



ALLIED IRISH BANK GROUP TREASURY

THE IRISH ECONOMY REVIEW & OUTLOOK MARCH 2002

OVERVIEW

Economic data published for last year show a sharp slowdown in the pace of growth in the Irish economy during 2001. National accounts figures show GDP growth slowed to 3.2% yoy in Q3 2001 from 9.4% in Q2 and 12.7% in Q1. The deceleration in GDP growth reflects a marked fall-off in exports and business investment during 2001. Export growth slowed to 5.5% yoy in Q3 from 12.5% in Q2 and 22.2% in Q1 2001. Investment in machinery and equipment fell by 25.3% yoy in Q3 2001, in marked contrast to a rise of 16.5% yoy in the opening quarter of the year.

On the other hand, consumer and government spending as well as construction output all registered solid growth right throughout last year. Indeed, consumer spending strengthened in the closing months of the year ahead of the changeover to euro notes and coins. Nevertheless, GDP growth looks to have weakened further in the final quarter of the year with export growth turning negative on a year-on-year basis. Hence, the economy entered 2002 with very little momentum. Thus, even with activity picking up steam over the course of the year, the average growth rate for 2002 will be relatively subdued.

Most leading indicators point to a strengthening of economic activity in 2002. Even in the hard hit manufacturing sector, both the PMI and production expectations in the IBEC/ESRI industrial surveys have picked up strongly in recent months. Meanwhile, there has been a sharp rebound in HomeBond registrations from their November lows. They posted an increase of 35% yoy in the three months to February. Further, in February new car registrations recorded their first year-on-year increase since mid-2000. Total tax receipts also rose by 9% yoy in February, having weakened considerably during the past year.

Evidence of a renewed pick-up in economic activity in Ireland is in line with recent global trends pointing to a rebound in growth, most notably in the US. Domestic economic conditions also remain very favourable with a very expansionary fiscal policy, exceptionally low interest rates and a weak exchange rate. A return to strong year-on-year GDP growth rates, though, is unlikely to become evident until H2 2002, given the high annual growth rates registered in H1 2001, when GDP increased by 11% yoy. Thus, for 2002 as a whole, we think that GDP growth will average no more than 3.5%, despite a marked strengthening of activity during the year.

The Irish economy, then, appears to have achieved a soft landing with most of the downturn in activity confined to the manufacturing sector. Employment has continued to grow, rising by 2.5% yoy in Q4 2001. However, the Live Register has increased by 20,000 in the past six months and looks set to continue rising for some time yet. There are other areas of concern also, in particular the continuing rapid growth in current government spending and rising inflationary pressures. Both have the potential to inflict considerably more damage on the Irish economy than the global downturn did in 2001 and need to be brought under control sooner rather than later.

Oliver Mangan
7th March 2002

SUMMARY

<i>National Economy (P 3)</i>	GDP growth slowed sharply during 2001. For the year, it is estimated at 6.75% down from 11.5% in 2000. While economic activity is expected to strengthen appreciably during 2002, GDP growth may average no more than 3.5%.
<i>Construction (P 4)</i>	The downturn in HomeBond registrations troughed in November 2001 with registrations rebounding strongly in the three months to February. Meanwhile, house price inflation decelerated sharply during the past year.
<i>Agriculture (P 5)</i>	Despite the outbreak of FMD, higher net subsidy payments along with increases in both the volume and price of farm outputs saw farm incomes rise by 5.8% in 2001.
<i>Industry (P 6)</i>	Manufacturing output fell sharply in Q2 and Q3 last year, with the high-tech industries hit particularly severely. Recent indicators, though, suggest that the decline may have bottomed out at the end of last year.
<i>Balance of Payments (P 7)</i>	The balance of payments moved into deficit in 2000. BoP data to Q3 2001 point to a rise in the deficit last year to around €1.3bn. The deficit should stabilise in 2002 as the growth in profit repatriations slows down.
<i>Consumer Spending (P 8)</i>	After steady growth the first three quarters of the year, consumer spending accelerated in Q4 2001 ahead of the changeover to euro notes and coins. Meanwhile, new car sales are showing signs of a recovery in early 2002.
<i>Special Feature: The Housing Market (P 9-12)</i>	The prospects for the sector look favourable in 2002 with HomeBond registrations rebounding and budgetary tax changes and low interest rates stimulating demand.
<i>Labour Market: (P 13)</i>	Employment growth moderated during the course of last year. Meanwhile, there has been a pick up in unemployment over the past six months.
<i>Earnings & Wage Costs: (P 14)</i>	Wage increases have greatly exceeded the rise of 5.25% per annum in the national pay deal in virtually every sector of the economy. The latest data point to double-digit growth in wages last year.
<i>Prices (P 15)</i>	The downtrend in inflation during 2001 was reversed in December/January, largely reflecting excise duty and VAT changes in the 2000 and 2001 budgets. Irish inflation is again the highest in the euro zone, with the HICP rate above 5%.
<i>Monetary Conditions (P 16)</i>	Private sector credit growth and mortgage lending growth both moderated during 2001. Meanwhile, the monetary environment remains very accomodatory.
<i>Public Finances (P 17)</i>	Exchequer Returns to end February show government spending running well ahead of target. Tax receipts, though, have started to pick up again. Spending growth needs to be reigned in to maintain the Exchequer balance in surplus.
<i>Tables (P 18-20)</i>	Historical statistics and economic forecasts.

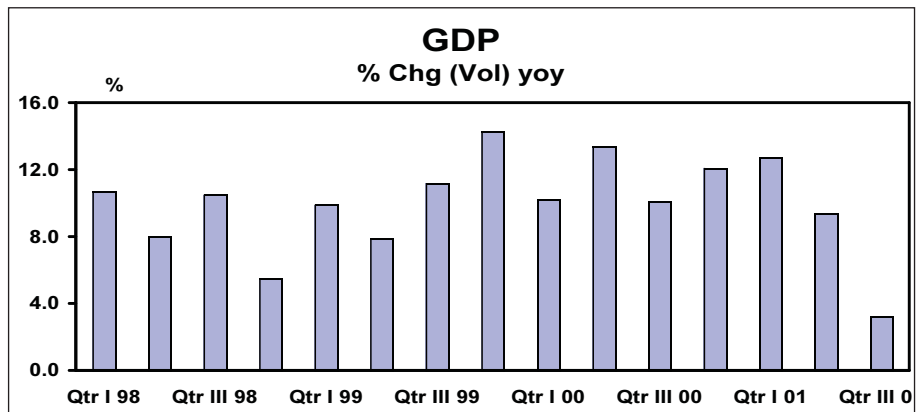
THE NATIONAL ECONOMY

Sharp Slowdown In Growth During 2001

There was a marked slowdown in the growth rate of the Irish economy over the course of the year. GDP growth slowed to 3.2% yoy in Q3 2001, down from 9.4% in Q2 and 12.7% in Q1 of the year. The fact that growth was relatively robust in the opening half of the year largely reflects a strong carryover effect from 2000 when GDP grew by 11.5%. Exports, in particular, benefited from a strong carryover effect during the opening half of 2001.

Exports And Investment Spending Falter

It is worth noting that consumer and government spending grew at a solid pace throughout last year. Export growth, though, slowed to 5.3% yoy in Q3 from 17.4% in H1 2001 and 17.8% in 2000. Investment spending fell 5.6% yoy in Q3 compared to increases of 13.1% and 0.3% yoy in Q1 and Q2 2001 respectively. This reflects a sharp drop in investment in machinery and equipment. Data point to a further weakening in the GDP growth rate in Q4 2001. Exports, in particular, weakened further and may have declined on a year-on-year basis.



Low GDP Growth Rate In Prospect For 2002

For 2001 as a whole, we estimate GDP growth at 6.75% with the rise in GNP put at 5%. The economy entered 2002 with very little momentum. Thus, even if activity picks up over the course of the year, the average growth rate for 2002 will be relatively subdued. Given recent indications that the global economy is turning upwards, we expect that economic activity will strengthen appreciably in Ireland during the course of 2002. Nevertheless, the growth in GDP for the year is likely to average around 3.5%, the lowest rate in a decade.

