

SUMMARY

Since the publication of the last *Commentary* in June, the Central Statistics Office has produced revised figures for the National Accounts for the years 2002 through 2004. In the case of both 2002 and 2003, the revisions suggest that economic growth was higher than had previously been thought. For 2004, the opposite is the case. The outturn for GDP growth in 2004 has now been put at 4.5 per cent by the CSO, lower than the 5.3 per cent rate reported in the Summer *Commentary*.

Given the slower pace of economic growth in 2004, the apparent continuation of this slower trend in the first quarter of 2005 and the increasing oil price, it might have been expected that we would have revised downward our forecast for GDP volume growth in 2005. The actual downward revision is very modest and we are now forecasting a figure of 5.7 per cent (down from 6 per cent in the Summer *Commentary*). The main reason for staying with a largely optimistic view is the increase in employment recorded by the CSO in the *Quarterly National Household Survey* (Q2). The year-on-year employment increase of 93,000 (5.1 per cent) suggests that the economy is performing extremely well. For 2006, our GDP volume forecast is 5 per cent, down from 2005 but still high.

For employment, we forecast an average of 1.945 million in 2005, an increase of 80,000 over the 2004 average. We forecast employment growth to be lower in 2006 (49,000), mainly as a result of a marginal decline in house construction. The unemployment rate is forecast to remain at 4.2 per cent in 2005 and 2006. As regards CPI inflation, our forecast for 2005 is an average rate of 2.3 per cent, rising to 2.5 per cent in 2006.

The international context is somewhat mixed. In spite of oil price increases and Hurricanes Katrina and Rita, forecasts for global growth remain upbeat mainly because of strong performances in the US and China. However, closer to home, the UK economy is now performing less well than in recent times and hopes of a sustained recovery in Germany were dealt a blow by the inconclusive election result. The reduced probability of a sustained recovery in Germany has led us believe that any increase in interest rates in 2006 is now more likely to happen in the final quarter. This will be positive for growth in Ireland. In this context we should also note that long-term interest rates have been falling in Europe, thereby providing an additional positive impulse. It is anticipated that this will contribute to a partial recovery in the Euro Area in 2006, with GDP growth rising to 1.8 per cent (from a forecast rate of 1.2 per cent in 2005).

While our overall assessment of the economy is favourable, there are two concerns as we look forward. First, while recent employment gains have been impressive, the fact that they have been so heavily concentrated in one sector (construction) raises a question of sustainability. Second, global imbalances remain a large threat to the world economy and potentially much more so than oil prices. With the US current account deficit over 6 per cent of GDP, the possibility remains of a dollar decline and/or a sharp fall in US imports, both of which would be damaging to Ireland.

PRELIMINARY NATIONAL ACCOUNTS 2004

A: Expenditure on Gross National Product

	2003	2004	Change in 2004				
	€m	Preliminary €m	€m Value	Volume	Value	% Price	Volume
Private Consumer Expenditure	65,227	68,540	3,314	2,479	5.1	1.2	3.8
Public Net Current Expenditure	19,014	20,807	1,793	456	9.4	6.9	2.4
Gross Fixed Capital Formation	31,948	36,290	4,342	2,544	13.6	5.2	8.0
Exports of Goods and Services (X)	116,379	123,519	7,140	8,095	6.1	-0.8	7.0
Physical Changes in Stocks	1,218	793	-425	-452			
Final Demand	233,786	249,949	16,164	13,122	6.9	1.2	5.6
less:							
Imports of Goods and Services(M)	94,087	100,687	6,600	7,121	7.0	-0.5	7.6
less:							
Statistical Discrepancy	602	706	105	-300			
GDP at Market Prices	139,097	148,556	9,459	6,301	6.8	2.2	4.5
less:							
Net Factor Payments (F)	22,723	24,306	1,583	1,656	7.0	-0.3	7.3
GNP at Market Prices	116,374	124,250	7,876	4,645	6.8	2.7	4.0

B: Gross National Product by Origin

	2003	2004	Change in 2004	
	€m	Preliminary €m	€m	%
Agriculture, Forestry, Fishing	2,819	2,912	93	3.3
Non-Agricultural: Wages, etc.	53,484	58,220	4,736	8.9
Other:	52,201	54,291	2,090	4.0
Adjustments: Stock Appreciation	434	-309		
Financial Services	0	0	0	0.0
Statistical Discrepancy	602	706	105	17.4
Net Domestic Product	109,540	115,820	6,281	5.7
less:				
Net Factor Payments	22,723	24,306	1,583	7.0
National Income	86,817	91,514	4,698	5.4
Depreciation	14,645	15,756	1,111	7.6
GNP at Factor Cost	101,462	107,270	5,809	5.7
Taxes less Subsidies	14,912	16,980	2,067	13.9
GNP at Market Prices	116,374	124,250	7,876	6.8

C: Balance of Payments on Current Account

	2003	2004	Change in 2004
	€m	Preliminary €m	€m
Exports (X) less Imports (M)	22,292	22,832	540
Net Factor Payments (F)	-22,723	-24,306	-1,583
Net Transfers	432	306	-126
Balance on Current Account	1	-1,168	-1,169
as % of GNP	0.0	-0.9	-0.9

