The Irish Economic Update:

Very strong rebound in activity continuing

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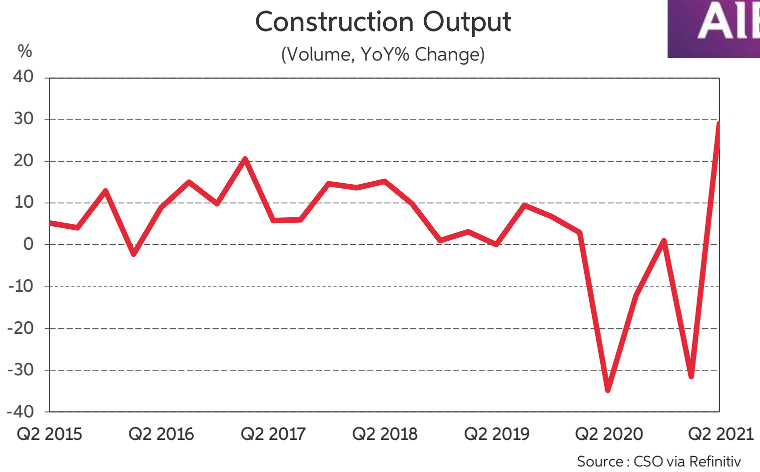
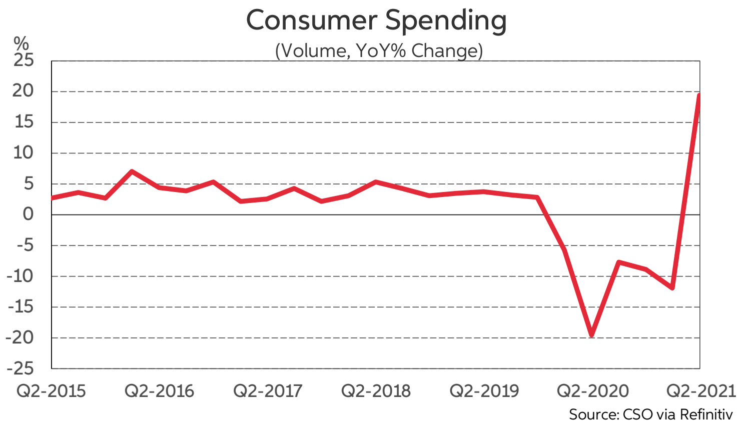
Oliver Mangan
Chief Economist
AIB

Economy rebounds strongly post Q1 lockdown

- GDP grew by 5.9% in 2020, with GNP up 3.4%
- Modified final domestic demand fell by 4.9% and modified gross national income down 3.5% in 2020
- Third lockdown saw GNP contract by 3% in Q1 2021 but rebound by 6.7% in Q2 as economy re-opened
- MFDD fell by 5% in Q1, but up 8.4% in Q2
- Consumer spending contracted by 5.7 % in Q1, before rebounding by 12.6% in Q2
- Domestic investment fell 6.6% in Q1, up 6.1% in Q2
- Construction output fell 31% in Q1, up 23% in Q2
- Strong growth in manufacturing output continued in H1’21, up 11% in Q1 and 5% in Q2
- As a result, goods exports up 10% & 7.5% in Q1/Q2
- This is inflating GDP, which was up by 8.7% & 6.3% in Q1 & Q2, respectively. GNP growth much lower