	Volume % Chg yoy	Consumer Spending	Fixed Investment	Exports	Imports	GDP	GNP
1998 Year		7.3	16.5	21.4	25.8	8.6	7.9
1999 Year		8.2	14.0	15.7	11.9	10.8	8.2
2000	Qtr I	11.8	12.0	17.4	15.3	10.2	7.9
	Qtr II	12.3	10.3	16.4	16.0	13.4	15.8
	Qtr III	7.1	2.4	18.4	16.6	10.1	8.9
	Qtr IV	8.7	3.5	18.9	18.3	12.1	9.0
	Year	9.9	7.0	17.8	16.6	11.5	10.4
2001	Qtr I	5.1	13.1	22.2	21.5	12.7	11.1
	Qtr II	4.9	0.3	12.5	2.6	9.4	1.8
	Qtr III	4.8	-5.6	5.3	5.5	3.2	4.6

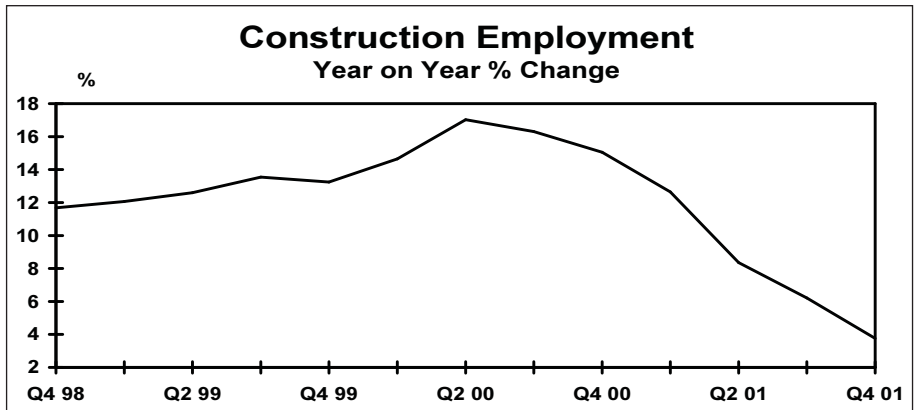
CONSTRUCTION

Rebound In Housing Starts

There are distinct signs that the decline in housing starts, which commenced in the middle of 2000, troughed at the end of last year. HomeBond registrations, a good proxy for private housing starts, fell by 16.7% last year following a meagre rise of 2.2% in 2000. However, in the three months to February starts rebounded sharply and were 34.7% above levels in the same period a year earlier. By February, the twelve month moving average was 7.6% above its November 2001 low.

Marked Slowdown In Employment Growth

National Household Survey data show that construction employment growth averaged 7.8% last year, well down from the 15.8% increase recorded in 2000. Indeed, by Q4 2001 employment growth had fallen to 3.8% yoy in the sector. We estimate that construction output rose by some 8.5% in 2001, buoyed, in particular, by strong growth in public capital expenditure. The trend in housing starts suggests housing completions could decline somewhat in the early part of 2002 before rebounding strongly later in the year. This recovery, plus a further increase in public capital spending, should see overall construction output rise by around 5% in 2002.



House Price Inflation Fell Sharply In 2001

Permanent TSB data show that the rate of house price inflation decelerated sharply during the past year. Indeed, house prices fell each month between August 2001 and January 2002. As a result, the rate of house price inflation nationally had fallen to just 2.4% yoy by January 2002, having been consistently above 15% between October 1997 and June 2001. Anecdotal evidence, though, suggests that prices may soon stabilise, helped by the measures introduced in the December budget to encourage investors to return to the housing market.

	HomeBond Registrations	% YoY 3 mth moving avg	Construction Employment	% YoY	Permanent TSB House Prices % MoM	% YoY
2001 Feb	2,318	-27.3	179.9	12.6	0.4	19.8
Mar	2,640	-17.8			1.3	19.1
Apr	2,334	-20.5			1.2	18.4
May	3,155	-21.2	180.2	8.4	0.4	16.8
June	2,377	-26.9			0.3	15.1
July	2,713	-24.4			1.0	14.1
Aug	2,078	-21.7	186.4	6.2	0.9	12.8
Sep	2,301	-10.6			-0.2	12.1
Oct	2,495	-15.5			-0.8	10.1
Nov	2,250	-10.6	184.8	3.8	-0.4	7.5
Dec	1,339	-5.3			-0.8	4.4
2002 Jan	3,066	7.3			-0.9	2.4
Feb	4,035	34.7				

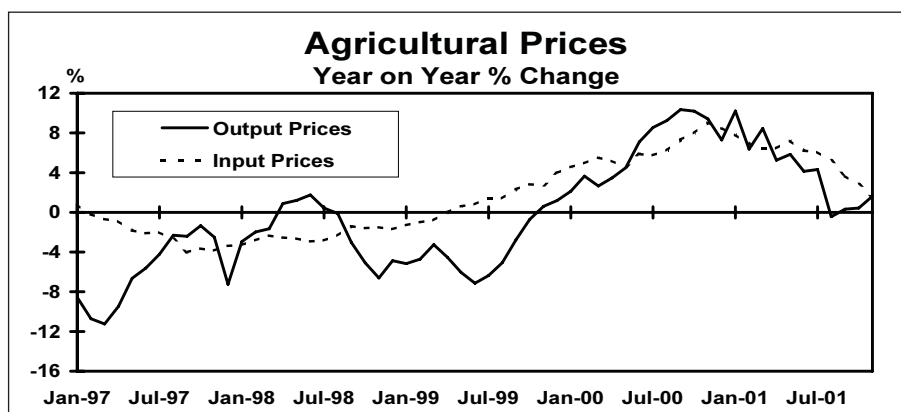
AGRICULTURE

Rising Output Prices

With the exception of cattle prices which fell by 7.4%, farm output prices were strong in 2001, especially pig and sheep prices. Milk prices were also firm while there were big increases in crop prices. Overall, it is estimated that farm output prices rose by 3.3% last year. Farm input prices, though, are estimated to have increased at the slightly higher pace of 4.7%, with prices for feeding stuffs, fertilisers and veterinary expenses all rising strongly.

Increase Of 5.8% In Farm Income In 2001

Preliminary estimates from the CSO point to a rise of 1.6% in the volume of farm output in 2001, led by a 3.5% jump in milk production. Meanwhile, the volume of farm inputs rose by 1.9%, despite a sharp drop in the use of fertilisers. Net subsidy payments to farmers rose by 5.9% to €1.34bn in 2001. Combined with the increases in both the volume and price of farm outputs, this more than outweighed higher input costs. As a result, farm income rose by 5.8% last year to €2.45bn.



Sector Recovers Well From The Outbreak Of FMD

This was the second consecutive year of rising farm incomes. Over half of farm income now comes in the form of subsidy payments, helping to ease the vulnerability of the sector to price swings and external shocks. Farming has recovered well from the outbreak of foot and mouth disease in the early part of last year. A further increase in farm incomes this year, though, will require a continuation of the uptrend in output prices, as milk production, in particular, is likely to fall back while subsidy payments are expected to show little change.

		Cattle	Milk	Output Prices		Input Prices	
		Slaughtering	Intake	(1990=100)	% YoY	(1990=100)	% YoY
		% YoY	% YoY				
2001	Jan	12.8	-0.7	95.0	10.2	111.5	7.8
	Feb	-20.1	-1.0	93.5	6.4	111.4	6.9
	Mar	-17.6	6.6	96.2	8.5	112.0	6.5
	Apr	-16.1	-10.6	94.3	5.2	112.2	6.5
	May	-11.8	2.0	96.1	5.8	112.8	7.2
	June	6.2	0.9	95.8	4.1	112.9	6.2
	July	17.0	2.4	96.7	4.3	113.3	6.1
	Aug	3.9	3.7	91.7	-0.4	112.9	5.2
	Sep	-11.3	6.3	93.1	0.3	112.8	3.7
	Oct	2.7	14.8	92.3	0.4	112.8	2.8
	Nov	24.1	32.1	93.3	1.6	112.4	1.5
	Dec	63.4	12.7				
2002	Jan		2.4				

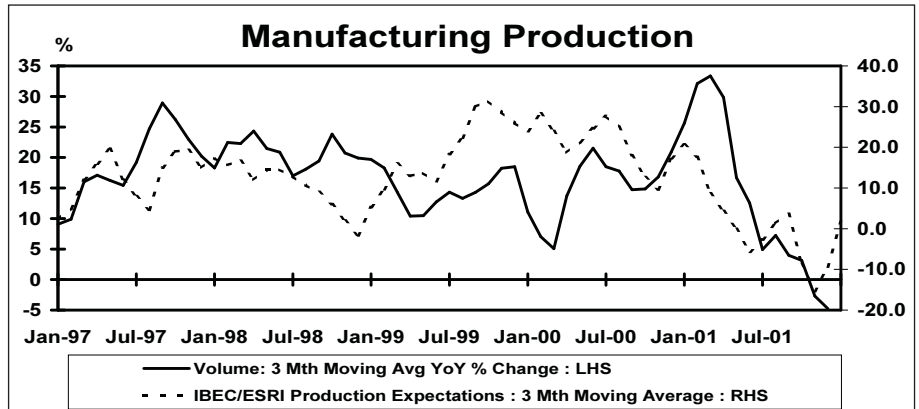
INDUSTRY

ICT Sector Takes A Big Hit

Manufacturing output grew by 9.7% in 2001. Production, however turned down sharply over the course of the year, with sharp falls in output in Q2 and Q3. By Q4 2001, output was down by 5% on year earlier levels. The downturn has been most severe in the high-tech industries where the growth rate has slowed to -4.4% yoy in Q4, down from over 40% in the early part of the year. In particular, output in the information and communication technology sector fell sharply, declining 23% yoy in Q4 2001.

