The Irish Economic Update

Still good growth, but some soft spots start to emerge

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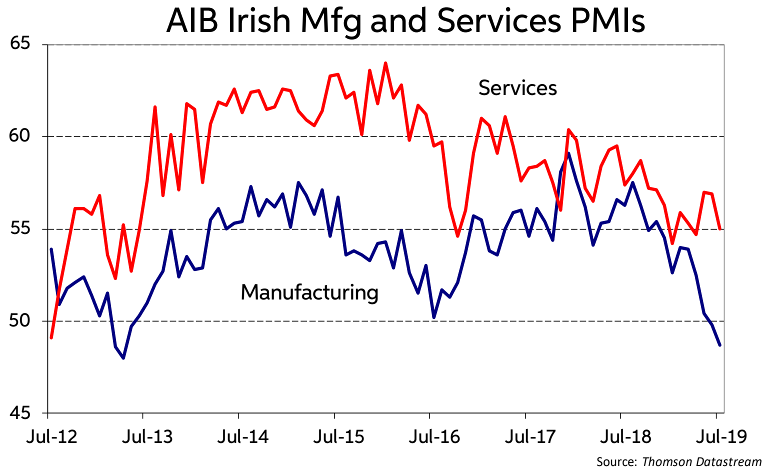
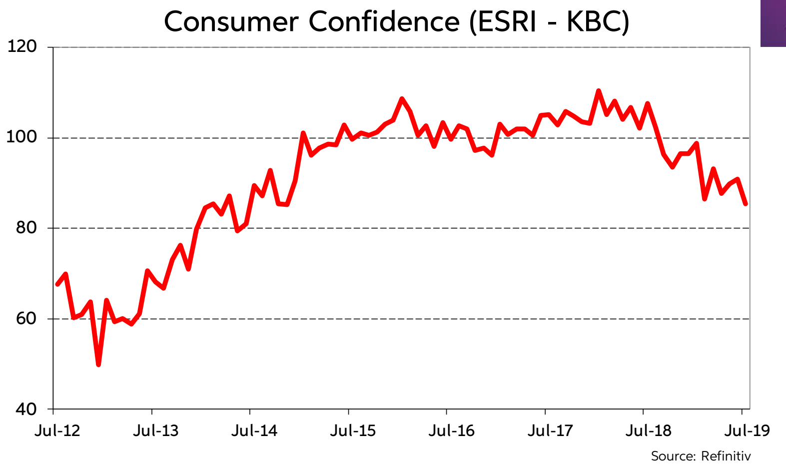
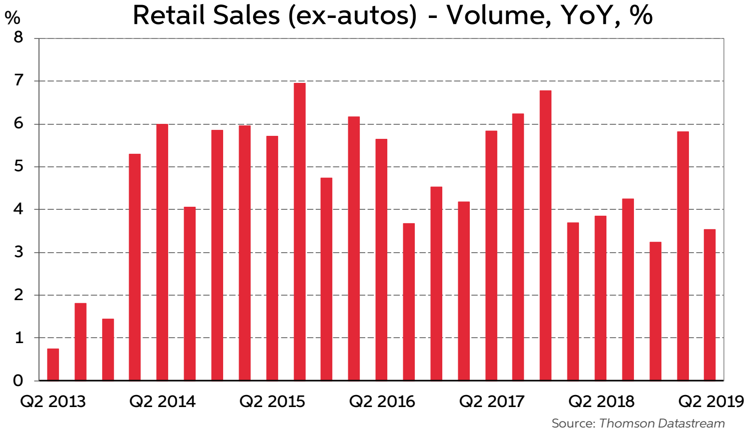
Strong growth by Irish economy in 2013-2018 period

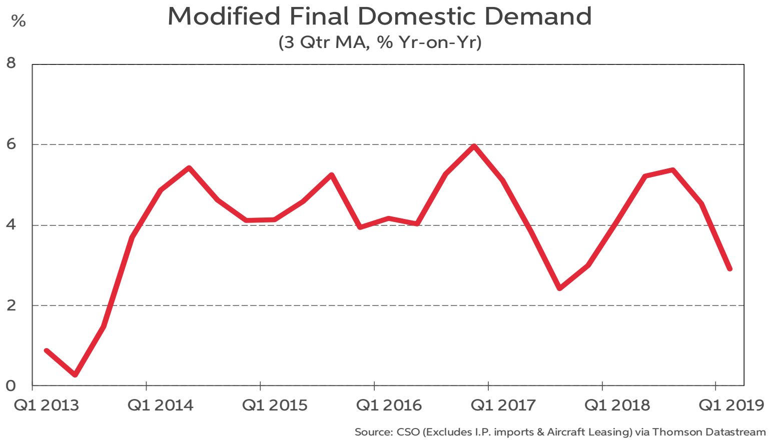
- Irish economy boomed from 1993 to 2007 with GDP up by over 250% – Celtic Tiger
- Very severe recession in Ireland in 2008-2009. GDP fell by 8.5% and GNP down 11%
- Collapse in construction activity and banking system, severe fiscal tightening, high unemployment. Ireland entered a 3 year EU/IMF assistance programme from 2010-2013
- GDP at end of 2008-09 recession was still over 25% higher than in 2001, highlighting that the economic crash came after a long period of very strong growth
- Ireland tackled its problems aggressively in the public finances, banking sector and property market. Imbalances in economy unwound – housing, debt levels, competitiveness, BoP
- Ireland focused on generating growth via its large export base as the route to recovery
- Economy grew very strongly over 2013-18 – underlying growth averaged 4.5% for the period
- Domestic economy has recovered strongly, led by rebound in investment and retail spending
- Strong jobs growth. Unemployment rate fell from 16% in early 2012 to near 5% in H1 2019
- Budget deficit eliminated at a quicker than expected pace. Moved into surplus in 2018

