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Table of Contents

Research Report: Irish economy

Davy on the Irish Economy

Heading into a period of slower growth

Strong performance in 2006

- GNP is estimated to have grown by 7.4% in 2006, the fastest rate of growth recorded for the Irish economy since 2000.

But slowdown in rate of growth likely in the coming years

- Housing output now accounts for about 10% of GNP, and there is growing evidence that the peak of the cycle has finally been reached.
- We expect new completions to fall from over 88,000 in 2006 to 80,000 in 2007. That represents a 9% decline in the volume of output and in itself will be a significant drag on overall economic activity.
- But consumer spending and the non-residential construction sector should both perform strongly again this year.
- Nevertheless, the volume of output in construction is likely to fall for the first time since 1993, and we have revised down our forecast for GNP growth for 2007 from 5% to 4.5%. This still implies that the economy, excluding housing, will grow at 6% this year.

Growth of 3% forecast for 2008

- Consumer spending growth is likely to slow to 2.5% in 2008 as the SSIA impact disappears, and we expect house completions to fall to 75,000. We have therefore left our 3% GNP growth forecast for 2008 unchanged, but it is obviously off a lower 2007 base.

Table 1: Summary of forecasts

	2005	*2006*	*2007F*	*2008F*
Expenditure components of GNP (% change in volume)				
Consumer spending	6.6	6.2	7.0	2.5
Government spending	4.6	4.1	4.0	3.0
Investment	12.8	3.9	0.2	1.8
Residential investment	12.6	3.1	-9.0	-6.0
Non-residential building	6.5	16.1	10.0	10.0
Total building	10.4	7.7	-1.8	0.8
Exports	3.9	4.9	6.0	5.0
Imports	6.5	5.3	5.3	3.9
GDP	5.5	6.0	4.5	3.0
GNP	5.3	7.4	4.5	3.0
Balance of payments				
Current account (€m)	-4,199	-5,788	-5,586	-3,947
% of GNP	-3.1	-3.8	-3.5	-2.3
Inflation (% yoy, annual average)				
Consumer price index (CPI)	2.5	4.0	4.2	2.5
Retail prices (HICP)	2.2	2.7	2.2	2.3
Wage inflation	5.5	4.7	4.5	4.5
Labour market (%change yoy)				
Employment (Q4 on Q4)	4.6	4.3	2.5	1.5
Labour force (Q4 on Q4)	4.7	4.0	3.5	2.0
Unemployment rate (end-year)	4.4	4.1	5.0	5.5
Public finances (€m)				
Exchequer Balance (€m)	-499	2,265	-500	-1,500
% of GNP	-0.4	1.5	-0.3	-0.9
General Government Balance (€m)	1,624	4,390	2,276	1,700
% of GDP	1.0	2.5	1.2	0.8
Government debt (% of GDP)	28	25	25	25
Official interest rates (end-year)				
Eurozone	2.25%	3.5%	4.0%	4.0%
US	4.5%	5.25%	5.0%	4.5%
UK	4.5%	5.0%	5.0%	4.75%
Exchange rates (end-year)				
$/€	1.18	1.32	1.40	1.40
£/€	0.67	0.67	0.67	0.67

Source: Davy

Overview

2006 – the best year for growth since 2000

2006 was another year of very strong growth in the Irish economy. The latest estimates put GNP growth at 7.4%, the fastest rate of expansion for the Irish economy in six years.

- **Consumer spending and non-residential construction were the star performers**

Two categories of expenditure had a particularly strong year – consumer spending and non-residential construction. Consumer spending increased by more than 6% for the second year in a row and was driven by strong income formation in the economy. Non-residential construction spending benefited from a recovery in public sector spending on infrastructure and another very strong year for the private commercial property sector.

- **Growing evidence that the peak of the housing cycle has been reached**

Housing, once again, surprised on the upside in that most forecasters had anticipated a decline in housing output at the start of last year. However, housing completions increased from 86,000 to 88,000, and the volume of activity in the sector was up 3.1%. But this was the smallest rate of increase in housing output since 1993.

Lowering expectations for 2007

- **Housing output expected to fall to 80,000 new units in 2007 and 75,000 new units in 2008**

Consumer spending and non-residential construction are both likely to expand strongly again in 2007. The former will benefit from a continuation of strong income formation and the release of the majority of SSIA accounts in the first four months of the year. The latter will reflect further commitment by the government to infrastructure spending at a time when the commercial property market remains strong.

