



ALLIED IRISH BANK GROUP TREASURY

THE IRISH ECONOMY REVIEW & OUTLOOK SEPTEMBER 2002

OVERVIEW

At first glance, GDP data would seem to indicate that a solid economic recovery is underway in Ireland. Our seasonally adjusted GDP estimates suggest that the economic downturn troughed late last year. Meantime, CSO data show that GDP growth accelerated to 2.9% year-on-year in Q1 2002 from 0.1% in Q4 2001. We expect that GDP growth will average around 4% for the year as a whole. Not bad, one might think, for an economy which saw the annual rate of GDP growth slump to zero at the end of last year.

However, the reality is that the pick up in growth is very narrowly based. It is confined to a limited number of export-oriented industries, principally chemicals and pharmaceuticals, which account for less than 1.5% of employment in the economy. Manufacturing output rose by 9% yoy in H1 2002. Within manufacturing, though, output from the chemical and pharmaceuticals sectors jumped by 33% while, for all other sectors, output fell by 10% on average.

The same pattern is evident in export data. The value of merchandise exports rose by 8.7% yoy in January - May 2002, following a 4% yoy decline in Q4 of 2001. Again though, while chemical and pharmaceutical exports rose by 32%, exports of goods from all other sectors fell by 3% on average. Thus, outside of chemicals and pharmaceuticals, manufacturing and exports are performing poorly this year.

The same is true of the domestic economy. Consumer spending has turned very sluggish. New car sales fell by 6% in the first eight months of 2002. Excluding autos, retail sales rose by 1.9% yoy in Q2, down from growth of 7.5% in 2001 as a whole. The strong take-up of Special Savings Incentive Accounts has put a severe dent in household spending this year. Meanwhile, despite the apparent robust housing market, overall construction spending fell by 2% yoy in Q1. Furthermore, business investment has continued to contract, declining by 8% yoy in Q1. Both the agriculture and tourism industries are also reporting downturns in activity this year.

Overall, despite a strong rise in government spending, we estimate that growth in total domestic spending slowed to around 1.7% yoy in H1 2002 from 3.8% in 2001 and 8.5% in 2000. Combined with the weakness in many export sectors, it adds up to quite a poor performance by the economy. Not surprisingly, this is being reflected in weakness in real indicators of activity, such as tax receipts, private sector employment and credit growth. Meanwhile, leading indicators of activity suggest that the economy will continue to struggle during H2 2002.

Hence, while GDP growth may average 4% this year, this overstates the true performance of the economy. GNP growth is likely to be just 3% while growth in domestic demand in 2002 is projected at little more than 2.5%. Assuming a more favourable external environment and appropriate domestic policies, we look for GDP and GNP growth to pick up to 5% and 4.5% respectively in 2003, with growth in domestic spending averaging around 4%.

Oliver Mangan - 6th September 2002

SUMMARY

<i>National Economy (P 3)</i>	Domestic demand weakened considerably in H1 2002 while exports recovered strength. GDP growth may average 4% this year, but this overstates the strength of economic activity.
<i>Construction (P 4)</i>	Although housing indicators have picked up this year, overall construction output appears to be in decline, reflecting weakness in non-residential private construction activity.
<i>Agriculture (P 5)</i>	Another sector that is having a difficult year with downward pressure on output, prices and incomes, not helped by poor summer weather.
<i>Industry (P 6)</i>	Very robust growth in chemicals and pharmaceuticals resulted in a 9% yoy rise in manufacturing output during H1 2002. Output fell, though, in most other sectors.
<i>External Trade (P 7)</i>	Reflecting the trends in industrial output, strong growth in chemical and pharmaceuticals more than offset weakness in other sectors during H1 2002.
<i>Balance of Payments (P 8)</i>	The balance of payments deficit, which amounted to 1.2% of GNP in 2001 is likely to fall this year, given the strength of exports and weakness of domestic demand.
<i>Special Feature: The Manufacturing Sector (P 9-12)</i>	The recovery in manufacturing output in H1 2002 was very narrowly based. Output growth may lose some momentum during the second half of the year, judging by recent trends in leading indicators of industrial activity.
<i>Consumer Spending (P 13)</i>	A big take-up of Special Savings Incentive Accounts has put quite a dampener on consumer spending this year, with high inflation and economic uncertainty also restraining household activity.
<i>Labour Market: (P 14)</i>	Employment growth is now confined to the public sector while the unemployment rate edged up to 4.3% in H1 2002.
<i>Earnings & Wages (P 15)</i>	Wage growth remained very strong in the opening quarter of 2002, continuing to greatly exceed the terms of the national pay deal.
<i>Prices (P 16)</i>	CPI inflation remains above 4%, reflecting continuing high service sector inflation and hikes in indirect taxes.
<i>Monetary Conditions (P 17)</i>	While growth in mortgage lending has reaccelerated this year, increases in other forms of private sector credit continue to moderate.
<i>Public Finances (P 18)</i>	Government spending continues to grow well above target while tax receipts remain sluggish. Despite some spending cutbacks, the government may not avoid an Exchequer deficit this year.
<i>Tables (P 19-20)</i>	Historical statistics and economic forecasts.

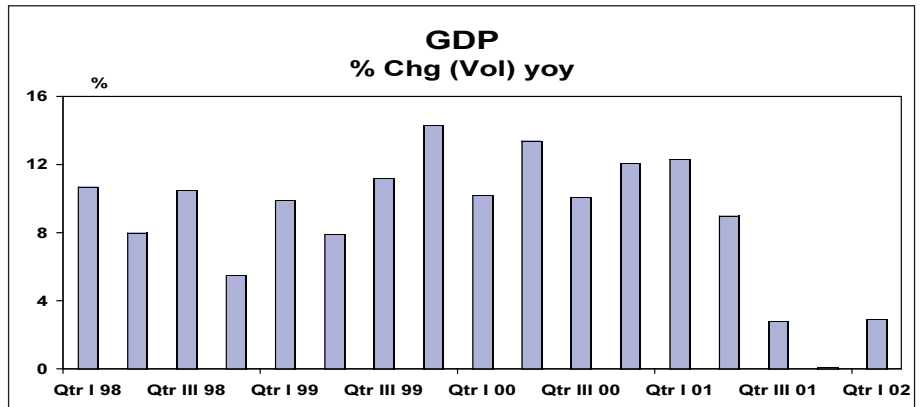
THE NATIONAL ECONOMY

Economy Troughed In Q3 2001

GDP growth averaged 5.9% in 2001, down from 11.5% in 2000. Our seasonally adjusted estimates of economic growth indicate that activity troughed in Q3 2001, with GDP contracting by 2.8% in the quarter. GDP subsequently rose by a seasonally adjusted 0.9% in the final quarter of the year, although the year on year growth rate slowed further to just 0.1%.

Only Exports Swing Upwards in H1 2002

The latest data show that the recovery gathered momentum in Q1 2002, with seasonally adjusted GDP growth of 4.0% in the quarter, and 2.9% year-on-year. The acceleration in growth was due to a sharp pick up in exports, which rose by 8.3% yoy, having declined by 1.3% in Q4 2001. Domestic demand weakened, though, with both business investment and construction contracting while consumer spending growth slowed significantly. Overall, domestic spending growth slowed to 1.4% yoy from 3.9% in Q4 2001.



