



The Irish Economy in 2009: A Realistic Outlook

Pensions
Protection
Investments
Finance

Institute of Public Administration

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25th November 2008

 **Friends First**
Looking forward to your future

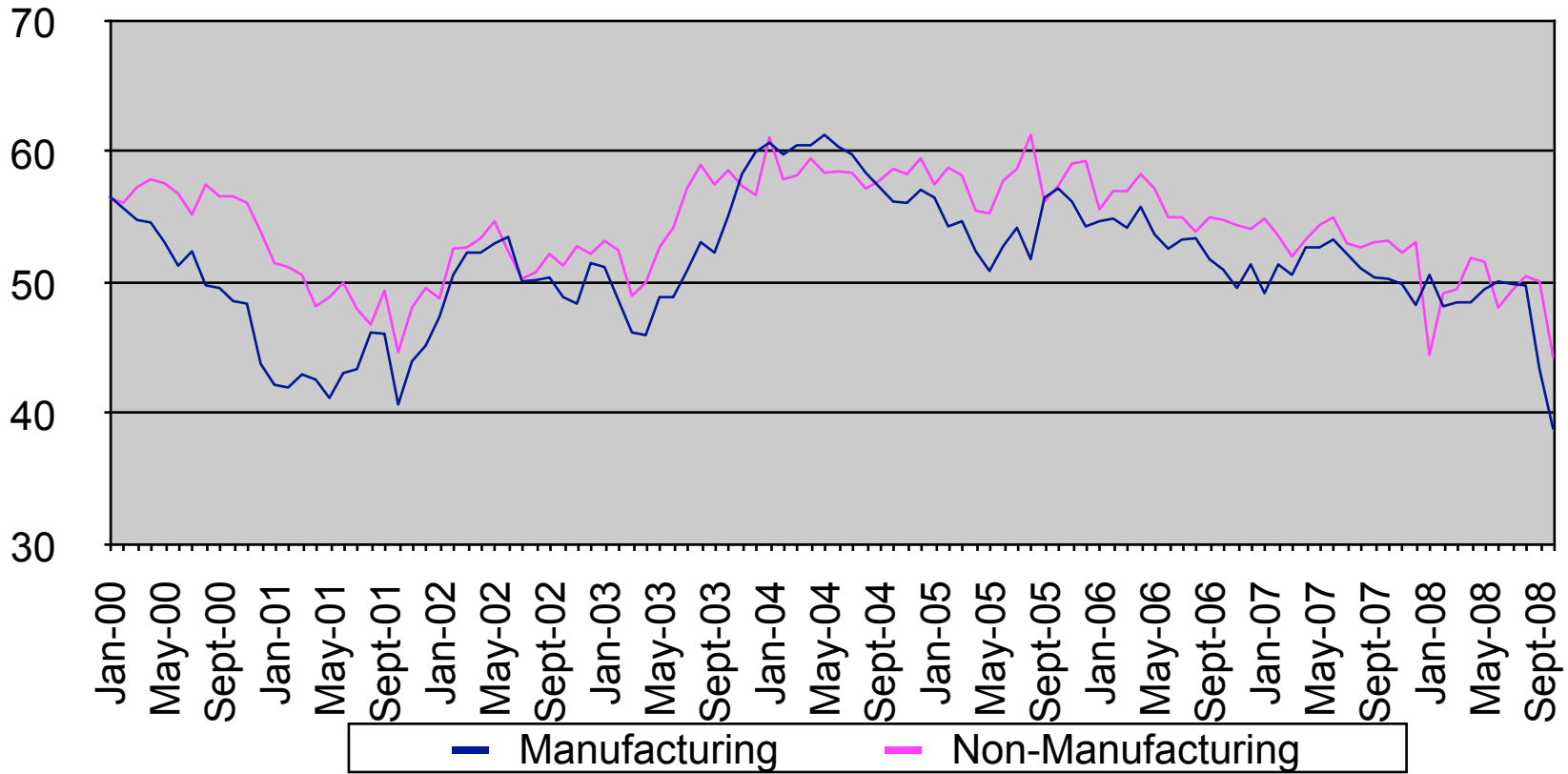
To be Discussed

- The International Background & Outlook
- Interest rates
- The Irish Economic Background & Outlook
- Consumer Dynamics
- Challenges Ahead for the Economy