Sharp Fall In Manufacturing Output

Production expectations in the IBEC/ESRI surveys began a sharp decline in mid-2000 and fell into negative territory in the aftermath of the events of Sept 11th. The PMI also declined last year. This index fell sharply after the Sept 11th terrorist attacks in the US, declining to 46 in October, well below the 50 level that signifies rising output in the sector.



But Early Signs Of A Recovery In 2002

Recent indicators suggest that the decline in manufacturing output may have bottomed out at the end of last year. Production expectations have picked up from their October low, rising back into positive territory in December and January. Meanwhile, the PMI has risen for four straight months, climbing to 50.4 in February, its highest level since last summer. Manufacturing output also rose strongly in December according to CSO figures. These data are consistent with the many indicators showing an improvement in the global economy in recent months and suggest that manufacturing output should rise over the course of 2002, helped by a strengthening of exports.

		Total Manufacturing Vol		High Tech**	Indigenous**	Capacity +	Production+
		% Change	YoY %	YoY %	YoY %	Utilisation	Expectations
		YoY	3 Mth Mov Avg	3 Mth Mov Avg	3 Mth Mov Avg	%	3mth. Mov Avg
2001	Jan	28.9	25.6	31.1	6.9	78.0	20.7
	Feb	43.0	32.1	40.1	5.8	77.7	17.7
	Mar	28.3	33.3	42.1	7.1	79.0	8.7
	Apr	20.2	29.8	39.5	0.6	79.3	4.3
	May	2.0	16.7	22.5	-0.4	77.8	0.0
	June	15.1	12.5	17.2	-3.9	76.2	-5.7
	July	-3.5	4.9	7.0	-2.5	76.2	-2.7
	Aug	9.2	7.2	10.1	-2.8	75.1	1.3
	Sep	6.1	4.0	5.8	-2.6	74.1	3.7
	Oct	-4.4	3.1	4.7	-2.7	73.8	-8.7
	Nov	-8.9	-2.7	-2.4	-4.0	75.5	-15.3
	Dec	-0.8	-4.8	-4.4	-6.2	74.7	-9.3
2002	Jan						1.7

**AIB Group Treasury Indicators +IBEC/ESRI Industrial Survey

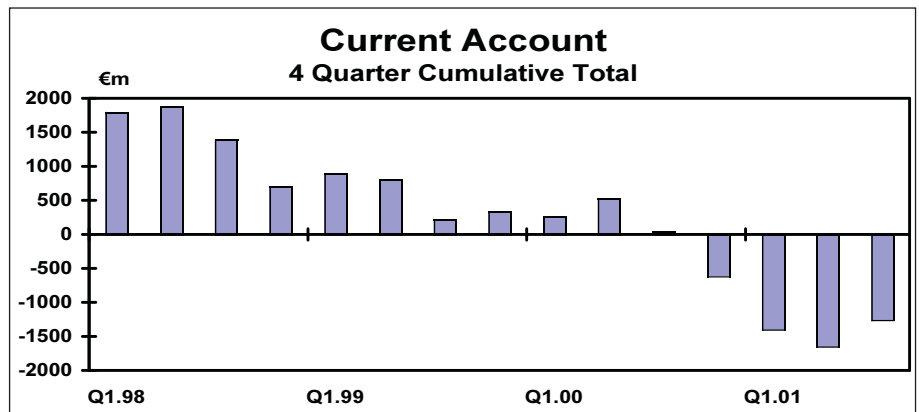
BALANCE OF PAYMENTS

BOP Moved Deeper Into Deficit in H1 2001

A balance of payments deficit of €615m (0.7% of GNP) was recorded in 2000, the first such deficit since 1990. The BOP moved deeper into deficit in H1 2001, with a negative current account balance of €678m compared to a surplus of €356m in the corresponding period of 2000. This brought the cumulative deficit in Q2 2001 to €1.65m on a twelve month running total basis. There was a large jump in net factor income outflows, largely profit repatriations, in H1 2001, while net EU transfers declined. In addition, the services deficit widened in the first half of last year. These factors more than outweighed an increase in the merchandise trade surplus.

Better Data For Q3 2001

Recently published data show a marked improvement in the balance of payments during Q3 2001 with the current account deficit falling to €123m from €513m in the corresponding period of the previous year. Although the services deficit continued to widen in Q3, this was more than offset by a large increase in the merchandise trade surplus, while the rise in profit outflows evident in H1 2001 abated.



BoP Deficit To Stabilise In 2002

The final quarter of 2001 saw a marked weakening of export growth and thus registered only a small rise in the merchandise trade surplus. There are no data available on trade in services or profit flows. We tentatively put the current account deficit at €500m in Q4 2001, compared to €458m a year earlier. This would give a deficit of €1.3bn for last year as a whole, equivalent to 1.4% of GNP. We expect the deficit to stabilise at around €1.3bn in 2002, helped by a marked slowing in the rate of growth of profit repatriations.

	Balance of Payments (€m)	Goods	Services	Income	Transfers	Current Account
1999	Qtr I	5,005	-2,600	-2,680	277	0
	Qtr II	5,342	-2,561	-2,960	342	163
	Qtr III	6,286	-2,583	-3,892	163	-24
	Qtr IV	6,168	-2,684	-3,685	395	194
	Year	22,802	-10,428	-13,218	1,177	333
2000	Qtr I	5,566	-2,435	-3,534	334	-69
	Qtr II	6,589	-3,131	-3,295	262	425
	Qtr III	7,596	-3,277	-4,749	-83	-513
	Qtr IV	7,947	-4,221	-4,702	518	-458
	Year	27,698	-13,064	-16,280	1,031	-615
2001	Qtr I	7,701	-4,229	-4,453	129	-852
	Qtr II	9,248	-3,505	-5,666	97	174
	Qtr III	8,884	-4,200	-4,776	-31	-123

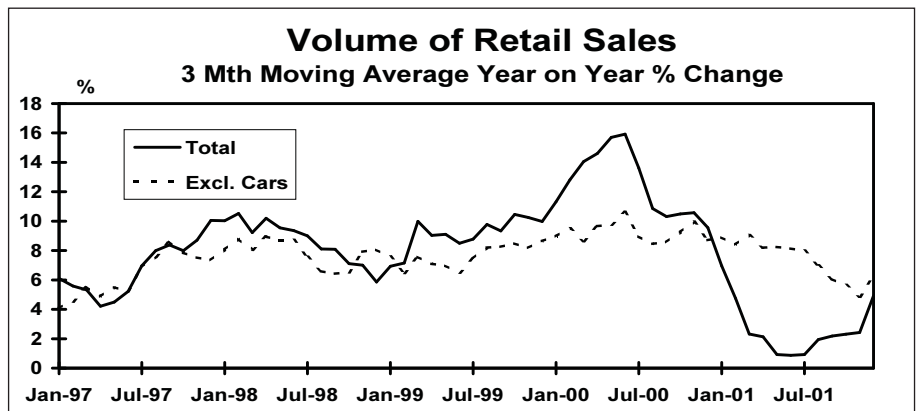
CONSUMER SPENDING

Euro Changeover Triggered Q4 Surge In Spending

There was a surge in consumer spending during the final quarter of 2001, ahead of the changeover to euro notes and coins. The volume of retail sales rose by 4.3% in Q4 with the ex-auto figure increasing by 3%. Spending was particularly strong in the month of December as the looming currency changeover drew out so called 'mattress money'. Thus, it proved a strong finish to a year that saw an appreciable weakening in the growth rate of consumer spending compared to 2000.

