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- Unemployment falls further

"A positive outlook for exports and domestic activity underpins expectations of solid growth this year and next"

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Overview The Irish economy returned to robust growth in 2014. GDP rose by 4.8% (GNP by 5.2%), with positive contributions from net exports and, for the first time since 2007, domestic demand. High frequency data for the first quarter of this year point to ongoing growth. Reflecting this, we have left our headline forecasts for 2015 unchanged – GDP is expected to increase by 4.2% and GNP by 3.7%. With all stages of the recovery – exports, investment, employment and consumer spending – on track, the outlook is positive and solid growth is expected again in 2016. On the export front, trading partner growth and the weaker euro will provide support; while the recovering property market and stronger domestic economy should benefit investment. With employment and household incomes also improving, the pace of consumer spending is set to pick up. Moreover, better unemployment data for end 2014 and into 2015 has led to a revision of our forecast for this year. We now see the unemployment rate averaging 9.7% (compared to 10% in our February outlook), and finishing 2015 at close to 9%. By end 2016, unemployment is expected to be around the 8% mark. Inflation should remain fairly subdued though.

Outlook	2014	2015 (f)	2016 (f)
Personal Consumption	1.1%	2.1%	2.3%
Government Consumption	0.1%	1.2%	1.5%
Investment	11.3%	12.0%	7.5%
Exports	12.6%	5.7%	5.3%
Imports	13.2%	5.4%	5.2%
GDP	4.8%	4.2%	3.8%
GNP	5.2%	3.7%	3.4%
Employment	1.7%	2.3%	2.2%
Unemployment Rate (Average)	11.3%	9.7%	8.3%
CPI	0.2%	0.6%	1.6%

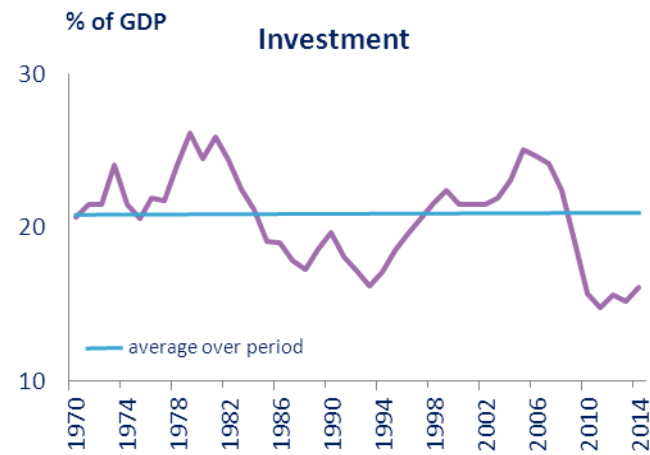
Healthy export growth

Exports had a bumper year in 2014 increasing by 12.6%, the biggest annual gain since 2000. Competitiveness improvements and solid activity in some key markets helped, with the headline number also boosted by positive base effects and the impact of contract manufacturing (i.e. activities outsourced abroad which are recorded as Irish exports). The latter also had an impact on imports, which rose strongly as well last year. Net of imports, exports made a positive contribution to growth adding about 2 percentage points to GDP. Looking ahead, exports should continue to rise at a healthy rate, albeit more in line with trading partner demand. Order books for both manufacturing and services are strong (with the UK cited as a key source of demand), and with exchange rate movements and the external environment favourable - including a notable improvement in the euro area outlook - we expect exports to increase by over 5% this year and next.



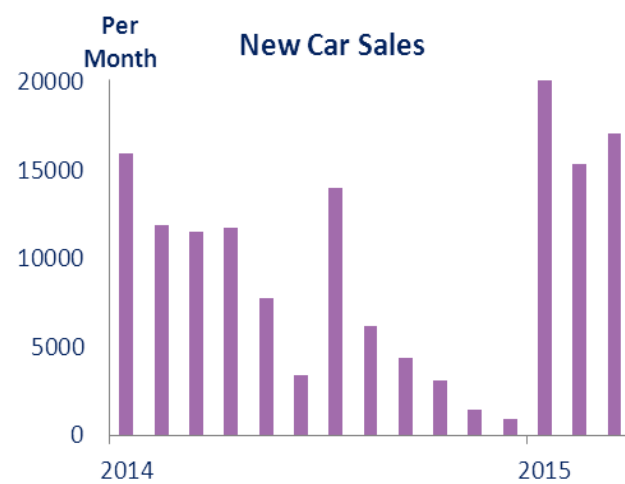
Investment firming

Investment posted double digit growth last year, rising by 11.3%. Machinery and equipment performed well, increasing by 31%, while the revival in the construction sector saw that component rise by 8.9%. The outlook is positive too, with inward flows of FDI, business confidence and a healthier domestic economy boding well for machinery and equipment investment. On the construction side, residential building has picked up with 11,000 units completed last year. Data on housing starts and planning permissions, along with the construction PMI, also point to expanding activity. Investment as a share of GDP has fallen sharply in recent years and there is plenty of room for solid gains in this area as the economy grows. Investment is forecast to increase by 12% this year, before moderating to a still strong 7.5% in 2016.



