QUARTERLY ECONOMIC COMMENTARY

OCTOBER 1997

The forecasts in this Commentary are based on data available by late October 1997.

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CONTENTS

SUMMARY

It now seems likely that real GNP will increase by about 7¾ per cent in 1997, marginally above the average growth rate of the past three years. Growth will again be balanced, with both exports and domestic demand contributing strongly. As a consequence employment will also rise rapidly, with a net increase of over 50,000 in the annual average number at work. Despite the prolonged boom, inflation remains subdued, with the annual average increase in the consumer price index forecast at under 1½ per cent, and average pay rises still generally conforming to the moderate terms of *Partnership 2000*. Improved collection, allied to the rapid growth of domestic demand, is leading to a massive rise in tax receipts, and a General Government Surplus in 1997 seems assured.

Despite several international uncertainties, including the continued volatility of sterling, the Irish economy should once more achieve strong, balanced, growth in 1998. A slight abatement in the rate of growth, to under 7 per cent, is projected, but this should be sufficient to enable a substantial increase in employment and a further strengthening of the public finances even after the scheduled tax cuts. Inflation is likely to accelerate slightly, but probably only to about 2 per cent on an annual average basis. Thus Ireland is due to enter EMU with an economy in much sounder health than could possibly have been envisaged only a few years ago.

Looking further ahead, the unfamiliar situation is beginning to arise where economic growth could be limited by labour supply constraints. The labour force will continue to expand, through natural increase, rising female participation and, probably, further net immigration, but the rate of increase from all of these sources is likely to slacken over the next few years. If the number of people actually at work is to increase at the rate necessary to sustain recent rates of economic growth, the obvious source of extra employees is from the still high numbers of unemployed.

For both social and economic reasons, therefore, policy needs to become increasingly geared to easing the transition from unemployment, especially long-term unemployment, to productive work. Such a policy shift implies greater focusing of resources on the education, training and placement of the unemployed, allied to some tightening of eligibility criteria for unemployment assistance as the labour market continues to improve, and, crucially, to measures to reduce further the very high marginal tax/benefit loss rates which still apply to many on low incomes on the boundary between welfare and work.

FORECAST NATIONAL ACCOUNTS 1997

A: Expenditure on Gross National Product

	1996	1997	Change in 1997				
	Preliminary	Forecast	£m		%		
	£m	£m	Value	Volume	Value	Price	Volume
Private Consumer Expenditure	23,318	25,137	1,819	1,516	7¾	1¼	6½
Public Net Current Expenditure	6,244	6,712	468	162	7½	4¾	2½
Gross Fixed Capital Formation	7,524	8,742	1,218	1,023	16¼	2½	13½
Exports of Goods and Services (X)	33,798	37,885	4,087	4,410	12	-1	13
Physical Changes in Stocks	389	450	61	80			
Final Demand	71,273	78,926	7,653	7,191	10¾	½	10
less:							
Imports of Goods and Services (M)	29,169	32,876	3,707	3,592	12¾	½	12¼
GDP at Market Prices	42,104	46,050	3,946	3,599	9¼	¾	8½
less:							
Net Factor Payments (F)	5,121	5,767	646	696	12½	-1	13½
GNP at Market Prices	36,983	40,283	3,300	2,903	9	1	7¾

B: Gross National Product by Origin

	1996	1997	Change in 1997	
	Preliminary	Forecast		
	£m	£m	£m	%
Agriculture, Forestry, Fishing	2,426	2,353	-73	-3
Non-Agricultural: Wages, etc.	19,477	21,133	1,656	8½
Other:	13,387	14,945	1,558	11¾
less:				
Adjustments	1,846	2,123	277	15
Net Factor Payments	5,121	5,767	646	12½
National Income	28,323	30,541	2,218	7¾
Depreciation	4,303	4,798	495	11½
GNP at Factor Cost	32,626	35,339	2,713	8¼
Taxes less Subsidies	4,356	4,944	588	13½
GNP at Market Prices	36,983	40,283	3,300	9

C: Balance of Payments on Current Account

	1996	1997	Change in 1997
	Preliminary	Forecast	
	£m	£m	£m
X - M	4,629	5,009	308
F	-5,121	-5,767	-646
Net Transfers	1,353	1,421	68
Balance on Current Account	862	663	-199
as % of GNP	2¼	1¾	-½

FORECAST NATIONAL ACCOUNTS 1998

A: Expenditure on Gross National Product

	1997 Forecast £m	1998 Forecast £m	Change in 1998 £m Value	Change in 1998 £m Volume	Change in 1998 % Value	Change in 1998 % Price	Change in 1998 % Volume
Private Consumer Expenditure	25,137	27,098	1,961	1,383	7¾	2¼	5½
Public Net Current Expenditure	6,712	7,168	456	154	6¾	4¼	2¼
Gross Fixed Capital Formation	8,742	9,888	1,146	903	13	2½	10¼
Exports of Goods and Services (X)	37,885	42,670	4,785	4,656	12¾	¼	12¼
Physical Changes in Stocks	450	330	-120	-100			
Final Demand	78,926	87,154	8,228	6,996	10¼	1½	8¾
less:							
Imports of Goods and Services (M)	32,876	37,230	4,354	3,649	13¼	2	11
GDP at Market Prices	46,050	49,924	3,874	3,347	8½	1	7¼
less:							
Net Factor Payments (F)	5,767	6,381	614	594	10¾	¼	10¼
GNP at Market Prices	40,283	43,543	3,260	2,753	8	1¼	6¾

B: Gross National Product by Origin

	1997 Forecast £m	1998 Forecast £m	Change in 1998 £m	Change in 1998 %
Agriculture, Forestry, Fishing	2,353	2,471	118	5
Non-Agricultural: Wages, etc.	21,133	22,612	1,479	7
Other:	14,945	16,349	1,404	9½
less:				
Adjustments	2,123	2,372	249	11¾
Net Factor Payments	5,767	6,381	614	10¾
National Income	30,541	32,679	2,138	7
Depreciation	4,798	5,302	504	10½
GNP at Factor Cost	35,339	37,981	2,642	7½
Taxes less Subsidies	4,944	5,562	618	12½
GNP at Market Prices	40,283	43,543	3,260	8

C: Balance of Payments on Current Account

	1997 Forecast £m	1998 Forecast £m	Change in 1998 £m
X - M	5,009	5,440	431
F	-5,767	-6,381	-614
Net Transfers	1,421	1,378	-43
Balance on Current Account	663	437	-226
as % of GNP	1¾	1	-¾

The International Economy

General

There have been two major developments in the world economy since the publication of the July *Commentary*. The recovery of the continental European economy has become finally established, and has, indeed, been significantly stronger than was then anticipated. As a consequence it now seems probable that all EU countries, except Greece, will either meet or come very close to meeting the critical borrowing criterion for EMU entry in 1997. The prospects for a prompt start of a broad-based EMU have thus improved substantially, and the possibility of speculative attacks on potential member currencies has correspondingly retreated.

The second major factor has been the intensification of the Asian financial and currency crisis, complicated by the effects of the persistent smog in large parts of the region. Financial problems have now spread beyond the original four industrialising countries in South East Asia, and resulted in higher interest rates and lower asset values in more established Asian economies. These developments will inevitably have some adverse effects on the world economy as a whole, and have already had an impact on share prices in most financial centres. However, the parallel with the Mexican and broader Latin American financial collapse in the early '90s suggests that the effect on real growth rates in the major industrialised countries will be quite limited. The region itself will probably begin to recover in 1998, while the growth dynamics of the USA and the EU seem sufficiently strong to ensure continued expansion of world output and trade in 1998. A beneficial result of the situation is that the danger of global inflationary pressures emerging in the near future has further receded.

The US Economy

Revised figures suggest that the US economy grew by a seasonally-corrected 0.9 per cent in the second quarter of 1997, after an increase of 1.3 per cent in the first quarter. Despite this slowdown, real GDP growth of 3.0 per cent is anticipated for this year. The slower growth in the second quarter reflects a smaller increase in consumer spending compared with the first quarter. At present the US economy appears to be benefiting from fairly steady growth without major inflationary pressures emerging. Growth is expected to slow to 2¼ per cent in 1998, reflecting a deterioration in the trade balance as a result of the strong dollar and the impact of monetary policy. The effect of the strong dollar on export levels has, to date, been largely offset by a pick-up in demand in some of the US economy's main trading partners, particularly Mexico and Canada. However, export levels in 1998 may be adversely affected by the economic crisis developing in some Asian countries.

The sustained economic growth has succeeded in reducing the unemployment rate of less than 5 per cent. This reduction has not been accompanied by any increase in hourly earnings which actually fell in the second quarter compared to the first. However, the possibility remains that such a low unemployment rate will eventually lead to increasing wage pressures. Official figures show consumer price inflation in the US at approximately 2.2 per cent, with few signs to-date of any acceleration. Some commentators suggest that the combination of low unemployment and low inflation represents the US economy moving to a new phase. However, there is still significant nervousness that inflation could re-emerge. While official interest rates have been steady since the 0.25 per cent increase in March it is expected that there could be a further small precautionary increase in late 1997 or early 1998. The US dollar remains strong on the international currency markets, although it has weakened slightly from its summer peak as interest rate expectations in continental Europe have changed. With the prospect of any increases in Japanese interest rates receding as a result of the poor state of the Japanese economy, some further dollar appreciation against the Yen seems probable.

The European Economy

For most continental European economies the likelihood is that 1997 will be a year of moderate growth, a positive recovery from the sluggish performance of 1996. Overall EU GDP growth increased in the second quarter to 1.3 per cent. After prolonged weakness as many governments tightened fiscal policy to meet the Maastricht criteria, there are signs that domestic demand, including personal consumption is beginning to recover in several countries. However the main source of economic growth is still exports, stimulated by the relative weakness of most European currencies. Although the depreciation of European currencies against the dollar appears to have ceased, the competitive benefits it conferred should persist into 1998.

