

**Fear that the global credit crisis could be re-ignited was fuelled last week as Dubai's government asked creditors of its Dubai World's conglomerate to suspend debt payments on its €59bn debt for 6 six months...European banks are estimated to have lent c €13b of this debt – stock markets have taken a hit...**

**At home, attention focuses on Budget 2010 as the public sector gears up for another day of action...**

## **Summary of Key Events: Week 23<sup>rd</sup> – 27<sup>th</sup> November**

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|----------------|---|
| <b>Ireland</b> | <ul style="list-style-type: none"><li>· Anglo Irish Bank proposes to establish a 'bad bank' and reinvent itself as a business lender.</li><li>· Exports picked up in September, following 2 previous months of decline.</li><li>· NAMA interim head warns of delays in implementing loan transfers.</li><li>· EBS and Irish Nationwide have confirmed that they are in talks about a possible merger of the two organisations. If the two building societies do merge, the State is likely to be a substantial shareholder in the new organisation, somewhere between 40-60%.</li><li>· Shares in the Dublin and European stock markets fell on Thursday following a request by state-owned Dubai World to restructure and delay repayment of its \$59bn debt. News that it was struggling to service its debt has led to a sharp decline in share prices worldwide as investors begin to worry about the level of debt exposure amongst European and world banks. S&amp;P stated that action to suspend payment of debt for six months, effectively amounted to default.</li></ul> |
| <b>Europe</b>  | <ul style="list-style-type: none"><li>· German business confidence grew in November, reaching a fifteen month high – fuelling further optimism that the euro-zone area is on the path to recovery.</li><li>· European business and consumer confidence increased in November, with the European Commission's economic sentiment indicator for the euro zone moving up 2.7 points to 88.8 in November – mainly due to higher confidence in industry.</li></ul>   |
| <b>UK</b>      | <ul style="list-style-type: none"><li>· UK economy shrank 0.3% in Q3, with the UK the last major nation still in recession.</li><li>· UK mortgage lending hits two year high.</li><li>· Bank of England Governor, Mervyn King, has indicated it will be two to three year before interest rates are increased</li></ul>   |
| <b>US</b>      | <ul style="list-style-type: none"><li>· Despite some signs of a US recovery, there was a reminder that the recovery will be slow and gradual, with durable goods orders down 0.6% in October and Q3 economic growth (GDP) at 2.8% falling below estimates.</li><li>· The dollar remains under pressure as it trades above 1.50 against the euro.</li></ul>  |



## IRELAND

### ***Anglo Irish Bank proposes to establish a 'bad bank' and reinvent itself as a business lender***

The restructuring plans drawn up by Anglo and KPMG regarding the future of the bank will be formally submitted to the European Commission on Monday (30<sup>th</sup> Nov). Anglo Irish wants to create a 'good' and 'bad' bank, with the "Old Anglo" managing the billions of bad loans that will not be transferred to NAMA. The 'good' bank will operate a business bank, lending to small and medium sized businesses under a new name. If the commission does not accept the restructuring plan, then Anglo Irish will have to submit plans for the winding down of the business. Both KPMG and the Minister for Finance, Brian Lenihan have argued that the bank should not be wound down as the state would be responsible for €60bn worth of liabilities.

### ***Exports picked up in September***

Exports increased by 11% in September, following a decline the previous two months. For the first eight months of the year, exports showed little change from the same period in 2008 at just under €57bn, with the impact of the weak pound resulting in exports to Britain down 15% and to Northern Ireland down 22%. Medical, pharmaceutical and chemical exports have been the main driver in the increase in exports in 2009 with a number of patented drugs being produced in Ireland. Imports for the first eight months are 23% lower than 2008, with imports of road vehicles falling 78%. Imports from Britain fell 32% but imports from the US rose 20%. Growth in exports will be vital for economic recovery in Ireland it is therefore essential that competitiveness becomes a priority across the whole economy.

### ***NAMA interim head warns of delays in implementing loan transfers***

The interim head of NAMA, Brendan McDonagh, has said that the first bank loans may not be transferred until late January 2010 due to delays in the application and approval processes. Although NAMA will be set up by mid December, it will not be until late January that the top ten borrowers and their €16bn loans will be transferred, with the remainder being transferred over by the target date of July 2010.

## EUROPE

### ***ECB debate whether to raise 12 month interest rate on December's loans***

The ECB officials are debating whether to charge banks a variable interest rate on 12 month loans from December. Some fear that it could be interpreted as a signal that the ECB will raise general interest rates in early 2010 and the tightening of monetary policy in 2010. The final decision has not been made and it is likely that the council will keep the main interest rate at 1%. It is expected that the ECB will raise interest rates in Q3 09. The 12 month loans to banks is one of the key policies that the ECB has implemented in response to the financial crisis, allowing banks to borrow as much money as they want for a year at a benchmark rate, in order to allow banks to lend again.



