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CONTENTS

SUMMARY

If the provisional trade statistics are to be believed, Irish economic growth in 1995 was even faster than in 1994, with real GNP rising by an astonishing 9¼ per cent. Some doubt must attach in particular to the very high provisional price deflator for imports, as the estimated rise of over 4 per cent is hard to reconcile with either the modest increase in consumer prices or the appreciation of the Irish pound between 1994 and 1995. If, in fact, the rise in average import prices were a more plausible 2 per cent, then real GNP growth in 1995 would be about 1½ per cent lower, at a still impressive 7¾ per cent.

On any reckoning, however, it is clear that export volumes and fixed investment increased particularly rapidly, with the growth in consumption, both personal and government, being quite moderate. In contrast to most other European economies there was no significant slowing of growth in the later months of the year.

Given the rapid rate of increase during 1995, there was a strong growth carryover into 1996. Even allowing for some reduction in the rate of expansion in the course of the year, the annual growth in real GNP is forecast at about 5¼ per cent. Exports and fixed investment will again show large annual volume increases, although significantly less than in 1995, while personal consumption is expected to increase considerably faster than last year.

Average employment in 1996 is projected to rise by 32,000, and unemployment, on a survey basis, to fall by about 7,000 to an annual rate of 11¾ per cent. Inflation is likely to remain very low, with the annual rise in the consumer price index forecast at just under 2 per cent. Unless the BSE crisis, or some other unforeseen problem, imposes unexpectedly high expenditure obligations on the Irish Exchequer, budgetary targets should again be comfortably achieved in 1996, while interest rates are likely to remain more or less stable over the remainder of the year.

The Irish economy has the potential to continue growing at about 5 per cent per annum for several years. However, this potential will only be realised if discipline is maintained in both fiscal policy and pay bargaining. Most sectors of the economy have made a difficult and sometimes painful adaptation to the changed realities of the international economic environment over the past decade. In seeking to redress their perceived grievances, it is time that sections of the public service recognise the constraints imposed by these realities.

FORECAST NATIONAL ACCOUNTS 1995

A: Expenditure on Gross National Product

	1994[1] Preliminary £m	1995 Estimated £m	Change in 1995 £m Value	Change in 1995 £m Volume	Change in 1995 % Value	Change in 1995 % Price	Change in 1995 % Volume
Private Consumer Expenditure	19,438	20,507	1,069	641	5½	2	3¼
Public Net Current Expenditure	5,575	5,965	390	195	7	3½	3½
Gross Fixed Capital Formation	5,248	6,161	913	703	17½	3½	13½
Exports of Goods and Services (X)	25,065	29,815	4,750	4,166	19	2	16½
Physical Changes in Stocks	-258	30	288	250			
Final Demand	55,068	62,478	7,410	5,955	13½	2½	10¾
less:							
Imports of Goods and Services (M)	20,320	23,693	3,373	2,451	16½	4	12
GDP at Market Prices	34,748	38,785	4,037	3,504	11½	1½	10
less:							
Net Factor Payments (F)	4,134	4,887	753	661	18¼	2	16
GNP at Market Prices	30,614	33,898	3,284	2,843	10¾	1¼	9¼

B: Gross National Product by Origin

	1994[1] Preliminary £m	1995 Estimated £m	Change in 1995 £m	Change in 1995 %
Agriculture, Forestry, Fishing	2,330	2,493	163	7
Non-Agricultural: Wages, etc.	16,772	17,820	1,048	6¼
Other:	10,455	12,440	1,985	19
less:				
Adjustments	1,992	1,810	-182	-9¼
Net Factor Payments	4,134	4,887	753	18¼
National Income	23,431	26,056	2,625	11¼
Depreciation	3,272	3,517	245	7½
GNP at Factor Cost	26,703	29,573	2,870	10¾
Taxes less Subsidies	3,911	4,325	414	10½
GNP at Market Prices	30,614	33,898	3,284	10¾

C: Balance of Payments on Current Account

	1994[1] Preliminary £m	1995 Estimated £m	Change in 1995 £m
X - M	4,745	6,124	1,379
F	-4,134	-4,887	-753
Net Transfers	1,435	1,680	245
Balance on Current Account	2,046	2,917	871
as % of GNP	6¾	8½	1¾

[1] Adjusted for Balance of Payments Revisions.

FORECAST NATIONAL ACCOUNTS 1996

A: Expenditure on Gross National Product

	1995 Estimated £m	1996 Forecast £m	Change in 1996 £m Value	£m Volume	% Value	% Price	% Volume
Private Consumer Expenditure	20,507	21,881	1,374	923	6¾	2	4½
Public Net Current Expenditure	5,965	6,323	358	119	6	3¾	2
Gross Fixed Capital Formation	6,161	6,855	694	491	11¼	3	8
Exports of Goods and Services (X)	29 ,815	33,510	3,695	3,349	12½	1	11¼
Physical Changes in Stocks	30	250	220	200			
Final Demand	62,478	68,819	6,341	5,082	10¼	1¾	8¼
less:							
Imports of Goods and Services (M)	23,693	26,944	3,251	2,571	13¾	2½	10¾
GDP at Market Prices	38,785	41,875	3,090	2,511	8	1½	6½
less:							
Net Factor Payments (F)	4,887	5,676	789	733	16¼	1	15
GNP at Market Prices	33,898	36,199	2,301	1,778	6¾	1½	5¼

B: Gross National Product by Origin

	1995 Estimated £m	1996 Forecast £m	Change in 1996 £m	%
Agriculture, Forestry, Fishing	2,493	2,493	0	0
Non-Agricultural: Wages, etc.	17,820	18,889	1,069	6
Other:	12,440	13,939	1,499	12
less:				
Adjustments	1,810	1,898	88	4¾
Net Factor Payments	4,887	5,676	789	16¼
National Income	26,056	27,747	1,691	6½
Depreciation	3,517	3,781	264	7½
GNP at Factor Cost	29,573	31,528	1,955	6½
Taxes less Subsidies	4,325	4,671	3,466	8
GNP at Market Prices	33,898	36,199	2,301	6¾

C: Balance of Payments on Current Account

	1995 Estimated £m	1996 Forecast £m	Change in 1996 £m
X - M	6,124	6,566	442
F	-4,887	-5,676	-789
Net Transfers	1,680	1,750	70
Balance on Current Account	2,917	2,640	-277
as % of GNP	8½	7¼	-1¼

The International Economy

General

Although forecasts by all international agencies for world output growth in 1996 have been revised downwards in recent months, the prospects for growth in the remainder of 1996 and in 1997 have actually improved. The downward revisions reflect the weakness of growth worldwide in the closing months of 1995, and the continued near stagnation of output in Europe in the first quarter of 1996. The improved outlook is the result of stronger than expected growth in the early months of 1996 in the US and Japan, and of the likelihood of a moderate European upturn in the remainder of the year under the stimulus of faster growth elsewhere and of reduced interest rates.

The US Economy

Growth in the US economy in the final quarter of 1995 was held back by a combination of severe weather, strikes and the shutdown of many government services. However, this slowdown was not responsible for the downward revision in estimates of real GDP growth in 1995 from 3¼ per cent to 2¼ per cent. This was due rather to technical adjustments in the method of calculating the US national accounts, which have had the effect of reducing the apparent growth rate by about ½ per cent for 1993 and 1994 and by roughly 1 per cent in 1995 and subsequent years.

On this new basis, US economic growth of about 2 per cent is expected in 1996, with a slightly higher increase in 1997. Virtually all indicators point to a strong economic recovery in the first few months of 1996, with the preliminary estimate of first quarter GDP showing a higher than expected annualised increase of 2.8 per cent.

Both exports and domestic demand are expected to contribute to growth in 1996. Buoyant retail sales figures so far this year reflect a revival in consumer confidence, while fixed investment is continuing to increase fairly steadily. Import volumes are likely to rise to about 7 per cent in 1996, but this is expected to be slightly below the rate of increase in export volumes.

Despite the prolonged period of growth, inflation remains subdued, with the rise in consumer prices widely forecast to remain at about 2½ per cent in both 1996 and 1997. Similarly, pay settlements are remaining very moderate, with the growth in employment and relatively low level of unemployment appearing to be offset by the increased flexibility of the US labour market.

The political gap between the Administration and Congress over the strategy of fiscal consolidation appears to have narrowed, although, of course, many tactical policy differences remain. It seems unlikely that these remaining problems will prevent some further progress being made in reducing the budget deficit, or contribute to upward pressure on interest rates in 1996. It is widely expected that the next significant movement in US interest rates, both long and short term, will be upwards, but the balance of opinion is that there will be little movement during 1996. Even at current interest rates, it seems likely that the US dollar will continue to appreciate mildly against the Deutschmark.

The European Economy

As in the USA, the pattern of growth in Europe during the winter months was distorted by unusually severe weather in many countries and by major strikes in France. Even allowing for these temporary factors, there is considerable concern about the weakness of economic performance, especially in Germany.

