The Irish Economic Update:

Economy continues to perform well despite headwinds and capacity constraints

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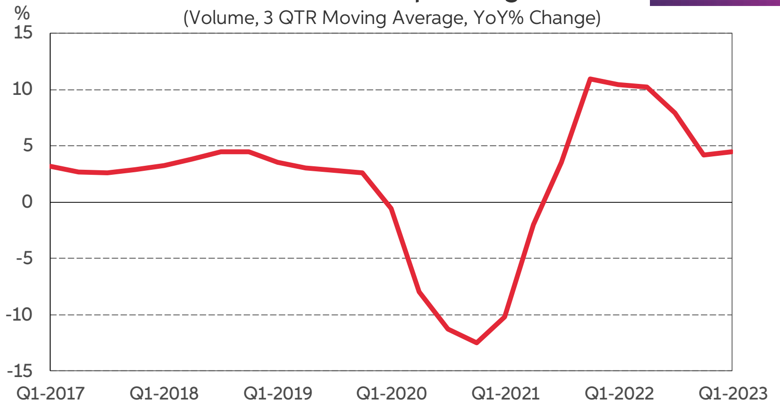
Oliver Mangan
Chief Economist
AIB

Economy rebounded very strongly from COVID

- A further very strong rise in GDP in 2022 of 12%, following the 13.6% increase seen in 2021
- Surging inflows of foreign direct investment a key factor in rapid growth of economy during 2021-22
- Exports up strongly again in 2022, rising 15%
- Modified final domestic demand rose by 8.2% in 2022 following the increase of 5.8% recorded in 2021
- GDP fell by sharp 4.6% in Q1 2023, down 0.2% yoy reflecting big fall of 18% in manufacturing output
- Mfg. output of multi-nationals volatile and big Q1 fall reversed in April per CSO data on industrial production
- Domestic economy expanded 2.7% in Q1, up 5.5% yoy
- Consumer spending up 1.7% in Q1, and 6.4% yoy
- Investment in Q1 up 11% on Q1 2022 levels
- Construction output rose 10% yoy in Q1, with housing up almost 20% on year earlier level

Consumer Spending

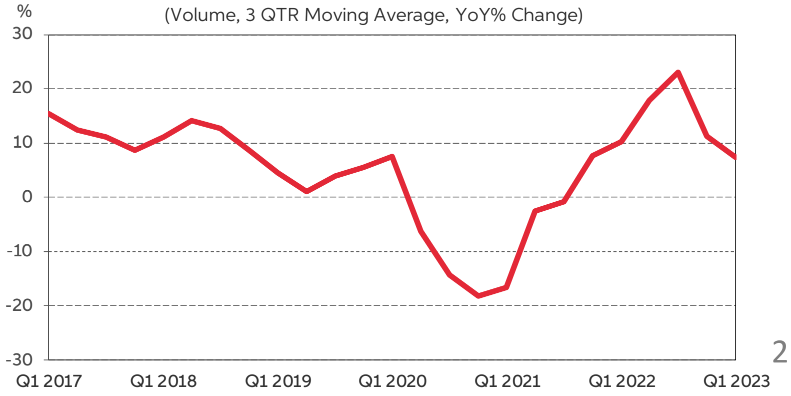
(Volume, 3 QTR Moving Average, YoY% Change)



