



The Irish Economic Update:

Activity slowing, but economy still expected to register solid growth in 2023-24

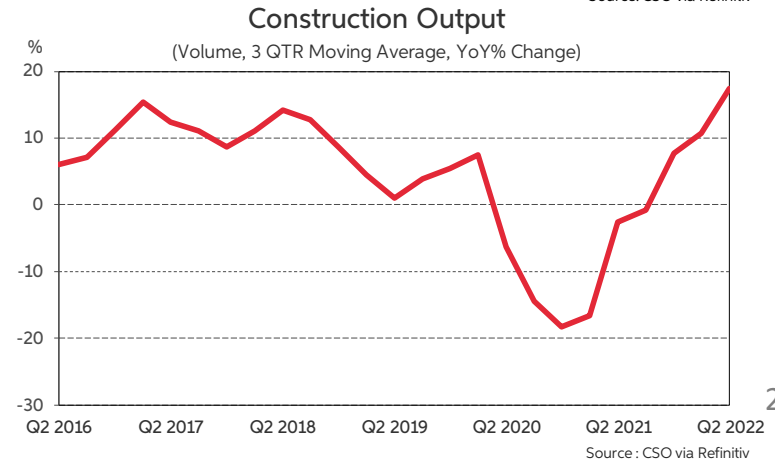
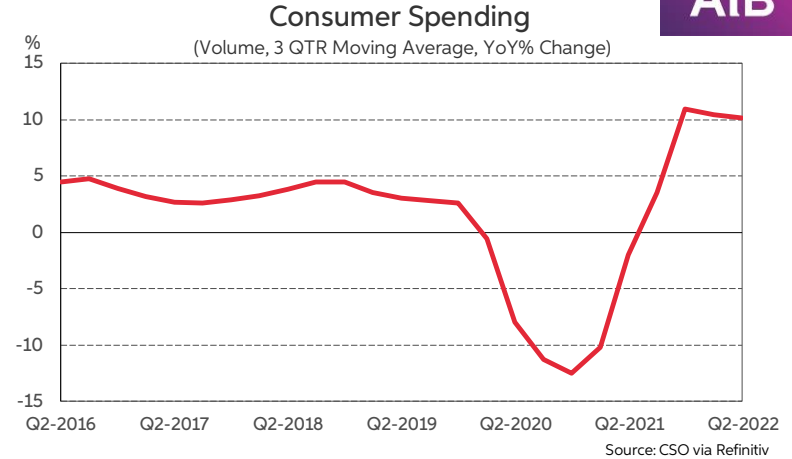
November 2022

