



An Roinn Airgeadais
Department of Finance

Monthly Economic Bulletin

February 2017

The Monthly Economic Bulletin

The Department's Monthly Economic Bulletin (MEB) provides a monthly update of some of the key developments within the Irish economy across a broad spectrum of sectors. The bulletin also outlines fiscal developments for the State, as well as being a source of the Department's most up-to-date forecasts and providing a snapshot of conditions in some of Ireland's key trading partners. The publication is designed with the aim of being both informative and accessible to a wide readership. The MEB can be used as a research aid or for presentational purposes and is also available online at the Department's website at www.finance.gov.ie.

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ECONOMIC GROWTH

National Accounts 2015

National accounts data for 2015 and the first quarter of 2016 were published by the Central Statistics Office (CSO) on 12 July 2016. The data showed that:

- Real GDP rose by 26.3% last year, compared with an initial estimate of 7.8%.
- Looking at the underlying components, exports increased by 34.4% in 2015 on an annual basis, with imports also up by 21.7%. Personal consumption expenditure increased by 4.5% in 2015 and investment increased by 32.7% on an annual basis.
- This substantial upward revision is largely related to the activities of a small number of large multinational firms and reflects a number of exceptional factors which have limited impact on actual activity in the Irish economy. The main channels through which these factors affect Irish GDP include:
 - The effect of 'contract manufacturing' where Irish headquartered multinationals contract the production of goods to third party companies abroad but these products are recorded in Ireland's trade balance;
 - The relocation of intellectual property-related assets or patents to Ireland. Ceteris paribus, this will reduce the level of royalty imports and as a result increase Irish GDP;
 - An increase in new aircraft imports to Ireland for international leasing activities generating substantial fee income without significant employment effects;
- While the headline GDP figure can be exaggerated in an Irish context, other indicators such as consumer spending, employment / unemployment trends and taxation receipts confirm that Ireland's economic fundamentals remain solid.

National Accounts-Q3 2016

- Real GDP rose by 6.9% in the third quarter of 2016 y-o-y.
- Looking at the underlying components, exports increased 0.6% y-o-y in Q3, while imports fell by 6.0% due to a substantial decline in imports of intellectual property assets. Personal consumption expenditure increased 2.1% in Q3, while investment decreased 7.2% reflecting a sharp fall in investment in intellectual property assets (both y-o-y).

Quarterly National Accounts

	2015			2016		
(year-on-year % changes)	2015	Q3	Q4	Q1	Q2	Q3
Personal Consumption	4.5	5.0	4.2	5.3	2.2	2.1
Government Consumption	1.1	-0.1	2.8	4.7	5.0	5.4
Gross Investment	32.7	36.5	26.5	-3.6	22.4	-7.2
Exports	34.4	31.9	37.3	2.2	3.6	0.6
Imports	21.7	23.1	20.6	3.1	8.9	-6.0
GDP	26.3	24.4	28.4	3.9	3.1	6.9
GNP	18.7	15.9	16.2	12.5	4.0	10.2

Source: CSO

GDP Forecasts

Latest Economic Forecasts

- As part of Budget 2017, the Department of Finance published updated macroeconomic forecasts on 11 October 2016. These forecasts along with those of other forecasting institutions are outlined in the table to the right.

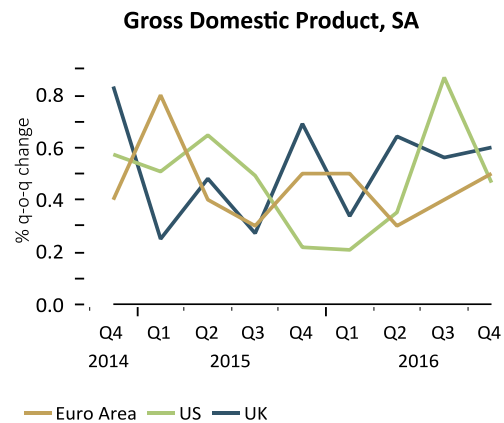
	Date	2016	2017
European Commission	Nov 2016	4.1	3.6
Department of Finance	Oct 2016	4.2	3.5
Central Bank of Ireland	Jan 2017	4.5	3.3
IMF	Oct 2016	4.9	3.2
ESRI	Dec 2016	4.2	3.5
OECD	Nov 2016	4.3	3.2