But GDP Growth May Still Average 4% This Year

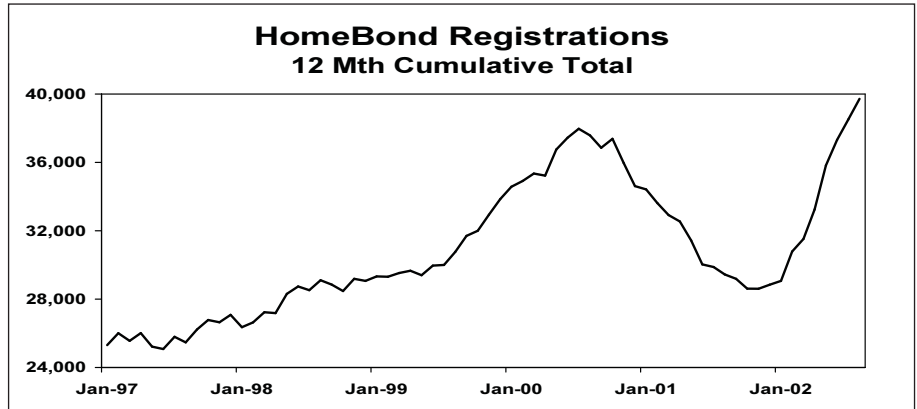
The indications are that this pattern of activity continued in Q2 with industrial production and exports performing well while consumer spending weakened further. Leading indicators show exports losing some momentum in the second half of 2002 while consumer spending and business investment are likely to remain weak. We are forecasting GDP and GNP growth of 4% and 3% respectively in 2002, well below the average rates for the past eight years. Assuming a more favourable external environment and appropriate domestic policies, GDP growth is forecast to average around 5% in 2003.

	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 Year		9.9	7.0	17.8	16.6	11.5	10.4
2001 Qtr I		4.8	11.6	21.5	21.5	12.3	10.7
Qtr II		4.4	-0.3	11.6	2.5	9.0	1.5
Qtr III		4.6	-7.3	4.8	5.5	2.8	4.3
Qtr IV		5.2	-2.3	-1.3	3.1	0.1	3.8
Year		4.8	0.5	8.4	7.7	5.9	5.0
2002 Qtr I		3.6	-5.1	8.3	5.7	2.9	1.6

CONSTRUCTION

Strong Rise In Housing Indicators

There has been a sharp pick up in housing indicators year to date. HomeBond registrations, a good proxy for private housing starts, fell by 16.7% in 2001. However, in the eight months to August this year starts rebounded sharply and were 53% above levels in the same period a year earlier. As a result, by August, the twelve month moving average was 39% above its November 2001 low.



But Weakness in Other Construction Sectors

The surge in HomeBond registrations since last November points to a rise in private house completions in 2002. Indeed, completions rose by 9.1% in Q1 this year, though this in part reflects depressed levels in Q1 2001. The strength of housing is partly offsetting considerable weakness in non-residential private construction activity. Total construction output fell by 2% yoy in Q1 2002. Meanwhile, National Household Survey data show that construction employment rose by 0.5% yoy in Q2 2002, a marked deceleration from the 7.8% increase recorded in 2001.

House Prices Picked Up In H1 2002

Permanent tsb data show that the sharp deceleration in the rate of house price inflation during 2001 was reversed in H1 2002. House prices actually fell each month between August 2001 and January 2002. By July this year, however, house prices had risen by 6.9% from their January lows. The restoration of favourable tax treatment for investment properties in the budget was the key factor in reviving activity in the sector. The rise in prices eased somewhat, though, in the three months to July from earlier in the year, suggesting that we are not on the verge of another upward spiral in house prices.

		HomeBond Registrations	% YoY 3 mth moving avg	Construction Employment ('000)	% YoY	permanent tsb House Prices	
						% MoM	% YoY
2001	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	183.2	1.8	0.7	2.6
	Mar	3,378	34.3			1.8	3.2
	Apr	4,061	57.4			2.9	4.9
	May	5,730	62.0	181.1	0.5	0.5	5.0
	June	3,873	73.7			0.5	5.2
	July	3,909	63.9			0.4	4.5
	Aug	3,282	54.4				

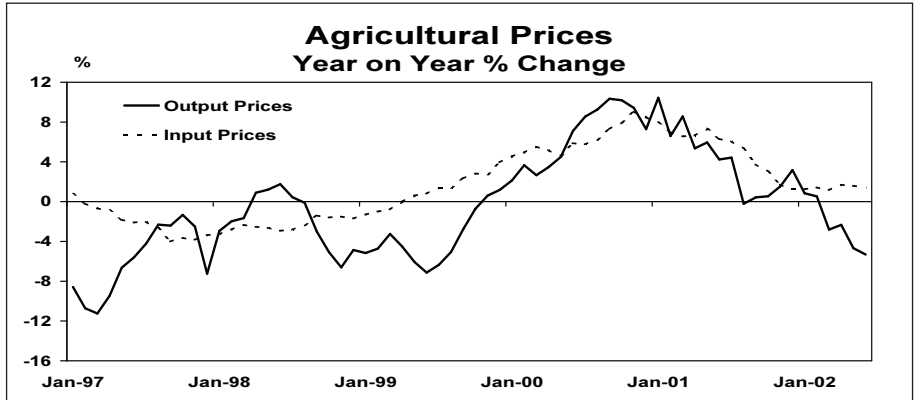
AGRICULTURE

Farm Output Prices Fall

Farm output prices rose by 4.5% last year. The opening half of 2002, though, has seen output prices come under increasing downward pressure. Although cattle prices have held up, pig, sheep and milk prices have all fallen sharply. By June, overall farm output prices were down 5.4% yoy. Farm input prices increased by 5% last year. The rise in input prices, however, slowed considerably, in the first half of 2002, decelerating to 1.4% yoy by June. Overall then, farmers terms of trade have disimproved considerably this year.

Agricultural Output Declines

CSO data show a rise of 1.6% in the volume of farm output in 2001, led by a 3.5% jump in milk production. The data for H1 2002, though, show sharp output falls. Cattle and sheep slaughterings were down 8% and 27% yoy respectively. Meanwhile, milk production was back 1.8% on H1 2001 levels. With the poor summer weather adding to the difficulties in the sector, the volume of farm output seems likely to fall in 2002 as a whole.



Pressure On Farm Incomes

The year 2001 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. Nonetheless, a decline in farm incomes seems likely in 2002, given the downward pressure on both the price and volume of farm output experienced during the first half of the year, against a backdrop of higher input costs. Poor summer weather is likely to have added to the downward pressure on farm output and incomes.

		Cattle	Milk	Output Prices		Input Prices	
		Slaughterings	Intake	(1990=100)	% YoY	(1990=100)	% YoY
		% YoY	% YoY				
2001	July	17.0	2.4	96.8	4.4	113.3	6.1
	Aug	3.9	3.7	91.9	-0.2	113.0	5.3
	Sep	-11.3	6.3	93.2	0.4	112.9	3.8
	Oct	2.7	14.8	92.4	0.5	113.0	3.0
	Nov	24.1	32.1	93.2	1.5	112.6	1.7
	Dec	62.5	12.3	94.2	3.2	112.6	1.3
2002	Jan	25.8	-0.7	96.0	0.8	113.0	1.3
	Feb	-13.4	-11.1	94.2	0.5	113.1	1.4
	Mar	-27.4	-11.8	93.6	-2.8	113.4	1.2
	Apr	-0.6	9.1	92.2	-2.3	114.3	1.7
	May	-1.3	-0.2	91.7	-4.7	114.7	1.6
	June	-23.5	-4.5	90.8	-5.3	114.6	1.4
	July		-3.0				

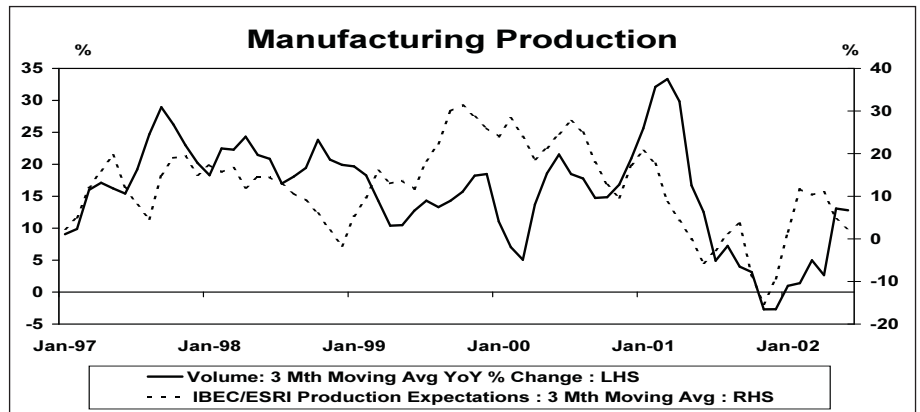
INDUSTRY

After Weak Performance In 2001

Manufacturing production turned down sharply over the course of last year, with big falls in output in Q2 and Q3. By Q4 2001, output was down by 5% on year earlier levels. The downturn was most severe in the high-tech industries. Output in the information and communication technology (ICT) sector fell particularly sharply, declining 26% yoy in Q4 2001.

