QUARTERLY ECONOMIC COMMENTARY

SUMMER 1995

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

T.J. BAKER and C. O'REARDON

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T.J. Baker is a Senior 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.

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SUMMARY

Official estimates confirm that 1994 was a year of rapid and well-balanced growth in the Irish economy. Revisions to estimates for previous years indicate that growth was slower than had been supposed between 1988 and 1993. The new figures appear more consistent and more realistic than the earlier estimates, especially with regard to 1993. They provide firm evidence that Irish growth remained positive throughout the international recession, and that the Irish economy has performed more successfully than other European economies since 1988. This can be attributed mainly to the combination of an appropriate economic strategy and a significant increase in EU funding.

Broad-based economic growth appears to be continuing strongly in 1995, with large increases in the volume of both exports and domestic demand. Personal consumption, which was relatively subdued in the first half of the year, is likely to increase substantially in the second half. The exact growth of real GNP will depend, as always, on the behaviour of such volatile items as profit expatriations, but the most likely growth rate for 1995 is in the region of 6 per cent.

A slight reduction in the rate of growth is projected for 1996, but it should remain quite vigorous at about 5 per cent. In both years inflation is expected to be moderate, with the consumer price index showing an annual increase of 2.6 per cent in 1995 and 2.5 per cent in 1996. Employment is forecast to rise steadily through 1995 and 1996, but any fall in unemployment will probably be very modest due to low net emigration and rapidly rising female participation in the labour force.

A continuation of the broad economic strategy of recent years seems both likely and desirable. However, this might not be easy to achieve in 1996. Expenditure obligations inherited from previous years may complicate the budgetary arithmetic, while it would be prudent to make provision for dealing with further shocks, including the possibility of renewed sterling depreciation. To give scope for the flexibility to meet such contingencies, while continuing the vital process of reducing the debt GNP ratio, it is essential that very tight control be maintained on the level of every-day government expenditure.

FORECAST NATIONAL ACCOUNTS 1995

A. Expenditure on Gross National Product

	1994	1995	Change in 1995				
	Preliminary	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	19,438	20,799	1,361	816	7	2¾	4¼
Public Net Current Expenditure	5,575	5,982	407	206	7¼	3½	3¾
Gross Fixed Capital Formation	5,248	5,893	645	513	12¼	2¼	9¾
Exports of Goods and Services (X)	25,024	28,150	3,126	2,820	12½	1	11¼
Physical Changes in Stocks	-258	30	288	250			
Final Demand	55,027	60,854	5,827	4,605	10½	2	8¼
less:							
Imports of Goods and Services (M)	20,286	22,916	2,630	2,180	13	2	10¾
GDP at Market Prices	34,741	37,938	3,197	2,425	9¼	2	7
less:							
Net Factor Payments (F)	4,134	4,759	625	572	15	1	13¾
GNP at Market Prices	30,608	33,179	2,571	1,853	8½	2¼	6

B: Gross National Product by Origin

	1994	1995	Change in 1995	
	Preliminary	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,330	2,423	93	4
Non-Agricultural: Wages, etc.,	16,772	17,778	1,006	6
Other:	10,449	11,766	1,317	12½
less:				
Adjustments	1,992	1,826	-166	-8¼
Net Factor Payments	4,134	4,759	625	15
National Income	23,425	25,382	1,957	8¼
Depreciation	3,272	3,501	229	7
GNP at Factor Cost	26,697	28,883	2,186	8¼
Taxes less Subsidies	3,911	4,296	385	9¾
GNP at Market Prices	30,608	33,179	2,571	8½

C: Balance of Payments on Current Account

	1994	1995	Change in 1995
	Preliminary	Forecast	
	£m	£m	£m
X - M	4,738	5,234	496
F	-4,134	-4,759	-625
Net Transfers	1,434	1,721	287
Balance on Current Account	2,039	2,196	157
as % of GNP	6¾	6½	-¼

FORECAST NATIONAL ACCOUNTS 1996

A. Expenditure on Gross National Product

	1995	1996	Change in 1996				
	Forecast	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	20,799	22,151	1,352	816	6½	2½	4
Public Net Current Expenditure	5,982	6,341	359	150	6	3½	2½
Gross Fixed Capital Formation	5,893	6,497	604	454	10¼	2¼	7¾
Exports of Goods and Services (X)	28,150	31,317	3,167	2,683	11¼	1½	9½
Physical Changes in Stocks	30	180	150	140			
Final Demand	60,854	66,486	5,632	4,243	9¼	2	7
less:							
Imports of Goods and Services (M)	22,916	25,579	2,663	2,086	11½	2¼	9
GDP at Market Prices	37,938	40,907	2,969	2,157	7¾	2	5¾
less:							
Net Factor Payments (F)	4,759	5344	585	500	12¼	1½	10½
GNP at Market Prices	33,179	35,563	2,384	1,657	7¼	2	5

B: Gross National Product by Origin

	1995	1996	Change in 1996	
	Forecast	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,423	2,520	97	4
Non-Agricultural: Wages, etc.,	17,778	18,845	1,067	6
Other:	11,766	12,943	1,177	10
less:				
Adjustments	1,826	1,800	-26	- 1½
Net Factor Payments	4,759	5,344	585	12¼
National Income	25,382	27,164	1,782	7
Depreciation	3,501	3,746	245	7
GNP at Factor Cost	28,883	30,910	2,027	7
Taxes less Subsidies	4296	4,653	357	8¼
GNP at Market Prices	33,179	35,563	2,384	7¼

C: Balance of Payments on Current Account

	1995	1996	Change in 1996
	Forecast	Forecast	
	£m	£m	£m
X - M	5,234	5,738	504
F	-4,759	-5,344	-585
Net Transfers	1,721	1,764	43
Balance on Current Account	2,196	2,158	-38
as % of GNP	6½	6	-½

COMMENTARY

The International Economy

General

The world economy appears to be growing at a moderate and sustainable pace in 1995, and a similar rate of expansion is likely to continue in 1996. Some fears have been expressed in recent months that the current growth phase of the cycle might be drawing to a close, but these worries appear to have been exaggerated. It is true that several major individual countries experienced a significant slowing of growth in the first half of 1995, but in each case there were specific reasons for this, particular to the country concerned. Some of these reasons, such as significant increases in interest rates over the preceding year or a substantial tightening of the fiscal stance, are likely to prove temporary in their effects. Others, such as overvalued currencies, have an automatic offset in stimulating output in other countries with undervalued currencies. In any case, recent currency movements have begun to narrow the more extreme currency differentials.

One beneficial outcome of the slowing of world growth in the first half of 1995 has been that the steep increase in many commodity prices which occurred in 1993 and 1994 has levelled off, although it has not been reversed to the extent that would justify fears of incipient recession. Despite relatively high commodity prices, the rate of general price inflation has remained moderate.

On balance, a prolonged but moderate growth phase in the present economic cycle remains likely, despite the weakness of indices of leading indicators in many countries during the first half of 1995. Continental Europe in particular, which commenced recovery much later than North America, would appear to have several years of fairly steady, low inflation, growth to come.

The US Economy

Short-term interest rates in the USA were raised by 3 per cent between the end of 1993 and the first quarter of 1995, with increases occurring fairly steadily throughout the period. Allowing for the lags involved, it is hardly surprising that there was an appreciable slowing of growth in the first half of 1995. Interest-sensitive forms of demand, such as consumer durables, especially cars, and private residential construction, showed slight falls in the first half of 1995 after three years of rapid expansion, while the increase in stock-building was also checked.

However, less interest-sensitive sectors, such as non-durable consumption and corporate investment in machinery and equipment, continued to grow in the first half of 1995. Recent evidence suggests that, with interest rates now stabilised, even such sectors as private residential consumption are resuming their growth. Thus, for 1995 as a whole, US domestic demand is likely to be significantly higher than in 1994. Moreover, the upturn in the second half of

1995 should provide both a carryover and the momentum for a further moderate increase in the volume of domestic demand in 1996.

Export volumes have remained quite buoyant in the first half of 1995, and with the lagged benefit of dollar depreciation to come, should grow more rapidly in the second half of the year. If the recent appreciation of the dollar against other major currencies is sustained, then the normal operation of time-lags would suggest that export volumes will grow more slowly in 1996. The probable effect of currency movements on import volumes is, of course, the inverse of that on export volumes.

Taking into account trends in both domestic demand and the volume trade balance, it seems probable that real GNP in the US will increase by about 3¼ per cent in 1995 and 2½ per cent in 1996. Consumer price inflation is expected to average about 3 per cent in both years, while the labour market could deteriorate marginally, with the unemployment rate rising to 6 per cent in 1996, still relatively low by historical standards.

The European Economy

There has been considerable diversity in economic performance within the continental EU so far in 1995. Countries with relatively weak currencies have continued to show substantial economic growth, while those with strong currencies, especially Germany, have shown little seasonally-corrected increase in output since the second half of 1994. Apart from a currency-induced loss of competitiveness, demand in most of the hard-currency countries has also been affected by tax increases in the past twelve months, as attempts were made to correct the fiscal deficits which arose during the recession.

Despite these negative factors, corporate investment in machinery and equipment has continued to recover in most continental European countries, and the present weakness of consumer demand can be viewed as temporary. Although fiscal policy is likely to remain restrictive in most countries, a further intensification is not expected, so that a gradual expansion in the volume of consumer demand is probable in the remainder of 1995 and in 1996. The weakening of the DM and related currencies against both the US dollar and peripheral European currencies, if it persists, should also serve to stimulate both export and investment demand in the hard-currency economies during 1996. Reflecting these improved prospects, business surveys show positive expectations for future output and stable or rising order books in most continental countries, including Germany and France.

Growth so far in 1995 has enabled the modest reduction in unemployment achieved in the course of 1994 to be maintained in the majority of countries. Not surprisingly, price inflation has fallen in Germany and remained at low levels in the other hard-currency countries, with the consumer price index in Germany a little over 2 per cent and that in France a little under 2 per cent higher than in the corresponding period of 1994. There does not appear to have been a corresponding acceleration in the countries which have effectively devalued, with price inflation in Italy and Spain remaining at about 5 per cent.