FORECAST NATIONAL ACCOUNTS 2005

A: Expenditure on Gross National Product

	2004	2005	Change in 2005				
	Preliminary €m	Forecast €m	€m				
			Value	Volume	Value	% Price	Volume
Private Consumer Expenditure	68,540	73,901	5,361	3,770	7.8	2.2	5.5
Public Net Current Expenditure	20,807	22,550	1,743	707	8.4	4.8	3.4
Gross Fixed Capital Formation	36,290	40,108	3,818	2,234	10.5	4.1	6.2
Exports of Goods and Services (X)	123,519	129,407	5,888	5,928	4.8	0.0	4.8
Physical Changes in Stocks	793	295	-498	175			
Final Demand	249,949	266,260	16,311	12,813	6.5	1.3	5.1
less:							
Imports of Goods and Services (M)	100,687	106,705	6,018	5,350	6.0	0.6	5.3
less:							
Statistical Discrepancy	706	-1,334	-2,040	-1,007			
GDP at Market Prices	148,556	160,889	12,333	8,471	8.3	2.5	5.7
less:							
Net Factor Payments (F)	24,306	25,007	701	1,474	2.9	-3.0	6.1
GNP at Market Prices	124,250	135,883	11,633	6,997	9.4	3.5	5.6

B: Gross National Product by Origin

	2004	2005	Change in 2005	
	Preliminary €m	Forecast €m	€m	%
Agriculture, Forestry, Fishing	2,912	2,950	38	1.3
Non-Agricultural: Wages, etc.	58,220	64,165	5,945	10.2
Other:	54,291	59,357	5,066	9.3
Adjustments: Stock Appreciation	-309	-510		
Financial Services	0	0	0	0
Statistical Discrepancy	706	-1,334	-2,040	-288.9
Net Domestic Product	115,820	124,628	8,808	7.6
less:				
Net Factor Payments	24,306	25,007	701	2.9
National Income	91,514	99,622	8,108	8.9
Depreciation	15,756	17,148	1,392	8.8
GNP at Factor Cost	107,270	116,770	9,500	8.9
Taxes less Subsidies	16,980	19,113	2,133	12.6
GNP at Market Prices	124,250	135,883	11,633	9.4

C: Balance of Payments on Current Account

	2004	2005	Change in 2005
	€m	Forecast €m	€m
Exports (X) less Imports (M)	22,832	22,702	-130
Net Factor Payments (F)	-24,306	-25,007	-701
Net Transfers	306	209	-97
Balance on Current Account	-1,168	-2,095	-927
as % of GNP	-0.9	-1.5	-0.7

FORECAST NATIONAL ACCOUNTS 2006

A: Expenditure on Gross National Product

	2005	2006	Change in 2006				
	Forecast €m	Forecast €m	€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	73,901	80,220	6,319	4,286	8.6	2.6	5.8
Public Net Current Expenditure	22,550	24,500	1,950	812	8.6	4.9	3.6
Gross Fixed Capital Formation	40,108	42,701	2,593	1,361	6.5	3.0	3.4
Exports of Goods and Services (X)	129,407	138,014	8,607	6,276	6.7	1.7	4.8
Physical Changes in Stocks	295	290	-5.0	175			
Final Demand	266,260	285,724	19,464	12,910	7.3	2.3	4.8
less:							
Imports of Goods and Services (M)	106,705	113,803	7,099	5,019	6.7	1.9	4.7
less							
Statistical Discrepancy	-1,334	-1,228	106	-164			
GDP at Market Prices	160,889	173,149	12,260	8,056	7.6	2.5	5.0
less:							
Net Factor Payments (F)	25,007	26,886	1,879	1,352	7.5	2.0	5.4
GNP at Market Prices	135,883	146,263	10,381	6,704	7.6	2.6	4.9

B: Gross National Product by Origin

	2005	2006	Change in 2006	
	Forecast €m	Forecast €m	€m	%
Agriculture, Forestry, Fishing	2,950	3,010	60	2.0
Non-Agricultural: Wages, etc.	64,165	68,974	4,808	7.5
Other:	59,357	63,785	4,428	7.5
Adjustments: Stock Appreciation	-510	-450		
Financial Services	0	0	0	0
Statistical Discrepancy	-1,334	-1,228	106	-7.9
Net Domestic Product	124,628	134,090	9,462	7.6
Net Factor Payments	25,007	26,886	1,879	7.5
National Income	99,622	107,204	7,583	7.6
Depreciation	17,148	17,988	840	4.9
GNP at Factor Cost	116,770	125,193	8,423	7.2
Taxes less Subsidies	19,113	21,071	1,958	10.2
GNP at Market Prices	135,883	146,263	10,381	7.6

C: Balance of Payments on Current Account

	2005	2006	Change in 2006
	Forecast €m	Forecast €m	€m
Exports (X) less Imports (M)	22,702	24,210	1,508
Net Factor Payments (F)	-25,007	-26,886	-1,879
Net Transfers	209	150	-59
Balance on Current Account	-2,095	-2,525	-430
as % of GNP	-1.5	-1.7	-0.3

