Bank of Ireland

Ireland Outlook

August 2015

Economic Indicators Positive

2015

GDP	EMPLOYMENT	UNEMPLOYMENT	INFLATION
5.3%	2.4%	9.7%	0.1%

Weak euro supporting exports

Strong investment growth

Consumer spending accelerates

Unemployment rate heading down to 8%

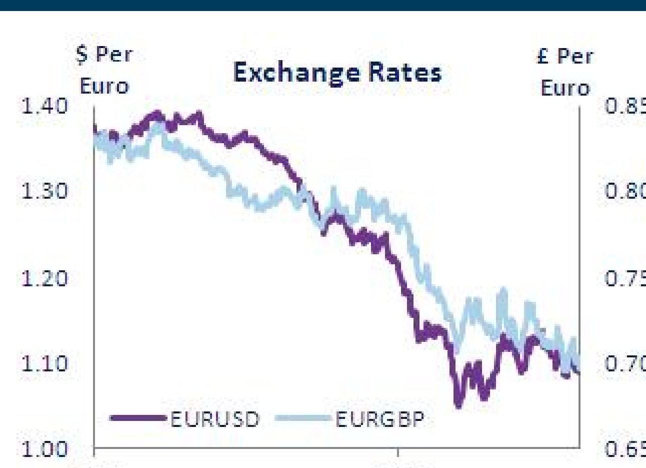
"The strong Q1 GDP number and positive high frequency data that we are seeing are consistent with another year of solid growth in 2015"

Loretta O'Sullivan
Chief Economist

Overview The economic data flow in recent months has been encouraging. National accounts figures for the first quarter of 2015 were strong, with GDP increasing by 6.5% year-on-year and 1.4% quarter-on-quarter. In addition and largely on the back of better consumer spending, the CSO has revised up economic activity for last year (taking the level of real GDP and GNP to above the 2007 peak). With both 'hard' and 'soft' indicators pointing to continuing positive momentum, another year of solid growth is expected in 2015. Indeed, the strength of the data to date - especially the trade and consumer spending numbers - has led us to revise up our headline forecasts for this year and next by c. 1 percentage point. GDP is now projected to increase by 5.3% in 2015 and by 4.8% in 2016, with GNP rising by 5.0% and 4.6% respectively. We continue to see a broadening out of the recovery, with domestic activity firming and contributing to growth along with net exports. Tailwinds including favourable exchange rate movements and external demand, as well as further employment gains and high confidence levels, will continue to provide support; albeit ongoing deleveraging remains a headwind. With the economy growing solidly, a decline in the unemployment rate, to around the 8% mark, is projected by the end of 2016. Inflation on the other hand should stay fairly subdued.

Outlook	2014	2015 (f)	2016 (f)
Personal Consumption	2.0%	3.2%	3.2%
Government Consumption	4.6%	2.2%	2.0%
Investment	14.3%	10.0%	7.5%
Exports	12.1%	9.0%	6.5%
Imports	14.7%	9.3%	6.7%
GDP	5.2%	5.3%	4.8%
GNP	6.9%	5.0%	4.6%
Employment	1.7%	2.4%	2.3%
Unemployment Rate (Average)	11.3%	9.7%	8.3%
CPI	0.2%	0.1%	1.6%

