

## Irish Monthly Economic Bulletin - February 2007

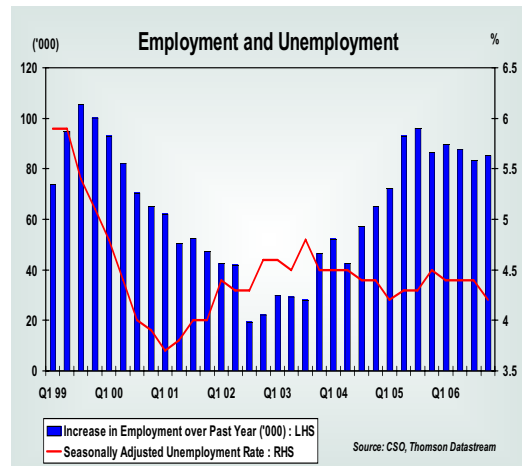
### Highlights

- The annual headline rate of CPI inflation increased further to 5.2% in January from 4.9% in December. Headline inflation has more than doubled from 2.5% at the end of 2005 and the January figure was the highest rate recorded since June 2001. For detailed analysis of the latest inflation data see our publication ***Irish Inflation Hits Highest Level Since June 2001*** on [www.aibeconomicresearch.com](http://www.aibeconomicresearch.com).
- The volume of retail sales grew by 6.2% y-on-y in 2006, the fastest pace of growth since 2000, and well up on the previous year's growth rate of 4.8%. We expect consumer spending to stay buoyant over the course of this year and are forecasting growth in total personal spending of 7.5%.
- Housing market data continue to show that rising interest rates are impacting on activity levels, as well as dampening price pressures. Housing registrations declined 17.7% in January. Meanwhile, the rate of house price inflation continues to decelerate. For detailed analysis of the housing market see our publication ***Irish Housing Market Bulletin February 2007*** on [www.aibeconomicresearch.com](http://www.aibeconomicresearch.com).

### Irish Labour Market Remains Firm

Recent weeks have seen several announcements of job losses or risks to jobs in the future. These though are not reflected in the labour market data contained in the Quarterly National Household Survey for Q4 2006, published last week.

Indeed, the rate of jobs growth accelerated slightly in Q4 2006, and the data confirm that the labour market remained strong at end 2006. Overall, there were 85,500 jobs added in the year to Q4 2006, an increase of 4.3% year-on-year, which is up slightly on the 4.2% year-on-year increase recorded in Q3 last year.



Non-Irish nationals remain an important driver of overall labour force and employment growth, accounting for more than half of the additional jobs created for the second consecutive quarter. However, there was still continued strong growth in employment amongst Irish national workers and a fall in the number unemployed, which saw their unemployment rate decline to 3.9%.

Jobs gains over the year to Q4 2006 were mainly in the public sector (notably health and education), construction and financial services areas. There must continue to be concerns about the extent to which Ireland's strong employment growth is being fuelled by the construction sector. Indeed the pace of jobs growth in the construction sector reaccelerated again in the second half of 2006. For detailed analysis see ***Q4 2006 QNHS : Labour Market remained Firm at End 2006*** on [www.aibeconomicresearch.com](http://www.aibeconomicresearch.com).

**John Beggs**  
Chief  
Economist

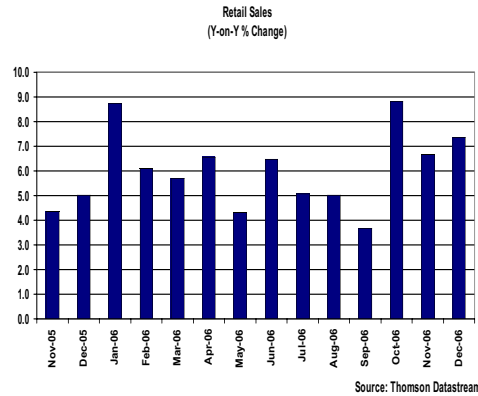
**Oliver Mangan**  
Chief Bond  
Economist

