

# The Irish Economic Update:

*Very strong rebound in activity. Uncertainty remains as another Covid wave takes hold*

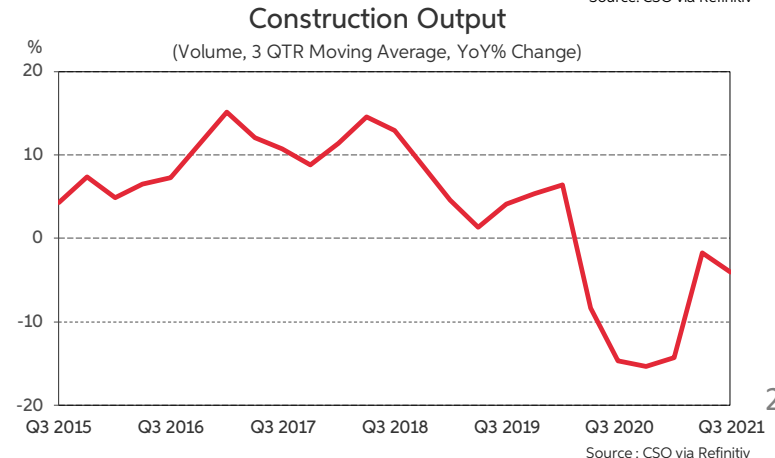
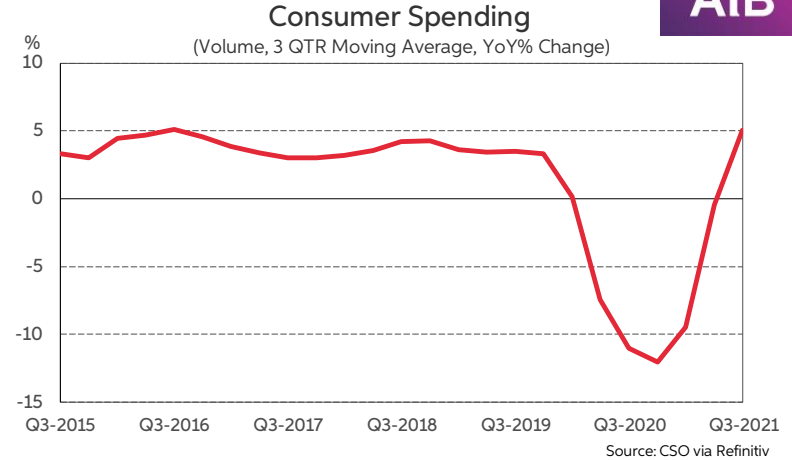
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# Economy rebounds strongly post Q1'21 lockdown



- GDP grew by 5.9% in 2020, with GNP up 3.4%, but modified final domestic demand fell by 4.9%
- Third lockdown saw MFDD decline by 5% in Q1'21
- Economy has rebounded very strongly since the end of the third lockdown last spring
- MFDD rose by 9.4% in Q2 and further 1.4% in Q3, and grew by 5.3% yoy in first 3 quarters of 2021
- Consumer spending rose 5% yoy in Q1-Q3 2021
- Domestic fixed investment up 6.8% yoy Q1-Q3 2021
- Construction output yet to fully recover from 2020 & 2021 lockdowns – down 4% yoy in Q1-Q3 2021
- Growth in manufacturing output and goods exports overstated by the activities of some multi-nationals
- This is inflating GDP & GNP, which were up 14.4% & 12.8% in Q1-Q3 2021. Actual growth much lower