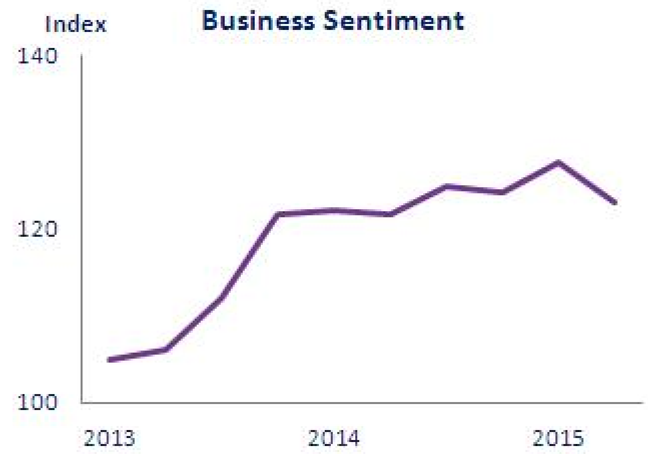
Weak euro supporting exports



Exports reached a new peak in the first quarter of 2015 and look set to register strong growth for the year as a whole. Q1 saw exports rise by 14.3% year-on-year, underpinned by a robust goods and services performance. The depreciation of the euro against sterling and the dollar is providing support to firms exporting to the UK and US, while the recovery in the euro area – Ireland's other main trading partner - is gaining ground (recent Greek developments notwithstanding). These factors bode well for the traded sector, as do healthy order books. Taking account of the Q1 outturn and more recent high frequency data, we have revised up our export forecasts to 9.0% in 2015 and 6.5% in 2016 (from 5.7% and 5.3% previously). While a sizable increase in imports is also projected, net exports are expected to contribute positively to GDP growth this year and next.

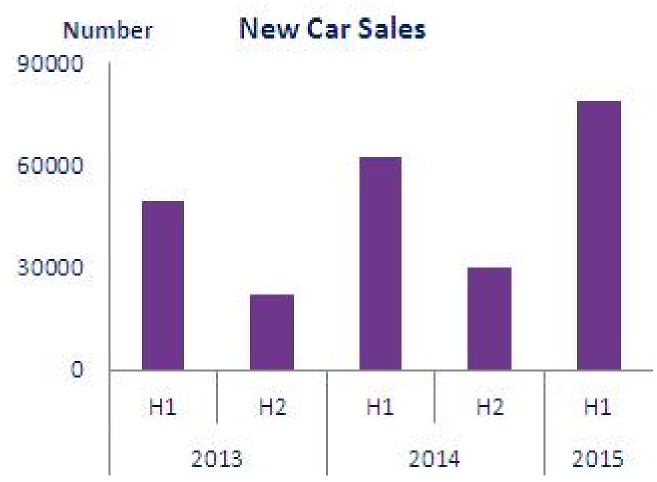
Strong investment growth

Investment rose by over 14% in 2014 and a good performance is expected again this year. On the business side, machinery and equipment investment is benefitting from the recovery of the domestic economy and ongoing FDI inflows (FDI investments were up 10% year-on-year in the first half of 2015 and the pipeline is positive). 'Core' machinery and equipment (i.e. excluding planes) registered double digit growth in Q1, and with sentiment also at a high level, the outlook is favourable. The rebound in construction is continuing as well, with signs of increasing activity evident across the residential, commercial and civil sectors. House completions, for example, were up 16.4% year-on-year in the first half. Completions are still well below estimated required levels though, and with construction activity generally coming off a low base, there is room for further gains as the economy improves. Total investment is projected to rise by 10% in 2015 and by 7.5% in 2016.



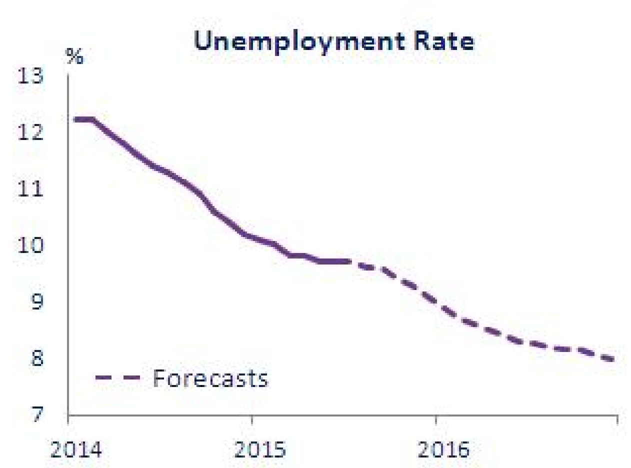
Consumer spending accelerates

Consumer spending rose by 2.0% in 2014 (well above the preliminary CSO estimate of 1.1%), with the annual growth rate accelerating to a 7 year high of 3.8% in Q1 2015. New car sales remain strong and in the first half were some 26% higher than in the same period last year (sales are on track to come in over 115,000 for 2015 as a whole). A range of other retail categories have also registered annual increases in recent months and confidence remains high. Looking ahead, rising employment and earnings, along with subdued inflation, auger well for household incomes and spending prospects. The Government's intention to introduce a package of €1.2 to €1.5 billion in Budget 2016 should provide further support, though ongoing deleveraging on the part of households will remain a headwind. Reflecting the better outturn data for 2014 and positive momentum since, consumer spending is now forecast to increase by 3.2% in both 2015 and 2016 (an upward revision of c. 1 percentage point). Government spending growth of 2.2% and 2.0% is expected this year and next.



