Irish Economy
November 2008

Population (2008):	4.4 million
GNP per capita (2008):	EUR 35,700
Exchange Rate (14 Nov 2008)	EUR/STG: 0.85 EUR/DLR: 1.27

Key Themes

- **GNP** is now forecast to contract by 2.8% in 2008. The downward revision reflects a sharper reduction in consumer spending, exacerbated by the turmoil in financial markets, fear of job losses, and the plunge in confidence.

- We now anticipate a two-year recession, with **GNP set to fall by 4% in 2009**. This reflects a combination of factors, including the weaker global environment, but mainly a more severe and prolonged housing market slowdown, as well as continued deterioration in the labour market, which will prompt consumers to curb spending in favour of saving. Lower inflation and substantially lower interest rates will help, but will be overwhelmed by the other negatives.

- The **timing and the extent of the recovery** is subject to considerable uncertainty, but we see GNP rising modestly in 2010, by 0.3%. This reflects our expectation that the number of houses built will level off at 20,000 in 2010. Though this is still an exceptionally low level, it removes the negative impetus from housing, causing GNP to bounce. Positive growth in consumer spending, and a better export performance as the global economy improves, also contribute to the recovery.

- We have raised our 2008 **completions** forecast from 44,000 to 48,000, reflecting stronger-than-expected activity so far this year. However, exceptionally weak starts have prompted us to lower our 2009 forecast to 20,000.

- Completions in 2010 will remain depressed at 20,000, on the grounds that the supply overhang has grown, and will therefore take longer to clear. This also reflects a lower underlying demand for housing, as immigration slows. On a more positive note, this means housing output is no longer subtracting from growth.

- **House prices** are down 14% from the peak, but given the lags in reporting we believe the true rate of decline is greater, probably of the order of 20%. Prices have further to fall in coming months and we predict a total fall from peak of 30%.

- The outlook for the **commercial and civil** activity has worsened considerably, as signalled by the Ulster Bank Construction PMI in recent months. We now project a modest decline in non-residential construction this year, followed by a more severe contraction in 2009 as the economic slowdown and the sharp drop in commercial property prices feed through.

- The falloff in **consumer spending** in 2008 is greater than we originally expected, and we now forecast a decline of 1%. The main driver here is the ongoing deterioration of the Irish labour market, which in addition to the continued negative news-flow on the domestic and international economies, in keeping consumer confidence subdued. Consumer spending is expected to fall further, by 3.0%, in 2009, as the employment situation worsens.

- The economy will experience outright **deflation** in 2009, for the first time since 1946. The projected 0.5% fall in the CPI reflects a significant drop in mortgage inflation as the ECB rate cuts feed through, in addition to further falls in energy and food prices. The global slowdown will also add to the moderation. All else equal, this dramatic falloff in prices, which is a positive for disposable incomes, should bolster consumer spending - but all else is not equal.

- **Unemployment** is set to average 8.5% in 2009, the highest rate since 1997. This implies 85,000 job losses next year, more than half of them in construction and the remainder split between manufacturing and services. We believe that the budget figures entail public sector job losses of the order of 11,000, as the government attempts to curb spending on pay.

- We believe that the revised tax estimates for 2008 are still too optimistic in the context of the dramatic slowdown that has occurred, and further **tax shortfalls** and additional spending excesses are expected. This will push the 2008 deficit to 6% of GDP, above the government forecast of 5.5%.

- The combination of the further deterioration in 2008 and the weaker economy in 2009 is likely to see next years **budget deficit** rising to €14.5 billion, or 8% of GDP, as compared with the official 6.5% forecast. Only a modest improvement, to 7.3%, is envisaged for 2010.

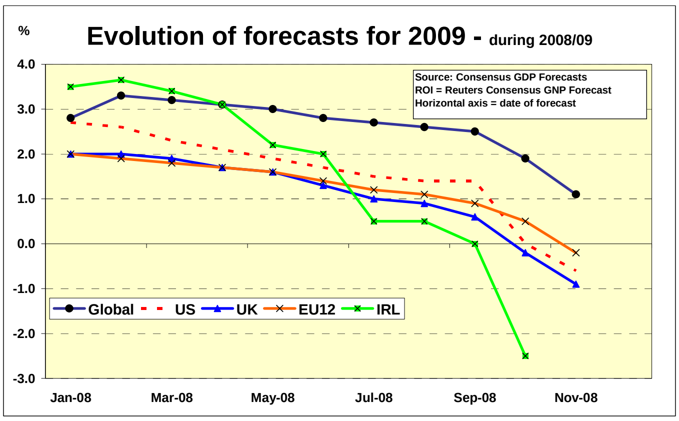
Overview

GNP is forecast to contract by 2.8% this year and 4% in 2009, before returning to modest growth in 2010. This will be only the third recessionary period since records began in the late 1940s. Past recessions, typically lasted for two years and we expect this one will be no different. Its intensity will, however, be greater because it has twin drivers – the global recession and the domestic property correction. The latter, which has been intensified and prolonged by the credit crunch, is forecast to deduct about 3.5 percentage points from growth in 2009. In its absence, GNP would still contract, but by a modest 0.5%.

