QUARTERLY ECONOMIC COMMENTARY

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The forecasts in this Commentary are based on data available by mid-September 1996.

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CONTENTS

SUMMARY

The Irish economy is forecast to grow by about 6 per cent in 1996, a slight deceleration from 1994 and 1995 but still far above the likely EU growth of under 2 per cent. Domestic demand, especially personal consumption, is expanding faster than last year, but export growth will be considerably slower than in 1995. This is partly due to the fall in agricultural exports as a result of the BSE crisis, but also due to a temporary pause in the growth of manufactured exports, particularly electronics, in the first half of the year. Inflation remains low, with the annual increase in the consumer price index likely to be about 1¾ per cent, and the public finances are performing very strongly with a substantial current budget surplus likely to be achieved in 1996. The annual average rise in employment is forecast at 36,000.

Despite considerable uncertainty surrounding the economic prospects for Europe as a whole in 1997, the Irish economy is projected to grow by about 5 per cent. New capacity should facilitate continued increases in manufactured exports while domestic demand should grow at a moderate rate, encouraged by relatively low interest rates and significant reductions in effective average tax rates. Inflation is expected to remain low, at no more than 2 per cent, and, provided that strict control is kept on government spending, there should be a wide safety margin under the Maastricht borrowing criterion. Annual employment growth, at a projected 28,000, is likely to be slower than in most recent years, but should still be sufficient to allow a modest reduction in the underlying rate of unemployment.

Because of the inherent uncertainties surrounding the performance of the major European economies and the behaviour of the currency markets in the period leading to EMU, it is necessary for the authorities to be cautious in ensuring that the relevant criteria for Irish entry are met by a comfortable margin. It is equally important that competitiveness is maintained and that the vicissitudes of the trading environment can be countered quickly and effectively. To this end, pay settlements in 1997 and beyond need to be moderate and, so far as possible, flexible, so that either the costs or the benefits of shifting circumstances can be equitably shared.

FORECAST NATIONAL ACCOUNTS 1996

A. Expenditure on Gross National Product

	1995	1996	Change in 1996				
	Preliminary	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	22,055	23,930	1,875	1,389	8½	2	6¼
Public Net Current Expenditure	5,883	6,236	353	118	6	4	2
Gross Fixed Capital Formation	6,031	6,781	750	546	12½	3	9
Exports of Goods and Services(X)	30,016	33,431	3,415	3,156	11½	¾	10½
Physical Changes in Stocks	94	250	156	130			
Final Demand	64,079	70,628	6,549	5,339	10¼	1¾	8¼
less:							
Imports of Goods and Services(M)	25,463	28,804	3,341	2,824	13¾	1¾	11¾
GDP at Market Prices	38,616	41,824	3,208	2,515	8¼	1¾	6½
less:							
Net Factor Payments (F)	4,815	5,332	517	472	10¾	¾	9¾
GNP at Market Prices	33,801	36,492	2,691	2,043	8	1¾	6

B: Gross National Product by Origin

	1995	1996	Change in 1996	
	Preliminary	Forecast		
	£m	£m	£m	%
Agiculture, Forestry, Fishing	2,473	2,300	-173	-7
Non-Agricultural: Wages, etc.,	17,932	19,102	1,170	6½
Other	12,108	13,755	1,647	13½
less:				
Adjustments	1,987	2,007	20	1
Net Factor Payments	4,815	5,332	517	10¾
National Income	25,713	27,818	2,105	8¼
Depreciation	3,671	4,038	367	10
GNP at Factor Cost	29,384	31,856	2,472	8½
Taxes less Subsidies	4,417	4,636	219	5
GNP at Market Prices	33,801	36,492	2,691	8

C: Balance of Payments on Current Account

	1995	1996	Change in 1996
	Preliminary	Forecast	
	£m	£m	£m
X - M	4,554	4,627	73
F	-4,815	-5,332	-517
Net Transfers	1,111	1,060	-51
Balance on Current Account	850	355	-495
as % of GNP	2½	1	- 1½

FORECAST NATIONAL ACCOUNTS 1997

A. Expenditure on Gross National Product

	1996	1997	Change in 1997				
	Forecast	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	23,930	25,366	1,436	909	6	2¼	3¾
Public Net Current Expenditure	6236	6,579	343	94	5½	4	1½
Gross Fixed Capital Formation	6,781	7,504	723	488	10¾	3¼	7¼
Exports of Goods and Services(X)	33,431	37,448	4,017	3,725	12	¾	11¼
Physical Changes in Stocks	250	200	-50	-70			
Final Demand	70,628	77,097	6,469	5,146	9¼	1¾	7¼
less:							
Imports of Goods and Services(M)	28,804	32,322	3,518	2,899	12¼	2	10
GDP at Market Prices	41,824	44,775	2,951	2,247	7	1½	5¼
less:							
Net Factor Payments (F)	5,332	5,806	474	427	9	¾	8
GNP at Market Prices	36,492	38,969	2,477	1,820	6¾	1¾	5

B: Gross National Product by Origin

	1996	1997	Change in 1997	
	Estimate	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,300	2,254	-46	-2
Non-Agricultural: Wages, etc.,	19,102	20,210	1,108	5¾
Other	13,755	15,109	1,354	9¾
less:				
Adjustments	2,007	2,135	128	6½
Net Factor Payments	5,332	5,806	474	9
National Income	27,818	29,632	1,814	6½
Depreciation	4,038	4,381	343	8½
GNP at Factor Cost	31,856	34,013	2,157	6¾
Taxes less Subsidies	4,636	4,956	320	7
GNP at Market Prices	36,492	38,969	2,477	6¾

C: Balance of Payments on Current Account

	1996	1997	Change in 1997
	Estimate	Forecast	
	£m	£m	£m
X - M	4,627	5,126	499
F	-5,332	-5,806	-474
Net Transfers	1,060	1,101	41
Balance on Current Account	355	421	66
as % of GNP	1	1	-

COMMENTARY

The International Economy

General

In the June *Commentary* we stated that although forecasts for annual growth in 1996 had been revised downwards, international economic prospects for the second half of 1996 and 1997 had actually improved. There appears no reason to change this assessment. Growth in the US economy has been faster than anticipated and is expected to continue at a more moderate rate at least until the end of 1997. The renewal of Japanese growth appears firmly established and the recovery in Europe, although uneven, still seems likely to gather strength in the remainder of 1996 and in 1997. Inflation remains subdued, and unemployment, although unacceptably high in Europe, appears to have ceased rising.

The US Economy

Recent official estimates show that US real GDP grew by an annualised rate of 4¾ per cent in the second quarter of 1996, after a 2¾ per cent increase in the first quarter. Although indicators for the third quarter are somewhat mixed, there is a general consensus that economic growth will continue at a more moderate rate in the remainder of 1996 and 1997. On an annual basis, real GNP is forecast to increase by about 2¼ per cent 1996 and 2 per cent in 1997.

Inflation has remained moderate, with consumer price increases averaging 2¾ per cent in the year to June 1996, and has been stable in spite of the strong economic growth. The rise in producer prices has been even lower, while the increase in average earnings, at about 3 per cent, does not suggest that the low level of unemployment is resulting in strong wage pressures.

Both short-term and long-term interest rates have risen since the start of the year. The timing of the next official move in interest rates is difficult to predict given the mixed nature of current economic indicators. A moderate increase, of perhaps ½ per cent, seems likely before the end of 1996, and it is possible, but by no means certain, that there will be a further slow upward trend in 1997.

As expected, the dollar appreciated against the major European currencies and the Yen in the first half of 1996. However, in recent months the dollar has depreciated slightly against a stronger DM. If relative interest rates move as expected, the dollar could renew its appreciation against European currencies in the closing months of 1996 and in 1997.

The European Economy

The German economy appears to be on course for its expected gradual recovery in the course of 1996, aided by an improvement in competitiveness due to exchange rate movements *vis à vis* the USA and several European countries. Because of a negligible growth carryover from last year and the weakness of the first quarter, the annual growth of real GNP in 1996 is forecast at only 1 per cent, but this will conceal a considerably higher rate of growth between the first and last quarters, and will imply a moderate carryover of growth into 1997.

While the number of unemployed has come down slightly since the beginning of the year, the small size of the reduction would seem to indicate that the large increase during the winter was not solely a result of the exceptionally severe weather. The average unemployment rate for 1996 now looks set to be almost 10 per cent, somewhat higher than our forecast in the June *Commentary* and a significant rise on the 1995 level. Unsurprisingly, wage settlements are now very moderate, and consumer price inflation in 1996 is forecast at about 1½ per cent.

As with most other European countries, German economic performance is 1997 will be governed by two conflicting tendencies. The normal cyclical upturn, reinforced by relatively low interest rates, should lead to an acceleration of growth, but the very restrictive fiscal stance necessitated by the attempt to reach the Maastricht criterion on government borrowing will tend to depress economic activity. On balance, it seems likely that very moderate growth will continue in 1997, with the pace of increase influenced by the exchange rate against other European countries and overseas competitors. On the assumption that there will be little change in intra-European exchange rates but some European depreciation against the US dollar, a real GNP growth rate of 1¾ per cent is projected for 1997, with most of the increase coming from net exports.

The French economy in many ways resembles the German, but with fewer signs so far of a sustained recovery from the setback of last winter. An annual growth of about 1 per cent in real GDP is expected in 1996, with unemployment remaining very high, at about 12¾ per cent, and consumer price inflation low. Fiscal consolidation in France could be harder to achieve than in Germany, while, if it is achieved, its impact on growth prospects in 1997 could be more severe than in Germany. On the assumption that restrictions on government spending are imposed, the growth of real GDP in 1997 is projected at about 1½ per cent.