Mainly good data in 2019, but manufacturing slows









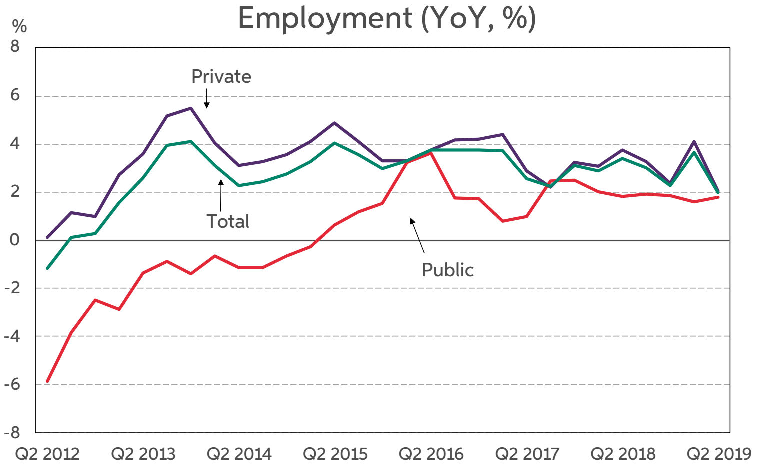
Most indicators remain strong, but some have softened

- Continuing good jobs growth – employment rose by 2% yoy in Q2 2019
- Unemployment rate falls to near 5% in H1 2019. Live Register decline continues
- Further rise in housing completions in H1 2019 – up 17% yoy
- Uptrend continues in housing commencements – also up 17% yoy in H1 2019
- Mortgage lending slows to 11% yoy in H1 2019. But mortgage approvals have picked up this year
- Construction PMI weakens during summer – falls to 51.4 in July, though housing strong at 55.9
- Retail sales (ex-motor trade) up 4.6% yoy in Jan-July 2019
- Total car registrations (new + second hand imports) down 3% yoy in Jan-July 2019 – still high level
- Manufacturing PMI weakens over past year – at a 6-year low level of 48.7 in July
- Services PMI, though, continues to point to strong growth – at 55.0 in July
- Consumer confidence well off last year's highs. Close to five year low in July on Brexit concerns
- Impressive growth of 7.6% yoy in tax receipts in year to July, while budget surplus rises

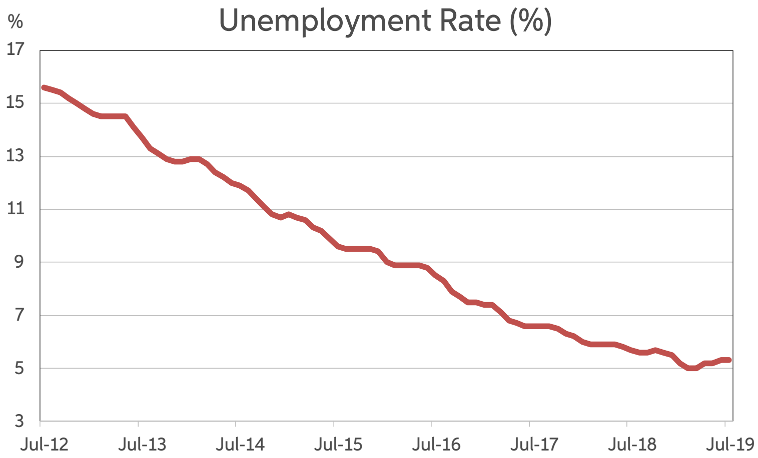
Good jobs growth; unemployment rate falls to near 5%

Year Average	2016	2017	2018	2019(f)	2020(f)	2021(f)
Unemployment Rate %	8.4	6.8	5.8	5.2	5.0	4.8
Labour Force Growth %	1.9	1.1	1.8	1.8	1.6	1.8
Employment Growth %	3.7	2.9	2.9	2.5	1.8	2.0
Net Migration : Year to April ('000)	16.2	19.8	34.0	34.0	35.0	35.0

