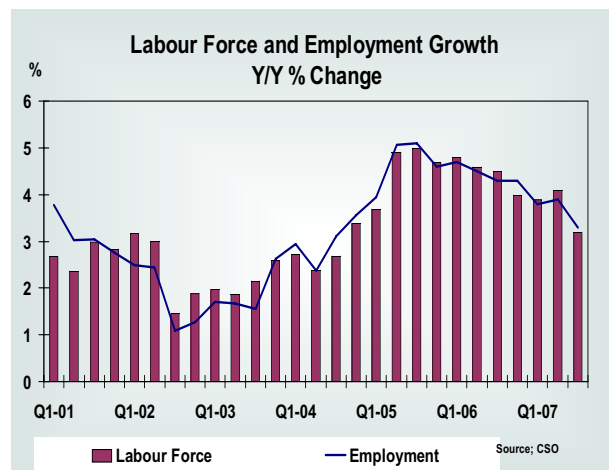


Irish Monthly Economic Bulletin - November 2007

LABOUR MARKET BEGINS TO SOFTEN

The latest Quarterly National Household Survey (QNHS) data show that the economy continued to experience very strong labour force and employment growth in the first three quarters of this year. However, the growth rates for both are decelerating as labour market conditions begin to soften. The labour force grew by 3.2% yoy in Q3 2007, down from 4.1% in Q2 and 4.5% in 2006. Meantime, employment growth eased to 3.3% yoy in Q3 from 3.9% in Q2. It compares to job growth of 4.4% recorded in 2006, and a peak rate of over 5% reached in mid-2005.

Net inward migration is estimated to have accounted for 70%, or 48,000, of the 69,000 increase in the labour force in the year to Q3 2007, with rising participation rates accounting for another 13%, or 9,000, of the increase. This implies that only 12,000, or 17%, of the increase in the labour force was due to indigenous population growth.



Employment grew by 67,600, or 3.3%, in the year to Q3 2007. However, over half (36,800) of the job growth was in part-time employment, another sign of a softening labour market. Of particular interest also is the fact that the number of non-Irish nationals in employment rose by 48,400, while the number of Irish nationals increased by just 19,200 in the year to Q3 2007. Thus, inward migration was the prime source of employment growth.

Employment growth was concentrated in a number of service sectors, with financial and other business services adding 28,700 jobs in the year to Q3, while retailing and hotels/restaurants added 11,800 and 9,400, respectively. Services largely located in the public sector - health, education and public administration - added 21,800 jobs. Meanwhile, the construction sector saw employment grow by a modest 4,800 in the year. The unemployment rate remains very low at 4.4%, thanks to a sharp slowdown in the growth rate of the indigenous labour force.

Looking ahead, the Irish labour market is likely to experience a continued slowdown in job growth. The growth in construction employment has already slowed sharply. By end 2007, growth in construction employment is likely to have turned negative on a year-on-year basis. We expect construction employment to contract by 7% in 2008, with new housing output expected to be down by a third from its peak. While other sectors of the construction industry are expected to remain strong, the sector as a whole could shed 25,000 jobs by end 2008.

Meanwhile, employment growth in other sectors of the economy looks set to moderate in 2008, most notably in both public and private sector services, as fiscal policy turns less expansionary and growth in domestic spending slows sharply. Employment growth could slow to just 1.2% next year. However, the slowdown in labour force growth is also likely to continue, with a fall off in the pace of inward migration in particular. This will help curtail the rise in unemployment. Nonetheless, the jobless rate could still rise to 5.2% in 2008 from 4.5% in 2007.

