

## Economic Watch 15<sup>th</sup> February 2010

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Concerns about the extent of problem with the Greek public finances escalated last week. This kept the euro under pressure and caused speculation about continued Greek membership of the euro... but the EU/ECB will back Greece as protecting the currency remains a top priority...but very tough fiscal measures will be required by Greece to secure this effective bailout.

### Summary of Key Events: Week 8<sup>th</sup> – 12<sup>th</sup> February

#### Ireland

- Bank of Scotland Ireland announced last week that it is to close its retail network, Halifax, in Ireland, resulting in 750 job losses. The bank has said that its retail business in Ireland is too small to succeed in a shrinking Irish market, though it will continue with its business lending operation in Ireland.
- Consumer sentiment reached a two year high in January, following the Christmas sales.
- Retail sales continue to come under pressure – with the volume of sales falling by just over 14% in 2009 compared to 2008. The value of sales fell by 18% in 2009, reflecting price competition between retailers.
- Consumer prices continued to fall in January but the annual rate of decline eased during the month.

#### Europe

- Greece dominated the European agenda as concerns mount about the real condition of the it's public finances. EU leaders agreed during the week to provide a bailout to Greece - however the lack of concrete details regarding the bailout plan weakened the Euro, with the currency reaching a 9 month low on Friday.
- The euro zone's economic recovery waned in Q4 09 as euro zone GDP barely expanded.

#### UK

- UK manufacturing output increased 0.9% in December 09 aided by a weak pound.
- RICS surveyors' survey reports that the UK Housing market was affected by the cold weather in January as activity fell, though prices continued to increase.
- Bank of England has revised its 2010 outlook in its latest quarterly assessment of the UK economy.

#### US

- Retail sales increased by 0.5% in January, reversing the disappointing retail sales figures posted the previous month.
- The US trade deficit increased further in December as imports grew faster than exports during the month



## IRELAND

### ***Consumer sentiment reached a 2 year high in January***

The latest ESRI/KBC Bank index shows that consumer sentiment reached a 2 year high last month, rising from 53.3 in December to 64.6 in January. The improved consumer confidence brings the index to its highest level since January 2008 and compared to July 2008 when the index was 39.6 there has been a significant improvement in sentiment. All five measures in the index improved last month, the first time this has happened in 4 years. The mood of consumers is improving, with improved prospects for the economy and a less negative outlook for employment, though consumers are remaining cautious.

### ***Retail sales fell over 14% in 2009 compared to 2008***

Retail sales volumes fell by 14.1% in 2009 compared to 2008, the biggest drop since records began in 1962. The value of retail sales recorded a bigger drop of 18% in 2009 as retailers cut prices to boost spending as the recession hit consumers. Year on year in December 09, retail volumes decreased 7.5% and values fell by 12.5%. Motor Trades showed the most significant year on year decline in volume, down 15.1%. If Motor Trades are excluded from retail sales, volumes are down 6.7% (Year on year) and values down by 11.6%. However, on a monthly basis, retail volumes (ex Motor Trades) increased by 0.4% in December 09, while values remained unchanged.

### ***Consumer prices continued to fall in January but the annual rate of decline eased***

Consumer prices continued to fall in January, but the rate of annual decline eased to 3.9%, the smallest fall since April 09. Prices fell by 0.6% in January, but as the drop in prices in January 09 was even greater, the year on year (annual) decline was only 3.9%, compared to the 5% decline recorded in December 09. Footwear and clothing recorded the largest drop of 9.2% in January due to winter sales. Health and transport costs increased by 2.2% and 0.6% as a result of higher health insurance premiums and increased fuel prices for transport. Core inflation which excludes energy and mortgage costs was down 2.8% for the year also the price of services fell by 4.4% for the year.

### ***Conditions in the construction sector continued to worsen last month***

Activity in the construction sector continued to worsen last month, as activity and new business fell sharply according to the Ulster Bank's construction PMI. There were also considerable job cuts last month. The index rose to 36.1 in January, up from 33.1 recorded in December – though the index is still below 50 indicating a contraction in the construction sector. The commercial sector recorded the weakest decline for the month, whilst the residential construction sector has been in decline for every month since November 06.

