



An Roinn Airgeadais
Department of Finance

Monthly Economic Bulletin

February 2020

Prepared by the Economics Division
Department of Finance
finance.gov.ie

The Department's Monthly Economic Bulletin (MEB) provides a monthly update of some of the key developments within the Irish economy across a broad spectrum of sectors. The bulletin also outlines fiscal developments for the State, as well as being a source of the Department's most up-to-date forecasts and providing a snapshot of conditions in some of Ireland's key trading partners. The publication is designed with the aim of being both informative and accessible to a wide readership. The MEB can be used as a research aid or for presentational purposes and is also available online at the Department's website at www.finance.gov.ie

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Economic Growth

Macroeconomic outturn for 2018

- National Income and Expenditure estimate figures released by the CSO (11th July) show **GDP grew by 8.2 per cent in 2018**. GNP grew by 6.5 per cent.
- Modified domestic demand grew by 4.7 per cent in 2018. This measure, which excludes leased aircraft and foreign owned intellectual property (IP) assets, is a measure of underlying economic activity.

Q3 2019

- Quarterly national accounts estimates released by the CSO (13th December 2019) show that the level of GDP rose by 1.7 per cent in the third quarter of this year relative to the previous quarter. As a result, the level of GDP was 5 per cent higher year-on-year.
- Modified domestic demand grew by 3.5 per cent year-on-year.
- Personal consumption grew at a solid rate of 3.3 per cent year-on-year, with exports (+11.1 per cent) continuing the strong growth seen throughout 2018 that continued into last year. Housing investment was up 22 per cent, reflective of increased housing supply.

(year-on-year % changes)	2017				2018				2019			2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Personal Consumption	2.1	2.6	4.3	3.1	3.1	4.5	3.4	2.8	3.3	3.7	3.3	3.0	3.4
Government Consumption	3.2	3.5	4.0	4.8	2.9	4.9	6.1	3.9	4.8	3.9	3.9	3.9	4.4
Gross Investment	-33.7	107.3	-44.9	-53.0	12.3	-69.9	42.3	66.9	4.0	219	1.2	-6.8	-21.1
Exports	5.0	5.6	8.2	17.5	8.6	13.9	11.4	8.1	14.7	10.6	11.1	9.2	10.4
Imports	-9.6	37.2	-13.5	-10.4	0.6	-31.4	15.2	19.4	15.0	61.4	12.8	1.1	-2.9
GDP	4.6	7.2	14.2	6.5	12.1	10.4	7.4	3.6	7.9	4.9	5.0	8.1	8.2
GNP	-1.5	-0.0	19.1	3.2	12.4	13.3	5.0	-2.8	6.6	-0.9	-0.2	5.1	6.5

Source CSO

Latest Economic Forecasts

The Budget 2020 forecasts were based on the assumption of a disorderly Brexit in October 2019. However, as a disorderly Brexit did not materialise a technical update was published in January. These forecasts along with those of other forecasting institutions are outlined in the table to the right.

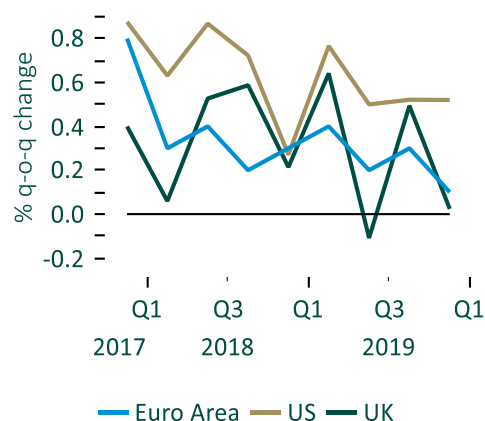
GDP Forecasts (% change)	Date	2019	2020	
			Orderly Brexit	Disorderly Brexit
Department of Finance	Jan 2020	6.3	3.9	-
Department of Finance	Oct 2019	5.5	3.1	0.7
European Commission	Feb 2020	5.7	3.6	-
Central Bank of Ireland	Feb 2020	4.8	4.2	0.8
IMF	Oct 2019	4.3	3.5	-
ESRI	Dec 2019	5.8	3.3	-
OECD	Nov 2019	5.6	3.3	-

International Developments

The United Kingdom

- The UK economy expanded by 0.4 per cent in Q3 on a q-on-q basis. This compared with a contraction of -0.2 per cent in Q2.
- Annual CPI inflation was 1.8 per cent in January 2020, down from 1.3 per cent in December 2019. Core inflation was 1.6 per cent in January, down from 1.4 per cent in December.
- The unemployment rate is estimated at 3.8 per cent for Q3, down 0.1 percentage points from the previous quarter.
- UK Manufacturing Purchasing Managers Index (PMI) was 51.7 in February, the first time above the 50.0 neutral mark in ten months.