Given the resumption of more rapid economic growth, it seems probable that price inflation will increase slightly in 1996 in such countries as Germany, France and the Netherlands, although it is likely to remain under 2½ per cent. There could well be renewed progress towards convergence in inflation rates, with those in Italy and Spain falling to well under 5 per cent. A further modest reduction in European unemployment levels seems likely in 1996, but the EU average seems certain to remain unacceptably high at about 10½ per cent of the labour force.

The UK Economy

Like the USA, albeit to a lesser extent, the UK authorities raised short-term interest rates substantially in 1994 and early 1995, with a total increase of 1½ per cent. At the same time taxes were increased significantly, thus limiting the rise in real disposable incomes. As in America, the predictable response to tighter monetary and fiscal policy has been a levelling off in the volume of domestic demand in the first half of 1995.

Some growth in real GNP has been maintained due to the buoyancy of exports, which have benefited from both the recovery in the European economies and from the depreciation of sterling. However, contrary to earlier expectations, and in contrast to the experience of both the US and continental Europe, there has not been a significant growth in corporate productive investment. Thus the essential restructuring of the UK economy away from consumption and towards both exports and investment, which appeared to be under way during 1994, has been only partly completed.

The relative stagnation of domestic demand has prevented any strong upturn in consumer price inflation so far in 1995, in spite of the weakness of sterling. Prices of industrial inputs have risen sharply, both because of trends in world commodity prices and because of sterling depreciation, but much of this has been absorbed by industry, with output prices rising by about 5 per cent. Much of this rise, in turn, has been absorbed within the chain of distribution, so that consumer prices, excluding mortgage interest, are still increasing at a rate of less than 3 per cent. The resultant squeezing of margins might partly explain the sluggishness of corporate investment, although, within industry at least, one might have expected improved export margins to have compensated for this.

A slight increase in consumer demand seems likely in the remainder of 1995, as the effect of earlier tax increases fades. A rather stronger upturn is probable in 1996 on the assumption that there will be politically motivated tax cuts in the autumn Budget. However, the weakness of the housing market, with widespread negative equity among householders persisting, could preclude the increase in disposable income being reinforced by a significant fall in the personal savings ratio. Thus the increase in the volume of consumption in 1996 is likely to remain quite moderate, and investment in residential construction is unlikely to recover significantly from its continuing recession.

Export growth should remain reasonably strong in 1996, even if sterling maintains its recent appreciation against most continental currencies. However, the failure of productive investment to expand significantly in the earlier stages of the UK recovery could lead to capacity constraints, restricting the rate of export growth next year and allowing imports to take up an increasing share of any growth in domestic demand.

Despite the slowdown so far in 1995, the substantial carryover from 1994 should enable the annual growth in real GNP to reach 3 per cent this year. Even with some recovery in domestic demand next year, the annual growth rate can be expected to decline slightly to about 2¾ per cent. A renewed increase in price inflation can be expected during 1996, as manufacturers and traders attempt to restore margins as the domestic economy expands. If the currency holds its present value, and if there are no further significant increases in interest rates, the annual rise in the consumer price index could be just below 4 per cent in 1996.

As the economy has slowed in 1995, the improvement in the labour market seen since the middle of 1993 appears to have petered out. The rates of economic growth predicted for the remainder of 1995 and 1996 seem insufficient to generate significant increases in employment, and the unemployment rate could well remain roughly stable at around its current 8¼ per cent.

The Rest of the World

The incipient recovery in the Japanese economy since mid-1994 failed to gather momentum in the first half of 1995. This virtual stagnation can be ascribed principally to the over-valuation of the yen, although uncertainties arising from the delay in reaching a trade accommodation with the USA, from political weakness and from the exposure of some banks to a fall in asset values could also have contributed.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
UK	3	2¾	3½	3¾	4	4¾	8¼	8	-¼	-¾
Germany	3	3	2	2¼	3¾	4	9	8½	-1½	-1¼
France	3	3	2	2¼	3	3¼	12¼	11¾	1	¾
Italy	3¼	3½	5	4½	4¾	5	11¼	11	2½	2¾
Total EC	3	3	3	3	4	4¼	11	10½	¼	½
USA	3¼	2½	3	3	3	3¼	5¾	6	-2½	-2¼
Japan	1¼	2¼	¼	1	1½	2	3	2¾	2½	2¼
Total (OECD)	3	2¾	4	4¼	3¾	4	8¼	8	-¼	-¼
Ireland	6	5	2½	2½	3¼	3¾	14½	14	6½	6

The recent depreciation of about 20 per cent against the dollar, if it is maintained, could enable the Japanese economic recovery to resume in the second half of 1995 and to accelerate in 1996. With the reaching of a trade agreement with the USA, the continuation of very low Japanese short-term interest rates and market growth in the rest of the world, conditions appear suitable for a sustained recovery in the Japanese economy.

Most other Asian economies are expected to continue growing in 1995 and 1996, although perhaps not quite as rapidly as in recent years. Other advanced economies seem likely to accompany the US in a resumption of moderate growth over the coming year. Mexico and some other Latin American countries have suffered from a flight of capital, and are unlikely to return to their previous rapid growth in the next year or so. With most commodity prices having levelled off, but world-wide demand still relatively strong, many primary producing countries can expect reasonable income growth in 1995 and, probably, 1996. Similarly, OPEC incomes seem more likely to benefit from increased volumes than from a rise in crude oil prices, which have so far failed to sustain any substantial increase during the present economic recovery.

The Context for Ireland

World output growth in 1995 is expected to be about equal to the 3 per cent achieved in 1994. A slight reduction in the growth rate to 2¾ per cent is projected for 1996. The growth rate of world trade volume is similarly projected to decline over the period, from about 10 per cent in 1994 to 9 per cent in 1995 and 8 per cent in 1996. However, while the trend is slowing, these remain robust rates of growth, providing the likelihood of buoyant export markets over the next two years.

Within the total of world trade, both imports of manufactured products and imports within Europe, the categories of greatest consequence to Ireland, are expected to remain strong in 1995 and 1996. Trade in investment goods, including the output of the electronics industry, is likely to be particularly buoyant.

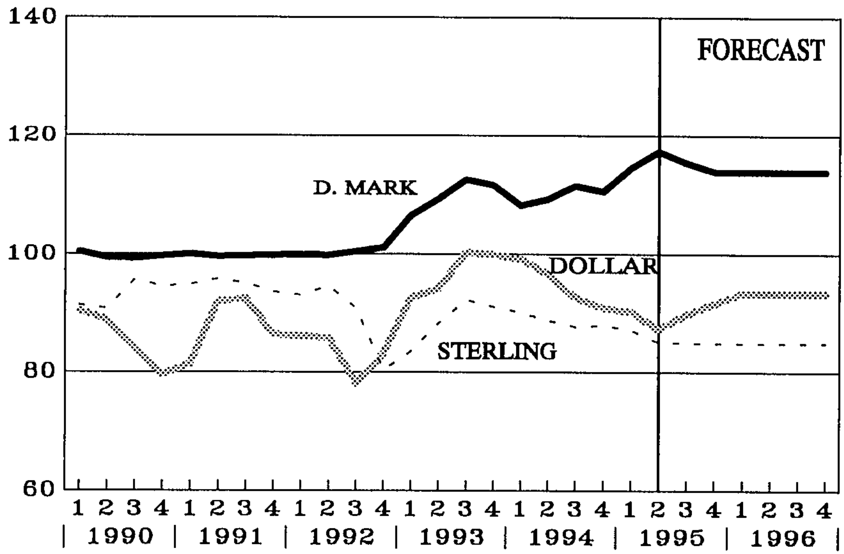
Growth in world output and trade should continue to be reflected in a high level of productive investment, much of it relatively footloose in character. Capacity utilisation throughout the world is high and still tending to increase, while real interest rates, both long and short term, appear to have stabilised at levels which are moderate by the standards of the past decade.

How much Ireland can benefit from reasonably buoyant export markets and strong international investment depends largely on the competitiveness of the Irish economy. In the short run this is heavily influenced by exchange rates. Exchange rates are notoriously difficult to predict, especially over a time horizon of one to two years. Although the direction of long-term trends can often be foreseen, the timing and scale of movements in currency values tend to be arbitrary.

In recent *Commentaries* it has been suggested that the US dollar has been significantly undervalued in relation to the yen and DM, but that the timing of the probable adjustment was unpredictable. It appears that this adjustment has now commenced, aided by concerted action by the relevant Central Banks. It is still too early to be certain whether the initial appreciation of the dollar will be eroded, whether it will be more or less held, or whether the process will intensify over the coming months. If there has been a genuine change in sentiment by major fund-holders, especially in Japan, then further dollar appreciation can be expected. On balance, this seems the most likely outcome, with the annual average value of the dollar against both the yen and the DM significantly higher in 1996 than in 1995.

Figure 1: Exchange Rates

IR£ Price of Unit of Foreign Currency, Quarterly Averages, 1989=100



In conjunction with the strengthening of the dollar, most of the peripheral European currencies, particularly sterling and the lira, have risen appreciably against the DM in recent weeks. Given that the links between these currencies and the dollar are indirect, there is no guarantee that they will echo any further dollar appreciation. For forecasting purposes, it is assumed that there will be little further movement among European currencies in the remainder of 1995 and 1996.

One of the unusual aspects of the recent currency movements is that they have not been associated with any significant changes in relative interest rates. A slight downward tendency in both long-term and wholesale short-term interest rates have been common to most economies over the past few months.

The recent reductions in German and most other European short-term interest rates came after the initial currency adjustments, and seem to have had little immediate impact on exchange rates. No further change in European interest rates seems likely in the remainder of 1995. The course of European interest rates in 1996 is still uncertain. The most likely development is that, as moderate economic growth resumes in Germany, a small rise of about ½ per cent in German and other interest rates will be introduced towards the middle of 1996.

The possible exception to this time-path is the UK, where a further rise in rates might be needed by the end of 1995 to prevent a renewed depreciation of sterling, especially if the forthcoming Budget results in a softening of fiscal policy.

While UK action to maintain the value of sterling would undoubtedly help in preventing a further erosion of Irish competitiveness in relation to its largest single market, a rise in UK interest rates could have damaging consequences for the labour market. It would adversely affect the already depressed UK construction sector, placing some upward pressure on Irish unemployment levels by further restricting opportunities for a traditional form of emigration.

