

# Quarterly Economic Commentary

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## Special Article

## Research Note

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*Research Notes* are short papers on focused research issues. They are subject to refereeing prior to publication.

## Summary Table

	2013	2014	2015	2016	2017
<b>Output (Real Annual Growth %)</b>					
Private Consumer Expenditure	-0.3	2.0	3.5	3.8	3.5
Public Net Current Expenditure	1.4	4.6	-0.8	1.0	1.0
Investment	-6.6	14.3	28.2	22.5	22.1
Exports	2.5	12.1	13.8	9.3	6.7
Imports	0.0	14.7	16.3	12.5	10.7
Gross Domestic Product (GDP)	1.4	5.2	7.8	4.8	4.1
Gross National Product (GNP)	4.6	6.9	5.7	5.0	4.3

<b>Prices (Annual Growth %)</b>					
Consumer Price Index (CPI)	0.5	0.2	-0.3	1.0	1.0
Growth in Average Hourly Earnings	-0.8	1.6	2.0	2.3	2.3

<b>Labour Market</b>					
Employment Levels (ILO basis (000's))	1,881	1,914	1,964	2,002	2,038
Unemployment Levels (ILO basis (000's))	282	243	204	190	171
Unemployment Rate (as % of Labour Force)	13.1	11.3	9.5	8.7	7.7

<b>Public Finance</b>					
General Government Balance (€ bn)	-10.2	-7.6	-3.4	-2.5	-0.5
General Government Balance (% of GDP)	-5.8	-4.1	-1.6	-1.1	-0.2
General Government Debt (% of GDP)	123.2	109.7	93.9	87.4	82.0

<b>External Trade</b>					
Balance of Payments Current Account (€ bn)	5.6	6.8	9.5	8.8	1.8
Current Account (% of GNP)	3.1	3.6	4.4	3.8	0.7

<b>Demand</b>					
Final Demand	0.9	9.4	11.9	8.7	7.6
Domestic Demand	-1.2	5.7	9.3	7.7	9.0
Domestic Demand (excl. Stocks)	-1.5	5.2	8.6	8.6	9.1

## The Irish Economy – Forecast Overview and Summary

On foot of the substantial growth performance in 2015, the Irish economy looks set to continue to grow robustly in 2016. The economy as measured by GDP grew by 7.8 per cent in 2015; we expect that it will grow by 4.8 per cent in 2016. GNP, which grew by 5.7 per cent in 2015, is expected to increase by 5 per cent in the current year. Growth in 2016 is set to be heavily influenced by domestic factors with investment and consumption continuing to play a more central role in the overall growth performance of the domestic economy.

Notwithstanding this, developments in international markets will also be crucially important for Ireland's outlook. In Q1 2016 the United Kingdom Government decided on June of this year for the 'Brexit' referendum; the growing ambiguity concerning the outcome of this major decision merely serves to compound some of the international, macroeconomic risks posed to the domestic economy. In that regard the first quarter of 2016 has seen a significant degree of uncertainty concerning a number of issues. Much of this uncertainty was prompted towards the end of 2015 by renewed concern surrounding the large imbalances in the Chinese economy. However, more recently there have been worries about the asset quality of certain leading institutions in the European banking sector and nascent concerns about the growth performance of both the European and US economies in Q1 2016. This has led us to modify our growth forecasts for Irish trade down marginally in 2016; however developments in Q2 2016 will provide a firmer indication of whether these uncertainties are likely to have significant real economy impacts for our main trading partners.

On the domestic front there is some uncertainty as well owing to the rather inconclusive nature of the recent General election. While the task of forming a stable government looks to be particularly challenging, in the short term at least it is unlikely there will be any adverse outcomes for the main economic and financial indicators.

The Nowcasting model (summarised in the Appendix) indicates that, despite the growing uncertainty, the domestic economy still grew by 1.5 per cent between the final quarter of 2015 and the first quarter of the present year.

We also release our first estimate of growth in 2017 for the Irish economy. In the previous *Commentary* we devoted a significant amount of attention to long-run

trends amongst key Irish macroeconomic variables; namely in investment, the unemployment rate and the growth rate in total factor productivity. Based on this we felt that the output gap would close in 2016. At present, we estimate the rate of Irish potential output growth to be approximately 3.5 per cent. Given the strength of growth in the economy at present, we forecast that both GDP and GNP will grow slightly stronger in 2017, by 4 per cent.

In the International Section of the present *Commentary* we draw on earlier research by McQuinn and Whelan (2015)<sup>1</sup> to place the issue of inward migration in the Euro Area in context. Population forecasts for the Euro Area compiled by EuroStat and presented in McQuinn and Whelan (2015) clearly demonstrate that Europe has an ageing population and crucially that this issue is impacting on the growth prospects for the different Member States right now. Importantly, in the absence of significant net inward migration, future European labour supply is likely to contract with clear, adverse implications for economic growth and living standards. While the Irish population is somewhat younger relative to the European average, the domestic economy will be subject to the same trends over time.

