



# The Irish Economic Update:

*Economy makes strong start to 2022, but inflation rising sharply*

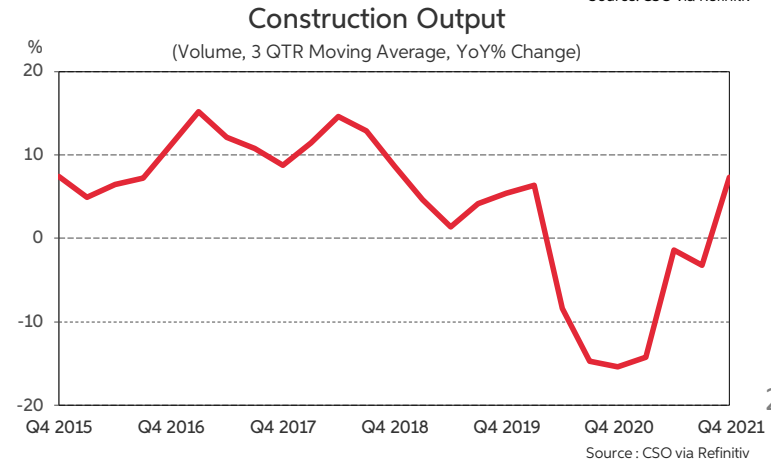
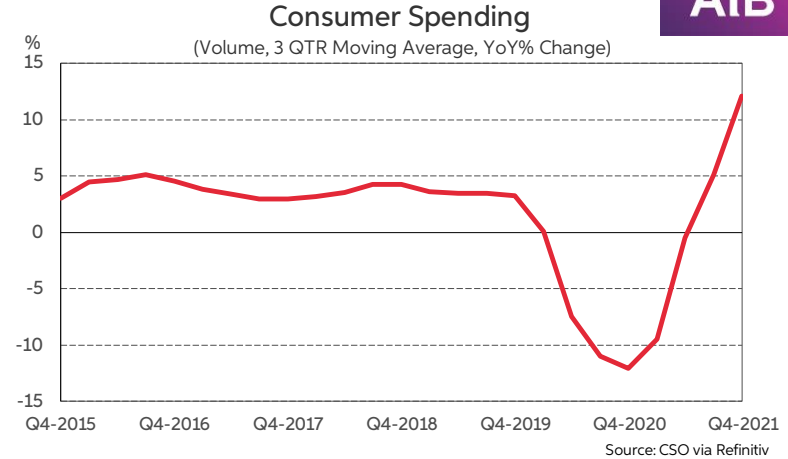
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# Economy rebounded very strongly during 2021



- GDP grew by 5.9% in 2020, with GNP up 3.4%, but modified final domestic demand fell by 4.9%
- Domestic economy picked up strongly in 2021
- MFDD fell by 4% in Q1'21 but rebounded strongly as economy re-opened. Rose by 6.5% in full year
- Consumer spending rose by 5.7% in 2021
- Domestic fixed investment up 9.7% 2021
- Construction output slow to recover from 2020/21 lockdowns – falls 4.7% in 2021, but up by end year
- All service sectors saw a rebound in activity in 2021
- Meanwhile, GDP rose by 13.5% in 2021, with GNP up by 11.5% as trade flows remained distorted
- Manufacturing output up 25% and goods exports rose by 20% in 2021 reflecting these distortions

