA can be expected to continue through 1995 without being brought to a halt by undue inflationary pressures. Similarly, the UK expansion is reasonably balanced, and could continue in 1995 without the acute pressure on the balance of payments which previously seemed inevitable, and with only a minor increase in cost inflation. Above all, the recovery in continental Europe should gather pace in 1995, with domestic demand growing and employment rising in most European countries.

Thus, provided that Irish costs remain competitive, the external climate should be favourable both for exports and for inward investment. Domestically, both consumption and capital investment should continue to increase strongly. Confidence is likely to remain high, sustained by rising employment and increasing real incomes. Although interest rates seem certain to rise, the increase is likely to be modest, and will leave both nominal and real borrowing rates well below the levels at which they proved compatible with rapid growth in 1989 and 1990. Domestic considerations seem most unlikely to push the Irish inflation above the north European norm in 1995, despite the rapid rate of economic growth expected. The Programme for Competitiveness and Work should help to prevent any surge in average pay levels, although some increase in wage drift does appear probable.

Given this confluence of favourable factors, it would be disappointing if the annual rate of growth in 1995 is not even greater than that in 1994. The forecast of a 6 per cent increase in real GNP contained in this *Commentary* appears reasonable in the light of past performances of the Irish economy in less favourable conditions. It is certainly intended as a neutral forecast, in the sense that it is as liable to be exceeded as to prove too optimistic.

In line with this rapid growth in GNP, another substantial increase, of the order of 30,000, can be expected in average non-agricultural employment in 1995. Assuming the continuation of a modest level of net emigration, but also a rise in labour force participation as job prospects improve, the annual average of registered unemployment could fall by about 14,000. However, such a fall would still leave the Live Register standing at over 260,000 by the end of 1995, or an unemployment rate of more than 14 per cent on the official measure.

Although the likely reduction of over 25,000 in the Live Register over 1994 and 1995 belies the fears of some commentators in recent years that unemployment would rise inexorably throughout the decade, the unacceptably high level of unemployment still projected at the end of two consecutive years of strong economic growth illustrates the severity and intractability of the Irish unemployment problem.

It also poses a policy dilemma. Given that the stated central aim of economic and social policy is the reduction of unemployment, there must be some temptation to use any fiscal latitude in the 1995 Budgetary position to further boost the expansion of domestic demand and thus the rate of net job creation. In our opinion, such an approach, although well-meaning, would be mistaken.

In the first place, even if such a policy succeeded in accelerating the short-term rate of job creation, there is no guarantee that it would lead to a sharper reduction in unemployment. The dynamics of unemployment in Ireland are complex, involving gross migration flows and the participation rate as well as the pace of net job creation. Thus it is quite possible that a faster rate of employment growth would have little impact on the level of unemployment, because it would encourage more people to enter the labour market and increase the flow of returned emigrants. Past experience suggests that Irish unemployment moves closely in line with that in the UK, but at a higher level. Eroding this gap between Irish and UK unemployment rates should be possible, but it will almost certainly prove a long and gradual process which cannot be achieved by a sudden surge of growth.

An even stronger argument against attempting to stimulate an already buoyant domestic demand in 1995 is the risk of inducing inflationary pressures. Given the margin of unused resources and the existence of a medium-term pay agreement, we believe that the economy can absorb the forecast growth rate of 6 per cent without undue pressure on costs or prices. However, if the growth rate were to be pushed significantly higher, there is a real danger that emerging bottlenecks and specific skill shortages could force up prices and costs to an extent that would damage future competitiveness.

Thus, while a substantial increase in employment is a necessary condition for reducing unemployment, attempts to engineer too rapid an increase in the number of jobs could prove both ineffective in the short run and damaging to employment prospects themselves in the long run. The inescapable conclusion is that by far the best hope for a major reduction in unemployment is to prolong the period of rapid economic growth into 1996 and beyond, rather than to intensify it in 1995.

Obviously, the sustainability of high growth rates depends largely on conditions in the international economy, and thus beyond the control of Irish policy makers. However, domestic policies can determine whether Ireland can maintain its recent record of consistently out-performing the wider European economy, thus taking advantage of favourable external conditions and avoiding the worst consequences of any international set-back. As the probability is that world, and particularly European, economies will continue to grow until at least 1997, appropriate Irish policies should thus provide a good chance of delivering several successive years of substantial net job creation.