***German business confidence grows in November and German government extends work subsidy for companies***

German business confidence grew in November, fuelling hopes that the euro zone's largest economy can lead the area out of recession. Business sentiment rose to 93.9 from 92 in November, the eighth successive rise and the highest level since August 2008. The German government has also announced that it will extend the temporary subsidies for companies that retain redundant workers for another year until 2011, outlining concerns that a possible sharp rise in unemployment over the coming months. The scheme proved effective during the height of the economic crisis by capping layoff's, it is expected to cost federal government more than €5bn.

**UK**

***UK economy shrank 0.3% in Q3***

The UK economy shrank 0.3% in Q3 which was far from the expected positive growth by economists and commentators. Compared to Q3 08, GDP is 5.1% lower. However, economists have forecast a return to growth by the end of the year and ahead of a general election. The contraction of the economy in Q3 was the sixth consecutive contraction resulting in the UK's longest recorded recession since records began in 1955. Hopes for a recovery in the UK economy rest on exports, which should be boosted in the 25% fall in sterling since the global economic crisis. But in Q3 trade accounted for two thirds of the decline, due to the increase in the number of car imports as a result of the government's scappage scheme. Resulting in money to flow out of the economy. Another sector that failed to record any growth in Q3 was inventories, with company's failing to increase orders suggesting weak expectations in the run up to Christmas.

***UK mortgage lending hits two year high***

The number of mortgages approved for house purchase in the UK rose to its highest level for nearly two years in October. Over 42,000 loans were approved in October; nearly double the figure for October 08 and the highest level since January 2008, suggesting that buyers are entering the housing market. However, the level of unsecured loans remained subdued as consumers focused on paying down their debts and adding to their savings.

***Bank of England Governor, Mervyn King, has indicated it would take 2-3 years to raise interest rates***

The Bank of England Governor, Mervyn King, has indicated that it would take at least 2-3 years to raise interest rates and sell bonds bought during the crisis, but the difficulty lies in the timing and by how much. He did not specify which measure the bank would carry out first. Mr King also said that he has an 'open mind' about further purchases of bonds following the surprise Q3 contraction of the UK put it lagging behind the US, Japan and Germany in exiting the global recession.



## US

### ***Consumer spending increases 0.7% in October, but 0.6 % fall in durable goods orders***

US consumer spending increased 0.7% in October, helped by an increase in car sales, following on from the decline in consumer spending in September. The expiration of a government scrappage scheme in August which had boosted sales was felt in September. However, the October figures show a rebound in car sales and consumer spending. Consumer spending is seen as critical in aiding sustainable economic recovery from the worst recession in decades. The increase in consumer spending is a positive sign that the US economy is slowly recovering, though the recovery will be gradual. Figures from the US Commerce Dept. show a 0.6% fall in durable goods orders in October. Durable goods, often known as big ticket items, are an indicator of manufacturing activity which in turn is a good measure for overall business.

### ***New House Sales increase 6.2% in October***

New home sales increased at a higher than expected rate of 6.2% in October, the highest rate recorded this year. New home sales rose to 430,000 in October up from 405,000 recorded in September. The increase in house sales for October was due to buyers taking advantage of the government's \$8,000 tax credit for first time buyers, which was due to expire at the end of November. The tax credit scheme has now been extended into 2010.

### ***New jobless claims falling***

The number of new unemployment claims falling by 35,000 to 466,000 (w/e 21<sup>st</sup> November), much lower than the expected figure of 500,000. This is the first time that the four week moving average has dipped below the half million mark since 2008.

### ***Consumer confidence increases, but consumers are still cautious***

The consumer confidence index produced by The Conference Board rose to 49.5 in November up from 48.7 recorded in October; the figure was better than expected following two months of decline. The moderate improvement in the short term outlook was the main driving force in the decrease in the number of consumers expecting business and labour market conditions to worsen rather than an increase in the percentage of consumers expecting conditions to improve. Consumers are remaining cautious especially regarding the purchase of big ticket items and ahead of the holiday shopping period.

### ***US economy grows 2.8% in Q3***

The US economy grew by 2.8% in Q3 09, falling below estimated growth of 3.5%. Although the increase in GDP has cemented that the US economy has emerged from recession, the rise in GDP is less than expected and has confirmed the fact recovery is going to be slow and gradual. Much of the growth in Q3 came from consumer spending, which was boosted by increased car sales.



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

***Monday 30<sup>th</sup> November***

- Irish census of industrial production 2008 and Central Bank monthly statistics.
- UK Mortgage approvals
- Euro CPI Flash Estimate

***Tuesday 1<sup>st</sup> December***

- German retail sales and Unemployment change.
- UK Halifax HPI.
- UK Manufacturing PMI.
- Euro Unemployment rate.

***Wednesday 2<sup>nd</sup> December***

- US Beige Book.

***Thursday 3<sup>rd</sup> December***

- Euro Final Services PMI.
- UK Services PMI.
- US Unemployment claims.
- Euro Minimum Bid Rate (Interest Rate).

***Friday 4<sup>th</sup> December***

- Irish cross-Border shopping – results from the quarterly national household survey.
- US Unemployment Rate and non farm employment rate.