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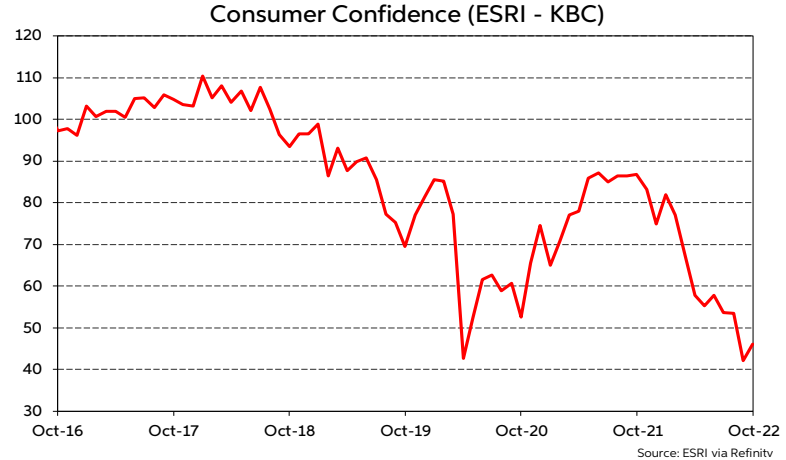
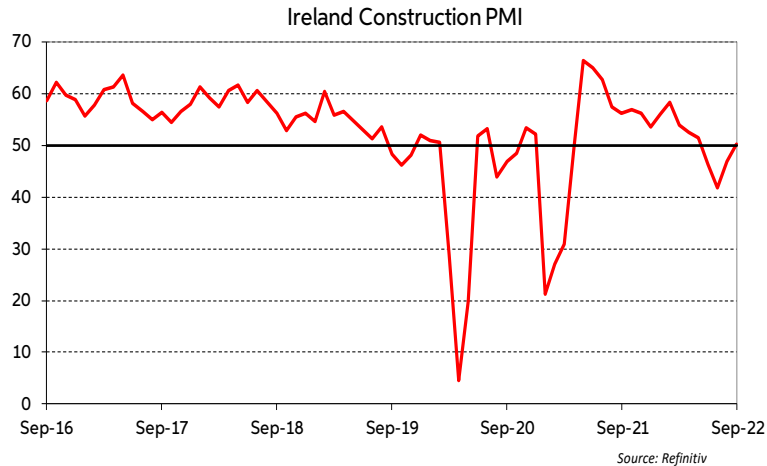
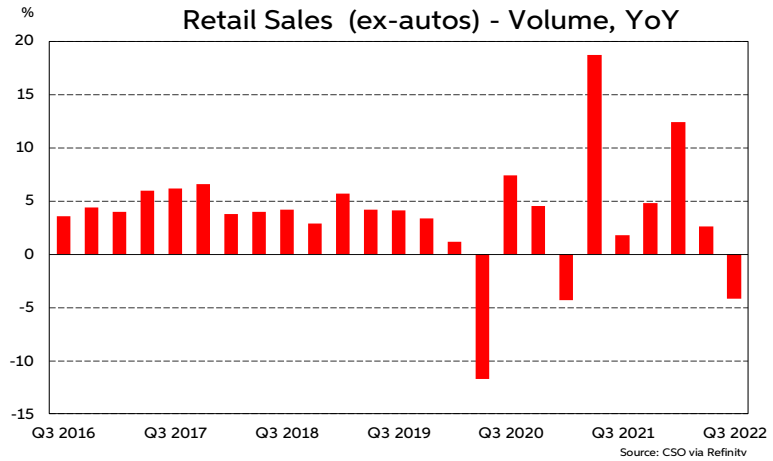
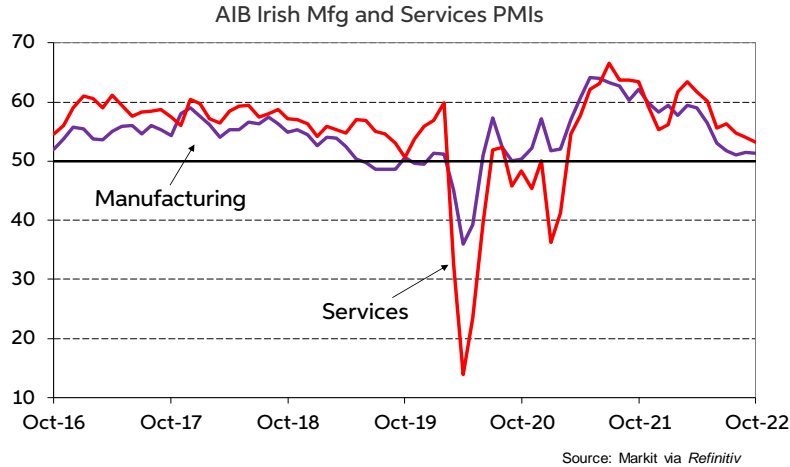
Economy rebounds very strongly from COVID pandemic



- Domestic economy picked up strongly in 2021, with modified final domestic demand rising by 5.8%
- Consumer spending rose by 4.6% in 2021, with domestic fixed investment up by 8.2%
- Meanwhile, GDP grew by 13.6% in 2021, with GNP up by 14.7% - trade flows again boosted data
- Another very strong rise in GDP in H1 2022, up 11% yoy, with broad based growth
- Exports up strongly again in H1'22 at 14% yoy
- Modified domestic demand rose by 11.7% yoy on weak levels in H1 2021 owing to COVID
- Consumer spending increased 10.5% yoy in H1'22
- Very strong growth in investment continued in H1, up nearly 30%, with buoyant business investment
- Construction output rebounds in H1'22 from COVID hit, especially house building. Up 26% yoy



