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QUARTERLY ECONOMIC COMMENTARY

April 1997

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SUMMARY

It is now estimated that real GNP grew by about 6½ per cent in 1996. With employment increasing rapidly, consumer price inflation averaging 1.6 per cent and the first substantial current budget surplus in decades, last year thus continued the excellent economic performance of the two preceding years.

Growth is expected to remain strong in 1997, with real GNP increasing by about 5½ per cent. Personal consumption, fixed investment and net exports are all forecast to contribute to economic expansion, and this balanced nature of growth should ensure that employment will continue to rise, although perhaps more slowly than in the past two years. Consumer price inflation is projected to remain below 2 per cent, and another substantial current budget surplus should represent a consolidation of the public finances.

Thus 1997 is expected to be the fourth successive year of rapid non-inflationary growth in the Irish economy, and the prospects are that the virtuous circle of output and employment growth, improving public finances and low inflation can continue for several more years. However, this very success poses challenges for the authorities and for the leaders of the social partners.

Without obvious employment and fiscal crises it is becoming increasingly difficult to keep the expectations of the public and interest groups realistic, and to convey the message that there are still severe economic and fiscal constraints within which social and income distribution policies must be implemented. At the same time the easing of the absolute fiscal imperative of a few years ago does suggest that even with limited resources greater priority could be given to tackling some of Ireland's outstanding social problems.

A potential policy difficulty in the approach to the EMU has been posed by the appreciation of sterling against continental European currencies since mid-1996. On grounds of direct competitiveness with continental countries and of exposure to the risk of future sterling depreciation, it would be undesirable to lock the Irish pound into monetary union at its current value against the major continental currencies. Depending on the method chosen to establish entry rates and on the behaviour of sterling over the next 18 months, this issue could largely resolve itself. However, were sterling to remain strong, or to appreciate further, significant transition problems could arise.

FORECAST NATIONAL ACCOUNTS 1996

A: Expenditure on Gross National Product

	1995	1996	Change in 1996				
	Preliminary[1]	Estimate	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	22,055	23,930	1,875	1,367	8½	2¼	6¼
Public Net Current Expenditure	5,883	6,296	413	176	7	3¾	3
Gross Fixed Capital Formation	6,031	6,819	788	642	13	2	10¾
Exports of Goods and Services (X)	30,508	32,805	2,297	2,442	7½	-½	8
Physical Changes in Stocks	94	305	211	190			
Final Demand	64,571	70,155	5,584	4,817	8¾	1	7½
less:							
Imports of Goods and Services (M)	25,891	28,075	2,184	2,021	8½	½	7¾
GDP at Market Prices	38,680	42,080	3,400	2,796	8¾	1½	7¼
less:							
Net Factor Payments (F)	4,815	5,421	606	633	12½	-½	13¼
GNP at Market Prices	33,865	36,659	2,796	2,163	8¼	1¾	6½

B: Gross National Product by Origin

		1995	1996	Change in 1996	
		Preliminary	Estimate		
		£m	£m	£m	%
Agriculture, Forestry, Fishing		2,475	2,475	0	0
Non-Agricultural:	Wages, etc.	17,932	19,277	1,345	7½
	Other:	12,172	13,703	1,531	12½
less:					
Adjustments		1,987	1,957	-30	-1½
Net Factor Payments		4,815	5,421	606	12½
National Income		25,777	28,077	2,300	9
Depreciation		3,671	4,038	367	10
GNP at Factor Cost		29,448	32,115	2,667	9
Taxes less Subsidies		4,417	4,544	127	3
GNP at Market Prices		33,865	36,659	2,794	8¼

C: Balance of Payments on Current Account

	1995	1996	Change in 1996
	Preliminary[1]	Estimate	
	£m	£m	£m
X - M	4,616	4,730	114
F	-4,815	-5,421	-606
Net Transfers	1,112	1,190	78
Balance on Current Account	913	499	-414
as % of GNP	2¾	1¼	-1½

[1] Adjusted for Balance of Payments Revisions

FORECAST NATIONAL ACCOUNTS 1997

A: Expenditure on Gross National Product

	1996 Estimate £m	1997 Forecast £m	Change in 1997 £m Value	Change in 1997 £m Volume	Change in 1997 % Value	Change in 1997 % Price	Change in 1997 % Volume
Private Consumer Expenditure	23,930	25,605	1,675	1,149	7	2	4¾
Public Net Current Expenditure	6,296	6,768	472	164	7½	4¾	2½
Gross Fixed Capital Formation	6,819	7,657	838	657	12¼	2¼	9¾
Exports of Goods and Services (X)	32,805	36,030	3,225	3,254	9¾	0	10
Physical Changes in Stocks	305	330	25	15			
Final Demand	70,155	76,390	6,235	5,239	9	1¼	7½
less:							
Imports of Goods and Services (M)	28,075	31,049	2,974	2,676	10½	1	9½
GDP at Market Prices	42,080	45,341	3,261	2,563	7¾	1½	6
less:							
Net Factor Payments (F)	5,421	5,931	510	513	9½	0	9½
GNP at Market Prices	36,659	39,410	2,751	2,050	7½	1¾	5½

B: Gross National Product by Origin

		1996 Estimate £m	1997 Forecast £m	Change in 1997 £m	Change in 1997 %
Agriculture, Forestry, Fishing		2,475	2,426	-49	-2
Non-Agricultural:	Wages, etc.	19,277	20,530	1,253	6½
	Other:	13,703	15,064	1,361	10
less:					
Adjustments		1,957	2,085	128	6½
Net Factor Payments		5,421	5,931	510	9½
National Income		28,077	30,004	1,927	6¾
Depreciation		4,038	4,381	343	8½
GNP at Factor Cost		32,115	34,385	2,270	7
Taxes less Subsidies		4,544	5,025	481	10½
GNP at Market Prices		36,659	39,410	2,751	7½

C: Balance of Payments on Current Account

	1996 Estimate £m	1997 Forecast £m	Change in 1997 £m
X - M	4,730	4,981	251
F	-5,421	-5,931	-510
Net Transfers	1,190	1,250	60
Balance on Current Account	499	300	-199
as % of GNP	1¼	¾	-½

COMMENTARY

The International Economy

General

The approach of EMU and volatility in exchange rates dominated much of 1996 and of 1997 to date. The progress being made by different continental countries towards the qualifying criteria for the single currency received much scrutiny and comment. In particular, the weakness of the German economy, and its consequent difficulty in reducing its fiscal deficit, has led to some discussion of the possibility of postponement of the January 1999 starting date. However, although such doubts have not yet been fully dispelled, it remains probable that EMU will proceed according to schedule.

The dollar strengthened against all the European currencies during 1996 and has remained strong in 1997. The slow pace of the recovery in Europe means that continental currencies are unlikely to get an interest rate boost in the short-term. Indeed, there was a general decline in European short-term interest rates in 1996, despite small increases in some countries. It seems likely that the dollar will retain much of the gain it has made, although as recovery becomes more established in Europe towards the end of the year some appreciation of continental currencies is expected.

While European growth prospects appear to be more positive in 1997 as a result of currency weakness, high unemployment levels should mean that any inflation risk is minimal. This is not necessarily the case in the USA where a tight labour market could see some acceleration of inflation during 1997.

The US Economy

According to preliminary figures, real GDP growth in the US economy increased by an annualised rate of 3.9 per cent in the fourth quarter of 1996, following an annual rate of 2.1 per cent in the third quarter. Based on these figures the US economy expanded by 2.4 per cent in 1996, marginally lower than our estimate in the February 1996 *Commentary*. Despite some carryover, and steady growth rates, annual growth of about 2.2 per cent is expected for 1997. This represents a continuation of the sustained, if somewhat unspectacular, growth enjoyed by the US economy in recent years.

The steady progress of the economy has led to a reduction in the unemployment rate to an annual average in 1996 of 5.4 per cent. Capacity constraints mean that unemployment is not expected to fall in 1997. Despite strong GDP growth in the second and fourth quarters of 1996, inflation did not increase significantly, and remained below 3 per cent. The lack of emerging price pressures to date in 1997 means that inflation should remain moderate throughout the year, although an increase to about 3.2 per cent is expected.

The US Federal Reserve remains committed to controlling inflation and, as a precautionary measure aimed at preventing the economy overheating, increased interest rates by 0.25 per cent towards the end of March. Short-term rates had been lowered by the Federal Reserve in January 1996 to 5.25 per cent and had remained at that level since then. While the recent increase was of a pre-emptive nature, any signs that inflation is increasing will lead to further increases. On this basis official interest rates are expected to be about 0.25 percentage points higher by the end of 1997.

The current account deficit rose during 1996 and was approximately 2.1 per cent of GDP for the year as a whole. This is largely due to a fall in the trade balance as the steady appreciation of the dollar impacted on export volumes during the first nine months of the year. The dollar appreciated significantly during 1996 and has reached new highs against the yen and the DM. By the end of 1996 the dollar's real effective exchange rate had risen by 5.7 per cent compared to December 1994, and it has since risen further. The dollar has been supported by external factors such as the weakness of the Japanese economy and a desire in Europe for a weak DM to help aid recovery. However, the dollar's rise may not continue much further. The impact of the weak yen on the Japanese economy is now causing difficulties for manufacturers with facilities outside Japan who re-export back to Japan, and trade tensions may be beginning to re-emerge between Japan and USA. Furthermore, while DM weakness may assist German economic recovery it is not helping public support for the EMU project in Germany. It is therefore likely that there will be some weakening of the dollar during the remainder of 1997, although this is not expected to be substantial.

