



The Irish Economic Update:

Deep COVID-19 recession, but resilient Irish economy can bounce back

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Oliver Mangan
Chief Economist
AIB

Coronavirus pandemic triggers deep recession



- Ireland hit by deep recession in H1 2020 as economy put into lockdown to contain coronavirus
- Rising unemployment, with over 1 million workers enrolled on State income support schemes
- Jobless rate soars to 16.5% in March, and expected to climb above 20% in April
- PMI for manufacturing falls to 36.5 in April. Service PMI will be much lower
- Big falls in GDP in Ireland, as elsewhere, in H1 2020
- OECD estimate that Irish GDP could fall by 15% yoy in Q2 – less than in other advanced economies
- Activity expected to rebound in H2 2020 as virus abates and restrictions on activity are lifted
- Nonetheless, IMF, ESRI and Central Bank still expect that GDP will fall by circa 7-8% in 2020
- Strong growth expected in 2021 given depressed base for this year – growth of over 6% per IMF
- Broad range of government supports announced to help household incomes and businesses
- Blow-out in public finances, with budget deficit forecast to hit 7% of GDP (12.5% of GNI*) in 2020

Activity data begin to show initial impact of COVID-19

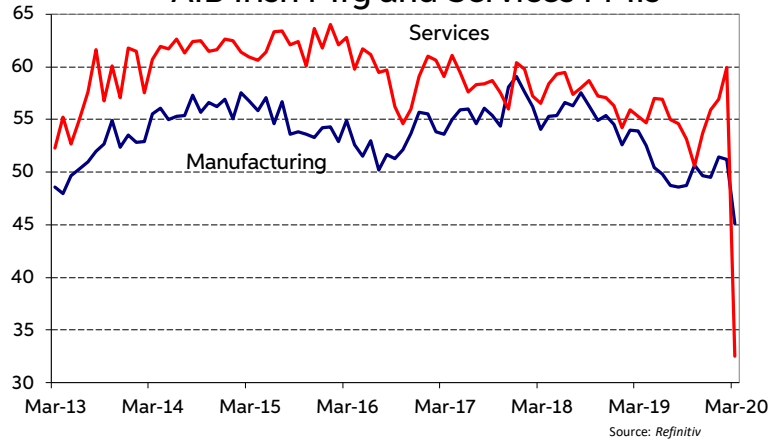


- Unemployment rate spikes from 4.8% in Feb to COVID-19 adjusted figure of 16.5% in March
- Over 1 million workers either in receipt of Pandemic Unemployment Benefit / standard unemployment benefit or enrolled on State's temporary wage subsidy scheme in April
- Retail sales (ex-motor trade) fell by 0.7% in Q1, with sales down by 1.9% in March
- Consumer confidence collapses to near record low in April, having picked up over the winter
- 33% yoy drop in total number of cars licensed for first time (new + 2nd hand imports) in March
- Manufacturing PMI falls sharply in March/April to 36.0 as virus outbreak hits output and orders hard
- Services PMI plummets to over 10 year in March. Expected to hit record low in April
- Construction PMI slumps to 11-year low in March. Will fall further in April due to sector lockdown
- Forecasts that housing completions could fall by anywhere from 5% to 25% this year
- Tax receipts 5.7% below profile in March, government spending rises. Big deficit on cards in 2020

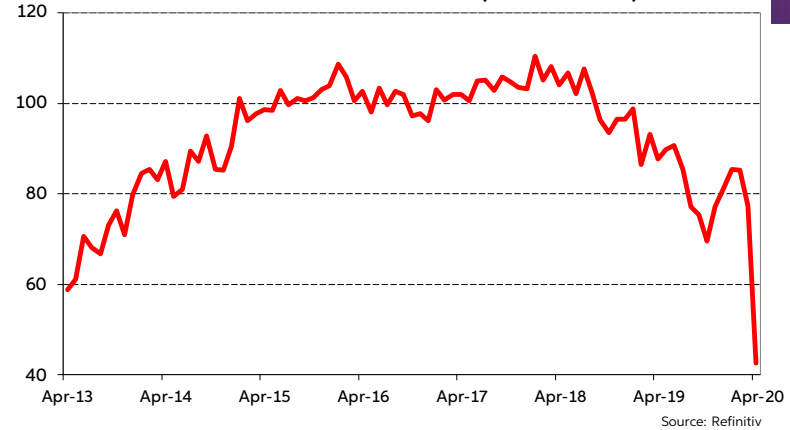
Data deteriorate on COVID-19 related restrictions