The Domestic Economy

General

The publication of *National Income and Expenditure 1994* has brought significant revisions to estimates of economic growth in the years from 1989 to 1993. These will be discussed in the *General Assessment* at the end of the *Commentary.* The preliminary official estimates for 1994 confirm that it was a year of rapid economic growth, reasonably well balanced between domestic demand and exports. The growth of expenditure on GNP at constant market prices, at 7.4 per cent, is close to our final estimate of 7½ per cent in the Spring *Commentary,* although there are some differences in composition.

Strong growth in 1994 provides a foundation for continued expansion in 1995, and, from the few up-to-date indicators available, this appears to be taking place. Forecasts for the remainder of 1995 and for 1996 are based on the assumption, already discussed, that the external economic environment will remain reasonably favourable. Domestically, it is assumed that monetary policy will remain broadly aligned with that in the major continental countries and that there will be a slight tightening of fiscal policy in accordance with the commitments in the *Programme for Government.*

Exports

The value of visible exports rose by 15 per cent in 1994 according to the official provisional estimates. Especially after substantial revisions to the monthly data between the November and December estimates, it appears that there was a strong upward trend in the course of the year. Thus there is a substantial carryover into 1995.

Provisional trade statistics for the early months of the year show that the momentum of late 1994 was being maintained. Industrial production and turnover indices, and both business and export surveys, suggest that exports remained buoyant throughout the first half of 1995. As expected, high-technology exports account for most of the increase over the corresponding period of 1994, but the evidence suggests that traditional exports, mainly to the UK, have continued to increase despite the squeeze on margins occasioned by the weakness of sterling.

For 1995 as a whole, supply constraints are likely to preclude any significant increase in agricultural exports. Manufactured exports are forecast to increase by 15 per cent in volume and 16 per cent in value, with the fastest growth coming from the electronics sector. Other industrial exports, which include cola concentrates, are forecast to rise by 7½ per cent in volume and 9½ per cent in value. The projected percentage increase in both manufactured and other industrial exports is slower than the apparent rise in 1994, but last year's figures were distorted by a substantial shift in classification compared with 1993.

Assuming no change in the volume of unclassified exports, after a fall due to improvements in classification in 1994, the volume of visible exports in 1995 is forecast to increase by 11½ per cent. Price changes are likely to vary considerably, according to product and market, but, overall, an increase of about 1 per cent seems a reasonable expectation. Thus the value of visible exports is forecast to rise by 12½ per cent, implying a slight slackening in the rate of increase in the second half of the year.

Initial indications are that tourist earnings are likely to grow strongly in 1995, with the UK market in particular responding to the absence of hostilities in Northern Ireland. In the absence of any balance of payments estimates for 1995 to date, it is assumed that the value of other service exports will increase by 6 per cent, compared with 5 per cent in 1994. Thus total exports of goods and services in 1995 are forecast to increase by 11¼ per cent in volume and 12½ per cent in value, as shown in Table 2.

TABLE 2: Exports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,790	0	0	2,790	0	2	2,846
Manufactured	16,180	15	16	18,769	12½	14	21,397
Other Industrial	2,603	7½	9½	2,850	6	8	3,078
Other	1,175	0	1	1,187	0	1½	1,205
Total Visible	22,748	11½	12½	25,596	9¾	11½	28,526
Adjustments	-354			-354			-360
Merchandise	22,394	11¾	12¾	25,242	10	11½	28,166
Tourism	1,497	11	14	1,707	8	10¾	1,890
Other Services	1,133	3	6	1,201	2½	5	1,261
Exports of Goods and Services	25,024	11¼	12½	28,150	9½	11¼	31,317

If we are correct in predicting that European economic growth will be sustained in 1996 at about the same rate as this year, the increase in Irish exports should again be substantial. Allowing for a minor slowing down in UK growth, and for a delayed effect from the narrowing of margins on some exports due to sterling weakness this year, total visible exports are projected to rise in 1996 by 9¾ per cent in volume and 11½ per cent in value. High-technology manufactured exports, mainly in the electronic and chemical sectors, are again likely to provide most of the increase.

Assuming that peace is maintained in Northern Ireland, but without a complete settlement, a further significant increase in tourist earnings seems likely, while another moderate increase in other service exports is projected. Thus total exports of goods and services in 1996 are forecast to rise by 9½ per cent in volume and 11¼ per cent in value, roughly in line with the annual average since 1988.

Stocks

The fall in the value of physical changes in stocks in 1994 was unexpectedly large at £258 million. This was mainly due to heavy losses on sales from intervention stocks, coupled with a substantial fall in the actual level of intervention products held. Both farm stocks and other non-agricultural stocks rose in value.

In 1995, it is expected that there will be some further reduction in the already modest volume of intervention products in storage, together with a substantial loss on the sales which are made from intervention. The value of changes in intervention stocks could thus fall by about £160 million. A small increase in farm stocks is projected, while non-agricultural stocks seem likely to rise a little faster than in 1994. Thus, as shown in Table 3, the value of total stock changes in 1995 is forecast at £30 million.

TABLE 3: Stock Changes

	1994	Change in Rate	1995	Change in Rate	1996
	£m	£m	£m	£m	£m
Livestock on Farms	57	-32	25	-25	0
Irish Intervention Stocks	-451	291	-160	140	-20
Other Stocks	136	29	165	35	200
Total	-258	288	30	150	180

By the end of 1995, the level of intervention stocks is likely to be so low that further large volume reductions and losses on sales in 1996 cannot occur. On the other hand, changes in the nature of the Common Agricultural Policy are such that a rebuilding of intervention stocks of meat or dairy products is most unlikely. Thus a small reduction in the value of changes in intervention stocks is projected for 1996. Little change in the value of farm stocks, and a further moderate rise in non-agricultural stock-building, would result in the value of total stock-building reaching about £180 million.

Investment

The 1994 increase in the volume of gross fixed capital formation, at 7¼ per cent, was rather smaller than had been expected. Investment in building and construction showed a sharp volume rise at about 10 per cent, but the volume of investment in machinery and equipment is estimated to have increased by a surprisingly modest 3¼ per cent.

Investment in building and construction is continuing to grow rapidly in 1995. Unlike 1994, when it was driven mainly by a rise of almost 20 per cent in the volume of residential construction, growth this year is broadly based. House building is continuing to increase, but at a more moderate pace, while there has been a strong increase in non-residential construction, especially in the industrial and commercial sectors. On current trends it seems likely that the volume of total building and construction investment in 1995 will increase by over 10 per cent. There are no short-term indicators for investment in machinery and equipment, but past experience suggests that at this stage of the economic cycle a substantial increase can be expected. Thus a volume rise of about 8½ per cent is assumed, giving a forecast increase of 9¾ per cent in the volume of total gross fixed capital formation in 1995, as shown in Table 4.

TABLE 4: Gross Fixed Capital Formation

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,235	10½	13½	3,673	7½	10¼	4,051
Machinery and Equipment	2,014	8½	10¼	2,220	8	10¼	2,446
Total	5,248	9¾	12¼	5,893	7¾	10¼	6,497

With interest rates remaining relatively low, and market conditions reasonably buoyant, both in Ireland and overseas, growth in investment should continue in 1996. Prudence suggests that there could be some slowdown in the rate of expansion, especially in residential construction, so the volume increase in total fixed investment is projected at 7¾ per cent for 1996.

Consumption

The preliminary national accounts estimates for personal consumption in 1994 are surprisingly low, given the strength of the retail sales index and the large increase in Irish tourist spending abroad, two of the principal components of personal consumption.

In the first half of 1995 the path of the retail sales index has been rather erratic, with significant monthly fluctuations. Overall, the index has not been particularly buoyant, with the value in the first half of the year only 3.6 per cent above the corresponding period of 1994. This is partly due to the relative stagnation of car sales in the first half of 1995 after their strong rise in early 1994. Excluding sales through garages and filling stations, the value index of retail sales in the first half of 1995 increased by 4.1 per cent over the first half of 1994.

As explained in the Spring *Commentary*, there are several reasons for expecting retail sales to grow more strongly in the second half of 1995. Car sales are less likely to be heavily bunched in the early months of the year than in 1994, with the scrapping scheme which came into effect in July providing a mid-year stimulus to sales. More generally, disposable incomes are expected to increase faster in the second half of the year. The impact of higher interest charges in early 1995, together with inhibiting fears that interest rates might rise further, would have been wearing off, even before the recent reduction in mortgage and other retail interest rates served to improve confidence and increase effective disposable income.

Thus for 1995 as a whole, it is reasonable to project significantly higher rates of growth in the retail sales index than have been seen in the first half of the year. Assuming that total personal consumption rises roughly in line with the index, increases of 7 per cent in value and 4¼ per cent in volume are forecast for 1995, as shown in Table 5. Such a value increase implies a slight rise in the actual personal savings ratio compared with 1994, but a marginal fall in the underlying ratio when the distortion caused by last year's tax amnesty is taken into account.

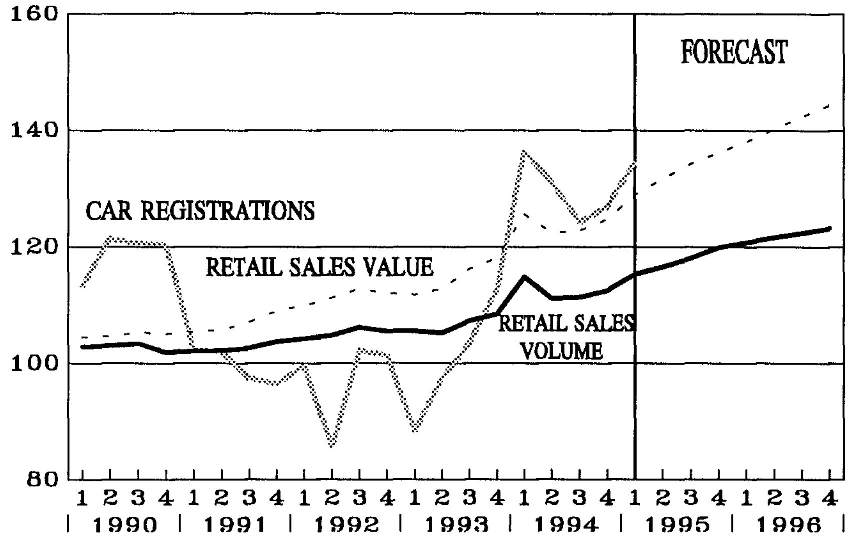
TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1991	1992	1993	1994	1995 To Date	1995 Forecast	1996 Forecast
Consumption Value							
NIE 1994, Personal Consumption	4.9	5.5	3.1	7.2		7.0	6.5
Retail Sales Index, Value	1.8	4.3	3.0	7.9	3.6	6.8	6.5
Divergence	3.3	1.2	0.1	-0.7		0.2	0
Consumption Volume							
NIE 1994, Personal Consumption	2.0	2.9	1.4	4.3		4.2	3.9
Retail Sales Index, Volume	-0.1	2.3	1.4	5.5	2.0	4.2	3.9
Divergence	2.1	0.6	0	-1.2		0	0
Consumer Prices							
NIE 1994, Personal Consumption Deflator	2.8	2.5	1.7	2.8		2.7	2.5
Retail Sales Index Deflator	1.9	2.0	1.6	2.3	1.9	2.5	2.5
Consumer Price Index	3.2	3.0	1.5	2.4	2.6	2.6	2.5

If our expectations for personal consumption in the second half of 1995 are correct, there will be a substantial carryover of consumption growth into 1996. Assuming that there is only a slight rise in nominal interest rates in the course of 1996, consumption should continue to grow moderately in the course of the year. The projected annual increase in the value of consumption of 6½ per cent implies a further minor reduction in the personal savings ratio in 1996 if, as expected, the growth in personal disposable income is rather slower than this year.