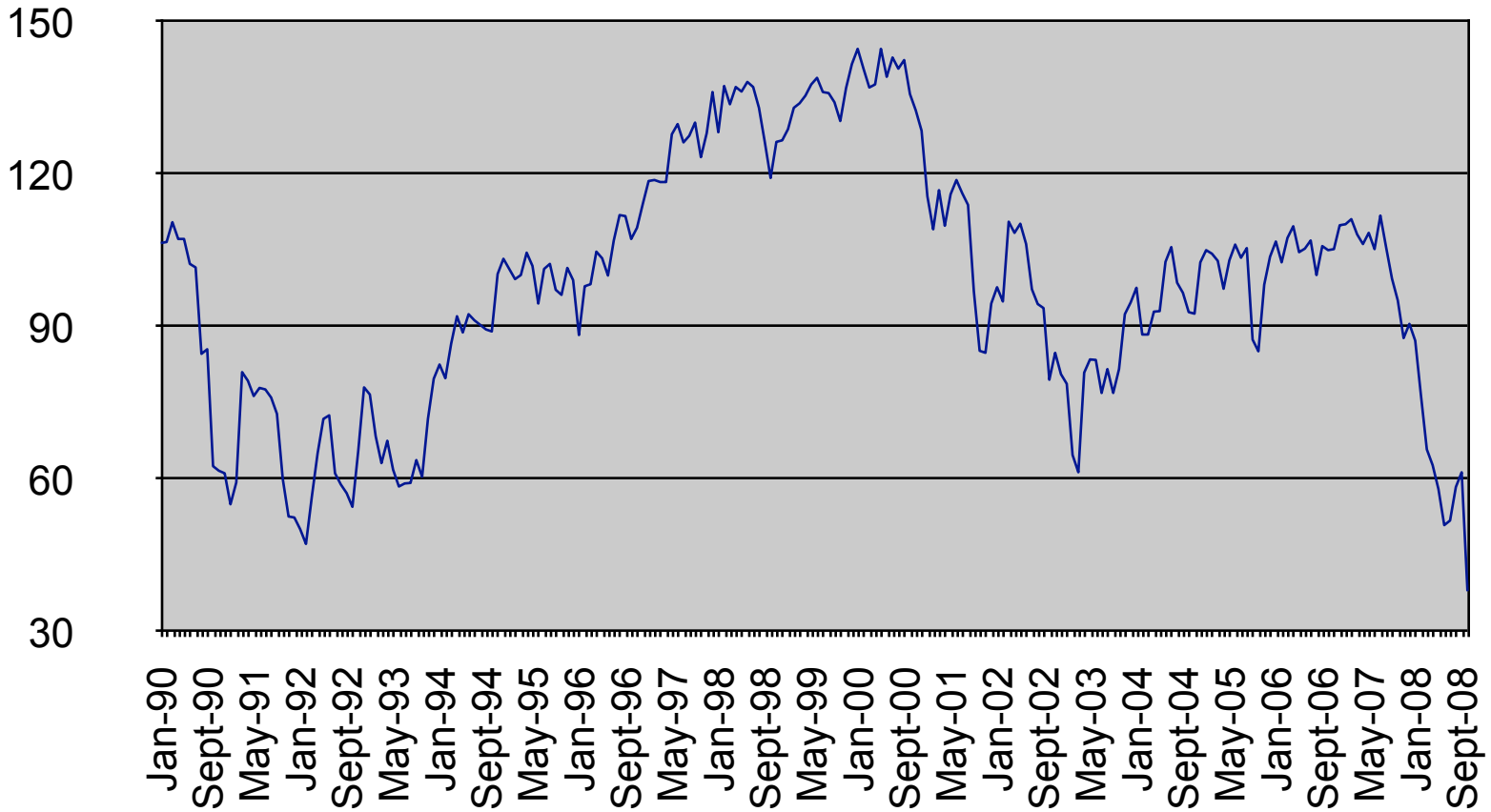
International Background

- US economy in recession
- UK economy in recession
- Euro Zone in recession
- Japanese economy in recession
- Contagion effect of sub-prime crisis spreading to emerging world
- Oil prices and strong official response offer hope, but wealth destruction & credit issues will take some time to resolve
- Very challenging external environment in 2009

