

The Irish Economic Update:

Very strong rebound in activity continuing

November 2021

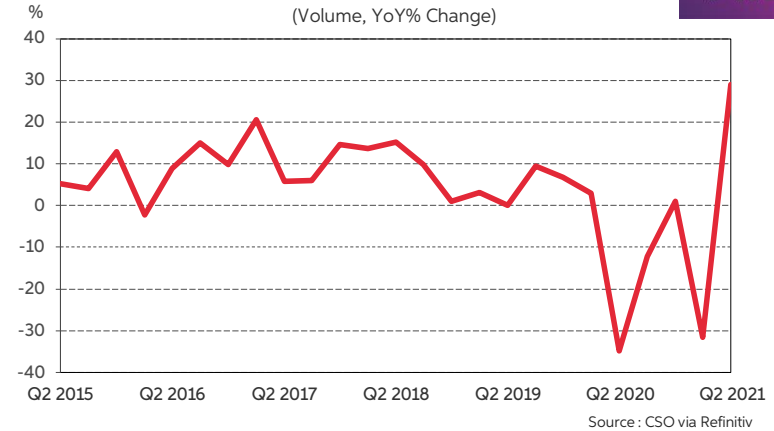
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Economy rebounds strongly post Q1 lockdown

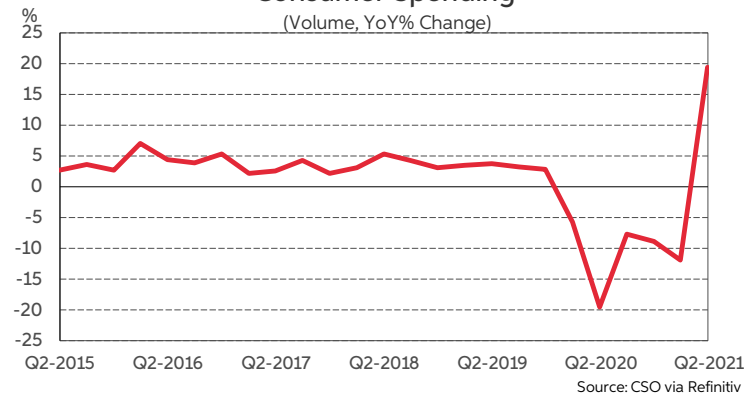


- GDP grew by 5.9% in 2020, with GNP up 3.4%
- Modified final domestic demand fell by 4.9% and modified gross national income down 3.5% in 2020
- Third lockdown saw GNP contract by 3% in Q1 2021 but rebound by 6.7% in Q2 as economy re-opened
- MFDD fell by 5% in Q1, but up 8.4% in Q2
- Consumer spending contracted by 5.7 % in Q1, before rebounding by 12.6% in Q2
- Domestic investment fell 6.6% in Q1, up 6.1% in Q2
- Construction output fell 31% in Q1, up 23% in Q2
- Strong growth in manufacturing output continued in H1'21, up 11% in Q1 and 5% in Q2
- As a result, goods exports up 10% & 7.5% in Q1/Q2
- This is inflating GDP, which was up by 8.7% & 6.3% in Q1 & Q2, respectively. GNP growth much lower

Construction Output
(Volume, YoY% Change)



Consumer Spending
(Volume, YoY% Change)