# Robust recovery evident across the economy

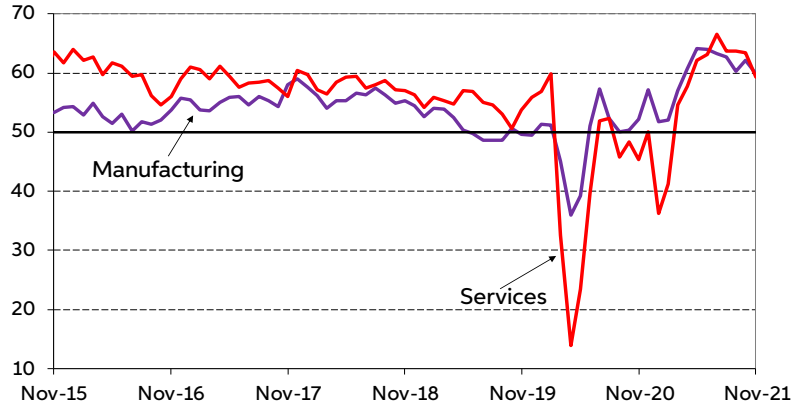


- Indicators show very strong rebound in activity from Q2 onwards after third lockdown ended
- Mfg PMI hit record high of 64.1 in May. Remains very high, 62.1 in Oct and 59.9 in Nov
- Services PMI jumped to 20-year high of 66.6 in July. Stays very high, 63.4 in Oct, 59.3 in Nov
- Construction PMI soared in May to 66.4. Still at strong levels of 56.9 by Oct and 56.3 in Nov
- Housing commencements surge. At 31k in 12 months to October, up from 18k at March
- Big jump of 10% in core retail sales in Q2. Rise by a further 5% in Q3
- New car sales rose by 21% yoy in January-November period
- Tax receipts running well ahead of target – up 22% to end November, far above even 2019 level
- Jobless rate (including PUP) falling rapidly – down from 27% early last year to 7% by November
- Very strong growth in both labour force and employment in Q2 and Q3 2021
- Inflation accelerates sharply; rises to 5.4% by November from trough of -1.5% in late 2020
- Uncertainty about activity in Q1'22 as some restrictions re-imposed to contain new Covid wave

# Indicators pick up strongly as economy rebounds

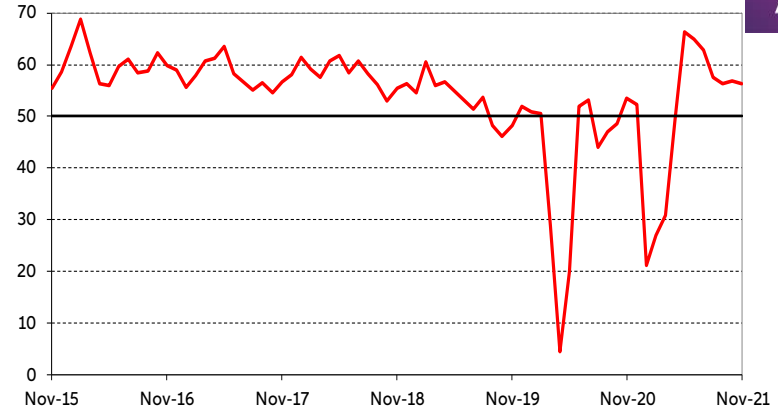


AIB Irish Mfg and Services PMIs



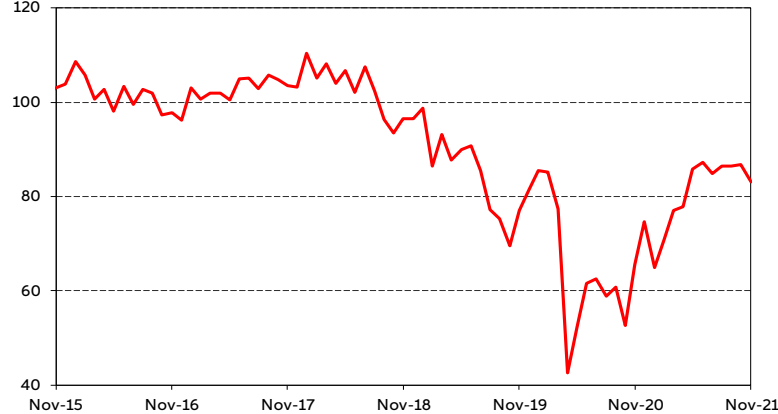
Source: Markit via Refinitiv

Ulster Bank Construction PMI



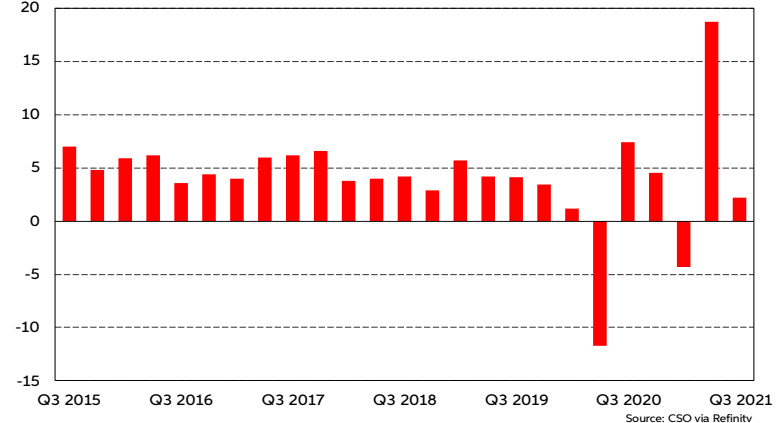
Source: Refinitiv

Consumer Confidence (ESRI - KBC)



