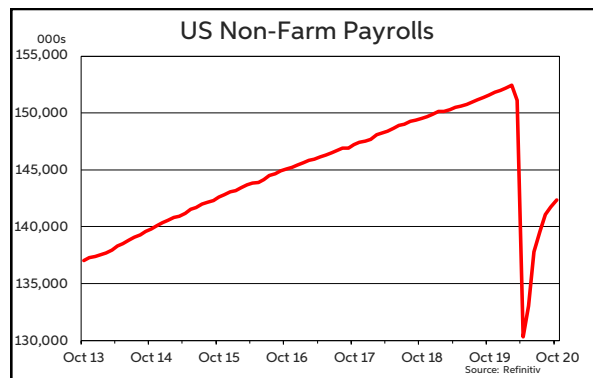


Don't Panic Mr. Mainwaring!

- **The UK Chancellor, Rishi Sunak, was quite stark in his presentation of the spending review this week, telling the nation that “our economic emergency has only just begun”.** This might come as a shock to people, given the latest official forecasts are that the UK economy is set to contract by 11.3% in 2020, the biggest decline for more than 300 years. One would hope that the economic emergency will soon be behind us, with vaccines starting to be rolled out in the months ahead that should provide the basis for a robust recovery in activity. The Chancellor's concerns, though, are with the state of the public finances, and that unemployment will pick up sharply next year as government supports are withdrawn. He warned that the public finances were “unsustainable over the medium term” and tough decisions would be required to bring down a large budget deficit. For now, though, the Chancellor is continuing to provide fiscal supports for the economy, announcing further spending increases that will raise the budget deficit to almost £400bn or 19% of GDP in FY 2020/21.
- **Treasury and Finance Ministers in other countries face similar daunting tasks in moving the public finances on to a more sustainable footing, though, few have as high a fiscal deficit as the UK.** However, patience is required in this regard. Central banks have been sending strong signals that monetary policy will not be tightened for a long time to allow economies recover fully from a very deep recession. A similar approach is required on the fiscal front too. The world economy is in a very deep hole and it will need time to climb out of it. Indeed, strong growth would be a big help in reducing budget deficits through the operation of automatic fiscal stabilisers on both the tax and spending sides.
- **The biggest mistake governments could make is falling into the trap of tightening fiscal policy aggressively too early in the recovery cycle.** The former President of the ECB, Mario Draghi, has argued strongly that public debt should be allowed to increase in this crisis as the alternative risks a “permanent destruction of capacity and therefore the fiscal base”, which would be much more damaging to the economy and eventually government finances over the medium term. A premature tightening of fiscal policy could certainly inflict even greater damage on economies and public finances. The very low interest rate environment means that governments can be patient about fiscal tightening. Long term borrowing can be done at very low interest rates, allowing governments to extend the maturity profile of debt out over many decades.
- **There is also considerable uncertainty about future economic growth.** The anticipated recovery in activity may turn out to be much stronger than expected over the next few years if vaccines prove successful in overcoming the Covid-19 pandemic. Strong growth would bring down budget deficits at a quicker than expected pace. Governments will be in a much better position in a couple of years' time to ascertain where the public finances really stand, rather than trying to second guess them at the bottom of the cycle. Dire warnings about the state of the public finances also risk further damaging already brittle economic confidence. Now is not the time for panic. Central banks have created very favourable financing conditions that allow governments pursue what one ECB board member called an “effective fiscal policy”. Central banks are prepared to give a robust recovery every chance of succeeding. Fiscal policy needs to be set on the same course in the next couple of years.
- **This week, US non-farm payrolls for November are due.** In October, payrolls surprised to the upside increasing by 638k (vs. 600k f'cast). However, the pace of rehiring has slowed markedly since the summer. Payrolls are forecast to have increased by 500K in November, suggesting that the downward trend in the pace of hiring has continued. Meanwhile, the unemployment rate is expected to edge lower to 6.7% from 6.9%. Considering the unemployment rate was 3.5% before the Covid-19 crisis, it is clear the labour market recovery has a long way to run still. The US schedule also contains the November readings of the ISMs. The forecast is for the manufacturing ISM to fall from 59.3 to 57.5, while the non-manufacturing ISM is projected to slip to 56.0 from 56.6, still strong levels.