But clear signs that growth slowing after strong H1'22

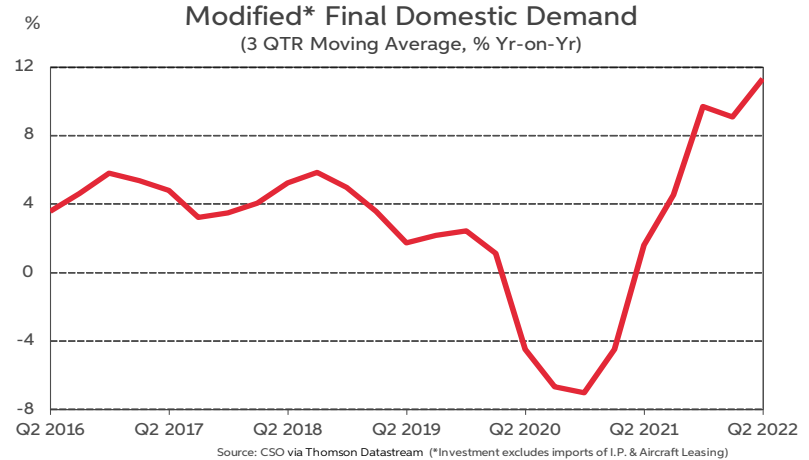
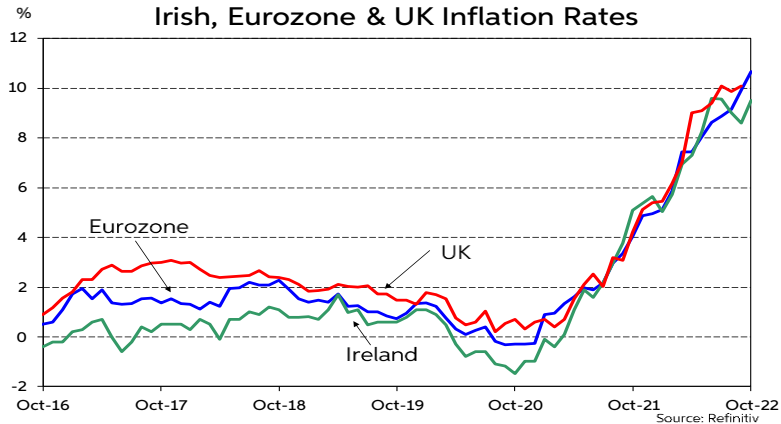
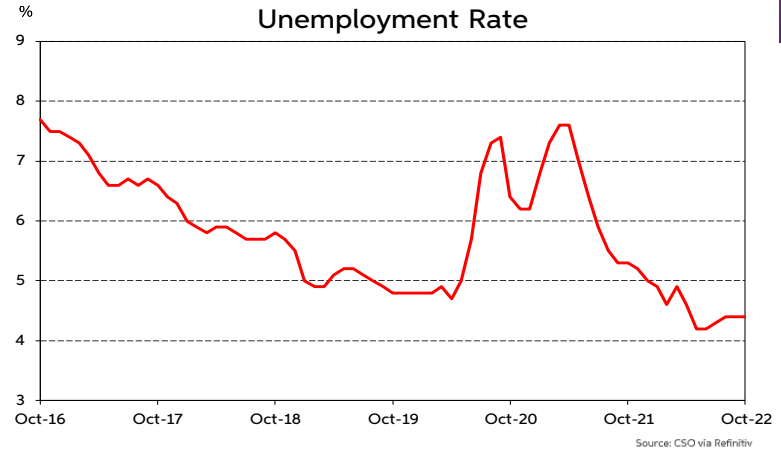
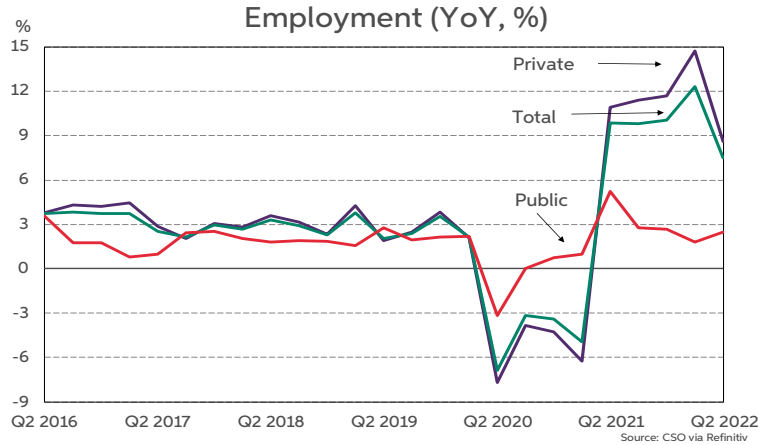