But Spending Growth Still Slowed Down In 2001

Car sales fell by 29% in 2001 from the lofty levels achieved in 2000. As a result, the volume of total retail sales rose by just 3% in 2001 compared to 12% the previous year. Excluding the auto sector, though, the downtrend in retail sales growth was less pronounced. Non-auto retail sales rose by 7.4% compared to 8.9% the previous year. Nonetheless, even with the boost from the currency changeover, non-auto sales were up by just 6.5% yoy in Q4 2001, down from a 9.2% yoy growth rate in the opening quarter of the year.



Fall In New Car Sales Abates In Early 2002

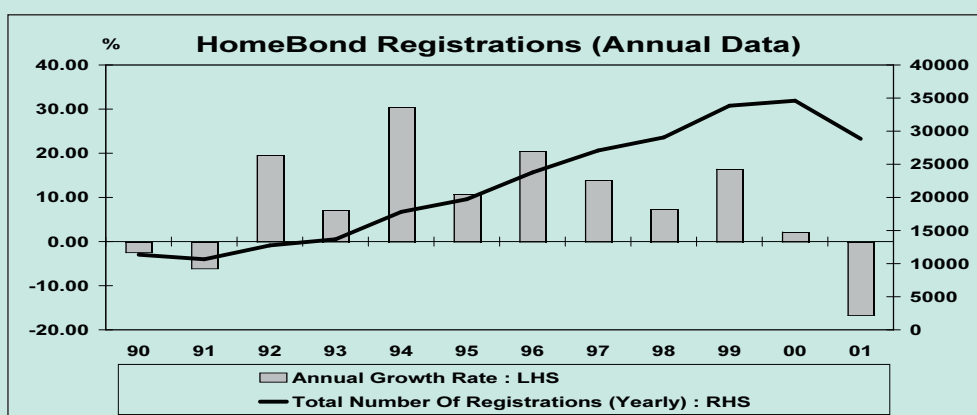
National accounts data show growth in consumer spending averaged 4.9% yoy in the first three quarters of 2001, down from the 9.9% rise registered in 2000. We estimate the rise in consumer spending at 5.3% for 2001 as a whole. Looking to 2002, consumer spending should be underpinned by a rise in employment and solid growth in real personal disposable income, despite relatively high inflation. Data from the first two months of 2002 show that the decline in new car sales moderated considerably to -1.9% yoy from -29% last year. Overall, we look for consumer spending to increase by 5% in 2002.

		Retail Sales Volume S.A.		Excl Garages Volume S.A.		SIMI Car Registrations	% Change Year 3 mth moving avg
		% Change	% Change	% Change	% Change		
		Month	Year	Month	Year		
2001	Feb	-0.1	3.2	-0.1	8.7	23,465	-22.2
	Mar	-0.5	0.9	0.6	8.3	24,540	-22.1
	Apr	1.6	2.3	0.1	7.6	16,705	-26.5
	May	-0.4	-0.5	1.3	8.8	18,653	-29.3
	June	-0.6	0.8	0.5	8.0	15,554	-32.4
	July	-1.4	2.5	-2.0	7.1	12,295	-31.2
	Aug	1.5	2.5	-0.1	5.8	8,716	-31.8
	Sep	0.8	1.5	1.9	5.3	5,546	-33.7
	Oct	1.8	2.9	1.1	5.9	5,388	-31.5
	Nov	0.3	2.9	-0.9	3.5	2,655	-28.6
	Dec	3.4	9.1	3.6	9.5	894	-16.9
	2002	Jan					31,212
Feb						24,405	-2.2

SPECIAL FEATURE: THE HOUSING MARKET

Further Rise in Housing Output In 2001

The downturn in HomeBond registrations, a good indicator of private housing starts, that began in mid-2000, continued throughout last year. Total registrations for 2001 fell by 16.7%, following the anaemic growth of just 2.25% in 2000. As a result, by November last year registrations on a twelve month running total basis were 25% below their peak, reached in July 2000.

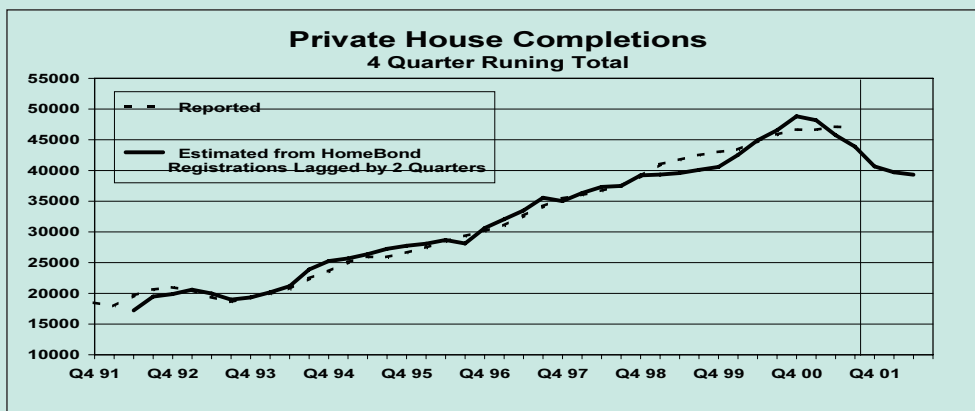


However, the sharp downturn in HomeBond registrations has not been reflected in the level of house completions. In the first three quarters of last year overall house completions were 4% higher than in the same period of 2000. This compares to a 7.1% rise in house completions in 2000 and 9.4% rise in 1999. Thus, the sharp fall in HomeBond registrations has been accompanied by a slowdown in the rate of increase in house completions rather than an outright decline.

Divergence Between Registrations And Completions Data

There are several factors that might, in part at least, have contributed to the divergence in trend between registrations and completions. To an extent, this divergence reflects a strong pick-up in the level of completions in the social housing sector, albeit from very low levels. Social housing is not reflected in the HomeBond registration figures. Completions of social housing were up by 57% year-on-year in the first nine months of last year while private housing completions rose by just 1.1%.

There has been a strong relationship in the past between registrations and the level of private housing completions. Historically, there has been a lag of, on average, two quarters between registration and completion in this sector of the housing market. The fact that private house completions have continued to grow, if only slightly, despite the sharp downturn in registrations since July 2000 may, to some extent, be the result of a lengthening of this lag over the past couple of years. A shortage of suitably skilled workers in the construction sector may have served to delay completions in recent years and thereby lengthened the lag with registrations.



HomeBond Registrations May Not Be All Encompassing

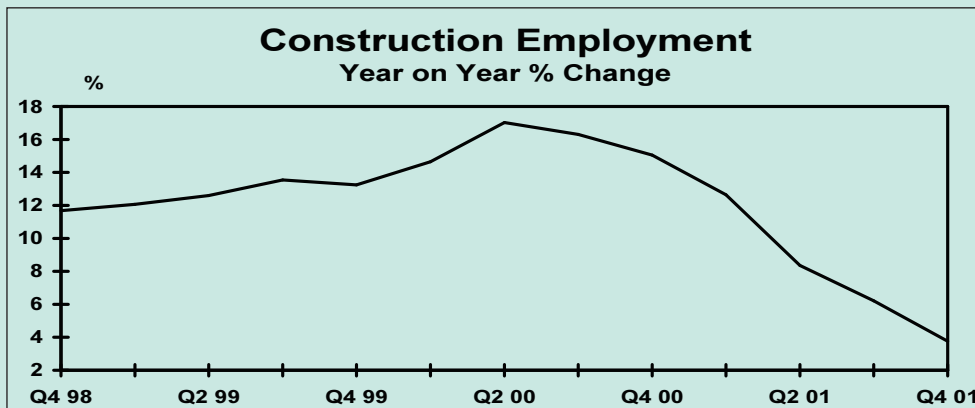
Another question to be considered is whether the HomeBond registrations are representative of all the non-social housing developments under construction. There is anecdotal evidence to suggest that there has been significant investment in holiday villages and similar schemes over the past couple of years. To the extent that such schemes are commercial rather than private housing developments, they would not be reflected in the HomeBond registration figures. Anecdotal evidence also points to an increase in individual "once-off" housing constructions, which would also not be reflected in the HomeBond data.

Meanwhile, Department of Environment data show that mortgage lending has been in significant decline, with a fall of almost 10% in the number of loan approvals for new houses the first three quarters of last year. This also is at odds with the strength of housing completions and would tend to indicate that there are a number of recently completed properties that have not been subsequently purchased through private sector mortgage lending. This, in part, may also reflect some increase in the unsold housing stock.

The downturn in HomeBond registrations in 2001 may yet be reflected in a fall in housing completions in the early part of 2002, even taking into account any factors that may distort the historic relationship between the two. However, any fall in output in the private housing sector should to some extent be cushioned by a further strong rise in output of social housing, though at only 9% of the total this remains small in the overall context. Further commercial investment in holiday village schemes and the like may also support total housing output.

