

# The Irish Economic Update – Economy Rebounding Strongly

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# Irish economy rebounds after deep recession



- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe three year long recession in Ireland from 2008-2010. GDP fell by 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 2010 back to 2005 levels but still over 25% higher than in 2000, 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 also now recovering, led by rebound in investment and labour market
- GNP rose by 1.1% in 2012, 3.3% in 2013 and 5.2% in 2014
- GDP rose by 4.8% last year, with broad-based growth in economy. Strong start to 2015.
- Economy now back on a strong growth path. GDP could grow by some 4%+ per annum

# Irish data remain very upbeat in 2015



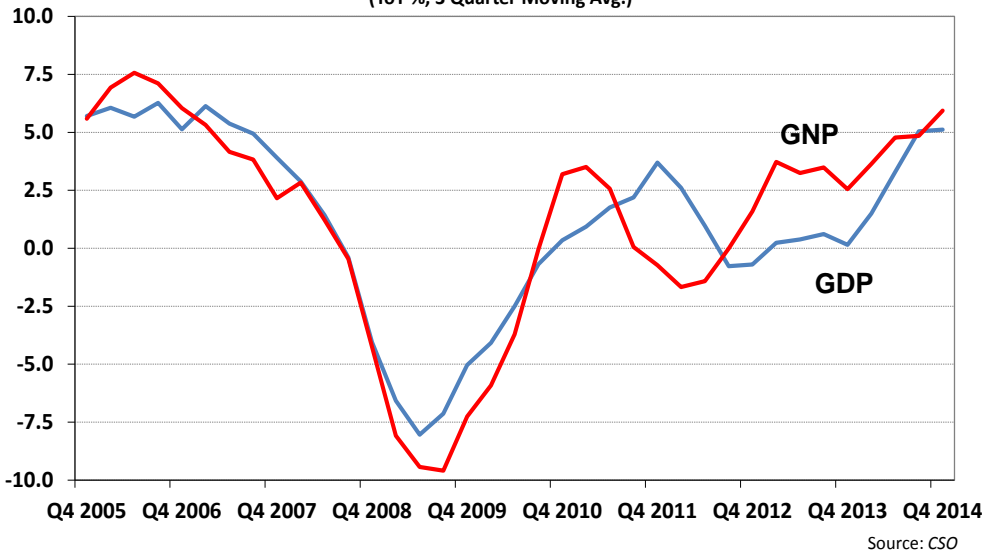
- GNP rose by 5.2% with GDP up by 4.8% in 2014 as recovery broadened and accelerated
- Very large BoP surplus rose further in 2014. Strong export growth continued in Q1 2015
- Strong mfg PMI data in 2015 – near highest level since 1999, averages 56.5 in Jan-May 2015
- Rebound in industrial production. OECD leading indicator at 7 year highs in early 2015
- Very strong services PMI data in 2015. Averages 61.3 to May, close to eight year highs
- Housing market improving, while commercial property market recovering strongly
- Strong rise in house prices continuing. Prices up 15.8% yoy nationally in April 2015
- Housing output rising from a low base. Completions increasing at around a 30% yoy rate
- Consumer confidence at 9-year highs in recent months
- Core retail sales rose by 3.7% in 2014. Accelerates to 5.7% yoy growth in Jan-April 2015
- Car sales jumped by 30% last year – highest since 2008. Up 26.5% in Jan-May 2015
- Employment up for 10 consecutive quarters. Rises by 0.6% or 2.2% yoy in Q1 2015
- Live Register continues to fall in 2015. Jobless rate down to 9.8% in May from 15.1% peak
- Exchequer finances in surplus at end May – taxes up 11% yoy. Small deficit likely for year

