The Irish Economic Update:

Strong start to 2022, but inflation rising sharply

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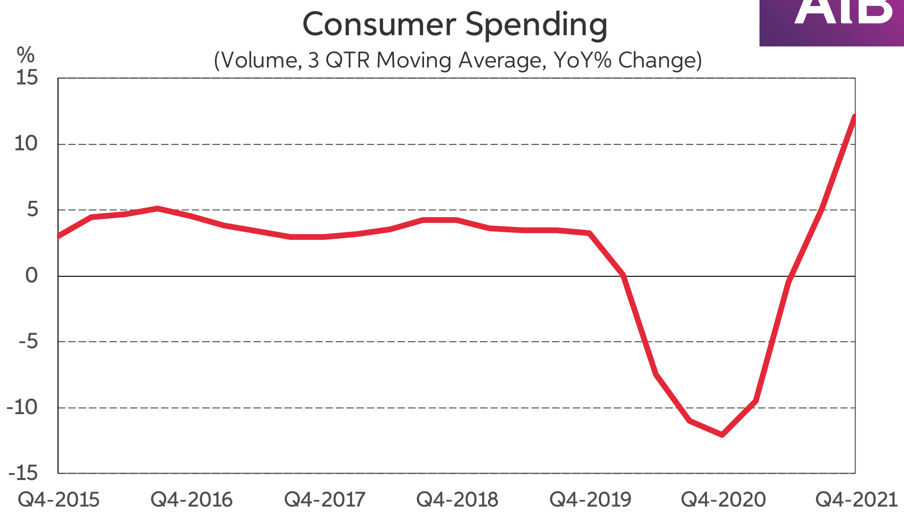
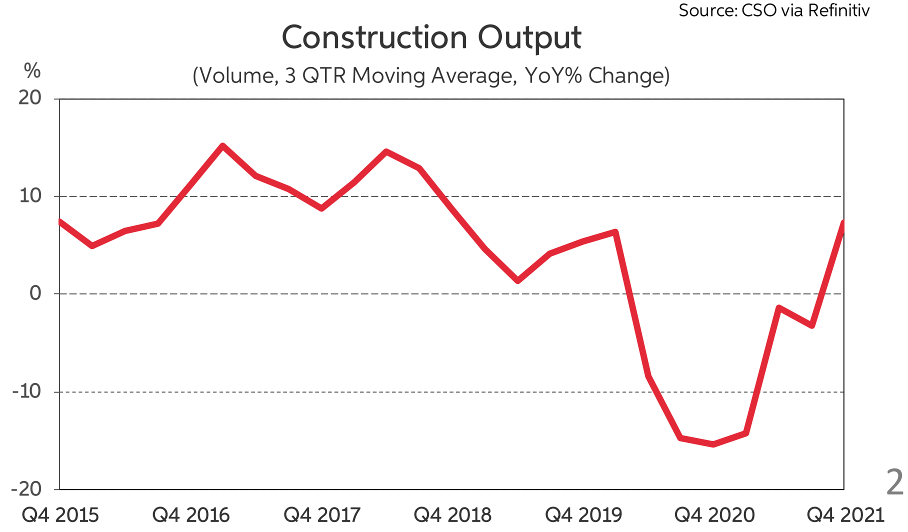
Oliver Mangan
Chief Economist
AIB