The European Economy

1996 was a difficult year for the major continental European economies. Growth in the first quarter was hampered by a severe winter, and growth potential was somewhat constrained throughout the rest of the year by fiscal consolidation measures undertaken to meet the deficit requirements of EMU.

Despite stagnating in the final quarter, the German economy grew by 1.4 per cent in 1996, in line with our expectations at the beginning of the year. Growth in 1996 was helped by increases in investment in machinery and equipment and strong export growth. Growth this year is expected to be boosted by the weak DM and by a rebuilding of stocks. The DM declined significantly over 1996, while the current weakness of the economy and consequent lack of expectations of any rise in interest rates should continue to keep it low in 1997. However, the weak currency should benefit the export sector and help provide a significant impetus for growth in 1997. GDP growth of 2.1 per cent is expected in 1997 as investment and consumption also contribute modestly to growth.

Worries have increased that Germany could miss the Maastricht fiscal criteria with efforts to meet the criteria being hampered by continuing high unemployment levels. However, the importance of Germany to the EMU process is likely to be reflected in strenuous measures by the government to ensure qualification. Measures taken to date include the programme announced in April 1996 which sought to cut government expenditure and social security spending.

The job market in Germany continued to deteriorate during 1996 and the unemployment rate averaged 10.4 per cent for the year, compared to 9.4 per cent for 1995. While part of the large increase can be explained by the harsh winter of 1995/96, the rise has been due mainly to the economy's subdued growth. The current weakness of the German economy means that the unemployment rate will remain high during 1997 and an annual average of approximately 11 per cent is expected. However, some decline in unemployment is likely in the second half of the year, due to the improved competitiveness of German companies as a result of the depreciation of the DM and moderation in wage agreements.

Consumer price inflation levels remained low in 1996, averaging 1.4 per cent, although there has been an increase in the first two months of 1997. Provisional results for

February show an annual increase of 1.8 per cent. For January a 1.9 per cent rise was recorded. The weak state of the economy will prevent the Bundesbank raising interest rates in the short-term. However if inflationary signs strengthened then rates could be expected to increase before the end of the year. In its annual monetary policy statement the Bundesbank emphasised its commitment to price stability in the lead-up to EMU.

The performance of the French economy continues to have much in common with Germany's economic performance. GDP growth of about 1.4 per cent is provisionally estimated for 1996 following an increase in activity in the second half of the year. This is expected to recover further to approximately 2.5 per cent in 1997 as European economies pick up and the benefits of low interest rates continue to have a positive impact. In common with Germany one of the main problems faced by France at present is a high level of unemployment. Unemployment averaged approximately 12.4 per cent in 1996, compared to 11.6 per cent in 1995, and is expected to remain at roughly this level in 1997. The low inflation environment and the perception of strong government commitment to fiscal consolidation and EMU has narrowed the differential between French and German short-term interest rates, which has all but disappeared on long-term rates. The French franc remained weak during 1996 and is not expected to appreciate significantly during 1997. This weakness will boost export levels which will make a significant contribution to growth in 1997. The current account of the balance of payments is expected to reflect the strong external performance of the French economy.

Improving the prospects for Italy to enter EMU continued to dominate the policies of the Italian government. Inflation has declined, partly due to the 1996 appreciation of the Lira, and this has helped lead to a decline in interest rates. While a tight fiscal policy, some one-off tax measures and a mini-budget are expected to reduce the fiscal deficit, the low level of GDP growth means that it is still unlikely that Italy will quality for initial entry to EMU.

As the proposed start date for EMU draws closer, the focus on EU member states and their readiness for a single currency will increase. Fiscal policy in most countries is expected to remain tight and the level of industrial unrest may increase, particularly in the public sector, if the fiscal policies require pay freezes.

The UK Economy

The UK economy entered 1996 with a modest carryover from the steady growth of 1995. GDP growth during 1996 did not accelerate significantly from previous levels, although provisional estimates do show a seasonally-corrected annualised increase in real GDP of 3.2 per cent in the fourth quarter, the highest growth rate in two years. Real GDP growth in 1996 was approximately 2.3 per cent, largely due to strong consumer expenditure and service sector performance. A minor increase in the growth rate to approximately 2.5 per cent is anticipated for 1997.

The past year has been a difficult one for the manufacturing sector. Output growth was subdued during the first half of the year as stock levels were reduced. Despite the strong performance of sterling it appears that export levels have so far remained quite strong. However, export price levels fell, which implies that price competitiveness is being maintained at the expense of margins in many industries. A rising trend in pay settlements is beginning to exacerbate this squeeze on margins.

Unemployment levels declined throughout 1996 and averaged 7.6 per cent for the year. This primarily is due to the expansion of the service sector. Despite the decline in unemployment, employment levels did not increase significantly during the year. The size of the workforce actually declined in 1996, which contributed to the decline in unemployment. A moderate further fall in the unemployment rate is likely during the remainder of 1997.

One of the most significant features of the latter part of 1996 was the appreciation of sterling against the DM and the yen, a trend that has continued into 1997. As with the dollar appreciation, with which it is linked, sterling strength reflects the more rapid growth of the UK and US economies compared to continental Europe and Japan, and of course the concomitant increase in their interest rates. Official UK interest rates were increased by 0.25 percentage points at the end of October, the first increase since February 1995. While German rates have remained stable, interest rates have been reduced in a number of other EU countries. Uncertainty surrounding the EMU project has also boosted sterling.

Although there is little statistical evidence yet that the level of sterling is damaging UK growth and employment, experience in both the early eighties and early nineties suggest that an overvalued currency has a gradual, but severe, effect on UK output, employment and the current account balance of payments. With sterling currently back within its pre-1992 ERM limits, it is clear that it significantly over-valued in relation to continental currencies. If it were to maintain its present value, it is probable that both output and trade performance would be seriously affected in the course of 1998 and beyond. Political factors will prevent the incoming government, of whatever complexion, from adopting the economically desirable rebalancing of fiscal and monetary policy, in which fiscal policy would be used to restrain domestic demand while lower interest rates would both ease sterling overvaluation and encourage investment. In practice relatively little change in short-term economic management seems likely, whatever the outcome of the election, and it could well be 1998 before changing market perceptions bring about a significant depreciation of sterling.

The Rest of the World

After a prolonged period of subdued growth, the performance of the Japanese economy was boosted in 1996 by a number of factors. Growth was strong during the first half of 1996, and despite some slackening in the second half, GDP growth averaged 3.6 per cent in 1996 as a whole. Recovery is expected to continue during 1997, although GDP growth will be slower as fiscal consolidation has an impact.

Recovery had been boosted by a series of fiscal stimulus measures, the most recent of which was introduced in September 1995. While these have succeeded in helping the economy recover, they have had a severely negative impact on government finances. The general government financial balance has deteriorated to over 4 per cent of GDP and government debt levels are also increasing. Given the poor state of the public finances fiscal policy is expected to be tighter in 1997. Temporary income tax cuts are to end and consumption tax is to increase in April from 3 per cent to 5 per cent.

The yen has been depreciating steadily against the dollar during 1996 and has continued to decline in the early part of 1997. The yen currently stands at over 125 to the dollar compared with about 80 in April 1995. The yen is expected to remain weak during 1997. Japanese interest rates are very low and, given the weakness of the economy, are unlikely to rise in the short term. In contrast to what might be expected, the depreciation has not had an entirely positive impact on economic growth. It has provided some boost to the export sector thereby helping net trade and growth. However, this has been partly offset by the adverse impact on industry importing raw materials to produce goods for the domestic market, and on the profits of companies with manufacturing facilities located outside Japan which re-export their produce back to Japan. The current account surplus,

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	2½	2¾	2¼	2½	3¾	4½	7½	6½	-¼	-2½
Germany	1½	2	1½	1¼	2¼	2¾	10½	11	-¾	-½
France	1½	2½	2	2	2¼	2¾	12½	12½	1¼	1
Italy	¾	1	3¾	3	4	4¼	12½	12½	2½	1¾
Total EC	1½	2½	2½	2½	2¾	2¾	11¼	11½	1	1¼
USA	2½	2¼	3	3¼	3½	3½	5½	5½	-2	-1¾
Japan	3½	2 ¼	0	1¼	1	1¼	3½	3½	1¼	1½
Total (OECD)	2¼	2½	2½	2½	2½	3	7¾	7¾	0	0
Ireland	6½	5½	1½	1¾	3	3½	11½	10¾	1¼	¾

which has declined in recent years, is likely to stabilise at just under 1.5 per cent of GDP in 1997.

While growth rates remain impressive in other Asian countries, this region has experienced a slowdown since the strong growth rates of the early 1990s. This is primarily due to an international downturn in sections of the electronics industry. However, despite any downturn, growth rates remained strong and in many cases are expected to show a marginal improvement in 1997.

The Context for Ireland

The overall GDP growth in OECD countries is provisionally estimated at about 2.3 per cent in 1996, with a slight increase to 2.5 per cent forecast for 1997. Growth in the EU is projected to rise from 1.5 per cent in 1996 to about 2.5 per cent in 1997. World trade levels are also expected to increase faster in 1997 than in 1996. Thus the general background for exporting, particularly to continental markets, should be slightly more favourable this year. Problems in specific product markets, such as meat and dairy products are likely to persist, although they may be less acute than last year.