Gross Domestic Product, SA



The United States

- The US economy expanded by 0.5 per cent in Q4 2019 q-o-q and increased by 2.1 per cent y-o-y.
- Annual inflation was 2.5 per cent in January 2020, an increase of 0.1 per cent from December 2019. Core inflation was up 0.2 per cent (m-o-m) and up 2.3 per cent y-o-y.
- Total non-farm payroll employment increased by 225,000 in January 2020, and the unemployment rate was 3.6 per cent, a slight increase of 0.1 per cent from December.
- The manufacturing PMI was 50.7 in February, down from 51.9 in January. This is the weakest the US manufacturing sector has been in the last six months.

The euro area

- The euro area economy expanded by 0.1 per cent in Q4 compared to Q3, and increased by 0.9 per cent on an annual basis.
- Annual headline inflation in the euro area was 1.2 per cent in February, down from 1.4 per cent in January. Core inflation was 1.4 per cent in February, up from 1.3 per cent in January.
- The unemployment rate in the euro area was 7.4 per cent in January 2020 (sa), stable compared with December 2019 and down from 7.8 per cent in January 2019.
- The manufacturing PMI was 49.2 in February, up from 47.9 in January. The reading was below 50.0, indicating continued contraction in euro area manufacturing for the thirteenth successive month. Although it has increased over the last two successive months and is at its highest level in a year.

Exchange Rate Developments

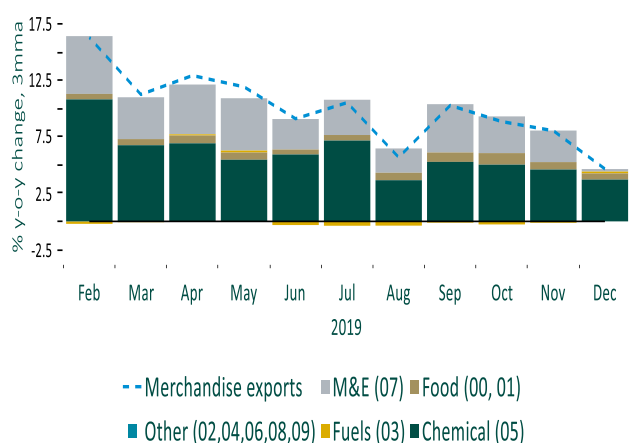
- The €/£ monthly average spot rate was 0.84 in February 2020, down from 0.87 in February 2019.
- The €/€ monthly average spot rate was 1.09 in February 2020, down from 1.14 in February 2019.

External Trade

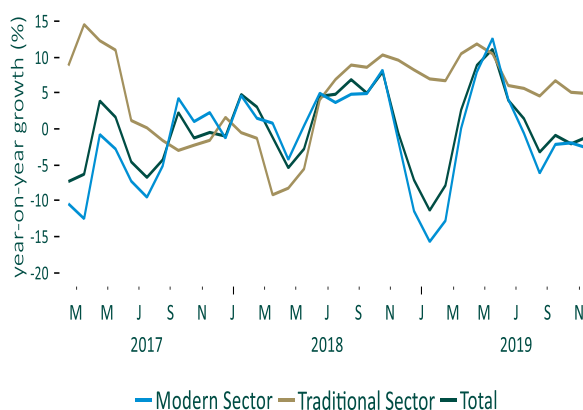
External Trade and Industrial Production

- On a monthly basis, the seasonally adjusted value of goods exports increased by 4.1 per cent and the value of imports increased by 3.8 per cent in December. As a result, the trade surplus increased by 4.6 per cent to €4.9 billion.
- On a monthly basis, exports of goods in the pharma-chem sector increased by 2.2 per cent in value terms in December y-o-y. In year to date terms they increased by 8.6 per cent y-o-y.
- The value of exports from the employment-rich food and beverage sector increased by 0.8 per cent y-o-y in December and increased by 6.5 per cent y-o-y in year to date terms.

