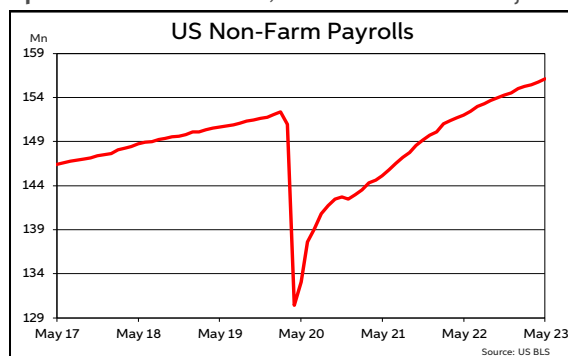


Long and Bumpy Road Ahead

- **Looking back over the first six months of 2023, many of the key advanced economies have performed better than anticipated.** Rampant inflation, aggressive interest rate hikes by Central Banks and elevated geopolitical tensions saw global economic growth slow notably over the course of 2022. However, economic data has tended to surprise to the upside of forecasts over recent months. Falling commodity and energy prices, a clear downward move in headline inflation, the re-opening of the Chinese economy, and continuing strong labour markets, have provided a supportive backdrop in the first half of the year. Although, GDP data for the first quarter showed that growth remained weak. Meanwhile, a new risk to the economic outlook emerged over the period, with stresses in parts of the global banking system acting as an additional headwind, especially in the case of the US economy.
- **The OECD, in its latest assessment of the economic outlook, released in early June, noted that the global economy faces a “long road ahead” to achieve strong and sustainable growth.** It also expects that the recovery will be weak compared to previous rebounds. In broad terms, it envisages a period of subdued growth and inflation remaining elevated. The OECD states that the impact of the marked and synchronised tightening of monetary policy during 2022 is likely to take ‘full effect’ on output over the course of this year and early next year, which could weigh most heavily on private investment. On the consumer side, the OECD envisages that, although household incomes remain under pressure, with lower commodity prices yet to be fully reflected in retail prices, the use of savings built up during the pandemic will help to support demand.
- **In terms of growth forecasts, it is projecting global growth at 2.7% this year, with a modest pick up to 2.9% in 2024.** These rates of growth are well below the average rate of 3.7% per annum in the decade that preceded the COVID-19 pandemic. Meantime, it anticipates unemployment to rise only marginally over the 2023-2024 period. On the inflation front, for OECD economies, it is projecting that headline inflation will still be above target, at 3.8% by Q4 2024. Core inflation is expected to remain sticky, averaging 6.5% this year and 4.5% in 2024.
- **Furthermore, the OECD continues to view the balance of risks as being to the downside.** Among the risks the organisation calls out, it highlights that inflation may prove to be more persistent than expected, with interest rates staying higher for longer as a result. It also acknowledges the risk that tighter financial conditions could result in stress in financial markets, as well as exacerbating vulnerabilities in emerging market economies. The OECD remains concerned too, that while the risk of a critical shortage of energy supplies has diminished, it has not disappeared. Overall then, the global economy faces not just a long, but a potentially bumpy road ahead, as it strives to move onto a stronger growth path.
- **Turning to the week ahead, the main highlight will be the US labour market report for June.** Overall, conditions in the US job’s market remain very tight, although, they have softened somewhat in recent months. Payrolls have increased by a robust 314k on average per month so far this year, but this is below the 400k average monthly expansion in 2022. Meantime, the unemployment rate edged higher to 3.7% in May, having operated in a narrow 3.4-3.6% range between January to April. At the same time, average earnings have been registering monthly growth of 0.3-0.4% since last August. In year-on-year terms though, average earnings have decelerated to +4.3% in May, down from +4.8% in December. The consensus is for a further slowdown in the pace of payroll growth in June, to 223k, from 339k in May. However, the unemployment rate is forecast to edge back to 3.6%, while average earnings are projected to rise by 0.3% again, with the year-on-year rate continuing its slowing trend, falling to 4.2%.



