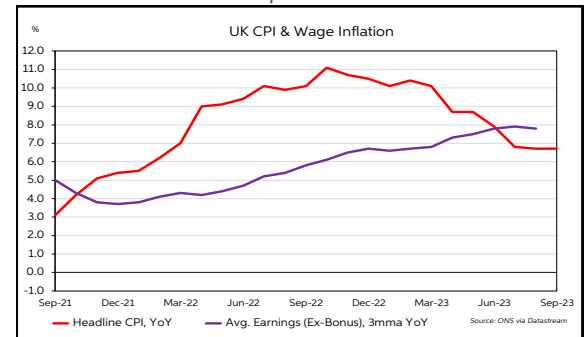


## A Taxing Matter

- The last three months have seen much lower than expected Irish corporation tax receipts, which fell by a third, or €2.3 billion, on the corresponding three-month period last year.** A big decline in receipts seems likely in November also, the most important month for payments. Both the output and exports from multi-national companies operating in the pharma and ICT sectors have fallen sharply this year and this is now being reflected in corporation tax receipts. Both these sectors saw exponential growth in 2021 and 2022. The output of multi-national manufacturing companies rose by 65% in 2021-22, while total goods exports grew by 45%. The surge was largely due to COVID, with a big jump in the production of vaccines, as well as semi-conductors. This saw an associated big rise in corporation tax receipts, which almost doubled from €11.8 billion in 2020 to €22.6 billion last year.
- Demand for these products has fallen off post-COVID, with high levels of inventories also being run-down.** Thus, output and exports from these two sectors have fallen back sharply in 2023, with corporation tax receipts declining as a result. This is not a major surprise. The Dept. of Finance has warned over the past couple of years that much of the surge in corporation tax receipts could well prove temporary or windfall in nature. It estimated that as much as €11 billion of corporation tax revenues could be at risk, or nearly half of the total collected in 2022. It is doubtful that revenues will fall back to this extent. CSO data show that the output of the multi-national sector in the first nine months of 2023 was still up by almost 50% on its level in 2020, and only 11% down on the 2022 figure.
- It should also be remembered that 2021 and 2022 were record years for inflows on new foreign direct investment into Ireland and these flows remained strong in the opening half of 2023.** Thus, the multi-national sector is still adding capacity. Meanwhile, it would appear that much of the growth in output in 2021-2022 was due to contract manufacturing abroad. The total value of Irish goods exports rose by €112 billion in 2021-22, but monthly external trade data for goods that actually moved over the frontier with a change of ownership show exports up by a far smaller €46 billion. This may help explain why there has not been a spill-over effect into employment and income tax receipts from the sharp fall in manufacturing output this year.
- There will of course be a negative impact on the public finances from lower than expected corporation tax receipts.** Fortunately, much of the surge in these receipts in 2021-22 was saved. A budget surplus of €8.5bn was recorded in 2022, up from €1.7bn in 2019, pre-COVID. There will be a decline in the budget surplus this year owing to the fall in corporate tax receipts, which could extend into 2024. However, revenues will be boosted next year by an increase in the corporate tax rate from 12.5% to 15% for larger companies, who account for the vast bulk of these receipts. Overall, while corporation tax receipts are falling back markedly, the public finances are in a strong position to absorb this given the large budget surplus. Furthermore, the decline will be partly offset by the hike in the tax rate on larger companies and continued expansion of multi-nationals' operations in Ireland.
- This week, a busy UK data schedule includes updates on the labour market and inflation.** Conditions in the labour market have softened in recent months but remain tight overall. The unemployment rate is still very low by historical standards, at 4.2% in the three months to August, but this is up compared to 3.5% in August 2022. The tight conditions are placing upward pressure on wages. Average earnings were up 8.1% y/y in the three months to August, although this is down from a peak of +8.5% y/y in July. The jobless rate is expected to remain at 4.2% in September, while average earnings are forecast to slow to 7.4%/y/y. Meantime, inflation continues to be elevated, with headline CPI at 6.7% in August and September. Core-CPI inflation fell to 6.2% in August and to 6.1% in September, down from 6.9% in June/July. However, a sharp drop in the headline rate to 4.8% is pencilled in for October, due to the increase in energy prices last year falling out of the calculation. The core rate is projected to ease also, to 5.8%. Elsewhere in the UK, a modest rebound in retail sales of +0.3% m/m is pencilled in for October.
- CPI inflation and retail sales also feature in the US this week.** Headline CPI inflation jumped to 3.7% in August and stayed at that level in September, up from 3.2% in July. The increase was largely due to a sharp rise in fuel prices, which jumped by 10.6% in August, and 2.1% in September. Meantime, core inflation has continued to trend lower, with core-CPI falling to 4.3% in August, and to 4.1% in September. The downtrend in the headline rate is expected to resume in October, with the rate declining to 3.3%, while the core rate is set to remain at 4.1%. Elsewhere, retail sales are forecast to fall by 0.1% in October, having rose strongly in Q3. Industrial production is also projected to contract in October, with output declining by 0.4% in the month. The US diary features a batch of housing market data as well. Efforts to avert a Government shutdown from Friday will also garner attention.
- In the Eurozone, the consensus is for a fall of 0.7% in industrial production in September.** This would leave output down by 6.3% y/y. Meanwhile, the second reading of Q3 GDP is set to confirm the economy contracted by 0.1% in the quarter.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
Fed Funds	5.375	5.375	5.375	5.375
ECB Deposit	4.00	4.00	4.00	4.00
BoE Repo	5.25	5.25	5.25	5.25
BoJ OCR	-0.10	-0.10	-0.10	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
EUR/USD	1.0670	1.07	1.08	1.10
EUR/GBP	0.8744	0.87	0.87	0.87
EUR/JPY	161.63	157	155	152
GBP/USD	1.2201	1.23	1.24	1.26
USD/JPY	151.47	147	144	138