# Very robust Irish economic indicators

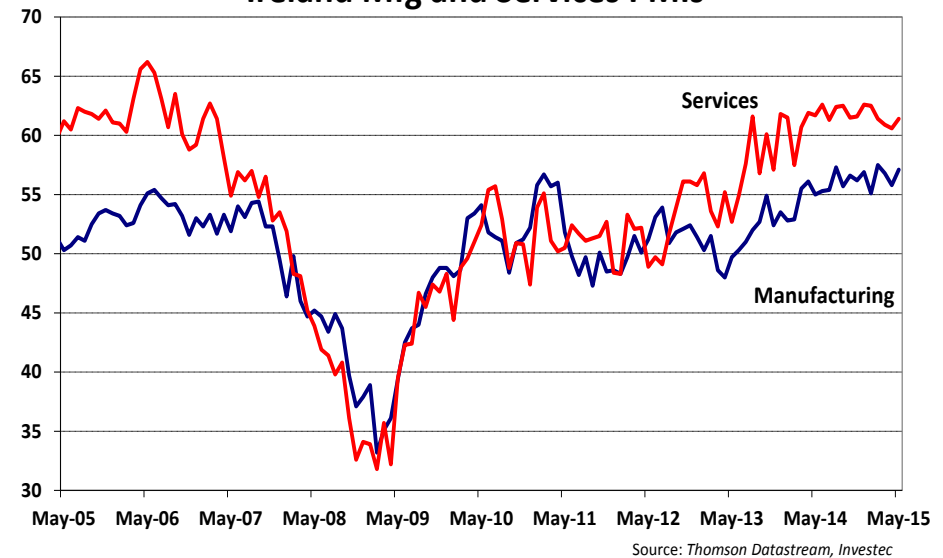


## Irish Growth Rates

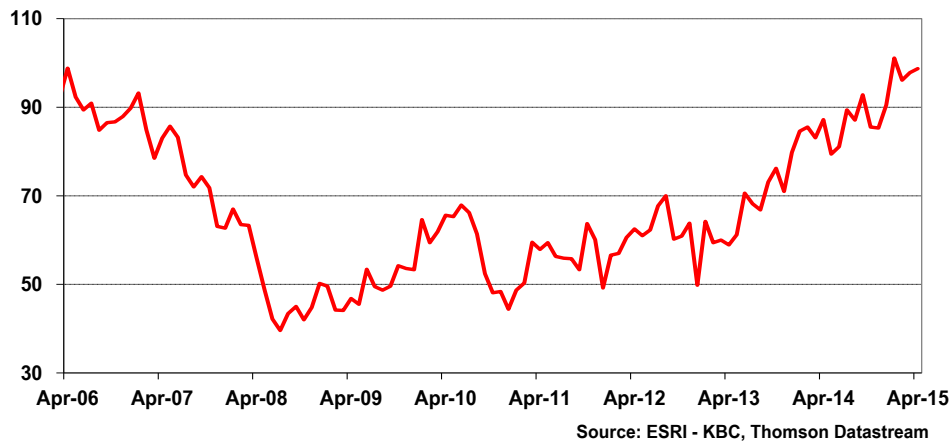
(YoY %, 3 Quarter Moving Avg.)



## Ireland Mfg and Services PMIs

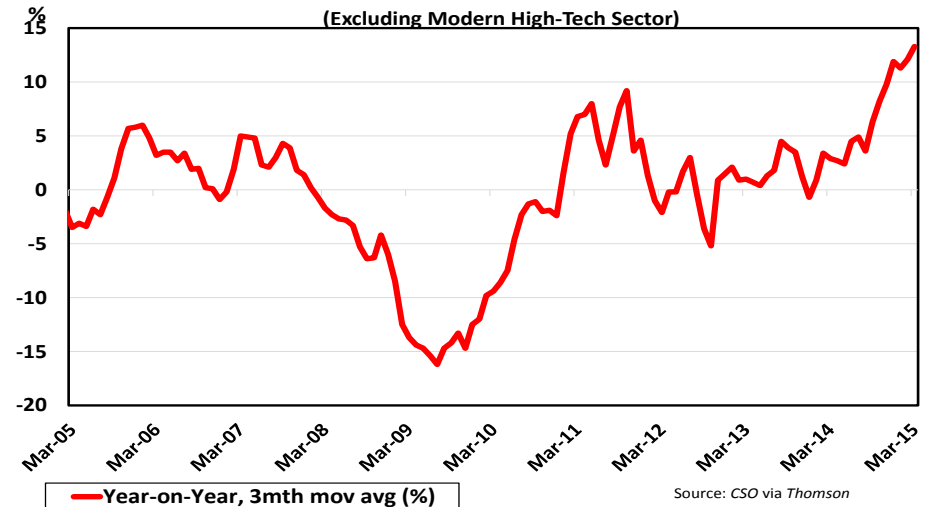


## Consumer Confidence (ESRI - KBC)



## Industrial Production

(Excluding Modern High-Tech Sector)



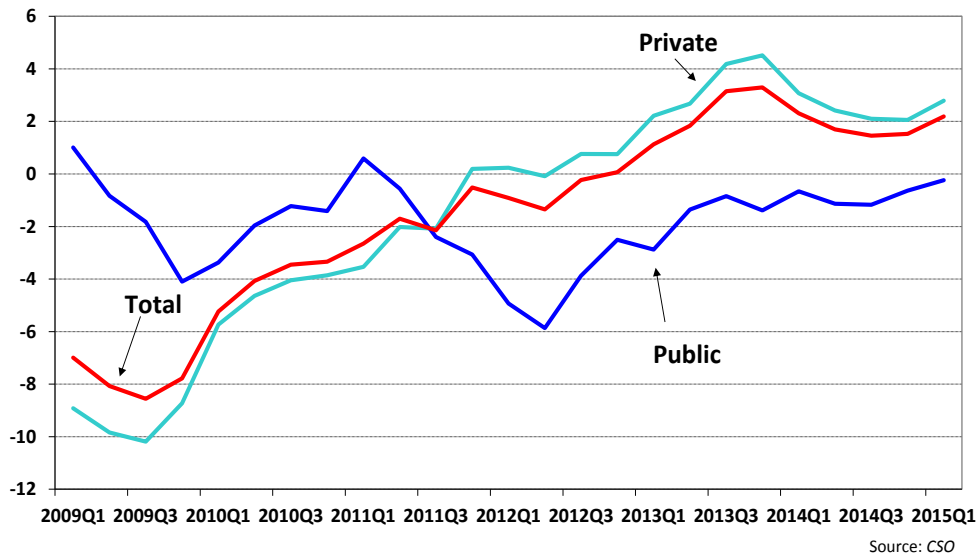
# Labour market improving – strong jobs growth



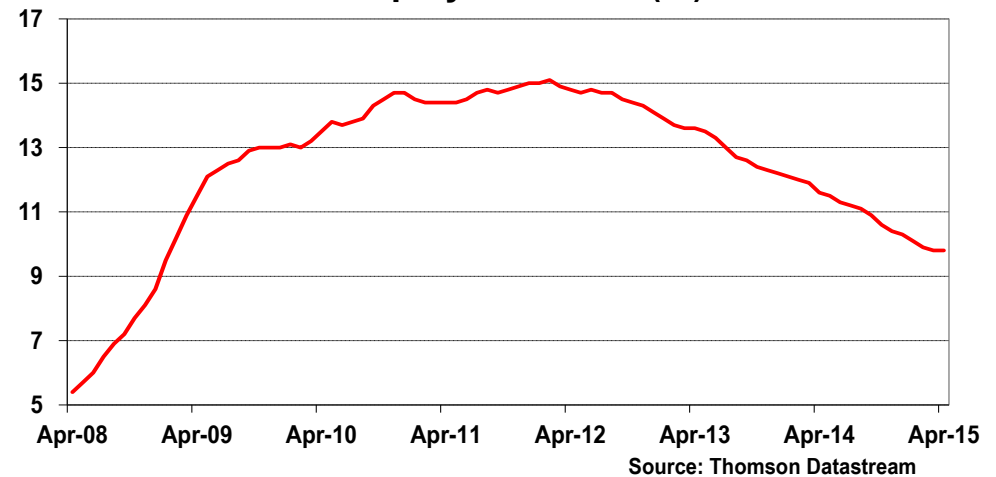
Year Average	2012	2013	2014	2015(f)	2016(f)	2017(f)
<b>Unemployment Rate %</b>	14.7	13.1	11.3	9.5	8.3	7.3
<b>Labour Force Growth %</b>	-0.6	0.4	-0.3	0.3	1.0	1.2
<b>Employment Growth %</b>	-0.6	2.4*	1.7	2.3	2.3	2.3
<b>Net Emigration : Year to April ('000)</b>	34.4	33.1	21.4	15.0	10.0	5.0

