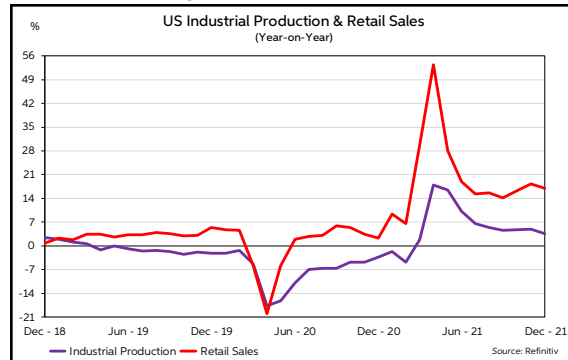


## Overcooked

- The Bank of England was quite downbeat on the prospects for the UK economy in the February Monetary Policy Report.** It expects the combination of tax hikes, high inflation, especially higher energy prices, as well as a tightening of monetary policy that will see mortgage rates rise, will deliver a major blow to real household disposable income, which could decline by circa 2% in 2022 and a further 0.5% next year. While a partial rundown of household savings, which were accumulated over the past two years, may cushion the blow somewhat, the BoE is anticipating a sharp slowdown in consumer spending. Brexit is also acting as a headwind for UK exports. As a result, the BoE is forecasting that GDP growth will decline to below trend, at 1.25% in 2023 and 1% in 2024, with the unemployment rate climbing from 4.1% currently to 5% in two years' time. It expects inflation will fall comfortably below target by 2024. Even if energy prices fall back, the Bank still sees GDP growth decelerating to a 1.25-1.5% range, with unemployment rising to 4.5%.
- The Bank forecasts are based on rates getting to 1.25% by end 2022 and 1.5% peak in mid-2023. Thus, current market pricing looks quite aggressive in terms of the scale of rate hikes this year,** even though the MPC came close to a 50bps hike this month. Markets are looking for a 50bps hike in March and 25bps at each of the next 3 meetings, taking rates to 1.75% by August and then near 2% by end year, with one further hike by mid-2023. This does not look consistent with the BoE view of the economy. It may be that UK markets are being overly influenced by the US. The US economy is expected to grow by 4% this year and 2.5% in 2023; headline and core CPI are at 7.5% and 6%, respectively, and the unemployment rate has fallen below 4%. Notably, the Chair of the Federal Reserve has warned that the fact the US economy is stronger, labour market tighter and inflation much higher than in the previous rate hike cycles, has important implications for the future course of monetary policy. Rates topped out at the 2.25-2.5% range in the last cycle. Thus, one would expect US rates to get to at least this level in this cycle.
- In the Eurozone, we will get updated ECB macro forecasts next month.** The core CPI rate is at 2.5%, much lower than the 6% rate in the US and 4.2% in the UK. The labour market is not as tight with the unemployment rate at 7% and no sign of the wage inflation that we are seeing in the US and UK. The ECB has repeated that rates will start to rise shortly after the end of asset purchases. It is expected that an acceleration of tapering will be announced at the March meeting that will see QE end over the summer. **Markets expect 25bps hikes in both September and December. This looks to be the upper limit of what the ECB is likely to do this year.** With core inflation not far above target, and a track record of very low inflation in the Eurozone for more than a decade, as well as subdued wage inflation, the ECB does not need to be overly aggressive in terms of the pace of rate increases. Indeed, comments from senior ECB officials this week also suggest they do not see a need for rapid rate hikes. One 25bps rate increase may be the most we get in 2022.
- Turning to the week ahead, there is a busy data schedule in the UK.** The main highlights will be the latest UK inflation and labour market data. Starting with the labour market, the conclusion of the furlough scheme has not led to a rise in unemployment. Indeed, the jobless rate fell to 4.1% in November. The consensus is that the jobless rate remained at 4.1% in December. However, there are signs that a shortage of workers is placing upward pressure on wages which are rising at circa 4% YoY, although, official earnings data remains distorted by composition effects. Meanwhile, in December, CPI inflation increased to 5.4% from 5.1%. The core rate rose to 4.2% from 4.0%. The forecast is for the headline rate to remain at 5.4% in January, with the core rate edging higher to 4.3%. However, it is envisaged that inflation will continue to rise in the months ahead. Elsewhere, retail sales are projected to increase by 0.6% in January, having plunged by 3.7% in December due to the Omicron wave.
- Retail sales data will also feature in the US.** Similar to in the UK, retail sales fell sharply in the US, by 1.9% in December, albeit from elevated levels. Headline retail sales are expected to jump by 1.6% in January, although, core sales (ex-autos) are forecast to grow more slowly, by 0.7%. Meanwhile, industrial production is projected to rise by 0.4% in January, having edged lower in December by 0.1%, due to a dip in manufacturing output (-0.3%). A slew of housing market data will be released as well, including housing starts, existing home sales (Jan) and homebuilder sentiment (Feb). The release of the latest Fed meeting minutes will garner close attention also.
- There is a quieter calendar in the Eurozone.** Industrial production is due, with a modest 0.3% rise in output pencilled in for December. More timely updates including Eurozone consumer sentiment and the German ZEW will be released also.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2022	2022	2022
Fed Funds	0.125	0.50	1.00	1.50
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.25	0.75	1.00	1.25
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
		2022	2022	2022
EUR/USD	1.1383	1.14	1.14	1.15
EUR/GBP	0.8383	0.84	0.84	0.85
EUR/JPY	131.91	131	131	131
GBP/USD	1.3577	1.36	1.36	1.35
USD/JPY	115.86	115	115	114
Current Rates Reuters, Forecasts AIB's ERU				

