

## Economic/Bond Research

**Irish GDP/GNP** (Qtr 1 2010)

Wednesday, 30th June, 2010

The latest *Quarterly National Accounts*, for the first quarter of 2010, released this morning, show that on a GDP basis, Ireland is technically out of recession. GDP was up 2.7% quarter-on-quarter in seasonally-adjusted terms, well above the median market projection of a 1.0% rise. The 'doom-and-gloom' merchants will point to the fact that the increase in the opening quarter of 2010 was just offsetting the decline of 2.7% posted in the final quarter of 2009. Still, the quarterly increase in January-March this year was the first since the final quarter of 2007. So, overall, we think the numbers are very encouraging.

That said, it was the 'multi-national' sector, pharmaceuticals and software in particular, that was the main driver of the increase in GDP in the first quarter. When this sector is stripped out, the GNP measure of national output was still showing the country in recession with a quarterly decrease of 0.5%. However, that was a significant improvement on the quarterly fall of 2.0% posted in the fourth quarter of 2009, and with the release of the official second-quarter GDP/GNP data in three months time there should be no argument, with both measures likely to be posting quarter-on-quarter increases.

Exports of goods and services were up 6.9% in volume terms in the quarter and 5.5% in the year in the first quarter. Within the annual rise, goods were up 2.4% and services 9.5%.

Figures released yesterday showed that consumer confidence hit its highest level in June since October 2007 and that has been reflected in increased personal spending, and a big rise in new car sales in particular. Personal expenditure on goods and services was down 0.2% in the quarter and 0.8% in the year in the January-March period. But, the year-on-year performance was the best since the opening quarter of 2008. Despite the fact that the labour market still remains quite weak, we think that as with GDP, personal spending will be higher on average in real terms this year than in 2009.

On the negative side, the building and construction side remains extremely weak and is set to be the main drag on GDP for some time to come. In the first quarter of 2010, fixed capital formation was down 13.8% in the quarter and 30.0% in the year. Within the annual change, new house building was down a whopping 53%.

The weak euro will continue to benefit Ireland's external trade performance over the coming months and following these latest figures we now think GDP will post an average annual increase of 1.0% to 1.5% in 2010, as against our projection of a 0.5% rise in our most recent "*Quarterly Economic Outlook*". However, GNP is likely to post an average fall of 1.0% to 1.5%, still leaving the debate open as to whether Ireland is actually out of recession yet.

***In our view, though, things have improved on the Irish economic front in the first half of the year, and at a quicker pace than expected by most economists at the start of 2010. Although we are not completely out of the woods yet, we believe the recession has ended, and assuming the Eurozone 'debt' issue doesn't turn into a full-blown crisis, then Ireland should be roaring back up the Eurozone GDP growth league table over the next twelve months, led in the main by a strong export performance.***

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