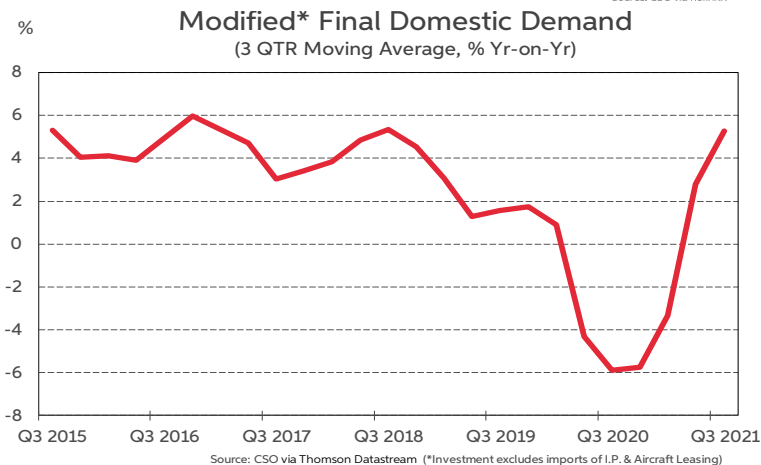
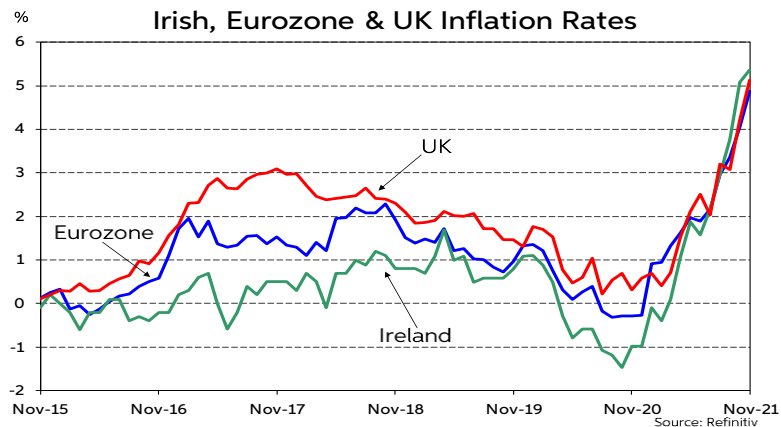
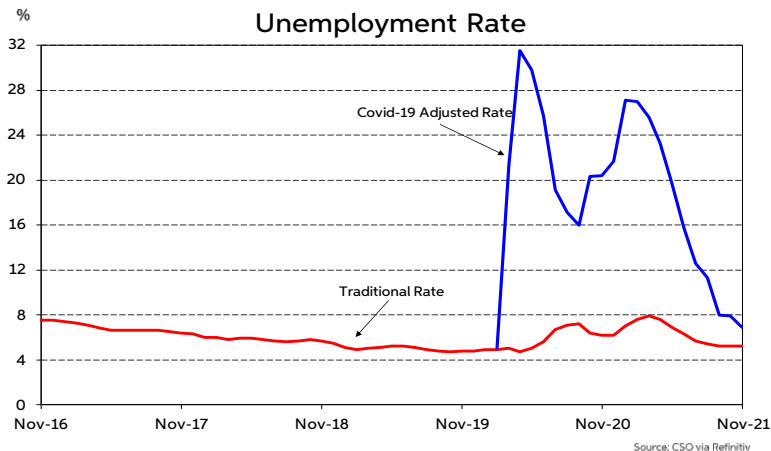
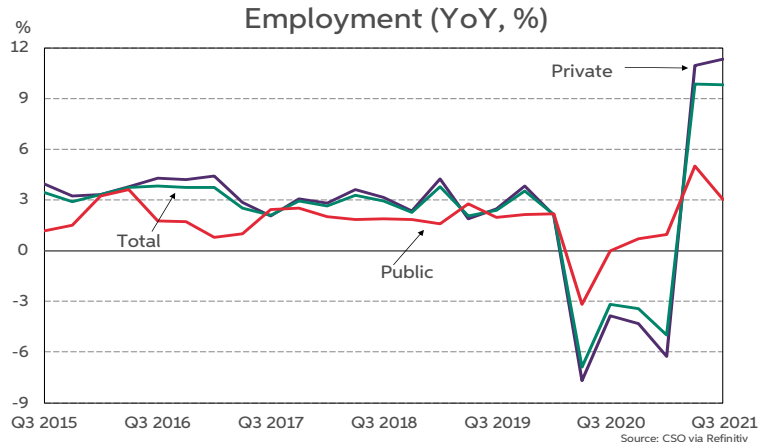
Source: ESRI via Refinitiv