*\*Note: Employment ex Agriculture +1.3% in 2013* Source: CSO and AIB ERU forecasts

**Employment (% Chg YoY)**



**Unemployment Rate (%)**

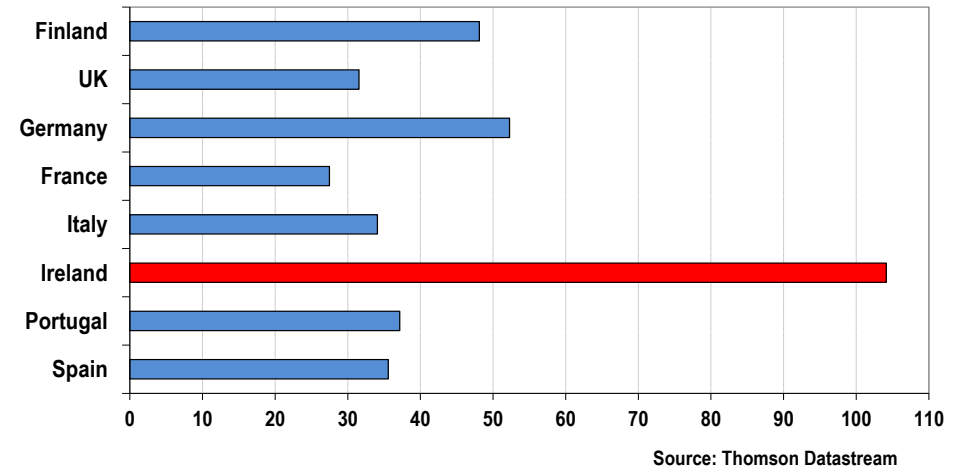


# Impressive performance by exports

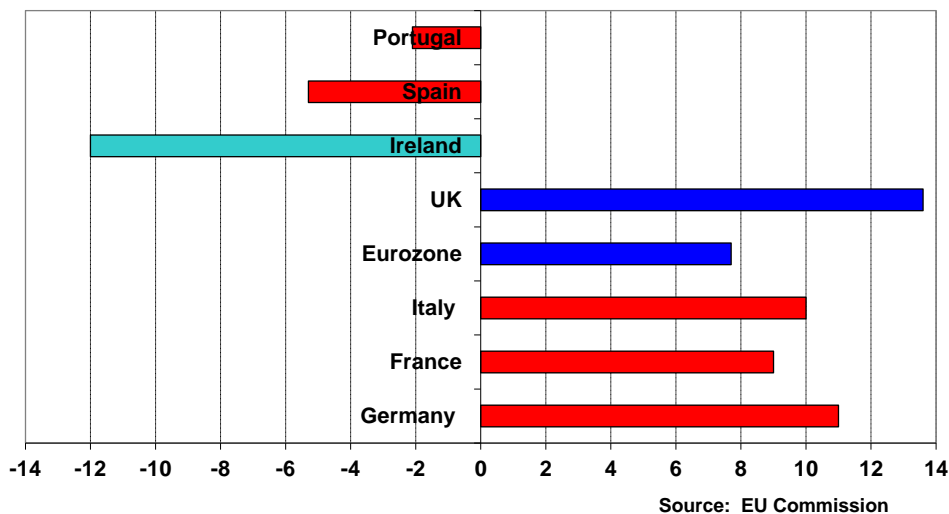


- Ireland a very open economy – exports, driven by huge FDI, equated 112% of GDP in 2014
- Major gains in Irish competitiveness since 2009
- Goods exports rebounded in 2014 after 4% fall in 2013 on sharp drop in pharma output (patents expire).
- Service exports rising strongly since 2010 as new FDI broadens export base and global economy recovers
- Goods exports rise by 18% in value in Q1 2015

Exports as % of GDP 2013

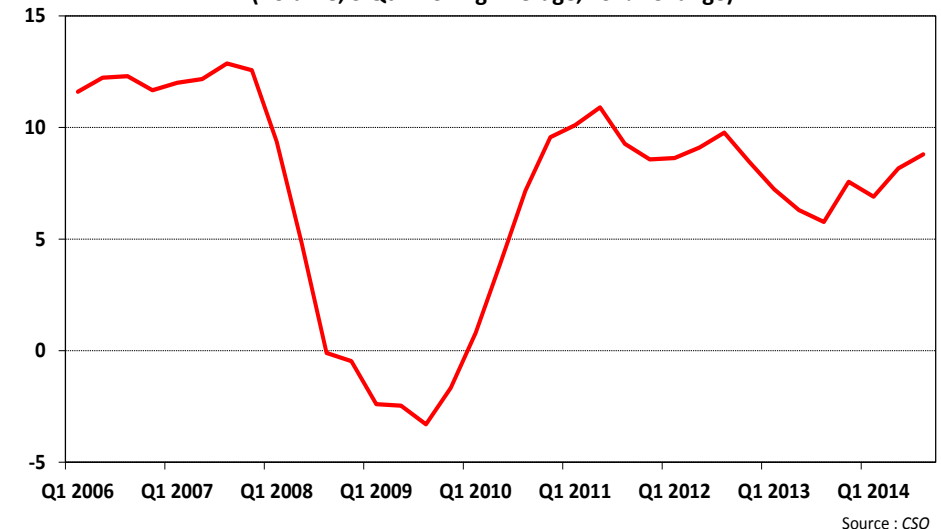


Unit Labour Costs 2009-2013 (% Change)



