The Economic Outlook:

Vaccine-Powered Rebound Expected

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New Covid-19 Waves Delay Economic Recovery

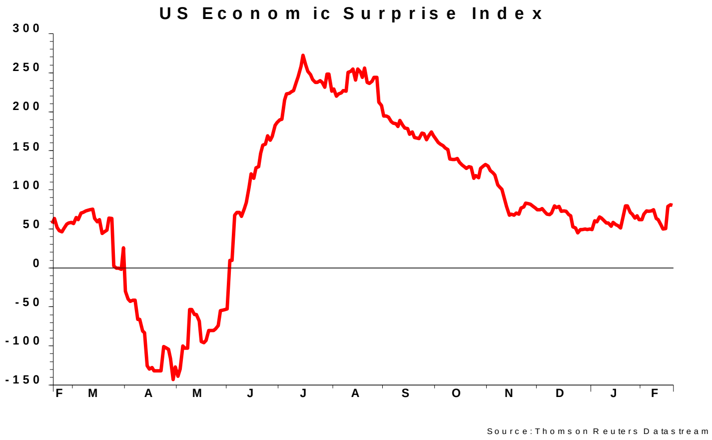
- Coronavirus pandemic and associated containment measures caused the deepest global recession in H1 2020 since the early 1930s Great Recession
- Strong bounce back in Q3’20 from the deep recession caused by Covid-19 in H1’20
- Recovery impacted in Q4 by second wave to virus with return of restrictions & lockdowns. Activity held up better than expected – UK saw modest growth, slight contraction in Eurozone
- Third Covid wave in Q1’21 sees new lockdowns, hitting economic activity quite hard
- Both fiscal and monetary policy primed to continue supporting economies, with very extensive loosening measures aimed at aiding households/businesses/financial system
- Rise in unemployment contained by furlough and other government income support schemes
- Good news on vaccines improves the economic outlook, but still many unknowns; future course of virus, new variants, take up of vaccines, production constraints, length of immunity
- Recovery expected to resume from Q2’21 onwards as restrictions set to be gradually lifted

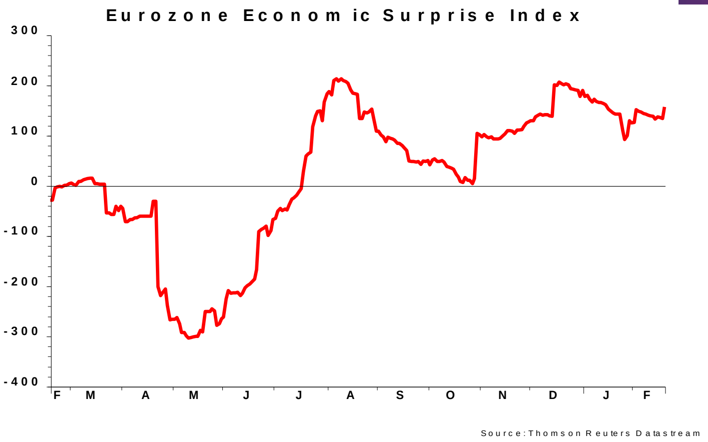
Global GDP fell sharply in 2020, to rebound in 2021/22

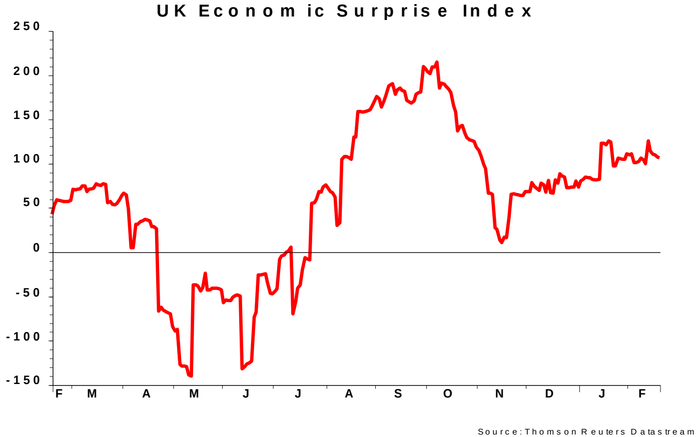
GDP (Vol % Change)	2019	2020(e)	2021(f)	2022(f)
World	2.8	-3.5	5.5	4.2
US	2.2	-3.4	5.1	2.5
Euro Area	1.3	-7.2	4.2	3.6
UK	1.4	-10.0	4.5	5.0
Japan	0.3	-5.1	3.1	2.4
Source: IMF World Economic Outlook, January 2021				