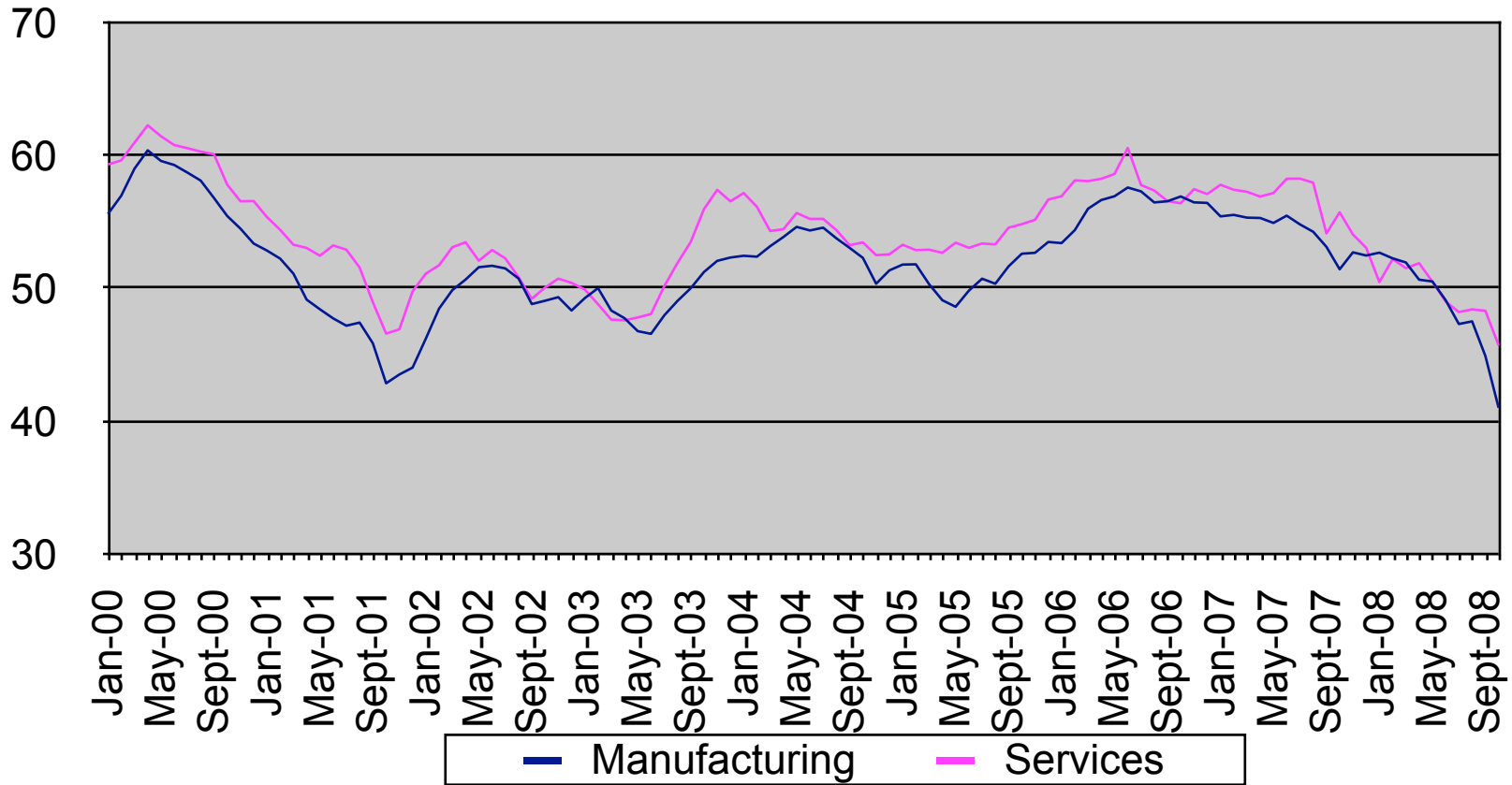
US-ISM Indices



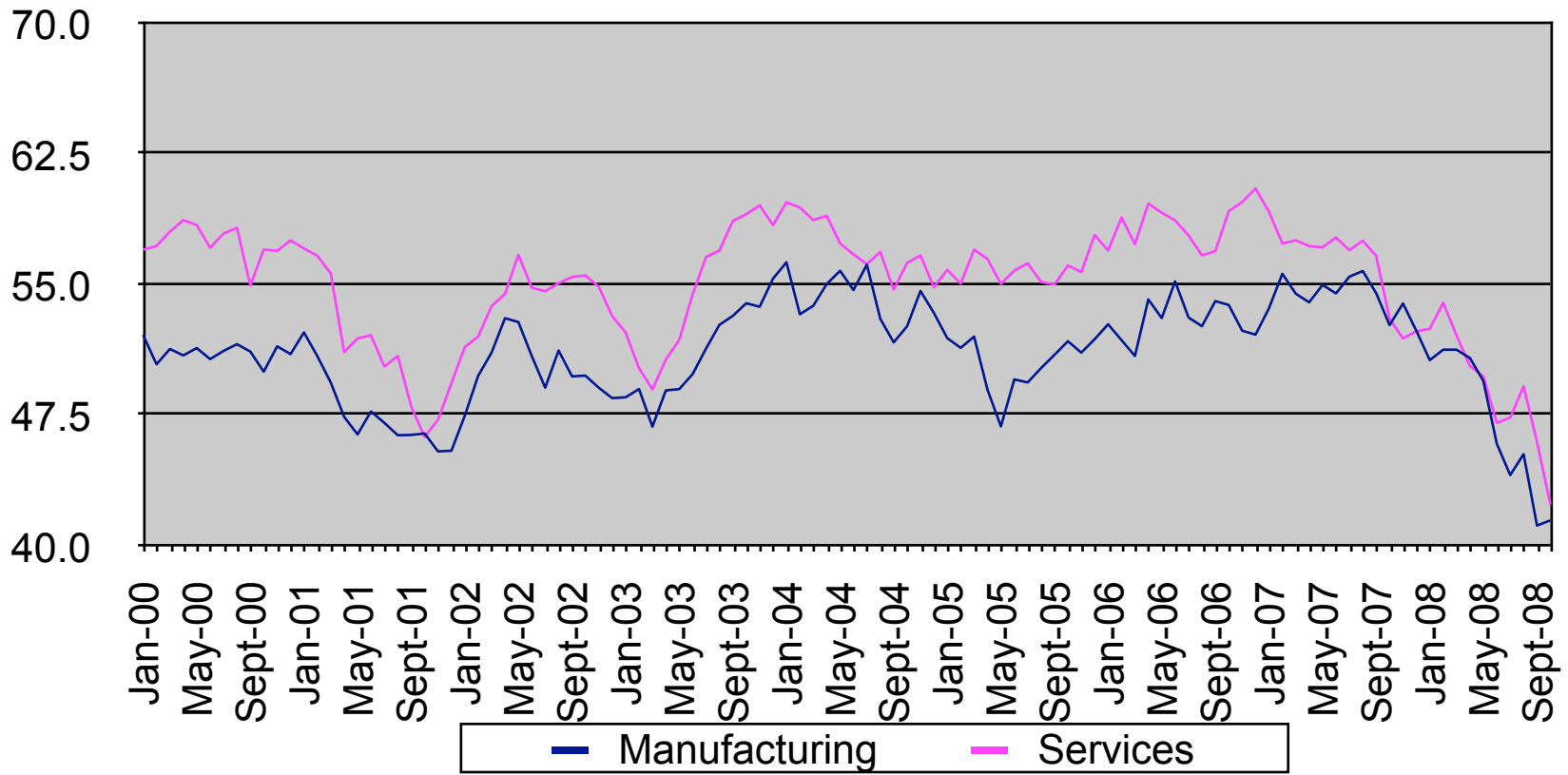
US Consumer Confidence



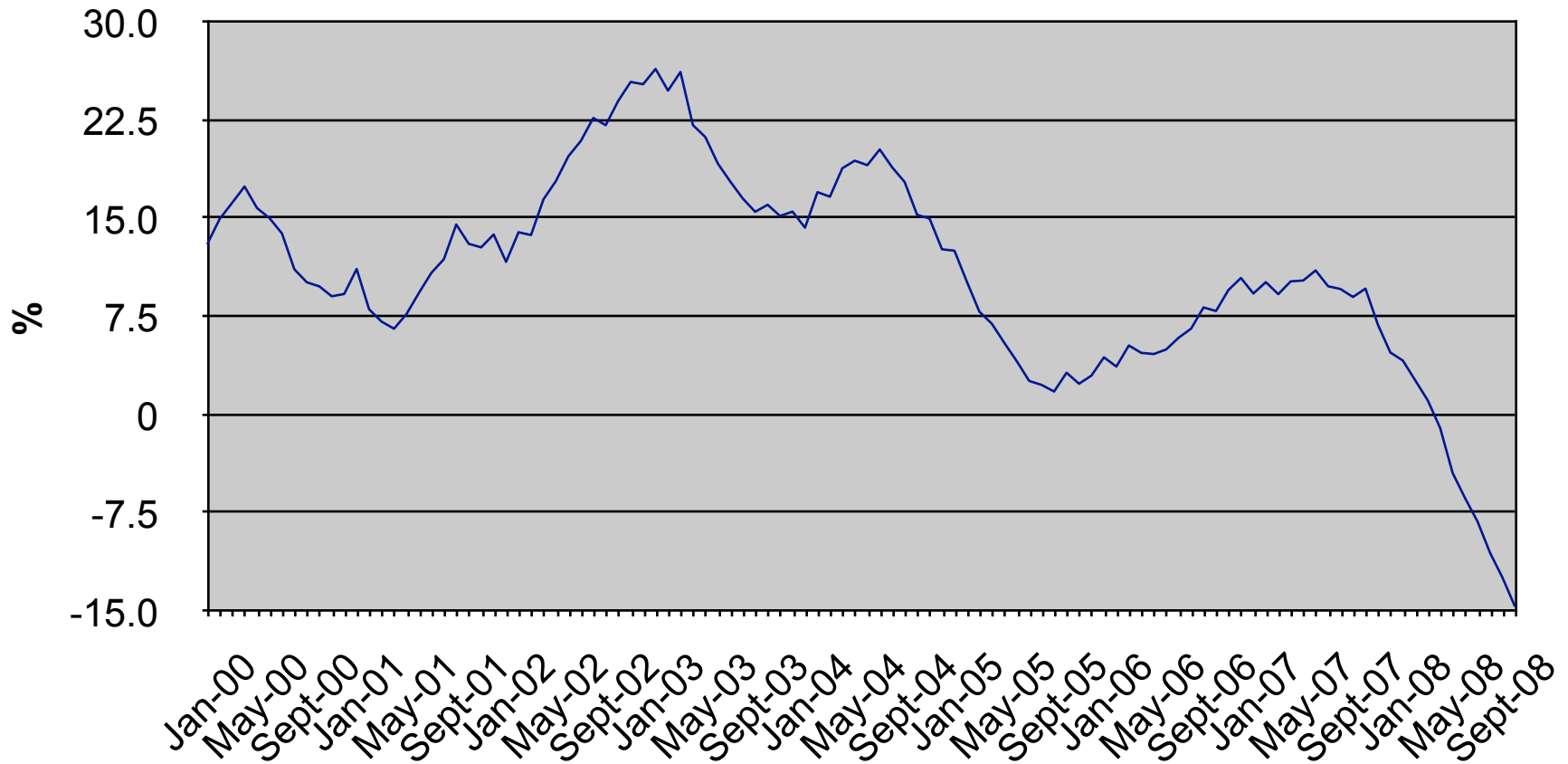
Euro Zone PMIs



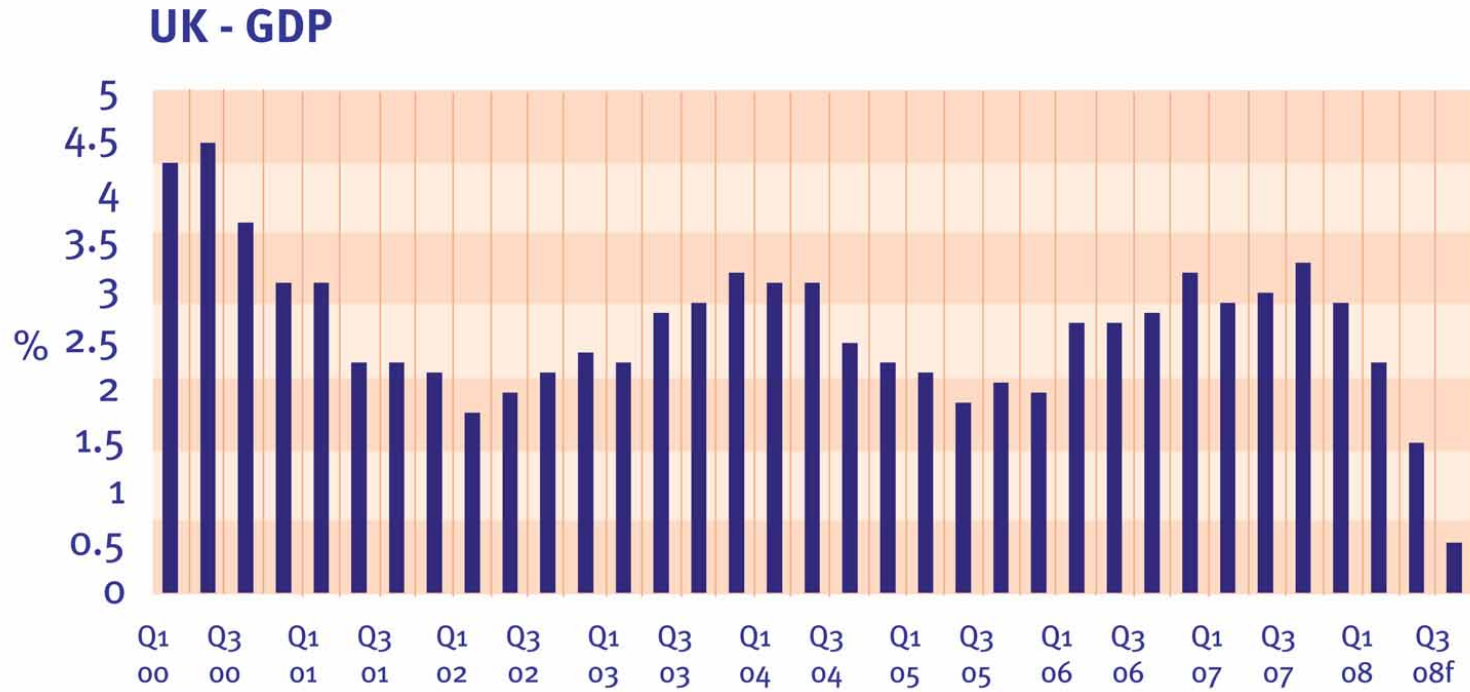
UK PMIs



UK House Prices



UK GDP



Sterling v Euro



Equity Markets

- Markets characterised by extreme weakness & volatility in 2008
- Sub-prime problems & much more uncertain global economic outlook destroying sentiment
- International love affair with Ireland over