Irish Exports of Services

(Volume, 3 Qtr Moving Average, YoY% Change)



# 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



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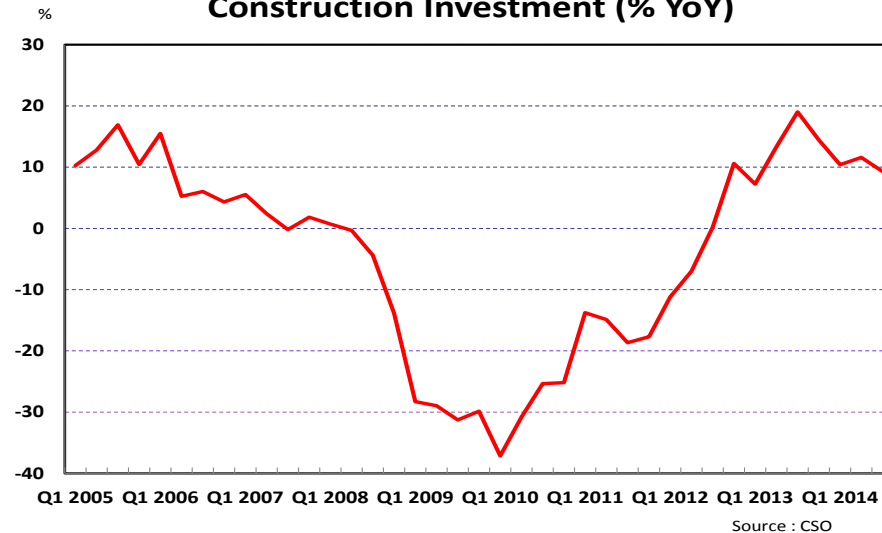


# Domestic economy rebounding

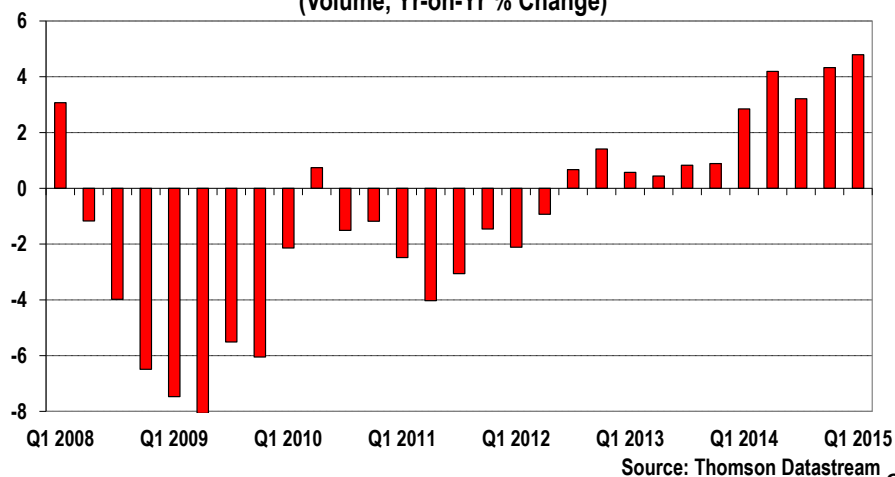


- Domestic economy contracted by 23% from 2008-12
- Collapse in construction was big drag on GDP growth - fell from 13% of GDP in 2005-07 to 5.3% by 2012
- Construction has turned around – rebounded by 23% in 2013-14
- House building picked up in 2014 from very low levels
- Strong rebound in commercial property in 2013-14
- Business investment (ex volatile transport) growing strongly – up by 35% in both 2013 and 2014
- Total investment (ex transport) up 12% in 2014
- Domestic spending up by 3% in 2014
- Consumer spending up by over 1% in 2014, with rise of over 2% yoy by Q4
- Core retail sales grew 5.8% yoy in Jan-Apr 2015
- New car sales up 26.5% in Jan-May 2015

Construction Investment (% YoY)



Irish Retail Sales (ex autos)  
(Volume, Yr-on-Yr % Change)