Source: CSO and AIB ERU forecasts



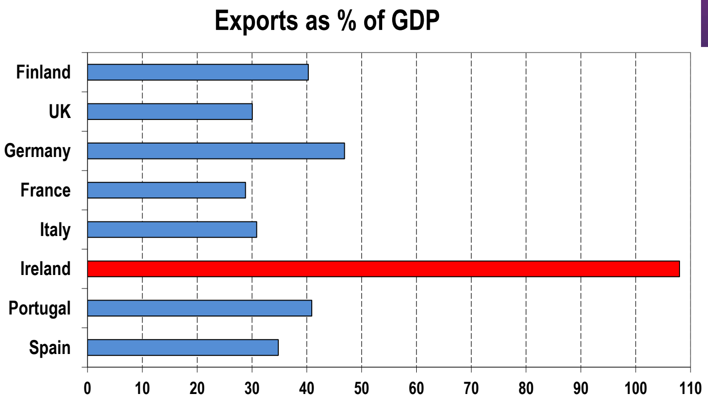
Source: CSO via Refinitiv



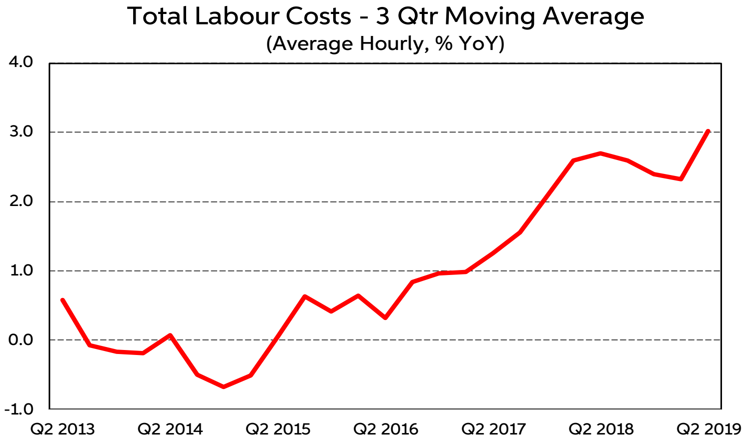
Source: CSO via Refinitiv

Large Irish export base performing very well

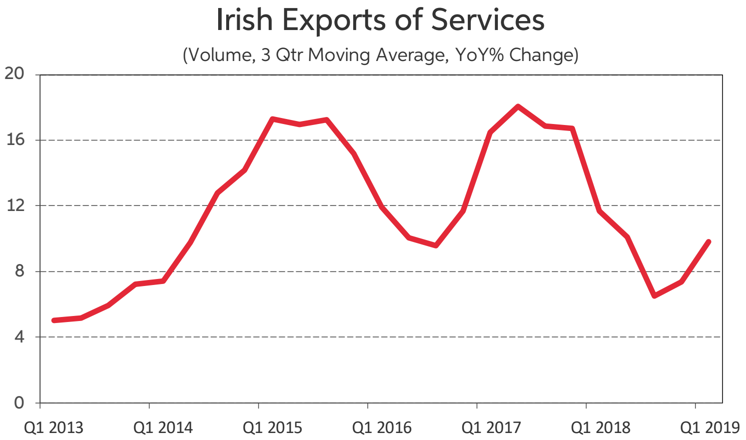
- Ireland a very open economy – exports, driven by enormous FDI, equate to well over 100% of GDP
- Major gains in Irish competitiveness earlier in decade - weakening of euro also helpful
- Exports have risen strongly, helped by large FDI inflows and recovery in global economy
- Total exports up by 10.4% in 2018, with a further strong rise of 13.8% yoy in Q1 2019



Source: Thomson Datastream



Source: *CSO via Refinitiv*



Source : *CSO*

FDI and the Irish economy

WHAT ATTRACTS FDI TO IRELAND?

- Access to European markets
- Low corporate tax rate of 12.5%
- English speaking country
- Well educated, flexible workforce
- Common law legal system
- Stable political framework
- Long history of successful FDI
- Access to decision makers

KEY FDI IMPACTS ON THE IRISH ECONOMY

- Some 1,200 multinational companies
- €189bn in Exports
- 230,000 Jobs in FDI, 390,000 in total
- €7bn in Corporation Tax (67% of total)
- 33% of State's income tax/PRSI/USC
- €13.2bn Spending on Irish services/materials
- €11.7bn in Payroll
- 67% of Business R&D expenditure

WORLD LEADERS CHOOSE IRELAND

- 17 of the top 20 in ICT
- 10 of the top 10 in Pharmaceuticals
- 14 of the top 15 in Medical Devices
- 8 of the top 10 Industrial Automation
- 10 of the 'top born on the Internet' firms
- 20 of the top 25 Financial Services firms
- UK becoming less attractive for FDI owing to Brexit

