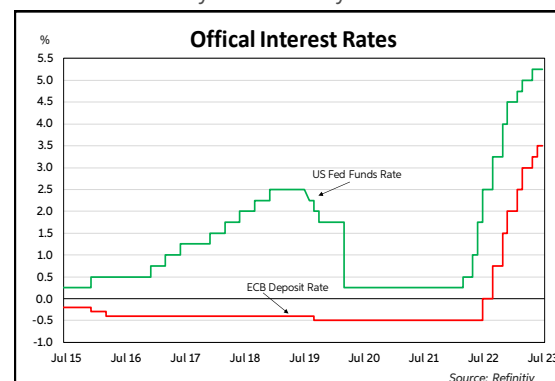


Looking Under the Bonnet

- **Recently published National Accounts data by the CSO underline the exceptional performance of the Irish economy in 2021 and 2022, as it rebounded strongly from the COVID-19 pandemic.** GDP increased by 15.1% in 2021 and 9.4% last year. Modified Gross National Income (GNI*), an indicator designed specifically to measure the size of the Irish economy excluding some of the effects of globalisation, rose by 13.9% in 2021 and 6.7% in 2022, having contracted by 3.6% in 2020. Meanwhile, modified domestic demand increased by 7.3% in 2021 and 9.5% last year, recovering well from a fall of 5.9% in 2020. Both exports and the domestic economy performed very strongly in 2021-22, helped by a robust global economy, record levels of foreign direct investment and the substantial amount of fiscal supports provided to households and businesses during the COVID-19 pandemic.
- **The backdrop is much less favourable for the Irish economy in 2023, with a slowdown in global growth, interest rates on the rise, high inflation, and significant capacity constraints emerging in the economy.** Data show a sharp fall in manufacturing output from the multi-national sector so far this year, after it surged in 2021-22. Corresponding to this, there have been marked declines of 18% and 34% in the value of pharmaceutical and electrical machinery exports, respectively, during the first five months of the year, from very elevated levels in 2022. Meantime, service exports have levelled off at a high level in recent quarters.
- **This weakness in exports points to a marked slowdown in the pace of growth in the Irish economy in 2023.** Indeed, GDP contracted by 2.8% in Q1, on the back of the fall in industrial production and weakness in external trade. These data are quite volatile and subject to significant revisions. Thus, the latest official forecasts show a divergence of views on the outlook for Irish GDP growth this year. The ESRI sees GDP rising by a meagre 0.1%, while the Central Bank is forecasting that it will increase by 5.3%. However, they are more aligned on modified domestic demand, which they both expect will grow by slightly above 3.5% in 2023.
- **As is widely acknowledged, GDP can give a misleading picture of the underlying performance of the Irish economy.** Hence, it is important to use a wide range of indicators in assessing how the economy is faring. In this regard, the data point to a strong first half of the year. Employment rose by 1.9% in Q1, while preliminary estimates are that the unemployment rate fell to an all-time low of 3.8% during Q2. Furthermore, housing completions continued to trend upwards in Q1, while there was a strong 18% rise in new car sales to mid-year, with core-retail sales showing steady growth. Meantime, high readings have been recorded for the services PMI year-to-date, while the inflow of FDI has remained strong. The strength of general activity has seen further good growth in tax revenues, which rose by 11% in H1 2023. Thus, while GDP growth may turn out to be relatively weak this year on the back of sluggish exports, the domestic economy is continuing to perform quite well.
- **This week, the US Fed, ECB and BoJ meet.** In June, the Fed opted to leave interest rates unchanged, but maintained a hawkish bias to tighten policy further. Meanwhile, the ECB hiked rates by 25bps in June. Furthermore, President Lagarde signalled another 25bps rate hike was likely in July. **Thus, it is widely anticipated that both central banks will raise rates by 25bps this week.** However, recently investors have reduced bets that the Fed will raise rates after this week's meeting, while the market has also become less sure that the ECB will hike rates in September. **Thus, the post-meeting press conferences, and any guidance on rates from either central bank will garner close attention.** Meantime, despite recent speculation to the contrary, the BoJ is now expected to leave its yield curve control policy unchanged this week.
- **Data-wise, a jam-packed US schedule this week, includes PCE inflation for June.** The headline PCE rate has been in marked decline now for a number of months, falling to 3.8% in May, from 4.3% in April, and down from a peak of 7% in June 2022. However, core-PCE has proven to be quite sticky, operating in a tight 4.6-4.7% range since last December. The consensus is for the headline rate to fall to 3.1% in June, with the core rate easing to 4.2%, consistent with the recent disinflationary trend in the core CPI and PPI inflation rates. In terms of wage inflation data, the quarterly employment cost index is forecast to rise by 1.1% in Q2. Meantime, the first reading of Q2 GDP is forecast to show the economy expanded by 1.6% annualised in the quarter, down from 2% in Q1.