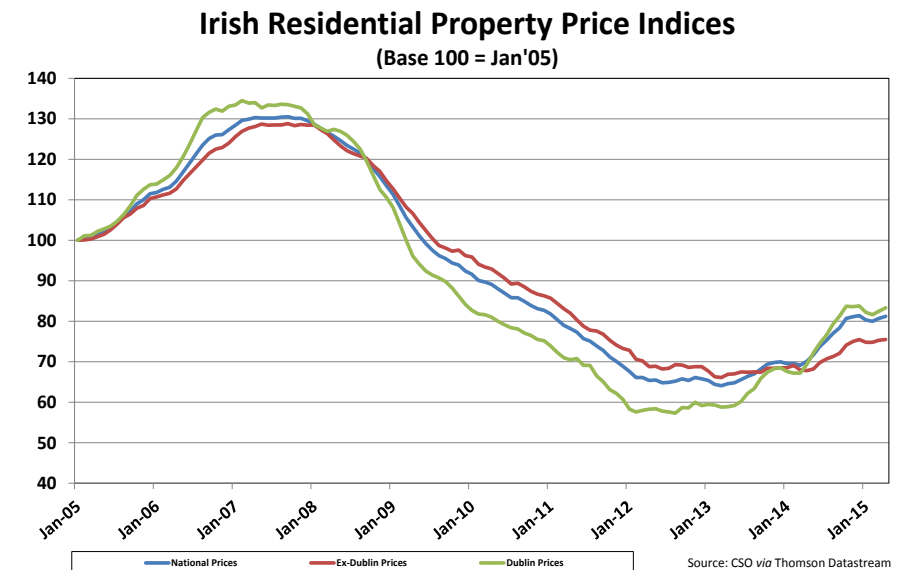
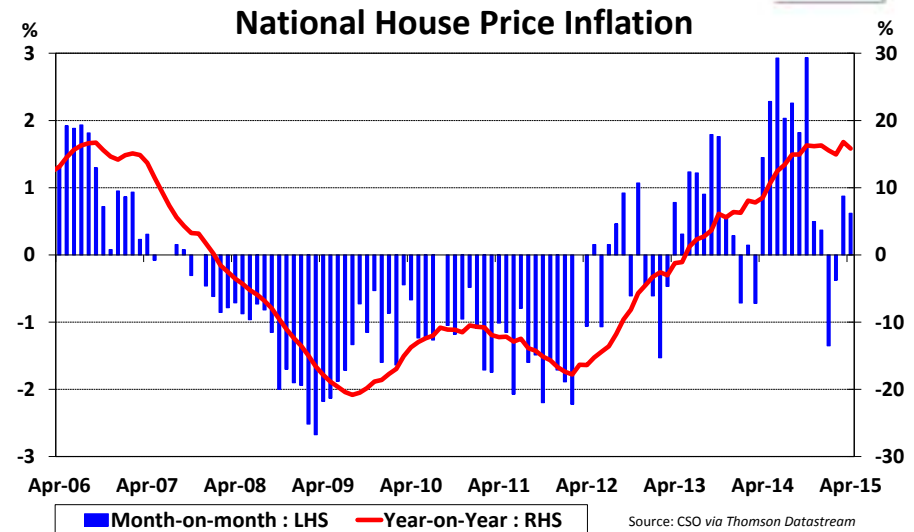




# House prices rebound amidst a lack of supply



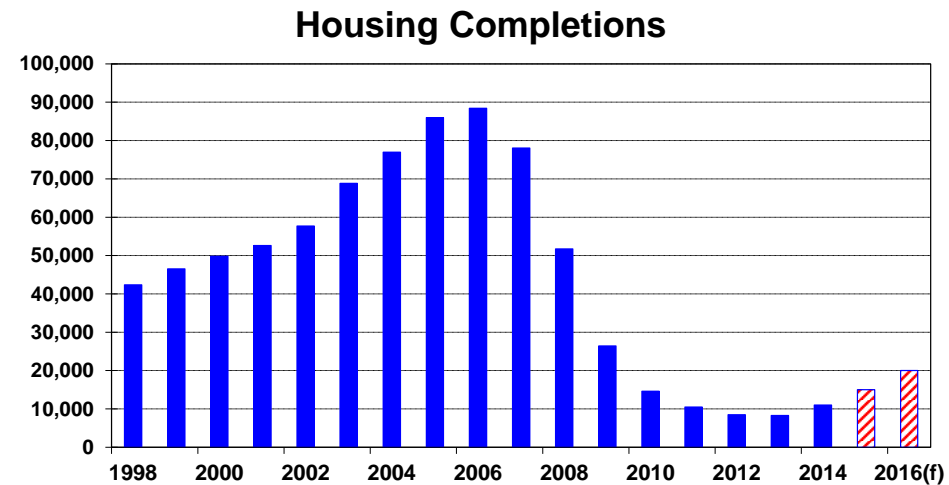
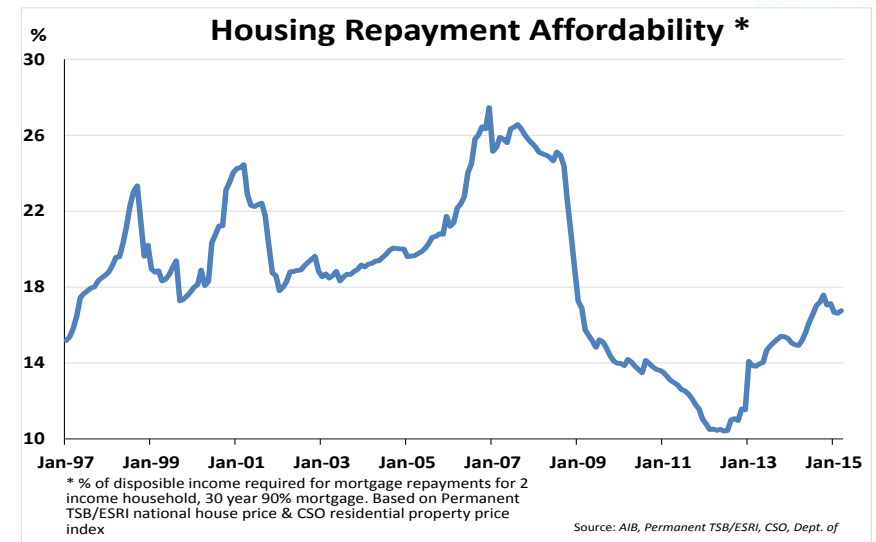
- Housing output fell by 90% but now past the bottom of cycle
- Bulk of the new housing stock overhang eliminated
- House prices declined sharply – fell by over 50% between their peak in late 2007 and early 2013
- House prices rebound: up 27% by April 2015 from low two years earlier as shortages emerge in market
- Dublin prices up by 45% and non-Dublin prices up by 14% from their troughs
- House prices, both in Dublin and nationally, though, are still 38% below peak level hit in 2007
- House prices up some 16% yoy in April 2015, with Dublin prices up 20% and non-Dublin 11.5% yoy
- Rents also rebound – up by 30% from lows and now just 4% below previous peak
- Shortage of housing should continue to underpin growth in prices/rents



