The Economic Outlook as Brexit Deadline Approaches

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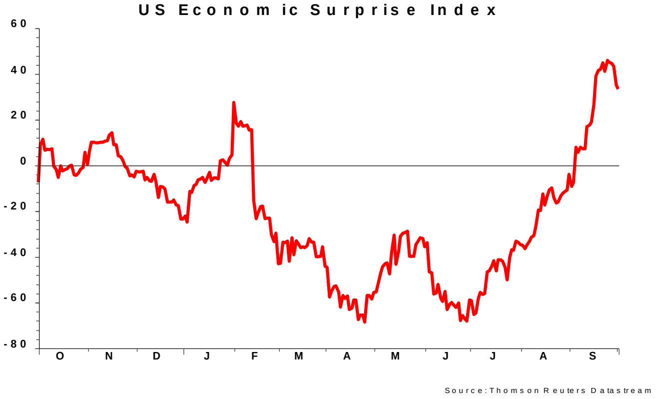
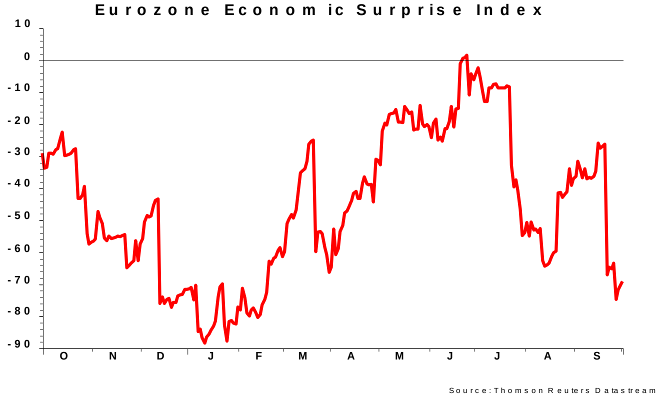
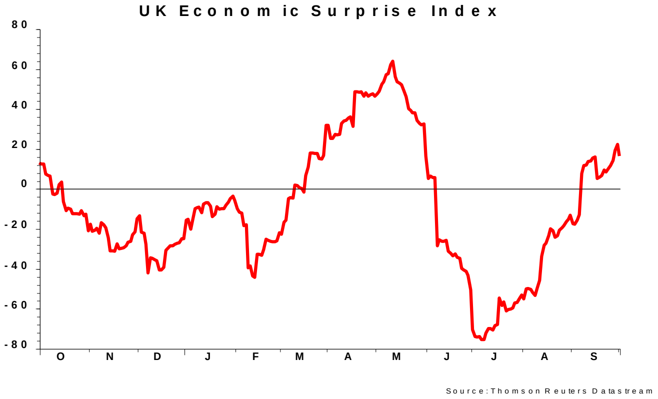
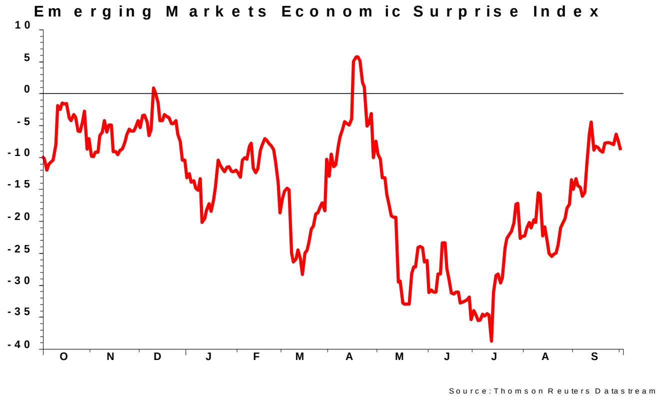
Global data generally weaker than expected this year

