

QUARTERLY  
ECONOMIC  
COMMENTARY

*Spring 2009*

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*The forecasts in this Commentary are based  
on data available by mid-April 2009*

RESEARCH  
BULLETIN

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# SUMMARY

Most of the incoming data in recent months has been more negative than even the most pessimistic expectations. For example, on the international front the rate of job losses in the US has been extraordinary, with 3.3 million jobs being shed in the five months to the end of March 2009. The forecast from the OECD that Germany will contract by 5.3 per cent is in sharp contrast to earlier expectations that Germany would escape the worst of the global recession. For Ireland, the rate of job losses in the first three months of this year exceeded all expectations, with 80,000 joining the Live Register between January and March.

The wave of poor outcomes and indicators have led us to cut our forecast for 2009, from -4.6 per cent in our *Winter Commentary* to -9.2 per cent (on a GNP basis). For 2010, we expect to see a moderation in the pace of decline and for GNP to fall by 1.2 per cent. Our forecast for 2010 is based on the assumption of activity bottoming out in the latter part of that year.

The implications of the downturn for employment are highly negative. We now expect employment in 2009 to be 187,300 lower than in 2008, on an annual average basis. Corresponding to this fall in employment, we expect to see the number unemployed averaging 292,200 in 2009, an increase of 155,500 on the 2008 figure (or 114 per cent). This implies that the unemployment rate would average 13.2 per cent. For 2010, we expect further employment falls, amounting to 102,800. We expect unemployment to rise by a further 73,300 and the rate to average 16.8 per cent in 2010.

We expect the General Government Deficit to be 12 per cent of GDP in 2009 but for this to fall to 11.5 per cent in 2010. These forecasts take account of the measures announced in the April 7<sup>th</sup> Budget and assume full implementation in 2010. We have not, however, included any quantification of the possible impact on the public finances of the National Asset Management Agency.

On-going weakness in the domestic and international economies, plus the weakness of sterling, should lead to a continued trend towards moderation in price levels in 2009. On a HICP basis, we expect inflation to average -1.1 this year. When interest rate cuts are factored in, we expect CPI inflation in 2009 to average -4.6 per cent. For 2010, our HICP and CPI forecasts are 0.6 per cent and 0 per cent respectively.

In the *General Assessment*, the overall negative picture is noted but we also draw attention to some positive developments since our *Winter Commentary*. Our assessment of the fiscal measures introduced in February and April is broadly positive and we see these as important moves in the direction of restoring fiscal sustainability. A comprehensive assessment of NAMA is not possible at this point because further details will be needed in order to provide a more comprehensive and considered assessment of the proposal. However, the movement towards decisive action on the banking situation is a positive development. Finally, we draw attention to some “glimmers of hope” in the US and argue that policy must remain focused on the issue of competitiveness so that Ireland can participate in the global upturn.

## NATIONAL ACCOUNTS 2008 (Estimate)

### A: Expenditure on Gross National Product

	2007 €m	2008 Estimate €m	Change in 2008				
			€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	91,582	93,603	2,021	-726	2.2	3.0	-0.8
Public Net Current Expenditure	26,766	28,410	1,644	570	6.1	3.9	2.1
Gross Fixed Capital Formation	50,140	39,289	-10,851	-9,989	-21.6	-2.1	-19.9
Exports of Goods and Services (X)	151,390	150,337	-1,053	-558	-0.7	-0.3	-0.4
Physical Changes in Stocks	-95	411	506	464			
<b>Final Demand</b>	<b>319,782</b>	<b>312,049</b>	<b>-7,733</b>	<b>-9,955</b>	<b>-2.4</b>	<b>0.7</b>	<b>-3.1</b>
less:							
Imports of Goods and Services (M)	131,017	128,118	-2,899	-5,756	-2.2	2.3	-4.4
less:							
Statistical Discrepancy	-1,838	-1,791	47	31			
<b>GDP at Market Prices</b>	<b>190,603</b>	<b>185,722</b>	<b>-4,880</b>	<b>-4,230</b>	<b>-2.6</b>	<b>-0.3</b>	<b>-2.2</b>
less:							
Net Factor Payments (F)	-29,393	-29,236	157	-615	-0.5	-2.6	2.1
<b>GNP at Market Prices</b>	<b>161,210</b>	<b>156,486</b>	<b>-4,723</b>	<b>-4,942</b>	<b>-2.9</b>	<b>0.1</b>	<b>-3.1</b>

