

Economic Watch

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The focus this week will be on Minister for Finance Brian Lenihan, who will unveil details of Budget 2010 on Wednesday...

Summary of Key Events: Week 30th Nov. – 4th December

Ireland

- Consumer sentiment fell marginally in November, following a sharp rise in October.
- The amount of money lent into the economy fell again in October.
- Government collects more income tax in November than expected!
- Slight increase of 900 people signing onto the Live Register in November.
- €435m was spent in cross border shopping in the year to July.
- The Dept of Finance published its estimates for income and expenditure in 2010 over the weekend – with a projected rise in current spending of €5bn due to extra social welfare and debt servicing costs. The estimates do not take account of the €4bn government cuts and there is no provision for further bank recapitalisation.
- NCB Purchasing Managers Index (PMI) fell in November to 46.8 from 47.4 in October. Activity in the sector has been falling for the past 22 months, though it had shown signs of stabilising in October. Despite the fall in the PMI, service companies are remaining optimistic that activity will pick up in the next 12 months.

Europe

- Unemployment in the euro zone has hit its highest level since December 1998 at 9.8% and remains a drag on economic growth and recovery in the euro zone.
- German retail sales increase in October, following 2 months of decline.
- ECB maintains interest rates at 1%, while announcing its first steps to wind down the expansionary measures it implemented during the global crisis.
- Exports drove the euro zone out of recession in Q3 with some help from government spending, according to Eurostat. The euro zone expanded 0.4% in Q3 and ended the deepest economic downturn in Europe since WW2. The European Commission expects growth to slow to 0.2% in Q4.

UK

- Nationwide House Price Index for November shows that house prices increased 0.5%.
- Car sales soar 57% in November partly due to a government backed scheme and before the VAT reduction expires in January.
- Key measures of money supply and bank lending fell in October, while mortgage approvals rose again during November to 57,350 from 56,200. This is more than double the November 08 figures, but well below the pre-economic crisis average of about 100,000 a month.

US

- Beige Book suggests that the economy is improving modestly, with 8 out of the 12 districts reporting a pick up in economic activity.
- US labour market conditions show a dramatic improvement in November.

IRELAND

Consumer sentiment fell marginally in November, following a sharp rise in October

The latest KBC/ESRI Consumer Sentiment Index shows that consumer sentiment fell slightly in November to 53.6, following a sharp rise in October. Compared to November 08 when consumer sentiment was only 44.8, the current sentiment index is considerably higher. Generally consumers see that the worst of the downturn is over, but they see little sign of change towards strong economic conditions or improved labour market conditions. Consumers are also cautious about the fall out of the December budget and job security; this in turn will affect the index of consumers expectations which fell from 40.4 in October to 37.7 in November.

The amount of money lent into the economy fell again in October

Figures released by the Central Bank, show that the amount of money lent into the economy fell again in October. Residential mortgage lending declined for the 7th month in a row as it fell to €162m during the month. The fall in lending has brought the annual rate in mortgage lending down to 0.2%. Central Bank data also shows that the average credit card debt has risen by 1.8% in the 12 months to October, with the number of cards in use declining over this period.

Government collects more income tax in November than expected

The Government collected more income tax in November than it had originally anticipated, with the income tax take €50m ahead of expectations. However, for the year income tax receipts are still €575m behind the target the government set in April. Total tax return fell a further €285m in November due to weak VAT receipts and the total tax return is currently running €1.36bn behind the April target. The Department of Finance also predict that the government deficit will be 12% of GDP in 2009, down from the original prediction of 12.5%. The exchequer deficit is now €22bn, compared to €7.9bn this time last year. It is therefore vital for the government to implement the €4bn in budget cuts for 2010 and to achieve the €1.3bn savings in the public sector pay bill.

Slight increase in the number of people signing on to the Live Register in November

There was an increase of 900 people signing on to the Live Register in November, bringing the Live Register to 423,400 people. The increase in November follows a decline of 3,000 in October which had prompted some analysts that unemployment was stabilising. The decline recorded in October was most probably due to rising emigration rates and higher numbers of people returning to education rather than improved conditions in the jobs market. The Department of Employment statistics for November show that there were 5,903 redundancies recorded in the month, bringing the total for the year to 73,000 – double that for the same period in 2008. The latest estimate from the CSO indicates that the unemployment rate is 12.5%, unchanged from the previous month.

€435m spent in cross border shopping in the year to July

According to a report by the Central Statistics Office (CSO), about €435m was spent in cross border shopping in the year to July 09. The report found that about 16% of all households in the Republic had made at least one shopping trip to Northern Ireland during the year and a third of those came from the Dublin region, though the majority are from the border region (41%). Groceries were the most popular purchase followed by alcohol and then clothing and cosmetics. The weaker sterling and the lower VAT rates have been the major incentive for the increase in cross border shopping, resulting in a number of supermarkets in northern border regions having a share of the Irish grocery market. The increase in cross border trade has had a knock on effect to retail jobs in southern border town such as Dundalk.

