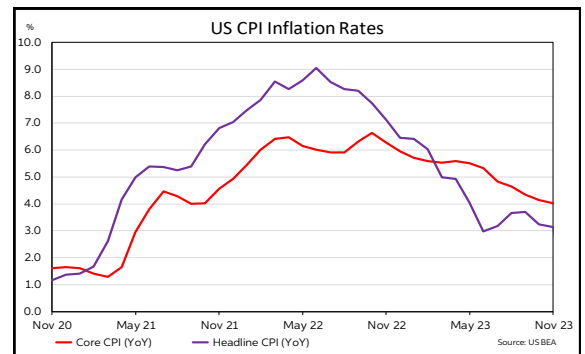


In Good Shape for 2024

- **The task of forecasting how the Irish economy will perform in 2024 is made all the more difficult by the contradictory indicators on its performance in 2023.** The headline growth figures point to a very weak outturn for last year. The latest data show that GDP declined by 1.3% year-on-year over the first three quarters of 2023. This reflected a sharp fall in output and exports in the pharmaceutical and technology sectors as activity returned to more normalised levels following its surge during the COVID pandemic. However, growth in modified domestic demand also slowed sharply to less than 1% year-on-year up to end September. Here again, though, investment by multi-national companies fell back from the very elevated levels reached in 2022.
- **Other indicators, though, point to a resilient performance by the economy in the face of higher interest rates and a slowdown in global growth.** Consumer spending rose by over 3.5% year-on-year in the first three quarters of 2023, while employment was up by close to 4% during this period. Exchequer Returns point to another large Government budget surplus of almost €8bn last year underpinned by solid wage growth of 6% in tax receipts. Meantime, inflation fell sharply over the course of the year to stand at 3.2% by December. Overall then, while the pace of economic activity slowed considerably last year from the very rapid growth rates seen in 2021 and 2022, the economy enters the new year in relatively good shape.
- **Turning to 2024, another year of sluggish growth is anticipated for the global economy, with demand dampened by the tightening of monetary policy in the past two years and cost-of-living pressures.** However, recent forecasts from the ESRI and Central Bank of Ireland (CBI) show they expect stronger Irish growth in the coming year, assuming the drag on output and investment in the multi-national sector abates. Carryover effects from the weakness of output in 2023 will depress annual growth rates in the early part of this year. The ESRI and CBI are projecting that growth in GDP and modified domestic demand will average in the range of 2.0-2.5% in 2024. The CBI also provides longer term forecasts and sees GDP growth picking up to 4.25-4.5% in 2025-26. Furthermore, labour market conditions are projected to remain tight out to 2026, with the unemployment rate staying below 5%. The downtrend in inflation evident over the past year is also expected to continue. The CBI sees HICP inflation rate averaging 2.3% this year, down from an average of 5.2% in 2023. It is projected to fall to circa 2% in 2025.
- **The CBI warns that the economic outlook is uncertain and its growth forecasts are subject to downside risks.** There are also domestic capacity constraints on growth in terms of a tight labour market, shortage of housing and pressures on the public infrastructure. Nonetheless, inflation is on the wane and interest rates are expected to be cut over the next couple of years. Combined with solid wage growth, this will boost real household disposable incomes. Fiscal policy is set to remain expansionary in the context of the healthy state of the public finances. The IDA also reports that the pipeline for FDI is reasonably strong heading into 2024. Private sector balance sheets remain characterised by low debt and high levels of savings. It is hardly surprising then, that the ESRI and Central Bank projections paint a favourable outlook for the economy in the period ahead.
- **Turning to the week ahead, the main release of note will be US CPI inflation for December.** Both headline and the core inflation fell sharply last year and are well below their peaks of 9.1% and 6.6% seen in 2022. However, the headline CPI rate has proven to be quite range bound, in a 3.1-3.7% corridor since mid-year. The recent stickiness in the headline rate can largely be attributed to a sharp rise in fuel prices in August/September. Meantime, core inflation has continued to trend lower, declining to 4% in October and remaining at that level in November. The consensus is for headline CPI to edge slightly higher to 3.2% in December from 3.1%, while the core rate is expected to inch lower to 3.9%. Elsewhere on the inflation front, US PPI is forecast to rise to 1.3% in December from 0.9%, owing to unfavourable base effects from a sharp drop in energy prices seen in December 2022.
- **In the UK, the highlight will be the monthly reading of GDP for November.** In October, GDP contracted by a larger than anticipated 0.3% m/m, pointing to ongoing weakness in economic activity. Indeed, while the UK looks to have avoided a recession that had been widely predicted in 2023, growth has largely flat-lined since Q1 2022. Worryingly, the weakness in October's GDP reading was broad-based, with production, construction and services output all declining. A rebound of 0.2% in GDP is pencilled in for November, meaning output would have declined by 0.1% overall in the three months to November. Meanwhile, industrial production, which has been very volatile over the past year, is projected to recover by a marginal 0.1% in November, after falling by 0.8% in October. This would leave industrial output 0.7% higher on a year-on-year basis.
- **In the Eurozone, the unemployment rate is forecast to stay at 6.5% for the third consecutive month in November.** Elsewhere, retail sales are projected to stay quite weak, stagnating in November. In terms of more timely indicators, the EU sentix is set to improve for a fourth month running to -15.5 in January, albeit this remains a relatively subdued level.



