The Irish Economic Update:

Strong first half to 2022, but inflation rises sharply with signs that growth now slowing

October 2022

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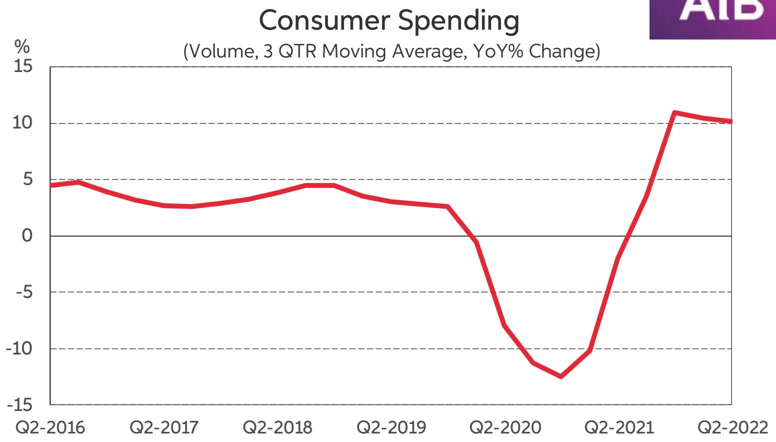
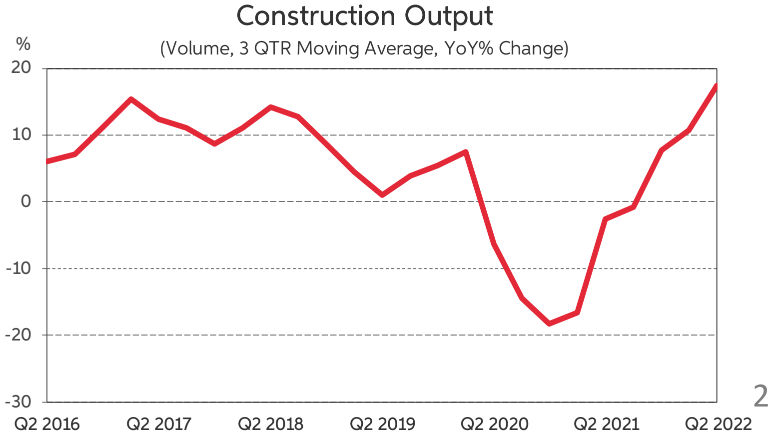
Economy rebounds very strongly from COVID pandemic