- **Forecast GNP growth is reduced to 4.5% for 2007, but this implies that the economy, excluding housing, will grow at 6%**

But there is a growing body of evidence that the peak in the housing cycle has finally been reached. Trends in housing starts have been particularly weak. We recently revised down our forecast for house completions in 2007 from 87,000 to 82,000. We are now further reducing that figure to 80,000. That represents a 9% contraction in the volume of output of a sector that now accounts for almost 10% of GNP. In itself, that will act as a significant drag on the economy as a whole.

Accordingly, we are revising down our GNP forecast for 2007 from 5% to 4.5%. But that implies that the economy, excluding housing, will expand at 6% this year.

Further slowdown likely in 2008

- **GNP growth forecast at 3% in 2008**

We expect a further deceleration in the rate of growth of the economy in 2008. Housing output is forecast to drop to 75,000 new units, and the pace of growth in consumer spending should slow to 2.5% as the SSIA impact is reversed.

We expect GNP to expand by 3% in 2008, unchanged from our last set of forecasts, but obviously off a lower base for 2007.

Consumer spending remains a key driver

- **Significant acceleration in consumer spending growth in 2005 and 2006**

The pace of growth of the Irish economy accelerated significantly in 2005 and 2006, a development that was supported in no small way by a similar acceleration in the pace of growth of consumer spending. This growth in spending was underpinned by buoyant disposable incomes, which benefited from increases in average earnings which were well ahead of inflation, continued growth in total employment and a lower income tax burden.

- **Underpinned by strong income growth, savings ratio remains high**

Table 2: Trends in incomes, spending and savings

% change in volume	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Disposable incomes	10.0	4.5	2.7	4.1	8.5	6.0
Consumer spending	5.4	3.8	3.2	3.8	6.6	6.2
Savings ratio	9.1%	9.7%	9.2%	9.5%	11.1%	10.7%

Source: CSO

Indeed such has been the strength of real incomes that the trend in the personal savings ratio has been firmly upwards.

- **Off to a strong start in 2007**

Spending patterns have got off to a strong start in 2007, with retail sales volumes in January 7.3% higher than January of last year. Car sales in the first two months of the year were up 7% on the same period in 2006.

SSIAs to provide significant boost to spending in 2007

- **€6.4bn of SSIAs will be released at the end of April, providing a further boost to spending in 2007**

Employment and wage growth, as well as lower income tax charges, will again provide strong support for consumer spending in the current year. In addition, more than €9bn will be released from SSIA accounts in the first four months of the year. We have assumed for some time now that about 30% of these accounts will be used to finance higher spending and that the remainder will be used to either repay debt or invest in alternative savings products. The experience of SSIA accounts that have matured so far seems to be broadly consistent with this view.

Table 3: Timetable of maturity of SSIA accounts (€m)

January 2007	*February 2007*	*March 2007*	*April 2007*
736	800	1,360	6,416

Source: Department of Finance

Some 40% of the accounts will mature at the end of April, amounting to €6.4bn. To put that figure in context, it is the equivalent of more than 4% of 2006 GNP or almost 8% of total consumer spending in 2006.

This will provide a sizeable boost to spending over the balance of the year, and we have maintained our forecast of 7% growth in real consumer spending for the current year.

- **But some payback likely in 2008**

We also retain the view that there will be some SSIA payback in 2008 and see consumer spending growth slowing to 2.5% next year.

Table 4: Forecast for consumer demand and incomes 2006-2008

% change in volume	*2006*	*2007F*	*2008F*
Disposable incomes	6.0	5.2	3.9
Consumer spending	6.2	7.0	2.5
Savings ratio	10.7%	9.2%	10.4%

Source: Davy

The build-up of consumer debt

The growth in consumer spending in recent years has been more than underpinned by strong income growth. Consequently, the national savings ratio has been maintained at a high and stable level (see Table 4).

In that sense, the consumer boom that has taken place in the Irish economy is different to the experience elsewhere. The contrast with the US is particularly notable. The increase in spending there has been facilitated and financed by higher borrowing and a collapse in the savings ratio into negative territory.

- **With the savings ratio remaining high, the accumulation of debt has been mainly used to accumulate assets**

It may seem odd therefore that the high savings ratio in Ireland has been accompanied by a rapid increase in consumer debt. But, in looking at debt, we are only looking at one side of the balance sheet. When the savings ratio remains high and stable, the accumulation of debt must reflect a corresponding accumulation of financial and real assets.

