

From Ireland From Bust to Boom

Cormac Lucey
September 18th 2015

SFPI

Society of Financial
Planners Ireland

Ireland: From Bust to Boom



- Economic Activity & Growth
- Balance sheet: $\text{Equity} = \text{Assets} - \text{Liabilities}$
- The Public Finances
- Competitiveness
- Prospects
- Risks
- Conclusion

Ireland: From Bust to Boom

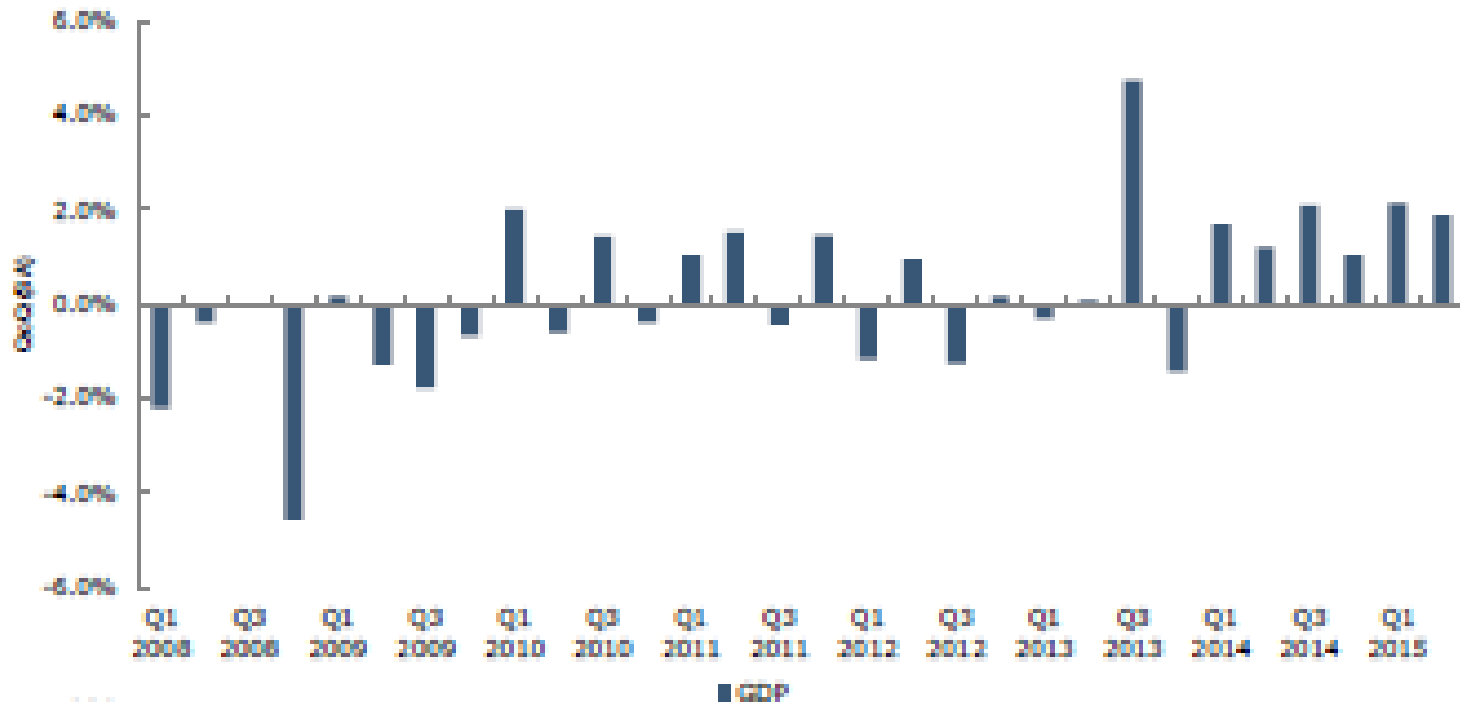


Economic Activity & Growth

Ireland: From Bust to Boom



GDP has increased for 6 consecutive quarters

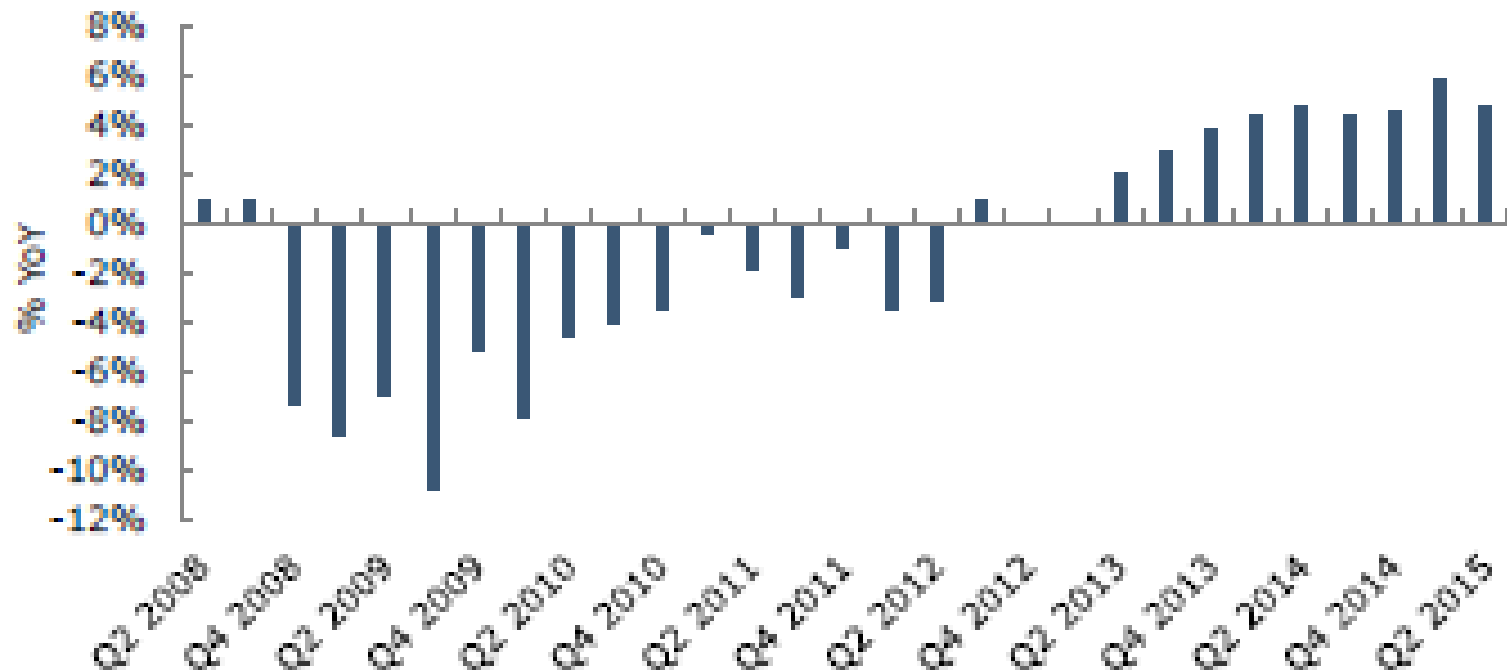


Source: CSO

Ireland: From Bust to Boom



Domestic demand (excluding aircraft & R&D)

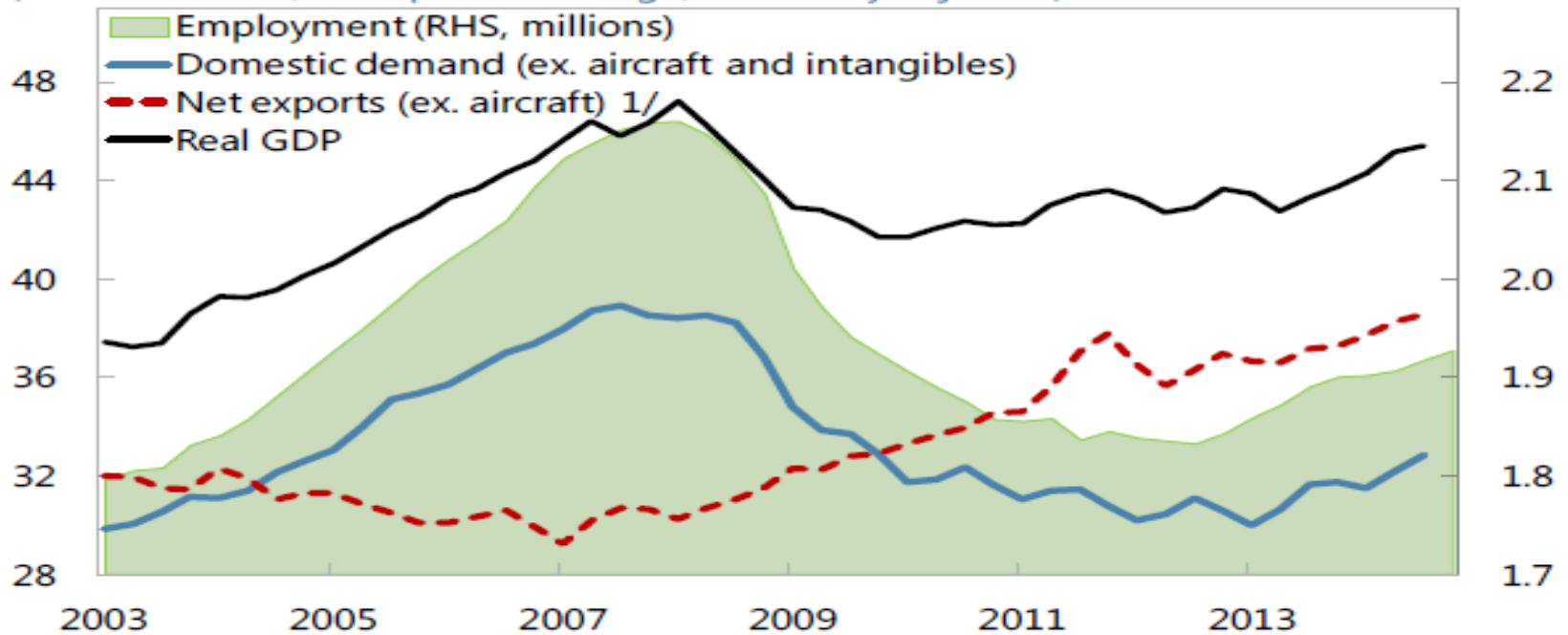


Source: CSQ, Goodbody estimates

Ireland: From Bust to Boom



Real GDP Components and Employment
(Billions of euro, two-quarter average, seasonally adjusted)



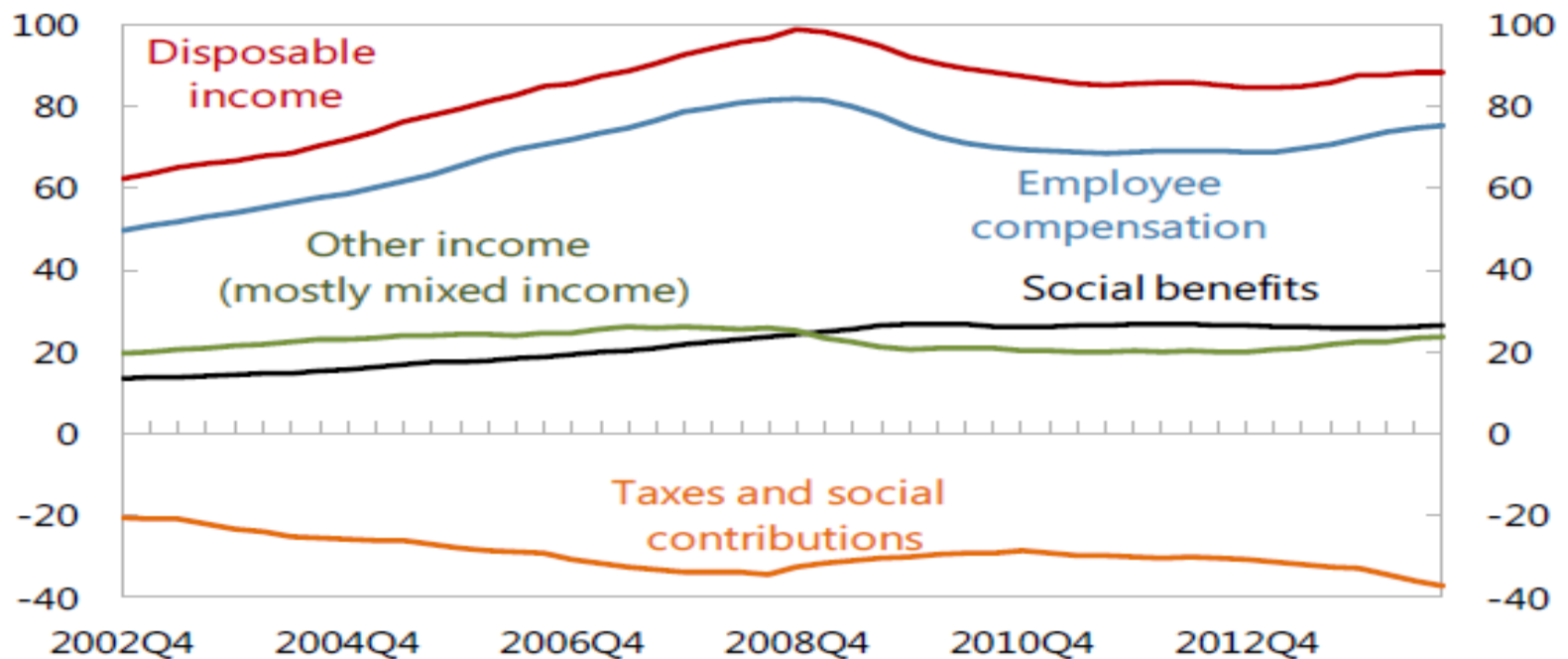
Sources: CSO; Haver Analytics; and IMF Staff calculations.
1/Adjusted uniformly upward by €28 billion.

Ireland: From Bust to Boom



Household Incomes

(Billions of EUR, 4-quarters sum)



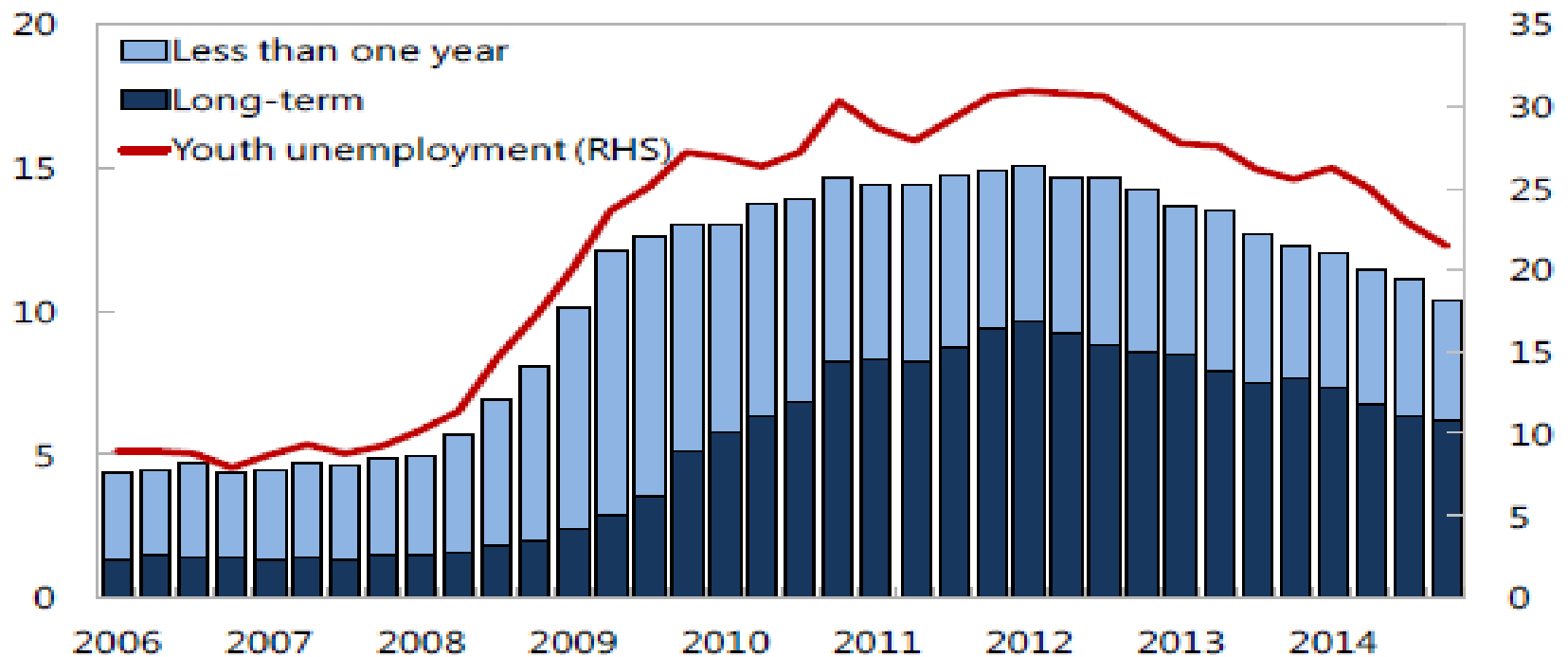
Sources: Central Statistics Office; and IMF staff calculations.

Ireland: From Bust to Boom



Unemployment Rates

(Percent, s.a.)



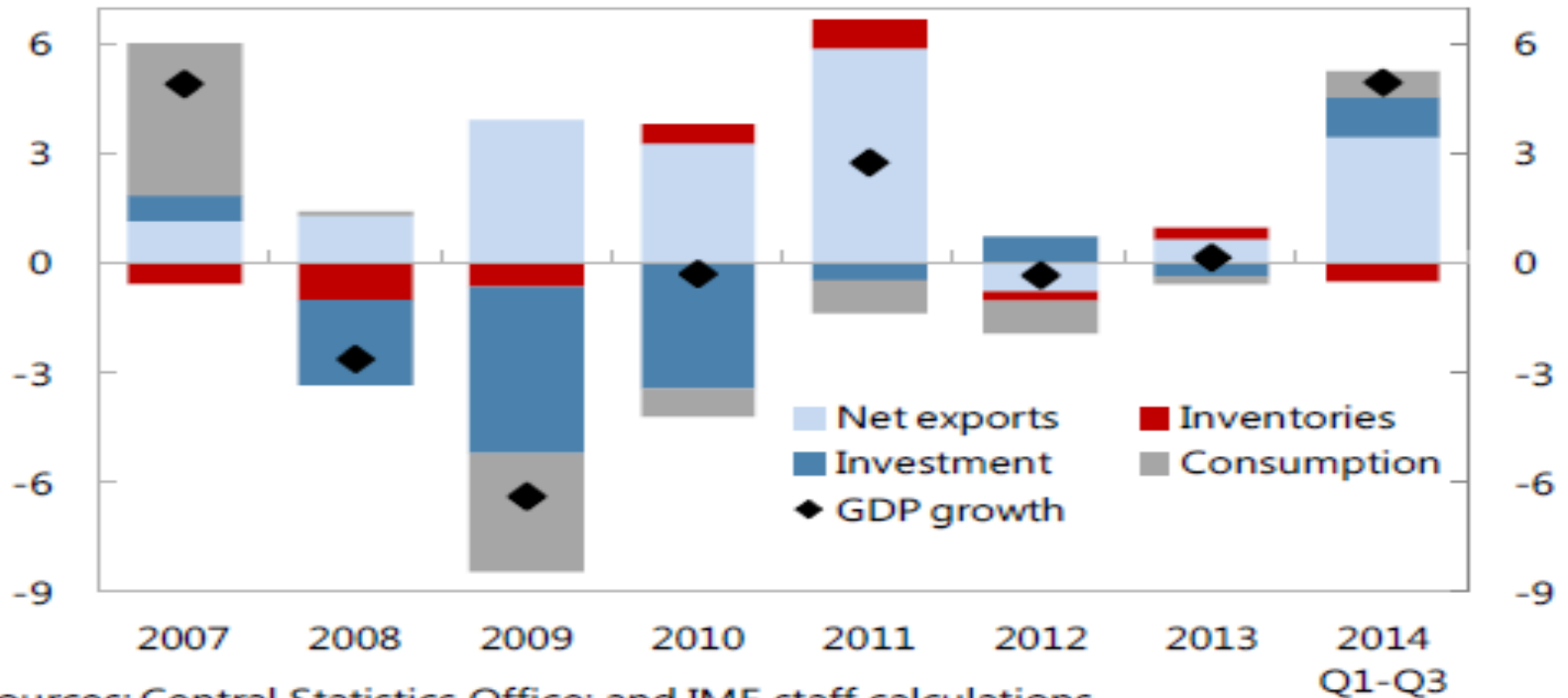
Sources: CSO; and Haver Analytics; and IMF staff calculations.