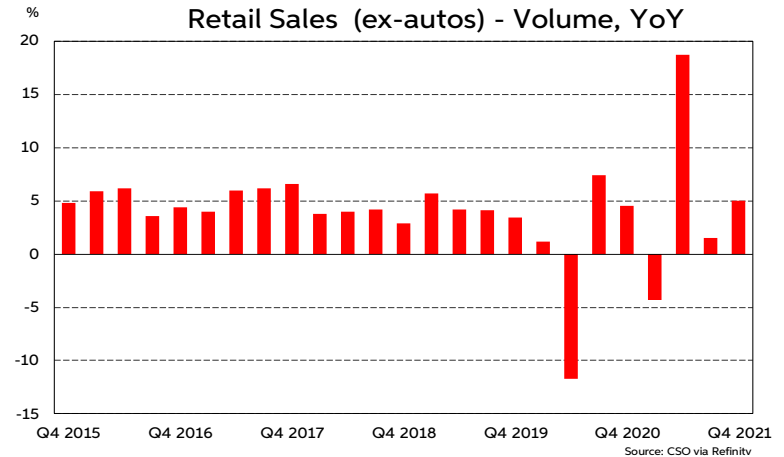
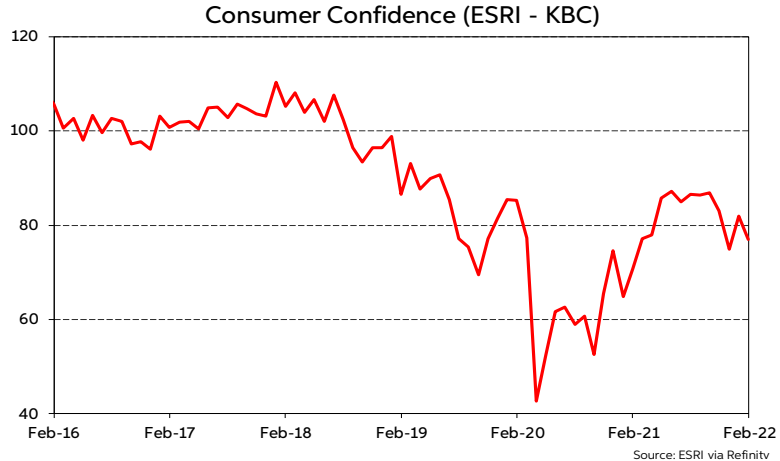
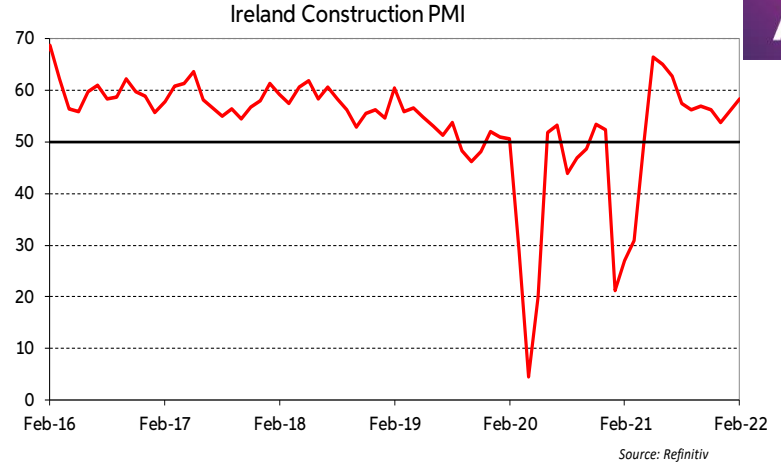
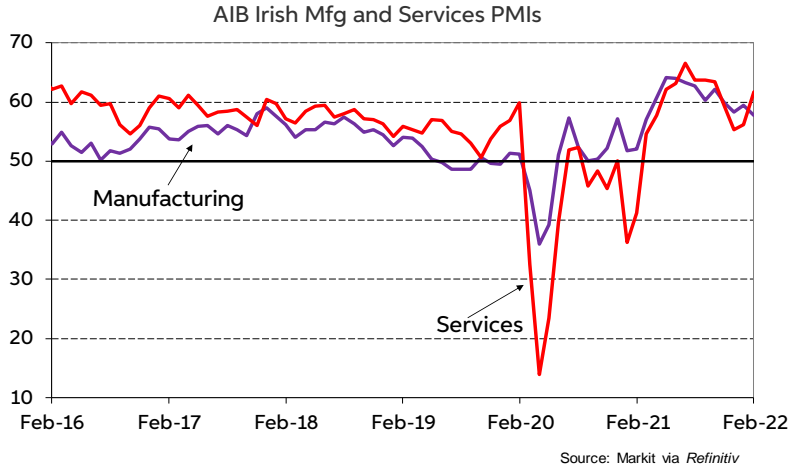


