The Irish Economic Update:

Deep COVID-19 recession, but resilient Irish economy can bounce back

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Oliver Mangan
Chief Economist
AIB

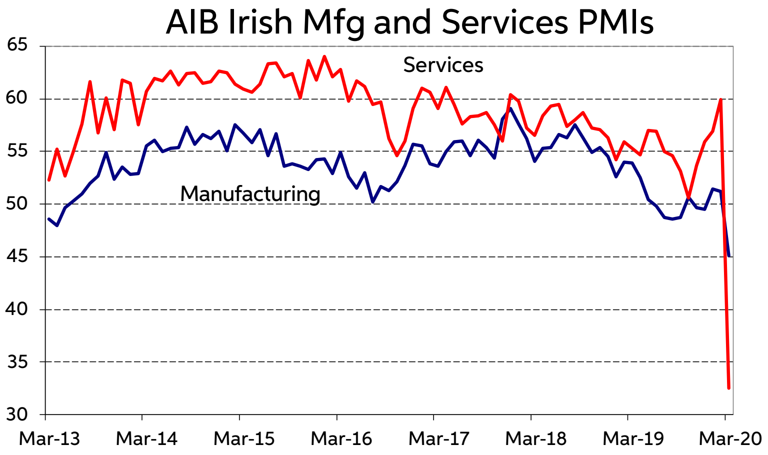
Coronavirus pandemic triggers deep recession

- Ireland hit by deep recession in H1 2020 as economy put into lockdown to contain coronavirus
- Rising unemployment, with over 1 million workers enrolled on State income support schemes
- Jobless rate soars to 16.5% in March, and expected to climb above 20% in April
- PMI for manufacturing falls to 36.5 in April. Service PMI will be much lower
- Big falls in GDP in Ireland, as elsewhere, in H1 2020
- OECD estimate that Irish GDP could fall by 15% yoy in Q2 – less than in other advanced economies
- Activity expected to rebound in H2 2020 as virus abates and restrictions on activity are lifted
- Nonetheless, IMF, ESRI and Central Bank still expect that GDP will fall by circa 7-8% in 2020
- Strong growth expected in 2021 given depressed base for this year – growth of over 6% per IMF
- Broad range of government supports announced to help household incomes and businesses
- Blow-out in public finances, with budget deficit forecast to hit 7% of GDP (12.5% of GNI*) in 2020

Activity data begin to show initial impact of COVID-19

- Unemployment rate spikes from 4.8% in Feb to COVID-19 adjusted figure of 16.5% in March
- Over 1 million workers either in receipt of Pandemic Unemployment Benefit / standard unemployment benefit or enrolled on State's temporary wage subsidy scheme in April
- Retail sales (ex-motor trade) fell by 0.7% in Q1, with sales down by 1.9% in March
- Consumer confidence collapses to near record low in April, having picked up over the winter
- 33% yoy drop in total number of cars licensed for first time (new + 2nd hand imports) in March
- Manufacturing PMI falls sharply in March/April to 36.0 as virus outbreak hits output and orders hard
- Services PMI plummets to over 10 year in March. Expected to hit record low in April
- Construction PMI slumps to 11-year low in March. Will fall further in April due to sector lockdown
- Forecasts that housing completions could fall by anywhere from 5% to 25% this year
- Tax receipts 5.7% below profile in March, government spending rises. Big deficit on cards in 2020

Data deteriorate on COVID-19 related restrictions



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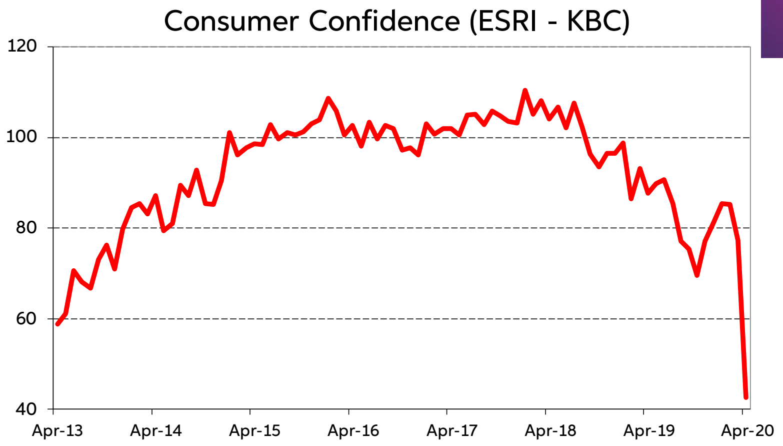