## EUROPE

### ***EU leaders to provide aid to Greece – resulting in a weakened euro....***

European leaders during the week agreed to provide aid to Greece to prevent a broader crisis in the euro zone. However, the lack of detail regarding the bailout plan resulted in the euro reaching a 9 month low of \$1.35 against the dollar on Friday morning. The euro in recent weeks has been affected by concerns regarding the public finances of other euro members, namely Portugal, Italy, Greece and Spain – PIGS. Details of the bailout plan are expected to be clarified at this week's meeting of euro zone finance ministers.

### ***Euro zone recovery waned in Q4 09***

Economic growth in the euro zone barely expanded in Q4 09, with GDP growth of 0.1% for the period. Compared to Q4 08, GDP had contracted by 2.1% and in 2009 as a whole GDP contracted by 4%. France was the only country out of the 4 biggest euro economy's to post economic growth for the quarter. Euro zone growth for Q4 was affected by the stagnation of the German economy and is further evidence that economic recovery in the euro zone will be uneven and gradual. The fragile growth figures mean that the ECB will need to be cautious about withdrawing stimulus measures too soon and too aggressively.

## UK

### ***UK manufacturing output increased 0.9% in December 09 aided by a weak pound***

UK manufacturing output increased by 0.9% in December as the UK economy emerged from recession. As the UK economy resumed growth following 18 months of contraction, manufacturing output and exports increased, aided by sterling's weaknesses. In Q4 09 manufacturing output increased 0.8% from the previous quarter and it was the first quarterly rise since Q1 08 and the strongest since Q1 06. However, manufacturing output for the whole of 2009 was down 10.5% compared to 2008, the largest falls in more than 40 years.

### ***UK Housing market affected by snowy weather in January as activity fell***

Activity in the UK housing market fell in January as a result of the snowy weather, according to the latest RICS surveyors' survey. Buyer inquiries fell in January for the first time in 14 months, resulting in the market halting due to the cold weather. In January more than 32% of the surveyors reported increases in house prices, up from 30% the previous month. A shortage of supply of houses onto the market has resulted in prices increasing in the short term. Analysts expect house prices in the long term to plateau as more housing stock comes available to the market.

### ***Bank of England revises its 2010 outlook for the UK economy***

The Bank of England has revised its outlook for the UK economy in its latest quarterly assessment. The BoE has revised downwards its forecast for economic growth in 2010 from 4% in the November assessment to 3.5%. The bank has forecasted that inflation will peak at 3.5% in 2010 before falling to its target level of 2%. According to the report the



outlook for the UK economy remained highly uncertain, with tight credit conditions and the need to improve public and private finances.

## US

**Retail sales increased 0.5% in January**

US retail sales increased 0.5% in January, the third increase in four months and reversing the disappointing December retail sales figures. If motor trades are excluded, retail sales increased by 0.6% in January. Mail order and online stores, electronics and clothing led to increased retail sales during January. The improved retail sales figures for January suggests that the consumer spending recovery which began in late 2009 has continued into 2010.

**Trade deficit increased further in December**

The US trade deficit increased in December resulting in a wider than expected trade deficit of \$40.2bn for the month, as imports surged ahead of exports. Imports increased 4.8% in December to \$189.2bn led by higher imports of petrol, cars and capital goods. Exports increased by 3.3% to \$142.7bn, led by higher exports capital goods and industrial materials. overall in 2009. The trade deficit shrank to \$380.7bn, more than \$315bn less than the 2008 trade deficit.

## Key data and events to watch this week.....

### **Tuesday 16<sup>th</sup> February**

- UK Inflation (Jan)
- DCLG House Price Index
- German ZEW economic sentiment (Feb)
- US NAHB Housing Market Index

### **Wednesday 17<sup>th</sup> February**

- UK Unemployment Rate
- Euro trade balance
- US housing starts (Jan)
- US industrial production

### **Thursday 18<sup>th</sup> February**

- UK Public sector net borrowing
- US manufacturing index

### **Friday 19<sup>th</sup> February**

- German manufacturing and services PMI
- UK retail sales (Jan)
- US Inflation