# Weekly Market Brief

AIB Treasury Economic Research Unit

1st – 5th May 2023

## Sweet Spot

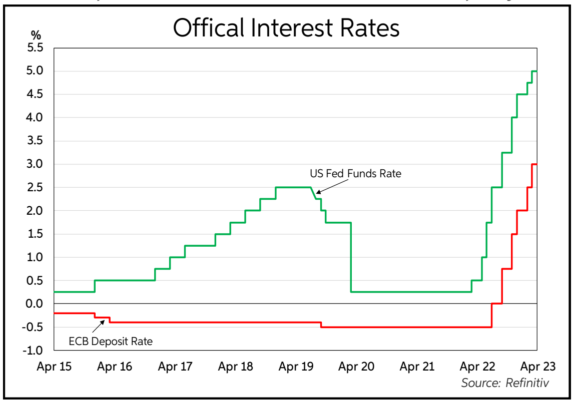
- **There has been a stream of good news flow on the Irish economy in recent weeks culminating in an upgrade to its sovereign debt rating to Aa3 from A1 by Moody's.** Despite the double shock of a sharp rise in inflation and much higher interest rates over the past year, as well as a marked slowdown in the global economy, the Irish economy continues to display considerable resilience. Data published for the opening quarter of the year show continuing very strong growth in tax receipts, a sharp jump in new car sales, unemployment remaining very low and a pick-up in PMI activity indicators. As anticipated, though, early estimates for first quarter GDP point to a marked slowdown in growth in 2023, compared to the 12% rise registered in 2022.

- **Nonetheless, with data remaining strong, there have been a raft of upgrades to Irish growth forecasts in the past month, most notably from the Central Bank, ESRI and Dept. of Finance.** GDP is now seen as expanding by circa 5.5% this year, with growth in 2024 and 2025 put in a 4-6% range. The domestic economy is seen as growing in a 2.5-4.0% range in the next couple of years. Meanwhile, the unemployment rate is projected to remain very low at 4.5% or below over the next three years, with inflation gradually falling back to close on 2%. The government budget surplus is projected to double from €8 billion last year to €16 billion in 2024. Altogether, this is very much a sweet spot in terms of economic performance.

- **Underpinning the Irish economy's strength and resilience are very strong financial fundamentals.** Ireland has been transformed into a low debt, high savings economy over the past decade. There has been an enormous amount of deleveraging in the aftermath of the Global Financial Crisis of 2008-2010, with debt metrics falling to very low levels. Meanwhile, the household savings ratio has risen to over 20%, reaching a peak above 30% during the COVID pandemic. The public finances have seen a return to large and rising budget surpluses, as well as sharply declining government debt ratios. High savings ratios are also resulting in very large balance of payments surpluses, projected at 11% of GDP this year by the Dept. of Finance.

- **The strength of the public finances means the government has been able to use fiscal policy to cushion the impact of the COVID pandemic and cost-of-living crisis on households and firms.** Combined with record levels of FDI, this has laid the basis for the recent very strong growth performance of the economy. A key issue now facing the economy is increasingly binding capacity constraints, most notably the very tight labour market, acute shortage of housing and growing pressures on public infrastructure and services. The emergence of a large budget surplus and high levels of savings means Ireland has the scope to take measures that can ease these capacity constraints, in particular through increased public investment. This would help lay the basis for continuing strong growth in the economy.

- **Turning to the week ahead, a busy schedule includes the May ECB and Fed monetary policy decisions, as well as some key inflation and labour market releases.** There has been some debate as to whether the ECB will vote to raise rates by 25 or 50bps. The March meeting saw the Governing Council hike rates by 50bps, and recent remarks from members of the hawkish camp illustrate that they are increasingly concerned that Eurozone inflation is becoming more entrenched. While headline HICP fell sharply in Q1, mainly due to base effects in energy prices, core inflation continued to accelerate. However, weaker than expected GDP growth in Q1, and some signs of easing in upstream inflationary pressures suggest the ECB may opt for a smaller 25bps rate hike. **Indeed, current market pricing is now leaning heavily towards a 25bps rate hike.**