PMIs and retail sales data point to softening activity



- Mfg PMI at strong levels into early summer, before falling to 51-52 range in July-October period
- Services PMI still solid, but well off peaks at 54.1 in September and 53.2 in October
- Housing commencements surged to 35k peak in March, but fall back to 27.5k by September
- PMI for construction falls sharply in 2022. Off summer lows, though, posting 50.2 in September
- OECD Leading Indicator for Ireland slips in Q2 and Q3, but still at a solid level
- Core retail sales subdued in H1 2022 and fall sharply by 2.4% in Q3 to be down 4.2% yoy
- New car sales rebound in Q3, but down 1% yoy to end September owing to shortage of stock
- Surge in inflation and War in Ukraine sees big drop in consumer confidence since early spring
- Tax receipts, though, remain very strong. Up 25.5% yoy to end October
- Unemployment rate falls to 20-year low of circa 4.3% in recent months, with high job vacancies
- Employment up 1.0% in quarter, 8.8% yoy in Q2 2022 – and up 11% on Q2 2019
- Inflation accelerates sharply; HICP rate at 9.4% in October

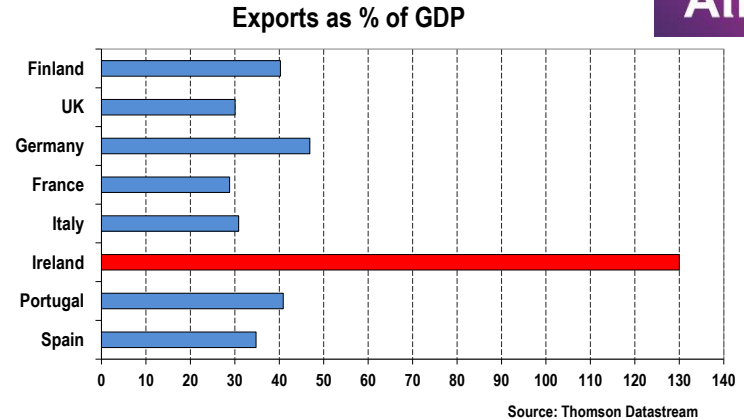
Unemployment falls to very low level, inflation rising sharply





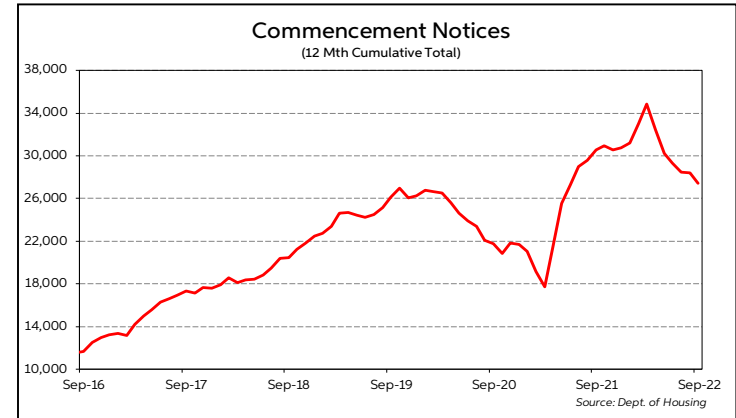
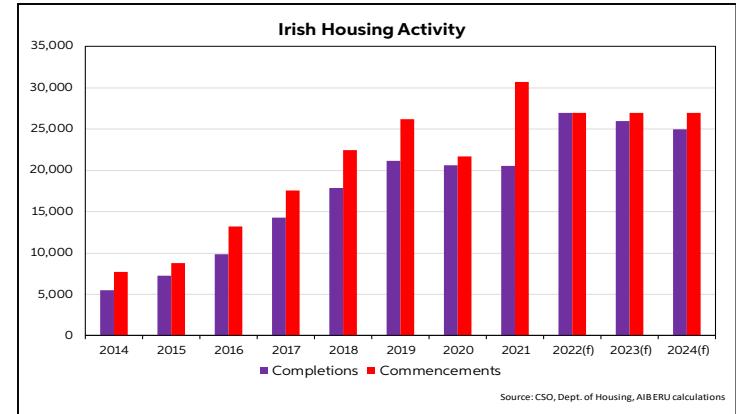
Exports perform very strongly as FDI surges in 2021-22

