The Irish Economic Update:

Tough start to 2021, but prospects brighten with vaccines roll out to ramp up in Q2

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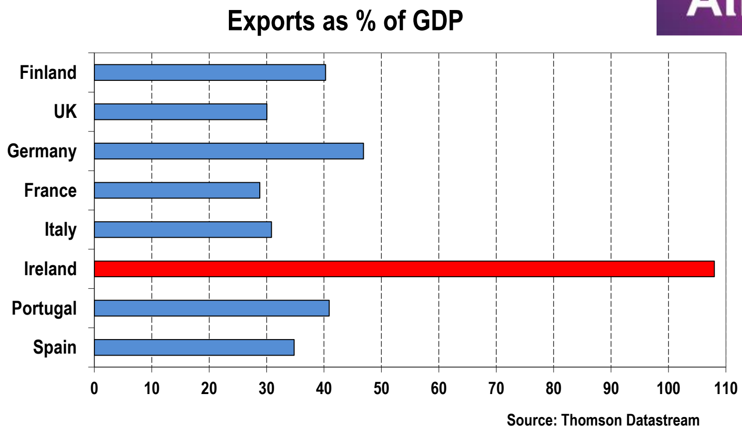
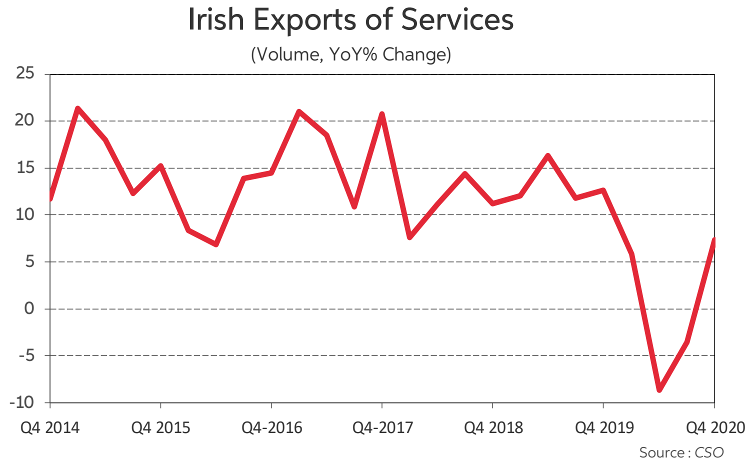
Export led growth in 2020, but back in lockdown in H1’21

- Irish GDP grew by 3.4% in 2020, with GNP up 0.6%, as exports increased by 6.2%
- Domestic economy contracted by 5.4%, with consumer spending down 9% and fixed investment falling by 8.5%, partially offset by 9.8% rise in government expenditure
- Third lockdown imposed over Xmas period, which is set to last for much of H1 2021
- Sharp fall in construction & services PMIs in early 2021, decline in consumer spending
- Economic contraction not as severe as last Spring – more activity and spending this time
- More modest decline in retail sales in Jan/Feb, while Mfg PMI holds up in early 2021
- Major ramp-up of vaccination programme planned from April onwards
- Growth prospects improve for H2 2021 and 2022 with vaccine roll out gathering pace
- Central Bank forecasts GDP growth of 3.8% in 2021, 4.6% in 2022. ESRI at 4.4% and 5.2%
- CBI sees modified final domestic demand rising by 2.9% this year and 3.6% in 2022

Goods exports up strongly in 2020, services exports flat

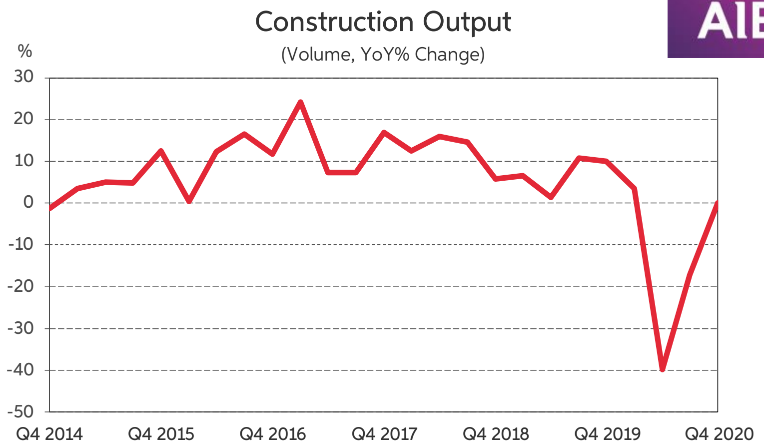
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose 10.4% in 2018, 11.1% in 2019
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rise 6.2% in 2020
- Goods exports up 11.8% last year, fuelled by very big jump in pharma exports
- Service exports flat in 2020 – fell sharply in H1 but strong rebound in second half of year
- Collapse in earnings from tourism & travel, but computer service exports showed strong growth