INTERNATIONAL DEVELOPMENTS

The United Kingdom

- The UK economy expanded by 0.6% in Q4 2016 q-o-q and increased by 2.2% y-o-y. Annual HICP inflation was 1.6% in December 2016, up from 1.2% in November. Core inflation was 1.6% in December, up from 1.4% in November.
- Employment fell by 9,000 in the 3 month period to November 2016 compared with June to August 2016, but increased by 294,000 y-o-y. The unemployment rate was 4.8%, down from 5.1% a year earlier.
- The manufacturing PMI decreased to 55.9 in January and the services PMI fell to 54.5 (above 50 indicates expansion).



The United States

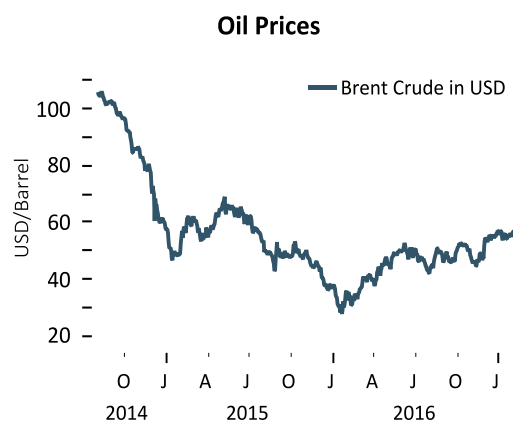
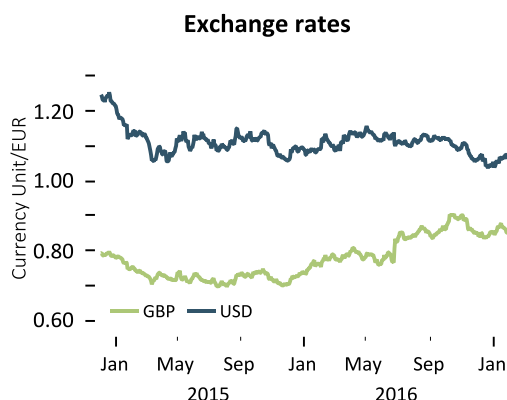
- The US economy expanded by 0.5% in Q4 2016 q-o-q and increased by 1.9% y-o-y.
- Annual inflation was 2.1% in December, up from 1.7% in November 2016. Inflation was 0.3% on the month in December (sa). Core inflation was 0.2% on the month and 2.2% y-o-y (sa).
- US non-farm payroll data showed the US economy adding 227,000 jobs in the month of January (sa), with the unemployment rate up marginally to 4.8% from 4.7% in December 2016.
- The manufacturing PMI rose to 55.0 and services increased to 55.6 in January 2017 (above 50 indicates expansion).

The euro area

- The euro area economy expanded by 0.5% in Q4 2016 q-o-q and increased by 1.8% y-o-y.
- Annual inflation in the euro area rose to 1.8% in January according to a Eurostat flash estimate, up from 1.1% in December. Core inflation is expected to be 0.9% in January, unchanged from December.
- The unemployment rate in the euro area was 9.6% in December (sa), falling from 9.7% in November, and down from the 10.5% rate recorded in December 2015.
- The manufacturing PMI increased to 55.2 and the services PMI was flat at 53.7 in January 2017 (above 50 indicates expansion).

EXCHANGE RATES AND OIL PRICES

- The €/£ spot rate was 0.86 in January, up from 0.84 in December, and up from the 0.75 recorded in January 2016. The €/\$/ spot rate was 1.06 in January, up from 1.05 in December, and down from the 1.09 recorded in January 2016.
- Brent crude oil was \$55.49 in January, up from \$54.87 in December, and up from \$32.22 in January 2016.

