The Irish Economic Update – Very Robust Growth

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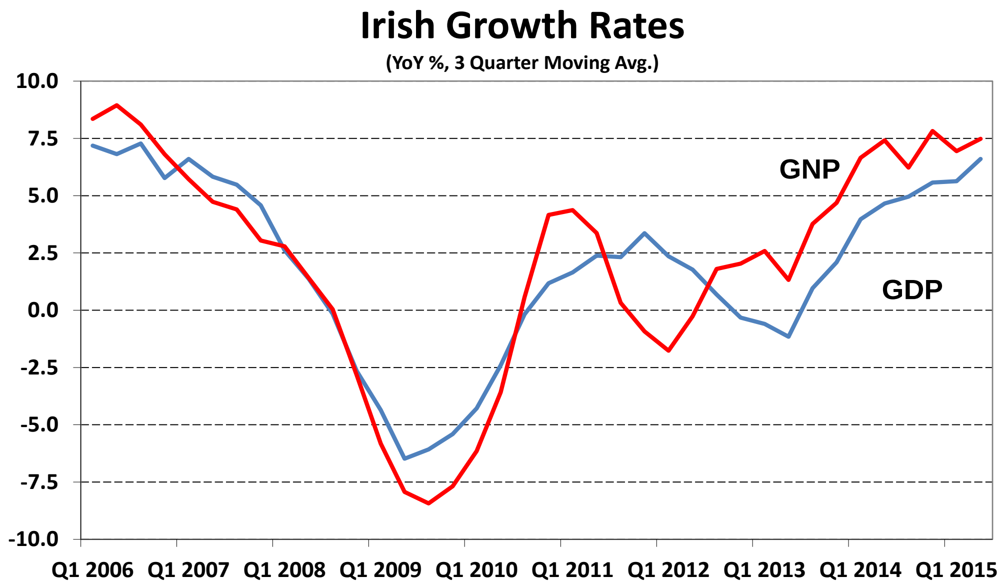
Irish recovery gains very strong momentum

- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8% and GNP down 10%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance programme from 2010-2013
- GDP in 2009 still over 25% higher than in 2001, highlighting that the economic crash came after a very strong period of growth, unlike in other countries
- Ireland tackled its problems aggressively in the public finances, banking sector and property market. Imbalances in economy unwind – housing, debt levels, competitiveness, BoP
- Budget deficit has declined at quicker than expected pace. Austerity now at an end.
- Ireland focused on generating growth via its large export base as the route to recovery
- Domestic economy recovering strongly, led by rebound in investment and labour market
- GDP rose by 5.2% last year and 1.4% in 2013. (GDP growth averaged 1% in 2010-12)
- Very strong first half to 2015 with GDP growth of 7% yoy, GNP up 6.7%
- Economy now on a very strong growth path. GDP to grow by 4-5% p.a. in next few years

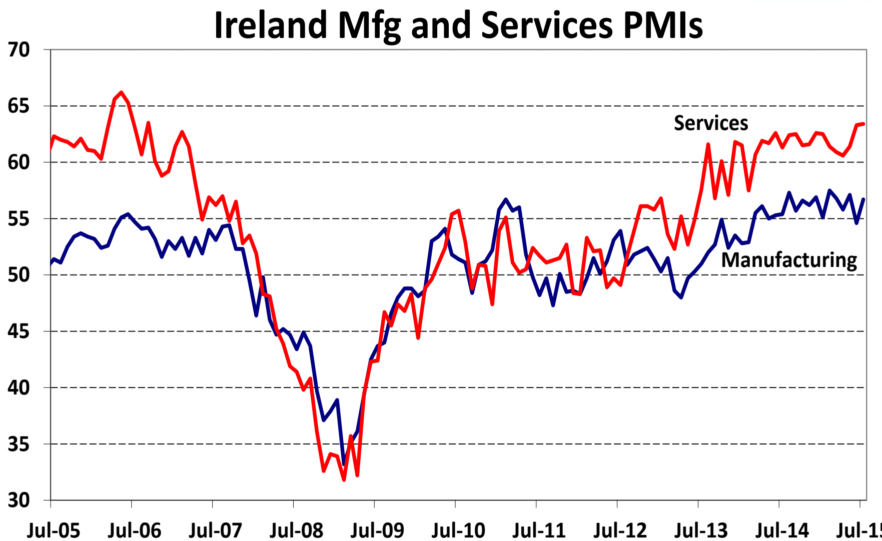
Very strong data as growth rate hits 7%

- GDP grew by 2.1% in Q1 and 1.9% in Q2 2015, up by 7% year-on-year
- Strong export growth continued in H1 2015, up by 3% in Q1 and 5.4% in Q2, (14% yoy in H1)
- Impressive Mfg PMI data in 2015 – got close to highest level since 1999 at 56.7 in July
- Industrial production rising strongly. OECD leading indicator hit 7-year high in June
- Very robust Services PMI data in 2015 -hit 9-year high of 63.4 in July
- Housing market improves, while commercial property market recovering strongly
- Housing output rising from a low base. Completions increased by 16% in H1 2015
- Consumer confidence at 9-year highs in recent months
- Core retail sales rose by 5% year-on-year in Q1 and 6.6% in Q2 2015
- Car sales up 30% year-to-date, maintain 2014 growth rate
- Employment up for 11 consecutive quarters. Rose by 1% in Q2, up 3% yoy
- Live Register continues to fall. Jobless rate down to 9.5% this summer from 15.1% peak
- Exchequer deficit well below forecast at end-August – tax receipts up by almost 10%
- Large BoP surplus in opening half of year

