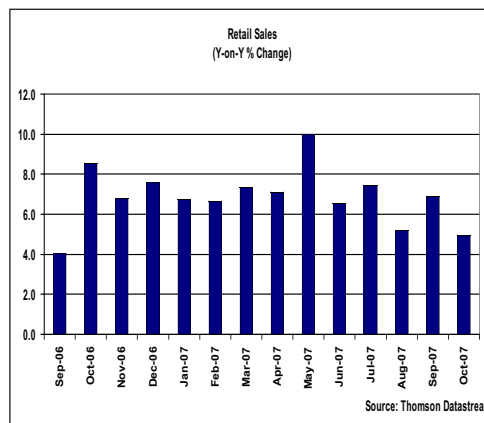


## Irish Monthly Economic Bulletin - December 2007

### Highlights

■ **The Irish economy has performed well in 2007**, though average GDP growth is forecast to slow to 4.8% from 5.7% last year, mainly on the back of weaker housing market activity. GDP growth could ease even further next year to close on 3%, but a rebound in the pace of economic activity is anticipated in 2009. For detailed analysis on our outlook for the Irish Economy see AIB's "**Irish Economic Outlook**", which is available on [www.aibeconomicresearch.com](http://www.aibeconomicresearch.com)

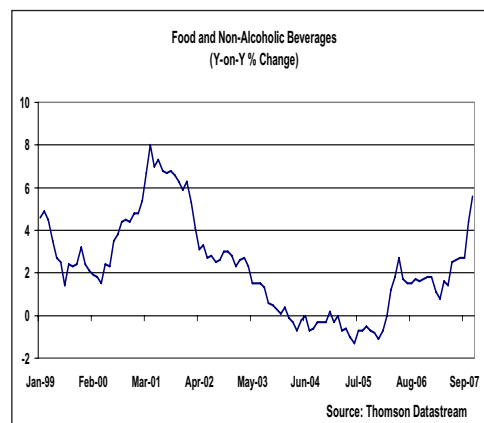
■ **Data point to a slowing in the pace of consumer spending.** The volume of sales increased by 5% in October, the slowest annual growth rate for more than a year. Recent confidence surveys suggest further weakness in spending in the months ahead. Signs that labour market conditions are softening could also impact on the pace of retail spending.



■ **According to the permanent tsb/ESRI house price index, prices fell nationally for the 8th consecutive month in October.** Prices fell 1.3% over the month, the largest decline since the index started in 1996. In y-on-y terms, prices were down 4.7%. The national figures, though, hide wide variations in performances across different market segments. For detailed analysis on the housing market see AIB's "**Housing Market Bulletin - December 2007**", available on [www.aibeconomicresearch.com](http://www.aibeconomicresearch.com)

■ **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%. Manufacturing activity has also picked up considerable pace this year, with industrial output increasing by 7% in the first ten months of the year, compared with increases of 5% and 3% in 2006 and 2005, respectively.

■ **The annual rate of inflation accelerated to 5.0% in November, up from 4.8% previously. The headline CPI rate is now just below its five and a half year peak of 5.2% seen in January.** External factors are primarily responsible for the renewed upward trend in inflation.



■ **Recent trends in food prices are particularly worrying, with prices up another 1.1% on the month.** This follows a rise of 1.4% in October. Significant price increases have been seen in staple products like bread, cereals and dairy items.

■ The core CPI rate, which excludes mortgage interest payments, also accelerated, rising to 3.4% from 2.8% in October. **On a HICP basis, inflation stood at 3.5%, a four year high, but still only slightly ahead of the eurozone average rate of 3.0%.** With international commodity prices continuing to exert upward pressure, we expect inflation to remain high in the short term, but positive base effects should give way to an improving trend over 2008.

**John Beggs**  
Chief Economist

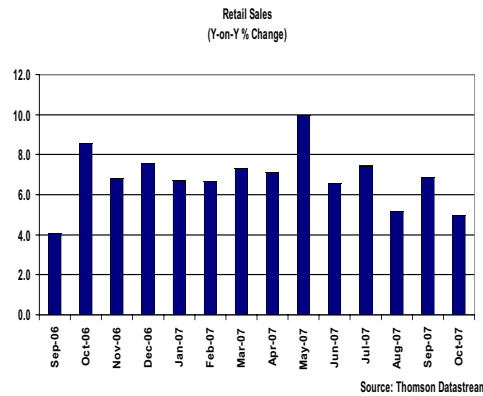
**Oliver Mangan**  
Chief Bond Economist