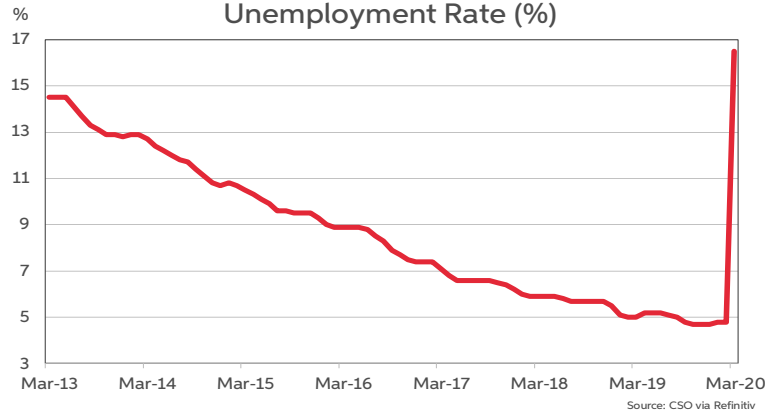
AIB Irish Mfg and Services PMIs



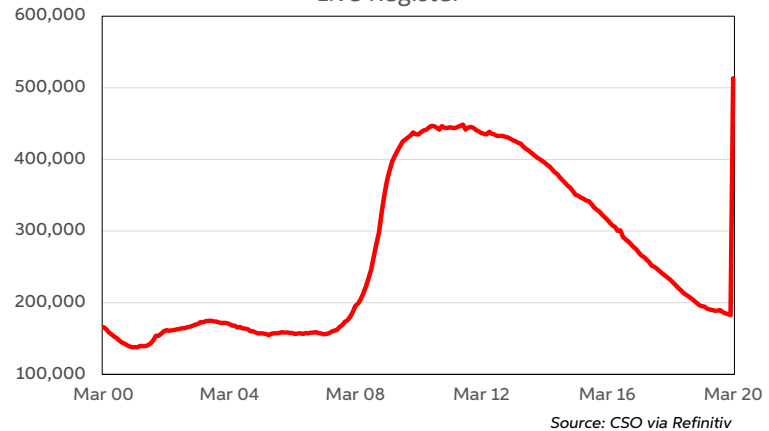
Consumer Confidence (ESRI - KBC)



Unemployment Rate (%)