Ireland: From Bust to Boom



Contributions to Real GDP Growth

(Percent, y/y, full year GDP except for 2014)

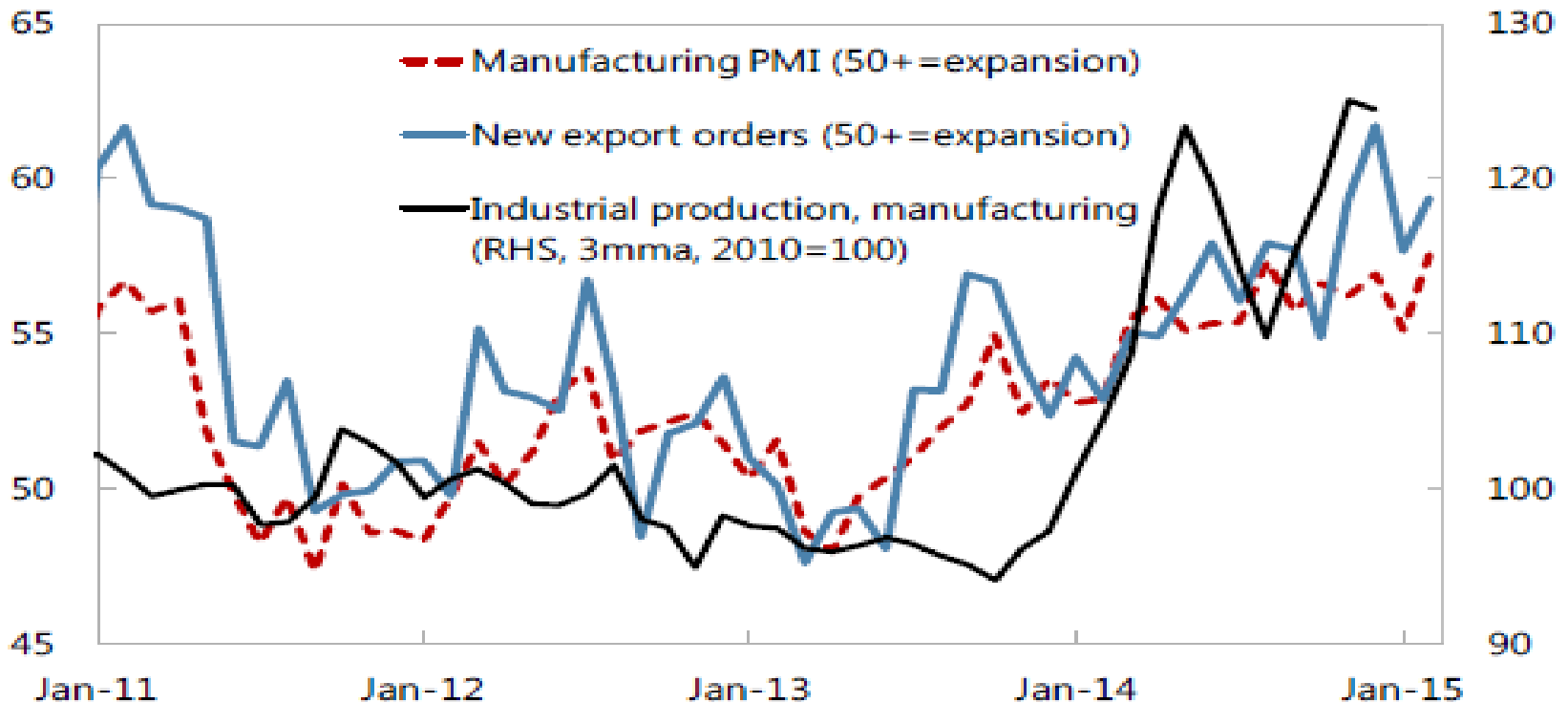


Sources: Central Statistics Office; and IMF staff calculations.

Ireland: From Bust to Boom



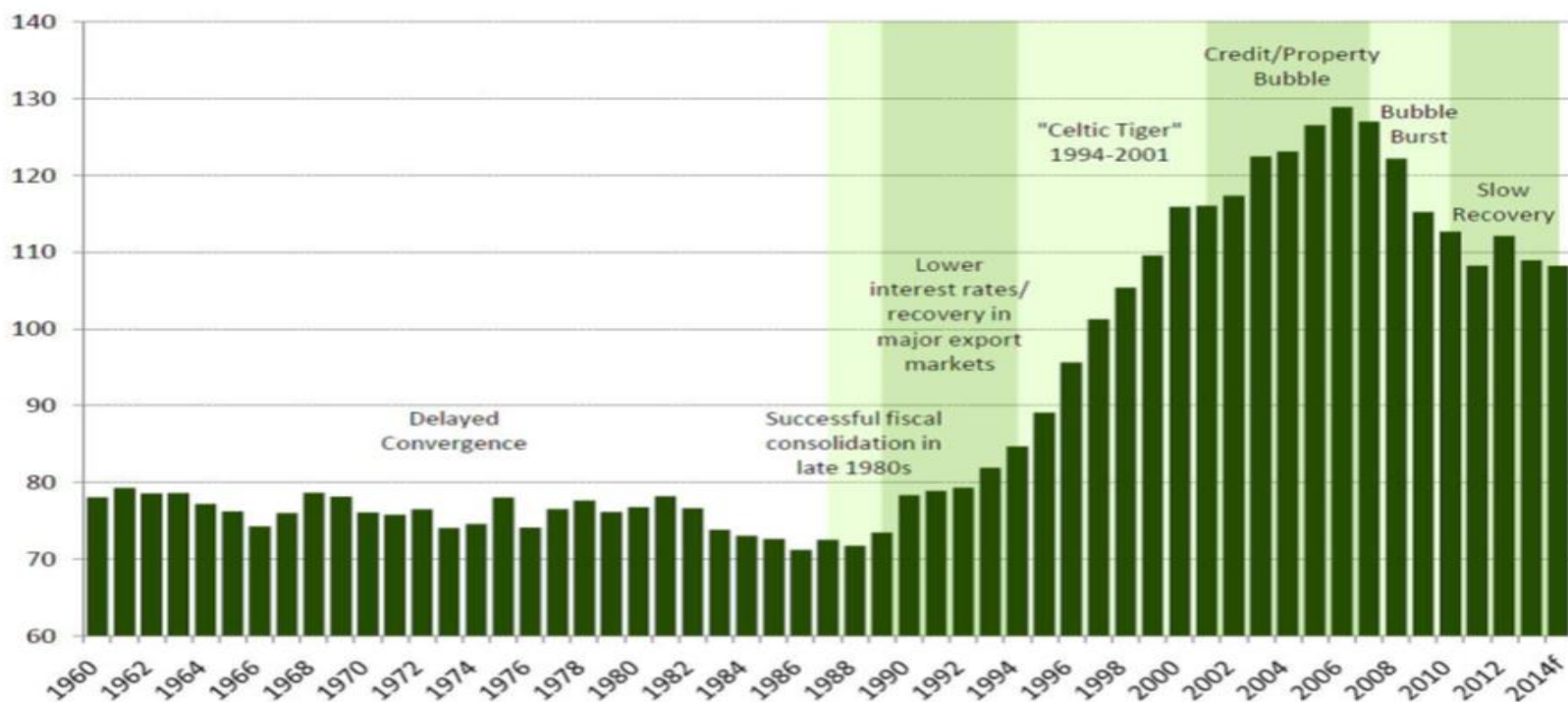
Manufacturing Indicators



Sources: Central Statistics Office; NCB; and Haver Analytics.

Ireland: From Bust to Boom

Gains from 2001-07 bubble lost, but living standards still c.8% above EU-15 (real GNI per capita EU-15=100)



Sources: CSO; AMECO

Ireland: From Bust to Boom

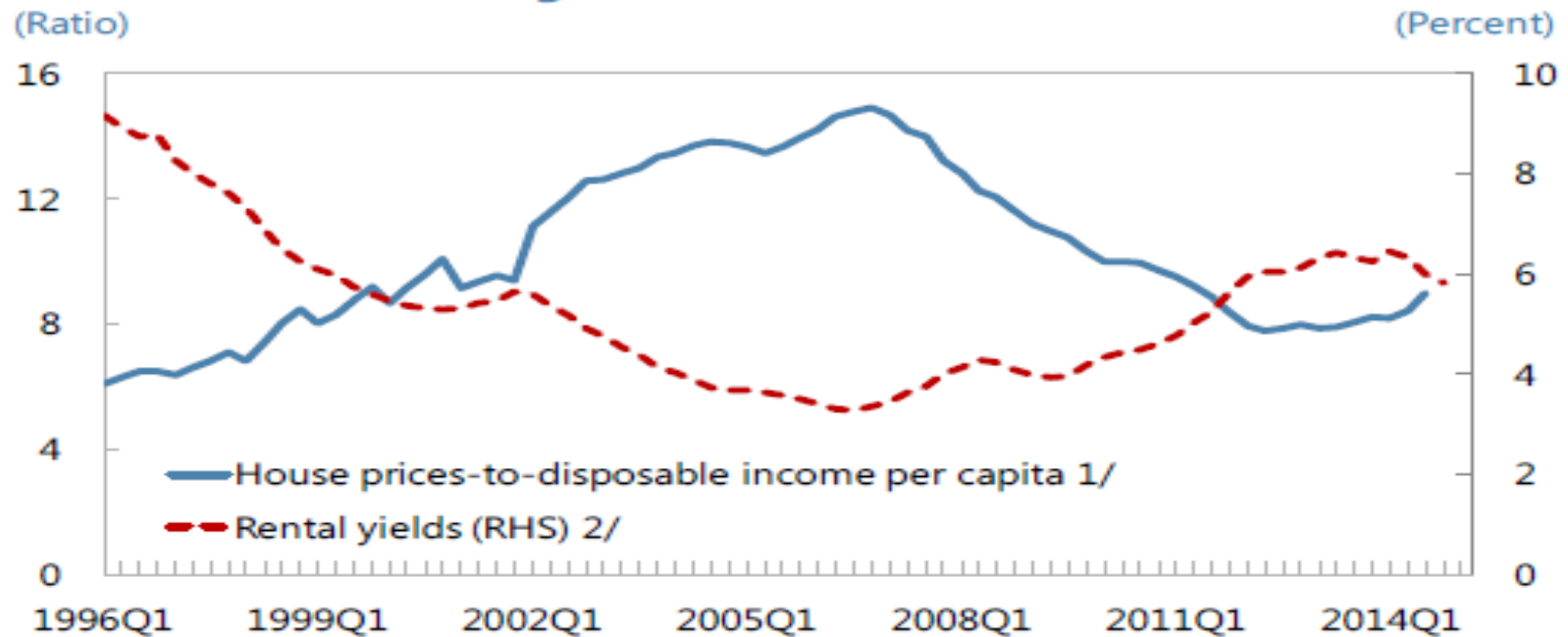


Assets – Liabilities = Equity

Ireland: From Bust to Boom



Indicators of Housing Valuation Levels



Sources: PTSB/ESRI; CSO; and Haver Analytics.

1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.

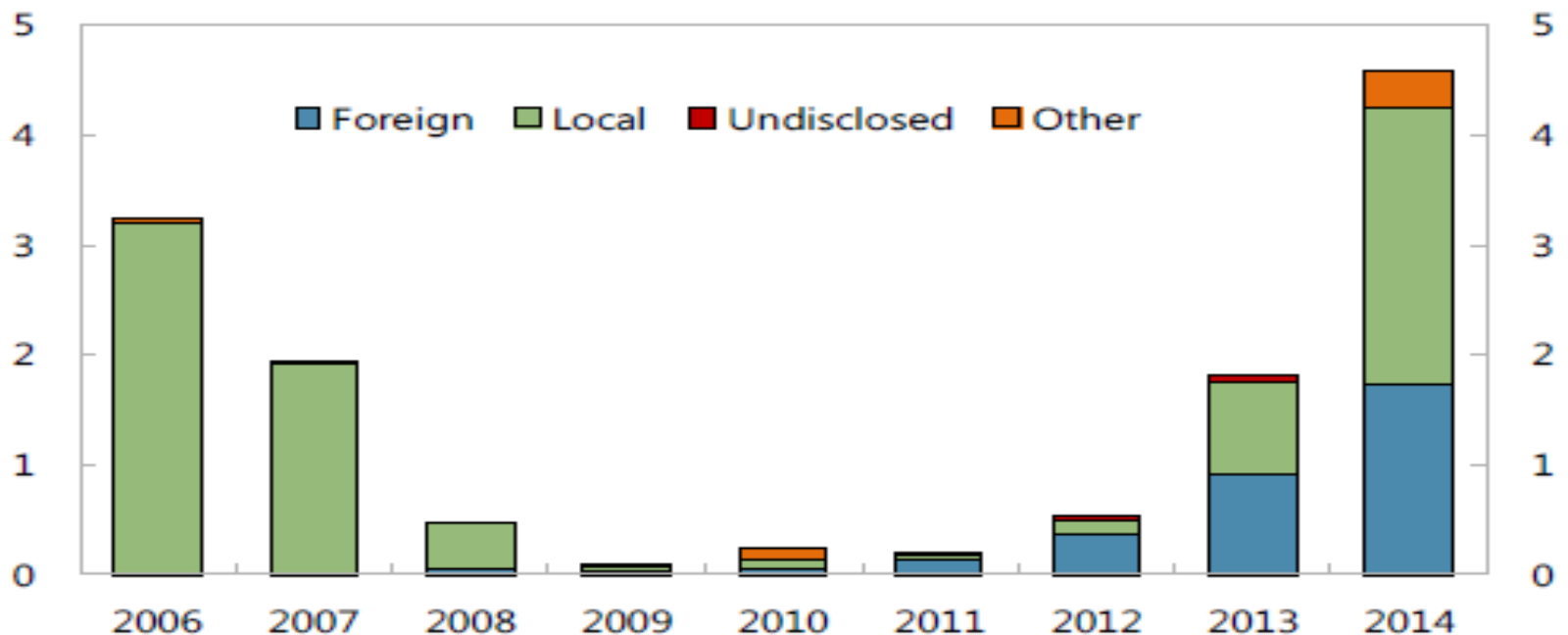
2/ Census 2011 rent extrapolated by CPI rental component over CSO house prices.

Ireland: From Bust to Boom



Commercial Property Transactions 1/

(Billions of EUR)



Source: CBRE Research.

1/ Relates to individual transactions worth of at least €1 mln.

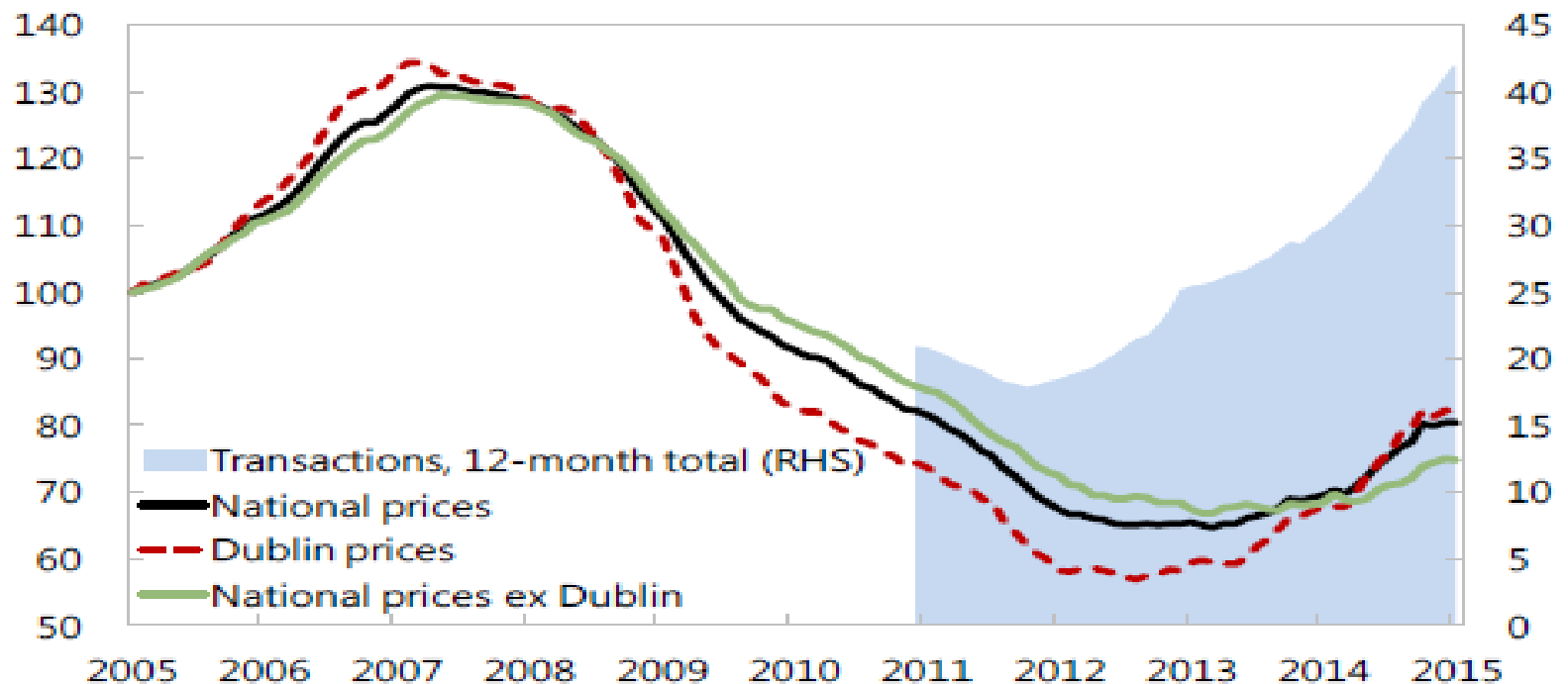
Ireland: From Bust to Boom



Residential Property Prices and Transactions

(2005M1=100, s.a.)