Finally, as with previous *Commentaries* and reflecting the joint ESRI-BPFI/NAMA research programme, we present a number of papers on the crucial issue of housing supply. Inter alia, these studies examine the issue of heterogeneity in the regional housing supply rates (Morgenroth, 2016), while Barrett and Kelly (2016) conduct an initial examination of housing tenure and movement among Ireland's older population using The Irish Longitudinal Study on Ageing (TILDA).

Based on these developments in the Irish housing market, we also address the proposed review of the macro-prudential measures introduced last year, which is to be conducted by the Central Bank of Ireland later in the year. As with Duffy and McQuinn (2015)<sup>2</sup> we argue that any review should seek to place the implementation of this new important policy area on a rules basis which, crucially, takes cyclical developments in both the demand and the supply side of the housing market into consideration.

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<sup>1</sup> McQuinn, K. and K. Whelan (2015). 'Europe's Long-Term Growth Prospects: With and Without Structural Reforms', ESRI *Working Paper* No. 501. Available at [www.esri.ie/pubs/WP501.pdf](http://www.esri.ie/pubs/WP501.pdf).

<sup>2</sup> Duffy, D. and K. McQuinn (2014). 'Assessment of Proposed Macro-Prudential Policy Measures', Appendix, *Quarterly Economic Commentary*, Winter 2014, ESRI.

## National Accounts 2015

### A: Expenditure on Gross National Product

	2014	2015	Change in 2015		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	89.0	92.4	3.8	0.4	3.5
Public Net Current Expenditure	27.2	27.9	2.3	3.1	-0.8
Gross Fixed Capital Formation	36.5	47.2	29.4	0.9	28.2
Exports of Goods and Services	215.0	260.6	21.2	6.5	13.8
Physical Changes in Stocks	1.9	2.7			
<b>Final Demand</b>	<b>369.6</b>	<b>430.7</b>	<b>16.6</b>	<b>4.1</b>	<b>11.9</b>
less:					
Imports of Goods and Services	180.3	215.7	19.6	2.9	16.3
Statistical Discrepancy	-0.2	-0.2			
<b>GDP at Market Prices</b>	<b>189.3</b>	<b>215.0</b>	<b>13.6</b>	<b>5.5</b>	<b>7.7</b>
Net Factor Payments	-26.2	-31.7			
<b>GNP at Market Prices</b>	<b>162.9</b>	<b>183.1</b>	<b>12.4</b>	<b>6.4</b>	<b>5.7</b>

### B: Gross National Product by Origin

	2014	2015	Change in 2015	
	€ bn	€ bn	€ bn	%
Agriculture	3.4	3.4	0.0	1.0
Non-Agriculture: Wages, etc.	70.0	73.4	3.3	4.8
Other	68.4	88.8	20.4	29.8
Adjustments: Stock Appreciation	-0.3	-0.3		
Statistical Discrepancy	0.2	0.2		
<b>Net Domestic Product</b>	<b>141.9</b>	<b>165.6</b>	<b>23.7</b>	<b>16.7</b>
Net Factor Payments	-26.2	-31.7	-5.5	21.0
<b>National Income</b>	<b>115.7</b>	<b>133.9</b>	<b>18.3</b>	<b>15.8</b>
Depreciation	29.3	30.0	0.7	2.3
<b>GNP at Factor Cost</b>	<b>145.0</b>	<b>163.9</b>	<b>18.9</b>	<b>13.1</b>
Taxes less Subsidies	17.9	19.2	1.3	7.4
<b>GNP at Market Prices</b>	<b>162.9</b>	<b>183.1</b>	<b>20.3</b>	<b>12.4</b>

### C: Balance of Payments on Current Account

	2014	2015	Change in 2015
	€ bn	€ bn	€ bn
X – M	34.8	44.9	10.1
F	-26.2	-31.7	-5.5
Net Transfers	-2.7	-2.9	-0.1
<b>Balance on Current Account</b>	<b>5.9</b>	<b>10.4</b>	<b>4.5</b>
as % of GNP	3.6	5.7	2.4

## National Accounts 2016

### A: Expenditure on Gross National Product

	2015	2016	Change in 2016		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	92.4	96.9	4.8	1.0	3.8
Public Net Current Expenditure	27.9	28.6	2.8	1.8	1.0
Gross Fixed Capital Formation	47.2	59.5	25.9	2.8	22.5
Exports of Goods and Services	260.6	293.2	12.5	3.0	9.3
Physical Changes in Stocks	2.7	1.0			
<b>Final Demand</b>	<b>430.7</b>	<b>479.2</b>	<b>11.2</b>	<b>2.4</b>	<b>8.7</b>
less:					
Imports of Goods and Services	215.7	249.4	15.6	2.8	12.5
Statistical Discrepancy	-0.2	-0.2			
<b>GDP at Market Prices</b>	<b>215.0</b>	<b>229.8</b>	<b>6.9</b>	<b>2.0</b>	<b>4.7</b>
Net Factor Payments	-31.7	-33.0			
<b>GNP at Market Prices</b>	<b>183.1</b>	<b>196.5</b>	<b>7.3</b>	<b>2.2</b>	<b>5.0</b>