# Strong recovery continues in early 2022, though inflation surging

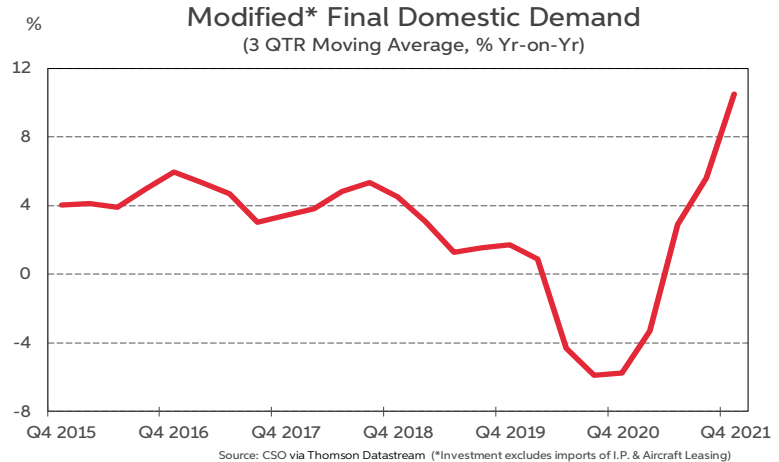
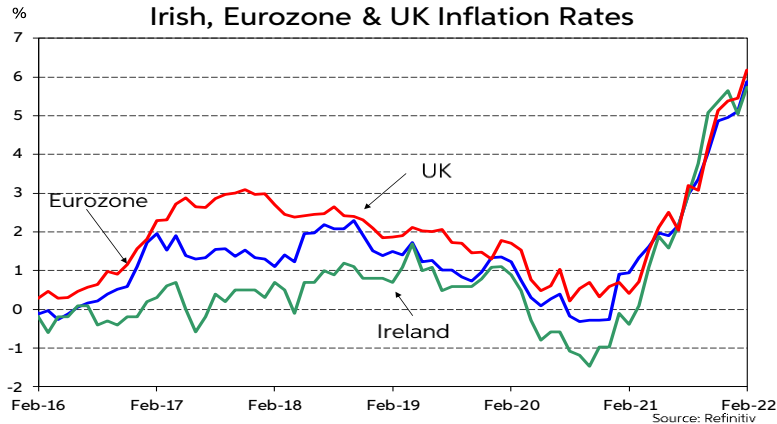
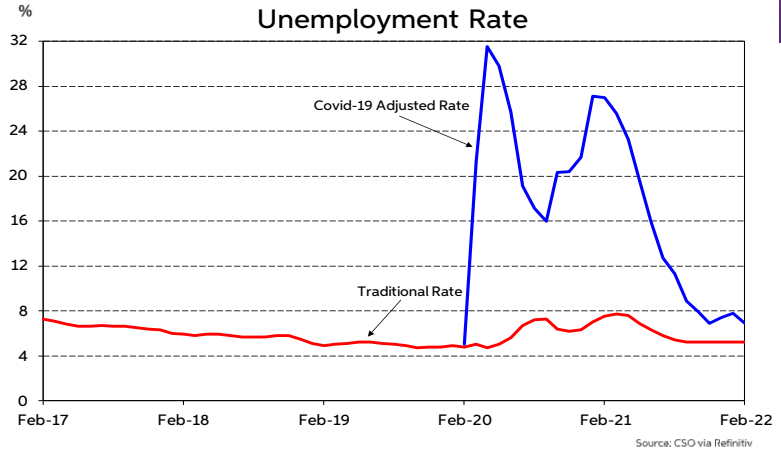
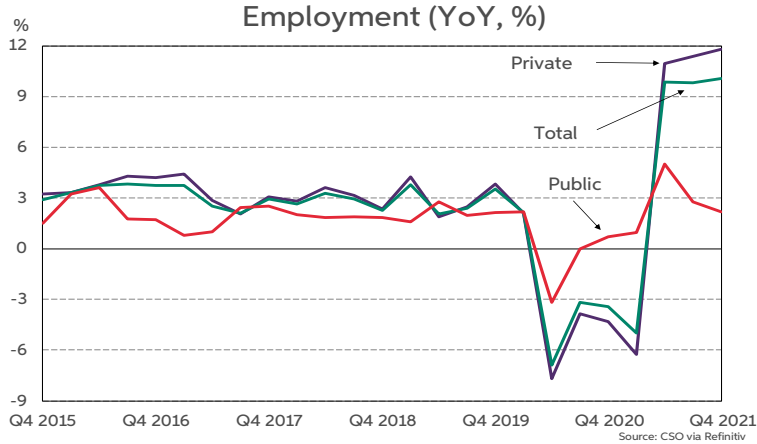