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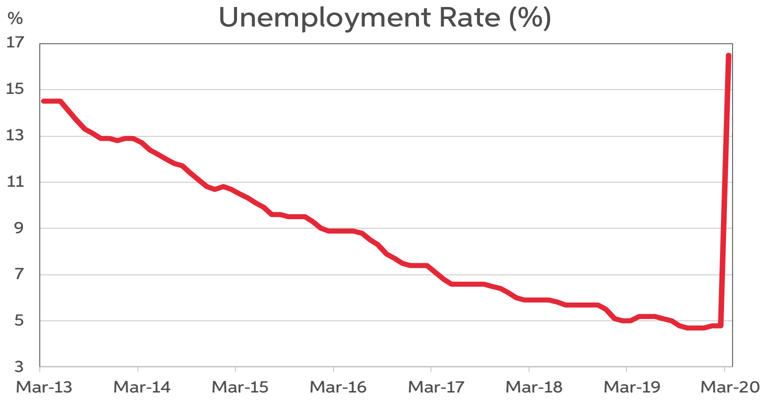
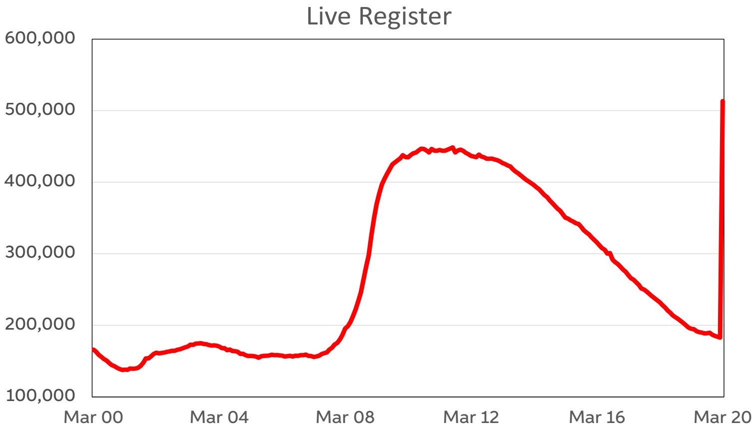


Source: CSO via Refinitiv



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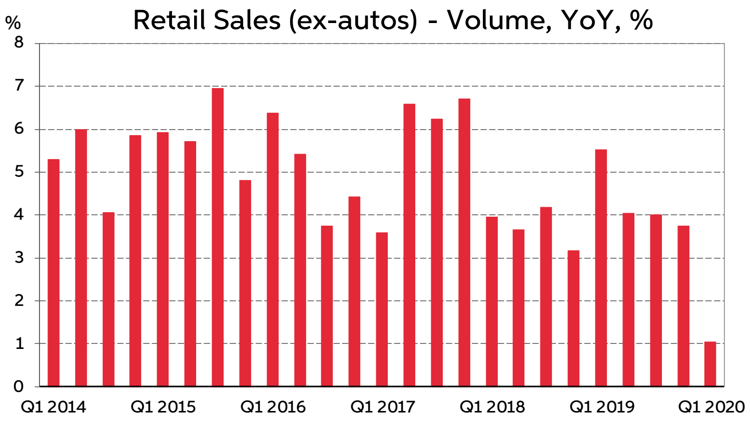
COVID recession comes after strong growth in 2013-2019

- Previous Irish recession of 2008-2009 also severe. GDP fell 9.5%, with GNP down 12%
- 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 at end of 2008-09 recession was still almost 25% higher than in 2001, highlighting that economic crash came after a long period of very strong growth going back to 1993
- Ireland tackled its problems aggressively in the public finances, banking sector & property market. Imbalances in economy unwound – housing, debt levels, competitiveness, BoP
- Economy recovered strongly, with robust underlying growth of circa 5% in 2013-19 period
- Focus was on generating growth via the large export base and FDI as the route to recovery
- Recovery in domestic economy followed, led by rebound in investment & retail spending
- Strong jobs growth. Unemployment rate fell from 16% in early 2012 to below 5% in H2’19
- Budget deficit eliminated quicker than expected. Public finances in surplus in 2018/19
- Major deleveraging by private sector, including households, during the last decade
- Balance of payments returned to large surplus

