

Dissecting The Data

The day on which many of the Presidential primaries are held in the US is called Super Tuesday. It felt like Super Thursday yesterday in Ireland with the release of a raft of major economic statistics covering inflation, the labour market and economic growth. We will examine the data in chronological order starting with the Q3 2001 National Accounts. These show a clear slowdown in the pace of economic activity during 2001. GDP growth slowed from 12.7% yoy in Q1 to 3.2% yoy in Q3.

This slowdown was not evenly distributed across the economy, however. As in the US and UK economies, growth in consumer spending was quite strong during the opening three quarters of the year, rising at around 5% yoy. Government spending also showed relatively strong growth of close to 6% yoy. Thus, spending growth held up well in 2001. Indeed, there is evidence that consumer spending accelerated in the final quarter, ahead of the changeover to euro notes and coins.

On the other hand, there has been a sharp downturn in export growth and business investment during the past year. Export growth slowed from 21.5% yoy in Q1 to 5.3% yoy in Q3 2001. External trade data show a further sharp weakening of exports in Q4. Meanwhile, fixed investment fell sharply reflecting a collapse in investment in machinery and equipment. Total fixed investment fell by 5.6% yoy in Q3, which contrasts markedly with the rise of 13% yoy in the opening quarter of the year.

The decline in investment and exports reflects a marked weakening in industrial activity. Manufacturing output, which rose by 33% yoy in Q1 2001, fell by 5% yoy in the final quarter of the year. Indeed, the level of manufacturing output in Q4 2001 was 8% lower than in the opening quarter of the year. Output of goods in the ICT sector fell particularly sharply, declining 23% yoy in Q4 2001. This fall in industrial output, especially in the ICT sector, and contraction in business investment, reflects the trend in the global economy, most notably in the US.

Not surprisingly, these trends have been reflected in the latest labour force figures. National Household Survey data for Q4 2001 show that employment growth slowed to 2.5% yoy, down from 3.6% yoy in the opening quarter of the year. Industrial employment actually fell in Q4 2001 from year earlier levels, while service sector employment rose 3.4% yoy. The continued strong rise in service sector employment during 2001 reflects the robust growth of consumer and government spending last year.

Unemployment, though, has been moving upwards since last summer, reflecting the spate of factory closures and redundancies in the industrial sector of the economy. The QNHS shows that the level of unemployment in H2 2001 was some 2,800 higher on average than in H2 2000. By contrast, unemployment in H1 2001 was 12,200 lower than year earlier levels. More recent Live Register data point to an even sharper rise in unemployment. Data released today show the Live Register total at 161,000 in February, up by 20,000 since last August, and 23,000 higher than a year ago.



Thursday also saw the release of consumer price data for January. Most of the attention focused on the impact on prices of the changeover to euro notes and coins. The impact was only marginal. However, it still managed to grab the headlines. What the figures clearly show, though, is that inflation is galloping ahead in the service sectors of the economy, rising at between 8% and 12% yoy in January.

High service sector inflation reflects high wage growth. The latest data for 2001 show that wage inflation accelerated to between 10% and 15% right across the economy last year. Not surprisingly then, the Irish HICP rate climbed to 5.2% yoy in January, the highest in the EU and almost double the average rate in the euro zone. By contrast, reflecting the difficult year in manufacturing, domestic producer output price inflation slowed sharply in Ireland last year to just 0.5% yoy in December from 4.9% a year earlier.

Overall, what the data show is the emergence of a two tier economy in Ireland during 2001, with the industrial sector faring badly but other sectors performing quite well. With the global economy now swinging upwards, output and employment in the industrial sector should soon stabilise. A recovery in exports should see manufacturing output begin to rise later in the year. Thus, the outlook for the economy is promising. The main concern is the sharp rise in wage and consumer price inflation which is eroding competitiveness.

We will publish revised macro-economic forecasts in the coming week in our quarterly Review and Outlook on the Irish economy. Recent data confirm that the growth rate of the economy slowed dramatically in 2001, leaving the economy with very little momentum as it entered 2002. Thus, even with a pick-up in activity over the course of this year, the average growth rate in 2002 will not look that impressive. That's statistics for you.