John Beggs
Chief Economist

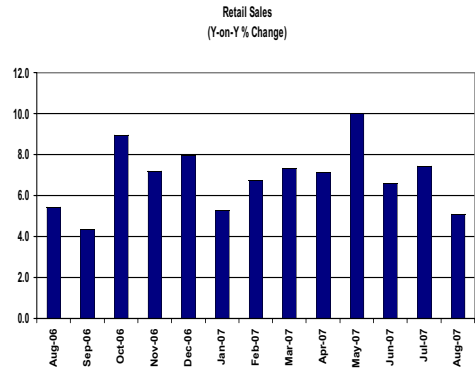
Oliver Mangan
Chief Bond Economist

Geraldine Concagh
Senior Economist

Jenny Pollock
Senior Economist

Consumer Sector

The latest retail sales data point to some weakening in consumer spending, primarily due to a downturn in car sales. Retail sales in July/August were down 0.2% on their level in Q2. The year-on-year growth rate slipped to 5.1% in August, its lowest level since September 2006. Excluding the motor trade, though, retail sales in July/August were up by 0.6% on Q2 levels. The weakness in car sales is continuing, with new registrations down by 6% and 5% y-o-y in September and October, respectively. Both the EC and ESRI/IIB consumer confidence indices remain weak. The pick up in EC index in September proved temporary as it declined again in October. The ESRI/IIB sentiment index, meanwhile, remains mired at very low levels.

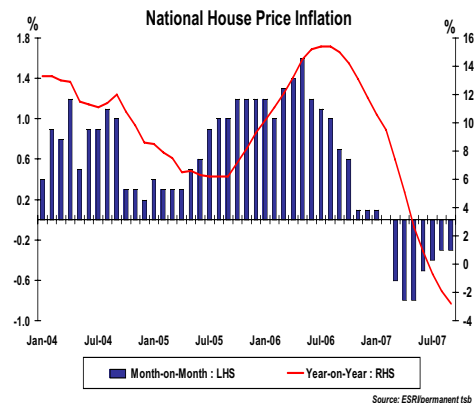


Source: Thomson Datastream

	Aug-07	Jul-07	Jun-07	May-07		Oct-07	Sep-07	Aug-07	Jul-07
Retail Sales (Volume % Change)					Car Registrations (SIMI)				
All Businesses					Y/Y % Change Yr to Date	5.0	5.1	5.6	6.0
M/M	-1.1	0.3	-0.4	0.7	EC Consumer Confidence	-12	-5	-10	-12
Y/Y	5.1	7.5	6.6	10.0		2006	2005	2004	2003
Sales Ex Auto					Savings Ratio (estimate)	7.8%	8.3%	8.4%	9.0%
M/M	-1.2	2.3	-2.6	1.9					
Y/Y	5.1	7.4	5.2	9.0					

Investment/Housing Market

Housing completions fell by 23% y-o-y in Q3, having been broadly flat in H1 2007. Forward looking indicators are pointing to a further sharp fall in completions over the next year. Registrations fell by 57% y-o-y in October and are down 41.5% year to date. Commencements, meanwhile, were down 31% in the first nine months of the year. Deteriorating affordability conditions are impacting on house prices which have been in decline since February. According to permanent tsb data, prices fell another 0.3% in September for a 2.8% y-o-y decline. The decline is more pronounced for existing house prices which fell by 4.8% y-o-y in September compared to a 1.9% fall in new house prices. However, the overall rate of price decline has eased in recent months.

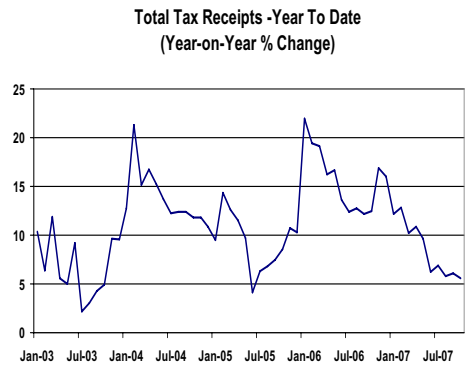


Source: ESRI/permanent tsb

	Q2 2007	Q1 2007	Q4 2006	Q3 2006		Oct-07	Sep-07	Aug-07	Jul-07
Fixed Investment (% Change)					House Price Inflation % (Permanent TSB)				
Q/Q	-3.0	1.0	-5.2	14.0	M/M	N/A	-0.3	-0.3	-0.4
Y/Y	5.9	9.9	0.5	-2.1	Y/Y	N/A	-2.8	-1.9	-0.7
Housing Output					Housing Registrations (Homebond, DoE, Premier)				
Y/Y	-7.8	0.2	-4.1	5.7	Actual Yr to Date	34,417	32,232	29,701	27,567
Non-Residential Construction					Y/Y % Change Yr to Date	-41.5	-40.0	-37.3	-34.8
Y/Y	22.8	10.3	7.7	0.1					