Source: CSO via Refinitiv

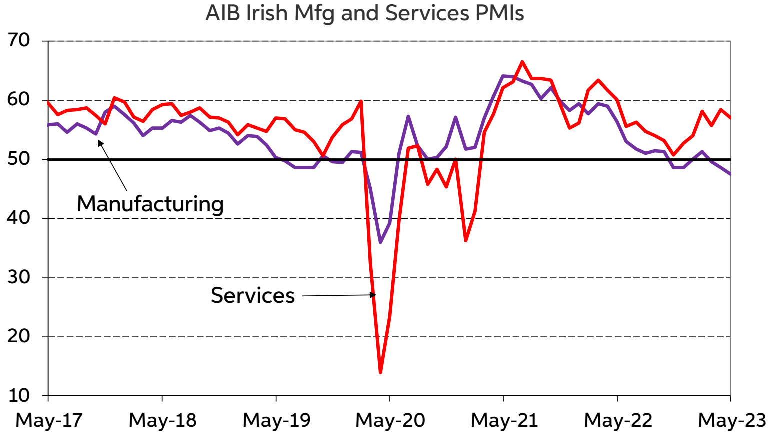
Construction Output

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

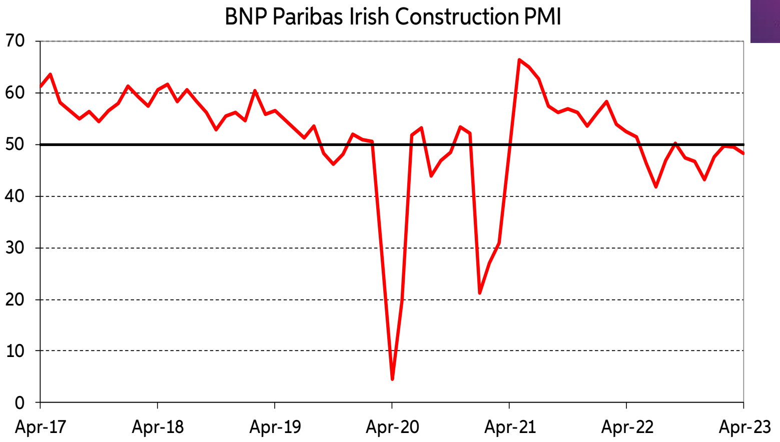


Source : CSO via Refinitiv

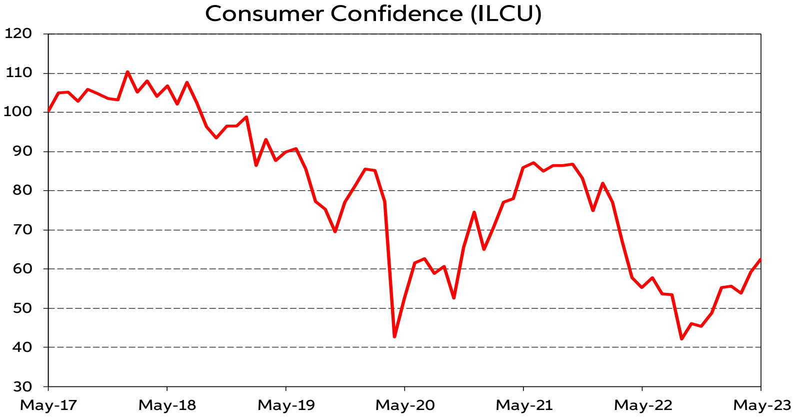
Survey indicators point to slower growth this year