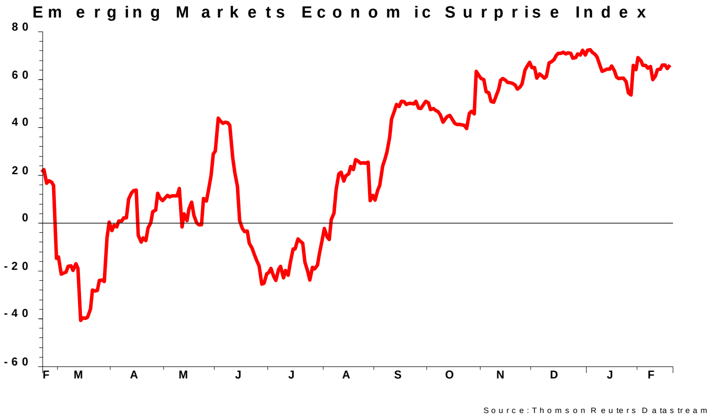
- Biggest fall in global GDP last year since the 1930's Great Depression
- Rebound in H2 2020 was stronger than expected, but weak start to 2021
- Other impacts from Covid recession include : higher unemployment, sharp decline in global trade, marked fall in inflation, deterioration in public finances
- Growth to pick up strongly in H2 2021 as vaccines become quite widely available
- Scope for further strong growth in 2022 if vaccines sees virus fall to low numbers

Data continuing to come in ahead of expectations in 2021

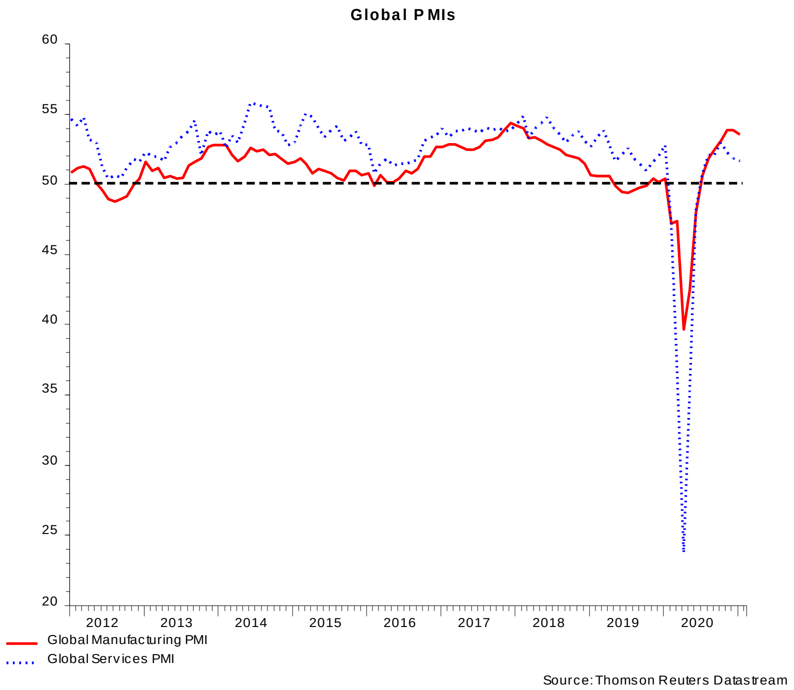






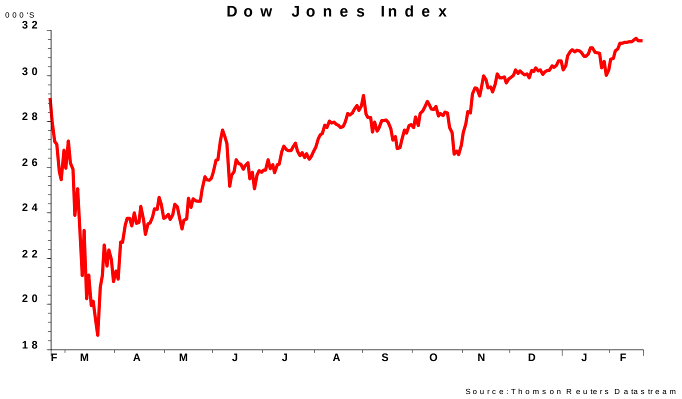


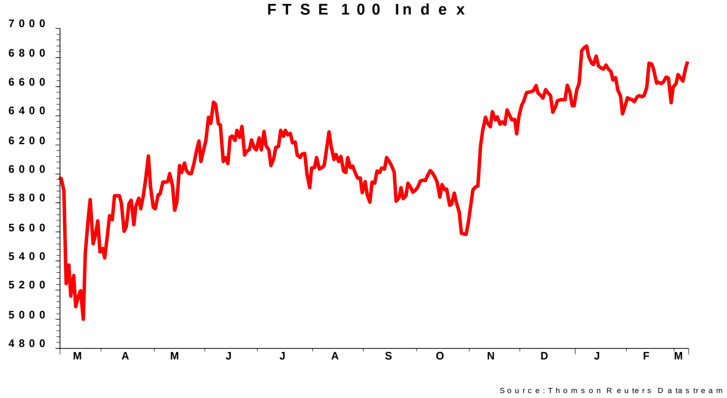
Global PMIs fairly immune to new Covid waves – services somewhat softer. World trade recovering