The loss of competitiveness by German industry, in relation to other European countries and to the rest of the world, since the mid-eighties appears to have reached a point where it is seriously damaging Germany's share of export markets. In 1995, this underlying weakness was exacerbated by the ending of the post-unification construction boom, by a forced adjustment to excessive stock levels, and by the adverse effect on both business and consumer confidence of currency instability and high long–term interest rates in the first half of the year.

With long–term interest rates having fallen by well over 1 per cent since the first quarter of 1995, short–term interest rates having been reduced further in April, with economic growth accelerating in the rest of the world, and with the DM having depreciated significantly against the dollar and many European currencies, the German economic institutes are confident that economic growth will resume in the second half of 1996. Fixed investment is expected to remain weak, but higher exports and consumption, allied to the end of stock–reductions, should contribute to a moderate growth rate. Because of the negligible carryover from 1995 and the fall in output in the first quarter, the annual rate of growth of real GDP in 1996 is likely to be no more than 1 per cent.

Price inflation is likely to remain very low throughout 1996 with the annual average rise in consumer prices in the region of 1½ per cent. The projected rate of recovery will not be sufficient to reduce unemployment, and the average standardised unemployment rate is forecast to rise from 8¼ per cent in 1995 to over 8¾ per cent in 1996.

The French economy also stagnated in the second half of 1995, quite apart from the strike–affected decline in the final quarter. However, there are already signs that both consumer and business confidence in 1996 are more positive than in Germany, with a likelihood that a moderate recovery has been under way since the beginning of the year. On an annual basis, real GDP growth is forecast at a little over 1¼ per cent, with domestic demand, including both consumption and fixed investment, accounting for the rise.

Most other continental European countries are expected to experience modest growth in 1996, ranging from forecasts of ¾ per cent in Austria to almost 3½ per cent in Spain, with an average growth rate of close to 2 per cent. Unemployment rates are forecast to remain close to their present high levels, with small reductions in some countries offset by a slight deterioration in others. Price increases are likely to be very modest, with an overall decline in the inflation rate of about ¼ per cent. The expected reduction in inflation is greatest in countries which are currently above the average, such as Italy and Spain.

One of the major concerns facing members of the European Union is the fact that so many, including the key countries of France and Germany, are currently failing to meet the borrowing criterion for EMU. Unless economic growth proves considerably more rapid than at present seems likely, meeting this criterion in the reference year of 1997 will prove exceptionally difficult. Given the strong will to proceed with EMU, major measures of fiscal consolidation are promised in Germany, France and several other countries. However, given the widespread resistance to expenditure cuts which has been in evidence in both France and Germany, it remains unclear whether budget deficits can be reduced sufficiently in 1997. Opinion is also divided as to the impact of a successful tightening of fiscal policy, with considerable uncertainty as to whether or not the beneficial effects on confidence and long–term interest rates would be sufficient to outweigh the direct effects on domestic demand.

The fiscal difficulties of some countries could be exacerbated by the costs of dealing with the BSE crisis, both on a national and an EU level. Although the overall effect of the crisis on GDP is likely to be minimal in most countries, with rising sales of other food products offsetting the fall in beef consumption, the cost of providing support for sectors adversely affected by the collapse of the beef market is unlikely to be recouped from the sectors which have obtained a corresponding gain.

The UK Economy

Like most other European countries, the UK suffered a slackening of economic growth in the second half of 1995, leaving the annual growth in real GDP at 2.6 per cent. Most indicators suggest a perceptible upturn in domestic demand, especially personal consumption, in the early months of 1996. Manufacturing output, on the other hand, has remained relatively flat, indicating that the rise in demand has been met from higher service output, some reduction in excessive stock levels and an increase in the volume of imports. Although export volumes are still above those of a year ago, the rate of increase since the middle of 1995 has been very slow. It seems that the competitive advantage conferred by sterling devaluation since 1992 has been largely exhausted due to lack of industrial capacity.

Real GDP growth in 1996 is now forecast to be in the region of 2 per cent. Most of this will be accounted for by personal consumption, although a modest increase in fixed capital formation is also likely. There could be a small contribution from net exports, but, especially since the recent significant appreciation of sterling against the continental currencies, this is far from certain.

Inflation is expected to remain subdued in 1996, although both price and wage increases are likely to be above the EU average. Because service output and employment are forecast to rise in response to increasing domestic demand, total employment is projected to continue its gradual increase, and the unemployment rate to decline slightly over the remainder of the year.

The public finances are a serious cause of concern, with the Public Sector Borrowing Requirement likely to overshoot its target by a significant margin, due mainly to lower than anticipated tax receipts. Fiscal problems are also likely to be deepened by the costs of tackling the BSE crisis, which, if measures are to be effective, will almost certainly be greater than currently envisaged by the UK authorities. Given the present electoral constraints on either tax increases or higher interest rates, it seems probable that sterling will come under pressure before the end of the year, despite its current apparent strength.

The Rest of the World

The Japanese economic recovery now appears to be firmly established. Monthly industrial production figures show a steady increase throughout the latter half of 1995 and into early 1996. Economic growth, government measures and the sharp rise in share values have significantly eased the financial problems of the banking system. Together with very low interest rates this has contributed to an improvement in consumer confidence. Boosted further by a strong fiscal stimulus, domestic demand is now increasing quite strongly. Import volumes are continuing to rise rapidly in response, and with the typical J–curve effects of the yen depreciation, the current account balance of payments surplus has fallen sharply in recent months. Export volumes are likely to increase steadily in the remainder of 1996, responding to improved competitiveness. Real GDP is now forecast to grow by at least 2 per cent in 1996, with inflation remaining very low and the unemployment rate beginning to decline from its very high level, by Japanese standards, of 3½ per cent.

Other industrialised or industrialising Asian economies, including China, are expected to continue their strong growth, fuelled by heavy investment and rapidly rising exports. Several Latin American countries suffered a sharp reduction in growth in 1995, due mostly to the fallout from the Mexican financial crisis. With confidence returning, a significant recovery is under way in 1996. Other advanced economies are expected to achieve moderate growth rates in 1996, while the recovery in western European growth should enable the transition economies of eastern Europe to return to a more rapid growth path of about 4 per cent per year from the second half of 1996.

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	2½	2	3½	2¾	4¼	4	8¾	8	-1	-2
Germany	2	1	2	1½	3½	3½	8¼	9	-½	-1
France	2¼	1¼	2	2	2½	2½	11½	12	1½	1½
Italy	3	2	5¼	5	4¼	4½	12¼	12	1¾	2½
Total EC	2½	1¾	3	2½	3¼	3¼	11	11	-2½	½
USA	2½	2	2¾	2½	3	2¾	5½	5¼	-2½	-2½
Japan	½	2	0	1	2	1½	3¼	3½	2½	2
Total (OECD)	2¼	2	4	3½	3	2¾	7½	7½	-¼	-¼
Ireland	9¼	5¼	2½	2	2¾	3¼	12¾	11¾	8½	7¼

World output and trade growth in 1995 slowed significantly with the former increasing by about 2¼ per cent and the latter by about 8 per cent. With a smaller carryover into 1996, the annual increases in both are likely to be of a similar order of magnitude, although the pace of growth should accelerate somewhat in the course of the year. The expansion in Europe will be considerably less than last year on an annual basis, but will improve in the second half of the year. With regard to sectoral growth, production and sales of some electronic products in Europe will probably not sustain the exceptional rate of increase seen in 1995, while the market for agricultural produce will obviously be seriously affected by the BSE crisis.

The continuation of world output growth, allied to lower long–term interest rates, should maintain a reasonably high level of international productive investment. While a high proportion of total world mobile investment will continue to be in Asia, there seems no reason why Ireland should not once more obtain a relatively high share of international investment in Europe.

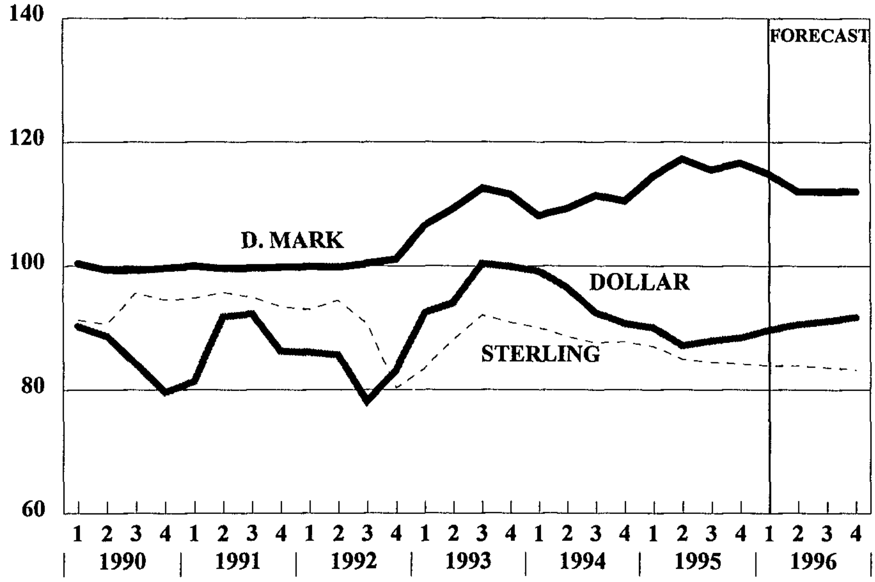
World, and especially European, inflation trends remain low. Pay settlements in virtually all major economies are very moderate, and most manufactured output prices are showing only a small rate of increase. As usual, commodity prices show considerable variation, but overall little change is expected in average commodity prices in 1996. Although crude oil prices rose quite sharply in the first quarter, this increase is likely to be reversed over the rest of the year, as restocking following the harsh winters in Europe and America comes to an end.