Robust recovery evident across the economy

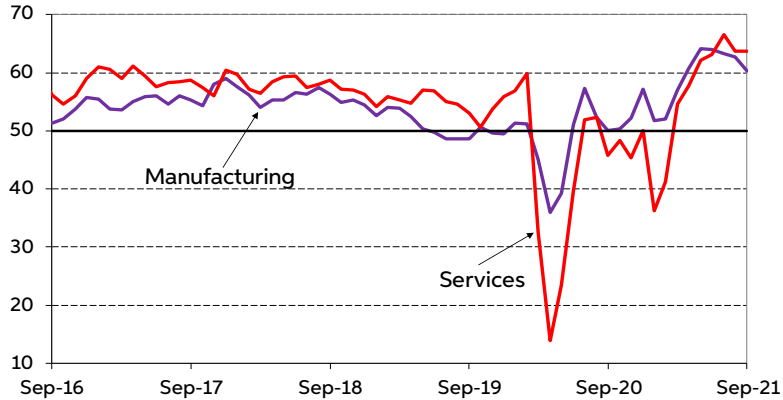


- Restrictions started to be lifted during Q2 after long third lockdown imposed in Q1
- Indicators point to very strong rebound in activity in Q2 and Q3 after lockdown ended
- Mfg PMI hit record high of 64.1 in May, and has stayed above 60 since then
- Services PMI jumped to twenty year high of 66.6 in July, at 63.7 in August/September
- Construction PMI soared in May to 66.4, falling back to still strong level of 56.3 by September
- Housing commencements surge. Near 30k in 12 months to August, up from 18k in March
- Big jump of 10% in core retail sales in Q2. Sales remain strong in July/August
- New car sales rose by 22.5% yoy in January-September period
- Tax receipts running ahead of target by 8% at end September – up 16% year-to-date
- Jobless rate (including PUP) falling rapidly – down from 27% earlier in year to 10% by Sept
- Inflation accelerating; rises to 3.7% in Sept from -1.5% last autumn. Likely to top 4%
- Spike expected to prove temporary. Inflation forecast to fall back to 2% or below by end 2022

Indicators pick up strongly as economy reopens

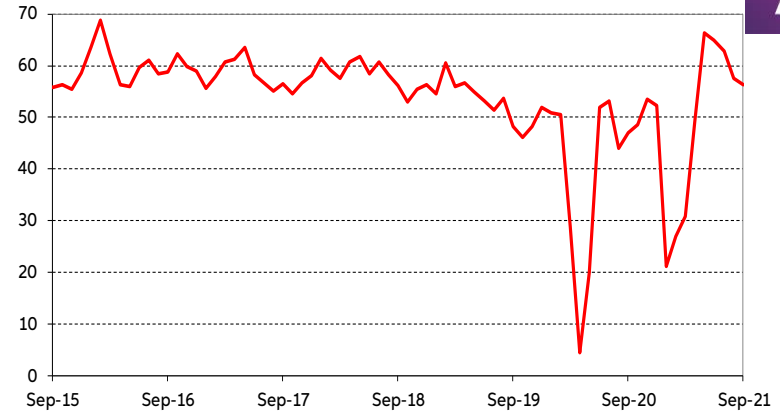


AIB Irish Mfg and Services PMIs



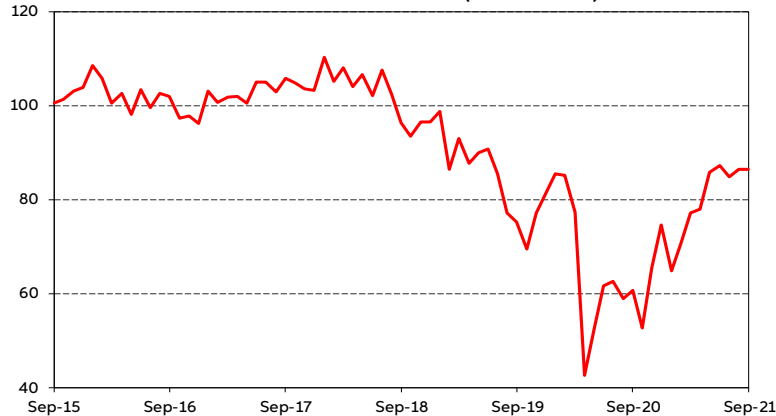
Source: Markit via Refinitiv

Ulster Bank Construction PMI



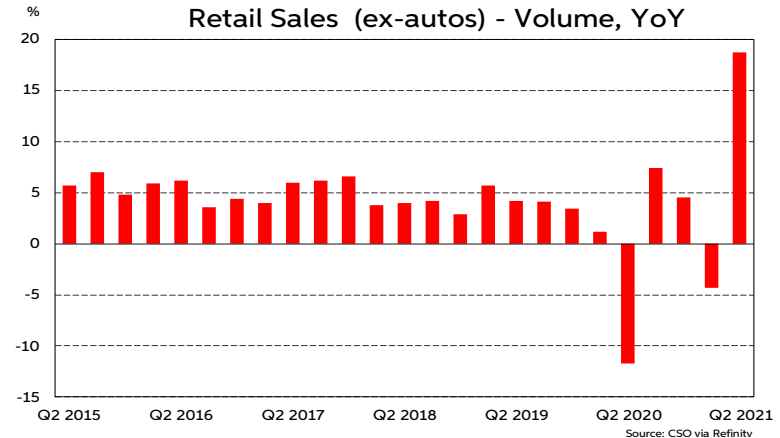
Source: Refinitiv

Consumer Confidence (ESRI - KBC)