The recovery in the German economy continues. Seasonally-corrected real GDP grew by 1 per cent in the second quarter, compared with growth of 0.5 per cent in the first quarter of the year. As before, the economic growth resulted mainly from increased external demand for German goods and services, reflecting the continuing positive impact of the weak DM exchange rate. GDP growth of approximately 2.3 per cent is forecast for 1997, increasing to 2.9 per cent in 1998.

Despite the improving economic outlook, unemployment figures have risen steadily for much of the year. The continuing poor performance of the labour market represents a serious challenge for the German government. Although it now seems probable that the Maastricht criterion of a General Government Deficit of 3 per cent or less of GDP will be achieved in 1997, high unemployment is politically damaging, and restricts the fiscal options available to consolidate the recovery.

The decline in the DM against the dollar appears to have ended, reflecting the expectation that strong growth will lead to an increase in official German interest rates. While such an increase was not expected until late 1997 or early 1998 the Bundesbank began the process in early October as a precautionary measure against signs of emerging inflation. Recent figures show that inflation in Germany is 1.8 per cent, a decrease from the August figure of 1.9 per cent. However, minor fluctuations in the inflation rate are due mainly to administrative changes. In reality, inflationary pressures in Germany remain subdued. Even though the weak exchange rate has meant an increase in import prices, this is only having a slight impact on consumer prices, as domestic demand remains slack and unit wage costs are falling. The recent decision to reduce the level of the solidarity tax, introduced to fund unification, may help boost the consumer sector. Economic growth in 1998 is expected to be more balanced, as well as faster, than in 1997.

As has been highlighted in recent *Commentaries*, the performance of some of the other main European economies is closely tied to that of Germany. These economies have also shown some signs of recovery during the second quarter. Real GDP growth in France accelerated to approximately 1 per cent in the quarter. The commitment of the new French government to EMU has been underpinned by a budget that aims to meet the deficit requirements, although even official estimates expect this to happen a year later than strictly required, with a marginal overshoot in 1997. As in Germany, high unemployment levels remain a key issue. Although the unemployment rate appears to have stabilised it is expected to average 12.5 per cent in 1997. Despite higher import prices as a result of the weak French Franc, inflation has declined and averaged just 0.2 per cent in the second quarter compared with the previous quarter. This decline probably means that cost pressures from higher import prices are being offset by subdued demand.

Both Spain and Italy continue to have the target of EMU membership as their goal. Both are now expected to be included in the first wave as a result of tight fiscal policy. Indeed, qualification for the first phase may now no longer be the main issue but rather the ability to ensure the sustainability of economic performance within EMU. The Italian economy is expected to grow by over 1 per cent this year. Growth has been adversely affected by the relative strength of the Lira against other European currencies after rejoining the ERM at a central rate well above the average market rate of the previous few years. However, the economy has benefited from the convergence of Italian interest rates towards German levels as the perception that Italy would qualify for EMU has increased. The Spanish economy is expected to show strong growth in 1997 as domestic demand recovers from the slow rate of growth shown in 1996. In common with the rest of Europe the depreciation of the peseta has boosted export levels. The strong growth is also expected to have an impact on unemployment levels which, although they will remain high by European standards, are expected to show some decline. The strong growth coupled with the efforts of the Spanish government are expected to ensure that Spain qualifies to partake in the first wave of EMU.

The UK Economy

The UK economy continues to grow quite strongly with no clear statistical evidence as yet that the strength of sterling on the currency markets is having a severe impact on trade volumes. Figures for second quarter GDP indicate that the UK economy grew by 1.0 per cent, marginally higher than the first quarter growth of approximately 0.8 per cent. While some slowdown is expected in the latter half of the year as sterling strength has an increasing influence, it still seems likely that the UK economy will grow by 3 per cent in 1997, primarily as a result of buoyant consumer spending.

The prospects for 1998 are much less certain. Despite its retreat from the extreme values reached in the course of the summer, sterling remains some 20 per cent above its trade weighted value in the first half of 1996, and is clearly overvalued against continental currencies. Despite the recent clarification concerning the timing of possible UK membership of EMU, uncertainties remain about the actual nature of British policies in relation to the EMU which impart additional volatility to sterling, and make it especially difficult to predict the timing of its eventual depreciation.

The extent to which the British consumer boom has been fuelled by the proceeds of large scale de-mutualisation of building societies and insurance companies has not yet been clarified, and thus the strength of consumer demand over the next twelve months, when there will be fewer such windfalls, is open to question. With the impact of the interest rate increases of the early summer still to take full effect, the likelihood is that domestic demand will be much less buoyant in 1998 than it has been this year.

If sterling retains its present strength the effects on trade volumes and manufacturing investment, allied to the slower growth of consumer demand, could lead to virtual stagnation in the UK economy in 1998. On the optimistic assumption that there will be significant sterling depreciation, modest economic growth is forecast to continue, with real GNP rising by just over 2 per cent in 1998, much of which would reflect the carryover of growth during 1997.

The divergent nature of the UK economy, with domestic service output growing rapidly while manufacturing margins are severely squeezed, is reflected in the inflation figures. The massive appreciation of sterling should by now be reflected in a very low rate of price inflation. However, the buoyant domestic economy has been placing upward pressure on prices and wages in some sectors. Thus consumer price inflation has remained fairly steady at about 2.7 per cent, well above the norm in EMU countries. A significant slowdown to about 2¼ per cent seems likely in 1998, as domestic pressures ease and as the remaining deflationary effects of past sterling appreciation are felt before the opposite effects of the ensuing depreciation.

The Rest of the World

The recovery that had appeared to be taking place in the Japanese economy seems to have faltered. Official figures for the second quarter show GDP falling, due mainly to a decline in personal consumption. The decline, expected as a result of an increase in consumption taxes, is greater than was anticipated and suggests a decline in consumer confidence. The Japanese economy will also suffer some negative impact from the slowdown in the Far Eastern economies associated with the financial crisis and adverse weather conditions. It is now anticipated that the Japanese economy will grow by just 1.25 per cent in 1997 and by 1.75 per cent in 1998. The weakness of the economy is such that is difficult to envisage an increase in Japanese interest rates for the foreseeable future. The Japanese exchange rate has been very competitive, with the result that any growth that is occurring is export-based, and the current account surplus is increasing. Unemployment has remained reasonably stable, although it has crept up to approximately 3.5 per cent, which is high by Japanese standards. Another package of measures designed to stimulate the economy by boosting domestic spending is currently being prepared, but the scope for further fiscal stimulus is severely limited by the large budget deficit.

The immediate economic prospects for many of the more recently developing Asian countries have been severely affected by the financial crisis, with its accompanying high interest rates, and by the fire-induced smog afflicting large areas of South East Asia, which has already damaged the important tourist industry. Given their established cost advantages, reinforced by substantial currency depreciations, the export sectors of the countries involved should recover quickly. However, domestic demand, boosted in the past by speculative building financed by capital inflows, could take much longer to resume its earlier vigour, especially as financial institutions throughout the region are likely to have been damaged by falling asset values. Thus, in both 1997 and 1998, the rates of growth of the industrialising countries of South East Asia are expected to be much lower than in the past few years.

TABLE 1: Short-term International Outlook

	GNP		Consumer Prices		Hourly Earnings		Unemployment Rate %		Current Account Balance % of GNP	
			Percentage Change							
Country	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
UK	3	2	2½	2¼	4	4½	7¼	7	-½	-1
Germany	2¼	3	1¾	2	2	2¼	11¼	11	0	½
France	2	2¾	1¼	1½	2½	2¾	12½	12¼	1	1
Italy	1¼	2¼	2	2½	3½	3½	12	12¼	3	3
Total EC	2½	3	1¾	2¼	3	3¼	12	12	1¼	1¼
USA	3	2¼	2½	2¾	2¾	3¼	5	5¼	-2	-2
Japan	1¼	1½	1	1	1¾	2	3½	3¾	1¾	2¼
Total (OECD)	2½	2¼	2½	2¾	3	3	7¾	8	0	0
Ireland	7¾	6¾	1½	2	3½	3¼	10	9½	1¾	1

The Context for Ireland

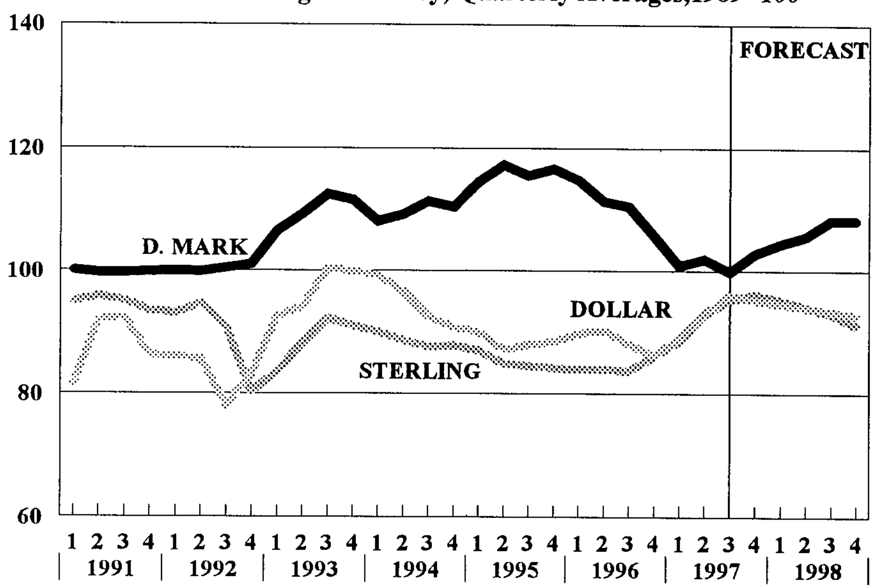
Despite the Asian problems, world output and trade volumes have grown quite strongly in 1997 and are likely to continue their expansion in 1998. The volume of world trade is forecast to increase by almost 8 per cent in 1997 and by nearly 7 per cent next year. Within this global context, growth in the EU recovered in 1997 and is expected to accelerate moderately in 1998. Thus market condition for the majority of Irish exports should remain reasonably favourable.