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



Source: CSO via Refinitiv

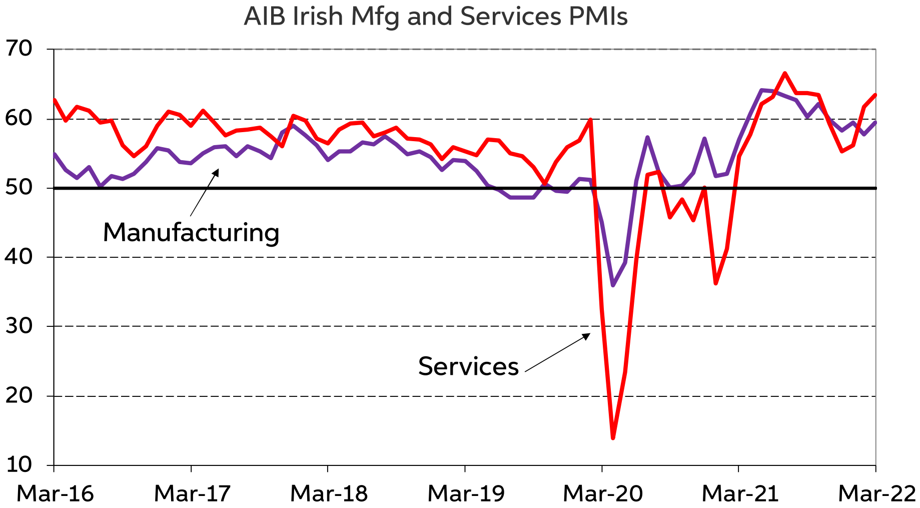


Source : CSO via Refinitiv

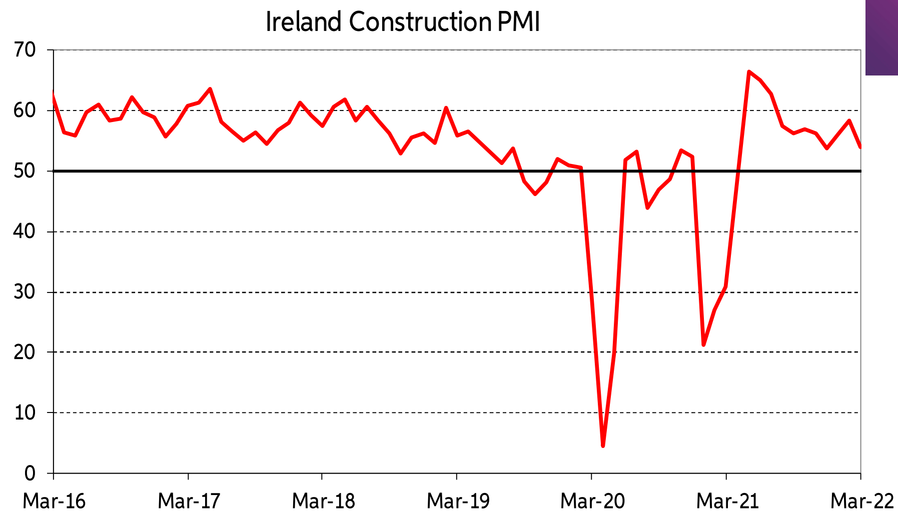
Strong recovery continues in early 2022, though inflation surging

- Indicators show very strong rebound in activity in 2021, which has continued in Q1 2022
- Mfg PMI remained at strong levels in Q1 of this year; 57.8 in February and 59.4 in March
- Services PMI very high at 61.8 in February and 63.4 in March
- Construction PMI at strong 58.4 in February and eases to 53.9 in March
- Housing commencements surged to 30,700 last year, and running at 35,000 by March 2022
- Big jump in completions in Q1 2022, with 12 month total rising to 22,250 from 20,500 in Q4'21
- Rise of 5% in core retail sales in 2021, and up 12.5% year-on-year in Q1 2022
- New car sales rose by 20% last year, but down 10% on 2019 levels. Up 4% yoy in Q1 2022
- Tax receipts surged by 20% last year and remained very strong in Q1; rose by 32% yoy
- Official jobless rate falls sharply – averaged 5.3% in Q1. Will rise with end of PUP scheme in April
- Inflation accelerates sharply; HICP rate at 6.9% in March and expected to rise further
- Surge in inflation and War in Ukraine sees big drop in consumer confidence in March/April

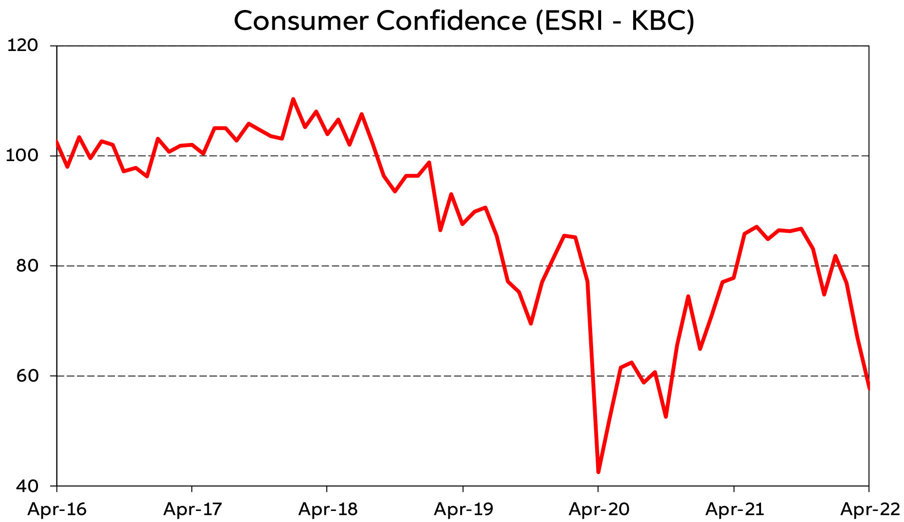
Activity indicators pick up strongly, but confidence hit again