(Thousands)



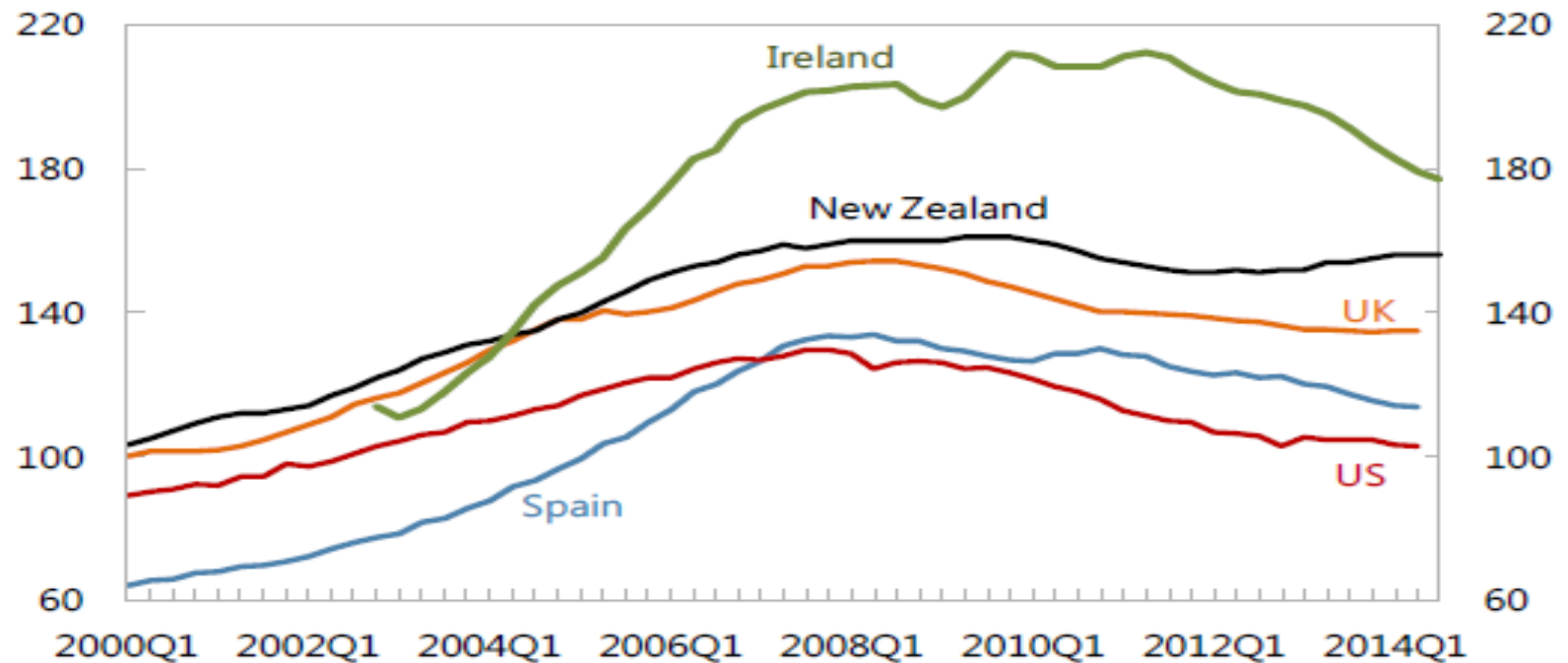
Sources: CSO; Property services regulatory authority; and IMF staff calculations.

Ireland: From Bust to Boom



Household Debt

(Percent of gross disposable income)

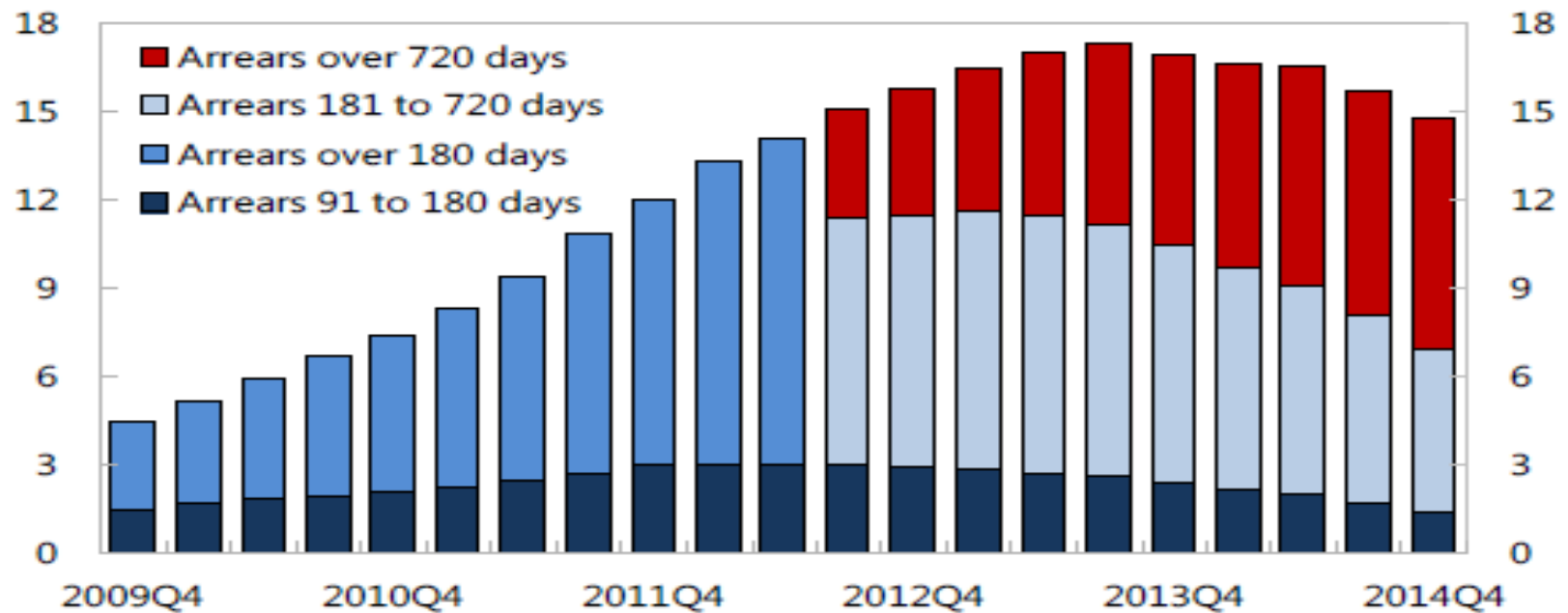


Sources: BEA; BIS; CBI; CSO; INE; ONS; RBNZ; and Haver Analytics.

Ireland: From Bust to Boom



Mortgages in Arrears on Primary Dwellings (Percent of total mortgage value)



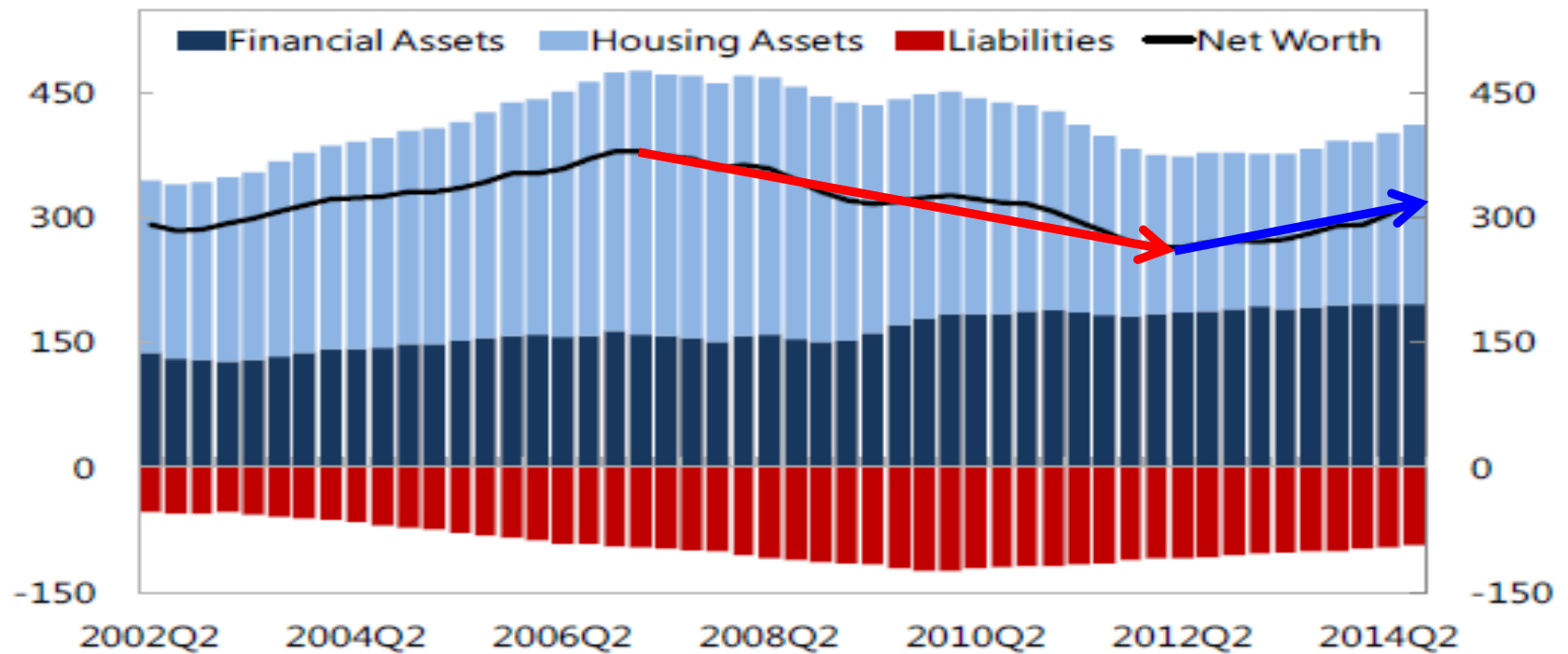
Source: Central Bank of Ireland.

Ireland: From Bust to Boom



Household Assets, Liabilities and Net Worth

(Percent of GDP)



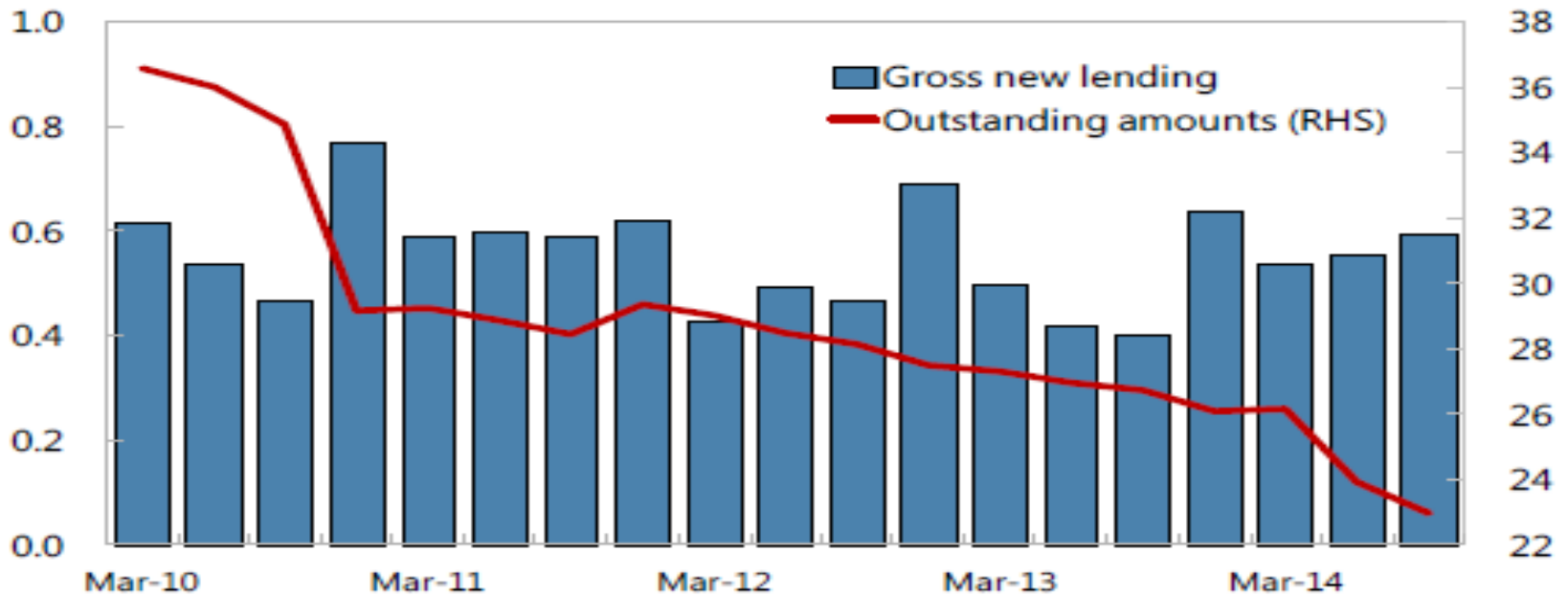
Source: Central Bank of Ireland.

Ireland: From Bust to Boom



Outstanding SME Credit 1/

(Billions of euros)



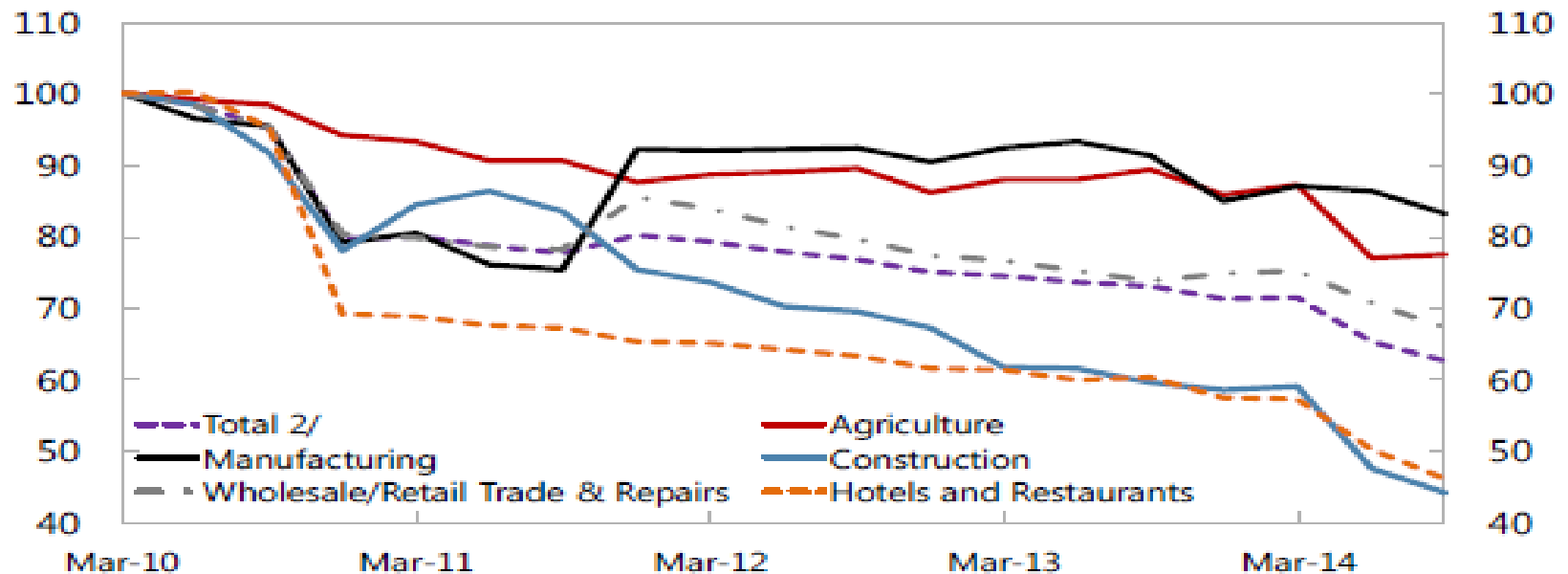
Source: Central Bank of Ireland.

1/ All resident credit institutions, excluding real estate and financial intermediation.

Ireland: From Bust to Boom



Outstanding SME Credit by Sector 1/ (2010Q1=100)



Source: Central Bank of Ireland.

1/ All resident credit institutions.

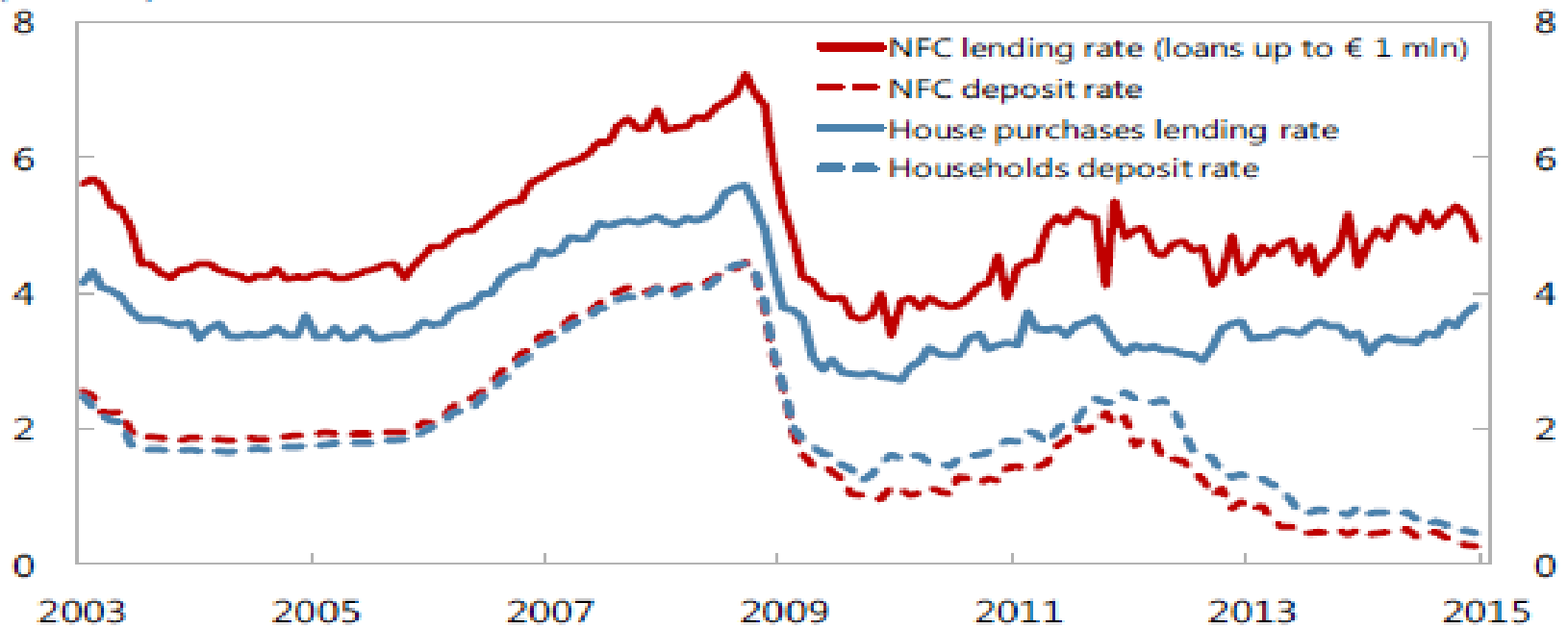
2/ Excludes real estate and financial intermediation.