Short–term interest rates were reduced world–wide in the second half of 1995 as inflationary fears abated. Following the latest German rate cuts in April, little further movement is expected in 1996 in international short–term interest rates. Although the next significant movement is likely to be upwards this is more likely to take place in 1997 than in 1996, unless the pace of economic growth later this year proves to be faster than presently anticipated.

Long–term interest rates in most countries fell by more than 1 per cent in the course of 1995, as it became clear that previous inflation expectations were exaggerated. In the first quarter of 1996, this downward trend was reversed, although there was considerable disparity between countries. Rates rose by over ½ per cent in the US and UK, by about ¼ per cent in Germany and Japan, and hardly at all in many other European countries. Since the end of March the downward trend has resumed, suggesting that the first quarter changes were temporary rather than a clear turning point. The process of the long–term interest rate differential between Germany and several other European economies, including Ireland, narrowing as the prospects for EMU became perceived as more positive has continued. Trends in long–term interest rates are always difficult to predict, but for forecasting purposes it has been assumed that international rates will fluctuate around their current level for the remainder of 1996. This implies that the annual average rate will be substantially below that in 1995.

Figure 1: Exchange Rates

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



After considerable instability in the first half of 1995, exchange rates became more stable in the second half of the year. So far in 1996 significant movements in exchange rates have taken place without engendering the sort of currency turmoil seen in 1995. The major movement, a depreciation of the DM, modest against most other European currencies, but quite sharp against the US dollar, sterling and, indeed, the Irish pound, is generally perceived as benign, serving to ease rather than intensify currency tensions. For forecasting purposes it is assumed that the dollar will continue to appreciate gradually against all European currencies in the remainder of 1996, that there will be little further movement among ERM currencies, and that sterling will depreciate slightly against the DM and other ERM currencies in the later months of the year. Although a sharper depreciation of sterling cannot be ruled out, especially in a pre-election situation, its recent strength leaves room for a significant fall in value before it would pose serious problems for Irish economic management.

General

Data which have become available since the February *Commentary* indicate that economic growth in 1995 was even faster than predicted. Unless significant future revisions are made to the trade statistics, it now seems probable that real GNP grew by about 9¼ per cent.

The rate of growth in the course of 1995 ensures that there will have been a considerable carryover into 1996 in exports, imports, fixed investment and, to a lesser extent, consumption. Thus, even without any further expansion in the course of the year, the annual growth in GNP in 1996 would be quite substantial. In spite of unfavourable factors, such as the ending of the IRA ceasefire and the BSE crisis, the effects of which cannot yet be adequately quantified, further increases in most forms of output and expenditure are expected during the year, although these are unlikely to be as vigorous as in the past two years.

Exports

Provisional trade statistics for 1995, incorporating some revisions to 1994 totals, indicate that visible exports last year increased by 17¾ per cent in volume and 20 per cent in value. They also show that visible exports remained very strong in the final quarter, in spite of the virtual economic stagnation in most of Ireland's major export markets. All categories of exports appear to have been buoyant in 1995, although the precise rate of growth in each cannot be established until a proportion of the exports currently unclassified has been distributed between the major categories.

If the seasonally adjusted value of visible exports in the final quarter of 1995 were simply sustained through 1996, the annual rise in export value would be of the order of 7½ per cent, which represents an exceptionally large carryover into the year. Despite some adverse factors, the value of total visible exports can be expected to increase significantly in the course of the year, thus ensuring a substantial rise on an annual basis.

Some reduction in the volume of agricultural exports in 1996 seems probable. With intervention stocks now at a very low level, it is unlikely that exports of dairy produce can repeat the volume achieved in 1995, as this included a considerable element of stock reduction. With regard to meat exports, it is too early to assess the annual impact of the BSE crisis. If consumer confidence in beef is restored fairly soon in continental markets, the annual level of meat exports could still match that in 1995. If recent continental consumption levels persist, there could be a large reduction in both beef and total meat exports. For the purpose of this forecast it is assumed that there will be a moderate reduction in the volume of annual meat exports, with a corresponding rise in intervention stocks. Average export prices of different agricultural products are likely to prove volatile, with some increasing and others declining on an annual basis. Overall, an annual increase of about 1 per cent in average agricultural export prices is assumed.

TABLE 2: Exports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,610	11	15	3,002	-4	-3	2,912
Manufactured	16,291	20	22	19,875	15	16	23,055
Other Industrial	2,700	14½	16	3,130	8	9½	3,427
Other	1,152	10	12	1,290	5	6	1,367
Total Visible	22,753	17¾	20	27,297	11¾	12¾	30,761
Adjustments	-318			-360			-390
Merchandise	22,435	17¾	20	26,937	11¾	12¾	30,371
Tourism	1,497	9¼	12	1,677	9¾	12	1,878
Other Services	1,133	3½	6	1,201	3	5	1,261
Exports of Goods and services	25,065	16½	19	29,815	11¼	12½	33,510

Survey data suggest that seasonally adjusted manufactured exports remained relatively unchanged in the first quarter of 1996, presumably in response to the continued stagnation in most major export markets. However, with both the UK and most continental economies expected to resume moderate growth in the remainder of the year, and with new and expanded capacity due to come into operation over the coming months, an upturn in the volume of manufactured and other industrial exports is likely in the second half of 1996. Only a small rise in average industrial export prices is likely in 1996, with significant price reductions expected in some sectors of the computer industry.

Thus, as shown in Table 2, total visible exports are forecast to increase by 11¾ per cent in volume and 12¾ per cent in value, with the likely increases in merchandise exports much the same.

Early indications suggest that the value of tourism exports could grow at about the same rate as last year, on the assumption, of course, that peace is maintained in both Northern Ireland and the Republic. There seems no reason to expect that the moderate rise in recorded exports of other services achieved in 1995 will not be repeated in 1996. Thus total exports of goods and services are projected to increase by 10½ per cent in volume and 11¾ per cent in value.

Stocks

In the absence of fresh data, there seems no reason to change our stock estimates for 1995. Revisions to agricultural and intervention stocks are likely to be quite minor, but until the official National Accounts for 1995 become available, the estimate for other stocks must remain inescapably tentative.

It seems probable that there will be another small rise in farm stocks in 1996, and a further modest run–down in intervention stocks of milk products, which are now approaching exhaustion. The major uncertainty concerns intervention stocks of beef. Until the BSE crisis it was confidently assumed that there would be no meat intervention this year. The emergency re–opening of intervention purchasing since the crisis obviously calls this assumption into question. While it is hoped that such intervention will prove temporary, with any stocks accumulated in the coming months being liquidated before the end of the year, the possibility must be faced that the crisis could be long–lasting, with substantial intervention beef stocks needing to be carried over into 1997. For forecasting purposes, we have assumed that there will be a moderate carryover of such stocks at the end of the year, and that consequently there will be some rise in total intervention stocks in 1996, as shown in Table 3. This assumption is compatible with the reduced level of agricultural export volumes already discussed.

TABLE 3: Stock Changes

	1994	Change in Rate	1995	Change in Rate	1996
	£m	£m	£m	£m	£m
Farm Stocks	57	22	35	-10	25
Irish Intervention Stocks	-451	296	-155	205	50
Other Non-agricultural Stocks	136	14	150	25	175
Total	-258	288	30	220	250

With the general economy forecast to grow fairly rapidly, a further increase in other non–agricultural stock–building is projected for 1996. Thus total stock–building in the year is forecast at about £250 million or 0.7 per cent of GNP.

Investment

Estimates of gross fixed capital formation in 1995 have been revised upwards in the light of additional information. In particular, growth in non–residential building and construction was even higher than expected in the second half of the year, while imports of capital goods in the first three quarters of the year suggest that investment in machinery and equipment must have risen very strongly.

The time–path of investment in building and construction in 1995 implies that there should be a considerable carryover into 1996. The level of planning permissions in the second half of 1995 also indicates that there should be further expansion in the course of 1996, especially as nominal interest rates seem set to remain relatively low throughout the year. Confirmation that building output was still growing quite strongly in the first quarter can be derived from the building employment index, which has climbed above its 1990 level for the first time since July 1991. Nevertheless, for 1996 as a whole, it seems unlikely that the growth in

TABLE 4: Gross Fixed Capital Formation

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,235	13	17	3,785	7	10½	4,182
Machinery and Equipment	2,014	14	18	2,376	9½	12½	2,673
Total	5,248	13½	17½	6,161	8	11¼	6,855

investment in building and construction, while still substantial, will match the exceptional rate achieved in 1995. As shown in Table 4, such investment is forecast to rise by 7 per cent in volume and 10½ per cent in value.