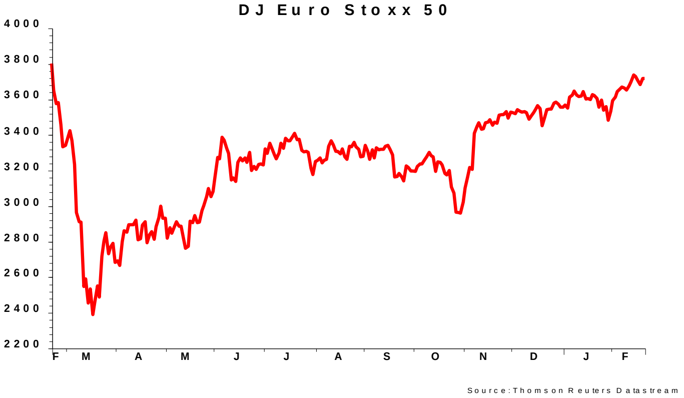


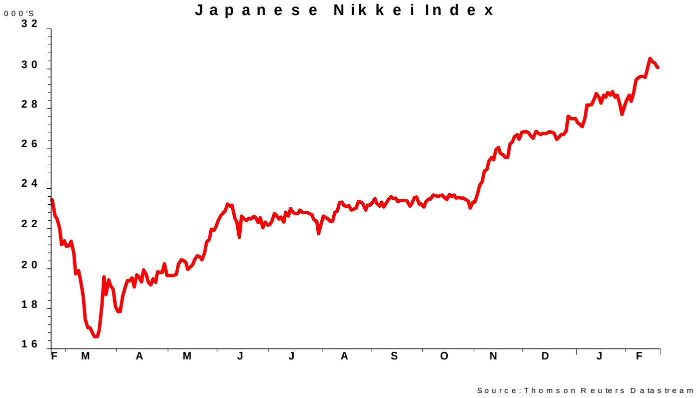
Strong recovery in global stock markets

12 Month History



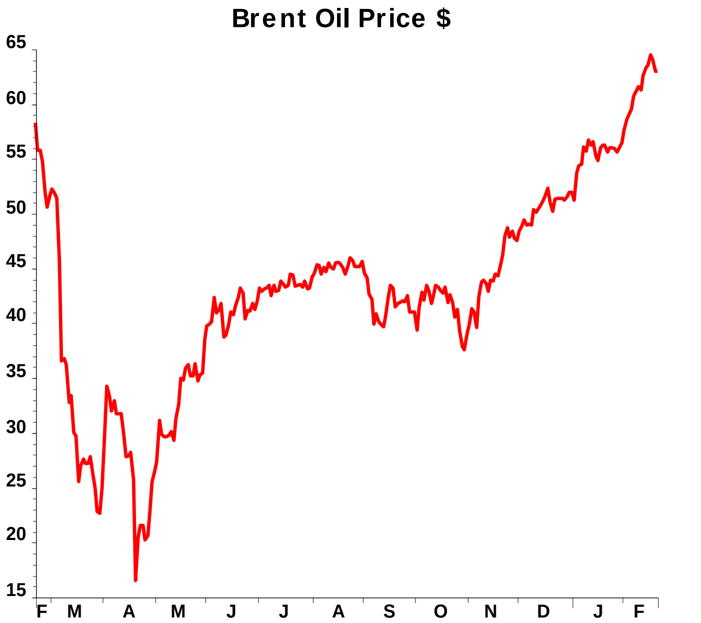






Oil prices surge on recovery hopes, helped by production cuts and lower inventories

Last 12 Months ….