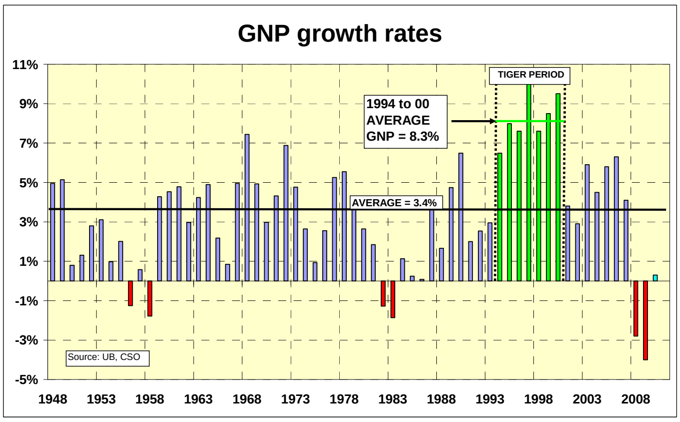
GNP is our preferred measure of growth because it excludes profits of multinationals which accrue to non-residents, and includes profits earned abroad by Irish residents. Our most recent GNP estimate compares with a forecast contraction of 0.3% in our last Quarterly. The downward revision reflects the sharp reduction in consumer spending which is increasingly evident as the year progresses. The extent of this was not anticipated but has, no doubt, been exacerbated by the turmoil in financial markets, loss of jobs and the plunge in confidence that has occurred.

Our 2009 forecast has been reduced from growth of 0.5% to contraction of 4%. There are a number of reasons for this. First, the global environment has deteriorated sharply with recessions now forecast in nearly all of Ireland's main trading partners. Second, as already noted, the credit crisis has exacerbated the Irish housing slowdown with the result that demand is virtually non-existent, backlogs of unsold houses are accumulating and completions will again fall sharply in 2009. The impact on construction will be exacerbated by declines in commercial activity and investment in machinery and equipment will also decline. As a result, investment is now set to contract by roughly 20% in both 2008 and 2009. The third major negative influence on our 2009 forecasts is, again, consumer spending. Though inflation is set to fall sharply, (from 4.1% in 2008 to minus 0.5% in 2009) boosting the ability to spend, the prospect of continuing job losses will prompt consumers to curb spending in favour of saving. As consumer spending accounts for about 60% of total GNP, the impact is severe, and explains a good deal of the change in our forecast. As in other countries, the risks to our growth forecasts are on the downside.

Forecasts for growth in Ireland's main trading partners have been revised down sharply in recent months, as the external environment, exacerbated by the credit crisis, has deteriorated. However, consensus GNP forecasts for Ireland have fallen much more sharply, from 3.5% in January 2008 to minus 2.5% in October. This reflects the factors noted above. The consensus is invariably a lagging indicator.

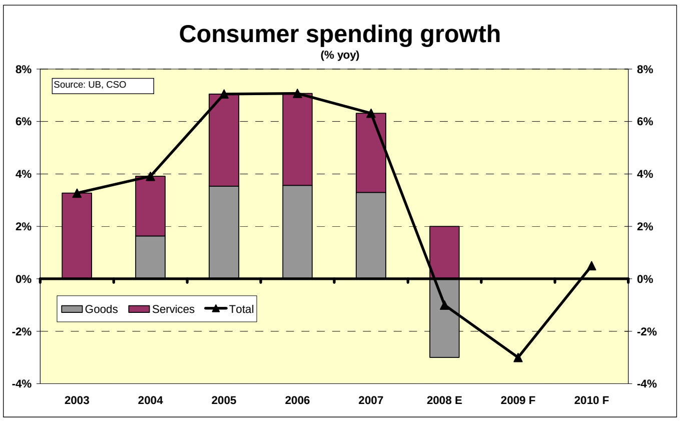


We are still forecasting a recovery in the Irish economy in 2010, albeit one that is now much more modest than formerly. This reflects the pick up in global activity – though the current recession is arguably the worst in a century, the policy response in the form of lower interest rates, higher government spending and bank rescues is also unparalled – but more importantly, the fact that the number of houses built is expected to level off at 20,000 in 2010. Though this is still an exceptionally low level, it removes the negative impetus from housing, causing GNP to bounce.



Consumer spending

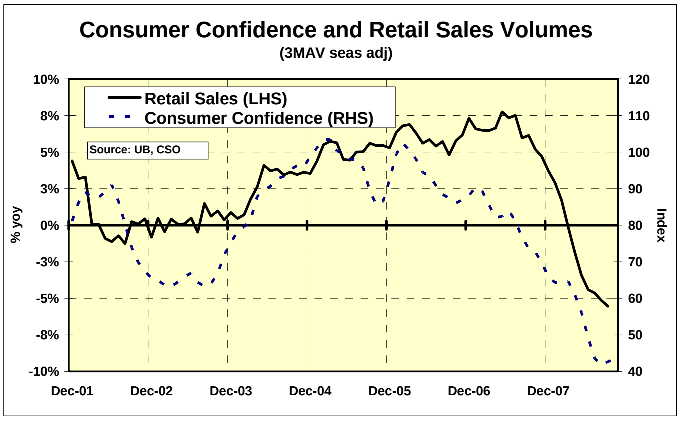
The downward revision to our 2008 consumer spending forecast - from 1.5% to minus 1% - reflects the first half outturn when spending on goods and services decelerated to 2.7% from 6.3% on average in 2007. The lower rate of growth was not unexpected given that spending on goods, as reflected in the monthly retail sales data, fell at an annual rate of 2.4% in the half year and fell further, to 5.6% in Q3. However, there is an offset in that spending on services, particularly on foreign holidays which are counted as Irish spending, held up better. Services increased by 4% in the first half, boosted by a huge 18% increase in expenditure on foreign holidays. While outward tourism is likely to slow as the economy deteriorates, the full year increase will still be substantial. Our 2008 1.0% fall in consumer spending assumes minus 3% in goods and a 2% increase in spending on services, mostly tourism-related.