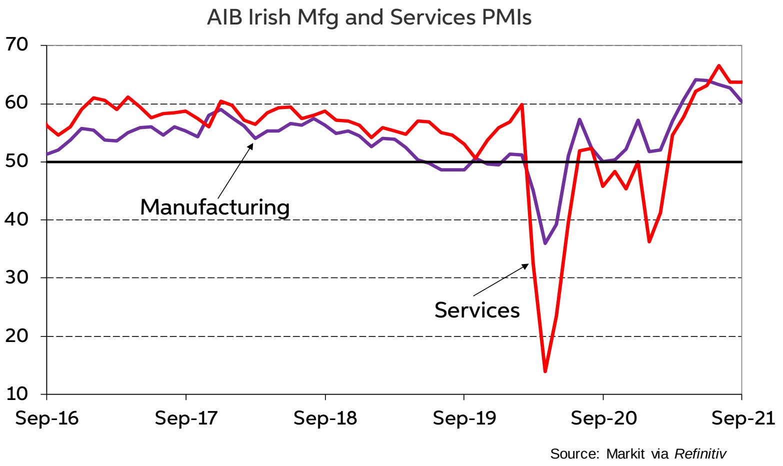


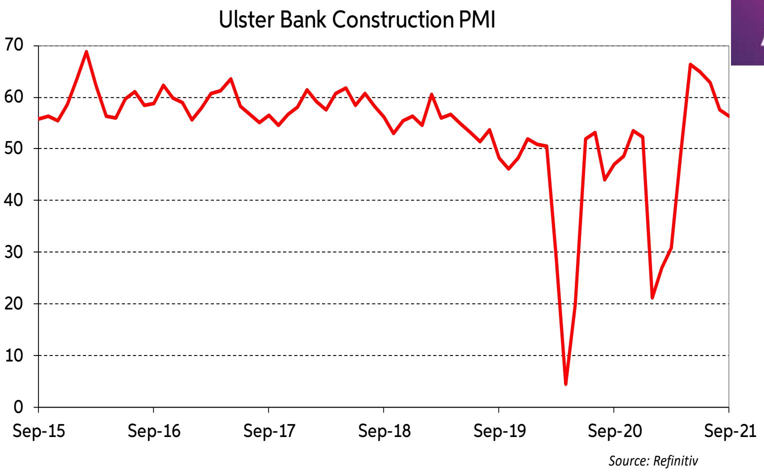


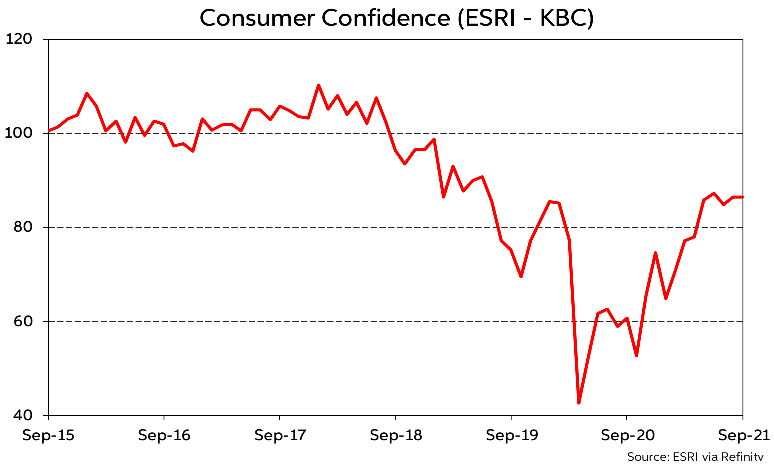
Robust recovery evident across the economy

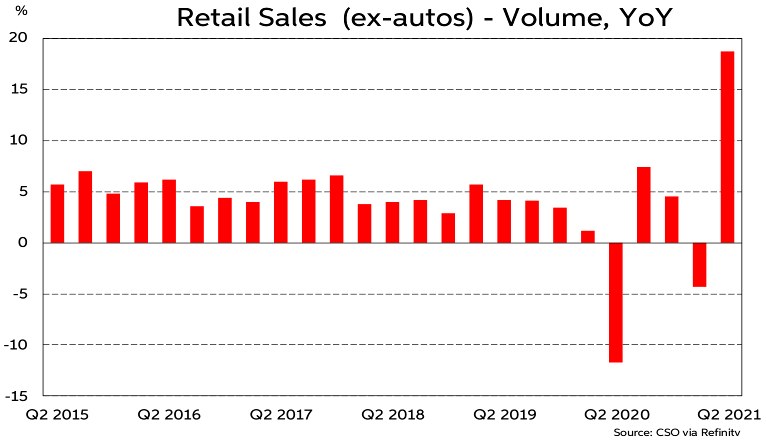
- Restrictions started to be lifted during Q2 after long third lockdown imposed in Q1
- Indicators point to very strong rebound in activity in Q2 and Q3 after lockdown ended
- Mfg PMI hit record high of 64.1 in May, and has stayed above 60 since then
- Services PMI jumped to twenty year high of 66.6 in July, at 63.7 in August/September
- Construction PMI soared in May to 66.4, falling back to still strong level of 56.3 by September
- Housing commencements surge. Near 30k in 12 months to August, up from 18k in March
- Big jump of 10% in core retail sales in Q2. Sales remain strong in July/August
- New car sales rose by 22.5% yoy in January-September period
- Tax receipts running ahead of target by 8% at end September – up 16% year-to-date
- Jobless rate (including PUP) falling rapidly – down from 27% earlier in year to 10% by Sept
- Inflation accelerating; rises to 3.7% in Sept from -1.5% last autumn. Likely to top 4%
- Spike expected to prove temporary. Inflation forecast to fall back to 2% or below by end 2022

