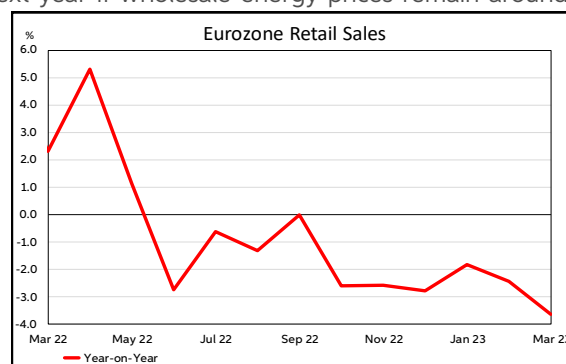


Inflation on the Wane

- **Inflation is clearly on the wane in Ireland, in line with the trend in most other economies.** Preliminary data for May show that prices rose by 0.3% in the month, with the annual rate of HICP inflation falling to 5.4%. This is down from 6.3% in April, 7.0% in March and 8.1% in February. It is the lowest rate of inflation since January 2022, and the rate is now well below the peak of 9.6% hit last summer. Meanwhile, the inflation rate in the Euro area fell to 6.1% in May from 7% in April and is now also well down on the peak of 10.6% reached last October. The primary reason for the fall in inflation is that the large increases in energy prices in the spring of last year have been dropping out of the annual rate in recent months, which combined with lower fuel prices, has pushed the headline rate downwards. Food price inflation is also starting to ease.
- **There have also been the first signs of an easing in core inflation recently, with the annual rate in the Euro area dropping for the second consecutive month in May to 6.9%, down from its recent peak of 7.5% in March.** The Irish core rate stood at 5.7% in May compared to 6.2% in March. Meantime, another large rise in energy costs in June of last year, as well as a big jump in food prices, will drop out of the annual rate this month, so a further sharp fall in the headline rate of inflation is in store for June. The Irish HICP rate could fall below 4.5%, while inflation in the Euro area may drop to near 5%.
- **Thereafter, the pace of decline in inflation is likely to slow considerably, but the signs are still that the headline rate will have moved significantly lower by the summer of 2024.** Large increases in energy bills last autumn will drop out of annual inflation rates later this year. Electricity and gas prices should fall next year as the forward contracts that energy suppliers locked into last year at high prices expire. Meanwhile, food price inflation should also moderate considerably over the coming twelve months. Food prices have risen at an average rate of over 1% per month since February 2022. Food commodity prices, though, have fallen by over 20% in the past year according to the FAO index and are now back at 2021 levels. Thus, there should be a marked moderation in retail food price inflation over the next twelve months.
- **The signals are more mixed on core inflation.** Non-energy goods price inflation has eased from 6.8% to 5.8% since February in the Euro area. PMI data for the manufacturing sector show that both input and output prices are now falling. Thus, goods price inflation should continue to decelerate. Service sector inflation, though, has remained sticky at around 5% in the Eurozone in recent months. Services PMI data show that price pressures remain elevated in the sector, with wage pressures intensifying amid a tight labour market. A study by the ECB also points to margin widening by firms. Hence, inflation is likely to be slower to fall in the services sector, which forms 44% of the consumer price index in the Euro area. Thus, although headline inflation could well fall to 2% next year if wholesale energy prices remain around current levels, core inflation is likely to take longer to decline.
- **Turning to the week ahead, there is a relatively quiet macro data schedule on both sides of the Atlantic.** In the Eurozone, Q1 GDP is projected to be revised slightly lower, from +0.1% q/q, to +0.0% q/q, as German and Irish GDP have been marked down for the quarter. However, the risks are to the downside of this forecast. Meantime, retail sales are expected to rise by 0.2% in April, having declined in three of the last four months, including by a substantial 1.2% in March. However, this would still leave the year-on-year rate down 3.0%. Elsewhere, producer prices, which have been in marked decline for a number of months now, are forecast to fall by 3.0% in April, with the year-on-year rate easing to 1.5% from 5.9% in March, and a peak of 43.4% last August. In terms of more timely data, the EU Sentix investor sentiment index is expected to deteriorate somewhat in June, from already quite subdued levels.
- **Meanwhile, German and Italian industrial output for April are due.** German industrial production rose by 2.4% in Q1, although, output plunged by 3.4% in the month of March. In contrast, Italian industrial production declined for the third quarter running, albeit by a modest 0.1%. It also fell by 0.6% m/m in March. The consensus is for German industrial production to rebound by 0.5% in April, and for Italian production to rise by 0.2% in the month.
- **In the US, the non-manufacturing ISM for May will be the highlight.** Having surprisingly moved into contraction territory for the first time in 31 months, at the end of last year, the non-manufacturing ISM has been in expansion mode so far throughout 2023. A moderate increase in the headline index to 52.2 from 51.9 is pencilled in for May. The “prices paid” sub-component will also garner attention, for any signs of a softening in inflationary pressures.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2023	2023	2023	2023
Fed Funds	5.125	5.125	5.125	4.875
ECB Deposit	3.25	3.50	3.75	3.75
BoE Repo	4.50	4.75	5.00	5.00
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 Q2	End Q3	End Q4
	2023	2023	2023	2023
EUR/USD	1.0747	1.09	1.11	1.13
EUR/GBP	0.8582	0.87	0.88	0.88
EUR/JPY	149.80	149	150	149
GBP/USD	1.2519	1.25	1.26	1.28
USD/JPY	139.37	137	135	132