- Indicators show the very strong rebound in activity in 2021 is continuing in early 2022
- Mfg PMI remained at strong levels at start of this year; 59.4 in January, 57.8 in February
- Services PMI rose to very high 61.8 in February, with a big surge in new business
- Construction PMI at strong 58.4 in February
- Housing commencements surged to 30,700 last year, and running at 33,000 by February 2022
- Rise of 5% in core retail sales in 2021 – hold steady in early 2022
- New car sales rose by 20% last year, but still down 10% on 2019 levels. Still soft in early 2022
- Tax receipts surged by 20% last year and remained very strong in Jan-Feb; still rising 20% yoy
- Official jobless rate falls sharply – at 5.2% in Jan-Feb, with big drop in numbers on PUP also
- Very strong growth in both the labour force and employment in 2021 to well above 2019 levels
- Inflation accelerates sharply; HICP rate at 5.7% in February and set to rise further
- Private sector deposits have seen strong rise; up 31% or €68bn between end 2019 and end 2021

# Activity indicators pick up strongly in past year



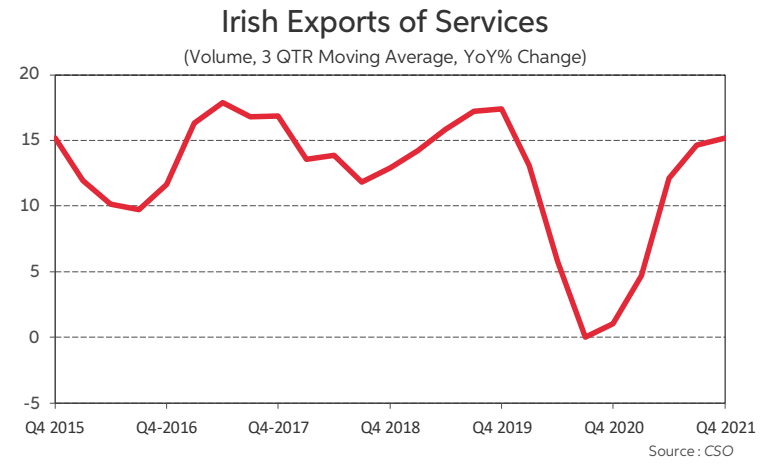
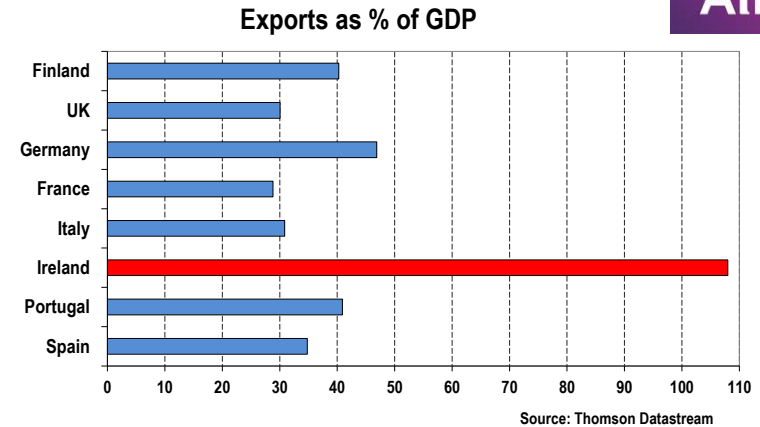
# Unemployment declines rapidly, inflation rising sharply