Table 5: Accumulation of personal debt (€bn)

	2001	*2002*	*2003*	*2004*	*2005*	*2006E*	*2007F*
Mortgages	38.4	47.2	59.2	77.0	99.0	123.3	141.8
% change	17.8	23.1	25.5	30.0	28.5	24.6	15.0
Other personal debt	11.7	13.1	13.8	17.9	21.1	23.2	25.5
% change	18.2	11.8	5.6	29.3	18.1	10.0	10.0
Total debt	**50.1**	**60.3**	**73.1**	**94.9**	**120.1**	**146.5**	**167.3**
% change	17.9	20.5	21.2	29.9	26.5	22.0	14.2
Debt/income	**82%**	**90%**	**102%**	**125%**	**144%**	**161%**	**170%**

Source: Central Bank; CSO; Davy

Over the past five years, the value of debt outstanding to the personal sector has risen almost threefold, the equivalent of an annual rate of increase of 24% per annum. As a result, the ratio of debt/after-tax personal incomes has doubled from 82% to 161%. On the basis of current trends, we expect the stock of mortgages to increase by 15% again this year, and we expect another 10% rise in the non-mortgage debt of the personal sector. That would increase the ratio of debt/income to more than 170%, the highest in the Euro area and greater than that in the US or UK.

- **Mortgages now account for 85% of all personal debt**

But it is important to note that the build-up of personal debt in Ireland has been dominated by mortgages. Mortgages now account for 85% of the total stock of debt outstanding to the personal sector.

The build-up of personal sector assets

Table 6 makes some attempt to measure how the asset side of the balance sheet of the personal sector has evolved in recent years.

Table 6: Personal sector balance sheet

€bn	*Debt*	*Financial assets*	*Housing stock*	*Net worth*
2001	50	180	270	400
2006	145	305	550	710

Source: Central Bank; Davy

Table 6 includes estimates of the value of financial assets held by the personal sector as well as estimates of the value of the housing stock.

Financial assets include the following:

– Holdings of currency and deposits in the banking system. At the end of 2006, these amounted to some €100bn.
– The value of pension funds and the value of the personal holdings of insurance company products. We estimate the combined value of these at €140bn at the end of 2006.
– The value of direct equity holdings by the personal sector which we estimate at €65bn.

Over the past five years, the value of personal sector financial assets has increased by €125bn and has more than matched the rise of €95bn in the value of debt outstanding.

- **The value of the housing stock increased from €270bn to €550bn between 2001 and 2006**

Over the same period there have been some 375,000 new houses built in Ireland, and the housing stock has risen from less than 1.5m at the end of 2001 to almost 1.8m at the end of last year. At the same time, the average price of a house in Ireland has risen from around €180,000 to more than €310,000. That implies that the value of the housing stock has risen from about €270bn to €550bn over the five years.

- **Overall net worth has increased from €400bn to more than €700bn**

For the personal sector as a whole, net worth (on this measure) has increased from €400bn to more than €700bn over the period. But it is important to note that this picture understates the evolution of the net worth of the personal sector in recent years. Two important asset classes are omitted because of lack of data:

– the acquisition of property assets outside of Ireland; and
– the value of private equity holdings.

The value of assets held in these categories is undoubtedly significant and further underpins the financial strength of the personal sector.