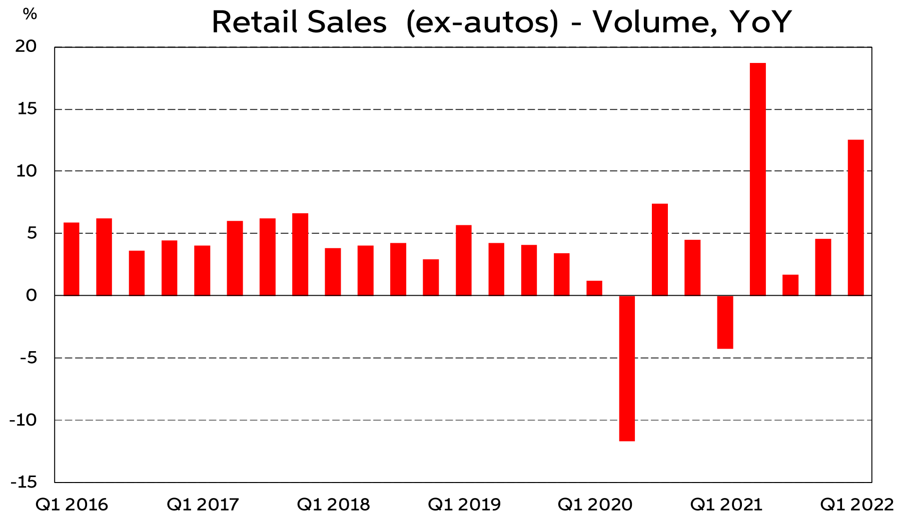
Source: Markit via *Refinitiv*



Source: Refinitiv

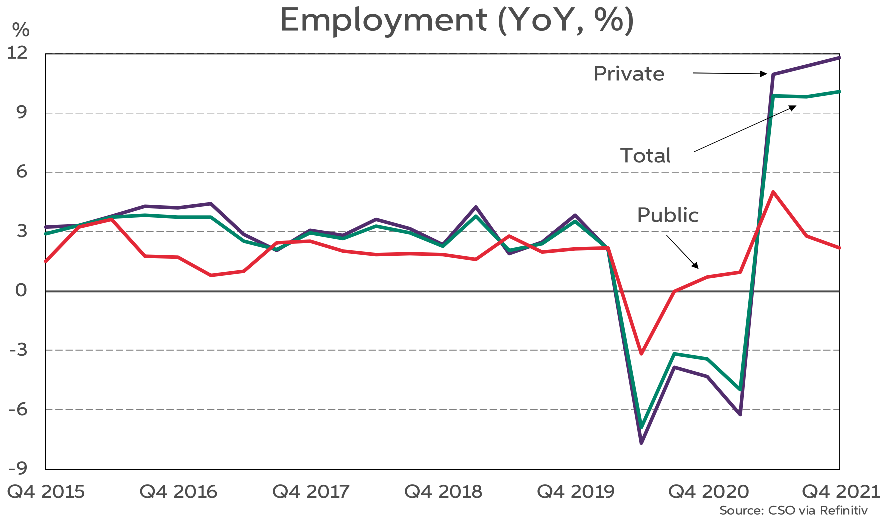


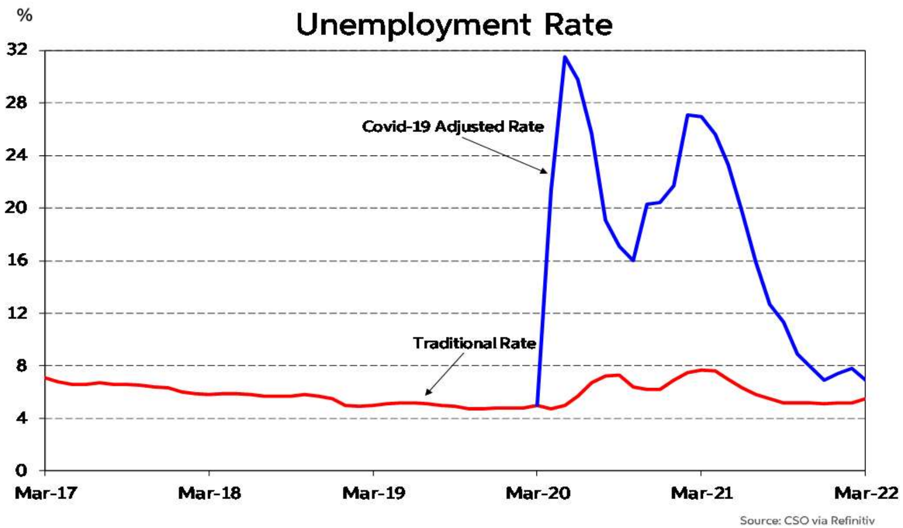
Source: ESRI via Refinitv

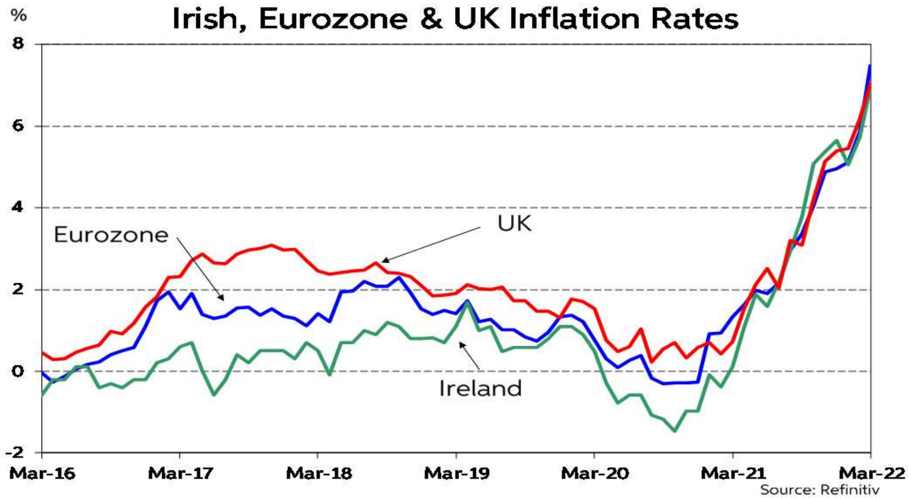


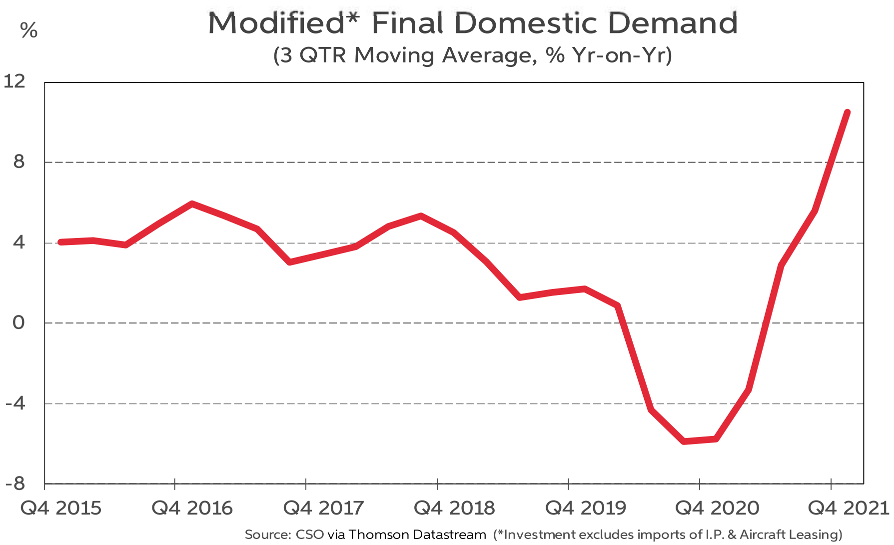
Source: CSO via Refinitv

Unemployment declines rapidly, inflation rising sharply



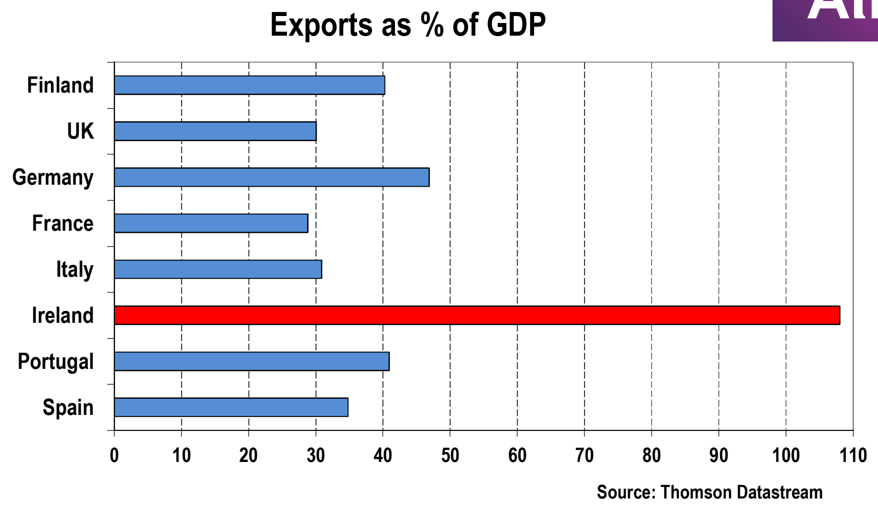


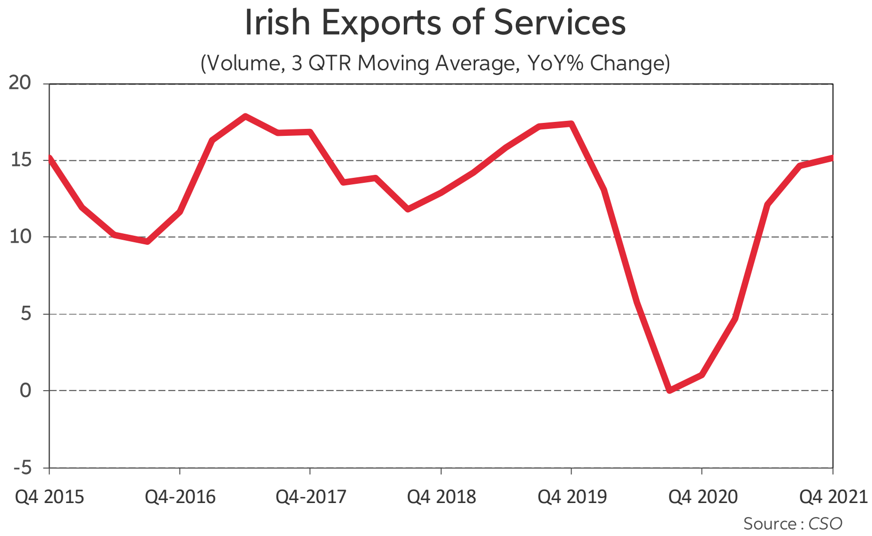




Exports perform impressively throughout the pandemic

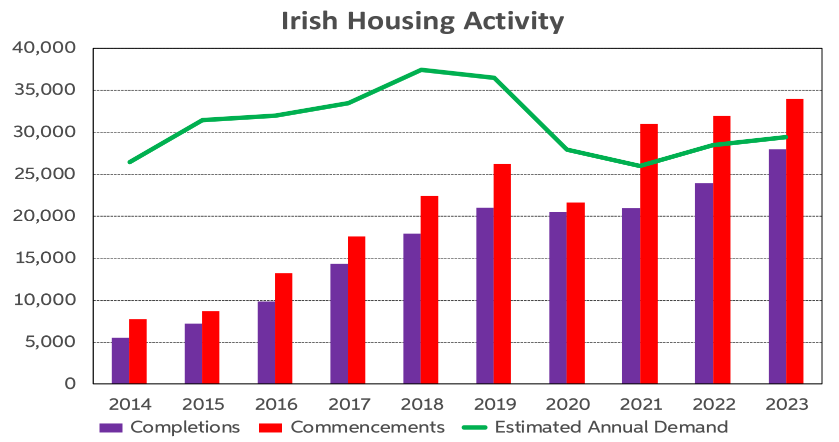