Export growth contributions (current prices)



Ireland, Industrial Production, SA, Index



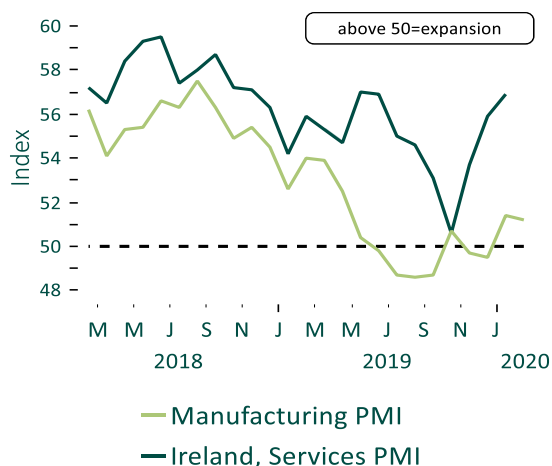
Purchasing Managers' Index

The PMI of the manufacturing industry posted 51.2 in February 2020, slightly down from 51.4 in January 2020. The seasonally adjusted services index posted 59.9 in February 2020, up from 56.9 in January 2020.

Balance of Payments – Current Account

- In Q3 2019, a current account surplus of 12 per cent of GDP was recorded.¹
- A merchandise trade surplus of €33 billion was recorded in Q3 2019, with a services trade deficit of €313m.

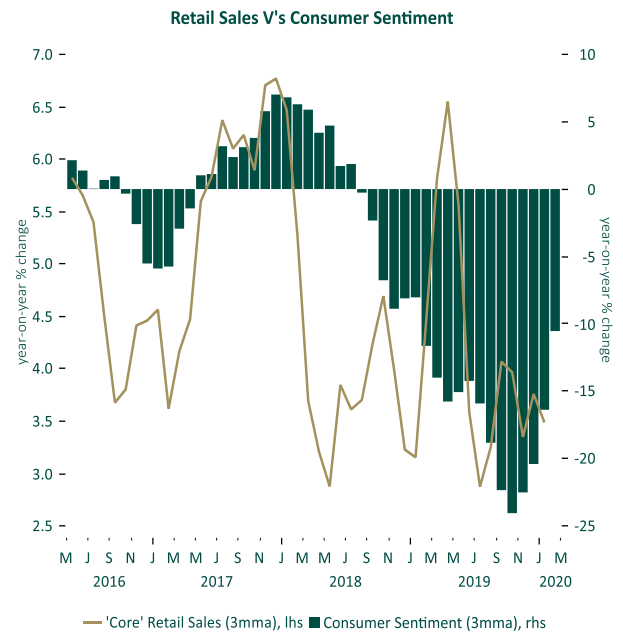
Purchasing Managers' Indices (PMIs)



¹ This headline figure is heavily distorted by the multinational sector in Ireland through inter alia contract manufacturing, imports of intellectual property, aircraft leasing and re-domiciled PLC's.

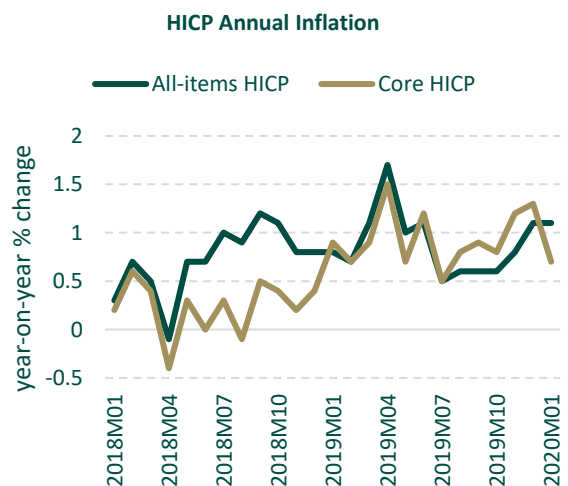
Personal Consumption

- Headline retail sales, in volume terms, decreased by 3.4 per cent month-on-month (sa) in January but increased by 3.7 per cent in year-on-year terms.
- Excluding Motor Trades, the volume of 'core' sales decreased by 1.8 per cent (sa) in January month-on-month but increased by 2.9 per cent year-on-year.
- New private cars licensed for the first time decreased by 7.2 per cent in January y-o-y.
- Used (imported) private cars decreased by 5.5 per cent in the January (y-o-y). As a result, total private cars i.e. new and used (imported), decreased by 6.8 per cent over the same period.
- The Consumer Sentiment Index was 85.2 in February, down slightly from 85.5 in January.



