Economic Research

Growth of 6.4% forecast after 7.8% in 2015 10 March 2016

Given the GDP data over the first three quarters of the year it was clear that the annual figure was unlikely to emerge below 7% in the absence of some serious revisions and a very weak final quarter– our own forecast was 7.1%. In the event the final quarter was very strong (growth of 2.7%) and net revisions were upward., with the result that real GDP grew by 7.8% in 2015, the strongest Irish performance since the millennium,. Moreover, nominal GDP rose by over 13%, taking the 2015 figure to €114.6bn , which was above that assumed in official forecasts, meaning that current estimates of the debt and deficit ratios for last year will be revised down-the former is now likely to be 95%

The strong finish to the year left the annual rise in real GDP in the final quarter at 9.2%, which gives rise to a substantial carry over effect into 2016; if there was zero growth through the year the annual change in GDP in 2016 would be 3.3%. Consequently, the consensus forecast for this year is now likely to move higher and we expect 6.4% growth in 2016, albeit with a number of caveats .

These relate to the current drivers of GDP and the lack of visibility around these components. Investment spending rose by 28.2% last year , adding 5.5 percentage points to growth, thereby accounting for about 70% of the total . Yet spending on machinery and equipment fell sharply and all of the net rise in investment was due to intangibles, which rose by 100%. This captures R&D and intellectual property such as patents and in Ireland's case reflects multinational expenditure in the main. Such spending is now included in the national accounts and it is becoming very significant and prone to large quarterly swings, which are impossible to pin done ex ante.

Similarly, Irish exports rose by over 21% in value terms last year, a surprising rise given weak global trade, and by over 13% in volume terms, but this in turn was dwarfed by a surge in imports, leaving the growth contribution from net trade at zero. Domestic demand therefore accounted for all the growth in GDP, although there was also a strong rise in inventories. Consumer spending is picking up, rising by 3.5% last year, and we forecast a 4% increase in 2016, given the upturn in household disposable income. Government consumption fell in 2015, albeit after some substantial revisions, and we expect a further decline in 2016, although another strong investment performance supports a similar (8.7%) rise in domestic demand to that seen last year. As noted though, the margin of error around any Irish GDP forecast has to be wider given the opaque view we have of some of the key components of that forecast.

Real Irish GDP expanded by a seasonally adjusted 2.7% in the final quarter of 2015. the eleventh straight quarter of growth. That left national income some 11% above the previous peak following a cumulative 25% expansion from the recession low. Exports rose strongly in the quarter , by 3.4%, outpacing imports (2.5%) but that was not the case for the full year, with import growth of 16.4% offsetting the impact of a 13.8% expansion in exports on GDP growth. Exports now amount to120% of Irish GDP and as a result the export deflator has a huge impact on the nominal GDP. In 2015, the export deflator was 6.5%, which was the main factor behind the 5.3% rise in the deflator for GDP as a whole.

Consumer spending picked up in the final quarter, rising by 1% , leaving the average increase for 2015 at 3.5%, the strongest yet in the recovery, with buoyant consumption of goods, notably cars, offset by weaker outlays on services. Government spending fell in the final quarter and is now deemed to have fallen by 0.8% in 2015. albeit after some substantial revisions to earlier quarters. Investment spending, which tends to be the most volatile component of GDP, rose in q4, by 2.9% and on average by over 28% in 2015, so contributing over 70% of the increase in GDP recorded last year. Spending on machinery and equipment fell , and building and construction rose but all of the increase in aggregate was due to a 100% rise in spending on R&D , patents and royalties., collectively known as intangibles. Spending on the latter actually fell sharply in q4, highlighting the large swings possible in a component of GDP which is increasingly important but far from transparent.

Some analysts prefer to concentrate on Irish GNP, the income of Irish residents, which adjusts GDP for multinational profit outflows and other factor payments , including some partially offsetting inflows of interest and profits flowing to Irish companies from investments abroad. GNP also rose strongly in q4, by 3.4% , albeit after a small contraction in the previous quarter, but recorded an average 5.7% rise in 2015 as a whole. Finally, Ireland’s current account surplus on the Balance of Payments emerged at €2.7bn in q4 and a record €9.5bn in 2015, the latter equivalent to 4.4% of GDP.

Real GDP (% change)	**2014**	**2015(e)**	**2016 (f)**
Personal Consumption	2.0	3.5	4.0
Government Consumption	4.6	-0.8	-2.0
Fixed Capital Formation	14.3	28.2	24.0
Stocks (% GDP)	0.9	1.4	0.7
Exports	12.1	13.8	12.0
Imports	14.7	16.4	14.0
GDP	5.2	7.8	6.4
GNP	6.9	5.7	5.4