Live Register

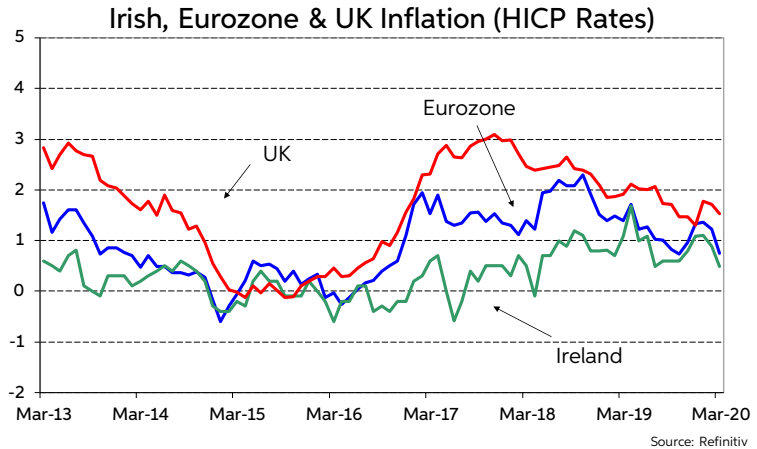
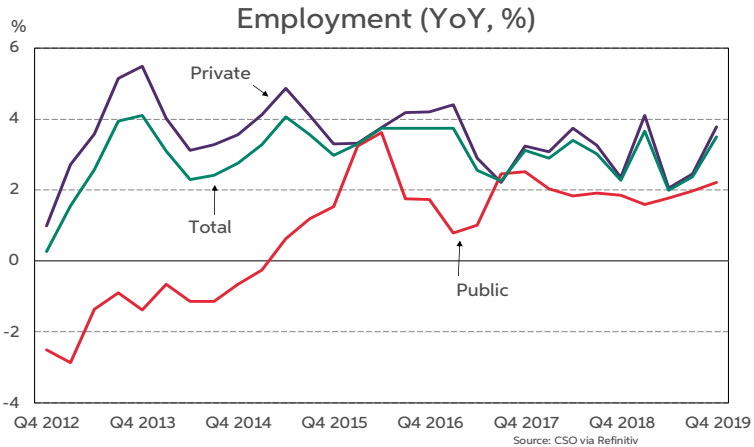
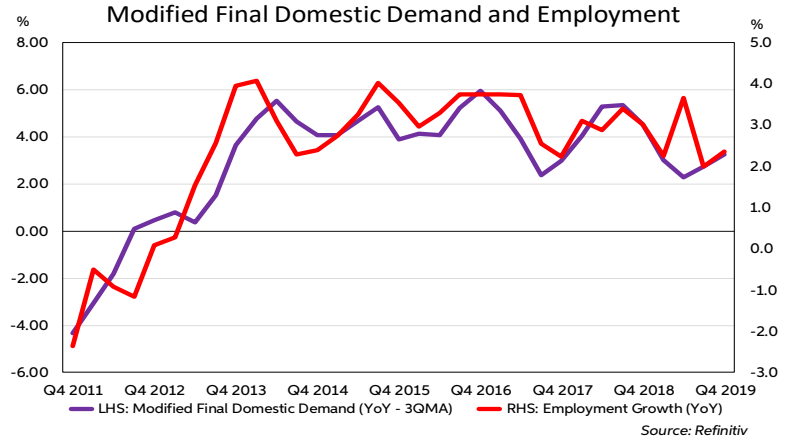
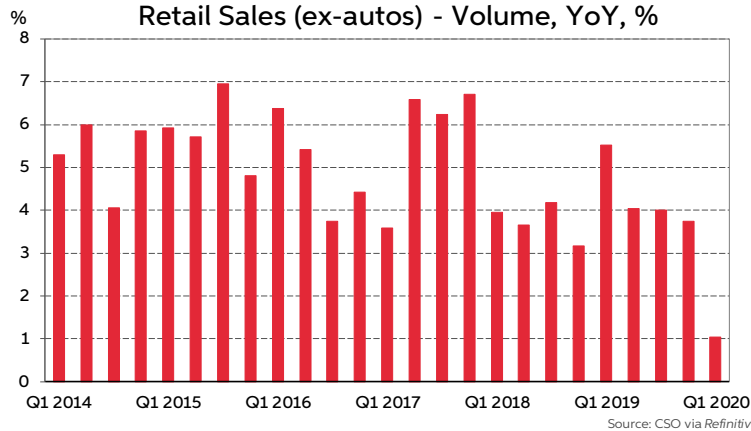


COVID recession comes after strong growth in 2013-2019



- Previous Irish recession of 2008-2009 also severe. GDP fell 9.5%, with GNP down 12%
- 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 almost 25% higher than in 2001, highlighting that economic crash came after a long period of very strong growth going back to 1993
- Ireland tackled its problems aggressively in the public finances, banking sector & property market. Imbalances in economy unwound – housing, debt levels, competitiveness, BoP
- Economy recovered strongly, with robust underlying growth of circa 5% in 2013-19 period
- Focus was on generating growth via the large export base and FDI as the route to recovery
- Recovery in domestic economy followed, led by rebound in investment & retail spending
- Strong jobs growth. Unemployment rate fell from 16% in early 2012 to below 5% in H2'19
- Budget deficit eliminated quicker than expected. Public finances in surplus in 2018/19
- Major deleveraging by private sector, including households, during the last decade
- Balance of payments returned to large surplus