The cornerstone of Irish strategy must therefore continue to be the maintenance, and if possible the improvement, of Irish competitiveness. Quite apart from long-term structural policies in such areas as education, training and industrial development, such a strategy also implies consistency in the main branches of medium-term economic management.

Although many economists remain sceptical of the ability of incomes policy to deliver a permanently lower rate of cost inflation, experience does suggest that the successive national agreements since 1987 have been beneficial to the Irish economy. The reduction in uncertainty over future costs and the relative absence of disputes over pay increases have helped to maintain investment levels, while, at least in the short term, the rapid increase in employment in 1989 and 1990 did not induce a surge in private sector pay claims.

It thus seems highly desirable that the current Programme for Competitiveness and Work should be adhered to, as it offers considerable protection against the danger of a loss of competitiveness resulting from the tightening of the labour market in 1995. It is particularly important, both for budgetary reasons and for establishing the conditions of fairness which will encourage the maintenance of pay discipline in the exposed sectors of the economy, that the terms of the public service pay agreement are strictly obeyed, and that changes in arbitration procedures prevent a recurrence of past excesses. While a degree of grade restructuring within parts of the public service is probably overdue, agreement on new structures should not be used as a covert route to effective public pay increases in excess of the private sector norm.

The principles governing the operation of monetary policy since the widening of the ERM bands a year ago have not been made fully explicit. Observation suggests that official interest rate movements have tended to follow those of the Bundesbank, while the market has been allowed to determine short-run fluctuations without much official intervention. Currency policy appears to have been essentially passive, permitting the market to establish the value of the Irish pound. Over the past 12 months, Irish pound fluctuations against the DM have been significantly greater than those against sterling, and the influence of sterling on Irish exchange rate movements appears to be increasing.

It could well be that changing conditions in the coming months will force monetary policy to become more explicit. Divergent trends in short-term interest rates between the UK and Germany are likely to clarify the stance of Irish interest rate policy. Although now less likely than previously thought, it is still possible that a renewed sterling depreciation in the course of 1995 could impose the need for a more active Irish exchange rate policy.

In adapting to changing circumstances, the monetary authorities should continue to be guided by the need to maintain Ireland's long-term competitiveness. This implies the retention of an anti-inflationary stance, including the willingness to raise Irish interest rates unilaterally were conclusive evidence to emerge that domestic inflationary pressures were increasing. In the absence of such evidence, there are strong arguments in favour of continuing to follow German rather than UK interest rate movements. In the medium term, German inflation is likely to prove lower than that in the UK. The effective re-establishment of a sterling link by the markets is thus not to Ireland's long-term benefit, and to reinforce it by appearing to follow UK rather than German interest rate movements would be a retrograde step.

The principal features of fiscal policy in recent years have been the maintenance of a relatively low Exchequer Borrowing Requirement, so that the debt/GNP ratio has been substantially reduced, and the gradual reduction of real rates of personal direct taxation, both average and marginal. Somewhat ironically, as the schedule of tax rates has been reduced, actual revenue received from direct personal taxes has tended to rise faster than personal incomes, largely because of improved methods of collection.

Our forecast for 1995 assumes a continuation of these trends, although with a smaller "collection bonus" in personal tax receipts. Specifically, we assume that there will be a small current budget surplus in 1995, resulting from strict control on current public expenditure and only limited further reductions in real average tax rates.

If the prospects of prolonging the period of rapid economic and employment expansion into 1996 and beyond are to be maximised, we believe it is important that the actual budget out-turn for 1995 should not diverge too far from our assumptions. In particular, the temptation to utilise the improved fiscal climate to introduce larger cuts in personal tax rates or higher spending should be resisted.

As explained in our Spring *Commentary*, the macro-economic, as well as the fiscal, consequences of the Budget need to be considered. The additional stimulus of substantial tax cuts on top of the already buoyant state of domestic demand in 1995 could be de-stabilising, and would militate against prolonging sustainable growth into the succeeding years.

