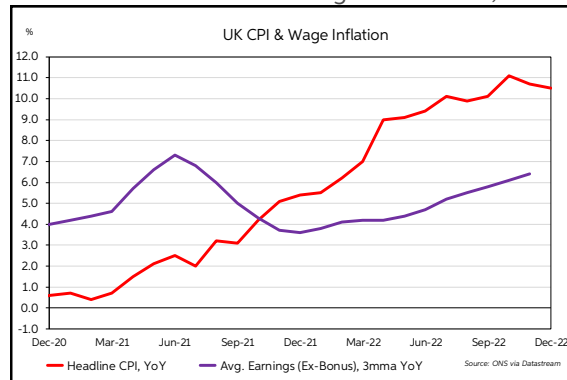


The Old Normal

- **Is the soft landing for the US economy, that even the US Federal Reserve had doubts could be achieved, coming into view for 2023?** US Treasury Secretary, Janet Yellen, seems to think so, saying earlier this week that she sees a path in which the US economy avoids recession, helped by a significant decline in inflation and a strong labour market. She proclaimed you don't have a recession when you have 500,000 jobs added in a month and "the lowest unemployment rate in more than 50 years". Her comments came after US non-farm payrolls unexpectedly expanded by 517,000 in January, well above the 185,000 consensus forecast, with the unemployment rate dropping to 3.4%, the lowest level since 1969.
- **Both the Household survey and data from Homebase also showed very strong growth in employment in January.** It could well be that the January data are an outlier, possibly impacted by favourable weather, and February delivers very soft numbers. Even allowing for a correction in February, though, the data point to continuing strong labour market conditions. We note also that weekly jobless claims have remained very low into early February, while the latest JOLT report showed a big jump in job vacancies at the end of 2022. Thus, a broad array of data are pointing to a continuing very strong US jobs market. Meanwhile, the ISM Services PMI rebounded strongly in January also, rising to 55.5 from 49.2 in December, suggesting the biggest sector of the US economy is regaining momentum after a weak finish to 2022.
- **The Fed may be continuing to hike rates thereby dampening activity, but other factors that support growth are coming into play.** Longer term interest rates have moved lower in recent months, with ten year Treasury yields declining to a 3.5-3.75% range from a peak of 4.25% in the autumn. Mortgage rates have fallen by 1% since the autumn, with mortgage applications rising in January. This should provide some support to the under-pressure housing market. US stock markets are also up by around 15% in the past three months. Meanwhile as noted by Janet Yellen, the US CPI inflation rate has fallen from a peak of 9.1% last summer to 6.5% at end 2022, with the downtrend set to continue in 2023, alleviating the pressure on real household incomes.
- **The strong labour market data have seen interest rate futures contracts harden, with the markets moving into line with the Fed view that the funds rate will rise to a 5.0-5.25% range in the coming months.** Fed Chair Powell does not seem overly concerned about the strong January employment data, noting that both wage growth and inflation have slowed in recent months even with continued strong job gains. He did repeat, though, that the data show why the Fed thinks the process of getting inflation back down to 2% will take some time. The Fed has been actively dampening down market expectations for rate cuts. Markets see US rates being cut to 3.25% by early 2025. However, if there is a soft landing by the economy and it remains close to full employment, why would the Fed lower rates significantly, even if inflation falls to 2%. Could we be returning to the 1990s, when interest rates of around 5% were the norm in the US?
- **This week, a busy UK data schedule includes updates on the labour market and inflation.** Similar to the US, conditions in the labour market are very tight in the UK. The unemployment rate has edged higher recently, but it was still at a very low 3.7% in November. The forecast is for the jobless rate to remain at 3.7% in December. Tight conditions have placed upward pressure on wages, which were up 6.4% y/y in November. They are projected to ease slightly to +6.2% y/y in December.
- **Meantime, CPI inflation fell to 10.5% in December, from 10.7% in November, and down from a peak of 11.1% in October.** The core rate was unchanged at 6.3% in December, just below its peak of 6.5% in September/October. A modest decline is pencilled in for both rates in January, with headline CPI falling to 10.2% and the core rate to 6.2%. Nevertheless, the rapid rise in prices in 2022 has weighed on retail sales, which have declined in nine of the past eleven months, including by 1% in December. They are forecast to fall by 0.5% in January.
