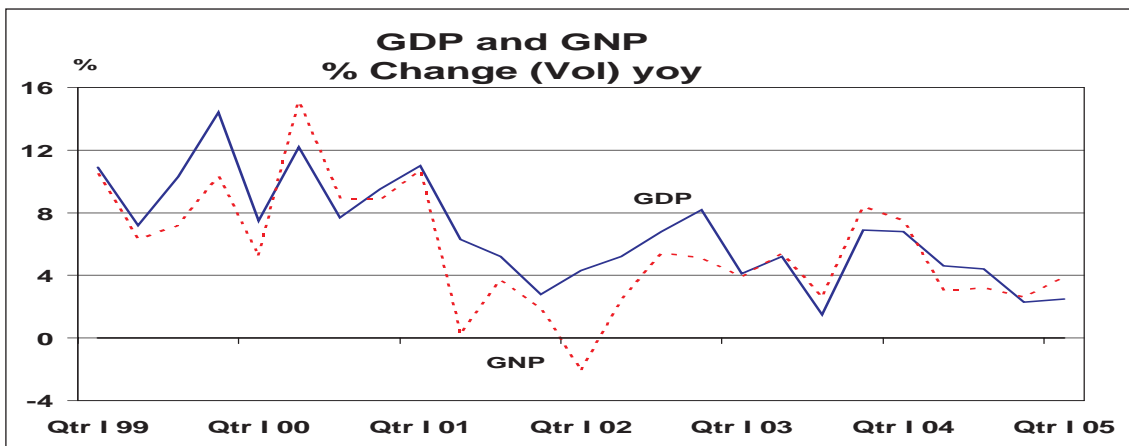


IRISH ECONOMIC UPDATE - AUGUST 2005

STRONGLY GROWING ECONOMY

The National Accounts data published last week showed that the Irish economy recorded solid growth in 2004, with GDP and GNP increasing by 4.5% and 4.0% respectively. Employment is now rising by close to 4% yoy pointing to quite strong economic growth this year. We look for GDP and GNP to rise by 5.0% and 5.5%, respectively, in 2005.

- Revised National Accounts data showed that GDP rose by 4.5% last year, while GNP increased by 4.0%. Growth was broadly based, with a particularly large rise in investment in both housebuilding and machinery and equipment. There was a solid increase in consumer spending, while exports, especially service exports, grew strongly.
- Most indicators published on the Irish economy for the first half of 2005 point to further strong growth in domestic activity. Consumer spending has picked up momentum, in particular, with car sales rising by 13% yoy in H1 2005. Excluding the auto sector, retail sales rose by 4.3% in Q1 and were up by 3.8% yoy in April/May. This is consistent with the strength of excise duty and VAT receipts, which rose by 8.2% and 12.1% year-on-year, respectively, in the first seven months of 2005.
- Strong credit growth also points to buoyant domestic activity. Total private sector credit rose by 27% in the first half of the year, with mortgage lending rising by 26.6%. It now seems likely that there will be a further rise in housing completions this year, to 80,000 or above, from 2004's record of 77,000.