# House building rising slowly from very depressed levels



- Housing completions at 11,000 in 2014, up from 8,300 in 2013. Should rise to 14-15,000 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
- Big jump in new housing registrations but still at depressed levels
- Recovery in house prices should help spur more building activity
- Housing affordability, though, still at levels pertaining in 1997, before the boom started
- Mortgage lending up by 55% in 2014, and 44% yoy in Q1 2015, but still at quite a subdued level
- New Central Bank mortgage regulations should not have major impact on market, especially FTB
- Main concern is very slow pace of recovery in house building activity



# AIB Model of Potential Housing Demand

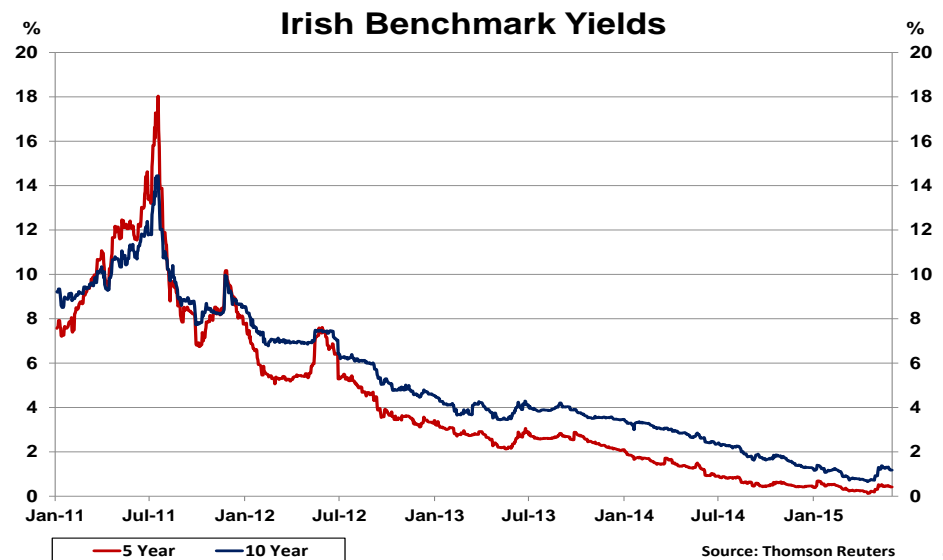
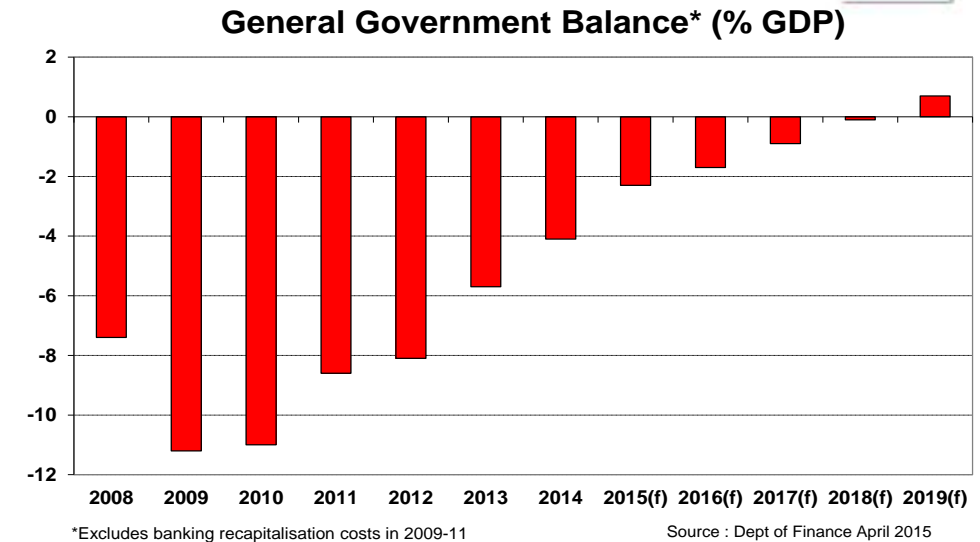


Calendar Year	2010	2011	2012	2013	2014	2015	2016
<b>Household Formation</b>	22,000	17,000	14,000	15,000	16,500	18,000	19,000
<i>of which</i>							
<i>Indigenous Population Growth</i>	26,000	23,000	20,500	19,000	18,000	17,500	17,000
<i>Migration Flows</i>	-7,000	-9,000	-9,500	-7,000	-4,500	-3,000	-2,000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

# Austerity ends. Very low budget deficit likely in 2015



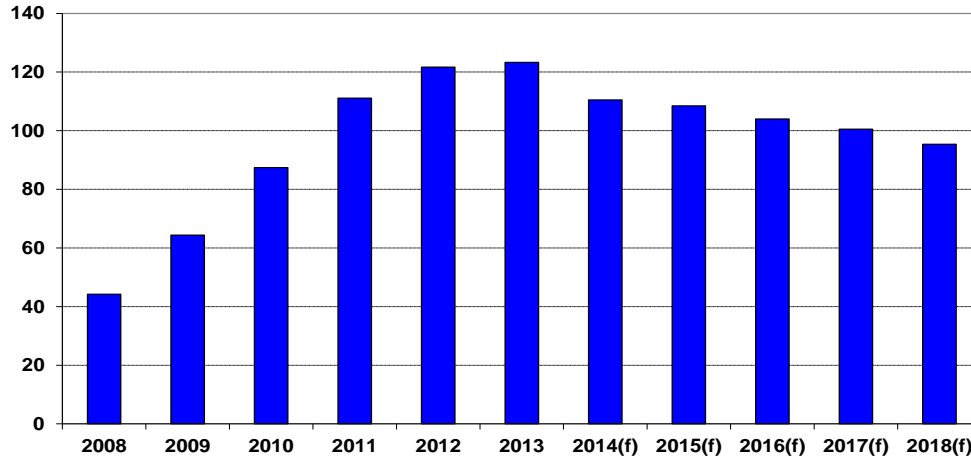
- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period.
- Neutral 2015 budget aimed for sub 3% deficit. Included modest tax cuts. Austerity at an end.
- Primary budget (i.e. excluding debt interest costs) back in surplus
- Very good trends in 2015 with big jump in tax receipts and budget in surplus at end May
- Very 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, now 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 0.5%, ten year at 1.3%
- Sovereign debt ratings upgraded; S&P now have Ireland at A, with Fitch at A-



