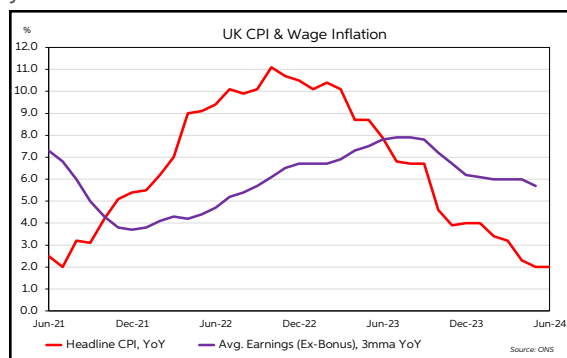


Should markets price in a US recession?

- **Given recent market gyrations, exacerbated by a weaker US payrolls number, it is worth asking whether the repricing of Fed futures markets for aggressive near-term rate cuts is warranted.** Currently, markets are pricing in nearly 100 bps of cuts by the Fed by end-2024, pulling back from the near 125bps of cuts priced in on Monday 5th following the equity market rout. However, while the US economy is slowing, there are, as yet, few signs that a recession is imminent.
- **As we discussed in last week's publication, the US economy has been slowing of late following the rapid consumer-led boom in 2022-23.** This was inevitable as US households ran down Covid-era savings, and a wage-price spiral failed to materialise on the back of high inflation, which might have sustained spending. Indeed, US household savings are now below where they were in 2019, meaning future consumer spending growth will be firmly tied to household earnings. In the labour market, jobs growth has clearly slowed in recent months, with downward revisions to payrolls growth in Q2 2024, and the below-consensus out-turn for July which spooked investors last week.
- **Digging into the payrolls data shows a general slowdown in private sector hiring, particularly in the retail sector, and potentially some weather-related effects.** However, an underappreciated driver of the slowdown has also been the pullback in hiring by the public sector in the US. In 2023, new Government payrolls averaged nearly 60k per month. This rapid growth was sustained into Q1 2024, but since April Government hiring has eased considerably, averaging just 17.5k per month.
- **The labour market might now be feeling the effects of the pass through of the fiscal stimulus enacted by President Biden in 2021/22, alongside the lagged effects of monetary tightening by the Fed on private sector hiring and investment.** As indicated by Chair Powell last week, the Fed is now placing greater store on a weakening labour market as its dual mandate "continues to move into better balance" and is set to cut at its next meeting. However, a 50bps cut is unlikely in September, unless a further sharp deterioration in payrolls comes through in August.
- **Turning to the week ahead, a busy UK data calendar will include updates on the labour market, inflation and economic growth.** In terms of the labour market, there have been some signs of softening this year. The unemployment rate has increased steadily from 3.8% in December to 4.4% in April and May. At the same time, average earnings growth remains elevated at +5.7% y/y in the three months to May, although, this partly reflects a significant increase in the minimum wage, which has provided a one-off boost to wage growth. The consensus is for the unemployment rate to continue to trend higher to 4.5%, while average earnings growth is forecast to slow to +4.6% y/y. Meantime, inflation has been in decline. Headline CPI fell to 2% in May, reaching the target for the first time since July 2021, while core-CPI dropped to 3.5% in May. Both measures were unchanged in June, and the core-rate is set to remain so in July, but the headline rate is expected to rise to 2.3%. Elsewhere, the first reading of Q2 GDP is also due. Encouragingly growth accelerated in the first quarter of 2024, with GDP rising by 0.7%, the fastest pace of expansion since Q4 2021. However, the monthly reading of GDP stagnated in April, before rising 0.4% m/m in May, yet survey data indicate the economy continued to expand at a solid pace in Q2. Overall, a 0.7% expansion in GDP is pencilled in for Q2. Meanwhile, retail sales are projected to rebound by 0.6% in July, having declined sharply by 1.2% in June.
- **In the US, retail sales data for July will also feature.** Sales have softened in recent months, falling by 0.2% in April, before rebounding by 0.3% in May, and stagnating in June. Encouragingly though, the control group measure of retail sales - a key core sales indicator - rose sharply in May and June. Both metrics are projected to increase by 0.3% and 0.1% in July. Meantime, industrial production figures for July will be released. Following a mixed Q1, production rose sharply in Q2. A slight 0.2% decrease is expected in July, meaning output would be 0.7% higher in year-on-year terms. **However, the main focus in the US will be the July reading of CPI inflation.** Price pressures were somewhat sticky in Q1, with headline CPI inflation rising to 3.5% in March. It fell throughout Q2 though, printing back at 3% in June, its lowest level in a year. At the same time core-CPI inflation has continued to slowly dissipate, edging lower in 17 of the last 21 months, and declining to 3.3% in June, its lowest reading since April 2021. The headline rate is set to remain at 3% in July, while core-CPI is forecast to edge down to 3.2%. In terms of more timely data, the preliminary reading of consumer sentiment and small business optimism for August are due.
- **In the Eurozone, the second reading of GDP is expected to confirm the economy expanded by 0.3% in Q2.** Meantime, Employment is projected to have continued to trend higher, rising by 0.2% q/q over the same period. Elsewhere, industrial production is forecast to rebound by 0.6% in June, albeit this would still leave output 2.9% lower in year-on-year terms.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.00	5.00	4.75	4.50
BoJ OCR	0.25	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0923	1.10	1.11	1.12
EUR/GBP	0.8558	0.87	0.87	0.88
EUR/JPY	160.18	160	159	158
GBP/USD	1.2762	1.26	1.28	1.28
USD/JPY	146.63	145	143	141