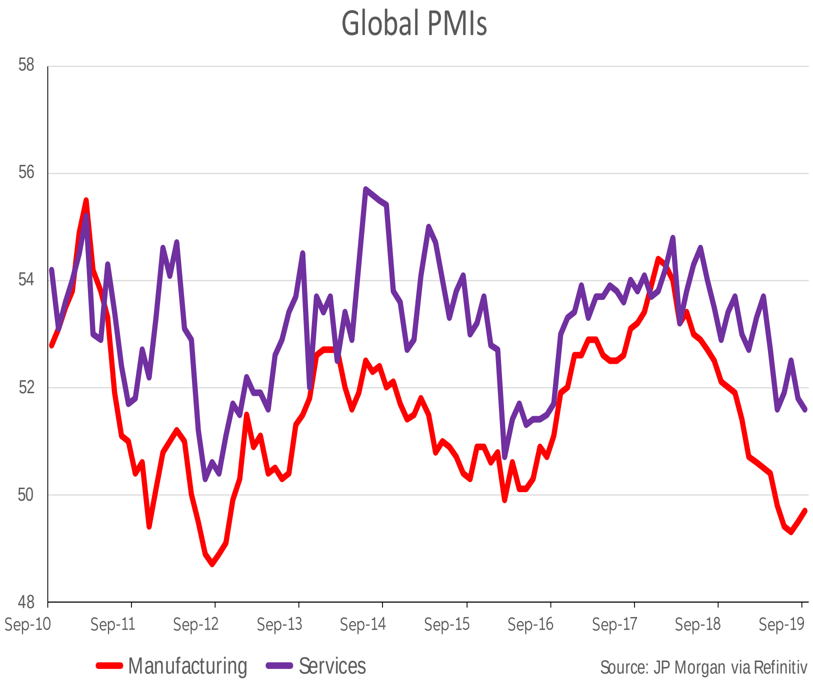


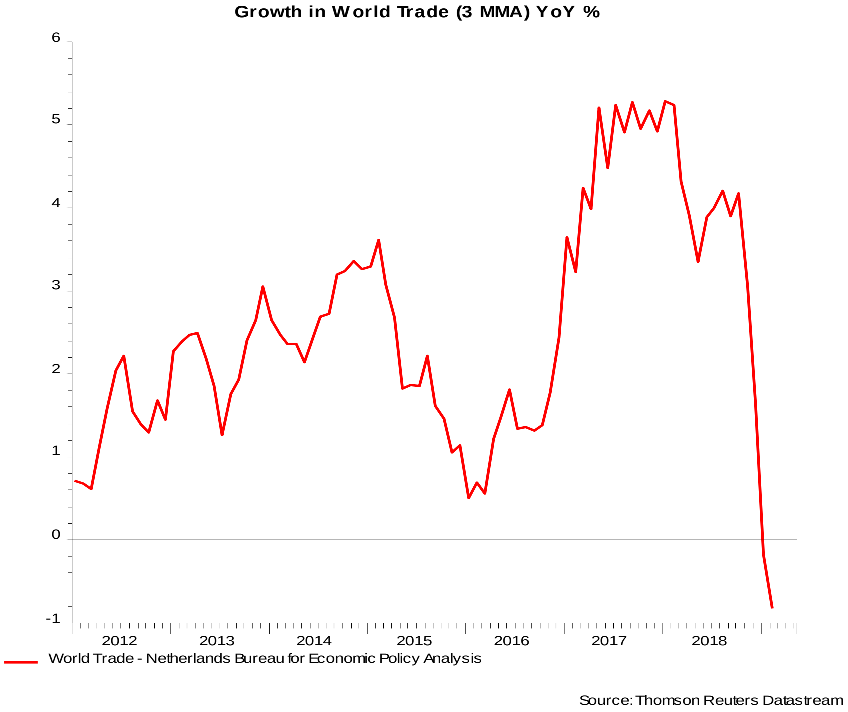






Weakening manufacturing amid slowing global trade



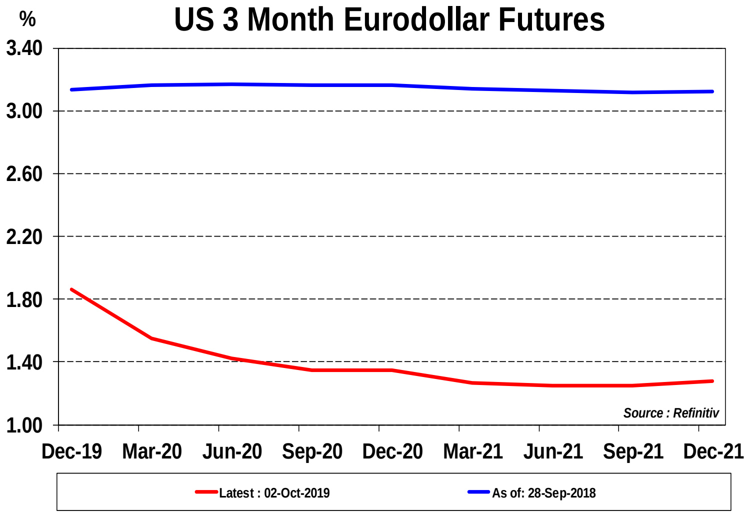


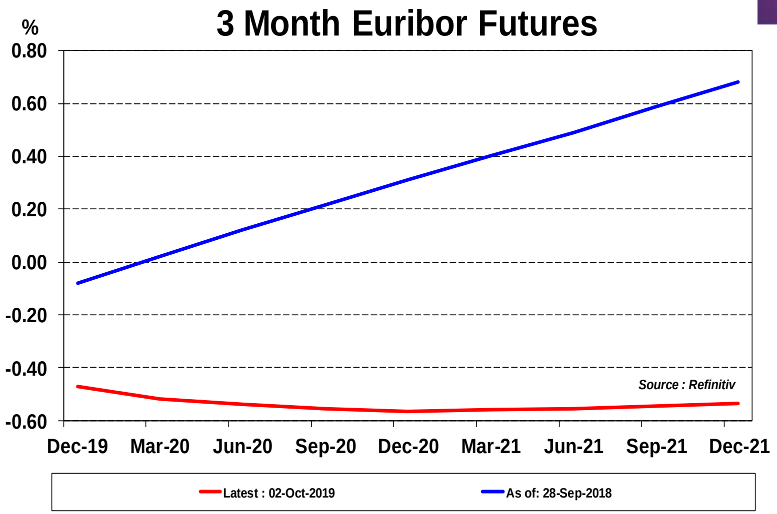
Global growth forecasts cut for 2019-20

GDP (Vol % Change)	2017	2018	2019(f)	2020(f)
World	3.8	3.6	2.9	3.0
US	2.2	2.9	2.4	2.0
Euro Area	2.4	1.9	1.1	1.0
UK	1.8	1.4	1.0	0.9
Japan	1.9	0.8	1.0	0.6
Source: OECD Interim Economic Outlook, September 2019				