Manufacturing Rebounds In H1 2002

Manufacturing production, though, rebounded in H1 2002, rising by 8.9% yoy. This is due to a strong performance by chemicals and pharmaceuticals where output was up 33% yoy. If this sector is excluded, however, manufacturing output would have fallen by 10% yoy in the first half of this year. The ICT sector saw output fall by a very sharp 25% yoy in the first half of 2002. Most indigenous sectors performed weakly in the first half of the year also. The notable exception was food, drink and tobacco where output was up 16.6% yoy. This, though, reflects the depressed output levels in H1 2001 due to the foot and mouth restrictions.



Leading Indicators Point To Slow Down In Output Gains

The pick-up in manufacturing output was signalled by survey data. The productions expectations component of the IBEC/ESRI survey, the PMI and EC industrial confidence index all picked up strongly between November 2001 and Q2 this year. However, all these surveys have since turned back downwards, suggesting that the rebound in manufacturing output may lose momentum over the second half of the year.

		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	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	5.7	-2.7	-1.8	-6.3	74.7	-9.3	
2002	Jan	7.2	1.0	2.6	-5.8	71.5	1.7
	Feb	-7.4	1.4	3.2	-6.4	72.9	11.7
	Mar	15.6	5.0	7.2	-5.2	76.5	10.3
	Apr	-0.1	2.7	4.5	-6.1	74.1	11.0
	May	26.0	13.1	17.2	-4.8	75.7	4.7
	June	14.8	12.8	16.7	-4.1	71.4	2.3

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

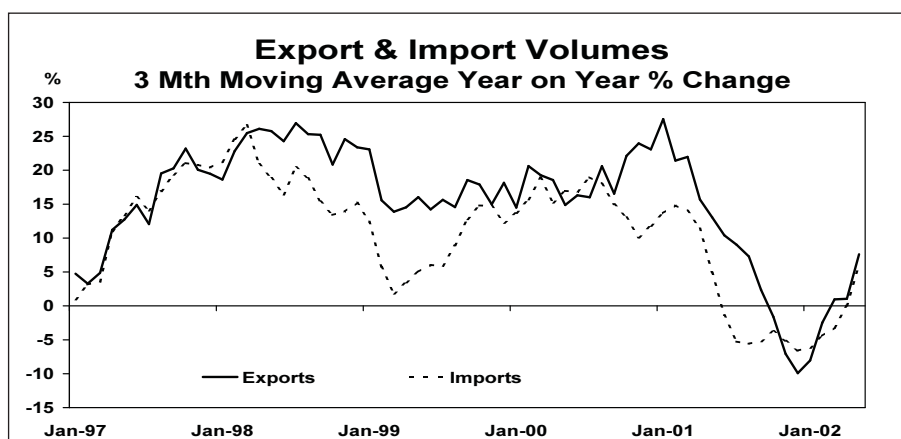
EXTERNAL TRADE

Trade Surplus Continues To Grow

External trade data show that the merchandise trade surplus continued to rise in 2001, reaching €35,350m, up from €27,980m in 2000. However, growth in the value of merchandise exports slowed sharply during 2001 from 27% yoy in Q1 to -3.5% yoy in Q4. There was a marked slowdown in growth in the value of imports also from 19% yoy in Q1 to -7% yoy in Q4 2001.

Recovery In External Trade In H1 2002

The opening half of 2002 has seen a recovery in the value of both merchandise exports and imports and a further increase in the merchandise trade surplus. In seasonally adjusted terms, exports rose by 5% in value terms in H1 2002 over H2 2001, while the value of imports jumped by 6%. As a result, the merchandise trade surplus in H1 2002 amounted to €19bn, an increase of 10% on its level in H1 2001.



Chemicals Sector Fuels The Rebound

Reflecting the trend in industrial production data, exports of chemicals and pharmaceutical products grew strongly in the opening half of this year, rising by 32% yoy to end May. Excluding chemicals and pharmaceuticals, though, merchandise exports actually fell by 3.5% in value in the opening five months of the year. It is a similar story on the import side with a marked rise of 14.5% yoy in the value of chemical and pharmaceutical imports to end May. Excluding these, though, the value of imports increased only marginally by 0.5% yoy.

	€m	Exports s.a.	Imports s.a.	Surplus s.a.	Surplus Unadj	Import Prices YoY% 3 Mth Mov Avg	Export prices YoY% 3 Mth Mov Avg
2001	Jun	8002.3	4702.9	3299	4495	4.0	2.9
	Jul	7961.4	4680.2	3281	3240	3.3	4.3
	Aug	7781.3	4747.5	3034	2736	3.2	6.2
	Sep	7632.6	4707.8	2925	3600	3.0	6.1
	Oct	7783.1	4724.7	3058	2968	1.6	5.8
	Nov	7479.9	4427.5	3052	2807	-0.1	6.8
	Dec	7555.7	4650.7	2905	2936	-0.5	7.2
2002	Jan	8760.1	5064.7	3695	3024	-0.3	6.9
	Feb	8153.6	4988.0	3166	2848	1.0	5.2
	Mar	8112.8	4942.6	3170	3779	0.3	3.9
	Apr	8215.2	5134.9	3080	2346	-0.2	2.4
	May	8894.0	5059.3	3835	3591	-1.7	2.1
	June	6890.0	4400.0	2490	3530		

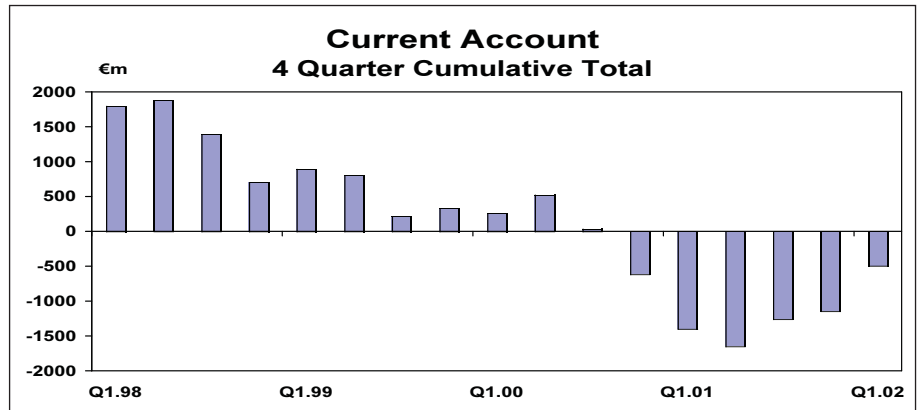
BALANCE OF PAYMENTS

BOP Deficit Widened Last Year

A balance of payments deficit of €1,145m (1.2% of GNP) was recorded in 2001, up from €615m in 2000. The merchandise trade surplus continued to rise in 2001, reaching €33,561m for the year, up from €27,698m in 2000. However, this was offset by a widening deficit on services and higher net income outflows, and a decline in current transfers.