- **The flash reading of HICP inflation for April, due before the ECB meeting, will have an important bearing on the ECB's decision.** The consensus is for the headline reading to edge slightly higher to 7% y/y from 6.9% y/y, while the core rate is projected to be unchanged at 5.7% y/y. The results of the Q1 Bank Lending Survey, due the same day as the inflation data, will highlight the impact of monetary tightening on credit conditions. Looking ahead, recent turmoil in the banking sector may also impact credit conditions as the year progresses. Meanwhile, the unemployment rate is forecast to stay at 6.6% in March.

- **Elsewhere, the Fed is expected to hike rates by 25bps, bringing the target range up to 5.00-5.25%.** The post-meeting statement and press conference will garner very close attention, as investors look for signs that rates could now be put on hold. The interest rate dotplot from March indicates that the FOMC sees rates rising to 5.00-5.25% and remaining there until year end. However, the market is currently pricing in policy easing in H2 2023, with rates being cut to circa 4.5% by year end. Key in determining if rate cuts will occur in H2 will be the strength of the labour market. **The US job's market report, due on Friday, is forecast to show payrolls expanded by 178k in April, compared to 236k in March.** A small rise in the unemployment rate to 3.6% from 3.5% is pencilled in, but average earnings growth is expected to remain at 4.2% y/y. Meantime, a slight improvement in both the manufacturing and non-manufacturing ISM is expected in April, albeit the former is set to remain well below 50, at 46.8.

Interest Rate Forecasts

| | Current | End Q2 2023 | End Q3 2023 | End Q4 2023 |
|---|---|---|---|---|
| Fed Funds | 4.875 | 5.125 | 5.125 | 4.625 |
| ECB Deposit | 3.00 | 3.50 | 3.50 | 3.50 |
| BoE Repo | 4.25 | 4.50 | 4.50 | 4.50 |
| 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 2023 | End Q3 2023 | End Q4 2023 |
|---|---|---|---|---|
| EUR/USD | 1.1013 | 1.11 | 1.13 | 1.14 |
| EUR/GBP | 0.8783 | 0.88 | 0.88 | 0.88 |
| EUR/JPY | 150.24 | 150 | 150 | 150 |
| GBP/USD | 1.2536 | 1.26 | 1.28 | 1.30 |
| USD/JPY | 136.48 | 135 | 133 | 132 |

