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Markit Economic Research

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Ireland

Ireland bucks Eurozone downturn as growth accelerates in the fourth quarter

- **PMIs point to strongest growth since start of 2011 in Q4**
- **Data point to further expansion after GDP rose 0.2% in Q3**
- **International competitiveness key to recovery so far**

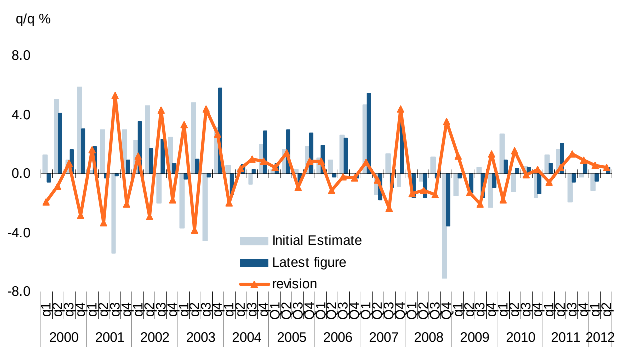
The Irish economy continues to recover modestly, in contrast to the picture seen across much of the rest of the Eurozone. The latest official data showed gross domestic product rising in the third quarter of 2012, and the more timely PMI data meanwhile suggest that further growth was recorded by the economy in the final three months of the year. By comparison, the Eurozone as a whole remains in a downturn, led by ongoing recessions in Greece, Spain and Italy, as well as a renewed weakening of the French economy.

Irish economy expands at end of 2012

CSO Ireland's latest estimate of GDP indicated that the Irish economy grew 0.2% over the third quarter of 2012. Moreover, the data for Q2 was revised from no change to signal a 0.4% rise in output. In fact, a number of upward revisions to initial estimates of GDP (each of the past five quarters have seen upward revisions) mean that the Irish economy has now been out of technical recession since the start of 2010.

As we have noted before, large revisions to the official data are nothing new. The average absolute revision to the quarter-on-quarter GDP numbers from Q1 2000 to Q4 2010 has been 1.8 percentage points. In some cases, quarters that at first appeared to have seen contractions in GDP can turn out to have been expansions – for example in Q4 2011 the initial GDP estimate showed a 0.2% quarter-on-quarter fall in output, now revised to a 0.7% rise.

Size of GDP revisions



Source: CSO Ireland with Markit calculations

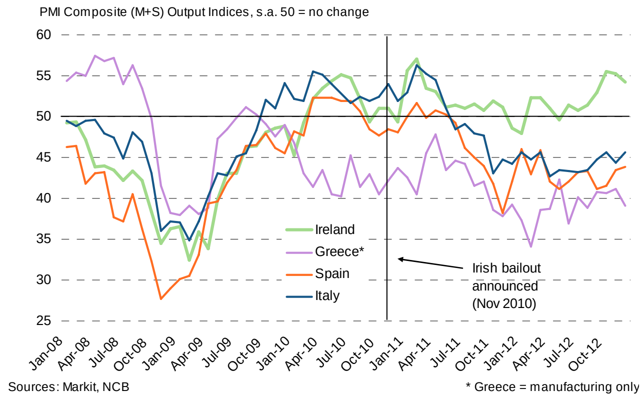
Compared to a year ago, GDP was up 0.8% in Q3, and is now 3.0% higher than at the start of 2011. That said, GDP still remains some 8.4% lower than the pre-recession peak recorded at the end of 2007, highlighting how far the economy still has to travel in order to recover.

To that end, more good news has been signalled by the Markit-compiled NCB PMI surveys during the final three months of the year. The PMI data cover manufacturing and services and are not only much more timely than the official data, but also are not subject to revision. Both manufacturing and services continued to record growth in December, and the quarterly average of the composite PMI in Q4 was the highest since the first three months of 2011. Strong rises in new business have been recorded, particularly in export markets.

