



# Economic Commentary

Irish GDP Q1 2014: Strong start to the year

4 July 2014

**GDP grew by 2.7% in Q1...**The economy, as measured by real seasonally adjusted GDP, surprised to the upside in the first quarter of 2014, expanding by 2.7%. This was much stronger than expected although the data incorporated revisions under the new international national accounts standard (ESA2010), which had a material impact on investment spending and the external accounts. The latter now show a much stronger performance of late from net trade and this was again the case in q1, with exports rising by 1.8% against a 0.8% rise in imports, so providing a substantial net contribution to GDP. Inventories also rose strongly, adding 1% to growth.

**...although domestic demand still weak....**On the downside domestic demand fell in the quarter, with all three components declining. The fall in consumer spending was marginal though and it is now showing some limited growth on an annual basis (0.2%) but personal consumption has consistently disappointed relative to consensus expectations, despite a robust recovery in employment. Deleveraging by Irish households is still significant and it is unclear when that process will come to an end. The q1 results certainly imply that consumption for the year as a whole is highly unlikely grow at the 1.8% pace forecast in the 2014 Budget.

**...annual growth emerges at 4.1%....**The strong start to the year will lead to an upward move in the consensus forecast for growth in 2014 as a whole, particularly as a number of other factors conspired to boost the annual change in GDP. First, the revisions now show the economy as having grown marginally last year (0.2%) instead of contracting as had previously been published. Second, the sharp fall

initially recorded in the final quarter of 2013 was also revised away, so the economy entered the year on a firmer note. Third, GDP fell very sharply in the first quarter of last year (by 3.5%) and this therefore fell out of the annual comparison. The net result was annual growth of 4.1% in the first quarter of 2014 and don't be surprised to see forecasts of over 3% for the full year emerge over the next few months.

**Nominal GDP now over 6% higher than thought..** The revisions to the Irish national accounts (back to 1995) resulted in a substantial upward revision to nominal GDP, largely due to the inclusion of R&D as investment spending. A higher figure was expected but the scale of the change was not, with 2013 GDP now put at €174.8bn compared to the initial €164.1bn. Ireland's debt and deficit ratios are lower as a result, with the former now at 116.1% for 2013 instead of over 123%. In addition, the 2014 fiscal deficit of €8bn may equate to around 4.5% of GDP rather than the 4.8% initially projected. The higher level of GDP also carries positive implications for the fiscal adjustment likely to be required in 2015 to hit the 3% deficit target, and that prospect is examined in a Blog on the subject (*'€10.7bn boost to Irish GDP improves Budget outlook'*).

***"Don't be surprised to see forecasts of over 3% growth for the full year emerge over the next few months"***