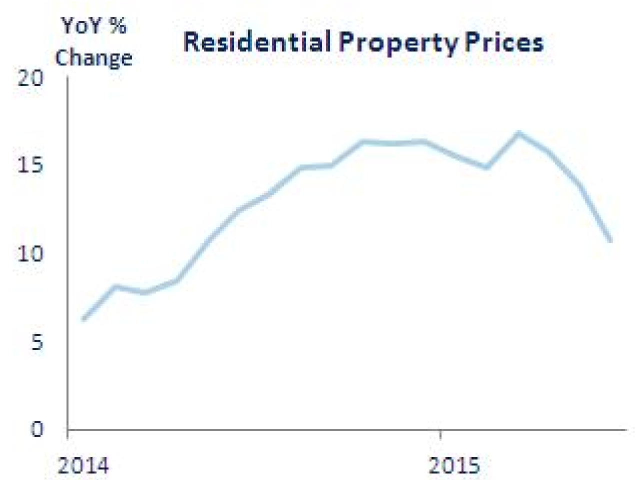
Unemployment rate heading down to 8%

Employment grew by 2.2% year-on-year in the first quarter of 2015 (a net increase of 41,300 jobs). The broadening out of the labour market recovery - which has been underway for some time - was again evident in the Q1 data, with a significant pick up in construction and industrial employment, along with net job creation across regions. The data also show the unemployment rate falling to 9.9%, the lowest in six years. It has come down further since, to an estimated 9.7% in July and is now well below the euro area average. With both the domestic economy and export activity growing, further employment gains are expected over the forecast horizon. Healthy employment growth of 2.4% is forecast for 2015 and 2.3% for next year, equating to a net increase of around 45,000 jobs per annum. In line with this, the unemployment rate should continue to fall and is projected to finish this year near 9%, and end 2016 at close to the 8% mark.



Property market recovering

The recovery in the residential property market is continuing. Transactions in the first half of the year were up over 30% on the same period in 2014, with the volume of mortgages for house purchase increasing by 64% year-on-year in quarter one (and by 71% in value terms). Prices are also rising though the annual rate of growth has started to ease back a bit, possibly impacted in part by the Central Bank's new macro-prudential rules. Higher employment and incomes are continuing to provide support however, and with supply only gradually increasing to meet demand, house price gains are expected again this year albeit at a more moderate pace than last year. Strong demand is also evident in the private rental sector, where rents rose 9.3% on an annual basis in June.