Retail Sales (ex-autos) - Volume, YoY



Source: CSO via Refinitiv

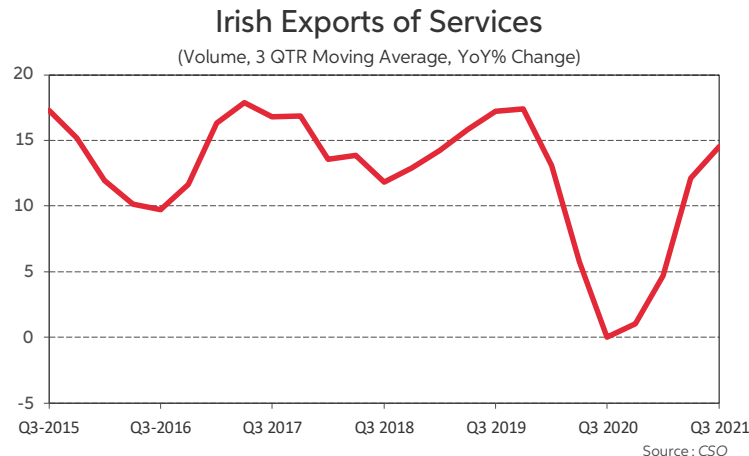
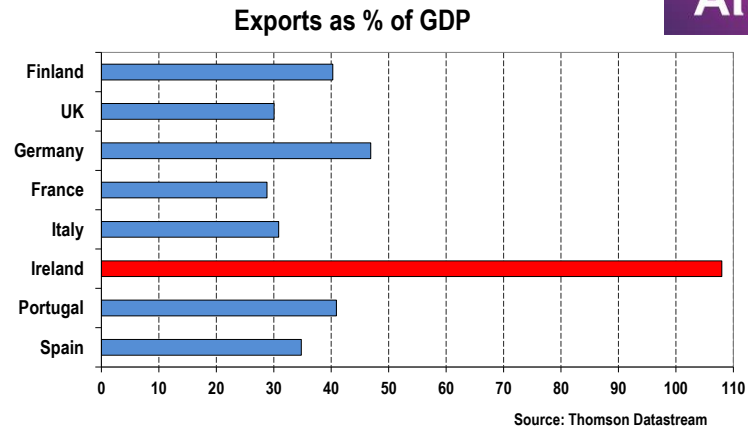
# Unemployment declines rapidly, inflation rising sharply



# Exports perform impressively throughout the pandemic



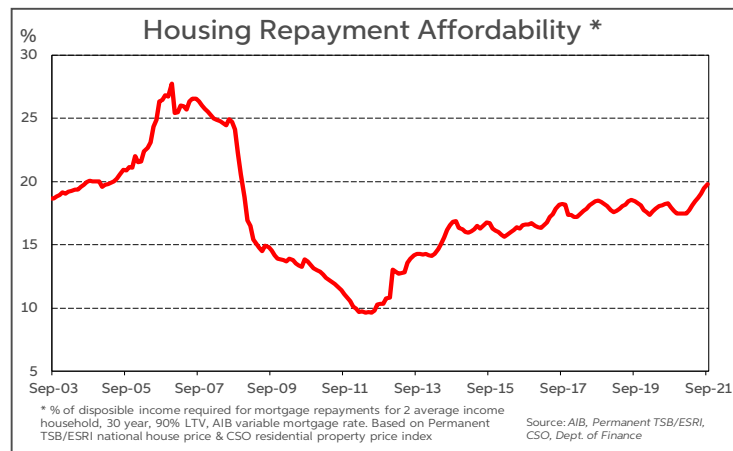
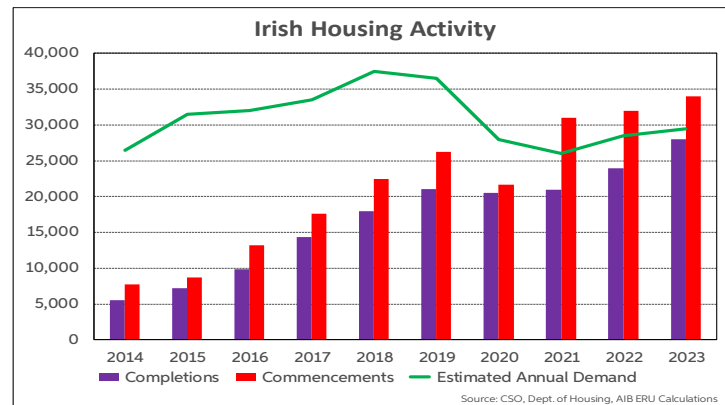
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & financial services and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and 21% yoy in Q1-Q3 2021, but these are inflated figures
- Goods exports up 16.5% in 2020 and 25% yoy in Q1-Q3 2021 – overstates actual growth
- Irish exports include some goods manufactured abroad by sub-contractors on behalf of Irish firms
- Service exports rose by just 2.6% in 2020, but picked up to 14.5% yoy growth in Q1-Q3 2021