# Exports perform impressively throughout the pandemic

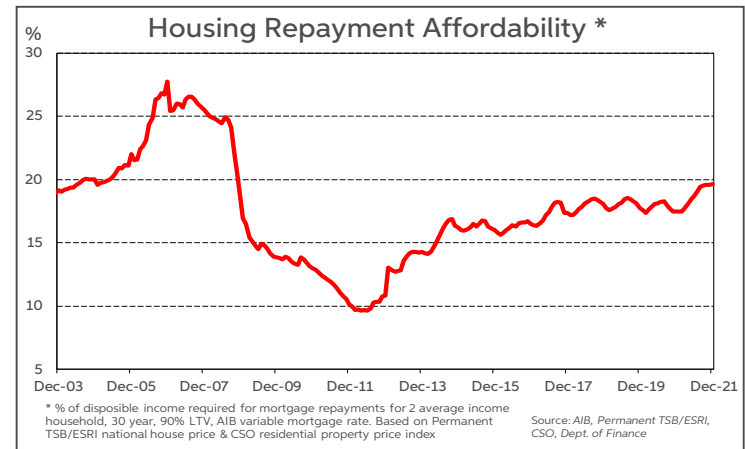
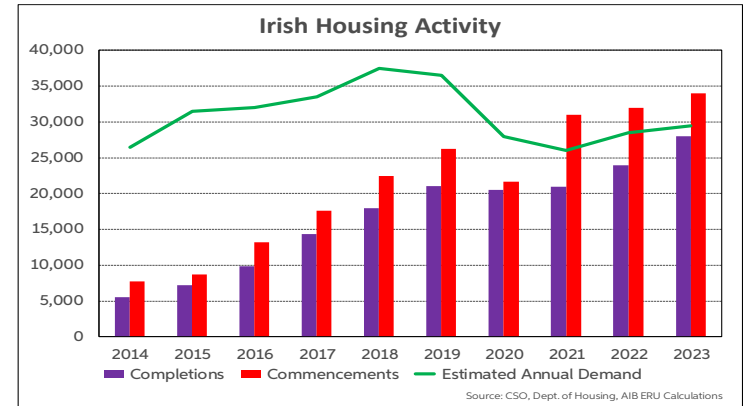
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & financial services and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and 16.6% in 2021, but these are inflated figures
- Goods exports up 16.5% in 2020 and 20.5% in 2021 – this greatly overstates actual growth
- Irish exports include some goods manufactured abroad by sub-contractors on behalf of Irish firms
- Service exports rose by just 2.6% in 2020 and then 12.2% in 2021 as global economy recovered



# House building held up in 2020-21, commencements surge



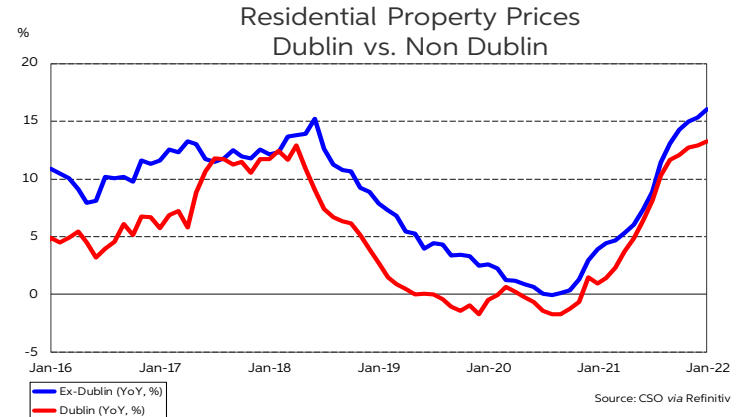
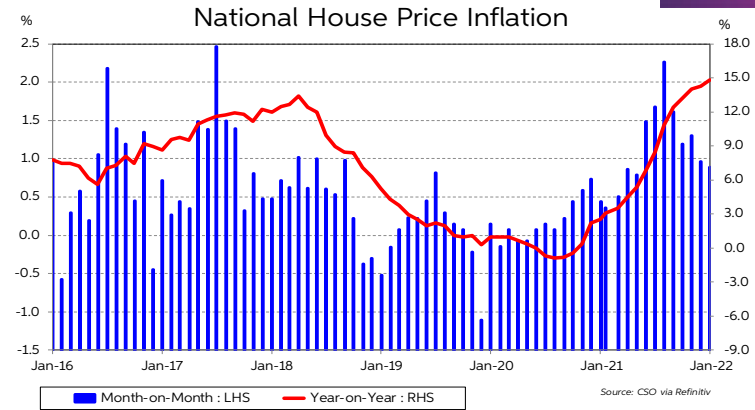
- Total completions amounted to 20,500 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Commencements fell by over 17% to 21,700 in 2020, but rebounded strongly last year to 33,000 by Feb 2022
- Big jump in planning permissions since 2018
- Completions fell in Q1 2021 with sector in lockdown, but then recovered over balance of year
- Completions totalled 20,500 again in 2021, and should pick up considerably in 2022-23
- Still running well below estimated annual demand of near 30k, plus pent-up demand of recent years
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, mortgage lending rebounded strongly 2021 to €10.5bn – compares to pre-pandemic €9.6bn in 2019
- Housing affordability deteriorates as prices rise sharply



# House prices on sharp upward trend since end 2020



- House prices declined sharply, by 55% over 2007-13
- Prices have now recovered; just 3% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rise in house prices in 2021, especially from June-December, with average monthly rise of 1.5%
- National house price inflation at 14.8% yoy by Jan 2022. Non-Dublin prices up 15.9% yoy, Dublin rate at 13.3%
- Highest annual rates for house prices since early 2015
- Property websites show moderation in asking prices from mid-2021, though pick up again in Feb/Mar 2022
- 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 in 2020. Jumped sharply last year. Up 9.2% yoy by February 2022





