



# The Irish Economic Update:

*Strong opening half to 2022, but inflation rises sharply and global growth slowing*

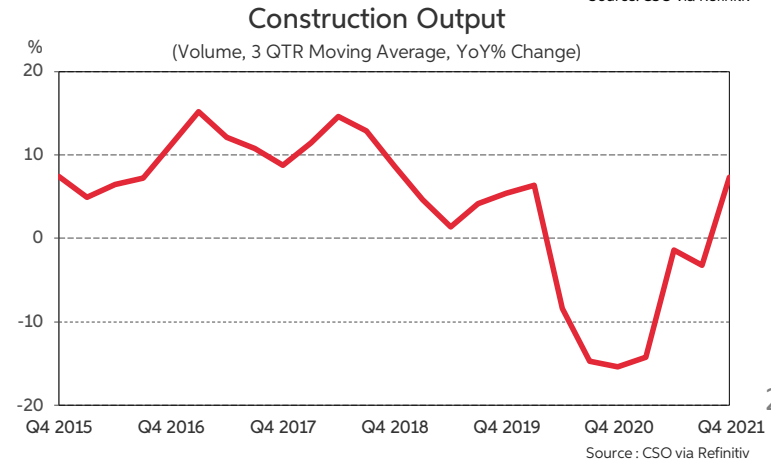
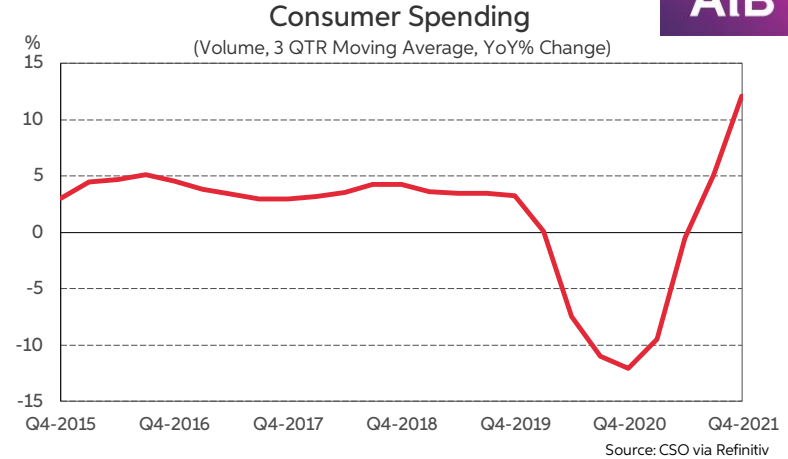
June 2022

Oliver Mangan  
Chief Economist  
AIB

# Economy rebounded very strongly during 2021



- GDP grew by 5.9% in 2020, with GNP up 3.4%, but modified final domestic demand fell by 4.9%
- Domestic economy picked up strongly in 2021
- MFDD fell by 4% in Q1'21 but rebounded strongly as economy re-opened. Rose by 6.5% in full year
- Consumer spending rose by 5.7% in 2021
- Domestic fixed investment up 9.7% 2021
- Construction output slow to recover from 2020/21 lockdowns – falls 4.7% in 2021, but up by end year
- All service sectors saw a rebound in activity in 2021
- Meanwhile, GDP rose by 13.5% in 2021, with GNP up by 11.5% as trade flows remained distorted
- Manufacturing output up 25% and goods exports rose by 20% in 2021 reflecting these distortions