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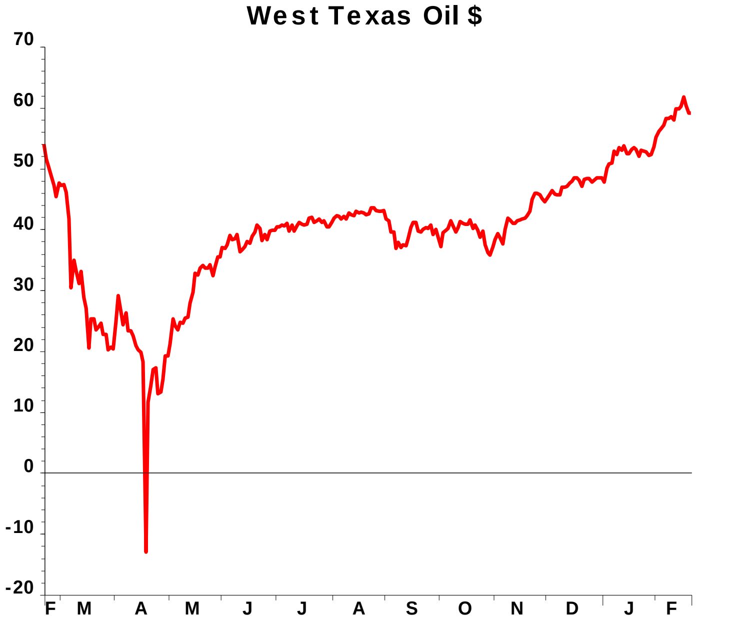
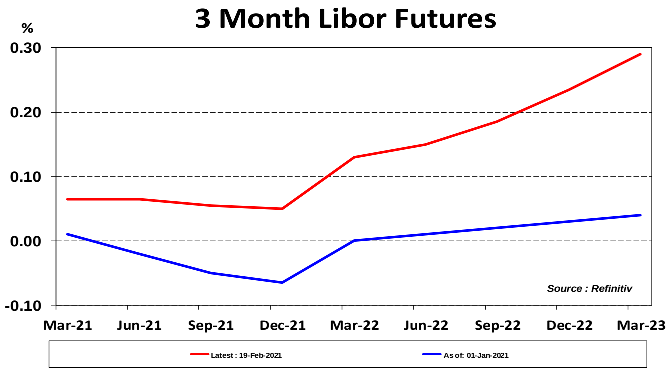
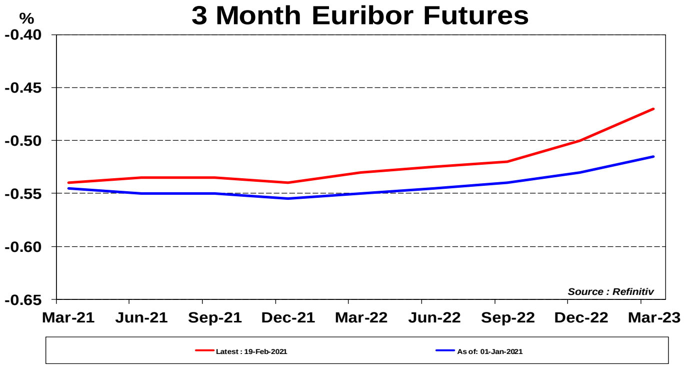
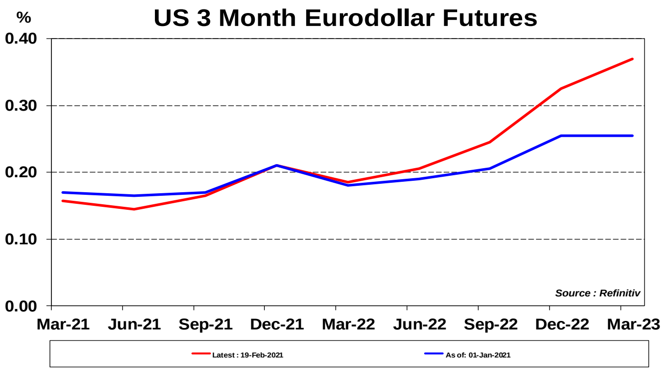
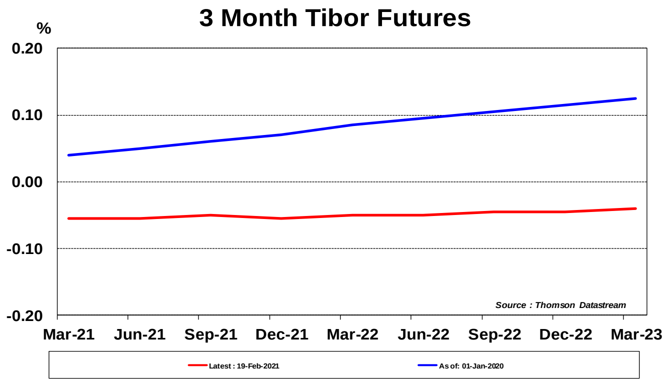


Firming of UK futures with negative rates priced out. Steeper curves, but rates should stay low over 2021-22

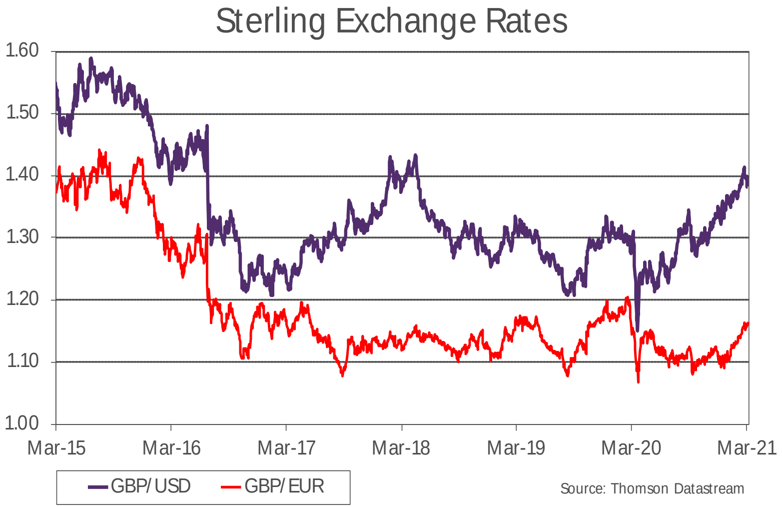


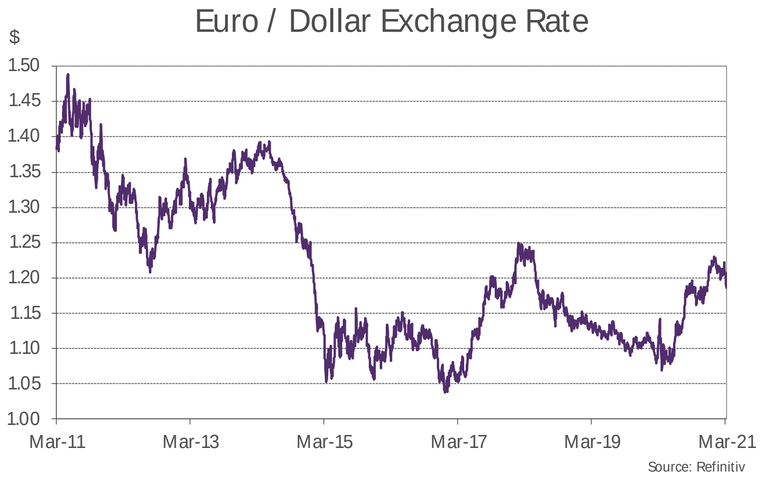






Sterling gains on vaccine roll out & trade deal. Dollar steadies after losing ground in H2 2020