With relevant trade data not yet available for the closing months of 1995, let alone any portion of 1996, recent trends in investment in machinery and equipment cannot be monitored. However, as with building, there is likely to have been a substantial carryover from 1995. The prospect of continued economic expansion, combined with relatively low interest rates, should ensure continued growth in such investment in the course of 1996. Thus total gross fixed capital formation in 1996 is forecast to rise by about 8 per cent in volume, considerably slower than in 1995, but well above the long–term average.

Consumption

Retail sales in the closing months of 1995 were a little less buoyant than anticipated, so that the annual increase in the value index was only 4.8 per cent, rather than the 5 per cent estimated in our previous *Commentary*. We have accordingly reduced our estimates of personal consumption in 1995 slightly, to a value growth of 5.5 per cent and a volume increase of 3.3 per cent. Such a modest increase in personal consumption implies that there must have been a significant rise in the personal savings ratio in 1995.

With nominal interest rates relatively low, and, crucially, with no expectation that they are due to rise in the near future, some reduction in the savings ratio seems likely in 1996. Although aggregate personal disposable income is forecast to rise less rapidly in 1996, this reversed trend in the savings ratio should result in a faster increase in personal consumption, especially of durable goods.

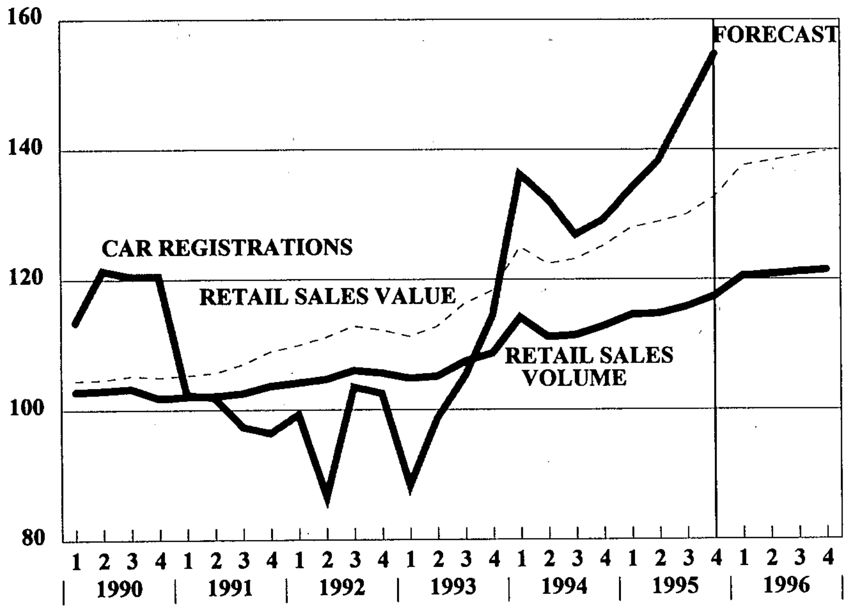
TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1991	1992	1993	1994	1995 Estimate	1996 To date	1996 Forecast
Consumption Value							
NIE 1993, Personal Consumption	4.9	5.5	3.1	7.2	5.5		6.7
Retail Sales Index, Value	1.8	4.3	3.0	7.9	4.8	7.4	6.5
Divergence	3.3	1.2	0.1	-0.7	0.7		0.2
Consumption Volume							
NIE 1993, Personal Consumption	2.0	2.9	1.4	4.3	3.3		4.5
Retail Sales Index, Volume	-0.1	2.3	1.4	5.5	2.8	5.2	4.4
Divergence	2.1	0.6	0	-1.2	0.5		0.1
Consumer Prices							
NIE 1993, Personal Consumption Deflator	2.8	2.5	1.7	2.8	2.1		2.1
Retail Sales Index Deflator	1.9	2.0	1.6	2.3	1.9	2.1	2.1
Consumer Price Index	3.2	3.0	1.5	2.4	2.5	2.0	1.9

The retail sales index for the early months of 1996 confirms that a significant upturn has taken place, while trade sources suggest that new car sales have risen by over 30 per cent in the first four months of the year. For 1996 as a whole, increases of 6.5 per cent in value and 4.4 per cent in volume are forecast for the retail sales index. As shown in Table 5, these are converted to forecast increases of 6.7 per cent and 4.5 per cent in the value and volume of total personal consumption.

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



No change is made in our estimate that public consumption in 1995 increased by about 7 per cent in value and 3½ per cent in volume. We have increased slightly our forecasts of public consumption in 1996, although at 6 per cent in value and 2 per cent in volume they remain well below the average of recent years.

Final Demand

No late revisions are likely to alter significantly the picture of an exceptionally rapid increase in final demand in 1995. Our current estimate shows that final demand rose by about 10¾ per cent in volume and 13½ per cent in value. Both exports and domestic demand contributed to this strong rise, with the volume of exports of goods and services increasing by 16.6 per cent, and the volume of domestic demand, excluding stock-building, by 5.1 per cent. Given the importance of investment in machinery and equipment in the rise of final domestic demand in 1995, the import–intensity of final demand growth was particularly high.

A slower, but still substantial, increase in final demand is projected for 1996, with a value rise of 10 per cent and a volume rise of 8¼ per cent. The main slowdown is forecast in exports of goods and services, with a volume rise of about 11.2 per cent. Domestic demand, excluding stocks, is forecast to increase by 4.7 per cent in volume, with a faster growth in personal consumption largely offsetting a slower rate of expansion in fixed investment and public consumption. The composition of final demand is expected to remain import–intensive, although less so than in 1995.

Imports

The provisional trade statistics indicate that visible imports in 1995 increased by 11¾ per cent in volume and 16½ per cent in value. The estimated rise of 4¼ per cent in annual average import prices is surprisingly large, given the appreciation of the Irish pound against both the dollar and sterling, and the absence of a correspondingly large increase in consumer prices.

Because the functional classification of imports is only available for the first nine months, and even those figures are likely to be revised when a portion of currently unclassified imports are re–assigned, considerable uncertainty must attach to the annual breakdown of visible imports in 1995. However, it is already clear that imports of both capital goods and materials for further industrial production increased strongly.

TABLE 6: Imports of Goods and Services

	1994	% Change		1995	% Change		1996
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	2,778	15½	20½	3,347	12	15	2,865
Consumer Goods	3,893	5¼	9½	4,263	9½	12½	4,807
Intermediate Goods:							
Agriculture	528	3	8½	573	3	6	607
Other	8,747	15½	20½	10,540	13½	16½	12,279
Other Goods	1,337	2½	7	1,431	3	6	1,517
Total Visible	17,283	11¾	16½	20,154	11¼	14¼	23,048
Adjustments	-379			-330			-340
Merchandise Imports	16,904	12½	17¼	19,824	11½	14½	22,708
Tourism	1,072	15¼	18¼	1,267	8¼	10½	1,400
Other Services	2,344	8¼	11	2,602	6¾	9	2,836
Imports of Goods and Services	20,320	12	16½	23,693	10¾	13¾	26,944

There will be a substantial carryover of import growth into 1996, while further increases are likely in the course of the year. If our forecasts of final demand are correct, imports of capital and intermediate goods will show a lower annual growth in 1996 than in 1995, but the increase in imports of consumer goods will be larger. Total visible imports in 1996 are forecast to rise by 11¼ per cent in volume and 14¼ per cent in value, as shown in Table 6. The implied rise in average import prices is projected to fall from over 4 per cent in 1995 to about 2¾ per cent in 1996, with some of the rise this year reflecting a carryover from price increases in the course of 1995.

The rise in tourist expenditure abroad in 1995 was slightly lower than we had previously estimated, but was nevertheless very large. A more modest, but still substantial, increase is projected for 1996. Other service imports also grew strongly in 1995, in keeping with the exceptional rise in final demand. The slower rate of increase in final demand projected for 1996 is likely to be reflected in a reduced rate of increase in other service imports. Thus total imports of goods and services are forecast to increase by about 10¾ per cent in volume and 13¾ per cent in value in 1996.

Balance of Payments

With the value of both imports and exports increasing very rapidly in 1995, the visible trade balance rose by over 30 per cent to £7,143 million, or about 21 per cent of GNP. When balance of payments adjustments and a sharp rise in the deficit on service trade are taken into account, the surplus on trade in goods and services is estimated to have increased by more than 29 per cent to £6,124 million in 1995.