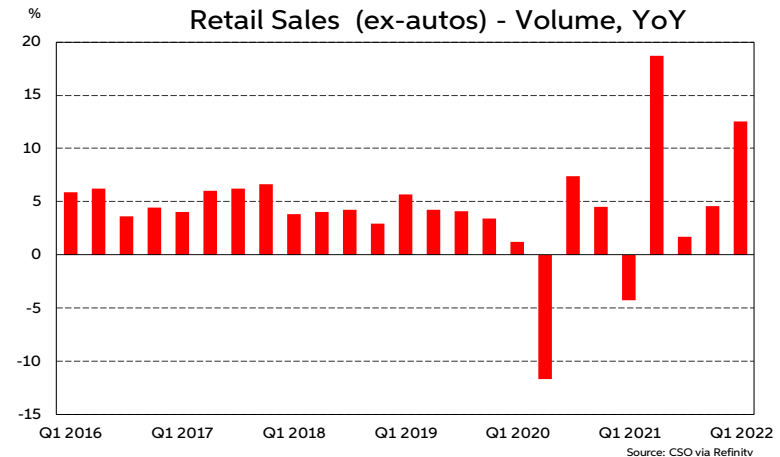
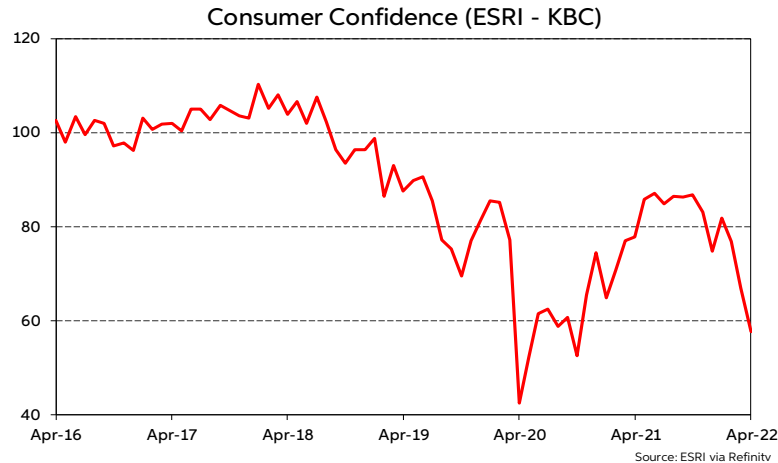
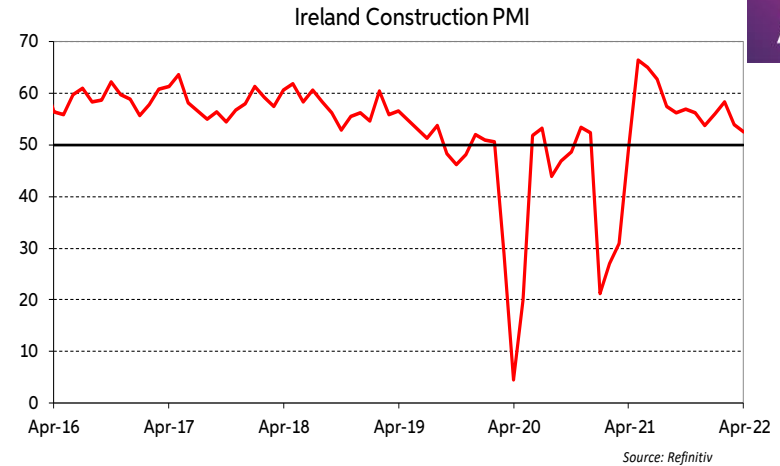
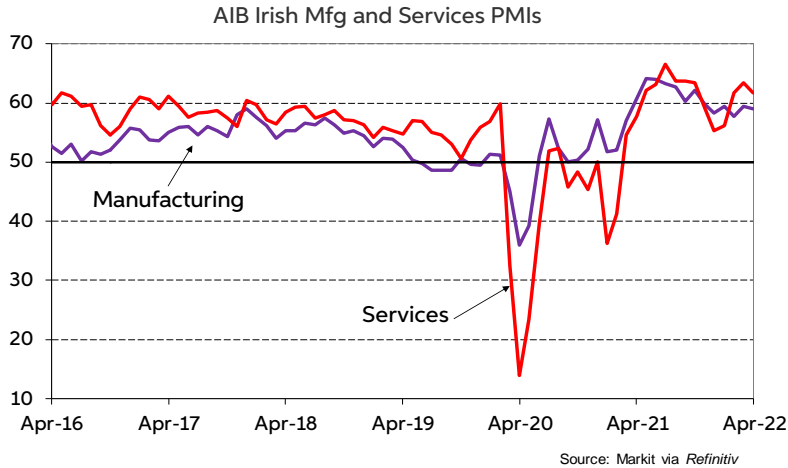