Public Finances

An Exchequer deficit of €3,942m was recorded in the year to October, compared with a deficit of just €346m at October 2006. Tax receipts were up 5.6% y-on-y at end October, compared to a target rise of 7.5% for the period and well down on the 16.0% growth recorded for 2006. Growth in income tax receipts continues to hold up well and they are €300m ahead of target. However, stamp duties are showing clear signs of the slowing in housing transactions, and were down by 9.0% y-on-y, running €470m behind target. Excise duties, capital taxes and VAT receipts are also behind schedule. Total tax receipts could undershoot target by close to €1billion this year. Net spending will also undershoot target, though, because of savings in debt interest payments.



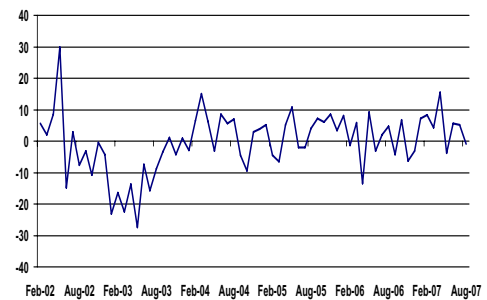
Source: Dept of Finance

	Oct-07	Sep-07	Aug-07	Jul-07		Oct-07	Sep-07	Aug-07	Jul-07
Voted Govt Spending (€bn)					Exch Bal Yr to Date (€bn)	-3.94	-3.10	-2.88	-1.33
Y/Y % (Cumulative)	17.5	18.0	19.8	20.3	Tax Revenues (Y/Y % Change)				
	2006	2005	2004	2003	Total Tax	5.6	6.1	5.8	6.9
General Govt Balance					Income Tax	12.6	11.8	12.5	13.0
as % of GDP	2.9	1.0	1.5	0.4	VAT	10.0	9.9	10.8	12.0
General Govt Debt					Excise Duties	3.1	3.7	3.7	5.6
as % of GDP	24.9	27.4	29.7	31.1	Corporation Tax	-13.4	-14.2	-26.0	-26.7
					Stamp Duties	-9.0	-6.0	-2.1	1.5

Trade/Balance of Payments

The volume of exports of goods and services rose strongly in the first half of the year, increasing by 7.7%, up from 4.4% in 2006. Goods exports were up by 5.6%, boosted by very strong chemical exports, while service exports rose by 11%. The volume of imports of goods and services rose by 5.7% in H1 2007. Goods imports were strong, boosted by imports of machinery and equipment and rose by 7.1%. Services imports rose by a modest 4.2%. Despite these trends, the current account deficit rose to €5billion in H1 2007, up from €4.23billion a year earlier, on a marked rise in net investment income outflows. Merchandise trade data for July and August show slower growth in exports and imports but export growth still outpacing imports.

Value of Goods Exports
(Year-on-Year % Change)



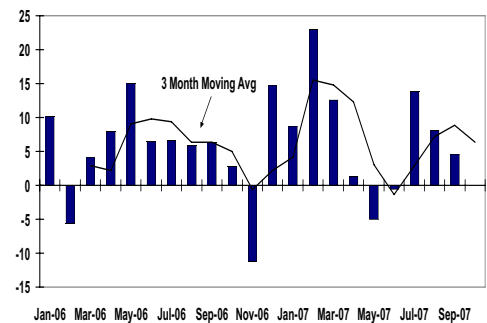
Source: Thomson Datastream

	Q2 2007	Q1 2007	Q4 2006	Q3 2006		Aug-07	Jul-07	Jun-07	May-07
External Trade (Volume, %) <i>(Goods & Services)</i>					Monthly Trade (Value, %)				
Exports					Exports				
Q/Q	1.7	1.8	4.3	-0.8	M/M	-4.5	6.4	-1.0	-2.8
Y/Y	7.1	8.3	3.3	4.6	Y/Y	-0.9	5.1	5.5	-3.9
Imports					Imports				
Q/Q	-1.6	-3.2	13.1	-3.6	M/M	-0.5	1.8	-4.2	16.1
Y/Y	3.7	7.6	3.7	0.9	Y/Y	-2.9	4.4	-4.2	6.0
					Trade Surplus (€ mn S/A)	2,320	2,645	2,269	2,120