But Improving Trend Evident Since Q3 2001

The cumulative deficit, on a four quarter running total basis, peaked in Q2 2001 when it reached €1.65bn. By the end of last year, though, this cumulative deficit had fallen to €1.15bn. The balance of payments deficit continued to contract in Q1 2002, amounting to €200m, down from €852 a year earlier. A sharp rise of over €2bn in the merchandise trade surplus more than offset an increased deficit on invisibles, resulting in the improvement in the current account balance.



Lower BOP Deficit In 2002

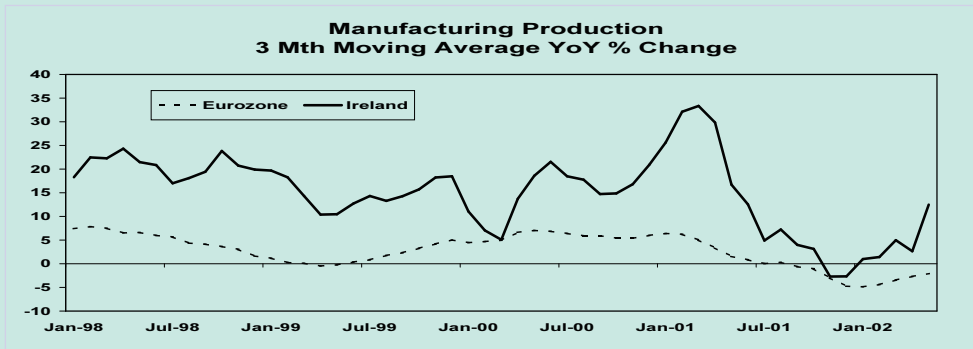
The merchandise trade surplus continued to rise in Q2 2002, although at a much slower rate than in Q1. The trade balance seems likely to continue rising over the balance of the year. However, both the services deficit and net factor income outflows can be expected to continue rising also. Our best guess is that the balance of payments deficit will be lower in 2002 than in 2001, given the strength of exports and weakness of domestic demand. Indeed, in Q1, the cumulative four quarter deficit had already declined to under €0.5bn. It may well be close to this level for the year as a whole.

	Balance of Payments (€m)	Goods	Services	Income	Transfers	Current Account
1999 Year		22,802	-10,428	-13,218	1,177	333
2000 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
Qtr IV		7,728	-4,423	-3,985	337	-344
Year		33,561	-16,357	-18,880	532	-1,145
2002 Qtr I		9,843	-4,727	-5,297	-19	-200

SPECIAL FEATURE: THE MANUFACTURING SECTOR

Growth in Manufacturing Production Slowed Sharply Last Year

Manufacturing production in Ireland rose by 10.2% last year, its weakest performance for five years. Between 1997 and 2000 manufacturing output grew each year at over 15% per annum. In 2001, production actually fell on a seasonally adjusted basis in both Q2 and Q3. As a result, by Q4 last year, output was down by 3% on year earlier levels. Nonetheless, the 10% growth in Irish manufacturing output for 2001 as a whole contrasts with a rise of just 0.1% in the eurozone.



The downturn in the manufacturing sector last year was most pronounced amongst the multi-national, high-tech industries. According to our estimates, growth in high-tech industrial output slowed down from 42.1% yoy in Q1 2001 to -1.8% yoy by Q4 2001. The downturn in high-tech output was particularly severe in the information and communications technology (ICT) sector, where we estimate that output fell by 26% yoy in Q4 2001.

Notably, output of office machinery and computers was down 31.4% yoy in Q4 2001, while radio, TV and communications equipment production fell by 39.8%. Elsewhere in the high-tech sector, however, there was a strong performance by the chemicals and pharmaceutical sector. This recorded an increase of 9.4% yoy in output in Q4 2001.

Meanwhile, growth in the output of indigenous industries also weakened over the course of last year. There were sharp slowdowns in most sectors. For example, textiles and clothing declined by 2.4% yoy in Q4 last year after growth of 4.9% in Q1. Meanwhile, the publishing sector registered a decline of 16.3% in Q4 compared to just 0.9% yoy in Q1. Non-electrical machinery declined by 25.3% yoy in Q4 after growth of 4.1% in Q1. The major exception was food, beverages and tobacco where growth picked up slightly from 5.5% yoy in Q1 to 6.6% in Q4 last year.

Manufacturing Output Rebounds in H1 2002

After the slowdown last year, there was a strong rebound in manufacturing production during the opening half of this year. Overall, output rose by 11.9% in Q1 2002 compared to Q4 2001 and then by a further 4.5% in Q2. As a result, in Q2 this year output was up 12.9% on year earlier levels.

The rebound in manufacturing production levels this year has largely been driven by a strong pick up in the chemicals sector. Chemical and pharmaceutical output jumped by 20.9% qoq in Q1 and a further 3.5% in Q2 2002. For the first half of the year, output from the sector was up by 33% yoy. Meanwhile, output in the electrical machinery sector grew by 27.6% qoq in Q1 2002 and a further 22.3% in Q2, but for H1 2002 as a whole was still down 5% compared to year earlier levels.

Performance of Manufacturing Industries (% Changes - YoY)

	Q4 2001	Q1 2002	Q2 2002
Total Manufacturing Industries	-3.1	+5.0	+12.9
High-Tech Industries *	-1.8	+7.2	+16.7
<i>of which</i>			
ICT *	-25.7	-29.6	-17.8
Chemicals & Pharmaceuticals	+9.4	+32.0	+35.4
Indigenous Industries*	-6.3	-5.2	-4.1

**AIB Group Treasury Estimates*

The ICT sector remained depressed in the first half of 2002, with output declining by 25% year-on-year. Computer output fell by 9.9% in Q1 compared to Q4 2001 levels although it picked up in Q2, with growth of 8.9% qoq. Meanwhile, after a strong Q1 performance, which saw output up by 11.9%, reproduction of recorded media fell by 3.2% qoq in Q2. The radio, TV and communications sector remained depressed with output down by 2.4% and 8.0%, on a quarterly basis, in Q1 and Q2 respectively.

But Most Sectors Continue To Perform Poorly

Total manufacturing output was up by 8.9% yoy in H1 2002. However, excluding the chemical and pharmaceutical sector, manufacturing output actually fell by 9.9% yoy. As well as the decline in output in the ICT sector, most indigenous sectors also recorded marked falls in output in H1 2002 compared to year earlier levels. There were particularly sharp declines in textiles and clothing, non-electrical machinery and basic metals. The notable exception was output of food, drink and tobacco which rose by 16.6% yoy in the first half of this year. This, though, reflects weak H1 2001 data, when output in the sector was depressed by the outbreak of foot and mouth disease.

Overall, the recovery in manufacturing output in H1 2002 has been narrowly based, being largely confined to the chemical and pharmaceutical sector. While this sector now accounts for over half of manufacturing output, it only comprises 10% of manufacturing employment and less than 1.5% of employment in the economy as a whole. Thus, its contribution to the economy is not that significant. Meantime, outside of the chemical and pharmaceutical sector, manufacturing continues to struggle. This is highlighted by labour market data showing a fall of 11,500, or 4.5%, in employment in manufacturing in the year to Q1 2002 - largely in the ICT sector. Chemical and pharmaceuticals, meanwhile, showed a rise of just 500 in employment over the same period.

Exports Mirror Manufacturing Trends

The trends in manufacturing output are reflected in the external trade data. Exports and imports weakened over the course of last year before recovering again during H1 2002. The value of merchandise exports in the first six months of 2002 was 5% higher, in seasonally adjusted terms, than in the second half of last year, while imports rose by 6%.