# Strong recovery continues in H1'22, though inflation surging

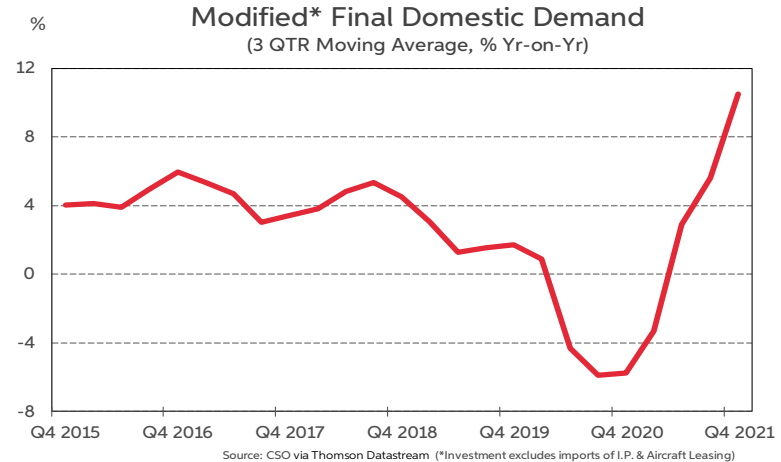
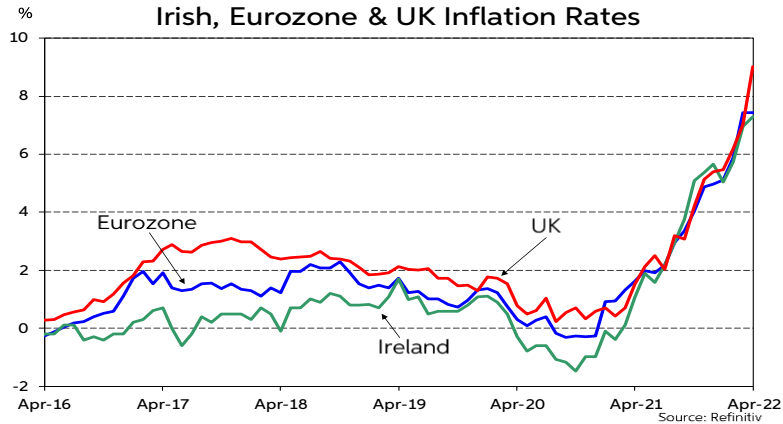
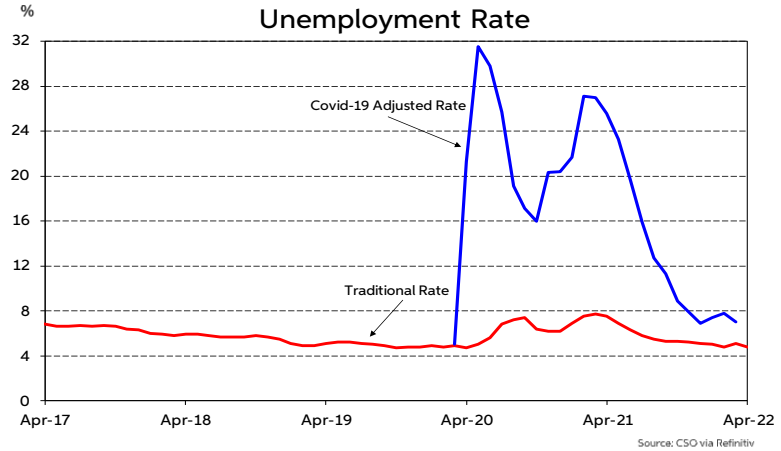
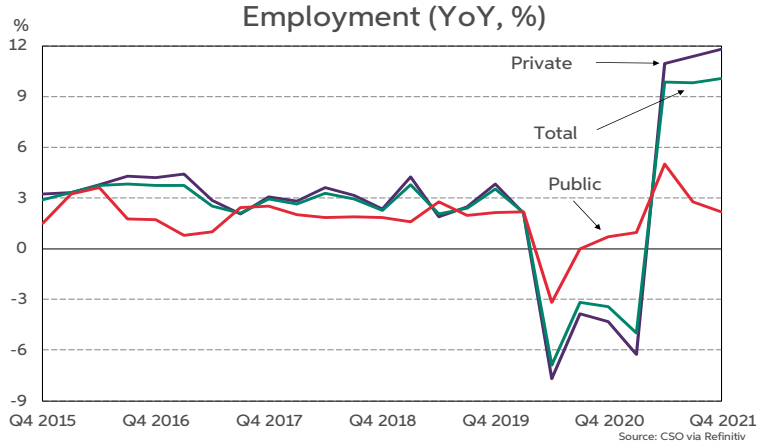