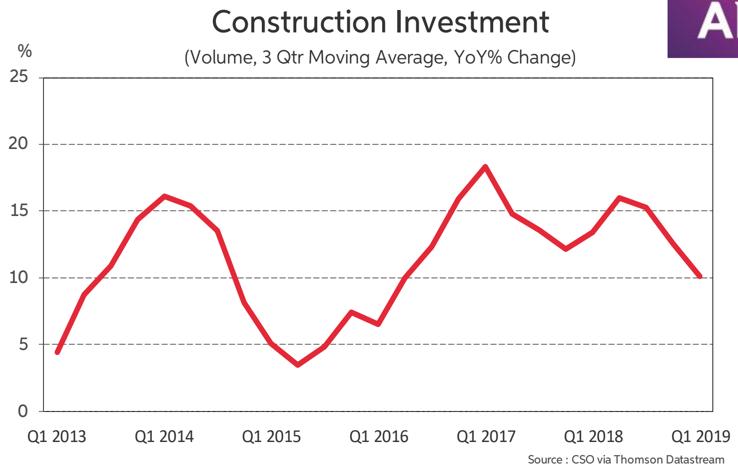
US TAX CHANGES SHOULD NOT HIT FDI

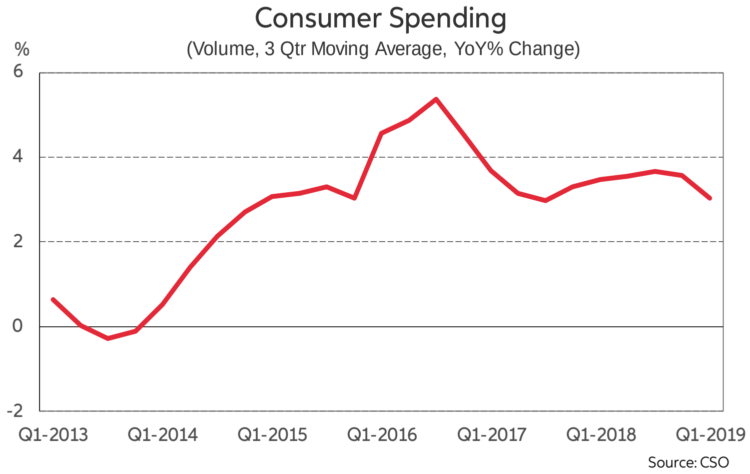
- US firms have well established operations here
- Need highly skilled, multi-lingual workforce
- Firms do not move Ireland to avoid US tax
- Ireland is base to service their European markets
- Easier to operate in local rather than US time zone
- Still wide gap between US & Irish corporate tax rates
- Very strong year for FDI in 2018

Many top global companies have big operations in Ireland

Strong performances across domestic economy

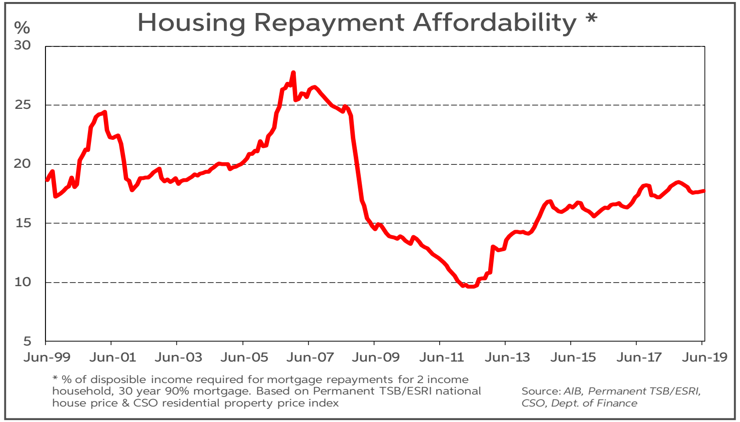
- Domestic economy contracted by 20% in period from 2008-2012, with particularly big fall in construction
- Construction sees strong recovery since 2013. Output up nearly 12% on average in last three years
- Output in construction rose 7.4% yoy in Q1 2019
- Core business investment (ex aircraft/intangibles) up 1.2% yoy in Q1 2019 – strong recovery since 2013
- Consumer spending grew by 3.5% on average over 2014-2018 period. Up by 2.9% yoy in Q1 2019
- Core retail sales rose by a strong 3.9% in 2018, and were up by 4.6% yoy in Jan-July 2019
- Total car regs (new + used imports) rose to high levels in 2017-18, but down 3% yoy Jan-July 2019
- Overall, modified final domestic demand has averaged growth of 4.4% over the 2014-2018 period





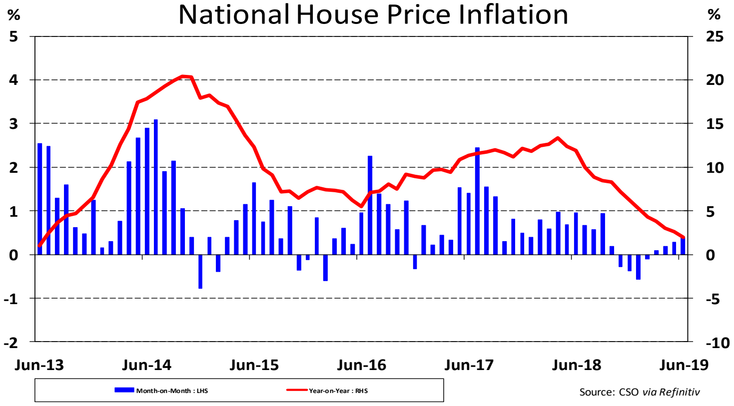
House building on the rise, but still at quite a low level

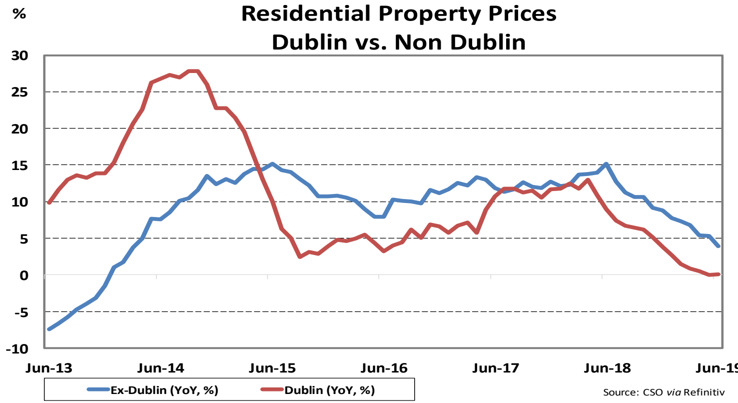
- Housing completions up 17% yoy in H1 2019 - rose by 25% to over 18,000 in 2018
- Housing commencements also rose 17% yoy during H1 2019
- Fall back in planning permissions in Q1 2019, but partly reflects impact of base effects
- Measures put in place to boost new house building. More involvement of Local Authorities and NAMA
- Housing output still running well below annual new housing demand, estimated at 35,000 units
- Completions of 22k this year and around 25k in 2020
- Mortgage lending +20% in 2018, but slowed to 11% in H1 2019. Mortgage approvals pick up year-to-date
- Affordability stable in H1'19 as house price inflation moderates, with continuing good earnings growth