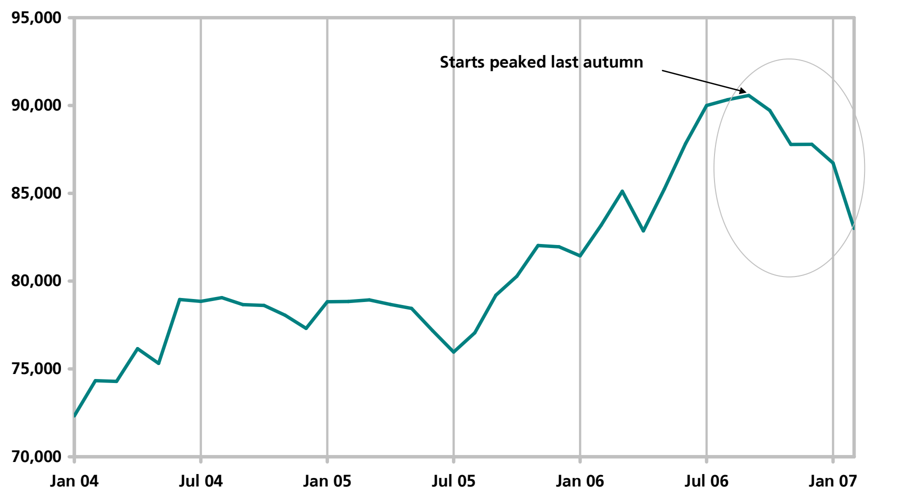
Housing market has finally peaked

- **The trend in housing starts, which are down 17% yoy over the last six months, has been particularly worrying**

A number of recent data sources suggest that the peak of the housing cycle in Ireland has finally arrived:

- House completions in the final quarter of 2006 were down 4.7% on the same quarter in 2005.
- House completions for the full year were 88,187, up just 2.3% on the 86,189 built in 2006. That was the slowest rate of annual increase since 1993.
- Housing starts data have been particularly weak. Starts were down yoy in four of the last five months. The cumulative yoy decline was 17% in the six months to February. In February itself, starts were down almost 40%. As a result, the 12-month running total for housing starts has fallen from a peak of 90,500 in September 2006 to 83,000 now.
- The number of new mortgages issued in the final quarter of 2006 was down 11% on the same quarter in 2005.
- There has been a marked deceleration in the pace of house price inflation. In the six months to January, national house prices rose by 2.6%. In the three months to January, average house prices increased by 0.4%, an annualised rate of just 1.4%.

Figure 1: Irish housing starts (12-month running total)



Source: Homebond; Premier Guarantee; Davy

The housing market has slowed for a number of reasons: (for further discussion, see: "Irish mortgage broker survey":

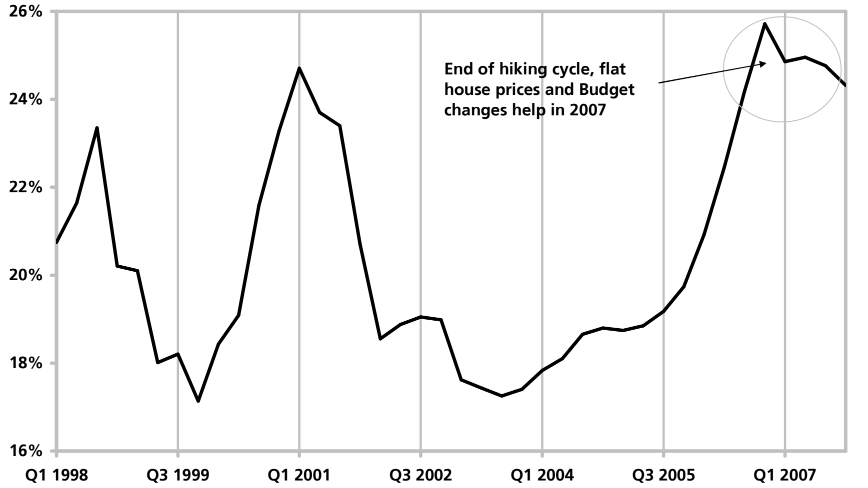
- **Affordability has worsened**

- Deteriorating affordability for first-time buyers (FTBs)
  - We reckon that the average marginal buyer couple has to shell out 4% extra in disposable income to buy the average house compared with the same period a year ago. The yoy drain on a typical single buyer's after-tax income is 6%.
  - The above calculations factor in the doubling of mortgage interest relief in Budget 2006. In effect, this cancels out the impact of

about 60 basis points of the total increase of 175 basis points in the ECB refi rate since December 2005.

– Affordability has also been adversely affected by the rapid rise in house prices from early-2005 until mid-2006. By July of last year, the yoy increase in house prices for FTBs was more than 16%.

Figure 2: Housing affordability index*



Source: Davy
*% of disposable income required to meet net mortgage repayments for FTB couple

- **Some demand may have been pulled forward from 2007 and 2008, and some payback now on the way**

- Some housing demand may have been brought forward
  – The very strong demand for housing in the period between mid-2005 and mid-2006 reflected the impact of low real interest rates, an increase in net inward migration and a perception, perhaps, that the release of SSIAs would further fuel house price inflation.
  – As a result, it seems likely that some house purchases that would, in other circumstances, have taken place in 2007 and 2008 were brought forward into this time period.
  – It is impossible to quantify the impact of any such effect, but it is likely that we are now seeing payback for this phenomenon and it may continue for some time.