John Beggs
Chief Economist

Oliver Mangan
Chief Bond Economist

Geraldine Concagh
Senior Economist

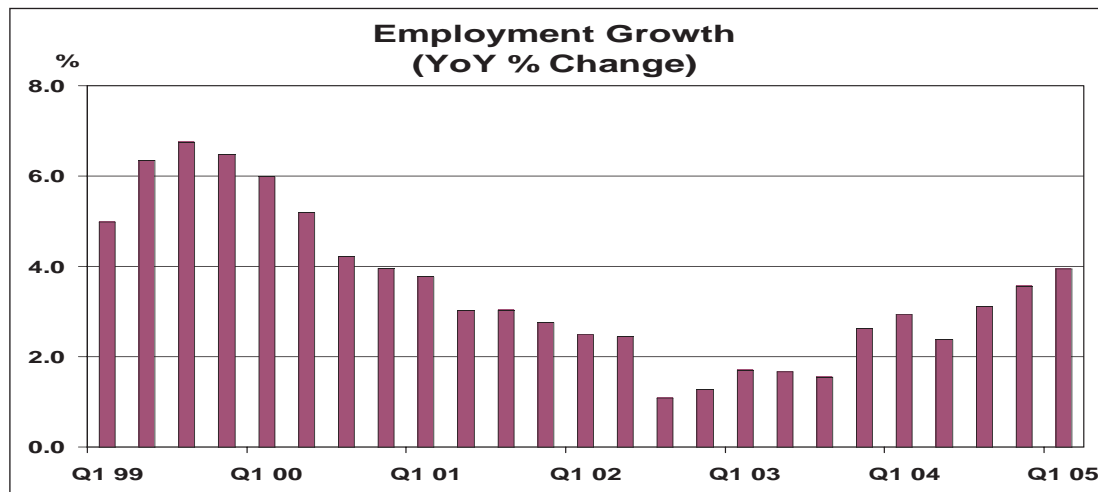
Jenny Pollock
Senior Economist

- The strongest indication of buoyant activity is in the labour market, where employment growth picked up to close on 4% in Q1 2005. Construction employment was up by 15%, while employment in services in the private sector rose by 4%, with public sector employment up by 4% also.
- A weak spot in the economy this year has been the industrial sector. Output fell by 3.5% yoy in the opening five months of 2005, with the declines broadly spread, incorporating both the high-tech and traditional manufacturing sectors. As a result, merchandise exports were quite sluggish in the opening months of the year.
- The above trends are evident in the National Accounts data for Q1 2005, also published last week. These showed strong growth in consumer spending, which rose by 5.8% yoy. Investment also grew strongly, increasing by 10% yoy. Housing output was up by 9% but non-residential construction output declined by 18% as a result of a big fall in public capital spending. Meanwhile, investment in machinery and equipment rose by 23%. Government spending grew by 4.3% yoy. Overall, domestic spending rose strongly, increasing by 6.7% yoy in Q1.

- Both merchandise and service exports were weak in Q1. Total exports declined by 1% yoy in the quarter. Imports, boosted by the buoyant domestic demand, increased by 4.2% yoy. As a result, net external trade was a major drag on GDP growth, which rose by just 2.4% yoy in the quarter. A decline in net factor income outflows, though, meant that GNP rose by 3.9% yoy.

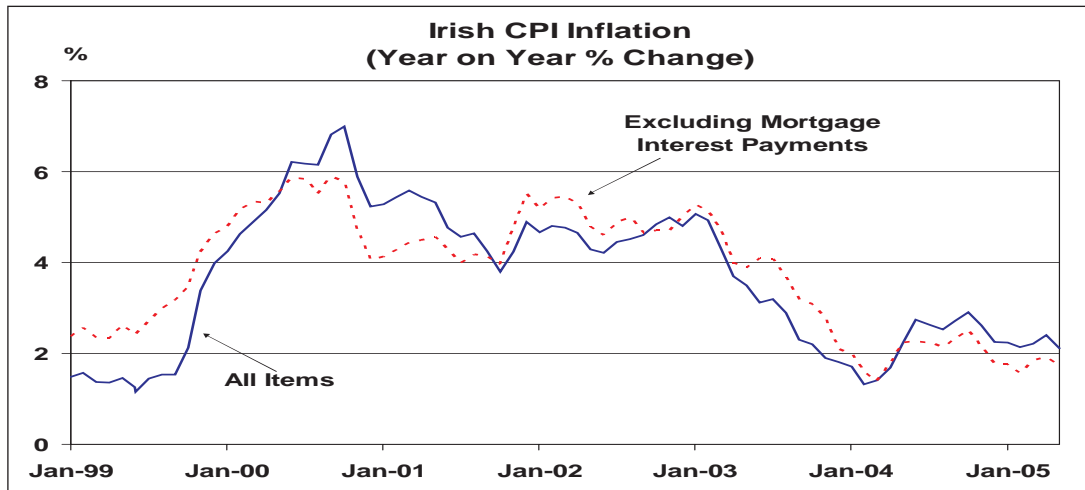
MANY FACTORS SUPPORTING GROWTH

- Irish growth figures are volatile on a quarter-to-quarter basis. Real GDP rose by 0.3% in Q1 '05 over Q4 '04. However, this followed a quarterly rise in real GDP of 2.6% in Q4 '04 over Q3 '04. We expect much stronger GDP growth figures over the balance of the year, especially given recent evidence of a marked pick up in exports and non-residential construction spending in Q2 - the two areas that were weak in the opening quarter of the year. Furthermore, there are many factors which point to quite robust growth by the Irish economy in 2005.
- First, fiscal policy is much more stimulatory than in 2004, reflecting the generous tax cuts and social welfare increases announced in the budget, that add close to 2% to disposable income this year. Furthermore, gross current government spending is projected to rise by 9% this year, while underlying voted capital spending is expected to increase by 15%.
- Second, official interest rates in the euro area remain at exceptionally low levels. We do not foresee an increase in rates before the second half of next year. Given the importance of variable rates to the Irish corporate and household sectors, the continuing low interest rate environment is of considerable support to the economy, especially to the housing market.



- A third supportive factor is the relatively good growth performance of the global economy in 2005. World GDP is expected to expand by close to 4%, fuelled in particular by strong growth in Asia and solid growth in the US economy. Admittedly, growth in the EU is proving to be quite weak this year, but there are signs that activity may strengthen in H2 2005.
- Fourth, the strong growth and adaptability of the Irish labour market is a key factor supporting the economy. Labour force growth has picked up to around 3.5% this year, helped by continuing strong net inward migration and a rise in the participation rate. Employment growth is running at close to 4% and is proving sufficiently strong to generate a decline in unemployment from already low levels. The latest data show that the unemployment rate has fallen to 4.2%. The strong labour market conditions are underpinning consumer confidence and spending, as well as the buoyant housing market.