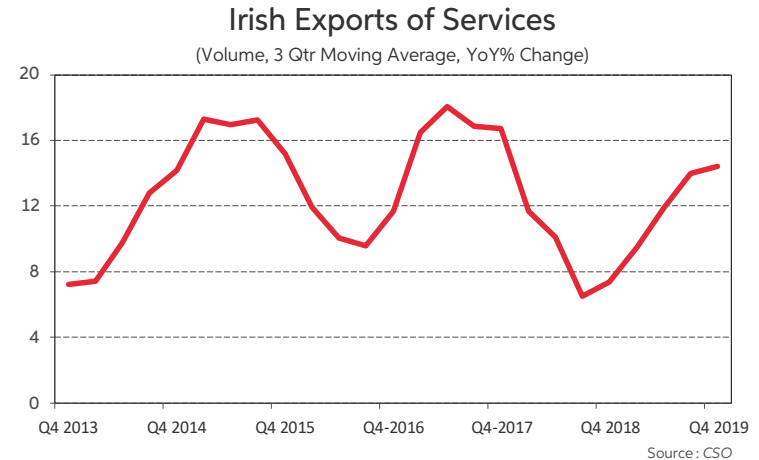
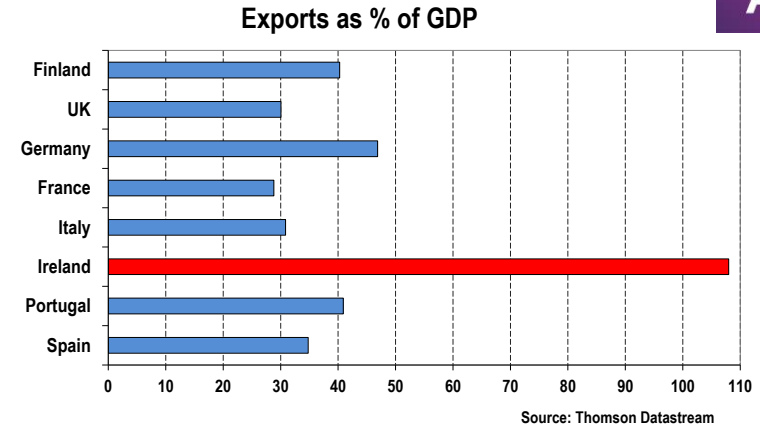
Economy still performing very well before virus struck



Large Irish export base has seen strong growth



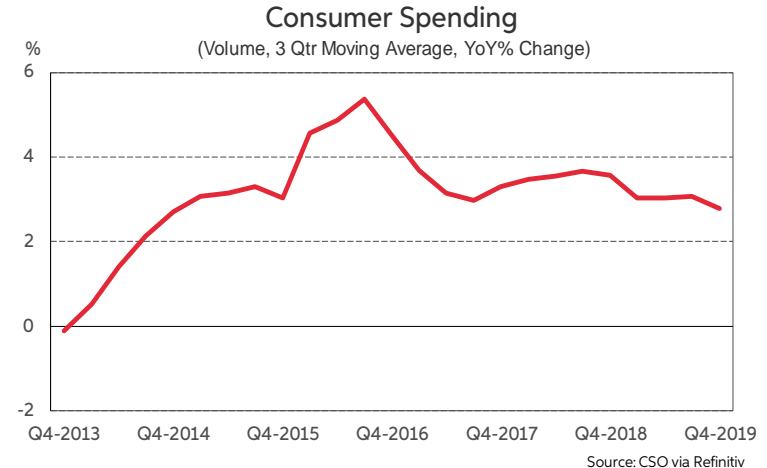
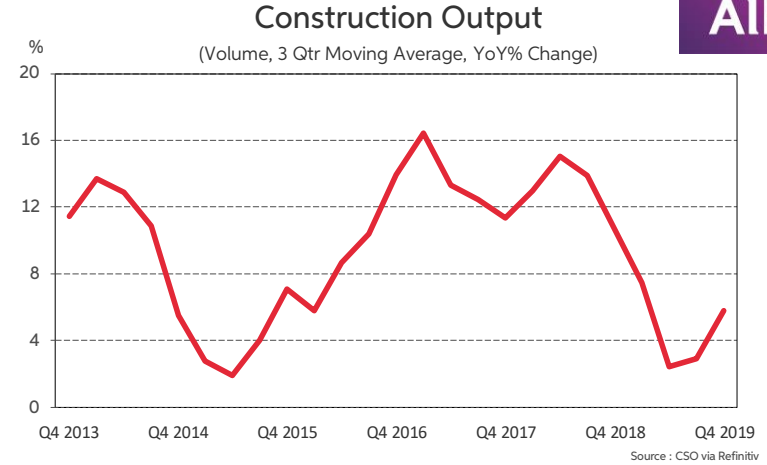
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Total exports rose by 10.4% in 2018 and 11.1% in 2019
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Multi-nationals account for almost 70% of exports per IDA
- Eurozone, US and UK are the three biggest export markets
- Ireland a big importer from UK – it is the UK's fifth biggest export market