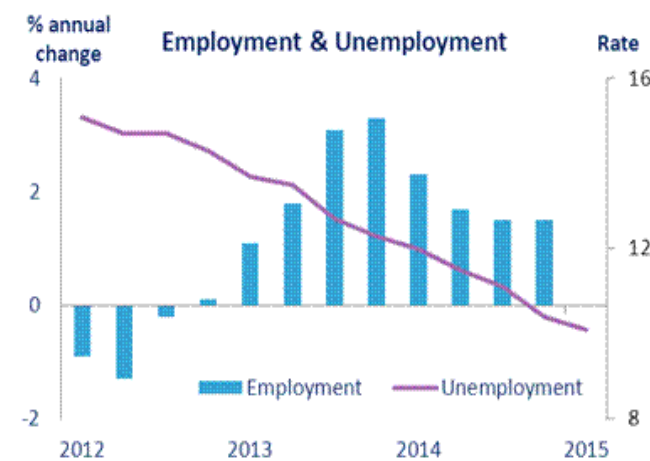
Spending gathering pace

Consumer spending rose by 1.1% last year, the first full year of expansion since 2010. Rising employment and incomes are feeding through to consumption, with early data pointing to a strengthening of growth in 2015. For example, new car sales rose by over 30% year-on-year in the first quarter and are on course to top 100,000 this year. Spending is also broadening out, with retail sales ex cars up 4.8% year-on-year in February. For 2015 as a whole, spending is forecast to increase by 2.1%, supported by further labour market improvements, a pick up in earnings and lower oil prices. Growth of 2.3% is projected for next year. These represent marginal upward revisions to our February numbers, though ongoing deleveraging will remain a headwind throughout the forecast period. In terms of Government spending, moderate growth of 1.2% and 1.5% is expected in 2015 and 2016 respectively.



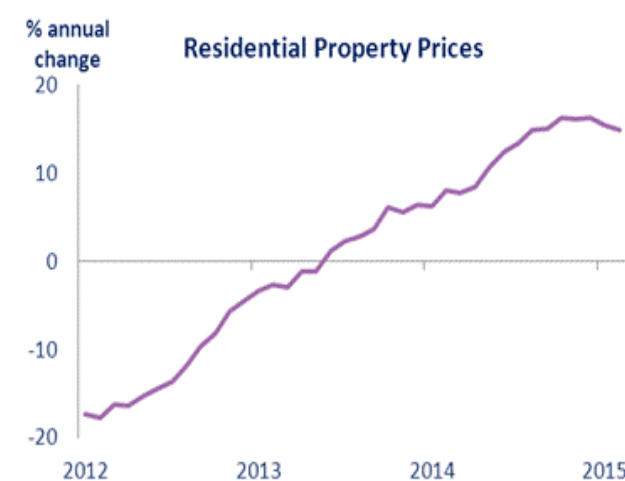
Unemployment falls further

Employment grew by 1.7% in 2014 taking the number of people in work to 1.94 million by year end, the highest level in five years. The gains in employment, which were broad based across sectors and regions and mostly full time in nature, have contributed to a steady decline in the unemployment rate. The latest live register estimate puts the latter at 10% in March, down 5 percentage points in three years. Indicators such as redundancies (the first quarter saw a fall of over 45% year-on-year) and vacancies suggest continued solid jobs gains; while wage growth has turned positive with hourly earnings rising 1.7% year-on-year in quarter four of last year. Employment growth of 2.3% is forecast for this year and 2.2% in 2016, or over 40,000 new jobs per annum. Reflecting better unemployment data for end 2014 and into 2015, we have revised down our unemployment forecast and now expect an average rate of 9.7% in 2015 (and 8.3% next year).



Property market recovering

Indicators of activity in the housing market continue to improve, with transactions in January and February 2015 over 50% higher than in the same period last year, and the number of mortgage approvals up 53% year-on-year in February (74% in value terms). Rents are also rising quite sharply, by 8.3% year-on-year in March. Similarly, annual house price growth remains strong (especially in Dublin), though prices fell month-on-month in both January and February. There is also some evidence of a regional catch up, with prices outside of the capital gaining ground in the past year. The outlook for the property market is positive. While factors such as base effects and the Central Bank's new macro-prudential regulations may have a dampening effect, higher employment and incomes should continue to support prices, particularly in an environment of still low (but gradually increasing) supply. This suggests continued house price growth, albeit at a more moderate pace compared to last year.



Subdued inflation

Consumer price inflation averaged just 0.2% in 2014. Price pressures have remained subdued in the opening months of 2015, with an annual rate of -0.6% in the first quarter. This was largely down to lower oil and energy prices than this time last year, with past reductions in ECB interest rates also playing a role. Excluding these items, inflation stood at 0.8% in quarter one. The headline rate is expected to pick up over the course of this year, as the energy price effect diminishes and improving domestic demand exerts modest upward pressure. The fall in the value of the euro may also have an impact through increased import prices – the PMI surveys show that the depreciation of the euro is adding to input costs. Allowing for the further weakening of the euro since our February outlook and the impact of water charges, we have raised our 2015 CPI forecast to 0.6% (from 0.3% previously). A rate of 1.6% is expected for next year. The European HICP measure is forecast to increase by 0.7% this year and 1.6% in 2016.

Public finances improving

The CSO estimate that the general government deficit was 4.1% of GDP in 2014, with the debt to GDP ratio at 109.7% (down from 123.2% in 2013). This is broadly in line with the Government's Budget day forecasts (-3.7% and 110.5% respectively) and well within the Excessive Deficit Procedure target of 5.1%. Exchequer returns data for the first quarter of this year point to further improvement in the public finances. Reflecting improving economic conditions, tax revenues (particularly income and VAT) were up some 13.4% year-on-year. On the spending side, a decline of 0.2% year-on-year is evident as social welfare spending has fallen alongside unemployment. Overall, the deficit is on course to fall to under 3% of GDP this year. Meanwhile, the NTMA continues to borrow at record low yields, with €9.5 billion raised in quarter one. The Government has also completed the early repayment of €18 billion of IMF loans.



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