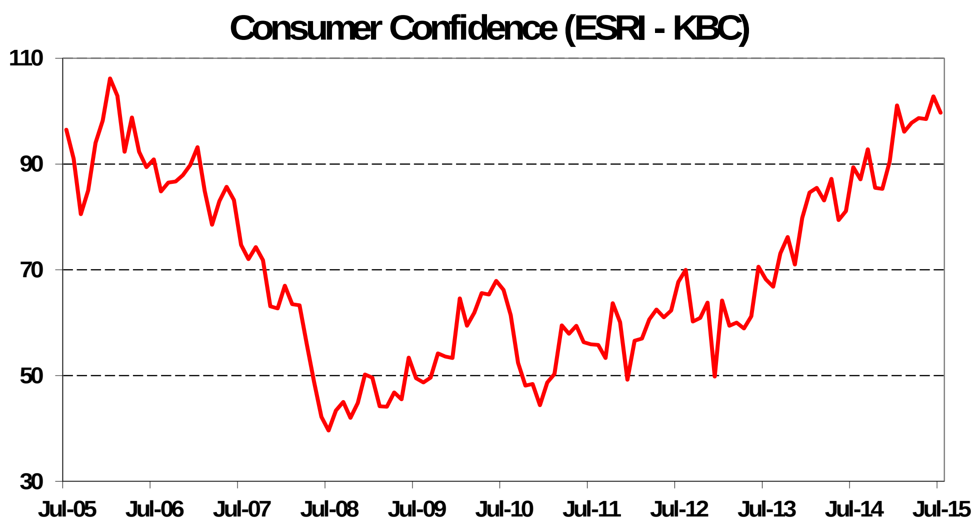
Many indicators pointing to very robust growth



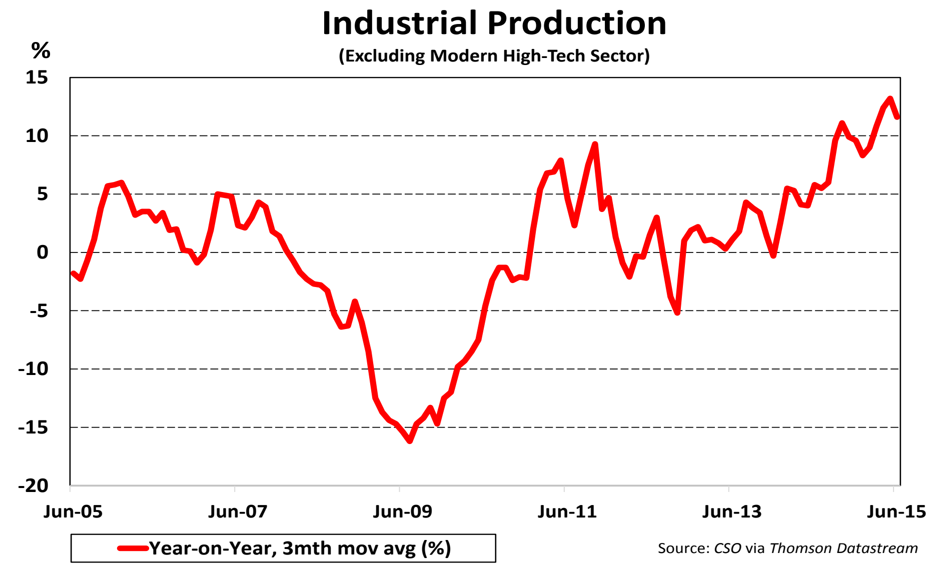
Source: *CSO*



Source: *Thomson Datastream, Investec*



Source: ESRI - KBC, Thomson Datastream



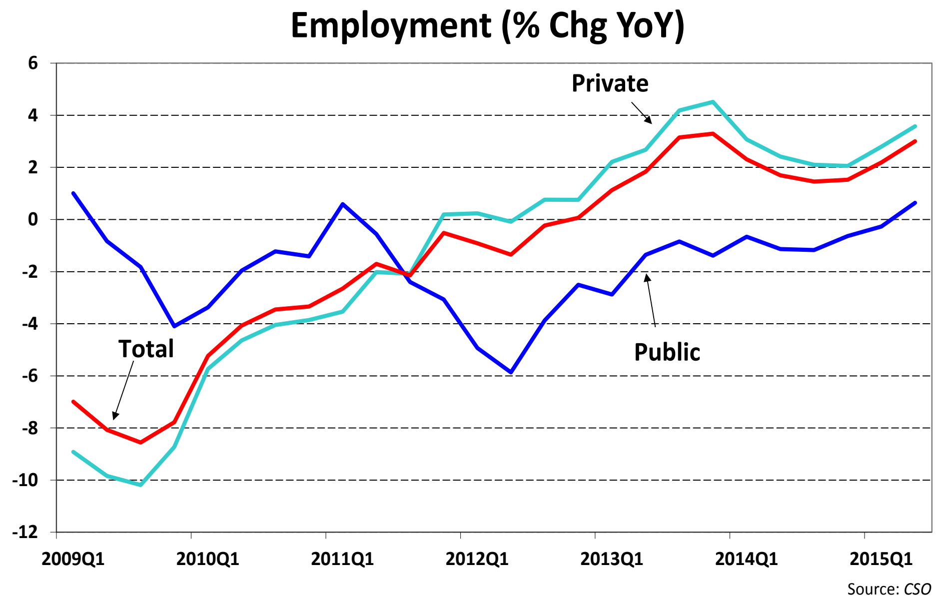
Source: *CSO* via *Thomson Datastream*

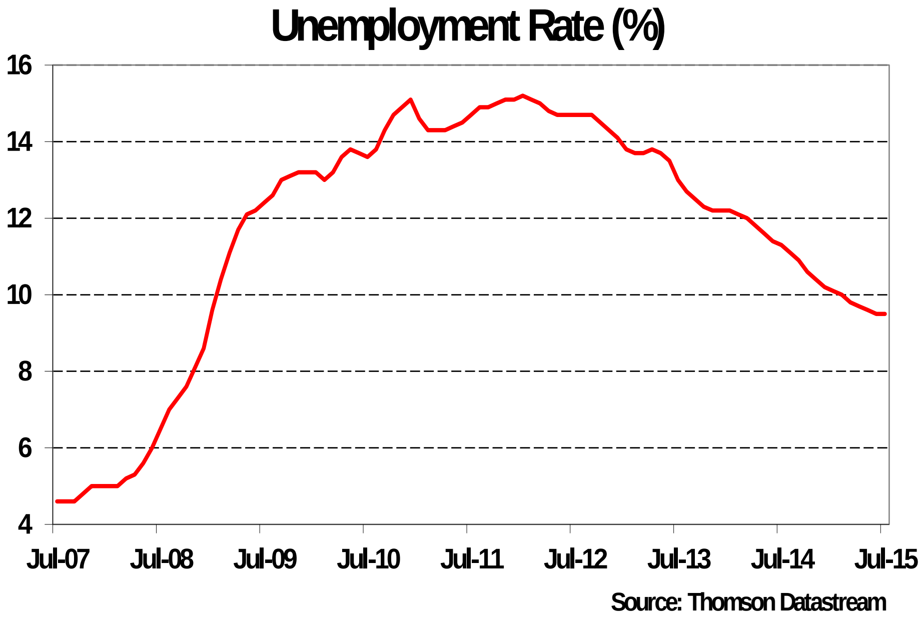
Labour market improving – strong jobs growth