**Geraldine Concagh**  
Senior Economist

**Jenny Pollock**  
Senior Economist

## Consumer Sector

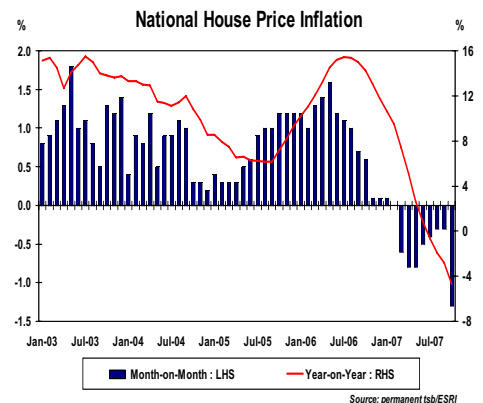
Data point to a slowing in the pace of consumer spending. The volume of retail sales increased by 5% in October, the slowest annual growth rate for more than a year. Weakness in car sales is impacting, with registrations down 13.8% y-on-y in November. Surveys suggest further weakness in spending in the months ahead. Both the EC and ESRI/IIB confidence indices remain weak. After a bounce in September the EC index fell again in October and November. The ESRI/IIB sentiment index, meanwhile, is at very low levels. November's decline brought it to its lowest level in over four years. According to the survey, the main driver of the decline was consumers becoming much more negative in their view of their current and future household financial situation.



	Oct-07	Sep-07	Aug-07	Jul-07		Nov-07	Oct-07	Sep-07	Aug-07
<b>Retail Sales (Volume % Change)</b>					<b>Car Registrations (SIMI)</b>				
<b>All Businesses</b>					Y/Y % Change Yr to Date	4.8	5.0	5.1	5.6
M/M	0.5	1.3	-1.0	0.3	<b>EC Consumer Confidence</b>	-18	-12	-5	-10
Y/Y	5.0	6.9	5.2	7.5	<b>Savings Ratio (estimate)</b>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Sales Ex Auto</b>						7.8%	8.3%	8.4%	9.0%
M/M	1.0	1.0	-1.1	2.3					
Y/Y	6.0	6.7	5.2	7.4					

## Investment/Housing Market

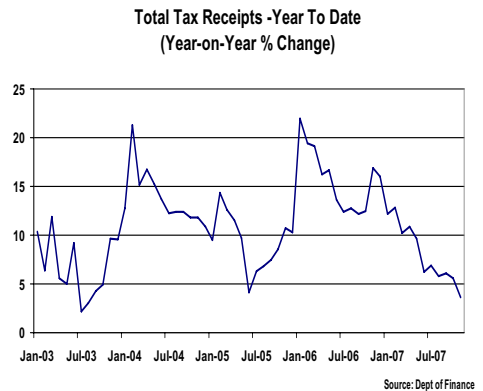
Housing commencements declined by almost 33% in the first ten months of the year. Registrations, meanwhile, are down 42.2% in the first eleven months of the year. Completions are also now reflecting the decline in activity. After being broadly flat in H1, they were down 8.9% for the first ten months of the year. According to the permanent tsb/ESRI house price index, prices fell nationally for the 8th consecutive month in October. Prices fell 1.3% over the month, the largest decline since the index started in 1996. In y-on-y terms, prices were down 4.7%. The national figures, though, hide wide variations in performances across different market segments. The decline in existing house prices is more pronounced than that of new homes.



	Q2 2007	Q1 2007	Q4 2006	Q3 2006		Nov-07	Oct-07	Sep-07	Aug-07
<b>Fixed Investment (% Change)</b>					<b>House Price Inflation % (Permanent TSB)</b>				
Q/Q	-3.0	1.0	-5.2	14.0	M/M	N/A	-1.3	-0.3	-0.3
Y/Y	5.9	9.9	0.5	-2.1	Y/Y	N/A	-4.7	-2.8	-1.9
<b>Housing Output</b>					<b>Housing Registrations (Homebond, DoE, Premier)</b>				
Y/Y	-7.8	0.2	-4.1	5.7	Actual Yr to Date	36,710	34,417	32,232	29,701
<b>Non-Residential Construction</b>					Y/Y % Change Yr to Date	-42.2	-41.5	-40.0	-37.3
Y/Y	22.8	10.3	7.7	0.1					

## Public Finances

An Exchequer surplus of €1,581m was recorded in the eleven months to November, compared with a surplus of €5,889m in the same period last year. Tax receipts were up 3.7% y-on-y, compared with targeted growth of 7.9%. Growth in tax receipts has slowed considerably this year as the economy cools and is now well down from the 16.0% growth rate seen in 2006. Growth in income tax receipts is holding up well, but stamp duties and corporation tax receipts fell sharply. In his recent Budget, the Minister set a target of -€1.85 billion for the General Government budget balance in 2008, or -0.9% of GDP. Despite the move to a deficit, this still keeps the public finances on a very stable path.