- 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 H1 2022, with continuing strong pipeline
- Pharma, medical care products, ICT, business & financial services mains elements of FDI
- Irish FDI inflows may be benefitting from Brexit
- Eastern Europe may also becoming less attractive for FDI following Russian invasion of Ukraine
- Total exports up 14% in 2021 and 11% in H1' 22
- Goods exports rose 18.5% in 2021 and 16% in H1 2022– this overstates actual growth
- Exports include goods manufactured abroad by sub-contractors on behalf of Irish based firms
- Service exports 11% in 2021 and 12.3% in H1 '22



House building picks up after commencements jump

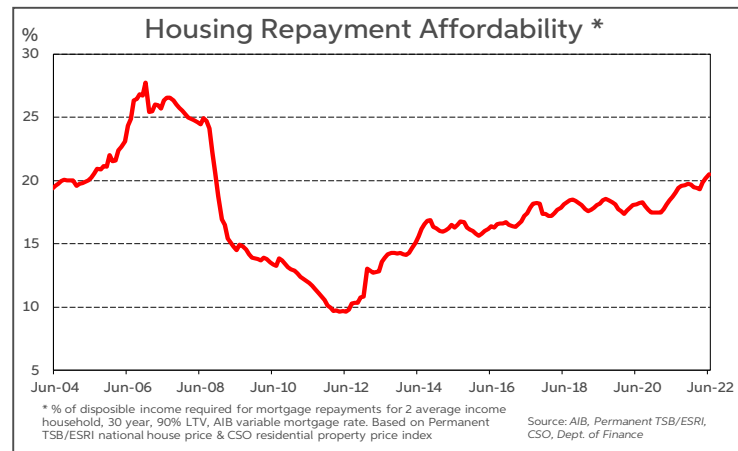
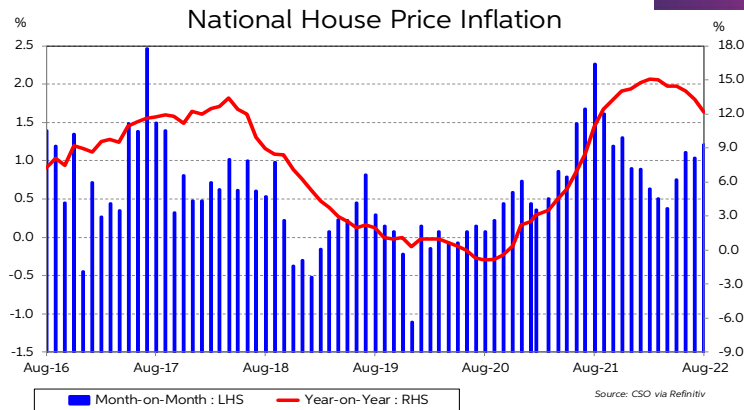
- Completions amounted to 20,500 in 2020 & 2021, just 2.6% down on 2019 level despite lockdowns
- 12 month total for completions picked up to near 28K by Q3'22 on recovery from COVID lockdowns
- Estimated annual housing demand put at over 30k
- Big jump in planning permissions since 2018
- Commencements 12 month total reached 35,000 in Q1 2022 but then fell to 27.5k by September
- Completions may stall at 25-27k in 2023-24. Concern rising costs/yields may dampen apartment builds
- Mortgage lending rebounded strongly in 2021 to €10.5bn after COVID related fall in 2020
- Big jump in mortgage lending of 36% yoy to Q3 2022 - impacted by switching. 12mth running total at €13bn – of which circa €3bn is due to switching



