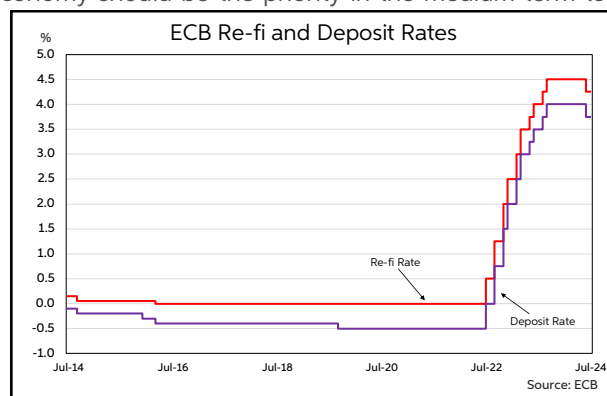


Goldilocks? Government sets Budget parameters

- **The recently released Summer Economic Statement set the boundaries for the upcoming Irish Budget in October, with the Government announcing a planned budget day package of €8.3bn (3% of GNI*).** The majority of this is for spending measures (€6.9bn) with the remainder (€1.4bn) expected to fund income tax cuts. While new spending measures are expected in October, the majority (€5.1bn) are already pre-announced or “stand-still” measures, including funding for the public sector pay agreement, and €1.5bn to meet the large deficit already built up in the health service in 2024, followed by an additional €1.2bn in 2025.
- **The Government’s budget strategy has attracted criticism from the Fiscal Advisory Council for being too expansionary in the context of an economy at full capacity.** Certainly, the continued running of underlying fiscal deficits (excluding excess corporation taxes) is a concern, with current expenditure growth consistently above the national “spending rule” of 5% per annum. However, last year’s announcement of the establishment of two sovereign wealth funds is to be welcomed, with the Government beginning to funnel some of the excess corporation tax receipts into these funds this year. Moreover, the early identification and plugging of the funding gap in Health at the mid-year instead of Budget day is a sensible move, but longer term spending restraint will be required in this area.
- **More broadly, the Irish economy continues to grow at a robust pace, yielding significant tax revenues for the Government.** Year-to-date, tax revenues are 9.3% higher compared to the same period in 2023. However, the growing reliance on multinationals to underpin the tax base remains the key threat to the highly-open Irish economy and the Government finances in the face of geopolitical risks and recent “de-globalisation” trends. A continued focus on improving Ireland’s debt dynamics, and targeted tax and spending measures which enhance the productive capacity of the economy should be the priority in the medium term to build up resilience to these potential global headwinds.
- **Turning to the week ahead, the focus will be on the latest ECB monetary policy decision.** The Governing Council cut interest rates by 25bps when it last met in June, and futures pricing indicates markets expect around 50bps of further policy easing between now and year end. **However, the meeting may turn out to be a non-event, with no changes to policy anticipated.** Indeed, President Lagarde appeared to rule out a July rate cut recently, stating, “it will take time for us (the ECB) to gather sufficient data to be certain that the risks of above-target inflation have passed”. Market expectations are also firmly for rates to remain on hold. Thus, the attention will be on any guidance in relation to a rate cut in September. Current futures pricing suggests investors see an 80% chance of a rate cut in September, with another expected in December. Meanwhile, on the data front in the Eurozone, the only release of note will be industrial production for May. Output declined by a modest 0.1% in April, and a sharper 1% m/m contraction is forecast in May.
- **Industrial production data will also feature in the US.** Following a mixed Q1, production stagnated in April before rising sharply by 0.7% in May. A further 0.3% increase is projected for June, meaning output would be 1% higher in year-on-year terms. Elsewhere in the US, retail sales figures for June are due. Retail sales have softened in recent months, falling by 0.2% in April and rebounding by just 0.1% in May. Similarly, the control group measure of retail sales - a key core sales indicator - declined by 0.5% in April and recovered by 0.4% in May. Both metrics are projected to stagnate in June. Meanwhile, in terms of the housing market, the latest housing starts (June) and homebuilder sentiment (July) data are due.
- **In the UK, a busy schedule includes updates on inflation, the labour market and the consumer side of the economy.** Inflation has been in decline so far in 2024, with the headline rate moving back to 2% in May, reaching the target for the first time since July 2021. Core-CPI inflation, which had been proving to be quite sticky, dropped to 3.5% in May, from 3.9% in April. However, services inflation remains very high, running at 5.7% in May, well above the BoE’s forecast of 5.3%. The consensus is for both the headline and core rates to be unchanged in June.
- **Meantime, conditions in the UK labour market have softened recently.** The unemployment rate stood at 4.4% in the three months to April, up from a low of 3.5% last year. Meanwhile, average earnings growth rose by a substantial 6.0% y/y in the three months to April, albeit this is the lowest pace of expansion since Q4 2022. The unemployment rate is forecast to stay at 4.4% in May, while average earnings growth is projected to slow to 5.7% y/y. Elsewhere, retail sales have been quite volatile this year, and this trend is set to continue at the end of Q2. Having contracted by 1.8% in April and expanded by 2.9% in May, a 0.4% fall is pencilled in for June. This would leave retail sales up by 0.2% y/y. However, the uptrend in consumer confidence is expected to continue, with a further improved forecast in July.