In contrast to 1994, the rapid increase in export values in 1995 was reflected in a large rise in profit outflows. With a modest reduction in overseas national debt interest and big increases in both other debit flows and credit flows, net factor

TABLE 7: Balance of Payments

	1994 £m	Change %	1995 £m	Change %	1996 £m
Visible Trade Balance	5,470	30½	7,143	8	7,713
Adjustments	61		-30		-50
Merchandise Trade Balance	5,531	28½	7,113	7¾	7,663
Service Trade Balance	-786	26	-991	10¾	-1,097
Trade Balance in Goods and Services	4,745	29	6,124	7¼	6,566
Factor Flows:					
Profits etc.	-4,001	24	-4,961	20	-5,953
National Debt Interest	-1,081	-4	-1,038	-3	-1,007
Other Debit Flows	-1,013	40	-1,418	20	-1,702
Total Debit Flows	-6,095	21¾	-7,417	18	-8,762
Credit Flows	1,961	29	2,530	22	3,086
Net Factor Flows	4,134	18¼	-4,887	16¼	-5,676
Net Transfers	1,435	17	1,680	4¼	1,750
Balance on Current Account	2,046	42½	2,917	-9½	2,640

outflows rose by 18¼ per cent. Net transfers recovered from their temporary decline in 1994, so that the estimated surplus on current account increased sharply to almost £2,917 million, as shown in Table 7.*

Our trade projections suggest that imports are likely to increase more rapidly than exports in 1996. However, given the massive imbalance in favour of exports, even such an outcome would result in a further modest increase in the surpluses on visible trade, merchandise trade and trade in goods and services.

Because of the usual lag between multinational exports and the consequent expatriation of profits, the probable easing in the rate of growth in profit outflows in 1996 will be less marked than the projected slackening in export growth. Allowing for a further small decline in external national debt interest, and continued strong growth in other debit and credit items, net factor outflows in 1996 are projected to increase by 16¼ per cent.

In keeping with our assumptions about intervention beef stocks, we have revised upwards our forecast of net transfers receipts by £50 million. Thus the current account surplus is projected to be about £2,640 million, a decline of £277 million from the estimated 1995 out-turn, but still a massive 7¼ per cent of forecast GNP, on the present method of calculation.*

Gross National Product

Our estimates of the volume growth in both GDP and GNP in 1995 have been revised upwards by about 2½ per cent, to 10 per cent and 9¼ per cent respectively. Increases in the estimated volume of net exports, and, to a lesser extent fixed investment, are responsible for this revision. Current estimates indicate that there was a significant deterioration in the terms of trade in 1995, with import prices rising about 2 per cent faster than export prices. However, this terms of trade loss was largely offset by a rise in net transfers, so that real gross national disposable income (GNDI) is estimated to have risen by about 8 per cent. Any revision to import prices would have virtually no effect on GNDI, as changes in GNP growth and in the terms of trade adjustment would tend to cancel each other out.

The upward revisions in our growth forecasts for 1996 are about ¾ per cent for GDP and ¼ per cent for GNP, with consumption and stock-building accounting for the increase. A further deterioration in the terms of trade seems likely in 1996, which is unlikely to be offset to a significant extent by increased transfers. Thus real GNDI in 1996 is forecast to increase by about 4½ per cent.

Agriculture

The preliminary estimate of agricultural output shows that gross agricultural output rose by 3.9 per cent in volume in 1995. With the volume of inputs increasing by only 2.5 per cent, the volume of gross agricultural product at market prices rose by 5.2 per cent. Assuming steady expansion in forestry and fishing and

* New methodologies are due to be introduced in the provisional Balance of Payment and National Accounts estimates for 1995 at the end of June. These will almost certainly reduce the absolute level of the current account surplus, but will not change the general picture of a large and increased surplus in 1995 with the likelihood of a slight decline in 1996.

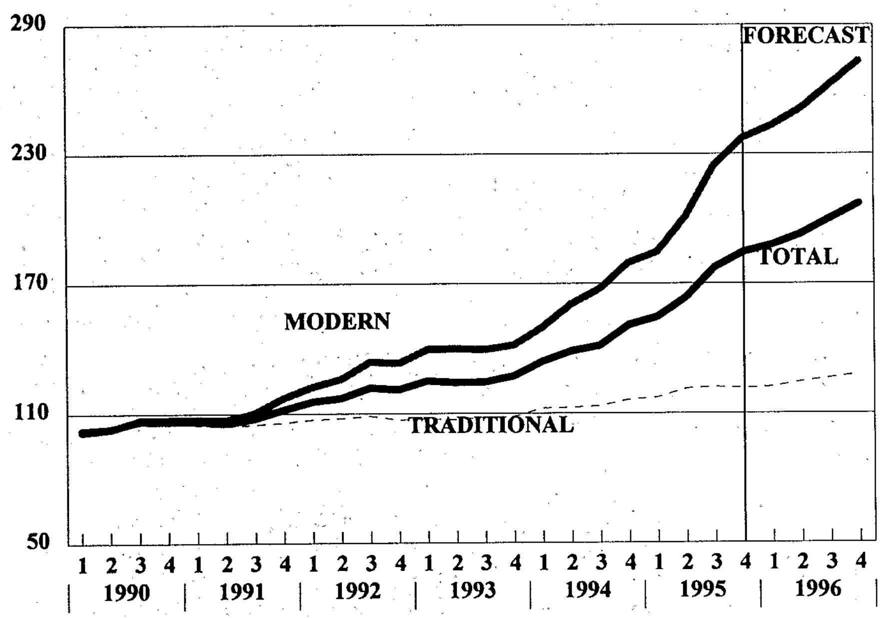
a small rise in sectoral depreciation, the gross domestic product of the broad agriculture sector is estimated to have grown by about 5 per cent.

Agricultural output in 1995 benefited from unusually favourable weather conditions. On the assumption of a return to normal weather patterns, it seems unlikely that there will be a further increase in the volume of gross agricultural output in 1996. Allowing for continued expansion in forestry and fishing and a slight increase in depreciation, gross domestic product in the broad agriculture sector is projected to increase by no more than 1 per cent in 1996.

Industry

The Industrial Production Index shows that in 1995 the volume of output in manufacturing industry increased by 20.1 per cent and in "all industries" rose by 18.9 per cent. All industry groups except clothing, footwear and leather increased production in 1995, although the highest rates of increase were in the high technology sectors, especially electronics. Of the 32 individual manufacturing industries identified in the Index, 26 showed increases compared with 6 which showed declines in production. When some allowance is made for the tendency of net output to grow slightly less rapidly than total production, for the rise in depreciation being considerably slower than the rise in output, for adjustments for stock appreciation and for a rise of about 11 per cent in the net output of the building industry, it seems likely that the volume of gross domestic product in the broad industry sector increased by over 15 per cent in 1995.

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



The exceptionally rapid increase in the Industrial Production Index in the course of 1995 means that there is a large carryover into 1996, amounting to 10.4 per cent in manufacturing industry and 9.2 per cent for "all industries". Although both the Index itself and the IBEC/ESRI Business Survey suggest that output may have remained on a plateau in the closing months of 1995 and the early months of 1996, resumed growth in the course of 1996 seems certain as new capacity becomes available and as major export markets return to expansion in the second half of the year. Indeed the latest Business Survey indicates that an upturn has already started. Thus for 1996 as a whole an increase of about 16 per cent in the volume of production in manufacturing industry is projected. With building output forecast to rise more slowly than in 1995, gross domestic product in the broad industry sector is projected to increase by about 11½ per cent.

Services

Service output as recorded in the National Accounts tends to be quite volatile, largely because of technical problems in treating changes in intervention stock levels and financial adjustments. Nevertheless there is an underlying relationship between service sector output and total GDP growth, and it is reasonable to suppose that there was a fairly robust growth in service output in 1995. A volume increase of about 4½ per cent in gross domestic product in the service sector is thus estimated for 1996.

Expenditure estimates imply that the volume growth of public services should be rather slower in 1996 than in 1995. On the other hand, private service sector activity should continue growing strongly in response to the buoyancy of domestic demand. The volume of gross domestic product in the total service sector is thus forecast to rise by about 4¼ per cent in 1996.

Employment

The Final Labour Force Survey for 1995 contains slight upward revisions to the numbers at work in April 1995, and confirms that roughly two thirds of the annual increase consisted of full-time, non-scheme jobs. Meanwhile, quarterly indicators show that industrial employment continued to grow strongly throughout 1995, while the monthly index suggests that building employment continued to grow in the first quarter of 1996. We have accordingly increased slightly our estimates of employment in the broad industry sector for the year 1995 and for April 1996. Leaving our previous estimates of a small decline in agricultural employment and a strong rise in the number of service jobs unchanged, we now estimate that the annual average total number at work increased by 43,000 in 1995, and that the increase in the twelve months to April 1996 was 33,000, as shown in Table 8.

On our projections for industrial production and building, employment in the broad industry sector could be expected to increase by about 10,000 in the year to April 1997. With domestic demand, especially personal consumption, continuing to expand vigorously, total service employment is projected to rise by about 20,000 over the same period. Allowing for a small reduction in agricultural employment, the total number at work is thus forecast to increase by 28,000 in the year to April 1997 and by an average of 32,000 in the calendar year 1996.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1993	1994	1995	1996	1997
Agriculture	143	140	140	137	135
Industry	311	330	343	358	368
Services	692	712	751	772	792
Total at Work	1,146	1,182	1,234	1,267	1,295
Unemployed	230	218	190	180	175
Labour Force	1,375	1,400	1,423	1,447	1,470
Unemployment Rate %[1]	15.7	14.7	12.7	11.9	11.4
Live Register	295	285	276	281	280

B: Annual Averages '000

	1993	1994	1995	1996
Agriculture	142	140	139	136
Industry	319	337	351	364
Services	700	731	761	783
Total at Work	1,161	1,208	1,251	1,283
Unemployed	225	206	185	178
Labour Force	1,386	1,414	1,436	1,461
Unemployed Rate %[1]	15.6	14.2	12.6	11.7
Live Register	294	282	278	281

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

Projected unemployment rates, including 1995, incorporate a further expected divergence between Live Register and ILO measures of unemployment.