Economy still performing very well before virus struck



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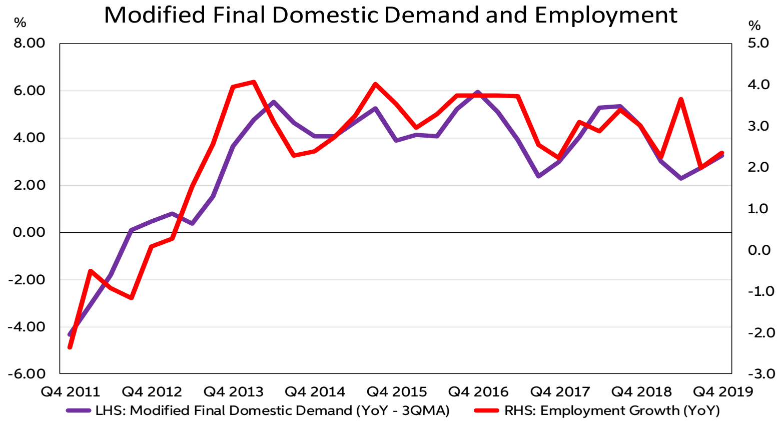

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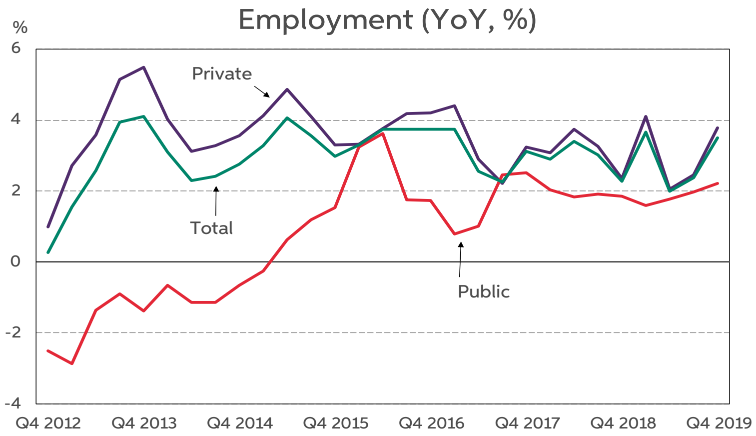

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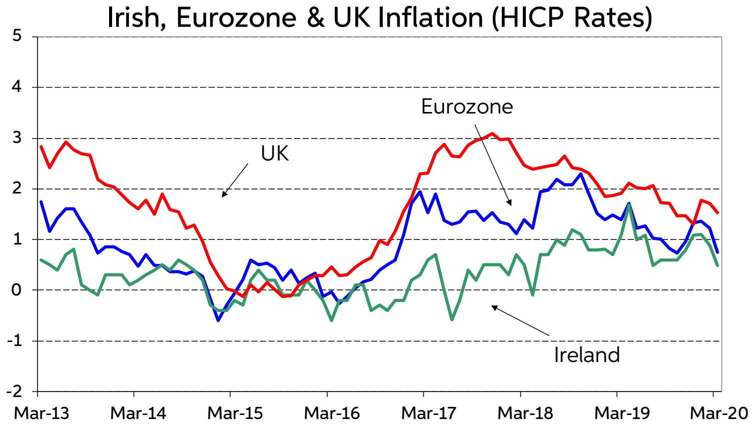
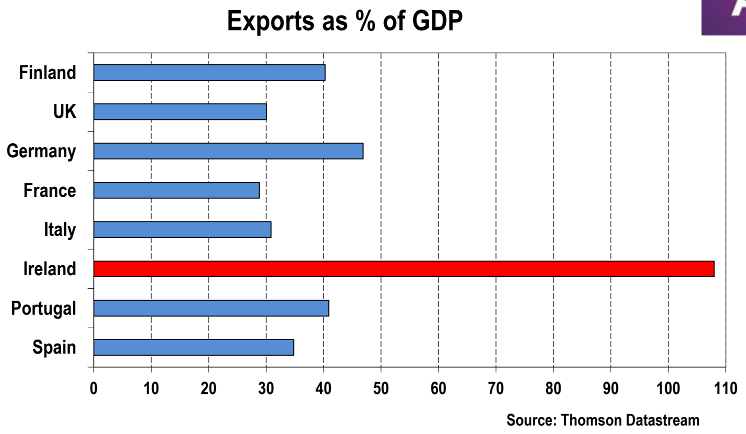
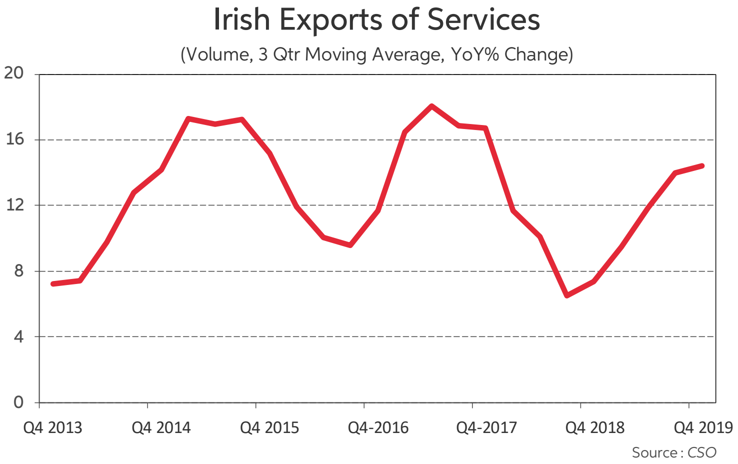