- Ireland is a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports have risen strongly in recent years, helped by large FDI inflows – though growth overstated
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- ICT, business & 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 goods manufactured abroad by sub-contractors on behalf of Irish based firms
- Service exports rose by just 2.6% in 2020 and then 12.2% in 2021 as global economy recovered



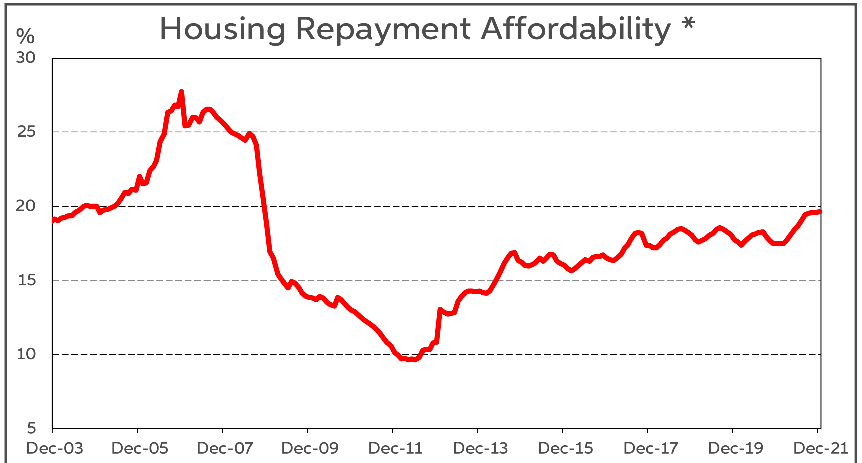


House building held up in 2020-21, commencements surge

- 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
- They have rebounded strongly over past year, hitting 35,000 by March 2022. Likely to ease back from here
- Big jump in planning permissions since 2018
- Completions totalled 20,500 again in 2021
- The 12 month total for completions picked up to 22,250 in Q1’22 and should rise sharply over 2022-24
- Still running well below estimated annual demand of near 30k, plus pent-up demand of recent years
- Mortgage lending fell 12% (€9.5bn to €8.4bn) in 2020
- However, it rebounded strongly 2021 to €10.5bn and rose 17% in Q1 2022, with 12-month total at €10.85bn
- Housing affordability deteriorates as prices rise sharply