- 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



Source: CSO via Refinitiv



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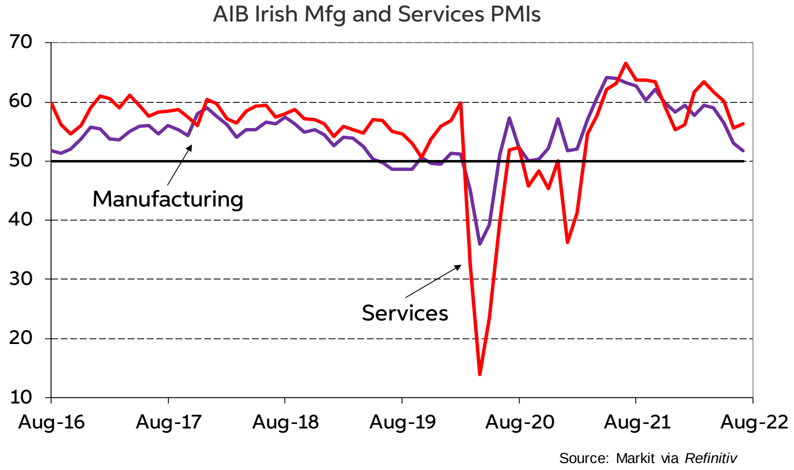
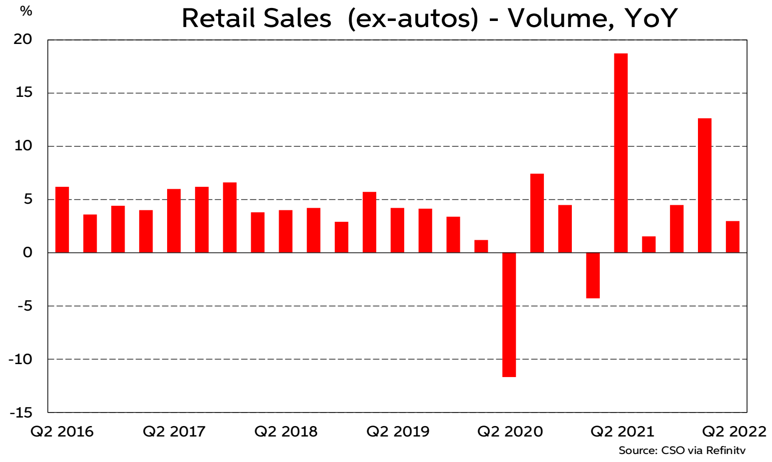
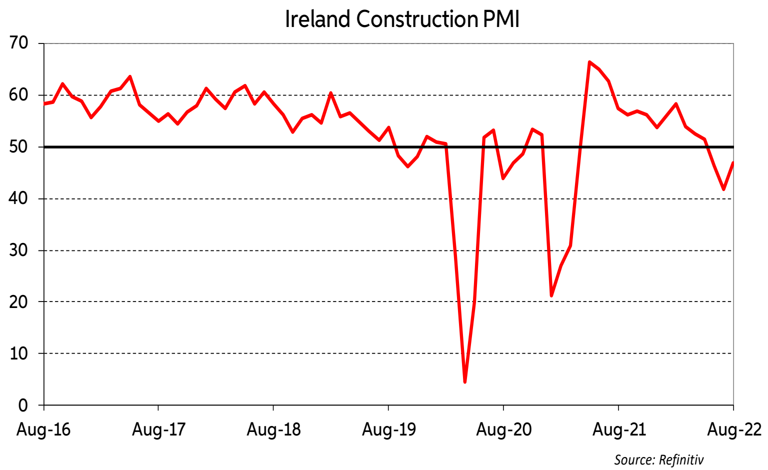
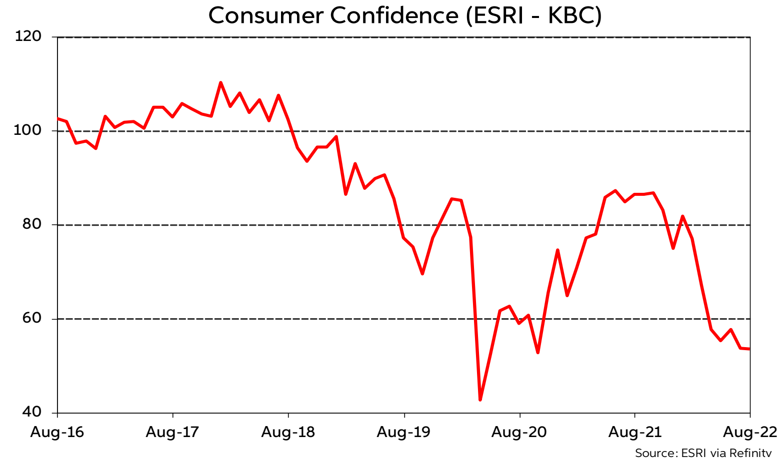
Clear signs in surveys that growth slowing after strong H1