Indicators pick up strongly as economy reopens

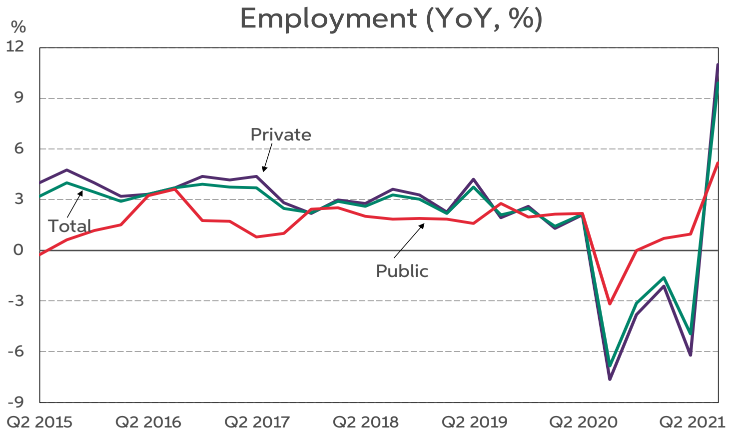


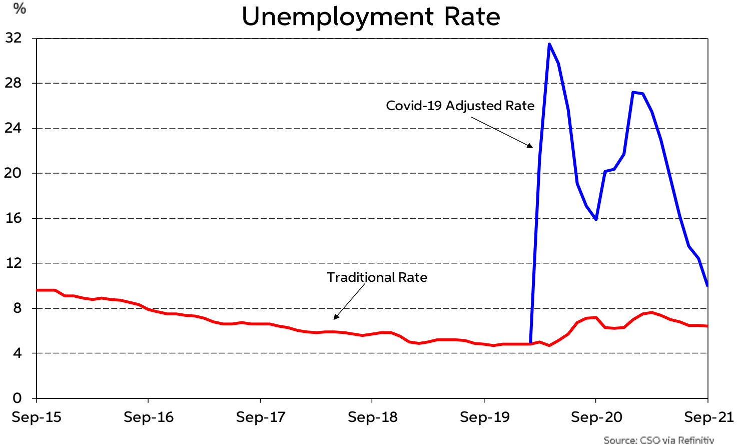


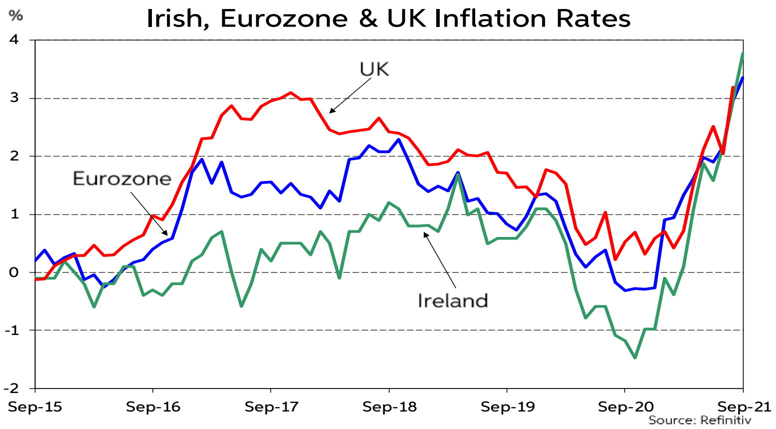


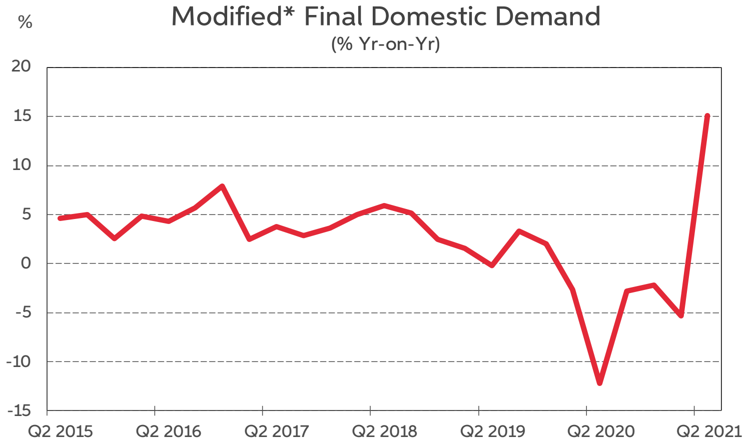