The continuing rise in world output levels should ensure a continued supply of mobile productive investment, and, while the recent correction of share prices around the world could have some adverse impact on investment levels, this effect is not likely to be great in the industries which provide the bulk of Ireland's foreign direct investment.

Although global inflationary pressures remain subdued, the trend of international interest rates, which has been fairly static in 1997, is likely to be slightly upwards in 1998. Modest increases seem likely, in particular, in US and continental European short-term interest rates, although UK short-term rates could well decline in the course of 1998.

Figure 1: Exchange Rates

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



Largely as a result of these expected interest rate changes, it appears likely that the dollar will appreciate further against the Yen, but that continental European currencies will appreciate slightly against the dollar. From an Irish viewpoint the key question remains the course of sterling in relation to the DM. It seems highly probable that by the end of 1998 sterling will have depreciated substantially from its current value against the DM, but the timing of this depreciation is of critical importance. If it occurs in the early months of 1998 it will greatly ease the problem of Ireland's EMU entry rate. If it is delayed until late in the year the entry rate decision will have to be taken under conditions of considerable uncertainty. For the purpose of this *Commentary* it has been assumed that sterling depreciation will take place gradually throughout 1998, and that the annual average value of the Irish pound will be marginally stronger against sterling, and considerably weaker against the continental EMU currencies, in 1998 than in 1997.

The Domestic Economy

General

Data which have become available since the July *Commentary* all confirm that the economy is continuing to grow very rapidly in 1997. In particular, series relating to industrial production and turnover, retail sales and building activity indicate that growth remains balanced, with a major contribution from domestic demand. Because of the lag in the availability of statistics on trade and balance of payment flows, it is not yet clear what proportion of the rise in demand will be offset by increases in imports and factor outflows, and thus some uncertainty still surrounds forecasts of both GDP and GNP for the year.

What is not subject to much uncertainty is the trend in the public finances. The revenue returns for September not merely confirmed that there have been very rapid increases in personal expenditure and in employment, but also ensure that the fiscal out-turn for the year will be spectacularly good. The General Government Balance will be in surplus, while the more familiar Exchequer Borrowing Requirement would also be eliminated were it not for a further tranche of prepayments of liabilities, which amount to effective debt reduction.

Exports

In the first five months of 1997, visible exports were 3.8 per cent higher in value and about 7.2 per cent higher in volume than in the first four months of 1996. However, the underlying export trend is significantly stronger than these comparisons for the early months of the year suggest. In the first place the value of exports in January 1996 was exceptionally high, setting a seasonally-adjusted monthly record which has not yet been surpassed. The seasonally-corrected value of exports has not fallen away in 1997 as it did in 1996, and preliminary estimates indicate a surge in exports in June. Both the trend of exports to non-EU destinations, which was strongly upwards from April to July, and production indicators such as the Index of Industrial Production and the IBEC-ESRI Business Survey, which show industrial output remaining at a high level, suggest that total visible exports will have risen significantly in the second quarter of 1997.

In the second place a technical change in the compilation of the trade statistics has a substantial effect which must be taken into account in interpreting the annual increase in trade levels. Until June 1996, exports of software licenses, amounting to several hundred million pounds per year, were included in the visible trade statistics, and the timing of such payments was probably a contributory factor in the very high level of visible exports in January 1996. Since July 1996 these licence payments have been excluded from the visible export statistics, but included in the balance of payments adjustment, leaving merchandise exports unchanged. Thus the percentage change in visible exports over the corresponding period of last year during the first half of 1997 is not comparing like with like, and gives a misleading appearance of relatively slow growth. This problem will disappear in the second half of 1997, when like will once more be compared with like.

Taking these specific factors into account, along with the gradual improvement in the European economy, it seems likely that the increase in the volume of visible exports in 1997 as a whole will be in the region of 12 per cent. With average export prices appearing to have stabilised in the early months of 1997, the annual average decline in export prices is expected to be a little under 1½ per cent, with the value of visible exports thus increasing by about 10½ per cent. By far the largest increase will come in manufactured exports, both modern and traditional, with agricultural exports likely to show little change in volume terms.

Because software licence exports will be included in the balance of payments adjustment for all of 1997, compared with half of 1996, there will be a large increase in the value of the adjustment. Taking this into account, a rise of over 12 per cent is forecast for the value of merchandise exports in 1997. Depending on the deflator applied to the adjustment, the volume increase in merchandise exports could be in the region of 14 per cent.

There appears to have been some slowing of the rate of growth in tourist earnings in 1997, although a value increase of about 9 per cent still seems likely. Other service exports, now calculated on a gross basis, increased in value by about 11 per cent in the first quarter of 1997, and a similar rate of increase is forecast for the year as a whole.

Thus, as shown in Table 2, total exports of goods and services in 1997 are forecast to rise by almost 12 per cent in value and about 13¼ per cent in volume. This represents a moderate upward revision to our previous forecast, and a significant acceleration of export growth compared with 1996.

Both the volume and price of exports in 1998 could be influenced by currency movements before and after effectively locking into EMU in mid-year. On the currency assumptions already discussed, and with the European economy continuing to recover, a further substantial rise in exports is projected. A small increase in both the volume and value of agricultural exports seems likely, as the BSE crisis recedes. Increased capacity should enable manufactured exports to increase by about 15 per cent in volume, marginally faster than in 1997. On the currency assumptions made, it seems reasonable to anticipate approximate stability in the annual average price of manufactured exports, with changes in particular products or markets roughly cancelling out. Other industrial exports are projected to increase at much the same rate as in 1997, while other, mainly unclassified, exports are held constant as a technical assumption.

TABLE 2: Exports of Goods and Services

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Agricultural	2,788	0	-4	2,676	2	3	2,756
Manufactured	23,122	14½	13¼	26,186	15	15	30,114
Other Industrial	3,736	7¼	6¼	3,967	7	7	4,245
Other	561	0	0	561	0	0	561
Total Visible	30,217	12	10½	33,390	12¾	12¾	37,676
Adjustments[1]	83			650			750
Merchandise	30,300	14	12¼	34,040	12¾	13	38,426
Tourism	1,888	7½	9	2,058	7½	9¾	2,260
Other Services	1,610	9¼	11	1,787	8½	11	1,984
Exports of Goods and services	33,798	13	12	37,885	12¼	12¾	42,670

[1] Since July 1996, sales of software licences have been included in the balance of payments adjustment rather than in visible exports as previously. While reducing visible export totals, this change has resulted in the adjustment moving from a negative to a positive item. Estimates of merchandise exports are unaffected by the change.

Total visible exports in 1998 are thus forecast to increase by about 12¾ per cent in both volume and value, a slight acceleration on 1997, especially in value. The balance of payments adjustment, applying to the full year, as in 1997, is projected to increase in line with manufactured exports. Merchandise exports, accordingly are forecast to rise by just over 12¾ per cent in volume and almost 13 per cent in value.

Tourist earnings in 1998 are projected to increase by the same volume percentage as in 1997, although higher prices are likely to convert this into a slightly higher rate of value rise. Other service exports are projected to increase at the same value rate of 11 per cent, implying a slight reduction in the rate of volume growth. Thus total exports of goods and services in 1998 are forecast to increase by about 12¼ per cent in volume and 12¾ per cent in value, close to the annual average rates of increase since 1990.

Stocks

It still seems probable that there will be a substantial reduction in the rate of increase in farm stocks from the relatively high growth seen in 1996. Similarly, intervention stocks, although continuing to increase, will do so at a significantly lower rate of change in 1997. In the absence of short-term indicators, it seems reasonable to assume that the value of physical changes in other stocks, including work in progress, will reflect the general buoyancy of the economy by increasing more rapidly than last year. Thus, as shown in Table 3, the value of total stock-building is forecast to be about £450 million in 1997, an increase of £60 million.

TABLE 3: Stock Changes

	1996	Change in Rate	1997	Change in Rate	1998
	£m	£m	£m	£m	£m
Farm Stocks	91	-60	31	-21	10
Irish Intervention Stocks	169	50	219	-99	120
Other Non-agricultural Stocks	129	71	200	0	200
Total	389	61	450	-120	330

Farm stocks are projected to show little change in 1998, implying a further reduction in the rate of increase. Intervention stocks are expected to increase much more slowly than this year as agricultural export markets begin to recover. Assuming that continued economic growth will be accompanied by a rise in other stocks similar to that expected this year, total stocks are projected to increase by about £330 million in 1998. This implies a marginal negative contribution to growth from stock-building in 1998.

Investment

All available indicators suggest that investment in building and construction is continuing to grow very rapidly in 1997. On the basis of house completion, planning permission and building employment data which have become available since the publication in August of the Department of the Environment *Construction Industry Review of 1996 and Outlook for 1997*, it already looks as if the Review's estimates of a 12.7 per cent increase in the volume of new residential construction and of 10.6 per cent in other new construction will be substantially outstripped. There appears little reason to change our forecast in the July *Commentary* of a 15 per cent volume increase in investment in building and construction in 1997, and we expect investment in residential construction to at least match this sectoral rate of increase.

