QUARTERLY REVIEW
ECONOMIC TRENDS
IBEC
MARCH 2008

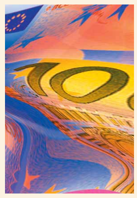
Economy faces problems of sharp slowdown

We have made significant downward revisions to our economic growth forecasts as the Irish economy faces into a year of sharp slowdown. This will have implications for jobs growth, unemployment and tax revenues and calls for much more careful economic management than has been the case for many years. For well over a decade now, overruns in government expenditure have been comfortably met by a bountiful stream of tax revenue as growth surpassed all expectations, obviating the need for painful adjustment. In 2008, such overruns will not be so easily accommodated and may require government to take some harsh decisions.

The environment in which the economy must operate is more uncertain than it has been for a very long time. The slowdown in the US is more than a cyclical downturn as it is accompanied by a financial turmoil and credit crunch, the outcome of which no-one can predict with certainty. The collapse of the US sub-prime mortgage market, with repackaged complex financial instruments, has spread the risk globally and the repercussions on the banking system of this new phenomenon continue to emerge. The impact of re-priced risk on credit facilities is still unknown.

The downturn in the construction sector has been sharp and deep; hopefully it will be relatively short. What is clear is that it will persist throughout this year and possibly into next year. GDP growth will fall to just over 2% in 2008, jobs growth will mark time and unemployment will rise close to 6%. Ironically, global trading conditions turned down just as the traded sectors in Ireland were beginning to reassert their role in driving the economy. This will stand to the good though the strength of the euro against the dollar and now sterling will limit growth and employment prospects.

From the limited data we have so far on exchequer finances, tax revenue is under pressure and may end the year below budget. In the first two months of 2008, exchequer revenue is down €516 million on expectations and €683 million down on last year. At the same time, current government spending is marginally ahead of expectations. There is a real risk that higher than expected unemployment will push expenditure over budget. There is no room, therefore, for spending overruns in the provision of services that have typified the past. The available resources are already allocated and there is no possibility of being bailed out by revenue yields above target. Government must take early action to control government current expenditure, making departments stick rigidly to agreed estimates. A crucial element will be the containment of public sector pay growth and the need to achieve higher levels of productivity. While we are reasonably sanguine about prospects for 2009, there is no certainty that economic conditions globally will have turned in a favourable direction. It is therefore important that Government is well placed to face a second year of difficult economic conditions by ensuring that this year's Budgetary strategy is adhered to and that resources necessary to meet expenditures next year are not usurped by expenditure overruns in 2008. Whatever happens, it is imperative that capital spending commitments are met in full.



Output

The Central Statistics Office will publish first official estimates of the performance of the economy in 2007 at the end of March. Many of the indicators, such as retail sales and employment, suggest that economic activity held up quite well in the final quarter. Our forecast for the year's outcome of 5.2% may well prove to err on the low side. Despite the slowing activity in the construction sector and the weakening trend in consumer sentiment, domestic demand remained strong. The impact of the slowdown in construction will become more pronounced in the first quarter of 2008. Evidence from retail sales suggests that consumer spending weakened somewhat in the final quarter. Final quarter data suggest that the volume of visible exports remained quite solid despite a decline in December. Balance of Payments data for the fourth quarter will also be published at the end of March, and will provide the data for the final quarter for trade in services.

The manufacturing sector grew by 7.4% in 2007 recording the fastest pace of

IN THIS ISSUE:
- GDP to slow to just over 2% in 2008;
- Manufacturing output growth to slow following 7.4% increase in 2007;
- Employment growth will slow dramatically;
- Inflation will decelerate to 3.1%;
- Investment will fall by 10%;
- Euro exchange rate hits all-time high.

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GNP and its components

Annual % change

	2007	2008	2009
Consumer spending	6.0	3.3	3.5
Government spending	6.5	4.0	3.2
Investment	2.0	-10.3	3.4
Exports	7.5	5.5	5.3
Imports	6.0	3.0	5.0
GDP	5.2	2.2	3.8
GNP	5.1	2.3	3.4

Table 1

growth since 2002. The performance was erratic with strong seasonally adjusted q-on-q growth in the first and third quarters being partly offset by declines in the second and final quarters. The hi-tech sectors had a strong year of 9.1% growth but the traditional sectors having started the year strongly could only manage a 2.5% growth.