- Global volatility & weakness to persist in environment of unprecedented uncertainty
- Global cycle will eventually lift
- Fate of banking stocks casting dark shadow over Irish market

An Economy in Recession



The Irish Economic Outlook

- Economy in recession
- Consumer spending slowing sharply
- Construction contribution falling sharply
- Export sector challenged by exchange rates & cost competitiveness
- Labour market deteriorating sharply
- Awful public finances
- GDP -2.6% in 2008 & -2.5% in 2009
- An economy in transition-housing adjustment was always going to be painful, but has been exacerbated by external developments

Economic Recovery Prospects

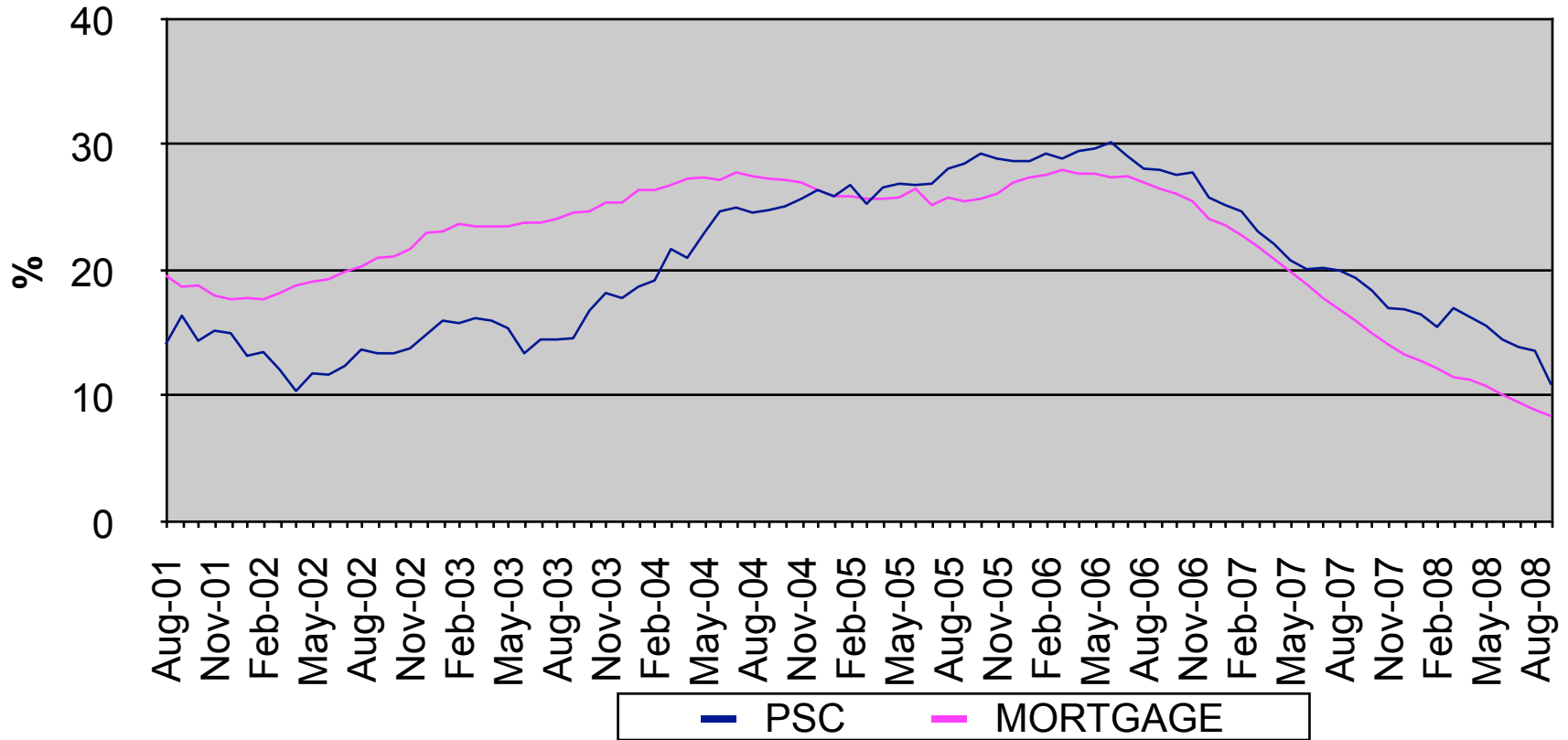
- 2009 will be extremely challenging
- Recovery prospects in 2010 contingent on international recovery, bottoming out of housing market & ending of credit crunch
- Ireland needs to restore competitiveness on all fronts - wages, public spending, IT capability, education & taxation
- Strong political leadership now required

