



Flash

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Irish Consumer Sentiment Improves Again In December

Modest monthly gain results in new ten year high in sentiment index.

Stronger jobs market and increased household spending power the key positives.

Buying intentions improve suggesting strong but not spectacular Christmas spend.

Irish consumers expect stronger economy and healthier personal finances in 2016.

A marginal increase in the month of December was enough to push Irish consumer sentiment to a new 10 year high.

The limited monthly change in the confidence index suggests the average Irish consumer isn't seeing any dramatic improvement in their circumstances at present but **there is a clear sense that in terms of the outlook for jobs and household finances things are moving in the right direction** and consumers are facing into 2016 on a broadly positive note.

The KBC Bank Ireland/ ESRI consumer sentiment index rose to 103.9 in December from 103.1 in November bringing the index to **its strongest level since January 2006** when it stood at 106.2. The increase in December while marginal was the third monthly gain in a row. This suggests a more consistent positive trend in sentiment has taken hold of late-the index had shown declines in four of the eight months between January and September 2015.

The improvement in Irish consumer sentiment mirrored gains in similar confidence measures elsewhere last month. In the US, consumer sentiment sustained its recent improvement but remained some way below levels seen in early 2015. Last month's gain was largely attributed to low inflation with falling energy costs and heavy price discounting by retailers supporting household spending power. It is notable that even in a relatively mature US economic recovery these factors are seen as crucial to consumer confidence. This underlines the unusual nature of

the upturn worldwide and, in particular, the notable absence of what traditionally would have been a substantial pick-up in household earnings by this point in the cycle in the US.

Euro area consumer confidence also reported a relatively modest improvement last month as increased optimism regarding household finances outweighed a more pessimistic assessment of the broader economic outlook. As in the US, confidence has improved in recent months but it has yet to recover to levels seen in the spring of 2015. Again, this hints at an environment where consumers are not experiencing a progressive and sustained improvement in their fortunes. So, uncertainty remains a key feature of consumers' circumstances.

As noted above, **Irish consumer sentiment has been set on a path of steady if modest improvement in recent months. The details of the December reading show modest gains in four of the five components of the sentiment index** and a marginal decline in the other. So, there is little suggestion of any sea-change in the thinking of Irish consumers of late. In an extremely uncertain world, they expect positive influences to dominate negatives in the coming year both in relation to the Irish economy and their household finances but not to a degree that would transform either.

Official data released during the December survey period showed the Irish economy grew by an outsized 7% in the

first nine months of 2015 but **the element of the sentiment survey focussed on Irish consumers' assessment of economic prospects for the year ahead only improved marginally. This might suggest that the average consumer feels their circumstances remain somewhat detached from such runaway growth rates** and/or it may be that recent heightened concerns about the global economy tempered enthusiasm in this regard. Of course, it may also be that with 61% of consumers expecting the economy to strengthen further during 2016 and only 12% fearing a deterioration, **extremely good Irish 'macro' news is now largely taken for granted.**

If strong GDP data seem to have had only a limited impact on sentiment, **buoyant jobs figures appear to have had a clearer positive effect.** Official employment data showed that job growth remains robust while unemployment fell below 9% for the first time since December 2008. A wide range of substantial new job announcements during the December survey period would have further emphasised the strength of the labour market in Ireland at present while many consumers may also be starting to see that improvement translate into better earnings prospects.

In broad terms, **Irish consumers were slightly more positive**

in relation to their earning and spending prospects in December. The assessment of how their household finances developed in the past year improved fractionally while their views on the year ahead backtracked slightly from the fourteen year high seen in November, roughly twice as many Irish consumers expect their spending power to improve in 2016 as envisage a deterioration. Significantly, the buying climate also improved, suggesting an increased willingness to spend over Christmas.

These results are consistent with industry supports that suggest retailers had a strong but not spectacular Christmas. **The sentiment survey suggests a clear improvement in spending power is underway but there is also strong sense that the recent crisis has left Irish consumers more cautious as well as cash constrained. While, confidence is clearly on the mend, there is no sense in these data that a broadly felt 'feel-good factor' has returned to Irish consumers.** In turn, this means that while pent-up demand is boosting household spending at present, it would be wrong to suggest that a renewed consumer boom is underway.

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