The ECB began to increase official interest rates in December 2005 and steadily raised them thereafter from a low of 2% to a peak of 4.25% in July 2008. The Standard variable mortgage rate, in turn, rose from 3.5% to 5.9%. They have now begun to fall and by December will be down a full percentage point as tracker rates, which account for the bulk of mortgages, fall in line with ECB rates. We have assumed that ECB rates will continue to fall , again reaching 2%, but that only half of these future reductions will be passed on to borrowers in the form of lower standard variable rates as the banks seek to restore margins. However, lower interest rates will only boost activity if confidence is such that borrowers are prompted to increase spending rather than save the proceeds. We have taken a fairly cautious approach, assuming that much of the extra income ends up as savings in 2009.

Consumer confidence is also depressed and is at record lows. Historically, retail sales tracked confidence reasonably closely, however, they diverged in recent years, probably because spending was boosted by the release of the SSIA monies. They have come back into line in 2008, as spending slows to match depressed sentiment.

We forecast car sales to decline by 20% in 2008 – given that they have a weighting of 5% in PCE, this alone knocks one percent off consumer spending. We expect ongoing weakness in other sales categories, particularly those linked to construction, as well as other non-discretionary spending.

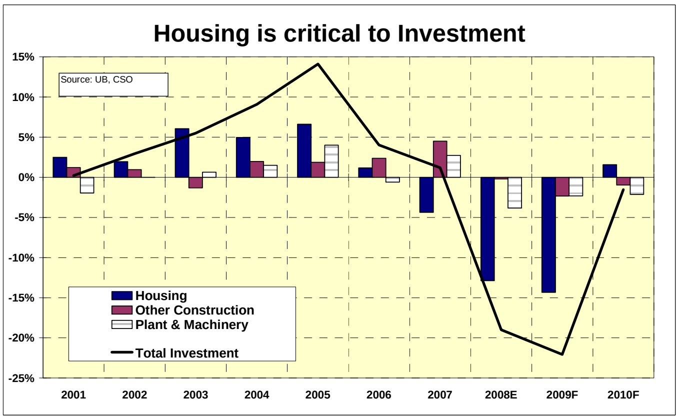


We anticipate a much greater fall in consumer spending next year. While wages may rise by 3% and lower inflation and mortgage rates will also boost spending power, this will be more than offset by a 4% contraction in average employment, a deflationary Budget which reduced disposable incomes by about 1% and a significant rise in precautionary savings given the deteriorating employment outlook. Our forecast is for a decline in consumer spending of 3% in 2009, the biggest fall since 1982 when the Irish economy was last in recession and spending contracted by 4.3%.

The better outlook for both the domestic and international economies in 2010 will result in a return to positive consumer spending growth of 0.5%.

Investment

Investment accelerated sharply in the period to 2005, reflecting ever-increasing housing completions. However, by 2007, the volume change in investment was back to zero, with moderate falls in housing offset by growth in other building and machinery and equipment. The latter reflected strong commercial activity while civil engineering benefited from the Government's infrastructure spending programme. Machinery and equipment also grew strongly, but this mainly reflected purchases of aircraft by Ryanair and Aer Lingus, which were offset by imports and, thus, had little net impact on the domestic economy.



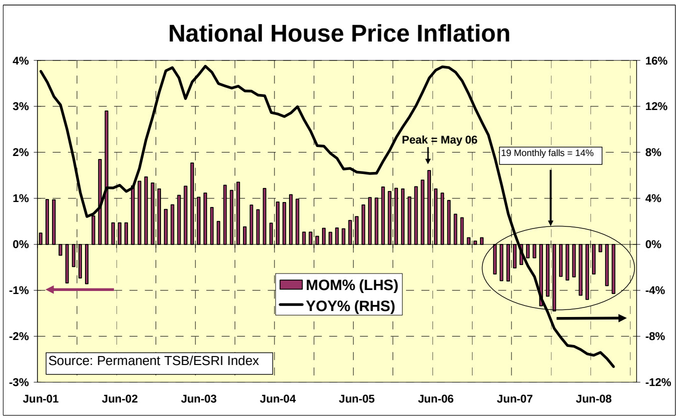
2008 is set to see a major contraction in investment, as the housing correction accelerates, other building stagnates and purchases of plant and machinery also turn negative. The forecast decline in total investment is 20%.

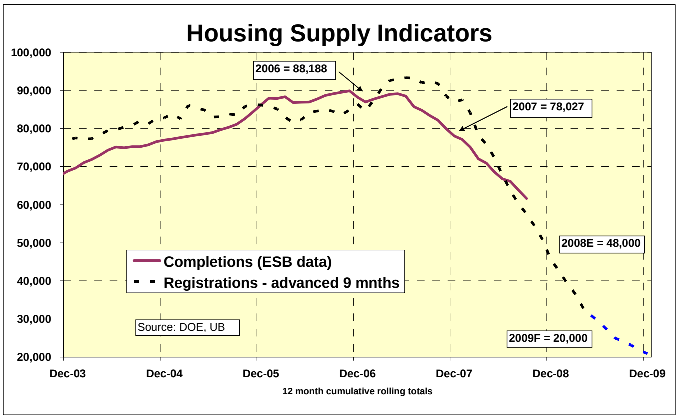
We forecast a further very substantial contraction in 2009, followed by a return to almost zero in 2010. The primary factor in the turnaround is housing. Housing output as a percentage of GNP peaked at over 15% in 2005, up from an average of around 12% at the turn of the century. By 2008, we expect it to be below 10% of GNP and to fall further, to 6% in 2009. We forecast it to remain around 6% in 2010 before again increasing to a more sustainable level in subsequent years. The essential difference between this and our previous quarterly is that we expect housing to remain depressed for two, rather than one, years. We also expect other building and construction and machinery and equipment to turn negative, albeit to a lesser extent.