Manufacturing growth

Annual % change - 3mma

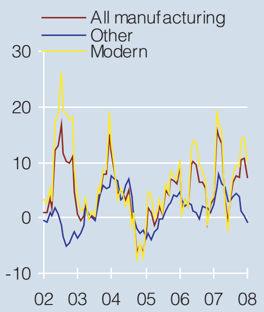


Figure 1

The global slowdown, the credit crunch and the strong exchange rate will all conspire to reduce economic growth in 2008. We think growth will slow markedly to 2.2%, well below potential. The most influential domestic factor in this deceleration is the house-building sector; we expect housing output to fall by about 40%, which will act as a big drag on the economy and will result in a decline in total investment of over 10%. We anticipate that bulk of the housing correction will have run its course in 2008 though a further fall of 10% in output is possible in 2009. With less drag from the housing sector in 2009, and with global and US output likely to pick up we expect that GDP growth will recover to a growth of over 3.8%. Manufacturing output is unlikely to be as buoyant as it was in 2007, as some sectors related to the building and construction sector will suffer from a lack of demand in both Ireland and the UK. Other sectors such as food could feel the competitive challenge of a weak sterling exchange rate. Latest data for January record manufacturing output rose by an annual 2% but fell back 1.5% on a seasonally adjusted basis.

Economic growth

Annual % change - 3mma

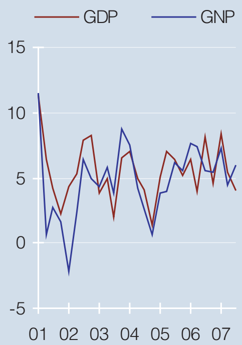


Figure 2

Employment

The Central Statistics Office has released final quarter labour force figures for 2007, which introduced a revised series based on the results of the 2006 Census of Population. The revisions raised total employment by about 5,000 in 2006. Total employment in 2007 increased by 73,200 (or by 3.6%) to 2.117 million. Employment in 2005 increased by 91,000 and in 2006 by 88,000. The rate of increase decelerated from 4.9% in 2005 to 4.5% in 2006 and to 3.6% in 2007. The pace of growth slowed from 4% in the second quarter to 3.2% in the final quarter.

The increase of 73,200 jobs was widely distributed across the sectors. Non-agricultural private sector jobs increased by 57,000 with the largest increase recorded in the financial and business services sector of 18,000, followed by 14,000 in the wholesale and retail sectors. Construction employment increased by 11,000 and the non-construction industrial sector increased by 3,000; this was the first recorded increase since 2001, marking the recovery in manufacturing. Public sector employment increased by 18,000, with an 11,000 increase in health and 5,000 in education. Average figures, however, conceal emerging sectoral trends. On a seasonally adjusted basis, construction employment peaked in the first quarter of 2007 and has declined by 3.2% since then. Industrial non-construction employment continued to grow up to the second quarter of 2007, but turned down in the final quarter. By contrast, the financial and business services sector and the wholesale and retail sector recorded solid growth throughout the year.

Labour force data reveal that 39% of the increase in jobs was in part-time employment. This does not necessarily suggest lack of opportunity as 98% of those in part-time work reported that they were not underemployed. Nevertheless, the percentage of people in part-time employment has increased a little to just under 18% of total compared with just under 17% in 2006. In the last quarter of 2007, the data record that of the 66,800 annual increase in employment, 48,700 (or 73%) were non-Irish nationals. Of those, 43,500 were from the EU accession states.

The labour force increased by 79,000 or 3.7% to just over 2.2 million in 2007, which represented a slowdown from the average 4.7% increase of the preceding two years. As a result, unemployment remained more or less stable at 4.5%, marginally up on the 4.4% recorded in 2006. Indeed unemployment has been remarkably stable for the last eight years averaging 4.4% per annum, with the lowest rate in 2001 of 3.9% and the highest in 2003 of 4.7%. This pattern of stability will be disturbed over the next two years as the economy slows and rebalances; we expect

Labour force forecast

'000 Annual Average

	2007	2008	2009
Agriculture	116	116	114
Industry	578	548	540
Services	1423	1462	1504
Total at work	2117	2126	2158
Unemployed	101	130	137
% Unemployed	4.5	5.8	6.0

Table 2

Unemployment

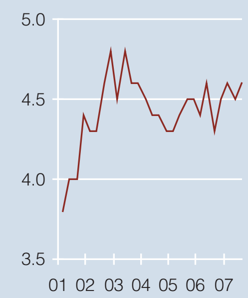


Figure 3

unemployment to rise to 5.8% in 2008, and will remain close to 6% in 2009.