# ECONOMIC DIARY

## Monday 14th - Friday 18th February

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		<b>Lagarde</b> (Mon); <b>Lagarde</b> , Schnabel, Lane, de Cos (Thu); <b>Lagarde</b> (Fri)		
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>		Bullard (Mon); Bullard, Mester (Thu); Evans, Waller (Fri)		
<b>Mon 14th</b>	<b>JPN:</b>	23:50	GDP (Q4:Preliminary Reading)	-0.9% (-3.6%)	+1.4% (+5.8%)
<b>Tue 15th</b>	<b>UK:</b>	07:00	ILO Employment (December) - Unemployment Rate (December)	+60,000 4.1%	4.1%
	<b>UK:</b>	07:00	Average Weekly Earnings (3mths to Dec) - Ex-Bonus	(+4.2%) (+3.8%)	(+3.9%) (+3.6%)
	<b>UK:</b>	07:00	Claimant Count (January)	-43,300	
	<b>SPA:</b>	08:00	Final HICP (January)	-0.9% (+6.1%)	-0.9% (+6.1%)
	<b>EU-19:</b>	10:00	GDP (Q4: Second Reading)	+0.3% (+4.6%)	+0.3% (+4.6%)
	<b>GER:</b>	10:00	ZEW Economic Sentiment (February)	51.7	53.5
	<b>US:</b>	13:30	NY Fed / Empire State Index (February)	-0.70	10.0
	<b>US:</b>	13:330	PPI Final Demand (January) - Ex-Food & Energy	+0.2% (+9.7%) +0.5% (+8.3%)	+0.6% (+9.2%) +0.5% (+8.1%)
<b>Wed 16th</b>	<b>CHINA:</b>	01:30	PPI (January)	(+10.3%)	(+9.4%)
	<b>CHINA:</b>	01:30	CPI (January)	-0.3% (+1.5%)	+0.5% (+1.0%)
	<b>UK:</b>	07:00	CPI (January) - Core	+0.5% (+5.4%) +0.5% (+4.2%)	-0.2% (+5.4%) -0.4% (+4.3%)
	<b>UK:</b>	07:00	PPI Input Prices (January) - Output Prices	-0.2% (+13.5%) +0.3% (+9.3%)	
	<b>EU-19:</b>	10:00	Industrial Production (December)	+2.3% (-1.5%)	+0.3% (-0.8%)
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Price Index (December)</b>	<b>+1.2% (14.0%)</b>	<b>+1.0% (14.3%)</b>
	<b>US:</b>	13:30	Retail Sales (January) - Ex-Autos - Ex-Gas & Autos	-1.9% (+17.0%) -2.3% -2.5%	+1.6% (+10.5%) +0.7%
	<b>US:</b>	14:15	Industrial Production (January) - Manufacturing Output - Capacity Utilisation	-0.1% (+0.4%) -0.3% 76.5%	+0.4% 76.7%
	<b>US:</b>	15:00	NAHB Homebuilder Sentiment (February)	83	83
	<b>US:</b>	20:00	Fed Meeting Minutes (25th-26th January)		
	<b>JPN:</b>	23:50	Trade Balance (January) - Exports	-¥582.4Bn (+17.5%)	-¥1,607Bn (+16.5%)
<b>Thu 17th</b>	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (January 2022)</b>	<b>+0.5% (+5.5%)</b>	<b>+0.3% (+5.8%)</b>
	<b>IRL:</b>	<b>11:00</b>	<b>Labour Force Survey (Q4)</b>		
	<b>US:</b>	13:30	Housing Starts (January) - Building Permits	+1.7m / +1.4% +1.9m / +9.8%	+1.7m / +0.0% +1.8m / -5.3%
	<b>US:</b>	13:30	Philly Fed Index (February)	23.2	21.0
	<b>JPN:</b>	23:30	CPI (January) - Core	(+0.8%) (+0.5%)	(+0.6%) (+0.3%)
<b>Fri 18th</b>	<b>UK:</b>	06:00	Retail Sales (January) - Ex-Fuel	-3.7% (-0.9%) -3.6% (-3.0%)	+0.6% (+8.7%) -0.5% (+1.1%)
	<b>FRA:</b>	07:45	Final HICP (January)	+0.1% (+3.3%)	+0.1% (+3.3%)
	<b>EU-19:</b>	15:00	Flash Consumer Confidence (February)	-8.5	-8.0
	<b>US:</b>	15:00	Existing Home Sales (January)	+6.18m / (-4.6%)	+6.1m / (-1.0%)

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

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