Ireland: From Bust to Boom



Median Lending and Deposit Rates, New Business 1/

(Percent)



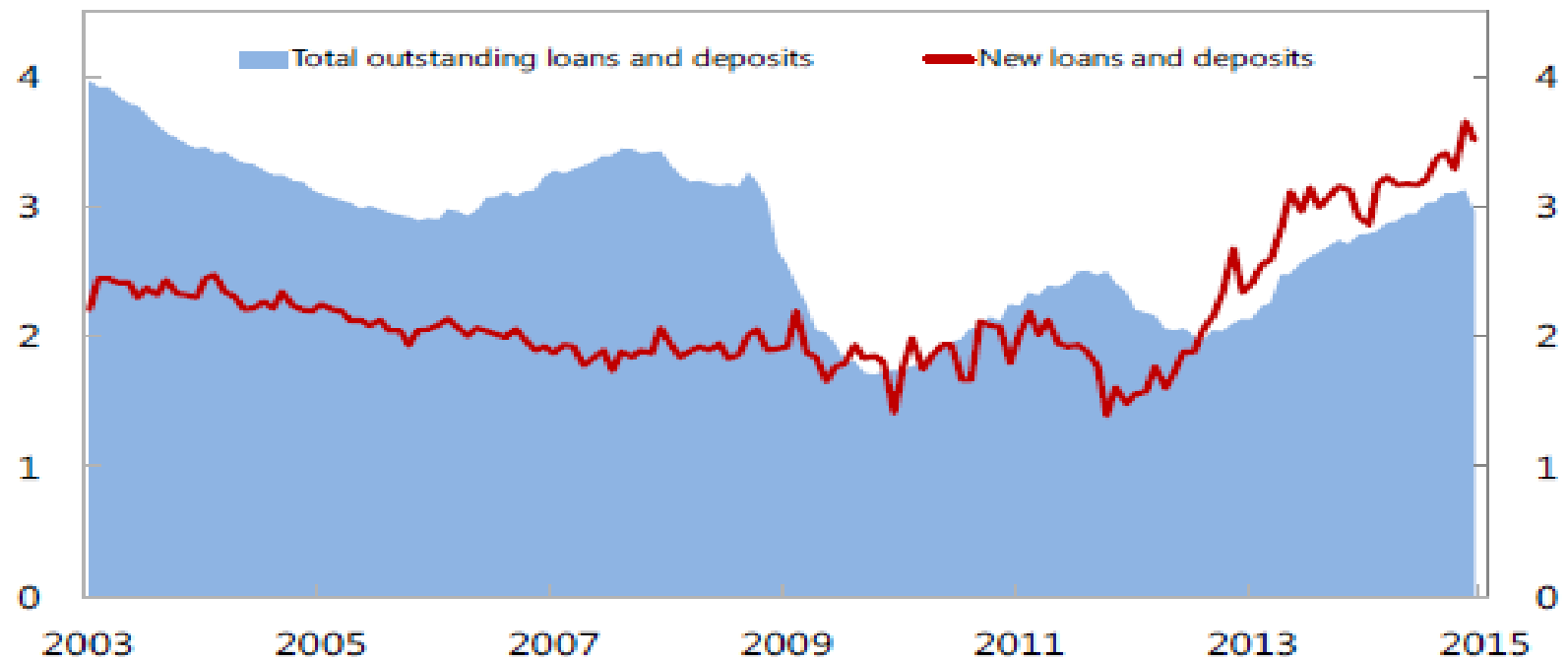
Source: Central Bank of Ireland.

1/ Data relate to new business conducted through resident offices of a sample of banks and include IBRC. Last observation Aug-2014.

Ireland: From Bust to Boom



Interest Rate Margins Between Loans and Deposits 1/ (Percent)



Source: Central Bank of Ireland.

1/ Weighted average loan rate minus weighted average deposit rate.

Ireland: From Bust to Boom



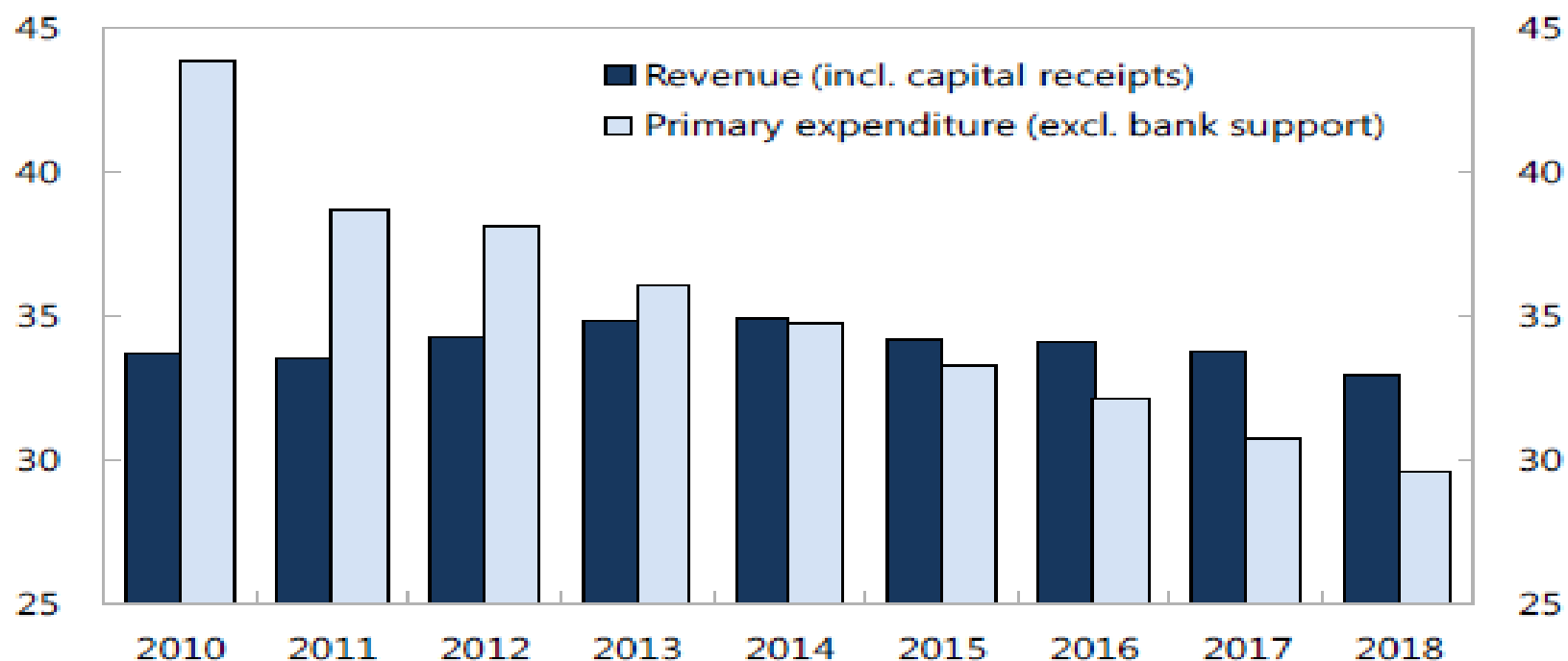
Public Finances

Ireland: From Bust to Boom



Revenue and Primary Expenditure

(Percent of GDP)



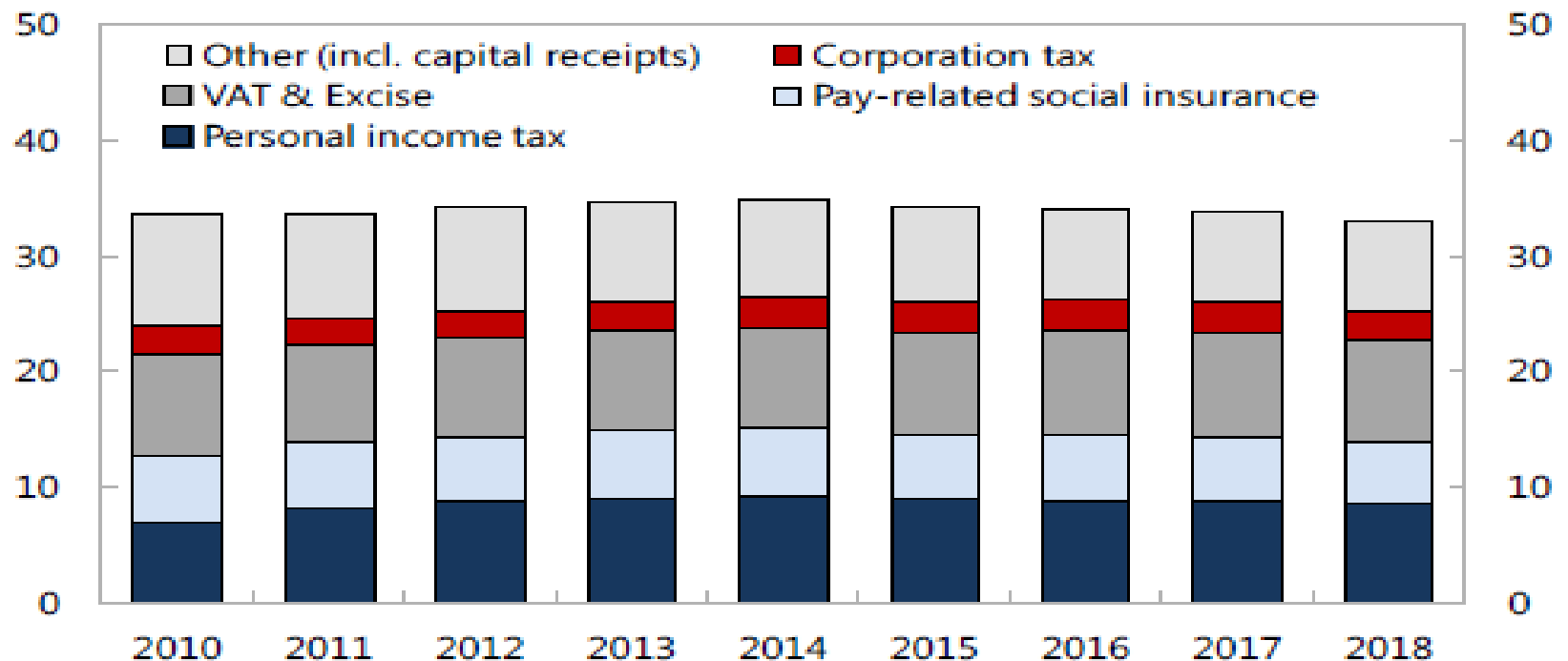
Sources: Department of Finance; and IMF staff estimates.

Ireland: From Bust to Boom



Revenue Composition

(Percent of GDP)



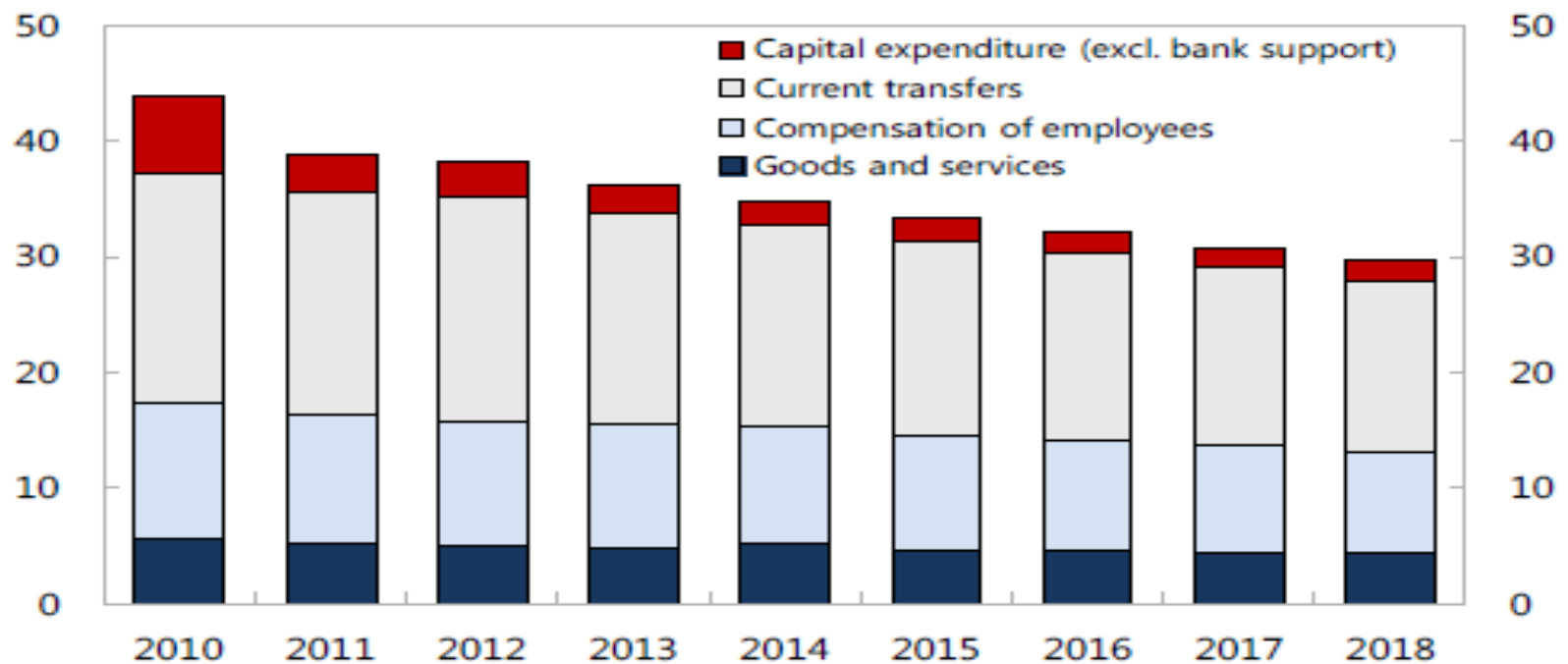
Sources: Department of Finance; and IMF staff estimates.

Ireland: From Bust to Boom



Primary Expenditure Components

(Percent of GDP)



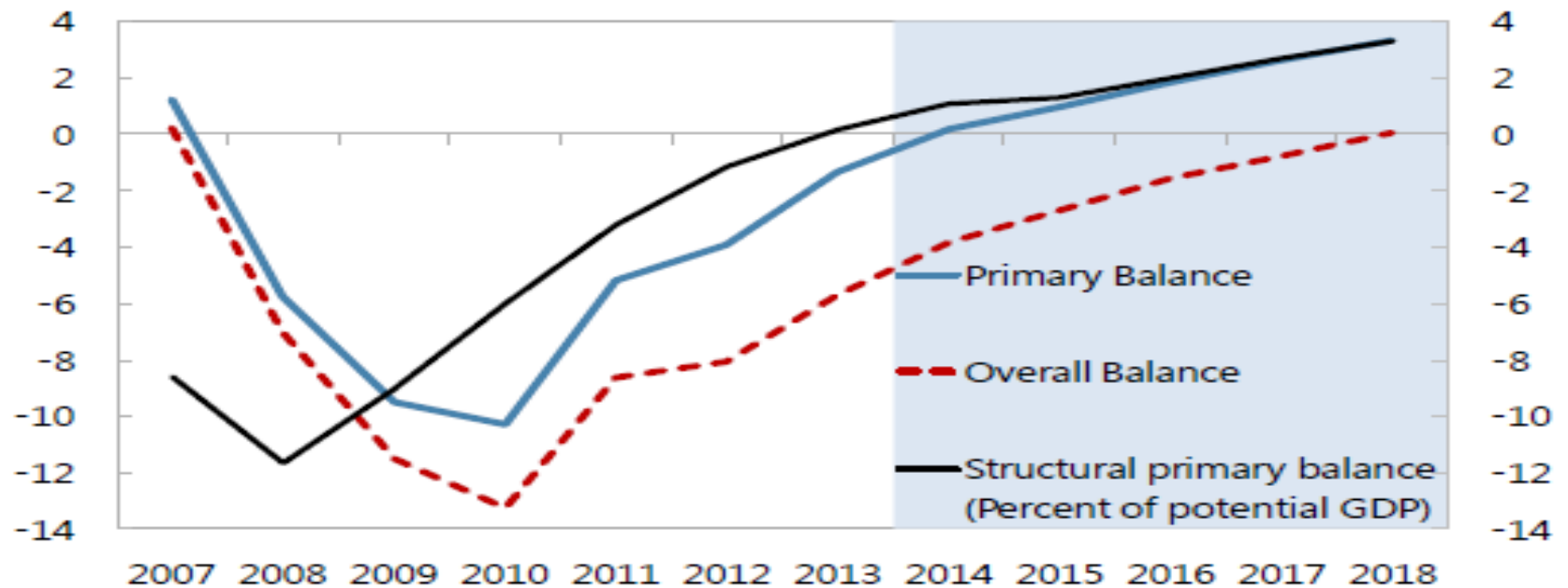
Sources: Department of Finance; and IMF staff estimates.

Ireland: From Bust to Boom



Headline and Structural Balances 1/

(Percent of GDP, unless otherwise indicated)



Sources: Department of Finance; and IMF staff estimates.