Source: Refinitiv

Large Irish export base has seen strong growth

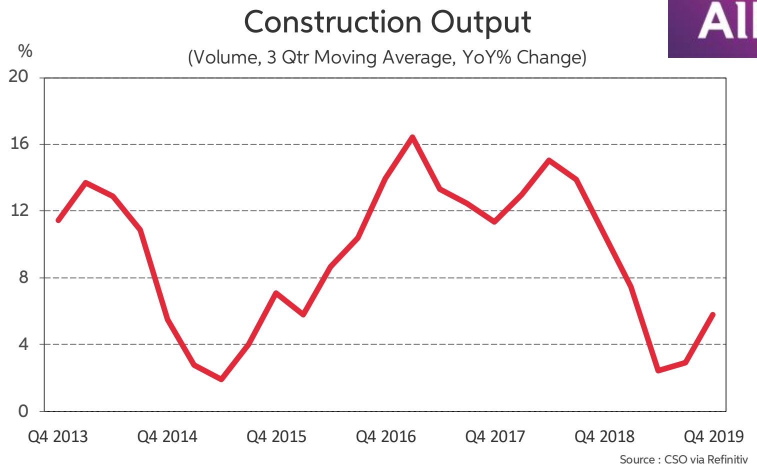
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose by 10.4% in 2018 and 11.1% in 2019
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Multi-nationals account for almost 70% of exports per IDA
- Eurozone, US and UK are the three biggest export markets
- Ireland a big importer from UK – it is the UK's fifth biggest export market