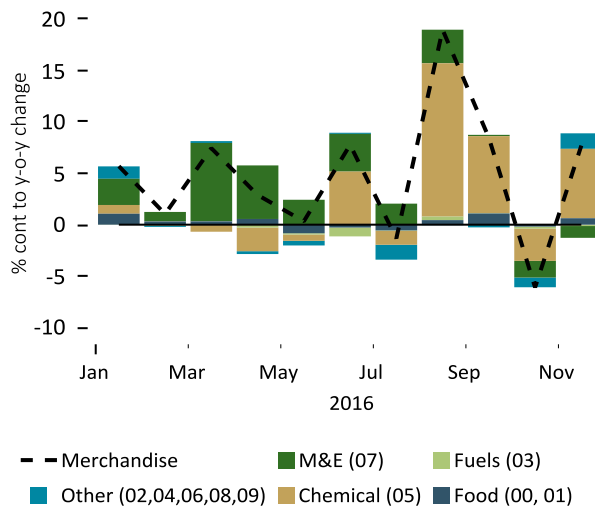


EXTERNAL TRADE

External Trade and Industrial Production

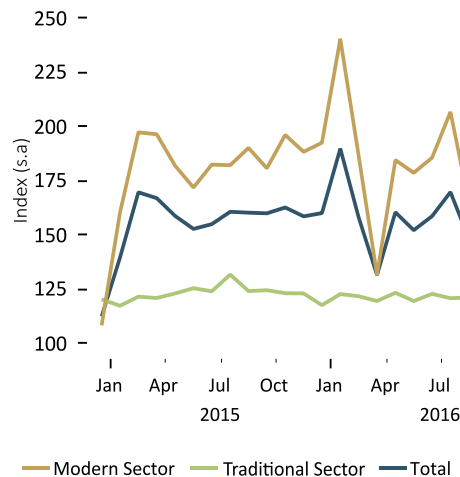
- On a monthly basis, goods exports decreased by 0.6% (sa) in value terms in November. Goods imports increased by 18.0% (sa) in value terms. As a result, the trade surplus decreased by 19.7% to €4,045 million compared with October.
- On a monthly basis, industrial output decreased by 11.7% (sa) in December m-o-m and by 1.3% y-o-y.
- Output in the modern sector decreased by 0.5% (y-o-y) in December, while the traditional sector increased 3.0% compared with December 2015.

Merchandise Exports



Source: CSO

Industrial Production



Source: CSO

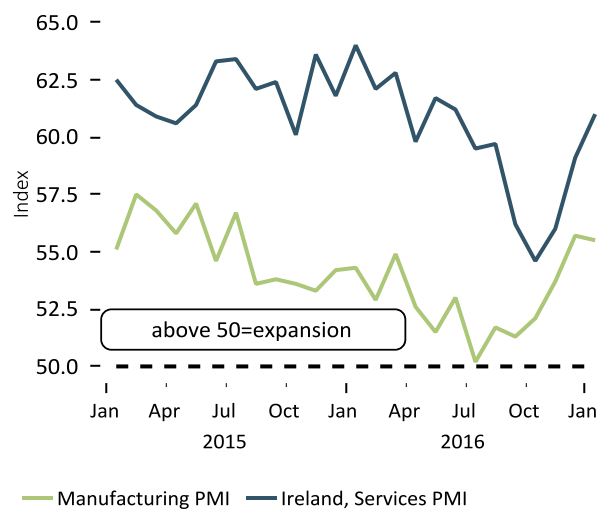
PMI Data¹

The manufacturing PMI extended its current sequence of growth to 44 months with a reading of 55.5 in January, down from 55.7 in December (above 50 indicates an expansion). The services PMI continued to show an expansion in business activity for January at 61.0, up from 59.1 in December.

Balance of Payments – Current Account

- A current account surplus of 14.7% of GDP was recorded in Q3 2016².
- A merchandise trade surplus of €24,509m was recorded in Q3 2016, with merchandise exports decreasing by 9.2% compared to Q3 2015. Services exports continue to perform strongly, increasing by 11.3% in Q3 2016 compared to Q3 2015.