In fiscal terms, it obviously is desirable to use years of rapid economic growth to obtain substantial reductions in the still excessive debt/GNP ratio. Not only does this rapidly reduce the exposure of the Irish economy to future external shocks, but it also provides some scope for fiscal relaxation when the next international recession arrives.

To summarise, both 1994 and 1995 promise rapid economic growth in Ireland and a substantial increase in employment. Policy should be directed primarily at extending this growth into future years, rather than attempting to intensify it in 1995. Within this context of securing prolonged employment growth, structural measures to improve national competitiveness and to improve the relative employment prospects of the long-term unemployed could be intensified. Nevertheless, it must still be recognised that reducing unemployment towards tolerable levels will be a slow process and that attempts to accelerate it are liable to prove counter-productive.

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
1986	102.9	107.1	99.9	12466	22680	184.2	40.2	143.8
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	137.4
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	192.8	55.8	136.9
1994 I	195.2	299.8	118.8	4484	4692			
II								
III								
IV								
Quarterly Averages or Totals (Seasonally Corrected)								
1991 I	152.5	201.4	115.0	3712	No Seasonal Pattern	192.5	49.8	142.8
II	150.8	201.4	114.3	3708		192.7	50.2	142.6
III	153.9	206.9	115.1	3781		191.9	50.2	141.9
IV	159.1	220.8	115.7	3789		193.6	51.4	141.9
1992 I	165.3	228.9	117.6	3868		192.5	51.9	140.6
II	167.7	237.1	118.4	3879		192.1	51.6	140.6
III	173.9	253.2	119.1	3943		191.9	51.5	140.4
IV	171.8	251.5	116.9	3991		191.8	52.5	139.3
1993 I	178.9	260.0	118.0	3915		192.0	54.1	137.8
II	178.2	263.7	118.1	4058		192.2	54.3	138.1
III	178.1	264.3	118.6	4078		191.6	54.6	137.1
IV	180.2	269.1	118.2	4120		191.4	54.8	136.6
1994 I	191.7	277.7	123.2	4140				
II								
III								
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	
104.4	104.8	102.5	87.3	95.7	172.0	64.4	236.4	1986
116.4	127.2	106.0	91.8	97.6	176.2	71.1	247.3	1987
130.4	147.6	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
174.2	192.1	130.2			193.8	100.5	294.3	1993

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	119.4	106.7	192.9	102.1	294.9	III
179.6	187.8	133.1			190.5	99.5	290.0	IV
					194.1	99.6	293.7	1994 I
					183.7	96.3	280.0	II
								III
								IV

Quarterly Averages (Seasonally Corrected)