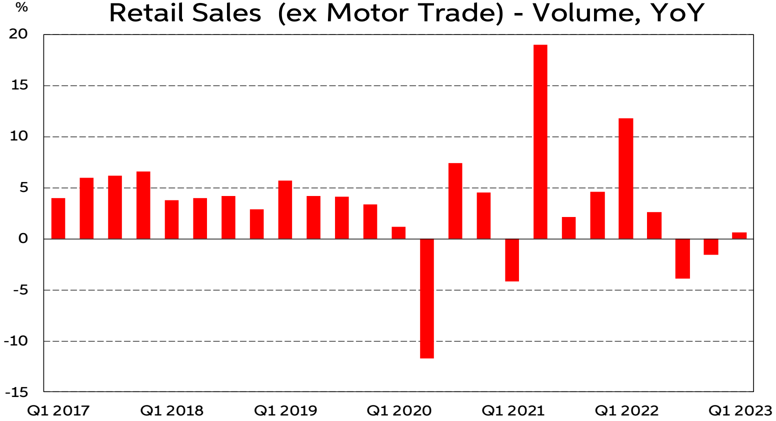
Source: Markit via *Refinitiv*



Source: Refinitiv



Source: ILCU via Refinitv

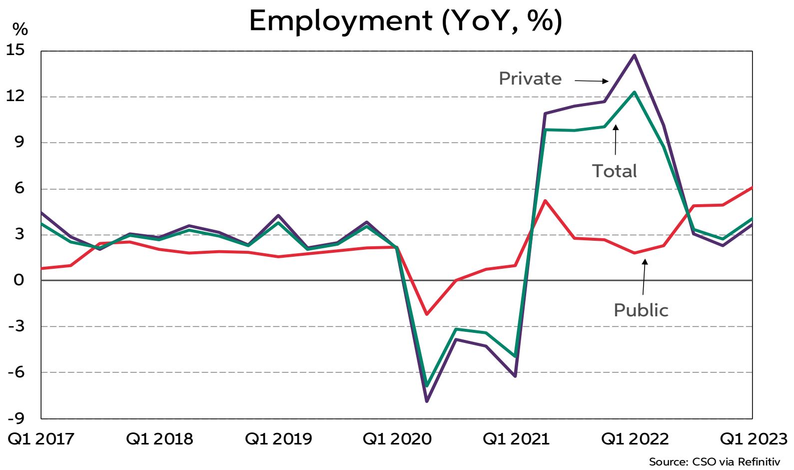


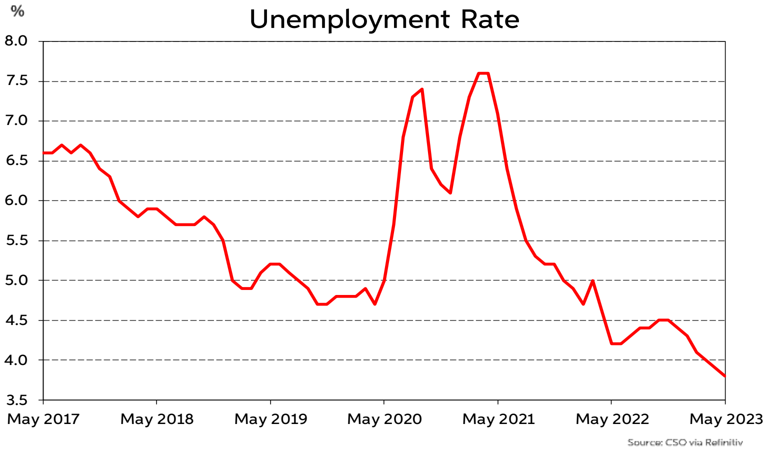
Source: CSO via Refinitv

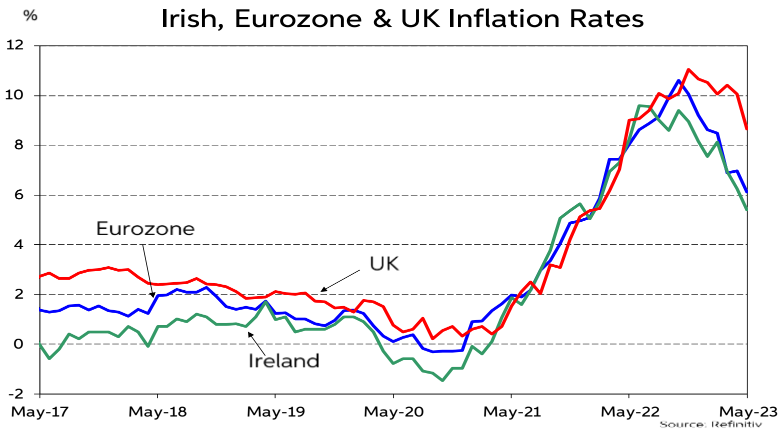
Data on domestic economy have been strong in H1 2023

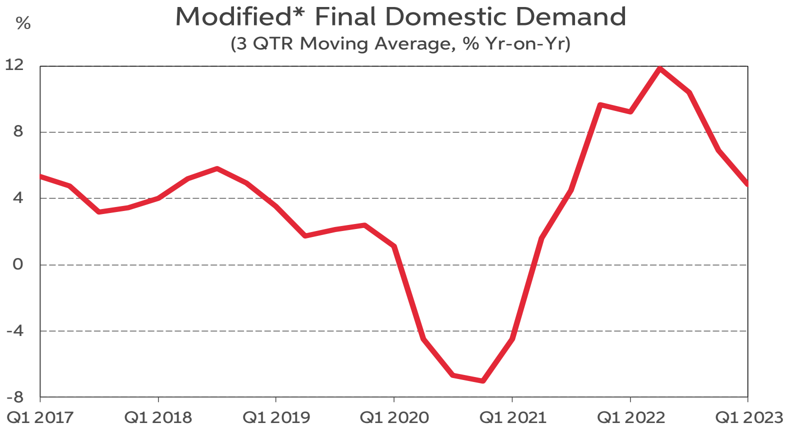
- Domestic data stronger than expected in 2023, but GDP fell in Q1 on sharp decline in mfg. output
- Mfg PMI fell sharply in H2 2022 to below 50. Remains weak in 2023 at 48.6 in April and 47.5 in May
- Services PMI solid in 2022. Picks up strongly in 2023; at 58.4 in April and 57.0 in May
- Housing commencements hit 35k in Q1’22. Fell back to low of 26.5k by Oct, but rise to 27.5k by April
- Housing completions jumped by 45% to 30k in 2022. Annual run rate rises further to 31k in Q1 2023
- PMI for construction fell sharply in 2022. Averaged 45.8 in Q4. Picks up in early 2023, at 48.4 in April
- Core retail sales rose by 1.7% in volume in 2022. Steady, modest uptrend in sales in Jan-April 2023
- New car sales improved in H2’22, but flat for full year. Pick up in 2023 – rose 11% yoy in Jan-April
- Consumer confidence recovers some ground in 2023 after sharp fall from spring to autumn 2022
- Tax receipts rose by very robust 21.5% last year. Remain strong in 2023, up 10.2% yoy to end May
- Unemployment rate fell below 4.5% in 2022. Declines further to record low of 3.8% by May 2023
- Employment rose by 6.8% in 2022. Strong jobs growth of 1.9% in Q1 2023, up 4.1% year-on-year
- Inflation rose sharply in 2022, but HICP rate down to 5.4% by May 2023 - peaked at 9.6% last summer