- Indicators show the very strong rebound in activity in 2021 has continued in H1 2022
- Mfg PMI has remained at strong levels to date this year; 59.4 March, 59.1 April, 56.4 May
- Services PMI still very high at 63.4 in March and 61.7 in April
- Housing commencements surged to 30,700 last year, and running at 35,000 by March 2022
- Big jump in completions in Q1 2022, with 12 month total rising to 22,250 from 20,500 in Q4'21
- Mortgage lending rebounded in 2021 and up 17% year-on-year in Q1 2022
- Rise of 5% in core retail sales in 2021, and up 12.5% year-on-year in Q1 2022
- New car regs rose by 20% last year, but down 10% on 2019 levels. Up 8% yoy Jan-April 2022
- Tax receipts surged by 20% last year and remain very strong in 2022; rose 31% yoy in Jan-April
- Unemployment rate drops below 5% this spring, with no impact from ending of PUP scheme
- Employment up 1.4% in quarter, 12.3% year-on-year in Q1 2022 – and up 6.8% on Q1 2020
- Inflation accelerates sharply; HICP rate at 7.3% in April and will rise further in May
- Surge in inflation and War in Ukraine sees big drop in consumer confidence in recent months

# Activity indicators pick up strongly, but confidence hit again



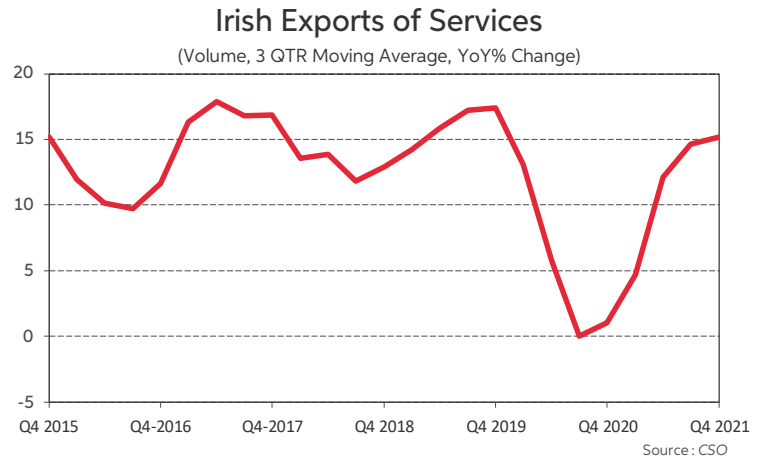
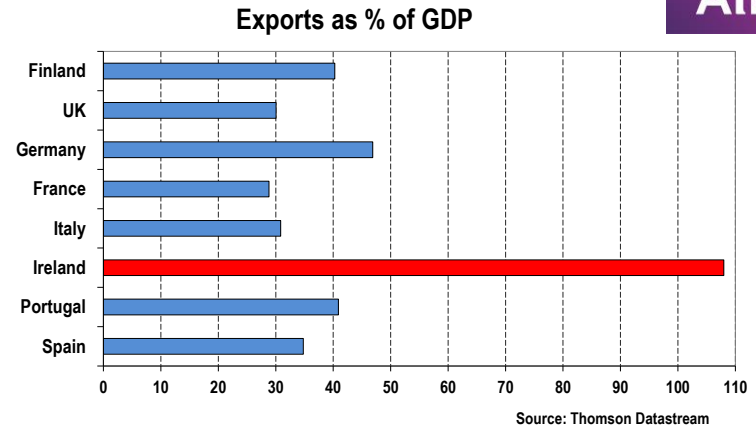
# Unemployment declines rapidly, inflation rising sharply