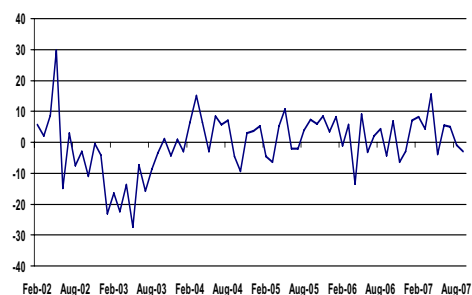


	Nov-07	Oct-07	Sep-07	Aug-07		Nov-07	Oct-07	Sep-07	Aug-07
<b>Voted Govt Spending (Cbn)</b>					<b>Exch Bal Yr to Date (Cbn)</b>	1.58	-3.94	-3.10	-2.88
Y/Y % (Cumulative)	16.9	17.5	18.0	19.8	<b>Tax Revenues (Y/Y % Change)</b>				
<b>General Govt Balance</b>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	Total Tax	3.7	5.6	6.1	5.8
as % of GDP	2.9	1.0	1.4	0.4	Income Tax	9.1	12.6	11.8	12.5
<b>General Govt Debt</b>					VAT	7.8	10.0	9.9	10.8
as % of GDP	25.1	27.4	29.5	31.1	Excise Duties	3.4	3.1	3.7	3.7
<b>Source - Dept of Finance</b>					Corporation Tax	-5.4	-13.4	-14.2	-26.0
					Stamp Duties	-12.4	-9.0	-6.0	-2.1

## 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 Q3 show a marked weakening in external trade in both export and import goods.

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



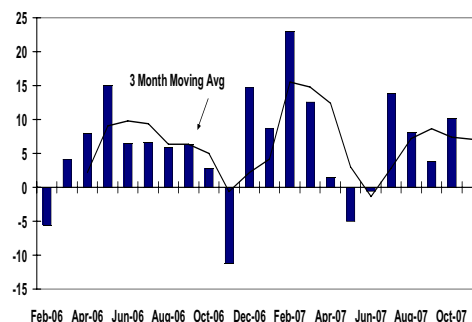
Source: Thomson Datastream

	Q2 2007	Q1 2007	Q4 2006	Q3 2006		Sep-07	Aug-07	Jul-07	Jun-07
<b>External Trade (Volume, %)</b> <i>(Goods &amp; Services)</i>					<b>Monthly Trade (Value, %)</b>				
<b>Exports</b>					<b>Exports</b>				
Q/Q	1.7	1.8	4.3	-0.8	M/M	-5.4	-4.8	6.4	-1.1
Y/Y	7.1	8.3	3.3	4.6	Y/Y	-3.0	-0.9	5.1	5.5
<b>Imports</b>					<b>Imports</b>				
Q/Q	-1.6	-3.2	13.1	-3.6	M/M	0.0	-0.7	1.8	-5.0
Y/Y	3.7	7.6	3.7	0.9	Y/Y	-5.9	-3.1	4.4	-4.2
					<b>Trade Surplus (€ mn S/A)</b>	2,040	2,306	2,645	2,269

## Industrial Production

Manufacturing activity has picked up considerable pace this year, with industrial output increasing by 7% in the first ten 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 almost 9% in the year to October. However, output in the indigenous sector was up by almost 3.6% in the same period, 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)



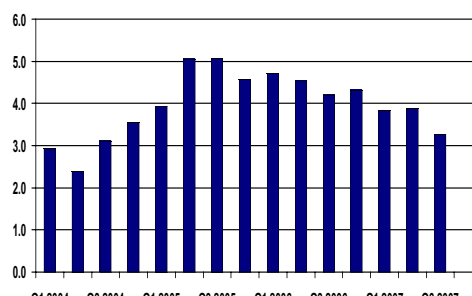
Source: Thomson Datastream

	Nov-07	Oct-07	Sep-07	Aug-07		Nov-07	Oct-07	Sep-07	Aug-07
<b>Production (Volume, % Change M/M)</b>					<b>Production (Volume, % Change Y/Y)</b>				
All Industries	N/A	3.2	-4.7	-6.1	All Industries	N/A	10.2	3.9	8.1
Modern Sector	N/A	6.0	-6.7	-10.0	Modern Sector	N/A	14.7	5.0	8.7
All Other Industries	N/A	-5.1	0.6	2.9	All Other Industries	N/A	0.1	1.3	6.5
<b>EC Industrial Confidence</b>	4.0	4.5	2.4	2.1	<b>EC Production Expectations</b>	5.4	6.2	19.5	7.7