Unemployment rate falls to historic low, inflation now easing







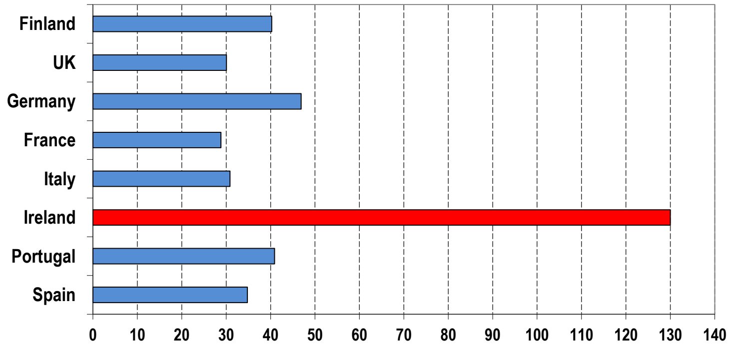


Source: CSO via Thomson Datastream (*Investment excludes imports of I.P. & Aircraft Leasing)

Export growth slows in Q1'23 after very strong 2021-22

- 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 very large FDI inflows
- IDA reported record FDI in 2021 and again in 2022, with good pipeline for H1 2023
- Pharma, medical care products, ICT, business & financial services main elements of FDI
- Irish FDI inflows may be benefitting from Brexit
- Total exports up by 14% in 2021 and 15% in 2022
- Goods exports rose by 18% in 2021 and 22.5% in 2022– this overstates actual growth as includes goods manufactured abroad by sub-contractors
- Service exports up by 10.3% in 2021 and 7.3% in 2022, a better measure of export performance
- Goods exports fell 4.6% in Q1 2023 on decline in manufacturing output by multi-nationals
- Service exports slowing on weakening global economy, rose by 0.9% in Q1 from Q4 2022 level

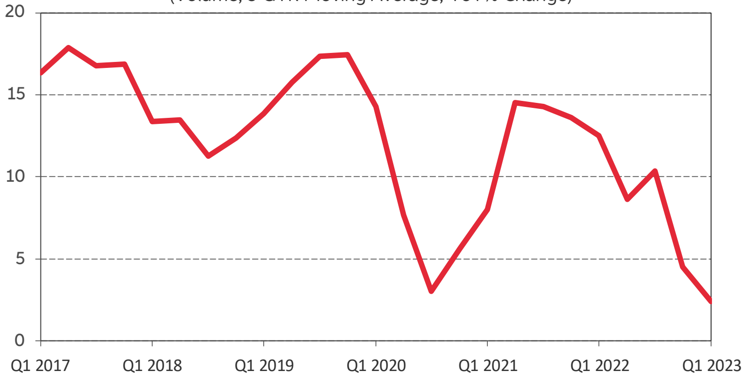
Exports as % of GDP



Source: Thomson Datastream

Irish Exports of Services

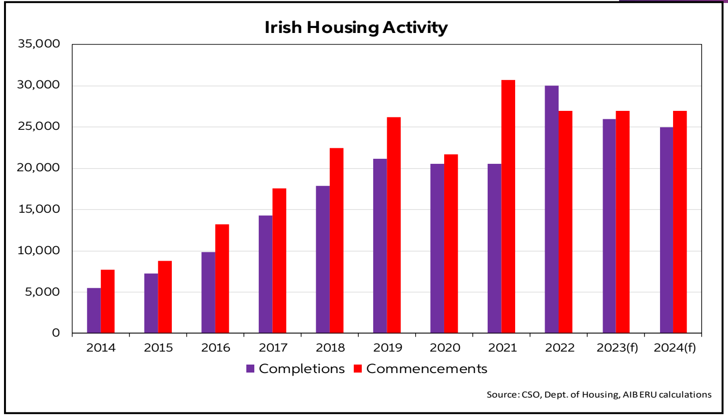
(Volume, 3 QTR Moving Average, YoY% Change)