Irish Economic Forecast

Average	2008f	2009f	2010f
GDP	-2.6%	-2.5%	2.3%
GNP	-1.5%	-1.5%	2.4%
Consumption	-2.0%	-1.5%	1.0%
Investment	-20.0%	-20.0%	3.0%
Government	3.0%	1.0%	1.0%
Exports	2.0%	2.0%	3.5%
Imports	-2.0%	-2.0%	2.5%
CPI	4.5%	1.0%	2.0%
Unemployment (average)	5.9%	7.8%	8.5%

f=forecast

Credit Growth (YoY)

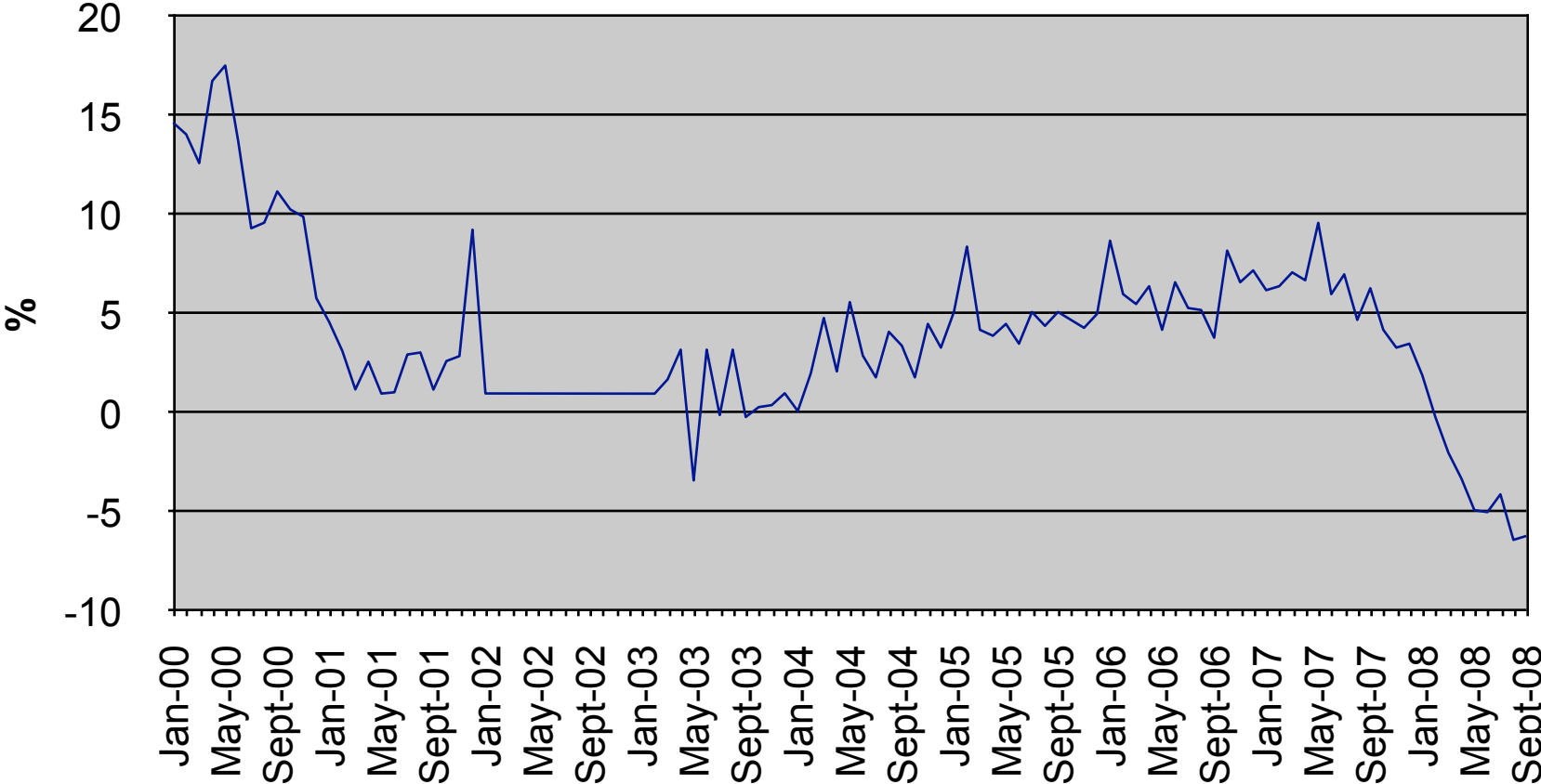


The Irish Consumer

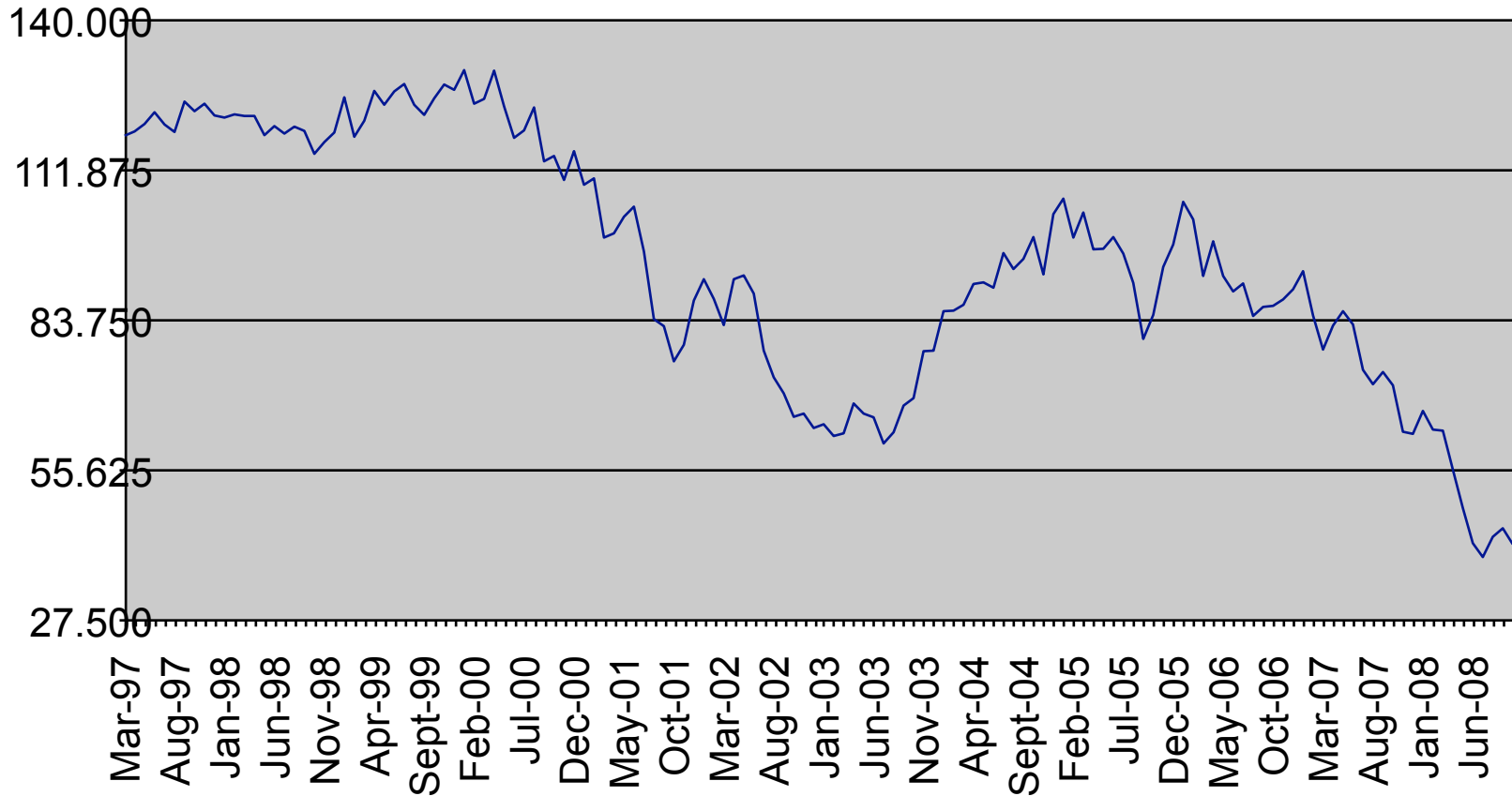
Confidence & spending have been falling sharply

- Interest Rates (improving)
- Oil Prices (improving)
- Falling House Prices & Housing activity
- Collapse of Irish Equity Market
- Cost of Living increases (improving)
- Rapidly deteriorating Labour Market
- Tighter Fiscal background
- Contraction in consumer spending in 2008 & 2009

Retail Sales (YoY)



Irish Consumer Confidence -Falling Sharply



Interest Rates

- Interest rates on the way down
- ECB could go from 3.25% to 2% or lower
- Federal Reserve may not stop at 1%
- Bank of England to cut further from 3% to 1%
- Economic imperatives taking over as inflationary pressures dissipate
- Liquidity conditions getting gradually better
- Extraordinary times requiring extraordinary responses

Oil Prices (WTI)

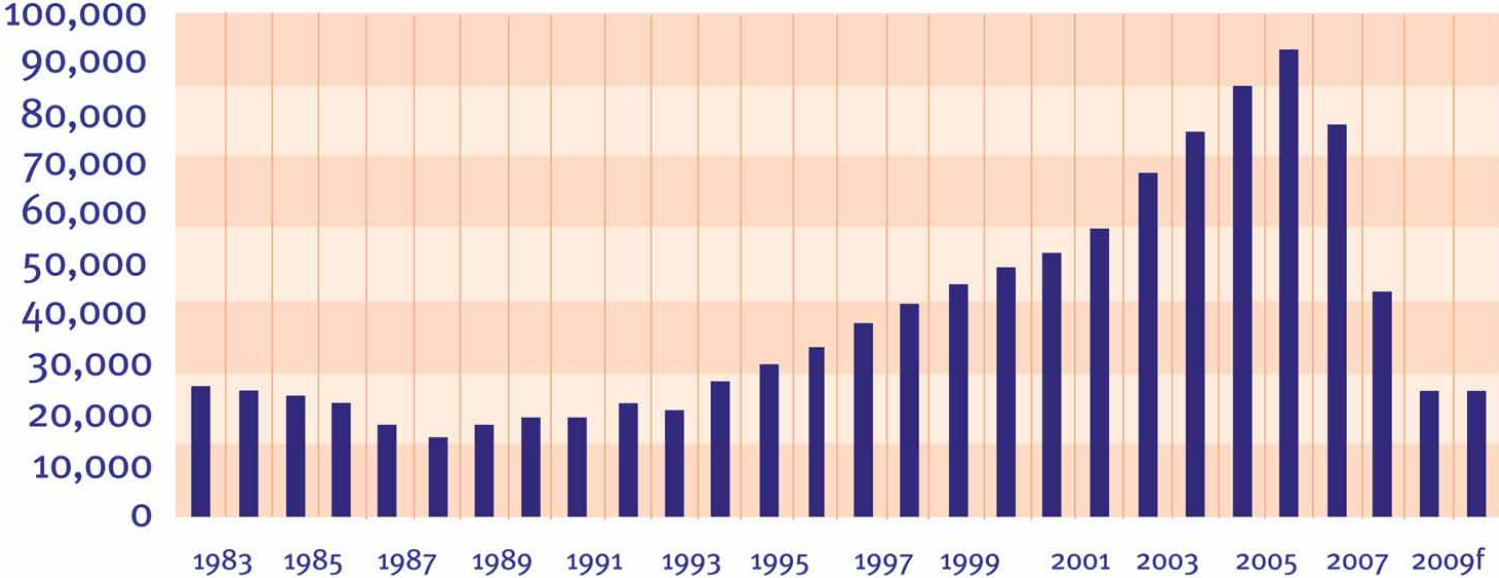


The Housing Market

- Savage correction putting serious pressure on employment, public finances & growth
- Prices down 10.6% in September, but real picture more difficult
- -35% to date, another 10% possible
- Excess supply/demand constrained
- Forward indicators very weak
- Registrations -66.1%, Commencements -50.8%
- Completions 50,000 in 2008, 25,000 in 2009 & 30,000 in 2010