- **Elsewhere, the flash PMIs for July, in the US, Eurozone and UK are due.** So far this year, a divergence in performance between the manufacturing and services sectors has materialised. The manufacturing sector has been quite weak, with the PMI printing in contraction territory across then board, throughout this year. The monthly readings deteriorated throughout Q2 also. In contrast, the services PMIs have been in expansion mode on both sides of the Atlantic for the past five months, although, the pace of growth slowed in June. **The divergence in performance is set to continue in July, with the manufacturing sector readings staying below 50, and the services PMIs remaining in expansion mode.** The EC economic sentiment indices for July are also due in the Eurozone. In terms of some key releases on a national level, a number of Eurozone countries publish flash HICP inflation for July, as well as first estimates of Q2 GDP. Notably, inflation in Germany and France is forecast to ease slightly in July, with Spanish HICP remaining low.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2023	2023	2024
Fed Funds	5.125	5.375	5.375	5.375
ECB Deposit	3.50	4.00	4.00	4.00
BoE Repo	5.00	5.50	5.75	5.75
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	End Q4	End Q1
		2023	2023	2024
EUR/USD	1.1120	1.12	1.13	1.14
EUR/GBP	0.8658	0.86	0.87	0.87
EUR/JPY	157.46	159	161	162
GBP/USD	1.2844	1.30	1.30	1.31
USD/JPY	141.57	142	142	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:				
	Spanish General Election (Sunday 23rd July)				
Mon 24th	JPN:	01:30	Flash Jibun Composite PMI (July)	52.1	
	FRA:	08:15	Flash HCOB Composite PMI (July)	47.2	47.8
	GER:	08:30	Flash HCOB Composite PMI (July)	50.6	50.3
	EU-20:	09:00	Flash HCOB Composite PMI (July)	49.9	49.7
			- Services / Manufacturing	52.0 / 43.4	51.5 / 43.5
	UK:	09:30	Flash CIPS / S&P Composite PMI (July)	52.8	52.4
			- Services / Manufacturing	53.7 / 46.5	53.0 / 46.1
	US:	14:45	Flash S&P Composite PMI (July)	53.2	52.9
			- Services / Manufacturing	54.4 / 46.3	54.1 / 46.1
Tue 25th	GER:	09:00	Ifo Business Climate (July)	88.5	88.0
	US:	15:00	Conference Board Consumer Confidence (July)	109.7	111.5
Wed 26th	FRA:	07:45	INSEE Consumer Confidence (July)	85.0	86.0
	EU-20:	10:00	M3 Money (June)	(+1.4%)	(+1.0%)
	IRL:	11:00	New Dwelling Completions (Q2)	Q2 2022: 7,637	7,500
	US:	19:00	Fed FOMC Interest Rate Announcement	5.00-5.25%	5.25-5.50%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 27th	GER:	07:00	Gfk Consumer Sentiment (August)	-25.4	-24.7
	ITA:	09:00	ISTAT Business Confidence (July)	100.3	99.8
	EU-20:	13:15	ECB Interest Rate Announcement		
			- Deposit Rate	3.50%	3.75%
			- Re-fi Rate	4.00%	4.25%
	US:	13:30	Durable Goods (June)	+1.8%	+0.5%
			- Ex-Transport	+0.7%	-0.1%
	US:	13:30	Initial Jobless Claims (w/e 17th July)	+228,000	+236,000
	US:	13:30	GDP (Q2: First Reading)	+2.0% s.a.a.r.	+1.6% s.a.a.r.
	EU-20:	13:45	ECB Post-Meeting Press Conference		
Fri 28th	JPN:		BoJ Interest Rate Decision	-0.10%	-0.10%
	JPN:	00:30	Tokyo CPI Inflation (July)	(+3.1%)	(+2.9%)
			- Ex-Food & Energy	(+3.2%)	(+2.9%)
	FRA:	06:30	GDP (Q2: Preliminary Reading)	+0.2% (+0.9%)	+0.1% (+0.5%)
	FRA:	07:45	Flash HICP Inflation (July)	+0.2% (+5.3%)	+0.1% (+5.0%)
	SPA:	08:00	Flash HICP Inflation (July)	+0.6% (+1.6%)	-0.5% (+1.7%)
	SPA:	08:00	GDP (Q2: Preliminary Reading)	+0.6% (+4.2%)	+0.5% (+2.0%)
	EU-20:	10:00	EC Economic Sentiment (July)	95.3	95.0
			- Industrial / Services / Consumer	-7.2 / 5.7 -16.2	-7.5 / 5.3 / -15.5
	IRL:	11:00	Retail Sales (June)	-1.6% (+5.1%)	+2.0% (+8.3%)
	IRL:	11:00	Flash HICP Inflation (July)	+0.8% (+4.8%)	+0.1% (+4.5%)
	IRL:	11:00	GDP (Q2: Preliminary Reading)	-2.8% (+2.2%)	-1.0% (-1.3%)
	GER:	13:00	Flash HICP Inflation (July)	+0.4% (+6.8%)	+0.5% (+6.6%)
	US:	13:30	Personal Income / Consumption (June)	+0.4% / +0.0%	+0.5% / +0.4%
	US:	13:30	PCE Price Index (June)	+0.1% (+3.8%)	+0.2% (+3.1%)
			- Core-PCE Index	+0.3% (+4.6%)	+0.2% (+4.2%)
	US:	13:30	Employment Cost Index (Q2)	+1.2%	+1.1%
			- Wages	+1.2%	
	US:	13:30	Final Uni. Michigan Consumer Sentiment (July)	72.6	72.6

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

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