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 house building
- Prices up 83% by June 2019 from low in March 2013 –Dublin prices up by 93%, non-Dublin rise 81%
- But house prices still some 20% below 2007 peak
- House price inflation slowing sharply as Central Bank lending rules and affordability impact
- Prices up 2% yoy nationally in June 2019, down from high of 13.3% in April 2018
- Dublin prices flat yoy in June, down from +13% in Apr ‘18; non-Dublin slows to 4% from 15% year ago
- Rents have also rebounded strongly – almost 30% above previous peak reached in 2008, per CSO data





AIB Model of Estimated Housing Demand

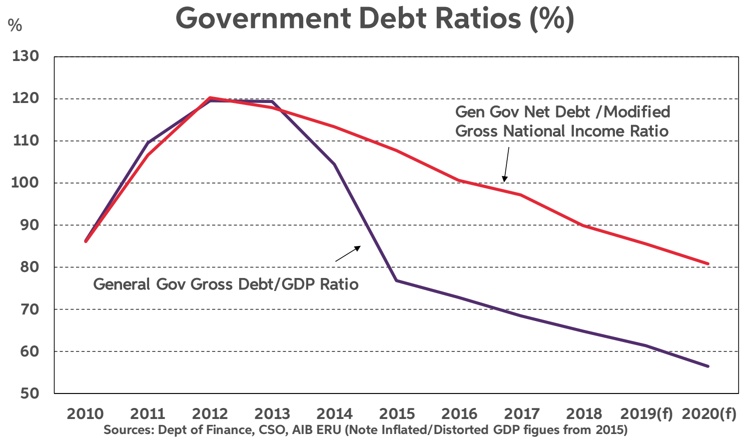
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2020 – 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 2016-20

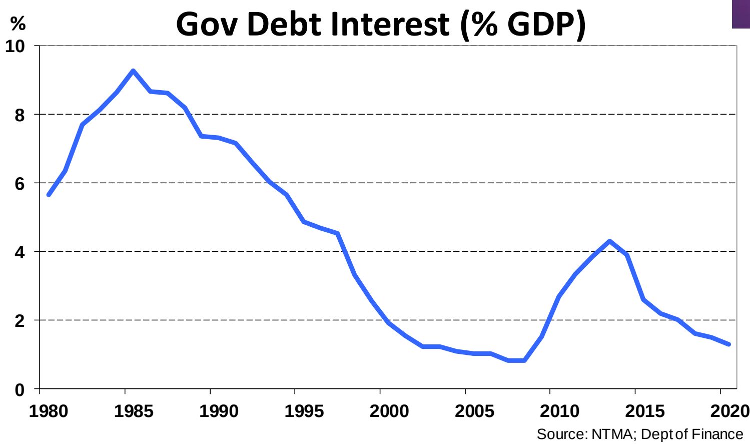
Calendar Year	2016	2017	2018	2019	2020
Household Formation	26,500	26,500	26,500	27,500	27,500
of which					
Indigenous Population Growth	*18,000*	*18,500*	*17,500*	*16,500*	*14,500*
Migration Flows	*8,500*	*9,500*	*12,000*	*13,000*	*13,000*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	32,000	33,500	35,000	35,000	33,000
Completions	9,900	14,400	18,100	22,000	25,000
Shortfall in Supply	*-22,100*	*-19,100*	*-16,900*	*-13,000*	*-8,000*

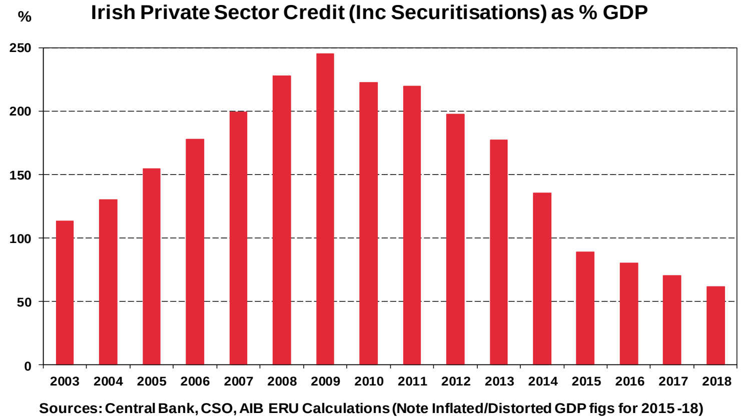
**Headship is % of population that are heads of households.*

