



Concerns about delays with the NAMA timetable and increasing speculation that the cash strapped banks will increase variable interest rates independent of the ECB, overshadow the Central Bank's relatively positive forecast that the economy will emerge from recession in 2010...

Summary of Key Events: Week 25th – 29th January

Ireland

- S&P has downgraded Ireland's banking system for the third time since 2008.
- Permanent TSB has increased its interest rates by a further 0.5% for standard variable mortgage holders – making it a total of 1% increase since summer 2009, despite no increase in the ECB base rate.
- The NAMA timetable is set to miss a key date of February 12, when loans were due to be transferred to NAMA – agreement by the EU Commission is required before the transfers can take, to ensure that there is no breach of EU Competition policy.
- The Central Bank expects the economy to exit from recession in the 2nd half of 2010 – led by growth in exports.

Europe

- Euro-zone economic sentiment increased for the 10th month in January.
- The German government increased its 2010 growth forecast.
- Euro bank lending to the private sector was stable in December – a sign that credit is still not flowing even though the euro economy has begun to expand again.
- Euro M3 (cash and deposits) money supply also contracted in December by 0.2%, following a drop of 0.3% in November.

UK

- The UK economy is showing signs of emerging from recession.
- Consumer confidence rose further.
- House price rises are gathering pace – with the annual rate now at a 2 year high.

US

- The US Federal Reserve has kept interest rates unchanged at near zero.
- Big-ticket orders increased during December.
- Sales of newly built homes fell in December.
- Consumer confidence rose for the 3rd consecutive month in January.



IRELAND

Standard & Poor (S&P) downgrade Ireland's Banking system

S&P have downgraded Ireland's banking system for the third time since 2008 to group 4. Just over 12 months ago Ireland was ranked in-group 1 alongside Canada and Sweden. Now Ireland is in-group 4, which includes Korea, Slovakia and the Czech Republic. The credit ratings of 4 individual banks were also downgraded, both AIB and BoI from 'A' to 'A-', the Ulster Bank from 'A+' to 'A' and Anglo from 'BBB+' to 'BBB'. S&P expects the economic environment in the banking sector to remain tough well into 2011 and it now estimates that the number of problem loans could reach 15-30% of total Irish loans, compared to its previous forecast of 10-20%.

The agency has also predicted that many of the Irish banks will undergo restructuring over the coming year and that a number may have to be recapitalised as a result of participating in NAMA.

Permanent TSB increases mortgage interest rates by a further 0.5%

Permanent TSB has increased interest rates on its standard variable mortgages by 0.5%, affecting 70,000 of its customers, effective from February 1st.

Commentators are speculating that the other lenders may follow and possibly impose a higher than 0.5% increase, as PTSB had increase rates by 0.5% in the summer of 09. Minister for Finance, Brian Lenihan has said that he could not guarantee that mortgage interest rates will not increase in banks financed by the State. As PTSB is not financed by the State and is not participating in NAMA combined with the ECB interest rates at a historic low and likely to remain there well into 2010; PTSB is struggling to make any profit on its mortgage book. Opposition to such increases by the state backed banks is growing and any such moves could push mortgage holders into arrears.

Central Bank report – economy to exit recession in 2nd half of 2010

The Central Bank in its quarterly bulletin has forecast that the economy will exit from recession in the 2nd half of 2010, with GDP to shrink by 1% and GNP to contract by 2% in 2010. The Central Bank has revised down its forecast for unemployment to 13.5% in 2010, due to increased emigration rather than improved employment opportunities. The Central Bank has indicated that the growth in the economy will be led by growth in the export sector but wage restraints will be required to improve competitiveness. Consumer spending, as a whole in 2010 will continue to fall and that the eventual recovery in consumer spending will be 'slow and gradual'.



EUROPE

Euro economic sentiment increases for the 10th month in January

Euro zone Economic Sentiment index increased for the 10th month in a row during January. The European Commission's economic sentiment indicator rose by 1.6 points to 95.7 points in the euro zone. The expanding out in the industrial sector has been the main driver of the improved economic sentiment index, despite the services sector being the main economic contributor in Europe.

Germany raise 2010 growth forecast

Germany, Europe's largest economy, has raised its growth forecast for 2010 from 1.2% to 1.4%. The German economy Minister has indicated that he was 'cautiously optimistic' for the future of the German economy, but warned that economic recovery will take time. The more positive growth forecasts in 2010 are in stark contrast to 2009, when the German economy contracted by 5% - the worst slump since WW2. Exports, which are the backbone of the economy, are expected to grow by 5.1% in 2010, according to recent projections – a far cry from the contraction in exports of 14.7% in 2009.