We expect employment growth to slow sharply in 2008, rising by only 0.4%, pushing unemployment up to 5.8%. Live Register figures for February suggest unemployment has already risen to 5.2%. Our view is that construction sector employment could fall by 28,000, or 10%, as house building activity falls by 40%. The non-construction industrial sector we think will shed a small number of jobs reversing the increase in 2007, as competitive pressures from the strength of the euro have their impact and industries related to construction decline. Recent announcements from the financial sector suggest that the pace of employment growth will slacken. We think that in 2009 improved growth conditions, both internationally and domestically, will prevail and employment should grow by 1.5%.

Prices and Wages

Since November 2007 there has been a decelerating trend in inflation from 5% to 4.3% in January; despite the rebound to 4.8% in February, we expect inflation to be down to 3.5% by June and well below 3% for the second half of the year. The predominant influence on headline inflation in 2007 was the rise in interest rates. Excluding interest rates, the rate of inflation was a more contained 3.4%. We have argued for a long time that the rate of inflation excluding interest rates is a better measure of price increase and the EU Harmonised Index captures this on a comparable basis across the European Union. Irish inflation on this harmonised basis was 2.8% compared with 2.7% in 2006 and 2.2% in 205.

Measured goods inflation increased by 1% in 2007 compared with service sector inflation of 8.4%. However, service sector inflation contains the distortion of interest rate movements. In 2007, these were considerable; excluding interest rates service sector inflation was much closer to 3.5%. The services sector index published by the Central Statistics Office is therefore not a useful measure of general services inflation such as catering, childcare, health or education, which is significantly lower than is generally perceived.

The rate of inflation in 2007, as measured by the consumer price index was 4.9%, which represented an acceleration from 4% recorded in 2006 and 2.5% in 2005. Average inflation we think will be 3.1% in 2008 and is expected to decelerate further to 2.3% in 2009. Interest rate movements, of course, will significantly influence headline inflation. The ECB has recently hinted that interest rates will not fall quickly. We have, therefore been conservative in building in a quarter percent fall in mid-year. If there were further interest rate cuts, inflation would fall more rapidly, especially in 2009.

Consumer price index

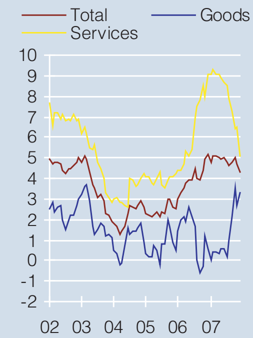


Figure 4

Wage negotiations will get under way shortly and must reflect the much improved inflationary scenario which is helped by the strength of the euro. That strength of course is placing business under very intense competitive pressures.

Average weekly earnings

Sector	Period	Annual % change
Business services	Sept. 07	4.4
Distribution	Sept. 07	3.9
Public sector (excl. health)	Sept. 07	4.0
Industry	Jun. 07	4.9
Banking and insurance	Jun. 07	6.9
Construction	Sept. 07	7.2

Table 3

Inflation

2008	Quarter	Year	Annual
March	0.5	3.8	3.1
June	1.1	3.5	
September	0.1	2.6	
December	0.4	2.2	
2009	**Quarter**	**Year**	**Annual**
March	0.5	2.1	2.3
June	1.0	2.0	
September	0.4	2.3	
December	0.6	2.5	

Table 4

Ireland's changing patterns of trade *by Reetta Suonperä, economic policy executive*

Ireland is famously a small, open economy, a trading nation. Few other EU countries are as dependent on trade for their economic wellbeing. In 2006, Ireland's exports of goods and services amounted to 81% of GDP, compared with 45% for the EU-25 and 38% for the UK. The difference is even starker on a per capita basis: the value of Ireland's exports per inhabitant was €32,500, compared to just €8,600 for the EU-25. In recent years, however, domestic demand has overshadowed exports as the source of growth. Net exports have made only a negligible, or in some years even a negative, contribution to growth.