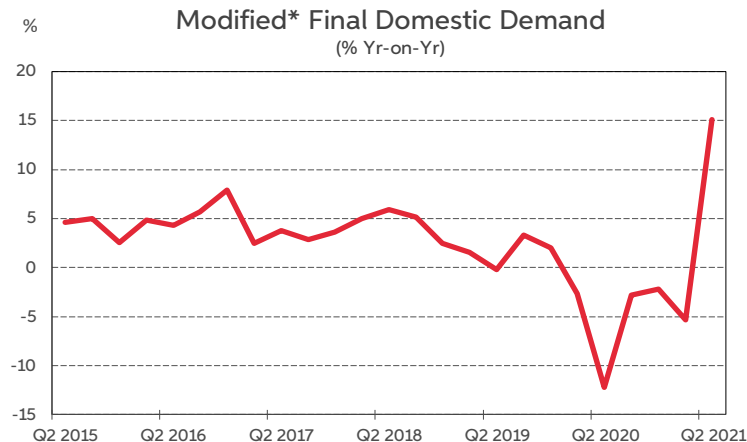
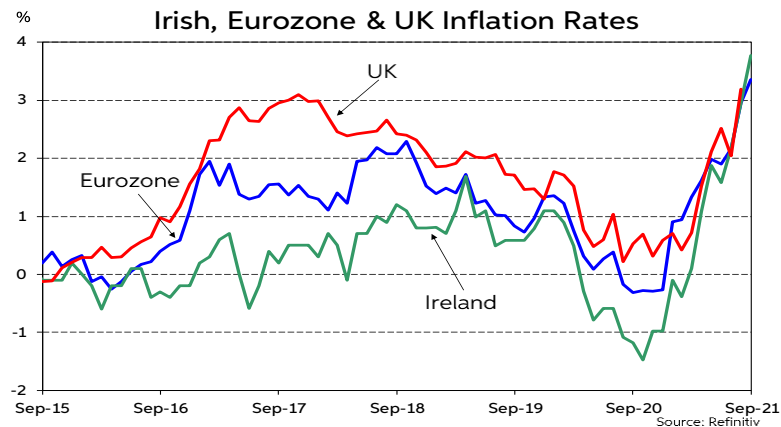
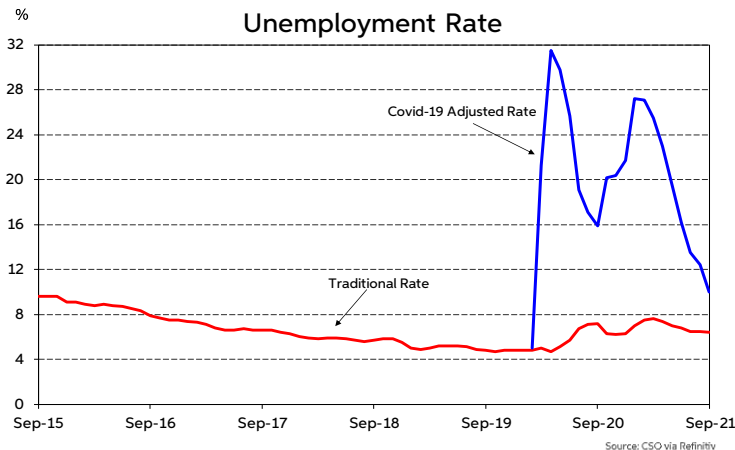
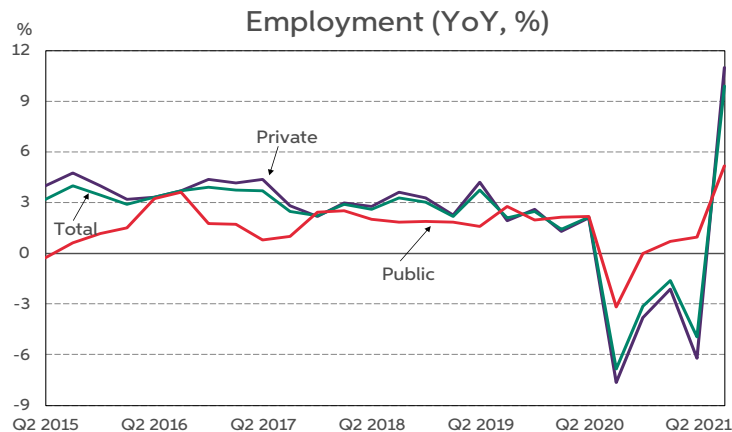
Source: ESRI via Refinitiv