Slowdown in Employment Growth

CSO labour force data show a marked slowdown in employment growth in the construction sector last year. According to these data, employment in construction rose by 7.8% last year, well down from the 15.8% increase recorded in 2000. Indeed, by Q4 2001 employment growth had fallen to 3.8% yoy. The data are consistent, though, with another year of strong growth in the construction sector in 2001, including housing output.



Meanwhile, the situation regarding the supply of suitably serviced sites would appear to have improved significantly. The national inventory of zoned serviced land stock at end June 2001 showed a rise of approximately 10% yoy in the number of housing units of land available. Government initiatives in terms of water, sewerage and roads programmes should result in further improvements in the stock of suitably serviced land.

Buyers Returning To The Housing Market

There is considerable anecdotal evidence that the taxation changes in the 2002 Budget have put life back into investment in the housing market. The restoration of the ability to offset mortgage interest repayments against rental income for tax purposes and the reduction in stamp duty have considerably increased the attractiveness of investment properties. Renewed interest has been witnessed for both new and secondhand properties, especially those costing less than €300,000.

This, in turn, is impacting on owner occupiers in this sector of the market. There is anecdotal evidence that first time buyers, in particular, who have held off purchasing in the climate of falling overall house prices in H2 2001 have been attracted back into the market by the fear of losing out to investors. The sharp cuts in mortgage rates over the closing months of 2001 would also have helped to rekindle demand for houses in the owner occupier sector of the market.

Housing Starts Rebounding

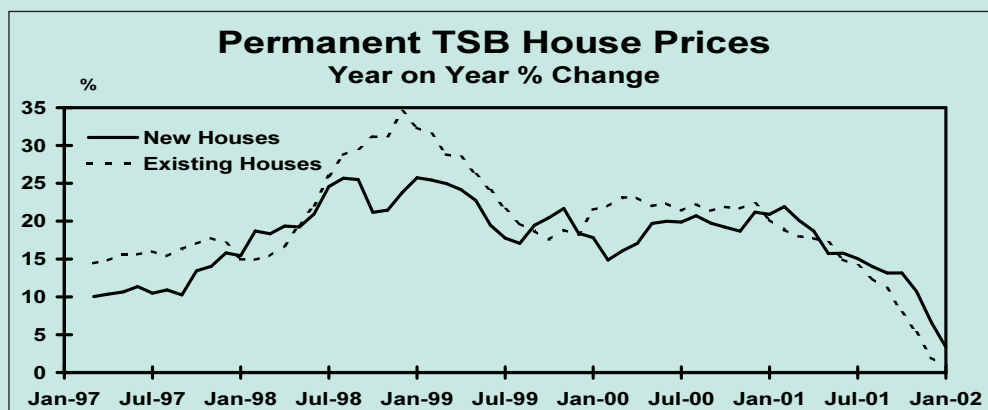
Indeed, recent months have shown clear signs of a rebound in housing starts. In the three months to February 2002, HomeBond registrations rose by 34.7% year-on-year. This suggests that the decline in registrations bottomed out in November 2001. By February, HomeBond registrations were 7.6% higher on a twelve-month running total basis than their low in November 2001. It would appear, then, that the combination of taxation changes in the December budget and falling mortgage rates have provided a considerable boost to the housing market.

Overall, the prospects for the housing market look favourable in 2002. However, given that there is a time lag of at least two quarters between the level of registrations and housing completions, it is likely to be the second half of the year before the renewed rise in registrations impacts on the supply of finished houses. While final figures are not yet available, it looks as if total housing completions rose by about 4% to around 52,000 in 2001. Although completions may decline somewhat in the early part of 2002, we expect a good recovery later in the year, reflecting the recent pick-up in registrations and improving demand conditions. In these circumstances, there should be a further rise in completions in 2002, contrary to widespread earlier expectations of a sharp fall in the number for the year.

Decelerating House Price Inflation

Permanent TSB data show that the rate of house price inflation decelerated sharply during 2001. Indeed, house prices fell in each month between August 2001 and January 2002. The cumulative decline in house prices over this five month period was 3.1%. As a result, the rate of house price inflation nationally had fallen to just 2.4% yoy by January 2002, having stood between 15% and 30% yoy in the period October 1997 to June 2001.

Quite a dichotomy has appeared between the trend in house prices at the lower end and top end of the housing market. According to data from the Permanent TSB, the price per square foot of houses in the Dublin area costing less than €380,000 increased by 6.8% between January 2001 and January 2002. Over the same period, the price per square foot of Dublin houses in the €380,000 plus price category fell by 3.2%. These data are in line with anecdotal evidence that the decline in house prices since last summer has been largely concentrated in the upper end of the market.



More recent anecdotal evidence, suggests that house prices may soon stabilise, helped by the pick-up in demand evident since the December budget, especially amongst investors. Thus, we believe that despite the fall in house prices since last August, the market will remain well underpinned this year. Such a view is supported by the current low level of interest rates and expectations that economic growth will pick up momentum over the course of 2002.

Dr Jenny Pollock
AIB Group Treasury

LABOUR MARKET

Labour Force Grew By 2.5% in 2001

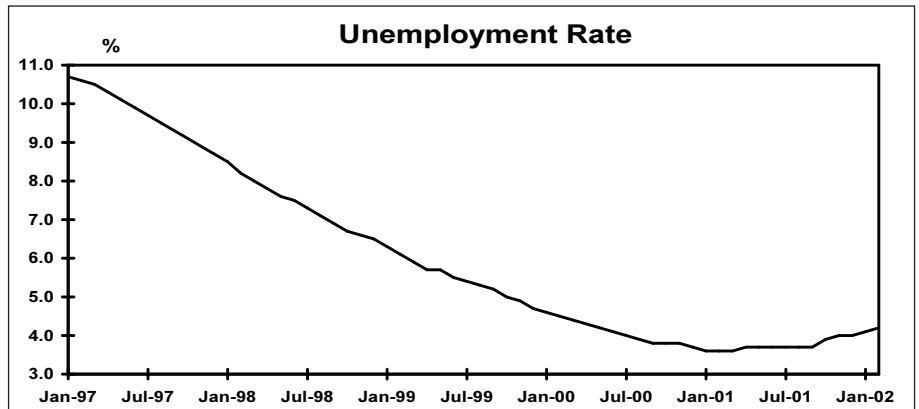
The latest Quarterly National Household Survey (QNHS) shows that the labour force grew by 46,400 or 2.6% in the year to Q4 2001. Population growth and demographics added 40,400 to the labour force while the balance of 6,000 was due to higher labour force participation rates. Overall for 2001, labour force growth averaged 2.5%, down from 3.4% in 2000 and 4.0% in 1999.

Moderating Employment Growth

There was a 42,600 increase in the level of employment to 1.75m in the year to Q4 2001. The rate of employment growth moderated over the course of the last year from 3.6% yoy in Q1 to 2.5% yoy in Q4. For 2001 as a whole, employment grew by 2.9% compared with 4.7% in 2000 and 6.3% in 1999. Employment gains were largely concentrated in the service sectors, most notably education and health and financial and other business services

Unemployment Starts To Rise

The H2 2001 QNHS data show that unemployment has started to rise. Unemployment declined by 12,200 on average in H1 2001 but rose by 2,800 on average in H2 2001 compared to year earlier levels. As a result, the unemployment rate edged up to 4.0% in Q4 2001 from 3.9% a year earlier.



Live Register Heading Upwards

After having been confined to a 138,000 to 141,000 range in the first eight months of last year, the live register total jumped sharply by 12,000 in the final four months of 2001 to 153,000. This, no doubt, reflects the large number of redundancies which have been announced since last summer. The Live Register continued to move higher in the opening two months of 2002, reaching 161,000 in February.

