

Irish Monthly Economic Bulletin - May 2007

Highlights

- The Irish economy grew by 6.0% in 2006, its fastest growth rate for six years. The pace of economic activity did moderate in the final quarter of last year and we expect a deceleration in the pace of GDP growth over this year and next. Our latest forecasts are for GDP growth of 5.0% for 2007 and 3.7% in 2008.
- The Irish CPI rate stayed above 5% in April. On the euro comparable measure, the HICP, inflation rate stood at 2.9% in April, well ahead of the eurozone average of 1.9%. While higher energy costs impacted negatively again last month, increased housing costs continue to be the main factor putting upward pressure on inflation.
- Housing market data continue to show that rising interest rates are impacting on activity levels, as well as dampening price pressures. Permanent tsb data for March showed the first monthly fall in house prices for more than 5 years. Meanwhile, leading indicators suggest a moderation in activity going forward.

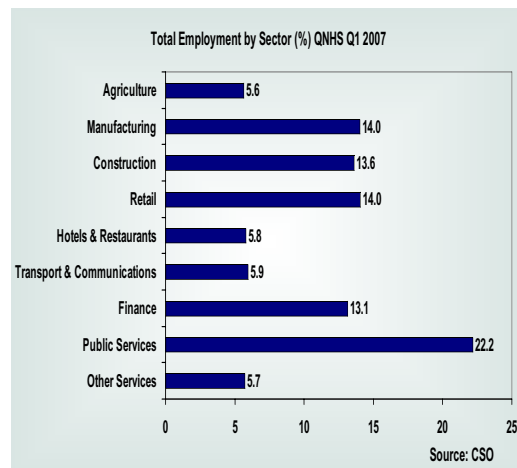
Pace of Jobs Growth Decelerates

The number of people employed grew by 76,800 or 3.8% in the year to Q1-2007. This compares to an annual growth rates of 4.3% in Q4-2006 and 4.7% in the same quarter last year, indicating that the pace of job creation has cooled somewhat. Nevertheless, labour market conditions remain tight, with the seasonally adjusted unemployment rate at 4.4%.

However, employment gains are being increasingly concentrated in a small number of sectors, which is of some concern. Despite evidence of a slowing in activity levels, the pace of jobs growth in construction remains strong, rising by 11.2% y-on-y in Q1. This sector alone accounted for 28,300 or 37% of the total increase in those employed. Construction now accounts for 13.6% of total employment.

Other sectors where jobs growth was particularly strong include the Health and Education sectors. Dominated by the public sector, employment in these sectors, grew by 8.0% and 6.9%, respectively, in Q1, accounting for 33% of the yearly employment gains. Meanwhile, annual jobs growth in the Hotels and Restaurants was measured at 6.2%.

The financial services sector has been one of the major contributors to employment growth over recent years. However, there was a marked decline in employment growth in the sector in Q1, with jobs growth up just 1.3%. However, the CSO indicated that this may be due to survey effects so we await the Q2 data with interest.



John Beggs
Chief Economist

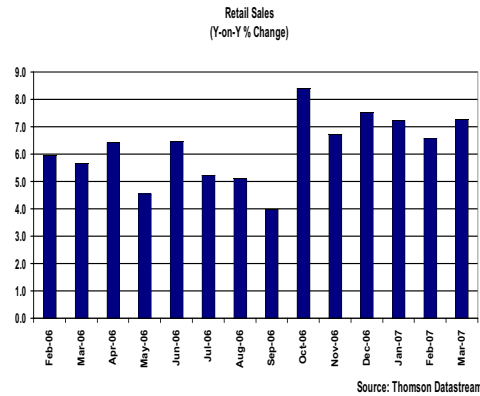
Oliver Mangan
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Consumer Sector