In the long run domestic demand alone cannot support a small island economy such as Ireland and it is necessary that the economy rebalance towards a more sustainable growth path. At the same time, the world is changing rapidly. As global trade is growing, so are the competitive pressures. New goods and services are brought to the market at an increasingly rapid pace and emerging economies are becoming more important players on the global arena.

If Ireland is to prosper, it must respond to the changing demands. Looking at past performance can give a clue to the capacity to change: the landscape of Ireland's trade has transformed markedly in the last 15 years. Within goods exports, two trends are evident. First, the modern sector, chemicals in particular, has come to dominate. Second, after a phenomenal increase in the 1990s, growth in goods exports has virtually ground to a halt since 2001. Finally, services trade now forms an increasingly important part of Irish exports, with growth in the sector outpacing growth in goods exports.

Goods and services share of total exports

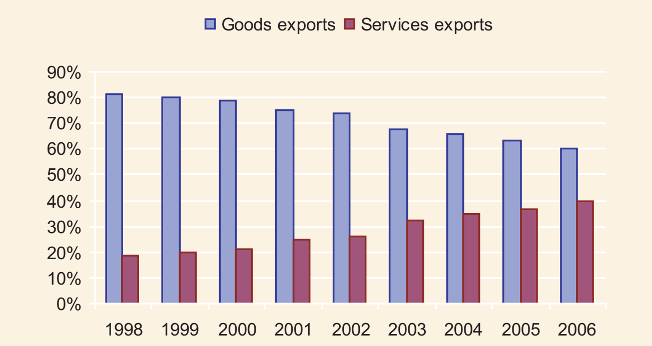


Figure 5

The value of goods exports has grown by 377% since 1990, but this aggregate conceals some significant sectoral variations. Chemicals, which in 1990 accounted for 20% of goods exports, now represent 45%. In value terms, chemicals exports have grown by an explosive 1275%. Within the sector, pharmaceuticals have grown particularly strongly, at over 1800%. IT was another modern sector where Ireland posted strong growth – 500% in the period 1990-2001. Since then, however, exports in that sector have actually declined by 33%. The shift in the composition of exports is also evident when considering the food sector. In 1973, food products accounted for 41% of goods exports. By 1990, food accounted for 20%, and by 2006 food exports had fallen to 8% of the total. The food sector, however, relies less than many other sectors on imports as a source of raw materials, and therefore remains a very significant contributor to the economy.

Irish exports are highly concentrated, with only three sectors accounting for 80% of goods exports: chemicals, machinery and transport equipment and food. The reliance on only a few sectors exposes Ireland to the vagaries of sectoral fluctuations. On a more positive note, the shift towards the modern sector highlights the extent to which Ireland has already moved towards a knowledge-based economy. Many of the jobs created in the pharmaceuticals sector require highly qualified experts and technicians.

While Ireland was not expected to sustain the exceptionally rapid rise in exports of the 1990s in perpetuity, the shift from export-led growth to an economy sustained by domestic demand was dramatic. Export growth virtually ground to a halt. In 2001, the value of goods exports grew by 10%. The next year, the gain was a minimal 1%. Indeed, 2003 saw a decline, and there has not been growth in excess of 3% in any year since 2001. As the domestic sector is rebalancing away from construction, 2007 looked like the year to break the trend. The strong

IEP equivalent dollar exchange rate (index)

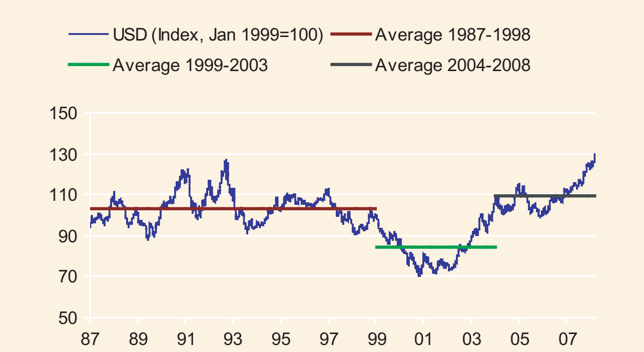


Figure 6

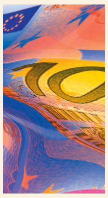
appreciation of the euro against the dollar and sterling has caused the growth in value terms to stagnate in the latter months of the year. In volume terms, however, exports in the first eleven months of the year were ahead 2006 by 7.1%, significantly higher than the 2001-2006 average growth of 2.3%.