Housing

Annual house price inflation peaked at 15.5% in mid-2006 but fell off thereafter as rising interest rates curbed affordability. By September 08 we had experienced 19 successive monthly price falls and the cumulative reduction in average prices was 14%. Given the lags in reporting – the statistics are based on bank drawdowns - the true rate of decline is greater, probably of the order of 20%. We predict a total fall from peak of 30%.

The industry response to falling prices and rising unsold stocks was to curtail supply sharply. Registrations for insurance against structural defects are used as a proxy for starts and, nine months later, for completions. We have raised our 2008 completions forecast from 44,000 to 48,000, reflecting stronger-than-expected activity so far this year.

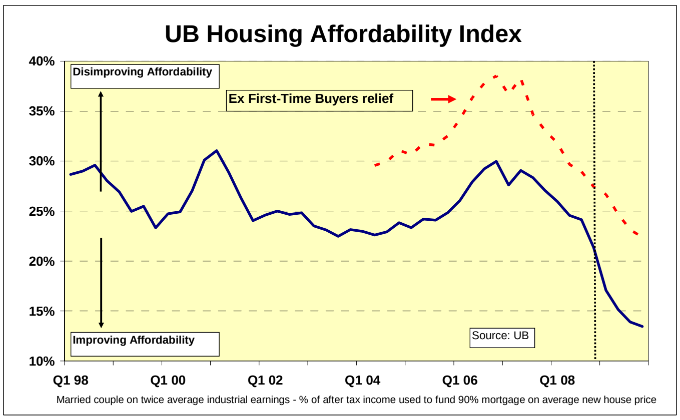




There were 39,986 completions in the first nine months of 2008. The starts data imply another 8,200 completions over the remainder of 2008, giving us a total of 48,000 units for the year as a whole (allowing for one-off homes which are typically not insured, and public-sector housing). At this stage, our model produces forecasts for the first seven months of 2009. They are down 67% on the corresponding seven months of 2008, hence our relatively low, 20,000, prediction for the whole of 2009. We expect a similarly low level of 20,000 in 2010, as it will be another two years before the supply overhang is eliminated.

Our cumulative forecast completions for the three years 2008 to 2010 are just under 90,000. This compares to an underlying medium-term demand of 40,000 to 45,000 per annum or 130,000 in total. The 40,000 difference is a rough approximation of the excess supply of new houses at the moment, which we expect to be worked off over the three-year period – the Construction Industry Federation put the overhang at a lower, 35,000 units, others feel it is higher. In reality, no one knows as there are no statistics on unsold new houses. Recent data from the DAFT website indicate that the stock of second houses and apartments is of the order of 50,000.

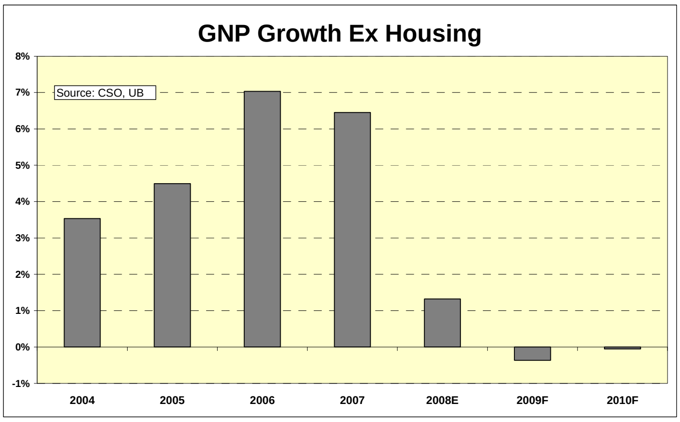
Affordability is no longer a constraint on house purchase. On a stress-tested basis, a first-time buyer couple who can avail of the tax relief will soon be back at mid-nineties affordability levels. The additional tax relief granted to such couples in the recent Budget took the form of an increase in the rate at which relief was granted from 20% to 25%. This was unnecessary as can be seen from the affordability situation for a couple not availing of the relief. Such a couple's affordability situation will soon be back where it was in 2000 when affordability was not an issue. The improvement reflects lower house prices, higher incomes, significant improvements in mortgage interest relief, and a less severe stress test, augmented by recent and prospective mortgage interest – rate reductions.



The mortgage interest relief and the new Home Choice scheme in the Budget have had no impact because the problem at the moment is one of confidence, not affordability. Prospective buyers anticipate lower prices and will not move until that expectation changes.
These examples referred to above assume that mortgage finance is readily available. In fact, the curtailment of 100% mortgages and the general tightening up that has occurred mean that significantly larger deposits may be required, thereby postponing or removing some potential buyers from the market, particularly first-time buyers.

New house starts, in turn, will not recover until buyers emerge and the overhang of unsold stock begins to be eroded. We expect this to happen some time in 2009.

The forecast reduction in activity on account of housing is 4 percentage points in 2008 and 3.6 percentage points next year. Another way of looking at this is to model the growth in the economy ex housing. Though slowing sharply, GNP ex housing remains is still a positive 1.3% in 2008 and the decline in 2009 would be limited to less than half a percent. This compares with forecast declines of about 1% in the UK, the US and a number of Eurozone member States.