Inflation

- On a HICP (Harmonised Index of Consumer Prices) basis, prices in Ireland decreased by 0.7 per cent between December 2019 and January 2020 but increased by 1.1 per cent on a year-on-year basis.
- The Consumer Price Index (CPI) also decreased by 0.7 per cent over the month to January but increased by 1.3 per cent in year-on-year terms.



Employment

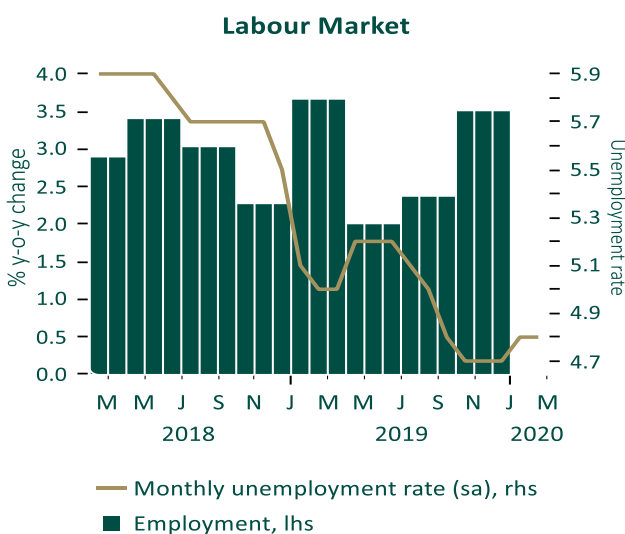
The seasonally adjusted unemployment rate for February 2020 was 4.8 per cent, unchanged from January 2020 and down from 5.0 per cent in February 2019.

Fourth quarter 2019 Labour Force Survey (LFS)

The CSO published the LFS for Q4 2019 on 18 February 2020.

Key points from the Q4 2019 release were:

- The level of unemployment decreased by 18,300 in the year to Q4 2019 (-14.2 per cent) and the seasonally adjusted unemployment rate in Q4 stood at 4.7 per cent.
- There were 2.36 million people in employment in Q4 representing a 3.5 per cent annual increase (79,900).
- In seasonally-adjusted terms, employment grew by 1.3 per cent (30,500) over the previous quarter.
- The labour force increased by 61,600 over the year to Q4 2019 (+2.6 per cent).
- The long-term unemployment rate decreased from 2.1 per cent to 1.6 per cent over the year to Q4 2019.
- The youth unemployment rate fell from 12.0 per cent to 9.6 per cent over the year to Q4 2019.



Latest Labour Market Developments

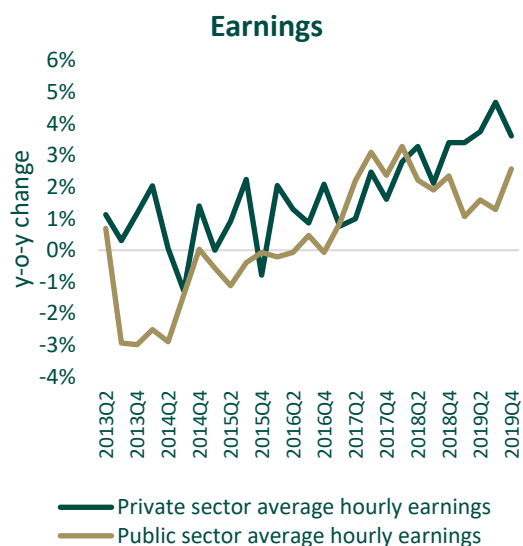
	Employment			Labour Force		ILO Unemp. Rate (sa)		ILO Participation Rate (sa)
	Actual	Y-o-Y	%	Y-o-Y	%	Overall	LT	Overall
Q1 2018	2,220,700	62,400	2.9	31,900	1.4	5.9	2.1	62.0
Q2 2018	2,255,000	74,100	3.4	57,900	2.5	5.8	2.0	62.3
Q3 2018	2,273,200	66,700	3.0	46,900	2.0	5.7	2.1	62.2
Q4 2018	2,281,300	50,500	2.3	35,300	1.5	5.6	2.1	62.2
Q1 2019	2,301,900	81,200	3.7	62,600	2.7	5.0	1.7	62.4
Q2 2019	2,300,000	45,000	2.0	31,400	1.3	5.2	1.7	62.1
Q3 2019	2,326,900	53,700	2.4	37,900	1.6	5.0	1.4	62.2
Q4 2019	2,361,200	79,900	3.5	61,600	2.6	4.7	1.6	62.6

