



The Irish Financial Regulator has announced measures to assist mortgage holders who are falling into arrears... Meanwhile, financial markets flee the euro as fears about the ability of Greece in particular to pay its sovereign debt, have pushed the currency to an eight-month low...

Summary of Key Events: Week 1st – 5th February

Ireland

- Lending to businesses and households continued to fall in the year to December 09.
- January 2010 tax receipts down compared to 2009 with just over €3bn in tax receipts collected.
- Unemployment spiked in January, following post Christmas layoffs resulting in the unemployment rate increasing to 12.7%.
- According to the Irish Banking Federation (IBF) over 30,000 homeowners have been successful in renegotiating their mortgage deals. This data comes as the Financial Regulator announced a ban on all mortgage lenders re-possessing homes for 12 months after the owners have missed the first payment.

Europe

- The ECB kept the base interest rate unchanged at 1% - most analysts agree that it will be the end of 2010 before interest rates increase, if at all this year.
- The euro fell as low as \$1.3648 during the week, its lowest level since May last year, as concerns mounted about the ability of some euro zone governments to pay their debts – in particular Greece.
- The ECB has approved the Greek government's plans to bring its deficit back in line with EU limits by 2012. Greece has a public deficit estimated to be 12.7% of GDP and debt equal to 113% of GDP - well above the euro zone limits of 3% and 60% respectively.
- German retail sales fell 1.8% in 2009 despite retail sales showing some improvement in December.
- Euro zone manufacturing continues to grow, increasing at its fastest rate in over 2 years during January - but the divergence between euro zone members widens.

UK

- The Bank of England left the base interest rate unchanged at 0.5% and puts its quantitative easing programme on hold.
- UK House prices increased for the 7th successive month in January.

US

- US President Obama – unveils his budget, but predicts record deficits.
- US consumer spending increased cautiously in December, as the savings rate jumped to a 6 month high.
- US services sector posts sluggish growth in January – the first growth in more than 3 months.
- Unemployment rate fell to 9.7%, despite another 20,000 jobs being lost in January.

IRELAND

Lending to businesses and households continued to fall in the year to December 09

Figures from the Central Bank show that lending to households and businesses continued to decline in the year to December 09. Private Sector Credit (PSC) fell by 6% for the year, with credit falling by 2.1%. Lending to businesses fell by 3.2% over 2009. PSC fell almost €1.2bn in December, a decline of 0.3% compared to December 08. Credit card debt was also down on the year, with personal credit card debt down 0.7% in December 09 compared to December 08. – total credit card debt was €3.1bn at the end of December 09. The Central Bank report also shows that consumers are choosing to pay off their credit card bills rather than incurring new debt on their cards, reversing the trend seen in 09, which saw spending on cards exceeding the value of total payments.

January 2010 tax receipts down compared to 2009

Exchequer figures from the Department of Finance show that the amount taken in tax in January of this year was down 17.7% compared to January 2009. The Exchequer deficit was €780m for January 2010 - tax receipts were just over €3bn, down from €3.7bn a year earlier. Spending in January fell by 13% to just over €4.1bn. Income tax at just over €1bn was 10% lower than January 09 and VAT receipts were down 18% to €1.6bn, a sign that consumer spending still remains weak. Stamp duty and Capital Gains Tax receipts were 41% and 25% lower as a result of the falling stock markets and lack of activity in the property market.

Rise in unemployment in January following post Christmas lay-offs

Post Christmas lay-offs led to a 5,800 increase in the seasonally adjusted Live Register of unemployment benefit claimants. Figures from the CSO show that there were 434,700 people on the Live Register at the end of January, resulting in an increased unemployment rate of 12.7%, up from 12.5%. The lower rates of monthly increases in the numbers signing can be attributed to increased emigration, people returning to education and Government schemes aimed at cutting the numbers claiming unemployment benefit rather than employers hiring more staff.

EUROPE

ECB maintains the interest rate at 1%

The ECB has kept the interest rate unchanged at 1%, while indicating that it will discuss the pulling back of the crisis measures next month, though the turmoil in Greece could slow the ECB's withdrawal of the extra liquidity measures. The consensus forecast is that the ECB could start increasing interest rates at the end of 2010, if at all in 2010.

ECB President, Jean Claude Trichet, expects the euro area to grow at a moderate pace in 2010, but the recovery process is likely to be uneven and subject to risks.