- Global growth forecasts cut for 2019 to 2.9% from near 4% a year ago
- Weak manufacturing activity in particular, as global trade slows
- Risks remain to the downside – trade wars, slowdown in China, uncertainty
- Loose monetary policies, more expansionary fiscal policies and rising real incomes are helping to support activity
- Inflation remains subdued, despite some pick-up in wage growth

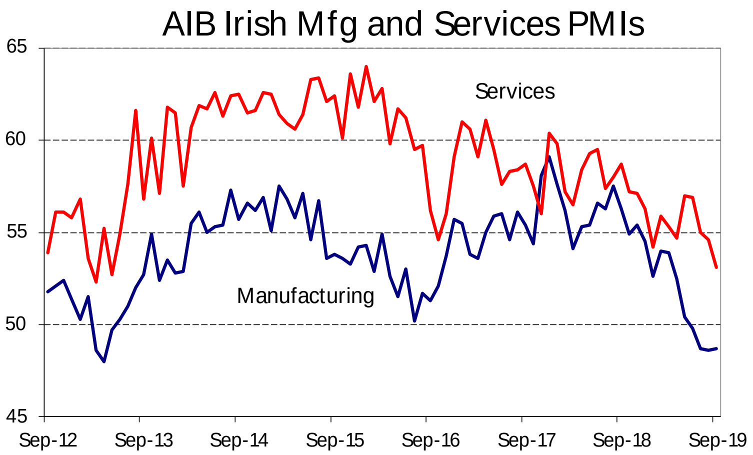
Central banks start to loosen policy again