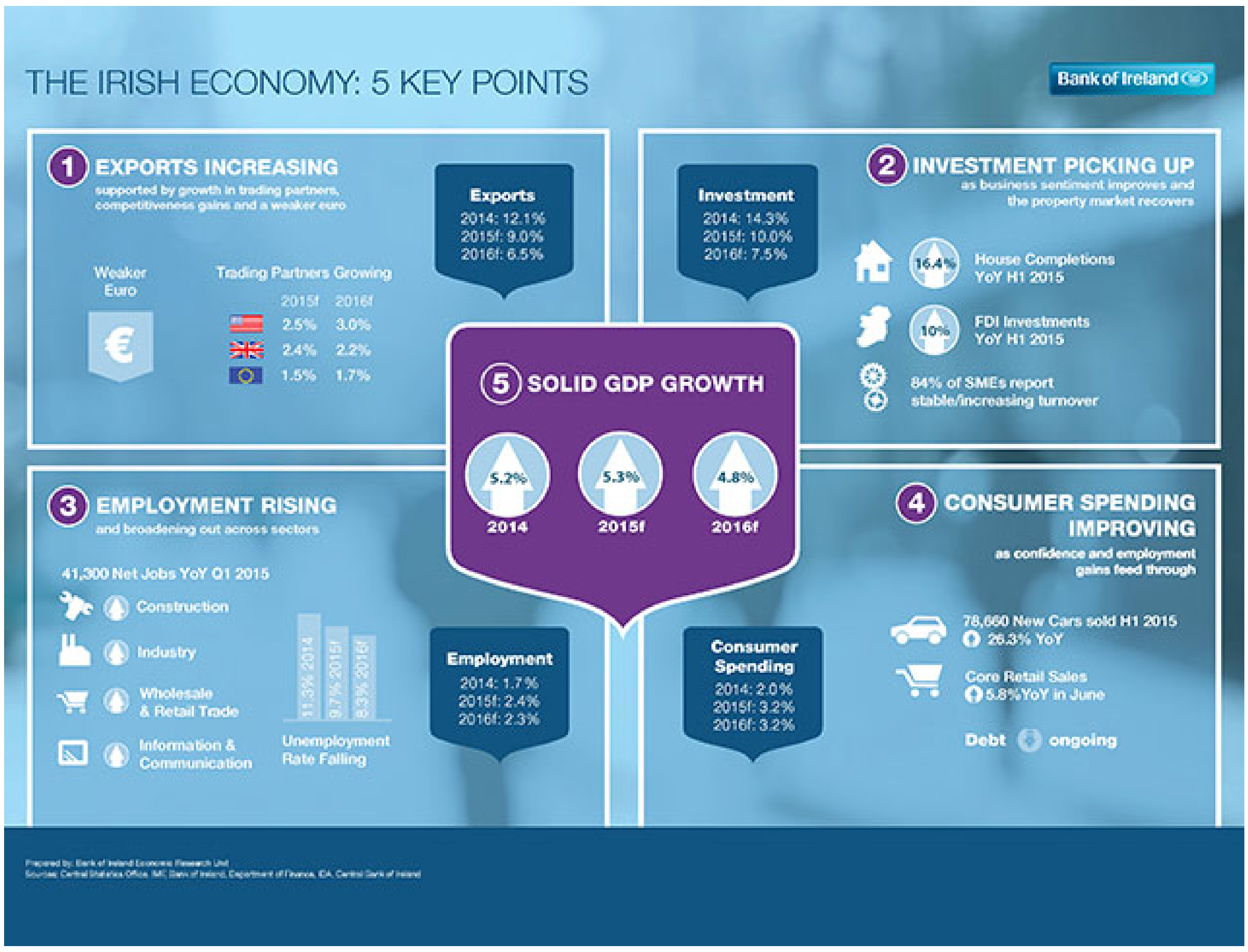
Inflationary pressures low

The pricing environment at a global level remains muted. The domestic picture is similar, with CPI

Deficit outperformance

Exchequer returns data for the first seven months of 2015 show a further improvement in the public inflation averaging -0.5% on an annual basis in the first half of 2015. This weakness owes much to the dampening effect of lower energy prices and mortgage interest rates. Excluding these items, the average rate for the first six months of the year would have been 0.8%. The headline rate is expected to move back into positive territory later this year, as oil price base effects fall out. Improving domestic demand will also exert modest upward pressure on prices, offset somewhat by recent mortgage interest rate changes. Given that the outturn in the first half of the year was weaker than expected, we have lowered our CPI forecast for 2015 to 0.1% (from 0.6% in the previous Outlook). A rate of 1.6% is projected for 2016, while HICP inflation of 0.3% is forecast for this year and 1.8% for next year.

finances. Tax revenues were almost €900m (3.8%) ahead of expectations, with gross spending 0.6% below profile. Combined with one-off windfall gains, the Exchequer deficit was €648 million in the first seven months of the year, compared to a deficit of €5.2 billion in the same period of 2014. On the basis of these figures, this year's general government deficit should come in below the official projection of 2.3% of GDP. Reflecting the improved situation, Budget 2016 will provide for tax reductions/spending increases of between €1.2 and €1.5 billion. On the debt front, the ratio to GDP was 104.7% in Q1 2015 and remains on a downward trajectory; while borrowing costs are relatively low with 10-year yields at c. 1.3% (despite the recent crisis in Greece).



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