Glass Half Full at Half-Year

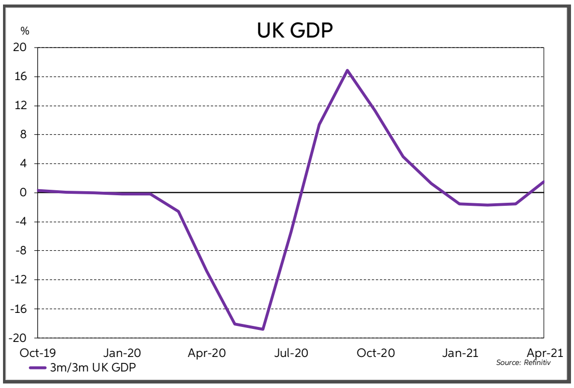
- **The past week has seen updated forecasts published by both the Central Bank and the ESRI on the prospects for the Irish economy.** Both strike very upbeat notes for a broad based, strong recovery in activity, with significant upgrades to their previous forecasts published only three months ago. The ESRI sees GDP growth at 11% this year, with the Central Bank at 8.3%. Robust growth is forecast to continue next year, with GDP predicted to rise by 6.9% and 5.4% by the ESRI and CBI, respectively. Further strong growth is expected in 2023, with the CBI forecasting GDP will rise by 4.8%. A very strong export performance is expected this year, and the domestic economy is also starting to pick up. The CBI is projecting that underlying domestic demand will grow by 4.5% on average between 2021-23.

- **There are a number of reasons for the forecast upgrades.** As elsewhere, the Irish economy performed better than expected in the opening quarter of the year, most notably in terms of exports. A key factor behind the upgrades is that the vaccination programme is proving highly successful and proceeding at pace, bringing about a marked improvement in the epidemiological situation. This has laid the basis for a sustained and robust recovery in activity, with indicators already pointing to a strong rebound in the second quarter. The external environment is also improving, with upgrades to global growth forecasts in both 2021 and 2022, which augurs well for Ireland's large export base. Additional fiscal measures have also been announced by the government in recent months, with supports for both households and businesses staying in place well after the economy has re-opened.

- **The Covid crisis, though, will leave scars on the Irish economy.** It has already resulted in big increases in the government budget deficit and public sector debt in 2020 and 2021. Of more concern are the negative impacts of the pandemic on the housing and labour markets. **The Covid crisis has accentuated the shortage of housing in Ireland, with the construction sector being put into lockdown in both 2020 and 2021.** The CBI is forecasting that housing completions will be around 20,000 units again in 2021 for the third year in a row, halting the clear uptrend in house building activity that had been in place in the years before the pandemic hit. Thus, new housing supply remains well below the estimated annual demand of 30,000 units. The CBI now expects 25,000 fewer completions over the period 2020-23 relative to pre-pandemic projections. The persistent imbalances in the market point to continued upward pressure on both house prices and rents.

- **In terms of the labour market, we won't get a clear picture of the damage done until government supports are phased out, in particular the Pandemic Unemployment Payment.** The CBI expects that by the time the PUP scheme is wound up next year, the number of people unemployed will be 100,000 higher than prior to the pandemic. It is forecasting that the unemployment rate will stand at 7% by end 2022 and 6.4% at end 2023, significantly above its end 2019 level of 4.8%. Still, this would be a much lower level of unemployment than in the wake of previous recessions. Following the financial crash, the unemployment rate reached 16%. Overall, as we reach the mid-point of 2021, looking back at the first half of the year and ahead to the second half, one can say the glass is half full rather than half empty.

- **Similarly, a robust recovery is expected in the UK this year.** Indeed, due to some better than expected data, the Bank of England revised higher its growth projections for Q2 to 5.5% from 4.25%. This week, the forecast is for monthly GDP data to show a 1.7% rise in output in May, lifting the 3m/3m growth rate to 3.9% from 1.5% also. Industrial production is projected to rebound by a more modest 1.5%, having slipped by 1.3% in April owing to a range of temporary factors. However, even with a 1.5% rise in May, industrial production would remain 1.7% below its pre-Covid level.



- **In the US, the minutes from the June FOMC meeting will be analysed intently following the more hawkish tone from the Fed.** At the June meeting, policymakers signalled that they may raise interest rates in 2023, sooner than they had previously guided. Thus, the minutes will likely gather more interest than usual, with particular attention also given to any mention of discussions around tapering. Elsewhere in the US, the non-manufacturing ISM is projected to edge lower in June to 63.5 from 64 in May.