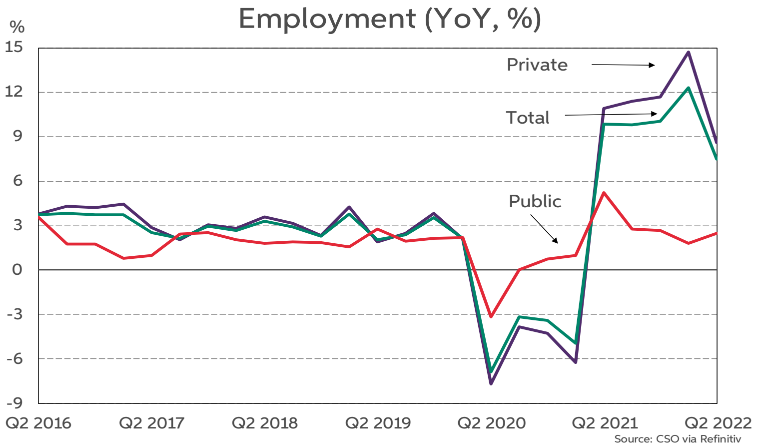


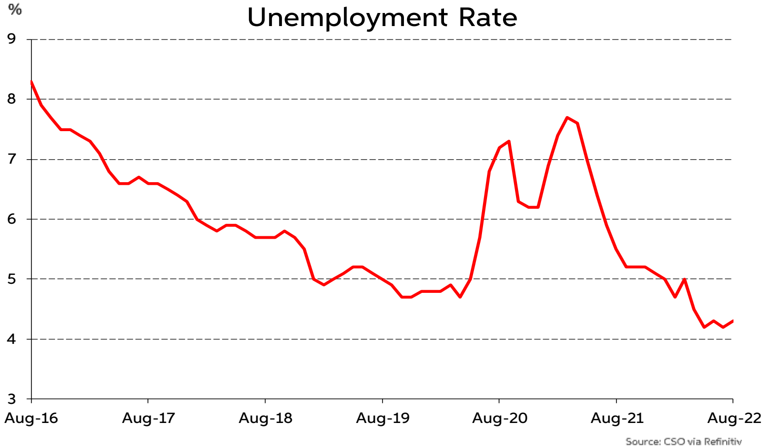


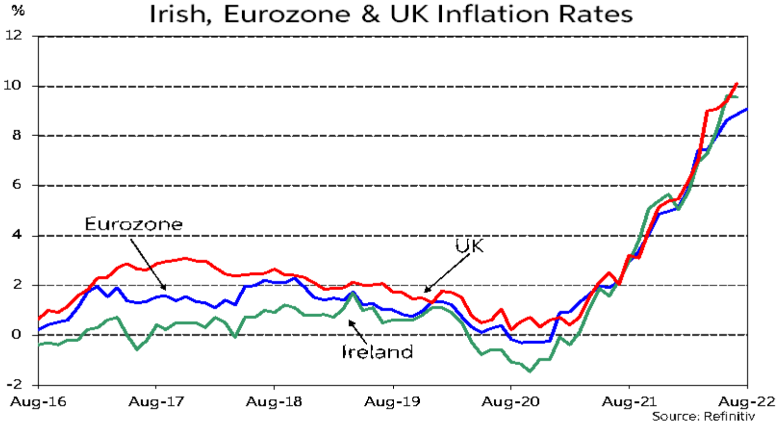
PMIs and retail sales data point to softening activity

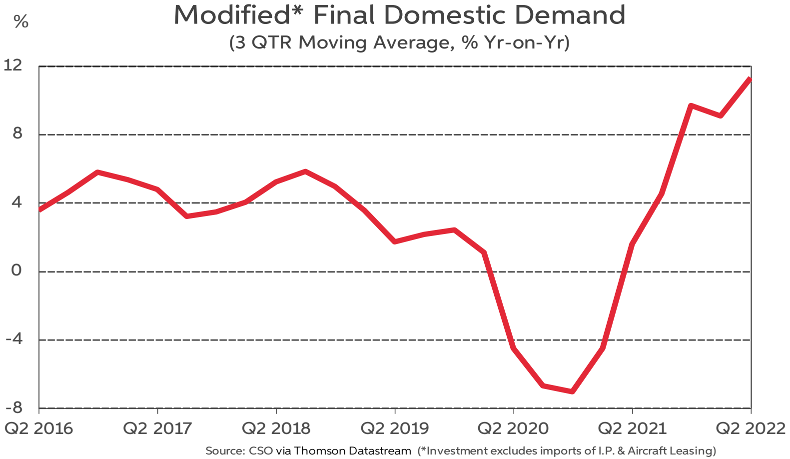
- Mfg PMI at strong levels into early summer, before falling to 51.8 in July, 51.1 in August
- Services PMI still solid, but off peaks at 55.6 in June, 56.3 in July, 54.7 in August
- Housing commencements surged to 35k peak in March, but fall back to 28.5k by July
- PMI for construction falls sharply in 2022. At 46.9 in August
- OECD Leading Indicator for Ireland slips in Q2 and falls further in July/August
- Core retail sales subdued in H1 2022 and weaken further in July/August. Down 3.2% yoy
- New car sales down 3% to end August owing to shortage of stock on supply chain issues
- Surge in inflation and War in Ukraine sees big drop in consumer confidence since early spring
- Tax receipts, though, remain very strong. Up 26% yoy to end August
- Unemployment rate falls to 20-year low of 4.25% 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% in August