With little clear indication of trends in investment in machinery and equipment, we are also leaving unchanged our forecast of an 11 per cent volume increase in 1997. Thus, as shown in Table 4, total gross fixed capital formation in 1997 is forecast to increase by about 13½ per cent in volume and 16¼ per cent in value.

TABLE 4: Gross Fixed Capital Formation

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Building and Construction	4,877	15	19	5,804	10	13¾	6,607
Machinery and Equipment	2,647	11	11	2,938	11	11¾	3,281
Total	7,524	13½	16¼	8,742	10¼	13	9,888

Despite population growth, net immigration and a high rate of household formation, there clearly must be some upper limit to the rate of expansion of the housing stock. With the number of new dwellings completed in 1997 likely to exceed 38,000, a significant slowing of the rate of increase seems probable in 1998. The forecast rate of increase of 7½ per cent would take the number of completions in 1998 to over 41,000. New office building is again likely to rise sharply, but other commercial construction may show little increase. Taking into account a probable further decline in agricultural building but a substantial increase in infrastructure construction, total investment in building and construction is forecast to increase by about 10 per cent in volume in 1998.

Investment in machinery and equipment could be stimulated by falling interest rates in the course of 1998, and is projected to increase at about the same volume rate as in 1997. Total gross fixed capital formation is thus forecast to increase in 1998 by just over 10¼ per cent in volume and about 13 per cent in value. Such an increase would take the share of gross fixed capital formation to over 22½ per cent of GNP in 1998, easily the highest proportion in the past decade.

Consumption

The seasonally-adjusted index of retail sales rose strongly in the first seven months of 1997, with the value of sales 7.2 per cent and the volume of sales 6.4 per cent higher than in the same period of 1996. Provisional figures for August show a continuing high level of sales, indirect tax receipts suggest that personal consumption remained strong throughout the summer, while unofficial estimates of car sales indicate that this important component of retail sales was substantially higher than in 1996 in August and September. With the announced ending of the scrappage scheme at the end of the year, new car sales are likely to remain strong until December. For 1997 as a whole, retail sales are forecast to increase by about 6.5 per cent in volume and 7.6 per cent in value, and total personal consumption by 6.5 per cent in volume and 7.8 per cent in value, as shown in Table 5.

TABLE 5: Consumption Indicators

	Annual Percentage Change						
	1993	1994	1995	1996	1997 To Date	1997 Forecast	1998 Forecast
Consumption Value							
NIE 1996, Personal Consumption	4.2	9.0	6.3	7.5		7.8	7.8
Retail Sales Index, Value	3.0	7.9	4.8	8.3	7.2	7.6	7.3
Divergence	1.2	1.1	1.5	0.8		0.2	0.5
Consumption Volume							
NIE 1996, Personal Consumption	2.2	6.1	4.2	6.3		6.5	5.5
Retail Sales Index, Volume	1.4	5.5	2.8	6.2	6.4	6.5	5.1
Divergence	0.8	0.6	1.4	0.1		0	0.4
Consumer Prices							
NIE 1996, Personal Consumption Deflator	1.9	2.8	2.0	1.1		1.2	2.2
Retail Sales Index Deflator	1.6	2.3	1.9	2.0	0.8	1.0	2.1
Consumer Price Index	1.5	2.4	2.5	1.6	1.3	1.4	2.0

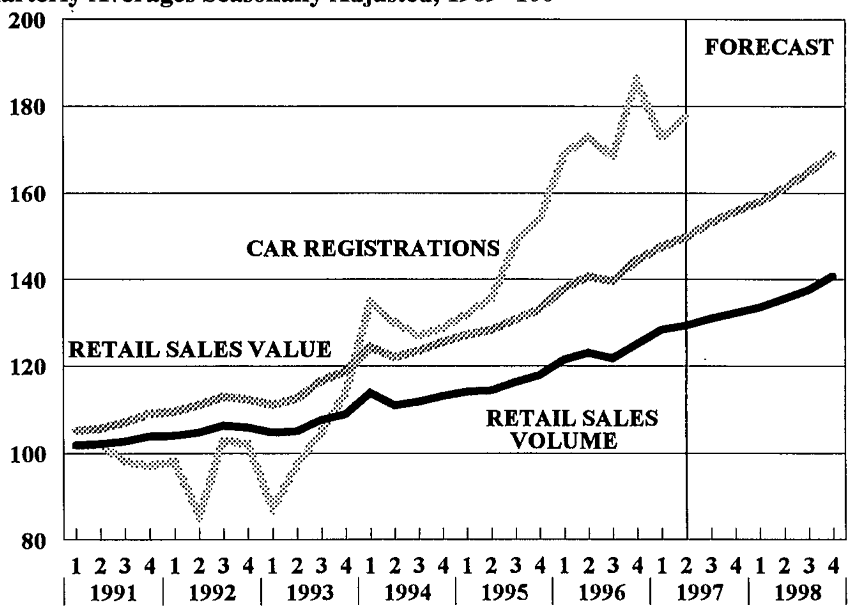
Partly because of a probable levelling off of car sales after the ending of the scrappage scheme, total retail sales seem likely to be relatively sluggish in the first quarter of 1998. However, the fiscal stimulus of reduced personal taxation from the second quarter, and lower interest rates, probably from the third quarter, should ensure that the value of retail sales grows substantially in the remainder of 1998, and that the annual average increase is only slightly slower than this year. Price increases are expected to be significantly higher, at a little over 2 per cent, so the volume of retail sales is projected to grow by about 5.1 per cent.

Assuming that, as usual, personal consumption increases a little faster than retail sales, personal consumption in 1998 is projected to rise by 5½ per cent in volume and 7¾ per cent in value. Such a value increase would imply only a marginal reduction in the personal savings ratio if our income forecasts for 1998 are broadly correct.

The volume of government consumption, or public authorities' net expenditure on current goods and services, is still expected to increase by about 2.6 per cent in 1997, with pay and other price increases taking the value rise to about 7.5 per cent. The likely increase in 1998 depends on decisions yet to be finalised, but on the basis of known policies it seems reasonable to expect government consumption next year to rise by about 2¼ per cent in volume and 6¾ per cent in value.

Figure 2: Consumption

Quarterly Averages Seasonally Adjusted, 1989=100



Final Demand

On the basis of the forecasts already discussed, final demand is likely to increase in 1997 by about 10¾ per cent in value and 10 per cent in volume. The volume growth of export demand is forecast at 13 per cent and that of domestic demand, excluding stock changes, at 7¼ per cent, only marginally lower than the exceptional 7½ per cent recorded in 1996. The import intensity of final demand is expected to remain high, given the rapid increase in investment in machinery and equipment, manufactured exports and consumption of durable goods.

A slight slowing of the rate of growth of final demand is projected for 1998, with increases of 10¼ per cent in value and 8¾ per cent in volume. Export volumes are forecast to rise by 12¼ per cent, while domestic demand volume increases by 5¾ per cent, still high by historical standards. The projected slowdown is expected to have little effect on the import-intensity of fiscal demand.

Imports

Visible imports rose by 6¼ per cent in value in the first five months of 1997, which, on the basis of the provisional price deflator, converts into a volume increase of 8 per cent. As in the case of exports, the rate of growth has tended to increase as the year progresses, and preliminary estimates for June suggest a further rise. However, unlike exports, the import statistics have not been affected by significant classification changes, so that the figures for the first half of the year offer a true comparison with the same period of 1996. For the year as a whole an increase of about 10 per cent in the volume of visible imports would be compatible with both the trend so far and the pattern of final demand. With prices in the second half of the year likely to be higher than in the corresponding period of 1996, little or no change seems probable in the annual average of import prices. Thus a 10 per cent increase is forecast in the value of visible imports in 1997.

The balance of payments adjustment for imports remains firmly negative, and the forecast rate of growth in merchandise imports is only marginally higher than for visible imports. Tourist spending abroad is likely to have risen strongly in 1997, after its relatively small increase last year. On the evidence of the first quarter balance of payments estimates, and in line with the substantial growth forecast for high-technology exports, other service imports, which now include royalty payments, are expected to rise sharply in 1997. Thus total imports of goods and services are forecast to increase by 12¼ per cent in volume and 12¾ per cent in value, as shown in Table 6. This represents a moderate upward revision to our July forecast, largely as a consequence of the larger increase in final demand.

Imports of capital goods are likely to remain strong in 1998 as investment in machinery and equipment continues to rise. A further substantial increase in imports of consumer goods is also likely, although the rate of growth is forecast to be a little less than this year. With the volume of imports for industrial

TABLE 6: Imports of Goods and Services

	1996	% Change		1997	% Change		1998
	£m	Volume	Value	£m	Volume	Value	£m
Capital Goods	4,403	12	12	4,931	11	13	5,572
Consumer Goods	4,739	10	11¾	5,298	9	11¼	5,894
Intermediate Goods:							
Agriculture	581	4	4	604	2	4	628
Other	11,243	10	9½	12,317	9¼	11¼	13,689
Other Goods	1,466	4	4	1,525	3	5	1,601
Total Visible	22,432	10	10	24,675	9	11	27,384
Adjustments	-548			-560			-572
Merchandise Imports	21,884	10¼	10¼	24,115	9¼	11¼	26,812
Tourism	1,355	12	13¾	1,541	12	14¼	1,761
Other Services	5,930	20	21¾	7,220	17½	20	8,657
Imports of Goods and Services	29,169	12¼	12¾	32,876	11	13¼	37,230

processing projected to rise at much the same rate as in 1997, the volume of total visible imports in 1998 is forecast to increase by about 9 per cent in 1998.

Currency movements since our July *Commentary* suggest that the depreciation in the trade weighted value of the Irish pound may be less than we then assumed, and the resultant rise in annual average import prices also less than then seemed likely. The current forecast is for an increase of about 2 per cent in import prices, so that the value of visible imports is projected to increase by about 11 per cent in 1998.