The strength of individual manufacturing sectors is mirrored in the external trade data. Most notably, exports of chemicals and pharmaceuticals were strong, rising by 32% yoy in the first five months of the year. Imports of chemicals also increased by 14.5% yoy. Not surprisingly, given the continuing depressed nature of the ICT sector, exports of office and data processing machinery and telecommunications equipment performed weakly in H1 2002. Indeed, excluding chemicals and pharmaceuticals, the value of merchandise exports fell by 3.5% yoy in the first five months of 2002.

Export and Import Growth: January - May 2002 (% Change yoy)

	Imports	Exports
Food & Live Animals	3.2	2.6
Beverages & Tobacco	31.8	2.1
Chemicals	14.5	32.2
of which		
Organic Chemicals	54.7	19.3
Medical & Pharmaceutical Products	9.7	90.4
Manufactured Goods	-0.3	-11.7
Machinery	0.2	-2.4
of which		
Office & Data Processing Machinery	-1.7	0.4
Telecommunications & Sound Equipment	-20.9	-14.1
Electrical Machinery & Parts	15.2	-4.0
Total	2.0	8.7

Pick-Up in Manufacturing Output Signalled By Survey Data

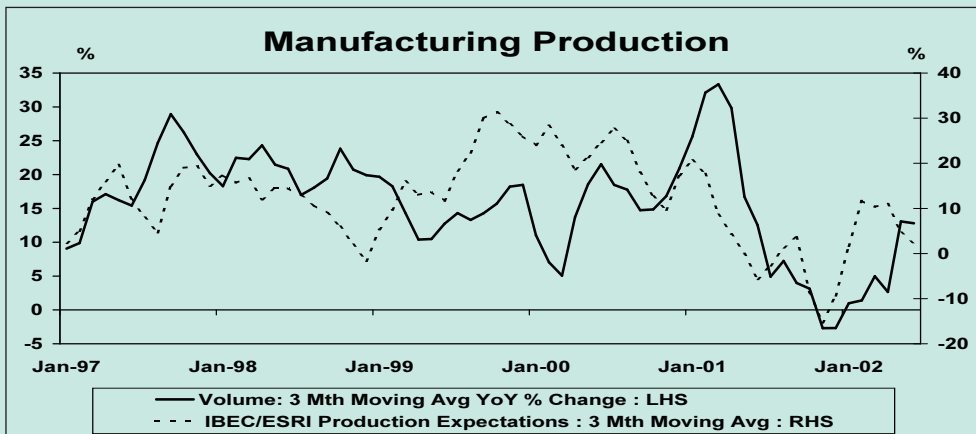
The pick-up in manufacturing output in H1 2002 was signalled by leading indicators of activity in the sector, which are survey based. The production expectations component of the IBEC/ESRI industrial survey picked up strongly between November last year and April 2002. The three month average stood at over 10 between February and April, its highest level since February 2001.

Meanwhile, the PMI rose for eight consecutive months between November and June, to stand at 54.5, its highest level since July 2000. Finally, the EC's industrial confidence indicator for Ireland had picked up to -7 by May, from the November low of -23. However, the global economic environment has deteriorated in recent months as the stock market turmoil takes its toll on consumer and business confidence. As a result, export demand is expected to ease in the coming months. Thus, the pace of recovery in manufacturing output is likely to slow over the second half of the year.

Latest Surveys Suggest Manufacturing Upturn Losing Momentum

Indeed, all three of the leading indicators of manufacturing activity have turned downwards again in the past couple of months. The PMI fell for a second consecutive month in August to 51.3, well below its June peak of 54.5. Furthermore, the EC industrial confidence indicator for Ireland declined from -7 in May to -13 in both June and July. A similar trend is seen in the IBEC/ESRI survey, with production expectations dipping back quite sharply to average just 2.3 in Q2 this year compared to 10.3 in Q1.

However, even if there was no further rise in production in 2002 from Q2 levels, manufacturing output would still register output increases of 18.3% yoy in H2 and 13.5% for the year as a whole, because of the weakness of manufacturing output during the second half of last year.



Concluding Remarks

Two conclusions can be drawn from our analysis. Firstly, the upturn in manufacturing activity in H1 2002 has been narrowly based, mainly reflecting large output increases in chemicals and pharmaceuticals. Most other sectors saw continued declines in output on a year-on-year basis. The chemical and pharmaceutical sector accounts for just 10% of manufacturing employment and less than 1.5% of total employment in the economy. Thus, the recovery in manufacturing output, and indeed exports, does not signal a return to strong growth for the economy as a whole.

Secondly, leading indicators suggest that the recovery in manufacturing and thus exports is likely to lose some momentum during the second half of the year. Indeed, because the upturn is narrowly based, it is vulnerable to any weakening in the strongly performing chemicals and pharmaceuticals sectors. Nonetheless, because of the weakness of manufacturing production in the second half of 2001, very sizeable output gains are still likely to be recorded on a year-on-year basis during the second half of 2002.

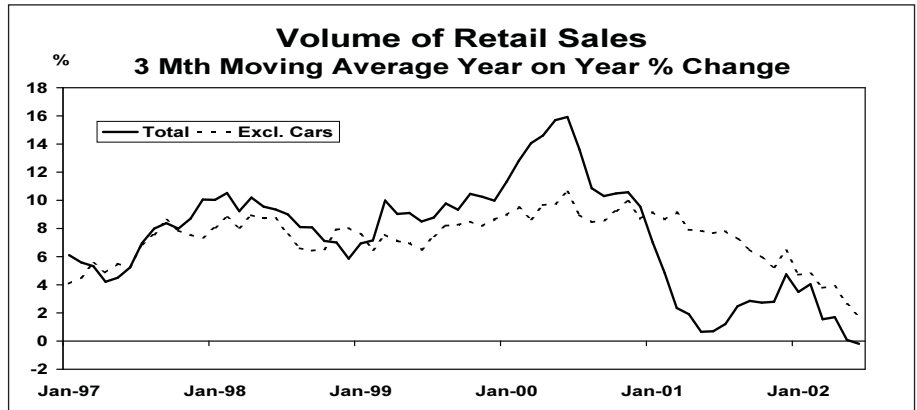
CONSUMER SPENDING

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 3.4% in Q4 with the ex-auto figure increasing by 2.7%. Thus, it proved a strong finish to a year that saw an appreciable deceleration in the growth rate of consumer spending compared to 2000. Car sales, in particular, were weak, falling by 29% in 2001.

Households Tighten Purse Strings In H1 2002

Retail spending, however, has weakened sharply in H1 2002. Total retail sales volumes fell by 2.8% in Q1 on Q4 2001 levels and by a further 1.0% in Q2. This decline only in part reflects weak car sales, which fell 7.2% yoy in the first half of the year. Non-auto sales volumes were virtually unchanged in the opening quarter of 2002 from Q2 2001 and then they fell by 1.0% qoq in Q2. As a result, non-auto sales were up just 1.9% yoy in Q2 2002.



SSIA Dampening Spending

National accounts data also show a slowdown in consumer spending. It rose by just 3.6% yoy in volume terms in Q1 2002, having averaged growth of 4.8% in 2001, and 9.9% in 2000. Consumer spending is being restrained by the strong inflows into the government's Special Savings Incentive Accounts. These are now running at more than €2bn per annum, which is equivalent to over 3% of personal disposable income. The savings scheme will continue to depress retail spending during H2 2002, as will continuing high inflation and global economic uncertainties. Thus, we look for overall consumer spending to increase by just 2.8% in 2002.