Year Average	2012	2013	2014	2015(f)	2016(f)	2017(f)
Unemployment Rate %	14.7	13.1	11.3	9.5	8.3	7.3
Labour Force Growth %	-0.6	0.4	-0.3	0.6	1.2	1.4
Employment Growth %	-0.6	2.4*	1.7	2.7	2.5	2.5
Net Emigration : Year to April ('000)	34.4	33.1	21.4	11.6	5.0	0.0

Note: Employment ex Agriculture +1.3% in 2013

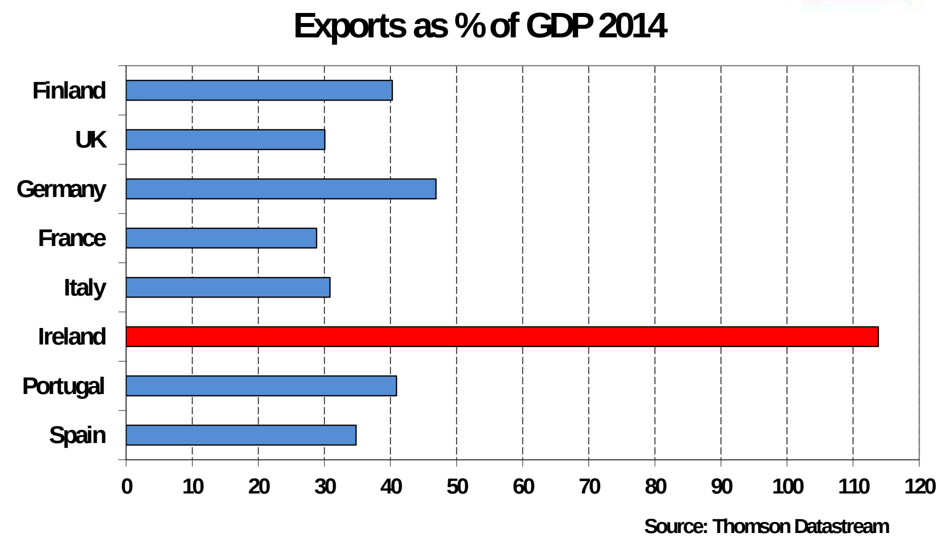
Source: CSO and AIB ERU forecasts

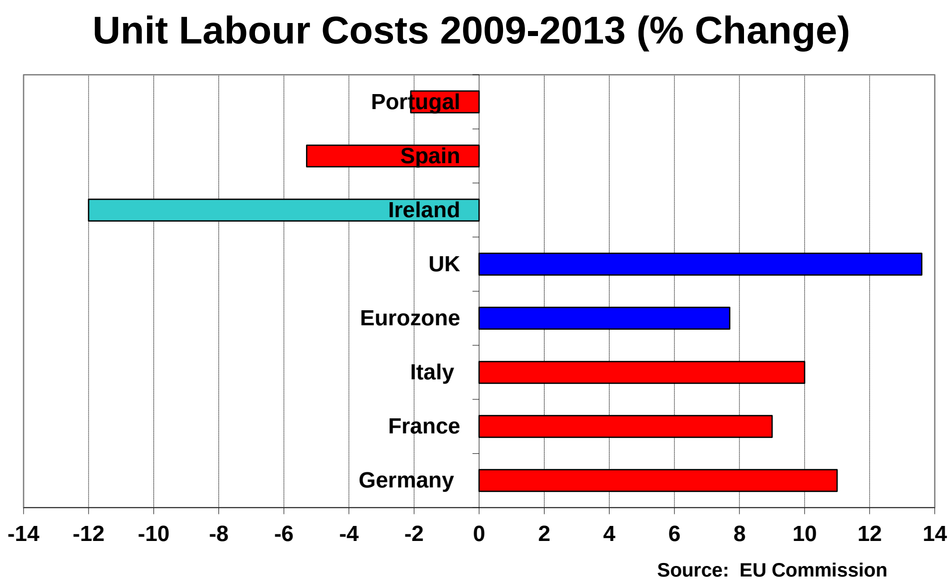


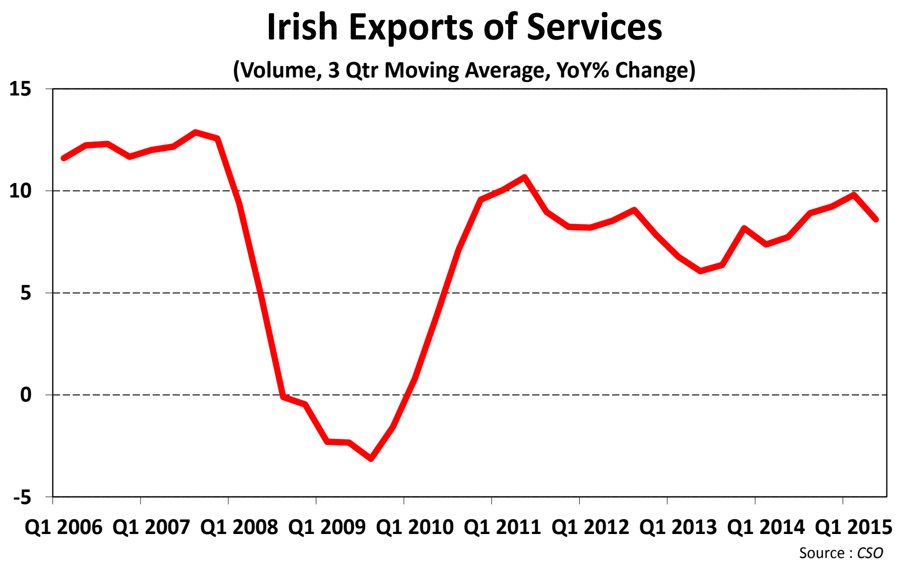


Impressive performance by exports

- Ireland a very open economy – exports, driven by huge FDI, equated 114% of GDP in 2014
- Major gains in Irish competitiveness since 2009
- Euro weakness gives additional boost to Irish exports. Up by over 20% in value (14% in volume) in H1 2015
- Service exports rise strongly in recent years as FDI broadens export base and global economy recovers