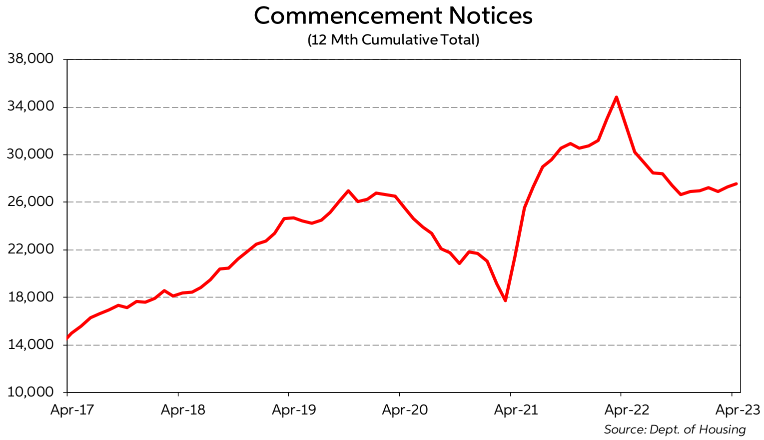


Source : CSO

House completions jump, but commencements fall back

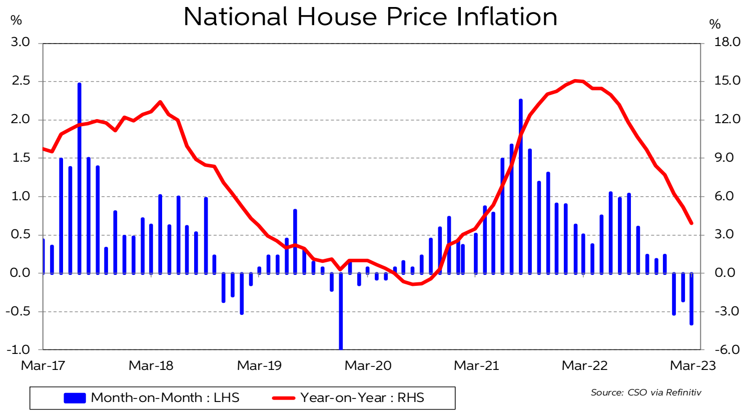
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- Completions then jumped sharply to 30,000 in 2022, and hit 31,000 in Q1 2023 for previous 12 months
- Estimated annual housing demand put at over 30k
- Big jump in planning permissions from 2018-2021, but sharp fall of 20.5% in 2022 – all apartments
- 12 month commencements hit 35,000 peak in Q1'22. Fell back to 26,500 by Oct. but rise to 27,500 in April
- Completions may move down to 26-27k in 2023-24. Rising costs/yields could dampen apartment builds
- Mortgage drawdowns jumped 34% to €14bn in 2022. Big impact from switching. At €14.4bn in Q1 2023
- Mortgage approvals stabilise. A fall-off in switcher activity expected to dampen drawdowns this year

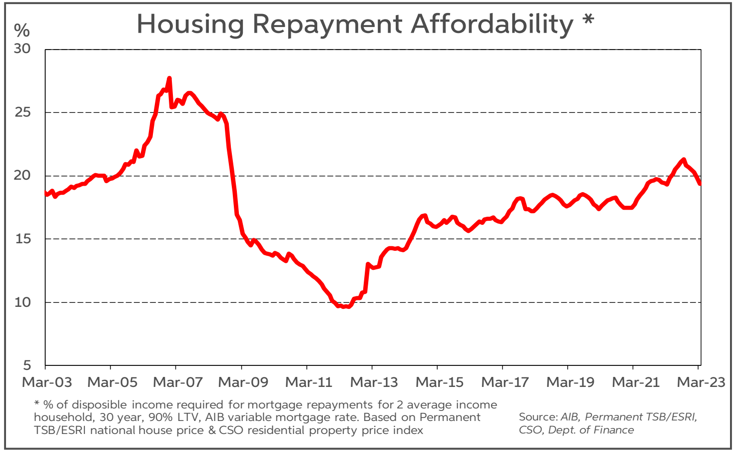




House prices level off

- House prices declined sharply, by 55% over 2007-13. Prices have fully recovered - back above 2007 peak level
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand all supportive of house prices
- Marked moderation in house price inflation in past year
- Annual rate eased to 3.9% yoy by Mar 2023, down from peak of 15% in Feb/Mar 2022. Prices fell in Q1 2023
- Non-Dublin Jan prices up 5.7% yoy, Dublin rate at 1.7%
- Rising interest rates and slower economic growth suggest house price inflation will continue to decelerate
- Property websites show asking prices were flat in H2 2022, with a slight fall in Q1 2023
- Housing affordability deteriorated over 2020-22 as prices rose. Improves recently on higher wages/house price falls
- Rents jumped sharply in 2021/22. Annual rate peaked at 12.9% in July. Fell to 10.6% end 2022 and 8.8% by April





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
- Headship rose again in 2016-2022 – long-term trend is upwards - adding to demand, estimated at 5,000 p.a.
- Pent-up demand has also built up in recent years from lack of supply
- Thus, forecast table may be under-estimating the actual real level of housing demand
- Shortfall in new supply being partly met by return of vacant stock to the market. Quite evident in 2011-16 and even more so in 2016-22 when it ran at close to 6,000 units p.a.