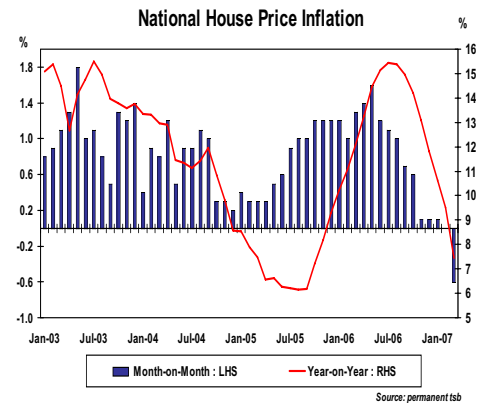
The volume of retail sales rose 1.0% in March and 7.2% in y-on-y terms. Core sales (excludes motor sector) were down -0.7% on the month but were still up 7.3% in y-on-y terms. While there is no evidence as yet of a splurge in spending, maturing SSIA funds should help underpin activity in the retail sector over 2007. However, there are some downside risks with interest rates rising, inflation high and consumer confidence a little shaky. After falling back in March, both the EC and ESRI/ IIB confidence indices picked up again in April, but remain off levels seen at the beginning of the year. The recovery is seen as tentative and consumers remain concerned about the outlook for the labour market.



	Mar-07	Feb-07	Jan-07	Dec-06	Apr-07	Mar-07	Feb-07	Jan-07
Retail Sales (Volume % Change)								
All Businesses								
M/M	1.0	-2.5	3.9	0.9				
Y/Y	7.3	6.6	7.2	7.5	5.5	6.8	6.2	7.9
Sales Ex Auto								
M/M	-0.7	1.2	0.1	0.5				
Y/Y	7.3	6.8	6.1	7.6				
Car Registrations (SIMI)								
Y/Y % Change Yr to Date								
EC Consumer Confidence								
					-8	-11	-6	-2
Savings Ratio (estimate)								
					<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
					11.0%	9.5%	9.2%	9.7%

Investment/Housing Market

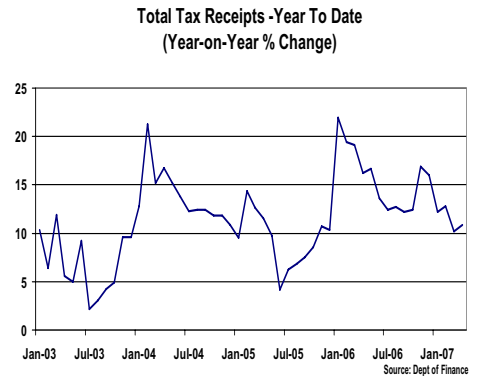
There were 25,982 housing units completed in the first four months of the year, an increase of 3.0% y-on-y. Forward looking indicators though point to a marked downturn in activity. Registrations were up 4.4% in April, but are still down 22.3% year to date after the 28% y-on-y decline recorded in Q1. Preliminary data, meanwhile, show commencements down almost 9.0% in Q1 2007. Deteriorating affordability conditions are also depressing house prices. According to permanent tsb data, house prices fell 0.6% in March, the first monthly drop in prices in more than five years. The annual rate of house price inflation fell to 7.4% from 9.5% in February. We expect the pace of price increases to moderate further over the course of 2007.



	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Apr-07	Mar-07	Feb-07	Jan-07
Fixed Investment (% Change)								
Q/Q	10.3	3.9	-2.6	-5.9				
Y/Y	5.1	7.9	-4.5	7.8	N/A	-0.6	0.0	0.1
Housing Output								
Y/Y	-1.7	4.1	6.3	3.1	N/A	7.4	9.5	10.6
Non-Residential Construction								
Y/Y	17.2	11.3	6.1	11.4				
House Price Inflation % (Permanent TSB)								
M/M								
Y/Y								
Housing Registrations (Homebond, DoE, Premier)								
Actual Yr to Date					17,346	13,277	8,135	3,776
Y/Y % Change Yr to Date					-22.3	-28.0	-30.9	-17.7

Public Finances

An Exchequer deficit of €638m was recorded in the year to April. This compares with a surplus of €496mn in April 2006. Tax receipts were up 10.8% y-on-y, compared to projected growth of 8% and March's annual growth rate of 10.2%. Growth in VAT receipts picked up pace rising by 11.3% y-on-y, compared to 10.3% in March, indicating a healthy pace of consumer spending. Meanwhile, stamp duties have yet to show any real evidence of the slowing in housing transactions, with revenues here up 17.2% y-on-y, compared to 12.8% in March. On the expenditure side, net voted spending was up 21.3%, which is in some part due to a very sharp rise in capital spending. Base effects also impacted given that the growth in spending was relatively low in April 2006.