Impact of FDI on economy (Source IDA)

KEY FDI IMPACTS ON THE IRISH ECONOMY

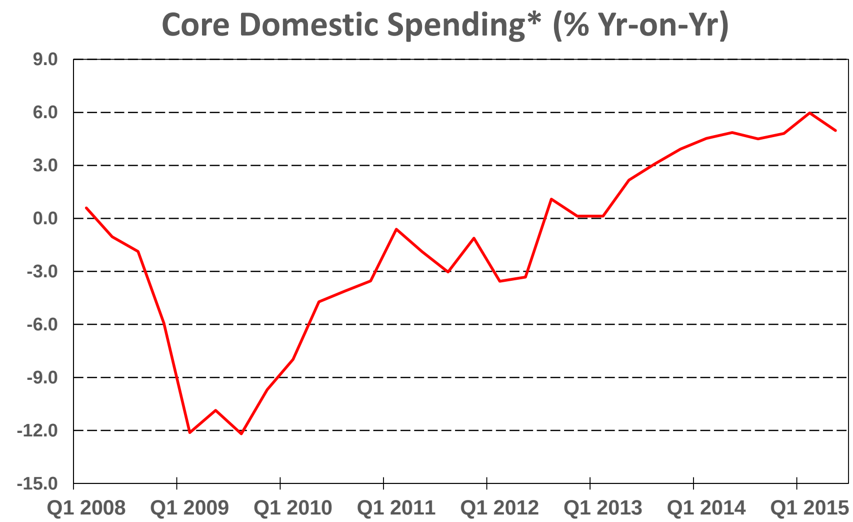
- 1,050 multinational companies
- €121bn Exports (70% of Irish exports)
- 161,000 Jobs in FDI, 275,000 in total
- 70% of Corporation Tax
- €11bn Spending on services/materials
- €8bn in Payroll
- 67% of Business R&D expenditure

WORLD LEADERS CHOOSE IRELAND

- 8 of the top 10 in ICT
- 9 of the top 10 in Pharmaceuticals
- 17 of the top 25 in Medical Devices
- 3 of the top 5 Games companies
- 10 of the 'top born on the Internet' firms
- More than 50% of the world's leading Financial Services firms

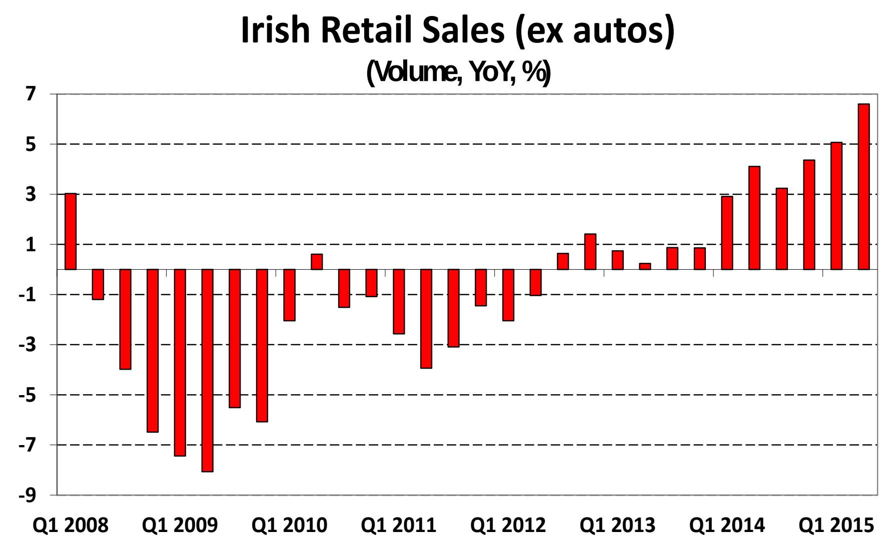
Strong rebound by domestic economy

- Domestic economy contracted by 20% from 2008-12
- Collapse in construction was big drag on GDP - fell from 13.5% of GDP in 2005-07 to 5.3% by 2012
- Construction has turned around – moderate recovery in place since 2013
- House building picked up in 2014 and H1 2015 but still at very low levels
- Business investment (ex planes) up by 36% yoy in H1 2015 after rising by 13% in 2014
- Total investment (ex planes, R&D) growing at steady 20% rate since 2013, despite subdued construction
- Core domestic spending (ex planes, R&D) rose by 2.3% in 2013, 4.7% in 2014 and 5.5% in H1 2015
- Consumer spending grew by 2% in 2014 and 3.25% in H1 2015 – but spending on services still very weak
- Core retail sales up 5% yoy in Q1 and 6.6% in Q2'15
- New car sales up 30% in 2015 – same growth in 2014