Trade is often seen in the traditional sense of trade in goods. In recent years, it has become necessary to broaden the viewpoint. The share of services of total exports has risen from less than 20% in 1998 to 40% in 2006; moreover, services exports have been growing at a more rapid pace than goods exports.

The ascendance of services trade can indeed be viewed as another indicator of the ongoing shift towards a knowledge-based economy. Financial and business services are the two sectors that have grown particularly strongly. Computer services held a 38% share of services exports in 2000, declining to 30% in 2006. Very weak growth in the sector in 2005-2006 explains the relative decline.

There have been some changes in the geographic destination of Irish exports. The EU-15 countries are the most important destination, with the 65% share of the total having remained stable for the past ten years. The headline figure overstates the weight of the EU somewhat, however, as some of the exports are, ultimately, going further afield. Traditionally Ireland's most important trading partner, the UK's share as export destination has fallen dramatically, from 34% in 1990 to 18% in 2006. In contrast, the US share has grown by over ten percentage points to 19% in 2006.

Entry into the euro was a significant change for Irish economic policy and in advance was widely believed to boost trade within the euro area. The share of Irish exports going to the euro area countries, however, has remained at around 40%. The impact of the entry to the euro may have worked through a different mechanism. The euro/dollar exchange rate in the first years of the new currency was substantially lower than the long-term average of the IEP/dollar exchange rate. This boosted the competitiveness of Irish exports, and Ireland's share of global trade increased from 1.18% in 1998 to 1.46% in 2002, when the euro reached its lowest point against the dollar. As the euro has strengthened, so has Ireland's share of world trade declined, now standing at 1.21%. In fact, the real benefit of the euro may have worked through global markets. Since 1999, the euro area has maintained its share of world trade, while the UK, US and Japan have all experienced loss of market share, mostly to developing economies.



Consumer Spending

End of year figures record that the volume of retail sales grew by 6.4% in 2007 and excluding motor trades by 6.5%. Sales were buoyant throughout the year though there was a slowdown in the final quarter to 4.5%; excluding motor trades, the last quarter growth was a stronger 5.7%. In the first three quarters of the year, National Accounts figures record that consumer spending grew by an annual 6.1% compared with a 7.1% increase in retail sales for the corresponding period.

Consumer spending growth will slow quite sharply in 2008. The IIB/ESRI Consumer Sentiment Index fell steadily throughout 2007 and in February 2008 was as low as it was in mid-2003 when consumer spending growth slowed to 3%. Consumers' perceptions of both current economic conditions and consumer expectations are back at 2003 levels. We expect consumer spending growth to decelerate to 3.3% in 2008. A number of factors point to this sharp slowdown. First, there will be little or no impetus left from the SSIAs, all of which had matured in the first half of 2007. Second, we are forecasting a sharp deceleration in the rate of employment growth from 3.6% to just under 0.5%. Third, the fall in house prices and stock markets is likely to discourage spending. Fourth, more difficult credit conditions will dampen spending power and fifth, the noticeable slowdown in economic activity and the rise in unemployment will tend to push up the savings ratio.

Retail sales

Annual % change Jan. 07 – Jan. 08	
Motor trades	+0.7
Non-specialised stores	+4.6
Department stores	+10.5
Food/Beverages/Tobacco	+1.4
Pharmacies	+4.4
Textiles and clothing	+7.4
Footwear and leather	+9.2
Furniture and lighting	-1.1
Electrical goods	+1.5
Hardware	+1.9
Books/News/Stationery	-0.4
Other retail	+4.0
Bars	-5.0
Excl. motor trades	+4.8
All businesses	+3.1

Table 5

Consumer sentiment indicator

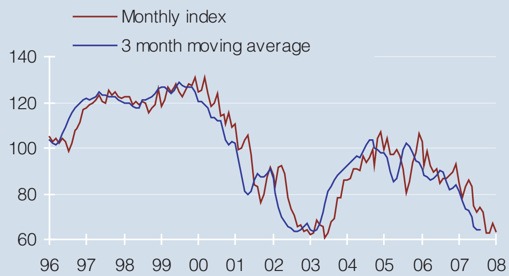


Figure 7

On the more positive side, inflation will decelerate from 5% to 3.1%, though higher energy and food prices may give rise to a perception that inflation remains higher which could discourage spending. The budget too provided quite generous tax and social welfare changes, which resulted in average net take-home pay rising by close to 2.5%. Car sales in the first two months of the year were down 1.2% on the same period of 2007 and retail sales in January slowed to an annual increase of 3% from 4.4% in December.