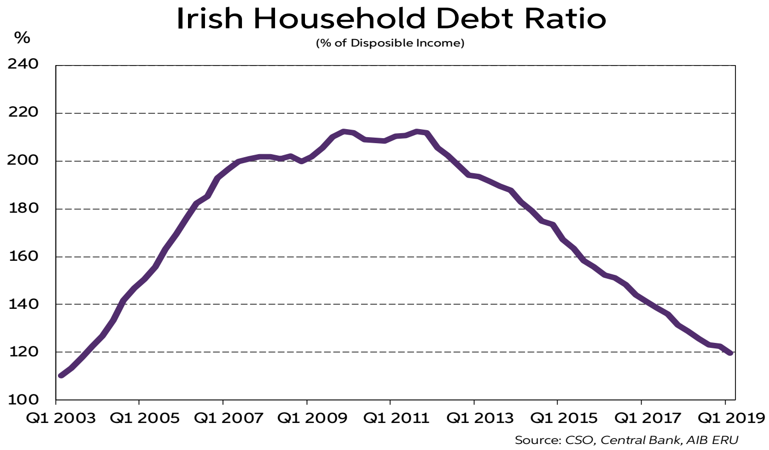
Sources: CSO, DoECLG, AIB ERU

Govt debt ratios fall, private sector deleverages



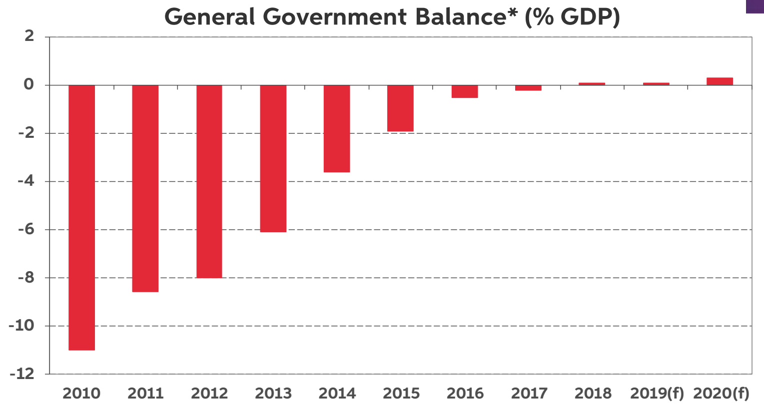






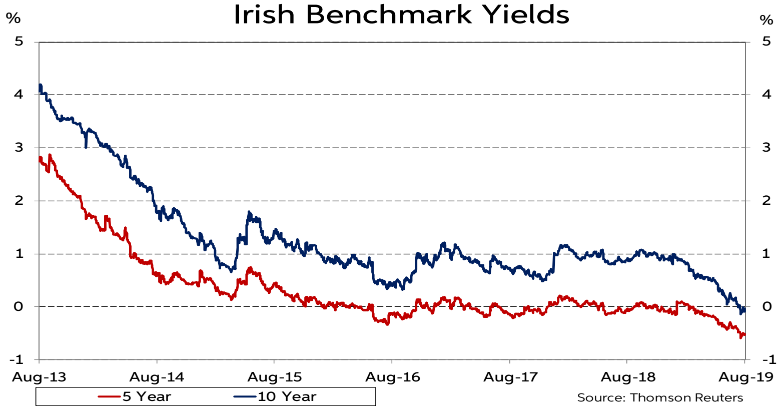
Government finances back in surplus

- Some €30bn (18% of GDP) of fiscal tightening implemented in 2008-2014 period
- Budget deficit has fallen sharply over past decade. Fell to 0.2% of GDP in 2017
- A small surplus was recorded in 2018, estimated at 0.1% of GDP
- Primary budget surplus (i.e. excluding debt interest) of 1.5% of GDP in 2018
- Debt interest costs low – at 1.5% of GDP
- Government aims to maintain the budget in surplus in coming years
- Public finances close to target in year to July – tax receipts up by 7.6%, surplus rises
- Gross Gov Debt/GDP ratio has fallen sharply
- Irish bonds yields at very low levels
- Sovereign debt ratings upgraded; S&P have Ireland at A+, Fitch at A+, Moody's A2



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance



Source: Thomson Reuters

Brexit expected to lower growth rate of Irish economy

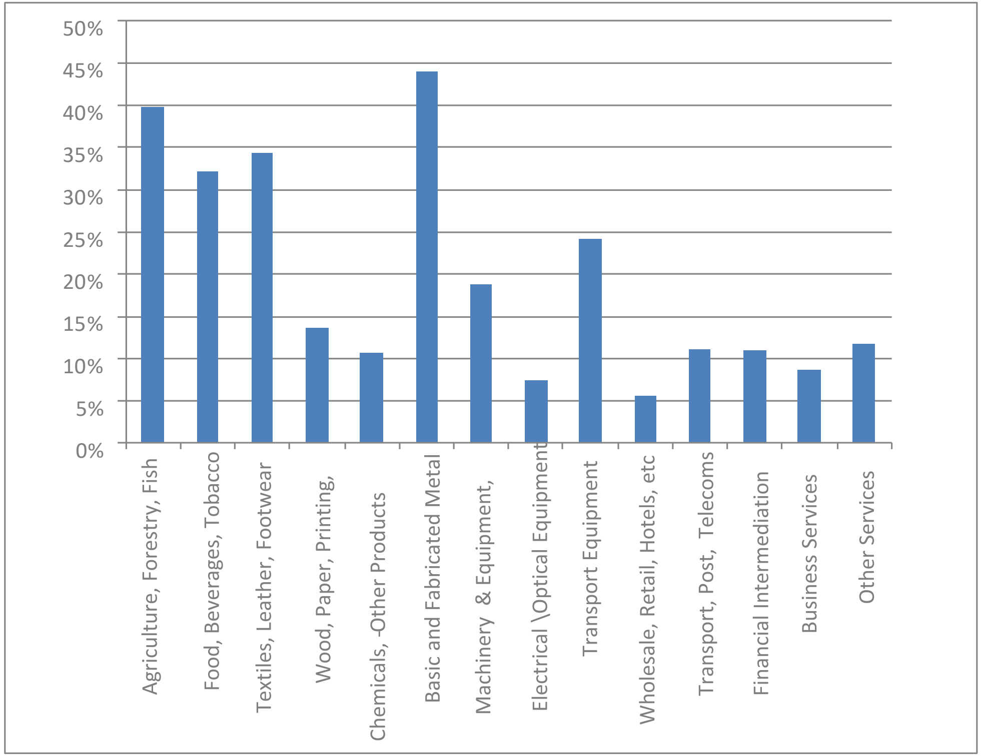
- **ESRI** estimate that Irish output would be reduced over time by **2.6% under a 'deal' scenario** in the long run (i.e. after 10 years). Unemployment rate is 1% higher
- **Multiple hits to the Irish economy from a no-deal Brexit**: further collapse in sterling, recession in UK, disruption to trade/supply lines, tariffs, new adm and regulatory costs
- Sharp fall-off in trade with UK likely on a no-deal Brexit, with this **shock front loaded -** around half of the impact on trade would take place in the first two years, per ESRI
- In a '**disorderly no deal'** scenario, ESRI estimates that GDP would be **5% lower** after 10 years Unemployment rate would be 2 percentage points higher
- **Central Bank** say a disorderly hard Brexit could reduce Irish growth by 4% in first year and 6% in long run