Unemployment falls to very low level, inflation rising sharply



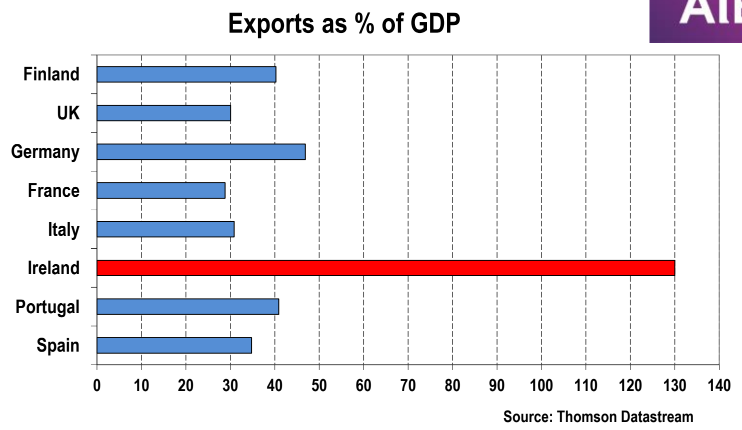


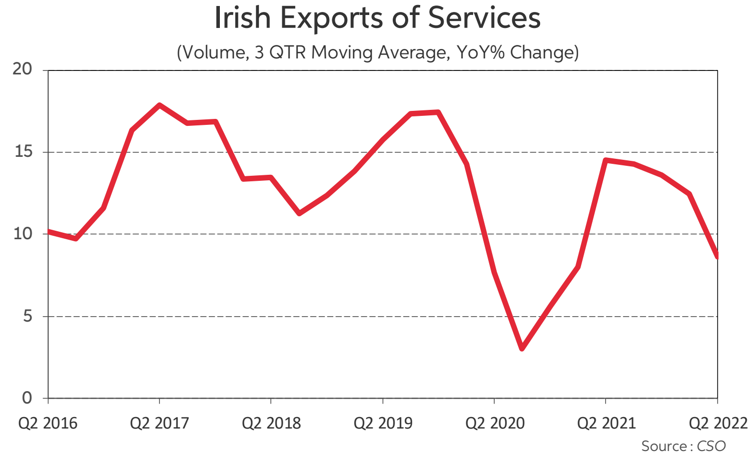




Exports perform very strongly as FDI surges in 2021-22

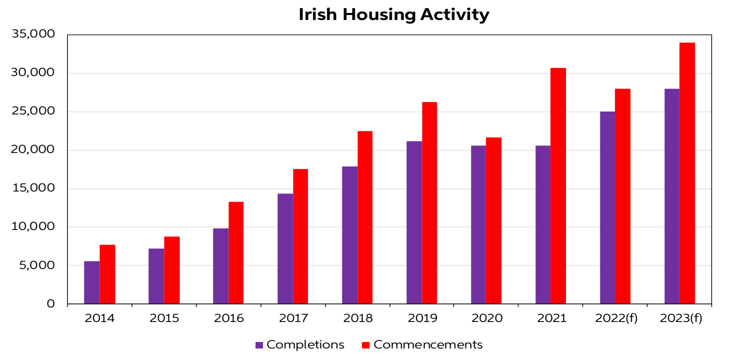
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by very large FDI inflows
- IDA reported record FDI in 2021 and again in H1 2022, with continuing strong pipeline
- Pharma, medical care products, ICT, 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