Purchasing Managers' Indices (PMIs)



Source: Markit

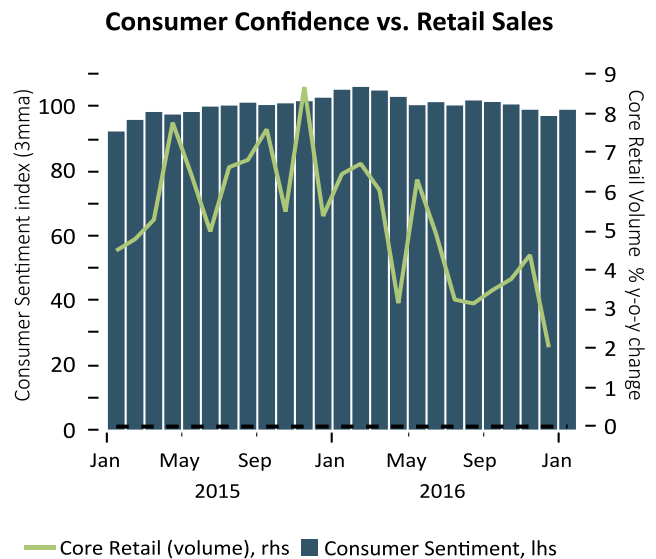
¹ Source: Services and Manufacturing PMI published by Investec. Note: PMI measures qualitative rather than quantitative responses from purchasing executives related to their expected output and may therefore not mirror trends in output.

² This headline figure is heavily distorted by the multinational sector in Ireland through inter alia contract manufacturing, aircraft leasing and re-domiciled PLC's.



PERSONAL CONSUMPTION

- Headline retail sales, in volume terms, decreased by 0.7% month-on-month (sa) in December and increased by 3.4% in year-on-year terms. Excluding Motor Trades, the volume of 'core' sales decreased by 2.7% (sa) in December month-on-month but there was an increase of 2.0% year-on-year.
- New private vehicles licensed for the first time increased by 17.8% to end-December 2016 year-on-year.
- The Consumer Sentiment Index was 103.1 in January 2017, up from 96.2 in December.

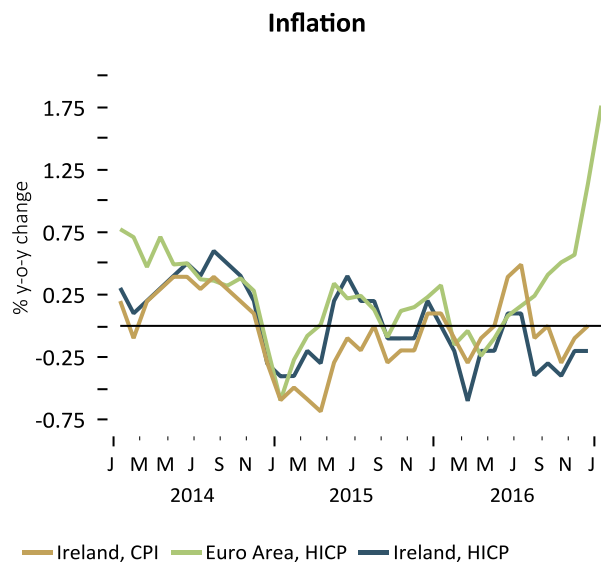


Source: CSO; ESRI/KBC

INFLATION

Consumer Price Index (CPI)³

- On a HICP⁴ (Harmonised Index of Consumer Prices) basis, prices in Ireland decreased by 0.1% between November and December and by 0.2% on a year-on-year basis.
- The Consumer Price Index (CPI) was flat at 0.0% on the month and also flat at 0.0% in year-on-year terms in December.
- The main sectors impacting on the CPI index over the month were decreases in *Alcoholic Beverages & Tobacco* (-1.9%) and *Clothing and Footwear* (-1.4%). There were also moderate increases in *Housing, Water, Electricity, Gas & Other Fuels* (0.5%) and *Transport* (0.4%)



Source: CSO

³ Source: Consumer Price Index, as published by the CSO.

⁴ The HICP measure of inflation excludes certain items that are included in the CPI; the most notable of these is mortgage interest and some insurance items. HICP is used for comparison between EU member states.

EMPLOYMENT

The seasonally adjusted unemployment rate for January 2017 was 7.1%, down from 7.2% in December and down from 8.5% in January 2016. January shows a (sa) decrease of 3,500 people on the Live Register on the month and a fall of 44,621 year-on-year.

Third quarter 2016 Quarterly National Household Survey (QNHS) data

The CSO published the QNHS for Q3 2016 on 22nd November.