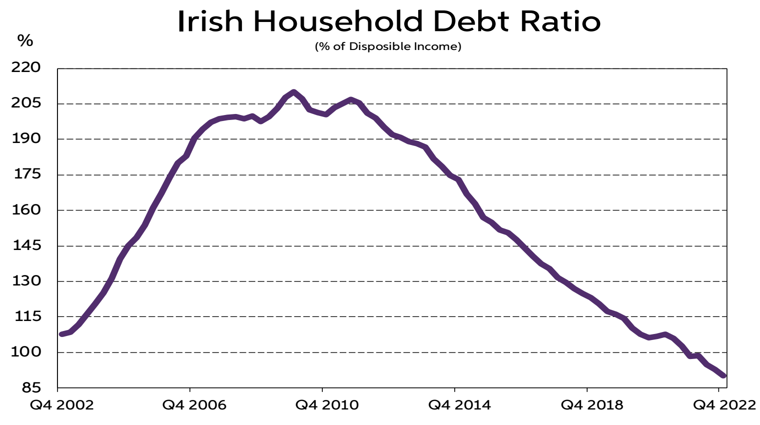
Calendar Year	2020	2021	2022	2023	2024
Household Formation	26,000	29,000	28,000	25,000	24,500
of which					
Indigenous Population Growth	*21,000*	*20,000*	*16,500*	*14,500*	*14,500*
Migration Flows	*5,000*	*9,000*	*11,500**	*10,500**	*10,000**
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	31,500	34,500	33,500	30,500	30,000
Completions	20,500	20,500	30,000	27,000	26,000
Shortfall in Supply	*-11,000*	*-14,000*	*-3,500*	*-3,500*	*-4,000*

***Headship is % of population that are heads of households. Assumed it remains constant*

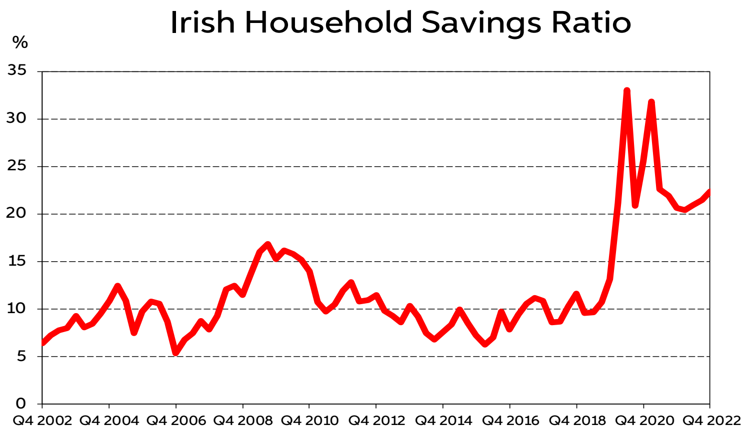
** Does not include Ukrainian refugees*

Sources: CSO, DoECLG, AIB ERU.

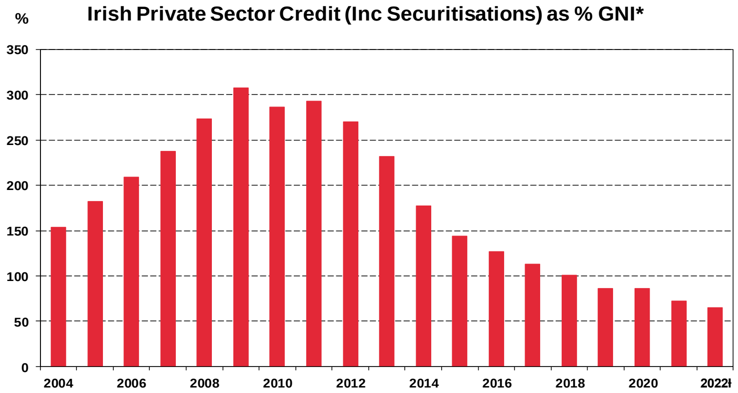
Household savings surge, Gov. debt ratios fall to low levels