		Retail Sales Volume S.A		Excl Garages Volume S.A.		SIMI Car Registrations	% Change Year 3 mth moving avg
		% Change Month	% Change Year	% Change Month	% Change Year		
2001	Aug	1.2	3.1	0.1	6.6	8,805	-33.8
	Sep	0.6	2.0	1.1	5.3	5,546	-33.5
	Oct	1.5	3.1	1.2	5.9	5,388	-31.2
	Nov	0.6	3.3	0.1	4.6	2,655	-28.6
	Dec	1.8	7.9	2.0	8.9	894	-16.9
2002	Jan	-5.5	-0.7	-3.7	0.9	31,212	-7.9
	Feb	5.3	5.0	2.9	4.8	24,405	-2.2
	Mar	-5.1	0.3	1.3	5.7	18,823	-6.5
	Apr	0.9	-0.2	-4.1	1.2	15,486	-6.7
	May	0.3	0.1	0.9	1.0	18,457	-9.2
	June	-1.1	-0.5	2.4	3.0	11,757	-8.2
	July					12,471	-5.9
	Aug					8,742	-7.2

LABOUR MARKET

Moderating Employment Growth

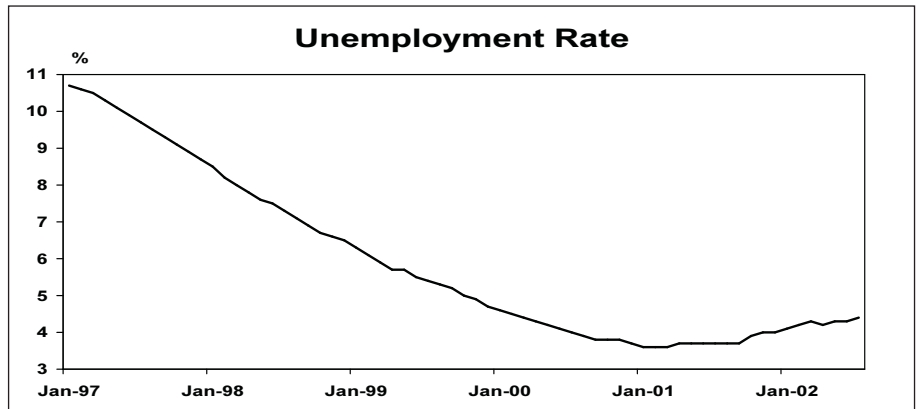
In 2001, labour force growth averaged 2.5%, down from 3.4% in 2000 and 4.0% in 1999. Employment rose by 2.9% compared with 4.7% in 2000 and 6.3% in 1999. Unemployment started to rise in H2 2001, climbing by 2,800 on average compared to year earlier levels. As a result, the unemployment rate edged up to 4.0% in Q4 2001 from 3.9% a year earlier.

Unemployment Moves Upward

The first half quarter of 2002 saw a slight acceleration in labour force growth to 2.7% yoy. Employment growth, though, continued to moderate, rising by 2% yoy. As a result, unemployment picked up, climbing by 13,000 on year earlier levels to 79,000. This pushed the unemployment rate up to an average of 4.3% in H1 2002 from 3.7% a year earlier.

Little Employment Growth In Private Sector

Some 90% of the increase in employment in the year to Q2 2002 was accounted for by females. Furthermore, it was virtually all concentrated in the public sector. Public sector employment rose by 9.4% yoy in Q2 2002 while private sector employment increased by just 0.2%, with the numbers employed in industry declining by 4.5%.



Live Register Climbs

The live register total jumped sharply by 12,000 in the final four months of 2001, to 153,000. The Live Register has continued to move higher in 2002, reaching 165,000 in July. Increases have averaged around 1,500 per month this year. The Live Register is likely to continue moving higher over the balance of the year.

		Labour Force		Employment		Unemployment	
		Total (000)	% Chg YoY	Total (000)	% Chg YoY	Total (000)	Rate %
1999	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
2001	Qtr IV	1,779.1	2.5	1,710.3	3.8	68.8	3.9
	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
2002	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
	Qtr I	1,825.4	2.8	1,745.5	2.1	80.0	4.4
	Qtr II	1,827.0	2.5	1,749.9	1.9	77.2	4.2

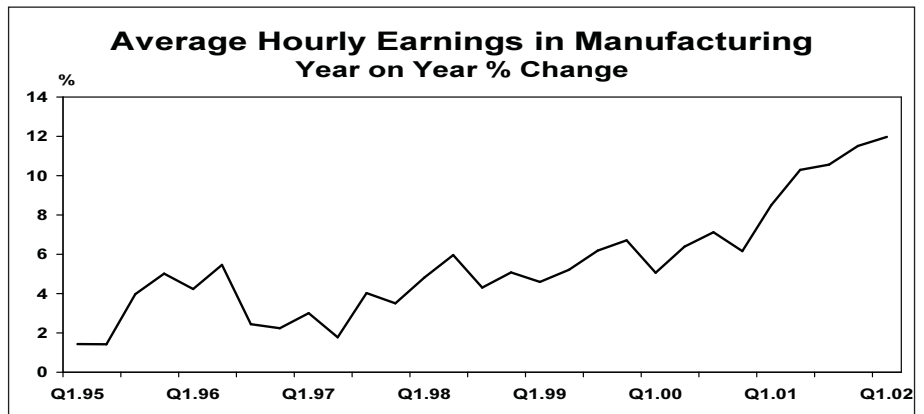
EARNINGS AND WAGE COSTS

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 12.0% yoy in Q1 2002. This follows increases of 10.3% in 2001 and 6.2% in 2000. Meanwhile, average hourly earnings in the construction sector rose by 11.1% yoy in Q1 2002, in a continuation of the strong uptrend in wages evident in recent years. Average hourly earnings in the sector rose by 11.3% and 12.6% in 2001 and 2000 respectively.



Decrease In Pay Growth In Some Service Sectors

CSO data covering pay in distribution and business services show a surprising 1.5% qoq fall in average full-time weekly earnings in business services in Q1 2002. As a result, the annual rate of increase for the whole sector slowed to 2.8% yoy from 8% in 2000 and 2001. In the financial services sector, average weekly earnings rose by 9.6% yoy in Q1 2002, after a 10.9% increase in 2001.

Strong Growth In Public Sector Pay Continues

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. The latest CSO data, which are for March 2002, show a rise of 7.1% yoy in average public sector earnings, following an increase of 10.4% in 2001.

		Manufacturing € per hour	% Chg QoQ	% Chg YoY	Banking, Insurance & Building Societies (Weekly) % YoY	Building & Construction (Hourly) % YoY
1999	Qtr I	9.54	0.8	4.6	4.7	1.1
	Qtr II	9.74	2.1	5.2	4.6	4.7
	Qtr III	9.80	0.7	6.2	2.8	12.0
	Qtr IV	10.09	3.0	6.7	2.1	13.2
2000	Qtr I	10.02	-0.8	5.1	1.7	13.9
	Qtr II	10.36	3.4	6.4	4.3	9.6
	Qtr III	10.50	1.3	7.1	8.1	8.2
	Qtr IV	10.72	2.1	6.2	10.7	15.6
2001	Qtr I	10.87	1.4	8.5	11.4	13.8
	Qtr II	11.43	5.1	10.3	15.1	11.3
	Qtr III	11.61	1.6	10.6	10.6	12.9
	Qtr IV	11.95	2.9	11.5	6.8	7.0
2002	Qtr I	12.17	1.8	12.0	9.6	11.1

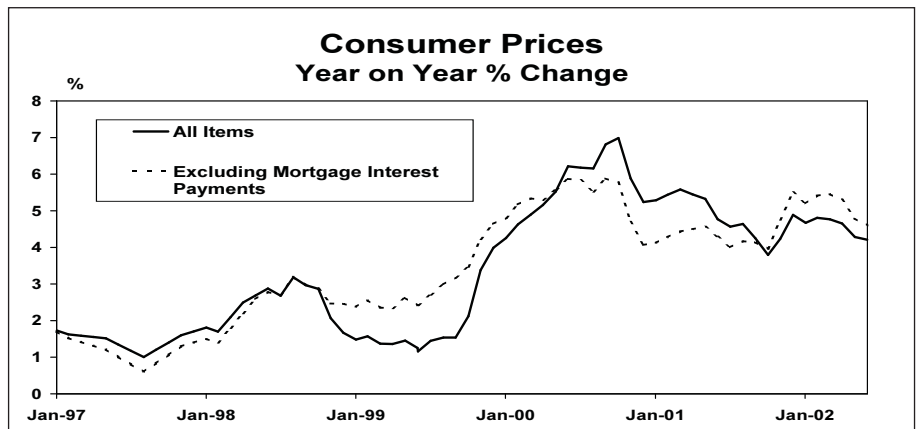
PRICES

Tax Changes Boost CPI

The annual headline CPI rate, stood at 4.2% in July, down from its January spike of 4.9%, but still above the trough of 3.8% recorded last November. Excluding mortgages, the CPI rate stood at 4.6% in April compared to 4.1% last November. A significant part of the spike up in inflation between November 2001 and January this year related to VAT and excise duty hikes in the 2002 budget, while the VAT and excise duty decreases in the 2001 budget fell out of the annual calculation.