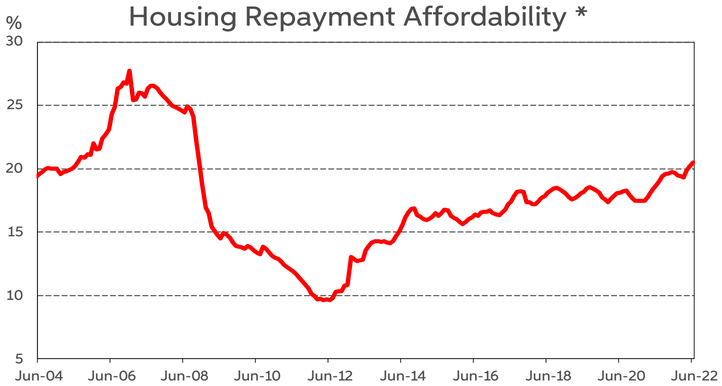


House building picks up after commencements rise

- 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 25,000 in Q2’22 as sector recovered from COVID lockdowns
- Estimated annual housing demand put at near 30k
- Big jump in planning permissions since 2018
- Commencements picked up in 2021 and 12 month total running reached 35,000 in Q1 2022
- Completions should rise further in 2023-24, though commencements fell back below 30k recently
- Mortgage lending rebounded strongly in 2021 to €10.5bn after COVID related fall in 2020
- Big jump in mortgage lending of 30% in H1 2022 - partly switching. 12mth running total at €11.7bn
- Housing affordability has deteriorated as prices rise



Source: CSO, Dept. of Housing, AIB ERU calculations

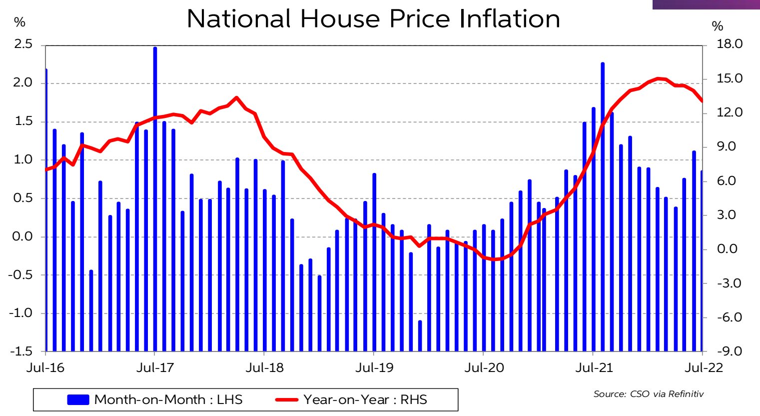


* % of disposible income required for mortgage repayments for 2 average income household, 30 year, 90% LTV, AIB variable mortgage rate. Based on Permanent TSB/ESRI national house price & CSO residential property price index

Source: *AIB, Permanent TSB/ESRI, CSO, Dept. of Finance*

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, especially in H2
- Moderation in monthly rises to date in 2022 vs H2 2021
- National house price inflation at 13% yoy in July, down from 14% in June and peak of over 15% in Feb/Mar
- Non-Dublin prices up 15.2% yoy, Dublin rate at 10.4%
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings, pent-up demand are all supporting house prices
- But 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
- Rents have recovered strongly after declining in 2020. Jumped sharply in past year. Up 12.9% yoy in July 2022



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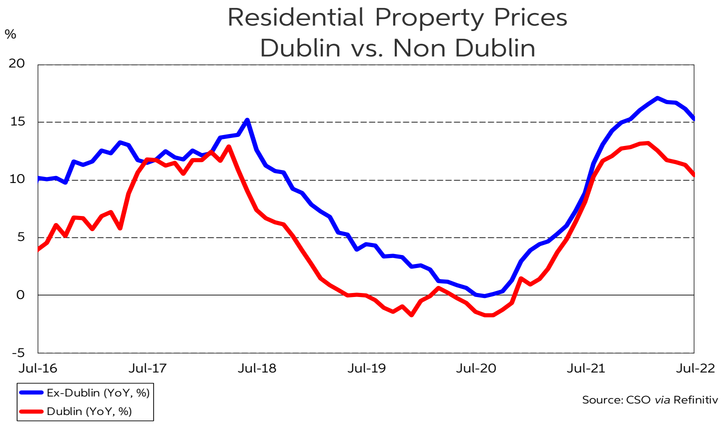

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AIB Model of Estimated Housing Demand

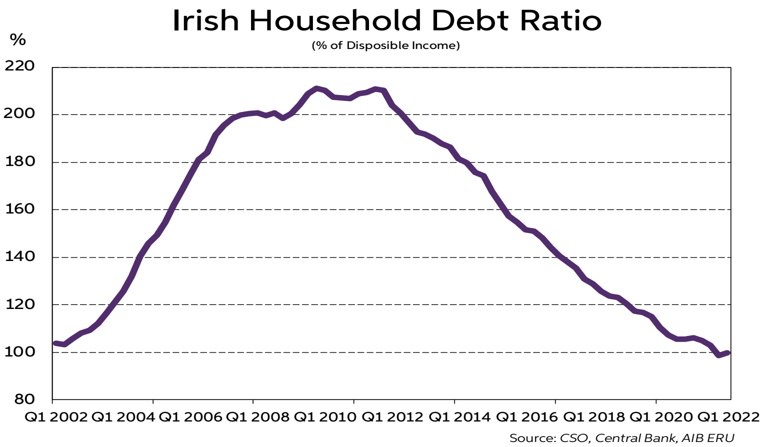
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021 – 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 again in 2016-22