Domestic demand solid ahead of the pandemic



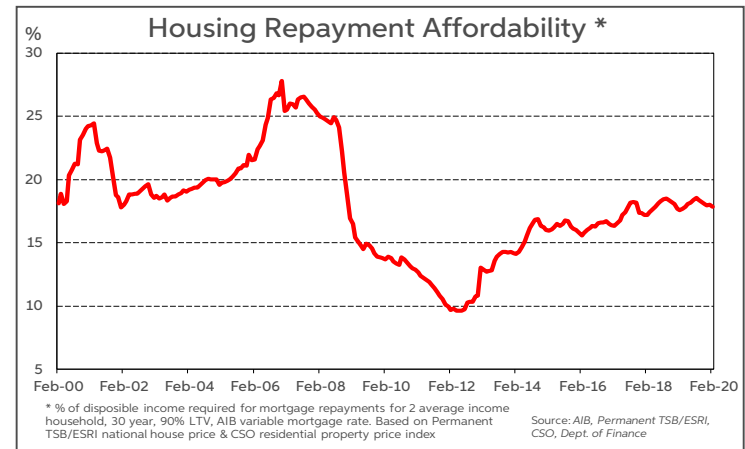
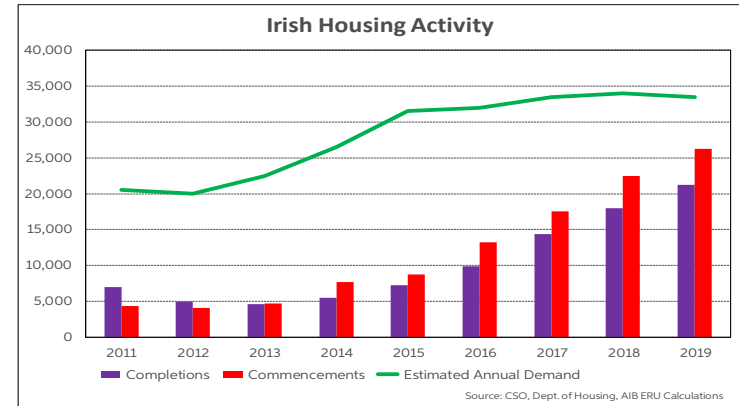
- Construction sees strong recovery since 2013. Output up nearly 12% on average in 2016-18 period
- Slowdown in non-residential construction activity last year – construction output up 5.8% in 2019
- Business investment (ex aircraft/intangibles) has recovered strongly since 2013
- However, Brexit uncertainty saw business investment flat-line in 2019
- Consumer spending grew by 3.5% on average over 2014-2018 period. Up by 2.8% in 2019
- Modified final domestic demand grew at 4.4% rate in 2014-2018 period. Rose by 3% in 2019
- Strong growth in core retail sales of circa 4-5% in recent years – rose by 4.4% in 2019
- Car sales returned to very high levels in 2018-19, with notable rise in direct imports from UK