147.5	160.1	118.8	106.6	101.4	160.8	77.6	238.5	1991 I
146.6	158.3	118.2	108.5	102.4	168.8	82.2	251.1	II
149.6	161.9	119.6	108.4	101.0	174.4	86.1	260.5	III
154.0	168.6	120.3	110.1	101.9	177.8	88.0	265.7	IV
159.9	174.8	123.5	110.8	101.7	182.0	91.2	273.1	1992 I
163.7	181.2	124.2	112.3	102.2	185.4	94.3	279.7	II
169.8	193.3	125.0	113.0	102.5	189.6	99.0	288.6	III
167.7	187.7	123.9	114.9	103.8	191.7	99.4	291.1	IV
173.9	190.8	126.4	116.7	105.1	193.3	101.5	294.8	1993 I
174.0	191.2	126.1	116.9	105.4	195.0	100.1	295.2	II
173.6	190.3	127.5	119.2	106.7	193.9	99.2	293.2	III
175.9	192.5	127.8			192.8	101.2	294.0	IV
					189.5	99.4	288.9	1994 I
					185.0	97.6	282.6	II
								III
								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
1986	89.8	98.8	97.8	99.5	92.8	96.7	104.1	907.7
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		113.2				1576.0
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		109.2	103.1	97.9	95.0	1313.5
II	109.1	115.2		115.4	104.4	100.7	96.5	1532.2
III	110.2	117.2		114.6	106.2	101.6	95.6	1685.6
IV	110.5	116.9		113.7				1772.6
1994 I	111.2	117.0		118.4				1966.3
II	112.1	117.1		121.3				1806.3
III								
IV								
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	108.5	106.3	103.9				
III	105.5	108.8	106.6	102.7				
IV	106.5	109.9	107.5	105.7				
1992 I	107.3	110.5	108.1	106.5				
II	108.2	110.8	108.2	107.3				
III	108.5	110.3	106.9	107.9				
IV	108.9	110.3	106.2	106.6				
1993 I	109.3	113.2		108.3				
II	109.2	114.7		112.9				
III	110.0	116.9		115.9				
IV	110.6	117.5		116.1				
1994 I	111.2	117.3		117.4				
II	112.2	116.6		118.6				
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	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	
62112	NA	NA	6709	8104	1395	12.4	11.1	1986
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
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
			3041	2651	–390	5.6	8.4	II
								III
								IV
Quarterly Averages or Totals (Seasonally Corrected)								
23021	100.2	99.2	2088	2165	77	No Seasonal Pattern	No Seasonal Pattern	1991 I
22743	100.4	99.0	2150	2422	272			II
21633	101.6	99.4	2231	2212	–19			III
21262	103.2	100.3	2291	2285	–6			IV
22484	104.8	101.5	2275	2367	92			1992 I
19047	105.6	101.6	2382	2412	31			II
22531	107.1	102.7	2379	2467	88			III
22129	106.2	102.1	2325	2567	242			IV
20255	106.6	102.7	2405	2569	164			1993 I
21615	107.1	101.9	2441	2455	14			II
22722	110.3	103.9	2727	2806	80			III
24485	111.9	104.9	2544	2700	157			IV
31458	119.8	112.1	3005	2753	–253			1994 I
			3136	2706	–429			II
								III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
	Money Supply M3	Licensed Banks Domestic Credit		External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
		Gov.	Non-Gov.					
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	PerIR£
1986	8836.9	2725.7	9065.5	2205.3	66.65	0.9147	1.3424	2.9080
1987	9799.5	2754.9	9494.5	2821.4	66.15	0.9089	1.4879	2.6717
1988	10421.0	2636.4	10853.4	3161.0	65.08	0.8568	1.5249	2.6743
1989	10945.0	2417.7	12538.3	2521.0	64.39	0.8665	1.4175	2.6650
1990	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
	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		2901.6	15759.5			0.9762	1.4685	2.4382
III								
IV								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1991 I	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II								
III								
IV								
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		
8621.3	9374.3	753.0	74.5	67.8	–2017	–612	1986	
9155.2	10723.5	1568.3	79.1	77.4	–2113	–60	1987	
10214.8	12304.8	2090.1	82.8	82.9	–2663	62	1988	
12284.3	14597.0	2312.8	93.6	92.2	–3233	–348	1989	
12479.5	14343.0	1863.5	100.0	100.0	–3131	37	1990	
12853.4	15024.6	2171.3	100.8	105.6	–2864	924	1991	
13199.3	16624.5	3425.2	105.6	120.1	–3294	1432	1992	
					–3726	2594	1993	

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
1191.8	1537.1	345.2	110.8	131.6	–827	641	1993	I
1165.0	1650.2	485.2	107.1	137.5	–995	746		II
1203.1	1587.3	364.2	108.7	131.0	–863	616		III
					–1041	591		IV
							1994	I
								II
								III
								IV

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

1069.0	1194.9	125.9	101.5	102.7	No Seasonal Pattern	No Seasonal Pattern	1991	I
1066.6	1221.2	154.6	100.2	104.8				II
1078.6	1278.7	200.1	101.8	108.1				III
1069.1	1315.4	246.2	100.2	109.1				IV
1084.8	1360.0	275.2	102.2	114.0			1992	I
1100.8	1411.3	310.6	103.4	116.0				II
1107.5	1382.8	275.3	108.3	119.5				III
1098.4	1377.3	278.9	110.0	122.3				IV
1180.4	1559.3	378.8	109.7	132.6			1993	I
1156.2	1607.1	450.9	105.4	134.5				II
1256.3	1653.5	397.2	114.2	137.6				III
								IV
							1994	I
								II
								III
								IV