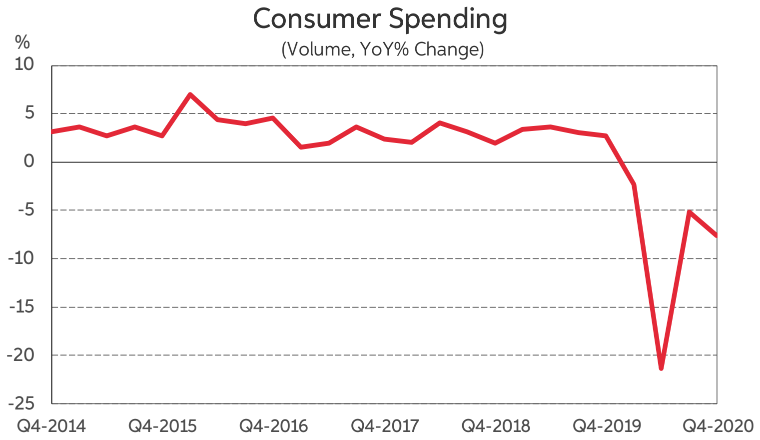


Strong economic rebound followed big Covid hit in H1'20

- Modified final domestic demand up by 18.8% in Q3, with small fall of 2.2% in Q4, after big H1'20 decline
- Overall, modified domestic demand contracted by 5.4% in 2020. It was running at -3% yoy by Q4
- Consumer spending fell by 2.9% in Q1, 19.6% in Q2. Rebounded by 21% in Q3. Fell by 2.2% in Q4,
- Domestic fixed investment fell by 25% in Q2. Up by 35% in Q3. Fell by 4% in Q4 and down 3.4% yoy
- Construction investment fell by 9% in 2020, though new housing output was down by just 2.3%
- GDP rose by 3.4% in 2020, boosted by strong performance of net trade, with exports up 6.2%
- GNP up 0.6% in 2020 – takes account of big rise in profits outflows from multi-nationals last year

