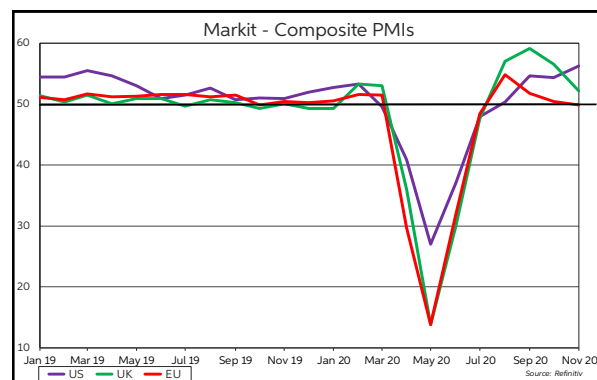


Blue Christmas Without You

- **With the EU-UK trade talks still deadlocked, preparations are being stepped up for a no-deal outcome and thus a hard Brexit.** Such an outcome would mean trade in goods being conducted under WTO rules, involving tariffs on some products. This would be on top of all goods becoming subject to customs clearance and thereby requiring documentation, with the UK's departure from the Customs Union at end 2020. Trade in services will also be negatively impacted by the UK's departure from the Single Market. Some of these negative impacts will arise even if there is a trade deal, but would be amplified under a hard Brexit. GDP growth can be expected to be significantly lower in the UK and Ireland over the next couple of years in such circumstances.
- **This follows a year when the world economy has endured a very deep recession.** It is now estimated that UK GDP will decline by over 11% in 2020. Irish domestic demand registered a 6.5% year-on-year fall in the first three quarters of 2020, not as much as feared, but still a major contraction. The expectation was for growth to rebound strongly in the UK and Ireland next year, but a hard Brexit is likely to dampen the pace of recovery significantly. Most forecasts are for the Irish economy to grow by circa 5% next year, assuming there is a trade deal. In the event on a hard Brexit, growth is expected to be around 2.5-3% in 2021.
- **The impact of a hard Brexit will not be felt evenly across the economy.** Sectors and businesses that are heavily reliant on sales into the UK market will be most severely impacted in terms of higher costs, a lower sterling and a weaker British economy. The agri-food industry is front and centre in this regard, with many agricultural goods attracting tariffs. Many other SMEs that export are also heavily reliant on the UK market. In total, the UK takes almost 40% of indigenous Irish exports. Other sectors such as tourism will be impacted, especially if sterling depreciates sharply, as happened post the UK referendum in 2016. Meanwhile, much of the retail sector here is very closely interlinked with the UK for supplies and in terms of ownership.
- **It has been over four years since the Brexit vote and it has been clear for some time that the UK will leave the Customs Union and Single Market at end 2020.** Thus, businesses have been preparing for this reality, which may help lessen the impact. Unlike Covid, it is not a bolt out of the blue. Government supports have been put in place and EU supports may also be available. On a medium term basis, Ireland will become an even more attractive destination for FDI, with its main rival the UK, completely outside the EU. The economy has also shown considerable resilience this year. Indeed, GNP is likely to be broadly unchanged in 2020. Thus like Covid, while some sectors will suffer a severe hit from a hard Brexit, the broader economy may be able to cope better than anticipated, especially if a strong global rebound takes hold in 2021-22.
- **This week, both the BoE and Fed will hold their latest monetary policy meetings.** The Fed is expected to keep policy on hold, although, it may unveil updated forward guidance regarding the asset purchase programme. This is likely to be outcome dependant guidance, which is expected to stress that purchases will be maintained until the economy has shown clear signs of recovery, echoing its updated guidance on interest rates. The BoE had been expected to remain on hold, following an increase in QE last month. However, if it is clear that we are facing a no deal Brexit, the MPC may well take action to support the economy. This could lead to an extension of its business lending programmes beyond next March, and an increase in QE, with a renewed focus on corporate bond purchases.



- **Data-wise, we get a raft of UK data. The highlight is the December flash PMIs.** The manufacturing PMI is expected to edge higher to 55.9 from 55.6 as the sector continues to perform well. The services PMI is forecast to move above 50 despite social distancing restrictions remaining in place. Staying with survey data, consumer confidence is projected to rise to -30 from -33 in December, although this remains a subdued level. In terms of hard data, it is envisaged retail sales fell by 3.3% m/m in November as the national lockdown dampened spending. CPI inflation is forecast to slip to 0.6% YoY in November. Meanwhile, the unemployment rate is forecast to have continued its upward trend, rising to 5.1% from 4.8% in October.
- **Across the Atlantic, flash PMIs also feature.** The forecast is for both the manufacturing and services PMIs to edge slightly lower due to the worsening pandemic in the US. In terms of hard data, it is envisaged retail sales fell by 0.4% in November, with ex-autos projected to be unchanged. On the supply side, industrial production is forecast to have increased by 0.3%, leaving output close to 5% below its pre-Covid level. Turning to the housing market, homebuilder sentiment is forecast to fall to 88 from 90 in December. **The highlight of the Eurozone calendar is again the flash PMIs.** Both manufacturing and services PMIs are expected to edge lower to 53.0 and 40.9 respectively, with services most effected by Covid restrictions. The latest reading of Eurozone industrial production is also due, with the forecast for output to have increased by 2.0% in October. Finally, the German Ifo is projected to edge lower in December to 90.5 from 90.7.