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

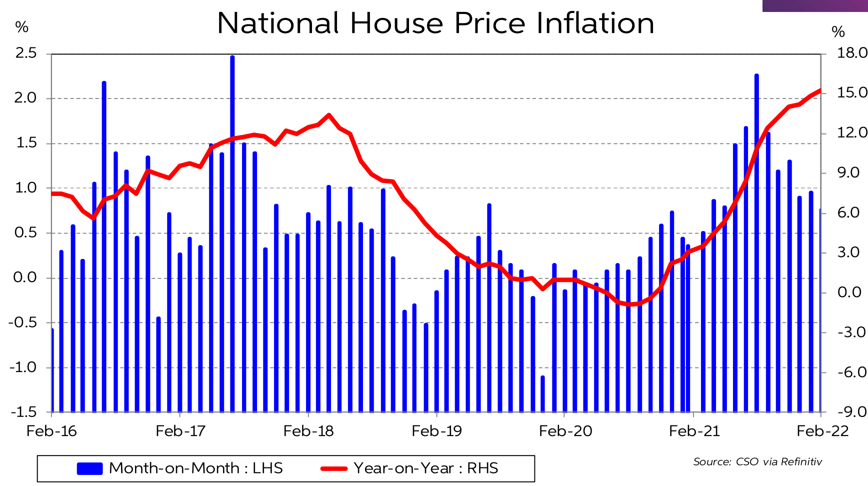


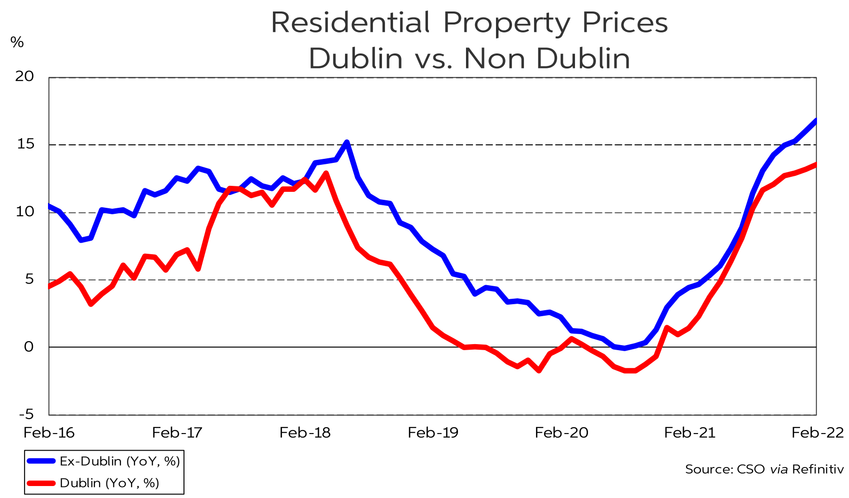
* % of disposible income required for mortgage repayments for 2 average income household, 30 year, 90% LTV, AIB variable mortgage rate. Based on Permanent TSB/ESRI national house price & CSO residential property price index

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

House prices on sharp upward trend since end 2020

- House prices declined sharply, by 55% over 2007-13
- Prices have now recovered; just 2.5% below 2007 peak
- CSO data show house prices little changed over 2019-20
- Strong rise in house prices in 2021/early 2022, especially over June-Dec 2021, with average monthly rise of 1.5%
- National house price inflation at 15.3% yoy by Feb 2022. Non-Dublin prices up 16.8% yoy, Dublin rate at 13.5%
- Highest annual rates for house prices since early 2015
- Property websites showed moderation in asking prices in H2 2021, though picked up again in Q1 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 in Feb/March 2022





AIB Model of Estimated Housing Demand

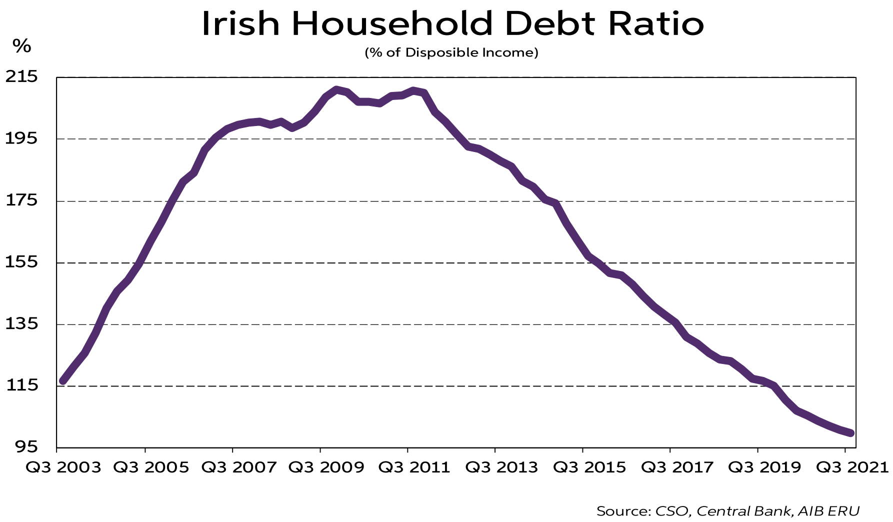
- Rising headship rates added circa 8,000 per year to housing demand in 2002-2011 period
- Shortage of housing, high rents, tighter lending rules saw average household size rise in 2011-16. Thus, headship fell – was a drag of circa 10,000 p.a. on housing demand
- Assume no change in headship in 2016-2021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

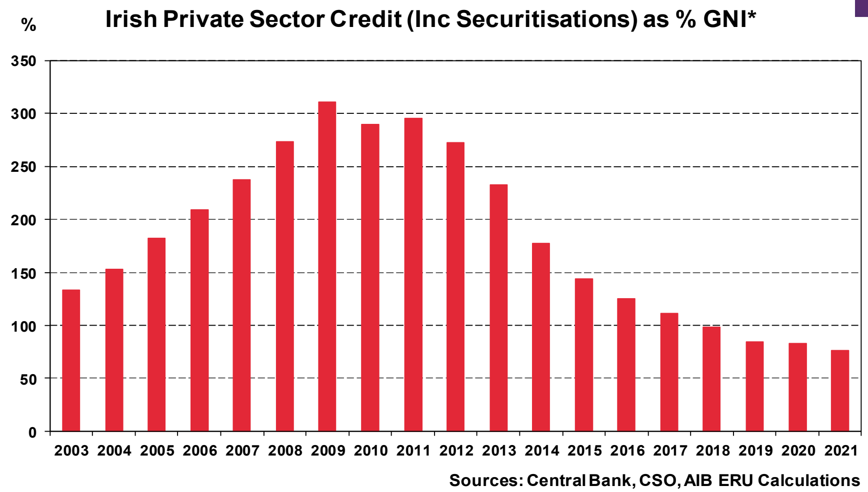
Calendar Year	2019	2020	2021	2022	2023
Household Formation	31,000	22,500	20,500	23,000	24,000
of which					
Indigenous Population Growth	*21,000*	*17,500*	*16,000*	*15,500*	*14,500*
Migration Flows	*10,000*	*5,000*	*4,500*	*7,500*	*9,500*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500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