Retail Sales (ex-autos) - Volume, YoY



Source: CSO via Refinitiv

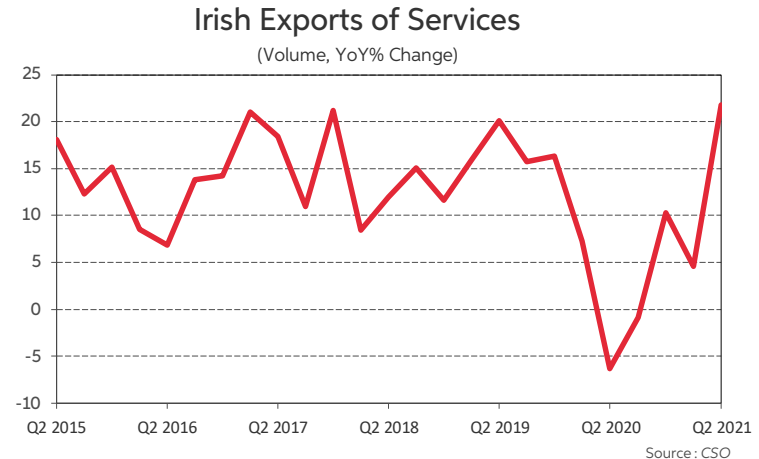
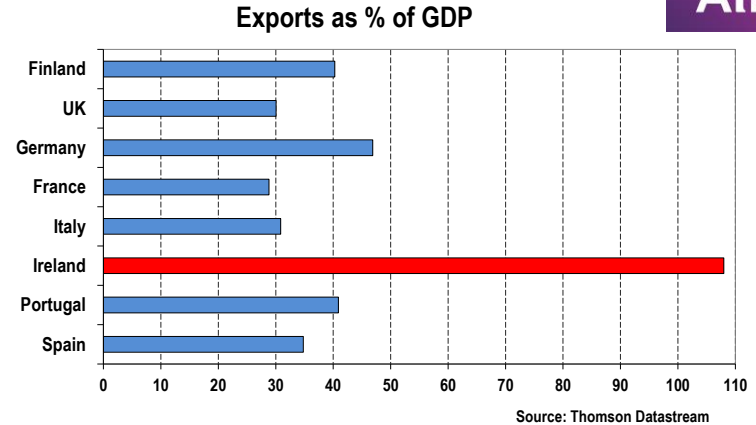
Unemployment declining rapidly, inflation rising sharply