Largely due to past depreciations of the lira, the Italian economy has tended to grow faster than the other major European countries in recent years. The appreciation of the lira against the DM in the first half of 1996, combined with the relative stagnation of its major markets has checked the rise in Italian export volumes, and real GDP growth in 1996 is forecast at about 1½ per cent. The fall in both long and short-term interest rates which has accompanied the rise of the lira and the improvement in political stability should somewhat ease Italian budgetary difficulties by significantly reducing the cost of servicing the large national debt. While it is most unlikely that Italy will be deemed to have met the Maastricht criteria in 1997, there now seems a realistic chance that Italy might qualify for EMU at a relatively early date thereafter.

Other European countries are showing diverse trends in 1996, but in most cases growth is likely to be low, averaging less than 2 per cent. Despite continuing fiscal stringency, a moderate upturn is generally expected in 1997.

As must be clear from the discussion so far, the issue of EMU dominates the medium term outlook for a majority of European countries. Apart from the questions already raised, as to whether fiscal consolidation can be achieved, with or without a degree of social unrest, and, if it can, whether its deflationary effects will outweigh the expected cyclical up-turn, EMU related uncertainties may be acting to hold back investment levels. There is still no certainty that EMU will proceed on the present timetable and some doubt as to which countries will be able and willing to be initial members. If major countries, particularly Germany or France appear likely by mid - 1997 to miss the annual fiscal target, it is not clear what will happen. They might attempt to still meet the target through supplementary fiscal measures, despite the economic and social risks of doing so. There might be some relaxation of the strict interpretation of the criteria, although this could damage the credibility of EMU itself, or the EMU timetable could be delayed. These questions, together with the difficult issue of relations between members and non-members, should all be resolved in the course of 1997. If it becomes clear as the year progresses that EMU can proceed according to existing plans with an adequate core of countries participating, the resultant improvement in confidence could lead to economic growth in the second half of the year being considerably stronger than now projected.

The UK Economy

The UK economy is continuing to grow, slowly and fairly steadily, with preliminary estimates showing real GDP increasing at an annualised rate of 1.8 per cent in the second quarter. The pattern of growth gives some cause for concern. On the demand side, expansion is concentrated on personal consumption, with investment remaining weak and the volume of industrial investment falling the second quarter. The growth in export volumes has been quite modest, even before the appreciation of sterling against most continental currencies in the first half of the year has had time to take effect. On the supply side, agricultural production has fallen, due largely to the BSE crisis, and manufacturing output has remained weak. Thus the services sector, mainly tied to the domestic market, has accounted for most of the growth in the first half of 1996.

Although real GDP growth is forecast at 2 per cent in 1996 and 2¼ per cent in 1997, and employment should continue to increase, the growing dominance of personal consumption suggests that balance of payments constraints could re-emerge. Inflation remains moderate, with both consumer and producer prices currently at historically low levels, although somewhat above corresponding levels in potential core EMU countries. However, rapidly rising money supply and an incipient recovery in house prices could be early indications of future inflationary pressures. The slower than expected improvement in the public finances is a further cause of concern, especially with a general election due. Any election-related easing of fiscal or monetary policy could lead to renewed sterling weakness, but otherwise there seems little reason to expect sterling to depreciate by more than the inflation differential between the UK and Germany.

The Rest of the World

The Japanese economy recorded exceptionally strong annualised growth of 12¼ per cent in the first quarter of 1996. While this arose as a result of exceptional factors, including last autumn's fiscal stimulus package which led to a surge in public sector investment, and there was some inevitable reaction in the second quarter, it does appear that the economic recovery is now firmly established. Real GDP is expected to increase by 2 per cent in 1996.

Japan's trade and current account surpluses both declined in the first half of the year. The full effects of the depreciation of the Yen have yet to be felt, and are likely to check the decline in the trade surplus. However, the continuing tendency of Japanese manufacturers to re-locate part of their production overseas can be expected to keep a downward pressure on the trade surplus.

Real GDP growth of about 2¾ per cent is projected for 1997, with exports and consumer demand accounting for most of it. The relatively small rate of increase in private sector investment within Japan seems likely to preclude a return to the high rates of economic growth which used to be associated with Japan.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate		Current Account Balance	
	Percentage Change						%		% of GNP	
Country	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
UK	2	2¼	2½	2¾	4	4¼	8	7¾	-1½	-1
Germany	1	1¾	1½	1¾	2¾	3	9¾	9½	-1	-¾
France	1	1½	2¼	2	2¼	2¼	12¼	12¼	1¼	1¼
Italy	1½	2	4¼	4	4¼	4	12	12½	2¼	1¾
Total EC	1¾	2½	2½	2½	3	3¼	11¼	11¼	½	½
USA	2¼	2	2¾	3	3	3¼	5¼	5¼	-2¼	-2
Japan	2	2¾	¼	½	1	1½	3¼	3¼	1¾	2
Total (OECD)	2	2½	4	4¼	2¾	3	7¾	7½	-¼	-¼
Ireland	6	5	1¾	2	3	3½	11¾	11¼	1	1

Expansion seems to be slowing in most other Asian economies, although the rates of growth remain very high by general international standards. Part of the slowdown appears to be caused by temporary overcapacity in parts of the electronics industry, and it seems probable that as this problem recedes growth will accelerate in 1997.

The Context for Ireland

Although world output and trade growth remained positive throughout last winter, output tended to stagnate in much of Europe. The European economy is expected to recover in the second half of 1996, and, although there are some uncertainties, it is likely to continue to grow at a moderate pace in 1997. Thus the general market background for Irish exports has been relatively unfavourable for the past twelve months, but is now beginning to improve.

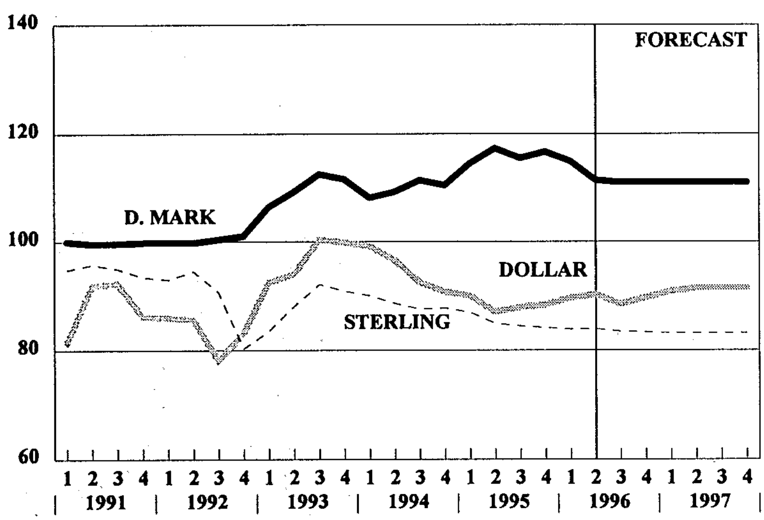
Among specific sectoral markets, that for beef has been devastated by the BSE crisis, with western European consumption and imports seriously reduced and most Middle Eastern countries closed to imports of European cattle and beef. Only a slow and gradual recovery seems likely, and even that is likely to depend on administrative and political decisions which are yet to be finalised, and on the continued availability of the few major markets, such as Russia, which remain open. The market for some electronic products has been adversely affected by the pause in European growth and by the emergence of worldwide overcapacity. Previous experience suggests that these difficulties will prove to have been temporary, and that rapid market growth will have resumed before the end of 1996.

Given that the US economy has continued to grow, that the European economy is believed to have resumed its moderate expansion, and that international interest rates remain relatively low, the flow of international productive investment into Europe should remain reasonably high in both 1996 and 1997. As the rate of cost inflation in most European countries is likely to remain very low, Ireland requires similarly low cost inflation if it is to retain competitiveness in attracting a share of this investment.

As was pointed out in the June *Commentary*, there was a considerable divergence between countries in interest rate trends in the first half of 1996. Long-term rates in the US and the UK increased significantly following their fall in 1995, German rates rose slightly, while rates in many other European countries remained stable or fell a little as the differential over German rates was reduced. In the third quarter, most European long-term interest rates declined slightly, while there was little change in US rates. For the remainder of 1996 and in 1997 trends in international long-term interest rates are unlikely to show much disparity. The general trend seems likely to show little movement in the rest of 1996. Any move in 1997 is likely to be upwards, but the extent of the rise will probably be quite limited. Average long-term rates in Europe may thus be slightly higher in 1997 than in 1996.

Figure 1: Exchange Rates

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



The divergent trends in short-term rates, which are more strongly influenced by official policy decisions, are less unusual. American rates have risen, reflecting fears that continued economic expansion could be creating inflationary pressures, while German and other European short-term rates have declined in response to low inflation and persistent economic stagnation. A moderate rise in US short-term rates appears fairly imminent, and could be followed by some further increase in 1997. European short-term rates are most unlikely to rise in 1996, and a further reduction cannot be ruled out. Their course in 1997 is uncertain. If output stagnates under the pressure of tight fiscal policy, there could be a further reduction in German short-term rates, especially as this could prove helpful in the context of achieving EMU targets in the key countries. Slow but steady economic recovery would probably be accompanied by unchanged short-term interest rates throughout 1997. In the most likely outcome of a modest acceleration in the economic recovery, which is assumed in our forecast, a small rise in short-term interest rates in Germany and other European countries seems likely in the course of 1997.

Exchange rates are obviously influenced, but by no means solely determined, by relative short-term interest rates. On this basis, our forecasts are based on the assumptions that there will be a moderate appreciation of the dollar and Yen against the DM in 1997, and that there will be little significant movement among continental European currencies. Sterling remains vulnerable to political developments, but in the absence of inappropriate monetary or fiscal policy decisions seems unlikely to depreciate by more than about 2 per cent against the DM by the end of 1997.

The Domestic Economy

General

The publication of *National Income and Expenditure 1995*, the preliminary official National Accounts for last year, confirms that 1995, like 1994, was a year of exceptionally rapid economic growth. On the old method of calculation, which was used until now, real GNP in 1995 increased by 9½ per cent, marginally higher than the final estimate for 1995 in our June Commentary of 9¼ per cent.