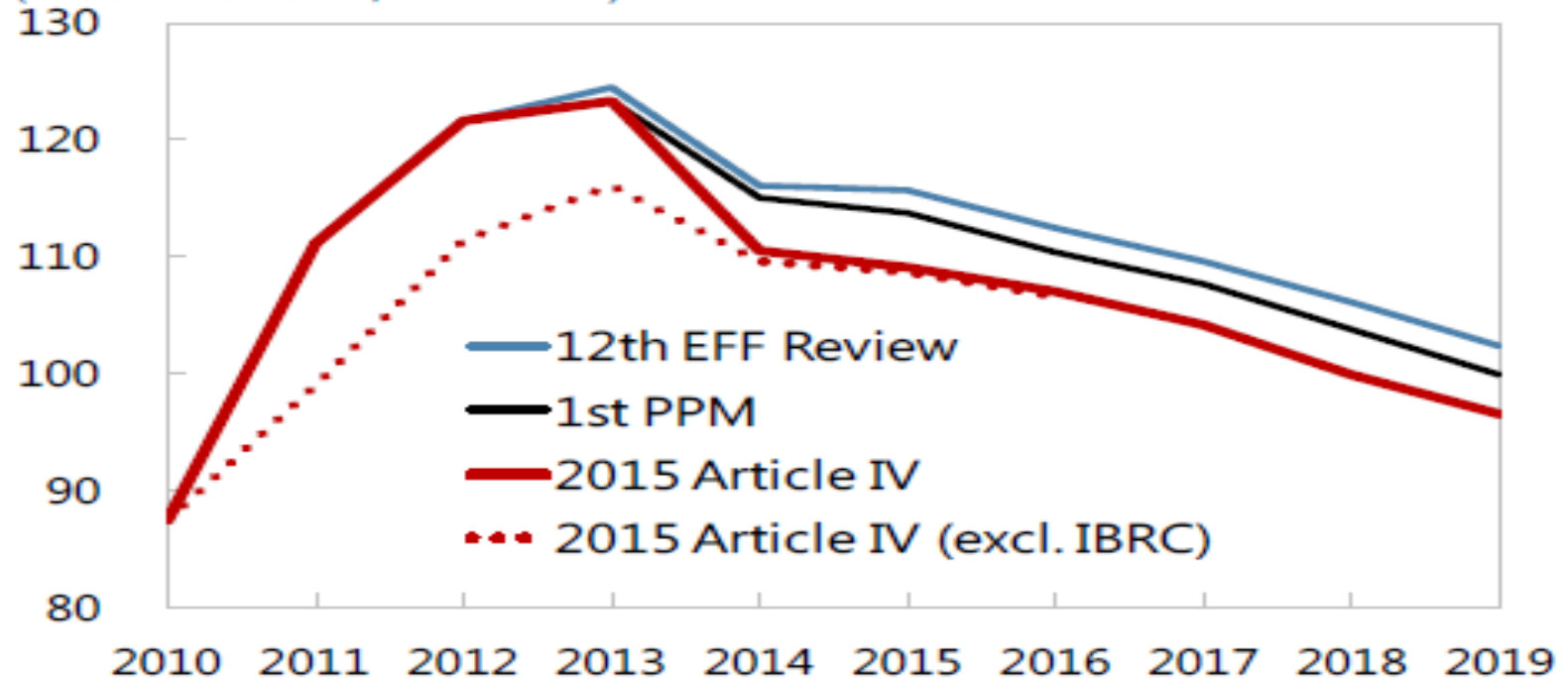
1/ Excluding bank support costs. Structural primary balance also excludes one-off revenue and expenditure items.

Ireland: From Bust to Boom



General Government Gross Debt

(Percent of GDP, ESA 2010)



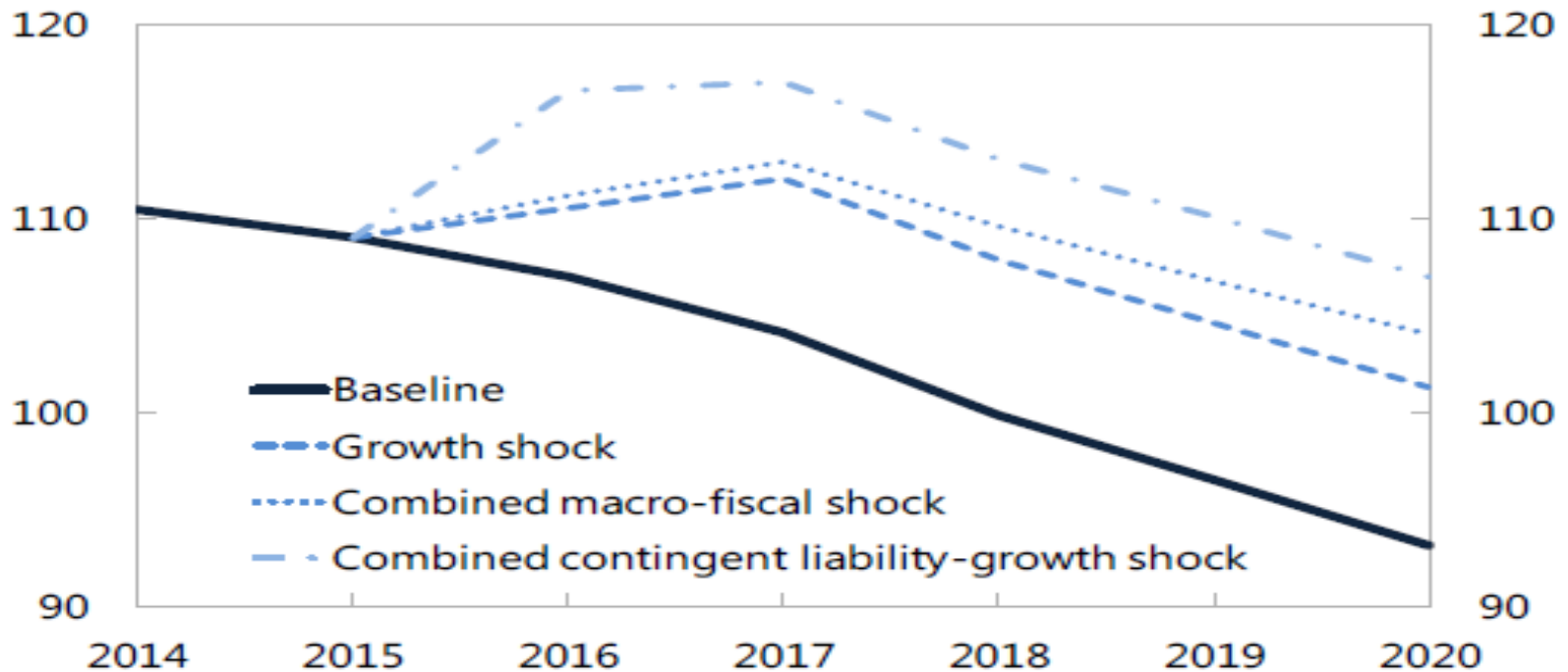
Source: IMF staff projections.

Ireland: From Bust to Boom



Public Debt Paths under Various Scenarios

(Gross debt in percent of GDP)

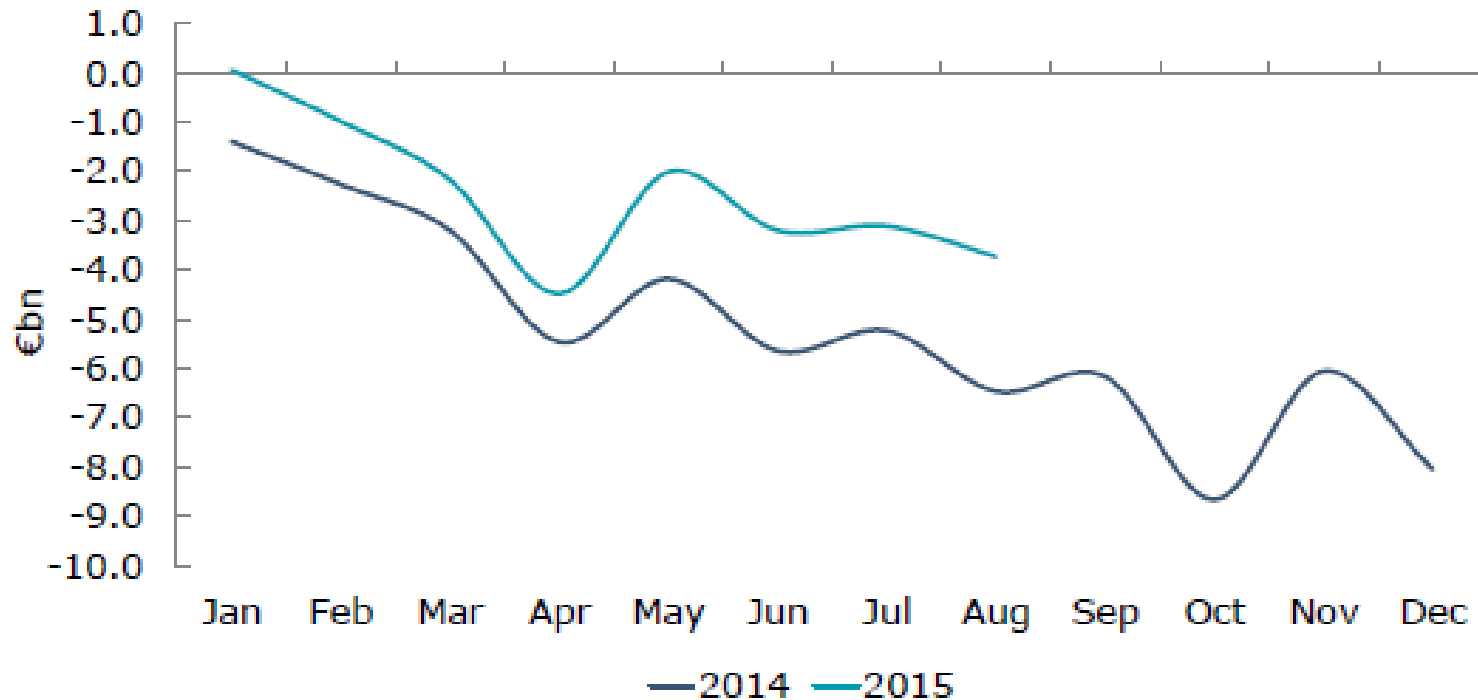


Source: IMF staff estimates.

Ireland: From Bust to Boom



Deficit performance compared



Source: DoF

Ireland: From Bust to Boom



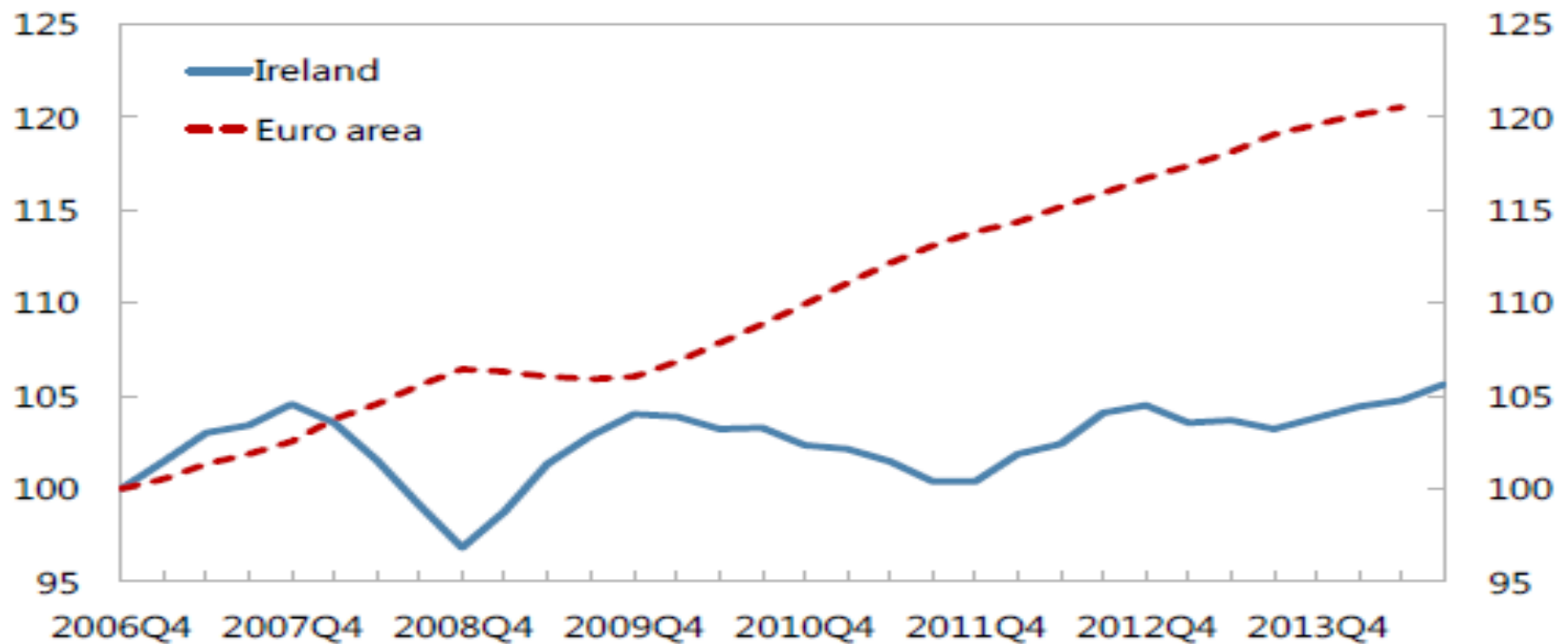
Competitiveness

Ireland: From Bust to Boom



Hourly Labor Costs in Manufacturing

(2006=100; 4-quarter moving average)



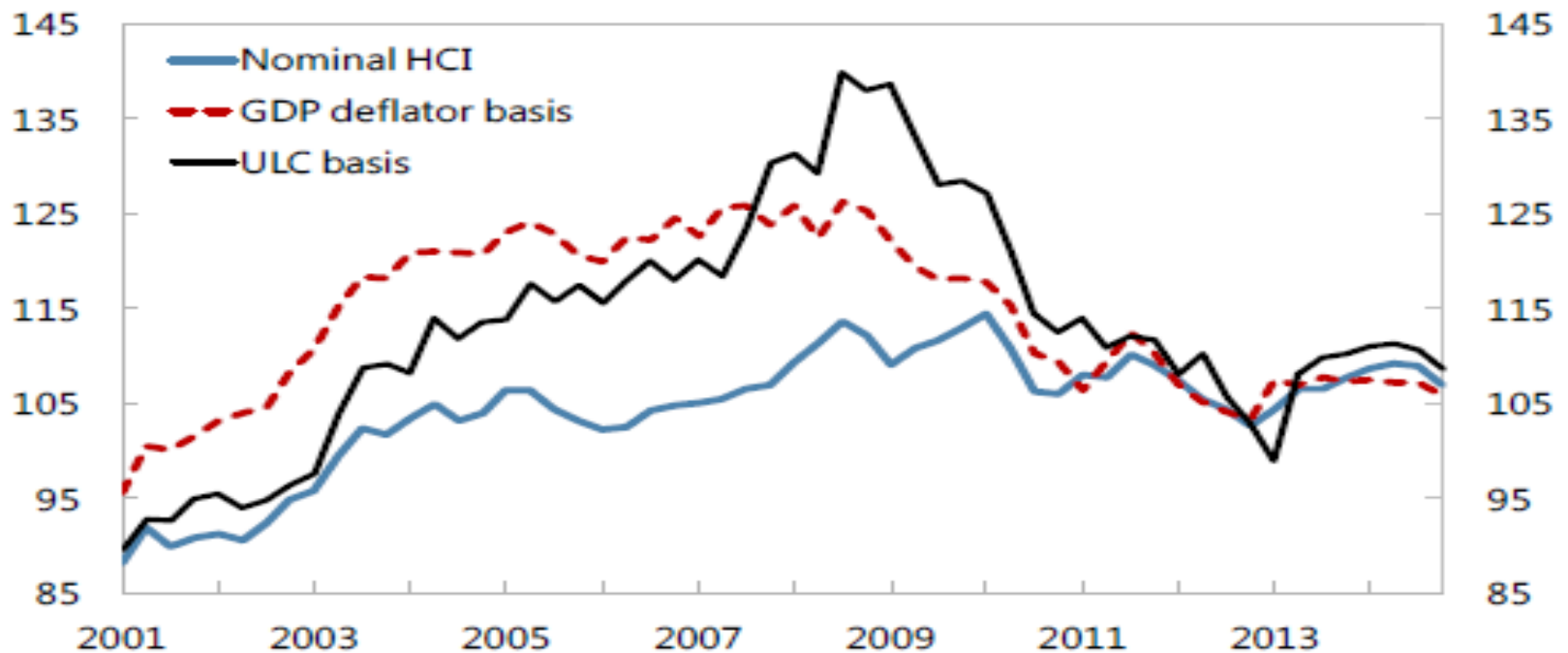
Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

Ireland: From Bust to Boom



Harmonized Competitiveness Indicators (Quarterly)

(1999Q1=100)



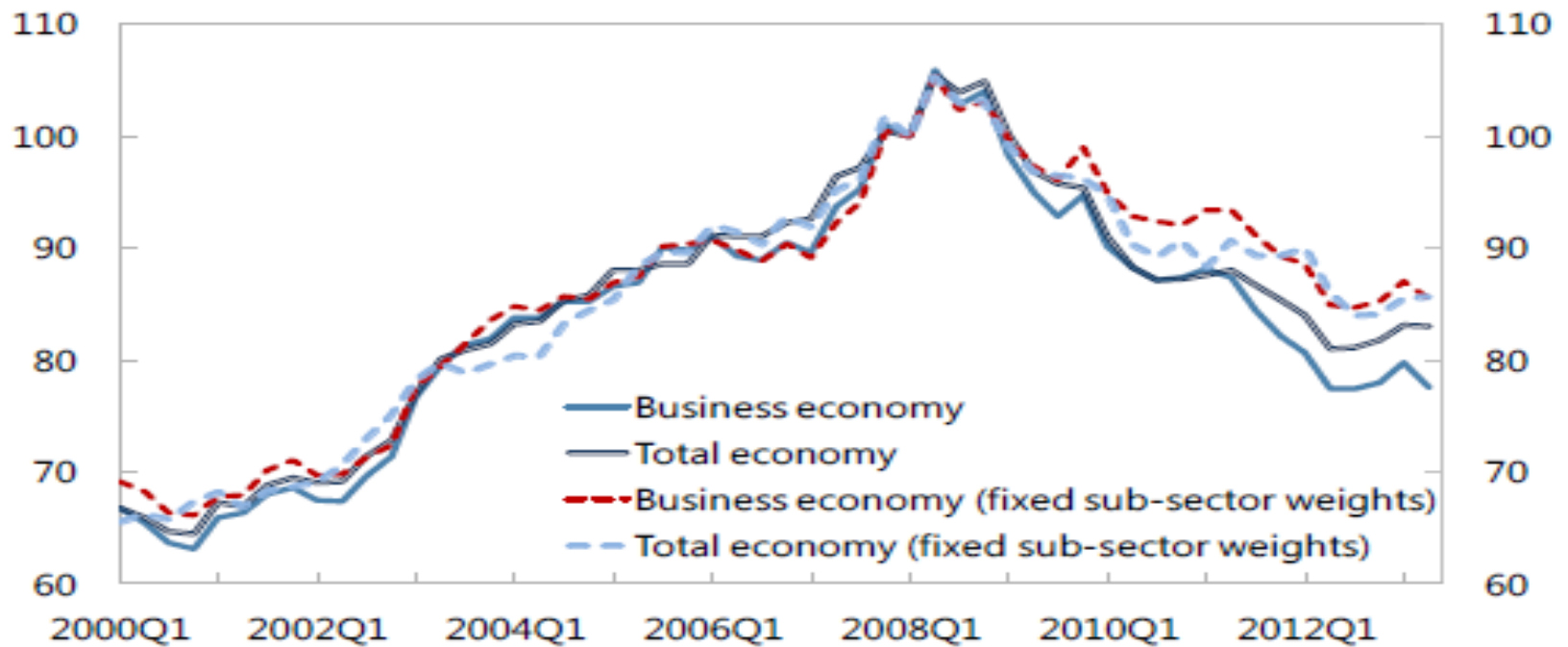
Sources: CBI; and Haver Analytics.