- A fifth support to the economy this year is low inflation. Helped by the absence of indirect tax hikes in this year's budget, CPI inflation fell back towards 2% in the first half of 2005. Irish inflation is now running in line with the rate for the eurozone as a whole, boosting real spending power.



- A sixth factor contributing to the robust growth performance of the economy is the continuing strength of construction activity, especially housebuilding. House completions seem set to reach new record levels of 80,000 or above this year, up from 77,000 last year. Construction activity should also be boosted by a rise in public capital spending this year. Employment in construction was up by 15% yoy in the first quarter of the year, accounting for 31,000 of the 73,000 increase in employment in the whole economy.

GDP GROWTH OF 5% IN 2005 AND 5.5% IN 2006

- Thus for 2005, we expect GDP and GNP to increase by 5.0% and 5.5% respectively, helped by particularly strong growth in domestic spending. Consumer expenditure is forecast to rise by 5%, up from 3.8% in 2004. Investment is forecast to grow by 5.5%, underpinned by continued growth in housebuilding, a recovery in non-residential construction plus a large rise in business investment in machinery and equipment. Exports are forecast to rise by 4.7% this year.
- Turning to 2006 and 2007, growth will receive a considerable boost from the release of SSIA monies into the economy during this period. Some €14bn of SSIA funds will mature between May 2006 and April 2007, equivalent to 8% of GDP. It is unclear whether the government will offer incentives to roll the SSIA monies into pension schemes. Even if it does, a large portion of SSIA's is still likely to be spent on holidays, cars, home improvements etc. Furthermore, it is unlikely that people will continue to save to the same extent as before, once their monthly payments into SSIA accounts cease. Thus, the savings rate will fall sharply from its very high level of recent years.
- Even allowing for leakages through imports, growth is likely to accelerate above trend in these two years. However, it will be a temporary once-off boost to activity that fades in 2008. Furthermore, the timing of the release of SSIA monies may be opportune as housebuilding activity is likely to slow down in the next couple of years. Thus, the rise in spending generated by maturing SSIA accounts could be partially offset by slower housebuilding activity in terms of the overall impact on economic growth. Overall, we look for GDP to rise by around 5.5% in 2006 and 6% in 2007.



IRISH MACRO ECONOMIC FORECASTS				
<i>Annual average % change unless stated</i>	2003	2004	2005 (f)	2006 (f)
Real GDP	4.4	4.5	5.0	5.5
Real GNP	5.1	4.0	5.5	5.8
Domestic Expenditure	4.0	4.7	5.0	5.7
Personal Spending	3.4	3.8	5.0	8.0
Government Spending	3.5	2.4	4.0	4.5
Fixed Investment	5.6	8.0	5.5	2.0
Contribution of Stocks to GDP growth	0.6	-0.4	0.0	0.2
Total Exports	0.8	7.0	4.7	5.5
Total Imports	-1.4	7.6	4.5	6.0
Level of GDP (€bn, current prices)	139.1	148.6	160.0	174.0
Level of GNP (€bn, current prices)	116.4	124.3	134.5	146.0
Industrial Production (Vol)				
Total	5.0	0.7	-2.5	1.0
Modern	6.0	-0.4	-2.5	1.0
Other	2.9	3.1	-2.5	1.0
Housing				
Average House Price (end year)	13.7	8.8	4.5	2.5
House Completions ('000)	68.8	77.0	80.0	72.0
Labour Market				
Labour Force Growth	2.1	2.8	3.5	2.9
Employment Growth	1.9	3.0	3.7	3.1
Unemployment Rate (%)	4.6	4.4	4.2	4.0
Net Immigration ('000)	29.8	31.6	35.0	33.0
Inflation				
CPI	3.5	2.2	2.3	2.6
Core CPI	4.0	2.1	2.0	2.5
Irish HICP	4.0	2.3	2.2	2.6
Mfg Output Prices (Home Sales)	0.8	0.5	1.5	2.0
External Account				
Trade Balance (% of GNP)	18.5	17.8	17.4	16.8
Current Account Balance (% of GNP)	-0.0	-0.9	-0.7	-1.3
Public Finances				
General Government Balance (€ million)	270	1953	0	1000
General Government Balance (% of GDP)	+0.2	+1.3	0	+0.6
General Government Debt /GDP ratio (%)	31.0	29.4	28.7	27.5
Private Sector Finances				
Real Personal Disposable Income	4.4	4.5	5.5	5.0
Personal Savings Ratio (%)	10.5	11.5	12.3	10.9
Private Sector Credit % (end year)	17.9	26.0	24.0	18.0

The publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expression of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. Allied Irish Banks p.l.c. is regulated by the Financial Regulator.