Economic Commentary

GDP data gives reality check to Budget debate 19 September 2013

Return to growth in q2…The Irish economy.as measured by real seasonally adjusted GDP, emerged from another recession in the second quarter, expanding by 0.4% after a cumulative 1.6% decline over the previous three quarters. Personal consumption rebounded, rising by 0.7% after a 2.5% plunge in q1,but overall domestic demand fell for the third consecutive quarter, dampened by a 1.3% decline in government consumption and a 3.4% fall in investment spending, although the latter included a rise in building and construction, which is at odds with the PMI data on the latter.

…**driven by recovery in exports**…Exports rose strongly in q2, by over 4%, so offsetting a 3.5% decline in the first quarter, and outpacing a 0.7% increase in imports and imparting a very strong positive contribution to GDP. The corollary to that better performance from the external sector was a pick up in multinational profits with the result that net factor outflows rose, so reducing the income of Irish residents, as captured by GNP, which fell by 0.4%, albeit following a 2.2% increase in q1..

..**another record BOP surplus**…The uptick in exports also contributed to another record surplus on the balance of payments, which emerged at €2.9bn in the quarter after a €1.2bn surplus in q1. These confirm that the Irish economy has rebalanced, with the domestic sector now running a large surplus relative to the deficit in the public sector, although the corollary of the former is weak spending and high saving, which is depressing overall GDP.

..**annual figures still in negative territory**…Real GDP is still contracting on an annual basis, by -1.2%, following a 1% decline in the first quarter, with consumer spending down 1.3% in q2,and overall domestic demand falling by 1.1%. Nominal GDP is also down on last year, by 1.1% from 1.9% the previous quarter.

..the debt and deficit ratios for 2013 are now likely to be above official projections …

..**giving reality check to Budget debate**… The Department of Finance expect real GDP growth of 1.3% this year and nominal growth of 2.6% but neither looks plausible now in the absence of substantial data revisions and extremely strong growth in H2. Consequently, the debt and deficit ratios may end the year above official projections even if the actual fiscal deficit emerges broadly on target, so impacting projections for 2014. Yet the debate on the appropriate fiscal adjustment for next year's Budget continues as if the economy had continued to track official forecasts- the adjustments were supposed to be residuals required to hit a given deficit target and as such likely to change with events, but have somehow become targets themselves. If so the deficit and debt targets have to give way.