There is no reason to suppose that there will be a significant change in the recent pattern of very modest net emigration, or in the trend for a moderate increase in female labour force participation. On this basis it is likely that unemployment, on a Labour Force basis, will have declined by about 10,000 in the year to April 1996 and will fall by another 5,000 in the year to April 1997. If these expectations are confirmed in the annual Labour Force Surveys, then the revised average unemployment rate for 1995 is likely to have been about 12.6 per cent and that for 1996 should be in the region of 11.7 per cent.

Incomes

According to the preliminary estimates, income arising in agriculture rose by 7.2 per cent in 1995, with incomes in the broad agriculture sector thus increasing by almost 7 per cent. With at best a marginal increase in the volume of output, unfavourable price trends exacerbated by the BSE crisis, and with a much smaller rise in transfer payments than last year, no rise in the aggregate income of the broad agriculture sector is forecast for 1996.

We have revised our estimate of the increase in aggregate non–agricultural wages, salaries and pensions in 1995 from 6 per cent to 6¼ per cent, largely because of the higher estimate of non–agricultural employment. No change has been made in the forecast of a 6 per cent increase in aggregate earnings in 1996, with a slower rise in employment compared to 1995 being largely offset by a slightly faster rise of 3¼ per cent in average earnings.

With the economy remaining buoyant, it still seems likely that other non–agricultural income will have increased by about 6 per cent in 1995 and will rise at about the same rate in 1996. Thus, as shown in Table 9, total income received is estimated to have risen by 6¼ per cent in 1995 and is forecast to increase by just under 5½ per cent in 1996.

TABLE 9: Personal Disposable Income

	1994	Change		1995	Change		1996
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,330	7	163	2,493	0	0	2,493
Non-Agricultural Wages, etc.	16,772	6¼	1,048	17,820	6	1,069	18,889
Other Non-Agricultural Income	3,731	6	224	3,955	6	237	4,192
Total Income Received	22,833	6¼	1,435	24,268	5½	1,306	25,574
Current Transfers	5,484	7	384	5,868	5½	323	6,191
Gross Personal Income	28,317	6½	1,819	30,136	5½	1,629	31,765
Direct Personal Taxes	6,299	1¼	81	6,380	6	383	6,763
Personal Disposable Income	22,018	8	1,738	23,756	5¼	1,246	25,002
Consumption	19,438	5½	1,069	20,507	6¾	1,374	21,881
Personal Savings	2,580	26	669	3,249	-4	-128	3,121
Savings Ratio	11.7			13.7			12.5

Current transfer receipts rose by about 7 per cent in 1995. With a smaller impact from arrears payments, the increase in 1996 is forecast at 5½ per cent. Thus gross personal income is estimated to have increased by almost 6½ per cent in 1995 and is projected to rise by nearly 5½ per cent in 1996.

The apparent very small increase in direct personal taxation in 1995 is misleading, as the figures are distorted by the effect of the tax amnesty in 1994, with the underlying rise in direct personal taxation being close to 5 per cent. Such taxation is likely to increase by about 6 per cent in 1996, with rising employment and relatively minor budget concessions ensuring an increase in income tax receipts sufficient to offset an unusually slow rise in PRSI receipts due to reduced contribution liabilities.

Personal disposable income is thus estimated to have risen by a somewhat artificial 8 per cent in 1995, and is forecast to increase by about 5¼ per cent in 1996.

There was an unexpectedly large rise in the personal savings ratio in 1995, partly due to the arithmetical unwinding of the 1994 amnesty effect, and partly due to the inhibiting impact of fears of rising interest rates on consumption in the first half of the year. With interest rates expected to remain stable at a relatively low level in 1996, a significant fall in the savings ratio, to about 12½ per cent, seems probable. This would permit an increase of about 6¾ per cent in the value of personal consumption despite the slower rise in personal disposable income.

Consumer Prices

The consumer price index rose by 2.5 per cent in 1995, with the housing index increasing by 5.8 per cent and the remainder of the index by 2.2 per cent, significantly lower than the estimated rise in import prices.

The housing index fell by 1.8 per cent between November and February, due to a reduction in mortgage interest rates, although it remained 3.2 per cent above its level in February 1995. Over the remainder of 1996 the housing index is expected to be well below its average level in the last three quarters of 1995, with the effects of lower mortgage interest charges more than offsetting the upward pressure from rising house prices.

The remainder of the index is likely to reflect a subdued rate of inflation throughout the year, especially as import prices are expected to rise less than in

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1994			1995				1996	1994	1995	1996
	May.	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.			
Index Nov. 1989 = 100											
Housing	111.4	111.8	112.2	113.0	119.3	120.8	118.8	116.7	111.5	118.0	117.4
Other	112.2	113.1	113.2	114.1	114.9	115.3	115.6	116.3	112.5	115.0	117.4
Total CPI	112.1	113.0	113.1	114.0	115.2	115.7	115.8	116.3	112.4	115.2	117.4
Annual % Change											
Housing	-3.8	1.9	1.1	2.2	7.1	8.1	5.9	3.2	-5.0	5.8	-0.5
Other	3.3	2.6	2.4	2.6	2.4	2.0	2.1	1.9	3.0	2.2	2.1
Total CPI	2.7	2.5	2.4	2.5	2.8	2.4	2.4	2.0	2.4	2.5	1.9
Quarterly % Change											
Housing	0.7	0.4	0.4	0.7	5.6	1.3	-1.7	-1.8			
Other	0.9	0.8	0.1	0.8	0.7	0.3	0.3	0.6			
Total CPI	0.8	0.8	0.1	0.8	1.1	0.4	0.1	0.4			

1995. Thus, for the year as a whole, the housing index is forecast to fall by 0.5 per cent, and the remainder of the index to rise by 2.1 per cent, as shown in Table 10. The total consumer price index is forecast to rise by an annual average of just under 2 per cent, implying a November to November increase of about 2¼ per cent.

Public Finances

The strong growth of the economy in 1995 was reflected in the performance of the public finances. Buoyant revenue enabled a substantial proportion of accumulated obligations to be paid off, while still undershooting current budget deficit and Exchequer borrowing targets.

Unless the BSE crisis imposes much greater costs on the Irish Exchequer than presently seems likely, payments under the hepatitis compensation scheme are substantially higher than anticipated, or other major unforeseen expenditure obligations arise, 1996 should again provide the possibility for a significant undershooting of Budget targets. Revenue returns for the early months of the year confirm that tax revenue in 1996 is likely to increase by at least 7½ per cent, exceeding the Budget target by well over £100 million. The Exchequer returns are of little value in monitoring net government expenditure, as variations in the timing of EU receipts render year–to–year comparisons almost meaningless, especially in the early part of the year. On an annual basis, the trends in interest and exchange rates since the Budget was prepared suggest that national debt servicing in 1996 will cost significantly less than allowed for in the Budget estimates. With regard to supply service expenditure, there is no reason to expect that the record of recent years in keeping day–to–day spending fairly close to estimate will not be repeated in 1996.

While the potential for a declared EBR in 1996 of under £600 million, or about 1.6 per cent of GNP, is likely to be present, the actual figure presented will, as usual, be decided by the authorities at the end of the year. Although there is only limited scope for massaging the out-turn of the General Government Deficit, the key measure for EMU purposes, it would be surprising if there were a departure from the normal domestic practice of carrying forward as much as possible of potential savings into next year's Budget. Thus an out–turn only slightly better than the budget target is the most likely choice for 1996.

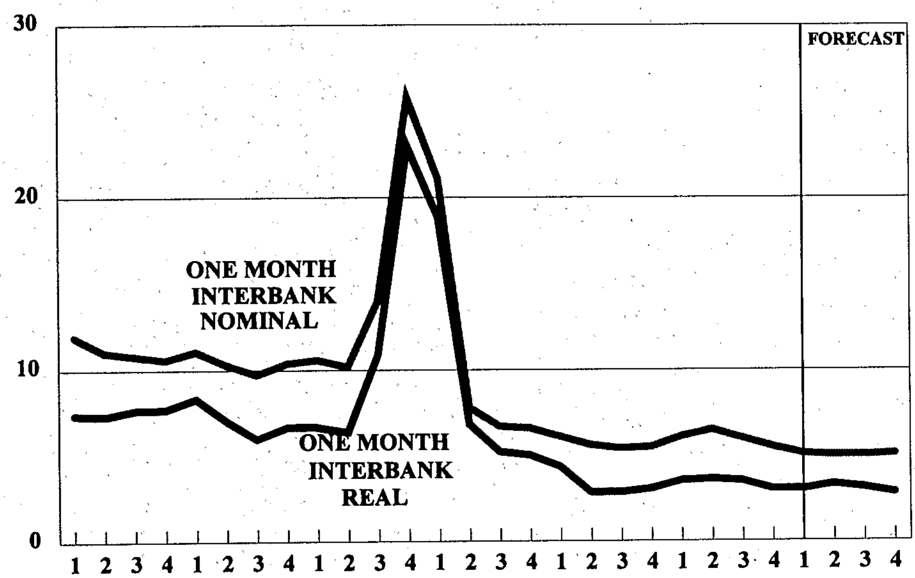
Interest Rates

Irish short–term interest rates rose quite sharply in the first half of 1995, but declined again in the second half, so that the annual average of the one–month inter–bank rate was about 6 per cent, slightly higher than in 1994. Long–term rates declined fairly steadily for most of the year, but, even so, the annual average at 8.3 per cent was marginally above the 1994 average.