# House building holds up, commencements surge in 2021



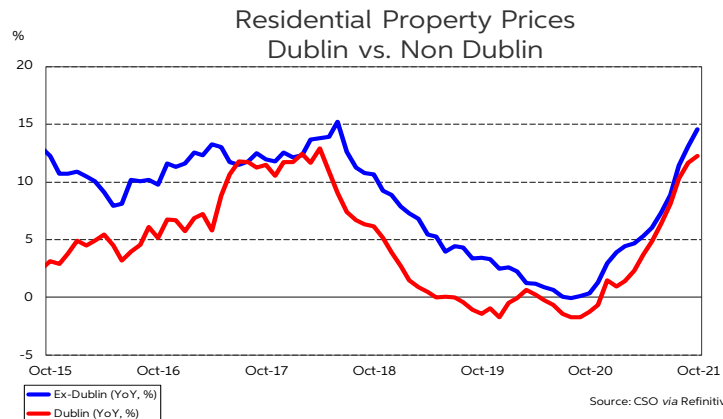
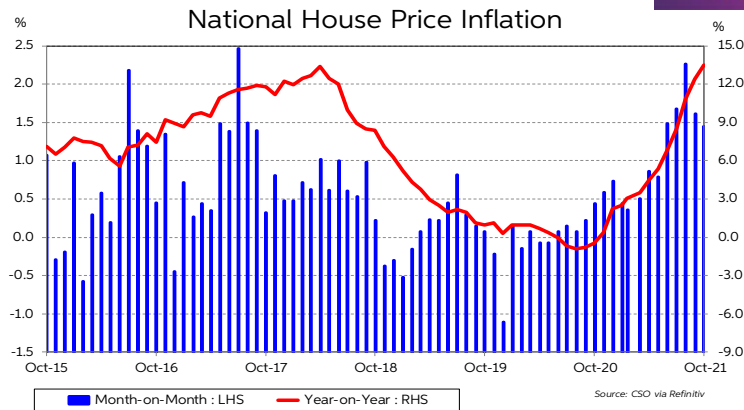
- Total completions amounted to 20,535 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Commencements fell by over 17% to 21,700 in 2020
- Further sharp fall in commencements in Q1'21 - they have surged since then with construction reopened
- Commencements jump to 31k in 12 months to October
- Big jump in planning permissions in past couple of years
- Smaller than expected fall in completions in Q1 2021 and then recover in Q2 and Q3. Up 2.8% year-to-date
- Completions likely to be circa 21,000 again in 2021 and should pick up considerably in 2022-23
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, mortgage lending rebounds strongly in 2021
- Forecasts are for a €10bn+ mortgage market in the year
- Housing affordability deteriorates as prices rise sharply



# House prices on sharp upward trend



- House prices declined sharply, by 55% over 2007-13
- Prices have recovered strongly; 6% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rises in house prices in 2021, especially in the period June-October, with average monthly rise of 1.7%
- National house price inflation hits 13.5% yoy in October. Non-Dublin prices up 14.6% yoy, Dublin rate at 12.3%
- Highest annual rates for house prices since early 2018
- Property websites show big jump in asking prices since mid-2020, but some signs levelling off recently
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand are all supporting house prices
- Rents recover strongly after declining last year. Jump sharply in recent months. Up 8% yoy in November



# AIB Model of Estimated Housing Demand



- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – note long-term trend is upwards, adding to demand
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating actual real level of housing demand
- Shortfall in supply met from run down of vacant stock and demand being reduced by fall in headship rate. Both factors very evident in 2011-16 and most likely in 2016-21

Calendar Year	2019	2020	2021	2022	2023
<b>Household Formation</b>	31,000	22,500	20,500	23,000	24,000
<i>of which</i>					
<b>Indigenous Population Growth</b>	21,000	17,500	16,000	15,500	14,500
<b>Migration Flows</b>	10,000	5,000	4,500	7,500	9,500
<b>Headship Change*</b>	0	0	0	0	0
<b>Second Homes</b>	500	500	500	500	500
<b>Replacement of Obsolete Units</b>	5,000	5,000	5,000	5,000	5,000
<b>Estimated Demand</b>	36,500	28,000	26,000	28,500	29,500
<b>Completions</b>	21,000	20,500	21,000	24,000	28,000
<b>Shortfall in Supply</b>	-15,000	-7,500	-5,000	-4,500	-1,500