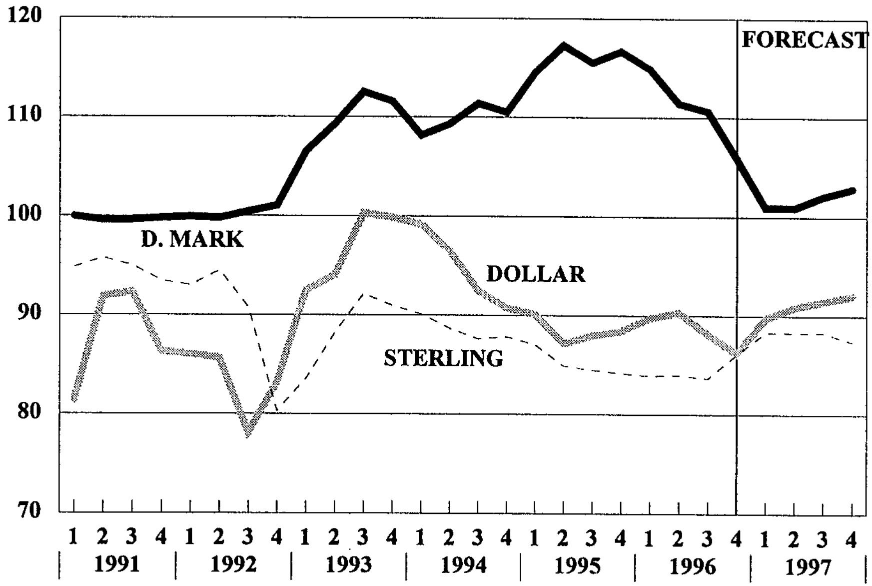
The steady expansion of world output should ensure a continuing high level of international productive investment, while the anticipated upturn in the European economy could well encourage a higher proportion of world investment to be located in Europe, including Ireland.

Both world and European inflation rates are expected to remain very moderate, with crude-oil prices likely to be lower on average than in 1996 and most other commodity prices remaining subdued. The relatively benign inflation outlook should obviate the need for major increases in international interest rates, although short-term rates are likely to edge upwards in the US and, perhaps, the UK.

Although the international context for Ireland should thus improve slightly in terms of market growth, the actual outlook for Irish exports is seriously complicated by exchange rate factors. In contrast to the period from 1993 to mid-1996, exporters to continental

Figure 1: Exchange Rates

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



Europe, and their suppliers, have to adjust to much narrower margins, while many exporters to the UK are likely to enjoy wider margins in 1997.

The longer-term implications of currency fluctuations, especially in relation to EMU, are discussed in the General Assessment at the end of this *Commentary.* For forecasting purposes, it has been assumed that there will be only minor shifts in exchange rates in the remainder of 1997.

The Domestic Economy

General

Data for the later months of 1996, which have become available since the publication of the December *Commentary,* have required us to revise upwards our estimates of economic growth. Real GNP is now estimated to have risen by about 6½ per cent. Moreover, the high level of activity in the final quarter of 1996 implies an increased carryover of growth into 1997, so that the forecast growth rate for this year has been raised from 5 per cent to 5½ per cent.

Although the estimated rise in exports and, especially, imports in 1996 have been revised downwards in keeping with the trade statistics, the pattern of overall economic growth in both 1996 and 1997 appears to be remaining well-balanced, with consumption, fixed investment and export volumes all contributing substantially to the increase in demand. Industry, construction and services are all contributing to the rise in output and employment.

Exports

On the evidence of the trade statistics, it seems likely that the value of visible exports increased by about 7¼ per cent in 1996. This is substantially less than had been expected earlier in the year, as the anticipated autumn surge in export values does not appear to have taken place. To a considerable extent this was due to the fall in average export prices in the second half of the year as the Irish pound appreciated sharply against continental European currencies. Even so, the estimate of the growth in visible export volume in 1996 has been revised downwards to 8 per cent from the previous forecast of 10 per cent.

Because of the difficulty of reconciling the latest available figures for the sectoral origin of exports with subsequent revisions to the total of visible exports, the 1995 base for the composition of exports shown in Table 2 can be taken only as indicative rather than authoritative. It is, however, clear that 1996 saw a heavy decline in both the volume and price of agricultural exports, reflecting difficulties in the market for dairy products as well as the impact of B.S.E. on beef and cattle sales. After their outstanding growth in 1995, manufactured exports, particularly of high technology products, increased more modestly in 1996, as did other industrial exports, which could have been affected by classification changes.

TABLE 2: Exports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	3,190	-7	-12	2,807	-2	-7	2,611
Manufactured	20,060	9½	11	22,267	12½	12	25,050
Other Industrial	3,730	2½	4½	3,898	6	7	4,171
Other	828	2	4½	865	5	6	917
Total Visible	27,808	8	7¼	29,837	10	9¾	32,749
Adjustments	-304			-300			-300
Merchandise	27,504	8	7½	29,537	10¼	9¾	32,449
Tourism	1,679	10½	12¼	1,884	10	12¼	2,114
Other Services	1,325	2½	4½	1,384	4	6	1,467
Exports of Goods and services	30,508	8	7½	32,805	10	9¾	36,030

Tourist earnings increased strongly in 1996, but the rise in other service exports was surprisingly weak, if the balance of payments estimates for the first three quarters of the year are accurate. Thus total exports of goods and services in 1996 are believed to have risen by about 8 per cent in volume and 7½ per cent in value.

Agricultural exports are expected to remain weak in 1997, with green pound revaluations exerting a significant downward pressure on prices. The volume of manufactured exports is likely to increase more rapidly than last year, aided by extra capacity and by the fact that the growth rate in 1996 was constrained by the extraordinary level of sales in the second half of 1995. Because of the higher annual average level of the currency, prices of manufactured exports as a whole could well be lower than in 1996. However, traditional manufactured exports to the UK could benefit in both volume and price terms from the appreciation of sterling on an annual average basis.

Thus total visible exports are forecast to increase by 10 per cent in volume and 9¾ per cent in value in 1997. A further substantial rise in tourist receipts seems likely. A modest, but slightly faster, increase in other services exports is projected. The forecast increase in total exports of goods and services is thus similar to that for visible exports, at 10 per cent in volume terms and 9¾ per cent in value.

Stocks

Farm stocks grew quite strongly in 1996, with a significant rise in cattle numbers, presumably related to the difficulty in disposing of cattle profitably, easily outweighing a continued decline in sheep numbers. The steady fall in the volume of intervention stocks in the previous few years was sharply reversed in 1996, with the tonnage of both beef and dairy products in stock increasing significantly. However, it is believed that the price of the new stocks will have been written-down substantially within the year, so that there will have been only a marginal increase in the value of intervention stocks. There are no clear indications of the movement in non-agricultural, non-intervention, stock levels in 1996, but the relatively slow growth in imports during the year suggests that the rise in the value of such stocks was much slower than in 1995. Thus the total value of the physical increase in stocks in 1996 is estimated at just over £300 million, as shown in Table 3.

TABLE 3: Stock Changes

	1995	Change in Rate	1996	Change in Rate	1997
	£m	£m	£m	£m	£m
Farm Stocks	79	81	160	-140	20
Irish Intervention Stocks	-372	377	5	95	100
Other Non-agricultural Stocks	386	-246	140	70	210
Total	94	211	305	25	330

Neither a further substantial rise in involuntary farm stock-building, nor a run-down of much of the stocks built up in 1996 can be ruled out in 1997. However, it seems most likely that there will be little change in the level of farm stocks this year. Intervention stocks seem set to rise further in tonnage terms, and, for forecasting purposes, it is assumed that only a part of this increase will be offset by a reduction in valuation prices. Other non-agricultural stocks, including work-in-progress, should continue to increase, in line with the sustained growth of the economy. The value of total stockbuilding in 1997 is thus forecast at £330 million, slightly higher than the estimated 1996 level.

Investment

In the light of additional information, we have revised our estimate of the volume of fixed investment in 1996 slightly upwards. Almost all sectors of building and construction were buoyant, while the rise in imports of capital goods suggests that investment in machinery and equipment also increased strongly after its surprisingly modest rise in 1995.

Forward looking indicators, such as planning permissions, show that investment in building and construction should continue to grow rapidly in 1997. Despite reaching a record level of 33,721 in 1996, over 10 per cent higher than in the previous year, new house completions are expected to increase by at least a similar percentage this year. Demographic factors, intensified by net immigration, an increasing rate of household formation, encouraged by employment growth, and the expectation of relatively low and stable interest rates, are all contributing to the strong demand for housing. The upward trend in industrial and commercial construction is also likely to continue in 1997, with the perceived shortage of office space in Dublin reflected in the announcement of major new projects. Thus the total volume of investment in building and construction is forecast to increase by 10 per cent in 1997, as shown in Table 4. This represents a major upwards revision from our previous forecast of a 7 per cent rise.

TABLE 4: Gross Fixed Capital Formation

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	3,823	11	14	4,358	10	13	4,925
Machinery and Equipment	2,207	10	11½	2,461	9	11	2,732
Total	6,030	10¾	13	6,819	9¾	12¼	7,657

There are no early indicators of trends in investment in machinery and equipment, but in general such investment tends to respond to much the same stimuli as non-housing building investment. Thus a volume increase of 9 per cent is projected for 1997.

In total, gross fixed capital formation is forecast to increase in 1997 by 9¾ per cent in volume and 12¼ per cent in value. Such a rise would be only marginally below the estimated 1996 increase, and well above the long-term average rate of growth.

Consumption

The value of retail sales increased by 8.3 per cent in 1996 and the volume by 6.2 per cent. As Table 5 makes clear, total personal consumption usually rises faster than the retail sales index, but the margin may have been smaller than usual in 1996, as tourist spending abroad rose much less rapidly than in most recent years. Thus the 1996 increase in total personal consumption is estimated at 8.5 per cent in value terms and 6.2 per cent in volume.