However, major methodological revisions were introduced in *National Income and Expenditure 1995*. These mainly affect the calculation and classification of service imports and profit flows, and have the effect of reducing the real expenditure GNP growth rate in 1995 from 9½ to 7¾ per cent. The implications of this revised methodology for interpreting recent developments in the Irish economy are discussed in the *General Assessment* at the end of this *Commentary*.

At this stage it is necessary to point out that the changed procedures, with the introduction of important new series for which only five year's preliminary data are available, poses forecasting problems, and that the margins of error in the forecasts for 1996 and 1997, especially for balance of payments items, are even greater than usual.

Exports

The value of visible exports in the first quarter of 1996 was 17 per cent higher than in the corresponding period of 1995. However the seasonally corrected-value of exports was only 3½ per cent above that in the fourth quarter of 1995, and the trend in the early months of 1996 appears to have been downwards. Volume of production figures for manufacturing industry also reflect this modest downward trend in the first four months of 1996, with the previously booming electronics industry accounting for most of the reduction in output.

So far as electronics products and the rest of manufactured exports are concerned, this downturn is likely to be reversed in the remainder of 1996, as stock adjustments are completed, as major export markets resume their growth, and as new capacity comes on stream. For 1996 as a whole, manufactured exports are forecast to increase by 15 per cent in value, implying a rise of almost 14 per cent in volume. Both other industrial exports and unclassified exports are expected to continue their usual growth and are forecast to rise by about 10 per cent in value in 1996.

Agricultural exports seem certain to fall quite sharply in both volume and value in 1996, although the extent of the decline remains difficult to predict. To a minor extent the downturn is due to a smaller volume of intervention stocks of milk products to be disposed of than in 1995, and to some weakness in milk product prices. However, the main reason for the fall is, of course, the impact of the BSE crisis on the volume and price of beef and cattle exports. Considerable uncertainty still surrounds the prospects for a sustained recovery in European beef consumption and for the reopening of some overseas markets for cattle and beef, but even if markets do recover and reopen over the next few months, there will be a substantial fall in the value of beef exports in 1996 as a whole. Most of the reduction in the volume of cattle and beef exports will be offset, in the short run at least, by a corresponding rise in the volume of stocks. However, the steep fall in average export prices will not be offset, and represents a permanent loss to the economy in the region of £150 million.

TABLE 2: Exports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	3,126	-5	-9	2,845	-2	-4	2,731
Manufactured	19,875	13¾	15	22,856	14	15	26,284
Other Industrial	3,052	8½	10	3,357	8	9	3,659
Other	1,406	8½	10¾	1,559	8	9½	1,707
Total Visible	27,459	10¾	11½	30,617	11½	12¼	34,381
Adjustments	-447			-475			-504
Merchandise	27,012	10¾	11½	30,142	11¾	12½	33,877
Tourism	1,677	10	12¼	1,882	8	10½	2,080
Other Services	1,327	4	6	1,407	4	6	1,491
Exports of Goods and services	30,016	10½	11½	33,431	11¼	12	37,448

With agricultural exports now forming a much smaller proportion of the total than in past decades, this fall in agricultural exports should not prevent total visible exports from rising by about 11½ per cent in value in 1996, as shown in Table 2.

Assuming that merchandise exports increase by the same percentage, that tourist earnings increase at much the same rate as in 1995 and that other service exports, the level of which has been slightly raised by the new methodology, continue to grow steadily, total exports of goods and services in 1996 are forecast to increase by 10½ per cent in volume and almost 11½ per cent in value.

Agricultural exports will continue to be adversely affected by the BSE crisis in 1997, although the degree of the problem cannot yet be accurately determined. For forecasting purposes it is assumed that there will be a further small decline in both the volume and average price of agricultural exports.

Given the likelihood of a moderate growth in world, and especially European, trade and the impact of new manufacturing capacity in Ireland, manufactured and other non-agricultural exports are projected to increase at much the same rate in 1997 as in 1996. The carryover of the previous year's growth into 1997 will be smaller than that into 1996, so that the unchanged annual growth rate implies some acceleration in the pace of export growth in the course of 1997, in keeping with more buoyant market conditions.

Thus total merchandise exports in 1997 are projected to increase by 11¾ per cent in volume and 12½ per cent in value. With another substantial increase in tourism likely, and assuming a continuing moderate increase in other service exports, total exports of goods and services in 1997 are projected to rise by 11¼ per cent in volume and 12 per cent in value, marginally below the annual average growth rates since 1990.

Stocks

At £94 million, the value of physical changes in stocks in 1995 was above the £30 million we estimated in the June *Commentary*. The increase in the value of both farm stocks and non-agricultural stocks, which may well have included an element of involuntary stock-building as the rate of growth of manufactured exports slackened, were higher than expected, while the fall in the value of intervention stocks was also greater than forecast due to a very large adjustment for losses on sales.

Farm stocks seem set to increase again in 1996, with a rise in cattle numbers outweighing a reduction in the number of sheep. Adverse price trends, and, perhaps, a European culling scheme, could lead to some fall in farm stocks, especially of cattle, in 1997. It is too early to make a precise estimate of the likely fall in cattle numbers, and a token reduction of £10 million in total farm stocks is shown in Table 3.

TABLE 3: Stock Changes

	1995	Change in Rate	1996	Change in Rate	1997
	£m	£m	£m	£m	£m
Livestock on Farms	79	-19	60	-70	-10
Irish Intervention Stocks	-372	432	60	20	80
Other Stocks	386	-256	130	-	130
Total	94	156	250	-50	200

Non-agricultural stocks seem likely to increase further in both 1996 and 1997 as the economy continues to grow, but the rate of stock-building is projected to decline from its exceptional 1995 level.

Because of the BSE crisis, it is particularly difficult to forecast the course of intervention stocks. It seems certain that the reductions of the past four years will be reversed, but the actual rate of increase remains very uncertain. After making allowance for continuing losses on sales, which are included in the adjustment for stock appreciation in the National Accounts, relatively modest increases in the value of changes in intervention stocks are included in Table 3.

Thus the overall contribution of stock-building to GNP is forecast at £250 million in 1996 and is projected at £200 million in 1997, but both these figures should be treated with considerable caution, as they could be seriously wrong in either direction. However, any error in stock forecasts will tend to be counterbalanced by opposite errors in export or import forecasts, so that the effect on GNP projections should be minimal.

Investment

Investment in building and construction grew very rapidly in 1994 and 1995, after declining moderately in the three preceding years. All available indications suggest that strong expansion is continuing in 1996. However, the volume increase is unlikely to equal the 13 per cent achieved in 1995, partly because of the higher base from which it will be measured, and partly because of an expected decline in investment in agricultural buildings and structures due to the uncertainties engendered by the BSE crisis. Total investment in building and construction is forecast to increase by 8½ per cent in volume and 12¼ per cent in value.

The increase in investment in machinery and equipment last year, as shown in *National Income and Expenditure 1995*, was surprisingly low, at 5½ per cent in volume terms. There is frequently some lag between recorded imports of capital goods and their incorporation in investment estimates. Taking this into account, along with the expected continuation of capacity expansion and equipment replacement, a stronger volume increase of 10 per cent in investment in machinery and equipment is forecast for 1996. Thus total gross fixed capital formation in 1996 is forecast to increase by 9 per cent in volume and 12½ per cent in value, as shown in Table 4.

TABLE 4: Gross Fixed Capital Formation

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,823	8½	12¼	4,293	7	10¾	4,754
Machinery and Equipment	2,207	10	12¾	2,488	7½	10¼	2,750
Total	6,030	9	12½	6,781	7¼	10¾	7,504

With both the economy and the population projected to grow further in 1997, and with interest rates likely to remain relatively low, investment in building and construction, including housing, and in machinery and equipment, is expected to continue its increase next year. The rate of growth, in both volume and value terms is projected to be slightly lower than in 1996, but to remain well above the long-term average.

Consumption

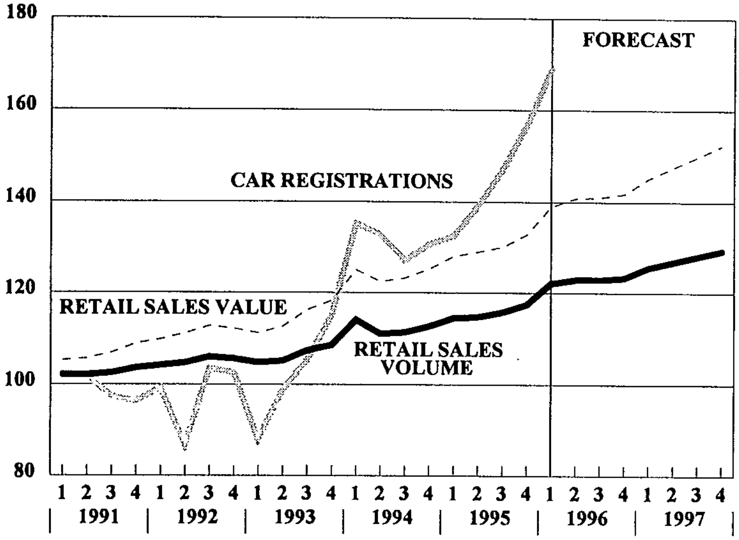
Estimates of both the level of personal consumption and of its rate of growth in recent years have been revised upwards significantly in *National Income and Expenditure 1995.* This is largely, but by no means exclusively, due to the revised method of calculating the imputed rent of dwellings, which is, of course, treated in the National Accounts as both a form of income and an expenditure on personal consumption.

TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1992	1993	1994	1995	1996 To Date	1996 Forecast	1997 Forecast
Consumption Value							
NIE 1995, Personal Consumption	7.1	3.6	9.6	5.8		8.5	6.0
Retail Sales Index, Value	4.3	3.0	7.9	4.8	8.7	8.0	5.8
Divergence	2.8	0.6	1.7	1.0		0.5	0.2
Consumption Volume							
NIE 1995, Personal Consumption	4.4	1.7	6.8	3.7		6.3	3.8
Retail Sales Index, Volume	2.3	1.4	5.5	2.8	6.6	6.0	3.7
Divergence	2.1	0.3	1.3	0.9		0.3	0.1
Consumer Prices							
NIE 1993, Personal Consumption Deflator	2.6	1.9	2.6	2.0		2.1	2.1
Retail Sales Index Deflator	2.0	1.6	2.3	1.9	2.0	1.9	2.0
Consumer Price Index	3.0	1.5	2.4	2.5	1.6	1.7	2.0

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



Quite apart from this higher base and more buoyant trend, we have had to revise upwards our forecast of the growth in personal consumption in 1996 in the light of the strength of available indicators of consumption in the first half of the year. The value of retail sales was over 9 per cent higher than in the first half of 1995, with car sales especially vigorous. Industry reports of car sales in July and indirect tax receipts in July and August indicate that consumer spending has remained strong throughout the summer. Even allowing for the influence of the upturn in the retail sales index in the fourth quarter of 1995, it seems probable that the value of retail sales in 1996 as a whole will rise by about 8 per cent. Total personal consumption is forecast to increase by 8½ per cent in value and 6¼ per cent in volume, as shown in Table 5.

Such a rapid increase in personal consumption implies a substantial reduction in the personal savings ratio, not merely reversing the rise of 1 per cent believed to have taken place in 1995, but bringing it to below 10 per cent for the first time since 1989. It would be unreasonable to expect a further decline in the savings ratio in 1997, and a marginal rise seems more likely. This would also be compatible with a much slower increase in sales of durable products, including cars, after their exceptional rise this year. Thus total personal consumption in 1997 is projected to increase by 6 per cent in value and about 3¾ per cent in volume.

The preliminary National Accounts for 1995 show that net expenditure by public authorities on current goods and services, or government consumption, increased by 3 per cent in volume and almost 5½ per cent in value. Slower volume increases of 2 per cent in 1996 and 1½ per cent in 1997 are forecast. Rather higher price deflators than in 1995 seem likely, so that the value of public consumption is forecast to rise by 6 per cent in 1996 and 5½ per cent in 1997. Thus the pattern established in 1994 and 1995 of the value of public consumption rising significantly more slowly than the value of GNP seems set to continue in 1996 and 1997.

Final Demand

The preliminary National Accounts estimate that in 1995 final demand increased by 13¼ per cent in value and just over 11 per cent in volume. The volume of domestic demand, excluding stock changes, grew by 4¾ per cent and the volume of exports by 17 per cent. These increase are close to the final estimates for 1995 made in the June *Commentary*.

The increase in final demand is forecast to be slower in 1996, at 10¼ per cent in value and 8¼ per cent in volume. A pronounced slowdown in the volume growth of exports to 10½ per cent is expected to be partly offset by an acceleration to 6 per cent in the rate of growth of domestic demand. Largely because of the forecast reduction in the rate of growth of manufacturing exports, the import intensity of final demand is likely to be slightly lower in 1996 than in 1995.

The rate of growth in final demand is projected to be slower in 1997, at 9¼ per cent in value and 7¼ per cent in volume. The volume increase in exports of goods and services is projected to be slightly higher at 11¼ per cent, but the probable slowing in the rate of growth of personal consumption is likely to be reflected in a smaller increase of 4 per cent in domestic demand. The import intensity of final demand is expected to show little change.

Imports

As in the case of exports, the value of visible imports in the first quarter of 1996 appears quite strong compared with the first quarter of 1995, with an annual rise of 13¾ per cent, but, on a seasonally corrected basis, was somewhat lower than in the final quarter of 1995. Again mirroring exports, a significant increase in the course of 1996 seems likely.

TABLE 6: Imports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	3,588	12	14½	4,108	9	11½	4,580
Consumer Goods	4,052	10½	12¾	4,569	7	9½	5,003
Intermediate Goods:							
Agriculture	559	0	4	581	0	2	593
Other	10,433	11¾	13½	11,841	12	13¾	13,469
Other Goods	1,645	6	8	1,777	6	8	1,919
Total Visible	20,277	10¾	12¾	22,876	9¾	11¾	25,564
Adjustments	-474			-498			-520
Merchandise Imports	19,803	11	13	22,378	9¾	12	25,044
Tourism	1,266	10	12	1,418	10	12½	1,594
Other Services	4,393	12	14	5,008	11	13½	5,684
Imports of Goods and Services	25,463	11	13	28,804	10	12¼	32,322

For the year as a whole, visible imports are forecast to increase by about 10¾ per cent in volume and 12¾ per cent in value. Most categories of imports are expected to increase quite strongly, reflecting the balanced nature of expected economic growth.

Tourist spending abroad is forecast to rise substantially, although not at the exceptional rates which occurred in 1994 and 1995. The forecast value increase of 12 per cent is close to the average annual increase since 1990.

The level of other service imports has been increased greatly by the revised methodology for calculating the National Accounts and Balance of Payments. The movement of royalties and related payments from profit outflows to service imports raised the 1995 estimate of service imports by £1,591 million. As well as raising the level, the inclusion of this fast growing item has also increased the rate of growth of service imports. However, with only six years' data available it is not possible to disentangle trend growth from cyclical fluctuations, and thus it is difficult to forecast with confidence. On the assumption that the slower growth projected for manufactured exports will result in somewhat slower growth of royalty payments, total non-tourism service imports in 1996 are forecast to increase by 14 per cent in value.

Thus, as shown in Table 6, total imports of goods and services in 1996 are forecast to rise by just over 11 per cent in volume and 13 per cent in value. Such increases appear compatible with the forecast expansion of final demand.

With personal consumption and investment in machinery and equipment projected to increase more slowly in 1997, it is reasonable to expect the corresponding categories of imports to also grow at a slower rate. Despite the likelihood of a marginal acceleration in imports of goods for further industrial production, total visible imports are thus projected to increase by about 1 per cent less than in 1996. Both tourism and other service imports are likely to continue their rapid rise, so that increases of just over 10 per cent in volume and 12¼ per cent in value are projected for total imports of goods and services in 1997.

Balance of Payments

Balance of Payments estimates have been affected more radically than any other part of the National Accounts by the revised methodology adopted this year. Some of the changes have already been described under exports and imports, but major differences also affect net factor flows and transfer payments.

The methodological changes do not significantly affect the visible trade balance, and any alterations here reflect what could be styled "normal" revisions to estimates of trade flows. After a massive increase in 1995, the visible trade balance is forecast to rise by a much more modest 7¾ per cent in 1996. The value of visible imports is forecast to increase at a higher rate than exports this year, but the much higher level of visible exports means that in absolute terms the balance of visible trade will still rise. With export growth projected to be marginally faster than import growth in 1997, the visible trade balance is expected to rise by almost 14 per cent. With the adjustments to imports and exports almost cancelling out, the forecast movements in merchandise trade are very similar to those in visible trade.

The methodological revisions have raised estimates of service exports slightly and service imports massively, as royalties and related payments have been transferred into this category. Thus the deficit on service trade was £1,520 million higher in 1995 on the new figures than on the old, and is also likely to grow more rapidly than on the old basis. Thus only a marginal increase in the surplus on trade in goods and services is forecast for 1996, followed by a more substantial rise in 1997, as shown in Table 7.

With the introduction of the new category of reinvested earnings, representing profits made but not expatriated, which were excluded from the balance of payments under the old methodology, and the updating of estimates of remuneration of employees to realistic levels, the official presentation of factor flows is more detailed than previously. We have reflected this change in our presentation of Table 7. The net effect of these two changes was to increase net factor outflows in 1995 by about £700 million. As net factor outflows were simultaneously reduced by a net £1,520 million through the movement of royalties into service trade, the overall effect of the Balance of Payments changes on net factor outflows in 1995 was to reduce their level by some £820 million.

TABLE 7: Balance of Payments

	1995 £m	Change %	1996 £m	Change %	1997 £m
Visible Trade Balance	7,182	7¾	7,741	14	8,817
Adjustments	27		23		16
Merchandise Trade Balance	7,209	7¾	7,764	13¾	8,833
Service Trade Balance	-2,655	18¼	-3,137	18¼	-3,707
Trade Balance in Goods and Services	4,554	1½	4,627	10¾	5,126
Factor Flows:					
Debit Flows:					
Remuneration of Employees	-49	2	-50	2	-51
Distributed Profits, etc.	-4,052	18	-4,781	15	-5,498
Reinvested Earnings	-1,383	6	-1,466	6	-1,554
National Debt Interest	-1,015	-4	- 974	-3	-945
Other Debit Flows	-1,496	4	-1,556	4	-1,618
Total Debit Flows	-7,995	10½	-8,827	9½	-9,666
Credit Flows:					
Remuneration of Employees	230	2½	235	2½	241
Direct Investment Income	556	15	639	15	736
Other Credit Flows	2,394	9½	2,621	10	2,883
Total Credit Flows	3,180	10	3,495	10½	3,860
Net Factor Flows	-4,815	10¾	-5,332	9	-5,806
Net Current Transfers	1,111	-4½	1,060	4	1,101
Balance on Current Account	850	-58¼	355	18½	421
Capital Transfers	511	5¾	540	1¾	550
Effective Current Balance	1,361	-34¼	895	8½	971

As discussed in relation to service imports, the relatively short period for which data are available on the new basis, coupled with a high degree of volatility in many of them, adds to the difficulty of forecasting such items. At the time of writing, no quarterly estimates are available for 1996. Thus the forecasts for both 1996 and 1997 must be treated with considerable caution, with the projections for total net factor flows probably being less unreliable than those for individual credit or debit items. On this basis net factor outflows are tentatively forecast to increase by about 10¾ per cent in 1996 and by just under 9 per cent in 1997, when multinationals' exports in the relevant period are expected to have risen more slowly.