# 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          |
|--------------------------------------|----------------|---------------|---------------|---------------|---------------|
| <b>Household Formation</b>           | 31,000         | 22,500        | 20,500        | 23,000        | 24,000        |
| <i>of which</i>                      |                |               |               |               |               |
| <b>Indigenous Population Growth</b>  | 21,000         | 17,500        | 16,000        | 15,500        | 14,500        |
| <b>Migration Flows</b>               | 10,000         | 5,000         | 4,500         | 7,500         | 9,500         |
| <b>Headship Change*</b>              | 0              | 0             | 0             | 0             | 0             |
| <b>Second Homes</b>                  | 500            | 500           | 500           | 500           | 500           |
| <b>Replacement of Obsolete Units</b> | 5,000          | 5,000         | 5,000         | 5,000         | 5,000         |
| <b>Estimated Demand</b>              | <b>36,500</b>  | <b>28,000</b> | <b>26,000</b> | <b>28,500</b> | <b>29,500</b> |
| <b>Completions</b>                   | <b>21,000</b>  | <b>20,500</b> | <b>20,500</b> | <b>24,000</b> | <b>28,000</b> |
| <b>Shortfall in Supply</b>           | <b>-15,000</b> | <b>-7,500</b> | <b>-5,500</b> | <b>-4,500</b> | <b>-1,500</b> |

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

Sources: CSO, DoECLG, AIB ERU.

# Private sector deleverages, Gov. debt ratios to resume downtrend

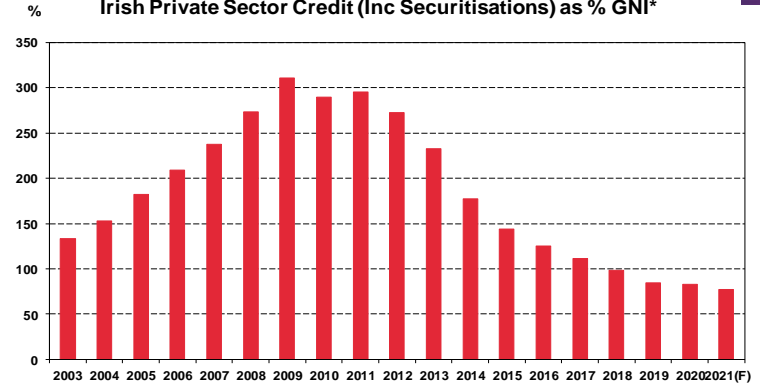


## Irish Household Debt Ratio



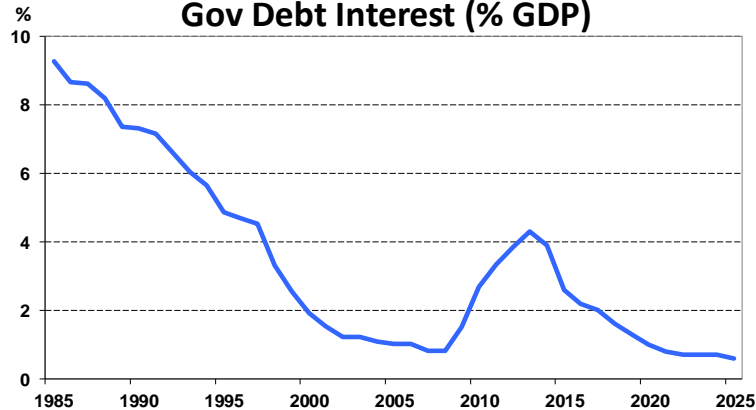
Source: CSO, Central Bank, AIB ERU

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



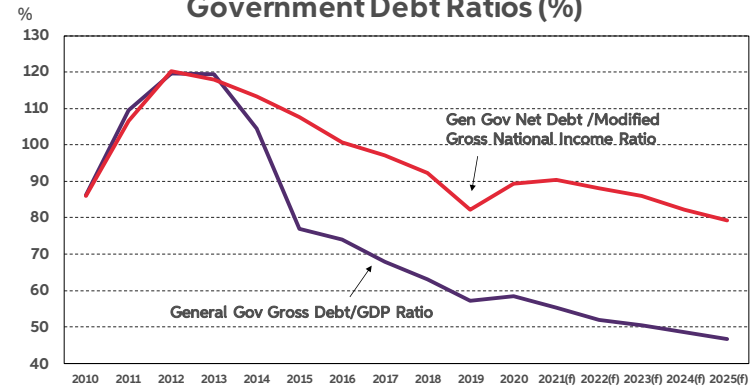
Sources: Central Bank, CSO, AIB ERU Calculations