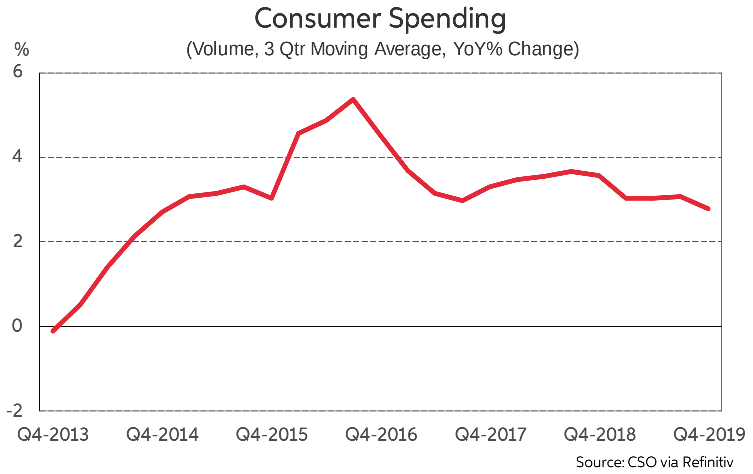




Domestic demand solid ahead of the pandemic

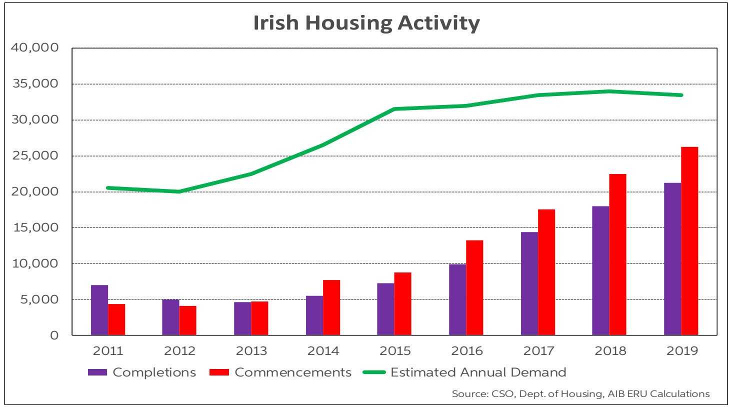
- Construction sees strong recovery since 2013. Output up nearly 12% on average in 2016-18 period
- Slowdown in non-residential construction activity last year – construction output up 5.8% in 2019
- Business investment (ex aircraft/intangibles) has recovered strongly since 2013
- However, Brexit uncertainty saw business investment flat-line in 2019
- Consumer spending grew by 3.5% on average over 2014-2018 period. Up by 2.8% in 2019
- Modified final domestic demand grew at 4.4% rate in 2014-2018 period. Rose by 3% in 2019
- Strong growth in core retail sales of circa 4-5% in recent years – rose by 4.4% in 2019
- Car sales returned to very high levels in 2018-19, with notable rise in direct imports from UK

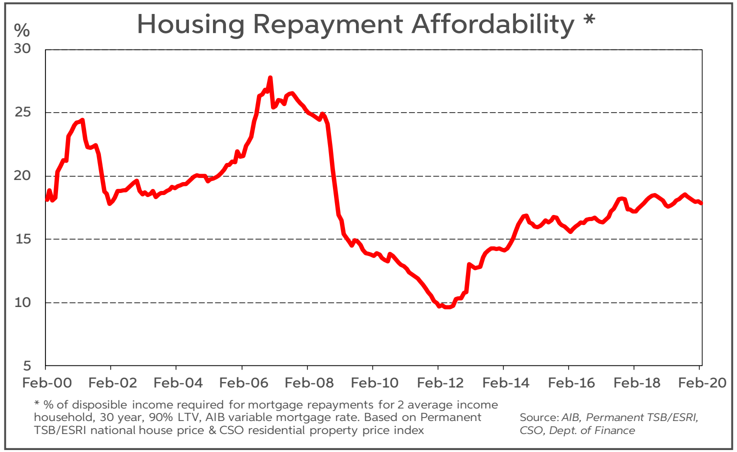




House building on steady rise before virus halted activity

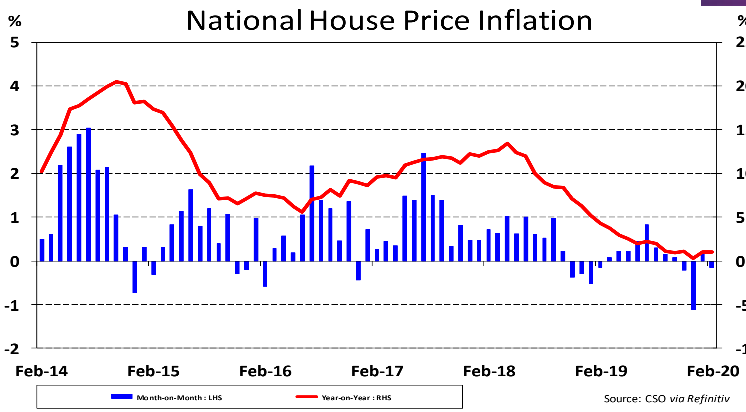
- Housing completions up 18% yoy to over 21,000 units in 2019, a moderation on 2018's 25% growth rate
- Housing commencements increase by further 17% in 2019 to 26,000 units
- Planning permissions jump by 38% YoY to over 40k in 2019, driven by a sharp rise in apartment applications
- Measures put in place to boost new house building. More NAMA activity, apartment planning rules relaxed
- Housing output still running well below annual new housing demand, estimated at close to 35,000 units
- Forecast completions of circa 24,500 in 2020 before virus outbreak. Now expected to be 16,000-20,000
- Mortgage lending growth eases to 9.5% in 2019, though mortgage approvals did pick up over the year
- Income growth outpacing house price inflation recently, which helps affordability metrics