UK

UK Economy emerging from recession

The UK economy crawled out of recession in Q4 09, with GDP growing by 0.1% in Q4. Whilst the increase in GDP does technically mean that the UK economy is out of recession, which had lasted 18 months and wiped out 6% of output. Overall in 2009, the UK economy contracted by 4.8%. The Office of National Statistics said that latest increase in output was mainly due to increases in the distribution, hotels and restaurants sector and government and other services.

UK Consumer confidence rises further

Consumer confidence in the UK rose by 2 points in January, and is now 20 points than a year previous. The main driver behind the improved confidence was optimism over the outlook for the economy and personal finances. However, consumers are still reluctant to splash out on major purchases and there is evidence that consumers are saving rather than spending, with the savings index increasing 2 points.

House prices rises gather pace

House prices jumped at their sharpest pace in 5 months in January, resulting in the annual rate reaching a 2 year high. The Nationwide house price index shows that prices rose by 1.2% in January, more than twice the 0.5% recorded in December. The jump in prices has taken the annual house price inflation to 8.6% in January, up from 5.9% for December – the highest since October 07. Analysts have predicted that annual house price inflation could reach double digits in February unless there is a fall in property values. The lack of supply and low interest rates has helped the housing market to recover from the sharp falls in prices experienced in 2008 and early 2009.



US

Fed keeps interest rates unchanged at near zero

The Federal Reserve has kept interest rates unchanged at 0-0.25%, whilst offering a more upbeat view of the US economy. The Federal Reserve has vowed to keep interest rates low for 'extended period' to help aid economic recovery. The Fed described the pace of economic activity to be "moderate for a time", but activity has picked up since the December meeting of the FOMC. The Fed also announced that it would be closing a number of the emergency lending programs on the 1st February as well as ceasing its dollar swap arrangement with overseas central banks. Regarding inflation the Fed expects price growth is likely to remain 'subdued'. With the unemployment rate at 10%, consumer spending is weaker and the housing market has shown signs of weakness lately, it will take time for US economic recovery.

'Big Ticket' orders increased during December

Figures released by the Commerce Department, show that orders for 'big-ticket' items increased by 0.3% in December compared to November 09, a sign to suggest that the US industry is recovering. Overall in 2009, orders fell 20.2%, the worst drop in orders since the data series began in 1992. The increase in December was due to a rise in machinery orders (+6%), whilst orders for computers and electronic fell 3% in December.

Sales of newly built homes fall in December

The sales of newly built US single family homes unexpectedly fell in December according to figures from the US Commerce Department – the figures provide the latest indication that the government led housing recovery, may be losing momentum. In December sales fell 7.6% to an annual rate of 342,000, from an annual estimate of 370,000 in November, the fall in December is the 2nd month that sales have fallen. Overall in 2009, new home sales fell by 22.9% to a record low of 374,000. The housing market recovery is showing some signs of fatigue after a surge in sales as first-time buyers rushed to take advantage of a popular tax credit, which had been scheduled to expire in November. It has since been expanded and extended until June this year. While analysts expect home sales to pick up as a result, they reckon the pace will not be as strong as witnessed with the initial tax credit.

US Consumer confidence increases further

The Conference Board's consumer confidence index rose for the 3rd consecutive month from 53.6 in December to 55.9 in January, the rise being driven by improved economic conditions. However, whilst consumers' short term outlook is more positive it may not result in a significant pick up in consumer activity in the future – people are still more pessimistic rather than optimistic about their own personal financial position.



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

Monday 1st February

- EU market manufacturing PMI (Jan)
- Irish manufacturing PMI (Jan) and New Car Sales (Jan)
- UK CIPS manufacturing PMI (Jan), consumer credit (Dec)

Tuesday 2nd February

- German retail sales
- UK Construction PMI

Wednesday 3rd February

- Euro zone Retail sales (Dec)
- Irish live register (Jan) and Services PMI (Jan)

Thursday 4th February

- ECB interest rate announcement
- US initial jobless claims (w/e 30th Jan), productivity (Q4) and factory orders (Dec)
- Bank of England announces interest rate decision

Friday 5th February

- US Unemployment rate and Non Farm Employment change