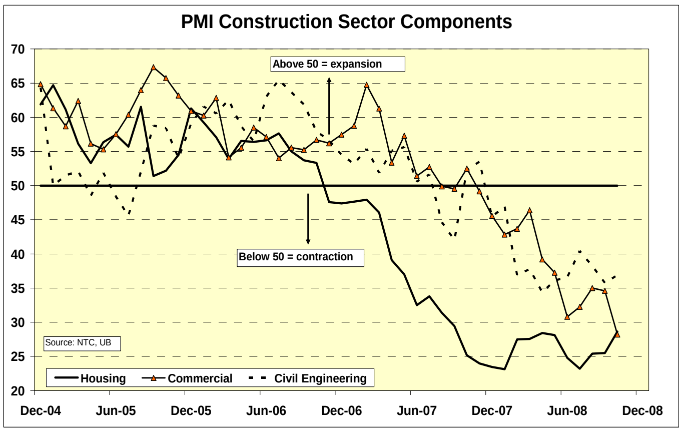
Other Building & Construction

Non-residential building was particularly strong in 2007, growing by 19.2%. This reflected buoyant commercial construction, supported by robust civil engineering activity, under the National Development Plan. The Ulster Bank Construction PMI indicates that both these sectors have weakened significantly this year. In fact, the half-year CSO national accounts (QNA) showed these sectors to be surprisingly weak, contracting by more than 10%. We assume that this is something of an aberration in that timing factors may be at work. Nevertheless, it is clear that the slowdown has extended beyond housing and we have pared back our estimates accordingly.

The slowdown in the commercial property sector has resulted in a virtual absence of transactions so it is difficult to get realistic property values. Estimates, subject to more uncertainty than usual, point to falls of up to one-third in commercial prices in the first nine months of 2008. It is likely that the full year fall will be even greater.

We now project a modest decline of 0.8% in non-residential construction this year, followed by a more severe, 7%, contraction in 2009 as the economic slowdown and the sharp drop in commercial property prices feeds through. Given that the commercial property sector tends to lag the rest of the economy, we forecast a further, albeit more modest, decline of 2.4% in this sector in 2010.

Investment in machinery and equipment was also surprisingly weak in the first half of 2008, down more than 20%. This includes transport equipment, mainly aeroplanes, which fell by almost 30% probably reflecting timing shifts in delivery, but the remainder was also weak, down 17.5%.



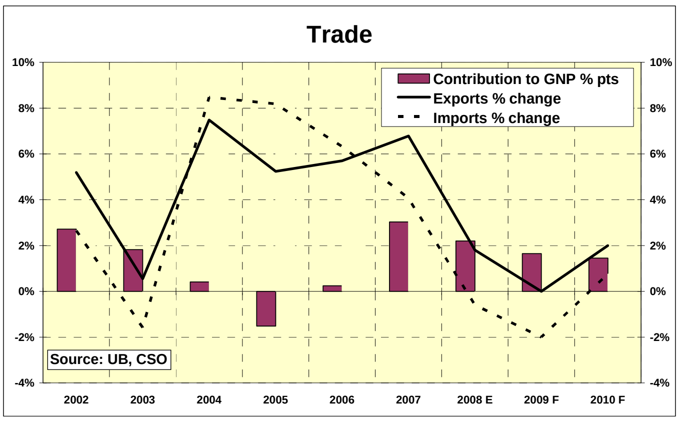
Sales, and by extension imports, of LCVs and HCRs are down 30% to 40% in the year to October, and we expect this trend to continue. Accordingly, we see this item remaining in negative territory for the foreseeable future, down 17% this year, 10% in 2009 and 8% in 2010.

Trade

The external sector contributed little to growth prior to 2007 when a positive contribution of 3 percentage points from net trade was recorded. Exports of goods and services grew at an annual 6.8% rate, while imports tailed off to 4.1%, thereby increasing the net positive gap between the two and accounting for three-quarters of total GNP growth in 2007.

The picture in the first half of 2008 was radically different. Volume growth in both exports and imports fell off sharply, and the net contribution to growth was reduced. The first quarter was particularly weak but, as expected, there was some recovery in Q2.

There is a close correlation between exports and imports as we import much of what we export. In 2006, 86% of materials used by foreign firms was imported and over 94% of such firms' output was exported. However, the gap between imports and exports should remain, not because exports will do particularly well, but because the slowdown in the domestic economy will curb imports. The decline in consumer spending on goods shows up in lower imports of consumer durables. The most obvious manifestation of this is car sales which are down about 20% and imports of machinery and equipment are also in decline.



In 2009, the external environment will be more challenging because (i) growth in Ireland's main trading partners will be negative, (ii) the appreciation of the euro, particularly against sterling, will make it more difficult to export and (iii) the domestic cost base is still problematic. This shows up in a significant decline in the forecast rate of growth in exports, however, the projected deceleration in imports is even faster.

Services exports were particularly buoyant in recent years, growing by 11% in 2007 and averaging 16% over the past decade. Growth in the trade-related component of business services exports, which includes merchanting, agent's commissions and consultancy, was particularly strong while financial and computer services also figured prominently. Merchandise exports were up 4% in 2007, the best performance since 2004.