The volume of tourist spending overseas is forecast to increase at the same rate as this year, while a slight fall, to a still very high growth rate of 17½ per cent, is projected for the volume of other services. With the price deflator for service imports likely to be higher than this year, the value of service imports is forecast to increase by almost 19 per cent, compared with just over 20 per cent this year. Total imports of goods and services in 1998 are thus forecast to increase by 11 per cent in volume and 13¼ per cent in value, a slightly smaller volume rise and a slightly faster value rise than in 1997.

Balance of Payments

On the basis of our export and import forecasts, the visible trade balance is forecast to increase by 12 per cent in 1997 and 18 per cent in 1998. However, because of the growing importance of intangibles such as royalties and licence sales, which appear in service imports and the balance of payment adjustment for exports respectively, and where the change of treatment for licence exports in mid-1996 complicates annual comparisons, the most meaningful trend is in the balance of trade in goods and services. The surplus on this balance is forecast to increase by 8¼ per cent in 1997 and 8½ per cent in 1998.

On the pattern of trade projected, confirmed by first quarter balance of payments estimates, it is likely that there will be a strong rise in the profits of foreign-owned multinational firms both in 1997 and 1998. The division between distributed profits and retained earnings is volatile, so the simplifying assumption has been made that each will grow by a similar percentage; namely 15 per cent in 1997 and 14 per cent in 1998. A continuing fall in national debt payments overseas is probable, while other debit factor flows are projected to rise quite strongly in 1997 and less rapidly in 1998.

TABLE 7: Balance of Payments

	1996 £m	Change %	1997 £m	Change %	1998 £m
Visible Trade Balance	7,784	12	8,715	18	10,292
Adjustments	632		1,210		1,322
Merchandise Trade Balance	8,416	18	9,925	17	11,614
Service Trade Balance	-3,787	29¾	-4,916	25½	-6,174
Trade Balance in Goods and Services	4,629	8¼	5,009	8½	5,440
Factor Flows:					
Debit Flows:					
Remuneration of Employees	-51	2	-52	3	-54
Distributed Profits, etc.	-4,521	15	-5,199	14	-5,927
Reinvested Earnings	-1,276	15	-1,467	14	-1,672
National Debt Interest	-915	-12	-805	- 7	-708
Other Debit Flows	-1,899	15	-2,184	10	-2,402
Total Debit Flows	-8,662	12	-9,707	11	-10,763
Credit Flows:					
Remuneration of Employees	241	4	251	4	261
Direct Investment Income	478	5	502	10	552
Other Credit Flows	2,821	13	3,187	12	3,569
Total Credit Flows	3,540	11¼	3,940	11¼	4,382
Net Factor Flows	-5,121	12½	-5,767	10¾	-6,381
Net Current Transfers	1,353	5	1,421	-3	1,378
Balance on Current Account	862	-23	663	-34	437
Capital Transfers	489	10½	540	5	567
Effective Current Balance	1,351	-11	1,203	-16½	1,004

The recorded increase in the earnings, remitted and retained, of Irish owned multinational operations abroad has bean surprisingly small in the recent past. On the basis of the figures available, such direct investment income is forecast to increase by 5 per cent in 1997 and by 10 per cent in 1998. Other credit flows are projected to increase rather faster in both years. Thus, as shown in Table 7, net factor outflows are forecast to increase by just over 12½ per cent in 1997 and by 10¾ per cent in 1998.

Net current transfers, dominated by agricultural subsidies from and budget payments to Brussels, are forecast to rise moderately in 1997 and to fall back slightly in 1998. The surplus on current account is thus forecast to decline in both years, from £862 million in 1996 to £663 million in 1997 and £437 million in 1998.

When capital transfers are included the effective balance is projected to remain in comfortable surplus in both years.

Gross National Product

The expenditure forecasts already discussed indicate that in 1997 real GDP is expected to increase by 8½ per cent and real GNP by about 7¾ per cent . This represents a significant upward revision from our July forecasts of 7½ per cent and 7 per cent increases. Because of revisions to export and import price forecasts, the terms of trade in 1997 are now expected to deteriorate more than was expected in July. Taking this into account, together with the expectation of a small increase in current subsidies, gross national disposable income adjusted for the terms of trade (GNDI), is forecast to increase by about 6 per cent in 1997, an upward revision of ½ per cent.

In 1998, real GDP is projected to grow by about 7¼ per cent and real GNP by 6¾ per cent, almost identical to the July forecasts. However, because the projected deterioration in the terms of trade has been reduced, GNDI is now projected to increase by almost 4½ per cent in 1998, an upward revision of nearly 1 per cent.

Agriculture

Although it is still too early to be certain, it seems likely that adverse weather conditions, allied to wider problems in the sector, will result in a moderate fall in the volume of both gross agricultural output and gross agricultural product in 1997. Even allowing for the continuing rise in forestry output, it is forecast that there will be a reduction of about 3 per cent in the volume of gross domestic product in the broad sector of agriculture, forestry and fishing.

Assuming more normal weather conditions in 1998, it seems probable that there will be some recovery in the volumes of gross agricultural output and product. In the broad agriculture sector, a rise of about 2 per cent in the volume of gross domestic product is projected for 1998.

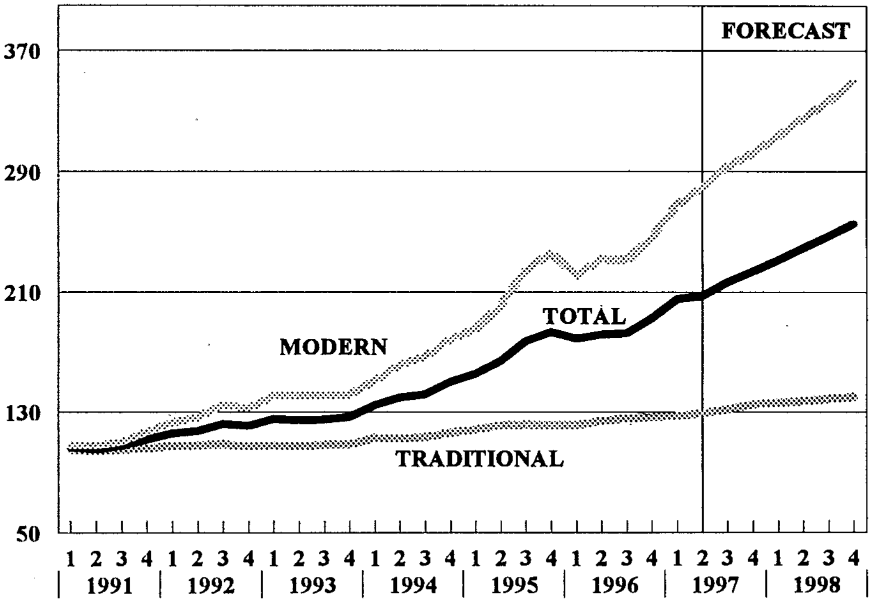
Industry

The volume of production index for manufacturing industry was roughly 15 per cent higher in the first seven months of 1997 than in the corresponding period of 1998. The index has been on a rising trend within 1997, and taking into account a dip in the seasonally-adjusted index in the summer months of 1996, it seems probable that the annual average increase in manufacturing production will be in the region of 16 per cent.

Even allowing for a weather-related decline in turf production, the index for "all industries" is likely to rise by an annual 14 per cent. With building output remaining buoyant, the volume of gross domestic product in the broad industry sector is forecast to increase by over 11 per cent in 1997.

Figure 3: Manufacturing Output

Quarterly Averages Seasonally Adjusted, 1989=100



There should be a significant carryover into 1998 from the rise in the manufacturing index in the course of 1997. With additional capacity continuing to come into production, rises within 1998 are forecast to take the increase in the annual average of the value of production index for manufacturing industry to about 14 per cent. With the expansion of building output expected to be slower than this year, the volume of gross domestic product in the broad industry sector is projected to increase by about 9 per cent in 1998.

Services

With the economy growing strongly, a substantial increase in the volume of service output can be expected in 1997. Although the actual figures may be somewhat distorted by changes in intervention stocks, this factor is likely to be less significant than in 1996, and the outcome is expected to be close to the underlying rise of about 5 per cent in the volume of gross domestic product in the services sector.

With the economy projected to expand a little less rapidly, and with the increase in the volume of public service output expected to remain very moderate, an underlying volume increase of about 4 per cent in the gross domestic product in the total service sector is forecast for 1998.

Employment

The 1997 *Labour Force Survey* shows that the total number at work increased by 41,000 on a principal occupational status basis, and by 51,000 on an ILO basis in the year to April 1997. Although these increases are very substantial, they are slightly lower than had been anticipated, albeit from a 1996 base which has been revised upwards by about 12,000.

However, both revenue returns and other short-term indicators suggest that employment has continued to rise strongly since April. When this is taken into account, together with various timing factors which influenced the Labour Force Survey results for April 1996, it seems probable that the annual average number at work in 1997 will increase by about 54,000, to 1,370,000. Allowing for a slightly faster rate of growth of employees than of self-employment and of part-time than full-time employment, an increase of almost 4½ per cent in the number of full-time equivalent non-agricultural employees is forecast for 1997.

With the rate of growth of domestic demand projected for 1998 rather slower than this year's, the pace of net job creation is likely to be less rapid Nevertheless, the annual average number at work is forecast to increase by about 44,000 to 1,414,000, as shown in Table 8. This implies a rise of about 3½ per cent in the effective number of non-agricultural employees.