Exports perform impressively throughout the pandemic



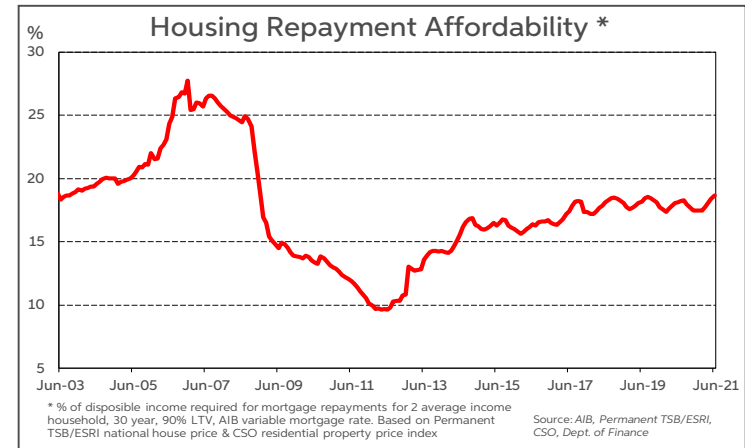
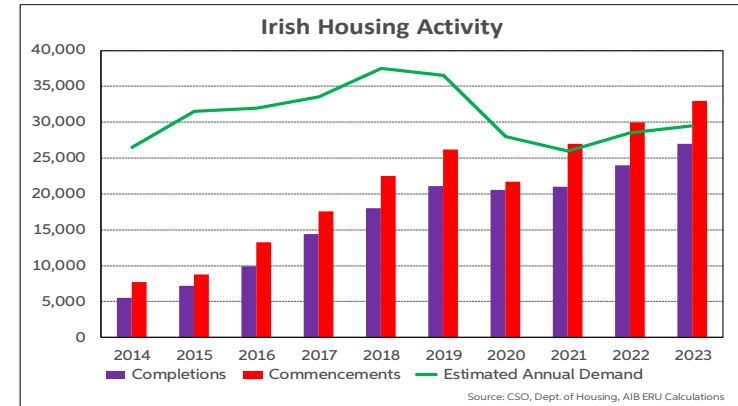
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and were up 21% yoy in H1 2021
- Goods exports up 16.5% in 2020 and 28% yoy in H1'21, fuelled by very big jump in pharma
- Service exports rose by 2.6% in 2020 and were up 13% yoy in H1 2021
- Collapse in earnings from tourism & travel, but computer service exports show strong growth



House building holds up, while commencements rebound



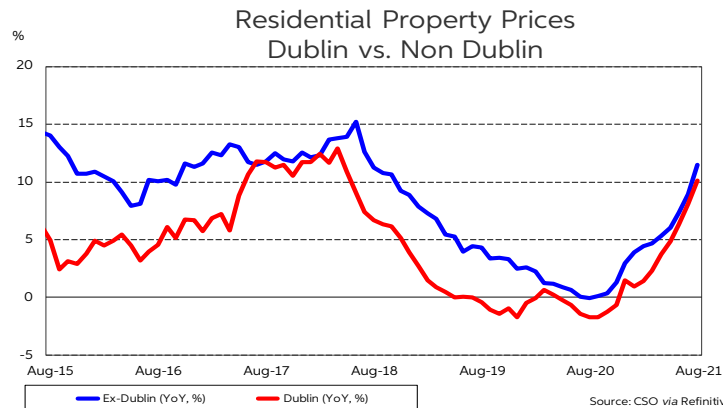
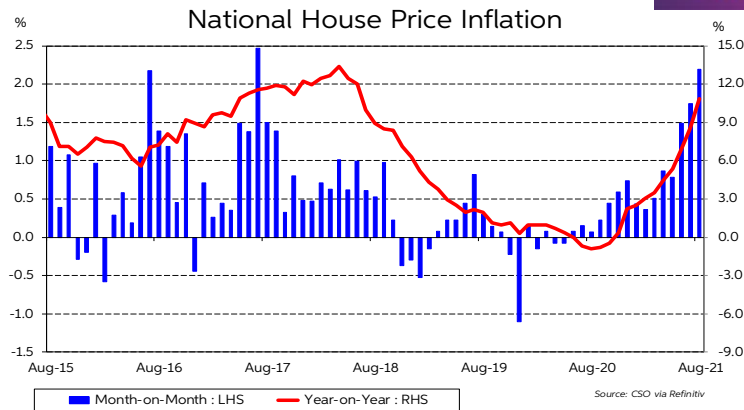
- Total completions amounted to 20,535 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Big jump in planning permissions in past couple of years
- Commencements fell by over 17% to 21,700 in 2020
- Further sharp fall in commencements in Q1'21, but they have surged since then with construction reopen
- Commencements jump to 29,500 in 12 months to Aug
- Smaller than expected fall in completions in Q1 2021 and rebound strongly in Q2. Up 9.7% yoy in H1 2021
- 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 rose over 25% yoy in H1'21
- Forecasts are for a €10bn+ mortgage market in 2021
- Housing affordability disimproves slightly as prices rise