Government consumption, defined as public authorities' net expenditure on current goods and services, is due to increase by about 3¾ per cent in volume and 7¼ per cent in value in 1995 if the post-Budget Estimates are adhered to. The 1996 level of public consumption depends largely on policy decisions yet to be finalised. On the basis of stated policy aims, it seems probable that growth will be significantly slower than this year. Increases of 2½ per cent in volume and 6 per cent in value are assumed for the purpose of this *Commentary*. Thus, in both years, the pattern established since 1992 of public consumption rising more slowly than personal consumption in volume terms is forecast to continue. At current prices, the cumulative increase in public consumption is forecast to be marginally below that in private consumption, in strong contrast to the years from 1990 to 1993, when very high public service pay increases meant that the cumulative rise in public consumption was over twice that in personal consumption.

Figure 2: Consumption
Quarterly Averages Seasonally Adjusted, 1989=100



Final Demand

According to *National Income and Expenditure 1994,* final demand in 1994 increased by 10½ per cent in value and just over 8½ per cent in volume. As expected, the growth in demand was better balanced than in the preceding years, with the volume of final domestic demand rising by 4¾ per cent, the highest rise since 1989, and the first time since 1990 that it has risen by more than 2 per cent.

On the basis of the expenditure forecasts already discussed, the increase in total final demand in 1995 is predicted to be very close to that officially estimated for 1994, at 10½ per cent in value and just over 8¼ per cent in volume. As last year, the growth in demand is forecast to be well balanced. Final domestic demand, with stock-changes excluded because in Ireland's case they tend to be related to exports rather than domestic spending, is forecast to increase by just over 5 per cent in volume, with export volume rising by 11¼ per cent. A further similarity with last year is that the import intensity of final demand is likely to be fairly high, with manufactured exports, personal consumption and investment in machinery and equipment all making major contributions to the increase in demand.

Expenditure projections for 1996 indicate some slowing of the rate of growth in final demand, to 7 per cent in volume and 9¼ per cent in value. The growth should, however, remain in balance, with the volume of final domestic demand growing by 4¼ per cent and exports by 9½ per cent. Again the composition of final demand is expected to be quite import intensive.

Imports

Visible imports in 1994 rose by almost 12 per cent in volume and 15 per cent in value. This was about 1 per cent higher than our estimate in the Spring *Commentary,* due entirely to revisions in official estimates for the period from January to November. On the revised figures, it appears that the seasonally-corrected value of visible imports jumped sharply in the fourth quarter, after remaining fairly constant through the first three quarters of the year. With average import prices relatively flat throughout the year, the fourth quarter increase in import values reflected a substantial volume rise.

Provisional estimates for the first three months of 1995 show the value of imports marginally increasing on the seasonally-corrected fourth quarter 1994 level, although on an annual basis they were 15¼ per cent higher than in the first quarter of 1994. In contrast with exports, there are no available survey data to indicate more recent import trends. However, with industrial production continuing to increase and investment thought to have accelerated, there is little doubt that imports have remained at a high level throughout the first half of the year. For 1995 as a whole, an increase of about 11¼ per cent in the volume of visible imports is forecast. Price increases are likely to be moderate, given the relative weakness of sterling and the dollar, the two currencies in which most import are denominated. Average import prices are thus forecast to rise by just under 2 per cent, with the value of visible imports accordingly increasing by 13¼ per cent.

TABLE 6: Imports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	2,753	12½	15	3,166	10	12½	3,562
Consumer Goods	3,855	8½	10½	4,260	8½	11	4,729
Intermediate Goods:							
Agriculture	528	3	5	554	2	4½	579
Other	8,590	14½	16½	10,007	11½	14	11,408
Other Goods	1,432	0	2	1,461	0	2½	1,498
Total Visible	17158	11¼	13¼	19,448	9½	12	21,776
Adjustments	-288			-300			-316
Merchandise Imports	16,870	11½	13½	19,148	9½	12	21,460
Tourism	1,072	8	11	1,190	8	10¾	1,317
Other Services	2,344	7	10	2,578	6	8¾	2,802
Imports of Goods and Services	20,286	10¾	13	22,916	9	11½	25,579

After the massive rise in Irish tourist spending abroad in 1994, a much smaller, but still substantial, value increase of 11 per cent is forecast for 1995. Other service imports are projected to increase in value by 10 per cent, slightly faster than in 1994. Thus, as shown in Table 6, total imports of goods and services in 1995 are forecast to increase by 10¾ per cent in volume and 13 per cent in value.

If our prediction of a slight deceleration in the growth of final demand in 1996 is correct, it is likely to be matched by a rather slower rate of increase in imports. A rise of 9½ per cent in the volume of visible imports would appear compatible with our projection of final demand. Allowing for a marginally greater rise in average prices, the value of visible imports is forecast to rise by 12 per cent. A further substantial increase in both tourist and other service imports seems likely, so that total imports of goods and services in 1996 are projected to rise by just over 9 per cent in volume and 11½ per cent in value.

Balance of Payments

Late revisions to the 1994 trade statistics resulted in an official estimate of the balance of visible trade of £5,590 million, some £300 million lower than our estimate in the Spring *Commentary*. However, the surplus is still so large that it is likely to increase substantially in both 1995 and 1996 in spite of our forecast that the percentage rise in the value of imports will slightly exceed that in the value of exports.

Balance of payments revisions have increased the scale of the deficit on service trade in both 1993 and 1994. It seems probable that this deficit will continue to widen in 1995 and 1996, although not at as fast a rate as in 1994 when the growth of tourism imports was quite exceptional. Thus, as shown in Table 7, the surplus on trade in goods and services is projected to increase by about £500 million in both 1995 and 1996, much the same absolute rise as was achieved in 1994.

One of the most surprising elements of the 1994 *Balance of Payments Estimates* was the relatively small increase in profit expatriations. Despite an upward revision to estimates in the years up to 1993, and a very large increase in the value of relevant exports between mid- 1993 and mid-1994, the rise in the value of profit expatriations in 1994 was only 9½ per cent. There are at least three possible explanations for this relatively low rise, with the balance between them being of considerable importance in trying to predict such outflows in 1995 and 1996.

In the first place it could have been a mere accident of timing, in which case it is likely to be reversed in 1995, giving a very large increase in profit outflows this year. Secondly, it could reflect a narrowing of profit margins, so that the large rise in the value of exports did not result in a corresponding increase in multinational profits. In this case, there would be no backlog to swell outflows this year, and the future rate of expatriation would depend on whether margins had stabilised or been improved. Finally, and probably most likely, it could reflect the holding back of a proportion of profits to finance capital investment in Ireland. Strictly speaking, this should be recorded as a capital inflow separate

TABLE 7: Balance of Payments

	1994 £m	Change %	1995 £m	Change %	1996 £m
Visible Trade Balance	5,590	10	6,148	9¾	6,750
Adjustments	-66		-54		-44
Merchandise Trade Balance	5,524	10¼	6,094	10	6,706
Service Trade Balance	-786	9½	-860	12½	-968
Trade Balance in Goods and Services	4,738	10½	5,234	9¾	5,738
Factor Flows:					
Profits etc.	-4,001	18	-4,721	15	-5,429
National Debt Interest	-1,081	4½	-1,130	2	-1,153
Other Debit Flows	-1,013	4½	-1,059	4½	-1,107
Total Debit Flows	-6,095	13½	-6,910	11¼	-7,689
Credit Flows	1,961	9¾	2,151	9	2,345
Net Factor Flows	- 4,134	15	-4,759	12¼	-5,344
Net Transfers	1,434	20	1,721	2½	1,764
Balance on Current Account	2,039	7¾	2,196	-1¾	2,158

from the gross current profit expatriation, but on the methodology in use it is the net cash outflow which tends to be recorded.

Given these uncertainties as to the cause of 1994's small increase, the safest assumption is that in 1995 and 1996 profit outflows will revert to their long-term norm of increasing at about the same rate as the value of multinationals' exports, but without any postponed expatriation of profits from 1994. Thus increases of 18 per cent in 1995 and 15 per cent in 1996 are projected.

Moderate increases in overseas interest on the National Debt are forecast, mainly reflecting changes in currency values. Similar moderate increases in other debit flows are projected, although this item has proved very volatile in the past. Thus total debit flows are tentatively projected to increase by 13½ per cent in 1995 and 11¼ per cent in 1996. These compare with an average annual increase of about 9 per cent since 1988.

Credit flows rose by 19½ per cent in 1994, after two years of slight decline. They are projected forward at about half the 1994 rate of increase, or marginally below the average since 1988. On this basis, net factor outflows are forecast to increase by just over 15 per cent in 1995 and by 12¼ per cent in 1996. It must be stressed, as usual, that forecasts of net factor flows are subject to a greater margin of error than almost any other item in this *Commentary*.

Net transfer payments fell by almost 24 per cent in 1994, with gross receipts from the EU declining and gross payments rising. A considerable recovery is expected in 1995, although net payments are unlikely to regain the levels obtained from 1991 to 1993. A small further increase is projected for 1996.

