

12<sup>th</sup> January 2009

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## Summary of Key Events: 5<sup>th</sup>-9<sup>th</sup> January

**UK interest rates were cut by 0.5%, taking them to 1.5% - the ECB will cut this week by 0.5% at least – which will mean that interest rates have been more than halved in the last 6 months...**

### Ireland

- Believe it or not consumer sentiment improved in December with the KBC/ESRI index rising to 50.2 from 44.8 in November.
- The improvement was primarily driven by a more positive perception by consumers of the buying climate given significant interest rate cuts and the pre-Christmas sales...the index for January will be closely watched to see if bad news on the jobs front have cancelled out this more positive December tone.
- Unemployment rose by 121,000 in 2008, the numbers on the dole rose by almost 23,000 in December alone, the largest monthly increase on record.
- The unemployment rate has increased from 4.9% in January 2008 to 8.3% in December.
- The government has published a five year plan for the public finances, which involves implementing €2 billion of spending cuts in the next few weeks, with savings of €4 billion per annum for 2010 and 2011 required, either via tax increases and public sector cuts or both.

### Europe

- Eurozone inflation continued its decline in December falling to 1.6%, down from 2.1% in November.
- The fall was largely down to the decline in oil prices, compared with the same month in 2007.
- The 26-month low figure justifies further rate cuts at the ECB's meeting next week.
- Economic confidence in the 16-country eurozone collapsed to levels not seen in continental Europe for at least 24 years as German industry reels from tumbling global demand.
- Spanish industrial output fell by 15.1% in November, compared to the same month in 2007, the largest fall on record and a sign of the deepening woes hitting the Spanish economy.

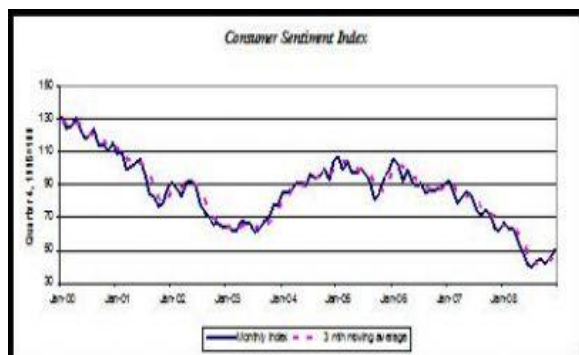
### UK

- The Bank of England continued its aggressive action to support the UK economy by further cutting interest rates by 50 basis points bringing the base rate down to 1.5%, their lowest level in the banks 315-year history.
- House prices in the UK fell by 15.9% in 2008, according to Nationwide building society, with the average house price now down at £153,048 - £29,000 less than a year ago.

### US

- US private sector employment plunged by 693,000 in December.
- Sharply falling employment at medium- and small-size businesses indicates that the turmoil has now spread beyond the manufacturing and housing-related sectors. Non-farm payrolls fell by 2.6m in 2008, their biggest annual drop since 1945.
- The jobless rate increased in December to 7.2% from 6.8% in November.
- US factory orders plunged in November, while the service sector contracted in December.

## Ireland



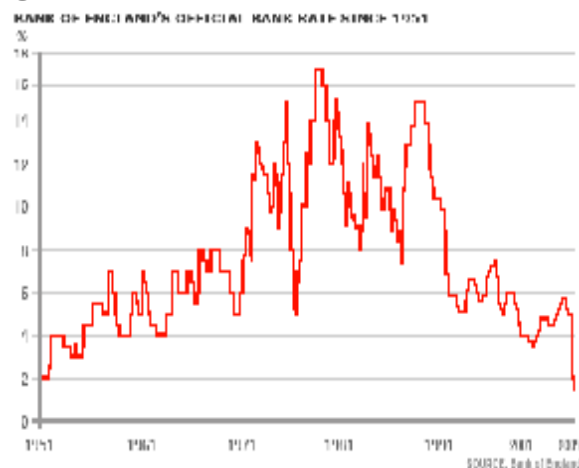
The KBC Ireland/ESRI Consumer Sentiment Index improved in December with the index rising to 50.2 from 44.8 in November. The improvement in the consumer sentiment index brings the index to its' highest level since April 2008. The improvement was primarily driven by a more positive perception by consumers of their current conditions given that there was an improvement in the buying climate following interest rate cuts and pre-Christmas sales. Lower inflation may also have played a role. Nevertheless, consumers remain pessimistic about the outlook for the economy and the outlook for the labour markets and job security, which will be consolidated by forecasts from the Department of Finance that the jobless rate may reach 9.25% in 2009.