Ireland: From Bust to Boom



Real Effective Exchange Rates on a ULC Basis

(2008Q1=100)



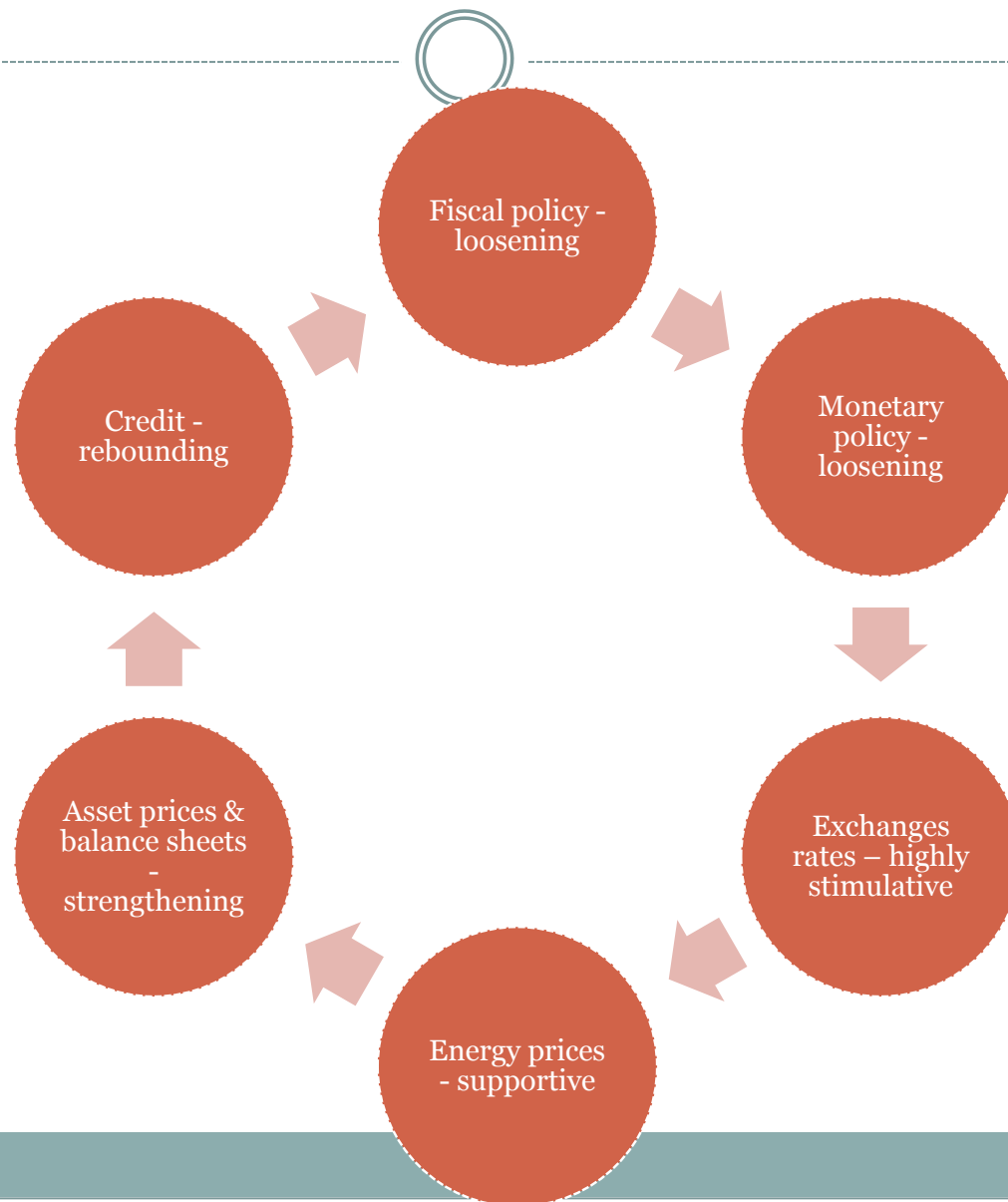
Source: Bruegel.

Ireland: From Bust to Boom



Prospects

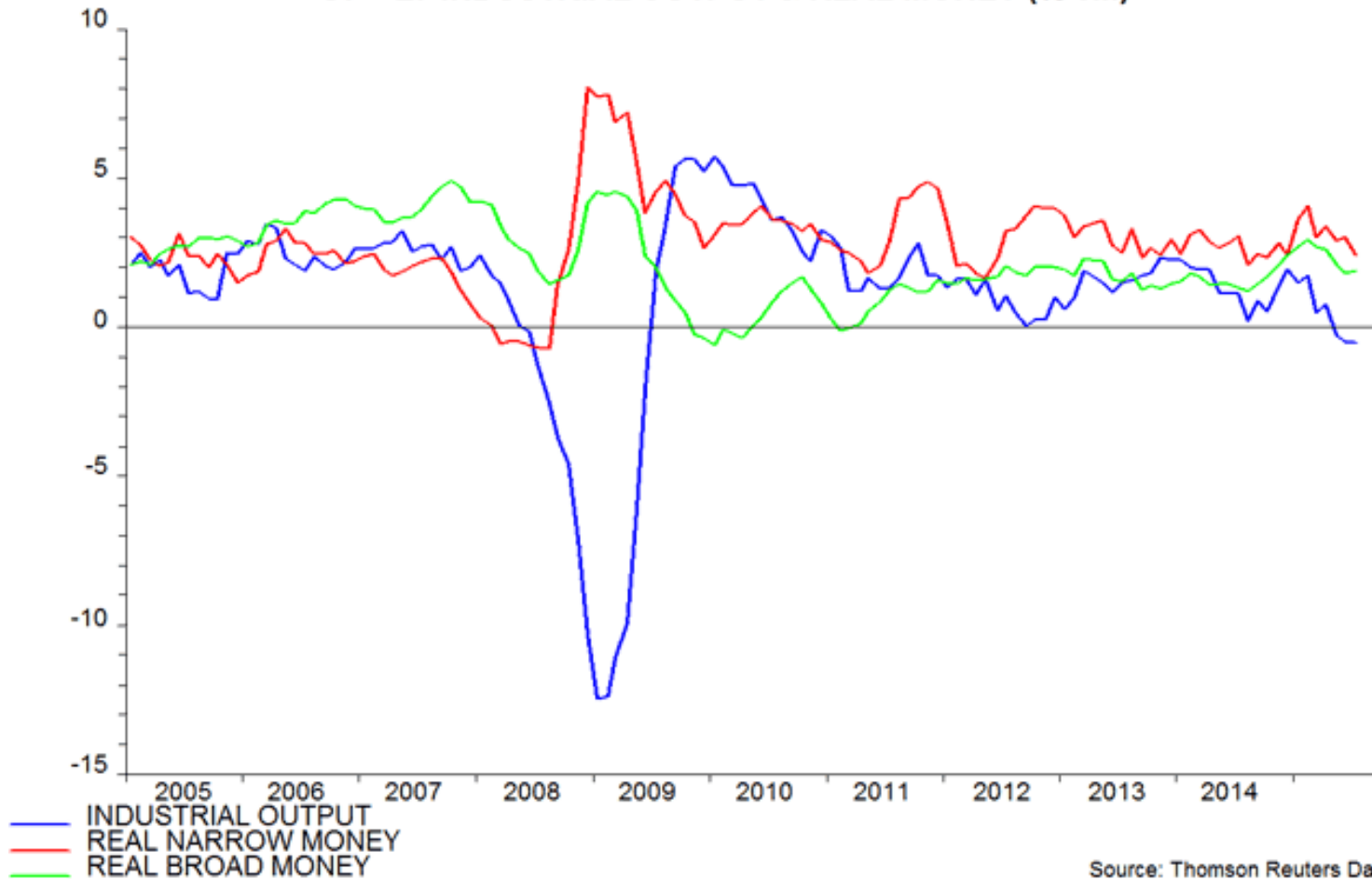
Ireland: From Bust to Boom



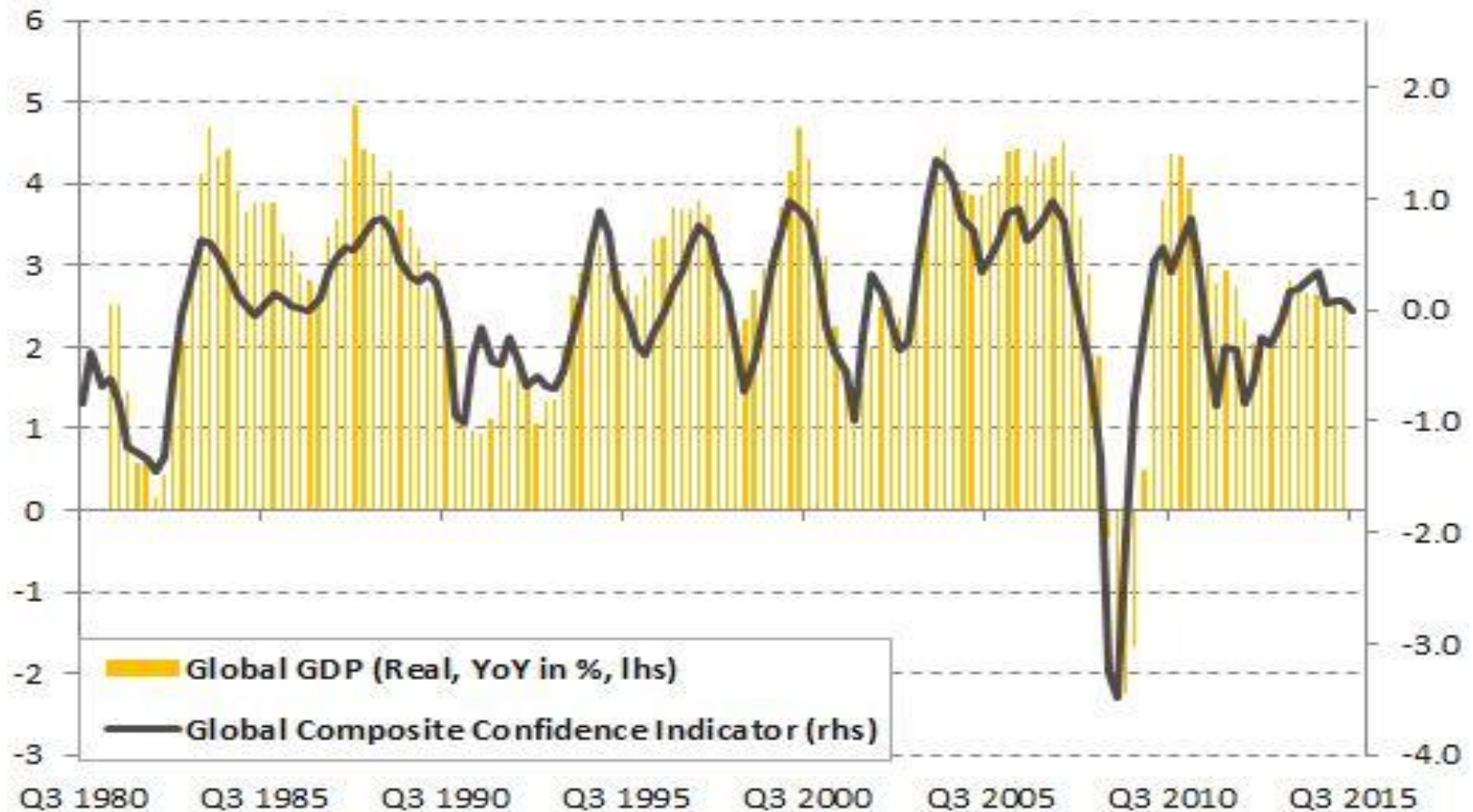
Ireland: From Bust to Boom



G7 + E7 INDUSTRIAL OUTPUT & REAL MONEY (% 6M)



Ireland: From Bust to Boom



Ireland: From Bust to Boom



Risks



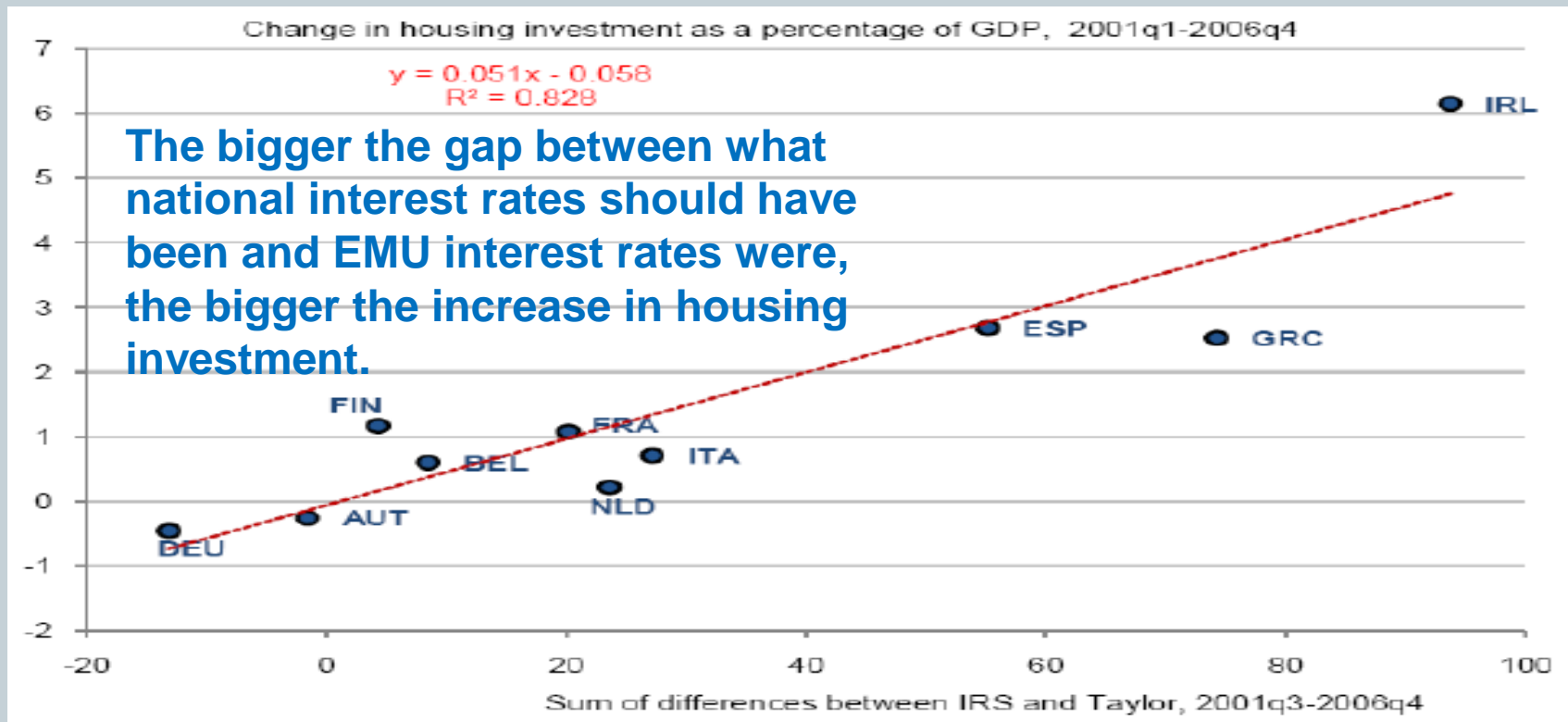
Risks

- Eurozone crisis
- Eurozone slow puncture
- Policy accident by central bankers
- China syndrome
- UK crisis of confidence
- Equity market crash

Risks: Eurozone

41

John Taylor “The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong”, November 2008



Risks: Eurozone



Eurozone Crisis

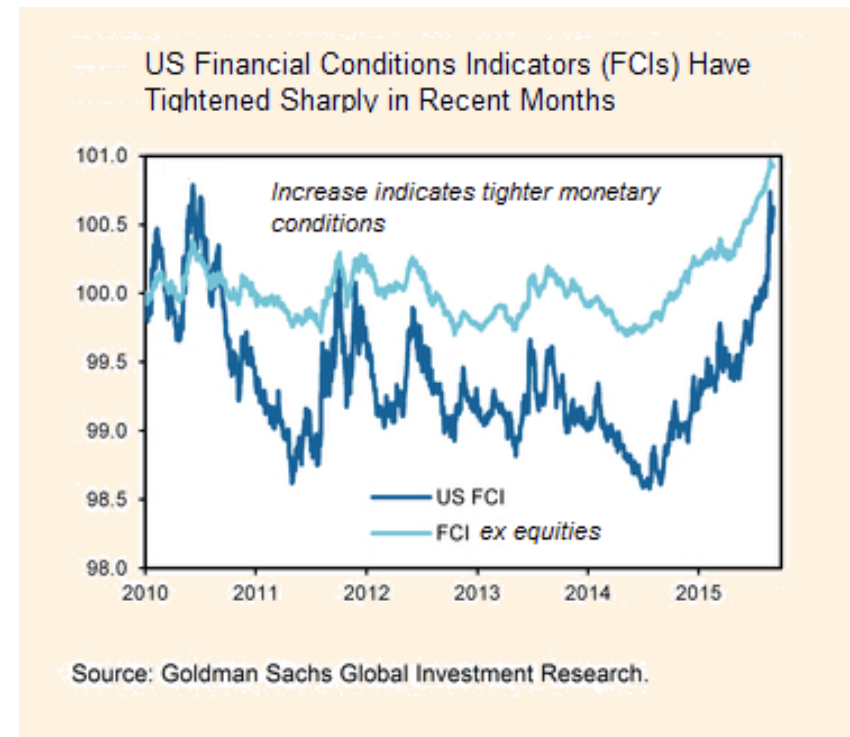
- Cause: common interest rates inappropriate to national circumstances triggered destabilizing credit booms
- Symptom: distressed public, bank and private finances
- Remedy: fix public and bank finances and modify rules for future
- **But what about**
 - Distressed private finances?
 - A common interests rate that remains destabilising?

Risks: Policy Accident



Policy Accident

- The sharp decline in equity prices since June 2015 has been mainly driven by a monetary tightening shock, rather than by a negative demand shock from China or elsewhere.