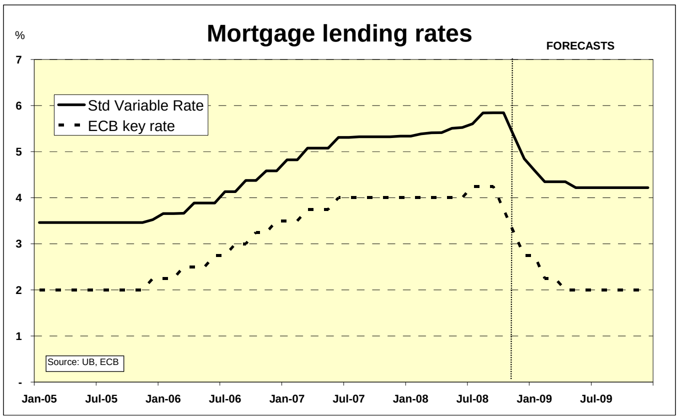
In the first half of 2008, exports fell off sharply with goods up 1.6% and services up 1.2% though, as mentioned earlier, this reflected a particularly poor first quarter. The rebound in the second quarter was not sufficient to radically change the overall picture. The weaker first half experience reflects particularly poor performances by financial services – no surprise in the light of the credit crunch – and trade related business services. Tourism exports, i.e. spending by visitors from abroad, were also weak, falling by 1.7%, as compared with increases of up to 7% in recent years. Our 1.8% forecast for total exports in 2008 incorporates services growth of 2.4% with merchandise goods up 1.3%.

Import growth in 2007 was more evenly distributed with both goods and services each up about 4% in volume terms, with the latter reflecting particularly strong growth in foreign holidays by Irish residents. As with exports, 2008 was markedly different with total imports flat in the first half. Imports of goods were down 6.7% reflecting the deteriorating economic position but services imports remained buoyant, rising by 6%. This encompassed a strong Q1 followed by a tapering off in Q2. Imports of business services, up to half the total, remained buoyant as did royalties and computer services, however, imports of financial and insurance services weakened. For 2008, we forecast a fall in total imports of 0.6% with a 7% decline in goods imports offset by a 5% increase in services.

Given the deteriorating global economic scene, we expect the trade situation to deteriorate in 2009. The volume growth in total exports is put at zero but this will be offset by an even greater decline in imports to minus 2%. The sharp decline in imports means that the contribution to growth from net exports remains positive in 2009, albeit to a lesser extent. Some recovery in both exports and imports is forecast for 2010, as growth in our main trading partners is expected to recover following the sharp deterioration in 2009.

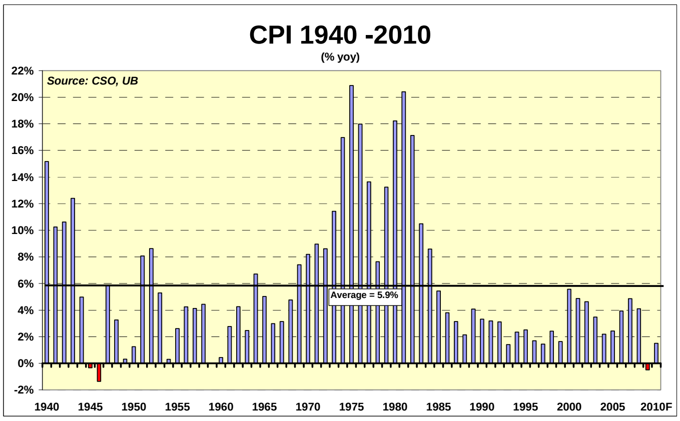
Inflation

Inflation averaged 4.5% in the first ten months of 2008. The impact of interest rates can be seen from the HICP rate which excludes mortgage interest, and was lower averaging 3.4%. The average CPI rate is now forecast at 4.1% in 2008 with dramatic declines likely in November and December. In October 2008, the annual rates of increase in the CPI and HICP were 4.0% and 2.7%, respectively. By end year, we expect them to be 1.75% and 2.2%, respectively.

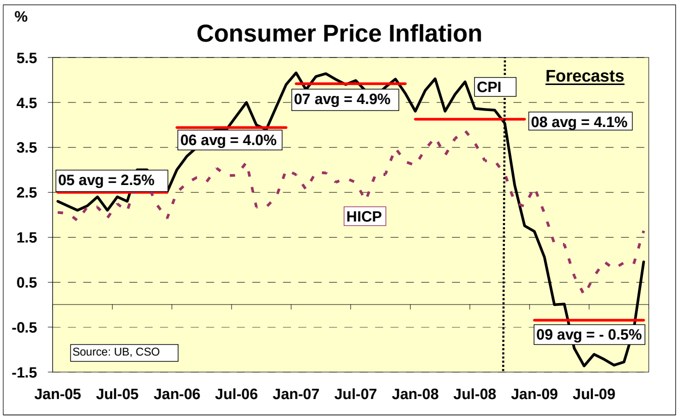


This is a dramatic turnaround in a short space of time as it is not long since the CPI was bouncing off 5%. Then, inflation was boosted by rising commodity prices, notably food and energy, as well as mortgage rate increases. As late as October, energy price inflation was running at 11% while the mortgage component of the CPI was up 17%. By December, we expect mortgage inflation to be down 4% and by May 2009 it should be minus 20%. As each half point reduction in the mortgage rate lowers the CPI by 0.75%, the impact will be dramatic. This will be added to by further falls in food and energy prices. Electricity and gas prices will be a notable exception – they are due to rise in January – but they, too, should fall later in 2009.

For the purposes of this forecast, we take the forecast fall in the ECB rate, currently 3.25%, to 2% by next Spring. We then assume that all of the two half-point cuts already announced are passed on in full but that only half of the remaining 1.25% is reflected in lower standard variable rates. This is a simplification as borrowers will experience a range of outcomes, for example, those on tracker mortgages will see an automatic pass through.