TABLE 5: Consumption Indicators

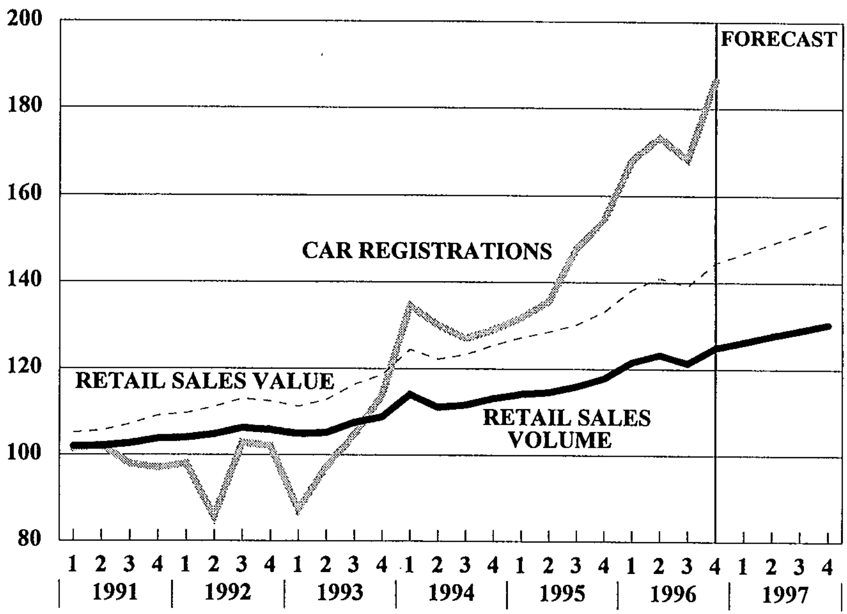
	Annual Percentage Change					
	1993	1994	1995	1996 Est.	1997 To Date	1997 Forecast
Consumption Value						
NIE 1995, Personal Consumption	3.6	9.6	5.8	8.5		7.0
Retail Sales Index, Value	3.0	7.9	4.8	8.3	7.4	6.7
Divergence	0.6	1.7	1.0	0.2		0.3
Consumption Volume						
NIE 1995, Personal Consumption	1.7	6.8	3.7	6.2		4.8
Retail Sales Index, Volume	1.4	5.5	2.8	6.2	6.8	4.6
Divergence	0.3	1.3	0.9	0		0.2
Consumer Prices						
NIE 1995, Personal Consumption Deflator	1.9	2.6	2.0	2.2		2.1
Retail Sales Index Deflator	1.6	2.3	1.9	2.0	0.6	2.0
Consumer Price Index	1.5	2.4	2.5	1.6	1.5	1.8

The strength of consumer demand in the final quarter of 1996 ensures that there will be a significant carryover of growth in 1997. If the retail sales index merely maintained its fourth quarter 1996 level throughout 1997 the annual value of retail sales would be about 3 per cent higher than last year. In fact, with employment increasing, effective income-tax rates reduced, stable interest rates and high consumer confidence, personal consumption should continue to rise in the course of the year. The rate of increase is likely to be somewhat less rapid than in 1996, largely because car sales will rise more slowly, but even so it seems probable that the value of retail sales will rise by about 6.7 per cent, and the volume of total personal consumption by about 4.8 per cent.

Taken in conjunction with our forecasts of personal disposable income, such an increase in consumer expenditure would imply a further modest fall in the personal savings ratio, as the level of personal credit continues to increase.

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



Government consumption, or public authorities net expenditure on current goods and services is estimated to have risen by about 3 per cent in volume and 7 per cent in value in 1996. A somewhat slower rise of 2½ per cent in the volume of government consumption is forecast for 1997, but higher pay increases, including the nurses' settlement, are likely to raise the value increase in government consumption to about 7½ per cent.

Final Demand

Final demand in 1996 is estimated to have increased by 7½ per cent in volume and 8¾ per cent in value. Domestic demand (excluding stock changes) is estimated to have risen by an unusually vigorous 6½ per cent in volume terms, and exports of goods and services by about 8 per cent. With personal consumption, investment in machinery and equipment and manufactured exports all contributing strongly to the growth in demand, the composition of final demand can be expected to have been quite import-intensive.

A similar volume growth of 7½ per cent in final demand is forecast for 1997, with a value increase of 9 per cent. Domestic demand is expected to be slightly less buoyant than in 1996, although the forecast volume increase of 5¼ per cent is still well above the long-term annual average. Export volume is forecast to rise by 10 per cent, close to its long-term average. The composition of final demand is again likely to be relatively import-intensive.

Imports

Given the import-intensity of final demand in 1996, the rise in imports as recorded in the trade statistics was surprisingly moderate. Barring major revisions, the value of visible imports is likely to have risen by about 7¼ per cent in 1996, implying a volume increase in the region of 7 per cent. As with exports, it is difficult to provide an accurate breakdown of imports by category of use, but figures for the months which are available confirm that, as expected, capital goods imports rose sharply and consumer goods imports quite strongly. Imports of intermediate goods for industrial processing appear to have increased by significantly less than might have been expected in relation to industrial production and manufactured exports.

The rise in tourist spending abroad was considerably lower than in 1994 and 1995. Other service imports, which now include royalty payments, increased strongly. Thus, as shown in Table 6, total imports of goods and services in 1996 are estimated to have risen by about 7¾ per cent in volume and 8½ per cent in value.

TABLE 6: Imports of Goods and Services

	1995	% Change		1996	% Change		1997
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	3,670	11½	12½	4,129	11	12	4,624
Consumer Goods	4,220	8½	9¼	4,610	8	9 ½	5,048
Intermediate Goods:							
Agriculture	570	2	3	587	0	0	587
Other	10,820	5¾	5½	11,415	10	10½	12,614
Other Goods	1,337	2	2¼	1,366	3	3	1,407
Total Visible	20,617	7	7¼	22,107	9	9¾	24,280
Adjustments	-385			-360			-370
Merchandise Imports	20,232	7¼	7½	21,749	9¼	10	23,910
Tourism	1,267	5½	7¼	1,360	10	12¼	1,527
Other Services	4,392	11¼	13	4,966	10¾	13	5,612
Imports of Goods and Services	25,891	7¾	8½	28,075	9½	10½	31,049

Imports of both capital and consumer goods are likely to continue to increase strongly in 1997, while imports of intermediate goods for industry can be expected to grow much more rapidly than in 1996. Thus total visible imports in 1997 are forecast to rise by about 9 per cent in volume and 9¾ per cent in value. Tourist spending abroad could increase rather faster than in 1996, while other service imports are again likely to show a substantial rise. Thus total imports of goods and services are forecast to increase by about 9½ per cent in volume and 10½ in value, which would show a more normal relationship between final demand and import growth than appears to have existed in 1996.

Balance of Payments

On the basis of our export and import estimates, and of official balance of payments estimates for the first three quarters of 1996, it appears likely that the visible trade surplus increased by 7½ per cent and the merchandise trade balance by about 7 per cent in 1996. The negative balance in service trade is thought to have risen by over 15 per cent. Thus the surplus on trade in goods and services is estimated to have grown by the unusually low percentage of 2½ per cent, although at £4,730 million it still represented over 11 per cent of GDP.

It is estimated that actual profit outflows increased by about 20 per cent in 1996, but that this was partly offset by a fall of about 25 per cent in reinvested earnings, so that the total notional outflow from direct foreign investment increased by about 8½ per cent. This fits well with the relative sluggishness of multinational exports during the year. National debt interest paid abroad appears to have continued its steady decline in 1996, but the volatile item "other debit flows" increased very sharply. The rise in credit flows is likely to have been relatively modest, with income from direct investment abroad, comprising profit remittances and retained earnings by Irish based multinational industrial companies, actually declining. Thus total net factor outflows are estimated to have increased by 12½ per cent in 1996.

Contrary to earlier expectations, net transfers from abroad increased in 1996, largely because of a rise in agricultural subsidies in response to the difficulties faced by the agricultural sector. Thus the surplus on the current account of the balance of payments is estimated to have fallen to about £500 million, or about 1¼ per cent of GNP. When capital transfers are added, the effective balance in 1996 is estimated at £989 million, as shown in Table 7.

Both the visible and merchandise trade surpluses are forecast to increase by about 9½ per cent in 1997, with both export and import values rising faster than last year. The service trade deficit is also likely to widen, largely due to rising royalty payments, so that the surplus on trade in goods and services is forecast to rise by over 5 per cent to almost £5,000 million.

In line with the anticipated upturn in manufactured export growth, the notional outflow from foreign direct investment is forecast to increase at the faster rate of 12 per cent in 1997, with a more balanced division between distributed and reinvested earnings being assumed. Overseas national debt interest should continue to decline, while a less extreme increase in other current debit flows is assumed. Thus gross factor outflows are projected to increase by 9½ per cent. A broadly similar rise in credit flows seems possible, with earnings from direct investment overseas resuming its long-term upward trend. Thus net factor outflows are also forecast to increase by about 9½ per cent, but it must be stressed that any forecast of these inherently volatile items should be regarded as tentative.

A further modest rise in net current transfer receipts is expected in 1997, leaving the current account balance of payments surplus at about £300 million, or ¾ per cent of forecast GNP. When capital transfers are included, the projected effective balance is £820 million.

