

# Economic & Commercial Property Highlights

LEGEND	
1	= Most Recent Indicator
2	= Status
3	= Impact for Property Sector

INDICATOR	
Consumer Expenditure	<p>1 Q1 2017</p> <p>2 + 3% y/y. Quarterly growth rate in Q117 maintained momentum of Q416.</p> <p>3 Continued support for retail sector.</p>
Retail Sales (ex. cars & bars)	<p>1 July 2017</p> <p>2 Volume up 7.3% y/y but down 0.4% m/m =&gt; Volume still rising faster than Value (3.3% y/y) indicating continued price discounting. Strong y/y growth in household-related items, Furniture &amp; Lighting (18.1%), Hardware (9.9%) and Electrical Goods (9.5%).</p> <p>3 Anecdotal evidence that positive performance of retail sector is location specific – mainly confined to large urban areas.</p>
VAT receipts	<p>1 August 2017</p> <p>2 Jan – Aug up 9.1% y/y, 1.1% above target.</p> <p>3 Slightly ahead of expectations. Suggests continued improvement in willingness to spend. Consistent with positive retail sales and consumer confidence.</p>
Consumer Price Index	<p>1 August 2017</p> <p>2 Overall + 0.4% y/y, 0.4% m/m =&gt; Highest monthly increase since April 2017. This is despite the strength of the € which is leading to lower import prices, and in particular is benefiting certain retailers with supply chains linked to the UK economy. Clothing &amp; Footwear showed very significant jump in the month, 6.1%, although still down 4.8% on an annual basis.</p> <p>3 May suggest era of price discounting might be ending.</p>
Consumer Sentiment Index – National	<p>1 August 2017</p> <p>2 Down marginally y/y down 2.3 points m/m. First fall in index since February 2017. Reading suggests that recent rise in sentiment may not be strongly embedded and may be somewhat volatile on a short term basis.</p> <p>3 Consumers still somewhat cautious about personal financial position. 3-month moving average value remains on upward trend.</p>
Consumer Sentiment Index – Dublin and Elsewhere	<p>1 Q2 2017</p> <p>2 Dublin up 7.5 points q/q but down 2.2 y/y. Non-Dublin down 1.4 points q/q up 1.1 y/y. Dublin, at 151, still lagging behind rest of country, at 157.</p> <p>3 Dublin consumers more bullish about job prospects and spending plans in Q2 than in Q1.</p>
Unemployment (%)	<p>1 August 2017</p> <p>2 6.3% down 1.6 percentage points y/y. Fall of 0.1 percentage points m/m reversing similar rise in July. Almost 34,000 less people unemployed than 12 months ago. Consistent with strong retail demand and consumer expenditure.</p> <p>3 As unemployment falls, wage pressure may intensify but no strong evidence yet. Average hourly earnings up 1.6% y/y in Q2 2017.</p>
Employment (000)	<p>1 Q1 2017</p> <p>2 Up 65,000 y/y +3.3%. 11 of the 14 sectors experienced employment growth, particularly Information &amp; Communications and Construction.</p> <p>3 Most sectors benefitting from growth in economy. Demand impact widely felt across the economy.</p>
House Price Index	<p>1 June 2017</p> <p>2 Up 11.6% y/y nationally =&gt; over 60% above bottom of market but 28% below peak. Up 11.1% y/y Dublin.</p> <p>3 No indication of slowing market. Demand continues to greatly outstrip supply</p>