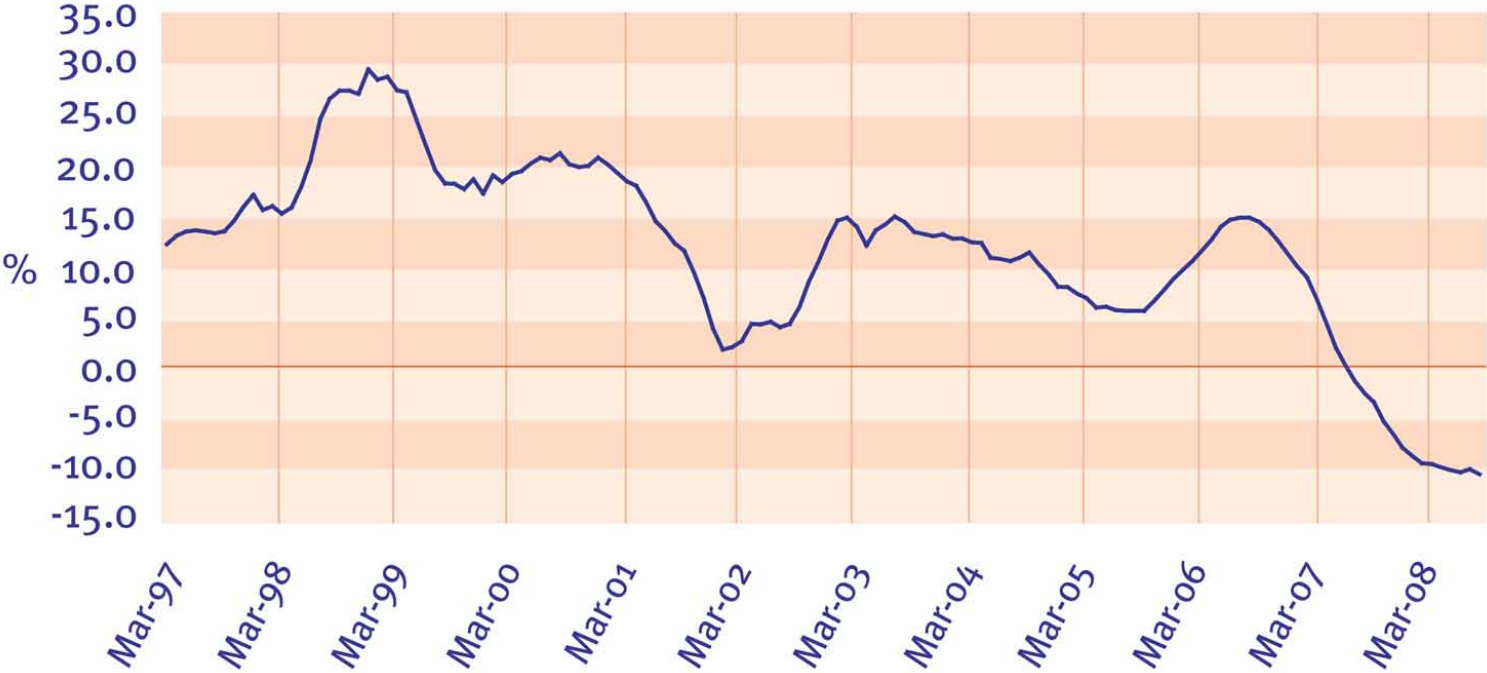
New Home Completions

New Home Completions

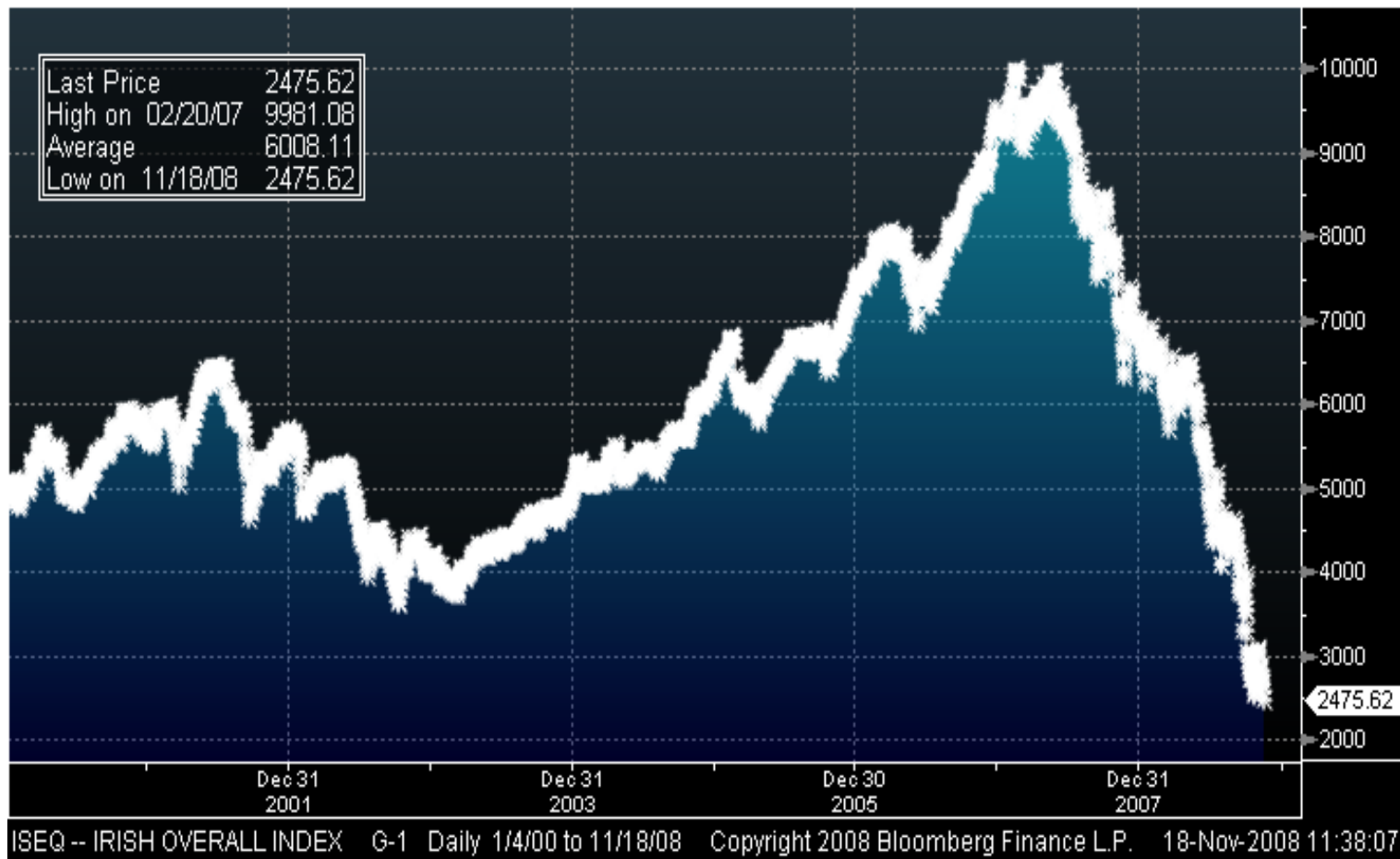


House Prices (YoY)

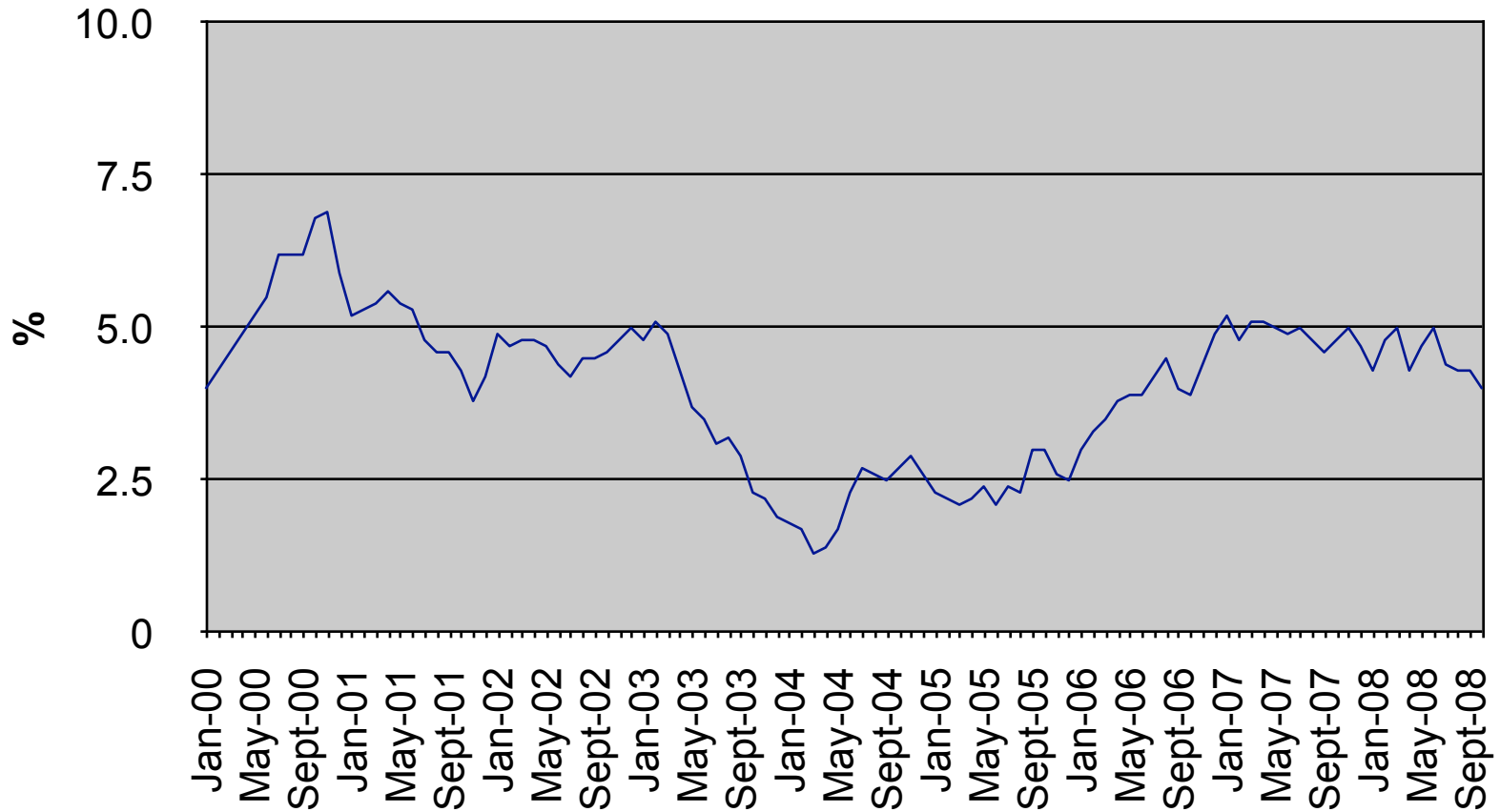
Ireland - House Price Growth



Collapsing Irish Equity Market



Inflationary Pressures Easing



Irish Labour Market Developments

- Rapid & massive deterioration
- Live register up 94,600 over past year
- Employment +6,900 year to Q2
- Employment fell 26,600 during second quarter
- Difficult to see where job creation will come from in 2009
- Live register 320,000 end-2009?
- Employment -50,000 in 2009?

Sectoral Labour Market Changes

Sector	Change Q2 07 to Q2 08
Agriculture F&F	+7,500
Other Production	-8,800
Construction	-26,800
Wholesale & Retail Trade	+16,200
Hotels & Restaurants	-3,700
Transport, Storage etc	-3,000
Financial & Business Services	+10,400
Public Admin. & Defence	+1,400
Education	+2,300
Health	+10,700
Other services	+500
Total	+6,900

Source: CSO

The Public Finances

- EBR -€11.0 bln end-Oct (-€3.9 bln end-Oct 2007)
- Revenue under pressure from economic slowdown
- Spending pressures increasing
- Situation in 2009 will be very difficult again
- Need to prioritise spending without undermining long-term economic potential & limit tax burden
- Budget 2009 pretty savage, more to come
- Difficult balancing act in more difficult economic times

Outlook for Irish Economy

- Economy in very challenging times
- Manufacturing in long-term trend decline
- Savage adjustment in construction sector - no return to previous levels of activity
- Hotels & Restaurants and Retail very cyclical - short-term outlook poor
- Irish unemployment set to rise further over next couple of years
- Public finances in serious difficulty as economic forecasts in Budget 2009 look unrealistic

Words of Warning

‘Financial stress that is rooted in the banking sector typically has more adverse economic effects than stress in stock markets or exchange rates’

IMF October 2008

Thank you!