**Geraldine Concagh**  
Senior  
Economist

**Jenny Pollock**  
Senior  
Economist

## Consumer Sector

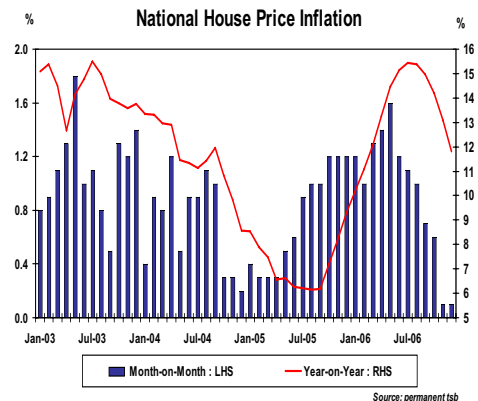
The volume of retail sales grew by 6.2% y-on-y in 2006, the fastest pace of growth since 2000, and well up on the previous year's growth rate of 4.8%. Spending was particularly strong in the final months of last year with sales up 7.6% in Q4 compared to 4.5% in the previous three months. New car sales rose by just 4% last year, so core sales (excluding motor trade) were up 6.9% last year. However, car sales did pick up in Q4 and the latest data show record sales for the first month of this year. With the majority of SSIA funds maturing over 2007, we expect consumer spending to stay buoyant over the course of this year and are forecasting growth in total personal spending of 7.5%, compared to growth of 6.5% in 2006.



	Dec-06	Nov-06	Oct-06	Sep-06	Jan-07	Dec-06	Nov-06	Oct-06
<b>Retail Sales (Volume % Change)</b>								
<b>All Businesses</b>								
M/M	0.8	-0.7	4.4	-1.1				
Y/Y	7.4	6.7	8.8	3.7	7.9	4.1	3.9	3.9
<b>Sales Ex Auto</b>								
M/M	0.0	0.0	2.2	-1.0	-2	-2	0	-2
Y/Y	7.3	7.6	8.3	5.7				
<b>Car Registrations (SIMI)</b>								
Y/Y % Change Yr to Date								
<b>EC Consumer Confidence</b>								
					2005	2004	2003	2002
<b>Savings Ratio (estimate)</b>					11.2%	9.5%	9.2%	9.7%

## Investment/Housing Market

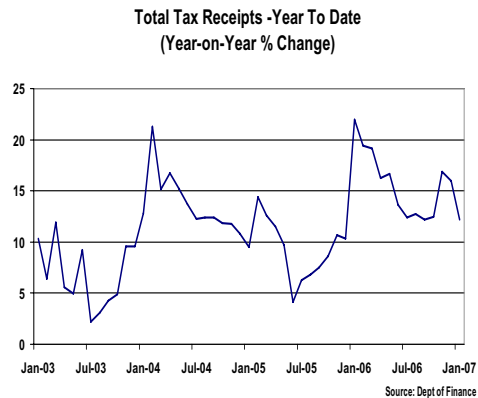
Rising interest rates are dampening activity and prices pressures in the housing market. Following a fall of 14% y-on-y in Q4 2006, housing registrations declined 17.7% in January. Thus, while there were a record 93,419 housing units completed last year, 2006 looks to be the peak in terms of housing output. According to permanent tsb data, house prices rose just 0.1% again in December, bringing the annual rate of house price inflation down to 11.8% from 13.1% in November. Nonetheless, after a strong performance up to mid year, house prices were up an average 13.4% in 2006, compared to 7.2% in 2005. We expect the pace of price increases to be moderate in 2007, with annual house price inflation falling to around 3-6% by end year.



	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Jan-07	Dec-06	Nov-06	Oct-06
<b>Fixed Investment (% Change)</b>								
Q/Q	3.5	-2.3	-5.6	13.2	N/A	0.1	0.1	0.6
Y/Y	8.2	-3.9	8.2	13.8	N/A	11.8	13.1	14.2
<b>Housing Output</b>								
Y/Y	6.4	4.5	3.1	13.2				
<b>Non-Residential Construction</b>								
Y/Y	8.8	11.3	15.2	5.4				
<b>House Price Inflation % (Permanent TSB)</b>								
M/M								
Y/Y								
<b>Housing Registrations (Homebond, DoE, Premier)</b>								
Actual Yr to Date					3,776	66,649	63,552	58,784
Y/Y % Change Yr to Date					-17.7	7.0	7.4	11.0