- Sterling gains ground in first two months of 2021, but from historically low levels
- Rapid vaccine roll out and UK trade deal with EU help the currency recover
- Lingering Brexit concerns could limit upside for sterling
- Strong dollar lost ground in H2 2020, but still at elevated level
- Dollar recovers some ground in early 2021 and US long term interest rates rise

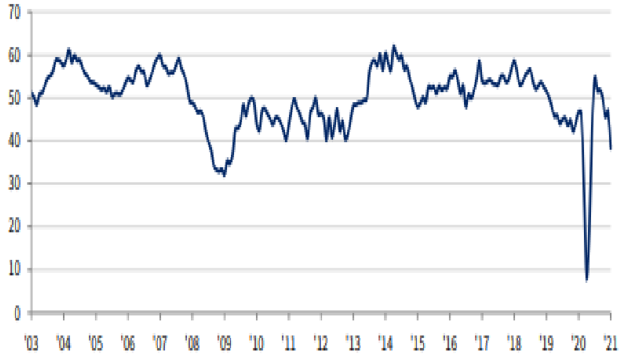
Strong rebound by UK economy likely over 2021-22

- UK economy suffers one of the biggest falls in GDP in 2020 at 10% - fall in Q1'21 likely too
- Rapid roll out of vaccines in UK (30% of pop. end Feb) should see strong rebound from Q2 on
- UK lockdown restrictions expected to be gradually lifted between March and June
- BoE very optimistic on outlook – sees GDP growth of 5% in 2021 and 7.25% in 2022
- Government supports for labour market and business extended to later in year
- Unemployment rate to spike higher as furlough scheme ends – may hit 6.5% by year end
- CPI inflation to rise above 2% as VAT cuts unwound, oil prices rebound, global price pressures for raw materials, businesses expand margins as demand surges and Brexit adds to cost base
- BoE likely to keep rates on hold on view rise in inflation is temporary
- UK budget deficit much higher than elsewhere at circa 17% of GDP, fiscal policy to be tightened from 2023 on as economy recovers, including big hike in Corporate tax rate
- Some of the fizz likely to go out of housing market as stamp duty restored to previous levels

NI PMI Sector survey data

Northern Ireland Business Activity Index

sa, >50 = growth since previous month



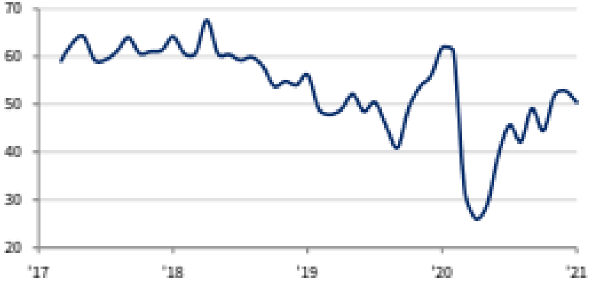
IHS Markit/Ulster Bank

Future Activity Index

>50 = growth expected over next 12 months

50.4

Jan '21



IHS Markit/Ulster Bank

Northern Ireland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Jan '21
1	Food & Drink	2.10	
2	Electrical & Electronic	1.13	
3	Machinery & Equipment	1.08	
4	Textiles & Clothing	1.00	
5	Other Manufacturing	0.94	
6	Wood & Paper	0.75	
7	Metals & Metal Products	0.75	
8	Transport Equipment	0.60	
9	Chemicals, Rubber & Plastics	0.56	

40 45 50 55 60 65

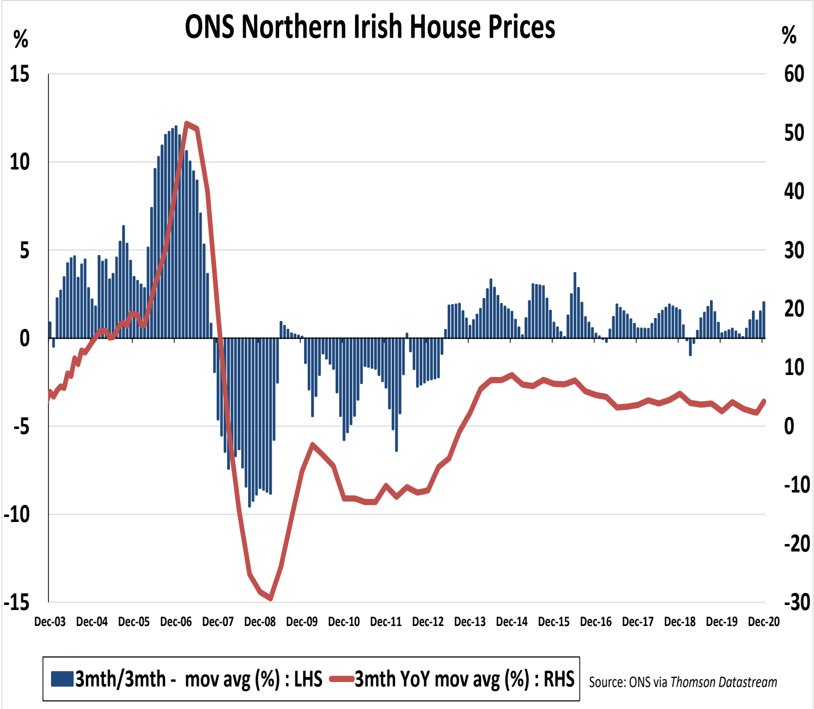
Northern Ireland specialisation: Services