## Gov Debt Interest (% GDP)



Source: NTMA; Dept of Finance

## Government Debt Ratios (%)

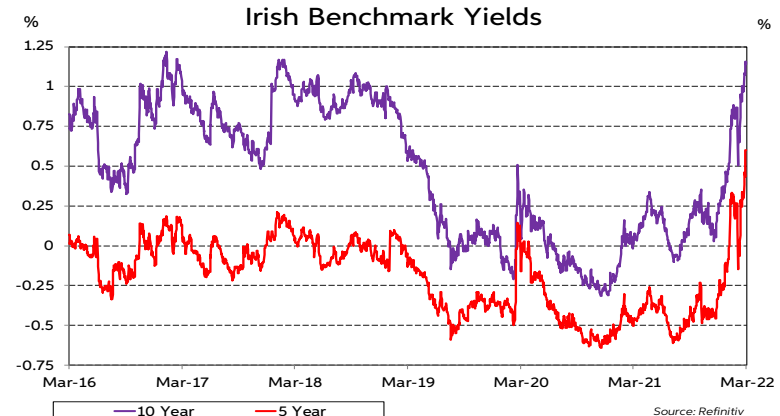
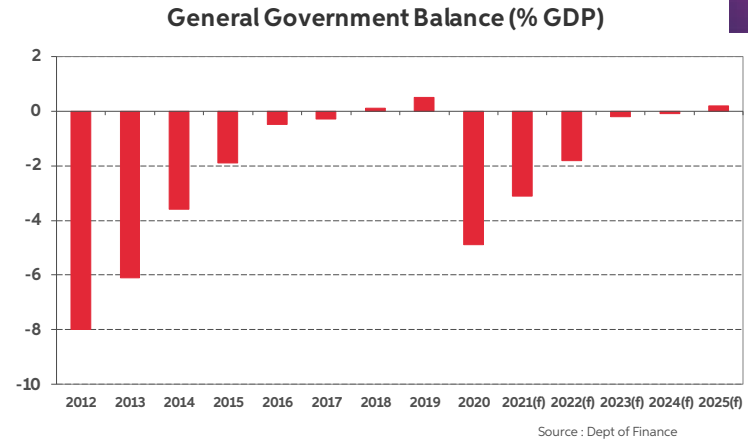


Sources: Dept of Finance, CSO, AIB ERU (Inflated/Distorted GDP figures from 2015)

# Budget deficit in sharp decline as economy rebounds



- Budget 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 20% & 15% higher than 2019. Covid spending declined
- Budget deficit turned out much lower than expected in 2021, falling by half to €9bn
- Tax revenues remain strong in early 2022; + 20%
- Deficit forecast by Dept. of Finance to fall to just €1bn by next year
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% p.a. in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020-21. Downtrend set to resume
- Bond yields still low despite return of budget deficits and recent rise in global yields
- Ireland's sovereign debt ratings ; S&P at AA-, Fitch at AA-, Moody's A2. Fitch upgraded in Jan.