# Exports perform impressively throughout the pandemic

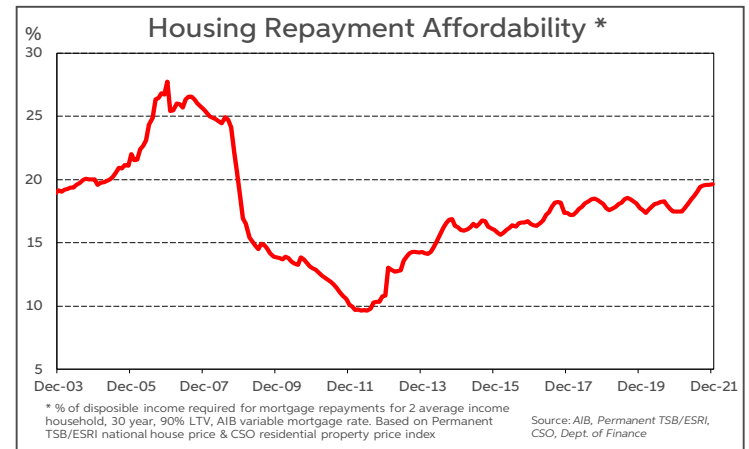
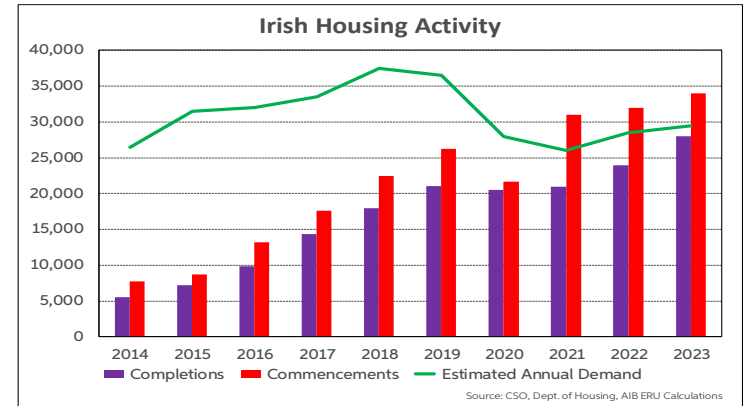
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & financial services and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and 16.6% in 2021, but these are inflated figures
- Goods exports up 16.5% in 2020 and 20.5% in 2021 – this greatly overstates actual growth
- Irish exports include goods manufactured abroad by sub-contractors on behalf of Irish based firms
- Service exports rose by just 2.6% in 2020 and then 12.2% in 2021 as global economy recovered



# House building picking up as commencements surge



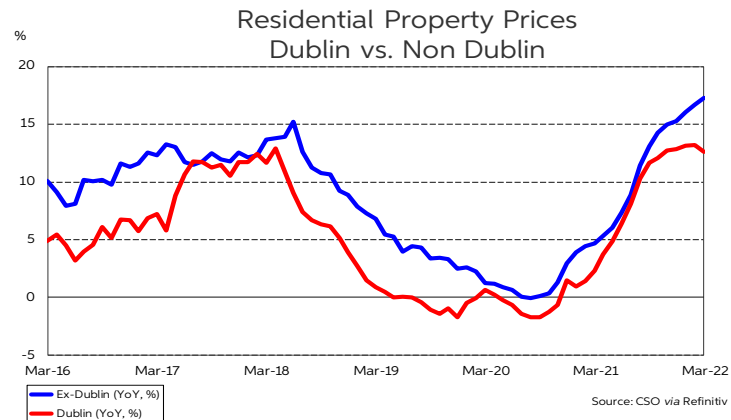
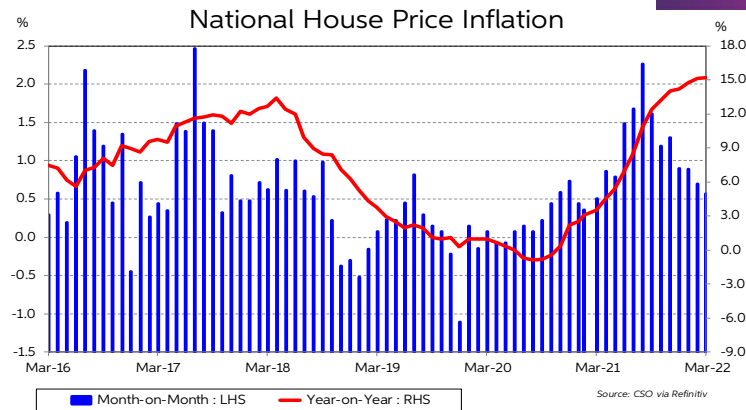
- Total completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- Big jump in planning permissions since 2018
- Commencements fell by over 17% to 21,700 in 2020
- They have rebounded strongly over past year, hitting 35,000 by March 2022. Likely to ease back from here
- The 12 month total for completions picked up to 22,250 in Q1'22 and should rise sharply over 2022-24
- Still running well below estimated annual demand of near 30k, plus pent-up demand of recent years
- Mortgage lending fell 12% (€9.5bn to €8.4bn) in 2020
- However, it rebounded strongly 2021 to €10.5bn
- Rose 17% in Q1 2022, with 12-month total at €10.85bn
- Housing affordability deteriorates as prices rise sharply



