Snapshot of Irish Economic Forecasts

Annual real % change

	GNP		GDP		Private Consumption		Public Expenditure		Investment		Exports		Imports		Forecast Date
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	
AIB	2.5	1.5	0.5	2.2	-1.0	0.5	-2.0	-1.5	4.0	5.0	0.5	3.5	-0.2	2.0	Oct-13
BOI	2.5	1.5	0.4	1.9	0.5	1.2	-1.5	-1.5	1.5	7.0	0.0	3.5	0.0	3.0	Oct-13
Central Bank	0.1	1.2	0.5	2.0	-0.4	0.4	-1.5	-2.8	1.6	6.6	0.8	4.0	0.4	3.1	Oct-13
Davy			1.0	2.5	0.4	1.5	-1.4	-2.3	5.6	8.0	1.0	3.1	0.6	2.3	Oct-13
Dept Finance	1.0	1.7	0.2	2.0	-0.2	1.8	-0.9	-1.9	4.9	6.8	-0.6	1.9	-0.4	1.5	Oct-13
ESRI	2.0	2.7	0.5	2.6	0.2	1.5	-0.7	-1.3	0.7	4.2	0.0	4.6	-0.1	4.0	Oct-13
EU			0.3	1.7	-0.6	0.5	-1.0	-2.8	2.9	4.4	0.5	2.5	0.2	1.4	Nov-13
Goodbody	2.9	1.9	0.5	2.4	-0.7	0.8	-1.9	-1.5	-3.9	6.4	0.6	3.7	0.5	2.4	Nov-13
IBEC	0.9	1.7	1.1	2.3	0.0	1.0	-3.3	-2.0	7.0	9.7	2.0	4.0	0.2	2.8	Jul-13
IMF			0.6	1.8							1.1	2.9	0.7	1.9	Oct-13
KBCI	2.0	1.0	0.2	2.0	-0.5	1.0	-1.0	-2.5	-1.5	5.0	0.5	4.0	0.0	3.5	Nov-13
Investec	0.1	1.6	0.7	2.1	-0.8	0.5	-2.1	-2.0	3.0	4.0	0.5	3.0	-1.0	1.8	Oct-13
OECD			0.1	1.9	-1.1	0.8	-0.9	-1.9	-7.8	5.9	0.1	3.7	-0.3	2.5	Nov-13
Ulster Bank	3.1	1.6	0.3	2.2	-1.5	1.0	-1.6	-2.3	-1.0	9.6	-1.5	4.4	-0.8	3.7	Aug-13
Average	**1.7**	**1.6**	**0.4**	**2.1**	**-0.4**	**0.9**	**-1.2**	**-1.9**	**0.4**	**5.3**	**0.4**	**3.4**	**0.0**	**2.5**	

Dependence on exports highlighted...

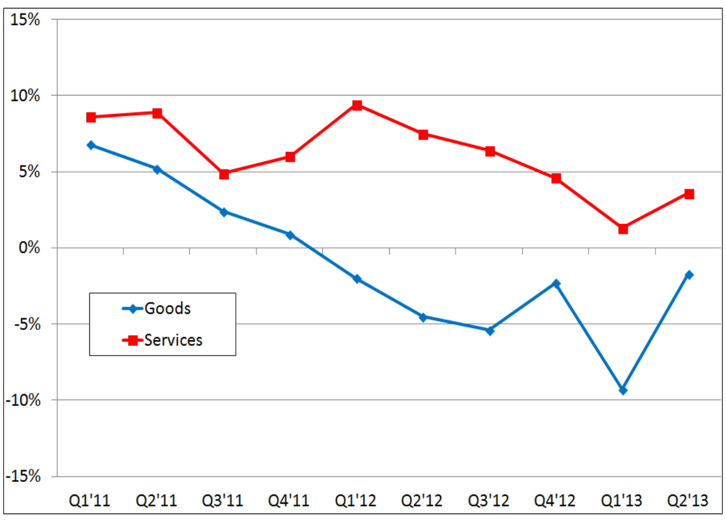
GDP growth vulnerable to external demand shocks.

The most recent National Accounts figures released by the CSO show that Q2'13 GDP was 0.4% higher than the Q1'13 figure. This came after three consecutive quarters of negative growth and meant that Ireland technically exited recession. While this was welcome news, the rate of growth was miniscule and GDP was still 1.2% lower than Q2'12 figures. **Consensus forecasts show GDP is expected to increase by 0.4% in 2013 and 2.1% in 2014.**

Exports have been the driving force of the economy over the past couple of years and Ireland's dependency on them was highlighted in recent quarters. As the rate of export growth slowed considerably throughout 2012 and even turned negative in some quarters, GDP growth also turned negative. Exports declined overall in the first half of 2013 as a result of relatively weak external demand from our main trading partners as well as issues such as expiring patents on some pharmaceutical goods.