In line with increased workloads, companies have taken on extra staff. The PMI data have recorded rising private sector employment in each of the past four months. Meanwhile, monthly unemployment data from the CSO have signalled falls in unemployment on an annual basis in 12 successive months.

Consistent with the official GDP statistics, PMI data for Ireland have been much stronger than those seen in other struggling Eurozone nations including Spain and Italy, where strong contractions in output continued to be signalled at the end of the year. This pattern of relative strength in Ireland has been seen on a continuous basis since mid-2011.

PMI Output Indices



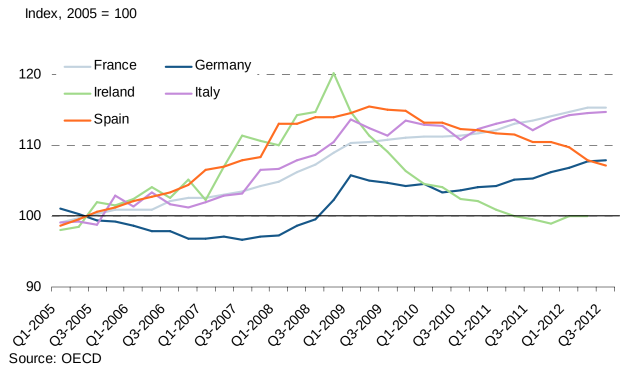
Competitive advantage boosts demand

Earlier in 2012, we noted that a key factor behind Ireland's resilience in relation to the rest of the Eurozone has been the ability of companies to improve their competitive position through painful reductions in labour costs and prices charged. This continued over the second half of the year.

The PMI data pointed to a twenty-first successive monthly reduction in output prices during December, as companies lowered prices further in an attempt to boost demand. This was again undertaken in the face of rising cost pressures, putting further pressure on profit margins.

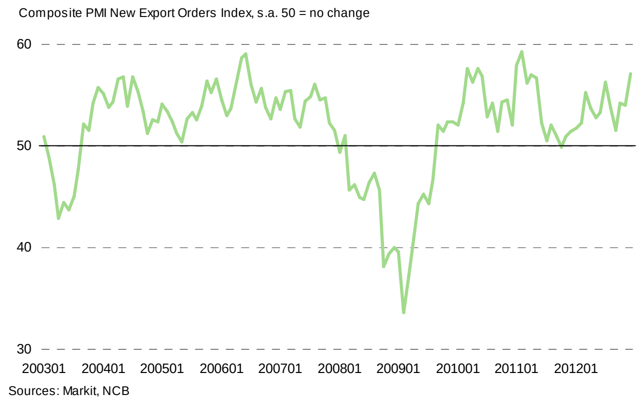
Meanwhile, latest data from the OECD show that unit labour costs in Ireland are now back to levels not seen since 2005, after having been some 20% higher at the end of 2008. By way of comparison, unit labour costs in Germany are around 8% higher than in 2005. Spain has also begun to make some progress in this regard, but not to the same extent as seen in Ireland, while other Eurozone nations such as France and Italy continue to see their unit labour costs rise. These trends have helped to improve Ireland's competitiveness in export markets.

Unit Labour Costs



PMI data again highlight the success that Ireland has had in export markets. The composite New Export Orders Index for manufacturers and service providers signalled a substantial monthly rise in new business from abroad in December, and the fastest since February 2011. New export orders have risen in all but one month since September 2009. This growth has been achieved in spite of the downturn in the Eurozone, with exporters highlighting non-euro counties and regions such as the UK and Middle East as sources of expansion.

PMI New Export Orders Index



While further tough times surely lie ahead for both businesses and consumers in Ireland, the PMI data point to a solid end to 2012 and it seems that Ireland is in better shape than a number of other Eurozone nations to recover in 2013. One key factor will be whether the domestic market can withstand further austerity and become more buoyant, or whether the economy will remain largely reliant on export markets for growth.

NCB's PMI surveys for manufacturing and services will be released at the beginning of February, and will give an indication of the performance of the economy at the start of the year.

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