*Domestic Spending excluding R&D, Planes

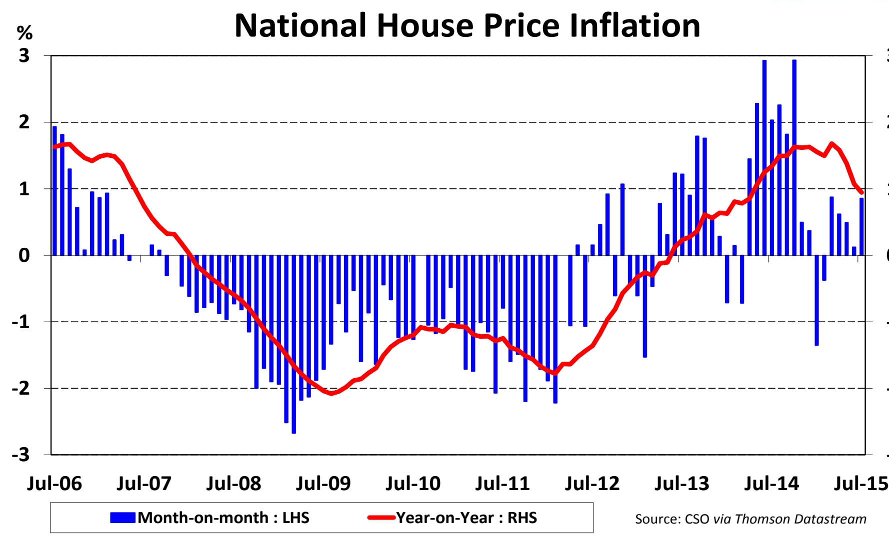
Source: CSO, AIB ERU Calculations



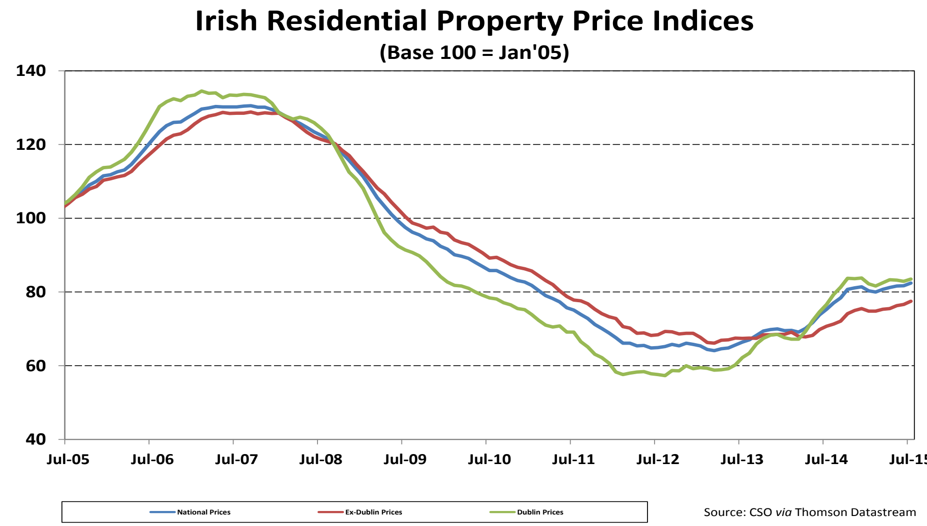
Source: Thomson Datastream

House price inflation eases on CB mortgage rules

- Housing output fell by 90% but now past the bottom of cycle
- Bulk of the new housing stock overhang eliminated
- House prices declined sharply – fell by over 50% between their peak in late 2007 and early 2013
- House prices recovering: up 28.5% in July 2015 from low in early 2013 as shortages emerge in market
- Dublin prices up by 46% and non-Dublin prices up by over 17% from their troughs
- House prices, both in Dublin and nationally, though, are still some 37% below peak level hit in 2007
- New Central Bank mortgage regulations have cooled Dublin house prices – broadly flat to date in 2015
- Nationally, prices rose by an average 0.6% in past five months. Up 9.4% yoy in July 2015
- Rents have rebounded – up by 33% from lows and now only 1.4% below previous peak reached in 2008



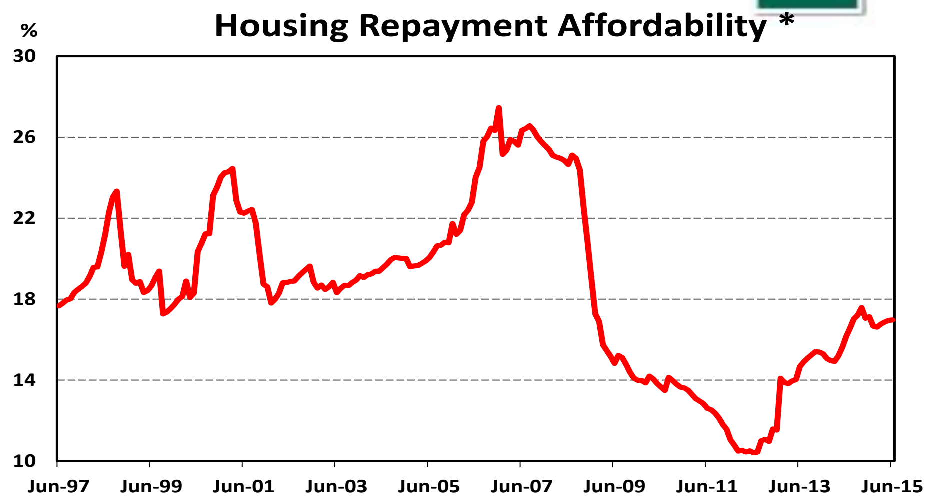
Source: CSO *via Thomson Datastream*



Source: CSO *via* Thomson Datastream

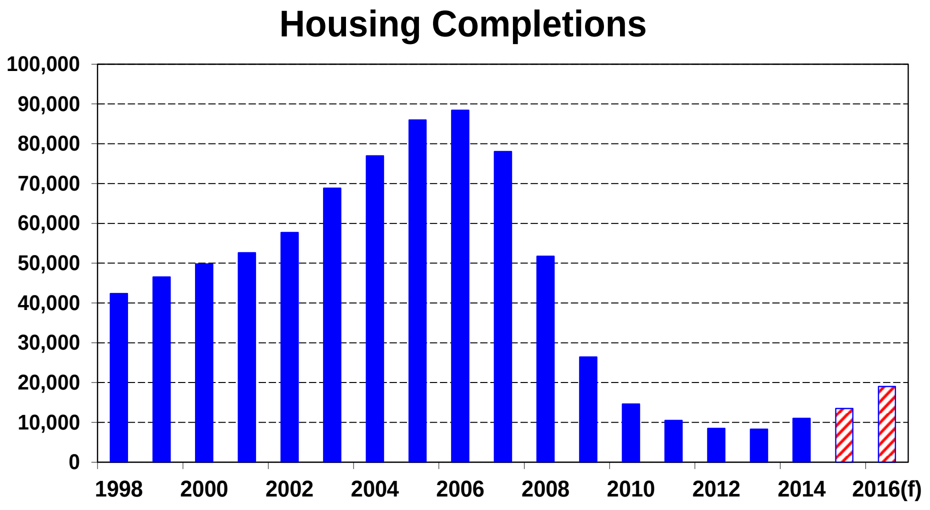
House building rising slowly from very depressed levels

- Housing completions at 11,000 in 2014, up from 8,300 in 2013. Should rise to 13-14,000 in 2015
- House building still at very low levels. Way below previous peak of near 90,000 completions
- Demand estimated at 25,000 new units per annum
- Good rise in new housing registrations and commencements but still at depressed levels
- Recovery in house prices should help spur more building activity
- Housing affordability not as issue - just below levels pertaining in 1997 before the boom started
- Mortgage lending up 50% in H1 2015, but approvals rise has slowed to below 10% yoy – new CB rules
- Main concern remains very slow pace of recovery in house building activity despite strong demand
- Number of measures have been put in place to help boost new house building