Key points from Q3 were:

- The level of unemployment decreased by 25,300 over the year to Q3 2016 (-12.5%) and the seasonally adjusted unemployment rate in Q3 fell to 7.9% from 9.1% last year.
- There were 2.04 million people in employment in Q3 representing a 2.9% annual increase (57,500).
- In seasonally-adjusted terms employment increased by 0.7% (13,500) over the previous quarter.
- The labour force increased by 32,200 over the year to Q3 2016 (1.5%).
- The long-term unemployment rate decreased from 5.0% in Q3 2015 to 4.2% in Q3 2016, with those long-term unemployed now accounting for 52% of total unemployment.
- The youth unemployment rate decreased from 20.7% to 17.7% over the year to Q3 2016.



Latest Labour Market Developments

	Employment			Labour Force		ILO Unemployment Rate		ILO Participation Rate
	Actual	Year on Year	%	Year on Year	%	Overall*	Long Term	Overall*
Q3 2015	1,983,000	56,100	2.9	13,600	0.6	9.1%	5.0%	60.0%
Q4 2015	1,983,000	44,100	2.3	18,000	0.8	9.1%	4.7%	60.1%
Q1 2016	1,976,500	47,000	2.4	13,600	0.6	8.4%	4.7%	60.1%
Q2 2016	2,014,900	56,200	2.9	32,800	1.5	8.3%	4.4%	60.3%
Q3 2016	2,040,500	57,500	2.9	32,200	1.5	7.9%	4.2%	60.3%

* Seasonally adjusted

Source: CSO

- Focusing on sectoral developments, employment rose in twelve of the fourteen sectors over the year.
- The largest increases were in *Accommodation and food service activities* (+9.6%) and the *Construction* (+7.3%) sectors. The greatest rate of decline was recorded in the *Administrative and support service activities* (-2.9%) sector.

Employment Change by broad economic sector (% yoy)

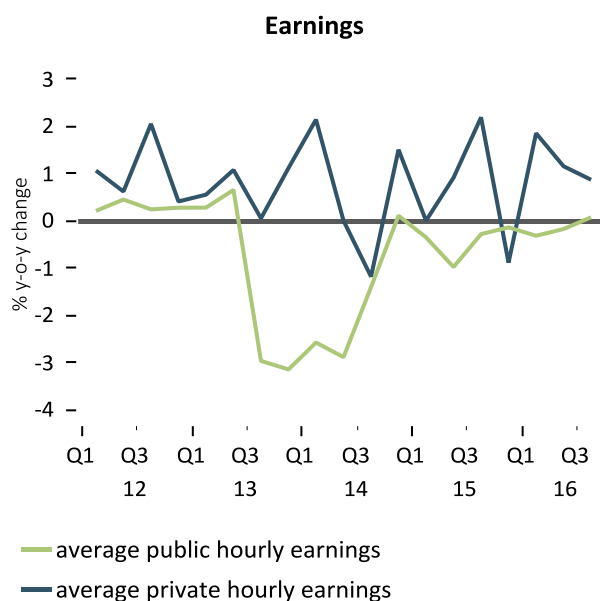
	2015			2016		
	Q2	Q3	Q4	Q1	Q2	Q3
Services	1.4	1.6	1.8	2.0	2.2	2.1
Industry (inc construction)	8.7	8.1	3.8	3.6	5.4	6.5
Agriculture	2.5	2.7	0.5	1.4	3.5	2.9
Total	3.0	2.9	2.3	2.4	2.9	2.9

Source: CSO

EARNINGS

The CSO published Earnings and Labour Costs data for the third quarter of 2016 on the 25th November 2016. The release covers employees in all sectors with the exception of agriculture, fishing and forestry. The key points from the release are:

- Average weekly earnings increased by 1.2% y-o-y to €701.87 in Q3 2016 from €693.57 in Q3 2015.
- The average work week increased by 1.2% to 32.6 hours in Q3 2016 from 32.2 hours in Q3 2015.
- Average hourly earnings increased by 0.2% y-o-y to €21.55.
- Average hourly earnings increased by 0.1% in the year to Q3 2016 in the public sector while hourly earnings increased in the private sector by 0.9% over the same period.
- Average weekly earnings in the public sector were €915.92 in Q3 2016 compared with €642.50 in the private sector.
- Weekly earnings in the private sector were up 1.8% over the year to Q3 2016 and up 1.0% in the public sector.