If our forecasts are broadly correct, the absolute surplus on the current account of the balance of payments will increase moderately in 1995 and decline marginally in 1996. As a proportion of GNP, it will represent just over 6½ per cent in 1995 and 6 per cent in 1996. These forecasts compare with a proportion of 6¾ per cent in 1994, and a peak of almost 7½ per cent in 1993 on the revised national accounts estimates.

Gross National Product

The official preliminary estimate of the growth rate of constant price expenditure on GDP at market prices in 1994 was 6¾ per cent, compared with our estimate in the Spring *Commentary* of 7½ per cent. Because of the unexpectedly small rise in net factor outflows, the official rate of growth of real GNP was almost identical with our estimate of 7½ per cent.

Expenditure on GDP is forecast to rise by 7 per cent in real terms in 1995, marginally faster than in 1994. However, on the assumption that net factor outflows resume their normal relationship with exports, the growth of real GNP is forecast to ease back to about 6 per cent. The rate of growth is projected to remain strong in 1996, although easing further to 5¾ per cent in GDP and 5 per cent in GNP.

In some ways economic welfare is better measured by gross national disposable income, adjusted for the terms of trade. In addition to changes in GNP, this also takes account of net transfer payments from abroad and of changes in relative export and import prices. Because of a large fall in net transfer receipts and a substantial deterioration in the terms of trade, the official estimate of growth in the volume of GNDI in 1994 was only 3.8 per cent. With current transfer payments likely to increase, and the further worsening of the terms of trade projected to be quite limited, our forecasts imply increases in real GNDI of almost 5 per cent in 1995 and 4½ per cent in 1996.

If our general forecasts are accurate, then, taken in conjunction with the *1994 National Income and Expenditure* preliminary estimates, the cumulative growth of real expenditure on GNP over the three years will be just over 19½ per cent. This compares with a cumulative forecast for the three years in the *Medium-Term Review 1994-2000* of a little over 17½ per cent.

Agriculture

It is too early to assess the likely consequences of the abnormal weather on the volume of gross agricultural output in 1995. While favourable for cereal crops but damaging for yields of most vegetable crops, its impact on the likely output of livestock and livestock products is not yet clear. At present it seems reasonable to expect that gross agricultural output in 1995 will recover from its slight fall in 1994, and, subject to weather conditions, show little change in 1996.

However, there seems a strong possibility that inputs, especially of feed, will increase in both 1995 and 1996. Thus the volume of gross agricultural product could show little change in either year. When allowance is made for continued expansion in forestry and fishing, a small volume increase in the net output of the broad agricultural sector is projected for both 1995 and 1996.

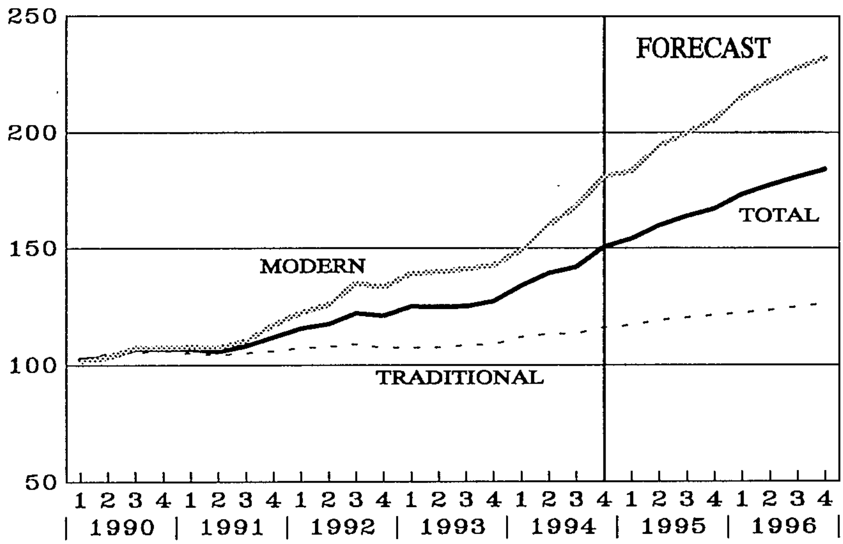
Industry

Preliminary national accounts estimates show that the constant price increase in the gross domestic product at factor cost of the broad industry sector in 1994 was over 11¼ per cent. Output, net of depreciation and stock adjustment, appears to have risen by about 11 per cent. These 1994 estimates tally with an increase of 12.8 per cent in the volume of production index for manufacturing industry and fairly buoyant conditions in building and construction.

Industrial production index figures for the early months of 1995, backed up by IBEC-ESRI Business Survey data for more recent months, suggest that the volume of production in manufacturing industry should grow at least as fast in 1995 as in 1994. Moreover, the increase in output continues to be broadly based, although, as usual, the high-technology sectors tend to be growing fastest. With building activity still increasing strongly, both gross and net output of the broad industry sector are forecast to rise in volume terms by over 11 per cent, much the same as in 1994.

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



Partly because the carryover from this year is likely to be lower than that from 1994, a slightly slower, but still robust, increase in the volume of industrial production is projected for 1996. The index of production in manufacturing industry is forecast to increase by about 10 per cent, with the rise in the net and gross output of the broad industry sector a little over 9 per cent.

Services

In national accounts terms, the output of the service sector in Ireland tends to be seriously distorted by the treatment of intervention stocks, which are included in the distribution sector. In consequence, both the value and volume changes in distribution, transport and communications are very volatile, with the annual changes in the latter varying from minus 8.7 per cent to plus 17.9 per cent over the past seven years. Because 1994 was a year with a negative estimate for the volume change in the distribution, transport and communication sector, the constant price growth of the service sector as a whole was very low, at about 1¾ per cent, after adjustment for financial services. In the context of a rapidly growing economy, such a low apparent rate of increase in service output is obviously somewhat misleading.

As intervention stocks are run down to very low levels, this factor should become less important in future, although it is still likely to have some effect in 1995. Taking this into account, and assuming that the adjustment for financial services, which was exceptionally large in 1994, resumes a more normal rate of increase, the gross output of the services sector is forecast to increase by about 4¾ per cent in 1995. In line with the slightly slower growth of the economy, a rise of 4 per cent is projected for the output of the service sector in 1996.

Employment

Short-term indicators of employment show that employment was rising fairly steadily in most sectors of the economy up to the end of 1994. Industrial production figures and survey responses suggest that industrial employment continued to grow in the first half of 1995. It seems possible that there was a pause in the upward trend of jobs in the building and retail sectors in the first half of the year, but employment in tourism, the financial sector and some other services probably rose. If we are correct in our expectation that retail sales will turn up significantly in the second half of the year, then employment in the relevant sectors is likely to resume its upward trend, but, as in most recent years, a considerable proportion of the increase in service sector employment will be in the form of part-time work.

Although consistent data are not readily available, it seems likely that there has been some reduction in the numbers engaged in Community Employment Schemes since the early months of 1995. Assuming a minor increase in such numbers for the remainder of the year, taking the annual average close to its 1994 level, it seems probable that the annual average of total non-agricultural employment in 1995 will be about 32,000 higher than in 1994. If there is the usual small decline in the numbers engaged in agriculture, the total at work would rise by about 30,000, as shown in Table 8. This represents a reduction of about 4,000 from our previous forecast, mainly due to a less vigorous rise in building employment and the limitation in the numbers on schemes.

The underlying growth of employment should again be quite strong in 1996. However, fiscal constraints could again limit the numbers engaged on employment schemes and will almost certainly reduce the rate of growth of public service employment. Thus total non-agricultural employment is projected to rise by 27,000 and the annual average total at work by 25,000.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000					
	1993	1994	1995	1996	1997
Agriculture	143	140	137	135	132
Industry	311	328	340	351	361
Services	692	708	726	746	763
Total at Work	1,146	1,176	1,203	1,232	1,256
Unemployed	230	221	212	206	200
Labour Force	1,375	1,397	1,415	1,438	1,456
Unemployment Rate %[1]	15.7	14.9	14.4	14.1	13.8
Live Register	295	285	276	270	264

B: Annual Averages '000				
	1993	1994	1995	1996
Agriculture	142	138	136	134
Industry	318	334	348	357
Services	698	720	738	756
Total at Work	1,158	1,192	1,222	1,247
Unemployed	227	215	208	203
Labour Force	1,385	1,407	1,430	1,450
Unemployed Rate %[1]	15.6	14.8	14.4	13.9
Live Register	294	282	275	269

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

The failure of the Live Register of unemployment to maintain the downward trend established in 1994 has been disappointing. The fall in the total numbers on the Register between August 1994 and August 1995 has been only 1,900, compared with 14,300 in the preceding twelve months. The seasonally-corrected number of persons under 25 years of age on the Register has continued to decline fairly steadily through the first eight months of 1995, and the fall in the twelve months to August has been 5,100, compared with 7,300 in the previous year. Among those aged 25 or over, there has been a small upward trend in the course of 1995 so far, and the rise in the twelve months to August has been 3,200. Registered male unemployment in this age group showed a marginal fall of 200, with the entire rise accounted for by an increase of 3,400 in female unemployment. This continues an established trend of rising registered unemployment among females aged 25 and over, a category which increased slightly even in the year to August 1994, when the other three categories declined significantly.

This breakdown of recent unemployment trends suggests that the underlying growth in job numbers is continuing, but that it has been offset by net emigration remaining low in response to a deteriorating UK labour market, especially in the construction sector, by a small reduction in the numbers engaged in employment schemes, and by a continuing rise in female labour force participation.

Assuming a slight improvement in the UK rate of economic growth compared with the first half of 1995 and some stabilisation in the numbers in employment schemes, total registered unemployment is projected to resume a gentle downward trend in the remainder of 1995 and in 1996. However, the forecast Live Register averages of 275,000 in 1995 and 269,000 in 1996 represent a much slower fall in the rate of unemployment than had been hoped for earlier in the year.

Incomes

Due to favourable price movements and an increase in net subsidies, income arising in the broad agriculture sector rose by 6 per cent in 1994, despite a fall in the volume of net output. With price movements likely to be less favourable, and the rise in net subsidies more limited, the small rise forecast for the volume of net output in 1995 and 1996 is projected to convert to an increase of about 4 per cent each year in income arising in the broad agriculture sector.