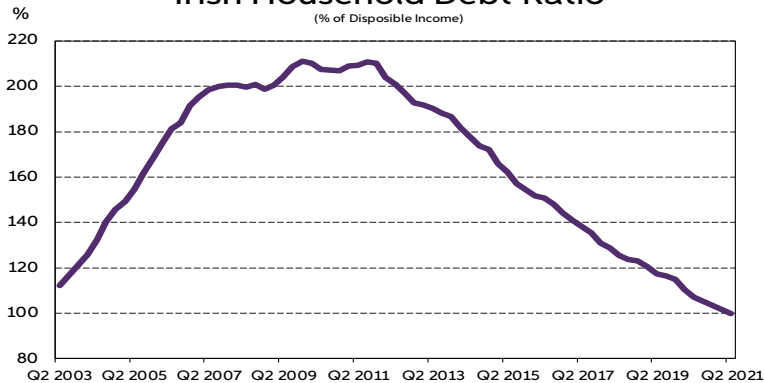
\*Headship is % of population that are heads of households.

Sources: CSO, DoECLG, AIB ERU.

# Private sector deleverages, Gov. debt ratios to resume downtrend

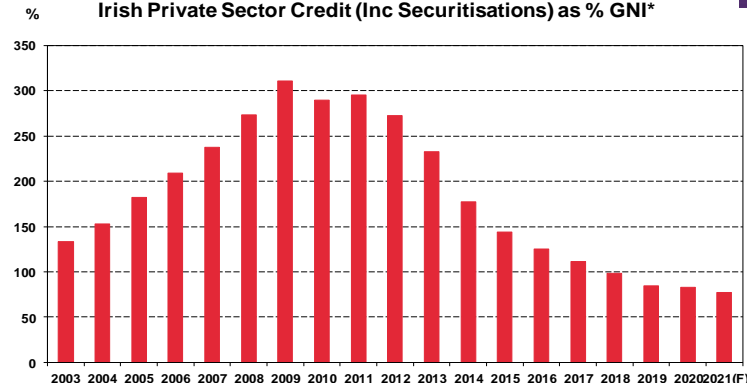


## Irish Household Debt Ratio



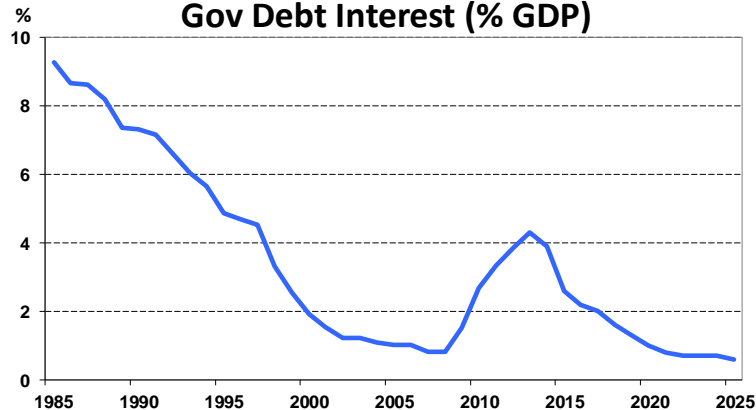
Source: CSO, Central Bank, AIB ERU

## Irish Private Sector Credit (Inc Securitisations) as % GNI\*



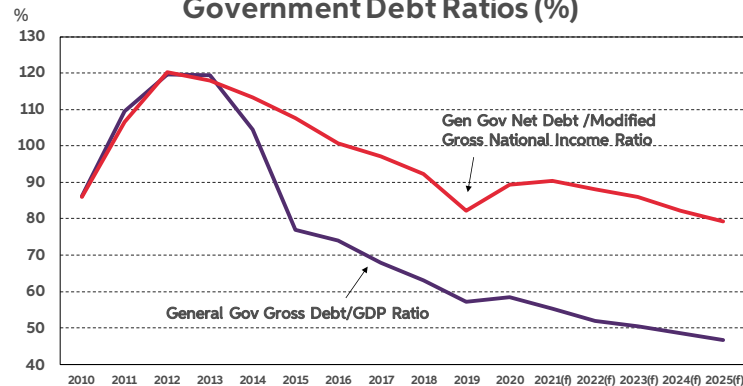
Sources: Central Bank, CSO, AIB ERU Calculations

## Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

## Government Debt Ratios (%)

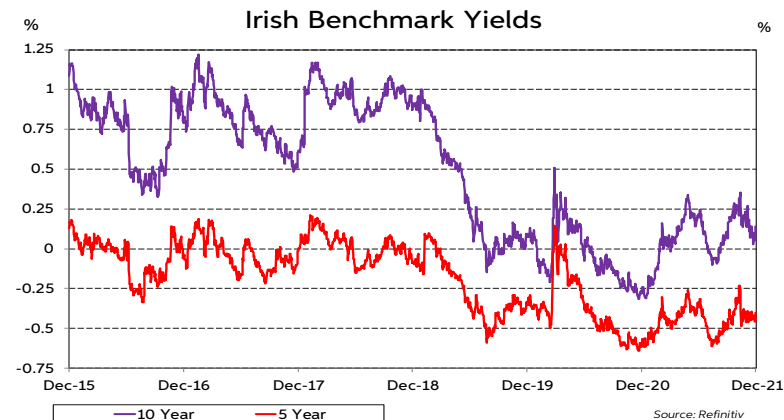
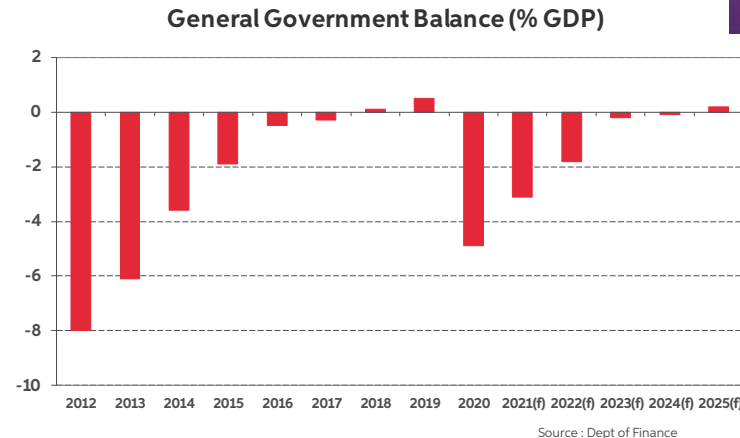


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

# Budget deficit falls sharply in 2021 as economy rebounds



- Budget deficit fell sharply during last decade, with small surpluses recorded in 2018 and 2019
- General Gov budget deficit of €18.4bn in 2020, or 5% of GDP, as Covid-19 hit public finances
- Strong rebound in tax receipts in 2021 – up 22% to end November. Covid spending declines
- Budget deficit will much lower than expected in 2021. ESRI forecasts it at circa €10bn (2.3% GDP)
- Deficit forecast by Dept. of Finance to fall to €8.25bn in 2022 and €1.1bn in 2023
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020-21. Downtrend set to resume
- Bond yields low and stable despite big jump in budget deficit and large rise in debt issuance
- Ireland's sovereign debt ratings hold steady; S&P at AA-, Fitch at A+, Moody's A2

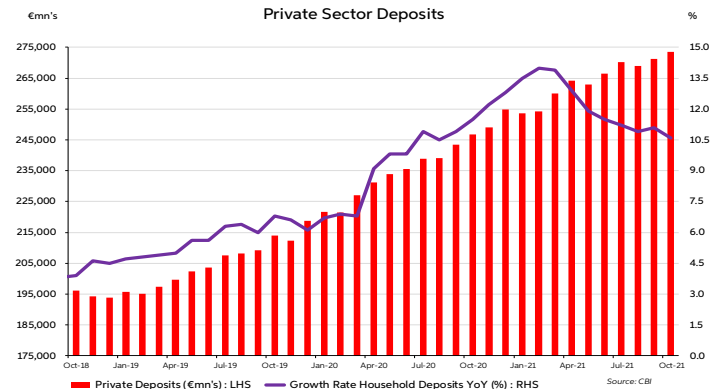


# Strong economic growth likely, though risks remain



- Key ingredients in place for continued strong growth by Irish economy, following sharp rebound in 2021
- Very high Irish vaccination rates against Covid-19
- World economy rebounding strongly, which augurs well for export orientated countries like Ireland
- House building to pick up in coming years from still low output levels – big focus of government policy
- Fiscal policy will remain supportive of growth -DoF forecasts provide for 5% p.a. rise in core spending
- Activity aided by continuing very low interest rates
- Economy has deleveraged; low private sector debt
- A rundown of some of the build-up in private savings in 2020-2021 should boost domestic spending
- Strong growth forecast for 2022-2024 period
- However, near-term uncertainty with high Covid case numbers. Some restrictions re-imposed at end 2021

OECD Global GDP Forecasts (Dec 2021)			
% Vol	2021	2022	2023
World	5.6	4.5	3.2
OECD	5.3	3.9	2.5
US	5.6	3.7	2.4
Eurozone	5.2	4.3	2.5
UK	6.9	4.7	2.1
Japan	1.8	3.4	1.1