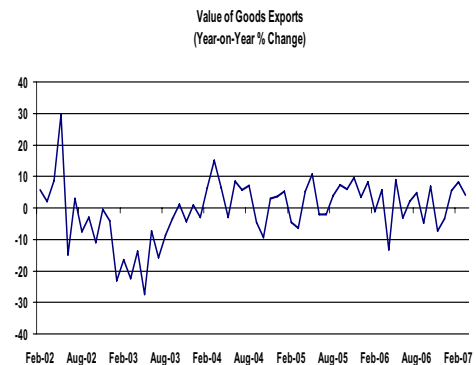


	Apr-07	Mar-07	Feb-07	Jan-07	Apr-07	Mar-07	Feb-07	Jan-07
Voted Govt Spending (Cbn)								
Y/Y % (Cumulative)	21.3	17.9	17.8	23.8	-0.64	1.86	2.20	1.69
General Govt Balance as % of GDP	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>				
	2.9	1.0	1.5	0.4				
General Govt Debt as % of GDP								
	24.9	27.4	29.7	31.1				
Exch Bal Yr to Date (Cbn)								
Tax Revenues (Y/Y % Change)								
Total Tax					10.8	10.2	12.8	12.2
Income Tax					9.6	8.8	8.2	-0.8
VAT					11.3	10.3	12.4	14.6
Excise Duties					3.2	1.3	2.8	1.7
Corporation Tax					8.7	14.2	18.2	58.8
Stamp Duties					17.2	12.8	22.1	19.2

Source - Dept of Finance

Trade/Balance of Payments

The volume of exports of goods and services rose by 4.9% y-on-y in 2006, up from 3.9% in 2005. However, the data were flattered by a very strong performance by service exports. Goods exports were virtually flat, rising by just 0.5%, while service exports rose by a much more robust 12.8%. Only value data for merchandise trade are available for the first quarter of 2007 but these do suggest a better performance going forward. The value of merchandise exports rose by 5.7% y-on-y in Q1-2007, compared to a fall of 1.6% in Q4-2006. This represents the strongest pace of quarterly growth since Q4-2005. On the import side the latest show the value of exports up 6.0%, compared to 3.5% in Q4-2006.

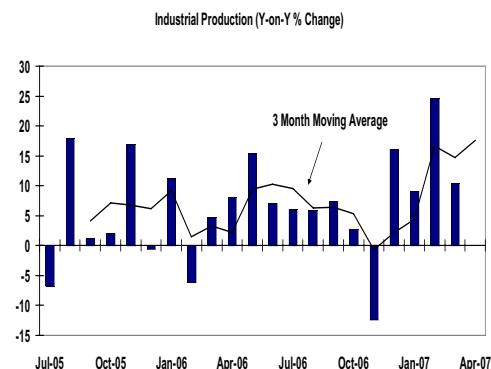


Source: Thomson Datastream

	Q4 2006	Q3 2006	Q2 2006	Q1 2006		Mar-07	Feb-07	Jan-07	Dec-06
External Trade (Volume,%) <i>(Goods & Services)</i>					Monthly Trade (Value, %)				
Exports					Exports				
Q/Q	2.7	0.0	2.9	-3.7	M/M	1.2	-2.4	7.3	1.9
Y/Y	1.7	6.6	4.2	7.7	Y/Y	4.0	8.3	5.4	-3.3
Imports					Imports				
Q/Q	9.6	-2.1	1.8	-5.2	M/M	0.0	-0.3	4.7	-0.4
Y/Y	3.6	3.7	5.5	8.8	Y/Y	0.0	7.4	12.3	-4.6
					Trade Surplus (€ mn S/A)	2,319	2,144	2,317	2,032

Industrial Production

Industrial production was up 5.0% y-on-y in 2006, compared to growth of 3.0% in 2005, with a rebound in activity in the modern sector (which includes high tech and chemical sectors) largely responsible for the improved performance. The latest monthly data show a strong start to 2007, with output from all industries up 13.1% y-on-y in Q1. This is the fastest pace of quarterly growth since Q4-2003 and represents a significant improvement on the performance seen in H2 last year. The modern sector continues to be the main growth driver, with output from this sector showing an annual increase of 16.6% y-on-y in Q1. A more subdued, but still impressive growth rate of increase of 5.4% y-on-y, was recorded in the more traditional sector.

