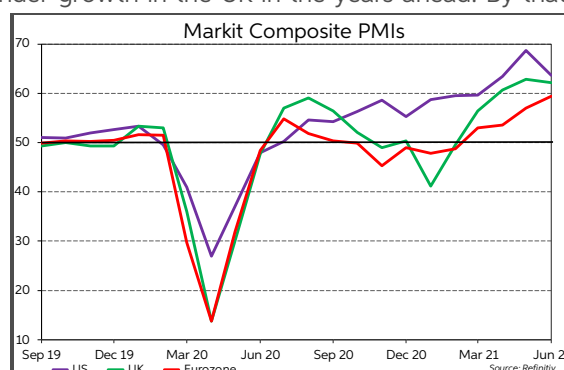


Sterling Performance

- **Similar to elsewhere, the dominate factor impacting the UK economy has been the Covid-19 pandemic.** Indeed, last year, the fall in UK GDP of 9.8% was bigger than the other main advanced economies. Meanwhile, the UK economy started 2021, like many other European countries, in a state of 'lockdown'. This was reflected in GDP declining by 1.5% in Q1. Not surprisingly given the type of restrictions in place, consumer spending was the main drag on growth, falling by 3.8% and knocking 2.4 percentage points off GDP. However, the rapid rollout of vaccines in the UK has seen restrictions lifted over recent months, leading to a sharp rebound in activity, helped by additional fiscal stimulus.
- **The most recent data, for May, saw the economy grow by 3.6% on a 3m/3m basis.** The economy is now circa 3% below its pre-Covid level. All forecasters are looking for a strong UK recovery in 2021-22, with growth projections being revised significantly higher in recent months. The OECD says the UK is likely to grow by 7.2% in 2021, up from its March projection of 5.1%, and is forecasting growth of 5.5% for 2022. Meanwhile, it is expected that the UK jobless rate will rise when the government's furlough scheme is wound up at the end of September. The economy is likely to be well into a robust recovery by that stage. Hence, forecasters have become more optimistic that UK unemployment will not rise to the levels previously anticipated, and now see the UK unemployment rate peaking at 6% in Q4 2021. In terms of inflation, the headline CPI rate rose to 2.5% in May, a near 3 year high. Higher commodity and energy prices, supply shortages, and the unwinding of the VAT cut have been key drivers in the spike higher in inflation. While, it is likely to continue to accelerate over the coming months, the general consensus is that the spike will be transitory.
- **Overall, the near term outlook for the economy looks very positive.** The quick pace of the vaccine rollout has allowed the economy to gradually re-open, with most domestic restrictions now removed. The Budget keeps supports in place beyond the re-opening, and introduces measures to boost investment. Thus, the economy appears to be in the midst of a strong economic rebound. However, longer term there are potential economic headwinds on the horizon that will need to be navigated carefully. The Delta variant has already delayed the full re-opening of the economy by a number of weeks, and failure to stop it spreading risks further challenges. Brexit could also dampen investment and trade over the medium term. Furthermore, to counterbalance increased spending, a host of tax hikes, including to corporation tax in 2023, are planned. These may hinder growth in the UK in the years ahead. By that stage global growth may have cooled somewhat as well.
- **Next week though, the main highlight from a macro perspective comes from the Eurozone, in the form of the July ECB policy meeting.** No new policy changes are envisaged. Indeed, the meeting was expected to be a damp squib, until the central bank announced the results of its strategic review recently. It will use the meeting to provide more clarity on how the new strategy will be implemented as monetary policy. The review resulted in the ECB altering its inflation target from "below, but close to 2%", to a symmetric 2% target. President Lagarde has also forewarned that the ECB will be changing the introductory statement, and has hinted that there may be changes to the banks forward guidance. With investors having to adjust to a different communication style and new forward guidance, there may be some volatility on markets. The new forward guidance may link the path of policy more closely to realised inflation rather than projections, reinforcing the ECB's dovish credentials in the current low inflation environment for the region.
- **Data-wise, the flash PMIs for the key advanced economies will feature.** Both the manufacturing and services PMIs in the US are projected to be broadly unchanged in July, remaining firmly in expansion mode. In the UK, the consensus is for the services and manufacturing sector readings to edge slightly lower, but remain above 60. Meanwhile, the Eurozone services PMI is set to rise further. The manufacturing PMI though, is forecast to dip slightly (but stay well above 50), in line with sector readings from elsewhere, as supply chains remain under severe pressure.
- **Elsewhere, consumer confidence in the Eurozone is expected to continue to trend higher in July.** Likewise in the UK, it is envisaged that consumer confidence rose in July. UK retail sales (June) are also due, and are projected to rise by a modest 0.5% in the month, having unexpectedly declined by 1.4% in May, largely due to a change in consumer behaviour, away from goods and towards services. Meanwhile, across the Atlantic we get an update on the housing market in the form of, existing home sales, housing starts (June), and homebuilder sentiment (July).



	Interest Rate Forecasts			
	Current	End Q3 2021	End Q4 2021	End Q1 2022
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 Q3 2021	End Q4 2021	End Q1 2022
EUR/USD	1.1798	1.19	1.18	1.17
EUR/GBP	0.8557	0.86	0.85	0.84
EUR/JPY	130.04	131	131	131
GBP/USD	1.3785	1.38	1.39	1.39
USD/JPY	110.21	110	111	112
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 19th - Friday 23rd July

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:		Haskel (Mon)		
	Fed Speakers:				
Mon 19th	US:	15:00	NAHB Homebuilder Sentiment (July)	81	82
Tue 20th	JPN:	00:30	CPI (June) - Ex-Food & Energy	-0.1% (+0.1%) +0.1% (-0.2%)	(+0.2%)
	GER:	07:00	Producer Prices (June)	+1.5% (+7.2%)	+1.2% (+8.5%)
	US:	13:30	Housing Starts (June) - Building Permits	+1.57m / +3.6% +1.68m / -2.9%	+1.59m / +1.3% +1.70m / +1.0%
Wed 21st	JPN:	00:50	Trade Balance (June) - Exports	-¥189.4bn (+49.6%)	+¥460.0bn (+46.2%)
Thu 22nd	FRA:	07:45	INSEE Business Climate (July)	107	108
	EU-19:	12:45	ECB Refi Rate (July) - Deposit Rate	+0.00% -0.50%	+0.00% -0.50%
	EU-19:	13:30	ECB Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 12th July)	+360,000	+350,000
	US:	15:00	Existing Home Sales (June)	+5.8m / -0.9%	+5.9m / +1.7%
	EU-19:	15:00	Flash Consumer Confidence (July)	-3.3	-2.5
Fri 23rd	UK:	00:01	Gfk Consumer Confidence (July)	-9	-8
	UK:	07:00	Retail Sales (June) - Ex-Fuel	-1.4% (+24.6%) -2.1% (+21.7%)	+0.5% (+9.6%) +0.7% (+7.8%)
	FRA:	08:15	Flash Markit Composite (July)	57.4	58.5
	GER:	08:30	Flash Markit Composite (July)	60.1	61.0
	EU-19:	09:00	Flash Markit Composite (July) - Manufacturing / Services	59.5 63.4 / 58.3	60.0 62.5 / 59.6
	UK:	09:30	Flash Markit Composite (July) - Manufacturing / Services	62.2 63.9 / 62.4	61.9 62.7 / 62.0
	US:	14:45	Flash Markit Composite (July) - Manufacturing / Services	63.7 62.1 / 64.6	 62.0 / 64.8

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

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