Industrial Production

Manufacturing activity has picked up considerable pace this year, with industrial output increasing by 7% in the first nine months of the year compared with increases of 5% and 3% in 2006 and 2005, respectively. High-tech industries are performing strongly, with output up by 8.7% y-o-y to September. Output in the indigenous sector was up by almost 3.6%, with 2007 likely to be the best year for the sector so far this decade. The data for Q3 show a sharp rebound in output after a marked decline in Q2. The chemical sector, in particular, registered very strong output growth in Q3, rising by almost 20% on Q2 levels. Overall, total industrial output was up by 8.6% in Q3 on year earlier levels.

Industrial Production (Y-on-Y % Change)



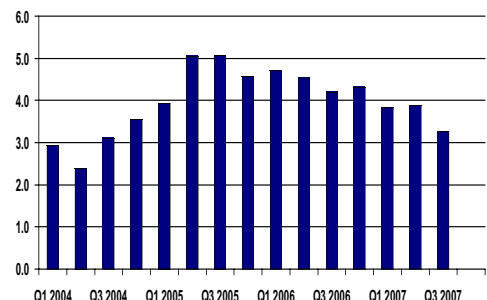
Source: Thomson Datastream

	Oct-07	Sep-07	Aug-07	Jul-07		Oct-07	Sep-07	Aug-07	Jul-07
Production (Volume, % Change M/M)					Production (Volume, % Change Y/Y)				
All Industries	N/A	-4.0	-6.1	14.4	All Industries	N/A	4.6	8.1	13.9
Modern Sector	N/A	-6.0	-10.0	19.8	Modern Sector	N/A	5.9	8.7	20.8
All Other Industries	N/A	1.2	2.9	3.5	All Other Industries	N/A	1.7	6.5	0.9
EC Industrial Confidence	4.5	2.4	2.1	-0.4	EC Production Expectations	6.2	19.5	7.7	7.1

Labour Market

There are signs that labour market conditions are beginning to soften. In the year to Q3 2007, 67,400 jobs were created, an increase of 3.3%. While this represents solid job creation, the rate of employment growth has slowed from 4.4% in 2006. Notably, the pace of employment growth in the construction sector had moderated to 1.7% y-on-y by Q3, from 10% in 2006. Meanwhile, with labour force growth also slowing, in line with job growth, the unemployment rate remained low in Q3 at 4.4%, the same as in 2006. The Live Register, though, has been edging up and stood at 164,700 in October, up 9,000 on the same month in 2006. Meanwhile, there were 17,328 redundancies in the year to September (+10.9% y-on-y), a further sign of a softening job market.

Employment Growth
(Year-on-Year % Change)

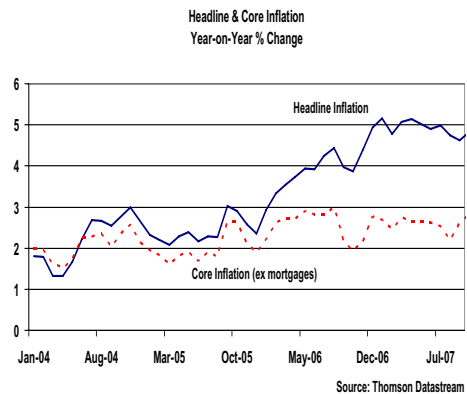


Source: Thomson Datastream

	Q3 2007	Q2 2007	Q1 2007	Q4 2006		Q3 2007	Q2 2007	Q1 2007	Q4 2006
Total Employment (% Change)					Labour Force (% Change)				
Q/Q	2.2	1.0	0.4	-0.4	Q/Q	2.4	1.3	0.6	-1.1
Y/Y	3.3	3.9	3.8	4.3	Y/Y	3.2	4.1	3.9	4.0
Mainly Public Sector					Unemployment % (S.A.)	4.4	4.5	4.4	4.2
Y/Y	5.0	3.9	6.4	8.3					
Mainly Private Sector					Live Register (000's)	Oct-07	Sep-07	Aug-07	Jul-07
Y/Y	2.8	3.9	3.2	3.2		164,700	164,200	162,000	163,000