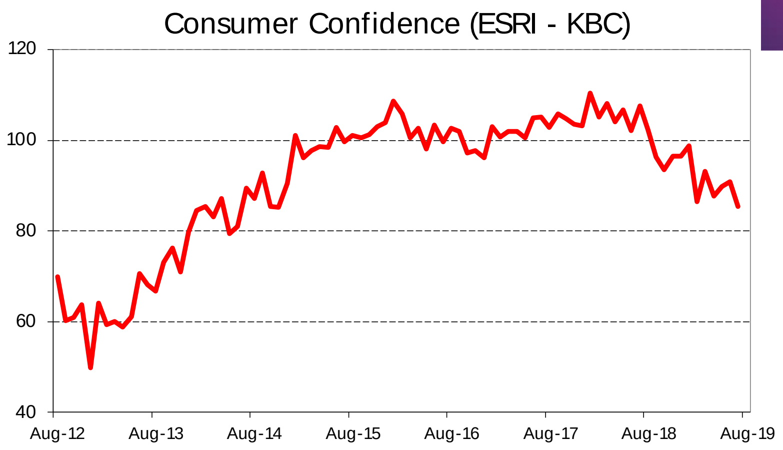


- Central banks concerns; slowing economies, low inflation, risks to global growth
- May feel they need to act early as don't have much ammunition
- Rates have been cut in US, Australia, New Zealand, India in recent months
- ECB eased policy last month – moved rates deeper into negative territory, restarting QE

Growth is easing from high level, with some data softening



Source: *Refinitiv*



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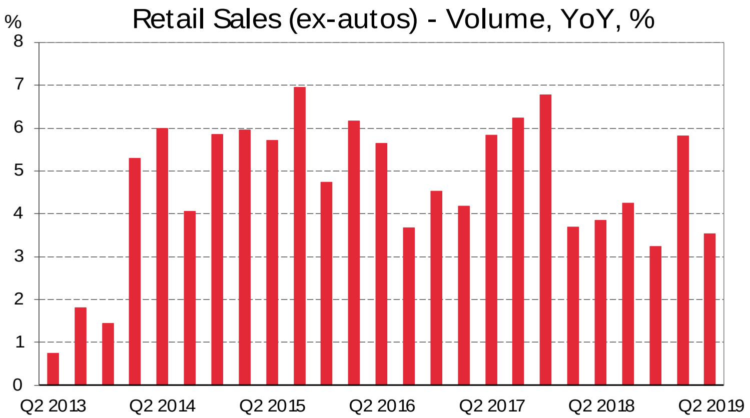
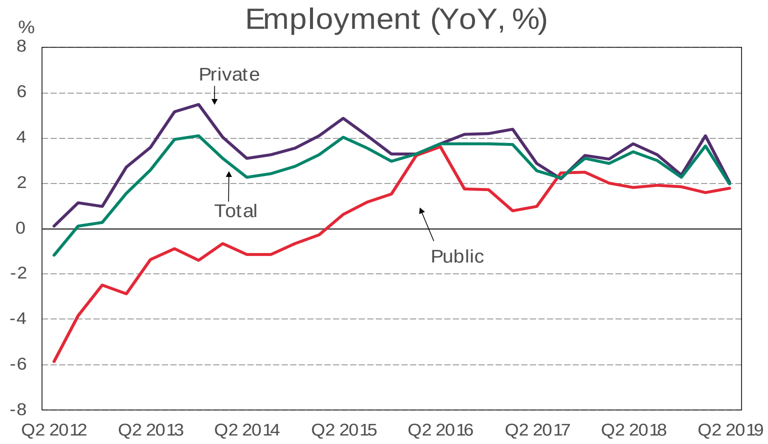