As already discussed, short–term interest rates in Germany and most European countries have been reduced in the early months of 1996, and are expected to remain close to their present levels for the remainder of the year. This poses a potential problem for the Irish monetary authorities. The buoyancy of domestic demand in general and the rate of increase in house prices in particular suggest that a small rise in short–term interest rates and associated mortgage and other lending rates might be appropriate in the context of demand management. On the other hand the recent strength of the Irish pound, which has appreciated significantly against the Deutschmark and most other continental currencies and remains at a high level in relation to sterling, suggests that any unilateral rise in Irish interest rates could risk damaging competitiveness. The most likely outcome is that the Irish authorities will take no unilateral action on official interest rates, continuing the established policy of only moving when Germany does, while using their influence on liquidity to prevent any significant reduction in inter–bank rates. Thus the forecast in this *Commentary* is based on the assumption that short–term and related interest rates will remain at roughly their present level for the remainder of the year.

Figure 4: Interest Rates
Per Cent Per Annum, Quarterly Averages

The somewhat disparate trends in international long–term interest rates in



the early months of 1996 have already been discussed. Irish long–term interest rates in 1996 have been influenced by the tendency for the interest–rate differential over Germany to narrow in EMU candidate countries. With the course of long–term interest rates over the remainder of 1996 rather uncertain, it has been assumed that Irish rates will fluctuate around their present level in the rest of the year. This implies that their annual average level in 1996 will be more than ½ per cent lower than in 1995.

General Assessment

With only a few key items of information yet to become available, it now seems that economic growth in 1995 was even faster than we had estimated in the February *Commentary*. Real GNP growth, on the basis of existing National

Accounts conventions, seems to have been in the region of 9¼ per cent, with annual average employment rising by about 43,000. Inflation remained low, with the consumer price index increasing by 2½ per cent, and further substantial progress was made in reducing the debt/GNP ratio.

The very rapid growth during 1995 ensures that there will be a substantial carryover into 1996. Taking a cautious view on export trends, in the light of the pause in European economic expansion and of the effects of the beef crisis, but assuming that personal consumption will continue to react favourably to relatively low interest rates, a growth rate of 5¼ per cent in real GNP is forecast for 1996. An increase of 32,000 in the annual average level of employment is predicted, sufficient to permit a modest reduction in the underlying unemployment rate. The public finances should strengthen further, and, aided by the low mortgage interest rate, the consumer price index is projected to increase by just under 2 per cent on an annual average basis.

Although not matching the extremely high growth rates of 1994 and 1995, the Irish economy is thus expected to perform well in 1996. Moreover, it should end the year in a position where balanced low–inflation growth of around 5 per cent is potentially sustainable over the remainder of the decade.

However, this potential can only be realised if a disciplined approach to economic management continues to be applied by both government and the social partners. In the February *Commentary* we warned of the danger than unrealistic expectations could jeopardise the consensus on economic strategy which has been a key factor in the progress of the Irish economy over the past nine years. Since then there have been continuing signs of impatience with the moderate but steady rate of improvement in living standards of those at work and even with the much more striking pace of net job creation. It cannot be stressed too strongly that sustained increases of about 2 per cent per year in the former and more than 2½ per cent per year in the latter represent an exceptional economic performance in a European context.

Particularly worrying has been the nature and intensity of dis–satisfaction in parts of the public service, which suggests that many workers in these sectors have not yet recognised the changed international environment within which the Irish economy must now operate.

The complete liberalisation of capital movement has greatly increased the importance of international capital markets and correspondingly curtailed the freedom of action of governments, especially of small countries. Any market perception of fiscal laxity or lack of commitment to a strong currency is liable to result in a lasting penalty in the form of an increased interest rate differential over base currency centres.

At the same time the trend towards globalisation in many sectors of manufacturing and some services has led to a greater stress on competitiveness, in its broadest sense, and flexibility. In recent years Ireland has been a net beneficiary from globalisation, with job gains from foreign direct investment, including the expansion of existing multi–national plants, in high technology sectors considerably outweighing job losses to lower-cost competitor countries in less–skilled sectors.

This successful adaptation to world trends, in accentuating job gains and limiting job losses, has depended on the conjunction of several factors. Past policy decisions to upgrade infrastructure and to improve human capital resources have been crucial, as has Ireland's growing reputation for stable, low inflation, fiscally responsible economic management. The extension of low inflation expectations to the labour market, with pay moderation institutionalised in national agreements, has had a major influence. Less widely acknowledged, although also of critical importance, has been the acceptance of realistic flexibility by workforces in the exposed sectors of the economy.

In most of the private sector and, more recently, in the commercial semi–state sector, there has been a willingness to negotiate major changes in work practices and manning levels so as to raise productivity and improve competitiveness. Such changes have not been fully reflected in pay levels, and in many cases have had no pay implications at all, with the benefit to workers coming simply from the preservation of jobs which would otherwise have been lost. Nevertheless, through much of the exposed segment of the Irish economy, reduced job security has come to be seen as a fact of life, although because of the nature of the Irish response, the actual loss of jobs has been much less than in most European countries.

Unfortunately, this adaptation of attitudes to changed circumstances does not appear to have spread to parts of the public service. Concepts which were general in the 1970s and which contributed to the massive industrial job losses of the early '80s, still seem to be prevalent among public service workers. These concepts include the primacy of equity considerations over feasibility, a commitment to unchanging relativities between grades and between occupations, the assumption that any changes in work practices or working conditions should be fully compensated in pay rates, and the presumption that job security can be taken for granted.

While there are undoubtedly some specific inequities which need to be tackled within the public service, the framework for their resolution must take cognisance of the changed international environment and the different conceptual context which the rest of society has had to accept. Because public service pay is such a large part of current public expenditure, and because fiscal balance is a key element in Ireland's successful economic strategy, pay settlements within the public service are as relevant to the country's competitiveness as are pay deals in the exposed sector.

The potential exists for steady net job creation over the remainder of the decade, but the opportunity could easily be squandered. Such groups as teachers, nurses and T.D.s, and campaigners for special interests such as the removal of service charges, could perhaps bear in mind that to undermine future job prospects would inflict far greater social unfairness than their current perceived injustices.

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
1988	127.6	161.9	105.8	13068	15654	182.9	43.2	139.7
1989	142.5	188.9	112.3	13640	18068	187.0	45.4	141.7
1990	149.2	197.9	117.6	14325	19539	191.9	48.4	143.5
1991	153.9	208.6	118.0	14990	19652	193.9	50.7	143.4
1992	169.6	243.6	121.0	15682	22464	194.0	52.1	141.9
1993	178.8	265.7	121.3	16161	21391	194.0	54.5	139.6
1994	201.6	309.9	127.7	16844	26863	199.3	58.2	141.1
1995	242.1	398.9	135.5	17598	30575	211.4	66.1	145.3