The preliminary national accounts estimates show that aggregate non-agricultural earnings increased by 5.9 per cent in 1994. Given the increase in employment this is surprisingly low, implying a rise of little over 3 per cent in average earnings. Apart from isolated sectors, such as building and construction and certain categories of executive earnings, there appears to have been virtually no wage drift over the basic increases due under the Programme for Competitiveness and Work.

In the light of these estimates, and of supporting series of earnings in industry and the financial sector, we have revised downwards our forecast of the increase in average earnings in 1995 from 3¾ per cent to 3¼ per cent. With the increase in effective employment still expected to be about 2½ per cent, aggregate earnings in 1995 are forecast to rise by about 6 per cent. A similar aggregate increase is projected for 1996, with average earnings rising slightly faster, and effective employment slightly slower, than this year.

Other non-agricultural income, comprising earnings from self employment and from interest, dividends and rent, rose by about 6¾ per cent in 1994. With the economy continuing to grow strongly, increases of 6 per cent in 1995 and 7 per cent in 1996 are projected. Thus total income received from economic activity is forecast to rise by 5¾ per cent in 1995 and 6 per cent in 1996, much the same rate of increase as in 1994.

Because of the payment of equality arrears, current transfer payments are likely to increase rather faster in 1995 than the already substantial rise of 5¾ per cent in 1994. There should be a much smaller increase in 1996, although its precise size will depend on the timing of the arrears payments as well as on decisions concerning benefit rates. An aggregate increase of 3 per cent is assumed. On this basis, the annual rise in gross personal income is projected to decline slightly from 6 per cent in 1994 and 1995 to 5½ per cent in 1996, as shown in Table 9.

TABLE 9: Personal Disposable Income

	1994	Change		1995	Change		1996
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,330	4	93	2,423	4	97	2,520
Non-Agricultural Wages, etc.	16,772	6	1,006	17,778	6	1,067	18,845
Other Non-Agricultural Income	3,731	6	224	3,955	7	277	4,232
Total Income Received	22,833	5¾	1,323	24,156	6	1,441	25,597
Current Transfers	5,484	7	384	5,868	3	176	6,044
Gross Personal Income	28,317	6	1,707	30,024	5½	1,617	31,641
Direct Personal Taxes	6,299	-¾	-53	6,246	4	250	6,496
Personal Disposable Income	22,018	8	1,760	23,778	5¾	1,380	25,145
Consumption	19,438	7	1,361	20,799	6½	1,352	22,151
Personal Savings	2,580	15½	399	2,979	½	15	2,994
Savings Ratio	11.7			12.5			11.9

Direct personal taxes increased by over 7 per cent in 1994, but, of course, this included amnesty receipts of about £220 million. In the absence of such receipts, personal taxation is likely to fall marginally in 1995, although the underlying rise, excluding the amnesty, is estimated as being in the region of 3 per cent in both years. Direct tax receipts in 1996 will be affected by Budget decisions, but a rise of 4 per cent is assumed for 1996.

Thus personal disposable income, which rose by about 5¾ per cent in 1994, is forecast to increase by 8 per cent in 1995, and by 5¾ per cent in 1996. The apparent personal savings ratio fell quite sharply from 12.9 per cent in 1993 to 11.7 per cent in 1994, but this ratio is distorted by the effect of the tax amnesty. If this is discounted, the underlying fall in the savings ratio in 1994 was quite minor, to about 12.6 per cent. Modest falls in the underlying savings ratio, to 12.5 per cent in 1995 and 11.9 per cent in 1996 are projected. Such ratios would allow the value of personal consumption to increase by 7 per cent in 1995 and 6½ per cent in 1996.

Consumer Prices

There are conflicting tendencies affecting the consumer price index in 1995. In the first eight months of the year a reduction to about 2 per cent in general price inflation, to some extent the result of the strength of the Irish pound against sterling, was offset by a significant rise in the index of housing costs, caused mainly by the rise in mortgage interest rates. Thus the total consumer price index rose by 2.4 per cent the year to August, reverting to the previous rate after a temporary rise to 2.8 per cent in the year to May.

In the remainder of 1995, these trends are likely to be reversed. There should be a moderate fall in the housing index, due to the recent reduction in mortgage rates, but a slight acceleration in the remainder of the index, due in part to an expected steep rise in the price of potatoes and other vegetables.

The total consumer price index is forecast to be about 2.7 per cent higher in November than a year previously. This implies that for 1995 as a whole, the index will increase by 2.6 per cent, as shown in Table 10. On the assumptions that there are no major currency fluctuations, that Budget decisions on indirect taxes are broadly neutral, and that there is a small rise in mortgage interest rates in the middle of the year, the total consumer price index is projected to increase by about 2.5 per cent in 1996.

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend							Annual		
	1994				1995			1994	1995	1996
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.			
Index Nov. 1989 = 100										
Housing	110.6	111.4	111.8	112.2	113.0	119.3	120.8	111.5	118.0	122.8
Other	111.2	112.2	113.1	113.2	114.1	114.9	115.3	112.5	115.1	117.8
Total CPI	111.2	112.1	113.0	113.1	114.0	115.2	115.7	112.4	115.3	118.2
Annual % Change										
Housing	-17.0	-3.8	1.9	1.1	2.2	7.1	8.1	-5.0	5.8	4.1
Other	3.5	3.3	2.6	2.4	2.6	2.4	2.0	3.0	2.3	2.3
Total CPI	1.7	2.7	2.5	2.4	2.5	2.8	2.4	2.4	2.6	2.5
Quarterly % Change										
Housing	-0.4	0.7	0.4	0.4	0.7	5.6	1.3			
Other	0.6	0.9	0.8	0.1	0.8	0.7	0.3			
Total CPI	0.6	0.8	0.8	0.1	0.8	1.1	0.4			

Public Finances

Although comparisons with last year are complicated by the tax amnesty and other timing factors, revenue returns so far in 1995 suggest that tax receipts are broadly on target to meet the Budget forecast of an increase of 3.3 per cent. If we are correct in our prediction that personal consumption will grow more strongly in the later months of 1995, then buoyancy in indirect tax receipts should take total tax revenue in the year a little beyond target, in spite of the unexpected shortfall in corporation tax and the effect of the recent court ruling on withholding tax.

Expenditure is harder to monitor in the course of the year, as the timing both of outlays and offsetting income can vary considerably from one year to the next. Moreover, the annual figure for net expenditure is frequently manipulated by the timing of some items of spending or income around the end of the year. Bearing these uncertainties in mind, the evidence to date suggests that Central Fund expenditure, especially national debt interest, will, as usual, be rather lower than forecast in the Budget, while net current supply service spending will be slightly above target. In total, net current expenditure thus seems likely to be close to the post-Budget target increase of 6 per cent.

Such an out-turn would result in a current budget deficit, excluding additional equality arrears payment, of about £280 million, or 0.8 per cent of estimated GNP. If borrowing for capital purposes is roughly in line with expectations, then the Exchequer Borrowing Requirement for 1995 would be in the region of £780 million or 2.3 per cent of GNP.

As discussed in the Spring *Commentary,* the 1996 budgetary situation could be complicated by the presence of obligations arising from past contingencies which have to be met in 1996. It is still impossible to quantify these with any degree of confidence, but they could clearly place an additional strain on the commitment to hold the rise in real gross current expenditure to 2 per cent in 1996.

It does, however, seem probable that real gross expenditure will be held close to this target. Allowing for some slight further reduction in effective PRSI contribution rates, which are classified as negative expenditure, this implies that the increase in the value of net current expenditure could be a little over 5 per cent in 1996.

In order to build in some safety margin against future unexpected liabilities, as well as to accelerate progress in reducing the debt/GNP ratio, it is highly desirable that there should be a significant reduction in the basic current budget deficit in 1996. The forecasts in this *Commentary* are based on an approximate halving of the underlying deficit in 1996, assuming that any contingency reserve does not have to be used, and on a reduction of the EBR to under 2 per cent of GNP.

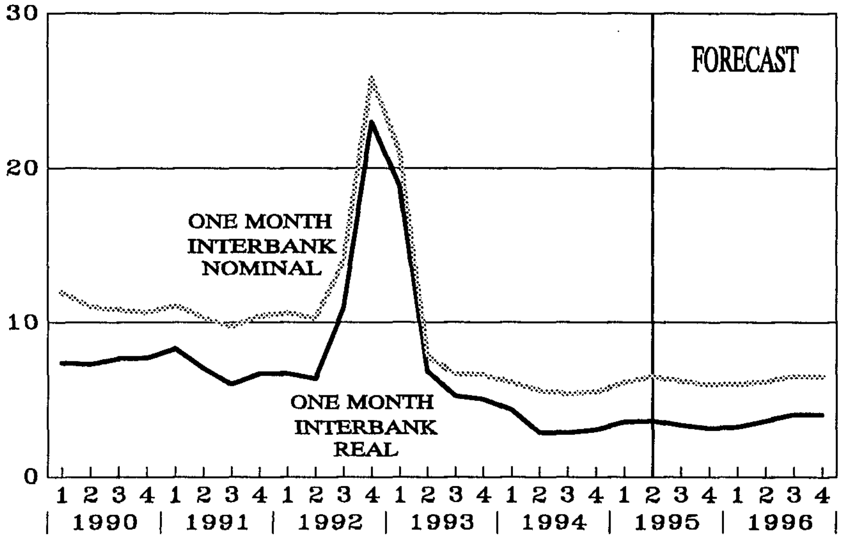
This would require an increase of about 6½ per cent in current revenue. Given that the economy is expected to remain reasonably buoyant, such a target should permit further modest reductions in effective average rates of direct tax.

Interest Rates

The recent reductions in the Central Bank short-term facility, the one-month interbank rate and associated retail and mortgage interest rates have finally confirmed that the widespread fears that 1995 would be a year of substantial interest rate increases were ill-founded. Of equal importance, they have re-established the link between interest rate movements in Germany and Ireland which had been temporarily weakened by the increases in Irish rates earlier in the year.

There seems little reason to expect any further significant change in either German or Irish short-term interest rates in the remainder of 1995. In 1996, unless there is a serious, uncorrected, depreciation in sterling, Irish rates seem likely to follow the trend of German rates. As discussed in the International section of this *Commentary* the most likely evolution of German rates in 1996 is for a rise of about ½ per cent in the middle of the year. A similar expectation seems reasonable for Ireland, and, unusually, we are in agreement with market sentiment as expressed in the one-year interbank rate, which indicates a rise of about this magnitude.