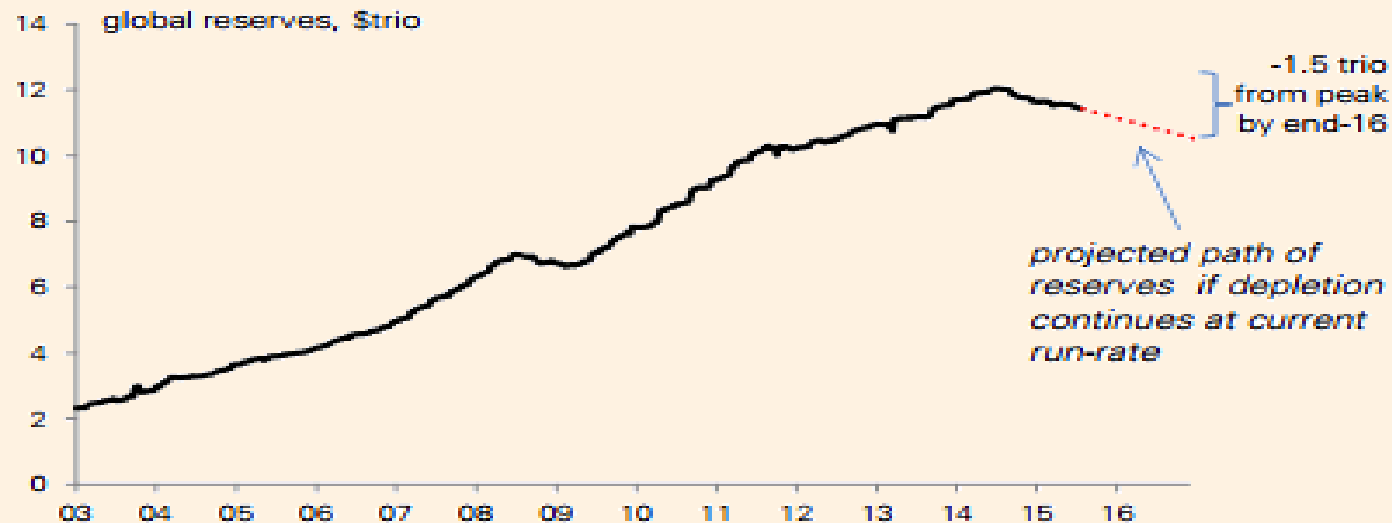


Risks: Policy Accident



Policy Accident

The end of an era: declining central bank reserves



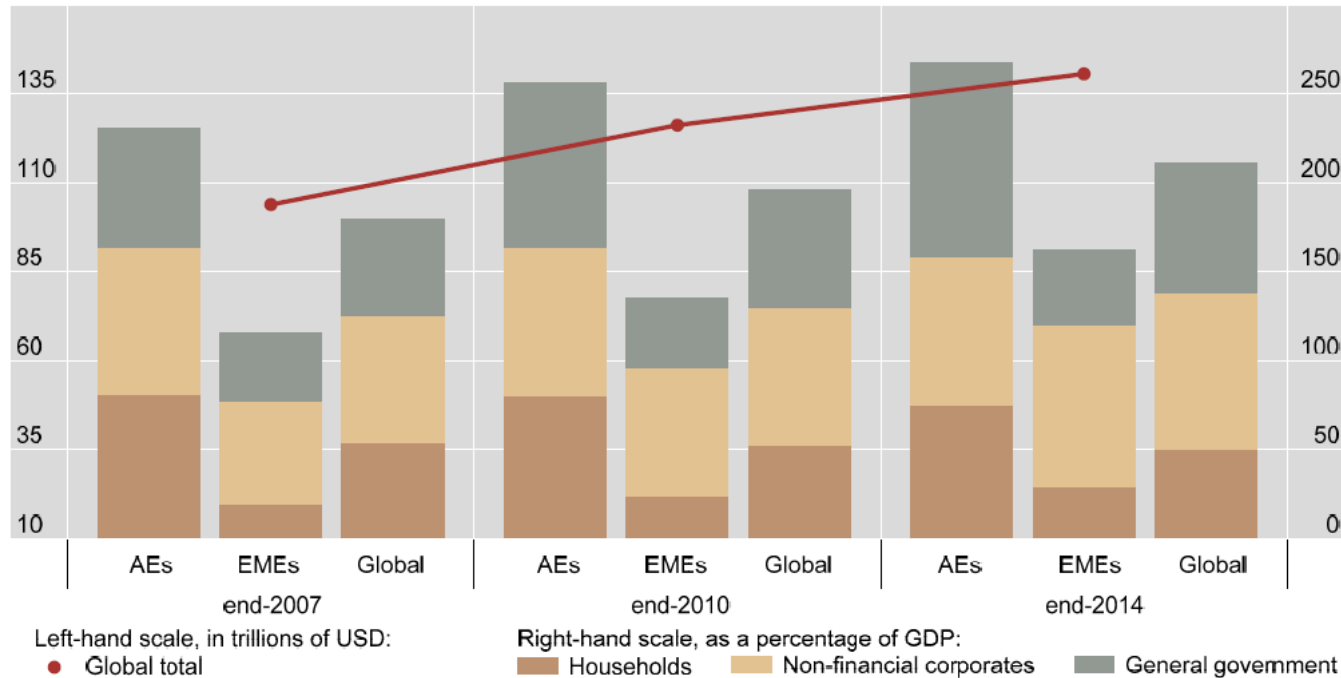
Source: Deutsche Bank, IMF

Risks: Policy Accident



Policy Accident

Graph 1: Debt levels continue to rise

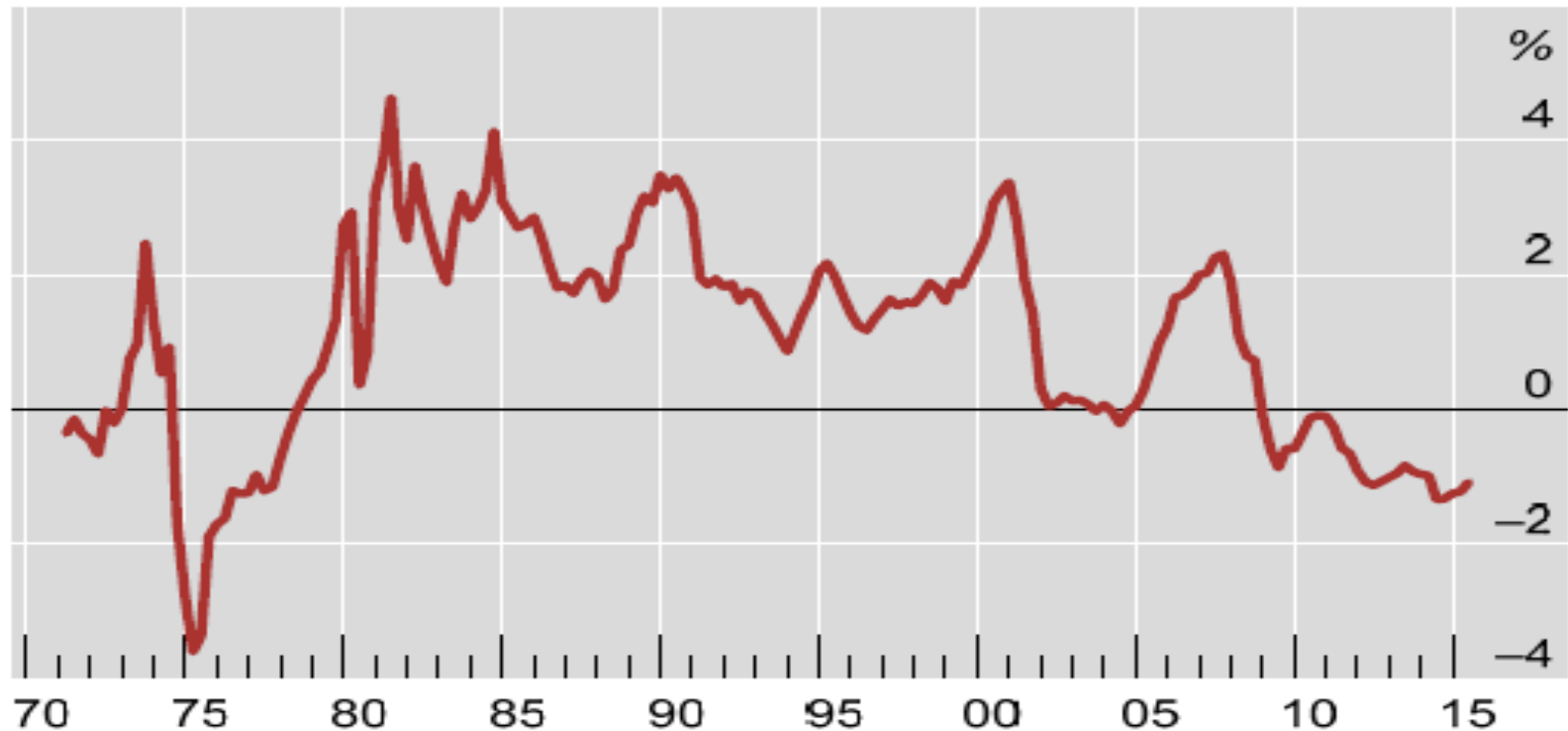


Risks: Policy Accident



Policy Accident

G3 real policy rates¹

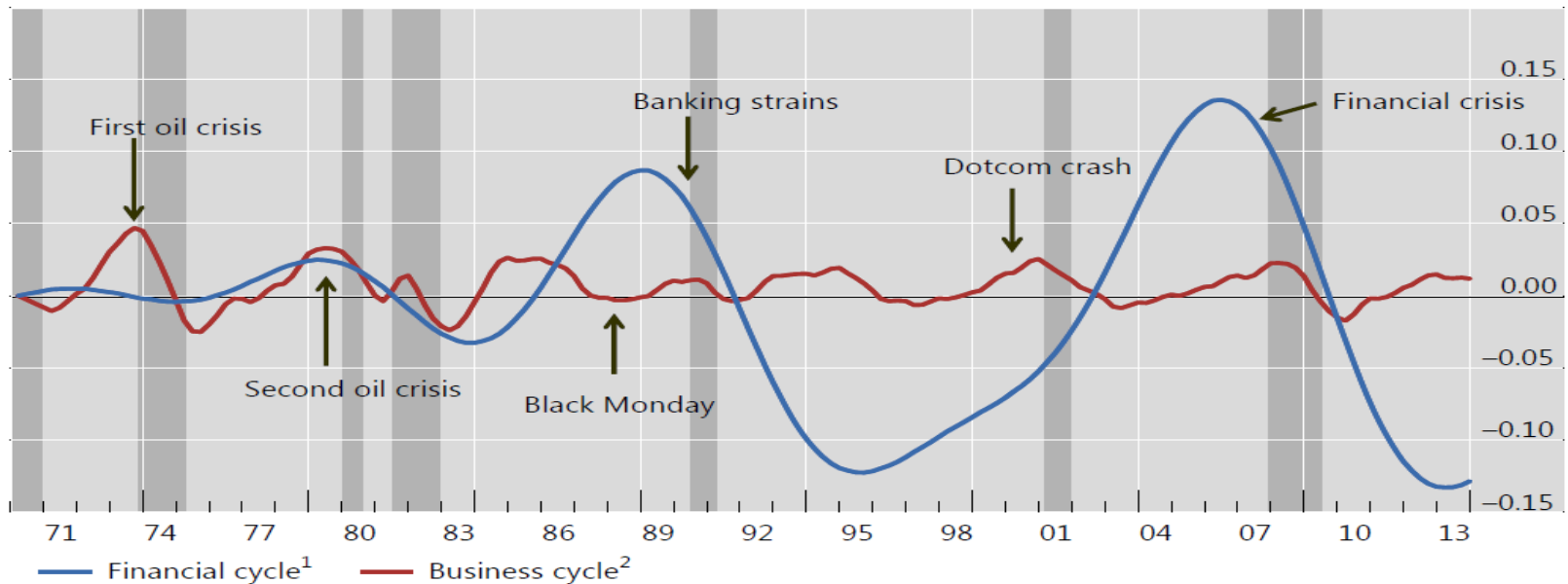


Risks: Policy Accident



Policy Accident

Graph 4: The financial cycle grows bigger (the US example)



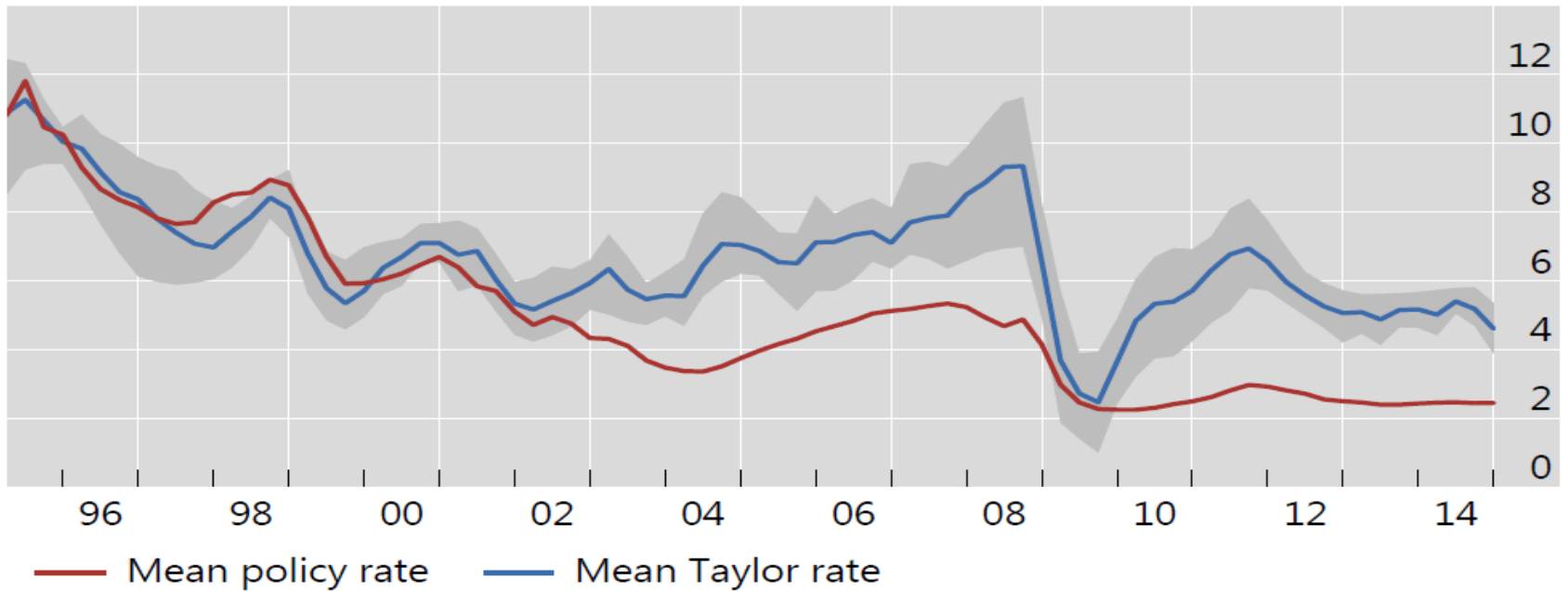
¹ The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices. ² The business cycle as measured by a frequency-based (bandpass) filter capturing fluctuations in real GDP over a period from one to eight years.

Risks: Policy Accident

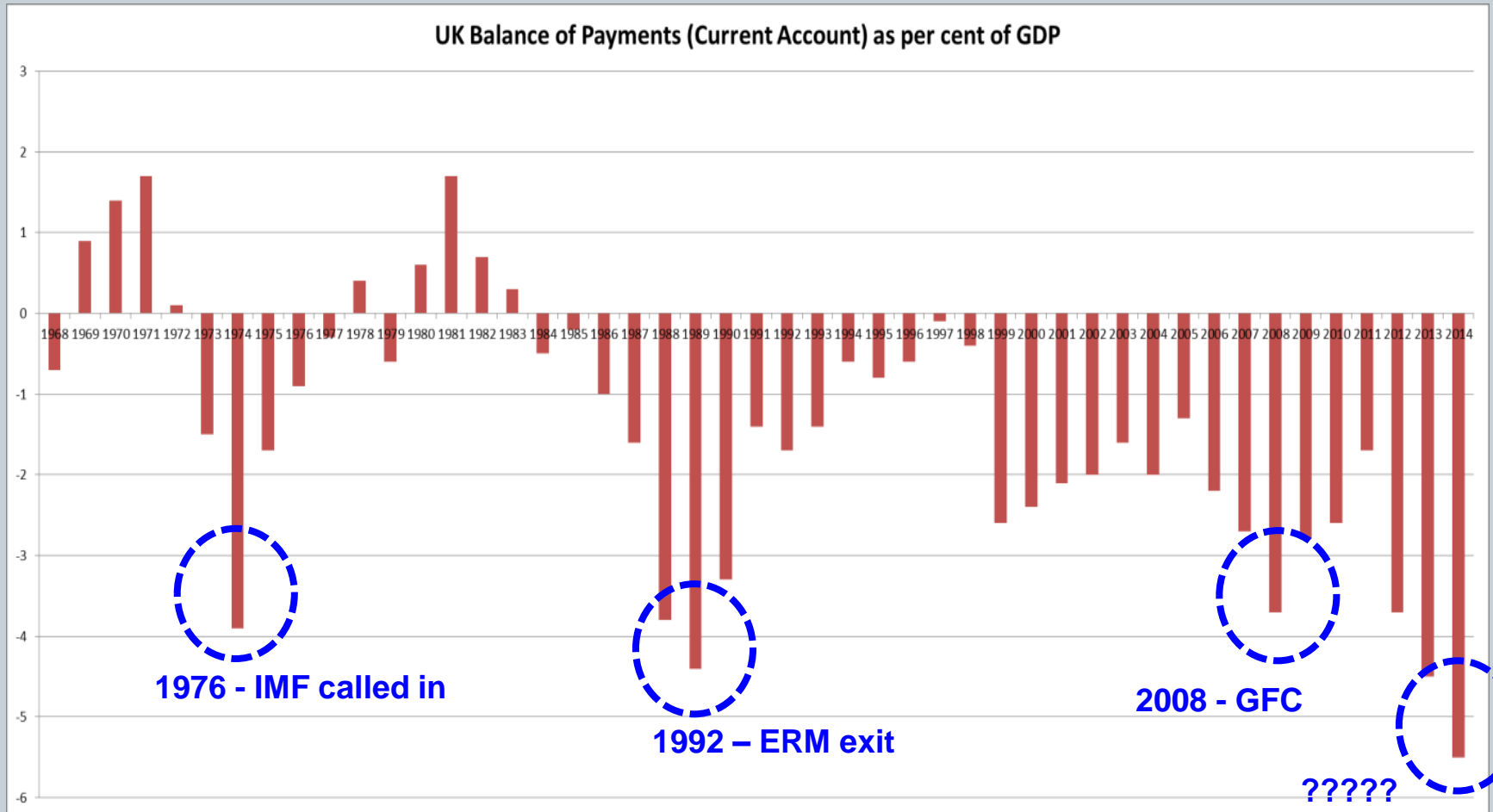


Policy Accident

Graph 8: Unusually accommodative global monetary conditions



Risks: UK Confidence Crisis



Risks: Equity Market Crash

Dividend-Adjusted Returns from the US Stock Market

- Michael Alexander, "Stock Cycles"

<u>Period</u>	<u>Duration (years)</u>	<u>Annual Real Return</u>
1906-1921	15	-1.9%
1921-1929	8	24.8%
1929-1949	20	-1.2%
1949-1966	17	14.1%
1966-1982	16	-1.5%
1982-2000	18	14.8%

