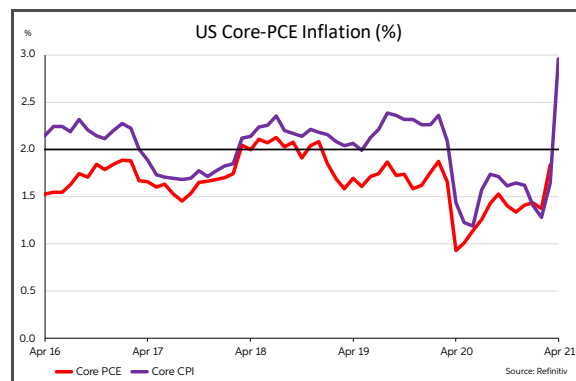


Irish Inflation Moving into the Fast Lane

- **Inflation is picking up globally and Ireland is proving no exception.** A large part of the rise in inflation now underway is due to an unwinding of sharp price falls that occurred last year during the first wave of the pandemic, especially in energy prices. The Irish CPI rate stood at 1.3% at the start of 2020 and subsequently fell to a low of -1.5% by last October, before finishing the year at -1%. The CPI rate has picked up sharply in the first four months of 2021, reaching 1.1% by April. However, excluding energy, the rise in the CPI rate has been much less pronounced, increasing to 0.4% last month from -0.4% in December. Furthermore, much of this rise in non-energy prices is due to the unwinding of last summer's cut in the standard VAT rate.
- **An inflation rate of 1% is not going to set any alarm bells ringing, but the Irish rate could well climb to 3% or above by the autumn.** Ireland will not have seen an inflation rate like this since 2008. There are further unfavourable base effects to come in the months ahead from the energy price declines of last year, as well as the VAT cut and other price falls in 2020, such as on clothing, rents and airfares. There is also upward pressure emerging on global prices in 2021 as economies re-open, with demand rebounding much more quickly than supply. This is being most acutely felt in commodity, raw material and other input prices in the manufacturing and construction sectors. It reflects disruptions to production, as well as bottlenecks in supply chains, including in transportation, with considerable strains on shipping capacity as global trade rebounds. It is also likely that we will see some margin widening in sectors that are now re-opening, having being closed for much of the past year or more. Many businesses face higher costs as a result of the pandemic, such as continuing social distancing rules and other restrictions.
- **The key question is whether the rise in inflation will prove sustained or not.** The ECB Chief Economist, Philip Lane, this week dismissed the notion of a new era of inflation. He commented that regardless of the current upward pressure on prices, inflation in the Eurozone will struggle to meet its 2% target rate over the medium term, given the amount of slack in labour markets and underlying weakness in economies which will require considerable ongoing monetary policy support. Instead, he views the spike in prices this year as not really inflation, but a temporary misalignment of supply and demand that will unwind. We would add that the spike in inflation rates in 2021 is also partly due to an unwinding of the price falls than occurred in 2020.
- **Our expectation is that Irish inflation, as elsewhere, will fall back below 2% next year.** Indeed, the average Irish CPI rate in 2021 should not be much above 1.5% and we envisage broadly similar rates in 2022 and 2023. Recently published forecasts from the Department of Finance contain similar projections. Thus, just like the steep fall in the Irish CPI rate to -1.5% last autumn proved short-lived, it is likely that a jump in the rate to 3% or above by this autumn will also prove a temporary phenomenon, though it may attract a lot of comment.
- **Inflation will almost certainly be in the headlines this week in the US, as the latest Core-PCE reading, the Fed's preferred measure, is due.** In March, Core-PCE rose to 1.8% from 1.4%. The forecast is for the index to remain on its upward trend, jumping to 3.0% in April. For some of the same reasons as mentioned above in the case of Ireland (supply chain pressures, base effects), and perhaps an even more pressing mismatch between supply and demand, as consumers armed with stimulus cheques enjoy the benefits of a faster vaccine rollout, price pressures have been building in the US. Indeed, core-CPI surged to 3.0% in April (see chart) as prices rose by 0.9% in the month, the biggest increase in monthly prices since the 1980's. Nonetheless, Fed officials remain firm in their belief that the rise in prices will prove transitory. Investors are less sure, as the spike in CPI triggered some recent downward pressure on equity markets.