Services exports growth has been outperforming goods exports growth for some time now and in 2012 they accounted for over 50% of total exports for the first time. Goods exports decreased by 3.6% in 2012 and this trend continued in 2013 as they decreased by 9.3% YoY in Q1 and 1.7% in Q2. Services exports on the other hand increased by 6.9% in 2012, 1.3% YoY in Q1 2013 and 3.6% in Q2.

Goods and Services Exports YoY Growth Rates



Source: CSO

Private consumption recorded two consecutive quarters of YoY growth in the second half of 2012 but it decreased in the first half of 2013, falling by 1.1% in Q1 and 1.3% in Q2 YoY. **Forecasts show Private consumption is expected to decrease by 0.4% in 2013.**

Total government current spending continued to decrease in the first two quarters of 2013, falling by 1.8% YoY in Q1 and 1.7% in Q2. Spending will continue to fall over the next couple of years as deficit targets are met. Investment decreased by 19.6% YoY in Q1'13 due mostly to strong aircraft purchases in Q1'12. Figures for Q2'13 were 1% up on the same period last year. **Consensus forecasts show investment is expected in increase by 0.4% in 2013 overall.**

...as Ireland prepares to exit bailout unaided.

The Government decides to exit the bailout without a precautionary credit line.

Budget 2014 was the most recent instalment in a series of budgets since 2008 designed to increase tax revenue and cut Government expenditure in order to lower the fiscal deficit. The total adjustment to be made in 2014 is €2.6bn. **Consensus forecasts show a fiscal deficit of 4.8% of GDP is expected in 2014**, below the bailout agreement target of 5.1%. The target for 2015 is 2.9%.

New tax measures include a levy on financial institutions, an increase in the levy on pension fund assets to 0.75% and increases in excise duties on alcohol and tobacco. The DIRT rate was increased from 33% to 41% in an attempt to encourage spending rather than saving. Expenditure cuts are concentrated on the biggest spending departments, namely, the Department of Health (€666 million) and the Department of Social Protection (€290 million).

A €500 million stimulus package was also announced. Measures include the retention of the 9% VAT rate in the Tourism sector for 2014 and the reduction of the Air Travel Tax to 0%. Also announced was the Home Renovation Scheme. A planned €2bn investment by NAMA should benefit the Construction sector.

Ireland is poised to exit the bailout at the end of this year. Given the cash buffer of €21bn amassed by the NTMA and the decline in Government bond yields, the Government has decided to do so without a precautionary credit line. The success of this approach depends on continued confidence from the bond markets enabling borrowing at sustainable rates.

Snapshot of Irish Economic Forecasts

Annual %real change   * year average;
**Underlying GGB as % of GDP (excluding State support to the banks)

	Unemployment Rate*		Employment Growth		Wage Inflation		CPI Inflation		HICP Inflation		General Govt. Balance**		Forecast Date
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	
AIB	13.5	13.0							0.7	1.2	-7.4	-4.8	Oct-13
BOI	13.5	12.8	1.7	1.5			0.7	1.1	0.7	1.1			Oct-13
Central Bank	13.6	13.0	1.1	1.2	0.8	1.0	0.7	0.6	0.6	0.7			Oct-13
Davy	13.7	12.8	1.8	2.2							-7.1	-4.4	Oct-13
Dept Finance	13.5	12.4	1.6	1.5	0.6	1.9			0.7	1.2	-7.3	-4.8	Oct-13
ESRI	13.6	13.1	1.9	1.3	1.4	1.4	0.7	1.5			-7.0	-4.4	Oct-13
EU	13.3	12.3	1.2	1.3	0.0	-0.6			0.8	0.9	-7.4	-5.0	Nov-13
Goodbody	13.4	12.2	1.6	1.4	1.0	1.2	0.9	1.5	1.0	1.2			Nov-13
IBEC	13.7	13.3	0.6	1.0			1.0	1.9					Jul-13
IMF	13.7	13.3	0.6	1.0					1.0	1.2	-7.6	-5.0	Oct-13
KBCI	13.5	12.8	1.2	1.2					0.4	0.9	-7.3	-4.8	Nov-13
Investec	13.6	12.9	1.2	1.5			0.7	1.4	0.5	1.4	-7.3	-4.3	Oct-13
OECD	13.6	13.2							0.6	0.8	-7.4	-5.0	Nov-13
Ulster Bank	13.6	13.1	1.1	0.9			0.8	1.6	0.9	1.6	-7.5	-4.6	Aug-13
Average	**13.5**	**12.8**	**1.4**	**1.4**	**0.7**	**0.9**	**0.8**	**1.2**	**0.7**	**1.0**	**-7.3**	**-4.8**	

Consumer Sentiment increases in October...