		Labour Force		Employment		Unemployment	
		Total (000)	% Chg YoY	Total (000)	% Chg YoY	Total (000)	Rate %
1998	Qtr IV	1,650.7		1,544.7	4.9	106.0	6.4
1999	Qtr I	1,650.1	1.8	1,555.0	4.9	95.1	5.8
	Qtr II	1,688.1	4.1	1,591.2	6.5	96.9	5.7
	Qtr III	1,770.3	4.8	1,669.2	7.0	101.1	5.7
	Qtr IV	1,736.1	5.2	1,647.4	6.6	88.7	5.1
2000	Qtr I	1,732.1	5.0	1,650.6	6.1	81.5	4.7
	Qtr II	1,745.6	3.4	1,670.7	5.0	74.9	4.3
	Qtr III	1,815.6	2.6	1,737.9	4.1	77.7	4.3
	Qtr IV	1,779.1	2.5	1,710.3	3.8	68.8	3.9
2001	Qtr I	1,775.5	2.5	1,709.9	3.6	65.6	3.7
	Qtr II	1,781.9	2.1	1,716.5	2.7	65.4	3.7
	Qtr III	1,866.1	2.8	1,786.6	2.8	79.5	4.3
	Qtr IV	1,825.5	2.6	1,752.9	2.5	72.6	4.0

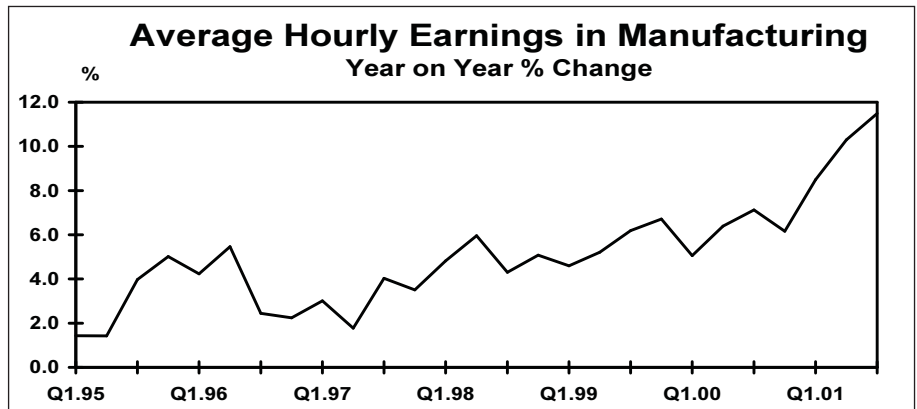
EARNINGS AND WAGE COSTS

National Pay Deal Not Adhered To

The strong growth rate of the economy in recent years and associated tightening of labour market conditions have put severe upward pressure on wages. The current three year national pay deal covering the period 2000-2003 provided for wage increases of around 5.25% per annum. However, this has been greatly exceeded in virtually every sector of the economy.

Double-Digit Wage Increases

In manufacturing, average hourly earnings rose by 12.5% in the year to September 2001. This compares to increases of 6.1% in 2000 and 5.3% in 1999. Average hourly earnings in the construction sector rose by 13.6% in the year to September 2001. This represents a continuation of the strong uptrend in wages evident in the sector in recent years, in particular a 12.6% rise in average hourly earnings in 2000.



Big Pay Increases In Services Sector

CSO data covering the 600,000 people employed in distribution and business services show a rise of 8.9% in average full-time weekly earnings in the year to September 2001, up from 8.3% for the year 2000. Meanwhile, in the financial services sector, average weekly earnings rose by 15% in the year to June 2001, after a 6.2% increase in the year 2000.

Rapid Growth In Public Sector Pay

The public sector pay bill has climbed sharply in recent years, increasing by 18% in 2001, and 11% in 2000. The government has provided for a 13% rise in 2002, bringing the increase in the public sector pay bill to 60% in the past five years. The latest CSO data, which are for June 2001, show a rise of 10.8% yoy in public sector earnings.

		Manufacturing € per hour	% Chg QoQ	% Chg YoY	Banking, Insurance & Building Societies (Weekly) % YoY	Building & Construction (Hourly) % YoY
1998	Qtr III	9.23	-0.3	4.3	3.9	8.2
	Qtr IV	9.46	2.5	5.1	4.5	2.9
1999	Qtr I	9.54	0.8	4.6	4.7	1.1
	Qtr II	9.74	2.1	5.2	4.8	4.7
	Qtr III	9.80	0.7	6.2	2.2	12.0
2000	Qtr IV	10.09	3.0	6.7	1.7	13.2
	Qtr I	10.02	-0.8	5.1	1.1	13.9
	Qtr II	10.36	3.4	6.4	3.5	12.2
	Qtr III	10.50	1.3	7.1	8.2	8.2
2001	Qtr IV	10.72	2.1	6.2	9.6	15.7
	Qtr I	10.87	1.4	8.5	11.5	13.7
	Qtr II	11.43	5.1	10.3	15.6	12.4
	Qtr III	11.71	2.4	11.5		13.6

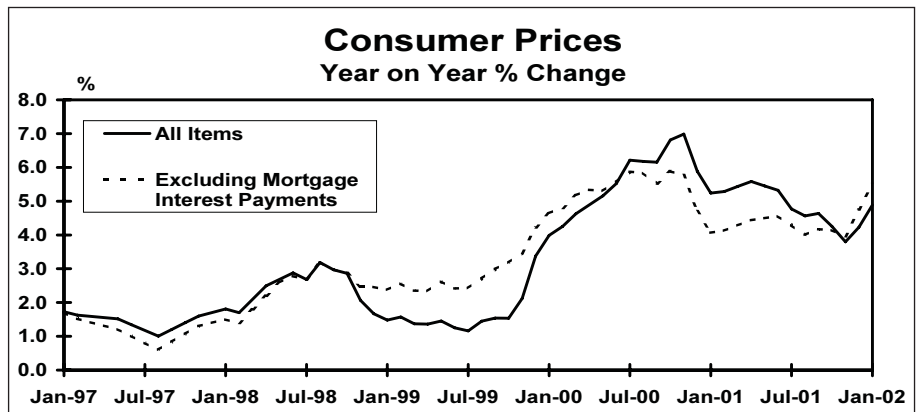
PRICES

Downtrend In Inflation Reversed

Having been on a steady downward path since last April, CPI inflation shot higher in December/January rising to 4.9% yoy from 3.8% in November. A significant part of the increase relates to excise duty increases in the 2002 budget while the VAT and excise duty decreases in budget 2001 fell out of the annual calculation. There have also been a broad range of price rises, particularly in the services sector, partly relating to the euro changeover, but primarily reflecting high wage increases. By contrast, producer output price inflation has fallen to very low levels. The domestic sales component of the PPI rose by just 0.5% yoy in December.

Inflation To Remain High In 2002

Inflation is set to remain high in 2002, partly reflecting indirect tax increases in the budget, as well as strong domestic wage pressures, especially in the services sector. However, there should be a downtrend in CPI inflation over the course of the year. Sharp food price rises in the first half of 2001 should not be repeated in particular. Nevertheless, we still see ex-mortgage CPI inflation at over 4% in the final quarter of 2002. For the year as a whole, we expect the headline CPI rate to average 4.0% while, excluding mortgages, the CPI rate should average 4.8%.



Irish Inflation The Highest In The Euro Zone

The inflation gap between Ireland and the rest of the euro zone fell to a recent low of 1.3% in November 2001, down from 3.3% in October 2000. However, the gap widened back out again to 2.5% in January 2002, with the rise in the Irish HICP rate to 5.2% compared with the EU-12 average of 2.7%. As a result, the Irish inflation rate is now the highest of the euro zone countries.

		Consumer Prices				Mfg. Output Prices	
		All Items		Ex Mort. Interest		Total	Domestic
		% MoM	% YoY	% MoM	% YoY	% YoY	% YoY
2001	Jan	-0.8	5.2	-0.9	4.1	3.8	4.8
	Feb	0.9	5.3	0.9	4.1	3.5	4.4
	Mar	0.8	5.4	0.8	4.3	3.1	4.5
	Apr	0.9	5.6	0.8	4.4	3.1	4.0
	May	0.6	5.4	0.7	4.5	2.4	3.6
	June	0.5	5.3	0.6	4.6	3.0	3.0
	July	-0.3	4.8	-0.3	4.3	2.6	2.7
	Aug	0.3	4.6	0.3	4.0	0.7	1.9
	Sep	0.4	4.6	0.4	4.2	0.2	1.4
	Oct	0.3	4.3	0.6	4.1	-0.8	0.4
	Nov	-0.1	3.8	0.0	4.0	0.5	0.6
	Dec	0.5	4.2	0.8	4.8	0.0	0.5
2002	Jan	-0.2	4.9	-0.2	5.5		

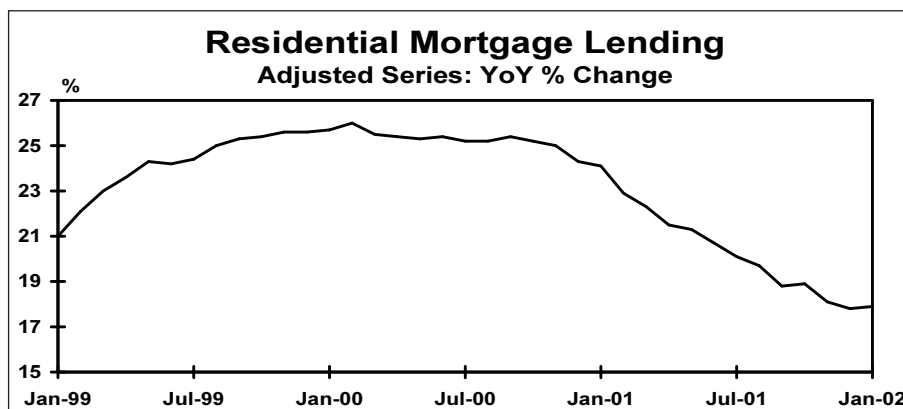
MONETARY CONDITIONS

Credit Growth Decelerating

The adjusted rate of private sector credit growth decelerated during the course of last year to 15.2% yoy by December from 21.3% yoy at the end of 2000. Indeed, the growth rate for the final quarter of 2001 was 15% yoy, the lowest three-month average rate since the start of monetary union in January 1999. It compares with a growth rate of 16.5% yoy in Q3 2001 and 18.9% in the first half of the year. Credit growth slowed further to 13.3% yoy in January 2002.