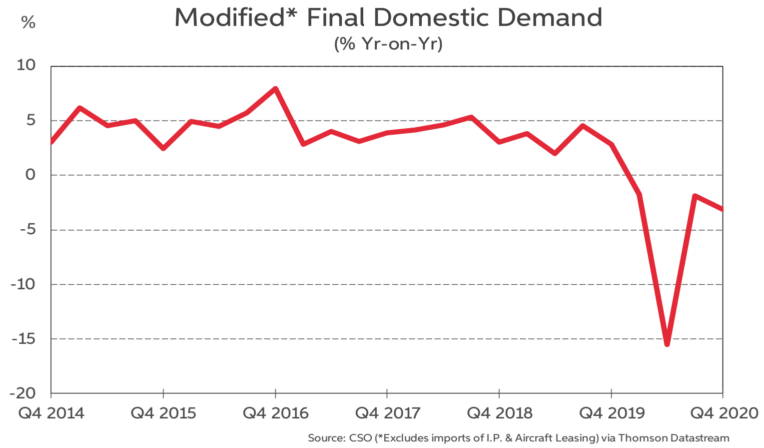


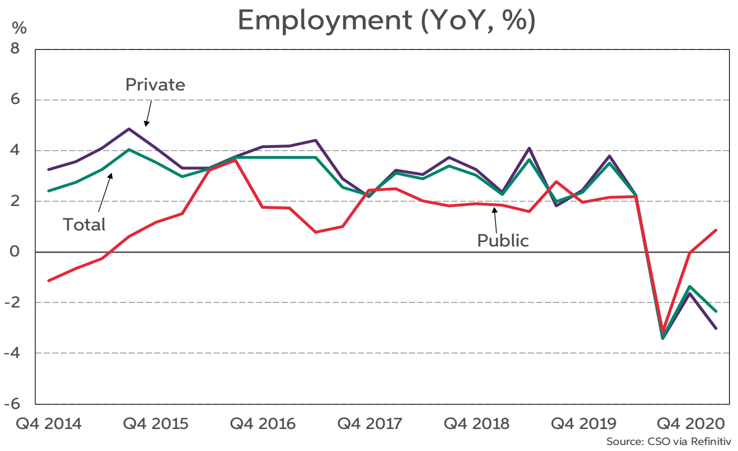
Source : CSO via Refinitiv

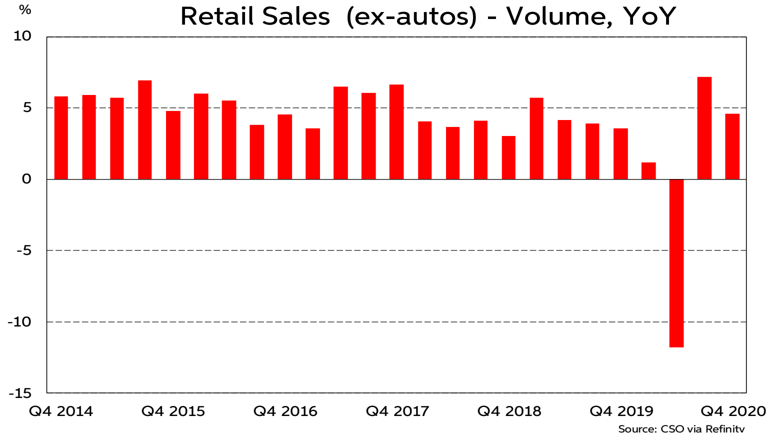


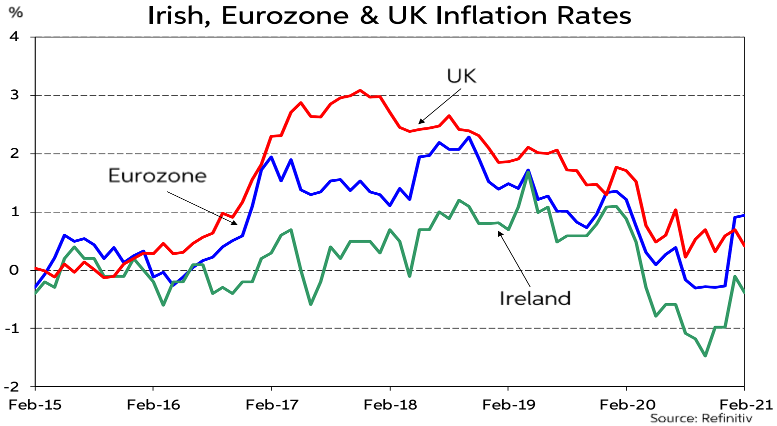
Source: CSO via Refinitiv

Domestic recovery interrupted in Q4, with second lockdown

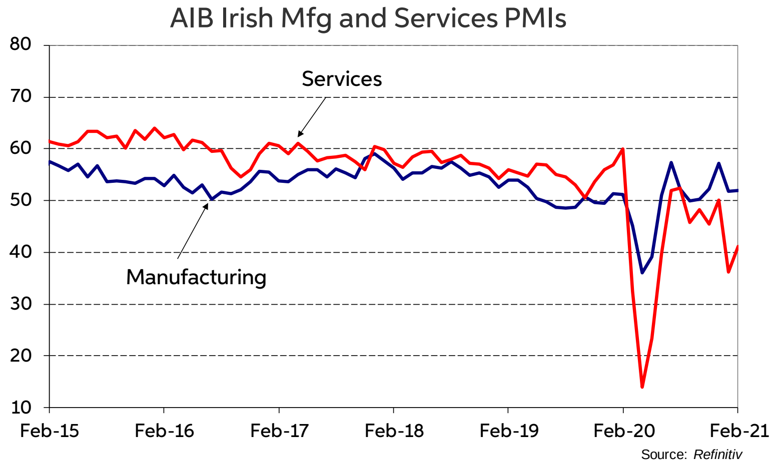


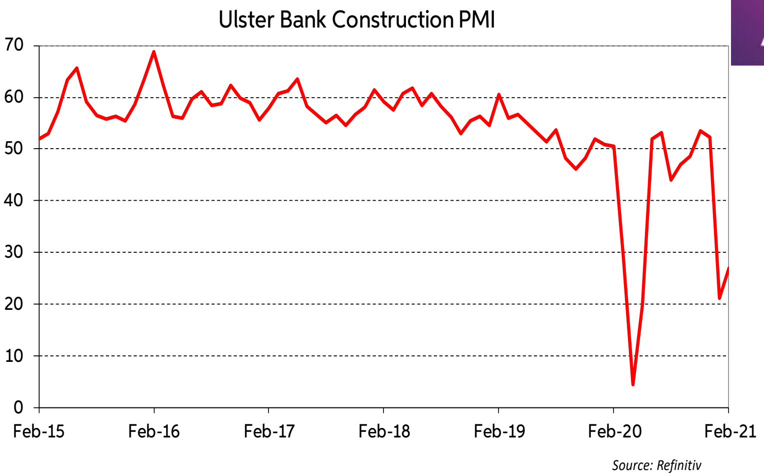


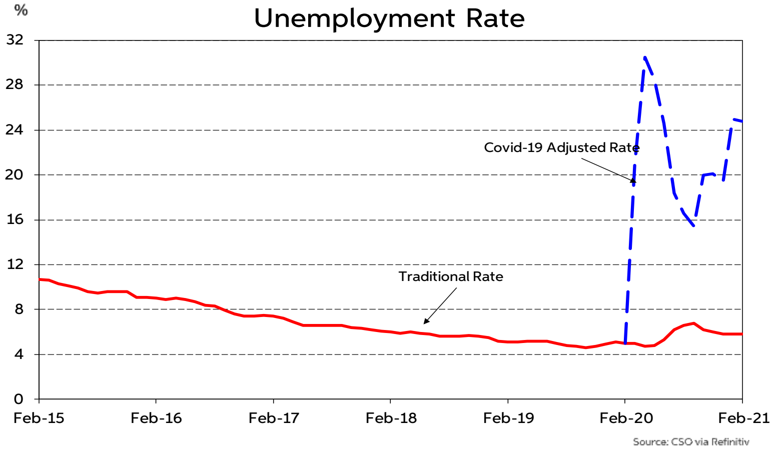


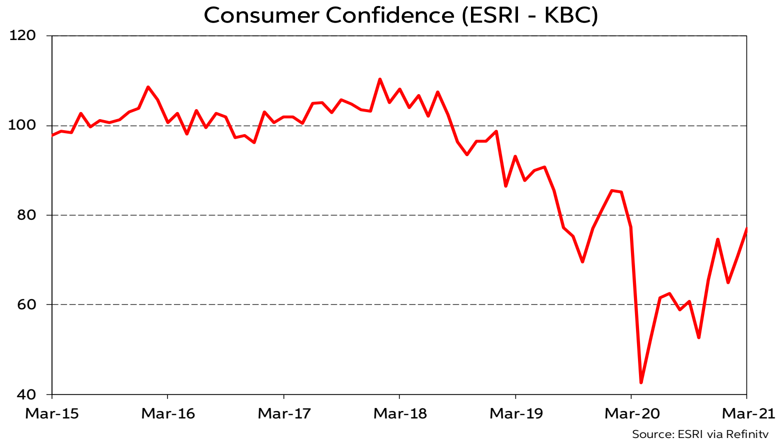


Third lockdown sees activity weaken again at start to 2021



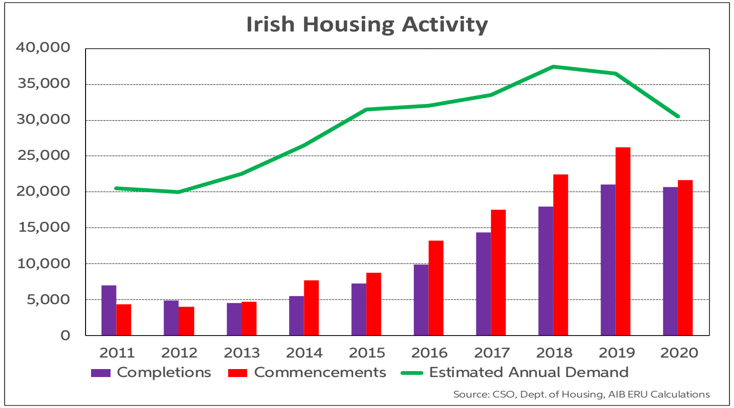