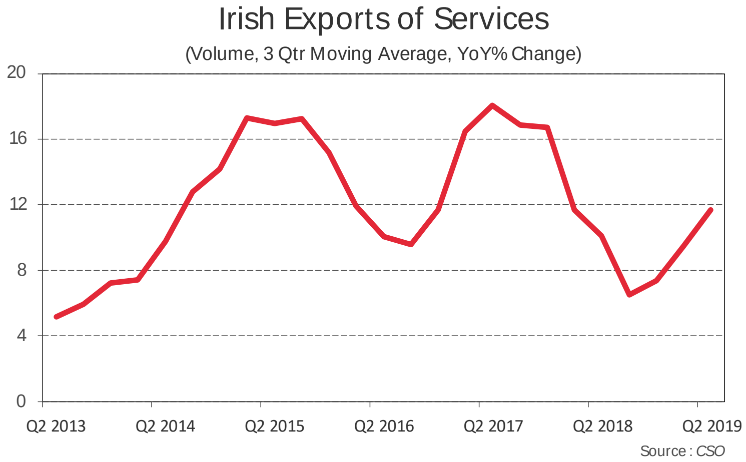
Source: *Thomson Datastream*



Source: CSO via Refinitiv

Good Irish growth can continue if external risks avoided

- Irish economy should continue to grow at impressive pace, but not as strongly as in recent years
- Construction picking up from still low output levels
- Public spending on the rise
- Activity supported by low interest rate environment
- Good growth in household incomes
- Continuing strong inflows of FDI
- Irish inflation still very low
- However, Brexit is a real challenge for the economy
- Important also that global economy avoids downturn
- GDP growth forecast at 5.0% for 2019 and 3.25% in 2020, assuming hard Brexit/global downturn avoided
- ESRI estimates medium-term growth rate of economy at around 3.25% in the period 2020-2025



Still much uncertainty about Brexit

- March exit date deferred as UK Parliament was unable to support Withdrawal Agreement
- EU granted an extension to Article 50 up to end October
- New PM Johnson vowed the UK would leave EU by end October, with or without a deal
- Parliament against leaving the EU without a deal
- It passes legislation to seek a further extension to Article 50, if deal not done
- UK government against another Article 50 extension, but hard to avoid if deal not done
- UK have produced alternative 'backstop' proposals, though unlikely to be accepted by EU
- Difficult to get a deal done by mid-October EU summit. Article 50 extension seems likely
- General election on the cards, likely in late November
- Risk of no-deal hard Brexit will increase if Conservatives win general election
- But election could also result in another hung Parliament, still deadlocked over Brexit

Brexit expected to lower growth rate of Irish economy

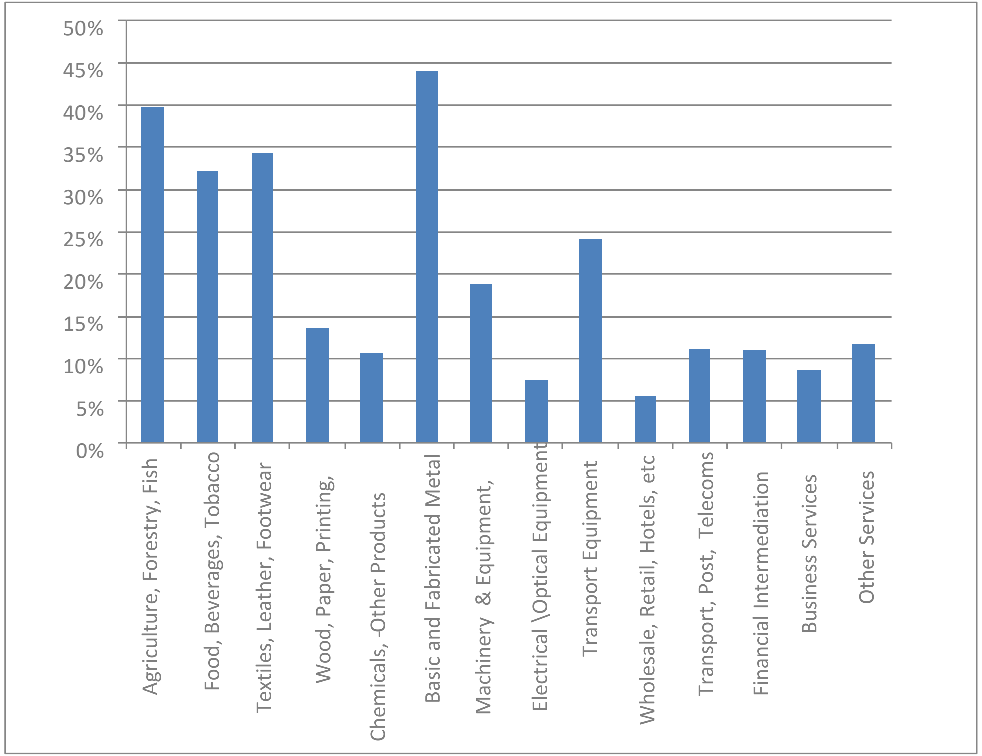
- **ESRI** estimate that Irish output would be reduced over time by **2.6% under a ‘deal’ scenario** in the long run (i.e. after 10 years). Unemployment rate is 1% higher
- **Multiple hits to the Irish economy from a no-deal Brexit**: further collapse in sterling, recession in UK, disruption to trade/supply lines, tariffs, new adm and regulatory costs
- Sharp fall-off in trade with UK likely on a no-deal Brexit, with this **shock front loaded -** around half of the impact on trade would take place in the first two years, per ESRI
- In a ‘**disorderly no deal’** scenario, ESRI estimates that GDP would be **5% lower** after 10 years Unemployment rate would be 2 percentage points higher
- **Central Bank** say a disorderly hard Brexit could reduce Irish growth by 4% in first year and 6% in long run