## Public Finances

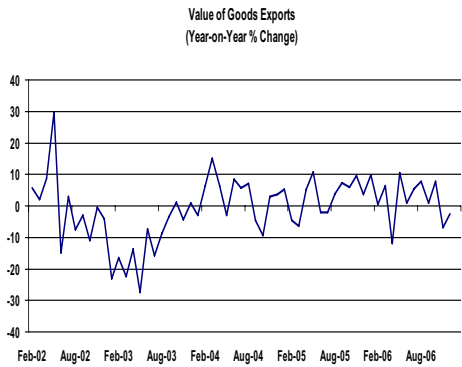
As a result of buoyant tax receipts and below target spending, the Government recorded a €2.27bn surplus in 2006, compared to a deficit of €0.5bn recorded in the previous year. Tax receipts were up 16.0% y-on-y, compared to projected growth of 6.1%. 2007 got off to a good start with the latest figures showing a surplus of €1.69bn in the first month of the year, compared with a surplus of €1.3bn in January 2006. Tax receipts were up 12.1% over the month, with corporation tax, stamp duty and capital tax receipts remaining buoyant. There was also solid growth of 14.5% in VAT receipts, indicating strong growth in retail spending. Income tax receipts fell marginally in y-on-y terms, but this downturn may be due to timing factors.



	Jan-07	Dec-06	Nov-06	Oct-06	Jan-07	Dec-06	Nov-06	Oct-06
<b>Voted Govt Spending (€bn)</b>								
Y/Y % (Cumulative)	23.8	11.0	11.3	10.6	1.69	2.27	5.89	-0.35
<b>Exch Bal Yr to Date (€bn)</b>								
<b>Tax Revenues (Y/Y % Change)</b>								
Total Tax	12.2	16.0	16.9	12.4				
Income Tax	-0.8	10.0	9.0	6.5				
VAT	14.6	11.2	11.3	11.1				
Excise Duties	1.7	6.8	7.5	7.3				
Corporation Tax	58.8	21.7	25.4	7.1				
Stamp Duties	19.2	36.4	40.1	39.3				
<b>General Govt Balance</b>								
as % of GDP	2.3	1.1	1.5	0.4				
<b>General Govt Debt</b>								
as % of GDP	25	27.4	29.7	31.1				

### Trade/Balance of Payments

The latest trade statistics show that the value of merchandise exports rose just 2.1% in 2006, compared with growth of 2.9% in 2005. The performance in Q4 2006 was particularly weak, with the value of exports falling 9.6% as compared with Q3 and 0.9% in y-on-y terms. Merchandise imports, meanwhile, rose by more than 5% in 2006, well in excess of the growth in exports. Thus, there was a further deterioration in the trade surplus last year. The seasonally adjusted trade surplus for 2006 was €28.36bn compared to €29.26bn in 2005 and €33.23bn in 2004. A better performance from the services side should see overall export growth in the region of 6% in 2006, which is broadly in line with the projected growth in imports.

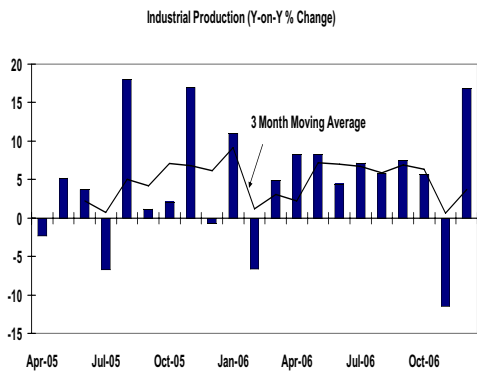


Source: Thomson Datastream

	Q3 2006	Q2 2006	Q1 2006	Q4 2005		Dec-06	Nov-06	Oct-06	Sep-06
<b>External Trade (Volume,%)</b> <i>(Goods &amp; Services)</i>					<b>Monthly Trade (Value, %)</b>				
<b>Exports</b>					<b>Exports</b>				
Q/Q	0.0	2.9	-3.7	7.6	M/M	3.2	-9.6	8.4	-7.6
Y/Y	6.6	4.2	7.7	6.1	Y/Y	-2.5	-6.9	7.7	0.9
<b>Imports</b>					<b>Imports</b>				
Q/Q	-2.1	1.8	-5.2	9.7	M/M	1.5	1.6	0.9	-2.3
Y/Y	3.7	5.5	8.8	8.9	Y/Y	-3.2	5.8	8.4	1.8
					<b>Trade Surplus (€ mn S/A)</b>	2,080	1,926	2,771	2,202