High Service Sector Inflation

The fall in inflation in recent months partly reflects the fact that oil price rises last year have fallen out of the annual calculation. The decline, though, has been limited by continuing high service sector inflation. This partly relates to the VAT hike and to the euro changeover, but principally reflects high wage inflation. This is particularly noticeable in health, recreation, education, restaurants and miscellaneous services.



Inflation To Remain High

Inflation is set to remain high over the balance of 2002, largely reflecting strong domestic cost and wage pressures. Furthermore, declines in mortgage rates and oil prices in H2 2001 will fall out of the annual comparison. For the year as a whole, we expect the headline inflation rate to average 4.6%. Excluding mortgages, the CPI rate should average 5.0% this year.

Ireland has the highest inflation in the eurozone, with a HICP rate of 4.5% in July compared to 1.9% for the EU-12 as a whole. Service sector inflation, in particular, is much higher in Ireland than the rest of the eurozone.

		Consumer Prices				Mfg. Output Prices	
		All Items		Ex Mort. Interest		Total	Domestic
		% MoM	% YoY	% MoM	% YoY	% YoY	% YoY
2001	July	-0.3	4.8	-0.3	4.3	4.5	2.7
	Aug	0.3	4.6	0.3	4.0	1.0	2.1
	Sep	0.4	4.6	0.4	4.2	-0.3	1.6
	Oct	0.3	4.3	0.6	4.1	-1.4	0.3
	Nov	-0.1	3.8	0.0	4.0	0.0	0.3
	Dec	0.5	4.2	0.8	4.8	0.2	0.4
2002	Jan	-0.2	4.9	-0.2	5.5	2.3	1.8
	Feb	0.7	4.7	0.7	5.2	2.3	2.2
	Mar	0.9	4.8	0.9	5.4	1.4	2.4
	Apr	0.9	4.8	0.9	5.5	1.0	2.9
	May	0.5	4.7	0.5	5.3	0.3	2.4
	June	0.2	4.3	0.1	4.8	-1.3	2.1
	July	-0.4	4.2	-0.5	4.6	-3.0	1.8

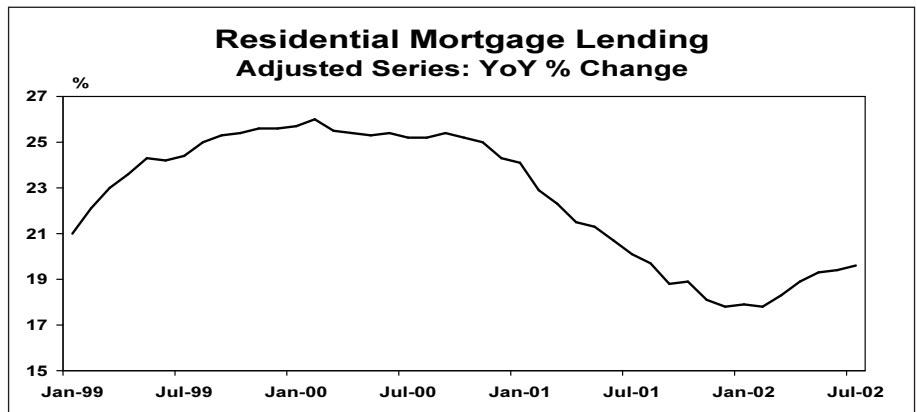
MONETARY CONDITIONS

Credit Growth Still Decelerating

The deceleration in the adjusted rate of private sector credit growth, that was evident throughout the course of last year, continued in H1 2002. Growth stood at 11.8% yoy in June, down from 15.1% yoy at the end of 2001. The growth rate for Q2 2002, at 11.7%, was the lowest three-month average yoy rate since the start of monetary union in January 1999. It compares with an average growth rate for 2001 of 17.3%. Credit growth picked up slightly in July 2002 to 12.5% yoy.

Mortgage Lending Picks Up Again

Growth in mortgage lending, adjusted for securitisation, weakened over the course of last year, largely reflecting the fall in house price inflation. It fell from 24.3% yoy in December 2000 to 17.8% in December 2001. With the rebound in the housing market this year, though, growth in mortgage lending has picked up again, rising to 19.6% yoy in July.



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 over 4%, it means that interbank rates are negative in real terms. The accommodative monetary stance has been augmented by the weakness of the euro. Although the euro has appreciated this year, it is still 17% lower against the dollar and 9% down against sterling from its launch value in 1999.

		Private Sector	Residential	Interest Rates ^		Euro Exchange Rates ^	
		Credit *	Mortgages +	3Mth	Mortgages	US\$	Stg
		% Chg yoy	% Chg yoy	%	%		
2001	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	0.8637	0.6111
	Feb	14.2	17.8	3.35	4.50	0.8651	0.6112
	Mar	12.7	18.3	3.43	4.50	0.8724	0.6130
	Apr	11.0	18.9	3.37	4.50	0.9008	0.6188
	May	12.4	19.3	3.47	4.50	0.9387	0.6405
	June	11.8	19.4	3.42	4.50	0.9975	0.6498
	July	12.5	19.6	3.38	4.50	0.9809	0.6282

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

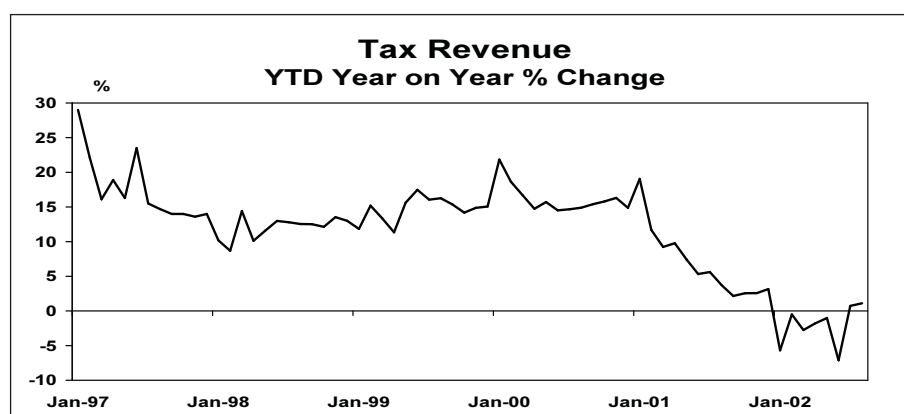
PUBLIC FINANCES

Public Finances Under Pressure

In his 2002 budget, the Minister for Finance targeted an Exchequer surplus of €170m, or 0.2% of GNP. However, this was only 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 these, the Minister would have been faced with a substantial budget deficit.