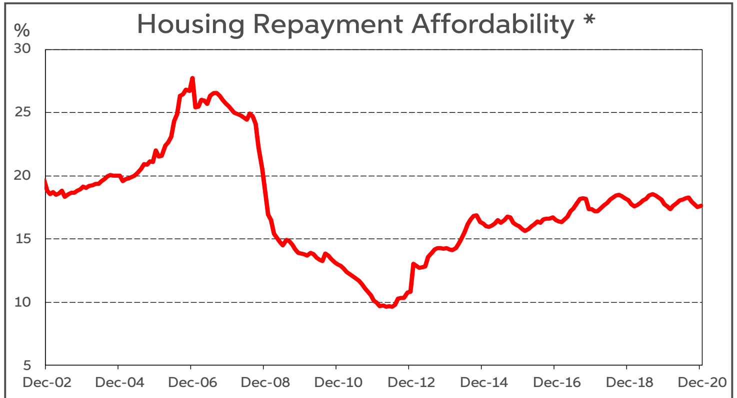




House building held up in 2020, but large fall likely in 2021

- Completions down by 32% yoy in Q2'20 on lockdown, but recovered strongly in Q3 and Q4
- Total completions amounted to 20,676 in 2020, just 2% down on 2019 level of 21,087
- Commencements fell by over 17% to 21,700 in 2020 from 26,240 in 2019. Fell further at start of 2021
- Planning permissions jumped sharply last year – up 13.5% as apartments surged for second year
- Housing output likely to be far less than 20,000 this year, well below estimated annual demand of 30k