Source: *CSO, Central Bank, AIB ERU*

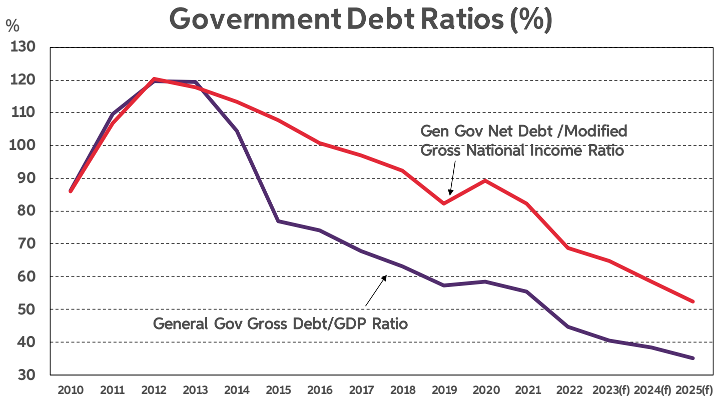


Source: *CSO*



ǂ GNI* Forecast

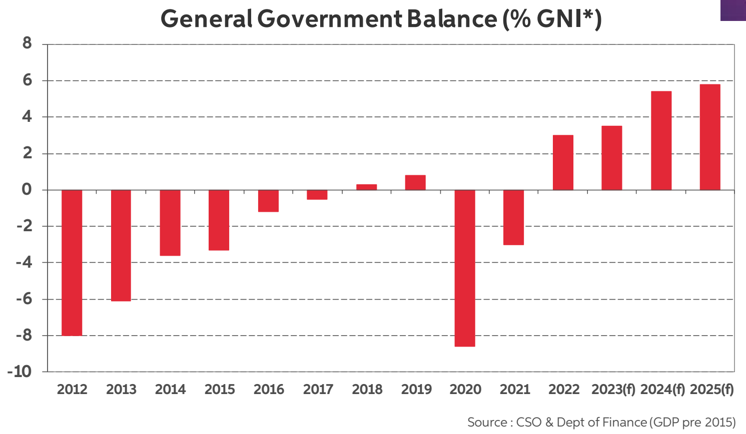
Sources: Central Bank, CSO, AIB ERU Calculations

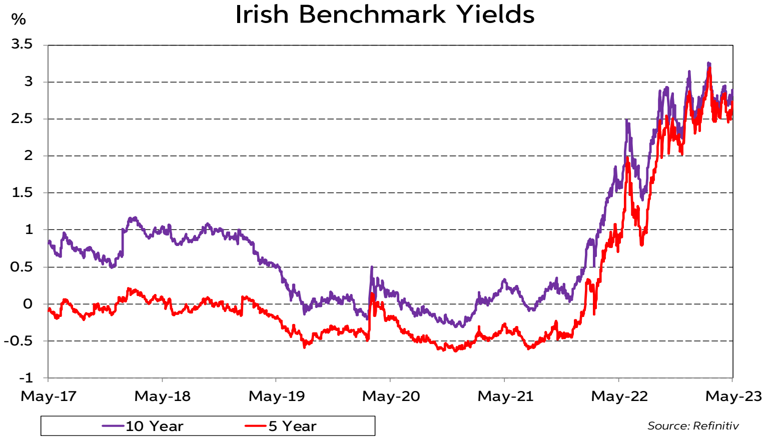


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figues from 2015)

Strong economy leads to large and rising budget surpluses

- Budget deficits in 2020 and 2021 owing to COVID
- Tax revenues rose very strongly across the board in 2021-22; up 21.5% in 2022 and 20% in 2021
- Budget target was a deficit of €8bn for 2022, but a surplus of €8bn was recorded (3% of GNI*)
- Good Exchequer data in H1'23, with tax receipts up 10.2% to end May and surplus continuing to rise
- Budget surpluses of 3.5% and 5.4% of GNI* now expected in 2023 and 2024, respectively
- Ireland to establish sovereign wealth fund as investment vehicle for large budget surpluses
- Gov. Debt ratios falling sharply – net Gov. Debt forecast at 65% of GNI*in 2023, 52% by 2025
- Irish bond yields rise sharply as elsewhere
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA, Moody's Aa3, Fitch AA-. Moody's, S&P both upgraded in H1'23