Inflation

Inflation picked up again in October, with the headline CPI rate accelerating to 4.8% y-o-y from 4.6% in September as food prices jumped by 1.4% in the month. The core measure, which excludes mortgage interest payments, also accelerated, rising to 2.8% y-o-y from 2.6% in September. Higher food and energy prices will put upward pressure on the CPI over the balance of the year. However, the hikes in excise duty and mortgage rates in the final two months of last year will act as positive basis effects as they drop out of the annual rate. Thus, the annual headline CPI rate could fall to 4.5% by end year, with a much bigger decline in prospect in H1 2008 as more mortgage rate hikes drop out of annual rate.



	Oct-07	Sep-07	Aug-07	Jul-07		Oct-07	Sep-07	Aug-07	Jul-07
Consumer Prices (% Change)					HICP Ireland (Y/Y%)	3.0	2.9	2.3	2.7
Headline CPI					HICP Eurozone (Y/Y%)	2.6	2.1	1.7	1.8
M/M	0.1	0.3	0.5	0.3	Wholesale Price Index (% Change)				
Y/Y	4.8	4.6	4.8	5.0	Domestic Sales				
Core CPI (ex mortgages)					M/M	N/A	-0.3	0.8	0.2
M/M	0.1	0.3	0.4	-0.2	Y/Y	N/A	1.4	1.8	1.2
Y/Y	2.8	2.6	2.2	2.5					

Wages

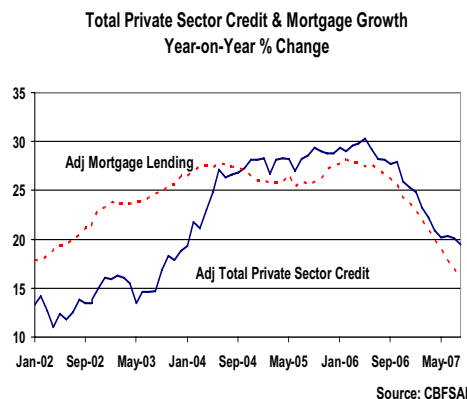
After modest growth in 2006, the pace of growth in industrial and construction earnings picked up pace in H1 2007. Average weekly industrial earnings rose by 5% y-on-y in H1-07, up from 3.2% in 2006. Meanwhile, average weekly earnings in construction also rose by 5% y-on-y in H1, well up on 2006's growth rate of 1.7%. The y-on-y growth rate in average weekly earnings in distribution and services eased back in H1 2007 to 5.0% y-on-y after a 5.8% rise in 2006. Growth in wages in financial services remains very robust, averaging 7.5% y-o-y in H1 2007 after a rise of 6.9% in 2006. Meanwhile, in the public sector, growth in average weekly earnings picked up to over 5% in H1 2007 after growth of 4.5% in 2006.



	Q2-2007	Q1-2007	Q4-2006	Q3-2006		Q2-2007	Q1-2007	Q4-2006	Q3-2006
Avg Weekly Earnings (Y/Y %)					Avg Weekly Earnings (Y/Y %)				
All Industry	4.9	4.9	4.8	3.5	Financial Services	6.3	9.7	9.6	8.7
Manufacturing	5.1	5.0	4.3	3.2	Distribution & Services	5.2	4.7	6.7	5.5
Building & Construction	4.5	5.5	2.3	3.1	Public Sector (ex Health)	5.5	4.7	3.5	4.0

Monetary Conditions/ Banking Statistics

The rate of growth in private sector credit fell to 19.5% y-o-y in September, well down from the peak of 30% in June last year, although the rate of decline did slow over the summer. The annual growth rate in mortgage lending (adjusted for securitisations and reclassifications) also continues to decelerate, reflecting the downturn in the housing sector. The growth rate stood at 16.1% y-o-y in September, and has fallen by around 1% every month year to date. Demand for non-mortgage credit also continues to moderate, in part reflecting lower lending to the construction and real estate sectors. The adjusted y-on-y rate fell to 24.5% in September. Meanwhile, both the exchange rate and interbank rates have risen in recent months.