Source: CSO

Earnings

The CSO published Earnings and Labour Costs data for the fourth quarter of 2019 on 25th February 2020. The release covers employees in all sectors with the exception of agriculture, fishing and forestry. The key points from the release are:

- Average hourly earnings increased by 3.6 per cent (to €24.17) over the year to Q4 2019.
- Average paid hours worked per week decreased marginally by 0.3 per cent (to 32.4).
- In light of the trends in earnings and hours worked, average weekly earnings increased by 3.5 per cent (to €783.62) over the year to Q4 2019, down from 3.6 per cent recorded in Q3 2019.
- Both average weekly and average hourly earnings increased in 12 of the 13 economic sectors recorded in the year to Q4 2019, while average hours worked only grew in 5 of the 13 sectors.
- Average weekly earnings increased in both the public and private sectors in the year to Q4 2019. Average weekly earnings in the public sector increased on an annual basis by 2.7 per cent, while the equivalent private sector figure was 3.5 per cent.
- For 2019 as a whole, average weekly earnings increased by 3.6 per cent, on average over the four quarters, compared with 2018.



Sectoral Developments

At a sectoral level, both average weekly and hourly earnings increased in 12 of the 13 sectors reported by the CSO, in Q4 2019 y-o-y. The strongest increase in average hourly earnings was seen in the Arts, entertainment, recreation and other service activities sector at 5.8 per cent. The Transportation and storage sector recorded the only annual fall in the year, down by 0.2 per cent in the year to Q4 2019.

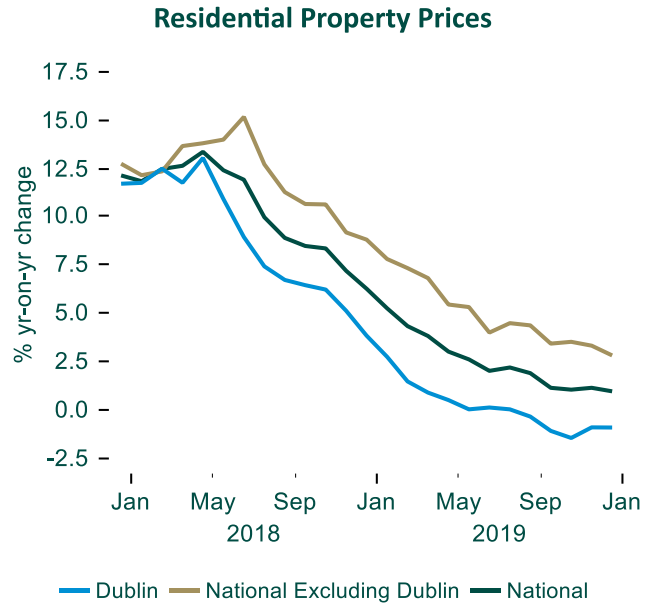
Annual Change in Average Hourly Earnings (%)

	2017		2018				2019			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industry	3.2	2.3	1.8	3.5	1.5	1.9	2.3	1.4	1.3	3.3
Construction	2.6	1.2	2.0	4.3	5.3	4.3	3.2	3.2	2.4	3.0
Wholesale/Retail: motor vehicle repairs	2.0	1.6	2.1	2.1	1.4	2.4	5.8	4.5	7.1	3.8
Accommodation & Food Services	1.0	2.4	5.4	1.3	2.5	1.5	-0.4	3.7	3.9	3.9
Financial, Insurance & Real Estate	3.6	3.6	4.9	5.1	2.5	5.0	3.3	4.7	3.2	2.1
Total	2.8	1.9	3.1	3.0	2.1	3.2	2.8	3.3	4.0	3.6