- **Copenhagen Economics** Report considered costs of regulatory divergence for goods and services and of border checks, as well as tariffs in assessing impact of Brexit
- Estimates impact by 2030 is to reduce Irish GDP by 2.8% under a soft Brexit (EEA), 4.3% in a FTA and 7% in a no-deal, hard Brexit WTO scenario

Agri. sector would be severely impacted by hard Brexit

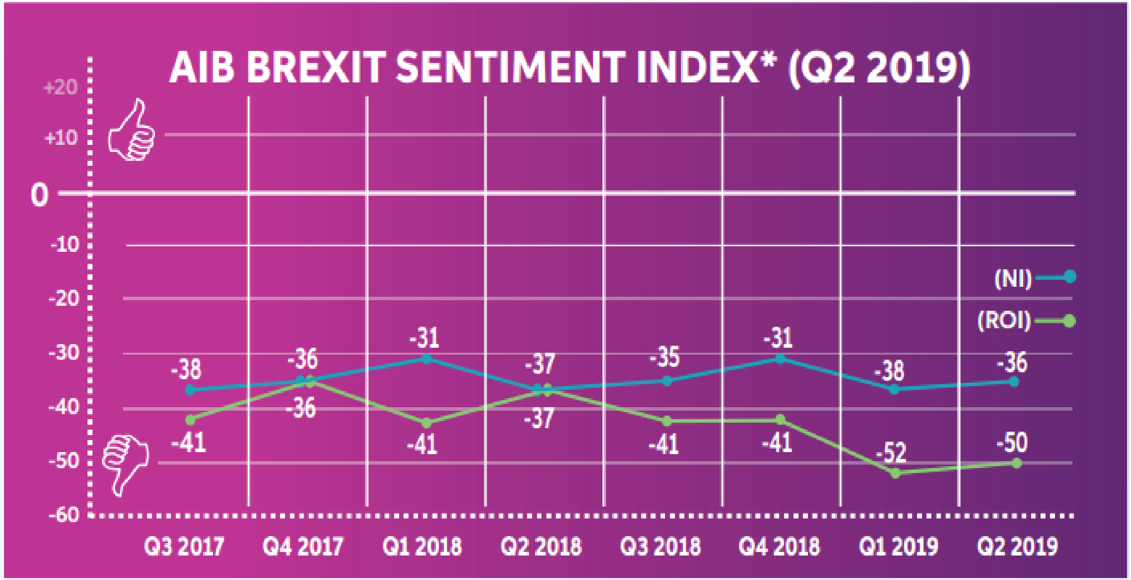
- Main EU tariffs relate to food products, keeping prices high. UK may also impose tariffs on all food imports post Brexit
- Food and Beverages account for 25% of total Irish exports to UK
- Around 40% of Irish food exports go to the UK – key market for beef and cheese
- Other sectors very dependent on UK market include machinery and transport, metal products, textiles
- Some 40% of indigenous Irish exports go to UK compared to 10% for foreign owned companies