- Mortgage lending rose by 9.5% to €9.5bn in 2019, but Covid saw it fall by 12% to €8.4bn in 2020
- However, mortgage approvals surged in H2 2020 and continue uptrend in early 2021
- Housing affordability metrics remain quite stable



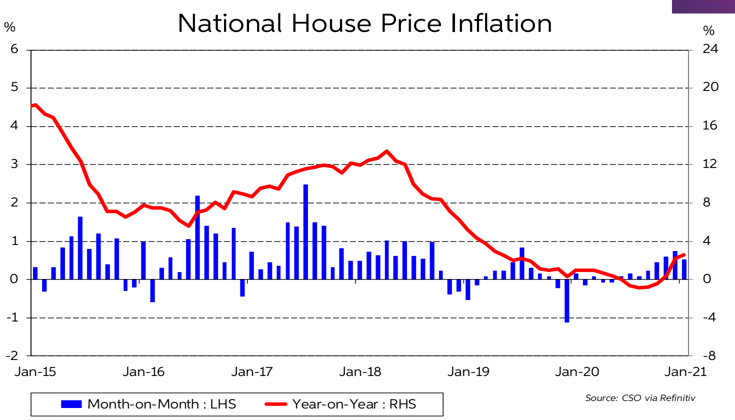


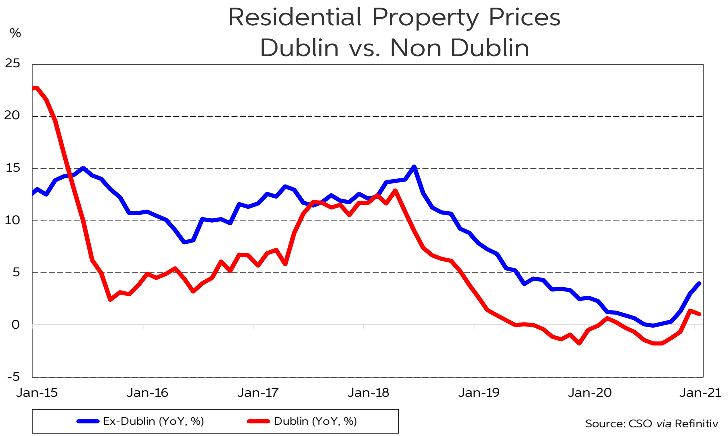
* % of disposible income required for mortgage repayments for 2 average income household, 30 year, 90% LTV, AIB variable mortgage rate. Based on Permanent TSB/ESRI national house price & CSO residential property price index