- **Housing output to fall to 80,000 in 2007 and 75,000 in 2008**

- Government meddling, but this is transitory
  – In September 2006, the junior coalition partner suggested that stamp duty change might be forthcoming in the December 2006 Budget. This probably added to the market slowdown, which began about a month earlier. We think this exaggerated the fall in mortgage volumes in the quarter.
  – There is potential for more of the same as promises are made in the lead-up to the parliamentary elections in late-May/early-June.

In the light of these trends, we are forecasting that house completions will decline to 80,000 in 2007 and will fall further to 75,000 in 2008.

Table 7: House completions and residential investment

	2002	2003	2004	2005	2006	2007F	2008F
House completions (numbers)	57,695	68,819	76,954	86,189	88,187	80,000	75,000
Residential investment (% chg. in volume)	5.9	15.4	12.0	12.6	2.5	-9.0	-6.0

Source: DOEHLG; CSO; Davy

Non-residential spending to offset housing slowdown

- **Strong growth in private commercial and public infrastructure**

Non-residential building has been much more buoyant. In 2006, the volume of activity in the sector increased by 16.1%.

This reflected a strong performance from both public sector infrastructural spending and the private commercial sector. Both categories of expenditure were weak in the early years of the decade, but private commercial spending recovered strongly in 2005 and that was followed last year by a recovery in public capital investment.

National Development Plan to underpin non-residential investment in the medium term

The recent National Development Plan committed to spend €184bn in the seven-year period out to 2013 (see our note: "National Development Plan 2007-2013").

More specifically, it committed to increase nominal spending by 16.7% in 2008 and 16% in 2009, having already committed to a rise of 14% for 2007. As a result, we have pencilled in 10% volume growth for non-residential construction expenditure in both 2007 and 2008.

Table 8: Construction output

% change in volume	2002	2003	2004	2005	2006	2007F	2008F
Housing	5.9	15.4	12.0	12.6	3.1	-9.0	-6.0
Other construction	5.3	-0.3	0.7	6.5	16.1	10.0	10.0
Total construction	5.6	8.6	7.5	10.4	7.7	-1.8	0.8

Source: CSO; Davy

- **But construction output is still likely to fall in 2007, the first such decline since 1993**

The continuing recovery in non-residential spending will substantially offset the fall in housing output. Nevertheless, we expect overall construction output to fall by almost 2% this year, the first decline in the output of the sector since 1993. We expect only a modest recovery of less than 1% in the volume of output in 2008.

Labour market remains buoyant, but employment growth set to slow

The labour market ended the year on a buoyant note, with total employment up 4.3% yoy in the final quarter. On a seasonally adjusted basis, employment in the final quarter was 1% higher than it was in Q3.

Table 9: Employment growth in Q4 2006

Change yoy	*Numbers*	*% change*
Construction	28,400	11.2
Public services	34,800	8.3
Private services	17,800	2.0
Industry	3,900	1.4
Agriculture	500	0.4
Total	**85,500**	4.3

Source: CSO

The sectors that dominated the increase in employment were construction, financial services, public administration, education and health.

- **Employment growth is becoming increasingly concentrated in a smaller number of sectors**

Those sectors are now driving almost all of the net increase in employment. Employment outside of public services, construction and private health was unchanged in Q4 compared with Q3, and the yoy rate has slipped to 1.7%, a three-year low. Private services grew only 2%, down from 6.1% as recently as Q3 2005.

Live Register trends suggest that the labour market stayed firm in early 2007. Unemployment claimants remain below 160,000. In fact, the Live Register total has been in a tight range of 155,000-160,000 for more than two years despite a rapid expansion in the labour force.

Construction employment likely to flatten with a lag

In the future, the main change in the employment landscape is likely to be the reduced contribution of construction. Since 1994, the numbers employed in construction have increased from fewer than 100,000 to almost 300,000, the equivalent of a growth rate of 9% per annum. Over the same period, the proportion of the total workforce employed in the sector has increased from 8% to 14%.

The most recent figures indicate that the pace of employment growth in the sector remains robust, with the Q4 numbers showing a yoy rate of increase of 11%.