Government Spending

The 2008 Budget was predicated on a GDP growth of 3%. Government anticipated a growth in tax revenue of 3.3% and current government expenditure growth of 9.5%; capital spending was projected to grow by 10.7%%. If our assessment of GDP growth of only 2.2% proves correct, exchequer revenues will be under pressure to come in on target. Exchequer returns are available for the first two months of the year; but because of the unevenness of some of the revenue and expenditure heads, it is hard to make judgements on such a short period. However, we do have the profile of revenue and expenditure from the Department of Finance, which gives some guidance. The Department expected tax revenue in the first two months of the year to be 6.4% lower than the same period of 2007 largely because of a 44.7% fall in stamp duties. The actual fall in revenues was 8.3%, amounting to some €516 million because of shortfalls in capital gains tax, corporation tax and VAT. The slowdown in capital gains tax and VAT reflects the lower activity in both second hand and new houses. Government expenditure is 24.2% higher than the same period of 2007 and 2.9% ahead of target, mainly because of higher capital spending on infrastructure and a marginal overrun on current expenditure. The figures do suggest that the budget deficit will exceed the planned deficit.

Investment

Housing will remain the dominant story in the Irish economy in 2008. We know that the years of rising house prices had a limited influence on consumer spending as Irish households, unlike their UK and US counterparts, did not use their rising home values as ATM machines. Likewise, with house prices now falling, the economic impact of this factor alone is likely to be minimal. Of much more significance to the Irish economy is the impact on economic output of the unprecedented collapse in house building activity levels. This will have a significant drag on economic growth in 2008 and as of yet there are no indications of recovery in 2009. Housing completions in 2007 were down 12% but the housing starts data indicate that a much worse outcome is in the pipeline for 2008. Overall, total investment increased by about 2% last year, with strong performances in commercial and public construction, coupled with a surge in spending on airplanes. Final national accounts data for 2007 are not yet available so the figures here are based on actual data for the first three quarters of the year and estimated numbers for the final quarter.

Investment

Annual % change

	2007	2008	2009
Building & construction	-2.9	-17.2	1.3
Plant & machinery	20.0	10.0	8.0
Total	2.0	-10.3	3.4

Table 6

New housing output fell by 11% last year as the number of completions dropped from 88,000 units in 2006 to 78,000 units in 2007. It now appears that December 2007 marked a watershed for the house building industry as many schemes were finished before the year-end, while very few new schemes have commenced. The housing repair, maintenance and improvement (RMI) sector was relatively buoyant in 2007 and compensated to some degree for the fall-off in new housing completions. This sector, however, is less than one quarter the size of the new build sector and the 12% increase in activity in 2007 only had a minor impact on total investment.

The commercial and civil engineering construction sector held up well throughout the year, helped by strong momentum in the public capital investment programme. Commercial activity remained strong right until the end of the year and overall output from the 'other building and construction' sector increased by 15% last year. The final component of the investment sector of the economy is machinery and equipment. This was particularly buoyant in 2007 as expenditure on airplanes was more than double that in the previous year.

Housing commencements have remained very weak over recent months with the number of house starts down over 60% on a three-month moving average basis. The house starts data account for about 75% of all housing activity and while the two sectors not covered – social and one-off housing – are likely to hold up reasonably well this year, it is inevitable that there will be a substantial fall-off in new housing activity.

We forecast that only 45,000 housing units will be completed in 2008. The RMI sector is likely to perform reasonably strongly again this year but total output from the housing sector will be down by over 30%. With housing starts still declining it is unclear when a recovery in housing activity will begin but at this stage it looks like it will be at least 2009 before the sector turns the corner.