House Starts	<p>1 January - May 2017</p> <p>2 Total up 45% y/y: Dublin up 19% y/y. Mid-east up 82% y/y: GDA up 35% y/y.</p> <p>3 Number of starts rising but continued gap between supply and demand putting pressure on price.</p>
House Completions (ESB connections)	<p>1 January – May 2017</p> <p>2 Total up 25% y/y. Dublin up 23% y/y: Mid-east up 53% y/y: GDA up 31% y/y</p> <p>3 Growth in counties surrounding Dublin as purchasers look outside the capital.</p>
Construction Output	<p>1 Q1 2017</p> <p>2 Total construction: • Volume up 19.4% y/y, up 7.2% q/q • Value up 22.3% y/y</p> <p>3 Residential construction: • Up 29.9% y/y, down 1.6% q/q • Somewhat volatile on quarterly basis</p>
Mortgage Drawdowns/ Approvals (Purchase mortgages only)	<p>1 Drawdowns Q2 17 / Approvals June 17</p> <p>2 Drawdown volume up 17.6% y/y Value up 27% y/y. Average mortgage size up 8% y/y. Approvals: Volume up 29.5% y/y, Value up 38% y/y.</p> <p>3 Increasing mortgage size and repayment commitments may impact on spending elsewhere.</p>
Total Tax Receipts	<p>1 August 2017</p> <p>2 Jan - Aug up 4.9% y/y, just 0.7% below target. Corporation tax up 13% y/y, 1.7% above target, Income tax up 4.4% y/y but 1.8% below target Excise duties running 2.8% below target</p> <p>3 Important in run up to Budget 2018. Mixed results =&gt; Main tax heads showing growth but at slower level than expected.</p>
Business Sentiment	<p>1 Summer 2017</p> <p>2 118 =&gt; up 6.7 points q/q but still 13 points (10%) below recent peak in late 2015. 4th consecutive increase in reading. Brexit fears may be subsiding. Results are consistent with PMI data.</p> <p>3 Continued evidence of caution in hiring. Optimism may not translate into greater demand for office or industrial space immediately.</p>
Services PMI	<p>1 August 2017</p> <p>2 58.4 =&gt; up 0.1 points m/m. Continues the rise seen in last two months although marginal, but somewhat below recent high of April 2017.</p> <p>3 Still well in positive zone. Consistent with strong performance of office sector.</p>
Construction PMI	<p>1 August 2017</p> <p>2 55.1 =&gt; down 1.7 points m/m. 3rd successive month of decline in reading and well down on the recent high of May 2017 but still significantly above key threshold of 50.</p> <p>3 Outlook still favourable</p>
Manufacturing PMI	<p>1 August 2017</p> <p>2 56.1 =&gt; up 1.5 points m/m. Highest reading in over two years. Comfortably above break-even level of 50.</p> <p>3 Support for industrial sector</p>
Other Business Indicators	<p>1 Road Freight Transport Survey 2016 (September 2017)</p> <p>2 Freight activity close to 2009 levels. • All key indicators well up y/y: Global business ratings (September 2017) • Ireland ranked first for attracting high-value FDI (IBM's Global Location Trends 2017) for sixth year in a row.</p> <p>3 Further evidence of buoyancy of business sector.</p>
ISEQ Index	<p>1 End August 2017</p> <p>2 6,621 =&gt; up 7.3% y/y but down 7.5% from 12 month high in May</p> <p>3 Return Index up 7.3% y/y and 2.6% year-to-date</p>
MSCI/SCSI Index	<p>1 Q2 2017</p> <p>2 Total return up 2.1% q/q up from 2% in Q1. Industrial best performing at 3%. Office and Retail both at 2%.</p> <p>3 Year-to-date (to end June) Property 4.1% below equity market 5.7% but equity has fallen 3% since start of Q3. Year to date equity return now 2.6%.</p>