House prices on sharp upward trend



- House prices declined sharply, by 55% over 2007-13
- Prices have recovered strongly- still 9% below 2007 peak
- CSO data show house prices little changed over 2019-20, until starting to move sharply higher from Q4'20
- Strong rises in house prices in 2021, especially over summer, with yoy rate accelerating to 10.9% by August
- Non-Dublin prices up 11.5% yoy in August, above Dublin rate of 10.1% yoy - prices rising strongly everywhere
- Property websites show big jump in asking prices since mid-2020. Running at circa 9% yoy in Q3 2021
- 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. Annual rate of growth accelerates to 5.9% by August 2021



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
Household Formation	31,000	22,500	20,500	23,000	24,000
<i>of which</i>					
<i>Indigenous Population Growth</i>	21,000	17,500	16,000	15,500	14,500
<i>Migration Flows</i>	10,000	5,000	4,500	7,500	9,500
<i>Headship Change*</i>	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	36,500	28,000	26,000	28,500	29,500
Completions	21,000	20,500	21,000	24,000	27,000
Shortfall in Supply	-15,000	-7,500	-5,000	-4,500	-2,500

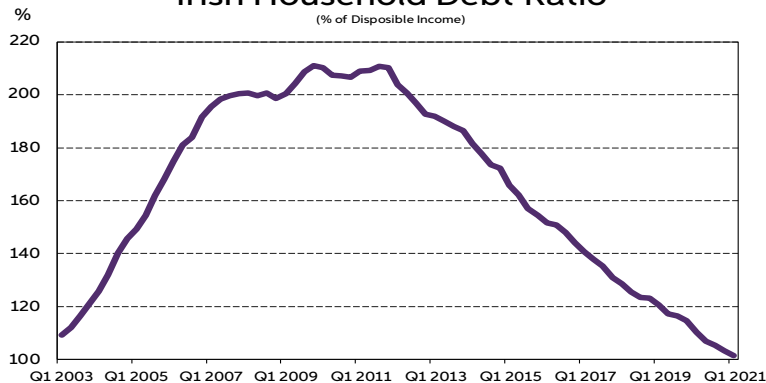
*Headship is % of population that are heads of households.

Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios to resume downtrend

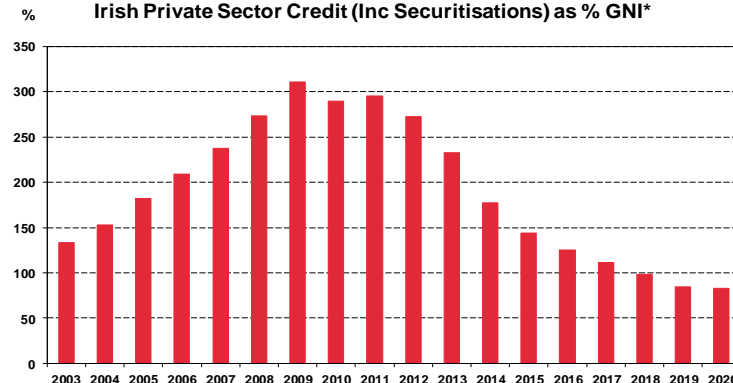


Irish Household Debt Ratio



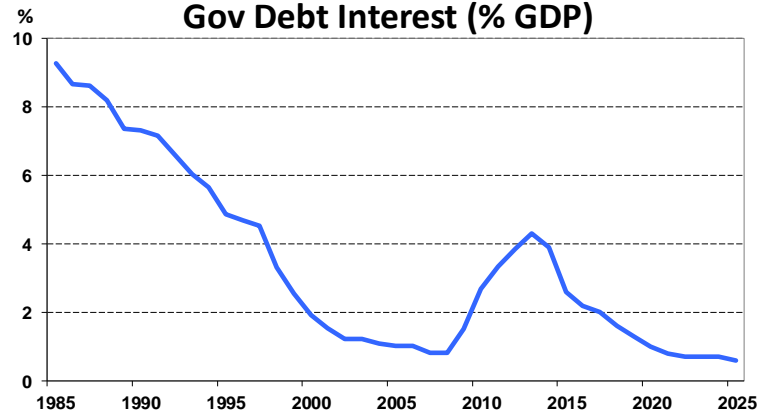
Source: CSO, Central Bank, AIB ERU

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



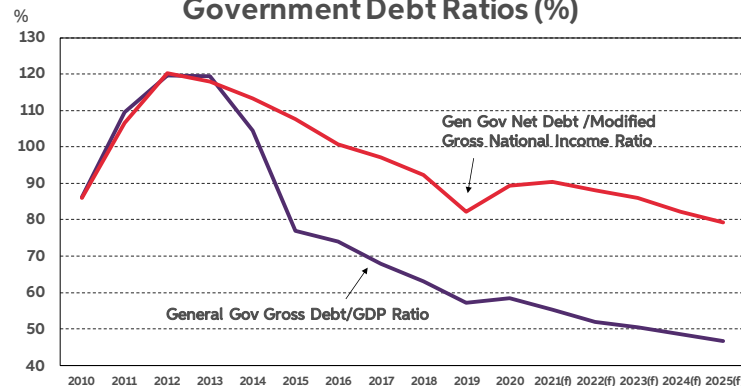
Sources: Central Bank, CSO, AIB ERU Calculations

Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

Government Debt Ratios (%)

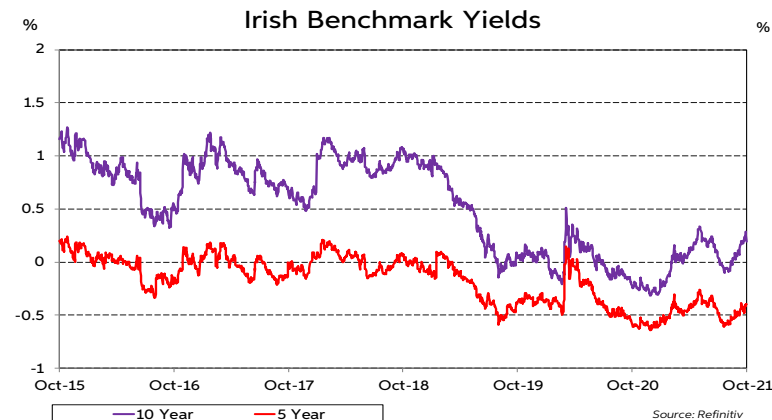
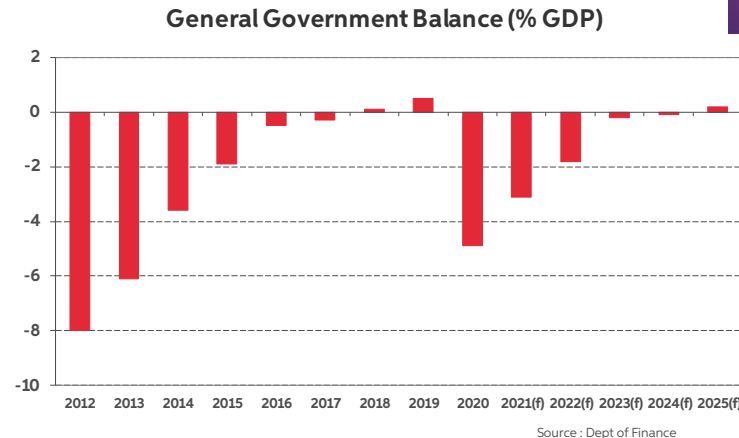


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

Budget deficit in sharp decline as economy recovers



- 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 over 15% year-to-date . Covid spending declining
- Dept. of Finance now expects budget deficit will be below target in 2021 at €13.25bn (3.1% GDP)
- Deficit forecast at €8.25bn in 2022 & €1.1bn in 2023 as Covid supports end & economy recovers
- 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