Interest Rate Forecasts				
	Current	End Q1	End Q2	End Q3
		2024	2024	2024
Fed Funds	5.375	5.375	4.875	4.375
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.00	4.50
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)				
	Current	End Q1	End Q2	End Q3
		2024	2024	2024
EUR/USD	1.0994	1.10	1.12	1.14
EUR/GBP	0.8610	0.86	0.86	0.86
EUR/JPY	158.35	156	154	150
GBP/USD	1.2764	1.28	1.30	1.33
USD/JPY	144.01	142	138	132

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos (Wed); Lane (Fri)		
	BoE Speakers:				
	Fed Speakers:		Bostic (Mon); Barr (Tue); Williams (Wed); Kashkari (Fri)		
Mon 8th	GER:	07:00	Trade Balance (November)	€17.8bn	€17.9bn
			- Exports	(-0.2%)	(+0.4%)
	GER:	07:00	Industrial Orders (November)	-3.7%	+1.0%
	EU-20:	09:30	Sentix Index (January)	-15.6	-15.5
	EU-20:	10:00	Retail Sales (November)	+0.1% (-1.2%)	+0.0% (-1.5%)
	EU-20:	10:00	Unemployment Rate (November)	6.5%	6.5%
Tue 9th	GER:	07:00	Industrial Output (November)	-0.4% (-3.4%)	+0.2% (-3.9%)
	US:	11:00	NFIB Small Business Optimism (December)	90.6	
	US:	13:30	International Trade (November)	-\$64.3bn	-\$65.0bn
	IRL:	11:00	Retail Sales (November)	-0.4% (-0.2%)	+0.5% (+0.8%)
Wed 10th	FRA:	07:45	Industrial Output (November)	-0.3% (+1.8%)	+0.3% (+0.4%)
	IRL:	11:00	Unemployment Rate (December)	4.8%	4.8%
Thu 11th	UK:	00:01	RICS Housing Survey (December)	-43.0	
	US:	13:30	CPI Inflation (December)	+0.1% (+3.1%)	+0.2% (+3.2%)
			- Core-CPI	+0.3% (+4.0%)	+0.2% (+3.9%)
	US:	13:30	Initial Jobless Claims (w/e 1st January)	+202,000	+215,000
Fri 12th	CHINA:	01:30	CPI Inflation (December)	-0.5% (-0.5%)	
	CHINA:	01:30	PPI Inflation (December)	(-3.0%)	
	CHINA:	03:00	Trade Balance (December)	+\$68.4bn	
			- Exports	(+0.5%)	
	UK:	07:00	GDP (November)	-0.3% (+0.3%)	+0.2% (+0.1%)
			- 3m/3m	+0.0%	-0.1%
	UK:	07:00	Industrial Output (November)	-0.8% (+0.4%)	+0.1% (+0.7%)
			- Manufacturing Output	-1.1% (-0.8%)	+0.3%
	FRA:	07:45	Final HICP Inflation (December)	+0.1% (+4.1%)	+0.1% (+4.1%)
	SPA:	08:00	Final HICP Inflation (December)	+0.0% (+3.3%)	+0.0% (+3.3%)
	US:	13:30	PPI Final Demand (December)	+0.0% (+0.9%)	+0.1% (+1.3%)
			- Ex-Food & Energy	+0.0% (+2.0%)	+0.2% (+2.0%)

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

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