Unemployment declining rapidly, inflation rising sharply



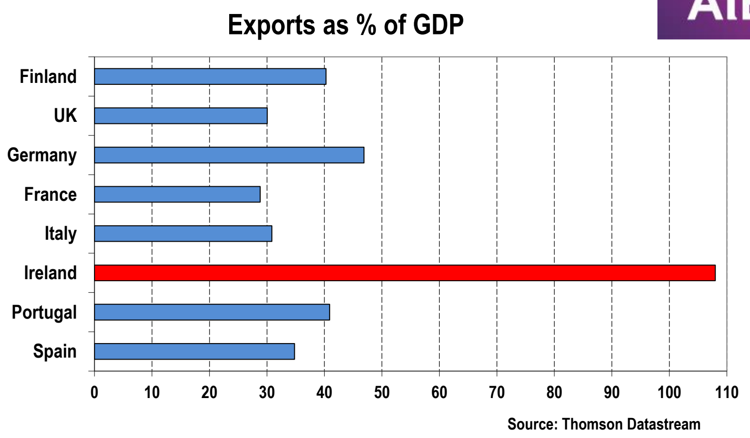






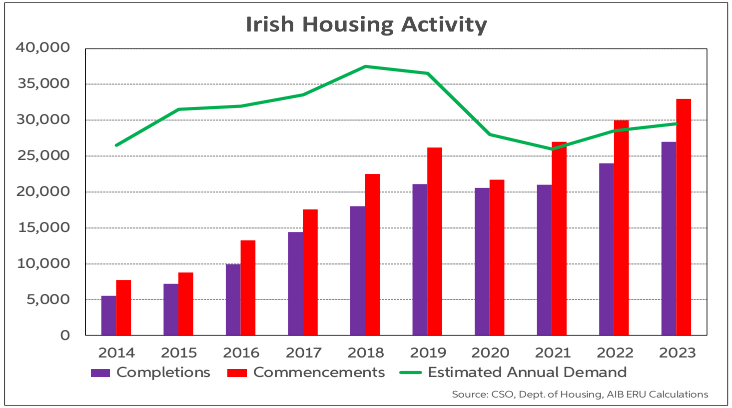
Exports perform impressively throughout the pandemic