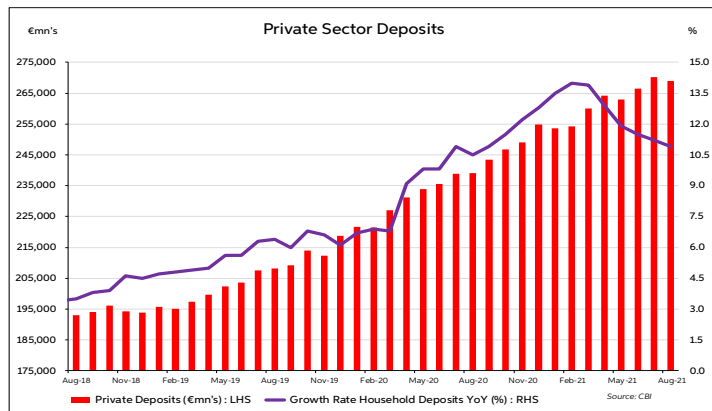


Elements in place for period of strong economic growth



- Key ingredients in place for a strong rebound by Irish economy from 2021 onwards
- Rollout of vaccines allows economies to reopen here and elsewhere – very high Irish vaccination rates
- 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 can remain supportive of growth -DoF forecasts provide for increased core spending
- Activity aided by continuing very low interest rates
- Economy has deleveraged; low private sector debt
- Large build-up in private savings in 2020-H1'21 will help fuel strong growth in domestic spending
- Strong growth forecast for 2021-22 - GDP bloated in 2021. Growth in GNP and MFDD better measures

OECD Global GDP Forecasts (Sept 2021)			
% Vol	2020	2021	2022
World	-3.4	5.7	4.5
OECD	-4.8	5.3	3.8
US	-3.4	6.0	3.9
Eurozone	-6.5	5.3	4.6
UK	-9.8	6.7	5.2
Japan	-4.6	2.5	2.1



AIB Irish Economic Forecasts (Planning July 2021)



<i>% change in real terms unless stated</i>	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	4.9	5.9	8.0	5.5	4.0
GNP	5.0	3.4	5.5	5.0	3.5
Modified Final Domestic Demand	1.7	-4.9	4.0	5.3	3.7
Personal Consumption	3.3	-10.4	3.7	7.5	4.0
Government Spending	7.1	10.9	1.7	-1.5	1.0
Fixed Investment*	99.5	-23.0	-40.0	7.0	5.0
Exports	10.4	9.5	9.5	5.2	4.5
Imports*	41.7	-7.4	-9.5	5.2	4.5
HICP Inflation (%)	0.9	-0.5	1.9	1.9	1.5
Unemployment Rate (Estimated %)	5.0	10.4	11.0	8.2	6.9
Budget Balance (% GDP)	0.5	-5.0	-5.0	-3.4	-1.8
Gross General Gov Debt (% GDP)	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

Brexit: The EU-UK Trade & Cooperation Agreement



The Trade Deal:

- EU and UK finally agreed on a trade deal before end 2020, thereby allow for continuing tariff-free and quota-free trade in goods
- However, the FTA is much inferior to the EU Single Market, involves a lot of extra admin costs and delays at ports – it marks an end to frictionless UK-EU trade
- The FTA is unique in that it increases trade barriers– new customs procedures, compliance with onerous rules of origin requirements, documentary evidence needed to move goods
- Agri-food products may require export health certs and veterinary inspections at borders
- FTA does not extend to services. Financial services not given equivalence/passporting rights

The Impact:

- Irish PMI surveys show firms reporting considerable import delays at ports, with longer supply chains and higher admin costs as a result of Brexit
- Estimated that higher trade costs will knock circa 0.5% off UK/RoI annual GDP growth rate in next few years
- UK not fully implementing all customs checks until 2022 when Irish exporters to GB will see impact
- Issues with NI protocol and GB-NI trade flows – EC proposes changes and now in discussions with UK

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 or about 18% of total jobs in terms of direct and indirect 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 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 continue in 2021 despite the changes to global corporate tax rules

Reprise of risks to the Irish economy



- Main near term risk is still Covid-19 – high case numbers, concerns about new variants
- Virus could leave lasting scarring effects – rising business failures & bad debts, job losses
- Very open Irish economy so vulnerable to any global slowdown
- Changed EU-UK trading relationship may yet negatively impact some Irish industries
- Changes 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.