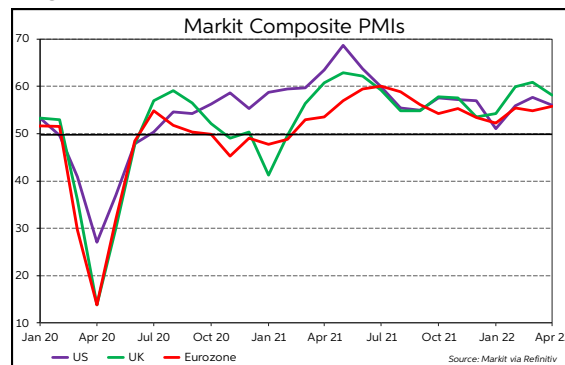


Slip-Sliding Away

- **The Eurozone economy grew by a subdued 0.3% in the first quarter of 2022, a repeat of its performance in the final three months of last year.** The weak performance reflected the impact of COVID restrictions on activity over the winter months, with rising inflation also weighing on spending power. The expectation was that activity would strengthen over the remainder of 2022 as activity rebounded from the Omicron-induced winter slowdown and inflationary pressures eased. The war in Ukraine, though, has completely changed the outlook for the Eurozone and broader EU economy, and growth is now expected to remain very subdued throughout the year. Further sharp increases in commodity prices, tightening financial conditions as interest rates rise, renewed disruptions in global supply chains and elevated uncertainty, are all set to hamper growth considerably during 2022.
- **This is reflected in the latest set of economic forecasts published by the European Commission.** It has slashed its growth forecasts for the Eurozone and EU economies to 2.7% in 2022 from 4.0% previously, and also lowered next year's GDP growth forecast to 2.3% from 2.75%. We can expect to see a similar reduction in the ECB's growth forecasts due next month. An annual growth rate of 2.7% in 2022 might seem reasonable, but in reality, it is largely due to positive carryover effects from 2021 when the economy grew by 5.4%. The EC estimates this carryover adds about 2 percentage points to the annual growth rate this year. The year-on-year growth in GDP is expected to slow to around 1% by the final quarter of 2022, which represents the actual output growth within the year. This is getting pretty close to stagflation, with the EC forecasting that inflation will average over 6% in the Eurozone this year.
- **In fact, the European economy could well move into recession this year, but for a number of factors supporting growth.** Firstly, the labour market is very strong, with employment rising by 0.5% in the first quarter amid high levels of unfilled vacancies and unemployment falling to a record low level. As a result, the EC sees wage growth of circa 4% this year, which combined with high levels of savings should help support consumer spending. Secondly, fiscal policy is also being loosened via government measures to mitigate the impact of higher energy prices, as well as increased spending on defence and humanitarian measures. This could add close to 1% to GDP. Thirdly, a bumper summer holiday season is anticipated after two years of COVID disrupted activity. Finally, investment will be supported by the full deployment of the EU's COVID recovery fund (RRF) and need to frontload green energy and energy-saving investment.
- **The EC's forecast of 2.3% growth for 2023 implies a marked strengthening of activity next year.** GDP would need to expand by 0.7-0.8% per quarter, with the growth rate picking up to circa 3% year-on-year by end 2023. This is crucially dependent on a sharp fall in inflation next year, which would allow a resumption of growth in real household incomes, as well as a decline in the savings ratio. It also assumes COVID-19 "does not pose significant disruptions" to economic activity in the EU and that there is solid growth in the world economy. Thus, the balance of risks surrounding this forecast is very much skewed to the downside, as the EC itself acknowledges.
- **In terms of more recent Eurozone data, the PMIs have been consistent with increased levels of activity in 2022, largely due to the removal of restrictions.** Underlying details though, indicate ongoing supply chain and price pressures. This week, the flash readings for May are expected to show both sector PMIs edging slightly lower. However, they are forecast to remain well above the key 50 level. **Elsewhere, a slew of other survey data from the large Eurozone economies are due.** The main highlight will be the German Ifo. The index is anticipated to inch down to 91.4 from 91.8 in May. Meanwhile, German consumer confidence (June), as well as French and Italian business and consumer sentiment (May) will garner some attention.
- **Similarly, in the US, the flash manufacturing and services PMIs are expected to decline in May but remain above 50, as they have done since July 2020.** Meantime, the Fed meeting minutes from the May FOMC will be released. Investors will be paying attention to any discussion around the pace of future rate hikes, with two 50bp increases expected in June and July. Critical to the path of further rate hikes will be the level of inflation in the US. In this regard, headline and core-PCE are projected to ease back to 6.3% and 4.9%, respectively in April, suggesting that inflation may have peaked. Meanwhile, consumption and income data for April are also due.
- **The flash PMIs for May are the only release of note in the UK.** Like elsewhere, they have been above the crucial 50 level year to date. The consensus is for this to remain the case in May, although, the indices are expected to move lower.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2022	2022	2022	2022
Fed Funds	0.875	1.375	2.125	2.625
ECB Deposit	-0.50	-0.50	0.00	0.25
BoE Repo	1.00	1.25	1.50	1.75
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 Q2	End Q3	End Q4
	2022	2022	2022	2022
EUR/USD	1.0557	1.05	1.06	1.07
EUR/GBP	0.8460	0.85	0.86	0.87
EUR/JPY	135.28	139	142	144
GBP/USD	1.2476	1.24	1.23	1.23
USD/JPY	128.12	132	134	135