Growth In Mortgage Lending Edging Lower

Growth in mortgage lending, adjusted for securitisation, also weakened over the course of last year, largely reflecting the fall in house price inflation. It stood at 17.8% yoy in December, down from 20.6% yoy in December 2000. The rate was little changed at 17.9% in January 2001. Overall, the annual growth rate of mortgage lending has fallen in fourteen of the last sixteen months, albeit at a slow pace.



Accommodative Monetary Environment

The Irish economy continues to benefit from a very accommodative monetary environment. Official ECB interest rates were cut by 150bps last year. They now stand at 3.25%, exceptionally low by historical Irish standards. With a CPI rate in Ireland of around 5%, it means that interbank rates are negative in real terms. The accommodative monetary stance has been augmented by the weakness of the euro. Although somewhat above its historic lows, the euro is still 25% lower against the dollar and 13% down against sterling from its January 1999 launch value. This implies a sharp fall in Ireland's effective exchange rate since January 1999.

		Private Sector	Residential	Interest Rates ^		Euro Exchange Rates ^	
		Credit *	Mortgages +	3Mth	Mortgages	US\$	Stg
		% Chg yoy	% Chg yoy	%	%		
2001	Feb	18.5	22.9	4.76	5.87	0.9248	0.6387
	Mar	16.0	22.3	4.55	5.87	0.8832	0.6192
	Apr	19.5	21.5	4.80	5.87	0.8876	0.6195
	May	19.0	21.3	4.51	5.70	0.8480	0.5973
	Jun	19.0	20.7	4.42	5.60	0.8480	0.6031
	Jul	18.9	20.1	4.43	5.60	0.8768	0.6141
	Aug	14.2	19.7	4.24	5.60	0.9158	0.6285
	Sep	16.5	18.8	3.63	5.50	0.9131	0.6220
	Oct	14.5	18.9	3.50	5.20	0.9042	0.6213
	Nov	15.3	18.1	3.34	4.73	0.8898	0.6238
	Dec	15.1	17.8	3.28	4.50	0.8813	0.6085
	2002	Jan	13.3	17.9	3.36	4.50	0.8663
Feb				3.37	4.50	0.8647	0.6112

* Excludes transactions between credit institutions and IFSC companies plus valuation effects
+ Includes securitisations ^ End Month

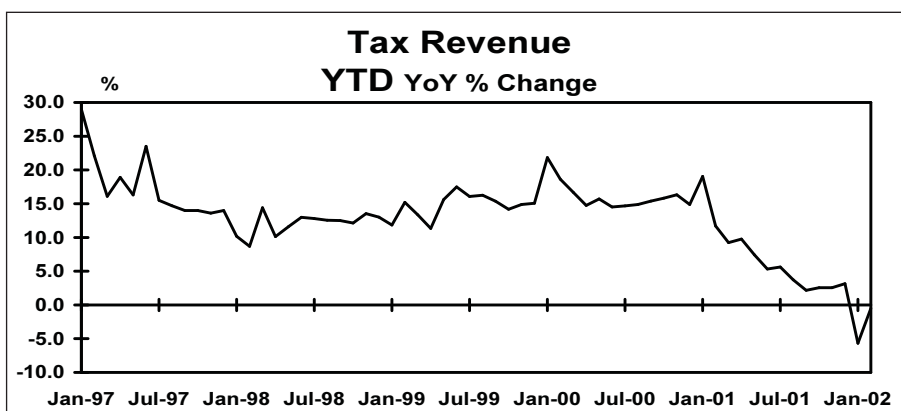
PUBLIC FINANCES

Exchequer Surplus Target Of €170m for 2002

In his 2002 budget, the Minister for Finance targeted an Exchequer surplus of €170m or 0.2% of GNP. However, this is only being achieved through the transfer to the Exchequer of surplus funds from the Central Bank, NTMA and Social Insurance Fund to the tune of €1.75bn, without which the budget would be in substantial deficit. Tax receipts are forecast to rise by 8.6%, in 2002. Meanwhile, gross current spending is projected to rise by 14.3%, following growth of 20% in 2001. Capital spending is also set to rise sharply.

Strong Spending Growth Continues in 2002

Exchequer returns to end February show spending running well ahead of target, growing by over 22% yoy. Tax receipts, though, have started to pick up after their weak performance during 2001. The main concern, then, relates to government spending. The pattern of very strong growth in spending evident in 2001 has continued in early 2002. Spending growth needs to be reigned in if the government target of a small Exchequer surplus for 2002 is to be achieved.



Budget Deficits Projected For 2003 & 2004

Without the benefit of non-recurring transfers from state fund, it is projected that the Exchequer balance will fall into deficit in 2003/2004 of over €3bn, or some 3% of GNP. The general government deficit, though, is projected to be smaller at around 0.5% of GDP in 2003 and 2004. It includes the surplus in the Social Insurance Fund but excludes the large Exchequer contribution to the National Pension Reserve Fund. Hence, the general government balance tends to give a more favourable picture of the state of the public finances than the Exchequer balance.

€m		Exchequer Balance	Current Budget	Capital Budget	Tax Receipts	Supply Services	4 Quarter Rolling Total	
								YoY % Change YTD
1999	Qtr I	1,209	2,734	-1,525	13.3			
	Qtr II	1,927	3,295	-1,368	17.5	10.1		
	Qtr III	2,430	4,355	2,734	15.4	8.8		
	Qtr IV	1,514	4,367	-2,853	15.1	10.3		
2000	Qtr I	2,430	5,448	-3,019	16.7	2.2		
	Qtr II	2,664	6,041	-3,378	14.5	7.8		
	Qtr III	2,070	6,045	-8,634	15.4	11.0		
	Qtr IV	3,178	6,972	-3,794	14.9	8.7		
2001	Qtr I	3,353	7,080	-3,724	9.2	21.5		
	Qtr II	2,764	7,111	-4,348	5.3	19.7		
	Qtr III	2,368	6,306	-3,937	2.2	18.9		
	Qtr IV	650	4,726	-4,076	3.2	22.1		

HISTORICAL STATISTICS

NATIONAL ACCOUNTS AND EXTERNAL TRADE DATA

	GNP IR £m Curr Prices	GDP IR £m Curr Prices	GNP per capita IR£ Curr Prices	Real GNP %	Real GDP %	Real PCE %	Real Fixed Investment %
1990	25,339	28,598	7,227	8.1	7.8	1.1	21.2
1991	26,460	29,675	7,504	2.3	1.9	1.8	-6.2
1992	27,992	31,529	7,874	2.3	3.3	2.9	-1.8
1993	30,383	34,054	8,501	3.4	2.7	3.0	-3.5
1994	32,908	36,624	9,177	6.3	5.8	4.4	12.0
1995	36,817	41,502	10,198	8.2	9.7	4.3	12.7
1996	40,578	45,725	11,190	7.4	7.8	6.3	16.5
1997	46,449	52,781	12,689	9.4	10.8	7.3	17.9
1998	53,340	60,729	14,397	7.9	8.6	7.3	16.5
1999	59,706	70,116	15,994	8.2	10.8	8.2	14.0
2000	68,614	81,489	17,873	10.4	11.5	9.9	7.0