TABLE 7: Balance of Payments

	1995 £m	Change %	1996 £m	Change %	1997 £m
Visible Trade Balance	7,191	7½	7,730	9½	8,469
Adjustments	81		60		70
Merchandise Trade Balance	7,272	7	7,790	9½	8,539
Service Trade Balance	-2,656	15¼	- 3,060	20	-3,672
Trade Balance in Goods and Services	4,616	2½	4,730	5¼	4,981
Factor Flows:					
Remuneration of Employees	-49	4	-51	2	-52
Distributed Profits etc.	-4,052	20	-4,862	13½	-5,518
Reinvested Earnings	-1,383	-25	-1,037	5	-1,089
National Debt Interest	-1,015	-8	-934	-5	-887
Other Debit Flows	-1,496	28	-1,915	9	-2,087
Total Debit Flows	-7,995	10	-8,799	9½	-9,633
Credit Flows:					
Remuneration of Employees	230	3	237	3	244
Direct Investment Income	556	- 9	506	8	546
Other Credit Flows	2,394	10	2,635	10½	2,912
Total Credit Flows	3,180	6¼	3,378	9½	3,702
Net Factor Flows	-4,815	12½	-5,421	9½	-5,931
Net Current Transfers	1,112	7	1,190	5	1,250
Balance on Current Account	913	-45¼	499	-40	300
Capital Transfers	511	-4	490	6	520
Effective Current Balance	1,424	-30½	989	-17	820

Gross National Product

From a 1995 base slightly modified to take account of revisions to balance of payments estimates, we now estimate that real GDP grew by 7¼ per cent, and real GNP by 6½ per cent, in 1996. This is a very strong rate of economic growth, revised upwards by ¾ per cent since the December *Commentary.*

Our current estimate of the deterioration in the terms of trade in 1996 is slightly larger than in the previous *Commentary,* but, conversely, the estimate of net transfer receipts is more favourable. Thus the present estimate of the growth in gross national disposable income, adjusted for the terms of trade (GNDI), has also been revised upwards from 4¾ per cent to 5½ per cent.

A slight deceleration of the rate of growth of expenditure on gross national product is projected for 1997, with real GDP increasing by 6 per cent and real GNP by 5½ per cent. The terms of trade are forecast to again deteriorate by about 1 per cent, while little change is expected in the volume of net transfers. GNDI is thus forecast to rise by about 4½ per cent in 1997. All these forecasts for the present year represent an upward revision of about ½ per cent on previous projections.

Agriculture

Official estimates show that the volume of gross agricultural output rose by 1.9 per cent in 1996, with both livestock, mainly through stock changes, and crops recording small volume increases. The volume of farm inputs rose by 1.6 per cent, so that the increase in the volume of gross agricultural produce is estimated at 2.1 per cent. Assuming continued growth in forestry and fishing, the volume of gross domestic product in the broad agriculture sector is estimated to have risen by about 2½ per cent.

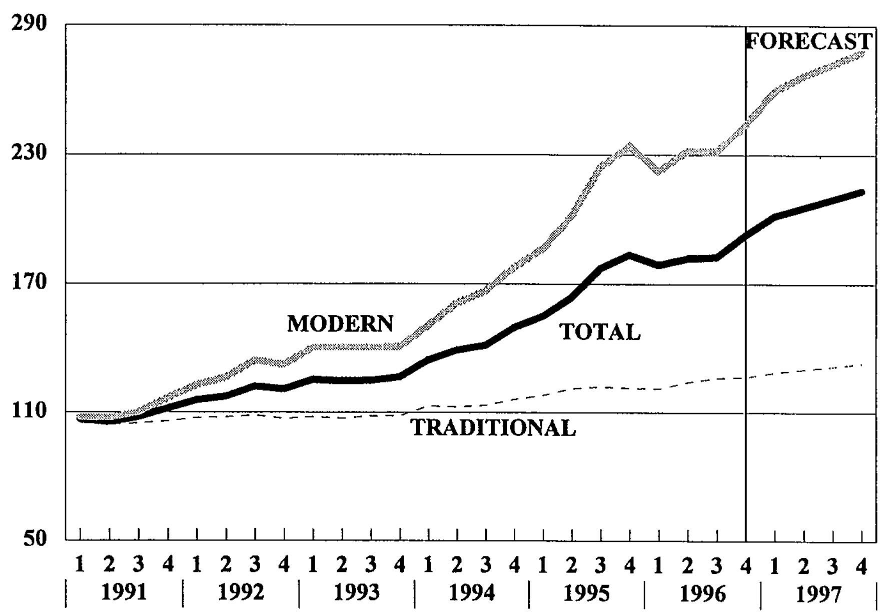
Given the multiple uncertainties facing agriculture at present, it is difficult to predict the likely volume of gross agricultural output in 1997. With output prices significantly lower than last year, and on the assumption that "average" weather conditions will be less favourable than in 1996, the most reasonable projection for 1997 is that there will be a small reduction in the volume of gross agricultural output. The volume of inputs is also likely to be lower, and, when account is taken of forestry and fishing, the volume of gross domestic product in the broad agricultural sector is forecast to remain broadly unchanged.

Industry

The industrial production index shows that the volume of production in manufacturing industry rose by 8.2 per cent in 1996, with the index for "all industries", including mining, quarrying and turf and the utilities, rising by 7.9 per cent. Building output was buoyant, probably rising by over 10 per cent. When a substantial rise in industrial depreciation is also taken into account, gross domestic product in the broad industry sector is estimated to have risen by about 9 per cent in 1996.

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



The seasonally adjusted index of manufacturing production rose in each quarter of 1996 after falling significantly in the first quarter. Thus there is a growth carryover of almost 5 per cent into 1997. With overseas markets expanding and new capacity becoming available, manufacturing output should continue to grow in the course of 1997. The annual average of manufacturing production is forecast to rise by about 12½ per cent. Allowing for slower growth in the extractive industries and the utilities, for a slightly reduced rate of expansion in building output and for a further increase in industrial depreciation, the volume of gross domestic product in the broad industry sector is projected to increase by about 10¾ per cent in 1997.

Services

The volume of gross domestic product in the service sector in 1996 is likely to have been affected by the resumption of intervention storage after several years of decline, so that the annual volume increase in output of the distribution sector is estimated to have been unusually large. The measured output in public administration and defence is likely to have grown by about 3 per cent in volume, while buoyant domestic demand can be expected to be reflected in a rise of about 6 per cent in the volume of gross output in other domestic services. Thus gross domestic product in the total services sector, after adjustment for financial services is estimated to have increased by about 7 per cent in 1996.

Changes in intervention stocks should have less effect on the output of the distribution sector in 1997. The volume of public administration and defence is projected to increase by 2½ per cent, while the deceleration in the growth of domestic demand is likely to lead to a slower expansion of about 4 per cent in the volume of gross output in other domestic services. After adjustment for financial services, the volume of gross domestic product in the service sector as a whole is thus forecast to increase by a little over 3½ per cent in 1997.

Employment

Total employment rose by an unprecedented 102,000 over the two years to April 1996, and there is every indication that rapid employment growth has continued over the past twelve months. Quarterly series show a steady increase in industrial employment through 1996, in spite of the temporary levelling off of industrial production, a substantial rise in building employment, and a moderate increase in numbers in both the public and financial services. Other services, for which no short-term indicators are available, are likely to have risen rapidly, as in most recent years. Thus total employment in April 1997 is estimated at 1,324,000 and the annual average in 1996 at 1,310,000 as shown in Table 8.

Both industrial and service employment should continue to increase substantially in the remainder of 1997, but with the rate of growth of domestic demand projected to slow in 1997, the rate of increase in employment is forecast to be rather less vigorous than in the past three years. Allowing for a small decline in the numbers engaged in agriculture, the total at work is forecast at 1,352 in April 1998 and at 1,338 for the 1997 annual average.

The labour force survey estimate of unemployment in April 1996 was distorted upwards by the temporary B.S.E.-related lay-off of meat workers. In the absence of such accidents of timing, the labour force unemployment total is forecast to fall to 176,000 in April 1997 and to 168,000 in April 1998. These figures imply a continuing rise in the

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1994	1995	1996	1997	1998
Agriculture	142	142	136	134	132
Industry	331	346	350	370	382
Services	710	751	798	820	838
Total at Work	1,182	1,239	1,284	1,324	1,352
Unemployed	218	191	190	176	168
Labour Force	1,400	1,430	1,474	1,500	1,520
Unemployed Rate %	14.7	12.2	11.9	11.0	10.5
Live Register	285	276	281	258	250

B: Annual Averages '000

	1994	1995	1996	1997
Agriculture	142	139	135	133
Industry	339	350	365	376
Services	731	771	810	829
Total at Work	1,212	1,260	1,310	1,338
Unemployed	206	188	180	172
Labour Force	1,418	1,448	1,490	1,510
Unemployed Rate %[1]	14.1	12.2	11.4	10.7
Live Register	282	278	279	255

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

total labour force, reflecting underlying demographic trends, a further rise in the female participation rate, and little or no net migration.

The relationship between labour force unemployment and the Live Register of unemployment remains in a state of flux following the tighter enforcement of eligibility rules, which renders the calculation of annual unemployment rates problematical. However, on the assumption that the official rates, when published, will be close to an interpolation between Labour Force Survey figures, the annual rate in 1996 is estimated to have been about 11.4 per cent, and the 1997 average is forecast at 10.7 per cent. If this forecast is broadly accurate, it will take Ireland significantly below the expected EU average this year.

Incomes

With the adverse movement of agricultural prices largely offset by higher transfer payments, official estimates show that there was little change in aggregate agricultural incomes in 1996. Adverse price trends are continuing in 1997, partly due to the appreciation of the green pound. There is again likely to be a considerable compensating transfer income, but a small reduction in the aggregate income of the broad agriculture sector is forecast.