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

House prices are moving higher again

- House prices declined by very sharp 55% over 2007-13
- Prices have since recovered strongly; 86% above trough by end 2020, but still some 16% below 2007 peak
- CSO data show house prices little changed in 2020 until moving much higher in Q4 - up by 2.2% yoy in Dec
- Further rise in house prices in January, with yoy at 2.6%. Prices rising at 7% annualised rate since autumn
- Non-Dublin prices rising at 4% yoy in January, well above Dublin house price inflation of 1% yoy
- Property websites show big jump in asking prices since mid-2020. Running at 7.5% yoy in Q1 2021
- Low supply, remote working, strong public/institutional demand, enhanced help-to-buy scheme, rising personal savings are all supporting house prices
- Growth in rents had slowed a lot before the virus hit
- Rents recover somewhat in H2 after steep falls in H1’20. Still down 2.5% yoy in Jan/Feb 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

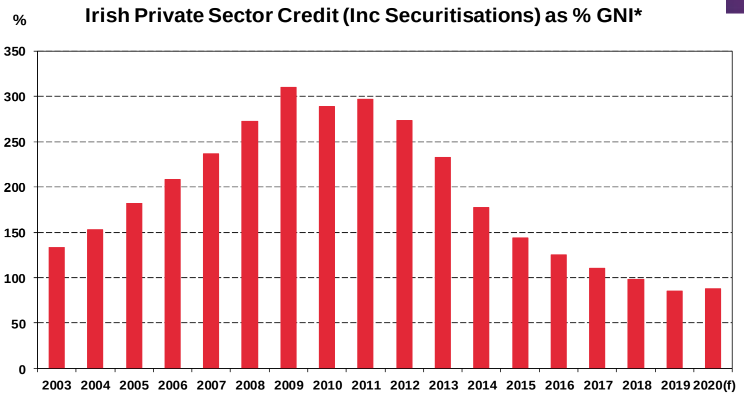
Calendar Year	2017	2018	2019	2020	2021
Household Formation	28,000	32,000	31,000	25,000	25,000
of which					
Indigenous Population Growth	*18,500*	*21,000*	*21,000*	*17,500*	*16,000*
Migration Flows	*9,500*	*11,000*	*10,000*	*7,500*	*9,000*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	500	500
Replacement of Obsolete Units	5,000	5,000	5,000	5,000	5,000
Estimated Demand	33,500	37,500	36,500	30,500	30,500
Completions	14,400	18,100	21,100	20,700	17,000
Shortfall in Supply	*-19,100*	*-19,400*	*-15,400*	*-9,800*	*-13,500*

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

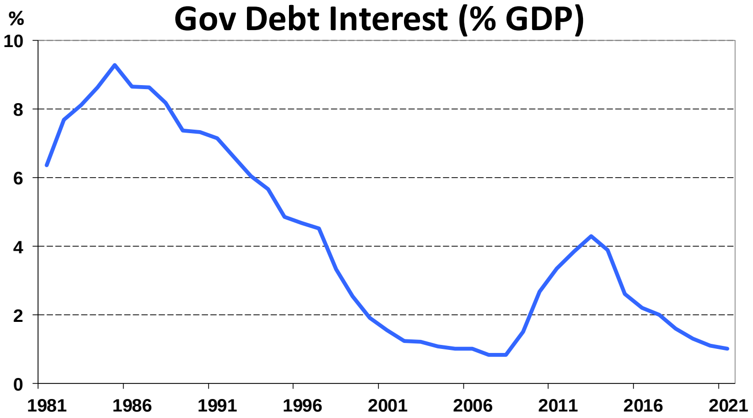
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios rising again