German retail sales fell 1.8% in 2009

German retail sales fell 1.8% in 2009, though retail sales did increase by 0.8% in December compared to November as a result of the Christmas period. Rising unemployment is likely to curb a sustained recovery in consumption in 2010. Though tax breaks could provide households with a stronger financial foundation in 2010.

1.2million jobs saved as a result of Government subsidy to employers

A report by the IAB Institute for Employment and Research has suggested that over 1.2million jobs in 2009 were saved due to the implementation of Government subsidies, which enabled companies to put staff on shorter working hours rather than making them redundant.

Euro zone manufacturing increased at its fastest pace in over 2 years in January

The eurozone manufacturing sector grew at its fastest rate in over 2 years during January, with the PMI for January increasing from 51.6 to 52.4. Whilst activity in Germany, France and Italy continued to expand in January, in Spain, Greece and Ireland manufacturing activity continued to contract. In Spain, activity declined for the 26th consecutive month. Recovery in the eurozone manufacturing sector is becoming 2-track with Spain and Greece falling further into recession when growth is being recorded by other nations, led by Germany and France.

UK

Bank of England left interest rate unchanged at 0.5%

The Bank of England (BoE) has kept interest rates unchanged at the record low of 0.5% as well as putting on hold its £200bn Quantitative Easing programme. Though, the BoE will continue to monitor the appropriate scale of the asset purchase and further purchases will be made should the outlook warrant them. Although the QE programme is on hold, the BoE will continue to buy high quality private assets through the issue of treasury bills. The BoE has predicted that the UK's economic growth will be gradual and with spare capacity in the economy, resulting in inflation falling below its 2% target for a period.

House prices increased in January

According to the latest Halifax housing index, UK house prices rose by 0.6% in January, resulting in the 7th successive monthly rise, largely due to the low interest rate environment and a shortage of properties for sale on the market. Since April 2009 - which was the lowest point the market - average house prices are 9.9% higher. However, Halifax expects house prices to be flat overall in 2010 compared to 2009.

US

US President Obama - unveils budget predicting record deficits

President Obama has unveiled a budget predicting a record deficit this year, the budget includes a freeze on non-security spending, a \$100bn jobs package, more money for overseas wars, education and home land security. The budget forecast that unemployment will average 9.2% in 2011 and 8.2% in 2012 – unemployment is currently 9.7%. The budget predicts that GDP will grow 2.7% in 2010 and 3.8% in 2011, whilst the budget deficit is expected to be 8.3% of GDP in 2010, compared to 10.6% in 2009. The 2011 budget that the Obama administration has unveiled includes more than \$300bn of tax cuts over the next 10 years and the termination of 120 programmes to save \$20bn.

Consumer spending increases cautiously in December as savings rate jumped to 6 month high

Consumer spending increased by a less than expected 0.2% during December, while at the same time the savings rate jumped to a 6 month high of 4.8% in December. The lower spending rate combined with the higher savings rate, indicates that households and consumers are still cautious about spending. For the whole of 2009 consumer spending fell 0.4%, the largest drop since 1938. Boosting consumer spending will be vital for US economic recovery as it accounts for two thirds of US economic activity. However, a 10% unemployment rate is pressuring households, resulting in the increased savings rate.

Services sector posted marginal growth in January

The US services sector posted sluggish growth during January – the first sign of growth in over 3 months, according to the ISM index. The index recorded 50.5 during January, meaning that the sector, which accounts for the bulk of US economic activity had drifted into expansion mode, the last time the sector expanded was in October and September 09.

Unemployment rate fell to 9.7%

Despite US employers cutting 20,000 jobs in January, the unemployment rate fell from 10% to 9.7%, a 5 month low. A sharp rise in the number of people giving up looking for work helped to depress the unemployment rate – the number of 'discouraged job seekers' reached 1.1million in January up from 734,000 a year ago. The services sector added 40,000 jobs in January whilst the manufacturing sector added another 11,000 people. The construction sector continues to shed jobs, with a further 75,000 jobs being lost in January. President Obama has declared that job creation will be a top priority in 2010, as Americans are becoming increasingly anxious about the high unemployment rate.

Key data and events to watch this week...

Tuesday 9th February

- Irish Retail Sales Index December 2009 (First Estimates) November 2009 (Final Figures)

Wednesday February 10th

- Irish industrial Production & Turnover December 2009 (Provisional) and November 2009 (Final)

Thursday February 11th

- Irish Vehicles Licensed for the First Time January 2010
- Irish Consumer Price Index January 2010
- Irish Consumer Price Index Detailed Sub-Indices Release January 2010