

Economic Watch 18th January 2010

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The Savills logo consists of the word "savills" in a lowercase, sans-serif font, colored in a reddish-orange hue, set against a solid yellow rectangular background.

The ECB kept interest rates at 1% as expected and rates are set to remain on hold until at least the Summer - BUT Permanent TSB is set to sting variable mortgage holders with another 0.5% increase in rates, despite no increase in euro-zone rates – speculation that State backed banks such as AIB & Bank of Ireland could follow suit once NAMA money in place, is likely to be met with opposition...

Summary of Key Events: 11th – 15th January 2010

Ireland

- ECB President Jean Claude Trichet has indicated that Ireland needs more structural reform to encourage growth and competitiveness.
- Prices continue to fall - deflation was 4.5% for 2009 as a whole, the steepest decline in 80 years.
- Consumer Sentiment holds steady for a third month in a row, according to the latest ESRI/KBC Index.

Europe

- Germany, the euro zone's largest economy records inflation of 0.4% - it's lowest in 19 years.
- The ECB kept interest rates at historic low of 1%.
- Euro zone industrial production increased by 1% in November, more than double what analysts had predicted, but annual industrial production was down more than 7.1%.
- Euro zone inflation (HICP) increases during December, with annual inflation of 0.9% across the euro zone.
- The ECB President rejected suggestions that Greece may have to leave the euro due to its fiscal difficulties.

UK

- The UK economy returns to growth during last quarter of 2009.
- House prices in the UK increased 1.7% in November 09 compared to October 09.

US

- The US trade gap widens further in November as improved consumer and manufacturing demand increases imports.
- US retail sales unexpectedly fell 0.3% in December following a jump in sales during November.
- US inflation subdued in December.

IRELAND

Ireland needs more reform

Jean Claude Trichet, the President of the ECB has said that further Government action is required to recalibrate the economy and improve competitiveness. While he praised the Government's actions to date in trying to reduce the budget deficit and stabilise the economy, Ireland and Greece will require more structural reforms to foster employment and growth opportunities. Unfortunately his comments have led to not very helpful speculation re euro membership for both countries, which is currently not an issue.

Consumer prices fell 4.5% in 2009 and deflation continuing into 2010

Consumer prices (CPI) fell by 4.5% in 2009, the steepest decline in 80 years, according to the figures released by the CSO. Prices fell a further 0.5% in December bringing the annual rate of deflation to 5%, though the pace of price declines has been easing in recent months. The price of clothing and footwear fell 3.6% in December as many retailers held pre-Christmas sales. The price of alcohol fell 3.4% as a result of supermarket wars to stave off the effect of cross border shopping. Mortgage costs continue to record the highest level of annual deflation, being 38.8% lower in December 09 compared to the same time in 2008. The HICP, the standard measure of inflation across Europe and which excludes mortgage costs fell 2.6% annually in December. This compares to euro zone inflation of +0.9%. The ECB expect euro zone inflation to be 1% in 2010, whilst analysts expected Ireland to record deflation of between 1-1.5% in 2010.

Consumer Sentiment holds steady for a third month in a row

The KBC/ESRI consumer sentiment index slipped only marginally from 53.6 to 53.3 in December – but consumer sentiment in December 09 was a lot better than the same period in 08 when the sentiment index was 50.2. The latest figures suggest that although people's spending power is under pressure, consumers believe that the worst is over even if it will take time for any marked improvement to appear. The index also shows that whilst consumers are less negative about the general economic outlook and the outlook for jobs, they are becoming more anxious about their own finances. The prospect of increased interest rates for mortgages, inflation and cuts in welfare payments could impact the consumer sentiment index in the future.

EUROPE

ECB kept interest rates unchanged at 1% for the 8th consecutive month

The ECB has kept its benchmark interest rate unchanged at 1% for the 8th consecutive month. ECB president Jean-Claude Trichet announced that the ECB would do everything to keep prices under control and to create a positive financial environment in 2010. It is expected that ECB interest rates will remain at 1% until mid-2010 as economic recovery in the euro zone is fragile.