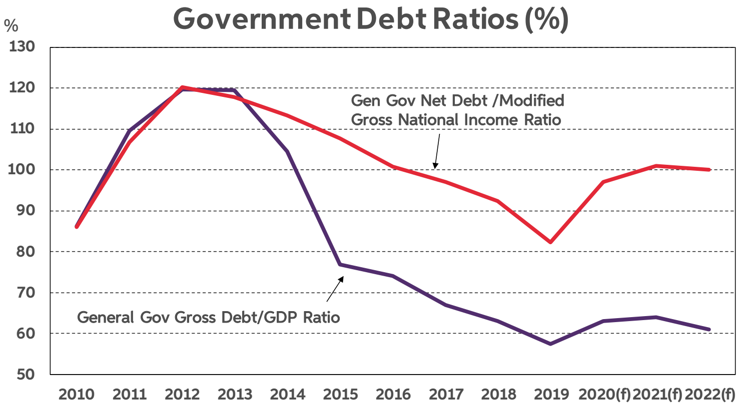
Source: CSO, Central Bank, AIB ERU



Sources: Central Bank, CSO, AIB ERU Calculations



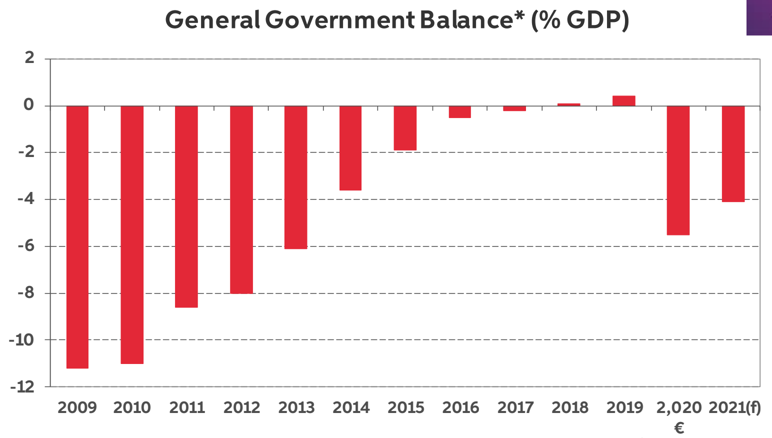
Source: NTMA; Dept of Finance (Pre Coronavirus)



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

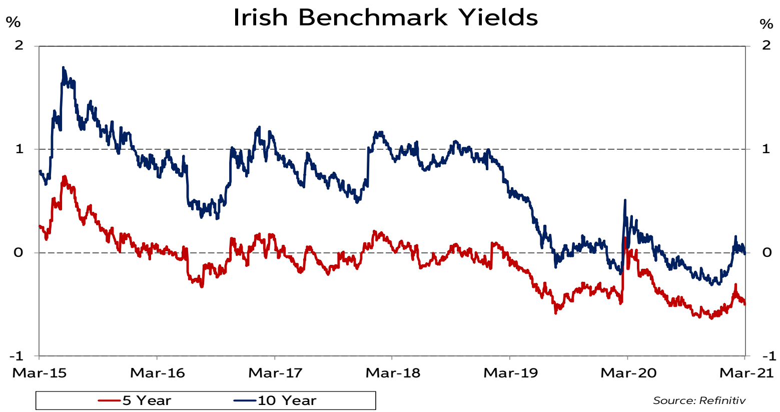
Large budget deficits in 2020 and 2021

- Budget deficit declined sharply in last decade, with small surpluses recorded in 2018 and 2019
- However, Covid-19 and efforts to mitigate it saw the public finances deteriorate during 2020
- Tax receipts were down 3.5% last year, while net voted government spending soared by 25%
- General Government budget deficit of circa €19bn in 2020, or around 5.5% of GDP
- Dept. of Finance forecasting another large budget deficit of above €20bn in 2021
- Opening two months see further rise in public spending and decline in tax receipts
- Gov. Debt ratios had fallen in past decade, but moved higher in 2020
- 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



*Excludes banking recapitalisation costs in 2010-11

Source : Dept of Finance



Source: Refinitiv

Key points about EU-UK Trade & Cooperation Agreement

- EU and UK finally agreed on a trade deal in late December 2020, thereby allowing 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 with delays at ports, including the land bridge route via UK - longer supply chains
- 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
- UK not fully implementing all customs checks until July; Grace periods for some GB-NI trade
- No right of redress for companies via courts. Provision for an arbitration panel in disputes
- Estimated that higher trade costs will knock circa 0.5% off annual Irish GDP growth rate
- Issues with NI protocol and impact on trade flows from GB to NI – paper work, checks