Sectoral Developments

- Across the economic sectors average weekly earnings increased in 11 of the 13 sectors in the year to Q3 2016. The largest increases were in the *Construction sector* (5.7%), the *Professional, scientific and technical activities sector* (4.9%) and the *Accommodation and food services sector* (4.9%).
- The contractions in average weekly earnings occurred in the *Information & communication* (-0.9%) and *Education* (-0.9%) sectors.
- The survey data also show that the *Professional, scientific and technical activities* sector recorded the highest vacancy rate of 2.1% followed by the *Financial, insurance and real estate* sector with a vacancy rate of 1.9%

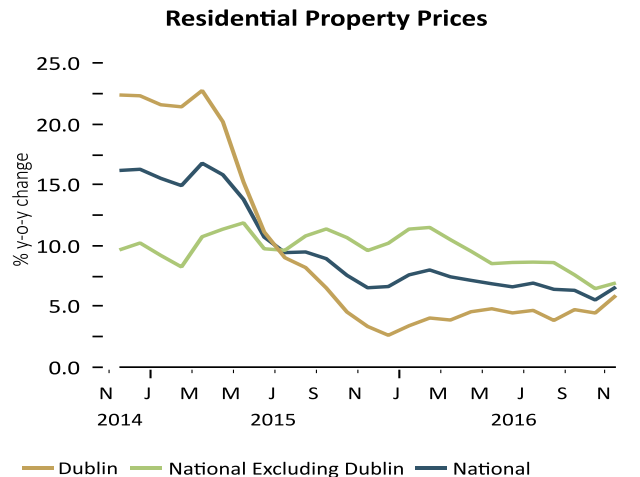
Annual Change in Average Hourly Earnings (%)

	2015			2016	
	Q3	Q4	Q1	Q2	Q3
Industry	-0.3	-1.2	1.5	1.5	0.1
Construction	1.0	1.7	2.4	2.8	1.0
Wholesale/Retail; motor vehicle repair	1.4	1.8	0.1	2.2	1.4
Accommodation & Food Services	1.6	-0.2	1.0	2.1	3.1
Financial, Insurance & Real Estate	3.6	-7.3	2.7	0.2	1.4
TOTAL	1.4	-0.7	0.9	0.4	0.2
Total Public Sector	-0.3	-0.1	-0.3	-0.2	0.1

Source: CSO

HOUSING

- On a year-on-year basis, residential property prices nationally were up 8.6% in November 2016, following on from an increase of 6.9% in October. Prices increased by 1.5% nationwide over the month.
- Dublin residential property prices increased by 1.0% over the month and 5.9% on a year-on-year basis; properties outside of Dublin increased by 2.1% in November and are up 12.8% year-on-year.
- The number of Mortgage approvals increased by 27.9% (y-o-y) in December while the value of Mortgage approvals increased by 38.6%.
- There were 1,579 new houses completed in November 2016⁵, this compares to 1,262 on the same month in 2015. There were 13,376 new house completions to end-November 2016, this compares to 11,314 over the same period in 2015.
- The Ulster Bank Construction PMI – an index tracking changes in construction activity – posted 58.9 in December, down from 59.8 in November (above 50 equates to expansion).