	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	1.2120	1.22	1.23	1.24
EUR/GBP	0.9169	0.90	0.90	0.90
EUR/JPY	125.93	127	127	127
GBP/USD	1.3217	1.36	1.37	1.38
USD/JPY	103.89	104	103	102
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers: Panetta, Schnabel (Monday); Lane (Tuesday); Lagarde , Panetta, de Guindos, Schnabel (Wednesday); Schnabel, de Guindos (Thursday) BoE Speakers: Fed Speakers: Brainard (Friday)				
Mon 14th	EU-19:	10:00	Industrial Production (October)	-0.4% (-6.8%)	+2.0% (-4.5%)
Tue 15th	UK:	07:00	ILO Employment (October) - Unemployment Rate	-164,000 4.8%	-250,000 5.1%
	UK:	07:00	Average Weekly Earnings (October) - Ex-Bonus	(+1.3%) (+1.9%)	(+2.3%) (+2.6%)
	UK:	07:00	Claimant Count (November)	-29,800	
	FRA:	07:45	Final HICP (November)	+0.2% (+0.2%)	+0.2% (+0.2%)
	ITA:	09:00	Final HICP (November)	+0.0% (-0.3%)	+0.0% (-0.3%)
	US:	13:30	NY Fed / Empire State Index (December)	6.3	6.0
	US:	14:15	Industrial Production (November) - Capacity Utilisation - Manufacturing Output	+1.1% (-5.3%) 72.8% +1.0%	+0.3% 73.0% +0.3%
	JPN:	23:50	Trade Balance (November) - Exports	¥872.9bn -0.2%	¥529.8bn +0.5%
Wed 16th	UK:	07:00	CPI (November) - Core	+0.0% (+0.7%) +0.2% (+1.5%)	+0.1% (+0.6%) +0.2% (+1.4%)
	UK:	07:00	PPI Output Prices (November) - Input Prices	+0.0% (-1.4%) +0.2% (-1.3%)	
	FRA:	08:15	Flash Markit Composite PMI (December)	40.6	40.8
	GER:	08:30	Flash Markit Composite PMI (December)	51.7	50.7
	EU-19:	09:00	Flash Markit Composite PMI (December) - Manufacturing / Services	45.3 53.8 / 41.7	 53.0 / 40.9
	UK:	09:30	Flash CIPS / Markit PMI (December) - Manufacturing / Services	49.0 55.6 / 47.6	51.3 55.9 / 50.5
	IRL:	11:00	Residential Property Prices (October)	+0.2% (-0.8%)	+0.1% (-0.8%)
	US:	13:30	Retail Sales (November) - Ex-Autos - Ex-Gas, Autos & Building Material	+0.3% (+5.7%) +0.2% +0.2%	-0.4% +0.0%
	US:	13:30	Flash Markit Composite PMI (December) - Manufacturing / Services	58.6 56.7 / 58.4	 55.8 / 56.5
	US:	15:00	NAHB Homebuilder Sentiment (December)	90	88
	US:	19:00	Fed Interest rate Announcement	0.00-0.25%	0.00-0.25%
	US:	19:30	Fed Press Conference		
Thurs 17th	EU-19:	10:00	Final HICP (November) - Core	+0.2% (-0.3%) +0.1% (+0.4%)	-0.3% (-0.3%)
	UK:	12:00	BoE Interest Rate Announcement	0.10%	0.10%
	US:	13:30	Housing Starts (November) - Building Permits	1.54m / +4.9% 1.53m / -0.1%	1.55m / +0.4% +1.518m / -0.8%
	US:	13:30	Initial Jobless Claims (w/e 7th December)	776,000	
	US:	13:30	US Philly Fed Index (December)	26.3	20.0
	JPN:	23:30	CPI (November) - Core	(-0.7%) -0.2%	(-0.9%)
Fri 18th	JPN:		BoJ Rate Announcement	-0.10%	-0.10%
	UK:	00:01	Gfk Consumer Confidence (December)	-33	-30
	UK:	07:00	Retail Sales (November) - Core	+1.2% (+5.8%) +1.3% (+7.8%)	-3.3% (+2.8%) -2.3% (+6.2%)
	GER:	09:00	German Ifo (December)	90.7	90.5

♦ 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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