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economic pulse
October 2018

 Pulse Insights
Capacity

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“A range of metrics including data from the Business Pulse suggest that the economy is ‘thereabouts’ in terms of reaching its capacity.”

Dr Loretta O’Sullivan,
Group Chief Economist, Bank of Ireland

Figuring out where Ireland is in the economic cycle is never an easy task. The available measures suffer from varying degrees of shortcomings but taken in the round suggest that the economy is ‘thereabouts’ in terms of reaching its capacity. Typically it is at this stage that price and wage pressures start to build and overheating risks emerge. While consumer price inflation and wage growth have been relatively contained to date, an uptick in both is expected over the coming year and areas like housing are clearly already under strain. All of which points to the need for careful management of the economy and the public finances in the period ahead.

Various Approaches

One way of assessing where the economy is at is to look at what it is actually producing and what it could potentially produce if it was getting the most out of all of its resources. Bodies like the European Commission, the OECD and the IMF make regular stabs at this, with their latest calculations suggesting that Ireland is operating a little above its potential. Or put another way, we are demanding more goods and services than the economy can sustainably supply.

Another means of coming at it is to draw on measures of capacity utilisation from business surveys. This data hasn’t been available for Ireland for a number of years but is now being collected again as part of the Economic Pulse research. The findings indicate that firms in industry are currently using about 76% of the resources available to them. This is pretty much in line with the historical average so on this basis, capacity pressures look to be in and around the norm.

Comparing today’s unemployment rate with its long-run equilibrium is also helpful when trying to get a handle on how much further there is to go. Recent CSO estimates put the former at 5.4% and using the rough rule of thumb of 5% or a bit below for the latter, ‘full employment’ would seem to be in sight.

While none of these approaches are perfect - Irish GDP is subject to distorting globalisation effects and has a tendency to be revised, potential growth isn’t observable so has to be estimated, industry is just one sector, underemployed and discouraged workers aren’t captured by the standard unemployment metric and so on – they help inform the picture.

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“Against this backdrop, there is an onus on policy to do what it can to keep overheating risks at bay.”

Dr Loretta O’Sullivan,
Group Chief Economist, Bank of Ireland

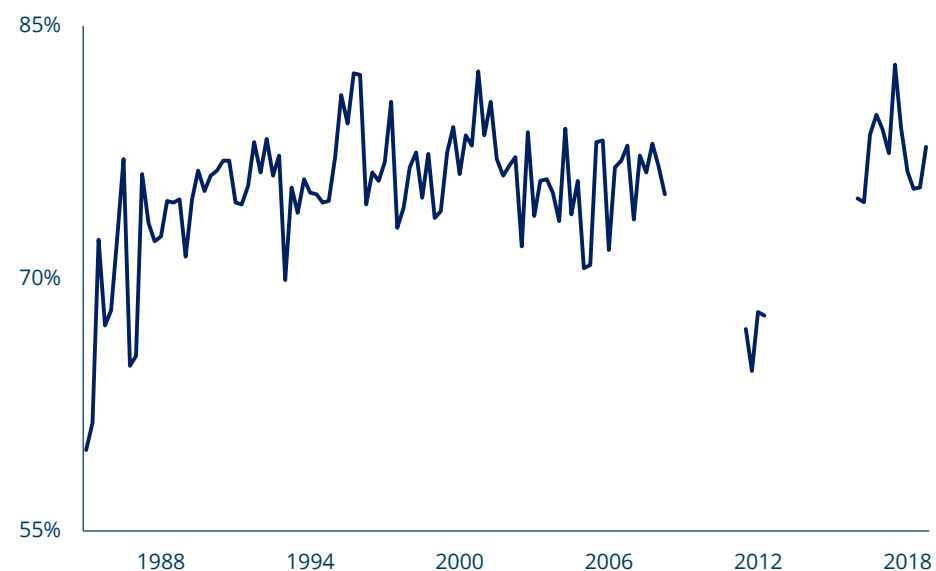
Survey Measure

The Business Pulse includes a question on capacity utilisation. This concept is traditionally associated with production type processes involving equipment and material. This makes it well suited to industry and each quarter, firms in the sector are asked to indicate what capacity they are currently operating at as a percentage of their full capacity (this does of course require a good idea of what full capacity for the firm is). The survey responses provide useful information on the extent to which firms are using their available resources and are informative in assessing the degree of slack in the economy.

KEY POINTS

- Firms using about 76% of available resources in 2018
- In line with the long run average
- Well above crisis era lows

INDUSTRY CAPACITY UTILISATION RATE*



* European Commission & Bank of Ireland non-seasonally adjusted data

Background

“The Economic Pulse provides a timely, comprehensive and robust picture of the economic environment and consumer and business confidence in Ireland.”

Dr Loretta O’Sullivan,
Group Chief Economist, Bank of Ireland

THE ECONOMIC PULSE

The Economic Pulse is a new indicator for Ireland based on a series of surveys. Each month households and firms are asked for their views on a wide range of topics including the economy, their financial situation, spending plans, house price expectations, business activity and hiring intentions. Key business sectors such as industry, services, retail and construction are covered, as well as regions. The information gathered is combined into high level indices, with responses to individual questions also provided along with analysis and insights.

METHODOLOGY

Ipsos MRBI are undertaking the fieldwork for the surveys on behalf of Bank of Ireland. A best practice approach to data collection and methodology has been adopted within a harmonised EU framework.

1000 households, 300 firms in industry, 1000 services firms, 400 retailers and 200 construction firms participate in the surveys each month.

USING THE INFORMATION

Business and consumer surveys provide essential information for economic surveillance, short-term forecasting and research.

They are also useful for policymakers, as well as helping firms with business planning.

Survey data are a key complement to official statistics, with high frequency and timeliness among their main qualities.

THE EU DIMENSION

Bank of Ireland is partnering with the European Commission on the surveys. The data collected will feed into the Joint Harmonised EU Programme of Business and Consumer Surveys. This is a Europe-wide sentiment study which has been running since the 1960s. The data generated within this framework are particularly useful for monitoring economic developments at EU and Euro area level and also allow the situation in Ireland to be compared with that of other Member States.

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Note: Balances are calculated as the difference between positive and negative responses (using weighted averages for questions with multiple options).

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