Share of Exports by Industry Destined for the UK (ESRI)



AIB Brexit Sentiment Index – Q2 2019

- A total of ***700 SME's (with up to 250 employees)*** across the island of Ireland



Source: Ipsos MRBI

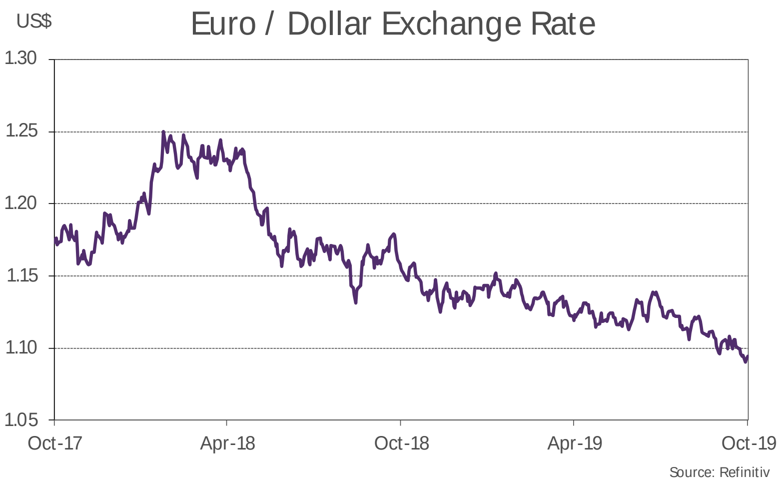
*The Index reflects and measures the sentiment of Irish SMEs in the Republic of Ireland and Northern Ireland towards Brexit, summarised as a single number, with a potential range from +100 to -100. It takes the difference between the positive and negative responses across four key measures: Impact on business now, Impact on future business (next 5 years), Level of visibility and, finally, the Wider economic impact of Brexit.

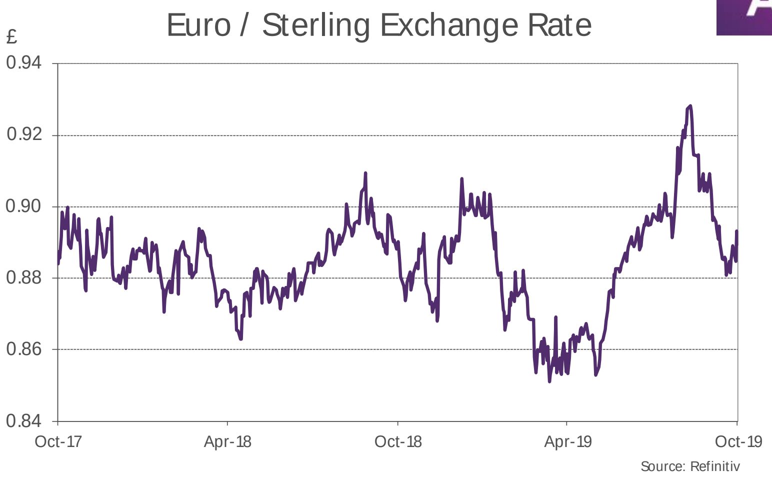
- **Headline index remained depressed in Q2. Number of firms reporting that Brexit is having a negative impact on their businesses increased in both ROI and NI**
- **SMEs also remain concerned about Brexit's impact in the future, both on their own business & the wider economy**
- **Manufacturing, Food & Drink, Tourism and Retail sectors most concerned about Brexit**
- **40% of RoI and 38% of NI firms who had investment plans say they have been cancelled or postponed owing to Brexit.**