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 23rd - Friday 27th May

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Lane, Panetta (Wed); lane (Fri)		
	BoE Speakers:		Bailey (Mon)		
	Fed Speakers:		Bostic (Mon); George (Wed)		
			World Economic Forum (22nd-26th May)		
Mon 23rd	GER:	09:00	German IFO (May)	91.8	91.4
Tue 24th	UK:	00:01	Rightmove House Price Index (May)	+1.6% (+9.9%)	
	JPN:	01:30	Flash Jibun Composite PMI (May)	51.1	
	FRA:	07:45	INSEE Business Sentiment (May)	108	107
	FRA:	08:15	Flash S&P Composite PMI (May)	57.6	57.3
	GER:	08:30	Flash S&P Composite PMI (May)	54.3	54.0
	EU-19:	09:00	Flash S&P Composite PMI (May)	55.8	55.3
			- Manufacturing / Services	55.5 / 57.7	54.9 / 57.5
	UK:	09:30	Flash S&P / CIPS Composite PMI (May)	58.2	57.4
			- Manufacturing / Services	55.8 / 58.9	55.1 / 57.3
	US:	14:45	Flash S&P Composite PMI (May)	56.0	
			- Manufacturing / Services	59.2 / 55.6	58.0 / 55.3
	US:	15:00	New Home Sales (April)	+0.8m / -8.6%	+0.7m / -2.0%
Wed 25th	GER:	07:00	GDP (Q1: Detailed Reading)	+0.2% (+4.0%)	+0.2% (+4.0%)
	GER:	07:00	Gfk Consumer Sentiment (June)	-26.5	-26.0
	FRA:	07:45	Consumer Confidence (May)	88	89
	US:	13:30	Durable Goods (April)	+1.1%	+0.6%
			- Ex-Transport	+1.4%	+0.6%
	US:	19:00	Fed Meeting Minutes (3rd-4th May)		
Thu 26th	GER/FRA/OTHER EU: Ascension Day (Market Holiday)				
	ITA:	09:00	ISTAT Business Confidence (May)	110.0	109.0
	ITA:	09:00	Consumer Confidence (May)	100.0	100.5
	IRL:	11:00	Labour Force Survey (Q1)		
	US:	13:30	GDP (Q1: Second Reading)	-1.4% s.a.a.r.	-1.3% s.a.a.r.
	US:	13:30	PCE Prices (Q1: Second Reading)	+7.0% s.a.a.r.	+7.0% s.a.a.r.
			- Core-PCE	+5.2% s.a.a.r.	+5.2% s.a.a.r.
	US:	13:30	Initial Jobless Claims (w/e 16th May)	+218,000	
	US:	15:00	Pending Home Sales (April)	-1.2%	-1.7%
Fri 27th	SPA:	08:00	Retail Sales (April)	(-4.2%)	
	EU-19:	09:00	M3 Annual Growth (April)	(+6.3%)	(+6.3%)
	US:	13:30	Personal Income / Consumption	+0.5% / +1.1%	+0.6% / +0.7%
	US:	13:30	PCE Prices (April)	+0.9% (+6.6%)	+0.2% (+6.3%)
			- Core-PCE	+0.3% (+5.2%)	+0.3% (+4.9%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (May)	59.1	59.1

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

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