### Industrial Production

Industrial production was up 19.4% m-on-m in December, which goes some way to reversing the poor performance of the previous months. In y-on-y terms output was up 15.2%. However, it should be noted that output was down 0.5% y-on-y in December 2005 so base effects could have some impact. A pick-up in activity in the modern sector was largely responsible for the sharp rise output. Production in this sector was up 22.3% y-on-y in December, compared to a fall of 14.3% in the previous month. For the year as a whole, industrial production rose 4.6% in 2006, which is well up on the growth rates of 3.0% and 0.5% seen in the two previous years. Output in the modern sector was up 5.4%, while the more traditional industries showed y-on-y growth of

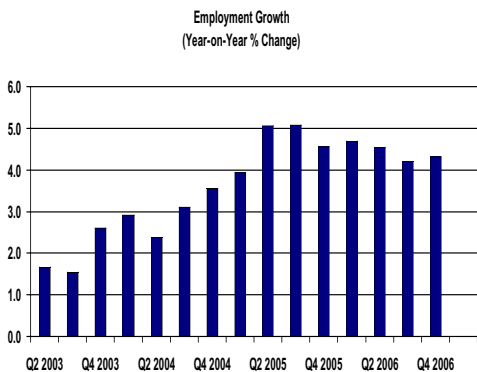


Source: Thomson Datastream

	Jan-07	Dec-06	Nov-06	Oct-06		Jan-07	Dec-06	Nov-06	Oct-06
<b>Production (Volume, % Change M/M)</b>					<b>Production (Volume, % Change Y/Y)</b>				
All Industries	N/A	19.4	-7.3	-1.9	All Industries	N/A	15.2	-10.3	5.5
Modern Sector	N/A	28.4	-9.9	0.5	Modern Sector	N/A	22.3	-14.3	6.6
All Other Industries	N/A	1.8	-1.8	-7.4	All Other Industries	N/A	0.6	-1.1	2.6
<b>EC Industrial Confidence</b>	5.7	6.2	2.6	2.8	<b>EC Production Expectations</b>	19.6	1.8	-7.0	4.0

### Labour Market

The latest QNHS data confirm that the labour market remained strong at end 2006. Overall, there were 85,500 jobs added in the year to Q4 2006, an increase of 4.3% year-on-year, which is up slightly on the 4.2% year-on-year increase recorded in Q3 last year. Jobs gains over the year to Q4 2006 were mainly in the public sector (notably health and education), construction and financial services areas. The unemployment rate fell slightly to 4.1%, compared to 4.4% a year earlier. The labour force grew by 82,900 or 4.0% in the year to Q4 2006. Non-Irish nationals remain an important driver of overall labour force and employment growth, accounting for over 50% of all jobs growth.



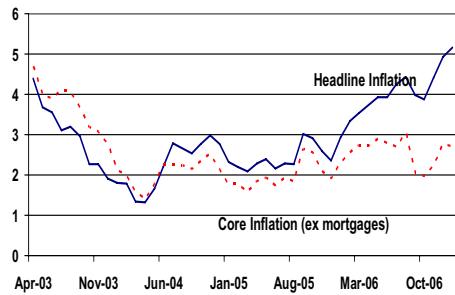
Source: Thomson Datastream

	Q4 2006	Q3 2006	Q2 2006	Q1 2006		Q3 2006	Q2 2006	Q1 2006	Q4 2005
<b>Total Employment (% Change)</b>					<b>Labour Force (% Change)</b>				
Q/Q	-0.4	2.8	1.0	0.9	Q/Q	1.1	0.7	-0.7	3.6
Y/Y	4.3	4.2	4.6	4.7	Y/Y	4.6	4.8	4.7	5.0
<b>Mainly Public Sector</b>									
Y/Y	8.3	6.8	8.0	7.6					
<b>Mainly Private Sector</b>					<b>Live Register (000's)</b>	<b>Jan-07</b>	<b>Dec-06</b>	<b>Nov-06</b>	<b>Oct-06</b>
Y/Y	3.2	3.5	3.6	3.9		156,300	156,700	156,400	155,600
					<b>Unemployment % (ILO)</b>	4.5	4.5	4.5	4.5

## Inflation

The annual headline rate of CPI inflation increased further to 5.2% in January from 4.9% in December. Headline inflation has more than doubled from 2.5% at the end of 2005 and the January figure was the highest inflation rate recorded since June 2001. The principal factors behind the sharp acceleration in inflation in recent months have been rising mortgage rates and the large increase in excise duty on cigarettes in the budget. Indeed, in the year to January 2007, increased housing costs were the main factor putting upward pressure on inflation. The housing component of the CPI rose by 23% over this period, principally due to a 48% rise in mortgage costs.

