



Market Newsflash

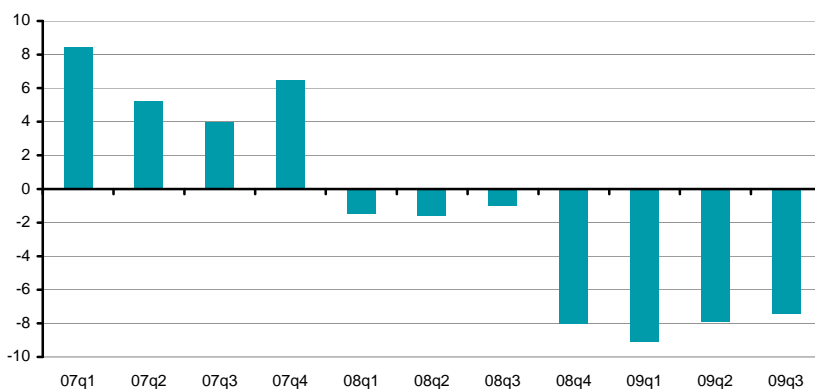
17 December 2009 15:03

External sector drives modest rise in Q3 GDP

Domestic demand remains weak

GDP rose by 0.3% in third quarter...The Irish economy, as measured by GDP, recorded a modest 0.3% rise in the third quarter on a seasonally adjusted basis, following a revised 0.6% contraction in Q2 and a 2.1% decline in the first quarter. Technically, therefore, we could say that the Irish recession is over, although it would be premature to draw that conclusion when looking at the broader picture. The pick up in activity was solely driven by net exports, for example, and GNP, which measures the income of Irish residents fell further by 1.4%, following a 1.7% decline in Q2. Nonetheless, the GDP figure does imply some stabilisation in Irish output after a cumulative 8.1% decline in the preceding nine months. This pattern also implies that the annual decline in GDP will slow sharply in the fourth quarter, as the above falls begin to drop out of the annual comparison.

GDP (annual % change)



But domestic demand fell sharply...The second quarter had seen a marginal rise in domestic spending, albeit revised down, with both consumer spending and investment picking up, but this unwound again in Q3; domestic demand fell by a seasonally adjusted 2.7%, with consumer spending falling by 0.7% and capital spending by 9.9%. On an annual basis consumer spending is down 7.3%, with investment 35% below its level a year earlier. Residential construction fell an annual 55%, and house building now accounts for only 3.2% of real GDP.

Net export supported the economy...The fall in domestic demand also impacted the external sector, with imports falling by a seasonally adjusted 4.5% in the third quarter, leaving them 11.9% down on an annual basis. Exports also fell, but by only 0.6% in the quarter and are down 2.6% on a year over year basis.

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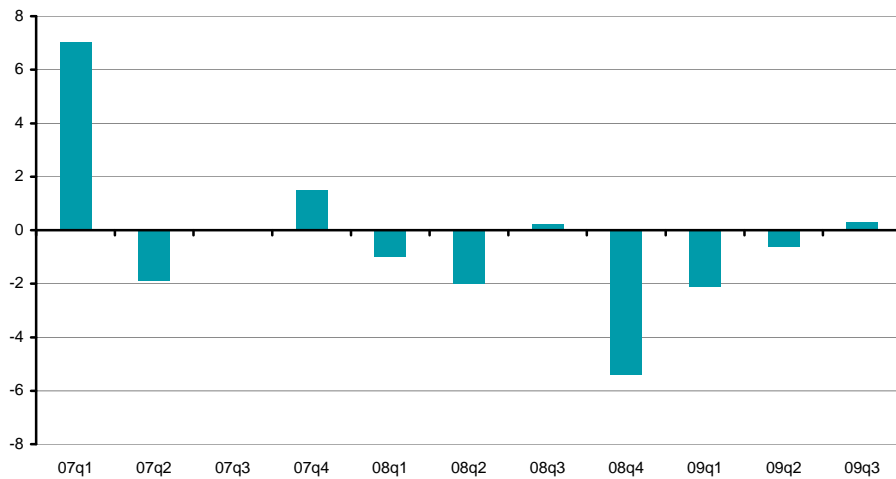
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The pattern of weak imports and resilient exports has been a factor of the Irish data during the recession, implying that the multinational sector in Ireland, has not lost competitiveness with Irish exports as a whole gaining market share.

GDP (% change on quarter)



But profit outflows dampened GNP... The corollary to this impressive export performance is that multinational profits held up much better than that of Irish firms, with the former rising to €9.1bn in Q3 from €7.7bn a year earlier, against a 15% fall in Irish profits earned abroad. The latter contributed to an annual 40% fall in the total income earned on Irish assets abroad, while income paid out on Irish assets to foreign owners declined by 26%. The net result was a rise in net factor outflows, so reducing GNP growth relative to GDP: real GNP fell by a seasonally adjusted 1.4% in Q3, and by 11.3% on an annual basis. The result highlights that the rise in output recorded in Q3 did not translate into a rise in Irish real incomes, so in that sense the recession has not ended.

Dr. Dan McLaughlin

Market data supplied by Reuters

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