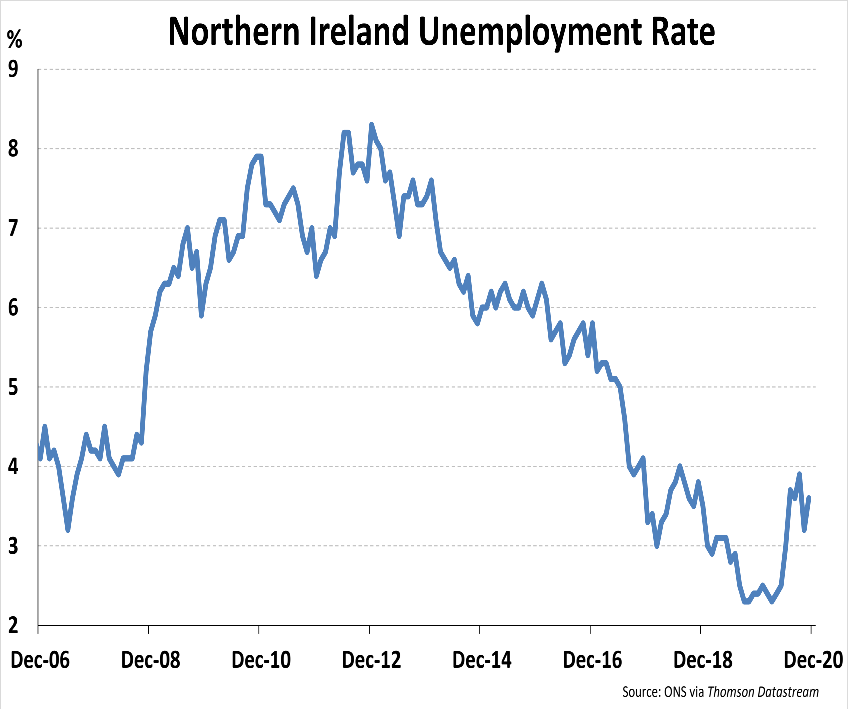
Rank	Sector	LQ	UK Business Activity Index, Jan '21
1	Hotels, Restaurants & Catering	1.29	
2	Other Services	1.23	
3	Transport & Communication	1.18	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.84	
6	Financial Intermediation	0.81	

20 30 40 50 60

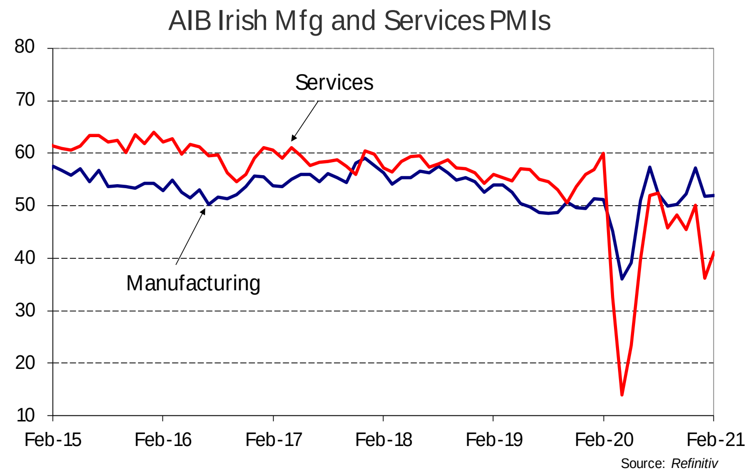
IHS Markit/Ulster Bank

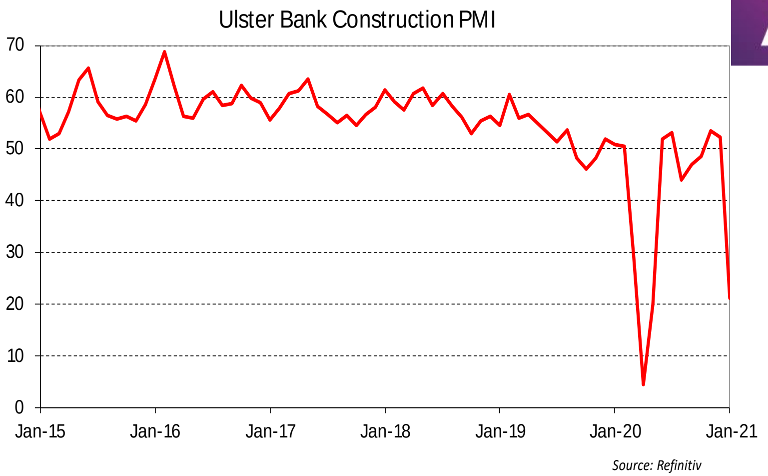
House prices hold up in NI; Unemployment stays low