### B: Gross National Product by Origin

	2007 €m	2008 Estimate €m	Change in 2008	
			€m	%
Agriculture, Forestry, Fishing	3,456	3,456	0	0.0
Non-Agricultural: Wages, etc.	78,211	79,050	840	1.1
Other:	70,087	66,847	-3,240	-4.6
Adjustments: Stock Appreciation	-362	-200		
Statistical Discrepancy	-1,838	-1,791		
<b>Net Domestic Product</b>	<b>149,555</b>	<b>147,363</b>	<b>-2,192</b>	<b>-1.5</b>
less:				
Net Factor Payments	-29,393	-29,236	157	-0.5
<b>National Income</b>	<b>120,162</b>	<b>118,127</b>	<b>-2,035</b>	<b>-1.7</b>
Depreciation	18,534	18,538	4	0.0
<b>GNP at Factor Cost</b>	<b>138,696</b>	<b>136,665</b>	<b>-2,031</b>	<b>-1.5</b>
Taxes less Subsidies	22,514	19,821	-2,692	-12.0
<b>GNP at Market Prices</b>	<b>161,210</b>	<b>156,486</b>	<b>-4,723</b>	<b>-2.9</b>

### C: Balance of Payments on Current Account

	2007 €m	2008 Estimate €m	Change in 2008	
			€m	%
Exports (X) less Imports (M)	20,373	22,219	1,846	
Net Factor Payments (F)	-29,393	-29,236	157	
Net Transfers	-1,283	-1,328	-45	
<b>Balance on Current Account</b>	<b>-10,303</b>	<b>-8,345</b>	<b>1,958</b>	
as % of GNP	-6.4	-5.3	1.1	

### D: GNDI and Terms of Trade

	2006 €m	2007 Estimate €m	2007 Volume Change	
			€m	%
Terms of Trade Loss or Gain		-3,847.7		
GNP Adjusted for Terms of Trade	161,210	152,420	-8,790	-5.5
GNDI*	159,927	151,121	-8,806	-5.5
National Resources**	159,989	151,132	-8,857	-5.5

\* GNDI is GDP adjusted for terms of trade and net international transfers.

\*\* GNDI including capital transfers.

## FORECAST NATIONAL ACCOUNTS 2009

### A: Expenditure on Gross National Product

	2008 Estimate €m	2009 Forecast €m	Change in 2009				
			€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	93,603	86,180	-7,423	-6,552	-7.9	-1.0	-7.0
Public Net Current Expenditure	28,410	26,194	-2,216	-114	-7.8	-7.4	-0.4
Gross Fixed Capital Formation	39,289	25,196	-14,092	-12,261	-35.9	-6.8	-31.2
Exports of Goods and Services (X)	150,337	143,633	-6,704	-7,474	-4.5	0.5	-5.0
Physical Changes in Stocks	411	-400	-811	-856		0.0	-208.2
<b>Final Demand</b>	<b>312,049</b>	<b>280,804</b>	<b>-31,246</b>	<b>-27,394</b>	<b>-10.0</b>	<b>-1.4</b>	<b>-8.8</b>
less:							
Imports of Goods and Services (M)	128,118	115,694	-12,424	-11,956	-9.7	-0.4	-9.3
less:							
Statistical Discrepancy	-1,791	-1,791	0	53		0.0	0.0
<b>GDP at Market Prices</b>	<b>185,722</b>	<b>166,900</b>	<b>-18,822</b>	<b>-15,491</b>	<b>-10.1</b>	<b>-2.0</b>	<b>-8.3</b>
less:							
Net Factor Payments (F)	-29,236	-28,186	1,050	1,050	-3.6	0.0	-3.6
<b>GNP at Market Prices</b>	<b>156,486</b>	<b>138,714</b>	<b>-17,772</b>	<b>-14,416</b>	<b>-11.4</b>	<b>-2.4</b>	<b>-9.2</b>

### B: Gross National Product by Origin

	2008 Estimate €m	2009 Forecast €m	Change in 2009	
			€m	%
Agriculture, Forestry, Fishing	3,456	3,887	431	12.5
Non-Agricultural: Wages, etc.	79,050	69,567	-9,484	-12.0
Other:	66,847	63,552	-3,296	-4.9
Adjustments: Stock Appreciation	-200	-200		
Statistical Discrepancy	-1,791	-1,791		
<b>Net Domestic Product</b>	<b>147,363</b>	<b>135,015</b>	<b>-12,348</b>	<b>-8.4</b>
less:				
Net Factor Payments	-29,236	-28,186	1,050	-3.6
<b>National Income</b>	<b>118,127</b>	<b>106,828</b>	<b>-11,299</b>	<b>-9.6</b>
Depreciation	18,538	17,229	-1,309	-7.1
<b>GNP at Factor Cost</b>	<b>136,665</b>	<b>124,057</b>	<b>-12,608</b>	<b>-9.2</b>
Taxes less Subsidies	19,821	14,657	-5,164	-26.1
<b>GNP at Market Prices</b>	<b>156,486</b>	<b>138,714</b>	<b>-17,772</b>	<b>-11.4</b>