- **And will narrow further as employment growth in construction dries up**

But activity in the sector is likely to fall in the current year and recover only modestly in 2008, so that trend does not look sustainable. By the end of 2007, we expect the yoy growth rate for employment in the construction sector to be close to zero.

- **Overall employment growth will slow to 2.5% by end-2007 and to 1.5% by end-2008**
- **Rapid labour supply response required to avoid spike in unemployment**
- **Unemployment rate up to 5.5% by end-2008**

We also expect little or no growth in employment in industry and agriculture. Together, these three sectors account for more than one-third of total employment. It is highly unlikely that the public and private services sectors could accelerate to a point which would offset these influences. Indeed, some of the services sectors (e.g. financial services) would be negatively affected by a downturn in housing.

By the end of 2007, we expect overall employment growth across the economy to slow to around 2.5%. A further deceleration is likely in 2008 as consumer demand growth slows considerably. We see total employment growth slowing to 1.5% yoy by Q4 2008.

Table 10: Labour force forecasts

'000s	*Q4 2006*	*% change*	*Q4 2007F*	*% change*	*Q4 2008F*
Total employment	2,066.1	2.5	2,117.8	1.5	2,149.5
Labour force	2,154.8	3.5	2,230.2	2.0	2,274.8
Unemployment	88.7		112.5		125.3
Unemployment rate	4.1%		5.0%		5.5%

Source: Davy

The implications of these forecasts for the unemployment rate depend on the response of labour force growth to the deteriorating employment prospects. If the labour force, for example, continued to grow by 4% per year, the unemployment rate would rise quickly and would be close to 8% by the end of 2008.

But the experience of the early part of this decade is that labour force growth responds quickly when employment prospects slow. For example, in the second half of 2002 the yoy growth of employment had slowed to 1.2% but labour force growth also slowed and was down to 1.7% yoy for the same period.

The increase in the unemployment rate was therefore limited from a trough of 3.7% in Q1 2001 to 4.8% in Q3 2003. We expect a similar experience this time around. We see labour force growth slowing to 2% in 2008, which would limit the rise in the unemployment rate to 5% by end-2007 and 5.5% by the end of 2008.

Non-Irish national labour boosting potential economic growth and limiting wage inflation

In the final quarter of 2006, the number of non-Irish nationals at work increased by 44,300 compared with a rise of 41,100 for Irish nationals. That is a trend that has been underway for quite some time, although the data have only been published since Q3 2004.

Table 11: Change in employment patterns – the role of non-Irish nationals

'000s	*Q3 2004*	*Q4 2006*	*Change*	*% change*
Irish nationals	1,779.1	1,850.6	71.5	4.0
Non-Irish nationals	114.5	215.5	101.0	88.2
Total	**1,893.6**	**2,066.1**	**172.5**	**9.1**

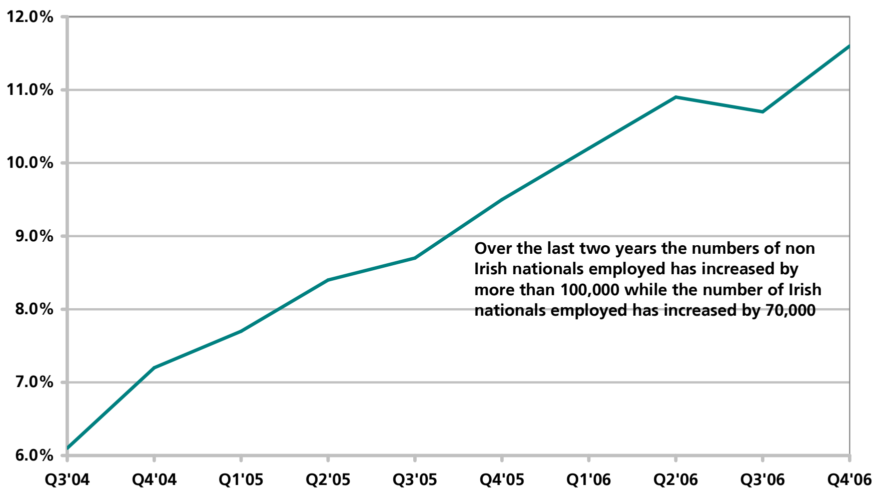
Source: CSO

- **About 70,000 extra Irish nationals have been employed over the past two years, but over 100,000 non-Irish nationals have been employed over the same period**

Over the nine quarters since then, the number of non-Irish nationals employed has increased by more than 100,000 compared with just over 70,000 for Irish nationals. Over that period, non-Irish nationals as a percentage of the workforce have increased from 6.1% to 11.6%.