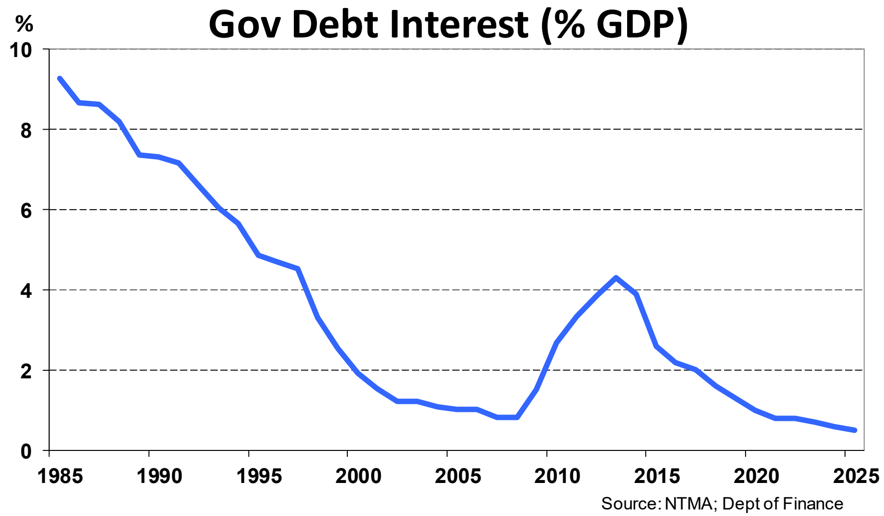
**Headship is % of population that are heads of households.*

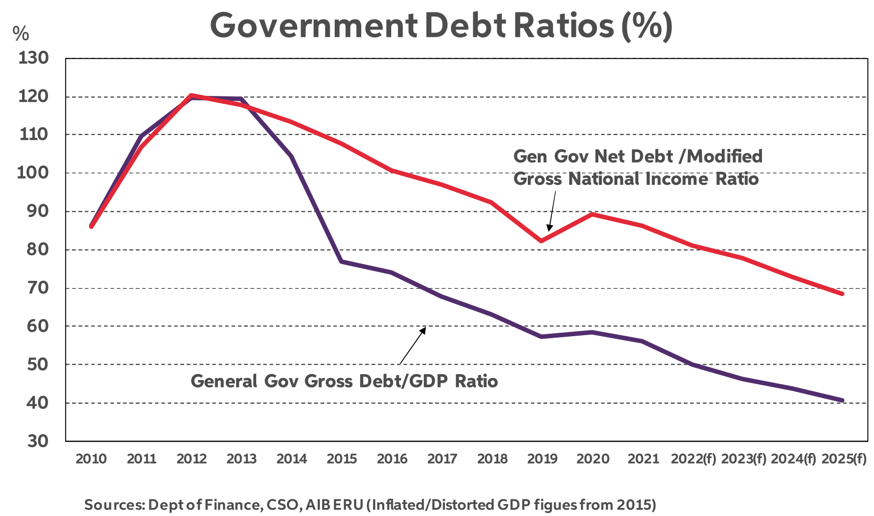
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios resume downtrend