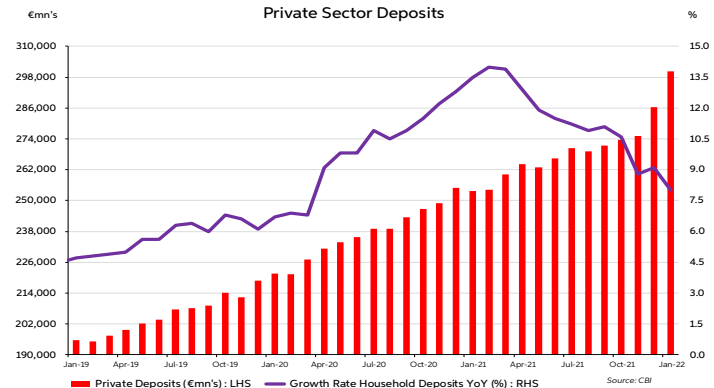


# Good economic growth to continue despite inflation surge



- Key ingredients in place for continued strong growth by Irish economy, following sharp rebound in 2021
- Very high Irish vaccination rates against Covid-19, with all restrictions on activity lifted in late January
- House building to pick up in coming years from still low output levels – big focus of government policy
- Fiscal policy will remain supportive of growth -DoF forecasts provide for 5% p.a. rise in core spending
- Activity aided by very low Eurozone interest rates
- Economy has deleveraged; low private sector debt
- A rundown of some of the 31% surge in private savings in 2020-2021 would boost domestic spending
- Sharp rise inflation and slowing global growth will be headwinds for Irish economy in 2022-2023
- ESRI recently lowered its Irish GDP growth forecast to 6.2% in 2022 and 4.3% in 2023 on these headwinds

| IMF Global GDP Forecasts (Jan 2022) |      |      |      |
|-------------------------------------|------|------|------|
| % Vol                               | 2021 | 2022 | 2023 |
| World                               | 5.9  | 4.4  | 3.8  |
| Advanced Econs                      | 5.0  | 3.9  | 2.6  |
| US                                  | 5.6  | 4.0  | 2.6  |
| Eurozone                            | 5.2  | 3.9  | 2.5  |
| UK                                  | 7.2  | 4.7  | 2.3  |
| Japan                               | 1.6  | 3.3  | 1.8  |



# AIB Irish Economic Forecasts

| <i>% change in real terms unless stated</i> | 2019       | 2020        | 2021        | 2022 (f)   | 2023 (f)   |
|---|------------|-------------|-------------|------------|------------|
| <b>GDP</b>                                  | <b>4.9</b> | <b>5.9</b>  | <b>13.5</b> | <b>6.0</b> | <b>4.0</b> |
| <b>GNP</b>                                  | 5.0        | 3.4         | 11.5        | 5.0        | 3.5        |
| <b>Modified Final Domestic Demand</b>       | <b>1.7</b> | <b>-4.9</b> | <b>6.5</b>  | <b>6.3</b> | <b>3.8</b> |
| <b>Personal Consumption</b>                 | 3.3        | -10.4       | 5.7         | 8.5        | 4.0        |
| <b>Government Spending</b>                  | 7.1        | 10.9        | 5.3         | -1.5       | 1.5        |
| <b>Fixed Investment*</b>                    | 99.5       | -23.0       | -37.6       | 7.7        | 5.0        |
| <b>Exports</b>                              | 10.4       | 9.5         | 16.6        | 7.0        | 5.0        |
| <b>Imports*</b>                             | 41.7       | -7.4        | -3.7        | 7.5        | 5.5        |
| <b>HICP Inflation (%)</b>                   | 0.9        | -0.5        | 2.4         | 6.5        | 4.0        |
| <b>Unemployment Rate (%)</b>                | <b>5.0</b> | <b>5.9</b>  | <b>6.2</b>  | <b>5.7</b> | <b>5.3</b> |
| <b>Budget Balance (% GDP)</b>               | 0.5        | -5.0        | -4.0        | -2.5       | -1.8       |
| <b>Gross General Gov Debt (% GDP)</b>       | 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

# Residual Brexit Issue Remains over NI Protocol

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- UK has not ruled out triggering Article 16 in dispute with EU over operation of NI Protocol
- EU has offered concessions on Protocol. Discussions with UK continuing, which is a positive sign
- Triggering Article 16 would effectively suspend operation of NI Protocol – relates to GB-NI trade
- Should not have any great immediate impact as many checks on trade are not in operation
- Any EU response would have to be proportionate and thus limited. Both parties must enter talks
- Overall then, triggering Article 16 would lead to much uncertainty and protracted negotiations
- Solutions, though, expected to be found in current talks on freer flow of goods from GB to NI
- Strong support in NI to remain in Single Market. ECJ has to retain key oversight role
- Sterling shows no reaction to issue as markets expect problems with NI Protocol to be resolved
- 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 Agreed



## 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
- 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 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)

## 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 continued in 2021 despite the changes to global corporate tax rules

# Risks to the Irish economy outlook



- Covid-19 remains a risk – still high case numbers, concerns about new variants
- Restrictions could be re-imposed if there was a new virulent, vaccine resistant variant
- Persistent high inflation could trigger very sharp tightening of monetary policy globally
- Very open Irish economy vulnerable to global shocks, but very little trade with Russia/Ukraine
- 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 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.