EUROPE

Unemployment in the euro zone has hit its highest level since December 1998 at 9.8%

Unemployment in the euro zone has reached its highest level since 1998 at 9.8%, with 15.567 million people being unemployed. Compared to October 2008, there are now more than 3.1 million more people unemployed in the euro zone, with unemployment in the under 25's running at 1 in 5. As unemployment is seen to be a lagging indicator, in that it is slow to react to economic developments, analysts expect the rate to peak at 11% in 2010 and have said that it will remain a drag on the economy as joblessness dampens wage growth and therefore curbing demand.

German retail sales increase 0.5% in October

German retail sales increased by 0.5% in October, following 2 months of decline when sales fell 0.2% in September and 1.5% in August. On an annual basis retail sales were down 1.7%. German retail sales are forecast to be down 2% for 2009 and as unemployment increases it has a direct impact on retail sales. German unemployment has not increased as much as expected due to government schemes to help reduce the number of redundancies.

ECB keeps interest rate at 1% and announces winding down of extraordinary measures

The ECB has kept interest rates as expected at 1%, though the ECB did announce its first steps on dismantling the exceptional measures it implemented to shore up the euro zone's financial system during the global economic crisis. President of the ECB, Jean Claude Trichet, has said that the ECB will hold its last 6 month refinancing operating in March and the final 12 month option will be this month's. It is felt that the ECB will want to avoid a rapid exit as a number of euro zone countries are still in recession with unemployment set to rise and the strong euro threatening recovery. The ECB is not expected to raise interest rates till later next year and the bank expects the euro zone economy to grow at a moderate pace in 2010, with inflation remaining subdued after months of falling prices.

UK

House prices increase 0.5% in November

The latest Nationwide House Price Index, shows that house prices increased by 0.5% in November, the same rate that was recorded in October. House prices are now increasing a more moderate rate than in spring and summer. In the three months to November house prices have increased 2.8%. The outlook for the housing market in the UK remains dependent on conditions in the labour market. In recent months, conditions on the labour market have been more encouraging than expected with unemployment rising less than analysts had expected.

Car sales soar 57% in November

Sales of new cars soared 57.6% in November compared to the same period last year. New car sales in November jumped to 158,052 partly due to a government backed scheme that subsidises the cost of buying a new car. The jump in car sales, has also be helped by customers buying before the temporary VAT reduction expires in January.

Key measures of money supply and bank lending fell in October

Money supply as measured by the broad definition of 'M4' and excluding distortions from the financial sector shrank 0.7% in October and by 5.3% for the past 3 months. The figures from the Bank of England (BoE) suggest that the monetary side of the economy is weak in terms of both lending and deposits and raises further questions about the effectiveness of the BoE's €200bn quantitative easing programme to pump money into the economy. However, officials have argued that the weakness in money supply has been much less than in previous recessions, partly due to the implementation of the quantitative easing programme.

US

Surprise drop in US service sector during November

The US service sector shrank in November after two months of growth in the recent Institute of Supply Management Index. The non-manufacturing index fell to 48.7 in November, down from 50.6 in October. The fall in the ISM index surprised analysts who had expected the index to increase to 51.5. The services sector make up more than 85% of the US economy and is therefore a major driving force in aiding economic growth.

Beige Book reports that the economy is improving modestly

The US economy is improving modestly according the latest Beige Book on economic conditions produced by the US Fed. 8 out of the 12 districts reported a pick up in economic activity and there was little upward pressure on wages and finished goods despite commodity price gains. As a result of this it is unlikely that the Fed will increase their interest rates from their current low positions. The jobs market remains weak, but is showing signs of stabilising, though unemployment is currently running at a 26 year high of 10.2% and is likely to hold back economic recovery. Consumer spending had also picked up modestly for both general goods

US labour market shows dramatic improvement

and vehicles. However, the construction and commercial property sectors remained the weak spot in the economy, with conditions widely characterised as being weak or even deteriorating in some districts.

The US labour market showed dramatic improvement in November with non-farm payrolls recording only 11,000 job losses, the smallest decline since December 2007 and well below what analysts had expected. The improvement in the labour market suggests that the US economy is nearing job growth needed to sustain a fragile recovery out of recession. As a result of the figures, the unemployment rate has dropped slightly from 10.2% to 10%. The news also lifted the US stock markets and sent the dollar rallying against major counterparts.

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

Tuesday 8th December

- Irish Live Register additional tables (Nov)
- UK BRC retail sales (Nov)
- UK industrial production (Oct)
- CBI industrial trends survey (Dec)
- German industrial production (Oct)

Wednesday 9th December

- US wholesale inventories (Oct)
- UK nationwide consumer confidence (Nov)

Thursday 10th December

- ECB monthly bulletin;
- Irish consumer price index (Nov)
- Irish industrial production and turnover (Oct)
- German wholesale prices (Nov)
- French industrial production (Oct)

Friday 11th December

- Irish retail sales index (Oct)
- UK PPI Input (Nov)
- US Core Retail Sales