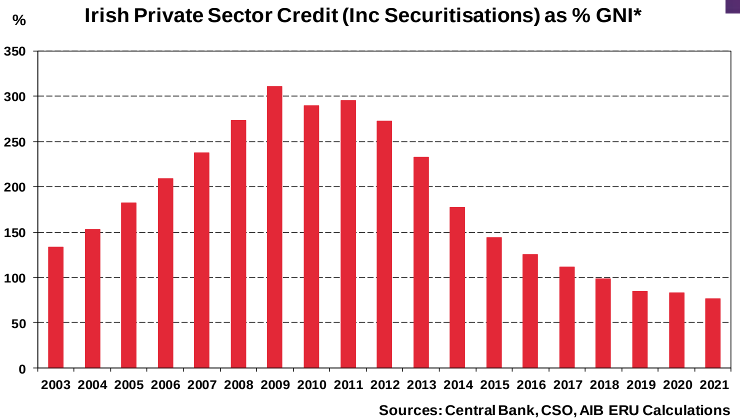
Calendar Year	2019	2020	2021	2022	2023
Household Formation	31,000	22,500	20,500	23,000	24,000
of which					
Indigenous Population Growth	*21,000*	*17,500*	*16,000*	*15,500*	*14,500*
Migration Flows	*10,000*	*5,000*	*4,500*	*7,500*	*9,500*
*Headship Change**	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	36,500	28,000	26,000	28,500	29,500
Completions	21,000	20,500	20,500	25,000	28,000
Shortfall in Supply	*-15,000*	*-7,500*	*-5,500*	*-3,500*	*-1,500*

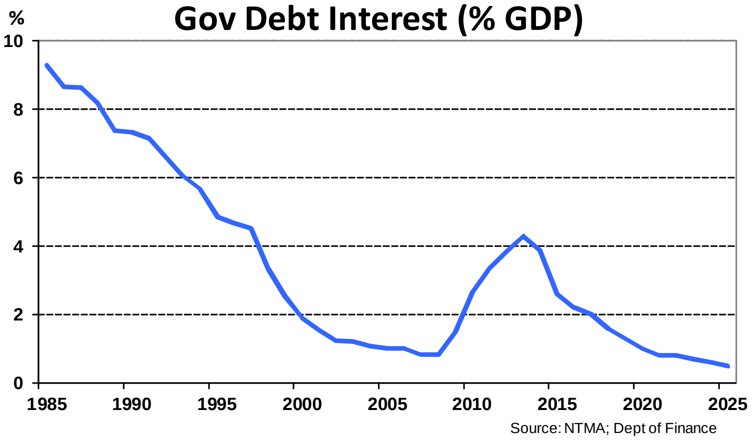
**Headship is % of population that are heads of households.*

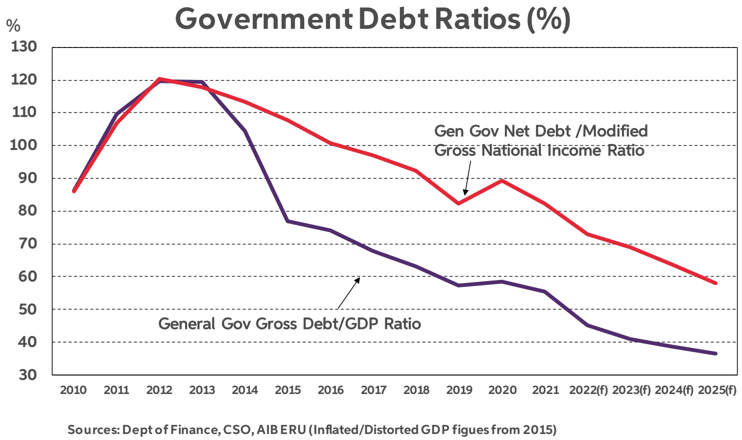
Sources: CSO, DoECLG, AIB ERU.