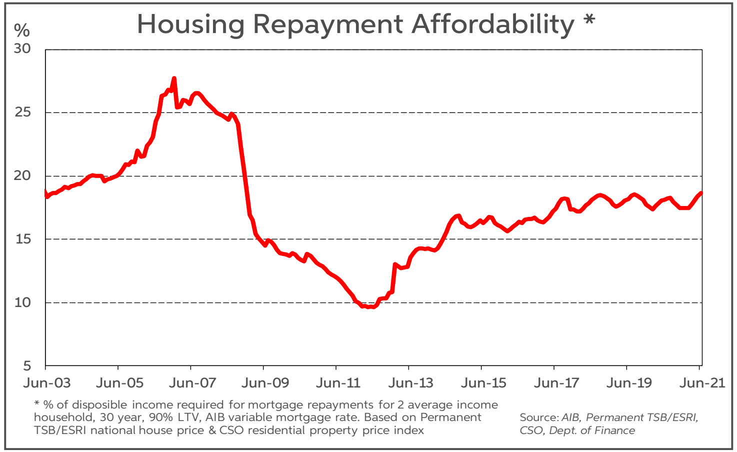
- Ireland a very open economy – exports, driven by large scale FDI, are a huge part of economy
- Exports rise strongly in recent years, helped by large FDI inflows
- Pharma, medical care products, IT equipment, and food & drink are main goods exports
- IT, business, financial and tourism are the main service exports
- Total exports rose by 9.5% in 2020 and were up 21% yoy in H1 2021
- Goods exports up 16.5% in 2020 and 28% yoy in H1'21, fuelled by very big jump in pharma
- Service exports rose by 2.6% in 2020 and were up 13% yoy in H1 2021
- Collapse in earnings from tourism & travel, but computer service exports show strong growth



House building holds up, while commencements rebound

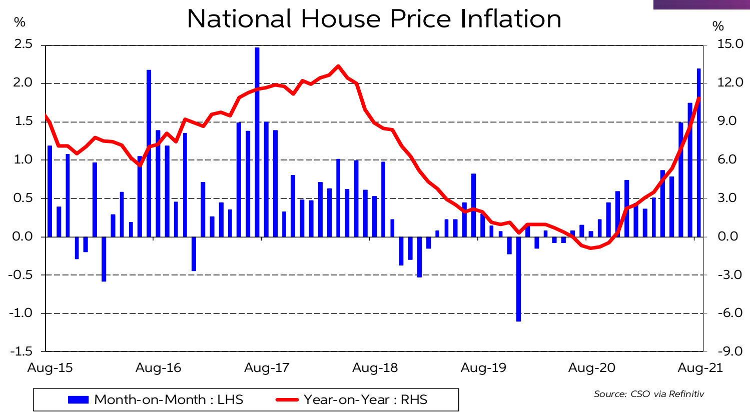
- Total completions amounted to 20,535 in 2020, just 2.6% down on 2019 level despite a 6-week lockdown
- Big jump in planning permissions in past couple of years
- Commencements fell by over 17% to 21,700 in 2020
- Further sharp fall in commencements in Q1’21, but they have surged since then with construction reopen
- Commencements jump to 29,500 in 12 months to Aug
- Smaller than expected fall in completions in Q1 2021 and rebound strongly in Q2. Up 9.7% yoy in H1 2021
- Completions likely to be circa 21,000 again in 2021 and should pick up considerably in 2022-23
- Mortgage lending fell by 12% to €8.4bn in 2020
- However, mortgage lending rose over 25% yoy in H1’21
- Forecasts are for a €10bn+ mortgage market in 2021
- Housing affordability disimproves slightly as prices rise

