
Overview of Ireland and Euro-zone

January 2012

The Savills logo consists of the word "savills" in a lowercase, sans-serif font. The letters are white and are set against a solid yellow rectangular background.

Following three consecutive years of negative economic growth the Irish economy is expected to have expanded by 1% (as measured by GDP) in 2011. A weaker euro is the silver lining for Ireland for first half of 2012 while wider euro-zone issues are being resolved.

The economy is not expected to slip back into recession in 2012. The fact that there has been a very significant increase in competitiveness is supporting the recovery. As a result, the IDA continues to be successful in attracting foreign direct investment. Other factors such as the 12.5% corporation tax, along with the commitment of the government to addressing the public finances and the educated workforce remain positive in supporting the sustainability of a strong export sector and in return a gradual recovery in economic output across the board. GDP growth in 2012 is expected to be 1.3% and GNP is expected to increase by 0.7%.

Growth is being driven by external demand as is the norm for a recovery in a small open economy. The value of Irish exports was €171 billion in 2011, up €8 billion compared to 2010. Export demand will remain positive in 2012. While there is a risk that the pace of demand may be slower due to weaker economic conditions in Ireland's main trading blocs (UK, euro-zone and US), actual export values are expected to

remain strong. Positive export performance feeds into the domestic market in the medium term and this effect is already evident. The performance of the export sector is and will continue to offset the negative contribution being made other components of growth, such as personal consumption, in 2012 and 2013. Retail sales remain weak and consumer sentiment is fragile. This is unlikely to improve much in 2012 given the tight fiscal measures and uncertainty about the euro-zone.

Overall the performance of the Irish economy is almost entirely dependent on that of the euro-zone, the US and the UK and to a lesser extent the rest of the world.

The performance of the components of economic growth in these areas, along with developments in their currency and bond markets and banking sectors, will impact upon the prospects in 2012. A key positive factor against this backdrop is the flexibility of Ireland's economy, labour market and the increasing level of competitiveness.

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In terms of the euro-zone, there was a significant increase in uncertainty in 2011 – driven by concerns about the stability of the euro currency. These concerns have in turn been driven by fear about the level of debt in the European banking sector; the exposure of that debt to property assets which in turn have led to a lack of liquidity which became more acute throughout 2011. Concerns about sovereign debt levels and the ability of individual countries to repay these debts, put pressure on bond yields across the euro-zone and the recent downgrading of credit ratings in core countries, such as France has had a negative impact on sentiment towards the euro-zone.

As a result of these factors, growth across the euro-zone is weak and there is a risk that many countries, particularly the peripheral ones will either remain in recession or return to negative growth in 2012. Germany and Ireland remain two key exceptions.

Concerns about the euro currency will weigh on activity across most sectors in 2012 – and the currency itself is widely

expected to weaken further against the dollar, possibly reaching 1.20. This in itself will make the euro-zone more competitive which is a silver lining for Ireland.

Overall the prospects for the individual euro-zone countries vary somewhat depending on domestic factors, but the prospects for the trading bloc as a whole are dependent on the political and financial commitment of the Member States to put the measures in place which are necessary to ensure that the currency remains intact. This in turn would allow for gradual resumption in more 'normal' levels of lending and commercial activity across all sectors of the euro-zone economies.

To date, despite intense media and commentator speculation, the commitment of the core euro-zone members to ensure that the currency remains intact has been consistent. At present the risks to the euro-zone are heavily weighted towards what scenario actually emerges for Greece and what the impact of that will be. The first half of 2012 is expected to be dominated with speculation on this matter.

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