Government bases Budget 2020 on no-deal Brexit

- Government brings forward cautious Budget for 2020 based on no-deal Brexit
- GDP growth forecast to slow to 0.7%, with no growth in GNP
- Additional spending increases announced in Budget
- Government provides for a €650m Brexit contingency fund to assist sectors that would be hardest hit by a no deal Brexit - the Agri-Food, Enterprise and Tourism
- Some €450m in tax hikes – carbon (€90m), Commercial stamp duty (€141m), Dividend Withholding tax (€80m), Tabacco Excise (€57m) and Corporation tax on REITs/IREFs (€80m)
- Budget to move back into €2bn deficit next year from a projected surplus of €600m in 2019
- Overall, quite significant tax hikes in budget, with virtually no change in personal taxes
- Current spending to rise by 3.5% in 2020, with capital spending up by 10%
- Public finances expected to remain on a solid footing. Won't be derailed by Brexit

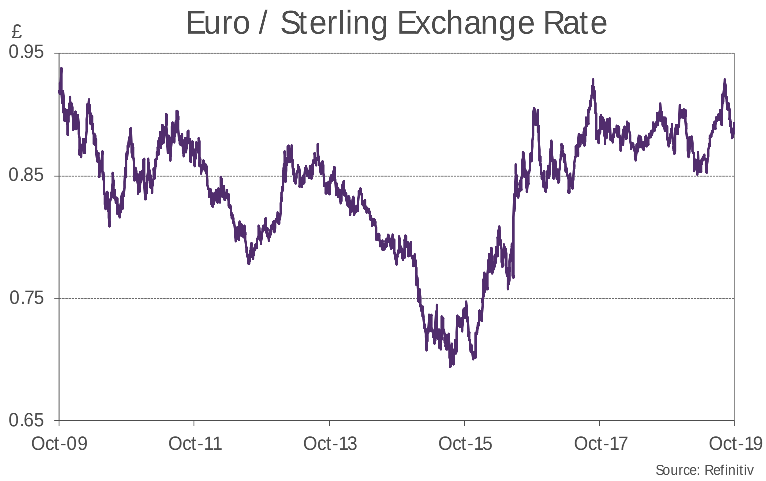
Dollar holding upper hand, Brexit impacting sterling

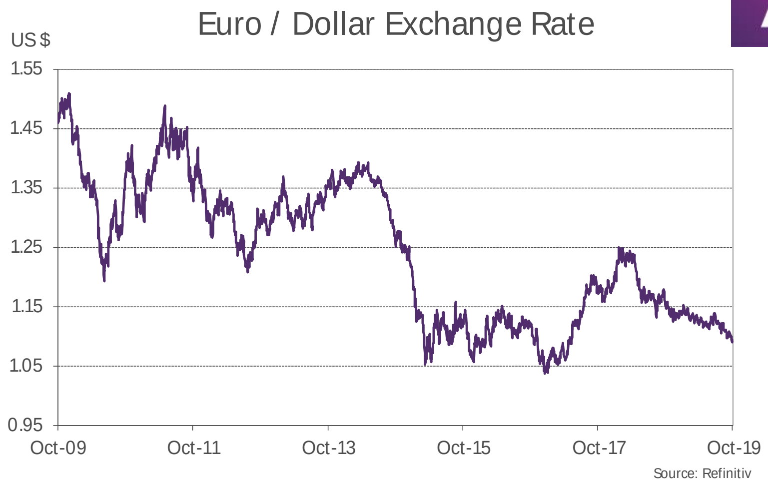




- Relative strength of US economy, wide interest rate differentials and geopolitical uncertainties provide support for dollar this year
- Euro moves down to below $1.10 as ECB moves back onto policy easing path
- Sterling volatile - weakened over summer on increased risk of no-deal Brexit
- UK currency recovers ground in past month on growing hopes for a Brexit deal

FX Market Outlook: Big sterling move possible





- Brexit - key factor influencing sterling in period ahead
- If ‘soft’ Brexit looks on the cards, EUR/GBP could move down to 85-86p
- If ‘hard’ Brexit becomes very likely, EUR/GBP could move above 93-95p and rise to parity
- Dollar looks well underpinned near term, but US imbalances a long term worry
- Expect EUR/USD to trade in a $1.08-1.12 for remainder of 2019