Sharp upward trend in house prices starts to moderate



- House prices declined sharply, by 55% over 2007-13. Prices have fully recovered and back at 2007 peak level
- Strong rise in CSO house prices in 2021. Moderation in monthly rises to date in 2022 vs H2 2021
- National house price inflation at 12.1% yoy in July, down from 13.3% in July and peak of 15% in Feb/Mar
- Non-Dublin prices up 14.2% yoy, Dublin rate at 9.8%
- Rising interest rates and slowing economic activity suggest house price inflation will continue to decelerate
- Indeed, recent property website data show marked moderation in rise in asking prices during Q3 2022
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand all supportive house prices
- Housing affordability has deteriorated as prices rise
- Rents have recovered strongly after declining in 2020. Jumped sharply in past year. Up 12.9% yoy in July 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 2016-2022 – 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 again in 2016-22

Calendar Year	2020	2021	2022	2023	2024
Household Formation	26,000	29,000	28,000	25,000	24,500
<i>of which</i>					
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	21,000	27,000	26,000	25,000
Shortfall in Supply	-11,000	-13,500	-6,500	-4,500	-5,000

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

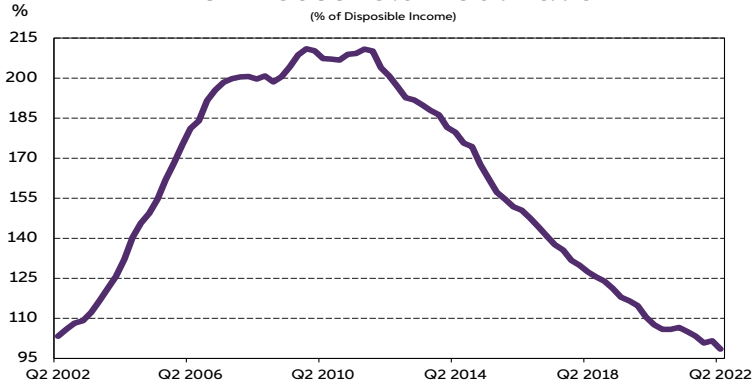
* Does not include Ukrainian refugees

Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios fall to low levels

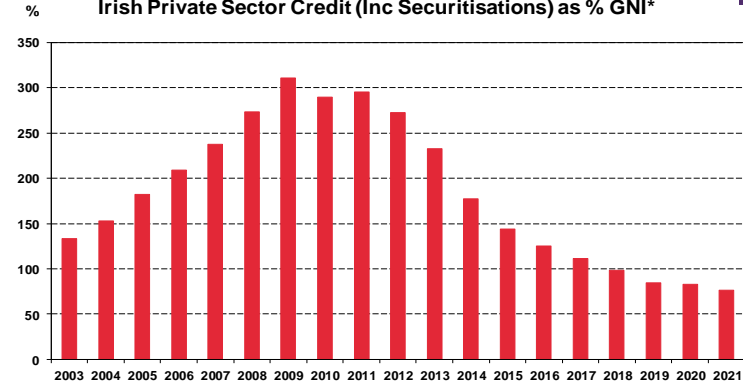


Irish Household Debt Ratio



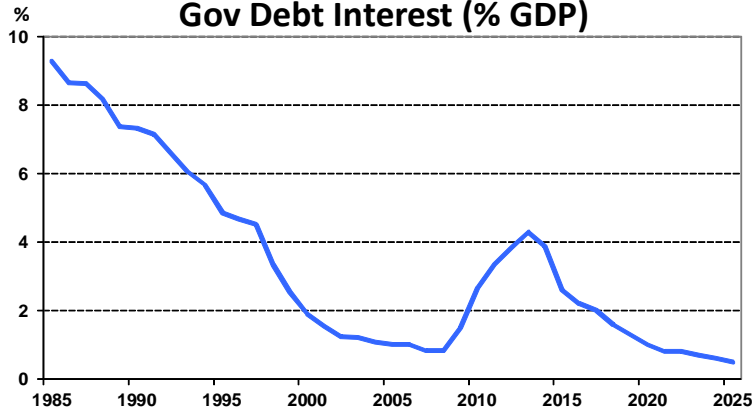
Source: CSO, Central Bank, AIB ERU

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



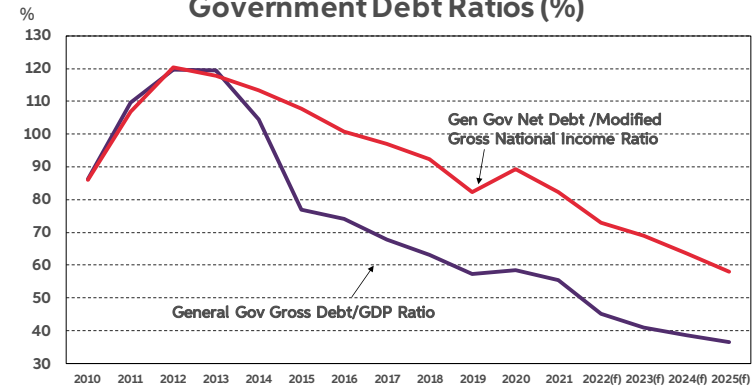
Sources: Central Bank, CSO, AIB ERU Calculations

Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

Government Debt Ratios (%)

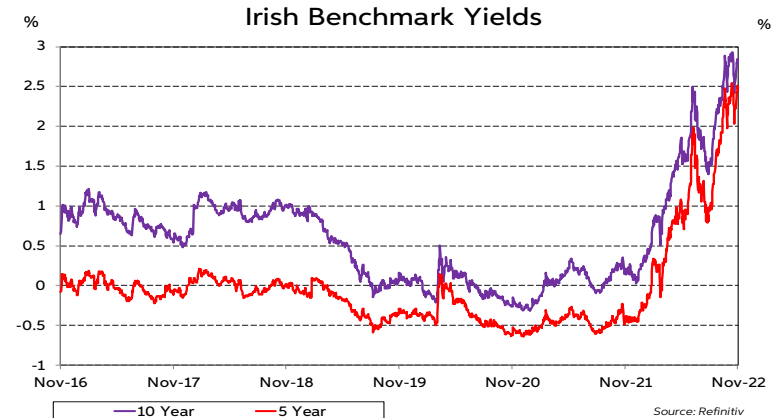
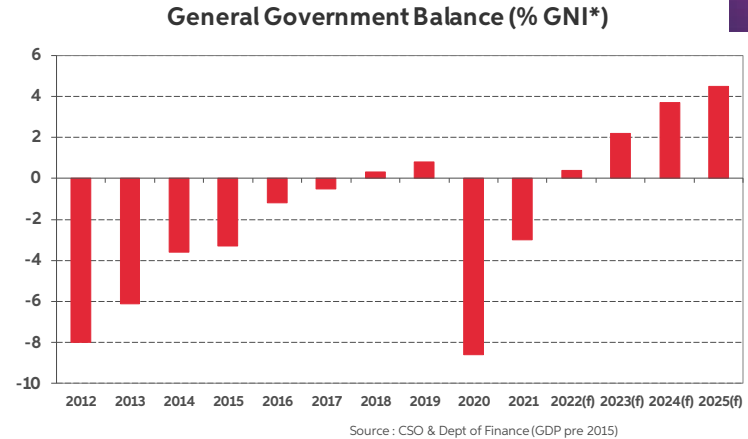


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

Strong growth sees public finances return to surplus



- Budget surpluses recorded in 2018 and 2019
- General Gov. budget deficits of €18bn in 2020 and €7bn in 2021 as COVID-19 hit public finances
- Tax revenues very strong in 2022; up 25.5% to end October after 20% rise in 2021
- Budget target was a deficit of €8bn for 2022, but running a surplus of €7.3bn at end October
- Government to use part of 2022 surplus for energy support payments for households/firms
- Budget surplus targets of 2.2% and 3.7% of GNI* set for 2023 and 2024, respectively
- Gov. Debt ratios falls sharply – at 73% of GNI*
- Irish bond yields rise sharply in 2022 as elsewhere
- Budget surpluses, very large cash balances and long-dated debt mean very little funding needed
- Irish sovereign debt ratings; S&P AA-, Fitch AA-, Moody's A1. Fitch & Moody's upgraded in H1'22