Net transfers have also been affected by the new methodology. In a move which defies economic logic, capital transfers, amounting to £511 million in 1995, mainly under EU structural and cohesion funds, are now entered on the capital rather than the current account of the balance of payments. Current transfers to the EU are expected to increase more rapidly than transfers from the EU to Ireland in 1996, leading to a small reduction in net current transfers. A minor increase in net current transfers is projected for 1997, although, depending on what arrangements are then in force for dealing with the BSE crisis, a larger increase in current transfers could be possible.

The revised methodology has, of course, had the effect of greatly reducing the estimated current account surplus for recent years, principally because of the inclusion of retained earnings of foreign companies and the exclusion of capital transfers. Thus the current account surplus in 1995 would have been £2,232 million on the old basis, but is only £850 million, or 2½ per cent of GNP, according to the new method. If our projections are correct, the current account balance will decline to about £355 million, or 1 per cent of GNP in 1996, and recover slightly to £421 million in 1997. However, the margin of error in these projections is large, and the out-turn in either year could be substantially better or worse than forecast. If capital transfers are added back to form an effective current balance, as shown in Table 7, the surplus is projected to fall from 4 per cent of GNP in 1995 to about 2½ per cent in both 1996 and 1997.

Gross National Product

Real expenditure on Gross Domestic Product increased by 10¼ per cent in 1995, on the new basis of calculation. A much slower, but still substantial, increase of 6¾ per cent is forecast for 1996. Real GNP is forecast to increase by 6 per cent, compared with 7¾ per cent in 1995. Comparison with our previous forecasts for 1996 is complicated by the change in methodology, but, taking this into account, our current forecasts represent a slight upward revision, with higher consumption projections outweighing lower export forecasts.

Further slight reductions in the rates of growth of real GDP and GNP, to 5¼ and 5 per cent, are projected for 1997, reflecting an expected slowing of consumption growth.

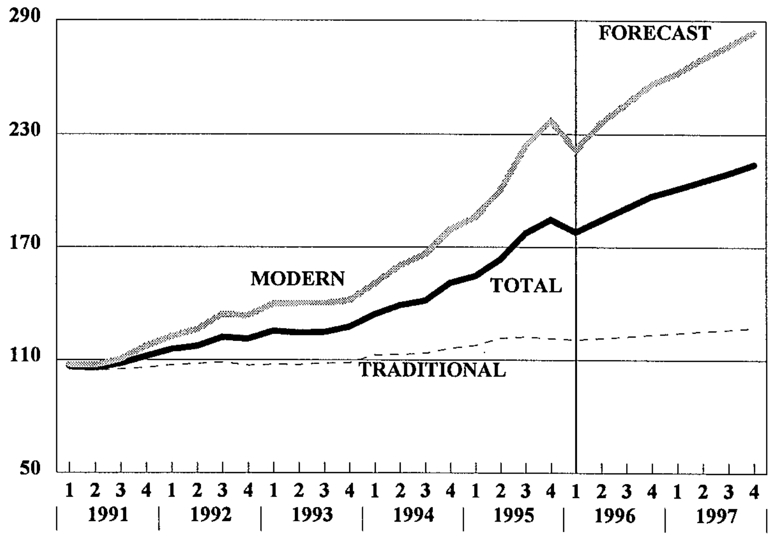
Gross national disposable income, adjusted for the terms of trade, rose by 4½ per cent in 1995 according to the preliminary National Accounts estimates, with both a substantial deterioration in terms of trade and a reduction in real net transfers holding down the rise in GNDI compared with GNP. Further, albeit smaller, adverse movements in the terms of trade are expected in 1996 and 1997, while some decline in net transfers is also likely in 1996. Thus real GNDI is projected to increase about 4¾ per cent in 1996 and 3¾ per cent in 1996. The BSE related fall in cattle and beef prices is estimated to reduce GNDI by about ½ per cent in 1996 and ¼ per cent in 1997. The main impact of BSE on GNP will come in future years when the relevant stock values are heavily written down.

Agriculture

The volume of gross agricultural product rose quite strongly, by 5¼ per cent in 1995. Livestock numbers and crop acreage have both increased significantly in 1996, and current indications are that crop yields have again been very high. Thus it seems likely that both gross agricultural output, including stock changes, and gross agricultural product will rise significantly in volume terms. The BSE crisis seems unlikely to have a major effect on the volume of agricultural output in 1996, although of course it has had a large impact on prices. Assuming that expansion continues in forestry and fishing, the volume of gross domestic product in the broad agriculture sector is forecast to rise by about 3½ per cent in 1996.

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



It seems possible that cattle culling schemes aimed at restoring balance in the European beef market could be in operation in 1997. However, the scale of any such schemes, their method of financing and their treatment in national accounting terms are, as yet, unknown. At this stage we therefore project only a slight fall in the volume of gross agricultural product in 1997, with the volume of gross domestic product in the broad agriculture sector remaining roughly constant.

Industry

The volume of production in manufacturing industry increased by a massive 20 per cent in 1995, with very rapid growth being maintained throughout the year. The volume of gross domestic product in the broad industry sector rose by 15¼ per cent.

The early months of 1996 saw a check to this rapid expansion. Although the volume of production index for manufacturing industry in the period from January to April showed an increase of almost 13 per cent compared with the corresponding period of 1995, on a seasonally-corrected basis this represented a fall of 4 per cent from the average level of the fourth quarter of 1995.

This fall in the seasonally-corrected index is heavily concentrated in the electronics and electrical engineering sectors, which grew particularly fast in 1995. Part of the increase in the final quarter of 1995 represented exceptional output levels associated with the launching of new products. The apparent decline in the first quarter of 1996 can be seen largely as a reversion to more normal levels of production. The customary strong growth trend is expected to resume in the remainder of the year, aided by some expansion in capacity. Most other, less volatile, industrial sectors are likely to show continuing modest growth, with the IBEC-ESRI Business Survey in recent months showing mild optimism concerning assessments of order-books and production expectations.

Thus the volume of production index for manufacturing industry is forecast to rise by about 12 per cent in annual average terms in 1996. With building output remaining buoyant and depreciation in the industrial sector likely to again increase substantially, the volume of gross domestic product in the broad industry sector is forecast to rise by over 10 per cent.

More new capacity is due to come into operation in 1997, and, combined with expanding international markets, this should enable the volume of manufacturing production to show a further rise of almost 12 per cent next year. Building output and depreciation are projected to increase more slowly than in 1996, so that the total volume of GDP in the broad industry sector is projected to increase by about 9 per cent in 1997.

Services

The volume of GDP in the service sectors, after adjustment for financial services, increased by 5½ per cent in 1995. With the running down of intervention stocks, the effects of volatility in the distribution sector were less marked in 1995 than in several preceding years.

In the National Accounts, storage of intervention stocks is included in the output of the distribution, transport and communications sector, and thus also in total service output. In past years major changes in the level of intervention stocks have been reflected in severe fluctuations in the estimated volume of output in the distribution sector. Due mainly to the BSE crisis, intervention stock changes could again destabilise calculations of service sector output in 1996 and 1997, although the extent of such an effect cannot yet be predicted with any confidence. Making only a minor allowance for this factor, the strength of domestic demand in 1996 should ensure another substantial increase of over 4 per cent in the volume of GDP in the service sector.

The expected slowing down of domestic demand growth, especially personal consumption, in 1997 should be reflected in a smaller rise in service output. An increase of just over 3½ per cent in the volume of GDP in services is thus projected for 1997.

Employment

The preliminary Census returns for 1996 indicate that total population had grown slightly faster than previously estimated since 1991. Some part of this additional increase is likely to have been in the labour force. However, the revisions to past labour force estimates will probably be quite small, and, until the official *Labour Force Estimates* for 1996 become available, it seems reasonable to base employment forecasts on the existing 1995 estimates.

Quarterly and monthly series show that there were substantial increases in employment in manufacturing and building in the year to March 1996. Service employment is also likely to have increased strongly in the same period, although there are no quarterly series to confirm this for the majority of services. Allowing for some decline in the numbers engaged in agriculture, the total at work is estimated to have risen by about 37,000 in the twelve months to April 1996.

The rate of net job increase in the year to April 1997 is forecast to be rather slower, due mainly to the reduced rate of industrial expansion. A similar increase of about 26,000 is projected in the total at work in the year to April 1998.

Converted to an annual basis, as shown in Table 8, the total at work is forecast to rise by 36,000 in 1996 and 28,000 in 1997. This rate of increase in job creation should be sufficient to enable a small reduction in unemployment, on a labour force basis, in both 1996 and 1997. Given that the total of those on the Live Register of unemployment is still tending to increase, it appears that the gap between the two measures is continuing to widen. The recent CSO Survey has confirmed that a substantial proportion of the Live Register comprises people who are either working, legitimately or fraudulently, or are not truly in the labour force as they are not available for work. As we have argued in successive *Commentaries,* the labour force definition of unemployment is the best available measure for purposes of economic analysis.

Incomes

Although the volume of gross domestic product in the agriculture sector is forecast to increase in 1996, aggregate agricultural income is forecast to fall by about 7 per cent. The dramatic fall in cattle prices since the onset of the BSE crisis is well known, but less attention has been paid to the significant downward trend in milk prices in the course of 1996. While some stabilisation in farm prices is

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1994	1995	1996	1997	1998
Agriculture	140	140	137	134	132
Industry	330	343	361	372	382
Services	712	751	773	791	809
Total at Work	1,182	1,234	1,271	1,297	1,323
Unemployed	218	190	180	175	170
Labour Force	1,400	1,423	1,451	1,472	1,493
Unemployment Rate %[1]	14.7	12.7	11.9	11.4	11.0
Live Register	285	276	281	280	276

B: Annual Averages '000

	1994	1995	1996	1997
Agriculture	140	139	136	133
Industry	337	351	367	378
Services	731	761	784	804
Total at Work	1,208	1,251	1,287	1,315
Unemployed	206	185	178	173
Labour Force	1,414	1,436	1,465	1,488
Unemployed Rate %[1]	14.2	12.6	11.7	11.2
Live Register	282	278	282	278

[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.

expected in 1997, the annual average is likely to be lower than in 1996, resulting in a projected reduction of 2 per cent in aggregate agricultural income.