TABLE 8: Employment and Unemployment

A: Mid-April Estimates '000

	1995	1996	1997	1998	1999
Agriculture	143	138	134	132	130
Industry	349	355	386	406	422
Services	756	804	818	850	875
Total at Work	1,248	1,297	1,338	1,388	1,427
Unemployed	192	191	179	166	158
Labour Force	1,439	1,488	1,517	1,554	1,585
Unemployment Rate %	12.2	11.9	10.3	9.5	9.0
Live Register	276	281	256	246	239

B: Annual Averages '000

	1995	1996	1997	1998
Agriculture	140	136	133	131
Industry	354	374	400	416
Services	782	806	837	867
Total at Work	1,276	1,316	1,370	1,414
Unemployed	189	185	172	162
Labour Force	1,465	1,501	1,542	1,576
Unemployed Rate %[1]	12.2	11.2	10.0	9.3
Live Register	278	279	255	246

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

The labour force is continuing to increase rapidly, with the natural rise in the number of working age tending to be augmented by higher female participation rates and a significant level of net immigration. Nevertheless, the rate of net job creation is such that it should lead to a gradual reduction in unemployment. The *Labour Market Survey* places the number of unemployed according to the internationally recognised ILO definition at 159,000, or 10.3 per cent of the labour force in April 1997. This implies that the standardised unemployment rate is likely to average about 10 per cent over 1997 as a whole, and to fall below 10 per cent in 1998 for the first time since the standardised rate was adopted in 1988. The Survey also confirms that a substantial proportion of the total reduction in unemployment over the past year represents a fall in the number of long-term unemployed.

Incomes

With the volume of gross domestic product in the broad agriculture sector forecast to fall in 1997 and annual average price levels less favourable than in 1996, income arising in agriculture, forestry and fishing is forecast to fall by about 3 per cent, in spite of a rise in subsidies. A small rise in the volume of output, allied to more favourable price relationships, is projected to result in an increase of about 5 per cent in agricultural incomes in 1998.

Statistical evidence shows that in most sectors of the economy average pay increases have remained very moderate, in spite of the prolonged economic boom. Even allowing for substantial pay rises in a few public service sectors, such as nursing, and for anecdotal evidence of significant increases in isolated private sector occupations, it seems unlikely that average non-agricultural wages, salaries and pensions will rise by more than 3¾ per cent in 1997. With average full-time equivalent employment growing by almost 4½ per cent, aggregate non-agricultural earnings are forecast to increase by about 8½ per cent. Average pay increases in 1998 seem likely to be in the region of 3½ per cent, and with effective employment projected to rise by a further 3½ per cent, aggregate non-agricultural earnings are forecast to increase by 7 per cent, as shown in Table 9.

TABLE 9: Personal Disposable Income

	1996	Change		1997	Change		1998
	£m	%	£m	£m	%	£m	£m
Agriculture, etc.	2,426	-3	-73	2,353	5	118	2,471
Non-Agricultural Wages, etc.	19,477	8½	1,656	21,133	7	1,479	22,612
Other Non-Agricultural Income	4,273	9	386	4,659	7¾	358	5,017
Total Income Received	26,176	7½	1,969	28,145	7	1,955	30,100
Current Transfers	6,260	10	628	6,888	5¼	357	7,245
Gross Personal Income	32,436	8	2,597	35,033	6½	2,312	37,345
Direct Personal Taxes	6,883	11	758	7,641	4½	352	7,993
Personal Disposable Income	25,553	7¼	1,839	27,392	7¼	1,960	29,352
Consumption	23,318	7¾	1,819	25,137	7¾	1,961	27,098
Personal Savings	2,235	1	20	2,255	0	-1	2,254
Savings Ratio	8.7			8.2			7.7

Other non-agricultural income, which includes receipts from dividends, interest and rents and earnings from self-employment, is forecast to rise by about 9 per cent in 1997, reflecting the buoyancy of the economy, and by about 7¾ per cent in 1998, as domestic demand grows less rapidly. Total personal income earned by economic activity is thus forecast to increase by about 7½ per cent in 1997 and by just under 7 per cent in 1998.

Personal receipts from current transfer payments have risen very rapidly in 1997, due in part to compensation payments for past injuries resulting from the actions of state agencies. With such compensation payments unlikely to rise as strongly in 1998, the rate of increase in total personal transfers is forecast to decline from 10 per cent this year to about 5¼ per cent in 1998.

Direct personal taxation now seems likely to increase by an astonishing 11 per cent in 1997, as employment growth, the erosion of discretionary allowances and improved collection outweigh the moderate reductions in effective tax rates in the last budget. With these factors likely to operate less strongly in 1998, and on the assumption that there will be somewhat larger tax cuts in the forthcoming budget, direct personal taxes are projected to rise by just over 4½ per cent next year.

Thus although gross personal income is forecast significantly less rapidly in 1998 than in 1997, the forecast increase in personal disposable income is similar in the two years, at just under 7¼ per cent. The expected increase in the value of personal consumption of about 7¾ per cent in each year thus implies that personal savings will show little absolute change between 1996 and 1998, and that the personal savings ratio will decline by about ½ per cent in both 1997 and 1998. Such a decline appears quite a reasonable expectation in current economic circumstances, especially as mortgage and other retail interest rates are likely to fall in the second half of 1998. Although the forecast savings ratios are low by historical standards, the fact that they will be offset by high and rising government savings suggest that they pose little threat of rising inflationary pressures.

Consumer Prices

The continued low rate of price inflation through the summer, with the August consumer price index only 1 per cent above its value twelve months previously, tends to confirm that the lagged trade weighted value of the Irish pound has a greater influence on domestic price trends than the sterling exchange rate in isolation. As can be seen from Table 10, the consumer price index excluding housing rose by only 0.9 per cent in the year to August. The quarterly decline in the housing index reflects the removal of water charges, which should continue to exert a downward influence on the twelve monthly rise in the housing index for the remainder of 1997 and the first half of 1998.

Unless there are unexpected shocks, it seems likely that the annual average rise in the total consumer price index in 1997 will be about 1.4 per cent, with non-housing items increasing by about 1.2 per cent. The course of prices in 1998 will be influenced to some extent by currency developments. Allowing for some depreciation in the trade-weighted value of the Irish pound, and taking into account the very low carryover from 1997, an increase of about 2.1 per cent in the annual average index of non-housing items is forecast for 1998. The rise in the housing index will be constrained both by the absence of water charges and by lower mortgage interest rates from mid-year. When these are included it seems

TABLE 10: Consumer Price Index - Recent Trend and Forecast

	Quarterly Trend								Annual		
	1995	1996				1997			1996	1997	1998
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.			
Index Nov. 1989 = 100											
Housing	118.8	116.7	117.1	117.6	120.0	119.8	123.0	121.0	117.9	121.5	122.7
Other	115.6	116.3	116.8	117.4	117.9	118.0	118.3	118.4	117.1	118.5	121.0
Total CPI	115.8	116.3	116.8	117.4	118.0	118.1	118.6	118.6	117.1	118.7	121.1
Annual % Change											
Housing	5.9	3.2	-1.8	-2.5	1.0	2.7	5.0	2.9	-0.1	3.1	1.0
Other	2.1	1.9	1.7	1.8	2.0	1.5	1.3	0.9	1.8	1.2	2.1
Total CPI	2.4	2.0	1.4	1.5	1.9	1.5	1.5	1.0	1.6	1.4	2.0
Quarterly % Change											
Housing	-1.7	-1.8	0.3	0.4	2.0	-0.2	2.7	-1.7			
Other	0.3	0.6	0.4	0.5	0.4	0.1	0.2	0.1			
Total CPI	0.1	0.4	0.4	0.5	0.5	0.1	0.2	0			

probable that the total consumer price index will increase by only 2 per cent from its 1997 level on an annual average basis.

Public Finances

The strength of tax receipts in 1997 has far exceeded most estimates made at budget time, including our own. After due allowance for changes in timing, mainly affecting VAT, and for the diversion to local authorities of most motor tax receipts, it now seems probable that total Exchequer tax receipts in 1997 will be in the region of £13,950 million, roughly £700 million above the budget target, and about 11½ per cent above 1996 receipts.

It has already been announced that, following the same practice as in 1996, roughly £250 million transferred to effective debt reduction will be treated as current Central Fund expenditure in 1997. Allowing for this, and for some higher than budgeted supply service expenditure, mainly related to additional compensation payments, total net current expenditure in 1997 seems likely to be about 7 per cent higher than in 1996, and about £170 million above the budget estimate. This would result in a current budget surplus of over £700 million compared with the budget forecast of under £200 million. Assuming some overrun on capital spending, again due to the bringing forward of future liabilities, the Exchequer Borrowing Requirement seems likely to be recorded as just over £100 million. The more relevant General Government Balance, the key figure in relation to the Maastricht criteria, is likely to be in surplus to the extent of at least £200 million, or almost ½ per cent of GDP.

There are several reasons to expect revenue receipts to rise less rapidly in 1998. In the first place the growth in domestic demand is likely to be slower than in 1997, with tax-intensive car sales in particular likely to be static at best. Secondly, the boost to VAT receipts from timing charges in collection will be significantly smaller in 1998, while the effect on income tax receipts from the process of reducing mortgage interest relief to the standard tax-rate will be coming to an end. Finally, cuts in effective income tax rates and in the standard rate of corporation tax will almost certainly be deeper than in 1997.

However, even taking all these factors into account, tax revenue is forecast to rise by about 6¼ per cent, and total revenue by just over 6 per cent, in 1998. With the national debt almost static in absolute terms and further savings probable through debt management, the cost of debt servicing should continue to decline, although other Central Fund expenditure, including contributions to the EU budget, are likely to rise. Assuming that supply service spending is kept under strict control, so that its value growth is lower than in 1997, total current expenditure is projected to increase by about 4.7 per cent.

