Economic Commentary

Irish GDP now 4% above cycle low with GNP rise at 6.9% 19 Dec 2013

The Irish economy, as measured by real seasonally adjusted GDP , grew by 1.5% in the third quarter, following a revised 1.0% rise in q2. This was a much stronger performance than expected by the consensus and emerged in spite of a negative contribution from the external sector. All three components of domestic demand rose; investment spending surged by over 10%, adding over 1% to overall GDP, with construction output again recording growth, while consumer spending also advanced, by 0.9%, with government spending also increasing, this time by 1.1%. The result was a strong 2.4% rise in domestic spending which therefore dwarfed the fall in net exports.

The combination of a strong q3 this year and a very steep fall in the same quarter of 2012 led to a pronounced change in the annual growth pattern. That now shows GDP growing by 1.7% following four consecutive quarters of contraction, and means that the economy has now expanded by 4% from the cycle low recorded in the final quarter of 2009. The rise in GNP (the income of Irish residents) is even stronger at 6.9%, following a 1.6% advance in the quarter and a 3.9% annual rise. The divergence in the two measures of national income this year reflects a decline in monies paid in profit and interest to non-resident investments in Ireland

The upturn in GDP over the past two quarters makes it a little more consistent with the strong employment data of late but revisions to the path of output in the later part of 2012 and the first quarter of this year mean that average GDP growth this year is likely to be around zero, in the absence of another strong fourth quarter figure or positive data revisions.. GNP growth , in contrasts, could well emerge at 2.5%-3% for 2013 as a whole, again with the above caveats.

The negative carryover from last year is also impacting nominal GDP, which is important as the denominator in the various fiscal and debt ratios. The annual increase in q3 was 2.4% but that followed contractions in the first half of the year so GDP for the year may emerge at under €165bn against the official forecast of €165.9bn, implying a debt ratio of 125% and this may have been a factor in the NTMA's decision to buy back bonds maturing in January.

Merchandise exports have been falling on an annual basis for seven quarters now and although the chemical sector is largely responsible the total excluding this category is also declining. Service exports are growing modestly (by an annual 3.3% in q3) but for the year as a whole it now appears that exports will decline. Despite this, the surplus on the balance of payments is still growing, and the q3 figure of €3.4bn is a fresh record , bringing the total year to date to €7.5bn, Consequently, the full year figure could approach €10bn, absent revisions, or 6% of GDP.

The recovery in GDP is clearly good news ,as is the rise in domestic demand at a time of weak export growth, although consumer spending is actually lagging government spending year to date , which is a puzzle. The output of the building and construction sector has also started to rise again, after plunging from 2008 onwards, The return to annual GDP growth in q3 is also significant as it means the economy will probably enter 2014 with a positive carryover , as against the negative this year, although there are risks aplenty, including the weak state of activity in the euro area and the extent to which deleveraging remains a feature of the Irish household sector.