House building on steady rise before virus halted activity

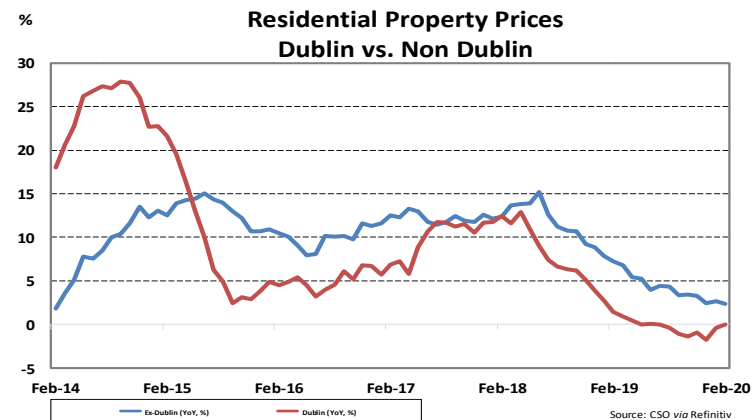
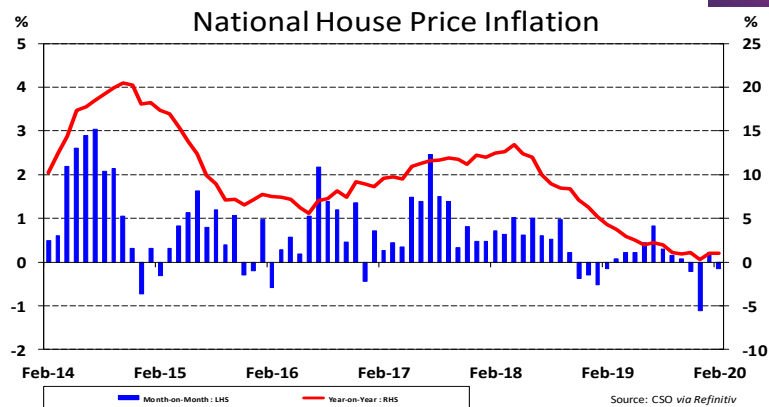


- Housing completions up 18% yoy to over 21,000 units in 2019, a moderation on 2018's 25% growth rate
- Housing commencements increase by further 17% in 2019 to 26,000 units
- Planning permissions jump by 38% YoY to over 40k in 2019, driven by a sharp rise in apartment applications
- Measures put in place to boost new house building. More NAMA activity, apartment planning rules relaxed
- Housing output still running well below annual new housing demand, estimated at close to 35,000 units
- Forecast completions of circa 24,500 in 2020 before virus outbreak. Now expected to be 16,000-20,000
- Mortgage lending growth eases to 9.5% in 2019, though mortgage approvals did pick up over the year
- Income growth outpacing house price inflation recently, which helps affordability metrics



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 home building
- Prices up 83% by Feb 2020 from low in March 2013 –Dublin prices up by 99%, non-Dublin rise 82%
- But house prices still some 18% below 2007 peak
- House price inflation slows sharply in 2018/19 reflecting tighter Central Bank lending rules
- Prices up 1.1% yoy nationally in Feb 2020, down from a high of 13.3% in April 2018
- Dublin prices flat yoy in Feb, down from +13% in Apr '18; non-Dublin at 2.3% vs. 15% last year
- Recession to see price falls but may be limited if economic downturn short and given low supply
- Annual growth in rents slows to less than 4%