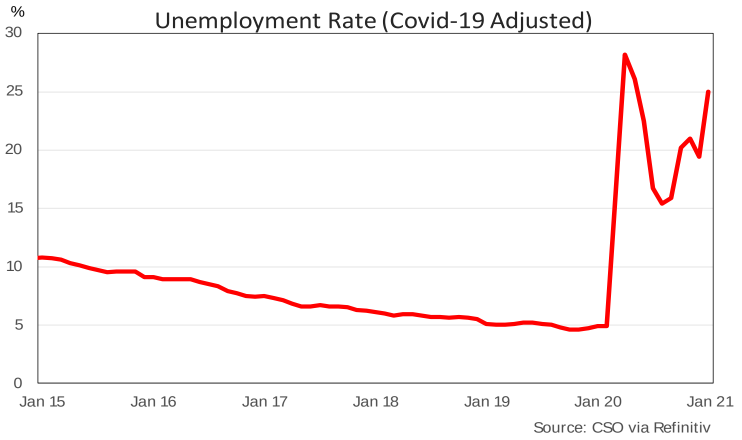


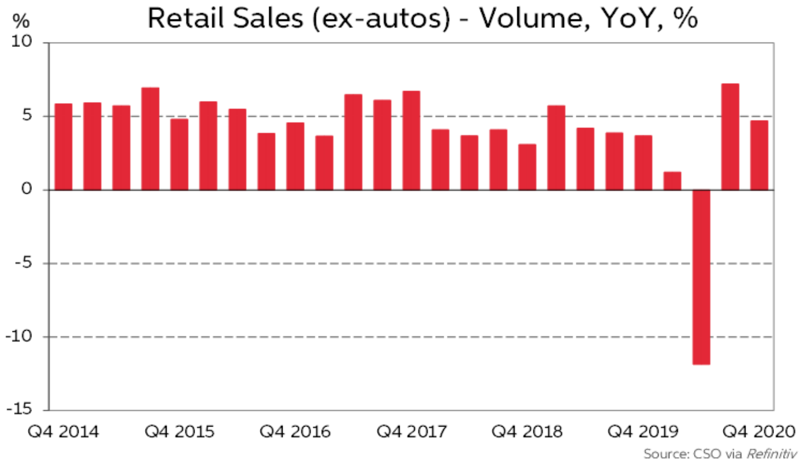


New lockdowns sees RoI activity fall back this winter

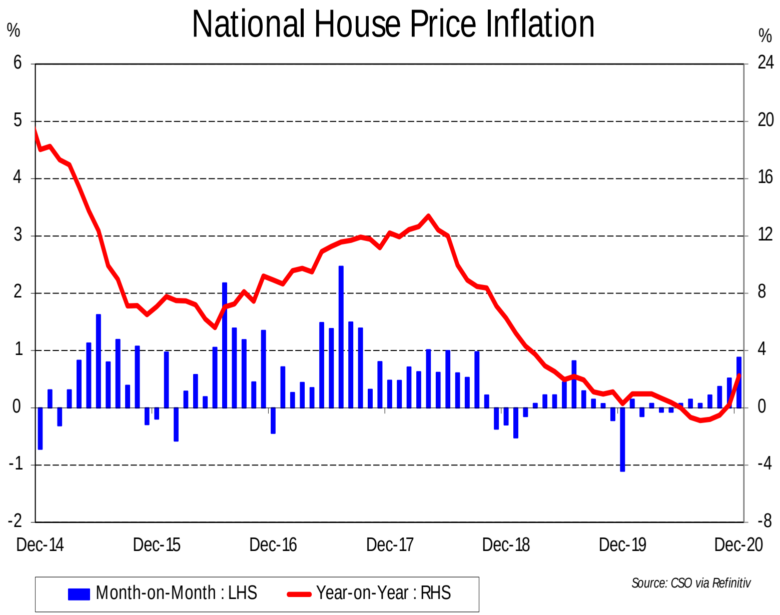


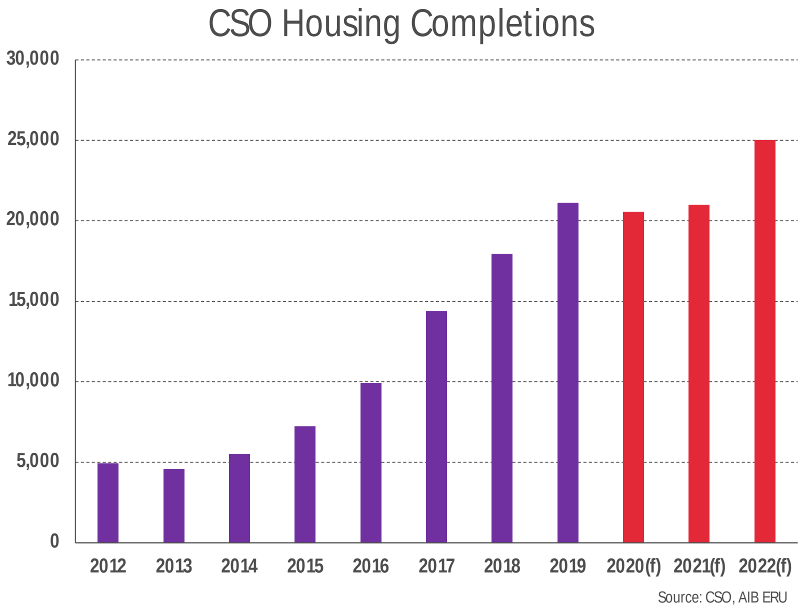






House prices and new building hold up well in 2020





Now in third lockdown, but outlook brightens on vaccines

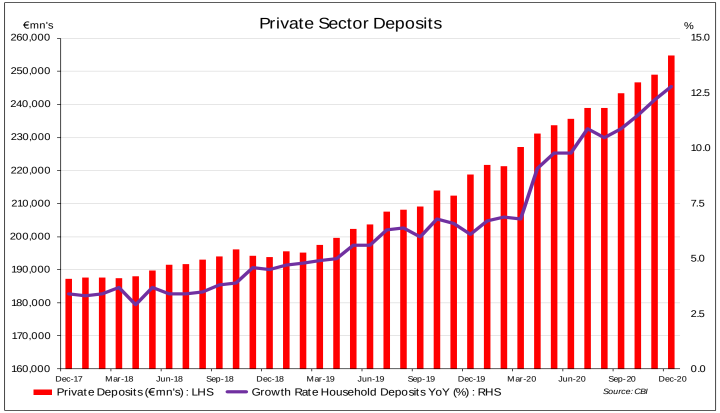
- Third lockdown imposed over Christmas, which is set to last well into Q2
- Thus, weak start for economy in Q1 2021, given the extensive lockdown
- Sharp falls in January PMIs on lockdowns. Remained weak in February
- More activity going on, though, than in first lockdown
- Contraction in economy in Q1 will be nowhere as severe as last Spring
- Restrictions on activity in some sectors set to last until mid-year
- Vaccines roll out to be ramped up in coming months
- Good growth prospects for H2 2021 and 2022 as economy rebounds
- Central Bank forecasts GDP growth of 3.8% in 2021 and 4.6% in 2022
- CBI also forecasts that official unemployment rate will top out at below 10%

Key medium-term of RoI growth drivers remain in place

- Favourable medium-term drivers of strong Irish growth remain in place
- House building to pick up from still low output levels – big focus of government policy
- Government spending supportive of growth
- Activity to be aided by continuing very low interest rate environment
- Ireland still an attractive destination for FDI
- Labour market dynamics supportive of growth
- Economy has deleveraged. Big jump in savings to unwind, fuelling domestic rebound in 2021-22
- World economy expected to rebound from 2021, helped by roll out of Covid vaccines
- The EU-UK trade deal has removed a major risk to Irish economy
- Strong Irish growth likely over next few years

IMF GDP Forecasts (Jan 2021)

% Vol	2020	2021	2022
World	-3.5	5.5	4.2
OECD	-4.9	4.3	3.1
US	-3.4	5.1	2.5
Eurozone	-7.2	4.2	3.6
UK	-10.0	4.5	5.0
Japan	-5.1	3.1	2.4



Some key points about Trade & Cooperation Agreement

- EU and UK finally agreed on a trade deal before end 2020, thereby allow for continuing tariff-free and quota-free trade in goods