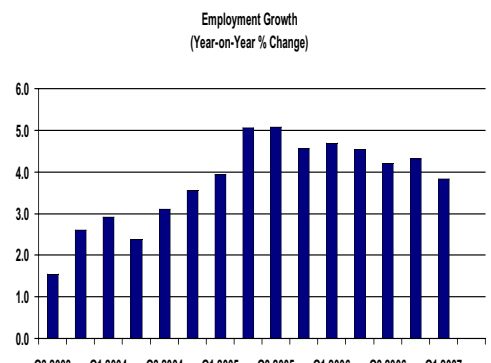


Source: Thomson Datastream

	Apr-07	Mar-07	Feb-07	Jan-07		Apr-07	Mar-07	Feb-07	Jan-07
Production (Volume, % Change M/M)					Production (Volume, % Change Y/Y)				
All Industries	N/A	-2.3	-4.1	6.5	All Industries	N/A	9.8	23.0	8.7
Modern Sector	N/A	-2.0	-7.4	9.9	Modern Sector	N/A	12.2	31.1	10.1
All Other Industries	N/A	-3.8	1.3	3.1	All Other Industries	N/A	4.4	7.0	5.4
EC Industrial Confidence	4.1	4.4	7.1	5.7	EC Production Expectations	11.5	15.4	15.6	11.5

Labour Market

There were 76,800 jobs created in the year to Q1 2007, an increase of 3.8% over the same period in 2006. While this represents solid employment growth, it is still down on the annual growth rate of 4.3% seen in the previous quarter. However, with labour market conditions still relatively tight the seasonally adjusted unemployment rate was at 4.4% in Q1. Jobs gains were concentrated in a small number of sector, with growth in the construction sector particularly strong (see page 1 for further details of the QNHS). The Live Register stood at 158,200 in April up 700 on March, but down 200 on the same month in 2006. Redundancies in the year to April 2007 were 8,759, an increase of 13.0% on the same period last year.

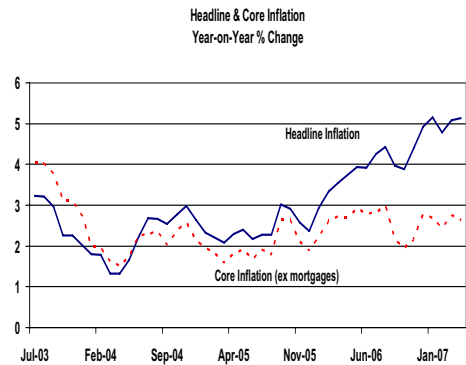


Source: Thomson Datastream

	Q1 2007	Q4 2006	Q3 2006	Q2 2006		Q1 2007	Q4 2006	Q3 2006	Q2 2006
Total Employment (% Change)					Labour Force (% Change)				
Q/Q	0.4	-0.4	2.8	1.0	Q/Q	0.6	-1.1	3.3	1.1
Y/Y	3.8	4.3	4.2	4.6	Y/Y	3.9	4.0	4.4	4.6
Mainly Public Sector									
Y/Y	6.4	8.3	6.8	8.0					
Mainly Private Sector					Live Register (000's)	Apr-07	Feb-07	Jan-07	Jan-07
Y/Y	3.2	3.2	3.5	3.6		158,200	157,800	156,300	156,300
					Unemployment % (ILO)	4.3	4.3	4.2	4.2

Inflation

The Irish CPI rate stayed above 5% in April, with prices rising 0.8% on the month. On the euro comparable measure, the HICP inflation rate stood at 2.9% in April, well ahead of the eurozone average of 1.9%. While higher energy costs impacted negatively again last month, increased housing costs continue to be the main factor putting upwards pressure on inflation. The annual CPI rate excluding mortgage interest payments stood at 2.6% in April. The marked difference between underlying and headline inflation indicates the extent to which rising interest rates are impacting on the CPI. The annual rate of services inflation stood at 9.1% in April, with goods inflation at 0.4%.