Despite the unprecedented economic buoyancy of the past three years, private sector average pay increases have remained very moderate. In 1996 it appears that average earnings in the private sector increased by no more than 3 per cent, with average weekly earnings in manufacturing industry rising by less than 2 per cent in the first three quarters of the year. With pay rises in the public service also moderate in 1996, but with effective non-agricultural employment rising by over 4 per cent, aggregate non-agricultural wages, salaries and pensions are estimated to have increased by about 7½ per cent. Average private sector earnings are likely to increase a little more rapidly in 1997, perhaps by about 3½ per cent. Average public service earnings will also rise faster, even on the assumption that there will be no spillover effects from the nurses' settlement. However, the annual average increase in effective non-agricultural employment is projected to be significantly lower than last year, so the forecast increase in aggregate non-agricultural earnings in 1997 is 6½ per cent.

Other non-agricultural income, comprising earnings from self-employment and income from dividends, income and rent, is estimated to have risen by about 7½ per cent in 1996 in response to the general buoyancy of the economy. A marginally slower rise of 7 per cent is projected for 1997.

Despite the downward trend in registered unemployment, current transfers to households are believed to have increased by about 7½ per cent and are projected to increase by a similar proportion in 1997. This is because any savings in unemployment assistance are more than offset by recent and prospective payments related to the blood products tragedies.

Thus, as shown in Table 9, gross personal income is estimated to have risen by about 7 per cent in 1996, and is projected to increase by about 6 per cent in 1997. Direct personal taxation increased by about 7½ per cent in 1996, as rising employment coincided with a relatively modest reduction in effective income tax rates in the 1996 Budget. With employment likely to increase less rapidly, and the Budget tax cuts slightly larger, direct personal tax receipts are forecast to increase by about 5½ per cent in 1997.

TABLE 9: Personal Disposable Income

	1995	Change		1996	Change		1997
	£m	%	£m	£m	%	£m	£m
Agriculture etc.	2,473	0	2	2,475	-2	-49	2,426
Non-Agricultural Wages, etc.	17,932	7½	1,345	19,277	6½	1,253	20,530
Other Non-Agricultural Income	5,047	7½	380	5,427	7	380	5,807
Total Income Received	25,452	6¾	1,727	27,179	5¾	1,584	28,763
Current Transfers	5,870	7½	440	6,310	7½	466	6,776
Gross Personal Income	31,322	7	2,167	33,489	6	2,050	35,539
Direct Personal Taxes	6,387	7½	481	6,868	5½	370	7,238
Personal Disposable Income	24,935	6¾	1,686	26,621	6¼	1,680	28,301
Consumption	22,055	8½	1,875	23,930	7	1,675	25,605
Personal Savings	2,880	-6½	-189	2,691	¼	5	2,696
Savings Ratio	11.6			10.1			9.5

If our estimates are broadly correct, personal disposable income thus increased by about 6¾ per cent in 1996, while on the basis of the projections outlined above, it is forecast to rise by about 6¼ per cent in 1997. With the value of consumer spending estimated to have increased by about 8½ per cent, it appears that there was a significant reduction in the personal savings ratio in 1996. Although we previously forecast an unchanged savings ratio in 1997, it now appears likely from trends in personal borrowing and the expectation that there will be no rise in interest rates, that 1997 will see a further modest reduction in the personal savings ratio. This would permit an increase of about 7 per cent in the value of personal consumption.

Consumer Prices

The consumer prices index rose by 1.6 per cent in 1996, on an annual average basis, with the housing index declining marginally and the remainder of the index rising by 1.8 per cent. Thus Ireland remained among the lower inflation countries of Europe last year, despite having the fastest rate of economic growth.

For 1997 the consumer price index has been reweighted, re-based to November 1996 and is now collected and published on a monthly basis. Because of the absence of a corresponding figure for January 1996, the very low value of the index in January 1997 is best ignored, as it was almost certainly influenced by price reductions in the January sales. However, the February figure is comparable with last year, and shows a twelve-month rise in the index of only 1.5 per cent, down from 1.9 per cent in November. The housing price index, which fell by 0.2 per cent between November and February, had little impact on the overall index, which rose by 0.1 per cent in the quarter.

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1995			1996				1997	1995	1996	1997
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.			
Index Nov.1989 = 100											
Housing	119.3	120.8	118.8	116.7	117.1	117.6	120.0	119.8	118.0	117.9	120.6
Other	114.9	115.3	115.6	116.3	116.8	117.4	117.9	118.0	115.0	117.1	119.1
Total CPI	115.2	115.7	115.8	116.3	116.8	117.4	118.0	118.1	115.2	117.1	119.2
Annual % Change											
Housing	7.1	8.1	5.9	3.2	-1.8	-2.5	1.0	2.7	5.8	-0.1	2.3
Other	2.4	2.0	2.1	1.9	1.7	1.8	2.0	1.5	2.2	1.8	1.7
Total CPI	2.8	2.4	2.4	2.0	1.4	1.5	1.9	1.5	2.5	1.6	1.8
Quarterly % Change											
Housing	5.6	1.3	-1.7	-1.8	0.3	0.4	2.0	-0.2			
Other	0.7	0.3	0.3	0.6	0.4	0.5	0.4	0.1			
Total CPI	1.1	0.4	0.1	0.4	0.4	0.5	0.5	0.1			

The EU Harmonised Index of Consumer Prices (HICP) which is now published regularly with the consumer price index, rose by 1.7 per cent in the twelve months to February. This compares with a provisional average of 2.0 per cent for the whole EU, and an unweighted average of 1.1 per cent for the three lowest countries (Finland, Sweden and Luxembourg). Thus, at present, Ireland is safely within the EMU inflation criterion, roughly level with both Germany and France.

The very low rate of consumer price inflation since November 1996 eases any fears that the appreciation of sterling since mid-1996 would lead to a significant early rise in Irish consumer prices. This outcome is consistent with econometric findings that price adjustments to exchange rate movements tend to be slow, and also with expectations that the trade-weighted value of the Irish pound, and not solely the sterling exchange rate, influences the Irish price level.

For the remainder of 1997, consumer price inflation is likely to remain subdued, with the rising price of assets, especially house prices, having little impact on the consumer price index. Allowing for a slight acceleration in the rate of increase in the course of the year, an annual average rise of about 1.8 per cent in the overall consumer price index is forecast from 1997, as shown in Table 10. This represents a downward revision from a forecast of 2 per cent in our December *Commentary*. The HICP is projected to rise by 2 per cent or less, which would easily meet the EMU inflation criterion for the year.

Public Finances

With a current budget surplus of £292 million, or 0.8 per cent of GNP and an Exchequer borrowing requirement of £437 million, or 1.2 per cent of GNP, 1996 was the strongest year for the public finances since Ireland became a modern industrialised economy. The performance was even more impressive when it is taken into account that current central fund expenditure in 1996 included a transfer of over £200 million into provision for future pension and interest liabilities, in effect a form of debt reduction rather than current spending.

Exchequer returns for end-March 1997 confirm that budgetary projections for tax revenue for 1977 will be comfortably met. The excess of tax receipts over the budget level is unlikely to be as large as in 1996, mainly because this year's budget forecasts were not so extremely cautious as last year's. Nevertheless additional receipts of stamp duty and, probably, corporation tax should lead to total current revenue exceeding target by up to £100 million.

It is impossible to judge the progress of current or capital expenditure on the basis of quarterly Exchequer returns, as temporary shifts in both issues and receipts of EU funding render sub-annual comparisons with the previous year meaningless. In general, it is reasonable to assume that national debt interest will, as usual, be less than budgeted, and that, in consequence, current central fund expenditure will increase by about 1½ per cent rather than the target of 3 per cent. Conversely, net expenditure on current supply services frequently exceeds the target level, usually through the occurrence of unforeseen contingencies, although the degree of overrun is generally quite small. Allowing for an over- run of about £20 million over the revised estimates for net current supply services, total current expenditure in 1997 is projected at slightly below the budget target.

On this basis, it seems likely that the current budget surplus in 1997 will be of the same order of magnitude as in 1996. If borrowing for capital purposes is roughly in line with the budget projection, the Exchequer borrowing requirement in 1997 could be a little over £500 million, or about 1.3 per cent of GNP.

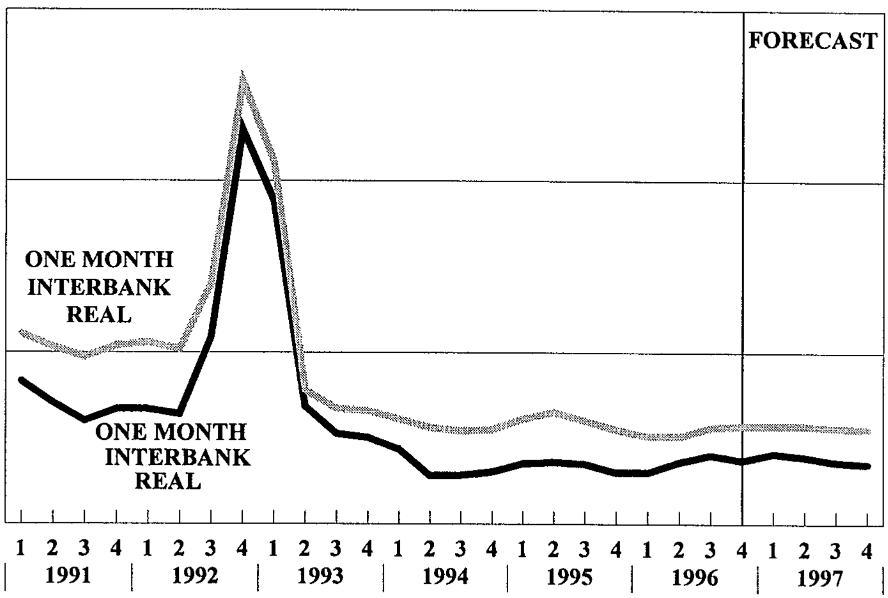
Interest Rates

After rising by about ½ per cent in the third quarter of 1996, the one month interbank rate has been fairly stable, fluctuating in a narrow range between 5½ and 5¾ per cent. Retail interest rates, including variable mortgage rates, which tend to move in line with the one-month rate, have similarly remained more or less constant since September 1996.