# Sharp upward trend in house prices starts to moderate



- House prices declined sharply, by 55% over 2007-13
- Prices have now recovered; just 2% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rise in CSO house prices in 2021, especially in H2
- More moderate monthly rises in CSO index in Q1 2022
- Property websites showed moderation in asking prices in H2 2021, though picked up again in Q1 2022
- National house price inflation at 15.2% yoy March 2022. Non-Dublin prices up 17.3% yoy, Dublin rate at 12.6%
- Highest annual rates for house prices since early 2015
- 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 have recovered strongly after declining in 2020. Jumped sharply in past year. Up 9.3% yoy in April 2022





# 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>	<b>36,500</b>	<b>28,000</b>	<b>26,000</b>	<b>28,500</b>	<b>29,500</b>
<b>Completions</b>	<b>21,000</b>	<b>20,500</b>	<b>20,500</b>	<b>24,000</b>	<b>28,000</b>
<b>Shortfall in Supply</b>	<b>-15,000</b>	<b>-7,500</b>	<b>-5,500</b>	<b>-4,500</b>	<b>-1,500</b>

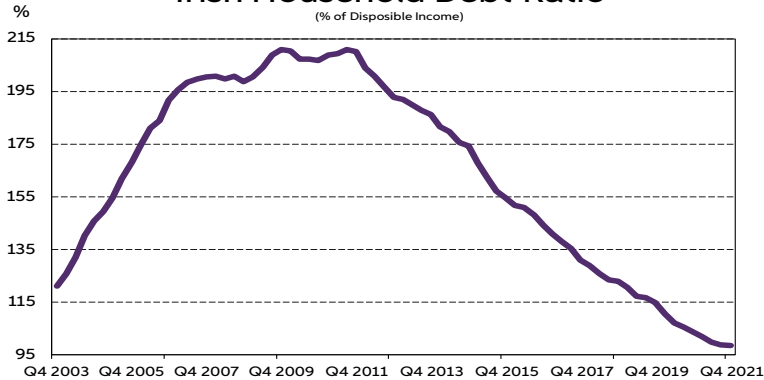
\*Headship is % of population that are heads of households.

Sources: CSO, DoECLG, AIB ERU.

