



Consumers have started 2010 in a more positive mood than a year ago – there are some indications that people feel the worst maybe over...

Summary of Key Events: 4th – 8th January 2010

Ireland

- The Department of Finance's 2009 Exchequer figures show a deficit of €24.6bn for the year as a whole with tax revenues declining €7.7bn compared to 2008.
- The KBC/ESRI consumer sentiment index for December was only marginally lower than in November and shows that consumers are entering 2010 on a more positive, albeit still cautious note, than they entered 2009.
- The Ulster Bank Construction Purchasing Managers Index (PMI) fell to 33.1 in December from 34.2 in November, reflecting the depth of the adjustment in the construction sector. The weakness remains broad based affecting the commercial, residential and civil engineering sectors.
- Activity in the services sector continued to decline in December, but the pace of decline is slowing with the rate of decline the slowest in almost 2 years.
- The National Treasury Management Agency (NTMA) plans to raise/borrow an estimated €20bn in the bond market during 2010 but expects borrowing conditions to be more favourable than in 2009.

Europe

- Inflation in the euro zone accelerated in December at its fastest rate in over ten months.
- Economic sentiment in the euro zone improved by more than expected during December.
- Retail sales in the euro zone expectedly fell during November, further emphasising the fragility of economic recovery in the euro zone.
- Euro zone unemployment hit 10% in November, as another 102,000 people across the euro zone were unemployed compared to October.

UK

- UK consumer confidence recorded its biggest fall in more than a year in December, as expectations about the economy deteriorated further.
- The Bank of England kept interest rates unchanged at 0.5% and is maintaining its quantitative easing (QE) programme at €200bn.

US

- The US services sector returned to growth in December, despite further job losses in the services sector.
- There was a surprise drop in the employment figures for December with another 85,000 jobs cut – which has cooled optimism about recovery in the US labour market.

IRELAND

2009 Exchequer deficit of €24.6bn

The Dept of Finance Exchequer figures for 2009 show a deficit of €24.6bn for the year as a whole, compared to a deficit of €12.7bn in 2008. Tax revenues in 2009 were €33bn (the same as 2003 levels) down €7.7bn compared to 2008 and €1.4bn behind the target the government set in the April '09 budget. The government has estimated tax revenues in 2010 to be €31.9bn. The General Government Deficit (GGD) for 2009 was 11.4% of GDP and the forecast GGD for 2010 is 13.5% of GDP. The cost of servicing the national debt increased by €1bn in 2009 to €2.5bn from €1.5bn in 2008.

Car sales down 62% in 2009 compared to 2008

Car sales were down 62% in 2009 compared to 2008. However, there were promising signs in December as car sales were up 67% compared to the same month in 2008. It is expected that the government backed scrappage scheme will help boost car sales in 2010.

Activity in the service sector continues to decline but the rate of decline is slowing

Activity in the services sector continues to decline, with the NCB Purchasing Managers Index (PMI) rising 1.5 points in December to 48.3 (above 50 indicates growth). However, the rate of decline is the slowest in almost 2 years. The export sector fared the best with the PMI recording an increase from 52.7 to 54.7 for December, its strongest performance since October 07. This was offset by continuing decline in domestic new orders, which fell for the 23rd consecutive month. The financial services sector recorded the steepest reduction in jobs with a slight increase in activity.

The National Treasury Management Agency (NTMA) plans to raise more than €20bn in bond market during 2010

The NTMA plans to raise more than €20bn in 2010 through the bond markets. In 2009 the NTMA raised more than €35.4bn in long term funding, which was used to fund the exchequer deficit of €24.6bn and to repay a €5bn maturing bond.

EUROPE

Euro zone inflation increases at its fastest rate in over 10 months during December

Consumer prices in the euro zone increased at an annual rate of 0.9% in December, the highest since February '09. Higher energy costs pushed inflation up combined with the strengthening economy, which resulted in the ECB pulling back some of the emergency measures. The ECB president Jean Claude Trichet has said that inflation will remain 'moderate' in 2010. The ECB has forecast euro zone inflation to average 1.3% in 2010 and 1.4% in 2011. ECB council member, Ewald Nowotny, has indicated that interest rates are unlikely to be raised in the first half of 2010.