Source: CSO

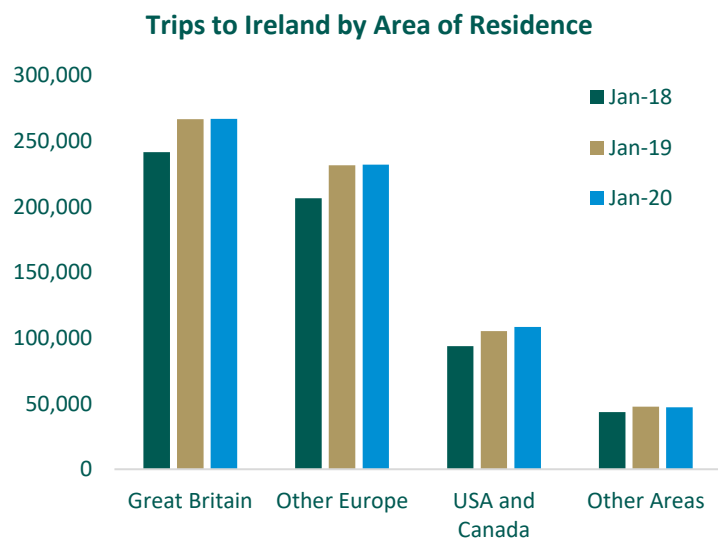
Housing

- Between November and December 2019, the national residential property price index decreased by 0.6 per cent. As a result, residential property prices increased by 0.9 per cent in the year to December 2019.
- Prices in Dublin fell by 0.9 per cent in the year to December 2019.
- Residential property prices in the rest of Ireland were 2.8 per cent higher over the same period.
- In January, mortgage approval activity increased in volume terms by 7.5 per cent year-on-year and increased in value terms by 10.7 per cent.
- New dwelling completions increased by 18.3 per cent in 2019, to 21,241.
- Construction commenced on 26,237 residential units in 2019, an increase of 16.8 per cent over 2018.
- The Ulster Bank Construction PMI decreased to 50.9 in January 2020 from 52.0 in the previous month.



Tourism

- There were 654,500 overseas visits to Ireland in January 2020, an increase of 0.5 per cent over January 2019.
- The number of overseas trips made by Irish residents during January 2020 increased by 2.2 per cent to 548,500.
- Total tourism and travel earnings from overseas travellers to Ireland increased by 0.9 per cent between Q3 2018 and Q3 2019, from €2,425 million to €2,448 million.
- Total tourism and travel expenditure by Irish residents overseas increased by 12.6 per cent between Q3 2018 and Q3 2019, from €2,415 million to €2,720 million.



Exchequer Balance

- An Exchequer surplus of €1,001 million was recorded to end-February 2020. This compares to a surplus of €139 million in 2019. The €863 million year-on-year improvement was driven by increases in tax revenues and somewhat offset by increases in current and capital expenditure.
- Cumulative tax receipts to end-February of €9,228 million were ahead of target by €285 million, or 3.2 per cent, and exceeded the 2019 performance by €1,122 million, or 13.8 per cent.
- Total net voted expenditure to end-February was €8,094 million, which was below profile by €256 million, or 3.1 per cent. In year-on-year terms, this was up €138 million, or 1.7 per cent, comprised of a 1.0 per cent increase in current spending and a 12.2 per cent increase in capital spending.
- Combined non-tax revenue and capital receipts of €1,050 million were down €311 million year-on-year.
- Non-voted expenditure of €1,183 million decreased year-on-year by €189 million, or 13.8 per cent.

General Government Balance (GGB)

- The 2018 GGB outturn was a surplus of €0.2 billion or 0.1 per cent of GDP.² Given surplus corporation tax receipts in November this year, the previous expectation of a GGB of 0.2 per cent of GDP for 2019 is now expected to have improved to 0.4 per cent of GDP. The 2019 forecast figures in the table below have not been updated to account for this change. Final figures will be available from the CSO in April.
- *Budget 2020* was based on the assumption of a disorderly Brexit in 2019 and forecasted a deterioration in the GGB to -0.6 per cent of GDP in 2020 and -0.2 per cent of GDP in 2021. The Medium Term Objective (MTO) of a structural balance of -0.5 per cent of GDP was forecasted to be achieved in 2021.
- Given that the Brexit assumption underpinning the budget has not materialised, the Department of Finance released a technical update to the *Budget 2020* figures in January.³ Based on the revised Brexit assumption (of a trade deal or transition extension agreement in 2020), the revised figures indicate a GGB of 0.7 per cent of GDP in 2020 and 1.0 per cent in 2021. The corresponding structural balances in these years are 0.3 per cent of GDP and 0.4 per cent of GDP respectively. Again, as these revised figures are the result of a high-level technical update, the official forecast figures below will not be updated until the publication of the Stability Programme Update in April.