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	de Guindos (Mon); Lane (Tue); <b>Lagarde</b> , de Guindos (Thu); <b>Lagarde</b> (Fri)		
	<b>BoE Speakers:</b>	Breedon, Mann, (Mon); Dinghra, Pill (Tue); Haskel (Wed); Ramsden (Thu); Greene, Ramsden (Fri)		
	<b>Fed Speakers:</b>	Mester, Goolsbee (Tue); Mester, Williams (Thu); Collins, Goolsbee, Daly (Fri)		
		<b>Asia-Pacific Economic Co-operation Conference (12th-18th November)</b>		
<b>Mon 13th</b>				
<b>Tue 14th</b>	<b>UK:</b>	07:00 ILO Unemployment Rate (September)	4.2%	4.2%
	<b>UK:</b>	07:00 Employment Change (September)	-82,000	-198,000
	<b>UK:</b>	07:00 Claimant Count (October)	+20,400	
	<b>UK:</b>	07:00 Average Earnings (September)	(+8.1%)	(+7.4%)
		- Ex-Bonus	(+7.8%)	(+7.7%)
	<b>EU-20:</b>	10:00 GDP (Q1: Flash Estimate)	-0.1% (+0.1%)	-0.1% (+0.1%)
	<b>EU-20:</b>	10:00 Employment (Q3: Flash Reading)	(+1.3%)	
	<b>GER:</b>	10:00 ZEW Economic Sentiment (November)	-1.1	5.0
	<b>US:</b>	11:00 NFIB Small Business Optimism (October)	90.8	
	<b>US:</b>	13:30 CPI Inflation (October)	+0.4% (+3.7%)	+0.1% (+3.3%)
		- Core-CPI	+0.3% (+4.1%)	+0.3% (+4.1%)
	<b>JPN:</b>	23:50 GDP (Q3: First Reading)	+1.2%	-0.1%
<b>Wed 15th</b>	<b>CHINA:</b>	02:00 Industrial Output (October)	(+4.5%)	(+4.3%)
	<b>CHINA:</b>	02:00 Retail Sales (October)	(+5.5%)	(+7.0%)
	<b>CHINA:</b>	02:00 Urban Area Unemployment Rate (October)	5.0%	
	<b>UK:</b>	07:00 CPI Inflation (October)	+0.5% (+6.7%)	+0.2% (+4.8%)
		- Core-CPI	+0.5% (+6.1%)	(+5.8%)
	<b>UK:</b>	07:00 PPI Output Prices (October)	-0.1% (+0.7%)	
		- PPI Input Prices (October)	+0.4% (-2.6%)	
	<b>FRA:</b>	07:45 Final HICP (October)	+0.2% (+4.5%)	+0.2% (+4.5%)
	<b>EU-20:</b>	10:00 Industrial Production (September)	+0.6% (-5.1%)	-0.7% (-6.3%)
	<b>IRL:</b>	<b>11:00 Residential Property Prices (September)</b>	<b>+0.3% (+0.9%)</b>	<b>+0.3% (+0.6%)</b>
	<b>US:</b>	13:30 NY Fed / Empire State Index (November)	-4.60	-2.60
	<b>US:</b>	13:30 PPI Final Demand (October)	+0.5% (+2.2%)	+0.1% (+1.9%)
		- Ex-Food & Energy	+0.3% (+2.8%)	+0.2% (+2.2%)
	<b>US:</b>	13:30 Retail Sales (October)	+0.7% (+3.8%)	-0.1% (+2.4%)
		- Ex-Autos	+0.6%	+0.1%
		- Control Group	+0.6%	
<b>Thu 16th</b>	<b>US:</b>	13:30 Initial Jobless Claims (w/e 6th November)	+217,000	
	<b>US:</b>	13:30 Philly Fed Index (November)	-9.0	-11.0
	<b>US:</b>	14:15 Industrial Production (October)	+0.3% (+0.1%)	-0.4% (-0.2%)
		- Capacity Utilisation	79.7%	79.4%
		- Manufacturing Output	+0.4%	
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (November)	40.0	40.0
<b>Fri 17th</b>	<b>UK:</b>	07:00 Retail Sales (October)	-0.9% (-1.0%)	+0.3% (-1.6%)
		- Ex-Fuel	-1.0% (-1.2%)	
	<b>EU-20:</b>	10:00 Final HICP Inflation (October)	+0.3% (+2.9%)	+0.1% (+2.9%)
		- Ex-Food & Energy (October)	+0.2% (+5.0%)	+0.2% (+5.0%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+4.2%)	+0.2% (+4.2%)
	<b>US:</b>	13:30 Housing Starts (October)	+1.358m / +7.0%	+1.345m / -1.0%
		- Building Permits	+1.471m / -4.5%	+1.450m / -1.4%

◆ Month-on-month changes (year-on-year shown in brackets)

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