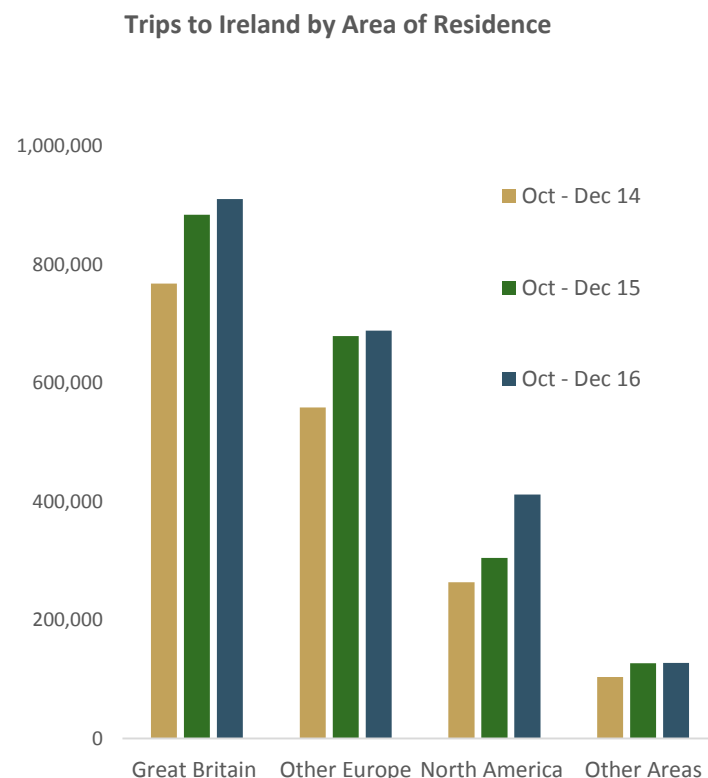


TOURISM

- There were 2,139,300 overseas visits to Ireland during the period Oct – Dec 2016⁶, an increase of 7.2% y-o-y.
- The number of overseas trips made by Irish residents during the same period increased by 10.0% y-o-y to 1,698,700.

In December 2016, the CSO published the Tourism and Travel Q3 2016 release, which revealed:

- Total tourism and travel earnings from overseas travellers to Ireland increased by 10.0% between Q3 2015 and Q3 2016, from €2,037 million to €2,241 million.⁷
- Total tourism and travel expenditure by Irish residents overseas increased by 6.4% between Q3 2015 and Q3 2016, from €2,096 million to €2,231 million.



⁵ Source: Department of Housing, Planning, Community and Local Government.

⁶ Source Overseas Travel Release as published by the CSO.

⁷ Source: Tourism and Travel Release, as published by the CSO.

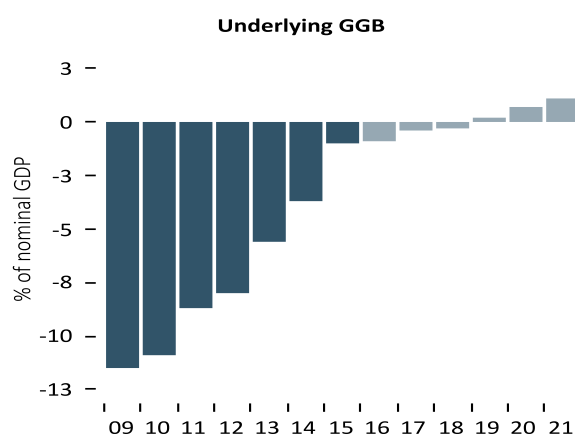
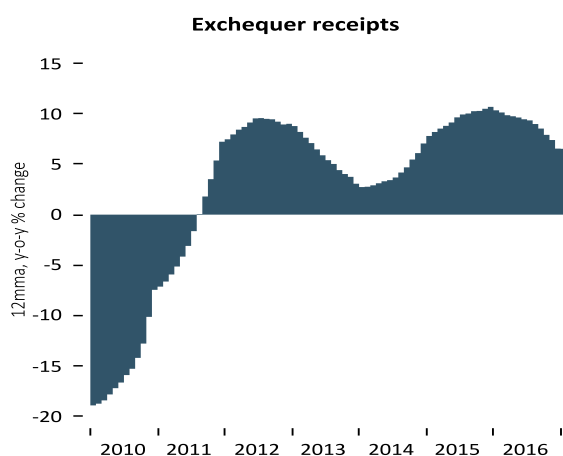
PUBLIC FINANCES

Exchequer Balance

- An Exchequer surplus of €1,470 million was recorded in January 2017. This compares to a surplus of €1,198 million in the same period last year. The €272 million year-on-year improvement is primarily due to increased tax revenue.
- Tax revenue of €4,769 million was collected to end-January 2017, an increase of 6.1% or €272 million on the same period last year. This was primarily due to a strong performance in VAT, which relates to the November and December training period.
- Total net voted expenditure to end January 2017, at €3,819 million, was up 4.8% or €173 million in year-on-year terms. This increase was mainly due to the timing of a €100 million payment from the Department of Housing, Planning, Community and Local Government to the Local Government Fund.
- Receipts from non-tax revenue and capital receipts were down 13.2% (€149 million) year-on-year, while non-voted expenditure was down 41.2% or €322 million, as there was no requirement in January 2017 for short term loans to the Social Insurance Fund.