General Government Receipts and Expenditure

	2018	2019 Forecast	2020 Forecast
GG Receipts (€m)	82,340	86,365	88,670
GG Expenditure (€m)	82,170	85,695	90,685
GG Balance (€m)	170	670	-2,020
GGB (% of GDP)	0.1	0.2	-0.6
GG Debt (% of GDP)	63.5	59.3	56.5
Structural Balance (% of GDP)	-1.1	-1.3	-0.8

² The general government balance (GGB) measures not just the difference between receipts and expenditure of central government [the Exchequer] but the fiscal performance of all arms of Government (other than commercial state-sponsored bodies), including local government and non-commercial state-sponsored bodies, as well as extra-budgetary funds such as the Social Insurance Fund and the Ireland Strategic Investment Fund. It is therefore a wider measure of the public finances than the Exchequer Balance (EB). The GGB operates on an accruals basis whereas the Exchequer Balance is a cash-based measure.

³ <https://www.gov.ie/en/publication/98449d-medium-term-fiscal-strategy-slide-deck/>

- The Department's Budget 2020 booklet is available on the Department's website: <http://budget.gov.ie/Budgets/2020/2020.aspx>
- An electronic copy of Stability Programme Update 2019 can be accessed here: <https://www.gov.ie/en/publication/e97b68-stability-programme-update-2019-april-2019/>
- An electronic copy of the National Reform Programme is available on the Department of the Taoiseach's website: www.taoiseach.gov.ie
- Copies of CSO releases can be downloaded from: www.cso.ie
- Information on Central Bank statistical releases can be downloaded from: <http://www.centralbank.ie>
- Details of forthcoming statistical releases, including the IMF's advance calendar can be found at: <http://www.imf.org/external/NP/SEC/bc/eng/index.aspx>
- Details of the Commission's Autumn 2019 forecast can be found at: https://ec.europa.eu/info/files/european-economic-forecast-autumn-2019_en
- Details of the ESRI's Quarterly Economic Commentary forecast can be found at: <https://www.esri.ie/publications/quarterly-economic-commentary-winter-2019>
- Details of the OECD's Economic Outlook can be found at: <http://oecd.org/economic-outlook/>

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Department of Finance's Budget 2020 Forecasts⁴

Budget 2020 Forecasts – October 2019

	2019	2020	2021	2022	2023	2024
Economic Output (% change)						
Real GNP	4.3	-0.1	2.4	2.5	2.4	2.3
Real GDP	5.5	0.7	2.5	2.8	2.7	2.6
Nominal GDP	5.9	2.4	3.9	4.3	4.1	4.1
Components of GDP						
Personal Consumption	2.7	1.4	1.9	2.1	2.3	2.4
Government Consumption	4.5	3.5	2.0	2.0	2.0	2.0
Investment	50.4	-24.0	-3.6	3.9	3.9	3.9
Exports	10.2	0.9	4.2	4.1	4.0	3.9
Imports	22.6	-6.5	2.9	4.4	4.6	4.5
Prices						
HICP	0.9	1.3	1.4	1.8	2.0	2.1
Employment (%)	2.4	0.8	1.1	1.5	1.7	1.9

Source: CSO, Department of Finance.

Department of Finance's Technical Forecast Update⁵

Technical Update – January 2020

	2019	2020	2021	2022	2023	2024	2025
Economic Output (% change)							
Real GDP	6.3	3.9	3.0	2.8	2.7	2.7	2.5
Nominal GDP	7.0	5.3	4.5	4.4	4.2	4.2	4.0
Prices							
HICP	0.9	1.3	1.4	1.8	2.0	2.1	2.1
Employment (%)	2.5	1.8	1.7	1.6	1.6	1.6	1.5

Source: CSO, Department of Finance.

⁴ Budget 2020 forecasts were based on the assumption of a disorderly Brexit at end-October 2019.

⁵ These macroeconomic forecasts are a technical update based on assumption that there is no disruption to EU-UK trade over the forecast horizon. They are not submitted to the European Commission and, therefore, not subject to endorsement by the IFAC.



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