# Summary

- Consumer economy indicators generally painting positive picture
- Slight increase in unemployment rate in July has been reversed in August
- More than 2 million people in employment => close to level of end 2008
- Price rises in some sectors, discounting may be less widespread than before
- Strong € may be benefitting consumers in some sectors
- Consumer confidence while strengthening over recent months may not be firmly embedded
- Business sentiment remains positive but caution in hiring
- Key PMI readings all in expansionary range
- Some increase in supply but house prices continue to rise

# Global watch

BREXIT

Negotiations making limited progress	<ul style="list-style-type: none"> <li>• UK Government has published 'position papers' but these have gained little traction</li> <li>• Suggestions that the UK is looking for 'the best of both worlds'. This is not likely to attract much support in EU</li> <li>• Some reported progress on issue of Republic of Ireland – Northern Ireland border but detail remains to be fleshed out.</li> <li>• EU has set out a three stage process to be implemented in sequence – puts added pressure to complete stage 1</li> <li>• Budget contribution – the 'divorce bill' may be contentious but may be a strong bargaining tool for both sides</li> <li>• Main opposition party in UK, The Labour Party has adopted a much 'softer' approach to Brexit =&gt; may undermine Government's negotiating position to some extent</li> <li>• Sterling value may bear brunt of uncertainty and lack of progress in negotiations</li> </ul>
Impact on Ireland	<ul style="list-style-type: none"> <li>• Border with Northern Ireland remains a key but difficult issue to resolve</li> <li>• Irish Government seeking clarification on UK border proposals</li> <li>• EU has acknowledged 'special' position of Ireland in Brexit negotiations</li> <li>• IDA fairly bullish about 'relocation' bounce, especially for Dublin, although evidence may still be more anecdotal than firm.</li> <li>• The expectation of a positive 'relocation' bounce is generally shared by Irish commercial property agents</li> <li>• Frankfurt and Dublin emerging as two key destinations for relocations</li> <li>• Over three-quarters of companies have some idea of likely impact of Brexit on their business and half of these have addressed this in some fashion (KBC Bank/CAI)</li> <li>• Recent research (Department of Finance) has shown that Ireland is significantly more exposed to Brexit than other EU countries in the Food and Live Animals sector in particular with the UK accounting for 45% of Irish exports in this sector. This is close to double the next most exposed country. Overall the most exposed sectors are mainly Irish-owned, based outside Dublin, have low profitability and have a greater share of small and medium-sized enterprises</li> </ul>
US PRESIDENCY	<p>Economic policy playing second fiddle to political issues</p> <ul style="list-style-type: none"> <li>• Economic policy =&gt; little progress on big ticket items</li> <li>• Ireland name-checked by President Trump in recent 'protectionist' statement in relation to US FDI</li> <li>• But no major impact of presidency on US FDI into Ireland to date</li> </ul>
Recent investment transactions	<p><b>Busy summer with momentum building for year end</b></p> <ul style="list-style-type: none"> <li>• One Grand Parade, Dublin 6 – Multi Let modern office building extending to 2,929.60 sq m (31,534 sq ft). Sold by Credit Suisse to German Fund, Quadoro Doric Real Estate for a reported price of over €23m providing a net initial yield of 4.39%.</li> <li>• Park Office Portfolio – Four blocks in out of town commercial and business hub of The Park Carrickmines. Multi let. Sold by Park Developments to Syndicated Fund for €38.6m which will produce a net initial yield of 6.82%.</li> <li>• Ericsson Facility, Athlone, Co Westmeath – Campus style development let to Ericsson with 10 years remaining on the lease. Passing rent of €1.797m pa with 10% uplift due. Sold by Gannon Homes to Fine Grain Property.</li> <li>• Carlow Retail Park – Retail Park with rent roll of €1.36m p.a. Occupiers include Woodies, Carpetright, Home Store and More and Petmania. Receiver sale acquired by Sigma Retail Partners on behalf of client for €16.4m which will provide a net initial yield of 7.94%</li> </ul>
Events and issues to watch	<p><b>Short/Medium Term</b></p> <p><b>IRELAND:</b></p> <p><b>Possible Irish election in Autumn or Spring</b></p> <ul style="list-style-type: none"> <li>• Taoiseach may look for mandate • But unlikely to be before Budget • Budget may be at worst benign and possibly somewhat expansionary • Any change of Government unlikely to have major implications for economic policy and focus will remain on getting best outcome for Ireland from Brexit negotiations</li> </ul> <p><b>Infrastructure:</b></p> <ul style="list-style-type: none"> <li>• Mid-Term Capital Review is underway – will feed into the National Planning Framework expected later this year</li> <li>• Provision of adequate supply of housing is key both for domestic population but also to remove a possible disincentive to future FDI</li> <li>• Dublin cross-city Luas line due to open in December – likely to invigorate city centre retail and other sectors. May lead to increased footfall in city centre.</li> </ul> <p><b>INTERNATIONAL:</b></p> <p><b>ECB interest rate policy</b></p> <ul style="list-style-type: none"> <li>• September meeting of ECB kept rates as they are and indicated that monetary policy will remain accommodating as long as necessary • Fuller statement on Quantitative Easing programme flagged for October – may be a straw in the wind</li> </ul> <p><b>Euro: Sterling exchange rate</b></p> <ul style="list-style-type: none"> <li>• Some commentators suggesting that parity could be reached if Brexit negotiations are prolonged and point to hard Brexit • Irrespective of whether that psychological barrier is reached, weak sterling will cause some problems for Irish exporters although importers will reap some benefit and consumers will benefit in certain sectors</li> </ul> <p><b>Global geo-political tensions</b></p> <ul style="list-style-type: none"> <li>• While Ireland may be geographically remote from possible conflicts, global instability would nonetheless impact on Irish economy, including investor uncertainty and possible flight of capital to safe haven economies or assets</li> </ul>

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#### SOURCES:

CSO except

VAT and total tax receipts – Department of Finance

House starts and completions – Department of Housing, Planning, Community and Local Government

Bank lending to households – Central Bank of Ireland

Consumer Sentiment – KBC Bank and ESRI

Mortgage Drawdowns – Banking and Payments Federation of Ireland

PMI Services and PMI Industry – Investec, Markit Economics

PMI Construction – Ulster Bank

ISEQ Index – Irish Stock Exchange

MCSI/SCSI Index – MSCI/SCSI

Business Sentiment - KBC Bank / Chartered Accounts Ireland