Strong Spending Growth And Weak Tax Receipts

Exchequer returns to end August show voted spending running well ahead of target, growing by 18.9% yoy, compared to a forecast rise of 14.4%. Tax receipts are running way behind target, rising by 1.1% to end August, compared to a forecast increase of 8.6%. This shortfall is mainly attributable to weak income tax receipts which are down 11.3% year to date. The shortfall, though, will be largely offset by higher than expected non-tax revenues. Meanwhile, it seems likely that spending will overshoot target, despite recent cutbacks in some programmes. We expect an Exchequer deficit for the year of the order of €0.5bn, although the Minister may yet come up with extra resources to balance the books.



Sizeable Exchequer Deficit Projected For 2003

Looking further ahead, it has already been projected by the Dept of Finance that the Exchequer balance will be in deficit to the tune of €3bn in 2003. However, additional non-tax revenues may keep the deficit to around €2bn next year (1.8% of GNP). A general government deficit of around 0.5% of GDP is envisaged in 2003. To keep the deficit at this level, however, growth in current spending needs to decelerate sharply to some 7% from the 20% rate evident in the past two years.

€m		Exchequer Balance	Current Budget	Capital Budget	Tax Receipts	Supply Services
					4 Quarter Rolling Total	
1999	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
2002	Qtr I	-198	4,430	-4,630	-2.8	16.5
	Qtr II	-2,154	2,862	-5,015	-7.1	21.1

HISTORICAL STATISTICS

National Accounts and Balance of Payments Data

	GNP €m Curr Prices	GDP €m Curr Prices	GNP per capita €m Curr Prices	Real GNP %	Real GDP %	Real PCE %	Real Fixed Investment %	Curr A/C €M	Curr A/C % of GNP
1991	33,597	37,679	9,528	2.3	1.9	1.8	-6.2	265	0.8
1992	35,543	40,034	9,998	2.3	3.3	2.9	-1.8	406	1.1
1993	38,578	43,240	10,794	3.4	2.7	3.0	-3.5	1,585	4.1
1994	41,785	46,503	11,652	6.3	5.8	4.4	12.0	1,267	3.0
1995	46,748	52,697	12,982	8.2	9.7	4.3	12.7	1,359	2.9
1996	51,523	58,059	14,210	7.4	7.8	6.3	16.5	1,605	3.1
1997	58,978	67,018	16,109	9.4	10.8	7.3	17.9	1,629	2.8
1998	67,728	77,110	18,280	7.9	8.6	7.3	16.5	706	1.1
1999	75,811	89,029	20,243	8.2	10.8	8.2	14.0	333	0.4
2000	87,121	103,470	23,005	10.4	11.5	9.9	7.0	-615	-0.7
2001	96,747	115,437	25,202	5.0	5.9	4.8	0.5	-1,145	-1.2

Activity Indicators

	Labour Force '000	Employment '000s	Unemployed '000s	Unemp Rate %	Manuf Employment % YoY	Building Employment % YoY	Retail Sales Vol % YoY	Manuf Prod % YoY	House Completions
1991	1,354	1,134	199	14.7	1.7	-3.3	-0.1	3.3	19,652
1992	1,372	1,165	207	15.1	1.5	-2.0	2.3	10.2	22,464
1993	1,403	1,183	220	15.7	0.6	-6.0	1.4	5.4	21,391
1994	1,432	1,221	211	14.7	2.8	2.4	3.3	12.8	26,863
1995	1,459	1,282	177	12.2	6.6	4.5	2.7	20.	30,575
1996	1,508	1,329	179	11.9	3.3	8.2	6.2	8.4	33,725
1997	1,539	1,380	159	10.3	5.8	9.3	7.5	19.4	38,842
1998	1,621	1,494	127	7.8	2.9	8.7	7.8	21.3	42,349
1999	1,688	1,591	97	5.7	-0.8	6.5	9.5	15.0	46,512
2000	1,746	1,671	75	4.3	3.9	6.1	11.9	15.7	49,812
2001	1,782	1,717	65	3.7	0.9	1.7	3.1	10.2	52,602

Inflation Indices

	Consumer Prices %	Underlying Inflation (Ex Mort %)	HICP % YoY	Manufacturing Output Prices %	Home Sales Component %	Agricultural Output Prices	% Chg In New House Prices	Hourly Earnings Manuf. %	Hourly Earnings Cons. %
1991	3.2	3.2		0.8		-3.2	2.1	5.6	5.9
1992	3.0	2.8		1.7	2.6	3.0	3.5	4.6	10.9
1993	1.5	2.0		4.6	2.6	7.0	0.9	5.8	7.0
1994	2.4	3.0		1.1	2.2	1.5	4.1	1.8	4.5
1995	2.5	2.4		2.5	3.6	2.2	7.2	2.4	5.6
1996	1.6	1.9		-0.5	1.6	-4.9	11.8	2.6	3.8
1997	1.5	1.2	1.2	0.3	0.8	-6.6	17.2	2.9	8.8
1998	2.4	2.4	2.2	2.7	0.4	-0.6	22.6	5.1	9.0
1999	1.6	2.8	2.5	1.9	1.6	-4.5	18.5	5.6	7.7
2000	5.6	5.4	5.2	7.5	7.5	6.7	13.9	6.2	12.6
2001	4.9	4.3	4.0	2.5	2.6	4.5	8.1	10.3	11.3

Public Finances

	Exchequer Balance €m	Exchequer Balance % of GNP	Current Bud. Balance €m	Current Bud. Balance % of GNP	Capital Borrowing €m	Capital Borrowing % of GNP	General Government Balance/GDP	Debt/GDP Ratio Maastricht	National Debt €m
1991	-636	-2.0	-381	-1.2	255	0.8	-2.3	95	32,223
1992	-905	-2.6	-566	-1.7	339	1.0	-2.4	92	33,450
1993	-876	-2.4	-481	-1.3	395	1.1	-2.3	96	36,006
1994	-853	-2.0	19	0.1	872	2.1	-2.0	90	37,111
1995	-796	-1.7	-460	-1.0	336	0.7	-2.6	83	38,358
1996	-555	-1.1	371	0.7	926	1.8	-0.4	74	37,980
1997	-298	-0.5	767	1.3	1,065	1.8	0.7	65	38,966
1998	948	1.4	2,655	4.0	1,707	2.6	2.1	55	37,510
1999	1,514	2.0	4,367	5.8	2,853	3.8	3.9	50	39,851
2000	3,178	3.6	6,972	8.0	3,794	4.4	4.6	39	36,511
2001	650	0.7	4,726	4.9	4,076	4.2	1.7	34	36,186

ECONOMIC FORECASTS

MAIN ECONOMIC INDICATORS AND FORECASTS

	Real GNP %	Inflation Rate %	Balance of Payments % GNP	Unemployment Level (‘000)	Unemployment Rate %	Exchequer Balance % GNP	Debt/GDP (M’tricht) %
1994	6.3	2.4	3.0	211	14.7	-2.0	90
1995	8.2	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	125	7.6	1.4	55
1999	8.2	1.6	0.4	96	5.6	2.0	50
2000	10.4	5.6	-0.7	76	4.3	3.6	39
2001	5.0	4.9	-1.2	71	3.9	0.7	34
2002 (f)	3.0	4.6	-0.5	82	4.4	-0.5	31
2003 (f)	4.5	4.4	-0.9	89	4.7	-1.8	29

NATIONAL ACCOUNTS FORECASTS (% Change Volume)

Expenditure Basis	1999	2000	2001	2002 (f)	2003 (f)
Private Consumption	8.2	9.9	4.8	2.8	4.0
Government Consumption	6.5	5.4	5.4	5.0	3.5
Fixed Investment	14.0	7.0	0.5	0.5	4.0
Domestic Expenditure	9.3	8.5	3.8	2.6	3.9
Stocks*	-2.0	0.6	0.1	0.0	0.0
Exports	15.7	17.8	8.4	8.8	5.8
Imports	11.9	16.6	7.7	8.5	5.0
GDP	10.8	11.5	5.8	4.0	5.0
GNP	8.2	10.4	5.0	3.0	4.5

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