## Labour Market

There are signs that labour market conditions are softening. 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. 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 moving up and stood at 169,700 in November, up 13,200 on the same month in 2006. Meanwhile, there were 23,761 redundancies in the year to November (+10.0% y-on-y), a further sign of a softening job market.

Employment Growth  
(Year-on-Year % Change)

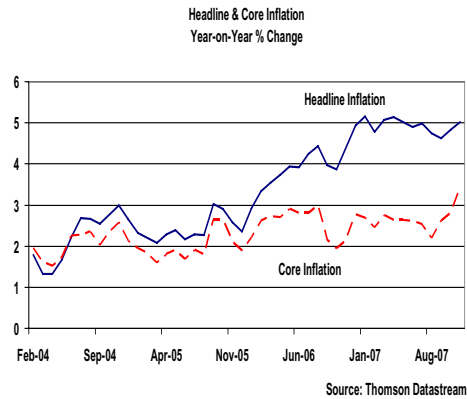


Source: Thomson Datastream

	Q3 2007	Q2 2007	Q1 2007	Q4 2006		Q3 2007	Q2 2007	Q1 2007	Q4 2006
<b>Total Employment (% Change)</b>					<b>Labour Force (% Change)</b>				
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
<b>Mainly Public Sector</b>					<b>Unemployment % (S.A.)</b>	4.4	4.5	4.4	4.2
Y/Y	5.0	3.9	6.4	8.3					
<b>Mainly Private Sector</b>					<b>Live Register (000's)</b>	Nov-07	Oct-07	Sep-07	Aug-07
Y/Y	2.8	3.9	3.2	3.2		169,700	164,700	164,200	162,000

## Inflation

Consumer prices rose 0.6% over the month of November, compared to a rise of 0.3% in the same month last year. Thus, the annual rate of inflation accelerated to 5.0% from 4.8% previously and the headline CPI rate is now just below the five and a half year peak of 5.2% seen in January. Pressured by higher costs worldwide, food prices were up another 1.1% on the month. There was also a sharp rise in clothing and footwear costs (1.8%) as well as higher transport costs (1.4%). The core CPI rate, which excludes mortgage interest payments, also accelerated, rising to 3.4% from 2.8% in October. On a HICP basis, inflation stood at 3.5%, a four year high, but still only slightly ahead of the eurozone average rate of 3.0%.

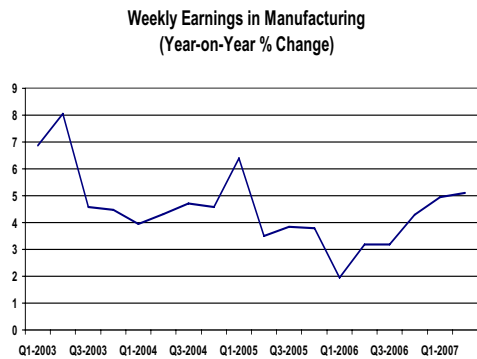


Source: Thomson Datastream

	Nov-07	Oct-07	Sep-07	Aug-07		Nov-07	Oct-07	Sep-07	Aug-07
<b>Consumer Prices (% Change)</b>					<b>HICP Ireland (Y/Y%)</b>	3.5	3	2.9	2.3
<b>Headline CPI</b>					<b>HICP Eurozone (Y/Y%)</b>	3.0	2.6	2.1	1.7
M/M	0.6	0.1	0.3	0.5	<b>Wholesale Price Index (% Change)</b>				
Y/Y	5.0	4.8	4.6	4.8	<b>Domestic Sales</b>				
<b>Core CPI (ex mortgages)</b>					M/M	N/A	0.9	-0.3	0.8
M/M	0.5	0.1	0.3	0.4	Y/Y	N/A	3.0	1.4	1.8
Y/Y	3.4	2.8	2.6	2.2					

## 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 5.9% y-on-y in the first three quarters of this year, 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.