General Government Balance (GGB)⁸

- The headline General Government Deficit for 2015 was €4.8 billion, or 1.9% of GDP while the underlying deficit was 1.0% of GDP after excluding the AIB share transaction.
- The general government deficit is forecast to reduce to 0.9% of GDP for 2016.
- The public finances in Ireland are now subject to the rules of the preventive arm of the Stability & Growth Pact. Assessment of compliance with the rules of the preventive arm is based on two pillars: 1) the annual improvement in the structural balance and 2) the expenditure benchmark.
- Based on the Department of Finance's data and forecasts, Ireland is on the adjustment path toward the MTO. Current trajectory means this target should be achieved in 2018.



General Government Receipts and Expenditure⁹

	2015	2016 Forecast	2017 Forecast
	€m	€m	€m
GG Receipts	70,535	72,150	75,320
GG Expenditure	75,320	74,550	76,555
GG Balance	-4,785	-2,400	-1,235
GGB (% of GDP)	-1.9%	-0.9%	-0.4%
Underlying GG Balance *	-2,670	-2,385	-1,235
Underlying Balance (% of GDP) *	-1.0%	-0.9%	-0.4%

Source: CSO, Department of Finance

⁸ The general government balance (GGB) measures not just the difference between receipts and expenditure of central government [the Exchequer] but the fiscal performance of all arms of Government (other than commercial state-sponsored bodies), including local government and non-commercial state-sponsored bodies, as well as extra-budgetary funds such as the Social Insurance Fund and the National Pensions Reserve Fund. It is therefore a wider measure of the public finances than the Exchequer Balance (EB). The GGB operates on an accruals basis whereas the Exchequer Balance is a cash-based measure.

⁹ Figures for GG receipts and expenditure are calculated in accordance with European standard statistical accounting rules. The GGB and underlying balance as a percentage of GDP are based on the October 2016 EDP return.



OTHER NEWS

- The Department's Budget 2017 booklet is available on the Department's website at <http://budget.gov.ie/Budgets/2017/2017.aspx>
- Electronic copies of Stability Programme Update April 2016 can be accessed here: http://www.finance.gov.ie/sites/default/files/SPU_FINAL_post_Oireachtas_0.pdf
- An electronic copy of the National Reform Programme is available on the Department of the Taoiseach's website: www.taoiseach.gov.ie
- Copies of CSO releases can be downloaded from www.cso.ie
- Information on Central Bank statistical releases can be downloaded from www.centralbank.ie
- Details of forthcoming statistical releases, including the IMF's advance calendar can be found at: <http://www.imf.org/external/NP/SEC/bc/eng/index.aspx>
- Details of the Commission's Autumn 2016 forecast can be found at: http://ec.europa.eu/economy_finance/eu/forecasts/2016_autumn_forecast_en.htm
- Details of the ESRI's Winter Quarterly Economic Update forecast can be found at: <https://www.esri.ie/publications/quarterly-economic-commentary-winter-2016/>

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ANNEX

Department of Finance's Budget 2017 Economic Forecasts

	2015	2016	2017	2018	2019	2020	2021
Economic Output (% change)							
Real GNP	18.7	7.5	3.3	3.2	3.0	2.6	2.4
Real GDP	26.3	4.2	3.5	3.4	3.2	2.8	2.6
Nominal GDP	32.4	2.8	4.5	4.6	4.5	4.2	4.1
Underlying Components of GDP							
Personal Consumption	4.5	3.3	2.9	2.2	1.8	1.5	1.3
Government Consumption	1.1	5.9	2.4	1.3	1.0	0.9	0.9
Investment	32.7	15.8	6.0	4.7	4.3	3.5	3.4
Exports	34.4	3.6	4.5	4.8	4.7	4.2	4.0
Imports	21.7	5.9	5.1	4.8	4.5	4.1	3.9
External Balance							
Current A/C (% of GDP)	10.2	9.4	8.2	7.8	7.7	7.6	7.5
Price Developments							
HICP	0.0	-0.1	1.3	1.8	1.9	1.9	1.9
GDP Deflator	4.9	-1.3	1.0	1.1	1.2	1.4	1.5
Labour Market Developments							
Employment % Change	2.6	2.6	2.1	2.1	1.8	1.6	1.4

Source: 2015-CSO, 2016-2021 Budget 2017