Long-term bond yields declined significantly in the course of 1996, as expectations that EMU would proceed tended to narrow long-term interest rate differentials between Germany and other potential member countries. So far in 1997 Irish bond yields have generally moved in line with international trends, with little change in the differential with Germany.

Figure 4: Interest Rates

Per Cent Per Annum, Quarterly Averages



Some of the issues concerning the possible course of interest rates in the period leading to the introduction of EMU will be discussed in the *General Assessment* which follows. For forecasting purposes it has been assumed that there will be no significant change in short or long-term interest rates in the remainder of 1997.

General Assessment

Even allowing for a few remaining uncertainties, it is clear that 1996 was another year of strong economic growth, with real GNP increasing only slightly less rapidly than in 1994 and 1995. The high rate of GNP growth was reflected in rising job numbers and a major improvement in the public finances. Inflation remained low, and the current account of the balance of payments, although weakening, remained positive.

A fourth successive year of rapid economic growth, forecast at about 5½ per cent, is in prospect for 1997. As in 1996, growth should be reasonably balanced, with personal consumption, fixed investment and net exports all contributing substantially to the overall expansion. The rise in employment is forecast to continue, probably at a slightly slower rate than in the past two years, and the strength of the public finances should be consolidated, with the Exchequer borrowing requirement again being in the region of 1¼ per cent of GNP. Consumer price inflation is projected to remain below 2 per cent and, provided that the terms of Partnership 2000 are adhered to, gross pay increases should continue to be moderate.

However, despite the favourable short-term economic outlook and the expectation that the underlying causes of Ireland's spectacular recent performance should persist for some years to come, some major policy challenges face the public authorities in the remainder of 1997.

The most immediate such challenge is to keep public expectations in check, especially where the power of unrealistic expectations is re-inforced by sectoral interest groups with industrial or political strength. A continuation of both pay moderation and fiscal consolidation is fundamental to realising Ireland's job-creating potential, but conveying the message that long-term economic and social health should take precedence over perceived sectoral grievances is much more difficult than it was when employment prospects were grim and the public finances in obvious crisis.

The second major challenge is to make significant progress in tackling Ireland's still formidable social problems within the strict fiscal constraints which will apply over the next few years. With a commitment to further reductions in tax rates formalised in Partnership 2000, and with substantial current budget surpluses necessary both to accommodate the likely reduction in EU funding after 1999 and to remain safely within EMU Stability and Growth Pact borrowing limits, only a modest increase in resources will be available to apply to such problems.

The third major problem is more technical. This is to operate an appropriate monetary and exchange-rate policy to carry Ireland through the uncertainties and possible turbulence of the period preceding EMU. This challenge was always implicit since the decision to join EMU, but the potential difficulty it poses has become more apparent over the past twelve months due to the continued rapid rise in the price of housing and other property assets and, more crucially, due to the unexpectedly strong appreciation of sterling against the DM and other continental currencies.

Although the steep rise in house prices does not have a significant direct impact on the consumer price index, it could in time have some indirect effect through increasing pressure for higher pay settlements and through encouraging a greater volume of personal borrowing for general consumer purposes. These dangers can be averted through rigorous adherence to the pay terms of Partnership 2000 and through responsible behaviour by the lending agencies, but excessive rises in house prices carry the threat of damaging consequences in their own right. The acquisition of a high level of housing debt by a substantial proportion of households, particularly in a period when nominal incomes are likely to increase only moderately, exposes those households to a degree of risk if conditions change in the future.

It would thus be desirable to abate the rate of increase in house prices. While the standard method of doing this would be to raise interest rates, both currency considerations and the absence of general inflationary pressures render such action inappropriate. Alternative approaches, such as ensuring the tighter application of prudential lending regulations, or even imposing some form of temporary tax or surcharge on the relevant forms of consumer borrowing are worthy of serious consideration.

The extraordinary and unexpected appreciation of sterling since mid 1996, which has reflected both the strength of sterling itself and the weakness of the DM, has substantially altered the pattern of Irish pound exchange rates. By following its usual path of moving between sterling and the DM, the value of the Irish currency has significantly improved Irish competitiveness compared with the UK, but considerably weakened Irish competitiveness against most continental European countries. Currency movements in this direction, and on this scale, are sufficiently rare that it is difficult to predict the likely consequences if the present exchange rate patterns were to persist in the medium term.

Thus, even if the concept of EMU did not exist, the current situation would not be comfortable, and the prospect of further Irish pound appreciation against continental currencies on foot of a unilateral increase in Irish interest rates could not be contemplated with equanimity.

The actuality of EMU, and its probable imminence, serve to complicate the situation and to increase the importance of the issue. In the first place, it increases the likelihood of European currency instability between now and the end of 1998. Although the most probable outcome is that Union will proceed on schedule, there remain sufficient doubts concerning the ability of some major countries, including Germany, to met the Maastricht criteria in 1997, for recurrent speculation about delaying the timetable to continue. Even if full confidence can be restored that the existing schedule will be adhered to, there will be inevitable uncertainty until early 1998 as to which countries will both qualify for and choose to accept initial entry into the Union.

In the second place, and of vital importance to Ireland, is the question of the rate of exchange at which individual countries lock into the union. No decision has yet been taken, while for obvious reasons the monetary authorities throughout Europe are unwilling to clarify this issue, and are unlikely to do so before the list of participating countries is established in the spring of 1998. However, the Irish authorities must take a view on this issue, not necessarily in public, so as to respond to circumstances as they unfold.

It would be undesirable for the Irish pound to be locked into EMU at anything close to the current exchange rate. Not only would the relatively weak competitiveness against continental countries tend to adversely affect future direct investment flows, but the risk of substantial shocks from possible post-EMU sterling depreciation would be unduly large.

An entry rate at, or close to, the existing ERM central rate of about DM2.41 would be much more appropriate in respect both of competitiveness and of limiting the long-term sterling risk. Such an outcome would obviously be achieved if the central rates were universally adopted as entry points. On any other method of choosing entry rates, such as simply adopting the rate existing at the end of 1998 or taking an average over a specified previous period, an active exchange rate policy would need to be followed by Ireland between now and the end of 1998. If a period average is to be chosen, then the length of the period would determine the timing of any action which might be needed to avoid entering monetary union with a potentially over-valued exchange rate.

Obviously, the nature and extent of any action which might need to be taken by the Irish authorities will depend on the course of sterling over the period. It is sterling appreciation which has caused the problems, and an early sterling depreciation would largely resolve them. It seems incontrovertible that sterling is now significantly over-valued in relation to UK relative production costs and growth potential, and that eventually such underlying economic realities will lead to sterling depreciating against the major continental currencies. However, from the short-term perspective of the currency markets, there seems little reason to expect an early reversal of sterling strength. A rebalancing of UK economic policy between its fiscal and monetary elements is politically improbable, and a post-election rise in interest rates cannot be ruled out.

Thus, while it remains reasonable to hope for some depreciation of sterling in the later months of 1997 and in 1998, it would be imprudent to rely on it. If it fails to take place, the various problems associated with transition to an appropriate entry rate will eventually need to be addressed.

A depreciation of the Irish pound against the continental currencies, sterling and the dollar simultaneously would almost certainly result in a once-off rise in Irish inflation in 1998 and 1999. This would appear to be a worthwhile price for avoiding entering monetary union with an overvalued currency. The rise in the consumer price index, perhaps to around 3 per cent by the end of 1998, would prove temporary, as the subsequent depreciation of sterling would tend to reverse it in subsequent years, in relation to the general European inflation rate to which Ireland will eventually be linked.