The KBC ESRI Consumer Confidence Index increased to 76.2, up from 73.1 in September (Jan 2005 =100).

This is the highest reading of the index recorded since June 2007 while the 3-month moving average of 72.0 is the highest since October 2007. The improvement in the index in October was driven mainly by an increase in consumers' perceptions of current economic conditions but their expectations of their future financial situation have also been increasing over the last few months. This suggests consumers are becoming more optimistic about the economic recovery over the next year, possibly fuelled by the recent news on increasing employment and the lowering of the ECB interest rate to 0.25%.

... but retail sales continue to struggle.

Recent increases in consumer sentiment are yet to affect retail sales.

The Retail Sales Index has been relatively stagnant for some time now both including and excluding motor sales. The overall index increased by 0.5% MoM in September 2013. The biggest contributors to this increase were sales of automotive fuel (+3.1%), the sale of Food, Beverages and Tobacco in specialised stores (+2.2%) and the sale of Hardware, Paints and Glass (+2.1%). The biggest negative contributors were sales of Furniture and Lighting (-6.7%) and the sales of Books, Newspapers and Stationary (-2.8%).

Motor trades benefitted from a recent change in the number plates in July as sales increased by 36.6% MoM, albeit from a very low base. The impact of the change has since dissipated however as sales decreased by 5.3% in August and increased by just 0.9% in September.

PMI figures point to increasing confidence in the Manufacturing sector...

The Purchasing Managers' Index increased to 54.9 in October, up from 52.7 in September.

The seasonally adjusted Investec Purchasing Managers' Index (PMI) posted a figure of 54.9 in October. This was the fifth successive month of improvement (above 50). It was the highest figure recorded since April 2011.

New orders increased for the fourth month as improving economic conditions and higher export orders were cited as contributing factors. Staffing levels also increased for a fifth successive month. This pickup in activity is welcome news for the manufacturing sector but also for those that will benefit from the knock-on effects of increased employment in the economy.

...as Live Register numbers continue to decrease.

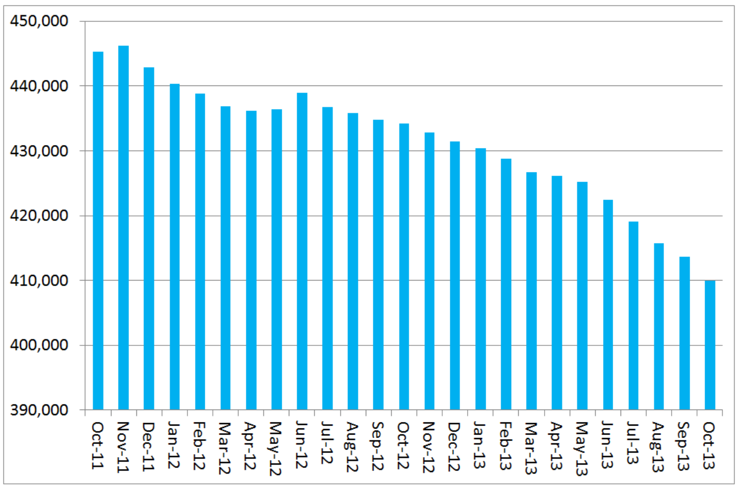
Recent gains in employment are beginning to have an effect on Live Register numbers.

The seasonally adjusted unemployment rate stood at 13.7% in Q2'13. Although the unemployment rate is above the euro area average of 12.1%, it has fallen every quarter since Q1'12 when it stood at 15.1%. **Consensus forecasts above show unemployment is expected to average at 13.5% for 2013 and 12.8% in 2014**.

The number of people on the Live Register fell 0.9% MoM in October to 409,900. This number has been falling for 16 consecutive months which is encouraging. However, large proportions of these decreases can be attributed to emigration and people entering non-paying internships and training programmes.

Gains in employment have only recently become a factor in the decrease. Employment increased by 1.8% YoY in Q2'13, the third consecutive quarter of employment growth. As mentioned earlier, the Construction and Tourism sectors look set to benefit from measures announced in Budget 2014. Employment in these sectors may increase over the coming year as a result.

Seasonally Adjusted Live Register Figures



Source: CSO

FOCUS ON THE EXTERNAL ENVIRONMENT

The composition of global GDP growth is changing. Major advanced economies are experiencing a pickup in activity while growth in emerging market economies is slowing down. The slowdown in emerging economies is partly a result of an anticipation of a tightening of US monetary policy, which has caused some financial market volatility. The IMF forecasts global growth of 2.9% in 2013 and 3.6% in 2014. Advanced economies are expected to grow by 1.2% in 2013 and 2.0% in 2014. A fragmented financial system in the euro area and high debt levels are cited as issues that could trigger crises here. GDP growth in emerging economies is expected to be 4.5% in 2013 and 5.1% in 2014. Slowing growth in China is highlighted as an issue here, especially for commodity exporters among the emerging economies, while political conflicts continue to affect areas in the Middle East and North Africa.