# Private sector deleverages, Gov. debt ratios resume downtrend

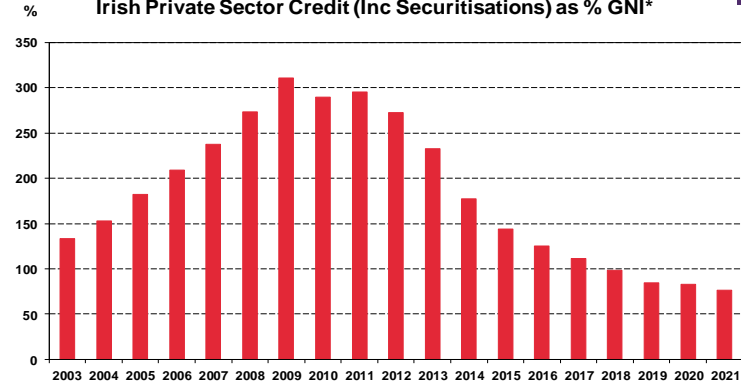


### Irish Household Debt Ratio



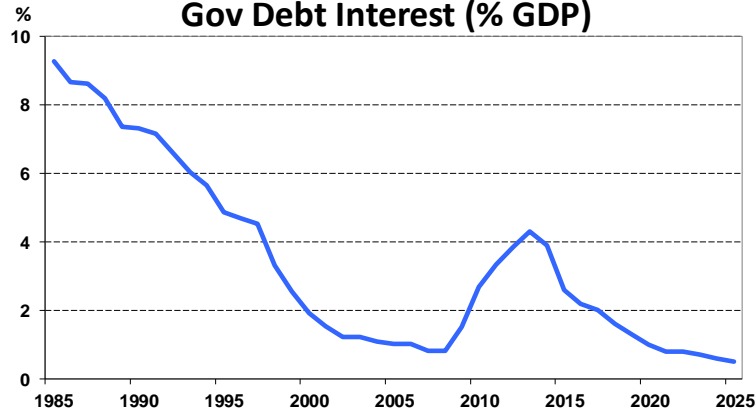
Source: CSO, Central Bank, AIB ERU

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



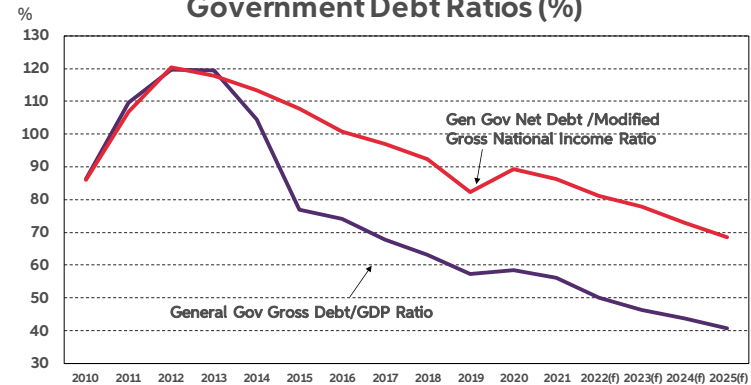
Sources: Central Bank, CSO, AIB ERU Calculations

### Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

### Government Debt Ratios (%)

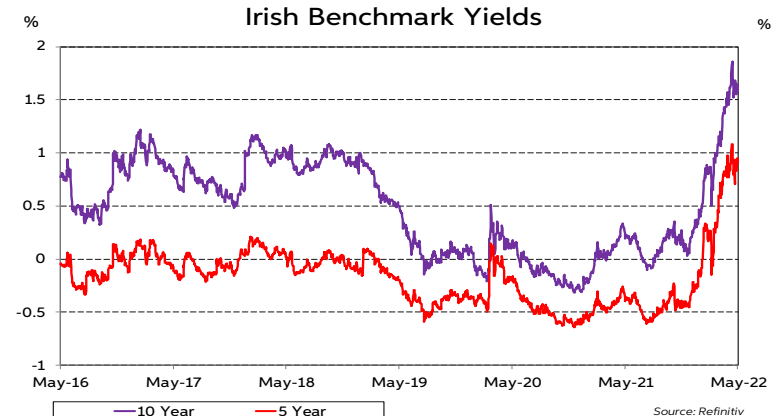
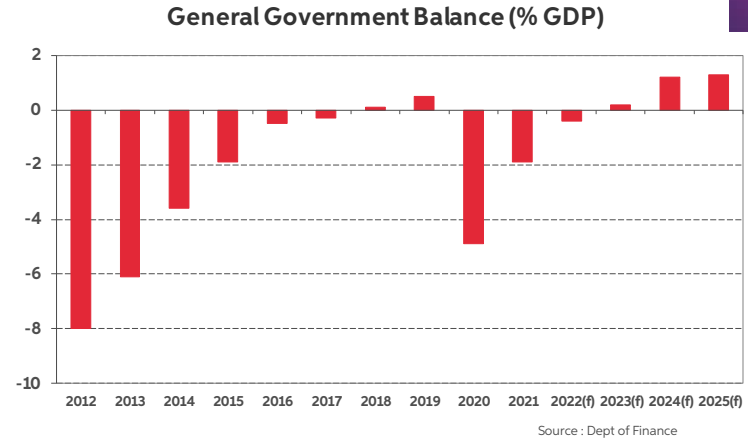


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

# Public finances heading back into surplus



- Budget 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 20% & 15% higher than 2019. Covid spending declined
- Budget deficit much lower than expected in 2021, falling by over half to €8bn or 1.9% of GDP
- Tax revenues very strong in 2022; + 31% end April
- The 2022 deficit now projected at just €2bn or 0.4% of GDP. Budget back in surplus from 2023
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% p.a. in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020. Downtrend resumed in 2021
- Irish bond yields rise in 2022 as elsewhere, but still quite low and most debt is long term
- Irish sovereign debt ratings; S&P AA-, Fitch AA-, Moody's A1. Fitch & Moody's upgraded in H1'22