On this basis, the current budget surplus in 1998 could be between £900 million and £1,000 million. Assuming a moderate increase in borrowing for capital purposes, the EBR seems likely to be eliminated in 1998, while the General Government Surplus could amount to about 0.7 per cent of GDP.

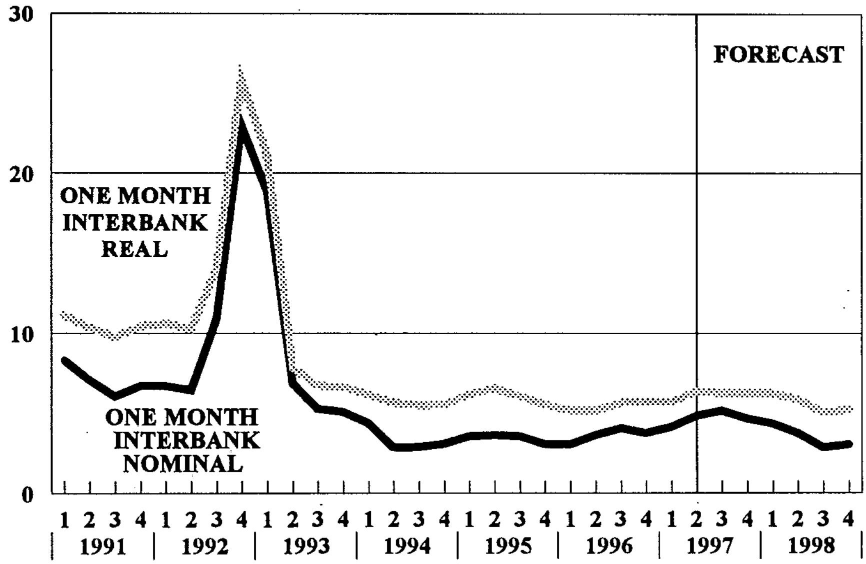
Interest Rates

So far in 1997, Irish short-term interest rates have maintained a substantial differential over German rates, while the differential on long-term interest rates has been eroded to about ½ per cent. Little change in this situation, or in the absolute level of interest rates, is expected over the closing months of 1997.

The course of interest rates during 1998 will be dominated by the approach of EMU, and, in particular by currency movements in the period before the bilateral exchange rates of participating countries are fixed in May. For forecasting purposes, it is assumed that there will be little change in current Irish interest rates, either by long or short term, in the early months of 1998. With regard to long-term rates it is assumed that the further narrowing of the differential after May will come about through a slight rise in German rates, leaving Irish rates virtually unchanged. For the more crucial short-term rates, it is assumed that the probable rise in German rates in the first half of 1998 will not be sufficient to close the differential, and that Irish short rates will accordingly have to decline by between 1 and 1½ per cent in the period after May 1998, with a similar reduction in associated mortgage and retail interest rates.

Figure 4: Interest Rates

Per Cent Per Annum, Quarterly Averages



General Assessment

All available evidence suggests that the rise in real GNP in 1997 will at least equal the average growth rate of 7½ per cent achieved over the preceding three years. This GNP growth will be accompanied by an increase of about 4½ per cent in annual average employment, a moderate reduction in unemployment and by significant net immigration. Despite the fourth successive year of very high economic growth, inflation remains subdued, with the annual average increase in the consumer price index almost certain to be less than 1½ per cent. Extremely buoyant tax revenues should ensure a significant General Government Surplus, and bring the debt/GDP ratio, as measured by Maastricht criteria, to well under 70 per cent.

Obviously, the prospects for 1998 contain a higher proportion of unknowns. International uncertainties include the possible impact of the Asian financial crisis and the related fall in western share prices on the rates of growth of world output, trade and investment; the pace of the continental European economic recovery; and some residual doubts on the make up of the initial EMU membership. They also include the as yet unresolved issue of the nature of the UK relationship with EMU, and the impact of this evolving relationship on the value of sterling.

However, unless the outcome of most of these uncertainties is considerably more unfavourable than now seems likely, the Irish economy should again grow rapidly in 1998. On assumptions which appear realistic, a growth rate of 6¾ per cent is projected, with average employment rising by over 3 per cent, consumer price inflation averaging about 2 per cent and the General Government Surplus increasing slightly.

The ability of the Irish economy to deliver very high, balanced, non-inflationary growth over a sustained period of at least four, probably five, and quite possibly several more years has been truly remarkable. So rapid has been the transformation of the economy that it is hardly surprising that attitudes to many economic and social problems have not yet fully adjusted to the new situation. Just as it took some time after 1989 to realise that control of the public finances, while remaining vital, was no longer the sole over-riding imperative of economic management, so there is likely to be some delay before the general acceptance that labour supply rather than the demand for labour is rapidly becoming the key factor influencing Ireland's sustainable growth rate.

Of course there is still a need to ensure steady and substantial expansion in the demand for labour, as there will be a significant natural increase in the labour force for several years to come, and the level of unemployment is still too high for any complacency. Thus competitiveness must be maintained, through pay moderation, infrastructural investment, and the adoption of a realistic entry rate to EMU. However, labour constraints are already beginning to reach the point where further stimulation of demand, without corresponding measures to increase labour supply, could prove counterproductive for long-term economic prospects.

There is considerable anecdotal evidence that labour shortages are beginning to emerge at both ends of the skills spectrum. At the upper end, the availability of well educated young people, many with relevant technical skills, has been a major factor in attracting the high technology firms, both foreign and Irish, which have provided much of the economic dynamism of recent years. The short-term problem appears to be in relation to relevant skills, and a modest transfer of resources could ease the situation and thus facilitate the continued rapid growth of the high technology sectors. The medium-term consideration is more important, in that it is essential that plans are made to ensure that the level of provision and uptake of third-level education is at least maintained even if EU assistance is severely curtailed after 1999.

The situation at the less skilled end of the labour market is interesting. Despite still high levels of unemployment, on any measure, many firms are reporting difficulties in recruiting semi-skilled or unskilled personnel. In some cases this may well be due to the offering of uncompetitive wages or otherwise unsatisfactory working conditions. However there does appear to be a problem, even for many firms offering industry standard rates of pay. This suggests that although the replacement ratio has been reduced over the past decade, it remains high enough to affect labour supply. At the boundary between unemployment and low-skilled work the marginal rate of tax/benefit-loss is still extremely high, and for many potential employees, especially those who are neither young nor single, can operate as a powerful disincentive to work.

When unemployment was very high, this disincentive effect was not of great economic significance, as it chiefly affected the determination of which individuals were unemployed rather than the total number out of work.

However, with the labour market much stronger, and with the flow of relatively unskilled young people onto the labour market much reduced by the rising level of participation in further education, it is now affecting both the level of unemployment and the supply of available lower-skill labour.

Thus there is now a very strong case for intensifying the effort to break down the barriers which are discouraging the unemployed from seeking work. A balanced approach to this issue would need to contain several interlinked elements. As research has shown, some of the resources ostensibly devoted to retraining the unemployed in the past have been used in schemes of doubtful efficacy, although other programmes have proved valuable. Thus resources in this area need to be focused more effectively on raising relevant educational and skill levels among the existing long-term unemployed. At the same time a greater effort is required to improve the placement into sustainable jobs of the unemployed, especially those who have been retrained. A more effective placement system, in the context of the improving labour market, would justify some tightening of the job-seeking criteria for drawing unemployment assistance, which would not have been legitimate in the past when jobs were simply unavailable. The final necessary element in a balanced package is a significant reduction in the effective marginal tax/benefit-loss rate over the relevant income range to provide a lasting improvement in the incentive to work.

In the July *Commentary*, we argued that the forthcoming Budget should be prudent, in aiming for a significant General Government Surplus, but that within that constraint care should be taken to be seen to fully honour the tax reduction commitments of *Partnership 2000*. These fiscal requirements still hold. Normally, the precise nature of tax reductions, as with other questions of income distribution, is essentially a matter of political choice with little macro-economic relevance. In present circumstances, however, there is a strong economic, rather than political, case for tax cuts to be designed to reduce the very high marginal tax/benefit rates at low income levels, rather than the less excessive marginal rates on high incomes. Concentration in this and future Budgets on increasing basic personal allowances, while reviving the process of shifting child benefits towards a universal, taxable, entitlement could contribute significantly to the sustainable long-term growth of the Irish economy.