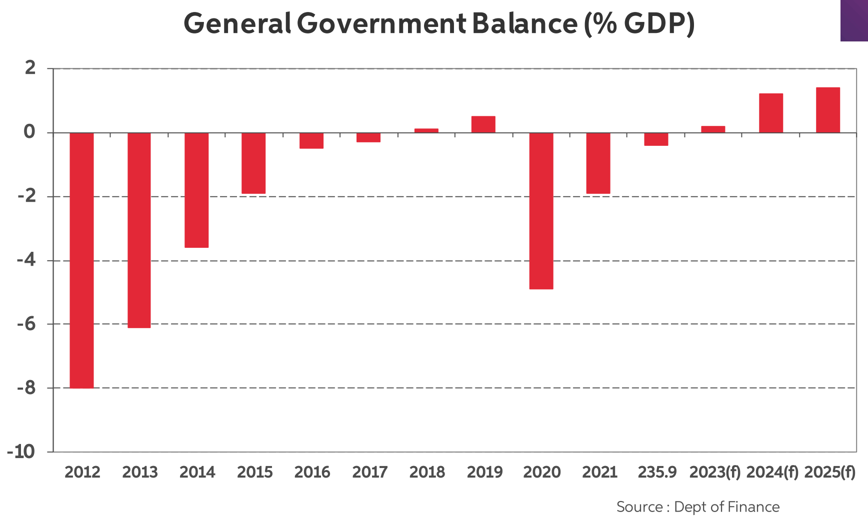


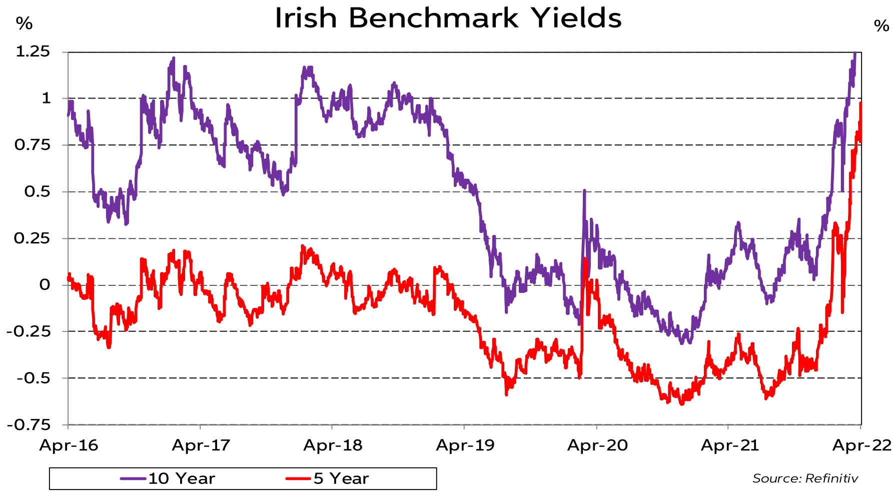




Public finances heading back into surplus

- 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 much lower than expected in 2021, falling by over half to €8bn or 1.9% of GDP
- Tax revenues remained strong in Q1 2022; + 32%
- The 2022 deficit now projected at just €2bn or 0.4% of GDP. Budget back in surplus from 2023
- 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. Downtrend resumed in 2021
- Irish bond yields rise in 2022 as elsewhere, but still relatively low and most debt is long term
- Ireland's sovereign debt ratings ; S&P at AA-, Fitch at AA-, Moody's A2. Fitch upgraded in Jan.

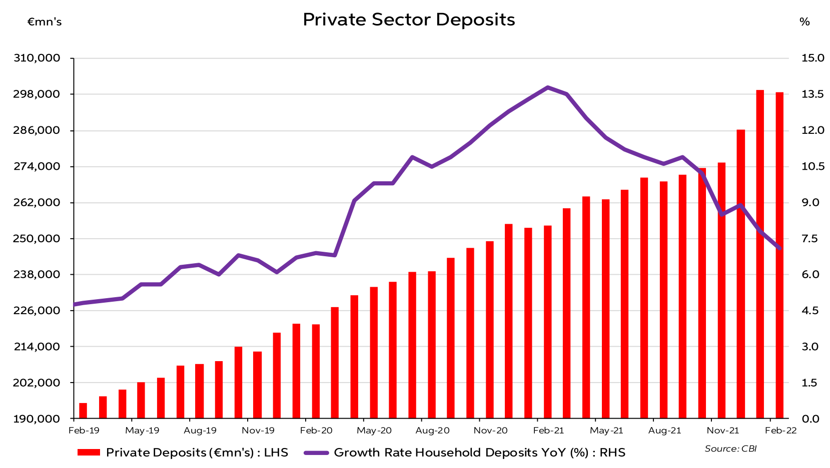




Good economic growth to continue despite inflation surge

- 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
- Strong FDI inflows continuing, boosting exports
- 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
- Economy has deleveraged; low private sector debt
- A rundown of some of the 35% surge in private savings since Feb 2020 would boost spending
- Sharp rise inflation and slowing global growth will be headwinds for Irish economy in 2022-2023
- Irish GDP growth forecast lowered recently to circa 6% in 2022 and 5% in 2023 on these headwinds

IMF Global GDP Forecasts (April 2022)			
% Vol	2021	2022	2023
World	6.1	3.6	3.6
Advanced Econs	5.2	3.3	2.4
US	5.7	3.7	2.4
Eurozone	5.3	2.8	2.3
UK	7.4	3.7	1.2
Japan	1.6	2.4	2.3



AIB Irish Economic Forecasts

% change in real terms unless stated	2020	2021	2022 (f)	2023 (f)	2024 (f)
GDP	**5.9**	**13.5**	**6.0**	**5.0**	**4.5**
GNP	3.4	11.5	5.0	4.0	3.5
Modified Final Domestic Demand	**-4.9**	**6.5**	**5.0**	**4.5**	**4.0**
Personal Consumption	-10.4	5.7	6.0	4.5	4.0
Government Spending	10.9	5.3	1.5	2.3	2.0
Fixed Investment**	-23.0	-37.6	7.0	6.0	5.5
Exports	9.5	16.6	7.0	5.8	5.0
Imports**	-7.4	-3.7	6.8	5.8	5.0
Employment (%)	-2.8	6.2	4.9	2.1	2.0
Unemployment Rate (%)	**5.9**	**6.3**	**6.0**	**5.5**	**5.0**
HICP Inflation (%)	-0.5	2.4	6.7	4.0	2.5
Budget Balance (GGB % GDP)	-5.1	-1.9	-0.4	0.2	1.2
Gross General Gov Debt (% GDP)	58.4	56.0	50.0	46.3	43.8
Net General Gov Debt (% GNI*)	89.3	86.2	81.2	77.9	73.0

**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 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, but progress is slow
- 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
- Hopeful that solutions can be found in current talks on allow 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
- 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. 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 continuing 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