- **Copenhagen Economics** Report considered costs of regulatory divergence for goods and services and of border checks, as well as tariffs in assessing impact of Brexit
- Estimates impact by 2030 is to reduce Irish GDP by 2.8% under a soft Brexit (EEA), 4.3% in a FTA and 7% in a no-deal, hard Brexit WTO scenario

Agri. sector would be severely impacted by hard Brexit

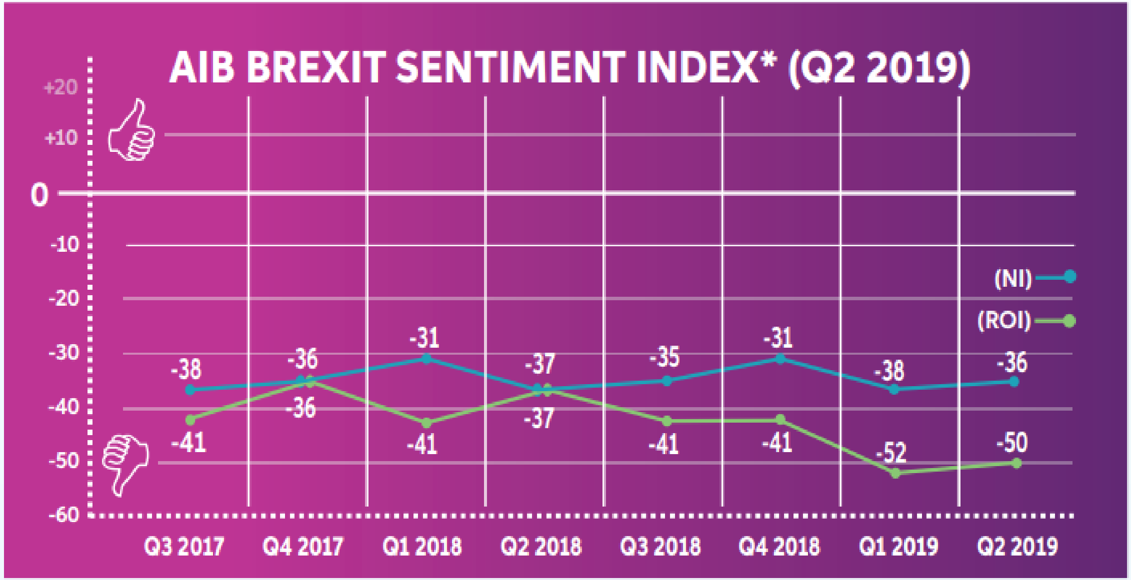
- Main EU tariffs relate to food products, keeping prices high. UK may also impose tariffs on all food imports post Brexit
- Food and Beverages account for 25% of total Irish exports to UK
- Around 40% of Irish food exports go to the UK – key market for beef and cheese
- Other sectors very dependent on UK market include machinery and transport, metal products, textiles
- Some 40% of indigenous Irish exports go to UK compared to 10% for foreign owned companies

Share of Exports by Industry Destined for the UK (ESRI)



AIB Brexit Sentiment Index – Q2 2019

- A total of ***700 SME's (with up to 250 employees)*** across the island of Ireland



Source: Ipsos MRBI

*The Index reflects and measures the sentiment of Irish SMEs in the Republic of Ireland and Northern Ireland towards Brexit, summarised as a single number, with a potential range from +100 to -100. It takes the difference between the positive and negative responses across four key measures: Impact on business now, Impact on future business (next 5 years), Level of visibility and, finally, the Wider economic impact of Brexit.