- A US investment fund that specialises in buying bankrupt and troubled companies was reported to be preparing a bid for the crystal manufacturer Waterford Wedgwood last week. Waterford's liabilities exceed its assets by €337 million. It is said to owe Bank of America approximately £120 million as well as a shortfall of €111 million in its workers pension fund.
- **Unemployment** rose by 121,000 in 2008 representing a jump of 71% in the year - the largest increase in the history of the live register. The figures show that the numbers on the dole rose by almost 23,000 in December alone, the largest monthly increase on record. This brought the unemployment total to 291,363. As a result of the surge the unemployment rate in Ireland increased from 4.9% in January to 8.3% in December.

## Europe

- **Eurozone inflation** continued its decline in December falling to 1.6%, down from 2.1% in November. This is the first time in some months that the inflation rate has come below the ECB's target range of 2%. The fall was largely down to the decline in oil prices, compared with the same month in 2007. The 26-month low figure justifies further rate cuts at the ECB's meeting next week. The ECB has already cut rates from 4.25% to 2.5% since October, as the impact of the credit crunch and the fall-out in the financial sector hits the euro economy. If oil prices remain at current levels, analysts say that headline inflation is likely to continue to fall sharply, reaching a low of around 0.5% in June.
- **Spanish industrial output** fell by 15.1% in November, compared to the same month in 2007, the largest fall on record and a sign of the deepening woes hitting the Spanish economy. Unemployment figures also starkly revealed the deterioration in economic conditions with the unemployment rate hitting a 12-year high in 2008 of 3 million. Spain has been acutely impacted by the slowdown; in particular the slump in the construction sector has acted as a significant drag on the overall economy.

## UK



- Last week the Bank of England continued their aggressive action to support the UK economy by further cutting interest rates by 50 basis points. This brings the base rate down to 1.5%, it's lowest level in the banks 315-year history (see graph). The Bank has now reduced rates four times from October's 5% level. Explaining its decision, the Bank said the level of contraction in business activity had "increased during the fourth quarter of 2008, and that output is likely to continue to fall sharply during the first part of this year".
- **House prices** in the UK fell by 15.9% in 2008, according to Nationwide building society. The Nationwide survey also outlined the further 2.5% price decline seen in prices in December. The average house price is now down to £153,048 - £29,000 less than a year ago. House prices have now fallen for 14 months in a row and they are 18% lower than their peak in October 2007.
- **UK manufacturing output** fell at its fastest pace since 1981 in November, underlining the fragile state of the economy. Output fell 7.4% from a year earlier - the largest drop since June 1981. On a monthly basis, the fall was 2.9%. The news is likely to reinforce expectations that policymakers will need to do more to stave off a deep recession.

## US

- According to the **ADP National Employment Report**, US private sector employment plunged by 693,000 in December. Large businesses, defined as those with 500 or more workers, saw employment decline 91,000, while medium-size businesses with between 50 and 499 workers declined 321,000. Employment among small-size businesses, defined as those with fewer than 50 workers, declined by 281,000. Sharply falling employment at medium- and small-size businesses indicates that the turmoil has now spread beyond the manufacturing and housing-related sectors. Non-farm payrolls fell by 2.6m in 2008, their biggest annual drop since 1945, when 2.0m jobs were shed. Nearly three quarters of the losses occurred in the last four months of the year. The jobless rate increased in December to 7.2 per cent from 6.8 per cent in November. It was the first time unemployment rose above 7 per cent since June 1993.
- **US factory orders** plunged in November, while the service sector contracted in December and pending home sales fell. The pending home sales index declined in the face of significant deterioration in the economic backdrop and in particular mounting job losses, which together have acted as a heavy drag on consumer sentiment. The index is now at its lowest level since the series began in 2001.

## Key data and events to watch this week...

### Monday 12<sup>th</sup> January

Capital Assets in Industry (Q3 2008), Key Speech by Jean Claude-Trichet (Governor of ECB).

### Tuesday 13<sup>th</sup> January

Irish Live Register Additional Tables (Dec 08), US International Trade (Nov 08), UK DCLG House Price Index (Nov 08), UK BRC Retail Sales Monitor (Dec 08), RICS House Price Balance (Dec 08).

### Wednesday 14<sup>th</sup> January

US Retail Sales (Dec 08), Import & Export Price (Dec 08), Eurozone Industrial Production (Nov 08), US MBA Mortgage Applications (Dec 08), US Retail Sales (Dec 08).

### Thursday 15<sup>th</sup> January

Irish Consumer Price Index (Dec 08), ECB meeting re interest rate policy, US Producer Price Index (Dec 08), US Jobless Claims (for week 10/01/09), German Consumer Price Index (Dec 08).

### Friday 16<sup>th</sup> January

Irish Index of Employment in Construction (Nov 08), US Consumer Price Index (Dec 08), US Industrial Production (Dec 08), US Consumer Sentiment (Jan 09), Eurozone Trade Balance (Nov 08), Reuters/Michigan Consumer Sentiment Index (Jan 09).