* % of disposable income required for mortgage repayments for 2 income household, 30 year 90% mortgage. Based on Permanent TSB/ESRI national house price & CSO residential property price index

Source: *AIB, Permanent TSB/ESRI, CSO, Dept. of Finance*



Source: CSO; DoEHLG and AIB ERU

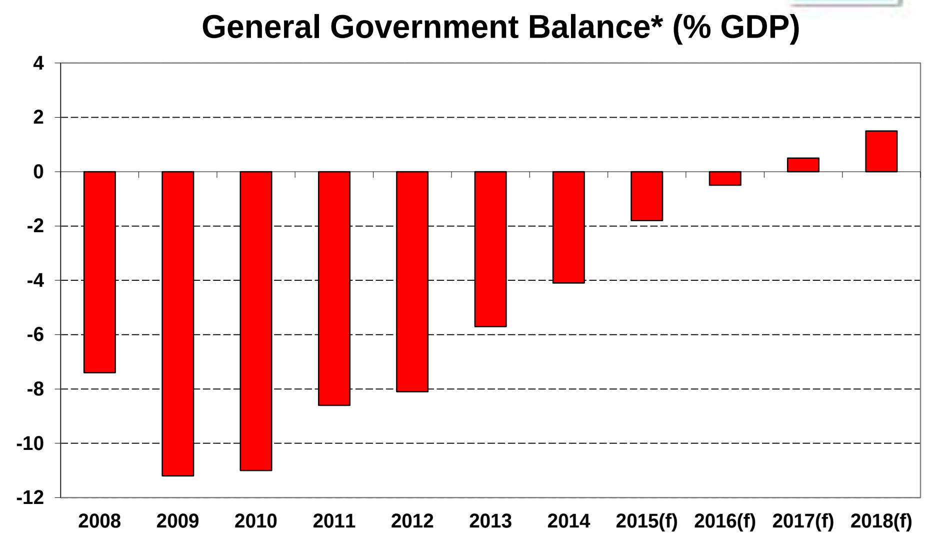
AIB Model of Potential Housing Demand

Calendar Year	2010	2011	2012	2013	2014	2015	2016
Household Formation	**22,000**	**17,000**	**14,000**	**15,000**	**16,500**	**18,000**	**19,000**
of which							
Indigenous Population Growth	***26,000***	***23,000***	***20,500***	***19,000***	***18,000***	***17,500***	***17,000***
Migration Flows	***-7,000***	***-9,000***	***-9,500***	***-7,000***	***-4,500***	***-3,000***	***-2,000***
Increased Headship	***3,000***	***3,000***	***3,000***	***3,000***	***3,000***	***3,500***	***4,000***
Second Homes	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Replacement of Obsolete Units	**4,000**	**4,000**	**4,000**	**4,000**	**4,500**	**5,000**	**5,000**
Total POTENTIAL Demand	**27,000**	**22,000**	**19,000**	**20,000**	**22,000**	**24,000**	**25,000**
Completions	**14,500**	**10,500**	**8,500**	**8,300**	**11,000**	**14,000**	**19,000**
POTENTIAL Impact on Vacant Stock	***-12,500***	***-11,500***	***-10,500***	***-11,700***	***-11,000***	***-10,000***	***-6,000***

Sources: CSO, DoECLG, AIB ERU

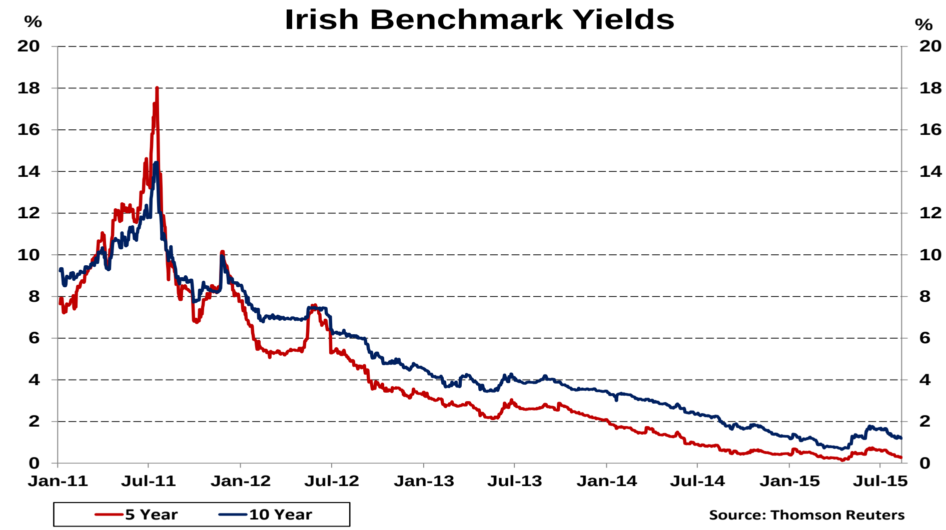
Austerity ends. Low budget deficit likely in 2015

- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period.
- Neutral 2015 budget aimed for sub 3% deficit. Included modest tax cuts. Austerity at an end.
- Primary budget (i.e. excluding debt interest costs) back in surplus
- Very good trends in 2015 with big jump in tax receipts and just a small budget deficit
- Low 2015 budget deficit now looks likely
- Debt interest costs low at under 4% of GDP
- Gross Gov Debt/GDP ratio falls to 110% in 2014. Ex high cash balances, ratio below 100%
- Maturity profile of debt greatly extended. Small amount of bonds mature in near future
- Irish bonds yields have fallen sharply, with five year yields of 0.4%, ten year at 1.35%
- Sovereign debt ratings upgraded; S&P now have Ireland at A+, with Fitch at A-



