Economic Research

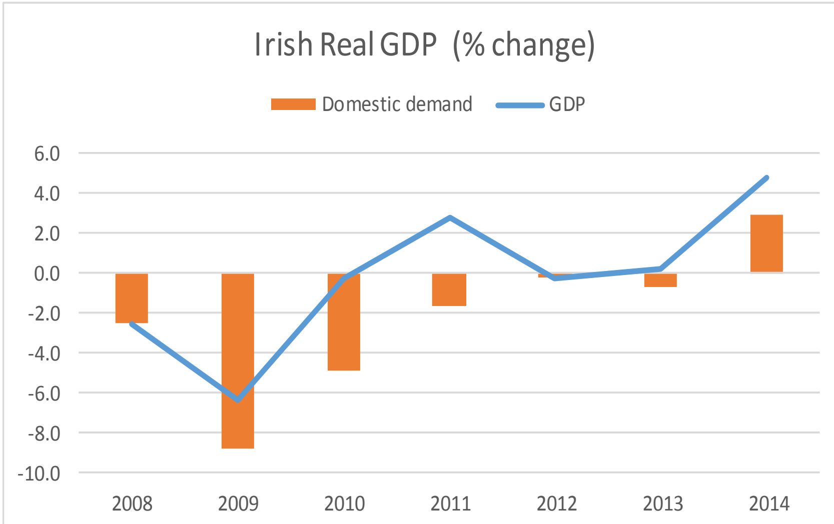
Irish Domestic Demand rises after 6 years of decline   12 March 2015

The Irish economy grew by 4.8% in real terms in 2014 according to preliminary data from the CSO, which was marginally below the consensus , albeit slightly better than anticipated by the Government. Nominal GDP expanded by 6.2% , taking it to €185.4bn, again slightly above the official estimate, which reduces the previously published debt ratio for 2014 by around 1 percentage point , while not affecting the deficit ratio.

The Irish economy bottomed as far back as the final quarter of 2009 but domestic demand has remained weak and in that context perhaps the most significant aspect of the 2014 data was the first rise in domestic spending in seven years; final domestic demand (the sum of personal consumption, government consumption and investment expenditure) rose by a very healthy 2.9%. Government spending was flat (the puzzling rise evident earlier in the year was revised away) and investment grew strongly, by over 11%, in part due to further growth in building and construction. Personal consumption also rose, but by a modest 1.1%, which was well below most forecasts made last year. It is certainly the case that the national accounts estimate is low relative to the recent trend in retail sales but in general it would seem that deleveraging has proven a very significant drag on household spending, partially offsetting the positive effects of rising employment and falling prices. The net effect is that consumer spending now accounts for 45.6% of Irish real GDP, the lowest share in a decade. That said , consumption did rise strongly in the final quarter of 2014 , and with wages now picking up, 2015 may see household spending gain some momentum.

Net exports continued to provide the main impetus to Irish GDP last year, although the growth of external trade was massively stronger than anyone has initially anticipated, partly due to a rebound in chemical exports and partly to methodological changes to the Balance of Payments (BOP) ; the volume of exports rose by 12.6% with imports up by 13.2% (the former have a much higher weight in GDP so net exports still made a positive contribution). As a result Ireland's current account surplus on the BOP rose to a record €11.5bn or 6.2% of GDP. The implication is that Ireland is now generating substantial excess savings, with the private sector surplus more than offsetting the public sector deficit, which of course it needs to do in order to repay external debt.

On a quarterly basis the national accounts revealed a pronounced slowdown through the year, with GDP expanding by a seasonally adjusted 3.5% in the first half (revised down from an initial 3.9%) and by just 0.6% in the second, with the final quarter recording a very modest 0.2%. Domestic demand slowed in H2 , despite a 1.3% increase in consumer spending in the final quarter, and imports outpaced exports, although again the new BOP format had an impact, boosting merchandise exports but also increasing service imports. The respective growth rates of the two have been spectacular as a result; the latter ended the year with annual growth of 22%, and the former at 27%.



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Eternal trade has therefore ended the year at much higher levels that anyone initially envisaged and adds a further degree of uncertainty to GDP forecasts for 2015, particularly as the monthly merchandise trade data now gives little clue to the total external trade position. That aside, the headline outturn is unlikely to prompt any major revisions to the existing consensus (around 3.8%) and the main positive is that domestic demand is growing again, with some signs that consumer spending is finally beginning to pick up

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