Quarterly Averages or Totals

1993 I	182.0	280.2	113.7	4239	4004	191.3	53.5	137.8
II	184.1	272.6	122.2	3810	5051	193.0	53.2	139.9
III	164.4	237.6	113.5	3726	5764	195.7	55.1	140.9
IV	185.2	266.1	123.5	4386	6572	195.9	56.2	139.8
1994 I	195.2	299.8	118.8	4484	4692	194.6	55.9	138.4
II	206.1	312.2	128.6	4016	5889	197.7	56.9	141.0
III	186.2	282.5	118.9	3874	7799	200.7	58.6	142.1
IV	219.5	337.7	132.1	4470	8483	204.2	61.2	143.0
1995 I	224.7	368.7	124.1	4674	6296	204.9	62.0	142.7
II	242.4	390.6	138.6	4151	7156	210.6	64.7	146.1
III	233.3	379.5	127.9	4080	7684	213.8	68.2	145.5
IV	268.7	446.7	138.0	4693	9439	216.3	69.6	146.8
1996 I								
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1993 I	178.6	262.6	117.9	3928	No Seasonal Pattern	193.4	54.1	139.4
II	177.3	263.2	117.6	4036		193.8	53.7	139.8
III	177.8	264.4	118.6	4068		194.0	54.8	139.8
IV	181.7	266.1	118.9	4137		194.7	55.4	139.5
1994 I	191.3	281.5	123.1	4156		196.8	56.5	140.1
II	198.2	301.4	123.5	4249		198.3	57.4	140.7
III	201.8	314.4	124.3	4226		199.1	58.4	141.0
IV	215.3	337.1	127.4	4222		203.0	60.4	142.7
1995 I	220.6	346.6	128.5	4335		207.1	62.6	144.4
II	233.2	377.1	133.1	4384		209.7	65.3	145.8
III	253.0	422.3	133.8	4452		212.3	67.9	144.4
IV	263.2	445.8	133.2	4435		215.2	68.7	146.5
1996 I								
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	
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
145.3	160.9	121.0	103.9	100.5	152.1	72.6	224.7	1990
148.3	162.1	121.5	108.4	101.7	170.5	83.5	253.9	1991
163.5	184.2	125.8	112.8	102.6	187.2	96.0	283.1	1992
172.3	192.0	128.1	118.8	106.6	193.8	100.5	294.3	1993
189.1	209.8	133.5	122.3	107.2	184.4	98.0	282.4	1994
214.1	237.5	137.6	125.2	107.0				1995
Quarterly Averages								
177.8	206.2	121.7	115.5	104.0	197.9	101.7	299.6	1993 I
178.3	201.8	128.9	117.1	105.7	193.7	98.9	292.6	II
157.0	169.8	118.8	119.7	106.9	192.9	102.1	294.9	III
176.7	186.5	130.3	123.0	109.6	190.5	99.5	290.0	IV
187.5	211.2	126.6	121.0	107.1	194.1	99.6	293.7	1994 I
194.9	216.0	134.5	122.1	107.2	183.7	96.3	280.0	II
173.4	189.8	123.4	121.3	105.7	181.6	99.5	281.1	III
200.9	217.3	136.3	124.9	108.7	178.2	96.7	274.9	IV
205.0	234.2	128.3	123.3	106.5	181.8	97.8	279.6	1995 I
215.2	237.7	139.9	124.7	106.6	176.9	96.8	273.7	II
204.0	219.1	129.7	125.2	106.6	177.7	101.5	279.2	III
232.2	252.7	138.7	127.4	108.3				IV
								1996 I
								II
								III
								IV
Quarterly Averages (Seasonally Corrected)								
172.3	191.7	124.6	116.5	104.9	193.2	101.3	294.5	1993 I
172.1	192.5	124.1	117.1	105.8	195.2	100.2	295.4	II
171.1	190.1	125.0	120.0	107.3	193.9	99.5	293.4	III
174.3	189.3	126.2	121.6	108.2	192.7	101.1	293.8	IV
181.6	196.8	129.4	122.0	107.9	189.5	99.1	288.6	1994 I
188.1	206.1	129.5	122.8	107.4	185.1	97.8	282.9	II
189.0	212.4	129.7	123.3	106.1	182.6	96.9	279.5	III
198.1	220.1	132.3	123.4	107.3	180.4	98.3	278.7	IV
198.5	218.7	131.0	124.3	107.3	177.1	97.4	274.5	1995 I
207.7	226.8	134.7	124.9	106.8	178.3	98.3	276.6	II
222.3	245.1	136.4	125.7	107.0	178.7	98.9	277.6	III
228.9	255.8	134.7	125.8	106.8				IV
								1996 I
								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
1988	94.6	104.5	102.4	107.4	98.9	103.6	104.7	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	113.5	105.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8		108.2	112.7	105.7	93.7	1992.9

Quarterly Averages

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	113.9	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	113.2	104.6	109.0	106.6	97.8	1817.7
IV	113.1	116.8	113.4	103.1	109.2	103.6	94.9	1823.1
1995 I	114.0	118.3	115.4	107.8	111.7	104.1	93.2	1863.6
II	115.2	119.5	116.6	110.5	113.7	107.4	94.4	1893.2
III	115.7	120.2	115.3	106.9	112.2	105.6	94.1	2055.7
IV	115.8	121.3		108.4	113.2	105.5	93.0	2159.2
1996 I	116.3							2304.7
II								
III								
IV								

Quarterly Averages (Seasonally Corrected)

1993 I	109.3	113.1	110.2	99.5	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	109.1	114.8	111.4	103.3				
III	110.0	117.0	113.9	106.0				
IV	110.6	117.4	114.4	107.1				
1994 I	111.3	117.1	113.7	107.9				
II	112.1	116.6	113.3	107.8				
III	112.8	116.5	113.1	105.5				
IV	113.3	117.2	113.9	106.0				
1995 I	114.1	118.4	115.6	107.3				
II	115.2	119.1	115.9	107.1				
III	115.5	120.1	115.2	107.8				
IV	116.0	121.7						
1996 I	116.4	121.4						
II								
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New + S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990= 100	1990= 100	£m	£m	£m	Per cent per annum	Per cent per annum	
68126	NA	NA	7690	8006	316	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
124596	123.7	112.3	11667	12029	362	6.1	8.3	1995

Quarterly Averages or Totals

25583	101.0	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
37934	121.1	109.9	3156	2956	-200	6.5	8.4	II
29536	123.9	112.4	2914	2827	-87	6.0	8.3	III
17842	132.9	120.1	3060	3475	415	5.5	7.8	IV
			2678	3118	440	5.1	7.8	1996 I
								II
								III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

19530	105.7	101.7	2380	2606	226	No Seasonal Pattern	No Seasonal Pattern	1993 I
21828	107.1	102.0	2349	2486	137			II
23264	110.5	104.2	2805	2779	-26			III
25293	112.4	105.4	2604	2629	-25			IV
30124	118.7	110.7	2961	2824	-137			1994 I
29279	116.3	107.8	2985	2739	-246			II
28054	117.0	108.1	2622	2801	179			III
28573	118.9	109.4	2669	2800	130			IV
29642	121.6	111.1	2762	2665	-97			1995 I
30595	122.5	111.3	3078	3060	-18			II
32397	123.6	112.3	2903	2983	80			III
34212	126.2	113.9	2915	3311	396			IV
			2906	3016	110			1996 I
								II
								III
								IV

	Monetary Developments				Exchange Rates			
	33	34	35	36	37	38	39	40
	Money Supply M3	Licensed Banks Domestic Credit: Gov.	Licensed Banks Domestic Credit: Non-Gov	External Reserves	Effective Index	Sterling	Dollar	Deutsch-mark
	£m End Period	£m End Period	£m End Period	£m End Period	Dec. 1971 = 100	Per IR£	Per IR£	Per IR£
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
1995	21910.4	3332.1	19916.6	5473.0	67.12	1.0165	1.6038	2.2971
	End-Period Totals				Quarterly Averages			
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	20420.6	3279.6	19036.5	5504.1	67.42	1.0243	1.6115	2.3067
IV	21910.4	3332.1	19916.6	5473.2	67.43	1.0281	1.6033	2.2838
1996 I		3790.3	20591.8		67.60	1.0315	1.5796	2.3192
II								
III								
IV								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1993 I	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II								
III								
IV								
1994 I								
II								
III								
IV								
1995 I								
II								
III								
IV								
1996 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	
10214.8	12304.8	2090.1	82.8	82.9	-2663	62	1988
12284.3	14597.0	2312.8	93.6	92.2	-3233	-348	1989
12468.8	14336.7	1867.9	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
14884.7	19829.7	4945.0	113.0	133.4	-4014	2139	1993
17283.4	22753.4	5470.1	127.9	153.2	-4135	2046	1994
20154.1	27296.7	7142.7	143.0	180.5			1995

Av. Monthly Totals — Quarterly Averages or Totals

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
1337.2	1848.6	511.4	120.3	151.9	-1076	610	IV
1419.4	1773.8	354.4	125.9	143.8	-1051	180	1994 I
1415.0	1868.3	453.3	123.9	148.5	-1148	288	II
1345.0	1827.3	482.3	118.4	145.7	-910	760	III
1571.9	2114.5	542.6	138.1	171.2	-1026	818	IV
1643.7	2148.6	504.9	141.1	172.9	-1238	362	1995 I
1630.9	2248.1	617.2	137.6	175.6	-1242	852	II
1554.6	2187.6	632.9	133.0	173.6	-1086	972	III
1888.8	2514.6	625.8	160.1	199.9			IV
							1996 I
							II
							III
							IV

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

1192.5	1537.5	345.0	111.2	131.4	No Seasonal Pattern	No Seasonal Pattern	1993 I
1160.3	1588.6	428.3	107.4	133.5			II
1291.1	1665.7	374.6	116.7	138.3			III
1322.4	1816.1	493.8	117.8	147.1			IV
1394.4	1793.0	398.6	123.9	145.6			1994 I
1405.1	1819.8	414.7	124.0	146.1			II
1398.1	1894.5	496.4	123.3	149.3			III
1572.0	2062.5	490.5	136.4	164.9			IV
1592.4	2169.3	576.9	135.9	172.3			1995 I
1622.6	2201.3	578.7	136.8	171.4			II
1630.7	2262.1	631.4	138.5	177.7			III
							IV
							1996 I
							II
							III
							IV