Without this injection of migratory labour, the growth rate of the overall economy would have been more than halved in recent years and wage inflation would, almost certainly, have been significantly higher.

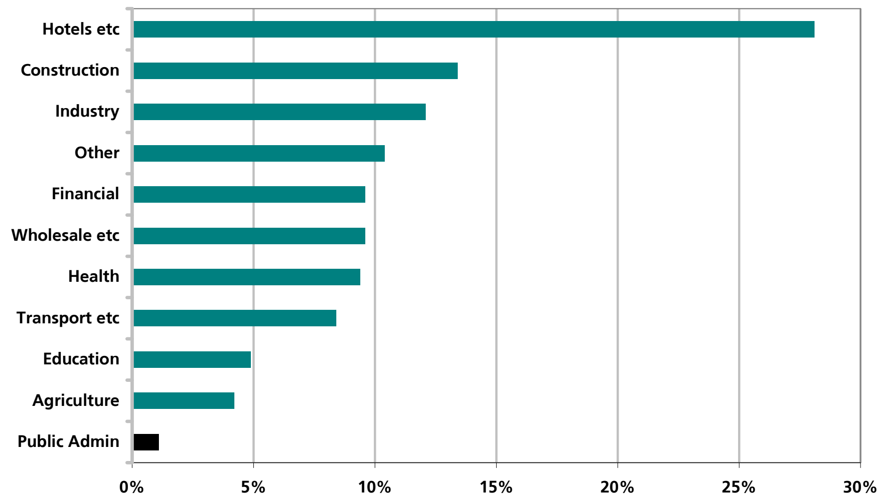
Figure 3: Non-Irish nationals as percentage of total workforce



Source: CSO

The industries that are most dependent on the non-Irish national labour are construction and the hospitality sectors, but all sectors now have a significant dependence on foreign labour with the notable exceptions of agriculture, public administration and education.

Figure 4: Percentage of workforce accounted for by non-Irish nationals



Source: CSO

Industry recovered in 2006 and is enjoying a healthy start to 2007

- In 2006, industrial production rose at its fastest pace since 2002

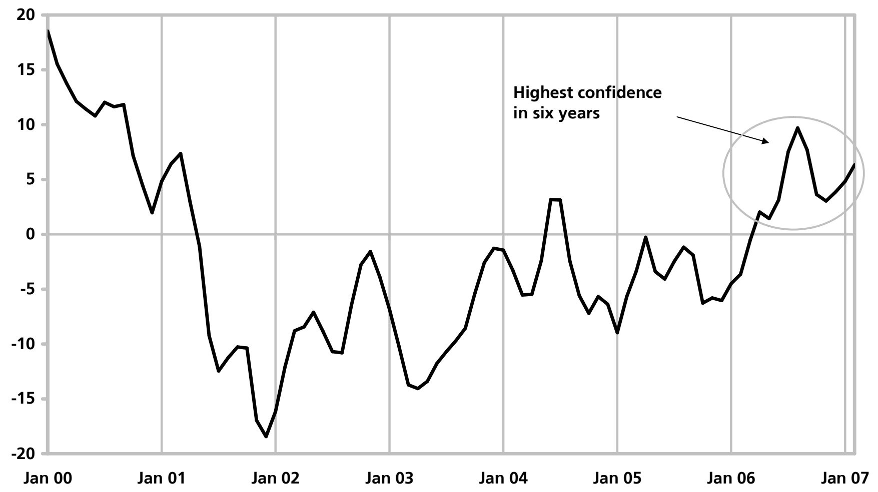
Irish industry has benefited from cyclical recovery in Europe. Following a sluggish three years in 2003-2005, manufacturing output expanded at a much faster pace last year. National accounts data show that output in industry rose 6.2% last year, the fastest growth rate since 2002. This has fed through to exports and also to industrial employment, which is rising for the first time since it peaked in 2001.

The momentum in industry continued into the New Year. In January 2007, output surged 6.8%, seasonally adjusted. That followed the 15.6% increase in December 2006. As a result, the year-on-year (yoy) rate reached growth of 9%.

Industrial confidence maintained at highest level in six years

Buoyant conditions are reflected in industrial confidence. According to the European Commission's measure for Irish industry, confidence has been above zero for nine months in a row. That is the longest run of positive readings in six years.