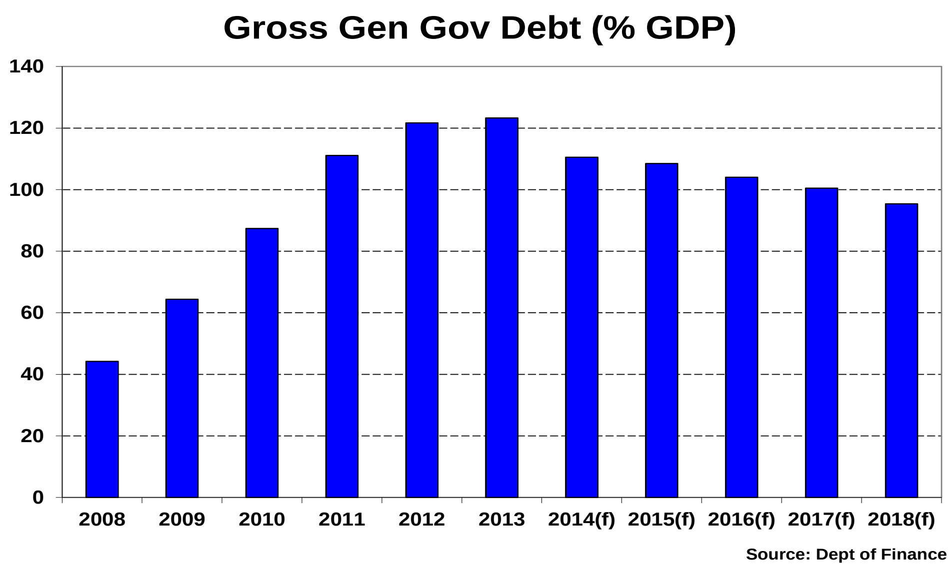
*Excludes banking recapitalisation costs in 2009-11

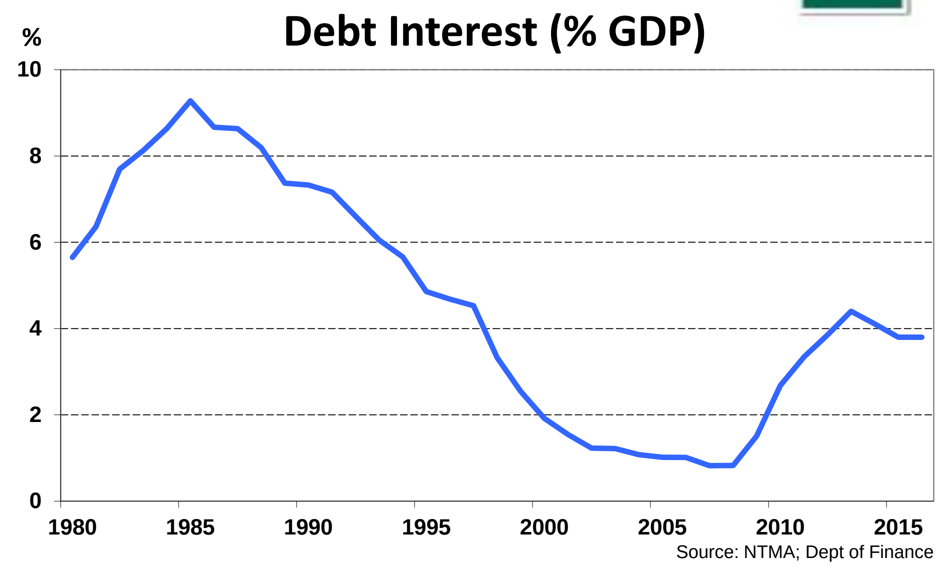
Sources : Dept of Finance, AIB ERU Forecasts