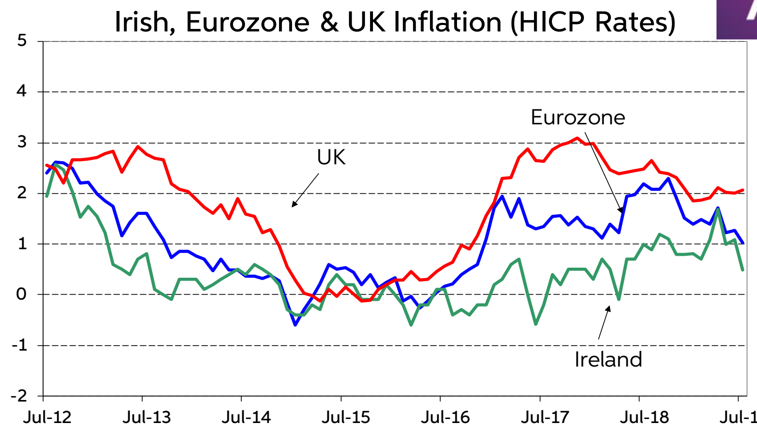
- **Headline index remained depressed in Q2. Number of firms reporting that Brexit is having a negative impact on their businesses increased in both ROI and NI**
- **SMEs also remain concerned about Brexit's impact in the future, both on their own business & the wider economy**
- **Manufacturing, Food & Drink, Tourism and Retail sectors most concerned about Brexit**
- **40% of RoI and 38% of NI firms who had investment plans say they have been cancelled or postponed owing to Brexit.**

Rising risk of a no-deal hard Brexit

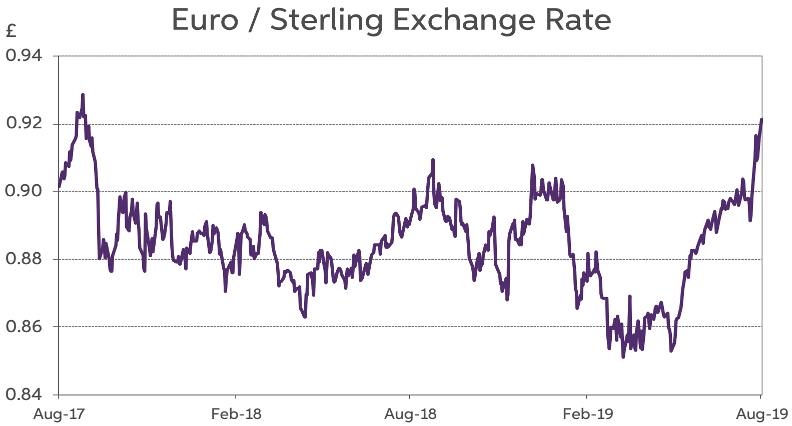
- March exit date deferred as UK Parliament was unable to support Withdrawal Agreement
- EU granted an extension to Article 50 up to end October – another cliff-edge Brexit date
- New PM Johnson says the UK will leave EU by end October, with or without a deal
- Parliament against leaving the EU without a deal, so clash with government possible
- Parliament would need to pass or amend legislation to stop a no-deal Brexit
- Hard to do this, with Parliament suspended from Sept 11th to October 14th
- Appear to be 4 options (1) No deal exit (2) Remain (3) Extend again (4) Agree Soft Brexit
- Possible developments: general election, new referendum, change of government
- UK government does not want another Article 50 extension. EU may not grant it
- Talks continuing with EU. UK wants to remove Irish backstop from Withdrawal Agreement
- Risk of a no-deal hard Brexit has clearly risen – new PM, prorogation of Parliament

Good Irish growth can continue if external risks avoided

- Irish economy should continue to grow at impressive pace, but not as strongly as in recent years
- Construction picking up from still low output levels
- Public spending on the rise
- Activity supported by low interest rate environment
- Good growth in household incomes
- Continuing strong inflows of FDI
- Irish inflation still very low
- However, Brexit is a real challenge for the economy
- Important also that global economy avoids downturn
- GDP growth forecast at 4.0% for 2019 and 3.25% in 2020, assuming hard Brexit/global downturn avoided
- ESRI estimates medium-term growth rate of economy at around 3.25% in the period 2020-2025



Source: Refinitiv



Source: Refinitiv

AIB Irish Economic Forecasts

% change in real terms unless stated	2016	2017	2018	2019 (f)	2020 (f)
GDP	**3.7**	**8.1**	**8.2**	**4.0**	**3.25**
GNP	9.9	5.1	6.5	3.7	3.0
Personal Consumption	5.2	3.0	3.4	2.8	2.5
Government Spending	3.6	3.9	4.4	4.0	3.0
Core Fixed Investment*	9.2	4.0	13.0	6.0	6.0
Modified Final Domestic Demand*	5.8	2.8	4.7	4.0	3.7
Exports	4.1	9.2	10.4	8.0	5.0
Imports	18.4	1.1	-2.9	8.5	5.5
HICP Inflation (%)	-0.2	0.3	0.7	1.0	1.2
Unemployment Rate (%)	8.4	6.8	5.8	5.2	5.0
Budget Balance (% GDP)	-0.5	-0.2	0.1	0.2	0.3
Gross General Gov Debt (% GDP)	72.8	68.0	64.0	61.0	56.5

*Excludes investment in aircraft and intangibles

Source: CSO, AIB ERU Forecasts

Risks to the Irish economy

- Main risks to Irish recovery no longer internal but external, in particular Brexit
- Brexit major issue for Ireland given its strong trading links with UK and sharp fall by sterling
- Slowing external environment with growing downside risks to global growth from increasing protectionism/tariffs, declining world trade/manufacturing activity, weaker EU economy
- Questions around Irish corporation tax regime (Apple ruling, moves on tax harmonisation in EU, cuts in US/UK rates) could impact FDI. Note that Ireland retains the right to set its own tax rates
- Supply constraints in new house building activity, which is recovering at a slow pace with output still at low levels
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes, rising wages
- Credit constraints – tightening of lending rules, on-going deleveraging