# AIB Irish Economic Forecasts

<i>% change in real terms unless stated</i>	2019	2020	2021 (f)	2022 (f)	2023 (f)
<b>GDP</b>	<b>4.9</b>	<b>5.9</b>	<b>14.0</b>	<b>6.0</b>	<b>4.0</b>
<b>GNP</b>	5.0	3.4	8.0	5.0	3.5
<b>Modified Final Domestic Demand</b>	<b>1.7</b>	<b>-4.9</b>	<b>5.5</b>	<b>6.3</b>	<b>3.8</b>
<b>Personal Consumption</b>	3.3	-10.4	6.5	8.5	4.0
<b>Government Spending</b>	7.1	10.9	2.5	-1.5	1.5
<b>Fixed Investment*</b>	99.5	-23.0	-42.0	7.7	5.0
<b>Exports</b>	10.4	9.5	15.0	7.0	5.0
<b>Imports*</b>	41.7	-7.4	-8.0	7.5	5.5
<b>HICP Inflation (%)</b>	0.9	-0.5	2.3	3.4	1.5
<b>Unemployment Rate (Estimated %)</b>	<b>5.0</b>	<b>10.4</b>	<b>10.4</b>	<b>7.2</b>	<b>6.0</b>
<b>Budget Balance (% GDP)</b>	0.5	-5.0	-5.0	-2.5	-1.8
<b>Gross General Gov Debt (% GDP)</b>	57.4	59.5	60.3	59.0	58.0

\*Data very distorted by aircraft and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts

# Residual Brexit Issue Remains over NI Protocol

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- UK has not ruled out triggering Article 16 in dispute with EU over operation of NI Protocol
- EU has offered concessions on Protocol. Discussions with UK continuing, which is a positive sign
- Triggering Article 16 would effectively suspend operation of NI Protocol – relates to GB-NI trade
- Should not have any great immediate impact as many checks on trade are not in operation
- Any EU response would have to be proportionate and thus limited. Both parties must enter talks
- Overall then, triggering Article 16 would lead to much uncertainty and protracted negotiations
- Solutions, though, expected to be found in current talks on freer flow of goods from GB to NI
- Strong support in NI to remain in Single Market. ECJ has to retain key oversight role
- Sterling shows no reaction to issue as markets expect problems with NI Protocol to be resolved
- In the event of a deep crisis in EU-UK relationships, 12 months notice must be given to terminate Trade & Co-operation Agreement if either wished to go down that route
- Talks must be held over this period to try to resolve differences and save the TCA

# Changes to Corporate Tax Regime Agreed



## Importance of FDI:

- Some 1,600 multinational companies are based in Ireland, accounting for over 250,000 in direct employment
- Corporation tax receipts of €12bn in 2020 or circa 20% of total tax revenue - 80% comes from MNCs

## Changes to Corporate Tax Regime Agreed:

- Ireland's 12.5% corporate tax rate in place for last two decades and a key cornerstone in attracting FDI
- Ireland signs up to OECD proposal of minimum global corporate tax rate of 15%. Due to take effect in 2023
- It also agrees to other OECD tax proposal whereby larger multinationals, mainly digital, would pay some taxes on profits in countries where they make sales, rather than where they are based- to apply to 20% of their sales
- DoF has allowed for a €2bn hit to Irish corporation tax receipts by 2025 from changes to global tax system
- Ireland is retaining the 12.5% rate for smaller companies – the SME sector

## Ireland to Remain Attractive FDI Location :

- Ireland's main competitor for FDI has been UK, but it is now out of EU, Single Market & Customs Union
- Ireland has many other attractions –English speaking, well educated mobile workforce, Common law legal system
- Key industries have large presence in Ireland, with its strong pro-enterprise culture, leading R&D and innovation
- Ireland's new 15% rate still comparatively low. Big rises in corporate tax rates in the pipeline for major economies (proposal to raise US rate from 21% to 28%; UK going from 19% to 25% in 2023)
- Strong inflows of FDI continued in 2021 despite the changes to global corporate tax rules

# Risks remain for the Irish economy



- Main risk remains Covid-19 – still high case numbers, concerns about new variants
- Restrictions imposed in Ireland and other countries at end 2021 to contain new Covid wave
- Virus could still have scarring effects – rise in business failures & bad debts, job losses
- Very open Irish economy so vulnerable to global slowdown, trade disruptions
- Changed EU-UK relationship impacting trade. Issues remain over NI Protocol
- Reforms to global corporation tax regime could still have some impact on Irish economy
- Supply constraints in new house building activity, with output still at very low levels
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages
- Credit constrained – tight lending rules, on-going deleveraging, weak credit demand

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 Allied Irish Bank Northern Ireland (NI). 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 Allied Irish Bank (NI) 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.