Euro zone retail sales unexpectedly fall in November

Euro zone sales fell unexpectedly by 1.2% in November, following small gains in October, further underlying the fragility of consumer spending and economic recovery in the

Economic sentiment in the euro zone improves during December

euro zone. The year on year decline in retail sales was 4.0% in November. The drop in sales was mainly due to the 1.1% drop in German retail sales, the euro zone's largest economy.

Economic sentiment improved more than analysts had expected during December, increasing from 88.8 in November to 91.3 in December, the 9th consecutive monthly rise in sentiment. Economic sentiment in the euro zone is now at its highest level since June 2008. The improvement in sentiment is due to increased optimism among industry, services and consumers.

Euro zone unemployment hits 10%

Euro zone unemployment hit an eleven-year high of 10% in November as companies impose further cost cuts and job losses. Unemployment in the euro zone is currently at its highest level since August 1998.

UK

Consumer confidence falls in December

Consumer confidence fell in December by the most in over a year, according to the latest Nationwide Building Society index. Consumer sentiment fell 5 points to 69, the biggest drop since November 2008. Consumer's economic expectations for the next 6 months fell 8 points to 101. The report may signal a slowdown in retail spending, as consumers brace themselves for higher taxes – VAT increased from 15% to 17.5% on the 1 January.

House Prices continue to rise in December

House prices in the UK rose for the 6th consecutive month in December increasing by 1%, resulting in a 9.4% increase in price since April '09 according to the latest Halifax house price index. On average house prices increased 5.6% in 2009, showing a recovery that many analysts had not expected following the double digit declines recorded in 2008. Halifax have forecast that house prices growth will be flat in 2010, as the increase in 2009 was due to limited supply of housing stock available to the market. The housing market in 2010 will depend on how the UK economy evolves, whether there are significant increase to supply and whether the Bank of England increases interest rates from their all time low of 0.5% throughout the year.

Bank of England keeps interest rates unchanged at 0.5%

The Bank of England (BoE) has kept interest rates unchanged at 0.5% for the 10th consecutive month and made no changes to its €200bn QE programme in a bid to boost the economic recovery. Although the UK economy is expected to emerge from recession in Q4 09, the BoE monetary policy committee is expected to keep interest rates unchanged well into 2010 to avoid damaging the fragile economic recovery.

US

US services sector returns to growth in December

The US service sector returned to growth in December despite further job losses in the service sector. The Institute of Supply Management's PMI increased from 48.7 in November to 50.1 in December (any number over 50 indicates growth). The US service sector accounts for the bulk of US economic activity expanded slightly during December. Business activity increased 4.1 points to 53.7, while new orders fell to 52.1. Employment remained weak at 44 points, indicating that jobs are still being cut in the sector but at a slower pace than before.

Surprise drop in employment figures in December

Figures from the US Labour Department show that another 85,000 jobs were cut in December. These figures were worse than analysts had expected and have cooled optimism of a recovery in the US Labour market. The unemployment rate remained unchanged at 10%. The high unemployment rate is one of the main challenges facing President Obama, creating further employment will be essential when the government stimulus policy is reduced. Overall in 2009, 4.2 million jobs were lost in the US economy. However, there are some sectors showing improvement, with professional and business sectors adding 50,000 jobs in December and education and health sectors adding a further 35,000 jobs.

Key data and events to watch this week..

Monday 11th January

- Irish industrial production (Dec) and house prices (November)

Tuesday 12th January

- Irish consumer confidence (Dec), US trade balance (Nov), OECD harmonised unemployment rates
- UK BRC retail sales (Dec)
- RICS house price balance (Dec)
- BCC quarterly manufacturing survey (Q4)

Wednesday 13th January

- Euro zone industrial production (Nov), German GDP (2009)
- US federal budget (Dec)
- UK NIESR GDP estimate (three months to Dec)

Thursday 14th January

- ECB interest rate announcement
- Irish consumer prices (Dec)
- US export prices (Dec), US Retail sales (Dec) & US Federal Reserve publishes beige book

Friday 15th January

- EU-16 final HICP (Dec), US CPI (Dec)