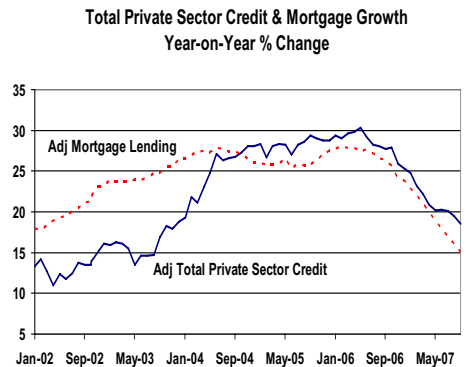


Source: Thomson Datastream

	Q3-2007	Q2-2007	Q1-2007	Q4-2006		Q3-2007	Q2-2007	Q1-2007	Q4-2006
<b>Avg Weekly Earnings (Y/Y %)</b>					<b>Avg Weekly Earnings (Y/Y %)</b>				
All Industry	N/A	4.9	4.9	4.8	Financial Services	N/A	6.3	9.7	9.6
Manufacturing	N/A	5.1	5.0	4.3	Distribution & Services	N/A	5.2	4.7	6.7
Building & Construction	7.2	5.0	5.5	2.3	Public Sector (ex Health)	N/A	5.5	4.7	3.5

## Monetary Conditions/ Banking Statistics

Growth in private sector credit continues to ease, with the y-on-y rate declining to 18.5% in October, down from 19.5% in September. Credit growth peaked at 30.3% in June 2006 and has been on a steady decline since then. While the y-on-y growth rate of non-mortgage credit slowed again in October to 23.4% from 24.5% previously, it continues to increase at a faster pace than total and mortgage credit. The annual growth rate of residential mortgages, excluding reclassifications and securitisations, dropped by another percentage point in October, easing to 15.1% from 16.1% in September. The growth rate in mortgage lending has declined by an average one percentage point each month since January, when the growth rate was 23.7%.



Source: CBFSAI

	Oct-07	Sep-07	Aug-07	Jul-07		Nov-07	Nov-07	Oct-07	Sep-07
<b>CBFSAI Banking Statistics (Y/Y %)</b>					<b>USD/EUR (Avg)</b>	1.468	1.423	1.391	1.362
<b>Adj Private Sector Credit</b>	18.5	19.5	20.1	20.3	<b>Irish Trade Wghted Index</b>	N/A	108.82	107.94	106.99
<b>Adj Mortgage Credit</b>	15.1	16.1	17.0	17.9	<b>3-Mth Money (Avg)</b>	4.639	4.687	4.742	4.544
<b>Non-Mortgage Credit</b>	23.4	24.5	25.0	25.9	<b>10 Year Swap (Avg)</b>	4.543	4.642	4.623	4.693

Source - Thomson Datastream, CBFSAI



<b>IRISH MACRO ECONOMIC FORECASTS</b>					
<i>Annual average % change unless otherwise stated</i>	<b>2005</b>	<b>2006</b>	<b>2007 (f)</b>	<b>2008 (f)</b>	<b>2009 (f)</b>
<b>Real GDP</b>	<b>5.9</b>	<b>5.7</b>	<b>4.8</b>	<b>3.3</b>	<b>4.2</b>
<b>Real GNP</b>	<b>4.9</b>	<b>6.5</b>	<b>4.5</b>	<b>3.2</b>	<b>4.3</b>
<b>Domestic Expenditure</b>	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
<b>Industrial Production (Vol)</b>					
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
<b>Housing</b>					
Average House Price Inflation (end year)	9.3	11.8	-6.0	0.0	3.0
House Completions (CSO Basis '000)	86.0	88.2	77.0	57.0	55.0
<b>Labour Market</b>					
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
<b>Costs and Prices</b>					
CPI	2.5	4.0	4.9	3.5	2.3
Core CPI	1.9	2.6	2.7	2.9	2.2
Irish HICP	2.2	2.7	2.9	3.0	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
<b>External Account</b>					
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)					
<b>Public Finances</b>					
General Gov. Balance (€ m)	1,623	5,301	900	-1,845	-2,410
General Gov. Balance (% GDP)	+1.0	+2.9	+0.5	-0.9	-1.1
General Gov. Debt /GDP ratio (%)	27.4	25.1	25.1	25.9	27.6
<b>Private Sector Finances</b>					
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	16.0	10.0	13.0
<i>Forecasts prepared by AIB's ERU, historical data sourced from CSO, Dept of Finance, DoE &amp; permanent tsb</i>					

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