Headline & Core Inflation  
Year-on-Year % Change



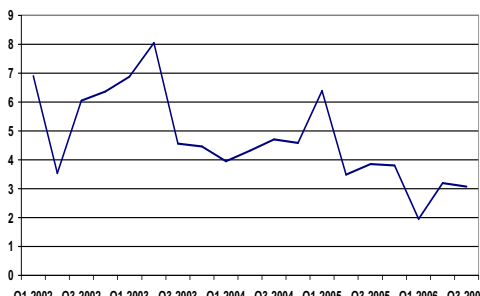
Source: Thomson Datastream

	Jan-07	Dec-06	Nov-06	Oct-06		Jan-07	Dec-06	Nov-06	Oct-06
<b>Consumer Prices (% Change)</b>					<b>HICP Ireland (Y/Y%)</b>	2.9	3.0	2.4	3.2
<b>Headline CPI</b>					<b>HICP Eurozone (Y/Y%)</b>	1.9	1.9	1.9	1.6
M/M	-0.1	0.4	0.4	-0.1	<b>Wholesale Price Index (% Change)</b>				
Y/Y	5.2	4.9	4.4	3.9	<b>Domestic Sales</b>				
<b>Core CPI (ex mortgages)</b>					M/M	1.1	-0.6	-1.1	0.3
M/M	-0.6	0.3	0.0	-0.1	Y/Y	-0.4	-1.8	-2.1	0.1
Y/Y	2.7	2.8	2.2	2.0					

## Wages

After a sharp decline in Q1-2006, the growth rate in industrial and manufacturing earnings recovered somewhat in Q2 and Q3. Earnings in manufacturing rose by a respective 3.1% y-on-y and 3.2% in Q3 and Q2 compared to 1.9% in Q1. The number of hours worked, however, fell again, dropping 0.2% y-on-y after falling 0.5% y-on-y in Q2. Meanwhile, the growth rate of average weekly earnings in construction picked up strongly in Q3, rising by 3.3% y-on-y, compared to growth of just 0.5% in Q2-2006. The y-on-y growth rate in average earnings in distribution and services remains steady at 5.3%. Meanwhile, growth in financial services earnings stood at 8.8% y-on-y in Q3-2006, compared to a growth rate of 7.3% in Q2-2006.

Weekly Earnings in Manufacturing  
(Year-on-Year % Change)



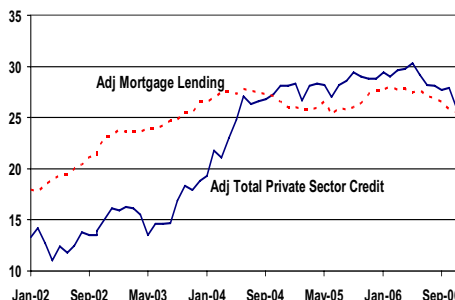
Source: Thomson Datastream

	Q3-2006	Q2-2006	Q1-2006	Q4-2005		Q3-2006	Q2-2006	Q1-2006	Q4-2005
<b>Avg Weekly Earnings (Y/Y %)</b>					<b>Avg Weekly Earnings (Y/Y %)</b>				
All Industry	3.5	3.5	2.3	3.2	Financial Services	8.8	7.3	4.2	5.1
Manufacturing	3.1	3.2	1.9	3.8	Distribution & Services	5.3	5.5	5.4	5.5
Building & Construction	3.3	0.5	-1.8	6.8	Public Sector (ex Health)	N/A	4.8	5.7	6.3

## Monetary Conditions/ Banking Statistics

The annual rate of growth in adjusted private sector credit averaged 28.7% in 2006, broadly unchanged from 28.2% in 2005. The demand for credit accelerated in the first half of the year, with a record growth rate of 30.3% seen in June. Since then, the annual growth rate has slowed, falling to 25.9% in December from 27.9% in November. While some of the slowdown over H2 2006 is likely due to higher interest rates, the fall in December was mainly related to an increase in securitised residential mortgages. The annual rate of growth in the demand for mortgages also remained strong in 2006, averaging 27.1%, but it too slowed over the course of the year, with the y-on-y growth rate at 25.5% in December, compared to a high of 28.0% in March.