- **In the US, the first CPI inflation reading of 2023 will garner close attention.** As mentioned, headline inflation has been in marked decline, falling to 6.5% in December. Core-CPI stood at 5.7% in December. The downward trend in inflation is expected to continue in January, with both the headline and core rates projected to move lower to 6.2% and 5.5%, respectively. Meanwhile, retail sales have softened in recent months, falling by 1% in November, and by 1.1% in December, with the control group measure contracting by 0.7% also. The consensus though, is for a significant 1.5% increase in headline retail sales in January. Likewise, industrial production declined in November and December, but a 0.5% rise is anticipated in January.
- **Industrial production data have been quite volatile in the Eurozone as of late.** Output rose by 0.8% in September, but fell by 1.9% in October, before rebounding by 1% in November. A fall of 0.8% in production is expected in December. Elsewhere, the second reading of GDP is set to confirm the Eurozone economy grew by 0.1% in Q4, and expanded by 3.4% overall in 2022.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2023	2023	2023
Fed Funds	4.625	4.875	5.125	5.125
ECB Deposit	2.50	3.00	3.50	3.50
BoE Repo	4.00	4.25	4.25	4.25
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 Q1	End Q2	End Q3
		2023	2023	2023
EUR/USD	1.0687	1.09	1.10	1.12
EUR/GBP	0.8835	0.88	0.89	0.89
EUR/JPY	140.19	141	140	140
GBP/USD	1.2093	1.24	1.24	1.26
USD/JPY	131.15	129	127	125
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Wed); Lane, Panetta (Thu)		
	BoE Speakers:		Pill (Thu)		
	Fed Speakers:		Bowman (Mon); Logan, Harker, Williams (Tue); Mester, Cook, Bullard (Thu); Barkin, Bowman (Fri)		
Mon 13th	JPN:	23:50	GDP (Q4: First Reading)	-0.2%	+0.5%
Tue 14th	UK:	07:00	Claimant Count (January)	19.7k	
	UK:	07:00	Employment Change (December)	27k	
	UK:	07:00	Unemployment Rate (December)	3.7%	3.7%
	UK:	07:00	Average Earnings (3mths to December)	(+6.4%)	(+6.2%)
			- Ex-Bonus	(+6.4%)	(+6.5%)
	EU-19:	10:00	Employment (Q4)	(+1.8%)	
	EU-19:	10:00	GDP (Q4: Second Reading)	+0.1% (+1.9%)	+0.1% (+1.9%)
	US:	13:30	CPI Inflation (January)	-0.1% (+6.5%)	+0.5% (+6.2%)
			- Core-CPI inflation	+0.3% (+5.7%)	+0.4% (+5.5%)
Wed 15th	UK:	07:00	CPI Inflation (January)	+0.4% (+10.5%)	-0.4% (+10.2%)
			- Core-CPI inflation	0.5% (+6.3%)	-0.5% (+6.2%)
	UK:	07:00	PPI Output Price (January)	-0.8% (+14.7)	
			- Input Price Inflation	-1.1% (+16.5%)	
	SPA:	08:00	Final HICP Inflation (January)	-0.5% (+5.8%)	-0.5% (+5.8%)
	EU-19:	10:00	Total Trade Balance (December)	-€15.2bn	
	EU-19:	10:00	Industrial Production (December)	+1.0% (+2.0%)	-0.8% (-0.6%)
	IRL:	11:00	Residential Property Prices (December)	+0.2% (+8.6%)	+0.2% (+7.7%)
	US:	13:30	NY Fed / Empire State Index (February)	-32.9	-20.0
	US:	13:30	Retail Sales (January)	-1.1% (+6.0%)	+1.5% (+4.6%)
			- Ex-Gas/Autos	-1.1%	+0.7%
			- Control	-0.7%	
	US:	14:15	Industrial Production (January)	-0.7% (+1.7%)	+0.5% (+1.8%)
			- Manufacturing Output	-1.3%	
			- Capacity Utilisation	78.8%	79.1%
	US:	15:00	NAHB Homebuilder Sentiment (February)	35	37
Thu 16th	IRL:	11:00	CPI (January)	-0.3% (+8.2%)	-0.6% (+8.0%)
			- HICP Inflation	-0.2% (+8.2%)	-0.8% (+7.7%)
	US:	13:30	Housing Starts (January)	+1.4m / -1.4%	+1.4m / -1.5%
			- Building Permits	+1.3m / -1.0%	+1.4m / +1.0%
	US:	13:30	Initial Jobless Claims (w/e 6th February)	+196,000	+200,000
	US:	13:30	Philly Fed Index (February)	-8.9	-6.7
Fri 17th	US:	13:30	PPI Final Demand (January)	-0.5% (+6.2%)	+0.4% (+5.4%)
			- Ex-Food & Energy	+0.1% (+5.5%)	+0.3% (+4.9%)
	UK:	07:00	Retail Sales (January)	-1.0% (-5.8%)	-0.5% (-5.5%)
			- Ex-Fuel	-1.1% (-6.1%)	+0.0% (-5.3%)
	FRA:	07:45	Final HICP Inflation (January)	+0.4% (+7.0%)	+0.4% (+7.0%)

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

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