	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	5.25	5.00	4.75	4.50
BoJ OCR	0.10	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	1.0906	1.10	1.11	1.12
EUR/GBP	0.8396	0.87	0.87	0.88
EUR/JPY	172.11	171	170	168
GBP/USD	1.2987	1.26	1.28	1.28
USD/JPY	157.79	155	153	151

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers: Powell, Daly (Mon); Kugle (Tue) Logan, Daly (Thu); Bowman, Williams, Bostic (Fri)				
Mon 15th	EU-20:	10:00	Industrial Production (May)	-0.1% (-3.0%)	-1.0% (-3.9%)
	US:	13:30	NY Fed / Empire State Index (July)	-6.0	-6.0
Tue 16th	EU-20:	10:00	Total Trade Balance (May)	+€19.4bn	
	GER:	10:00	ZEW Economic Sentiment (July)	47.5	42.5
	US:	13:30	Retail Sales (June)	+0.1% (+2.3%)	+0.0% (+2.5%)
			- Ex-Autos	-0.1%	+0.1%
			- Control Group	+0.4%	+0.0%
	US:	15:00	NAHB Homebuilder Sentiment (July)	43.0	44.0
Wed 17th	UK:	07:00	CPI Inflation (June)	+0.3% (+2.0%)	+0.2% (+2.0%)
			- Core-CPI	+0.5% (+3.5%)	+0.1% (+3.5%)
			- CPI Services	(+5.7%)	(+5.6%)
	UK:	07:00	PPI Output Price Inflation (June)	-0.1% (+1.7%)	
			- PPI Input Price Inflation (June)	+0.0% (-0.1%)	
	EU-20:	10:00	Final HICP Inflation (June)	+0.2% (+2.5%)	+0.2% (+2.5%)
			- Ex-Food & Energy	+0.4% (+2.8%)	+0.4% (+2.8%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.3% (+2.9%)	+0.3% (+2.9%)
	IRL:	11:00	Residential Property Price Index (June)	+0.4% (+7.9%)	+0.3% (+8.3%)
	US:	13:30	Housing Starts (June)	+1.277m / -5.5%	+1.305m / +2.2%
			- Building Permits	+1.399m / -2.8%	+1.385m / -1.0%
	US:	14:15	Industrial Production (June)	+0.9% (+0.4%)	+0.3% (+%)
			- Manufacturing Output	+0.9%	
			- Capacity Utilisation	78.7%	78.6%
Thu 18th	UK:	07:00	ILO Unemployment Rate (May)	4.4%	4.4%
	UK:	07:00	Employment Change (May)	-140,000	+45,000
	UK:	07:00	Claimant Count (May)	+50,400	
	UK:	07:00	Average Earnings (May)	(+5.9%)	(+5.7%)
			- Ex-Bonus	(+6.0%)	(+5.7%)
	EU-20:	13:15	ECB Interest Rate Announcement		
			- Deposit Rate	3.75%	3.75%
			- Re-fi Rate	4.25%	4.25%
	EU-20:	13:45	ECB Post-meeting Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 8th July)	+222,000	
	US:	13:30	Philly Fed Index (July)	1.3	2.9
Fri 19th	UK:	00:01	Gfk Consumer Confidence (July)	-14.0	-12.0
	JPN:	00:30	CPI Inflation (June)	(+2.8%)	(+2.7%)
			- Core-CPI Inflation	(+2.5%)	
	UK:	07:00	Retail Sales (June)	+2.9% (+1.3%)	-0.4% (+0.2%)
			- Ex-Fuel	+2.9% (+1.2%)	-0.5% (-0.3%)

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

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