Economy was in very strong shape ahead of Covid shock

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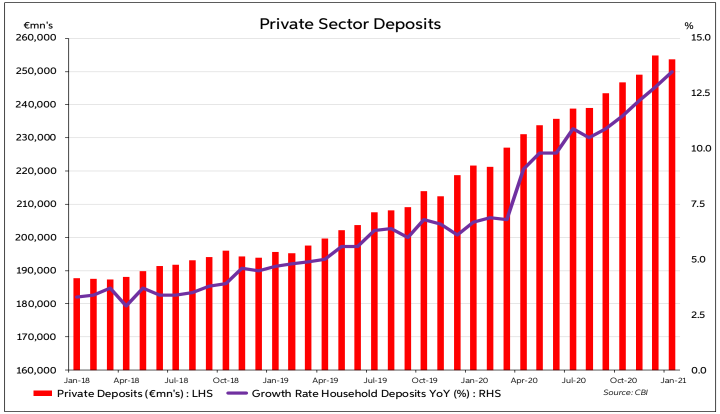
- Economy was in very strong shape ahead of being hit by very deep 2020 Covid recession
- Well balanced, robust underlying growth of circa 5% per annum over 2013-19 period
- Large inflows of FDI and strong export growth remain key features of the economy
- Strong jobs growth, averaging over 3% per annum during the period 2013-19
- Unemployment rate fell from 16% in early 2012 to below 5% in H2 2019
- Budget deficit eliminated quicker than expected. Public finances in surplus in 2018/19
- Major deleveraging by private sector, including households, during the past decade
- Sound financial system, with well capitalised banks
- Stable housing market - house price inflation at 1%, moderate growth in mortgage market
- Very low, stable CPI inflation of below 1% over 2013-19 period
- Balance of payments returned to large surplus

Key medium-term Irish growth drivers remain in place

- Favourable medium-term drivers of strong Irish growth remain in place
- House building to pick up from still low output levels – big focus of government policy
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Ireland still an attractive destination for FDI
- Labour market dynamics supportive of growth
- Economy has deleveraged. Big jump in savings to unwind, fuelling domestic rebound in 2021-22
- World economy expected to rebound from 2021, helped by roll out of Covid vaccines
- The EU-UK trade deal has removed a major risk to Irish economy
- Strong Irish growth likely over next few years

IMF GDP Forecasts			
% Vol	2020	2021	2022
World	-3.5	5.5	4.2
OECD	-4.9	4.3	3.1
US	-3.4	5.1	2.5
Eurozone	-7.2	4.2	3.6
UK	-10.0	4.5	5.0
Japan	-5.1	3.1	2.4



AIB Irish Economic Forecasts

% change in real terms unless stated	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	**5.6**	**3.4**	**3.0**	**5.5**	**4.0**
GNP	3.4	0.6	2.5	5.0	3.5
Modified Final Domestic Demand	**3.3**	**-5.4**	**2.8**	**5.5**	**3.5**
Personal Consumption	3.2	-9.0	3.0	7.5	4.0
Government Spending	6.3	9.8	1.5	-3.0	1.0
Fixed Investment*	74.8	-32.3	-6.5	8.0	4.5
Exports	10.5	6.2	4.5	5.0	4.5
Imports*	32.4	-11.3	1.5	5.2	4.3
HICP Inflation (%)	0.9	-0.5	0.5	1.0	1.2
Unemployment Rate (Estimated %)	**5.0**	**10.4**	**11.0**	**8.2**	**6.9**
Budget Balance (% GDP)	0.5	-5.5	-5.5	-3.0	-2.0
Gross General Gov Debt (% GDP)	57.4	63.0	64.0	61.0	57.0

*Data very distorted by aircraft and intangibles (IP)

Source: CSO, D/Finance; AIB ERU Forecasts

Risks to the Irish economy

- Main near term risk is still Covid-19 – continues to weigh heavily on growth & employment
- Persistence of virus could see scarring effects – high business failures & bad debts, job losses
- Very open nature of Irish economy means it is exposed to weakness in global trade
- Changed EU-UK trading relationship may negatively impact some Irish industries
- Questions around Ireland's corporation tax regime (moves on tax harmonisation in EU, OECD tax reform/minimum tax rate proposals, possible reforms to US corporate tax laws)
- 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