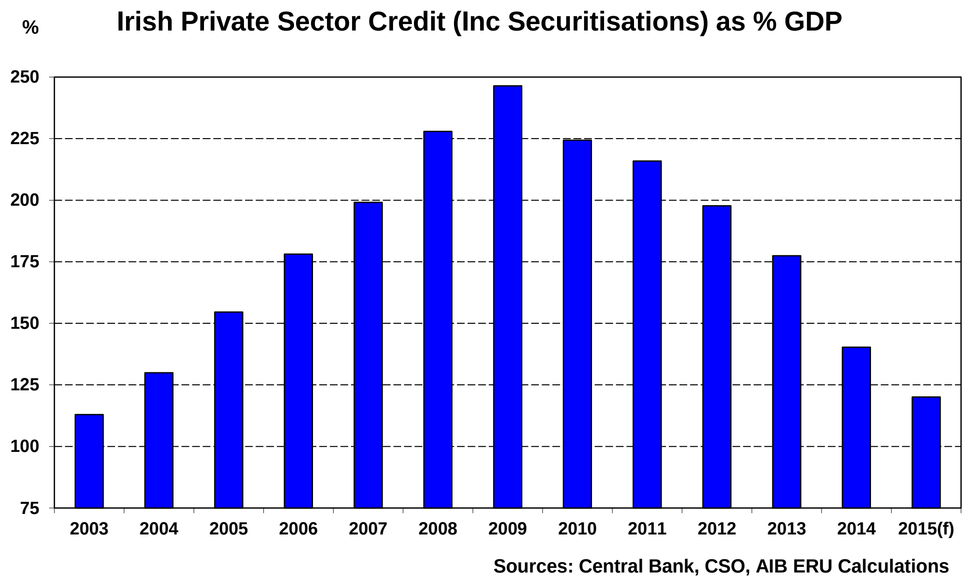


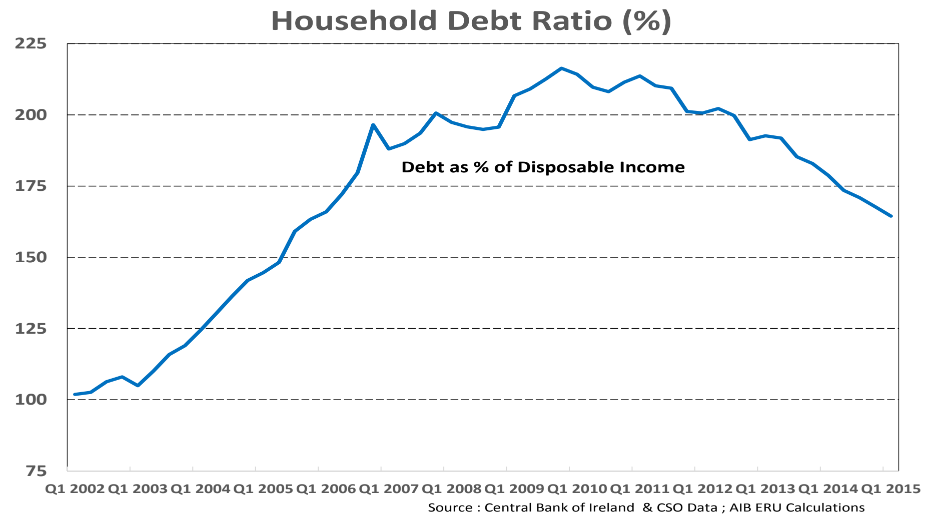
Source: Thomson Reuters

Gov debt ratio falling, private sector deleveraging



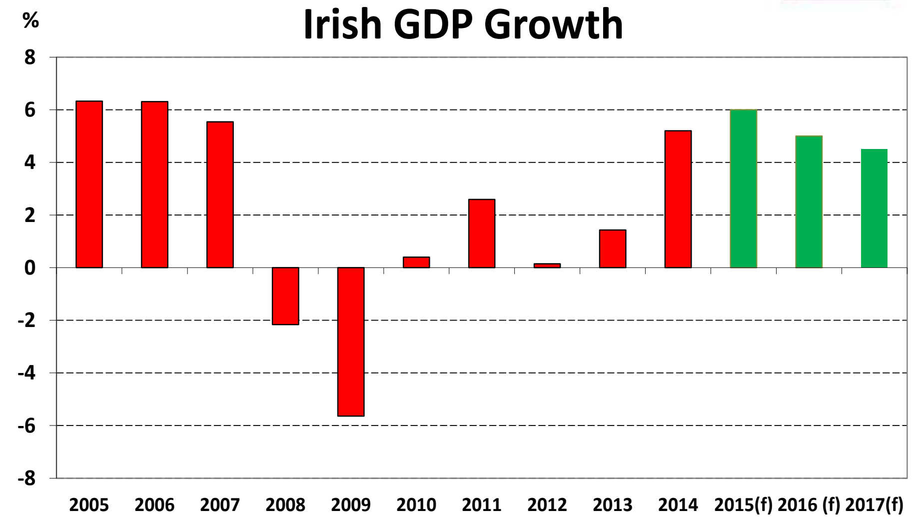




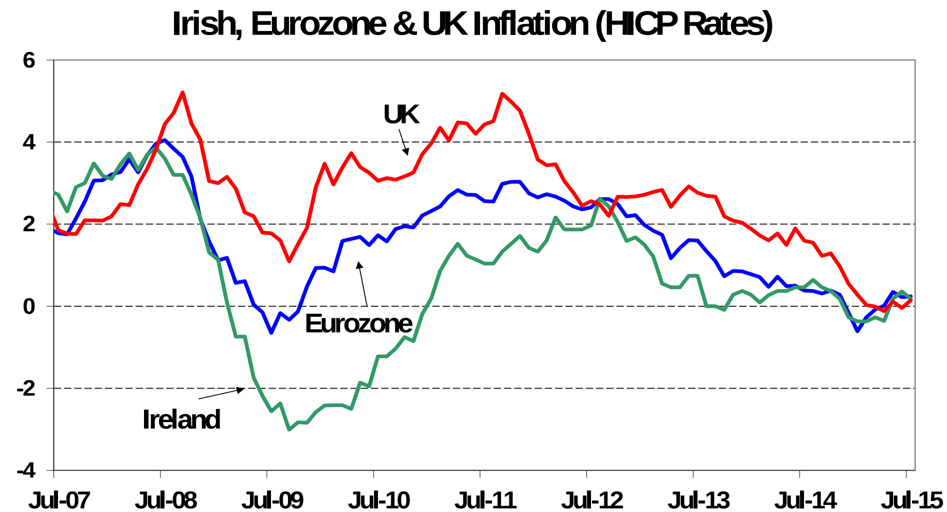


Economy can continue to grow strongly

- The contraction on the domestic side of economy is well over and the sector is now expanding strongly
- Labour market on steadily improving path
- Construction picking up from very depressed levels
- Fiscal tightening at an end, with budgetary policy now turning expansionary
- Major gains made on the competitiveness front – much lower CPI/ULC than elsewhere since 2009
- Large, diversified export base performing well
- Ireland benefitting from the fall of euro and improvement in European growth in past year
- Activity supported by low interest rate environment
- Economy has capacity to grow strongly given inflow of FDI and ample supply of skilled labour, as well as scope for sharp rebound in domestic sector
- Irish lead indicators point to continuing strong growth
- GDP growth of 6% forecast for 2015
- Ireland to grow by 4-5% in next few years



Source: Thomson Datastream, AIB ERU



Source: Thomson Datastream

AIB Irish Economic Forecasts

% change in real terms unless stated	2012	2013	2014	2015 (f)	2016 (f)	2017 (f)
GDP	**0.2**	**1.4**	**5.2**	**6.0**	**5.0**	**4.5**
GNP	1.6	4.6	6.9	5.5	4.5	4.0
Personal Consumption	-0.8	-0.3	2.0	3.0	3.0	3.0
Government Spending	-2.2	1.4	4.6	2.5	2.0	2.0
Fixed Investment	8.6	-6.6	14.3	14.5	7.0	7.0
Domestic Spending	**1.0**	**-1.5**	**5.2**	**5.7**	**4.0**	**4.0**
Exports	2.1	2.5	12.1	13.0	7.5	6.5
Imports	2.9	0.0	14.7	13.5	6.7	6.3
HICP Inflation (%)	2.0	0.5	0.3	0.2	1.0	1.5
Unemployment Rate (%)	14.7	13.1	11.3	9.5	8.3	7.3
Budget Balance (% GDP)	-8.1	-5.7	-4.1	-1.8	-0.5	0.5
BoP Current A\C as % GDP	-1.5	3.1	3.6	5.5	5.7	4.5

Source: CSO, AIB ERU Forecasts

Risks to the Irish economic recovery

- Recovery in the global economy still quite moderate, especially in the Eurozone, with on-going risks and headwinds. Ireland vulnerable to any shocks which would hit its exports
- Risk of a Brexit. Would certainly be an issue for Ireland given its strong trading links with UK
- Major changes globally to corporation tax, although Ireland's 12.5% rate not under threat
- Supply constraints in the construction sector, especially new house building, which is recovering at a very slow pace and remains at depressed levels
- High indebtedness and scale of balance sheet repair by households (mortgage debt is very high). Major deleveraging has already taken place. Difficult to estimate its duration but it has further to run as debt ratios still very high
- Continuing credit contraction – fewer banks, tighter credit conditions, on-going deleveraging

CPD CODE: 2015 0462