

December 17, 2009

Rossa White

rossa.white@davy.ie / +353 1 6148770

Research Report: Irish economy

National Accounts, Q3

Pace of recession moderates slightly; bottom likely in early 2010

GNP -1.4% in Q3: slowest pace of decline since Q1 2008

- The Irish economy remained in recession in Q3, but the pace of decline moderated further. We still expect the economy to emerge from recession in Q1 2010.
- GNP fell 1.4% in real terms compared with Q2, following -1.7% sequentially in Q2 and -5.2% in Q1. The economy entered recession from Q1 2008. Since that point, GNP is down 15.4% in volume. The economy will slide only moderately in Q4, by about 0.5%. By Q1, we may see slight quarter-on-quarter (qoq) growth in volume.
- GDP rose 0.3% in Q3 qoq, helped by the ongoing strong performance of foreign-owned multinational companies with operations here.

Consumer spending down again in Q3; investment shakeout continues, back to 2000 level

- Consumer spending fell 0.7% in Q3 following the 0.9% gain in Q2. Data so far from Q4 suggest that spending is probably down again.
- Investment is still in marked decline. It fell 9.9% in Q3 compared with Q2. Government spending dropped 0.9%. In nominal terms, it was back to less than €6bn in Q3 – a level last seen in 2000.
- In the year to Q3, new housing declined 55% in volume; residential RMI was down 21%; non-residential building fell 29%; and machinery and equipment investment dropped by 25%.
- Note that the massive shedding of stock continues. Stocks of goods and services declined by €393m in Q3. This makes it four straight quarters in which companies have cut stock on hand, bringing the total drag on the economy to €2bn (1.5% of GNP) in that period.

Exports resilient throughout the year

- Exports have been flat pretty much all year. In Q3, exports slipped 0.6% in volume, having increased 0.1% in Q2 and nudged 0.8% lower in Q1. But there is a story here: indigenous manufacturing is struggling, whereas sectors exposed to the global recovery are seeing expansion. The good news is that service exports seem to have bottomed. Imports slid 4.5% on lower consumer spending and especially soft investment.

Please refer to important disclosures at the end of this report.

Davy is regulated by the Financial Regulator and is a member of the Irish Stock Exchange and London Stock Exchange. Davy is authorised by the Irish Financial Regulator and regulated by the Financial Services Authority for the conduct of business in the UK. All prices as of close of previous trading day unless otherwise indicated. For the attention of US clients of Davy Securities, this third-party research report has been produced by our affiliate, J & E Davy

Important disclosures

Analyst certification

I, Rossa White hereby certify that: (1) the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this report and (2) no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed in this report.

Investment ratings definitions

Davy ratings are indicators of the expected performance of the stock relative to its sector index (FTSE E300) over the next 12 months. At times, the performance might fall outside the general ranges stated below due to near-term events, market conditions, stock volatility or – in some cases – company-specific issues. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance.

Our ratings are based on the following parameters:

Outperform: Outperforms the relevant E300 sector by 10% or more over the next 12 months.

Neutral: Performs in-line with the relevant E300 sector (+/-10%) over the next 12 months.

Underperform: Underperforms the relevant E300 sector by 10% or more over the next 12 months.

Under Review: Rating is actively under review.

Suspended: Rating is suspended until further notice.

Restricted: The rating has been removed in accordance with Davy policy and/or applicable law and regulations where Davy is engaged in an investment banking transaction and in certain other circumstances.

Distribution of ratings/investment banking relationships

| Rating | Count | Percent | Investment banking services/Past 12 months | |
|--------------|-------|---------|--|---------|
| | | | Count | Percent |
| Outperform | 44 | 55 | 24 | 60 |
| Neutral | 24 | 30 | 11 | 28 |
| Underperform | 7 | 9 | 1 | 2 |
| Under Review | 3 | 4 | 2 | 5 |
| Suspended | 0 | 0 | 0 | 0 |
| Restricted | 2 | 2 | 2 | 5 |

This is a summary of Davy ratings for all companies under research coverage, including those companies under coverage to which Davy has provided material investment banking services in the previous 12 months. This summary is updated on a quarterly basis. The term 'material investment banking services' includes Davy acting as broker as well as the provision of corporate finance services, such as underwriting and managing or advising on a public offer.

Regulatory and other important information

Davy is regulated by the Financial Regulator and is a member of the Irish Stock Exchange and London Stock Exchange. Davy is authorised by the Irish Financial Regulator and regulated by the Financial Services Authority for the conduct of business in the UK. No part of this document is to be reproduced without our written permission. This publication is solely for information purposes and does not constitute an offer or solicitation to buy or sell securities. This document does not constitute investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/strategy discussed in this report may not be suitable or appropriate for all investors. The value of investments can fall as well as rise and there is no guarantee that investors will receive back their capital invested. Past performance and simulated performance is not a reliable guide to future performance. Projected returns are estimates only and are not a reliable guide to the future performance of this investment. Forecasted returns depend on assumptions that involve subjective judgment and on analysis that may or may not be correct. Any information related to the tax status of the securities discussed herein is not intended to provide tax advice or to be used as tax advice. You should consult your tax adviser about the rules that apply in your individual circumstances.

This document has been prepared and issued by Davy on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken in the preparation of this document, we do not guarantee the accuracy or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in any of the securities or may have provided, within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

While reasonable care has been taken in the preparation of the information contained in this document, no warranty or representation, express or implied, is or will be provided by Davy or any of its shareholders, subsidiaries or affiliated entities or any person, firm or body corporate under its control or under common control or by any of their respective directors, officers, employees, agents, advisers and representatives, all of whom expressly disclaim any and all liability for the contents of, or omissions from, this document, the information or opinions on which it is based and/or whether it is a reasonable summary of the securities in this document and for any other written or oral communication transmitted or made available to the recipient or any of its officers, employees, agents or representatives.

Neither Davy nor any of its shareholders, subsidiaries, affiliated entities or any person, firm or body corporate under its control or under common control or their respective directors, officers, agents, employees, advisors, representatives or any associated entities (each an "Indemnified Party") will be responsible or liable for any costs, losses or expenses incurred by investors in connection with the information contained in this document. The investor indemnifies and holds harmless Davy and each Indemnified Party for any losses, liabilities or claims, joint or several, howsoever arising, except upon such Indemnified Party's bad faith or gross negligence.

Conflicts of interest

Our conflicts of interest management policy is available at www.davy.ie/ConflictsOfInterest.

US Securities Exchange Act, 1934

This report is only distributed in the US to major institutional investors as defined by S15a-6 of the Securities Exchange Act, 1934 as amended. By accepting this report, a US recipient warrants that it is a major institutional investor as defined and shall not distribute or provide this report or any part thereof, to any other person.

Distribution of research to clients of Davy Securities in the US

Davy Securities distributes third-party research produced by its affiliate, J & E Davy.

Davy Securities is a member of FINRA and SIPC and is regulated by the Financial Regulator.

Confidentiality and copyright statement

Davy, Research Department, Davy House, 49 Dawson St., Dublin 2, Ireland.

Confidential © Davy 2009.