One of the surprising features of the economy in 1995 was that the very rapid growth in output and employment was accompanied by a very moderate increase in average earnings. The index of average industrial earnings rose by just 3 per cent, on both an hourly and a weekly basis, while the increase of under 6½ per cent in aggregate non-agricultural employee remuneration also implies a rise of about 3 per cent in the economy-wide average earnings, when allowance is made for the increase in effective employment. There appears to have been virtually no pay drift above the terms of the Programme for Competitiveness and Work.

It seems probable that average earnings will again remain close to the PCW terms in 1996, but these allow for a slightly higher annual rate of increase than last year. Average non-agricultural wages, salaries and pensions are thus forecast to rise by 3½ per cent. With the annual average increase in employment likely to be

TABLE 9: Personal Disposable Income

	1995	Change		1996	Change		1997
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,473	-7	-173	2,300	-2	-46	2,254
Non-Agricultural Wages, etc.	17,932	6½	1,170	19,102	5¾	1,108	20,210
Other Non-Agricultural Income	5,047	9¾	488	5,535	7½	415	5,950
Total Income Received	25,452	5¾	1,485	26,937	5½	1,477	28,414
Current Transfers	5,870	6¼	363	6,233	5	312	6,545
Gross Personal Income	31,322	6	1,848	33,170	5½	1,789	34,959
Direct Personal Taxes	6,387	5½	359	6,746	3	199	3,945
Personal Disposable Income	24,935	6	1,489	26,424	6	1,590	28,014
Consumption	22,055	8½	1,875	23,930	6	1,436	25,366
Personal Savings	2,880	-13½	-386	2,494	6¼	154	2,648
Savings Ratio	11.6			9.4			9.5

slightly slower than in 1995, aggregate earnings are forecast to rise again by about 6½ per cent.

Given the constraints of a strong currency, it is unlikely that there will be any significant acceleration in the rate of increase in average earnings in 1997, with or without a renewal of the PCW. Thus another rise of about 3½ per cent in average earnings is projected. The increase in average employment levels is expected to be lower than this year, so that aggregate non-agricultural earnings in 1997 is projected at 5¾ per cent.

Other non-agricultural income, representing foreign wages as well as personal income from property and non-agricultural self employment, appears to have risen relatively slowly in 1995. With the domestic economy expanding rapidly in 1996 a much faster increase in such income seems likely. A slightly smaller, but still substantial, increase is projected for 1997. Thus total income received from economic activity is forecast to increase by 5¾ per cent in 1996 and 5½ per cent in 1997, as shown in Table 9.

Current transfers rose sharply by over 7 per cent in 1995, partly due to the payment of equality arrears. With this and similar factors still having some influence, another substantial increase of 6¼ per cent seems likely in 1996. A rather slower increase of about 5 per cent is projected for 1997 as the effects of special factors become weaker. Thus gross personal income is forecast to increase by almost 6 per cent in 1996 and about 5½ per cent in 1997.

The rise in direct personal taxation in 1995 was only a little over 1½ per cent, mainly because the 1994 base was swollen by amnesty receipts. Without this complicating factor, and with Budget reliefs more limited than in the previous year, direct personal taxation is forecast to increase by over 5½ per cent in 1996. Obviously, the level of direct personal taxation in 1997 will be partly dependent on Budget decisions which are yet to be taken. On the reasonable assumption that there will be significant reductions in effective average tax rates, an increase of just under 3 per cent in aggregate personal direct taxation is projected for 1997.

Thus personal disposable income, which rose by about 7 per cent in 1995, is forecast to increase by 6 per cent in 1996 and by a similar percentage in 1997. The value of personal consumption rose by only 5.8 per cent in 1995, indicating an increase of about 1 per cent in the personal savings ratio. It is already clear that the value of consumption is rising much faster than disposable income in 1996. The corresponding fall of over 2 per cent in the personal savings ratio will not merely reverse the rise in 1995 but is likely to take the ratio below 10 per cent for the first time since 1989. A further fall in the ratio in 1997 seems unlikely, especially as interest rates are expected to edge upwards. A marginal rise, to 9½ per cent, is assumed, implying that the value of personal consumption will increase by slightly less than personal disposable income in 1997.

Consumer Prices

Despite the rapid expansion of the economy, which has now lasted since the middle of 1993, consumer price inflation has remained very low, and has declined significantly in the past twelve months.

As Table 10 shows, the housing price index has been volatile over the past three years, reflecting changes in mortgage interest rates and, to a lesser extent, house prices. The remainder of the consumer price index has been much steadier, declining in stages from an annual increase of over 3 per cent in the first half of 1994 to about 2½ per cent in the second half of 1994 and first half of 1995 and an average of 2 per cent or less since the middle of 1995. This downward tendency has reflected both exchange rate movements and the low levels of international inflation.

For the final quarter of 1996 and 1997, the housing price index seems certain to rise, with modest increases in mortgage interest rates being accompanied by a continued upward trend in house prices. Inflation in the non-housing part of the index should remain subdued. Planned increases in some service costs will be offset by continued low import prices, especially as much of the recent appreciation of the Irish pound has yet to feed through into retail prices.

Thus for the consumer price index as a whole, the annual increase in 1996 is forecast at 1¾ per cent, while for 1997 the annual increase is projected at about 2 per cent, with the November to November rise being, perhaps, marginally higher.

Public Finances

Revenue returns for the first eight months of 1996 show remarkable buoyancy, reflecting the rapid growth of domestic demand. Even if receipts in the remainder of the year were no higher than in the corresponding period of 1995, total revenue would exceed the Budget target by over £100 million. On the more reasonable assumption that receipts in the remaining four months run about 6 per cent above their 1995 levels, compared with over 12 per cent in the first eight months, total revenue in 1996 will be over £12,800 million, some 9¾ per cent higher than in 1995 and about £370 million above the Budget target.

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1994	1995				1996			1995	1996	1997
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.			
Index Nov. 1989 = 100											
Housing	112.2	113.0	119.3	120.8	118.8	116.7	117.1	117.6	118.0	117.8	123.7
Other	113.2	114.1	114.9	115.3	115.6	116.3	116.8	117.4	115.0	117.1	119.2
Total CPI	113.1	114.0	115.2	115.7	115.8	116.3	116.8	117.4	115.2	117.2	119.5
Annual % Change											
Housing	1.1	2.2	7.1	8.1	5.9	3.2	-1.8	-2.5	5.8	-0.2	5.0
Other	2.4	2.6	2.4	2.0	2.1	1.9	1.7	1.8	2.2	1.8	1.8
Total CPI	2.4	2.5	2.8	2.4	2.4	2.0	1.4	1.5	2.5	1.7	2.0
Quarterly % Change											
Housing	0.4	0.7	5.6	1.3	-1.7	-1.8	0.3	0.4			
Other	0.1	0.8	0.7	0.3	0.3	0.6	0.4	0.5			
Total CPI	0.1	0.8	1.1	0.4	0.1	0.4	0.4	0.5			

Current expenditure is much harder to monitor from monthly or quarterly returns, as the net figures are heavily influenced by timing factors, especially with regard to EU funding. Moreover, the authorities will presumably bring forward some 1997 commitments into 1996, as they usually do in years of strong fiscal performance. Leaving aside this official flexibility in the presentation of the figures, it seems likely that the underlying annual total of interest on the national debt will be significantly lower than in 1995 or than in the Budget targets. This will probably be offset by moderate overruns on some other types of expenditure, including BSE related costs. Thus the underlying total of net current expenditure could be very close to the Budget Target of just over £12,500.

This implies an underlying current budget surplus of about £300 million, although the authorities might well choose to present a somewhat smaller surplus. Assuming that borrowing for capital purpose is of the same order of magnitude as the Budget provision, the total Exchequer Borrowing Requirement in 1996 could be less than half the Budget target of £729 million, and thus amount to about 1 per cent of GNP.

Despite the excellent fiscal out-turn which seems probable in 1996, the Budgetary arithmetic for 1997 will not necessarily prove easy. In the first place there is a compelling need for a substantial current budget surplus, both to provide a wide safety margin for meeting the Maastricht criteria in this key year, and to continue the process of adapting towards the probable reduction of EU funding after 1999. Secondly, there is a strong likelihood that tax revenue will be less buoyant as a result of a slower growth in personal consumption, especially of cars. In the third place, there appears to be a political imperative to reduce effective rates of direct personal taxation, both for electoral reasons and in the context of ensuring continued moderation in pay increases in or out of a new national agreement.

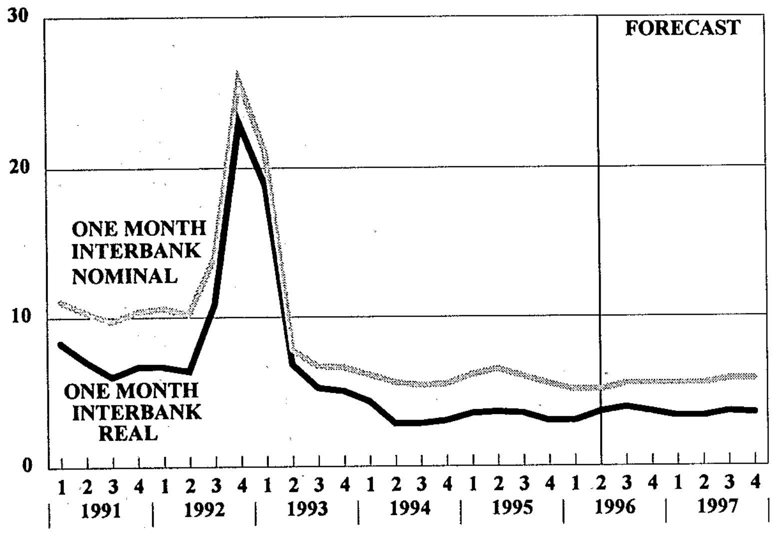
These aims and circumstances can only be reconciled if tight control is maintained on the growth of current expenditure. Interest-rate trends suggest that there is unlikely to be a bonus from falling national debt interest payments in 1997 as there has been in most recent years. Thus both the volume and the price of discretionary spending must be contained, and the forecasts in this *Commentary* are based on the assumption that the value of net current expenditure is restricted to under 5 per cent, implying no significant acceleration in public service pay settlements.