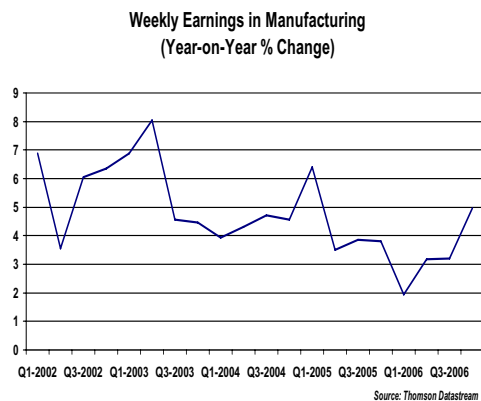


Source: Thomson Datastream

	Apr-07	Mar-07	Feb-07	Jan-07		Apr-07	Mar-07	Feb-07	Jan-07
Consumer Prices (% Change)					HICP Ireland (Y/Y%)	2.9	2.9	2.6	2.9
Headline CPI					HICP Eurozone (Y/Y%)	1.9	1.9	1.8	1.8
M/M	0.8	0.7	0.8	-0.1					
Y/Y	5.1	5.1	4.8	5.2	Wholesale Price Index (% Change)				
Core CPI (ex mortgages)					Domestic Sales				
M/M	-0.6	0.6	0.9	-0.6	M/M	-0.3	-0.2	-0.6	1.1
Y/Y	2.7	2.7	2.5	2.7	Y/Y	-1.5	-1.4	-1.6	-0.4

Wages

After modest growth in the first three quarters of last year, the pace of growth in industrial and manufacturing earnings picked up considerable pace in Q4. Earnings in manufacturing rose by a 5.0% y-on-y in Q4, compared to an average 2.8% in the previous three quarters. The number of hours worked, however, fell again, dropping 0.2% y-on-y after falling 1.2% y-on-y in the previous three quarters. Meanwhile, earnings in construction rose by 2.9% y-on-y in Q4, compared to growth of 3.1% in Q3. The y-on-y growth rate in average earnings in distribution and services was strong at the end of last year, rising by 6.8% y-on-y in Q4. Reflecting the strength of the sector, the rate of growth in earnings in services outpaced that of the distribution sector.

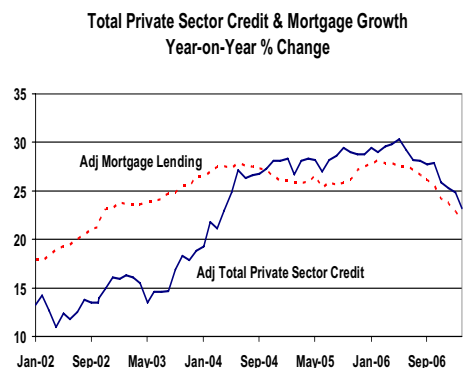


Source: Thomson Datastream

	Q4-2006	Q3-2006	Q2-2006	Q1-2006		Q4-2006	Q3-2006	Q2-2006	Q1-2006
Avg Weekly Earnings (Y/Y %)					Avg Weekly Earnings (Y/Y %)				
All Industry	5.3	3.5	3.5	2.3	Financial Services	9.6	8.7	7.3	4.2
Manufacturing	5.0	3.2	3.2	1.9	Distribution & Services	6.8	5.5	5.5	5.4
Building & Construction	2.9	3.1	0.5	-1.8	Public Sector (ex Health)	N/A	4.2	4.8	5.7

Monetary Conditions/ Banking Statistics

There was a further deceleration in the pace of growth in private sector credit in March. The annual rate of growth in adjusted PSC fell to 23.2%, down from 24.8% in February. This is the slowest rate of increase for nearly three years. The annual growth rate in mortgage lending (adjusted for securitisations and reclassifications) also continued to decelerate, falling for the seventh month in a row. The growth rate now stands at 22.0%, compared to 22.9% in February and a high of 27.8% in May 2006. While the demand for mortgage finance is cooling, growth in the demand for non-mortgage credit continues to expand at a relatively rapid pace. The adjusted annual growth rate was 30.8% in February, virtually unchanged from 30.9% in February.