	Retail Sales Vol % YoY	Manuf Prod % YoY	Industrial Turnover %	Capacity Utilisation %	Housing Starts	House Completions	New Private Car Licences
1990	2.8	4.7	2.3	75.5	11,346	19,539	83,240
1991	-0.1	3.3	5.1	75.6	10,658	19,652	68,533
1992	2.3	10.2	7.6	75.6	12,748	22,464	67,861
1993	1.4	5.4	10.5	74.0	1,3,666	21,391	60,792
1994	3.3	12.8	10.5	75.0	17,822	26,863	77,773
1995	2.7	20.1	17.2	77.4	19,727	30,575	82,730
1996	6.2	8.4	6.1	74.5	23,769	33,725	109,333
1997	7.5	19.4	12.5	74.7	27,080	38,842	125,818
1998	7.8	21.3	17.8	74.3	29,067	42,349	138,538
1999	9.5	15.0	N/A	75.9	33,852	46,512	170,324
2000	12.0	15.4	N/A	76.8	34,613	49,812	225,274

ACTIVITY INDICATORS

	Trade Balance IR£m	Curr A/C IR£m	Curr A/C % of GNP	Volume of Exports 1990=100	Volume of Imports 1990=100	Price of Exports 1990=100	Price of Imports 1990=100	Terms of Trade Index 1990=100
1990	1,797	-224	-0.9	100.0	100.0	100.0	100.0	100.0
1991	2,168	209	0.8	105.6	100.8	99.3	102.3	97.0
1992	3,549	320	1.1	121.1	105.6	96.6	100.2	96.4
1993	4,945	1,248	4.1	133.4	113.0	103.9	105.4	98.6
1994	5,470	998	3.0	153.2	127.9	103.8	108.1	96.0
1995	7,206	1,070	2.9	184.0	146.3	105.7	112.7	93.7
1996	7,978	1,264	3.1	202.2	160.9	105.1	111.4	94.3
1997	9,454	1,283	2.8	232.4	184.8	106.3	112.0	94.9
1998	13,996	556	1.1	289.2	218.3	109.1	114.6	95.2
1999	17,903	446	0.8	336.5	236.5	109.5	118.0	92.8
2000	21,900	-683	-1.0	396.2	271.8	115.5	128.0	90.3

	Labour Force '000	Employment '000s	Unemployment '000s	Unemp Rate %	Notified Redundancies	Manuf Employment % YoY	Building Employment % YoY
1990	1,332	1,134	172	12.9	13,292	2.6	8.1
1991	1,354	1,134	199	14.7	16,687	1.7	-3.3
1992	1,372	1,165	207	15.1	18,207	1.5	-2.0
1993	1,403	1,183	220	15.7	18,238	0.6	-6.0
1994	1,432	1,221	211	14.7	15,224	2.8	2.4
1995	1,459	1,282	177	12.2	13,246	6.6	4.5
1996	1,508	1,329	179	11.9	13,008	3.3	8.2
1997	1,539	1,380	159	10.3	11,784	4.4	9.3
1998	1,621	1,494	127	7.8	12,893	3.0	8.7
1999	1,688	1,591	97	5.7	13,620	-0.8	6.5
2000	1,746	1,671	75	4.3	13,270	3.4	6.1

INFLATION INDICATORS

	Consumer Prices %	Underlying Inflation (Ex Mort %)	Manufacturing Output Prices %	Home Sales Component %	Agricultural Output Prices	Selling Price Trend All Man	Selling Price Trend Cons Goods
1990	3.2	2.5	-1.6		-11.3	22	22
1991	3.2	3.2	0.8		-3.2	18	19
1992	3.0	2.8	1.7	2.6	3.0	-8	-7
1993	1.5	2.0	4.6	2.6	7.0	1	5
1994	2.4	3.0	1.1	2.2	1.5	11	24
1995	2.5	2.4	2.5	3.6	2.2	6	6
1996	1.6	1.9	0.7	1.7	-4.9	-4	-3
1997	1.4	1.2	-0.6	0.0	-6.6	-4	5
1998	2.4	2.4	0.8	0.1	-0.6	-10	12
1999	1.6	2.8	1.0	0.9	-4.5	-6	3
2000	5.6	5.4	5.7	6.1	6.7	7	15

	% Chg in New House Prices	% Chg in 2nd Hand House Prices	House Building Cost %	Hourly Earnings Manufacturing %	Hourly Earnings Construction %	Unit Wage Costs % Chg
1990	12.7	14.3	4.7	4.5	4.5	1.9
1991	2.1	2.8	3.7	5.6	5.9	2.2
1992	3.5	1.9	2.4	4.6	10.9	-3.6
1993	0.9	2.2	2.5	5.8	7.0	0.5
1994	4.1	4.7	3.4	1.8	4.5	-7.2
1995	7.2	6.3	3.4	2.4	5.6	-9.9
1996	11.8	15.2	1.4	2.6	3.8	-1.4
1997	17.2	20.0	3.5	2.9	8.8	-6.7
1998	22.6	31.0	3.7	5.3	9.0	-7.9
1999	18.5	21.4	4.9	5.3	7.7	N/A
2000	13.9	16.7	7.6	6.1	12.6	N/A

PUBLIC FINANCES

	EBR IR £m	EBR % of GNP	Cur Bud Def IR £M	Cur Bud Def % GNP	Capital Borrowing IR £M	Capital Borrowing % of GNP	GGD/GDP
1990	462	1.9	152	0.6	310	1.3	2.2
1991	501	2.0	300	1.2	201	0.8	2.3
1992	713	2.6	446	1.7	267	1.0	2.4
1993	690	2.4	379	1.3	311	1.1	2.3
1994	672	2.0	-15	-0.1	687	2.1	2.0
1995	627	1.7	362	1.0	265	0.7	2.6
1996	437	1.1	-292	0.7	729	1.8	0.4
1997	235	0.5	-604	-1.3	839	1.8	-0.7
1998	-747	-1.4	-2,091	-4.0	1,344	2.6	-2.1
1999	-1,192	-2.0	-3,439	-5.8	2,247	3.8	-3.9
2000	-2,403	-3.5	-5,491	-8.0	3,088	-4.5	-4.6

	Debt/GNP Ratio	Debt/GDP Ratio	Maastricht Debt/GDP Ratio	National Debt IR £m	Uptake of Govt Paper by Non-Residents IR £M	Non-Resident Holdings as % of IR£ debt outstanding
1990	98.0	87.8	94	25,038	64	29.2
1991	94.8	85.8	95	25,378	233	29.7
1992	93.5	83.9	92	26,344	-1,809	17.5
1993	93.4	83.6	96	28,357	1,672	28.6
1994	88.8	79.8	90	29,227	-421	25.5
1995	82.3	73.0	83	30,209	605	28.4
1996	73.9	65.5	74	29,912	1,018	32.8
1997	66.1	58.1	65	30,689	-1,233	24.5
1998	56.6	48.8	55	29,540	-677	20.9
1999	53.1	45.4	50	31,384	1,977	29.5
2000	42.0	35.3	39	28,758	2,660	47.6



ECONOMIC FORECASTS

MAIN ECONOMIC INDICATORS AND FORECASTS

	Real GNP %	Inflation Rate %	Balance of Payments % GNP	Unemployment (Apr) Level (‘000)	Rate %	Exchequer Balance % GNP	Debt/GDP (M’tricht) %
1994	6.3	2.4	3.0	211	14.7	-2.0	90
1995	8.4	2.5	2.9	177	12.2	-1.7	83
1996	7.4	1.6	3.1	179	11.9	-1.1	74
1997	9.4	1.4	2.8	159	10.3	-0.5	65
1998	7.9	2.4	1.0	127	7.8	1.4	55
1999	8.2	1.6	0.4	97	5.7	2.0	50
2000	10.4	5.6	-0.7	75	4.3	3.5	39
2001(e)	5.0	4.9	-1.4	65	3.7	0.9	34
2002 (f)	3.5	4.0	-1.3	85	4.7	0.2	31

NATIONAL ACCOUNTS FORECASTS (% Change Volume)

Expenditure Basis	1998	1999	2000	2001(e)	2002 (f)
Private Consumption	7.3	8.2	9.9	5.3	5.0
Government Consumption	5.5	6.5	5.4	6.0	5.0
Fixed Investment	16.5	14.0	7.0	2.0	1.0
Domestic Expenditure	9.1	9.3	8.5	4.6	4.0
Stocks*	0.4	-2.0	0.6	-0.5	0.3
Exports	21.4	15.7	17.8	7.7	2.5
Imports	25.8	11.9	16.6	5.2	3.2
GDP	8.6	10.8	11.5	6.7	3.5
GNP	7.9	8.2	10.4	5.0	3.5

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