# Gov debt ratio falling, private sector deleveraging

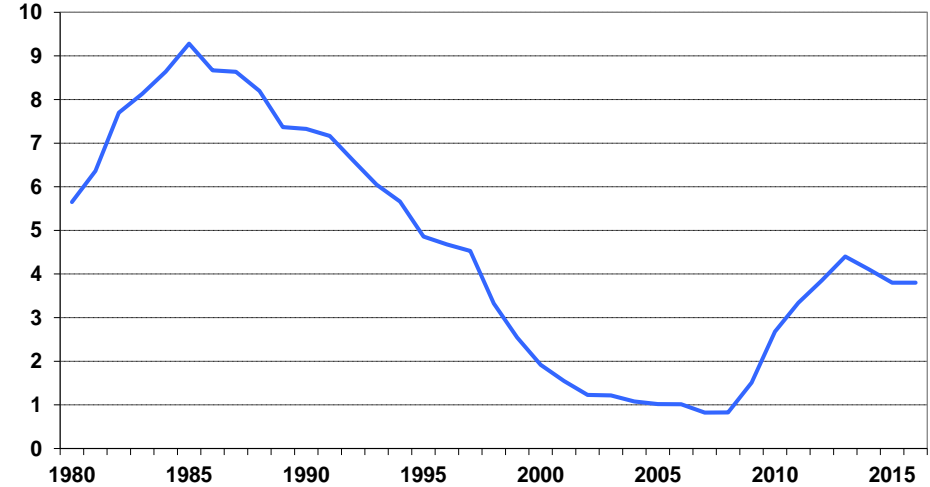


### Gross Gen Gov Debt (% GDP)



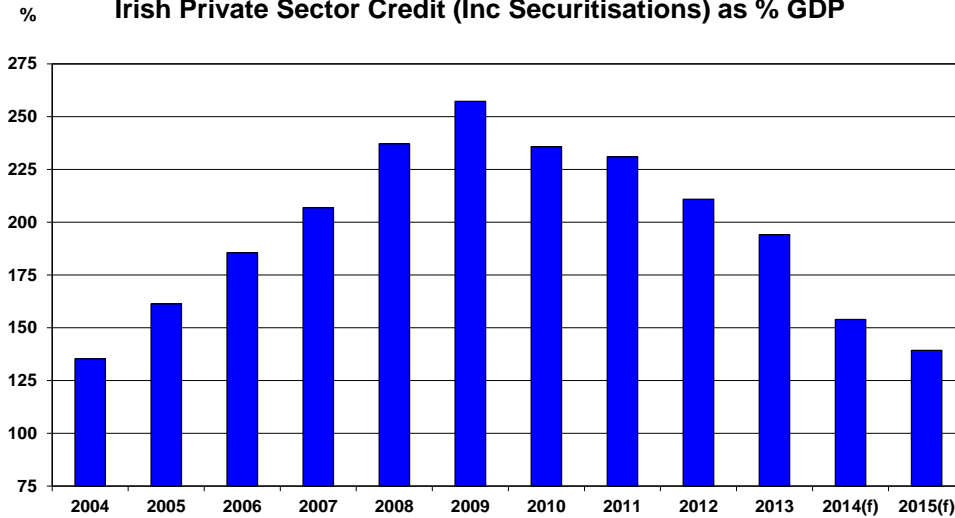
Source: Dept of Finance

### Debt Interest (% GDP)



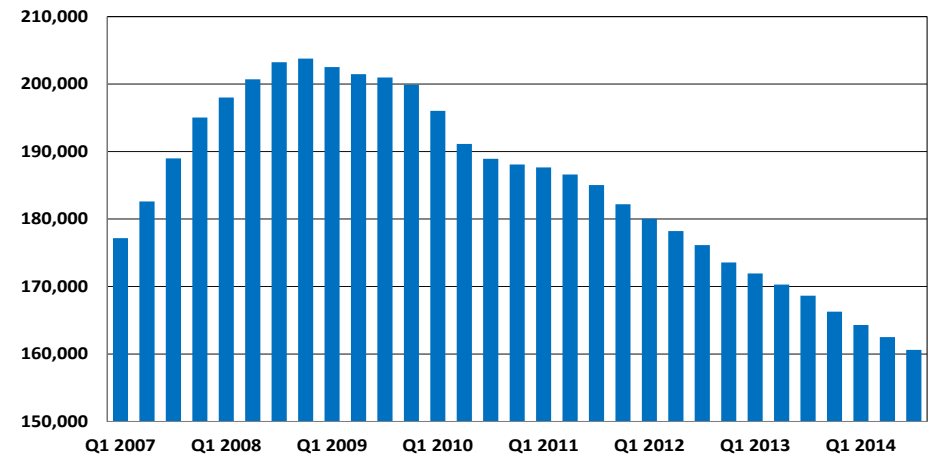
Source: NTMA; Dept of Finance

### Irish Private Sector Credit (Inc Securitisations) as % GDP



Sources: Central Bank, CSO, AIB ERU Calculations

### Irish Household Debt (€M)

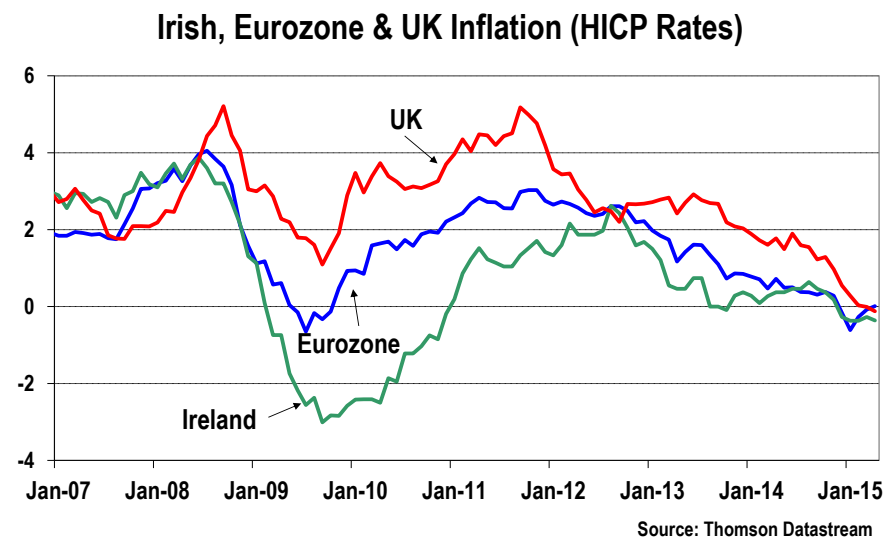
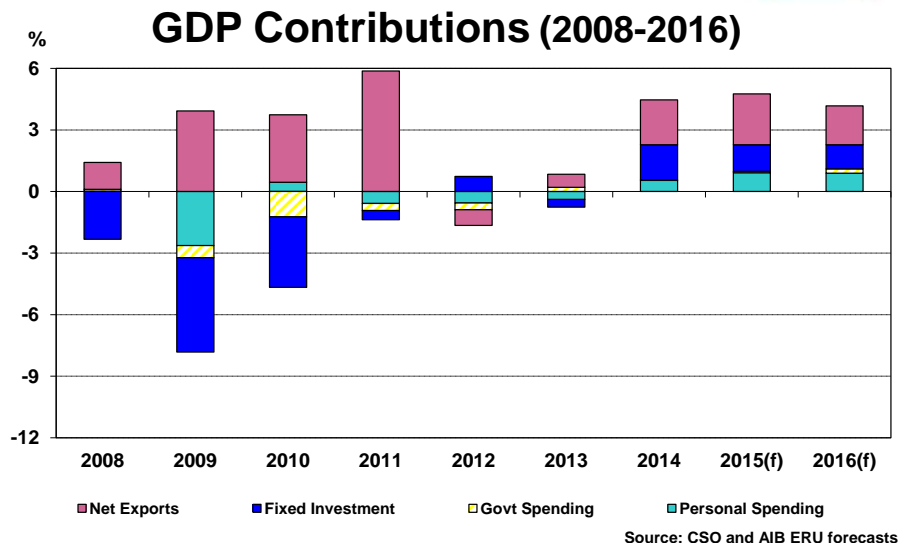


Source: Central Bank of Ireland

# Economy has the capacity to grow strongly



- The adjustment on the domestic side of economy is over and this sector is now expanding strongly
- Housing, labour market and domestic demand all move on to strong recovery path
- Construction rebounding from very depressed levels
- Fiscal tightening at an end, with modest tax cuts being implemented in 2015, more planned in 2016
- Major gains made on the competitiveness front – much lower CPI/ULC than elsewhere since 2009
- Large, diversified export base performing well
- Ireland to benefit from fall of euro and improving European growth
- 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 4% forecast for 2015 and 2016
- Scope for upside surprises on growth, especially from exports and if construction rebounds sharply



# AIB Irish Economic Forecasts



<i>% change in real terms unless stated</i>	2012	2013	2014	2015 (f)	2016 (f)	2017 (f)