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:				
Mon 12th					
Tue 13th	UK:	07:00	ILO Unemployment Rate (June)	4.4%	4.5%
	UK:	07:00	Employment Change (June)	+19,000	
	UK:	07:00	Claimant Count (June)	+32,300	
	UK:	07:00	Average Earnings (June)	(+5.7%)	(+4.6%)
			- Ex-Bonus	(+5.7%)	(+5.4%)
	SPA:	08:00	Final HICP Inflation (July)	-0.7% (+2.9%)	-0.7% (+2.9%)
	GER:	10:00	ZEW Economic Sentiment (August)	41.8	32.0
	US:	13:30	NFIB Small Business Optimism (July)	91.50	
	US:	13:30	PPI Final Demand (July)	+0.2% (+2.6%)	+0.2% (+2.2%)
		- Ex-Food & Energy	+0.4% (+3.4%)	+0.2% (+2.7%)	
Wed 14th					
UK:	07:00	CPI Inflation (July)	+0.1% (+2.0%)	+0.1% (+2.3%)	
		- Core CPI	+0.2% (+3.5%)	-0.2% (+3.5%)	
		- Services CPI	+0.6% (+5.7%)		
	FRA:	07:45	Final HICP Inflation (July)	+0.2% (+2.6%)	+0.2% (+2.6%)
	EU-20:	10:00	GDP (Q2: Second Reading)	+0.3% (+0.6%)	+0.3% (+0.6%)
	EU-20:	10:00	Employment (Q2)	+0.3% (+1.0%)	+0.2% (+1.0%)
	EU-20:	10:00	Industrial Production (June)	-0.6% (-2.9%)	+0.5% (-2.9%)
	IRL:	11:00	Residential Property Price Index (June)	+0.1% (+8.2%)	+0.1% (+7.6%)
	US:	13:30	CPI Inflation (July)	-0.1% (+3.0%)	+0.2% (+3.0%)
		- Core CPI	+0.1% (+3.3%)	+0.2% (+3.2%)	
Thu 15th					
JPN:	00:50	GDP (Q2)	-0.7% (-2.9%)	+0.5% (+2.1%)	
	UK:	07:00	GDP (Q2: First Reading)	+0.7% (+0.3%)	+0.7% (+1.0%)
	UK:	07:00	GDP (June)	+0.4% (+1.4%)	+0.1%
	UK:	07:00	Industrial Output (June)	+0.2% (+0.4%)	+0.1% (-2.1%)
			- Manufacturing Output	+0.2% (+0.6%)	+0.1% (-2.4%)
	UK:	07:00	Goods Trade Balance (June)	-£17.9bn	
	US:	13:30	NY Fed / Empire State Index (August)	-6.60	-5.50
	US:	13:30	Initial Jobless Claims (w/e 5th August)	+233,000	
	US:	13:30	Philly Fed Index (August)	13.9	5.5
	US:	13:30	Retail Sales (July)	+0.0% (+2.3%)	+0.3% (+2.3%)
			- Ex-Autos	+0.8%	+0.1
			- Control Group	+0.9%	+0.1
	US:	14:15	Industrial Production (July)	+0.6% (+1.6%)	-0.2% (+0.7%)
			- Manufacturing Output	+0.4%	+0.1%
			- Capacity Utilisation	78.8%	78.5%
	US:	15:00	NAHB Homebuilder Sentiment (August)	42.0	43.0
Fri 16th					
UK:	07:00	Retail Sales (July)	-1.2% (-0.2%)	+0.6% (+1.6%)	
		- Ex-Fuel	-1.5% (-0.8%)	+0.8% (+1.4%)	
	EU-20:	10:00	Total Trade Balance (June)	+€12.3bn	
			- EuroStat Trade	+€13.9bn	
	US:	13:30	Housing Starts (July)	+1.35m / +3.0%	+1.33m / -1.7%
			-Building Permits	+1.45m / +3.9%	+1.43m / -1.7%
US:	15:00	Preli. Uni. Michigan Consumer Sentiment (Aug)	66.4	67.5	

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

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