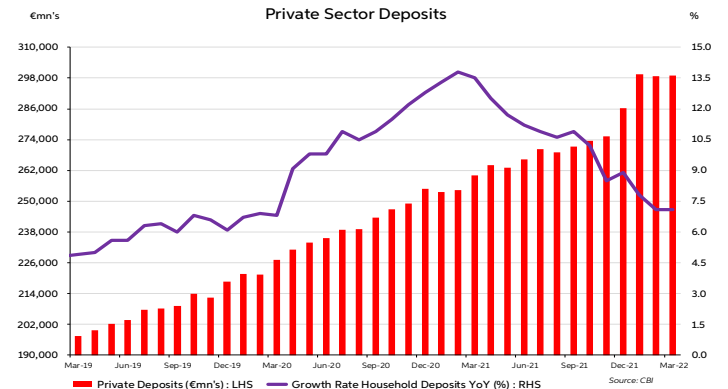


# Good Irish economic growth expected despite headwinds



- Key ingredients in place for continued strong growth by Irish economy, following sharp rebound in 2021
- Very high Irish vaccination rates against Covid-19, with all restrictions on activity lifted in late January
- Strong FDI inflows continuing, boosting exports
- House building picking up 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
- Economy has deleveraged; low private sector debt
- A rundown of some of the 35% surge in private savings since COVID began would boost spending
- Sharp rise inflation and slowing global growth are significant headwinds, though, for Irish economy
- Irish GDP growth forecasts lowered to circa 6% in 2022 and 5% in 2023 on these headwinds

IMF Global GDP Forecasts (April 2022)			
% Vol	2021	2022	2023
World	6.1	3.6	3.6
Advanced Econs	5.2	3.3	2.4
US	5.7	3.7	2.4
Eurozone	5.3	2.8	2.3
UK	7.4	3.7	1.2
Japan	1.6	2.4	2.3



# AIB Irish Economic Forecasts



<i>% change in real terms unless stated</i>	2020	2021	2022 (f)	2023 (f)	2024 (f)
<b>GDP</b>	<b>5.9</b>	<b>13.5</b>	<b>6.0</b>	<b>5.0</b>	<b>4.5</b>
GNP	3.4	11.5	5.0	4.0	3.5
<b>Modified Final Domestic Demand</b>	<b>-4.9</b>	<b>6.5</b>	<b>5.0</b>	<b>4.5</b>	<b>4.0</b>
Personal Consumption	-10.4	5.7	6.0	4.5	4.0
Government Spending	10.9	5.3	1.5	2.3	2.0
Fixed Investment**	-23.0	-37.6	7.0	6.0	5.5
Exports	9.5	16.6	7.0	5.8	5.0
Imports**	-7.4	-3.7	6.8	5.8	5.0
Employment (%)	-2.8	6.2	5.8	2.0	1.8
<b>Unemployment Rate (%)</b>	<b>5.9</b>	<b>6.3</b>	<b>4.8</b>	<b>4.7</b>	<b>4.5</b>
<b>HICP Inflation (%)</b>	<b>-0.5</b>	<b>2.4</b>	<b>6.7</b>	<b>4.0</b>	<b>2.5</b>
<b>Budget Balance (GGB % GDP)</b>	<b>-5.1</b>	<b>-1.9</b>	<b>-0.4</b>	<b>0.2</b>	<b>1.2</b>
Gross General Gov Debt (% GDP)	58.4	56.0	50.0	46.3	43.8
Net General Gov Debt (% GNI*)	89.3	86.2	81.2	77.9	73.0

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

Source: CSO, D/Finance; AIB ERU Forecasts (except public finances)

# Residual Brexit Issue Remains over NI Protocol

---



- UK has indicated it will introduce legislation to unilaterally overturn parts of the NI Protocol
- EU has offered concessions on Protocol. Discussions with UK have not made much progress
- Legislation will take a considerable time to enact and may not get through Parliament
- Thus no immediate impact – in any event, many checks on trade are not in operation
- Any EU response would have to be proportionate and thus limited
- Overall creates much uncertainty about NI trade and further negotiations seem likely
- Hoped that solutions can be found to allow 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 jobs in direct employment
- Corporation tax receipts of €15.3bn in 2021 or 22.5% of total tax revenue – over 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
- Also larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made
- 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
- Close watch still needs to be kept for any changes in US Corporate tax rate on companies overseas earnings (Gilti rate)
- Doubts also remain about whether all countries will ratify the new Corporate tax regime, most notably the US

## 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 continuing despite the changes to global corporate tax rules

# Risks to the Irish economy outlook



- Covid-19 remains a risk, with concerns about new variants
- Restrictions could be re-imposed if there was a new virulent, vaccine resistant variant
- Persistent high inflation could trigger very sharp tightening of monetary policy globally
- Very open Irish economy vulnerable to global downturn - very little trade with Russia/Ukraine
- Changed EU-UK relationship impacting Irish trade. Issues remain over NI Protocol
- Changes to US corporation (Gilti) tax regime still possible, with negative impact on FDI here
- 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, subdued 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.