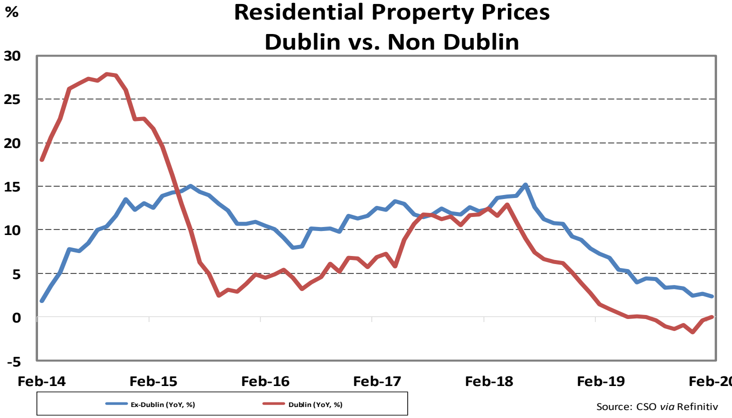




House price inflation slows sharply

- House prices declined by a very sharp 55% between their peak in late 2007 and early 2013
- House prices have since rebounded as big housing shortage emerged after 90% fall in home building
- Prices up 83% by Feb 2020 from low in March 2013 –Dublin prices up by 99%, non-Dublin rise 82%
- But house prices still some 18% below 2007 peak
- House price inflation slows sharply in 2018/19 reflecting tighter Central Bank lending rules
- Prices up 1.1% yoy nationally in Feb 2020, down from a high of 13.3% in April 2018
- Dublin prices flat yoy in Feb, down from +13% in Apr '18; non-Dublin at 2.3% vs. 15% last year
- Recession to see price falls but may be limited if economic downturn short and given low supply
- Annual growth in rents slows to less than 4%





AIB Model of Estimated Housing Demand

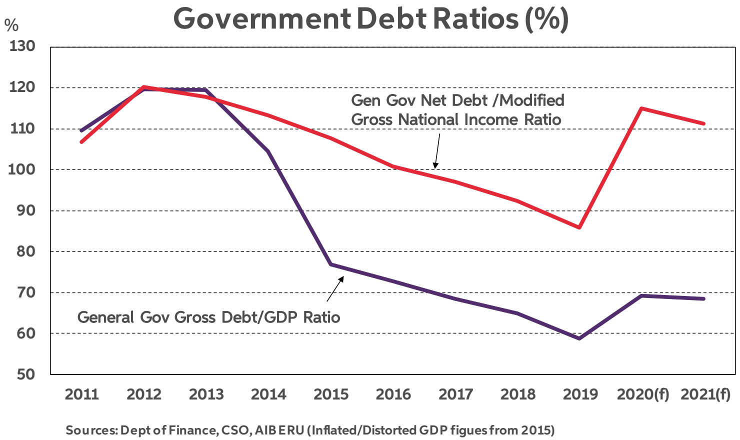
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2017-2021 – 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 2017-21

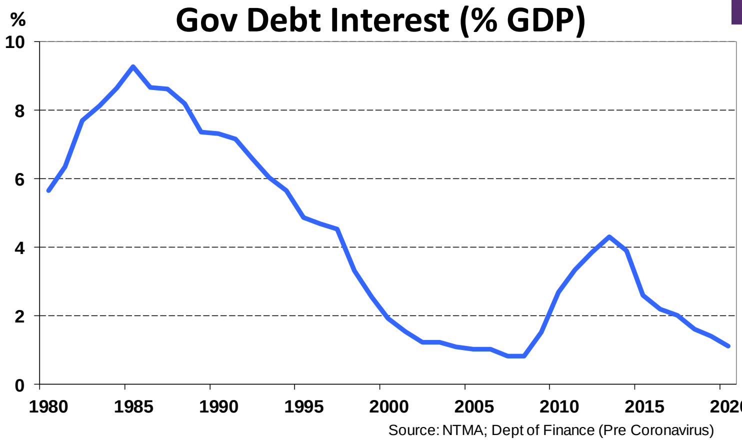
Calendar Year	2017	2018	2019	2020	2021
Household Formation	28,000	28,500	28,000	28,000	28,000
of which					
Indigenous Population Growth	*18,500*	*17,500*	*16,500*	*16,500*	*16,000*
Migration Flows	*9,500*	*11,000*	*11,500*	*11,500*	*11,500*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	**33,500**	**34,000**	**33,500**	**33,500**	**33,000**
Completions	**14,400**	**18,100**	**21,250**	**18,000**	**22,000**
Shortfall in Supply	***-19,100***	***-15,900***	***-12,250***	***-15,500***	***-11,000***