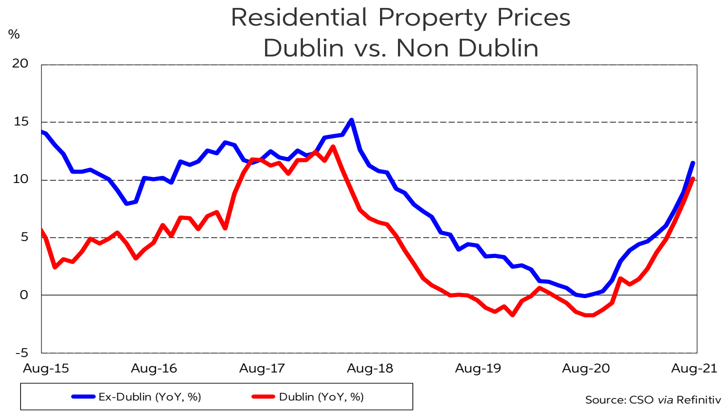




House prices on sharp upward trend

- House prices declined sharply, by 55% over 2007-13
- Prices have recovered strongly- still 9% below 2007 peak
- CSO data show house prices little changed over 2019-20, until starting to move sharply higher from Q4'20
- Strong rises in house prices in 2021, especially over summer, with yoy rate accelerating to 10.9% by August
- Non-Dublin prices up 11.5% yoy in August, above Dublin rate of 10.1% yoy - prices rising strongly everywhere
- Property websites show big jump in asking prices since mid-2020. Running at circa 9% yoy in Q3 2021
- 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 last year. Annual rate of growth accelerates to 5.9% by August 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

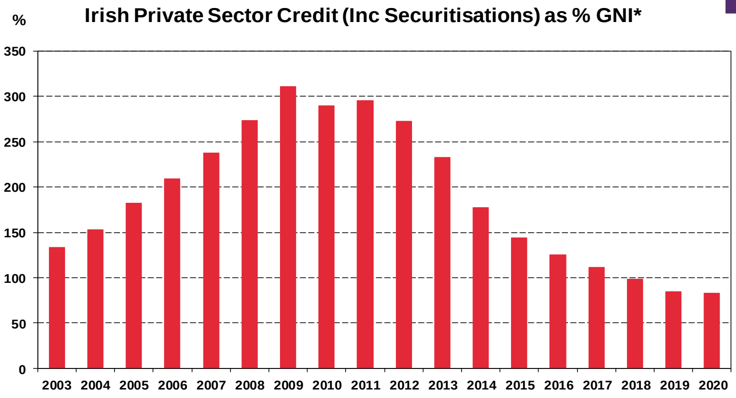
Calendar Year	2019	2020	2021	2022	2023
Household Formation	31,000	22,500	20,500	23,000	24,000
of which					
Indigenous Population Growth	*21,000*	*17,500*	*16,000*	*15,500*	*14,500*
Migration Flows	*10,000*	*5,000*	*4,500*	*7,500*	*9,500*
Headship Change*	*0*	*0*	*0*	*0*	*0*
Second Homes	500	500	500	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**	**21,000**	**24,000**	**27,000**
Shortfall in Supply	*-15,000*	*-7,500*	*-5,000*	*-4,500*	*-2,500*

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

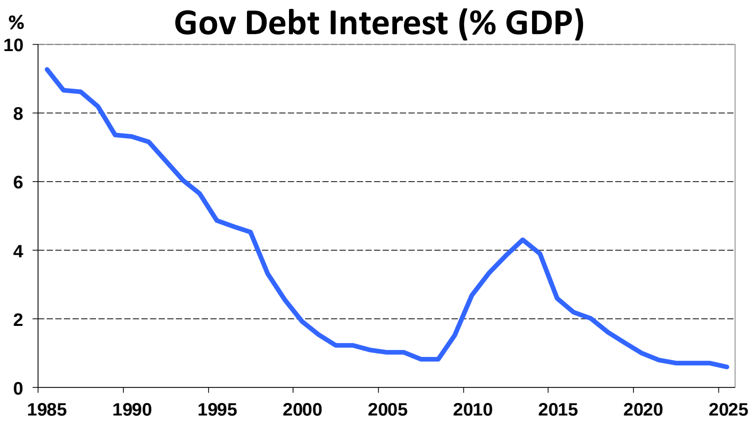
Sources: CSO, DoECLG, AIB ERU.