### C: Balance of Payments on Current Account

	2008 Estimate €m	2009 Forecast €m	Change in 2009	
			€m	%
Exports (X) less Imports (M)	22,219	27,939	5,720	
Net Factor Payments (F)	-29,236	-28,186	1,050	
Net Transfers	-1,328	-1,328	0	
<b>Balance on Current Account</b>	<b>-8,345</b>	<b>-1,576</b>	<b>6,770</b>	
as % of GNP	-5.3	-1.1	4.2	

### D: GNDI and Terms of Trade

	2008 €m	2009 Estimate €m	2009 Volume Change	
			€m	%
Terms of Trade Loss or Gain		1,352		
GNP Adjusted for Terms of Trade	156,486	143,423	-13,064	-8.3
GNDI*	155,158	142,089	-13,069	-8.3
National Resources**	155,169	142,389	-12,780	-8.2

\* GNDI is GDP adjusted for terms of trade and net international transfers.

\*\* GNDI including capital transfers.

## FORECAST NATIONAL ACCOUNTS 2010

### A: Expenditure on Gross National Product

	2009 Forecast €m	2010 Forecast €m	Change in 2010				
			€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	86,180	84,013	-2,167	-2,585	-2.5	0.5	-3.0
Public Net Current Expenditure	26,194	24,701	-1,493	0	-5.7	-5.7	0.0
Gross Fixed Capital Formation	25,196	20,961	-4,235	-2,929	-16.8	-5.9	-11.6
Exports of Goods and Services (X)	143,633	141,541	-2,092	-2,856	-1.5	0.5	-2.0
Physical Changes in Stocks	-400	400	800	702		0.0	-175.4
<b>Final Demand</b>	<b>280,804</b>	<b>271,616</b>	<b>-9,188</b>	<b>-7,671</b>	<b>-3.3</b>	<b>-0.6</b>	<b>-2.7</b>
less:							
Imports of Goods and Services (M)	115,694	109,606	-6,089	-6,009	-5.3	-0.1	-5.2
less:							
Statistical Discrepancy	-1,791	-1,791	0	159		0.0	0.0
<b>GDP at Market Prices</b>	<b>166,900</b>	<b>163,801</b>	<b>-3099</b>	<b>-1,822</b>	<b>-1.9</b>	<b>-0.8</b>	<b>-1.1</b>
less:							
Net Factor Payments (F)	-28,186	-28,061	125	125	-0.4	0.0	-0.4
<b>GNP at Market Prices</b>	<b>138,714</b>	<b>135,740</b>	<b>-2,974</b>	<b>-1,699</b>	<b>-2.1</b>	<b>-0.9</b>	<b>-1.2</b>

### B: Gross National Product by Origin

	2009 Forecast €m	2010 Forecast €m	Change in 2010	
			€m	%
Agriculture, Forestry, Fishing	3,887	4,387	500	12.9
Non-Agricultural: Wages, etc.	69,567	64,621	-4,946	-7.1
Other:	63,552	64,480	928	1.5
Adjustments: Stock Appreciation	-200	-200		
Statistical Discrepancy	-1,791	-1,791		
<b>Net Domestic Product</b>	<b>135,015</b>	<b>131,497</b>	<b>-3,518</b>	<b>-2.6</b>
less:				
Net Factor Payments	-28,186	-28,061	125	-0.4
<b>National Income</b>	<b>106,828</b>	<b>103,436</b>	<b>-3,393</b>	<b>-3.2</b>
Depreciation	17,229	16,822	-406	-2.4
GNP at Factor Cost	124,057	120,258	-3,799	-3.1
Taxes less Subsidies	14,657	15,482	825	5.6
<b>GNP at Market Prices</b>	<b>138,714</b>	<b>135,740</b>	<b>-2,974</b>	<b>-2.1</b>

### C: Balance of Payments on Current Account

	2009 Estimate €m	2010 Forecast €m	Change in 2010	
			€m	%
Exports (X) less Imports (M)	27,939	31,935	3,997	
Net Factor Payments (F)	-28,186	-28,061	125	
Net Transfers	-1,328	-1,328	0	
<b>Balance on Current Account</b>	<b>-1,576</b>	<b>2,546</b>	<b>4,122</b>	<b>3.0</b>
as % of GNP	-1.1	1.9		

### D: GNDI and Terms of Trade

	2009 €m	2010 Estimate €m	2009 Volume Change	
			€m	%
Terms of Trade Loss or Gain		868		
GNP Adjusted for Terms of Trade	138,714	137,883	-831	-0.6
GNDI*	137,386	136,554	-832	-0.6
National Resources**	137,397	136,853	-543	-0.4

\* GNDI is GDP adjusted for terms of trade and net international transfers.

\*\* GNDI including capital transfers.