Figure 4: Interest Rates
Per cent per annum, Quarterly Averages



Barring unforeseen international developments, long-term interest rates are likely to remain fairly stable in the remainder of 1995, and little change is projected for 1996.

General Assessment

The most comprehensive revisions to the national accounts for many years are contained in *National Income and Expenditure 1994*. The changes covering the period from 1988 to 1993 are sufficient to modify the perception of the Irish economy's performance in those years.

Revisions to current price estimates for 1993, especially to trade and factor flows, serve to reduce the growth in the value of GNP in that year from 7.0 per cent to 5.6 per cent, and to reduce the estimated current account balance of payments surplus in 1993 by £507 million to £2,087 million. Current price revisions for the years from 1988 to 1992 are relatively minor, leading to changes of less than ½ per cent to the value GNP growth rate in any year, and a reduction of only 0.1 per cent in the average value growth rate over the period.

The revisions to the constant price estimates throughout the period are more far-reaching, and are associated with a re-basing of the constant price series from 1985 to 1990 prices. By raising the price deflators for many categories of expenditure and output, the revisions have substantially reduced the estimated volume growth of the economy between 1988 and 1993.

Estimates of expenditure on GNP at constant market prices have been reduced for each year between 1988 and 1993, and the annual average growth rate over the period has fallen from 5.4 per cent to 4.2 per cent. This represents a cumulative reduction of about 7.5 per cent in the growth of real GNP between 1988 and 1993.

The downward revisions to real GNP measured through sectoral output are less dramatic, although still substantial. The average real growth rate between 1988 and 1993 by this measure has fallen from 4.1 per cent to 3.6 per cent. The worrying cumulative gap between the expenditure and output measures of real GNP has thus been roughly halved by the revisions.

Despite this remaining residual, and concerns about the extreme volatility of such items as distribution and subsidies, the revised growth estimates provide a much more credible picture of the performance of the Irish economy in recent years than earlier NIE estimates.

Using an average of the expenditure and output measures, estimated growth remains high in the boom years of 1989 and 1990, but at an average of 6.3 per cent it appears less extreme than previously. More crucially, the annual average Irish growth in the recession years from 1991 to 1993 is now estimated at about 2.3 per cent rather than the earlier estimate of over 3.3 per cent. In particular, the reduction of estimated growth in 1993, when the Irish economy was struggling first to survive and then to recover from the currency crisis, from an incredible 3.7 per cent to a much more modest 1.6 per cent, represents a move towards reality.

The revised estimates fit much more comfortably with other indicators of economic performance over the period, such as industrial and total employment, business sentiment as expressed in survey data, and tax revenue receipts. The supposed issue of "jobless growth" in the early '90s virtually disappears in the context of the slower growth rate now estimated.

The overall picture of the evolution of the Irish economy in the past decade assumes greater clarity. Ireland was slow to join in the international recovery of the mid-'80s, because the legacy of the previous fiscal crisis ensured that Irish domestic demand was constrained both by differentially high interest rates and by fiscal retrenchment. Thus from 1984 to 1987 real final domestic demand never rose by more than 1½ per cent in any year. As the constraints eased after 1988, Ireland belatedly participated in the international boom, just before it drew to a close. Final domestic demand increased by 6.3 per cent in 1989 and by 3.7 per cent in 1990.

At much the same time, Ireland's international competitiveness improved, helped both by currency movements and by the adoption of a disciplined consensual approach to pay bargaining. Export growth was accordingly strong from 1987 to 1990, both enabling and contributing to the exceptionally rapid growth of GNP in 1989 and 1990.

The international recession struck the major English speaking countries during 1990, intensifying in 1991. This had some impact in reducing the rate of growth of Irish exports in 1991, but the greater competitiveness, allied to the fact that the continental European economy was continuing to expand, enabled Irish exports to grow fairly robustly throughout the recession. The recession had a greater impact on the domestic economy. High international interest rates, the by-product of German unification, and a loss of consumer and business confidence in the light of international trends, led to near stagnation in the volume of final domestic demand in 1991.

A minor recovery in the first half of 1992 was reversed by the currency crisis, so that domestic demand grew by only 1.7 per cent in 1992 and 1 per cent in 1993. Indeed, had the cyclical downturn in private investment not been offset by an increase in structural funds, it is quite possible that there would have been a decline in the volume of domestic demand between 1990 and 1993.

As the continental economies entered recession in 1993, the English speaking countries were recovering quite strongly. This not only permitted the strong growth of Irish exports to continue, but also encouraged a remarkably rapid recovery in Irish confidence after the trauma of the currency crisis. By the end of 1993 retail sales were expanding, industrial production rising and planning permissions for new construction increasing.

During 1994, the international economic recovery became virtually universal, with all major economies growing simultaneously for the first time since 1989. With no specific domestic constraints operating as they had in the mid-'80s, Ireland shared fully in the economic upturn. The volume of exports rose by 13.9 per cent, and the volume of final domestic demand increased by 4.8 per cent.

This brief historical summary is relevant to an assessment of the current position of the Irish economy and its future prospects. The national accounts revisions have made it clearer than heretofore that the Irish economy has followed international trends, but with some considerable deviations due to domestic factors. In the mid-'80s Ireland failed to match the growth of its neighbours because of the need to correct major domestic imbalances. Since about 1988, it has tended to out-perform most other European countries in terms of growth, price stability, fiscal balance and even employment. Although the degree of the growth differential has apparently been reduced by the national accounts revisions, its presence is in fact confirmed by the new estimates, in that they show it as more consistent and more credible.

The good relative performance of the Irish economy, both in the difficult conditions of the early '90s and in the more favourable environment of 1994, suggests that the broad consensus strategy in place since the late '80s has been appropriate. The principal economic elements of this widely agreed package have included fiscal responsibility, keeping budgetary outcomes well within the Maastricht limits, effective pay restraint, at least in the private sector, continuing reductions in average rates of direct taxation, the sensible use of increased EU funding, and, so far as possible, the linking of monetary policy to that in Germany. At the same time a reasonable degree of social cohesion has been maintained through modest improvements in transfer payments and publicly-provided services.

Because it has worked well in most aspects, there is a strong case for retaining the present economic strategy. However, its implementation in 1996 and succeeding years could present considerable difficulties, and the exact balance between its different components will always remain the subject of political debate.

The international economic environment is reasonably favourable in 1995, and should permit a growth rate of about 6 per cent in Irish real GNP. This growth is likely to remain well-balanced, with both domestic demand and exports contributing strongly. External conditions in general are expected to be compatible with continued Irish growth in 1996, and real GNP is projected to increase by 5 per cent. Employment should continue to increase quite strongly in 1995 and 1996, but, unless there is an unexpected expansion in the UK economy, the fall in registered unemployment is likely to be very modest.

However, although probable, a favourable external environment in 1996 is not certain. The principal danger lies in the evolution of the UK economy, and in particular in the course of sterling. In the short run sterling can be expected to maintain its value, or even appreciate slightly against the stronger European currencies. Nevertheless there is a significant threat that sterling could again depreciate substantially either in late 1995 or in the course of 1996. Political considerations could lead the UK government to relax fiscal policy to an extent that is unacceptable to the financial markets, and, although this might be offset by a tightening of monetary policy, there is a possibility that it would not.

A significant sterling depreciation against the DM would once more create serious problems for the management of the Irish economy. The experience of the currency crisis in 1992/3 and, to a lesser extent, of sterling weakness in early 1995, has illustrated the vulnerability of the Irish economic strategy to sudden declines in sterling. The most likely response, and probably the least damaging, would again be to position the Irish pound between the two currencies, thus broadly maintaining its trade-weighted value. This would imply some further short-term loss of competitiveness against the UK, causing problems for a number of labour-intensive companies. It would probably also require a small unilateral increase in Irish interest rates, representing another forced departure from the long-term aim of shadowing German monetary policy, and somewhat impairing Irish growth prospects in 1996 and 1997.

Keeping Irish costs under strict control is a key element in economic strategy, and the gradual reduction in the effective rate of payroll taxes and social insurance contributions has supported this aim. The possibility of renewed sterling depreciation reinforces the need to continue this process in the 1996 Budget.

While the responsibility for protecting themselves against the risks of currency fluctuations lies primarily with the companies concerned, circumstances can be envisaged which could justify a temporary package of government measures to counter any immediate threat to employment. To permit such a response in the unlikely event that it is needed, and to cover any other unforeseen problems which might arise, it is desirable that some flexibility is retained in the 1996 budget balance. Preferably, this should be in the form of an explicit contingency reserve, with the hope that it would not prove necessary to use it.

Planning to reduce payroll burdens and establishing a contingency reserve will add greater pressure to an already difficult budgetary situation. As we discussed in our Spring *Commentary,* there could be substantial commitments arising from past contingencies. It also remains true that advantage must be taken of years of economic buoyancy to reduce the debt GNP ratio to a sustainable level before the inevitable reduction in EU funding at the end of the century.

There is thus an inescapable need to keep an extremely tight rein on general government expenditure in 1996. Not only must any new proposals be subject to the closest scrutiny, but many existing programmes need to be examined with a view to their scaling down or even abandonment. One positive feature of the present situation is that pay-bargaining processes in the public service have been reformed, but vigilance is necessary to ensure that an excessive increase in indirect labour costs does not creep in to replace the earlier custom of high direct pay awards.