Private sector deleverages, Gov. debt ratios to resume downtrend

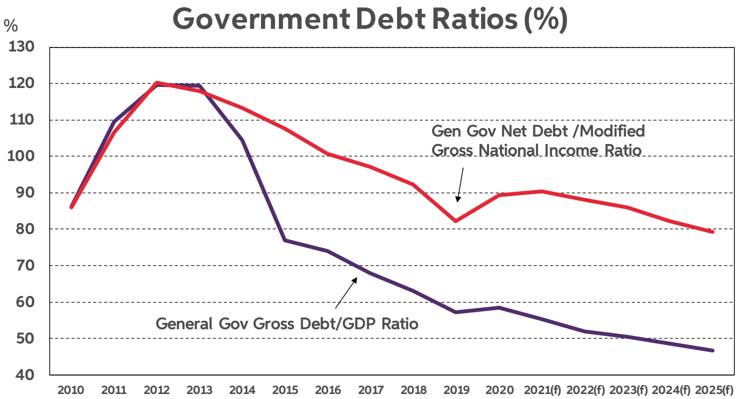
Source: *CSO, Central Bank, AIB ERU*



Sources: Central Bank, CSO, AIB ERU Calculations



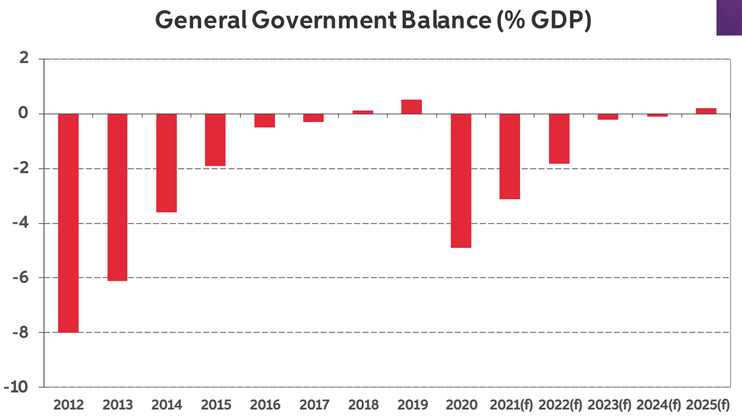
Source: NTMA; Dept of Finance



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

Budget deficit in sharp decline as economy recovers

- Budget deficit fell sharply during last decade, with small 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 over 15% year-to-date . Covid spending declining
- Dept. of Finance now expects budget deficit will be below target in 2021 at €13.25bn (3.1% GDP)
- Deficit forecast at €8.25bn in 2022 & €1.1bn in 2023 as Covid supports end & economy recovers
- Fiscal policy to remain supportive of growth. Rise of 5.0-5.5% in non-Covid spending planned
- Gov. Debt ratios fell in last decade, but moved higher in 2020-21. Downtrend set to resume
- 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



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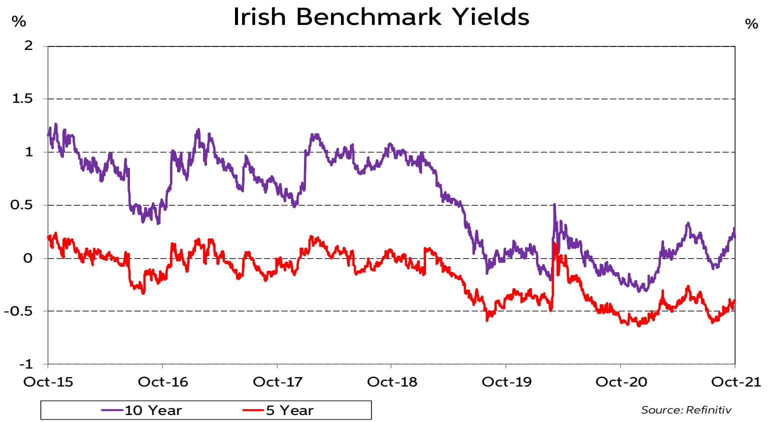