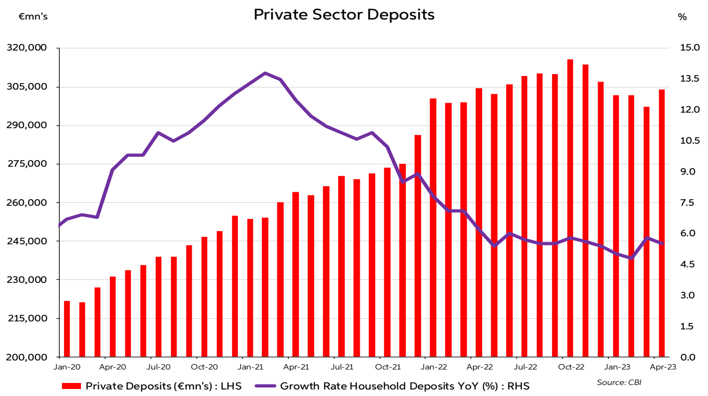


Good growth likely despite headwinds & capacity issues

- Mounting headwinds and capacity constraints, but solid growth expected by Irish economy in 2023-24
- Strong data in H1 2023 – tax receipts, car sales, jobs
- FDI inflows continuing, boosting investment, exports and employment – good pipeline in 2023
- Fiscal policy to remain supportive of growth – Budget has 5-6% rise in core gov. spending in 2023 and 2024
- Economy has deleveraged; low private sector debt
- A rundown of some of the 44% surge in private sector deposits during 2020-2022, could support spending
- High inflation, rising rates and slowing global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerging also – housing, labour, electricity, water, infrastructure, planning
- GDP fell by 4.6% in Q1, but this should reverse. But much lower GDP growth likely in 2023-24 vs 2021-22
- Strong rise in modified domestic demand in Q1. Should register good growth in 2023-24, but down on 2021-22

IMF Global GDP Forecasts (April 2023)

% Vol	2021	2022	2023	2024
World	6.2	3.4	2.8	3.0
US	5.9	2.1	1.6	1.1
Eurozone	5.3	3.5	0.8	1.4
UK	7.6	4.0	0.4	1.0
Japan	2.1	1.1	1.3	1.0
China	8.4	3.0	5.2	4.5



AIB Irish Economic Forecasts

% change in real terms unless stated	2020	2021	2022	2023 (f)	2024 (f)
GDP	**6.2**	**13.6**	**12.0**	**4.0**	**3.7**
GNP	2.7	14.7	6.7	3.5	3.3
Modified Final Domestic Demand	**-6.1**	**5.8**	**8.2**	**3.0**	**2.8**
Personal Consumption	-10.9	4.6	6.6	3.0	3.0
Government Spending	11.6	6.5	0.7	2.3	2.0
Fixed Investment**	-16.5	-39.0	25.9	3.5	3.0
Exports	11.2	14.1	15.0	6.0	5.0
Imports**	-2.1	-8.3	19.0	4.5	5.0
Employment (%)	-2.8	6.2	6.8	3.0	1.8
Unemployment Rate (%)	**5.9**	**6.3**	**4.5**	**4.2**	**4.4**
HICP Inflation (%)	**-0.5**	**2.4**	**8.1**	**5.0**	**2.5**
Budget Balance (GGB % GNI*)	**-8.6**	**-3.0**	**3.0**	**3.5**	**5.4**
Gross General Gov Debt (% GDP)	58.4	55.3	44.7	40.5	38.2
Net General Gov Debt (% GNI*)	89.3	82.2	68.7	64.7	58.4

**2020-22 data very distorted by aircraft leasing and intangibles (IP)

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

Changes to Global Corporate Tax Regime

Importance of FDI:

- Some 1,800 multinational companies are based in Ireland, accounting for over 300,000 jobs in direct employment
- Corporation tax receipts of €22.6bn in 2022 or 27% of total tax revenue – well over 80% comes from MNCs

Changes to Corporate Tax Regime:

- 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% for very large companies
- Larger multinationals, mainly digital, to pay some taxes on profits in countries where sales made. Details to be agreed
- DoF has allowed for a €2bn hit to Irish corporation tax receipts from changes to global tax system
- Ireland retaining its 12.5% rate – will be 2.5% top-up for larger companies. Takes effect from 1 Jan 2024 in line with EU
- 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 Global Corporate tax deal, most notably the US

Ireland Remains 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
- Irish corpo. tax rates still comparatively low by European standards. UK rate raised from 19% to 25% in 2023
- Strong inflows of FDI continue despite the changes to global corporate tax rules. Brexit may be helping inflows

Risks to the Irish economy

- Very open Irish economy vulnerable to weaker global outlook, including FDI inflows
- Concentration risk from heavy reliance of economy on a small number of multi-national dominated sectors in terms of output, employment, investment, exports and tax receipts
- High inflation and rising interest rates headwinds for Irish economy, as elsewhere
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Changes to US corporation (Gilti) tax regime still possible, could negatively impact FDI here
- Supply constraints in new house building activity, with output still at low levels, fall in starts
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit constrained – tight lending rules, on-going deleveraging, subdued credit demand