Interest Rates

Having fallen significantly in the course of 1995, Irish long-term interest rates have remained fairly steady in the first three quarters of 1996. This implies that Ireland, in common with several other EU countries, has benefited from a reduction in the long-term differential over German rates as prospects for EMU have improved. With this process unlikely to develop much further until EMU decisions are clarified in 1998, Irish long-term interest rates are likely to move more closely with international trends in the coming year or so. As discussed in the International section of this *Commentary,* these are likely to be upwards, but not dramatically so. The annual average of Irish long-term interest rates in 1997 is assumed to be no more than ½ per cent above present levels.

Figure 4: Interest Rates

Per Cent Per Annum, Quarterly Averages



Short-term wholesale interest rates also reflected a narrowing of the differential over German rates in the first half of 1996. However, the differential has risen again in the third quarter, with German rates still tending to decline while the Irish one-month interbank rate has increased by about ½ per cent. This increase is regarded as mainly due to Central Bank action, although there has been no change in the official re-discount rate, or short-term facility. Given the Central Bank's concerns about the possible emergence of inflationary pressures, especially in the housing market, and its conflicting desire to co-ordinate changes in the official rate with those in Germany, little variation in the present one-month rate of just over 5½ per cent seems likely in the remainder of 1996. It seems overwhelmingly probable that any increase in German short-term rates in the course of 1997 will be followed by Ireland. An average one-month rate of between 5¾ and 6 per cent is thus projected for 1997, with average retail interest rates about ¼ per cent above the 1996 average.

General Assessment

The methodological changes in calculating the National Accounts and Balance of Payments Estimates, which are incorporated in *National Income and Expenditure 1995* are, in most ways, an improvement on the previous methodology. The National Accounts now provide a more coherent, and, indeed, more plausible, picture of the evolution of the Irish economy since 1990.

The change in the method of calculating the imputed rent of owner occupied dwelling has added £826 million to estimates of income, personal consumption, GDP and GNP in 1995. The new figures are much more credible in themselves than the old, which were less than half the value, and presumably succeed in their main purpose, which is to facilitate fair international comparisons of income and expenditure levels.

The other changes all affect the Balance of Payments as well as the National Accounts estimates. The transfer of royalties and related payments from incorporation in profits remittances as a factor flow to being an item in their own right among service exports and imports is logically correct. The result in 1995 was to reduce the level of GDP by £1,520 million, but because there was an equal reduction in net factor outflow there was no effect on the level of GNP or the current account of the Balance of Payments.

The introduction of an entirely new item of reinvested earnings, representing profits earned but not remitted, has had a major impact on the level of net factor flows, GNP and the current account, while not affecting estimates of GDP. The logic of this change, treating reinvested earnings of foreign companies in Ireland as a simultaneous current outflow and capital inflow (and *vice versa* for Irish companies abroad) is unexceptionable, but there must be some doubt concerning the actual size of the estimates. The credit item for earnings reinvested abroad by Irish companies seems rather small for most years since 1990 in relation to the high capital outflows in the past decade, although the 1995 estimate of £512 million appears more realistic. It seems likely that much of the return on non-industrial Irish overseas assets is included among other credit flows. The debit item of reinvested earnings amounting to £1,383 million in 1995 appears reasonable in relation to remitted profits, but again tends to highlight the surprisingly low level of fixed capital investment, especially in manufacturing industry.

The remaining amendment to net factor flows is the updating of estimates of employee remuneration from its previous token level. This obvious improvement has a relatively minor effect, reducing the level of net factor outflows, and thus increasing GNP, by a net amount of £165 million in 1995.

The final major change does not affect GDP or GNP estimates directly, but has a very significant effect on the Balance of Payments. This is the removal of capital transfers, amounting to £511 million in 1995, from the current to the capital account of the Balance of Payments. Although unavoidable, as it is dictated by new international conventions, this is a retrograde step with regard to presenting a meaningful picture of the Irish economy. Despite their nomenclature, capital transfers are no different from current in that they impose no future obligations with regard to repayment or debt service and thus represent an ongoing resource available to the economy. It would therefore have been more logical to continue to treat such receipts as part of the current account and to include them in the calculation of the current account surplus. Consideration should be given to publishing both the exclusive and inclusive figures in future Balance of Payments releases.

The net effect of all these methodological changes has been to raise the level of both GDP and GNP in 1990, the first year to which they have been applied, and to reduce slightly the rate of growth in subsequent years, so that the net effect in 1995 was negative for GDP and roughly neutral for GNP. They do not significantly alter the previous general picture that Irish real GNP grew slowly, at about 2 per cent per year during the recession of 1991 and 1992, began to recover, to a growth of 3 per cent, in 1993, and has expanded very rapidly, at over 7 per cent, in both 1994 and 1995.

The revisions have had a much greater effect on the Balance of Payments estimates, and in this regard must change somewhat the view of recent economic development. The very high ratios of the current account surplus to GNP in recent years on the old basis, peaking at 7.4 per cent in 1993 and remaining above 6.6 per cent in 1994, were always somewhat puzzling, being exceptional by international standards and implying that the economy was operating far below capacity levels despite its relatively high growth rate. The old figures also conveyed the impressions that the Balance of Payments was unlikely to operate as a possible constraint on growth in the foreseeable future.

The new estimates show the current account rising from a small deficit in 1990 to a maximum 4.3 per cent of GNP in 1993, and falling back to a surplus of 2.5 per cent in 1995. Even when capital transfers are included, the current account rose from approximate balance in 1990 to a peak surplus of 6.1 per cent of GNP in 1993, before settling back to about 4 per cent in 1994 and 1995. These figures show a more credible course for an economy enjoying rapid, export led, growth but with a strong expansion in domestic demand since 1994. They also suggest that if domestic demand continues to rise much faster than in other European countries, the balance of payments constraint could perhaps reappear as a factor influencing economic policy.

This point is brought into clearer focus by the forecasts in this *Commentary* for 1996 and 1997. With domestic demand expanding very rapidly in 1996 and moderately in 1997, while exports gradually recover from a pause in growth in the first half of 1996, real GNP growth is forecast at 6 per cent in 1996 and 5 per cent in 1997. These growth rates are projected to be accompanied by a fall in the current account surplus to about 1 per cent of GNP. Given the unavoidable margins of error in such forecasts, it is possible, though unlikely, that the current account surplus could disappear in either year, although if capital transfers are included the effective balance would remain firmly positive.

The short term prospects for the remainder of 1996 and 1997 appear good in terms of economic growth, employment, inflation and the public finances. However, there are considerable uncertainties concerning 1997 and future years in the European economic environment, and decisions within the period must be taken with these in mind.

The run-up to EMU will inevitably create uncertainties throughout Europe with regard to whether EMU will proceed according to its planned timetable, which countries will be members, how far attempts to meet the fiscal criteria will hold back economic recovery and what relationships will be established between member and non-member countries. These uncertainties in turn are likely to generate some currency instability, either in 1997 or later. From Ireland's point of view the possibility of fluctuations in the value of sterling, arising as much from domestic political factors as from the general EMU instability, is particularly relevant.

In the light of these uncertainties the authorities must obviously leave generous safety margins to ensure that the Maastricht fiscal targets are met by Ireland in 1997. Fortunately the strength of the public finances in 1996 is such that the building in of a large safety margin in 1997 should be compatible with significant reductions in effective average rates of direct personal taxation, so long as strict control is maintained on the level of public expenditure. As the inflation forecasts in this *Commentary* suggest, the inflation rate should remain comfortably within the relevant criterion in 1997. If sterling were to depreciate significantly in 1997, monetary action, including a temporary rise in interest rates, might be needed to make sure that Ireland meets the somewhat imprecise exchange rate criterion for EMU.

Perhaps the most important decisions in the context of meeting the possibly turbulent external conditions of the next few years will be those relating to pay determination. To preserve employment in potentially exposed industries and services and to encourage a continuing flow of investment into export sectors, it is vital that international competitiveness is maintained. This, in turn, requires pay settlements to remain moderate both in the period leading up to EMU and after entry. In the period leading to EMU, basically the next two or three years, it would be highly beneficial to employment prospects if settlements also contained an element of flexibility in response to possible major shifts in exchange rates. Such flexibility should ideally be two-way so that any windfall benefits of favourable exchange rate movements would be shared, as well as the costs of adverse movements.

A pattern of such moderate, flexible settlements could be achieved in an unstructured bargaining context, especially as consumer price inflation is unlikely to exceed 2 per cent in 1997, and could well be lower, but would probably be better defined within the framework of a new national agreement. This would allow the concept of flexibility to be extended to the sheltered, as well as the exposed, sectors of the economy, would facilitate the continued trade-off between pay moderation and tax cuts and would minimise the risk of industrial disputes which are a significant factor in determining the inflow of productive investment.

The remarkable international performance of the Irish economy can continue for several more years, but this will only come about if all sectors of society remain realistic in their expectations, adaptable in the face of change and flexible in their response to uncontrollable external shocks.