**German economy
contracted 5% in 2009**

Europe's biggest economy contracted by 5% in 2009, resulting in its deepest recession since World War 2. The German economy had grown by 1.3% in 2008 and the Bundesbank has estimated that it should return to growth of 1.6% in 2010. The economy slumped heavily in Q1 09 but the implementation of government stimulus measures helped the economy to rebound in Q2. Unemployment in Germany has been limited by the government-backed scheme to subsidise companies to keep workers in an attempt to avoid widespread layoffs. However, unemployment in Germany reached 3.42 million in 2009 (8.2%) and it is expected to rise to 4.2 million by 2011.

UK

**UK economy returns to
growth in Q4 09, according
to NIESR**

The National Institute of Economic and Social Research (NIESR) predicts that the UK economy will have returned to growth in Q4 09 bringing an end to the recession. This comes ahead of the official GDP figures to be released on the 26th January. The NIESR has said that the pace of growth appears to be increasing and its estimates that there was a 0.3% increase in GDP in Q4 09. Overall in 2009, NIESR has predicted that the UK economy will have contracted by 4.5%. The fall in GDP is the biggest contraction in the UK economy since 1921.

**House prices increase
1.7% in November**

The latest data from the Communities and Local Government show that house prices increased 1.7% in November compared to October. The annual increase in house prices was 0.6%. In the quarter ending November 09, house prices had increased by 3.5% - this compares with a smaller rise of 2.6% in the 3 months to August 09. The data also shows that whilst annual house prices rose in England, Scotland and Wales, in Northern Ireland prices fell by 11.6%. The latest RICS survey shows that estate agents are continuing to be optimistic that house prices would continue their rise although there was some easing in the pace of improvement.

**UK Manufacturing remains
unchanged in November**

Manufacturing output remained unchanged in November according to statistics released by the National Statistics Office. For the year output was down 5.4%. In the three months to November, output was up 0.3% compared with the previous 3 months. If this trend continues it looks likely that the manufacturing sector will emerge from technical recession during the final quarter of 09.

US

**US trade gap further
widened in November**

Figures released from the US Commerce Department show that the US trade deficit widened further in November as a result of stronger consumer and manufacturer demand pushed imports higher. The monthly trade gap grew by more than 9.7% to \$36.4bn for the month. US imports of goods and services grew by 2.6%, the highest since December 08, whilst

US Retail sales fall 0.3% in December

the US export of goods and services rose by less than 0.9% in November. The main contributors to the small increase in exports were food, feed and beverage exports. Trade to the developed world in 2009 was affected by the global economic crisis, resulting in the trade gap to fall below \$400bn for 2009 – it's lowest since 2001.

Figures from the Commerce Department show that US retail sales unexpectedly fell by 0.3% in December having jumped 1.3% during November. The rising unemployment rate and tighter credit conditions have resulted in consumers becoming more cautious about spending. It is also thought that the severe snowstorms in mid-December may have affected consumer spending. Overall sales in 2009 were -6.2%, this compares to -0.5% in 2008 and the largest decline on record in annual sales dating back to 1992.

US inflation subdued in December

Official figures from the US Labor Department show that US consumer prices rose less than expected in December, due to modest gains in food and energy costs. The consumer price index rose 0.1% last month after a 0.4% increase in November. Analysts had been expecting inflation to increase by 0.2% in December. Price rises slowed as a result of petrol increasing by only 0.2% after following a surge in price of 6.4% in November. Food costs increased 0.2% last month after gaining 0.1% in November. The annual rate of inflation in December was 2.7%, the largest gain since 2007. The subdued inflation figures should permit the Federal Reserve to keep interest rates low for a while longer in 2010 from their current historic low of 0.25%

Key data and events to watch this week:

Monday 18th January

- Irish retail sales index (Nov)

Tuesday 19th January

- UK consumer price index (Dec)
- German ZEW Economic Sentiment

Wednesday 20th January

- US housing starts (Dec)
- UK ILO unemployment rate (Nov)
- German producer price index (Dec)

Thursday 21st January

- Irish wholesale price index (Dec) and external trade (Oct)
- US Unemployment Claims

Friday 22nd January

- UK retail sales (Dec)