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



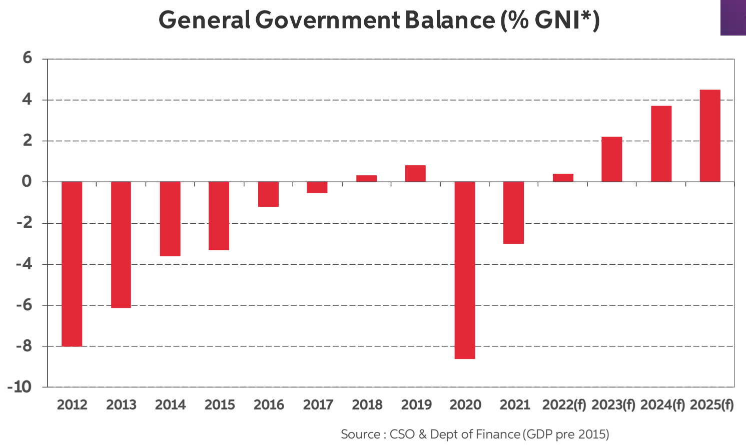


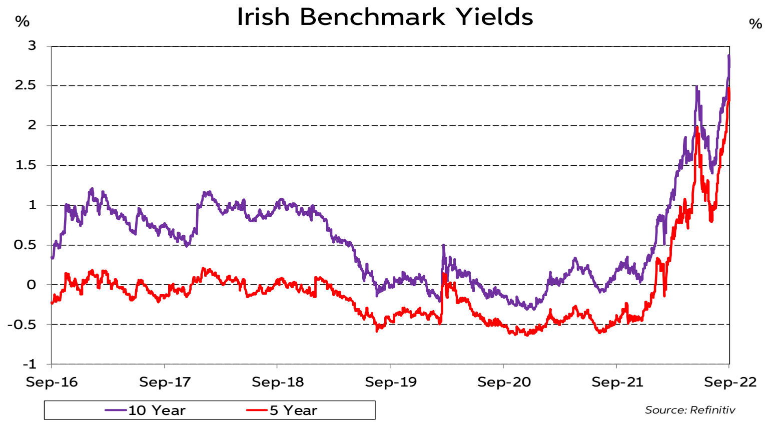




Strong growth sees public finances return to surplus

- 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 26% to end August after 20% rise in 2021
- Budget target was a deficit of €8bn for 2022, but running a surplus of €5.6bn at end August
- Government to use most 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
- Gov. Debt ratios falls sharply – at 73% of GNI*
- Irish bond yields rise sharply in 2022
- 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



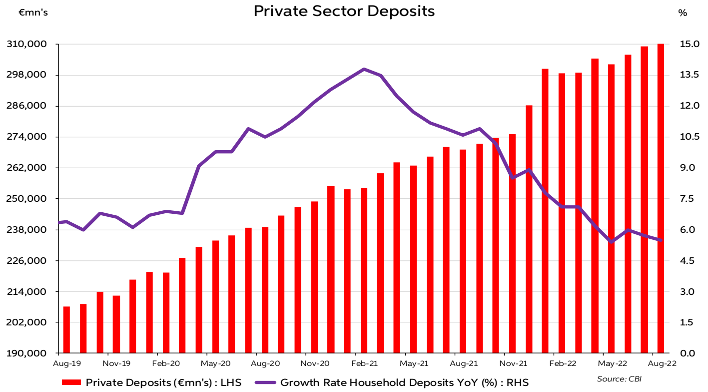


Solid Irish economic growth forecast despite headwinds

- Continued solid growth expected by Irish economy, despite mounting headwinds
- Very high Irish vaccination rates against Covid-19, with all restrictions on activity lifted since 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 5-6% 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
- Irish GDP official growth forecasts at 9-10% in 2022, 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

% change in real terms unless stated	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 global downturn, especially in advanced economies
- High inflation, weakening global economy, rising interest rates risks to Irish growth
- Very reliant on energy imports, and could be impacted by disruption to European gas supplies
- Covid-19 remains a risk, with concerns about 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
- Competitiveness issues - high house prices, high rents, high personal taxes, high wages & prices
- Credit constrained – tight lending rules, on-going deleveraging, subdued credit demand