The commercial construction sector is likely to slow somewhat in 2008 as output levels adjust to the requirements of slower economic growth and weaker demand in some areas for office space. The latest Ulster Bank Construction PMI had a reading for commercial activity of 43.7 in February and while this was a slight improvement from January, the sector continued to contract. There is already some evidence that commercial rents have softened in recent months and this sector is also likely to continue to feel the effects of the credit crisis for some time to come.

The Ulster Bank PMI reading for the civil engineering sector showed a significant and surprising decline in activity in February. The index fell to 36.9, its lowest reading since 2001, but this appears to contradict other indicators which suggest that the public infrastructure programme is continuing at pace. The recent exchequer returns showed that public capital investment was well up in the first two months of the year and the increased funding already allocated for capital projects this year, suggests that the sector will grow by about 10%.

Investment in machinery and equipment is expected to grow a little slower than in 2007, but should still be about 10% higher. It remains particularly difficult, however, to forecast trends in this sector due to the very lumpy nature of investment in airplanes. We estimate that total investment in the economy will decline by about 10% this year, as the relative buoyancy of most aspects of investment will be insufficient to counteract the substantial decline in housing activity.

Trade

A fuller picture of trade in goods and services in 2007 will emerge with the publication at the end of March of both the Quarterly National Accounts and the Balance of Payments. The National Accounts for the first three quarters of the year record that the value of exports of goods and services increased in value by 7.4% and in volume by 7.8%. We only have data for the full year for the value of visible trade. This records that the value of visible goods increased by 2.4% despite an annual decline of 2.9% in the final quarter of the year. This was due to a fall of 15.3% in December. Exchange rate movements have affected export prices and it seems likely that there was a volume increase in visible exports of the order of 5.8%.

The volume of imports of goods and services increased by an annual 6.4% in the first nine months of the year. The value of visible trade increased by 2.1% in the full year. Full year National Accounts data will provide a clearer picture of volume movements.

Financial

European Central Bank President Jean-Claude Trichet disappointed those that thought European interest rates would fall quickly by stressing that the Bank was not yet ready to loosen monetary policy. Interest rates remained at 4% following the Bank's 6 March meeting as inflationary concerns still tip the balance over concerns of an economic slowdown or the impact of an increasingly uncompetitive euro exchange rate. The Bank's forecast for inflation of 2.9% in 2008 and 2.1% in 2009 is above the ECB's target of 'close to but less than 2%.' However, commentators believe that eventually rates will have to come down by 0.5% or more to stem the rising value of the euro.

More signs of a slowing economy were in evidence from the Central Banks credit figures for the end of January 2008. Annual private sector credit growth fell to 16.8%, down from 25.3% in January 2007; this was the lowest increase in over four years.

Annual non-mortgage credit growth was 20.6% in January, the same as in December 2007, but had decelerated significantly from the 30.6% annual increase in January 2007. Mortgage credit growth has been decelerating since March 2006, when it was running at an annual increase of 28.1%. It fell to 24.2% by December 2006 and fell throughout 2007 to record a growth of 13.4% in December. The annual rate of increase in January 2008 fell to 12.9%.

Domestic credit

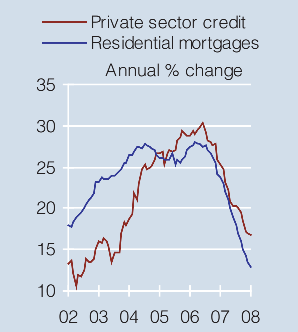


Figure 8

The exchange rate of the euro against the dollar went through the psychological barrier of $1.50 on 27 February. It continued to rise in March reaching $1.54 on 7 March. Sterling has also weakened against the euro, hitting its lowest point on 5 March of £.0768.

