



Irish Slowdown Gains Momentum

The latest set of national accounts data from the CSO confirm that the slowdown in the Irish economy has gained momentum over the course for the year. In the second quarter, GDP growth slowed from 12.7% (y-on-y) to 9.2%. On a q-on-q basis, the economy grew by 3.0%. There was an even more dramatic deceleration in the rate of GNP growth, (GDP plus net factor income from the rest of the world) which fell from 11.0% to 1.6%. The correction reflects not only a basis effect, but the impact of exceptionally large outward investment flows over the period.

On a GDP basis, the economy remained relatively strong in the first half of the year. However, this reflects a strong carryover effect from 2000. GDP growth was also buoyed by the sharp fall in imports of goods and services, which rose by just 2.6% (y-on-y). In the first three months imports rose by 21.5% and were up 16.5% for the full year in 2000. Exports also slowed, but much less dramatically, to 12.5% from 22.5% in Q1 and 17.8% in 2000. Thus, the net trade balance to make a sizeable positive contribution to growth.

Growth in personal consumption was reasonably steady at 5.5% from 5.2% in the first quarter. However, growth last year was measured at 9.9%. Probably the most worrying trend in the numbers, was the fact that, although fixed investment was up 2.0% on a quarterly basis, in y-on-y terms there was no growth. This compares to a growth rate of 12.6% in the first three months and 7.0% for the whole of last year.

The economic slowdown seems to have gathered considerable momentum in the third quarter. The Quarterly National Household Survey for Q3, also released this week, showed a marked reversal in the downward trend that we have seen in unemployment in recent times. There was an increase of 1,800 in the numbers out of work in the three months June-August, compared to the same period last year. By contrast, the numbers unemployed has fallen by 9,500 in the year to Q2 2001. As a result, the unemployment rate increased to 4.3% from 3.7% in Q2.

There was a 2.8% y-o-y increase in the level of employment in Q3 2001, little changed from the 2.7% yoy increase registered in Q2, but well down from the 4.8% gain recorded in 2000. While employment increased on a year-on-year basis in most sectors of the economy, a notable exception was the hotel and restaurant sector which experienced a 1.7% decline in employment, most likely reflecting the impact of foot and mouth disease on tourism.

Manufacturing output turned down sharply in Q3 2001, declining on a quarter-on-quarter basis by a whopping 7.1%. This follows a fall of 2.1% in output in Q2 and a relatively small rise of 2.7% in Q1. The downturn has been particularly severe in the high-tech industries where we estimate that the growth rate has slowed to 6% yoy in Q3, down from over 40% in the early part of the year. Not surprisingly then, external trade data suggest that export growth slowed further to under 8% y-o-y in Q3 2001.