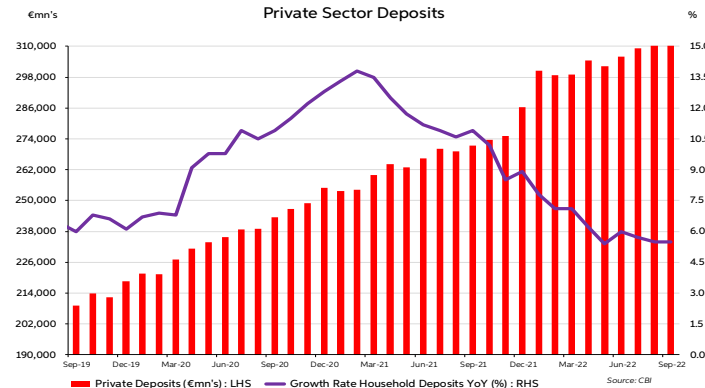


Headwinds and capacity constraints to see growth slow



- Solid growth expected by Irish economy in 2023-24, but mounting headwinds and capacity constraints
- Strong FDI inflows continuing, boosting exports
- House building picks up from still low output levels – though commencements fall back recently
- Fiscal policy to remain supportive of growth - DoF forecasts provide for 5-6% 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, could support spending
- Sharp rise in inflation and slowing global growth are significant headwinds, though, for Irish economy
- Capacity constraints emerging also – housing, labour, electricity, water, infrastructure, planning laws
- Irish official GDP growth forecasts at 8-12% in 2022, slowing markedly to 4-5% in 2023 and 3-4% in 2024
- Lower growth in modified domestic demand

OECD Global GDP Forecasts (Sept 2022)			
% Vol	2021	2022	2023
World	5.8	3.0	2.2
US	5.7	1.5	0.5
Eurozone	5.2	3.1	0.3
UK	7.4	3.4	0.0
Japan	1.7	1.6	1.4
China	8.1	3.2	4.7



AIB Irish Economic Forecasts



<i>% change in real terms unless stated</i>	2020	2021	2022 (f)	2023 (f)	2024 (f)
GDP	5.9	13.6	8.0	4.0	3.7
GNP	3.4	14.7	6.0	3.5	3.3
Modified Final Domestic Demand	-6.1	5.8	4.7	3.0	2.8
Personal Consumption	-10.9	4.6	5.0	3.0	3.0
Government Spending	11.6	6.5	1.0	2.3	2.0
Fixed Investment**	-16.5	-39.0	6.5	3.5	3.0
Exports	11.2	14.1	10.0	6.0	5.0
Imports**	-2.1	-8.3	9.5	5.8	5.0
Employment (%)	-2.8	6.2	6.0	1.5	1.5
Unemployment Rate (%)	5.9	6.3	4.6	4.8	5.0
HICP Inflation (%)	-0.5	2.4	8.3	5.2	2.5
Budget Balance (GGB % GNI*)	-8.6	-3.0	0.4	2.2	3.7
Gross General Gov Debt (% GDP)	58.4	55.3	45.0	41.0	39.0
Net General Gov Debt (% GNI*)	89.3	82.2	73.0	69.0	63.5

**2021-22 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 introduced legislation to unilaterally overturn parts of the NI Protocol
- The reality is that many checks on GB-NI trade are not in operation
- EU has offered concessions on Protocol. Discussions have not made much progress to date
- Legislation will take a considerable time to enact and get through Parliament
- UK could trigger Article 16, suspending Protocol - EU response would have to be proportionate
- Overall creates much uncertainty about NI trade and impacting politics in NI – no Executive
- Hoped that agreed solutions can be found to allow freer flow of goods from GB to NI
- Strong support in NI to remain in Single Market. ECJ oversight role key part of Single Market.
- New UK Government opens fresh discussions with EU. Both sides looking for common resolution
- 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 in 2023



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 by European standards
- Strong inflows of FDI continuing despite the changes to global corporate tax rules. Brexit may be helping inflows

Risks to the Irish economy outlook



- Very open Irish economy vulnerable to weakening global outlook, including FDI inflows
- High inflation and rising interest rates will weigh on Irish activity, as elsewhere
- Very reliant on energy imports so could be impacted by disruptions to European gas supplies
- Covid-19 retreats as a risk, but concerns remain about possible new variants
- 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 low levels
- Other capacity constraints emerging – labour, electricity, water, infrastructure, planning laws
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit constrains – 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.