<b>GDP</b>	<b>-0.3</b>	<b>0.2</b>	<b>4.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>GNP</b>	<b>1.1</b>	<b>3.3</b>	<b>5.2</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>
<b>Personal Consumption</b>	-1.2	-0.8	1.1	2.0	2.0	2.2
<b>Government Spending</b>	-2.1	1.4	0.1	0.5	1.5	1.8
<b>Fixed Investment</b>	5.0	-2.4	11.3	8.0	7.0	7.0
<b>Domestic Spending</b>	<b>-0.2</b>	<b>-0.7</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.2</b>
<b>Exports</b>	<b>4.7</b>	<b>1.1</b>	<b>12.6</b>	<b>7.0</b>	<b>6.0</b>	<b>6.0</b>
<b>Imports</b>	6.9	0.6	13.2	6.0	5.5	5.8
<b>HICP Inflation (%)</b>	2.0	0.5	0.3	0.0	1.0	1.5
<b>Unemployment Rate (%)</b>	14.7	13.1	11.3	9.5	8.3	7.3
<b>Budget Balance (% GDP)</b>	-8.1	-5.7	-4.1	-1.5	-0.5	0.5
<b>BoP Current A/C as % GDP</b>	1.6	4.4	6.2	7.0	6.5	6.0

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. Vulnerable to any shocks which would hit Irish exports
- Risk of a Brexit or Grexit. Would hit financial markets and have economic effects also. The former would certainly be an issue for Ireland given 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 subdued
- High indebtedness and scale of balance sheet repair by households (mortgage debt is very high, as are mortgage arrears). 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

**Note:** All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.