- **The minutes from the June ECB monetary policy meeting will also feature.** Meanwhile, retail sales are set to jump by 4.4% in May as more restrictions were eased across the bloc. In terms of national data, German industrial output is forecast to rise by 0.5% in May, leaving production 5.1% below its pre-pandemic level still.

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	1.1827	1.19	1.18	1.17
EUR/GBP	0.8593	0.86	0.85	0.84
EUR/JPY	131.70	131	131	131
GBP/USD	1.3761	1.38	1.39	1.39
USD/JPY	111.34	110	111	112

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 5th - Friday 9th July

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Date		UK & Irish Time	Release	Previous	Forecast
This Week:	**ECB Speakers:**		**Lagarde,** de Guindos (Mon); de Guindos (Tue); **Lagarde,** Panetta, **Lagarde** (Fri)		
	BoE Speakers:		**Bailey** (Fri)		
	Fed Speakers:		Bostic (Wed)		
Mon 5th	**US:**		**Market Holiday**		
	IRL:	***01:01***	***AIB Services PMI (June)***	***62.1***	
	JPN:	01:30	Final Jibun Bank Services PMI (June)	46.5	46.5
	CHINA:	02:45	Caixin Services PMI (June)	55.1	55.1
	FRA:	07:45	Industrial Output (May)	-0.1%	+0.8%
	ITA:	08:45	Markit / IHS Composite PMI (June)	55.7	
			- Services PMI	53.1	56.0
	FRA:	08:50	Final Markit Composite PMI (June)	57.1	57.1
			- Services PMI	57.4	57.4
	GER:	08:55	Final Markit Composite PMI (June)	60.4	60.4
			- Services PMI	58.1	58.1
	EU-19:	09:00	Final Markit Composite PMI (June)	58.0	58.0
			- Services PMI	59.2	59.2
	EU-19:	09:30	EU Sentix Index (July)	28.1	30.0
	UK:	09:30	Final Markit / CIPS Composite PMI (June)	61.7	61.7
			- Services PMI	61.7	61.7
Tue 6th	**GER:**	07:00	Industrial Orders (May)	-0.2%	+1.3%
	GER:	10:00	ZEW Economic Sentiment (July)	79.8	75.4
	EU-19:	10:00	Retail Sales (May)	-3.1% (+23.9%)	+4.1% (+7.9%)
	US:	14:45	Final Markit / CIPS Composite PMI (June)	63.9	63.9
			- Services PMI	64.8	64.8
	US:	15:00	Non-Manufacturing ISM (June)	64.0	63.5
Wed 7th	**GER:**	07:00	Industrial Output (May)	-1.0% (+26.6%)	+0.5% (+17.0%)
	FRA:	07:45	Trade Balance (May)	-€6.2bn	
			- Exports	€40.6bn	
	ITA:	09:00	Retail Sales (May)	-0.4% (+30.4%)	
	US:	15:00	JOLTS Job Openings (May)	+9.3m	
	US:	20:00	FOMC Meeting Minutes (15-16th June 2021)		
Thu 8th	**JPN:**	06:00	Economy Watchers Poll (June)	38.1	
	GER:	07:00	Trade Balance (May)	€15.9bn	€15.9bn
			- Exports	+0.3%	+0.5%
	IRL:	***11:00***	***CPI (May)***	***+0.1% (+1.7%)***	***+0.3% (+1.7%)***
	EU-19:	13:30	ECB Meeting Minutes (9-10th June 2021)		
	US:	13:30	Initial Jobless Claims (w/e 28th June)	+364,000	+355,000
	US:	20:00	Consumer Credit (May)	+$18.6bn	+$18.3bn
Fri 9th	**CHINA:**	02:30	PPI (June)	(+9.0%)	(+8.8%)
	CHINA:	02:30	CPI (June)	-0.2% (+1.3%)	+0.0% (+1.4%)
	UK:	07:00	GDP (May)	+2.3% (+27.6%)	+1.7% (+20.4%)
	UK:	07:00	Industrial Output (May)	-1.3% (+27.5%)	+1.5% (+21.6%)
			- Manufacturing	-0.3% (+39.7%)	+1.0% (+29.5%)
	UK:	07:00	Goods Trade Balance (May)	-£11bn	-£11.1bn
			- Non-EU	-£5.5bn	
	ITA:	09:00	Industrial Output (May)	+1.8% (+79.5%)	+0.5% (+24.7%)

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