AIB Model of Estimated Housing Demand



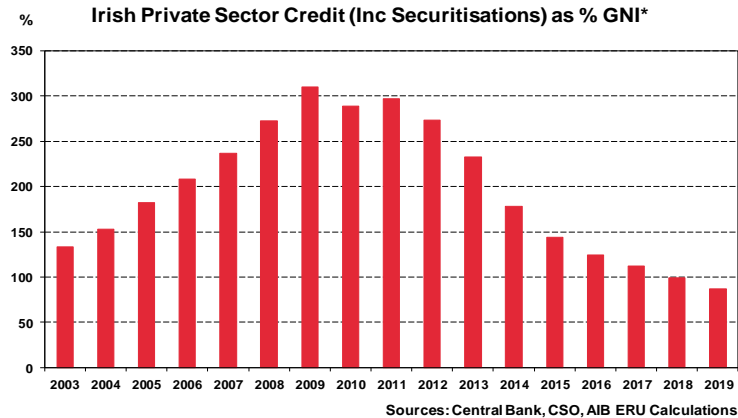
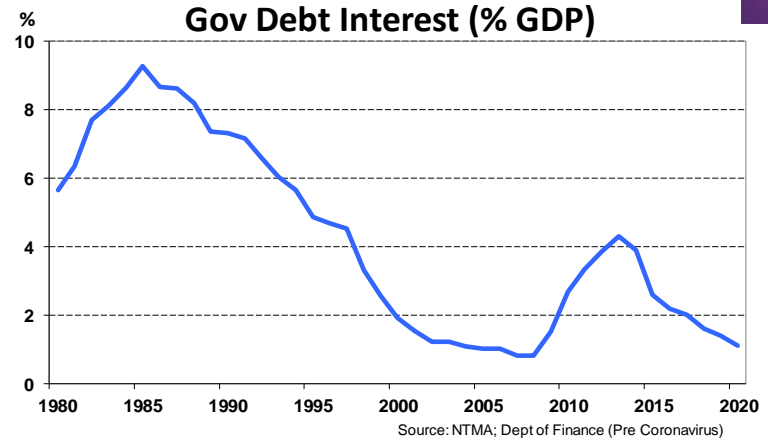
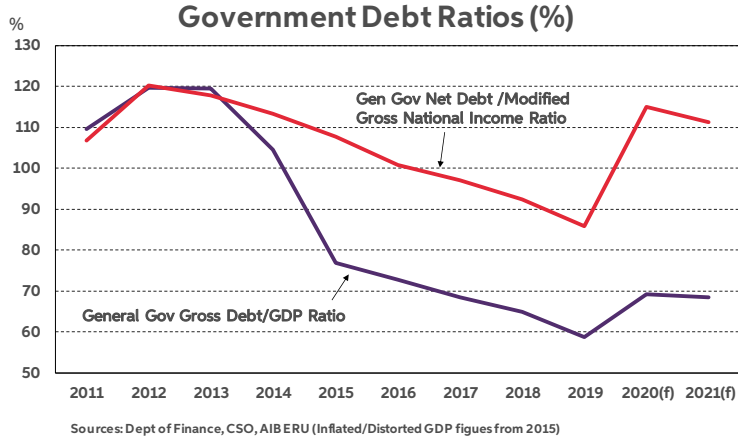
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2017-2021 – 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 2017-21

| Calendar Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Household Formation | 28,000 | 28,500 | 28,000 | 28,000 | 28,000 |
| <i>of which</i> | | | | | |
| Indigenous Population Growth | 18,500 | 17,500 | 16,500 | 16,500 | 16,000 |
| Migration Flows | 9,500 | 11,000 | 11,500 | 11,500 | 11,500 |
| 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 | 33,500 | 34,000 | 33,500 | 33,500 | 33,000 |
| Completions | 14,400 | 18,100 | 21,250 | 18,000 | 22,000 |
| Shortfall in Supply | -19,100 | -15,900 | -12,250 | -15,500 | -11,000 |

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

Sources: CSO, DoECLG, AIB ERU. Note 2002-21 estimates are pre coronavirus

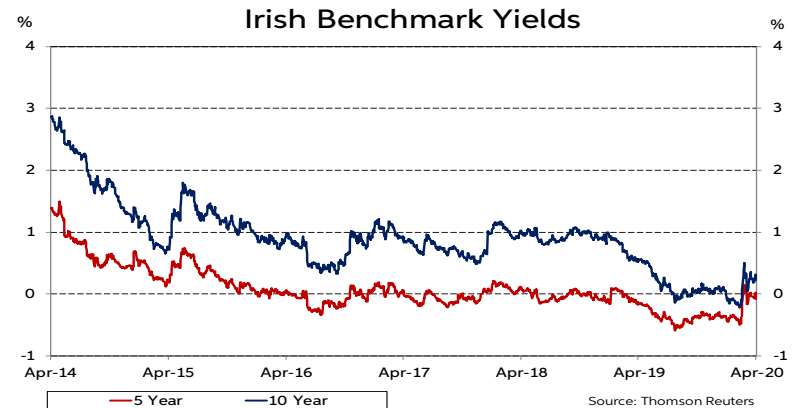
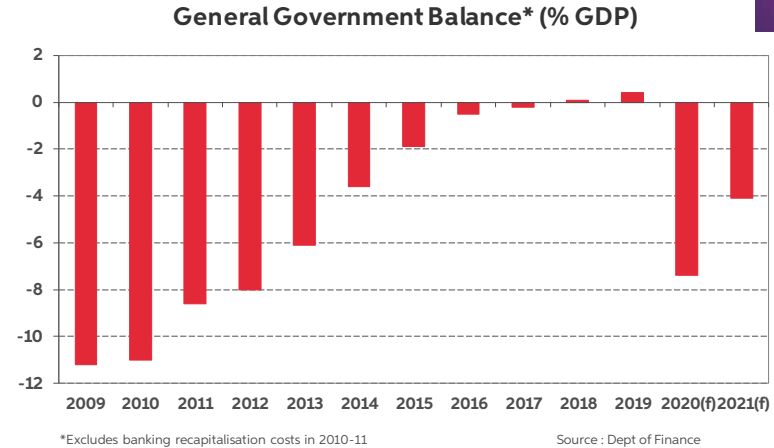
Govt. debt ratios had fallen, private sector deleverages