- However, the FTA is much inferior to the EU Single Market, involves a lot of extra admin costs and delays at ports – it marks an end to frictionless UK-EU trade
- The FTA is unique in that it increases trade barriers– new customs procedures, compliance with onerous rules of origin requirements, documentary evidence needed to move goods
- Agri-food products may require export health certs and veterinary inspections at borders
- FTA does not extend to services. Financial services not given equivalence/passporting rights
- Estimated that higher trade costs will knock circa 0.5% off UK\RoI annual GDP growth rates
- UK not fully implementing all customs checks until July; Grace periods for some GB-NI trade
- Issues with NI protocol and GB-NI trade flows – Customs declarations, regulatory checks
- Uniquely, TCA offers NI unfettered access to both UK and EU Single Market – big opportunity

Structural changes flowing from pandemic

- Accelerated use of technology – spending online, online bookings, provision of services online (e.g. education, medical), meetings (Zoom), cashless payments
- Permanent shift to more remote working – hybrid system likely to evolve in coming years
- CRE- Reduced demand for offices, pressure on retail in city centres
- On housing, increased demand for larger & more rural residential property
- Less commuter travel which is hitting city centre amenity services – eateries, gyms, shops etc.
- More focus of security of supply lines, higher stock levels and sustainability of business
- Globalisation falters – decline in world trade, focus on shorter supply chains, less business travel
- 'New normal' is more consistent with climate action agenda, lower pollution
- One legacy will be a much higher level of public debt and bloated central bank balance sheets
- Low interest rate environment to last some time – though curves have steepened recently
- Note many of these changes were already underway – technology, flexible working, low rates etc.

Note: All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.