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
1989	143.0	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
1996	261.9	439.2	139.9	18935	32989			

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	7216	215.9	72.4	143.7
II	268.8	449.2	142.3	4455	7931	220.7	73.0	147.7
III	239.9	390.9	132.2	4316	8403	224.6	74.9	149.5
IV	282.3	467.4	143.9	5080	10175			

Quarterly Averages or Totals (Seasonally Corrected)

1993 I	179.0	263.4	118.2	3929	No Seasonal Pattern	193.4	54.0	139.4
II	177.3	263.7	117.5	4032		193.8	53.7	139.7
III	177.8	262.8	118.5	4071		194.0	54.9	139.8
IV	181.7	265.9	118.7	4137		194.7	55.4	139.5
1994 I	191.3	282.7	123.7	4157		196.8	56.4	140.1
II	198.2	302.1	123.4	4241		198.3	57.5	140.6
III	201.8	311.9	124.0	4233		199.1	58.4	141.0
IV	215.3	336.9	127.2	4222		203.2	60.4	142.8
1995 I	220.6	348.8	129.3	4335		207.1	62.4	144.6
II	233.2	377.7	132.8	4375		210.9	65.3	145.6
III	253.0	418.5	133.5	4460		212.3	68.0	144.4
IV	263.2	445.4	132.9	4436		215.6	70.2	145.4
1996 I	254.9	415.8	132.7	4717		218.1	72.9	145.6
II	259.3	434.0	136.2	4691		221.1	73.7	147.1
III	260.2	431.0	138.0	4718		223.0	74.7	148.4
IV	275.0	458.3	138.6	4808				

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	
143.0	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
					175.6	103.6	279.2	1996
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	140.0	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	177.7	100.9	278.6	IV
222.9	238.6	130.6	125.5	106.3	182.0	103.3	285.3	1996 I
228.2	242.3	142.1	127.9	107.8	176.9	102.8	279.7	II
	205.5	130.5			177.0	107.9	284.9	III
					166.7	100.3	267.0	IV
Quarterly Averages (Seasonally Corrected)								
173.0	192.2	125.0	116.5	104.9	193.4	101.3	294.6	1993 I
172.3	192.9	124.0	117.1	105.7	195.3	100.3	295.5	II
171.4	188.9	124.9	120.0	107.3	193.8	99.8	293.5	III
173.3	189.2	125.8	121.7	108.3	192.5	100.7	293.2	IV
182.1	197.7	130.1	122.0	107.9	189.7	99.1	288.8	1994 I
188.4	206.6	129.4	122.1	107.3	185.1	97.8	283.0	II
189.2	210.5	129.6	121.7	106.1	182.5	97.3	279.8	III
196.9	220.1	131.7	123.5	107.4	180.2	97.8	278.0	IV
199.4	219.9	131.9	124.3	107.3	177.5	97.4	274.8	1995 I
208.0	227.3	134.5	124.8	106.8	178.3	98.4	276.8	II
222.6	242.6	136.2	125.7	107.0	178.6	99.4	277.9	III
226.9	250.5	135.2	125.3	106.4	179.5	101.9	281.5	IV
216.9	224.5	134.3	126.5	107.0	177.9	103.0	281.0	1996 I
220.0	231.7	136.5	127.9	108.0	178.3	104.4	282.7	II
	227.3	136.9			177.8	105.9	283.7	III
					168.6	101.0	269.6	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	1990=100	1990=100	1990=100	1990=100	Jan 1988=1000
1989	98.5	109.5	108.1	113.6	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	97.3	102.3	99.3	97.0	1382.4
1992	108.3	110.5	107.3	98.4	100.2	96.6	96.4	1311.1
1993	109.8	115.6	112.4	103.9	105.4	103.9	98.6	1576.0
1994	112.4	116.9	113.5	106.8	108.1	103.8	96.0	1853.4
1995	115.2	119.8	115.9	108.4	112.7	105.6	93.7	1992.9
1996	117.1	120.6		104.0				2494.3

Quarterly Averages

1993 I	109.0	112.9	109.9	100.1	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	108.3	113.2	105.5	93.2	2159.2
1996 I	116.3	121.3	117.7	109.5	114.0	106.9	93.8	2304.7
II	116.8	121.2	117.1	106.9	112.9	105.3	93.2	2496.1
III	117.4	120.3		100.4	111.8	102.9	92.1	2511.0
IV	118.0	119.6		99.0				2665.6

Quarterly Averages (Seasonally Corrected)

1993 I	109.0	113.0	110.1	99.5	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	109.1	114.8	111.5	103.3				
III	110.0	117.1	113.9	106.0				
IV	110.6	117.4	114.4	107.1				
1994 I	111.3	117.0	113.6	107.9				
II	112.1	116.7	113.4	107.8				
III	112.8	116.5	113.2	105.5				
IV	113.2	117.2	113.9	106.0				
1995 I	114.1	118.3	115.4	107.3				
II	115.1	119.2	116.1	107.1				
III	115.5	120.2	115.3	107.8				
IV	116.0	121.7	116.9	111.5				
1996 I	116.4	121.3	117.6	108.4				
II	116.7	120.9	116.6	104.0				
III	117.2	120.3		102.1				
IV	118.2	119.9		101.2				

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New+S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Currrent Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
88452	95.1	97.0	7756	8019	263	9.6	8.9	1989
105849	100.0	100.0	8269	8421	152	11.1	10.1	1990
89589	101.5	99.5	8776	9076	300	10.4	9.3	1991
85492	105.9	102.0	9360	9806	446	15.2	9.1	1992
87352	109.0	103.4	10140	10519	379	10.6	7.8	1993
116636	117.7	109.0	11203	11188	-15	5.7	8.2	1994
124595	123.5	112.2	11667	12029	362	6.1	8.3	1995
153833	133.7	119.1	12954	13522	568	5.8	8.1	1996

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
48571	132.6	118.2	3298	3063	-235	5.1	7.7	II
33460	132.2	117.7	3607	2892	-715	5.6	7.5	III
21570	144.0	127.4	3372	3590	218	5.7	6.9	IV

Quarterly Averages or Totals (Seasonally Corrected)

19514	105.6	101.7	2392	2612	220	No Seasonal Pattern	No Seasonal Pattern	1993 I
21741	107.1	102.0	2345	2470	125			II
23392	110.5	104.2	2782	2798	16			III
25436	112.7	105.5	2619	2617	-2			IV
30054	118.3	110.5	2983	2837	-146			1994 I
29063	116.1	107.7	2970	2720	-250			II
28387	117.2	108.3	2591	2829	238			III
28838	119.2	109.7	2701	2775	74			IV
29458	121.0	110.7	2788	2684	-104			1995 I
30294	122.2	111.1	3046	3034	-12			II
33052	123.8	112.4	2864	3031	167			III
34516	126.6	114.3	2968	3255	287			IV
37565	131.4	117.9	2936	3043	107			1996 I
38723	134.0	119.6	3159	3142	-16			II
37638	132.2	117.7	3560	3106	-454			III
41670	137.3	121.2	3279	3342	63			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£
1989	10537.5	2417.7	12538.3	2670.8	64.42	0.8671	1.4191	2.6647
1990	11690.7	2506.0	13855.9	2996.1	68.33	0.9305	1.6588	2.6729
1991	12579.9	2502.2	13553.2	3328.0	67.35	0.9133	1.6162	2.6708
1992	13141.2	2946.7	14410.7	2923.4	69.48	0.9695	1.7062	2.6561
1993	16287.1	2829.5	14910.5	3928.5	66.01	0.9771	1.4682	2.4241
1994	17970.1	3285.7	16655.2	4288.4	66.16	0.9777	1.4984	2.4263
1995	20027.1	3332.1	19916.6	4781.4	67.12	1.0168	1.6038	2.2971
1996	23608.9	2814.0	23548.0	5300.0	68.48	1.0255	1.6008	2.4092
	End-Period Totals				Quarterly Averages			
1993 I	15231.0	2463.4	14509.0	2829.9	68.91	1.0360	1.5323	2.5017
II	16062.2	2601.0	14643.3	4213.8	66.41	0.9817	1.5073	2.4390
III	16726.4	2683.0	14574.9	4425.6	63.99	0.9390	1.4133	2.3677
IV	17129.1	2829.5	14910.5	4244.9	64.73	0.9517	1.4197	2.3880
1994 I	17328.3	2723.7	15249.3	4175.7	65.51	0.9607	1.4300	2.4640
II	17540.1	2901.6	15759.5	4362.7	65.93	0.9763	1.4687	2.4380
III	18187.1	3230.6	16067.8	4442.8	66.39	0.9880	1.5327	2.3920
IV	18824.9	3285.7	16655.2	4172.6	66.81	0.9857	1.5623	2.4113
1995 I	19212.0	3031.4	17454.4	4192.0	66.58	0.9943	1.5733	2.3263
II	19333.2	2939.9	18383.8	4366.6	67.05	1.0197	1.6270	2.2717
III	20207.0	3279.6	19036.5	5213.2	67.42	1.0247	1.6117	2.3067
IV	21356.3	3332.1	19916.6	5353.6	67.43	1.0283	1.6033	2.2837
1996 I	22088.2	3873.5	20584.8	5394.9	67.60	1.0317	1.5797	2.3193
II	22669.5	3572.2	21595.3	5113.2	68.07	1.0307	1.5703	2.3913
III	23853.7	3019.0	22218.0	5249.0	68.78	1.0347	1.6090	2.4090
IV	25824.3	2814.0	23548.0	5443.0	69.45	1.0050	1.6443	2.5170
	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	
12288.0	14596.9	2309.1	93.6	92.2	NA	NA	1989
12475.5	14342.4	1866.9	100.0	100.0	-2921	-224	1990
12850.8	15018.9	2168.1	100.8	105.4	-2796	209	1991
13194.8	16743.8	3549.1	105.7	121.2	-3209	320	1992
14884.9	19829.7	4945.0	112.9	133.3	-3521	1248	1993
17251.2	22753.7	5502.6	127.6	153.2	-3575	954	1994
20484.8	27760.9	7275.9	145.3	183.6	-4815	981	1995
							1996

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	-54	1995 I
1649.9	2280.9	631.1	139.2	178.2	-1268	314	II
1582.5	2235.4	652.9	135.3	177.4	-1129	422	III
1939.1	2582.5	643.3	164.4	205.4	-1190	299	IV
1924.2	2550.1	625.9	161.9	200.0	-1415	-53	1996 I
1831.0	2472.5	641.5	155.5	196.9	-1368	103	II
1660.1	2310.0	649.9	142.6	188.2	-1066	708	III
							IV

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

1185.0	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
1643.6	2230.6	587.0	140.1	176.8			II
1684.9	2335.8	651.0	143.9	187.1			III
1923.1	2508.5	585.5	161.0	197.5			IV
1849.0	2559.3	710.4	156.0	197.6			1996 I
1825.0	2418.2	593.3	156.7	195.6			II
1746.4	2436.3	689.9	150.2	200.4			III
							IV