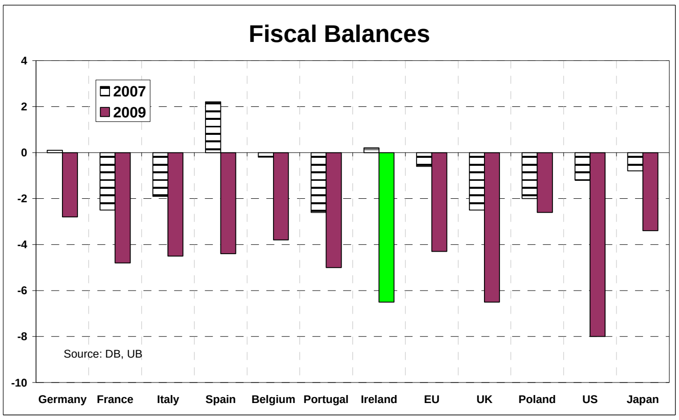
We now forecast outright deflation in 2009, with the CPI rate falling by 0.5% on average. The CPI hits zero next March, turns negative in May and remains in negative territory until December. A negative rate of inflation last occurred in 1946, more than 60 years ago. A return to a positive CPI rate of 1.7% is forecast for 2010.



The HICP is a better measure of core inflation as it excludes interest rates but it, too, is expected to slow dramatically from 3.2% this year to 1.2% in 2009 and 1.5% in 2010. The difference between the two series reflects the interest rate impact. As this lasts for a year before falling out of the comparison, the two come back into tandem in 2010 when prices start to rise again.

Budget

The 2008 Budget was quite expansionary with adjustments to Income Tax bands and allowances boosting after-tax incomes and spending increases in near double digits. At the same time, policy was designed to post a deficit of 0.9% of GDP but with property-related taxes strongly underperforming and the rest of the economy slowing drastically, the 2008 deficit will be significantly higher. This prompted the Government to bring forward the 2009 Budget from December to October. In the process, they radically revised the 2008 Budget estimates, forecasting a tax undershoot of €6.5 billion and projecting a revised 2008 General Government Deficit of 5.5% of GDP. This is clearly above the 3% limit in the Stability and Growth Pact and has prompted the EU to begin the disciplinary procedure which is part of the Pact. However, Ireland is by no means isolated as most European countries are rapidly heading into deficit and the EU has acknowledged that circumstances are exceptional which triggers greater flexibility under the Pact.



In the early part of the year, the undershoot in tax revenue was predominantly related to taxes from property. Ireland does not have a property tax as such but high rates of stamp duty apply to property transactions and much revenue was garnered from Capital Gains Taxes on disposals as well as Value Added Tax on new completions. The upshot of this was that a very substantial part of total taxation derived from property, a source of revenue which has now virtually dried up. We believe that the updated tax estimates for 2008 are still optimistic in the context of the dramatic slowdown that has occurred. We forecast further tax shortfalls and some additional spending excesses. These will push the 2008 deficit to 6% of GDP.

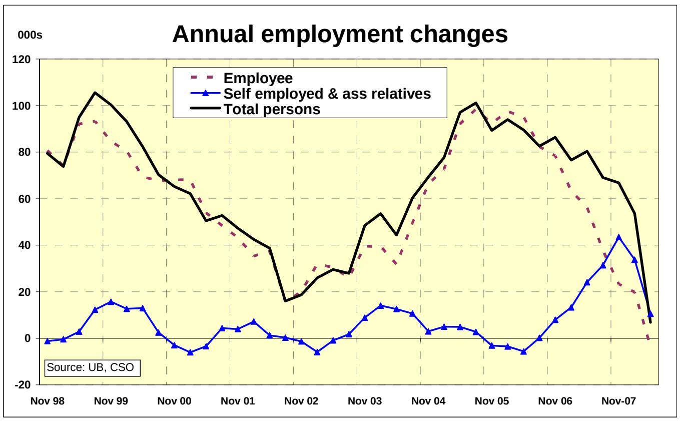
The 2009 Budget was the toughest since the beginning of the decade. It involved substantial spending cuts, significant tax increases and a projected deficit to 6.5% of GDP. In terms of the fiscal arithmetic, it made the best possible job out of a bad situation. However, the Government have received no credit whatsoever for their efforts. For this they have only themselves to blame. They chose to try to hide the cuts in public sector jobs that are implicit in the numbers and opted for a death by 1,000 cuts approach rather than adopting a few significant, albeit painful, measures. Moreover, they felt obliged to alter some of the measures in the face of public outcry, thereby raising demands for similar easement by others.

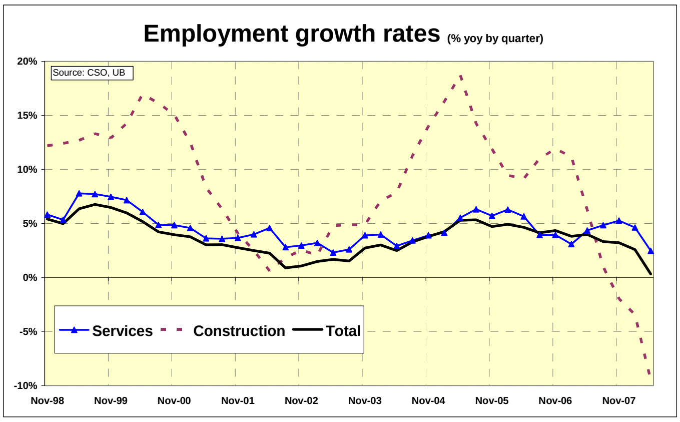
This communications failure has diverted attention from the task which remains. The government envisage another two tough budgets. In other words, the next two are likely to be as painful as the recent one but the public in general are largely ignorant of this fact.