Euro Area

Signs of growth returning but youth unemployment levels remain unacceptably high.

GDP increased by 0.3% QoQ in Q2 2013 meaning the Euro Area technically exited recession after six consecutive quarters of negative growth. The IMF expects GDP to decrease by 0.4% overall in 2013 and to return to growth of 1% in 2014. Key priorities for the European Commission over the coming year include completing the banking union, increasing investment, promoting employment and combating youth unemployment.

Unemployment and youth unemployment in particular remains a real issue in the region. The overall unemployment rate in the euro area in Q2'13 stood at 12.1% while the youth unemployment rate stood at 23.9%. Youth unemployment is particularly severe in Greece (59.2%), Spain (56%), Portugal (39.4%) and Italy (38.9%). Potentially serious social consequences can result from such unemployment levels and they could have serious long-term implications for the future prospects of those affected.

Inflation in the area has been falling. A recent release from Eurostat estimated the annual rate slowed to 0.7% in October, down from 1.1% in September. This is well below the target rate of 2%. In response to this falling inflation, the ECB recently announced a cut in its main refinancing rate to 0.25% from the previous historical low of 0.5%. It is hoped that this will put upward pressure on the overall inflation rate but the ECB expects a prolonged period of low price increases.

United States

GDP growth is regaining traction but the FED will continue quantitative easing until it is sure this growth can be sustained.

Real GDP in the United States increased by 2.5% at an annual rate in Q2 2013, up from 1.1% in Q1. The acceleration in GDP growth in the second quarter of the year reflected increases in exports and in non-residential fixed investment which outweighed decreases in federal spending, imports and consumer spending. The IMF expects GDP to grow by 1.6% in 2013 and 2.6% in 2014.

The unemployment rate in the US peaked at 10% in 2009. It has been falling steadily since then and the most recent figures relating to October 2013 put the rate at 7.3%. While employment has been picking up in some areas such as in the Manufacturing and Retail Trade sectors recently, much of the drop can be attributed to people exiting the labour force. The IMF expects unemployment to average at 7.6% in 2013 and 7.4% in 2014.

Some recent financial market volatility resulted from an anticipation of a tightening of monetary policy in the US. However, at the end of October the FED confirmed that it would continue its current programme of asset purchases until there is more evidence that the economic recovery will be sustained. The recent federal government shutdown lasted 16 days and ended with an agreement to raise the debt ceiling until Feb 2014.

Major economies GDP growth forecasts

	2012 (%)	2013f (%)	2014f (%)
UK	0.2	1.4	1.9
US	2.8	1.6	2.6
Euro area	-0.6	-0.4	1.0
Germany	0.9	0.5	1.4
Japan	2.0	2.0	1.2
China	7.7	7.6	7.3
India	3.2	3.8	5.1

Source: IMF October 2013.

United Kingdom

GDP growth is gaining momentum thanks to improving domestic demand as the unemployment rate falls.

After growth was revised down to just 0.1% in 2012, the UK economy has regained some momentum in 2013. GDP increased by 1% in the first half of the year and estimates for Q3 suggest a 0.8% expansion over the Q2 figure. A pickup in domestic demand, mainly private consumption fuelled this growth. The IMF expects UK GDP to increase by 1.4% and 2013 and by 1.9% in 2014.

The strengthening GDP growth is welcome news as the threat of recession loomed at the end of 2012. As mentioned, private consumption was the major driver of growth in the first half of the year, contributing 0.5 percentage points. Wage growth has been low but inflation is falling back, sentiment is rising and employment growth has been strong, especially in 2012. Net exports also contributed positively to GDP growth in the first half of 2013 which was largely driven by a fall in imports in Q1.

The unemployment rate was 7.7% for June – August 2013. This is down 0.1 percentage points from the March – May 2013 period and 0.2 points down from the same period last year. The falling unemployment rate reflects increases in employment as the total number of people employed in June – August 2013 reached 29.7 million. This represents a 0.5% increase over the March – May 2013 figure and a 0.9% increase over the same period last year. The IMF expects a rate of 7.7% in 2013 and 7.5% in 2014

NOTE: The average figures presented in this report represent a weighted average of the latest forecasts for the Irish economy from 14 independent sources, compiled by DKM. Older forecasts are given a lower weighting in calculating this average. Figures quoted represent the latest available from each source at the time of going to press. DKM would like to thank those who kindly contributed their economic forecasts for inclusion in this report.

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