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	141.0
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	140.0
1989	142.5	188.9	112.3	13640	18068	187.0	45.4	142.0
1990	149.2	197.9	117.6	14325	19539	191.8	48.4	143.0
1991	153.9	208.6	118.0	14990	19652	192.7	50.4	142.0
1992	169.6	243.6	121.0	15682	22464	192.1	51.9	140.0
1993	178.8	265.7	121.3	16161	21391	192.2	54.5	138.0
1994	201.6	309.9	127.7	16844	26863	196.7	57.6	139.0

Quarterly Averages or Totals

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	4692	193.0	55.6	137.1
II	206.1	312.2	128.6	4016	5889	194.9	56.2	138.7
III	186.2	282.5	118.9	3874	7799	198.0	58.0	140.1
IV	219.5	337.7	132.1	4470	8483	200.7	60.4	140.3
1995 I	224.7	368.7	124.1	4674	6295			
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1992 I	164.8	229.9	117.4	3880	No Seasonal Pattern	192.5	51.7	140.6
II	167.4	236.3	118.2	3869		192.1	51.5	140.6
III	174.2	253.6	119.1	3935		192.0	51.6	140.6
IV	172.6	250.7	117.3	3995		191.8	52.6	139.1
1993 I	178.2	261.6	117.7	3930		191.9	53.8	137.9
II	177.7	262.4	117.8	4042		192.2	54.3	138.1
III	178.3	265.0	118.6	4068		191.7	54.9	137.2
IV	181.2	268.0	118.9	4127		193.1	55.0	137.7
1994 I	190.8	279.8	122.7	4157		195.3	56.0	138.7
II	198.8	300.4	124.0	4260		195.7	56.9	138.8
III	202.6	315.2	124.2	4228		196.4	57.9	139.0
IV	214.7	340.1	127.3	4206		199.5	59.4	139.7
1995 I	219.7	344.1	128.1	4337				
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	
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
191.6	212.0	135.5	122.4	107.2	184.4	98.0	282.4	1994
Quarterly Averages								
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	106.9	192.9	102.1	294.9	III
178.2	187.1	131.8	123.0	109.6	190.5	99.5	290.0	IV
189.1	212.3	127.8	121.0	107.1	194.1	99.6	293.7	1994 I
197.7	218.7	136.8	122.1	107.2	183.7	96.3	280.0	II
175.8	191.8	125.2	121.3	105.7	181.6	99.5	281.1	III
204.4	220.1	138.9	125.1	108.9	178.2	96.7	274.9	IV
					181.8	97.8	279.6	1995 I
					176.9	96.8	273.7	II
								III
								IV
Quarterly Averages (Seasonally Corrected)								
159.5	175.2	123.2	110.7	101.6	181.9	91.0	272.9	1992 I
163.3	180.8	124.1	112.5	102.4	185.5	94.4	279.9	II
169.5	193.9	125.1	113.3	102.7	189.6	99.2	288.8	III
169.0	187.0	124.3	114.4	103.4	191.7	99.3	291.0	IV
173.2	191.4	126.0	116.6	105.0	193.2	101.3	294.5	1993 I
173.5	190.6	126.0	117.1	105.6	195.2	100.2	295.4	II
173.4	191.0	127.6	120.0	107.3	193.9	99.5	293.4	III
176.1	191.0	127.1	121.5	108.3	192.7	101.1	293.8	IV
182.5	196.8	130.7	122.2	108.1	189.5	99.1	288.6	1994 I
190.9	208.1	131.9	122.0	107.2	185.1	97.8	282.9	II
191.7	215.4	131.9	121.7	106.1	182.6	96.9	279.5	III
202.2	224.6	134.1	123.6	107.5	180.4	98.3	278.7	IV
					177.1	97.4	274.5	1995 I
					178.3	98.3	276.6	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
1987	92.6	100.4	98.4	97.2	92.8	96.7	104.2	1326.2
1988	94.6	104.5	102.4	107.4	98.9	103.6	104.8	1294.6
1989	98.5	109.5	108.1	112.8	105.3	110.5	104.9	1633.6
1990	101.7	107.8	105.1	100.0	100.0	100.0	100.0	1562.2
1991	105.0	108.7	106.4	96.4	102.3	99.3	97.0	1382.4
1992	108.3	110.5	107.3	97.8	100.2	96.6	96.4	1311.1
1993	109.8	115.6	112.4	104.2	105.4	103.9	98.6	1576.0
1994	112.4	116.9		105.8	108.1	103.8	96.0	1853.4

Quarterly Averages

1992 I	107.3	110.2	107.8	98.8	102.1	99.3	97.2	1426.9
II	108.1	111.3	108.3	100.8	101.4	102.2	100.7	1389.8
III	108.7	110.6	107.2	97.9	99.1	97.5	98.4	1263.1
IV	108.9	109.8	106.0	95.9	96.6	93.8	97.1	1164.5
1993 I	109.3	112.9	109.9	100.2	103.1	97.9	95.0	1313.5
II	109.1	115.2	111.9	106.3	104.4	100.7	96.5	1532.2
III	110.2	117.2	114.0	105.1	106.2	101.6	95.6	1685.6
IV	110.5	116.9	113.8	104.2	106.6	102.0	95.7	1772.6
1994 I	111.2	117.0	113.5	108.5	108.2	103.4	95.6	1966.3
II	112.1	117.1	113.9	111.2	109.6	105.5	96.2	1806.3
III	113.0	116.6	112.9	104.6	109.0	106.6	97.8	1817.7
IV	113.1	116.8		103.1	109.2	103.8	94.9	1823.1
1995 I	114.0	118.3		107.9	112.8	106.1	94.1	1863.6
II	115.2	119.5						1893.2
III	115.7							
IV								

Quarterly Averages (Seasonally Corrected)

1992 I	107.3	110.5	108.1	98.3	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	108.2	110.8	107.9	98.2				
III	108.5	110.3	107.0	98.8				
IV	109.0	110.3	106.4	98.2				
1993 I	109.4	113.1	110.3	99.7				
II	109.1	114.7	111.4	103.4				
III	110.0	117.0	113.8	105.9				
IV	110.6	117.5	114.2	106.7				
1994 I	111.3	117.2	113.9	108.1				
II	112.1	116.5	113.3	108.1				
III	112.8	116.3	112.8	105.5				
IV	113.2	117.3		105.7				
1995 I	114.1	118.5		107.5				
II	115.2	119.0						
III	115.5							
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	Currrent 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	7151	8331	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
116636	118.0	109.3	11203	11188	-15	5.7	8.2	1994

Quarterly Averages or Totals

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
39741	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
14941	125.3	115.4	2811	2929	118	5.5	8.7	IV
39283	116.0	106.3	2537	2771	234	6.1	8.7	1995 I
			3156	2956	-200	6.5	8.4	II
								III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

22076	104.4	101.1	2266	2364	98	No Seasonal Pattern	No Seasonal Pattern	1992 I
19115	105.6	101.6	2337	2429	91			II
22813	107.2	102.9	2417	2464	47			III
22634	106.4	102.3	2344	2553	209			IV
19716	106.2	102.2	2396	2567	171			1993 I
21774	107.2	102.0	2368	2478	110			II
23072	110.3	104.0	2787	2799	12			III
25160	112.2	105.1	2578	2681	104			IV
30448	119.3	111.4	2995	2751	-244			1994 I
29250	116.2	107.7	3016	2738	-278			II
27739	116.7	107.9	2595	2820	225			III
28335	118.5	109.1	2636	2880	244			IV
29991	122.3	111.9	2801	2571	-231			1995 I
			3116	3064	-51			II
								III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
		Licensed Banks Domestic Credit						
	Money Supply M3	Gov.	Non-Gov	External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	Per IR£
1987	9799.5	2754.9	9494.5	2821.4	66.16	0.9091	1.4884	2.6715
1988	10421.0	2636.4	10853.4	3161.0	65.09	0.8568	1.5258	2.6742
1989	10945.0	2417.7	12538.3	2521.0	64.42	0.8671	1.4192	2.6647
1990	12540.7	2506.0	13855.9	2891.7	68.32	0.9304	1.6588	2.6728
1991	13024.6	2502.2	13553.2	3256.0	67.34	0.9133	1.6162	2.6708
1992	14203.3	2946.7	14410.7	2112.8	69.48	0.9695	1.7061	2.6561
1993	17510.9	2829.5	14910.5	4277.9	66.01	0.9771	1.4680	2.4240
1994	19211.3	3285.7	16655.2	4041.3	66.16	0.9776	1.4982	2.4262

	End-Period Totals				Quarterly Averages			
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	1.0783	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	19211.3	3285.7	16655.2	4041.3	66.81	0.9858	1.5620	2.4112
1995 I	18896.8	3031.4	17454.4	4030.5	66.58	0.9943	1.5734	2.3263
II	19252.3	2939.9	18383.8	4546.9	67.05	1.0193	1.6270	2.2717
III								
IV								

	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1992 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
1993 I II III IV								
1994 I II III IV								
1995 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	16743.8	3549.1	105.6	121.1	-3299	1448	1992
14888.3	19781.8	4893.6	113.0	133.0	-4014	2087	1993
17125.4	22748.3	5622.9	126.9	153.2	-4135	2039	1994

Av. Monthly Totals Quarterly Averages or Totals

1107.8	1356.2	248.4	104.5	114.5	-816	332	1992 I
1108.3	1463.0	354.7	105.1	120.0	-825	352	II
1060.2	1348.2	288.0	103.0	116.0	-850	442	III
1122.0	1414.0	292.0	111.8	126.4	-808	322	IV
1213.7	1524.2	310.5	112.8	130.5	-912	455	1993 I
1168.9	1631.5	462.6	107.5	136.0	-1018	635	II
1241.9	1605.6	363.8	112.2	132.5	-1008	439	III
1338.3	1832.6	494.3	120.5	150.7	-1076	558	IV
1419.4	1773.8	354.4	125.9	143.8	-1051	180	1994 I
1410.0	1869.8	459.8	123.4	148.6	-1148	288	II
1332.9	1850.7	517.8	117.4	145.5	-910	760	III
1546.2	2088.5	542.3	136.2	166.2	-1026	811	IV
1637.5	2116.3	478.8	139.2	167.2			1995 I
							II
							III
							IV

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

1077.9	1362.5	284.5	101.7	115.0	No Seasonal Pattern	No Seasonal Pattern	1992 I
1100.6	1422.1	321.5	104.6	117.5			II
1103.8	1390.9	287.1	107.5	120.0			III
1107.1	1389.0	281.9	109.4	123.0			IV
1192.5	1537.5	345.0	111.2	131.4			1993 I
1160.3	1588.6	428.3	107.4	133.5			II
1291.1	1665.7	374.6	116.7	138.3			III
1323.4	1800.6	477.2	118.0	146.0			IV
1394.4	1793.0	398.6	123.9	145.6			1994 I
1400.5	1821.1	420.5	123.5	146.2			II
1385.6	1919.4	533.8	122.2	151.3			III
1546.3	2037.6	491.3	134.5	160.0			IV
1593.5	2155.0	561.5	135.9	170.2			1995 I
							II
							III
							IV