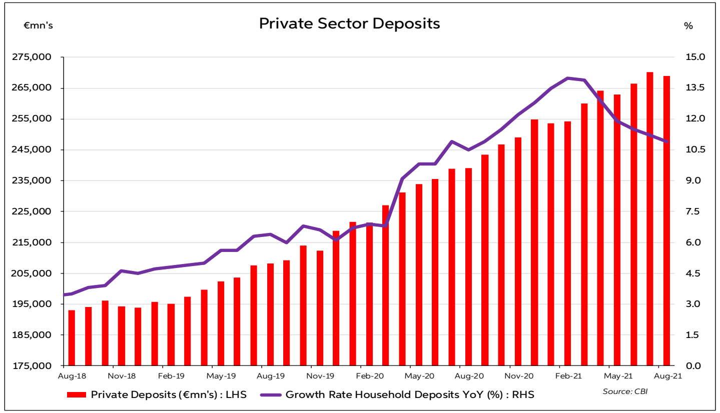
Source: Refinitiv

Elements in place for period of strong economic growth

- Key ingredients in place for a strong rebound by Irish economy from 2021 onwards
- Rollout of vaccines allows economies to reopen here and elsewhere – very high Irish vaccination rates
- World economy rebounding strongly, which augurs well for export orientated countries like Ireland
- House building to pick up in coming years from still low output levels – big focus of government policy
- Fiscal policy can remain supportive of growth -DoF forecasts provide for increased core spending
- Activity aided by continuing very low interest rates
- Economy has deleveraged; low private sector debt
- Large build-up in private savings in 2020-H1‘21 will help fuel strong growth in domestic spending
- Strong growth forecast for 2021-22 - GDP bloated in 2021. Growth in GNP and MFDD better measures

OECD Global GDP Forecasts (Sept 2021)

% Vol	2020	2021	2022
World	-3.4	5.7	4.5
OECD	-4.8	5.3	3.8
US	-3.4	6.0	3.9
Eurozone	-6.5	5.3	4.6
UK	-9.8	6.7	5.2
Japan	-4.6	2.5	2.1



AIB Irish Economic Forecasts (Planning July 2021)

% change in real terms unless stated	2019	2020	2021 (f)	2022 (f)	2023 (f)
GDP	**4.9**	**5.9**	**8.0**	**5.5**	**4.0**
GNP	5.0	3.4	5.5	5.0	3.5
Modified Final Domestic Demand	**1.7**	**-4.9**	**4.0**	**5.3**	**3.7**
Personal Consumption	3.3	-10.4	3.7	7.5	4.0
Government Spending	7.1	10.9	1.7	-1.5	1.0
Fixed Investment*	99.5	-23.0	-40.0	7.0	5.0
Exports	10.4	9.5	9.5	5.2	4.5
Imports*	41.7	-7.4	-9.5	5.2	4.5
HICP Inflation (%)	0.9	-0.5	1.9	1.9	1.5
Unemployment Rate (Estimated %)	**5.0**	**10.4**	**11.0**	**8.2**	**6.9**
Budget Balance (% GDP)	0.5	-5.0	-5.0	-3.4	-1.8
Gross General Gov Debt (% GDP)	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

Brexit: The EU-UK Trade & Cooperation Agreement

The Trade Deal:

- EU and UK finally agreed on a trade deal before end 2020, thereby allow 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 and delays at ports – it marks an end to frictionless UK-EU trade
- 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

The Impact:

- Irish PMI surveys show firms reporting considerable import delays at ports, with longer supply chains and higher admin costs as a result of Brexit
- Estimated that higher trade costs will knock circa 0.5% off UK/RoI annual GDP growth rate in next few years
- UK not fully implementing all customs checks until 2022 when Irish exporters to GB will see impact
- Issues with NI protocol and GB-NI trade flows – EC proposes changes and now in discussions with UK

Changes to Corporate Tax Regime Agreed

Importance of FDI:

- Some 1,600 multinational companies are based in Ireland, accounting for over 250,000 in direct employment or about18% of total jobs in terms of direct and indirect employment.
- Corporation tax receipts of €12bn in 2020 or circa 20% of total tax revenue - 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 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 continue in 2021 despite the changes to global corporate tax rules

Reprise of risks to the Irish economy

- Main near term risk is still Covid-19 – high case numbers, concerns about new variants
- Virus could leave lasting scarring effects – rising business failures & bad debts, job losses
- Very open Irish economy so vulnerable to any global slowdown
- Changed EU-UK trading relationship may yet negatively impact some Irish industries
- Changes to global corporation tax regime could still have some impact on Irish economy
- 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