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
1990	149	198	118	14325	19539	192	48	144
1991	154	209	118	14990	19652	194	51	143
1992	170	244	121	15682	22464	194	52	142
1993	179	266	121	16161	21391	194	55	140
1994	202	310	128	16844	26863	199	58	141
1995	242	399	136	17598	30575	212	67	145
1996	262	439	140	18935	33725	221	74	148
1997								

Quarterly Averages or Totals

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	223.5	74.0	149.5
IV	282.3	467.4	143.9	5080	10175	224.6	75.6	148.9
1997 I	295.9	516.4	133.3	5116	8081	225.9	76.9	149.1
II	305.5	527.6	148.3	4491	9600			
III								
IV								

Quarterly Averages or Totals (Seasonally Corrected)

1994 I	192.1	283.1	123.9	4159	No Seasonal Pattern	196.8	56.4	140.1
II	199.5	302.3	123.3	4239		198.3	57.4	140.6
III	202.7	313.2	124.0	4235		199.1	58.4	141.0
IV	212.7	334.4	127.2	4222		203.2	60.4	142.8
1995 I	221.1	349.7	129.7	4336		207.1	62.4	144.5
II	234.7	377.9	132.5	4371		210.9	65.3	145.6
III	254.0	421.0	133.4	4464		212.3	68.0	144.4
IV	260.3	440.8	132.9	4437		215.6	70.3	145.4
1996 I	253.3	417.5	133.2	4716		218.1	72.8	145.5
II	260.3	434.6	135.7	4685		221.1	73.6	147.1
III	261.2	433.8	137.9	4723		222.2	74.7	148.3
IV	273.2	460.1	138.6	4808		223.7	74.7	148.7
1997 I	291.3	492.3	139.7	4717		228.0	77.1	150.8
II	296.0	510.5	141.3	4720				
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	
145.0	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
221.3	234.5	140.0	128.2	107.8	175.6	103.6	279.2	1996
								1997

Quarterly Averages

187.5	211.2	126.6	121.0	107.1	191.2	98.3	289.5	1994 I
194.9	216.0	134.5	122.1	107.2	182.1	97.6	279.7	II
173.4	189.8	123.4	121.3	105.7	179.7	97.7	277.4	III
200.9	217.3	136.3	124.9	108.7	180.2	97.8	277.9	IV
205.0	234.2	128.3	123.3	106.5	180.4	97.3	277.7	1995 I
215.2	237.7	140.0	124.7	106.6	176.5	98.6	275.1	II
204.0	219.1	129.7	125.2	106.6	177.0	100.6	277.7	III
231.8	247.4	139.8	126.7	107.7	180.3	102.4	282.7	IV
222.9	238.6	130.6	125.5	106.3	180.4	102.7	283.1	1996 I
228.2	242.3	142.3	127.9	107.9	176.7	105.3	282.0	II
200.6	208.0	130.5	126.5	106.1	173.1	104.9	278.0	III
234.9	243.4	142.3	132.6	110.8	166.7	100.7	267.5	IV
244.8	264.4	131.8	130.3	130.3	161.7	99.0	260.7	1997 I
					154.8	99.2	254.0	II
								III
								IV

Quarterly Averages (Seasonally Corrected)

183	198	130	122	108	190	99	289	1994 I
189	207	129	124	108	185	98	283	II
190	212	130	122	107	182	97	280	III
196	218	132	121	105	180	98	278	IV
200	221	132	125	108	178	98	275	1995 I
208	228	134	127	108	178	98	277	II
223	244	136	126	108	178	100	278	III
225	247	135	122	104	180	102	281	IV
218	225	135	127	108	178	103	281	1996 I
220	233	136	127	69	178	104	283	II
220	229	137	127	107	178	106	284	III
228	242	137	127	106	169	101	270	IV
242	255	137	128		161	100	261	1997 I
					157	98	256	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	1990=100	1990=100	1990=100	1990=100	Jan 1988=1000
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	108.2	112.7	105.6	93.7	1992.9
1996	117.1	120.6	116.5	104.0	111.4	105.1	94.3	2494.3
1997								

Quarterly Averages

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	106.5	112.2	105.6	94.1	2055.7
IV	115.8	121.3	116.3	108.1	113.2	105.5	93.2	2159.2
1996 I	116.3	121.3	117.5	109.5	113.4	108.1	95.3	2304.7
II	116.8	121.2	116.9	106.9	112.1	106.6	95.1	2496.1
III	117.4	120.3	116.1	100.4	111.1	103.8	93.5	2511.0
IV	118.0	119.6	115.0	99.0	109.1	101.9	93.4	2665.6
1997 I	117.4	118.8	114.9	96.9	110.8	103.9	93.8	2891.3
II	118.6	119.6		98.8				3127.4
III								3543.3
IV								

Quarterly Averages (Seasonally Corrected)

1994 I	111.3	117.0	113.5	107.5	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II	112.0	116.7	113.4	108.1				
III	112.8	116.5	113.2	106.1				
IV	113.3	117.2	113.9	105.4				
1995 I	114.1	118.3	115.3	106.8				
II	115.1	119.2	116.1	107.5				
III	115.5	120.2	115.3	108.2				
IV	116.0	121.7	116.9	110.5				
1996 I	116.4	121.3	117.5	108.4				
II	116.7	120.9	116.6	104.0				
III	117.2	120.3	116.2	102.1				
IV	118.2	119.9	115.7	101.2				
1997 I	118.2	118.8	114.4	95.9				
II	118.5	119.3		96.5				
III								
IV								

Consumption Indicators			Government			Interest Rates		
25	26	27	28	29	30	31	32	
Cars Regis-tered (New+S/H)	Retail Sales Value	Retail Sales Volume	Current Revenue	Current Expendi-ture	Current Deficit	1 month inter Bank Rate	Long term Gilt Rate	
Total	1990=100	1990=100	£m	£m	£m	Per cent per annum	Per cent per annum	
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	118.0	109.3	11203	11188	-15	5.7	8.2	1994
124595	123.7	112.4	11667	12029	362	6.1	8.3	1995
153833	134.0	119.4	12954	13522	568	5.8	8.1	1996
								1997

Quarterly Averages or Totals

25	26	27	28	29	30	31	32	
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	121.0	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
21507	143.9	127.4	3372	3590	218	5.7	6.9	IV
51641	134.8	120.0	3101	3200	99	5.7	6.8	1997 I
49546	141.2	125.0	4151	3083	-1068	6.3	6.8	II
			3523	3563	40.0			III
								IV

Quarterly Averages or Totals (Seasonally Corrected)

25	26	27	28	29	30	31	32	
29486	118.1	110.4	2983	2837	-146	No Seasonal Pattern	No Seasonal Pattern	1994 I
28949	116.0	107.6	2970	2720	-250			II
28868	117.3	108.4	2591	2829	238			III
29260	119.2	109.7	2701	2775	74			IV
29217	120.9	110.6	2788	2684	-104			1995 I
30171	122.0	111.0	3046	3034	-12			II
33277	124.2	112.7	2864	3031	167			III
34968	126.6	114.3	2968	3255	287			IV
37378	131.2	117.8	2936	3043	107			1996 I
38643	133.6	119.3	3159	3142	-16			II
37740	132.7	118.1	3560	3106	-454			III
42047	137.0	121.0	3279	3342	63			IV
38396	140.0	124.0	3488	3222	-266			1997 I
39409	142.0	126.0	3745	4280	535			II
			3570	3801	231			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£
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
1997								
	End-Period Totals				Quarterly Averages			
1994 I	17328.3	2723.7	15249.3	4175.7	68.33	0.9305	1.6588	2.6729
II	17540.1	2901.6	15759.5	4362.7	67.35	0.9133	1.6162	2.6708
III	18187.1	3230.6	16067.8	4442.8	69.48	0.9695	1.7062	2.6561
IV	18824.9	3285.7	16655.2	4172.6	66.01	0.9771	1.4682	2.4241
1995 I	19212.0	3031.4	17454.4	4192.0	66.16	0.9777	1.4984	2.4263
II	19333.2	2939.9	18383.8	4366.6	67.12	1.0168	1.6038	2.2971
III	20207.0	3279.6	19036.5	5213.2	68.48	1.0255	1.6008	2.4092
IV	21356.3	3332.1	19916.6	5353.6				
1996 I	22088.2	3873.5	20584.8	5394.9	68.33	0.9305	1.6588	2.6729
II	22669.5	3572.2	21595.3	5113.2	67.35	0.9133	1.6162	2.6708
III	23853.7	3019.0	22218.0	5249.0	69.48	0.9695	1.7062	2.6561
IV	25824.3	2814.0	23548.0	5443.0	66.01	0.9771	1.4682	2.4241
1997 I	27230.3	3013.0	25647.0	5817.3	66.16	0.9777	1.4984	2.4263
II	31627.3	3253.0	19156.0	4960.0	67.12	1.0168	1.6038	2.2971
III					68.48	1.0255	1.6008	2.4092
IV								
	End-Period Totals (S.C.)				Quarterly Averages (S.C.)			
1994 I	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern	No Seasonal Pattern
II								
III								
IV								
1995 I								
II								
III								
IV								
1996 I								
II								
III								
IV								
1997 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	

41	42	43	44	45	46	47	
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	998	1994
20619.1	27824.7	7205.8	146.3	184.1	-4508	1070	1995
22346.3	30084.4	7738.1	160.4	200.1	-5121	862	1996
							1997

Av. Monthly Totals — Quarterly Averages or Totals

41	42	43	44	45	46	47	
1415	1868	453	125	150	-994	149	II
1345	1827	482	119	145	-687	557	III
1571	2115	544	139	173	-702	662	IV
1657	2155	498	142	174	-1163	-19	1995 I
1650	2281	631	139	178	-1192	360	II
1625	2255	630	139	179	-1084	377	III
1941	2584	643	165	206	-1070	352	IV
1946	2589	643	165	201	-1460	-199	1996 I
1862	2514	652	159	198	-1305	28	II
1700	2343	643	147	189	-1177	578	III
1941	2582	642	171	212	-1179	454	IV
1981	2586	606	171	209	-1749	-391	1997 I
2130		698					II
							III
							IV

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

41	42	43	44	45	46	47	
1385.5	1784.6	399.2	123.9	144.8	No Seasonal Pattern	No Seasonal Pattern	1994 I
1413.1	1838.0	424.9	125.8	149.5			II
1419.8	1915.2	495.5	126.0	153.0			III
1542.5	2023.7	481.2	135.5	163.9			IV
1599.4	2184.9	585.5	137.6	174.0			1995 I
1651.4	2252.8	601.4	140.7	178.3			II
1740.5	2351.3	610.8	148.4	188.0			III
1898.3	2491.5	593.2	159.6	196.4			IV
1872.4	2594.7	722.3	158.5	198.8			1996 I
1865.8	2485.4	619.6	161.3	198.0			II
1802.1	2463.1	661.0	155.7	200.3			III
1871.3	2471.7	600.4	163.0	202.0			IV
1901.4	2539.1	666.4	165.2	205.5			1997 I
1871.3	2471.7	600.4					II
							III
							IV