

Ireland

Ireland remained in recession at the end of 2009

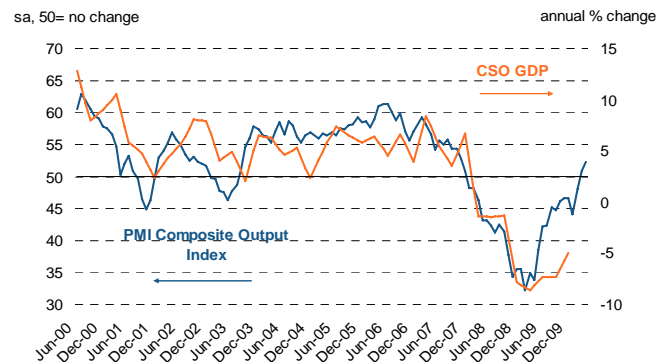
- **GDP revised to show continued recession.**
- **More timely and stable PMI data point to modest improvement in April.**

Official data for Q4 2009¹ indicated that Irish gross domestic product (GDP) fell 5.0% on an annual basis and 2.3% over the quarter to signal a continuation of recession in Ireland. The first estimate for Q3 GDP was also revised to -0.1%. The initial estimate had suggested a rise of 0.4% over the quarter, thereby leading people to believe that Ireland's recession had ended when in fact it had not. Official data now show that GDP has declined in each of the past eight quarters.

The initial estimate of an increase in GDP in 2009 Q3 contradicted PMI survey data, which have a good relationship with final year-on-year changes in Irish GDP. A composite Output Index of the three PMI surveys, compiled by Markit on behalf of NCB and Ulster Bank covering the manufacturing, services and construction sectors, signalled that output fell in each month from January 2008 to February 2010. Output has since risen in each of the past two months, albeit only modestly.

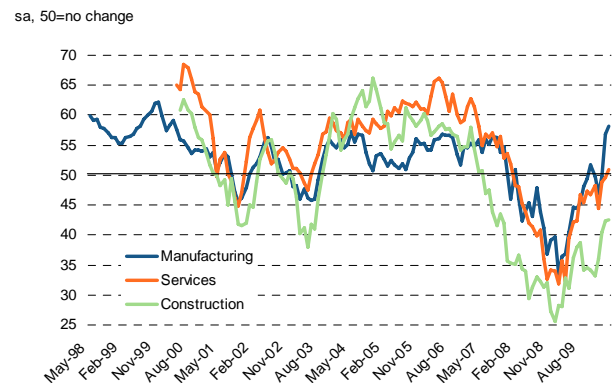
The PMI data show that the manufacturing sector drove overall output growth in April, with the expansion in manufacturing production the strongest for a decade. Conversely, construction activity continued to decrease sharply. Meanwhile, services activity increased marginally, ending a twenty-six month sequence of contraction.

Irish Output



Sources: Markit, CSO.

Irish PMI Output by Sector



Source: Markit.

GDP data suffer significant revisions

The revision to 2009 Q3 GDP data was not an isolated event. Growth rates of GDP are often subject to significant revision after first publication. Analysis by Quill (2008)² on Central Statistics Office (CSO) revisions indicates that, "depending on the quarter in question, there are up to three revisions to the data in the current year plus any number of yearly revisions following the current year."

¹ Published 25 March 2010

“Revisions are made to estimates of the components of GDP for a number of reasons including:

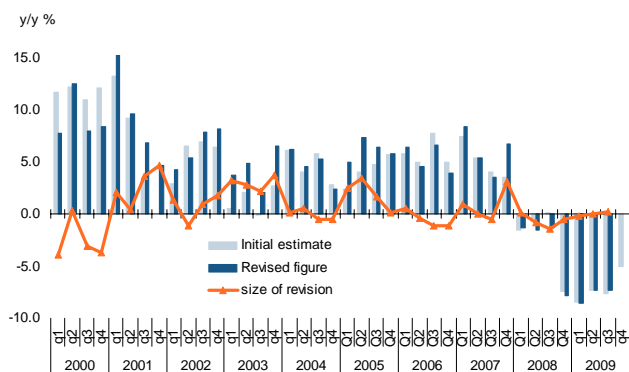
- the availability of firmer or more complete data;
- changes in methodology;
- correction of errors in source data;
- updating the base period used for constant price estimates”

Between 1999 and 2007³ the average revision between the initial estimate of quarterly changes in Irish GDP and the final outcome was 2.1 percentage points. For example, the first estimate for GDP in Q3 2002 suggested a 2% fall over the quarter. However, this has subsequently been revised to show that GDP actually rose by 2.6%, a 4.6 percentage point upward revision.

The aforementioned analysis by Quill compared the average revision in Irish GDP with ten other countries and found that “the revisions for Ireland are considerably higher than the other countries”.

During the current recession there have been quarters (e.g. Q3 2008 and Q3 2009) where initial estimates have suggested an end to recession. It has subsequently emerged that GDP continued to fall during these periods. The apparent lack of insight into actual economic conditions provided by these first estimates causes problems for policy makers and could potentially result in damaging economic policy decisions.

GDP revisions



Source: CSO.

In contrast to the GDP numbers, PMI data are not revised and therefore provide a more stable gauge as to the true state of the economy. PMI data indicated continued falls in output during both Q3 2008 and Q3 2009, in contrast to rises suggested by the first official estimates. The subsequent revisions to GDP have brought official data more in line with PMI data.

Not only are PMI data a more stable indicator of economic conditions, they are also more timely. PMI data are released monthly, shortly after the relevant reference period. On the other hand, official GDP data are released on a quarterly basis and three months after the end of the reference period. For example, first quarter PMI data was available with the release of March data at the start of April, while Q1 GDP data will be released by the CSO ‘no later than 30 June’.

PMI data will be the first indicator to signal whether the Irish economy can build on the increases in output seen in March and April and sustain momentum during the second quarter, thereby bringing an end to recession.

The next NCB Ireland Manufacturing survey will be released on 1 June, followed by the NCB Ireland Services survey on 3 June and Ulster Bank Construction on 7 June. To find out how to receive data from the surveys, or obtain copies of the reports please contact economics@markit.com

³ The average revisions are only used until the end of 2007 as later data are likely to be subjected to further revision.

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