Total Private Sector Credit & Mortgage Growth  
Year-on-Year % Change



Source: CBFSAI

	Dec-06	Nov-06	Oct-06	Sep-06		Jan-07	Dec-06	Nov-06	Oct-06
<b>CB Banking Statistics (Y/Y %)</b>					<b>USD/EUR (Avg)</b>	1.300	1.321	1.289	1.261
<b>Adj Private Sector Credit</b>	25.9	27.9	27.7	28.1	<b>Irish Trade Wghted Index</b>	103.5	102.9	103.2	103.3
<b>Adj Mortgage Credit</b>	25.5	25.8	26.5	26.9	<b>3-Mth Money (Avg)</b>	3.751	3.687	3.597	3.502
<b>Non-Mortgage Credit</b>	31.7	30.6	31.5	32.0	<b>10 Year Swap (Avg)</b>	4.257	4.039	3.949	4.037



<b>IRISH MACRO ECONOMIC FORECASTS</b>					
<i>Annual average % change unless otherwise stated</i>	<b>2004</b>	<b>2005</b>	<b>2006 (e)</b>	<b>2007 (f)</b>	<b>2008 (f)</b>
<b>Real GDP</b>	<b>4.3</b>	<b>5.5</b>	<b>6.2</b>	<b>5.5</b>	<b>4.5</b>
<b>Real GNP</b>	<b>3.9</b>	<b>5.3</b>	<b>7.0</b>	<b>6.0</b>	<b>4.5</b>
<b>Domestic Expenditure</b>	4.4	8.1	5.6	6.4	2.9
Personal Spending	3.8	6.6	6.5	7.5	3.5
Government Spending	1.8	4.6	5.0	5.0	3.5
Fixed Investment	7.4	12.8	4.2	5.0	1.5
Contribution of Stocks to GDP Growth	-0.8	-0.1	0.6	-0.3	0.1
Total Exports	7.3	3.9	5.8	5.5	5.8
Total Imports	8.6	6.5	5.7	6.5	4.0
Level of GDP (€bn, current prices)	147.6	161.1	177.0	193.0	207.0
Level of GNP (€bn, current prices)	124.3	136.1	149.5	163.0	175.0
<b>Industrial Production (Vol)</b>					
Total	0.5	3.0	4.6	4.0	4.0
Modern	-0.4	4.3	5.4	5.0	5.0
Other	2.6	0.4	2.8	2.0	2.0
<b>Housing</b>					
Average House Price Inflation (end year)	8.6	9.3	12.0	5.0	4.0
House Completions (CSO Basis '000)	77.0	86.0	88.0	85.0	78.0
<b>Labour Market</b>					
Labour Force Growth	2.8	4.6	4.5	4.0	3.0
Employment Growth	3.0	4.7	4.4	4.0	3.0
Unemployment Rate (%)	4.4	4.4	4.4	4.4	4.4
Net Immigration (Year to April '000)	31.6	53.4	70.0	75.0	65.0
<b>Costs and Prices</b>					
CPI	2.2	2.5	4.0	4.3	2.7
Core CPI	2.1	1.9	2.6	2.3	2.1
Irish HICP	2.3	2.2	2.7	2.5	2.3
Mfg Output Prices (Home Sales)	0.5	1.8	2.1	1.8	1.5
Earnings Growth (Whole Economy)	5.0	5.7	5.0	5.0	5.0
Unit Wage Costs (Whole Economy)	3.5	5.1	2.5	3.0	3.5
<b>External Account</b>					
Trade Balance (% of GNP)	+17.1	+14.3	+13.6	+12.8	+13.5
Current Account Balance (% of GNP)	-0.7	-3.1	-3.5	-3.9	-2.8
<b>Public Finances</b>					
General Gov. Balance (€ m)	2,166	1,745	4,000	3,800	2,000
General Gov. Balance (% GDP)	+1.5	+1.1	+2.3	+2.0	+1.0
General Gov. Debt /GDP ratio (%)	29.7	27.4	25.0	22.0	20.0
<b>Private Sector Finances</b>					
Real Personal Disposable Income	5.8	9.1	8.1	8.1	7.1
Personal Savings Ratio (%)	9.5	11.2	10.9	9.0	9.6
Private Sector Credit % (end year)	28.1	29.3	27.5	22.0	20.0
Personal Sector Debt/ Personal Disp. Income Ratio (%)	115.9	138.2	159.5	173.3	186.5
<i>Forecasts prepared by AIB's ERU, historical data sourced from CSO, Dept of Finance, DoE &amp; permanent tsb</i>					

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