- **Elsewhere in the US, the latest Fed FOMC minutes from the June meeting will garner attention.** The Fed left policy on hold at the meeting, but indicated in its interest rate projections the possibility of a further 50bps in hikes this year. Since then, Chair Powell has reiterated that the Fed will likely raise rates twice more in 2023, although, other Fed officials have noted that additional rate hikes may not be needed. Thus, market participants will be paying close attention to the release of the minutes for insight on the future path of interest rates. Meanwhile, the manufacturing and non-manufacturing ISMs for June are due. Both indices are forecast to be little changed, with the former staying in contraction mode, and the latter just above the key 50 mark.
- **In the Eurozone, retail sales for May will feature.** Having declined in February and March, retail sales stagnated in April. A modest 0.2% rebound is pencilled in for May, although, this would still leave retail sales 2.7% lower year-on-year. Elsewhere, an update on conditions in German industry, which has struggled over the past year, in the face of higher energy costs and weaker exports will be provided this week. Industrial orders are expected to increase by 1.5%, but output is seen as falling by 0.1%, in May. **On the home front, the Exchequer Returns, unemployment rate and PMIs for June are due.**

	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	1.0925	1.11	1.13	1.14
EUR/GBP	0.8589	0.86	0.87	0.88
EUR/JPY	157.65	162	163	162
GBP/USD	1.2717	1.29	1.30	1.30
USD/JPY	144.29	146	144	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , de Guindos (Fri)		
	BoE Speakers:		Mann (Fri)		
	Fed Speakers:		Williams (Wed) Logan (Thu)		
Mon 3rd	IRL:	01:01	AIB Manufacturing PMI (June)	47.5	
	EU-20:	09:00	Final HCOB / S&P Manufacturing PMI (June)	43.6	43.6
	UK:	09:30	Final CIPS / S&P Manufacturing PMI (June)	46.2	46.2
	US:	14:45	Final S&P Manufacturing PMI (June)	46.3	46.3
	US:	15:00	Manufacturing ISM (June)	46.9	47.0
Tue 4th	US:		Independence Day (Market Holiday)		
	GER:	07:00	Trade Balance (May) - Exports	+18.4bn +1.2%	+0.3%
	IRL:	16:30	Exchequer Returns (June) - Excluding NRF Transfer	June 22: +€4.2bn	+€1.5bn +€5.5bn
Wed 5th	IRL:	01:01	AIB Services PMI (June)	57.0	
	FRA:	07:45	Industrial Output (May)	+0.8%	-0.2%
	ITA:	08:45	HCOB / S&P Composite PMI (June)	52.0	51.0
	FRA:	08:50	Final HCOB / S&P Composite PMI (June)	47.3	47.3
	GER:	08:55	Final HCOB / S&P Composite PMI (June)	50.8	50.8
	EU-20:	09:00	Final HCOB / S&P Composite PMI (June) - Final HCOB / S&P Services PMI (June)	50.3 52.4	50.3 52.4
	UK:	09:30	Final CIPS / S&P Composite PMI (June) - Final CIPS / S&P Composite PMI (June)	52.8 53.7	52.8 53.7
	EU-20:	10:00	Producer Prices (May)	-3.2% (+1.0%)	-1.8% (-1.3%)
	IRL:	11:00	Unemployment Rate (June)	3.8%	3.8%
	US:	15:00	Factory Orders (May) - Ex-Transport	+0.4% -0.2%	+0.8%
	US:	18:00	Fed FOMC Meeting Minutes (13-14th June)		
Thu 6th	GER:	07:00	Industrial Orders (May)	-0.4%	+1.5%
	EU-20:	10:00	Retail Sales (May)	+0.0% (-2.6%)	+0.2% (-2.7%)
	US:	13:15	ADP National Employment (June)	+278,000	+240,000
	US:	13:30	International Trade (May)	-\$74.6bn	-\$69.5bn
	US:	13:30	Initial Jobless Claims (W/e 26th June)	+239,000	+245,000
	US:	14:45	Final S&P Composite PMI (June) - Final S&P Services PMI (June)	53.0 54.1	53.0 54.1
	US:	15:00	Non-Manufacturing ISM (June)	50.3	51.0
	US:	15:00	JOLTS Job Openings (May)	+10.1m	
Fri 7th	GER:	07:00	Industrial Output (May)	+0.3% (+1.8%)	-0.1% (+0.9%)
	FRA:	07:45	Trade Balance (June) - Exports	-€9.7bn +€49.8bn	
	ITA:	07:45	Retail Sales (May)	+0.2% (+3.2%)	
	US:	13:30	Non-Farm Payrolls (June) - Unemployment Rate (June) - Average Earnings (June)	+339,000 3.7% +0.3% (+4.3%)	+223,000 3.6% +0.3% (+4.2%)

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

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