In fact, the fiscal situation will be even worse if our forecasts are close to the mark. The combination of the further deterioration in 2008 and the weaker economy in 2009 is likely to see the 2009 deficit rise to €14.5 billion or 8% of GDP as compared with the official 6.5% forecast. Only a modest improvement, to 7.3%, is envisaged for 2010. As the spectre of a 7.3% deficit in 2010 is unlikely to be acceptable, the pressure for spending cuts/tax increases over and above those envisaged by the Government will be considerable. The official projected deficit for 2010 is €9.3 billion, net of €2.5 billion additional measures. Our figures indicate that the likely 2010 deficit could be €5 billion higher still. The choices are stark. Either the deficit is allowed rise or further very substantial cutbacks/tax rises will be required. Either way, there is simply no room for fiscal easing packages of the type being recommended by some economists or being contemplated in other countries. Fiscal policy is likely to be a drag on growth for the foreseeable future.

Employment

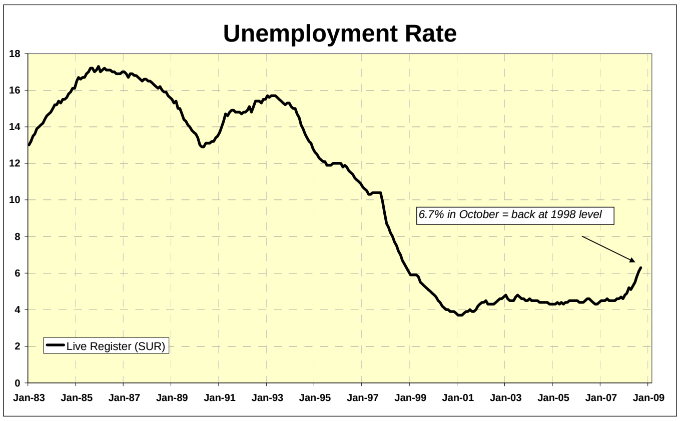
Employment growth has tailed off sharply to 0.3% in Q2 08. For a while, the true fall was masked by a shift into part-time work and the self employed and relatives assisting in agriculture. The latter probably reflected a move back to farming as construction contracted. However, this has now ended and the latest figures show large declines in the self-employed as well as in employees. Part-time work continues to rise but full-time employment is now decreasing. Non-nationals account for all of the increase in jobs with Irish national employment declining.





The Live Register measures unemployment claimants rather than unemployment per se, but acts as a useful leading indicator. It shows substantial increases in recent months, implying an increase in the unemployment rate to 6.7% in October.

We forecast a significant deterioration with unemployment reaching almost 7% by end 2008 and 9.5% a year later. The corresponding yearly averages are 5.7% and 8.5%, respectively. The number of unemployment benefit claimants averages 225,000 in 2008 and 320,000 in 2009.



These figures imply a total of 85,000 job losses in, in 2009, more than half of them in construction and the remainder split between manufacturing and services. The construction losses are mainly in housing but commercial construction will feature increasingly from now on. Manufacturing, too, is likely to see employment contract, but the focus is now on services. Though they have yet to appear in the official data, anecdotal evidence of job shedding in services is growing. A range of services, notably those associated with property and finance is likely to figure. However, public services are also likely to be affected. The Budget numbers for pay are tightly drawn. We estimate that they include pay cuts of about €700 million as compared with the opening position. This, in turn, implies a reduction in head count of the order of 11,000. Departing from previous tradition, the Government have remained silent on this issue. However, it is becoming increasingly clear that public sector cuts, too, are on the agenda.

Pat Mc Ardle,
Chief Economist
E- mail: Pat.McArdle@ulsterbank.com
Tel: + 353 1 608 4060
Mobile: + 353 87 2497765

Lynsey Clemenger
Economist
E-mail: Lynsey.Clemenger@ulsterbankcm.com
Tel: + 353 1 608 4173

Summary Table

	2007	2008E	2009F	2010F
GROWTH				
Consumer Spending (%YOY)	**6.3**	**-1.0**	**-3.0**	**0.5**
Investment (%YOY)	**1.2**	**-19.9**	**-21.2**	**-1.5**
- Housing	*-9.2*	*-30.1*	*-38.9*	*5.5*
- Other Building & Construction	*19.2*	*-0.8*	*-6.9*	*-2.4*
- Machinery & Equipment	*13.5*	*-16.9*	*-9.9*	*-7.9*
Government Spending (%YOY)	**6.0**	**4.0**	**0.7**	**0.6**
Exports (%YOY)	**6.8**	**1.8**	**0.0**	**2.3**
Imports (%YOY)	**4.1**	**-0.6**	**-2.0**	**0.8**
Real GDP (% YOY)	**6.0**	**-2.7**	**-4.4**	**1.1**
Real GNP (% YOY)	**4.1**	**-2.8**	**-4.0**	**0.3**
PRICES				
CPI (% YOY) Average	**4.9**	**4.1**	**-0.5**	**1.7**
HICP (% YOY) Average	**2.8**	**3.2**	**1.2**	**1.5**
HOUSING MARKET				
Completions	**78,027**	**48,000**	**20,000**	**20,000**
House Price Inflation (% end-year)	**-7.3**	**-10.0**	**-9.0**	**0.0**
LABOUR MARKET				
Employment (% YOY) Average	**3.6**	**-0.6**	**-4.0**	**-1.0**
Unemployment Standardised avg. %	**4.5**	**5.7**	**8.5**	**9.0**
PUBLIC FINANCE				
Budget Balance (% GDP)	**0.2**	**-6.0**	**-8.0**	**-7.3**
EXCHANGE AND INTEREST RATES				
ECB Refi Rate (End of Period)	**4.0**	**2.75**	**2.0**	**2.75**
EUR/$ (End of Period)	**1.46**	**1.35**	**1.20**	**1.20**
EUR/£ (End of Period)	**0.74**	**0.81**	**0.76**	**0.75**