Economic Commentary

Irish GDP 2013 : weak end to year makes 2014 forecasts optimistic   13 Mar

Sharp GDP fall in final quarter... The Irish economy, as measured by real seasonally adjusted GDP, contracted in the first quarter of last year but rebounded strongly in the following two, growing by over 3%, and this prompted analysts to revise up projections for this year. The final quarter of 2013 saw a surprisingly large contraction however; GDP fell by 2.3%,despite a 3% rise in capital spending and a 2.1% increase in exports, as this was dwarfed by a big fall in inventories, which had risen strongly in the early part of the year, a 0.6% decline in consumer spending and a 5.8% increase in imports. The consensus expected a positive q4 figure leaving the annual change in GDP in that quarter at around 2% but in the event it is now -0.7%, which makes it much harder to get the 2% growth for 2014 that is generally expected.

...**results in 0.3% contraction in 2013**...The consensus was also expecting a modest rise in annual GDP in 2013 but the data now shows a 0.3% contraction. Consumer spending and government consumption fell but this was largely offset by a 4.2% increase in capital spending, boosted by a recovery in construction output. Consequently, domestic demand fell only marginally and was offset by a build up in inventories so the GDP decline was primarily due to a negative contribution from the external sector; exports grew by just 0.2% in volume terms, with a decline in merchandise exports offset by growth in service exports, while imports grew by 1% in the year. In nominal terms GDP was largely unchanged at €164bn which is some €2bn below the figure estimated by the Department of Finance, which means the quoted debt and deficit ratios will be revised up. Moreover, nominal GDP will now have to grow by some 4% this year to hit the Budget estimate, again implying that the debt ratio forecast for 2014 may be too optimistic.

Consumer spending a concern...The impact of the 'Patent Cliff' on chemical exports was clearly a factor in the soft export performance last year but the weakness of consumer spending remains a key domestic drag on activity. The Budget is partly predicated on a 1.8% rise in consumption this year but consumer spending ended the year down 1.1% and it would appear that household deleveraging is offsetting the positive impact on incomes of employment growth.

...**GNP at variance with GDP data….**In our previous commentary on the National Accounts we noted that GDP would probably be flat in 2013 but that GNP would grow by 2.5%-3.0%. In the event the latter figure was even stronger, at 3.4%, which means that the income of Irish residents rose despite the fall in output (GDP). That reflects a €7bn fall in profits and debt interest paid abroad, with multinational profits down by some €4bn (no doubt driven by the 'Patent Cliff') which offset a €2bn decline in the income received from abroad by Irish investors.

...**record Balance of Payments figure**...That fall in net outflows and another rise in the surplus in trade in services more than offset a fall in the merchandise trade balance and resulted in a Balance of Payments surplus of €10.9bn, a record in nominal terms and relative to GDP (6.7%).That compares with a deficit of some 5% of GDP at the peak of the boom and illustrates the scale of rebalancing that has taken place in the economy since the crash. That rebalancing has involved massive deleveraging by the household sector and the timing of any end to that trend is unknown which adds to the uncertainty surrounding the outlook for this year.