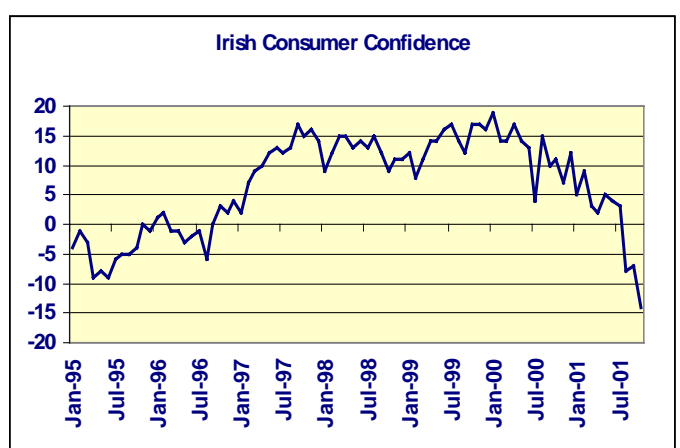
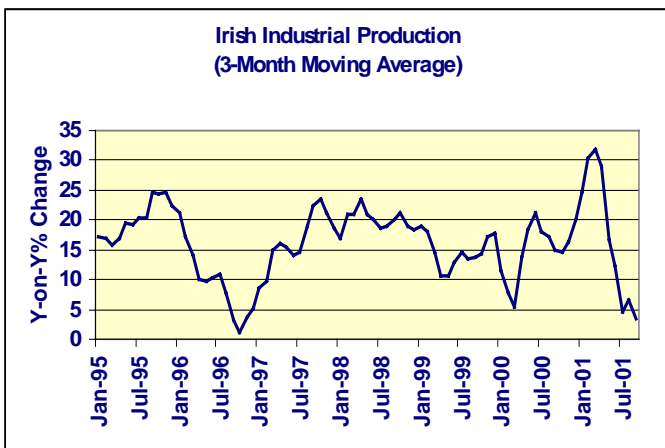
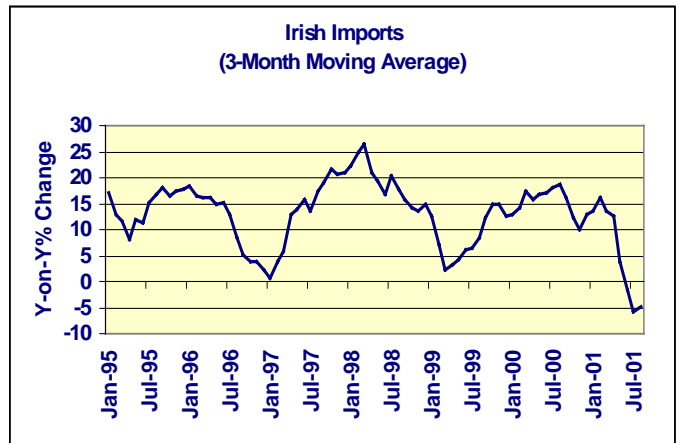
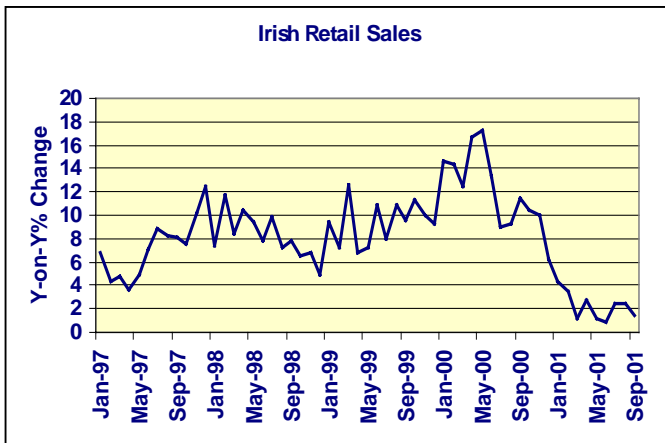
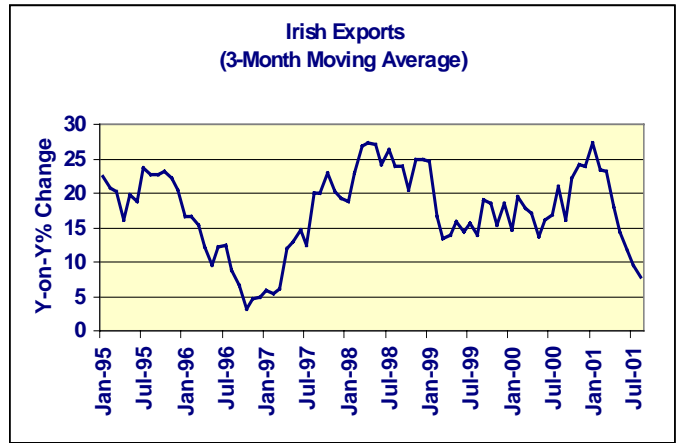
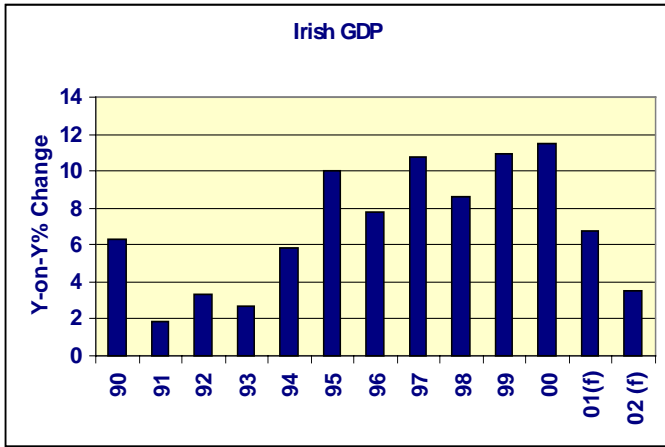
The slowdown is also gathering momentum in the consumer sector. The weakness of new car sales, which are down 28% year to date, has severely depressed the overall level of retail sales. However, even excluding autos, the most recent retail sales data show evidence that growth is moderating. Indeed, ex-auto sales volumes fell by 0.8% in Q3 this year compared to the previous quarter, the first such quarterly decline since 1996. These data are consistent with the sharp decline in tax receipts since mid-year, a decline that has been exacerbated by the sharp cuts in tax rates in the 2001 budget. Furthermore, the trade balance is unlikely to make as positive a contribution in Q3 with initial estimates showing exports growing at a much slower rate than in Q2.

Given the trends in Q3 data, and impact on global economic activity of the September 11th terrorist attacks, GDP growth is expected to have slowed to around zero in Q4 2001. For the year as a whole, though, GDP growth is likely to be around 7%. Growth is forecast at some 3% for next year, assuming that there is an upturn in the global economy during 2002.

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