Large budget deficit in 2020, but bond yields stay very low



- Budget deficit declined sharply over last decade, with small surpluses recorded in 2018 and 2019
- Primary budget surplus (i.e. excluding debt interest) of near 2% of GDP in 2019
- Debt interest costs very low – at 1.4% of GDP
- However, Covid-19 and efforts to mitigate it will see the public finances deteriorate in 2020
- Tax receipts 5.7% below profile in March. Gov spending 7.6% above profile
- Dept. of Finance now forecasting budget deficit of 7.4% of GDP this year. Will fall in 2021
- Gov Debt/GDP ratio has fallen sharply, as have Irish bond yields, in recent years
- Debt ratio will move higher this year
- Bond yields stable despite blow-out in budget deficit and much larger debt issuance in 2020
- Sovereign debt ratings upgraded in recent years; S&P at AA-, Fitch at A+, Moody's A2 for Ireland



Key medium-term Irish growth drivers remain in place



- Favourable medium-term drivers of strong Irish growth remain in place
- House building picking up from still low output levels – big focus of next government
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Good inflows of FDI expected to continue
- Labour market dynamics supportive of growth
- Economy has deleveraged, no obvious imbalances
- World economy expected to rebound from 2021
- Strong Irish growth of circa 6% possible next year after sizeable fall in GDP in 2020
- A UK-EU FTA will lower Irish growth somewhat, but this may now not happen until 2022

| Irish GDP Forecasts | | |
|-------------------------|-------|------|
| % Vol | 2020 | 2021 |
| IMF | -6.8 | 6.3 |
| ESRI | -7.1 | N/A |
| Department of Finance | -10.5 | 5.8 |
| Central Bank of Ireland | -8.3 | N/A |

| IMF: WEO Forecasts | | |
|--------------------|------|------|
| % | 2020 | 2021 |
| GDP | -6.8 | 6.3 |
| Unemployment Rate | 12.1 | 7.9 |
| CPI | 0.4 | 1.7 |
| Current Account* | 6.3 | 5.3 |
| Budget Balance* | -7.4 | -4.1 |

*% of GDP (Department of Finance for Budget f/c)

Brexit: EU-UK trade talks delayed- extension possible



- EU and UK agreed on revised Brexit deal at last October's Heads of State Summit
- NI to remain within Single Market for goods and have dual EU-UK customs system
- UK left the EU on Jan 31st 2020 in orderly exit. Transition period in place until end 2020
- UK government had ruled out extending the transition period beyond this date
- However, with talks delayed due to virus outbreak, this position is likely to be reviewed
- Negotiations expected to prove difficult and fractious
- EU insisting on level playing field, with considerable regulatory alignment
- UK government puts focus on 'taking back control' and non-alignment with EU
- UK could opt for 'no deal' rather than have close alignment with EU rules under a FTA
- However, some type of FTA seems likely as it's the best outcome for both the UK and EU
- Given COVID, may require more time and thus extension to transition period to get a deal done

Risks to the Irish economy



- Main near-term risk is obviously the coronavirus – will weigh heavily on growth this year
- Persistence of virus or fresh outbreak could delay global/Irish recoveries
- Highly open nature of Irish economy means it is quite exposed to a global recession
- Brexit remains a challenge given uncertainty about future EU-UK trading relationship
- Questions around Ireland's corporation tax regime (Apple ruling, moves on tax harmonisation in EU, OECD tax reform/minimum tax rate proposals) could impact FDI
- Supply constraints in new house building activity, which is recovering at a slow pace
- Competitiveness issues - high Dublin house prices, high rents, high personal taxes, high wages
- Credit constraints – tightening of 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 First Trust Bank. 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 First Trust Bank 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.