### B: Gross National Product by Origin

	2015	2016	Change in 2016	
	€ bn	€ bn	€ bn	%
Agriculture	3.4	3.5	0.1	2.5
Non-Agriculture: Wages, etc.	73.4	76.7	3.3	4.5
Other	88.8	98.8	10.0	11.3
Adjustments: Stock Appreciation	-0.3	-0.3		
Statistical Discrepancy	0.2	0.2		
<b>Net Domestic Product</b>	<b>165.6</b>	<b>179.0</b>	<b>13.4</b>	<b>8.1</b>
Net Factor Payments	-31.7	-33.0	-1.3	4.2
<b>National Income</b>	<b>133.9</b>	<b>146.0</b>	<b>12.0</b>	<b>9.0</b>
Depreciation	30.0	30.0	0.0	0.0
<b>GNP at Factor Cost</b>	<b>163.9</b>	<b>176.0</b>	<b>12.0</b>	<b>7.3</b>
Taxes less Subsidies	19.2	20.6	1.4	7.1
<b>GNP at Market Prices</b>	<b>183.1</b>	<b>196.5</b>	<b>13.4</b>	<b>7.3</b>

### C: Balance of Payments on Current Account

	2015	2016	Change in 2016
	€ bn	€ bn	€ bn
X – M	44.9	43.8	-1.1
F	-31.7	-33.0	-1.3
Net Transfers	-2.9	-2.9	0.0
<b>Balance on Current Account</b>	<b>10.4</b>	<b>8.0</b>	<b>-2.4</b>
as % of GNP	5.7	4.1	-1.2

## National Accounts 2017

### A: Expenditure on Gross National Product

	2016	2017	Change in 2017		
	€ bn	€ bn	Value	Price	Volume
Private Consumer Expenditure	96.9	101.2	4.5	1.0	3.5
Public Net Current Expenditure	28.6	28.8	0.4	-0.6	1.0
Gross Fixed Capital Formation	59.5	74.6	25.4	2.8	22.1
Exports of Goods and Services	293.2	319.9	9.1	2.3	6.7
Physical Changes in Stocks	1.0	2.0			
<b>Final Demand</b>	<b>479.2</b>	<b>526.5</b>	<b>9.9</b>	<b>2.1</b>	<b>7.6</b>
less:					
Imports of Goods and Services	249.4	281.9	13.0	2.1	10.7
Statistical Discrepancy	-0.2	-0.2			
<b>GDP at Market Prices</b>	<b>229.8</b>	<b>244.7</b>	<b>6.5</b>	<b>2.2</b>	<b>4.2</b>
Net Factor Payments	-33.0	-34.2			
<b>GNP at Market Prices</b>	<b>196.5</b>	<b>210.2</b>	<b>7.0</b>	<b>2.6</b>	<b>4.3</b>

### B: Gross National Product by Origin

	2016	2017	Change in 2017	
	€ bn	€ bn	€ bn	%
Agriculture	3.5	3.6	0.1	3.5
Non-Agriculture: Wages, etc.	76.7	79.9	3.2	4.2
Other	98.8	108.8	10.0	10.1
Adjustments: Stock Appreciation	-0.3	-0.3		
Statistical Discrepancy	0.2	0.2		
<b>Net Domestic Product</b>	<b>179.0</b>	<b>192.4</b>	<b>13.4</b>	<b>7.5</b>
Net Factor Payments	-33.0	-34.2	-1.2	3.6
<b>National Income</b>	<b>146.0</b>	<b>158.2</b>	<b>12.2</b>	<b>8.3</b>
Depreciation	30.0	30.0	0.0	0.0
<b>GNP at Factor Cost</b>	<b>176.0</b>	<b>188.2</b>	<b>12.2</b>	<b>6.9</b>
Taxes less Subsidies	20.6	22.1	1.5	7.4
<b>GNP at Market Prices</b>	<b>196.5</b>	<b>210.2</b>	<b>13.7</b>	<b>7.0</b>

### C: Balance of Payments on Current Account

	2016	2017	Change in 2017
	€ bn	€ bn	€ bn
X – M	43.8	38.1	-5.8
F	-33.0	-34.2	-1.2
Net Transfers	-2.9	-2.9	0.0
<b>Balance on Current Account</b>	<b>8.0</b>	<b>1.0</b>	<b>-7.0</b>
as % of GNP	4.1	0.5	-3.3