Current Rates Reuters, Forecasts AIB's ERU

# ECONOMIC DIARY

## Monday 1st - Friday 5th May

AIB Treasury Economic Research

**Oliver Mangan** Chief Economist

**John Fahey** Senior Economist

**Daniel Noonan** Economist

| *Date* | *UK & Irish Time* | | *Release* | *Previous* | *Forecast* |
|---|---|---|---|---|---|
| **This Week:** | **ECB Speakers:** | | | | |
| | **BoE Speakers:** | | | | |
| | **Fed Speakers:** | | Cook, Bullard (Fri) | | |
| **Mon 1st** | ***IRL / UK / Most EU:*** | | ***May Bank Holiday*** | | |
| | **US:** | 14:45 | Final S&P Manufacturing PMI (April) | 50.4 | 50.4 |
| | **US:** | 15:00 | Manufacturing ISM (April) | 46.3 | 46.8 |
| **Tue 2nd** | ***IRL:*** | ***01:01*** | ***AIB Manufacturing PMI (April)*** | ***49.7*** | |
| | **GER:** | 07:00 | Retail Sales (March) | -1.3% (-7.1%) | +0.4% (-6.2%) |
| | **UK:** | 07:00 | Nationwide House Price (April) | -0.8% (-3.1%) | -0.3% (-3.6%) |
| | **EU-20:** | 09:00 | M3 Annual Money Growth (March) | (+2.9%) | (+2.5%) |
| | **EU-20:** | 09:00 | Bank Lending Survey (Q1) | | |
| | **EU-20:** | 09:00 | Final S&P Manufacturing PMI (April) | 45.5 | 45.5 |
| | **UK:** | 09:30 | Final CIPS /S&P Manufacturing PMI (April) | 46.6 | 46.6 |
| | **EU-20:** | 10:00 | Flash HICP (April) | +0.9% (+6.9%) | +0.7% (+7.0%) |
| | | | - Ex-Food & Energy | +1.2% (+7.5%) | +1.2% (+7.5%) |
| | | | - Ex-Food, Energy, Alcohol & Tobacco | +1.3% (+5.7%) | +1.0% (+5.7%) |
| | **ITA:** | 10:00 | Flash HICP (April) | +0.8% (+8.1%) | -0.1% (+7.8%) |
| | **US:** | 15:00 | JOLTS Job Openings (March) | +9.9m | |
| **Wed 3rd** | **ITA:** | 09:00 | Unemployment Rate (march) | 8.0% | 8.0% |
| | **EU-20:** | 10:00 | Unemployment Rate (March) | 6.6% | 6.6% |
| | **US:** | 13:15 | ADP National Employment (April) | +145,000 | +150,000 |
| | **US:** | 14:45 | Final S&P Composite PMI (April) | 53.5 | 53.5 |
| | | | - Final S&P Services PMI | 53.7 | 53.7 |
| | **US:** | 15:00 | Non-Manufacturing ISM (April) | 51.2 | 51.7 |
| | ***IRL:*** | ***16:30*** | ***Exchequer Returns (April)*** | ***Apr'22: -€1.1bn*** | ***-€3.0bn*** |
| | | | ***- Excluding transfer to NRF*** | ***Apr'22: -€1.1bn*** | ***+€1.0bn*** |
| | **US:** | 19:00 | Fed Funds Target Range (May) | 4.75-5.00% | 5.00-5.25% |
| **Thu 4th** | ***IRL:*** | ***01:01*** | ***AIB Services PMI (April)*** | ***55.7*** | |
| | **GER:** | 07:00 | Trade Balance (March) | +€16bn | +€16.1bn |
| | | | - Exports | +4.0% | -2.4% |
| | **ITA:** | 08:45 | S&P Composite PMI (April) | 55.2 | |
| | **FRA:** | 08:50 | Final S&P Composite PMI (April) | 53.8 | 53.8 |
| | **GER:** | 08:55 | Final S&P Composite PMI (April) | 53.9 | 53.9 |
| | **EU-20:** | 09:00 | Final S&P Composite PMI (April) | 54.4 | 54.4 |
| | | | - Final S&P Services PMI | 56.6 | 56.6 |
| | **UK:** | 09:30 | Final CIPS / S&P Composite PMI (April) | 53.9 | 53.9 |
| | | | - Final CIPS / S&P Services PMI | 54.9 | 54.9 |
| | **UK:** | 09:30 | Mortgage Approvals (March) | 43,536 | 46,000 |
| | **EU-20:** | 10:00 | Producer Prices (March) | -0.5% (+13.2%) | -1.6% (+6.2%) |
| | ***IRL:*** | ***11:00*** | ***Unemployment Rate (April)*** | ***4.3%*** | ***4.3%*** |
| | **EU-20:** | 13:15 | ECB Deposit Rate | 3.00% | 3.25% |
| | | | - Re-fi Rate | 3.50% | 3.75% |
| | **US:** | 13:30 | Initial Weekly Jobless Claims (w/e 24th April) | +230,000 | +243,000 |
| | **EU-20:** | 13:45 | ECB Press Conference | | |
| **Fri 5th** | **ITA:** | 09:00 | Retail Sales (March) | -0.1% (+5.8%) | |
| | **EU-20:** | 10:00 | Retail Sales (March) | -0.8% (-3.0%) | +0.0% (-3.1%) |
| | **US:** | 13:30 | Non-Farm Payrolls (April) | +236,000 | +178,000 |
| | | | - Unemployment Rate | 3.5% | 3.6% |
| | | | - Average Earnings | +0.3% (+4.2%) | +0.3% (+4.2%) |

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