Figure 5: Industrial confidence (balance of respondents, 3mma)



Source: European Commission

But the industrial recovery is not broad-based. The basic chemicals sector, which accounts for about one-third of industrial output, is struggling. Elsewhere, software is booming. Yet the best guide to industry strips out those two volatile sectors, and the evidence from the rest of industry is encouraging.

- "Core" industry is growing at its fastest pace in five years

Excluding basic chemicals and software, the rest of industry saw its volume of output surge 11% in January. That was the third-biggest annual percentage increase in any month since March 2001 (the two even better months both occurred in 2006). Employment-wise, this portion of industry is much more important than chemicals and software combined, whose employment share is dwarfed by their output share. Therefore, it is not surprising that employment in industry rose 1.4% in Q4 2006, the fastest rate of growth since Q3 2001.

Goods exports sluggish due to huge stock build-up

- Goods export volumes increased only 0.5% in 2006

As more than 75% of Irish industrial turnover is exported, it typically follows that exports accelerate on the back of the industrial recovery. But that did not happen last year. In Q4 2006, the volume of goods exports *decreased* 2% yoy. For the full year, they nudged up only 0.5%.

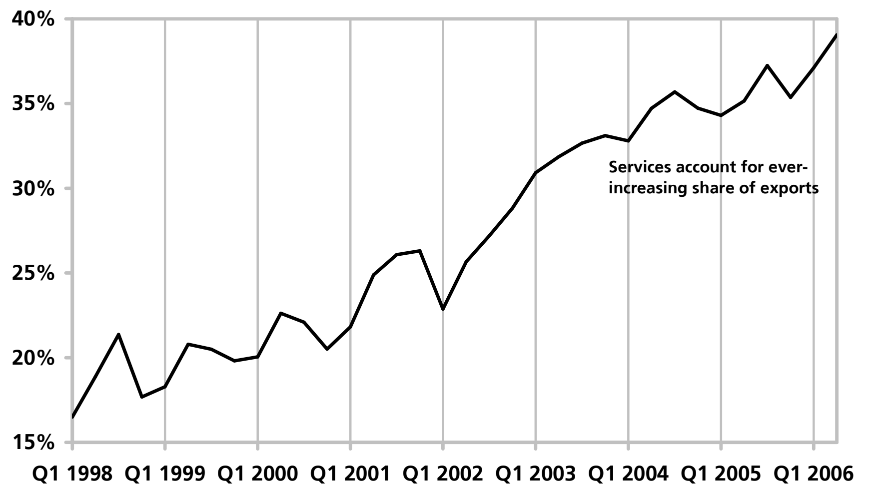
A massive build-up of stocks is the key explanation for the sluggish growth in goods exports. In 2006, stock-building amounted to €2bn in the economy, the bulk of it in industry. That is unprecedented in any year on record. The next highest of recent times was a €1.2bn increase in stocks in 2003. In Q4 alone, stocks rose by €567m, well in excess of the €153m increase in the same quarter of 2005.

We expect payback in 2007. Goods exports are likely to strengthen in the first half of the year, as industrial stocks are depleted. The UK and continental European economies – the destination for more than 60% of Irish goods exports – still have lots of momentum. As a result, we project that goods export volumes will grow much more quickly in 2007 than in 2006.

Services exports continue to grow their share of the total

Services make up the remainder and are continually expanding their share of total exports. In 2006, services exports surged 13% in volume – a five-year high. Services exports have doubled in the last five years, from €7bn per quarter to €14bn, and now account for 40% of total exports.

Figure 6: Services exports as a percentage of total exports (value)



Source: CSO

Many categories of services exports boomed. These included:

- Financial services up 28% yoy in value to almost €6bn.
- Business services jumped 27%. Note that these include some intra-company services of multinational manufacturing firms. So the growth in this category partly reflects the pick-up in industry.
- Tourism increased 9% in value to €4.2bn.
- Insurance rose 18% to €8bn; and
- Software distributed by electronic means grew 8%.

- **We forecast total export volume growth of 6% in 2007, up from 4.9% in 2006**

We reckon that the rate of increase in services will moderate slightly this year. In contrast, goods exports will expand at a more rapid pace. Our forecast is for total export growth of 6%. That would represent an improvement on the 4.9% rate recorded in 2006.

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