- **In the Eurozone, the Flash reading of November HICP will feature.** The forecast is for the headline rate to remain negative at -0.2% as low energy prices continue to drag down inflation. It is envisaged that the core rate will stay at 0.2% in November as activity in the services sector, particularly in hospitality, leisure and tourism likely remained subdued following the re-introduction of lockdowns across the continent. The November print for unemployment is also due. The jobless rate is forecast to have edged higher to 8.4% from 8.3% as government support schemes continue to mask the full effect of the pandemic on the labour market. Eurozone retail sales for October are projected to rise by 0.5% m/m, having fell by 2% in September. This would lift retail sales 2.6% above their pre-pandemic level. **In the UK, house prices are forecast to have increased by 0.4% in November.** Finally in Ireland, **national accounts data for Q3 are due.** This should show a strong rebound in activity following the fall in output in Q2, most notably on the domestic side of the economy.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	2021	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.1944	1.18	1.20	1.22
EUR/GBP	0.8943	0.88	0.88	0.89
EUR/JPY	124.21	124	126	127
GBP/USD	1.3354	1.34	1.36	1.37
USD/JPY	103.99	105	105	104
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers: Lagarde , Panetta (Monday); de Guindos, Lagarde (Tuesday); Lane (Wednesday) BoE Speakers: Tenreyro (Monday) Fed Speakers: Powell , Brainard (Tuesday); Powell , (Wednesday); Bowman (Friday)				
Mon 30th	CHINA:	01:00	NBS Manufacturing PMI (November) - Non-manufacturing	51.4 56.2	51.5
	SPA:	08:00	Preliminary HICP (November)	+0.3% (-0.9%)	
	UK:	09:30	BoE mortgage Approvals (October)	91,454	85,000
	ITA:	10:00	Preliminary HICP (November)	+0.6% (-0.6%)	
	GER:	13:00	Preliminary HICP (November)	+0.0% (-0.5%)	+0.0% (-0.5%)
	US:	15:00	Pending Home Sales (October)	-2.2%	+1.0%
	JPN:	23:30	Unemployment / Jobs Applicant (October)	3.0% / 1.03	
	JPN:	23:50	Business Capex (Q3)	(-11.3%)	
Tue 1st	JPN:	00:30	Final Jibun Manufacturing PMI (November)	48.3	
	IRL:	01:01	AIB Manufacturing PMI (November)	50.3	
	UK:	07:00	Nationwide House Prices (November)	+0.8 (+5.8%)	+0.4% (+5.6%)
	ITA:	09:00	GDP (Q3: Final Reading)	+16.1% (-4.7%)	+16.1% (-4.7%)
	EU-19:	09:00	Final Markit Manufacturing PMI (November)	53.6	53.6
	UK:	09:30	Final CIPS / Markit Manufacturing PMI (Nov.)	55.2	55.2
	EU-19:	10:00	Flash HICP (November) - Ex-Food, Energy, Alcohol & Tobbaco	(-0.3%) (+0.2%)	(-0.2%) (+0.2%)
	US:	14:45	Final Markit Manufacturing PMI (November)	56.7	56.7
	US:	15:00	Construction Spending (October)	+0.3%	+0.8%
	US:	15:00	Manufacturing ISM (November)	59.3	57.5
Wed 2nd	GER:	07:00	German Retail Sales (October)	-2.2% (+6.5%)	+1.0% (+5.5)
	EU-19:	10:00	Producer Prices (October)	+0.3% (-2.4%)	+0.1% (-2.3%)
	EU-19:	10:00	Unemployment Rate (October)	8.3%	8.4%
	IRL:	11:00	Unemployment Rate (November) - Covid Adjusted Rate	7.3% 20.2%	
	IRL:	16:30	Exchequer Returns (November)	Nov'19: +€3.4bn	-€8.5bn
Thurs 3rd	JPN:	00:30	Final Jibun Services PMI (November)	47.7	
	IRL:	01:01	AIB Services PMI (November)	48.3	
	ITA:	08:45	Markit Composite PMI (November)	49.2	
	FRA:	08:50	Final Markit Composite PMI (November)	39.9	
	GER:	08:55	Final Markit Composite PMI (November)	52.0	
	EU-19:	09:00	Final Markit Composite PMI (November) - Services	45.1 41.3	45.1 41.3
	UK:	09:30	Final CIPS / Markit Composite PMI (November) - Services	47.4 45.8	47.4 45.8
	EU-19:	10:00	Retail Sales (October)	-2.0% (+2.2%)	+0.5% (+2.9%)
	US:	13:30	Initial Jobless Claims (w/e 23rd November)	778,000	
	US:	14:45	Final Markit Composite PMI (November) - Services	57.9 57.7	
	US:	15:00	ISM Non-Manufacturing (November)	56.6	56.0
Fri 4th	GER:	07:00	Industrial Orders (October)	+0.5%	+1.4%
	IRL:	11:00	National Accounts (Q3 2020) - GDP (Q3 2020)	-6.1% (-3.0%)	
	US:	13:30	Non-farm payrolls (November) - Unemployment Rate - Average Earnings	+638,000 6.9% (+4.5%)	+500,000 6.7% (+4.3%)
	US:	13:30	International Trade (October)	-\$63.9bn	-\$64.7bn
	US:	15:00	Factory Orders (October)	+1.1%	+0.9%

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

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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