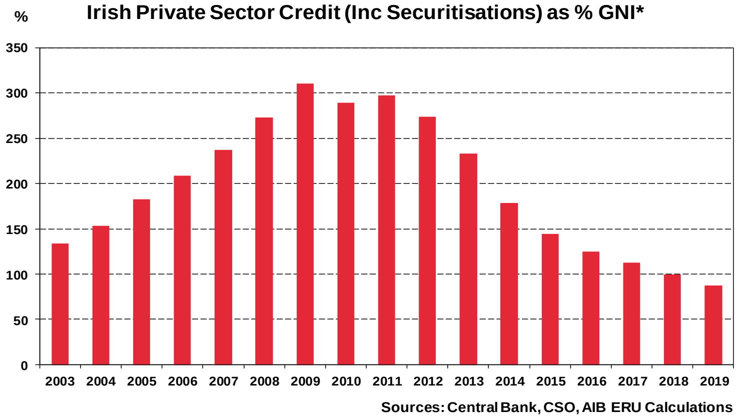
**Headship is % of population that are heads of households.*

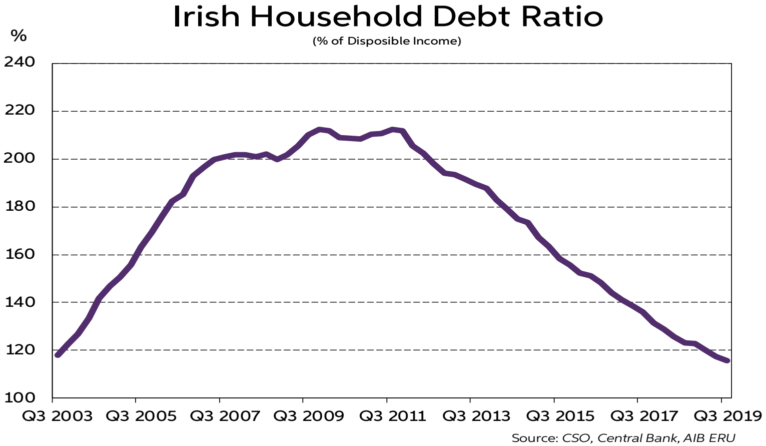
Sources: CSO, DoECLG, AIB ERU. Note 2002-21 estimates are pre coronavirus