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Mon); de Guindos, Panetta (Wed)		
	BoE Speakers:				
	Fed Speakers:				
			OECD Economic Outlook (Wed)		
Mon 5th	IRL:		June Bank Holiday		
	JPN:	01:30	Final Jibun / S&P Composite PMI (May)	56.3	56.3
	GER:	07:00	Trade Balance (April)	+€16.7bn	
	FRA:	08:50	Final HCOB / S&P Composite PMI (May)	55.3	55.3
	GER:	08:55	Final HCOB / S&P Composite PMI (May)	54.3	54.3
	EU-20:	09:00	Final HCOB / S&P Composite PMI (May)	53.3	53.3
			- Final HCOB / S&P Services PMI (May)	55.9	55.9
	EU-20:	09:30	Senitx Index (June)	-13.1	-15.0
	UK:	09:30	Final CIPS / S&P Composite PMI (May)	53.9	53.9
			- Final CIPS / S&P Services PMI (May)	55.1	55.1
	EU-20:	10:00	Producer Prices (April)	-1.6% (+5.9%)	-3.0% (+1.5%)
	US:	14:45	Final S&P Composite PMI (May)	54.5	54.5
			- Final S&P Services PMI (May)	55.1	55.1
	US:	15:00	Non-Manufacturing ISM (May)	51.9	52.2
Tue 6th	IRL:	01:01	AIB Services PMI (May)	58.4	
	GER:	07:00	Industrial Orders (April)	-10.7%	+3.5%
	EU-20:	10:00	Retail Sales (April)	-1.2% (-3.8%)	+0.2% (-3.0%)
Wed 7th	CHINA:	04:00	Trade Balance (May)	+\$90.2bn	
			- Exports	(+8.5%)	(-0.6%)
	GER:	07:00	Industrial Output (April)	-3.4% (+1.6%)	+0.5% (+1.1%)
	UK:	07:00	Halifax House Prices (May)	-0.3% (+0.1%)	+0.0% (-1.0%)
	IRL:	11:00	Industrial Production (April)	-38.1% (-26.3%)	+30.0%
	US:	19:00	International Trade (April)	-\$64.2bn	-\$75bn
	US:	20:00	Consumer Credit (April)	\$26.5bn	+\$20.0bn
Thu 8th	JPN:	00:50	GDP (Q1: Revised Reading)	+1.6% s.a.a.r.	+1.9% s.a.a.r.
	JPN:	06:00	Economy Watchers Poll (May)	54.6	
	EU-20:	10:00	Employment (Q1: Final Reading)	+0.6% (+1.7%)	+0.6% (+1.7%)
	EU-20:	10:00	GDP (Q1: Revised Reading)	+0.1% (+1.3%)	+0.0% (+1.2%)
	IRL:	11:00	CPI Inflation (May)	+0.5% (+7.2%)	+0.3% (+6.6%)
			- Final HICP Inflation	Flash: +0.3% (+5.4%)	+0.3% (+5.4%)
	US:	13:30	Initial Jobless Claims (w/e 29th May)	+232,000	+240,000
Fri 9th	CHINA:	02:30	CPI Inflation (May)	-0.1% (+0.1%)	
	ITA:	09:00	Industrial Output (April)	-0.6% (-3.2%)	+0.2% (-4.0%)

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

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