	Sep-07	Aug-07	Jul-07	Jun-07		Oct-07	Sep-07	Aug-07	Jul-07
CBFSAI Banking Statistics (Y/Y %)					USD/EUR (Avg)	1.423	1.391	1.362	1.372
Adj Private Sector Credit	19.5	20.1	20.3	20.2	Irish Trade Wghted Index	N/A	107.94	106.99	107.19
Adj Mortgage Credit	16.1	17.0	17.9	19.0	3-Mth Money (Avg)	4.687	4.742	4.544	4.216
Non-Mortgage Credit	24.5	25.0	25.9	26.3	10 Year Swap (Avg)	4.642	4.623	4.693	4.856

Source - Thomson Datastream, CBFSAI



IRISH MACRO ECONOMIC FORECASTS					
<i>Annual average % change unless otherwise stated</i>	2005	2006	2007 (f)	2008 (f)	2009 (f)
Real GDP	5.9	5.7	4.8	3.3	4.2
Real GNP	4.9	6.5	4.5	3.2	4.3
Domestic Expenditure	8.0	4.9	4.3	0.8	3.5
Personal Spending	7.3	5.7	6.3	3.5	4.0
Government Spending	4.0	5.3	5.2	3.0	3.0
Fixed Investment	11.8	3.1	0.2	-5.7	2.7
Contribution of Stocks to GDP Growth	-0.1	0.8	-1.1	0.5	0.0
Total Exports	5.2	4.4	7.5	6.0	5.0
Total Imports	6.6	4.4	5.8	4.0	4.3
Level of GDP (€bn, current prices)	161.5	174.7	187.8	199.0	212.0
Level of GNP (€bn, current prices)	135.7	149.1	159.8	169.0	180.0
Industrial Production (Vol)					
Total	3.1	5.2	8.5	5.0	4.0
Modern	4.3	6.7	10.0	6.0	5.0
Other	0.4	1.5	5.0	2.5	1.5
Housing					
Average House Price Inflation (end year)	9.3	11.8	-5.0	0.0	3.0
House Completions (CSO Basis '000)	86.0	88.2	77.0	57.0	55.0
Labour Market					
Labour Force Growth	4.6	4.5	3.5	1.9	1.9
Employment Growth	4.7	4.4	3.4	1.2	1.5
Unemployment Rate (%)	4.4	4.4	4.5	5.2	5.6
Net Immigration (Year to April '000)	53.4	70.0	75.0	60.0	40.0
Costs and Prices					
CPI	2.5	4.0	4.9	3.2	2.2
Core CPI	1.9	2.6	2.7	2.7	2.2
Irish HICP	2.2	2.7	2.8	2.8	2.3
Mfg Output Prices (Home Sales)	1.8	2.1	1.5	2.0	1.7
Earnings Growth (Whole Economy)	5.7	5.2	5.2	4.5	4.5
Unit Wage Costs (Whole Economy)	5.1	3.1	4.1	2.5	1.7
External Account					
Total Trade Balance* (% of GNP)	+13.9	+12.1	+12.6	+13.5	+14.0
Current Account Balance (% of GNP)	-4.2	-4.9	-4.7	-3.6	-2.8
(* Goods and Services)					
Public Finances					
General Gov. Balance (€ m)	1,615	5,107	1,600	-770	-500
General Gov. Balance (% GDP)	+1.0	+2.9	+0.9	-0.4	-0.2
General Gov. Debt /GDP ratio (%)	27.4	25.1	24.0	24.5	25.0
Private Sector Finances					
Real Personal Disposable Income	9.0	7.3	8.8	6.1	6.2
Personal Savings Ratio (%)	8.3	7.8	7.6	7.7	7.6
Private Sector Credit % (end year)	28.8	25.9	18.0	10.0	13.0
<i>Forecasts prepared by AIB's ERU, historical data sourced from CSO, Dept of Finance, DoE & permanent tsb</i>					

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