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	211.5	66.5	145.0

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	216.7	71.1	145.6
1996 I	257.4	438.8	127.2	5084		216.3	72.3	144.2
II								
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1993 I	178.6	263.4	118.0	3927	No Seasonal Pattern	193.4	54.1	139.4
II	177.3	263.1	117.6	4035		193.8	53.7	139.7
III	177.8	263.3	118.6	4070		194.0	54.9	139.8
IV	181.7	266.1	118.7	4136		194.7	55.4	139.5
1994 I	191.3	282.8	123.3	4155		196.8	56.4	140.0
II	198.2	301.2	123.6	4247		198.3	57.4	140.7
III	201.8	312.5	124.2	4231		199.1	58.4	141.0
IV	215.3	337.2	127.2	4220		203.0	60.4	142.8
1995 I	220.6	349.0	128.8	4333		207.1	62.5	144.4
II	233.2	376.4	133.1	4383		209.7	65.3	145.7
III	253.0	419.4	133.7	4457		212.3	68.0	144.4
IV	263.2	445.9	132.9	4432		215.6	70.2	145.4
1996 I	254.0	416.1	132.1	4714		218.5	72.9	145.9
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	
130.0	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
214.0	236.2	137.9	125.0	106.9	178.5	99.3	277.8	1995
Quarterly Averages								
178.0	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
231.8	247.4	139.8	126.7	107.7	177.6	100.9	278.6	IV
222.4	238.9	130.1	125.4	106.1	182.0	103.4	285.4	1996 I
					176.8	102.8	279.6	II
								III
								IV
Quarterly Averages (Seasonally Corrected)								
172.6	192.2	124.9	116.5	104.9	193.2	101.3	294.5	1993 I
172.1	192.6	124.1	117.2	105.8	195.2	100.2	295.4	II
171.4	189.2	125.0	120.0	107.3	193.9	99.5	293.4	III
173.6	189.4	125.8	121.7	108.3	192.7	101.1	293.8	IV
182.2	197.7	129.9	121.9	107.9	189.5	99.1	288.6	1994 I
188.0	206.1	129.5	122.2	107.4	185.1	97.8	282.9	II
189.2	210.9	129.7	121.7	106.1	182.6	96.9	279.5	III
197.3	220.3	131.7	123.5	107.3	180.4	98.3	278.7	IV
199.5	220.1	131.7	124.1	107.2	177.1	97.4	274.5	1995 I
207.4	226.6	134.6	124.9	106.8	178.3	98.3	276.6	II
222.5	243.1	136.3	125.7	107.0	178.7	98.9	277.6	III
227.4	250.8	135.1	125.3	106.4	179.6	101.9	281.5	IV
216.7	225.0	133.6	126.1	106.8	177.8	102.8	280.6	1996 I
					178.4	104.4	282.8	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	95.0	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	113.5	105.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8	115.9	108.2	112.7	105.7	93.7	1992.9

Quarterly Averages

	17	18	19	20	21	22	23	24
1993 I	109.0	112.9	109.9	100.2	103.4	101.2	97.9	1313.5
II	109.1	115.2	111.9	106.3	104.7	104.0	99.4	1532.2
III	110.2	117.2	114.0	105.1	106.5	105.0	98.5	1685.6
IV	110.5	116.9	113.9	104.2	106.9	105.4	98.7	1772.6
1994 I	111.2	117.0	113.5	108.5	107.3	102.4	95.5	1966.3
II	112.1	117.1	113.9	111.2	108.7	104.5	96.1	1806.3
III	113.0	116.6	113.2	104.6	108.1	105.6	97.7	1817.7
IV	113.1	116.8	113.4	103.1	108.3	102.7	94.8	1823.1
1995 I	114.0	118.3	115.4	107.8	111.7	104.0	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	116.3	108.4	113.2	105.5	93.2	2159.2
1996 I	116.3	121.3		110.8	114.4	106.7	93.3	2304.7
II	116.8	121.2						
III	117.4							
IV								

Quarterly Averages (Seasonally Corrected)

	17	18	19	20	21	22	23	24
1993 I	109.4	113.0	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	114.3	107.1				
1994 I	111.3	117.0	113.7	107.9				
II	112.1	116.7	113.3	107.8				
III	112.8	116.4	113.1	105.5				
IV	113.3	117.2	113.8	106.0				
1995 I	114.1	118.3	115.6	107.3				
II	115.1	119.2	116.0	107.1				
III	115.5	120.1	115.2	107.8				
IV	116.0	121.7	116.8	111.7				
1996 I	116.4	121.3		110.3				
II	116.7	120.9						
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Registered (New+S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expenditure	Current Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
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
124595	123.7	112.3	11667	12029	362	6.1	8.3	1995
Quarterly Averages or Totals								
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
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
50295	126.1	113.3	2678	3118	440	5.1	7.8	1996 I
						5.1	7.7	II
								III
								IV
Quarterly Averages or Totals (Seasonally Corrected)								
19448	105.7	101.6	2380	2606	226	No Seasonal Pattern	No Seasonal Pattern	1993 I
21870	107.2	102.0	2349	2486	137			II
23298	110.6	104.2	2805	2779	-26			III
25463	112.4	105.4	2604	2629	25			IV
29917	118.9	110.9	2961	2824	-137			1994 I
29369	116.3	107.9	2985	2739	-246			II
28121	117.0	108.2	2622	2801	179			III
28897	118.8	109.4	2669	2800	130			IV
29305	121.5	111.0	2762	2665	-97			1995 I
30751	122.2	111.1	3078	3060	-18			II
32515	123.7	112.3	2903	2983	80			III
34643	126.2	113.9	2915	3311	396			IV
37358	132.1	118.5	2906	3016	110			1996 I
	134.3							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	120013.0	2636.4	10853.4	3161.0	65.09	0.8568	1.5258	2.6742
1989	126450.3	2417.7	12538.3	2521.0	64.42	0.8671	1.4192	2.6647
1990	140287.9	2506.0	13855.9	2891.7	68.32	0.9304	1.6588	2.6728
1991	150958.4	2502.2	13553.2	3256.0	67.34	0.9133	1.6162	2.6708
1992	157694.4	2946.7	14410.7	2112.8	69.48	0.9695	1.7061	2.6561
1993	195445.1	2829.5	14910.5	4277.9	66.01	0.9771	1.4680	2.4240
1994	215641.3	3285.7	16655.2	4041.3	66.16	0.9776	1.4982	2.4262
1995	240325.1	3332.1	19916.6	5473.0	67.12	1.0165	1.6038	2.2971

	End-Period Totals				Quarterly Averages			
1993 I	15230.7	2463.4	14509.0	3571.0	68.91	1.0361	1.5320	2.5018
II	16062.2	2601.0	14643.3	4255.9	66.41	0.9818	1.5073	2.4386
III	16726.4	2683.0	14574.9	4315.6	63.99	0.9390	1.4129	2.3674
IV	17129.1	2829.5	14910.5	4277.9	64.73	0.9516	1.4197	2.3881
1994 I	17328.3	2723.7	15249.3	4422.2	65.51	0.9606	1.4299	2.4636
II	17540.1	2901.6	15759.5	4477.1	65.93	0.9762	1.4685	2.4382
III	18187.1	3230.6	16067.8	4391.8	66.39	0.9879	1.5325	2.3916
IV	18824.9	3285.7	16655.2	4041.3	66.81	0.9858	1.5620	2.4112
1995 I	19212.0	3031.4	17454.4	4030.5	66.58	0.9943	1.5734	2.3263
II	19333.2	2939.9	18383.8	4546.9	67.05	1.0193	1.6270	2.2717
III	20207.0	3279.6	19036.5	5504.1	67.42	1.0243	1.6115	2.3067
IV	21356.3	3332.1	19916.6	5473.2	67.43	1.0281	1.6033	2.2838
1996 I	22088.3	3790.3	20591.8	5213.0	67.60	1.0315	1.5796	2.3192
II	22669.3	3572.2	21595.3		68.06	1.0308	1.5701	2.3912
III								
IV								

	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1993 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
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	
10213.1	12300.7	2087.6	82.8	82.9	NA	NA	1988
12287.8	14596.9	2309.1	93.6	92.2	NA	NA	1989
12475.5	14342.5	1866.9	100.0	100.0	-2921	-224	1990
12850.8	15018.9	2168.1	100.8	105.6	-2796	209	1991
13194.8	16743.8	3549.1	105.6	121.1	-3209	320	1992
14884.9	19829.7	4945.0	113.0	133.4	-3521	1248	1993
17251.2	22753.7	5502.6	127.9	153.2	-3575	954	1994
20276.9	27458.7	7182.0	143.4	181.2	-4815	850	1995

Av. Monthly Totals — Quarterly Averages or Totals

1214.0	1524.2	310.5	112.5	126.2	-1108	-279	1993 I
1168.9	1631.5	462.6	107.2	131.5	-945	260	II
1241.9	1605.6	363.8	111.8	128.2	-741	480	III
1337.2	1848.6	511.4	120.0	147.0	-727	787	IV
1419.4	1773.8	354.4	127.0	145.1	-1192	-390	1994 I
1415.0	1868.3	453.3	124.9	149.9	-994	141	II
1345.0	1827.3	482.3	119.4	145.0	-687	550	III
1571.0	2115.2	544.1	139.2	172.8	-702	653	IV
1656.8	2154.8	498.0	142.3	173.6	-1228	-20	1995 I
1630.9	2248.1	617.2	137.6	175.6	-1268	272	II
1582.5	2235.4	652.9	135.3	177.4	-1129	351	III
1888.8	2514.6	625.8	160.1	200.0	-1190	246	IV
1885.9	2522.7	636.9	158.1	198.3			1996 I
							II
							III
							IV

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

1184.6	1530.9	346.3	110.1	125.4	No Seasonal Pattern	No Seasonal Pattern	1993 I
1161.2	1590.5	429.3	107.2	129.8			II
1304.2	1683.6	379.4	117.4	136.1			III
1315.1	1798.6	483.6	116.9	141.3			IV
1382.7	1788.3	405.7	123.7	144.7			1994 I
1408.1	1824.7	416.6	125.5	148.6			II
1416.7	1918.2	501.4	125.9	153.5			III
1557.8	2035.6	477.8	136.3	164.6			IV
1597.2	2188.3	591.2	137.6	173.9			1995 I
1624.6	2197.7	573.1	138.5	174.2			II
1684.9	2335.8	651.0	143.9	187.1			III
1873.4	2441.8	568.4	156.7	192.2			IV
1812.2	2526.9	714.7	152.3	195.5			1996 I
							II
							III
							IV