Govt. debt ratios had fallen, private sector deleverages





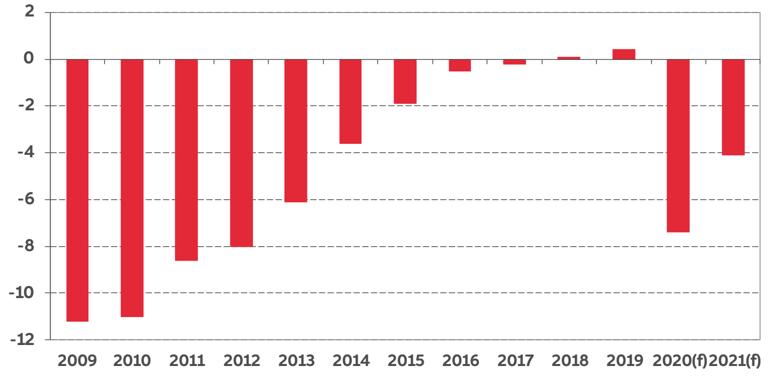




Large budget deficit in 2020, but bond yields stay very low

- Budget deficit declined sharply over last decade, with small surpluses recorded in 2018 and 2019
- Primary budget surplus (i.e. excluding debt interest) of near 2% of GDP in 2019
- Debt interest costs very low – at 1.4% of GDP
- However, Covid-19 and efforts to mitigate it will see the public finances deteriorate in 2020
- Tax receipts 5.7% below profile in March. Gov spending 7.6% above profile
- Dept. of Finance now forecasting budget deficit of 7.4% of GDP this year. Will fall in 2021
- Gov Debt/GDP ratio has fallen sharply, as have Irish bond yields, in recent years
- Debt ratio will move higher this year
- Bond yields stable despite blow-out in budget deficit and much larger debt issuance in 2020
- Sovereign debt ratings upgraded in recent years; S&P at AA-, Fitch at A+, Moody's A2 for Ireland

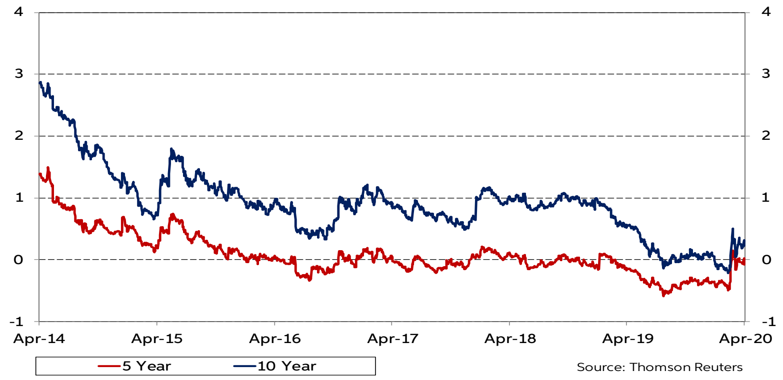
General Government Balance* (% GDP)



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance

Irish Benchmark Yields



Source: Thomson Reuters

Key medium-term Irish growth drivers remain in place

- Favourable medium-term drivers of strong Irish growth remain in place
- House building picking up from still low output levels – big focus of next government
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Good inflows of FDI expected to continue
- Labour market dynamics supportive of growth
- Economy has deleveraged, no obvious imbalances
- World economy expected to rebound from 2021
- Strong Irish growth of circa 6% possible next year after sizeable fall in GDP in 2020
- A UK-EU FTA will lower Irish growth somewhat, but this may now not happen until 2022

Irish GDP Forecasts		
% Vol	2020	2021
IMF	-6.8	6.3
ESRI	-7.1	N/A
Department of Finance	-10.5	5.8
Central Bank of Ireland	-8.3	N/A

IMF: WEO Forecasts		
%	2020	2021
GDP	-6.8	6.3
Unemployment Rate	12.1	7.9
CPI	0.4	1.7
Current Account*	6.3	5.3
Budget Balance*	-7.4	-4.1

*% of GDP (Department of Finance for Budget f/c)

Brexit: EU-UK trade talks delayed- extension possible

- EU and UK agreed on revised Brexit deal at last October's Heads of State Summit
- NI to remain within Single Market for goods and have dual EU-UK customs system
- UK left the EU on Jan 31st 2020 in orderly exit. Transition period in place until end 2020
- UK government had ruled out extending the transition period beyond this date
- However, with talks delayed due to virus outbreak, this position is likely to be reviewed
- Negotiations expected to prove difficult and fractious
- EU insisting on level playing field, with considerable regulatory alignment
- UK government puts focus on 'taking back control' and non-alignment with EU
- UK could opt for 'no deal' rather than have close alignment with EU rules under a FTA
- However, some type of FTA seems likely as it's the best outcome for both the UK and EU
- Given COVID, may require more time and thus extension to transition period to get a deal done

Risks to the Irish economy

- Main near-term risk is obviously the coronavirus – will weigh heavily on growth this year
- Persistence of virus or fresh outbreak could delay global/Irish recoveries
- Highly open nature of Irish economy means it is quite exposed to a global recession
- Brexit remains a challenge given uncertainty about future EU-UK trading relationship
- Questions around Ireland's corporation tax regime (Apple ruling, moves on tax harmonisation in EU, OECD tax reform/minimum tax rate proposals) could impact FDI
- Supply constraints in new house building activity, which is recovering at a slow pace
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes, high wages
- Credit constraints – tightening of lending rules, on-going deleveraging, weak credit demand