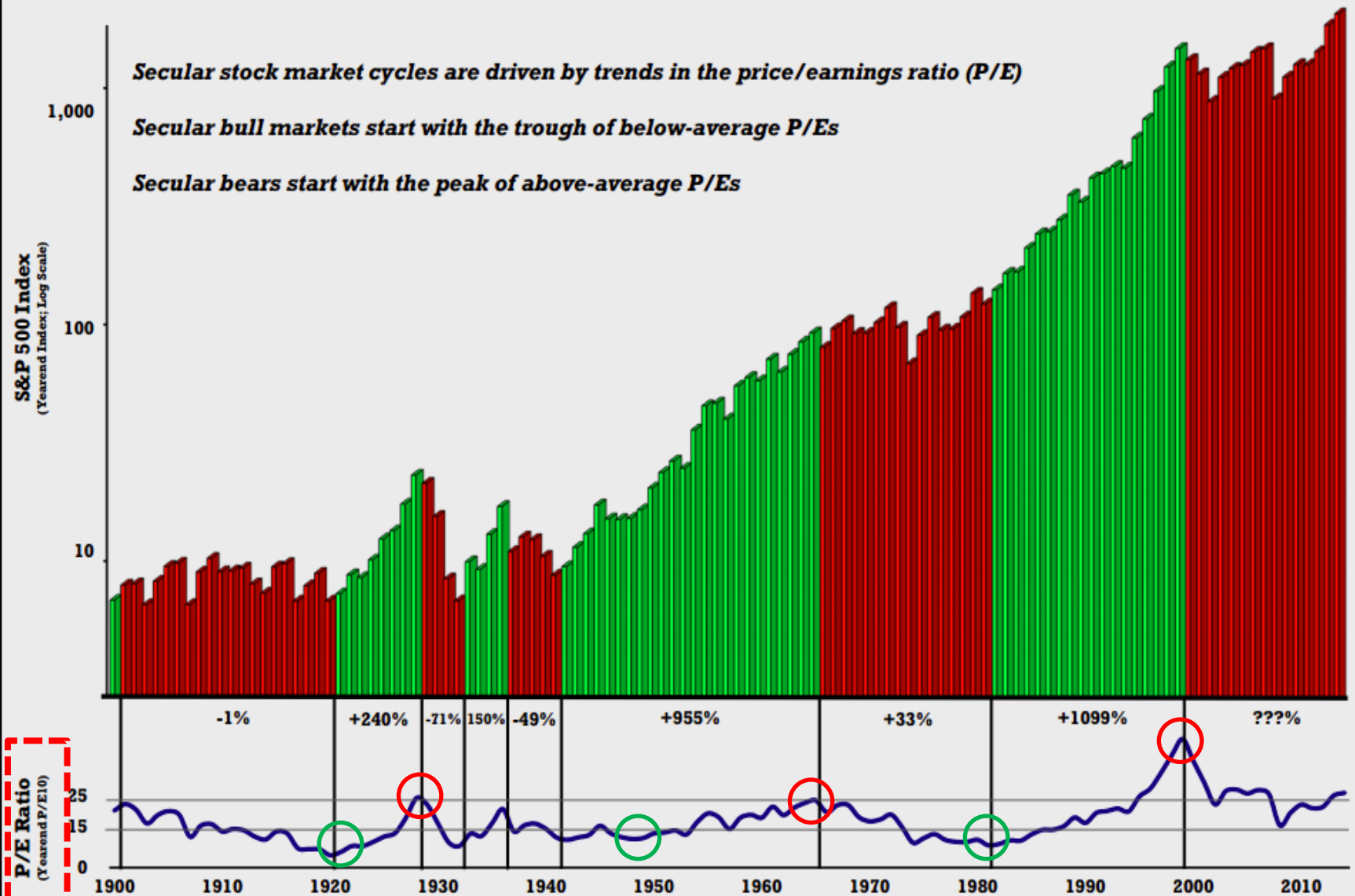
SECULAR STOCK MARKETS EXPLAINED

S&P 500 Index: 1900-2014

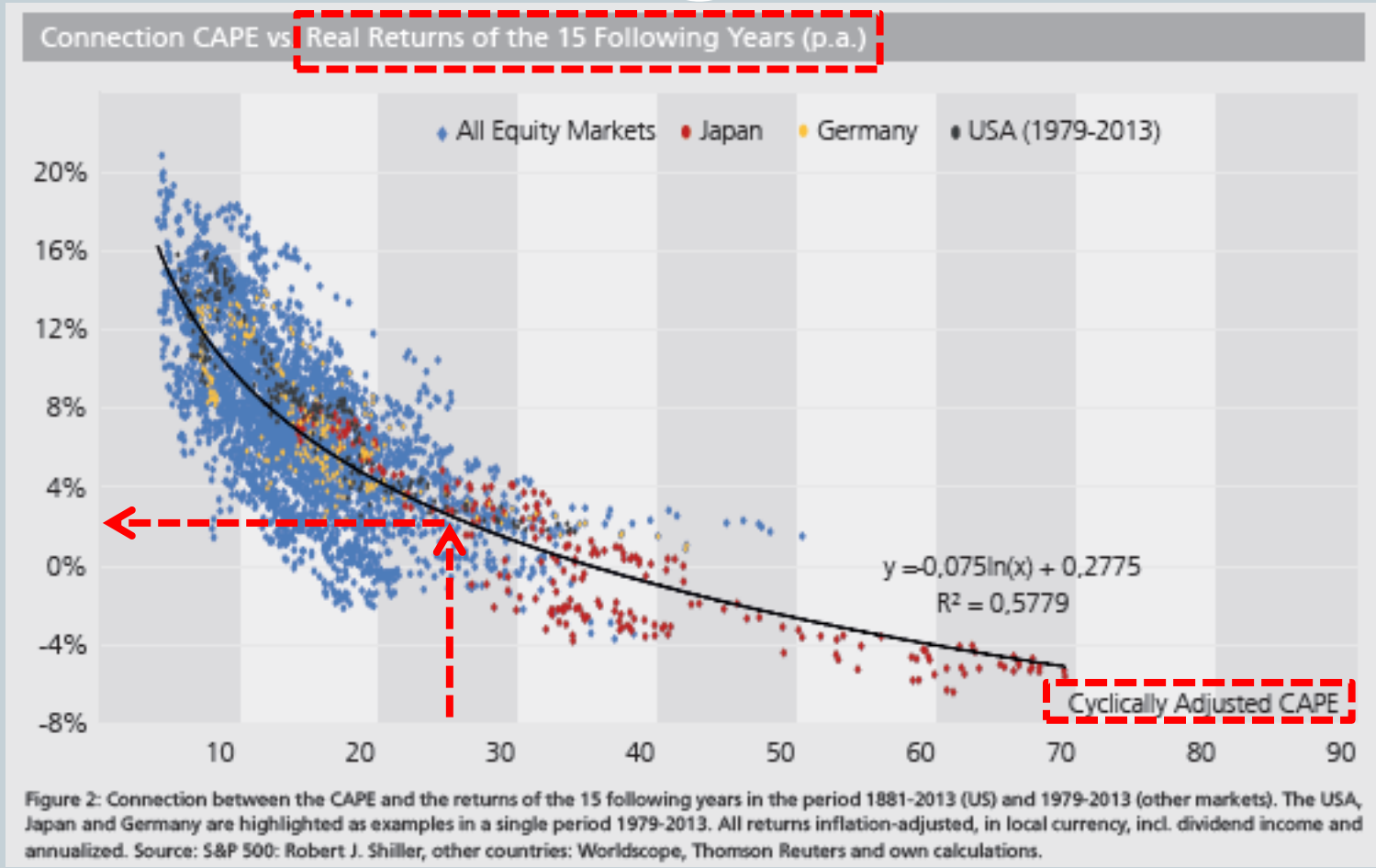
Secular stock market cycles are driven by trends in the price/earnings ratio (P/E)

Secular bull markets start with the trough of below-average P/Es

Secular bears start with the peak of above-average P/Es



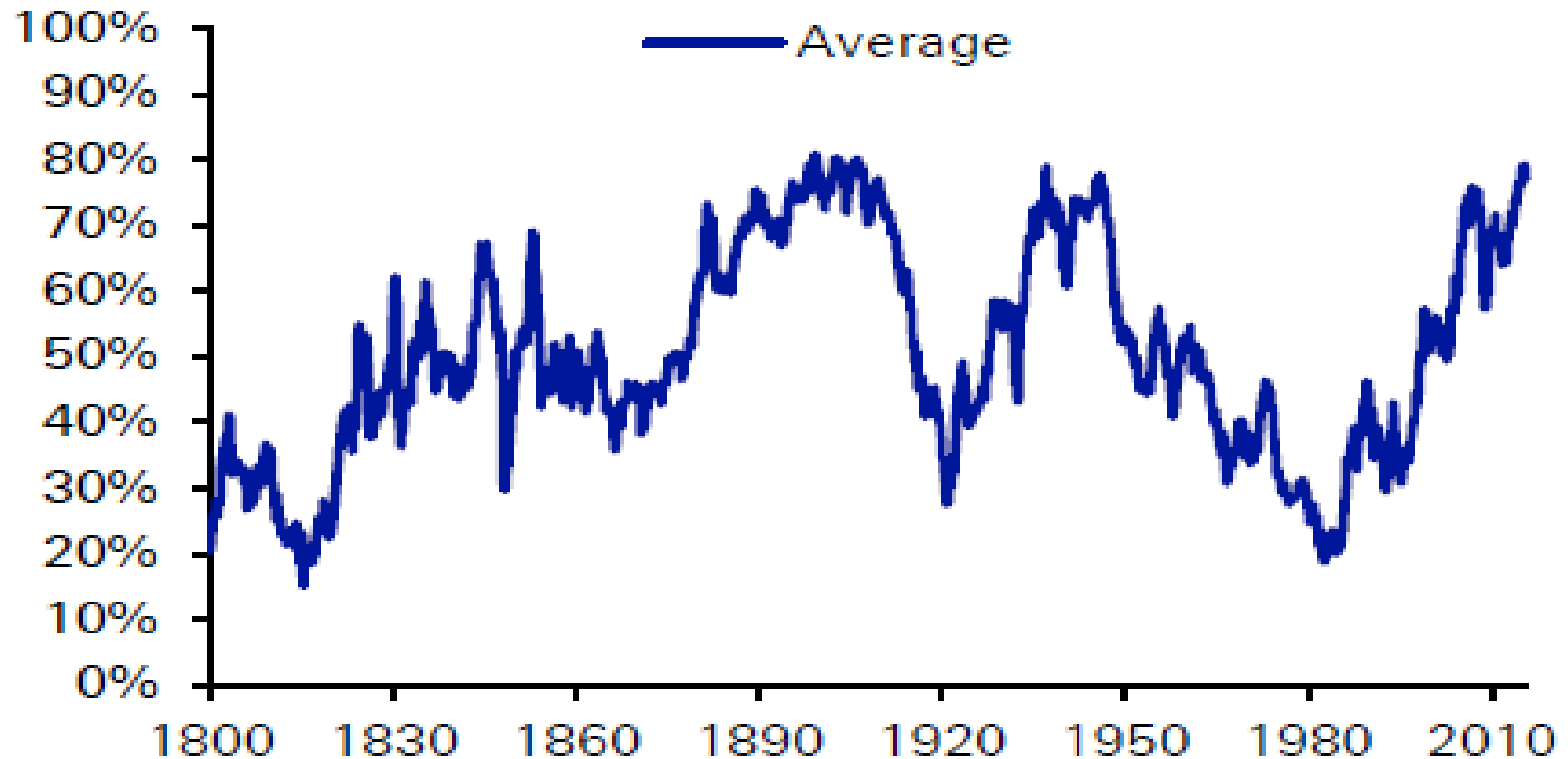
Risks: Equity Market Crash



Risks: Equity Market Crash



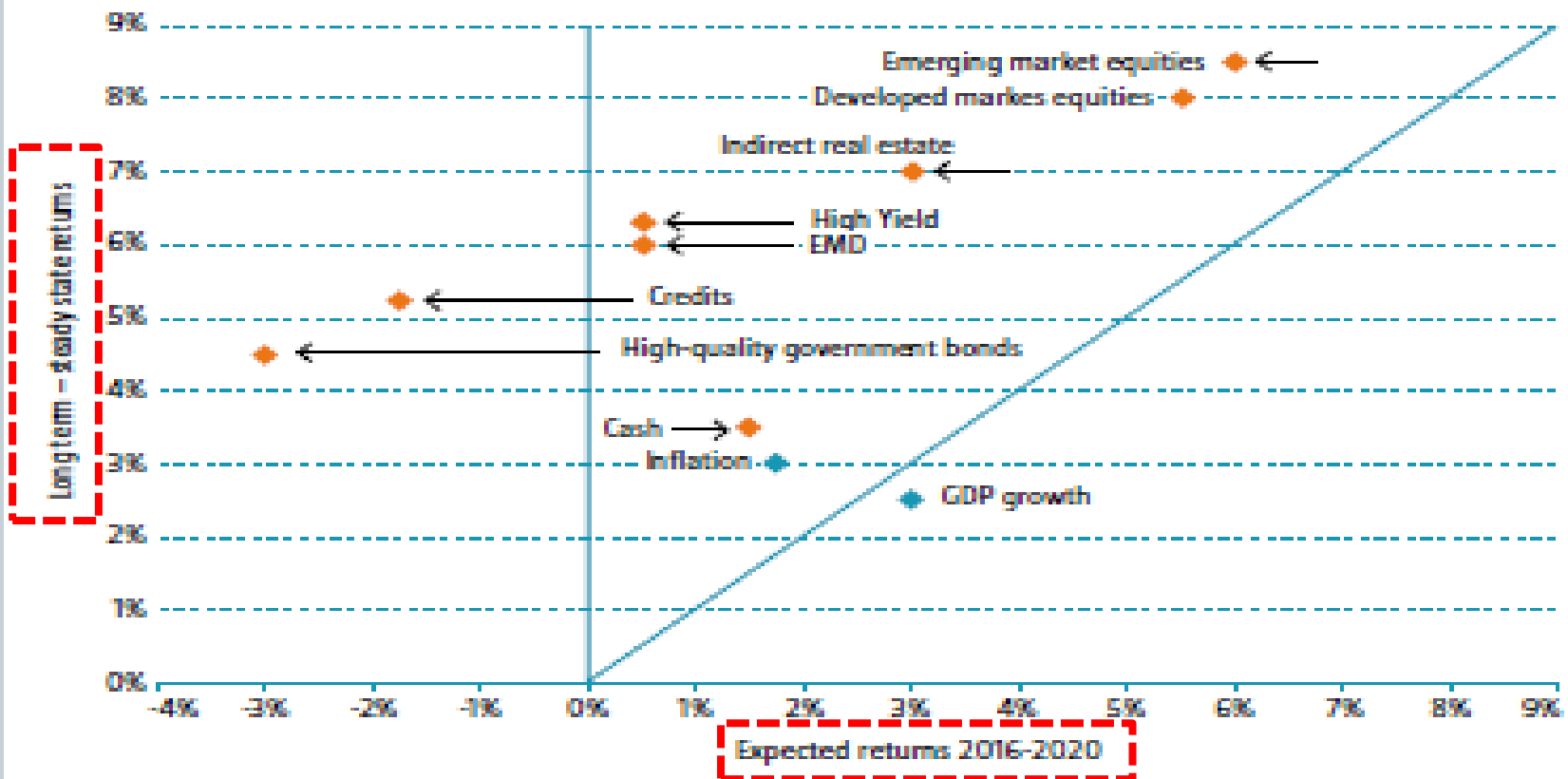
Average Percentile Valuations for 15 DM Countries' Bond (Nominal Yields), Equity & Housing vs. History (Aggregate)



Risks: Equity Market Crash



Figure 2.1: Expected returns 2016-2020 and changes in five-year expected returns (arrows)

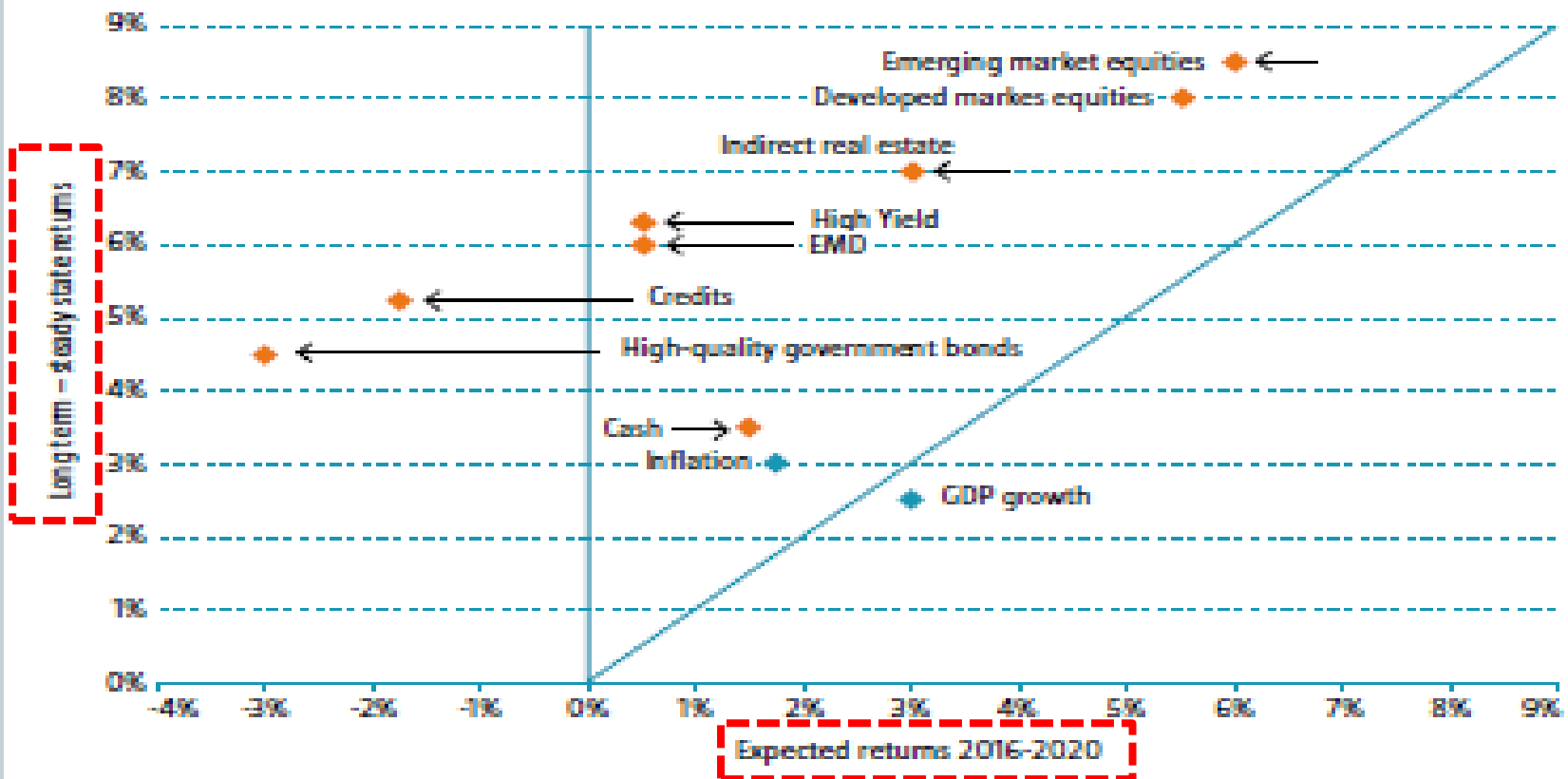


Source: Robeco. Arrows show the change in expectations from last year's estimates.

Risks: Equity Market Crash



Figure 2.1: Expected returns 2016-2020 and changes in five-year expected returns (arrows)



Source: Robeco. Arrows show the change in expectations from last year's estimates.

Ireland: From Bust to Boom



Risks

- Eurozone crisis
- Eurozone slow puncture
- Policy accident by central bankers
- China syndrome
- UK crisis of confidence
- Equity market crash

Ireland: From Bust to Boom



Conclusions

- **Foreseeable (6-12m) prospects bright**
- **But major risks lurking around the corner**

Questions & Answers

From Ireland
From Bust to Boom

Cormac Lucey
September 18th 2015