Exchange rates

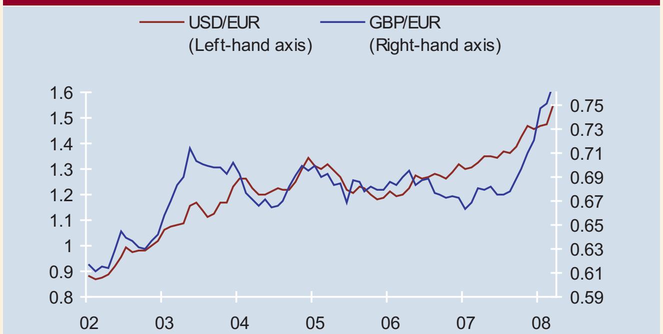


Figure 9

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International

The global economic situation remains uncertain as a result of the prolonged distress in financial markets, a more marked slowdown in the US economy and soaring commodity prices. World economic growth could miss the International Monetary Fund's forecast of 4.1% this year, down from 4.9% in 2007. The European Commission anticipates that global growth will fall short of 4% in 2008. The OECD has cut its forecast for growth this year from 2.3% and now expects expansion of 'less than 2%' in its 30 member nations. Growth in emerging markets and developing economies is also forecast to ease in 2008, moderating from 7.8% in 2007 to 6.9%.

US

Economic growth slowed notably in the fourth quarter to 0.6% q-o-q and 2.5% y-o-y. Growth at best stagnated in the first quarter of 2008. The Federal Reserve recently forecasted GDP would grow within the range of 1.3-2% in 2008. The IMF has lowered its growth forecast to 1.5% for 2008. However, the impact of the fiscal stimulus worth $150 billion, or 1% of GDP, is expected to give a lift to growth mid-year. In January, the FOMC of the Fed announced a cut of 0.5% in the key federal funds interest rate to 3%. This move followed a 0.75% cut in the preceding week and cumulatively these cuts represented the most rapid decline in rates since 1989. Core CPI inflation was 2.5% y-o-y in January. When energy and fuel prices are included, headline inflation is running at 4.3% y-o-y. On 27 February, the euro breached the $1.50 barrier against the dollar. Over the past year, the value of the dollar has fallen by 17% in relation to the euro. The crisis in the housing market continues unabated. The National Association of Realtors reported that existing home sales fell by 4.9% in January y-o-y. The unemployment rate in February was 4.8%.

Euro area

GDP grew by 0.4% q-o-q in the final quarter of 2007 and 2.2% y-o-y, which amounted to a soft end to a second consecutive year of strong economic expansion for the euro area. On average, GDP grew by 2.6% in 2007. Euro area economic growth is expected to slow to 1.8% this year according to the European Commission. The ECB and the IMF are more cautious in their forecasts, projecting growth of 1.7% and 1.6% respectively. Annualised inflation remained at 3.2% in February the highest rate in 14 years and significantly higher than the ECB's target of "below but close to 2%". The likelihood of imminent interest rate cuts has diminished in light of the elevated level of inflation. The ECB held interest rates at 4% on 6 March. Unemployment for the euro area stood at 7.1% in January 2008 - a rate not seen since the early 1990s. The value of the euro hit an all-time high of $1.5495 on 11 March.

UK

UK GDP grew by 0.6% q-o-q in the fourth quarter of 2007 and grew by 3.1% y-o-y in 2007. This was the highest rate of growth recorded since 2004. The European Commission recently cut its growth forecast for the UK for 2008 to 1.7%. Inflation figures for the first month of 2008 were running at 2.2% up 0.1% m-o-m. The Bank of England cut interest rates by a quarter of a basis point in February to 5.25%, which was the second cut since December. The Bank left rates unchanged on the 6th of March. The Bank is reluctant to cut interest rates further as rising energy and food prices could push inflation to 3%.
(Eoin Cuddihy, economic policy executive).

REAL GDP GROWTH – SELECTED COUNTRIES

Annual % change	2007	2008	2009
Euro area	2.6	1.6	1.9
UK	3.1	1.7	2.0
Germany	2.5	1.7	1.9
France	1.9	1.6	1.9
US	2.2	1.6	2.6

Table 7

INFLATION – SELECTED COUNTRIES

Annual % change	2007	2008	2009
Euro area	2.1	2.5	2.0
UK	2.3	2.4	2.0
Germany	2.0	2.1	1.7
France	1.5	2.2	1.8
US	2.9	2.9	2.0

Table 8

UNEMPLOYMENT RATE – SELECTED COUNTRIES

Annual % change	2007	2008	2009
Euro area	7.4	7.1	7.1
UK	2.7	2.9	3.0
Germany	9.0	8.2	8.0
France	8.3	7.9	7.7
US	4.6	5.3	5.4

Table 9

Source: Consensus Economics, September 2007