Source: CBFSAI

	Mar-07	Feb-07	Jan-07	Dec-06		Apr-07	Mar-07	Feb-07	Jan-07
CBFSAI Banking Statistics (Y/Y %)					USD/EUR (Avg)	1.352	1.324	1.308	1.300
Adj Private Sector Credit	23.2	24.8	25.3	25.9	Irish Trade Wghted Index	N/A	106.3	105.5	105.1
Adj Mortgage Credit	22.0	22.9	23.7	24.2	3-Mth Money (Avg)	3.972	3.891	3.818	3.751
Non-Mortgage Credit	30.9	30.8	30.9	31.7	10 Year Swap (Avg)	4.413	4.204	4.278	4.257

Source - Thomson Datastream, CBFSAI



IRISH MACRO ECONOMIC FORECASTS					
<i>Annual average % change unless otherwise stated</i>	2004	2005	2006 (e)	2007 (f)	2008 (f)
Real GDP	4.3	5.5	6.0	5.0	3.7
Real GNP	3.9	5.3	7.4	5.3	4.0
Domestic Expenditure	4.4	8.1	5.2	5.2	2.5
Personal Spending	3.8	6.6	6.2	7.0	4.0
Government Spending	1.8	4.6	4.1	5.0	3.5
Fixed Investment	7.4	12.8	3.9	2.0	-1.0
Contribution of Stocks to GDP Growth	-0.8	-0.1	1.1	-0.5	-0.3
Total Exports	7.3	3.9	4.9	6.0	5.3
Total Imports	8.6	6.5	5.3	6.0	3.8
Level of GDP (€bn, current prices)	147.6	161.1	175.8	189.0	200.5
Level of GNP (€bn, current prices)	124.3	135.9	150.3	162.0	172.0
Industrial Production (Vol)					
Total	0.4	3.1	5.0	7.0	4.5
Modern	-0.4	4.3	6.7	9.0	5.8
Other	2.6	0.4	1.5	3.0	2.0
Housing					
Average House Price Inflation (end year)	8.6	9.3	11.8	3.0	3.0
House Completions (CSO Basis '000)	77.0	86.0	88.2	82.5	75.0
Labour Market					
Labour Force Growth	2.8	4.6	4.5	3.5	2.5
Employment Growth	3.0	4.7	4.4	3.4	1.9
Unemployment Rate (%)	4.4	4.4	4.4	4.5	5.0
Net Immigration (Year to April '000)	31.6	53.4	70.0	75.0	50.0
Costs and Prices					
CPI	2.2	2.5	4.0	4.7	2.6
Core CPI	2.1	1.9	2.6	2.5	2.1
Irish HICP	2.3	2.2	2.7	2.7	2.3
Mfg Output Prices (Home Sales)	0.5	1.8	2.1	1.9	1.0
Earnings Growth (Whole Economy)	5.0	5.7	5.0	5.0	5.0
Unit Wage Costs (Whole Economy)	3.5	5.1	2.1	3.6	3.7
External Account					
Total Trade Balance* (% of GNP)	+17.1	+14.4	+12.6	+11.7	+12.2
Current Account Balance (% of GNP)	-0.6	-3.1	-3.9	-4.3	-3.4
(* Goods and Services)					
Public Finances					
General Gov. Balance (€ m)	2,166	1,623	5,031	2,300	1,000
General Gov. Balance (% GDP)	+1.5	+1.0	+2.9	+1.2	+0.5
General Gov. Debt /GDP ratio (%)	29.7	27.4	24.9	22.0	20.0
Private Sector Finances					
Real Personal Disposable Income	5.8	9.6	7.4	9.2	6.7
Personal Savings Ratio (%)	9.5	11.0	9.7	9.2	9.4
Private Sector Credit % (end year)	28.1	28.8	25.9	20.0	17.0
Personal Sector Debt/ Personal Disp. Income Ratio (%)	115.9	138.5	150.0	160.6	171.7
<i>Forecasts prepared by AIB's ERU, historical data sourced from CSO, Dept of Finance, DoE & permanent tsb</i>					

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