- **Meanwhile, US consumption is projected to grow much more modestly in April, rising by 0.6% (vs. 4.2% in March) as the majority of stimulus payments have now been doled out.** Consumer confidence (May) is expected to edge lower to 119.0 from 121.7, partly due to the ending of the substantial fiscal transfers also. Elsewhere, in terms of hard data, durable goods are forecast to increase by 0.7% in April from already elevated levels, following a strong pickup in orders in Q1. Regarding the housing market, it is anticipated that new home sales declined by 6.9% in April.
- **The Eurozone schedule is dominated by survey data.** The EC Sentiment indices (May) are all projected to rise, as the economy continues to gradually re-open, owing to an uptick in the pace of the vaccine rollout. In terms of national data, key surveys from the big three economies, Germany, France and Italy are due as well. The consensus is for the German Ifo, French INSEE and Italian ISTAT measures of business sentiment to improve in May. Consumer confidence in all three is expected to rise also, but remain well below their pre-Covid levels. Meanwhile, the French reading of HICP for May could garner close attention. The headline rate is forecast to edge higher to 1.8% from 1.6%. **There is a sparse top tier data calendar in the UK this week.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2021	2021	2021
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 Q2	End Q3	End Q4
		2021	2021	2021
EUR/USD	1.2179	1.21	1.21	1.20
EUR/GBP	0.8594	0.86	0.87	0.87
EUR/JPY	132.63	132	132	131
GBP/USD	1.4167	1.41	1.39	1.38
USD/JPY	108.89	109	109	109
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Tue); de Guindos, Schnabel (Thu), Lagarde , Panetta (Fri)			
	BoE Speakers:	Bailey , Cunliffe, Haldane, Saunders (Mon); Tenreyro (Tue); Vleighe (Thu)			
	Fed Speakers:	Brainard, Mester, Bostic, George (Mon); Quarles (Wed)			
	EU-27:	EU Leaders' Summit (Mon/Tue)			
	G7:	Central Bank Governors and Finance Ministers Meeting (Fri)			
Mon 24th					
Tue 25th	GER:	07:00	Q1 GDP (Second Reading)	-1.7% (-3.0%)	-1.7% (-3.0%)
	GER:	09:00	German Ifo (May)	96.8	98.1
	UK:	11:00	CBI Distributive Trades (May)	20	30
	US:	14:00	Case-Shiller House Prices (March)	+1.2% (+11.9%)	
	US:	15:00	Consumer Confidence (May)	121.7	119.0
	US:	15:00	New Home Sales (April)	+1.02m / +20.7%	+0.95m / -6.9%
Wed 26th	FRA:	07:45	INSEE Business Climate (May)	104	106
	FRA:	07:45	Consumer Confidence (May)	94	97
Thu 27th	GER:	07:00	Gfk Consumer Sentiment (June)	-8.8	-5.3
	ITA:	09:00	ISTAT Business Confidence (May)	105.4	106.3
	ITA:	09:00	Consumer Confidence (May)	102.3	104.2
	EU-19:	10:00	Business Climate (May)	1.13	
	US:	13:30	Durable Goods (April)	+0.8%	+0.7%
			- Ex- Transport	+1.9%	+0.7%
	US:	13:30	Q1 GDP (Second Reading)	+6.4% s.a.a.r.	+6.4% s.a.a.r.
	US:	13:30	Q1 PCE Deflator (Second Reading)	+3.5% s.a.a.r	+3.5% s.a.a.r
			- Core PCE Deflator	+2.3% s.a.a.r	+2.3% s.a.a.r
US:	13:30	Initial Jobless Claims (w/e 17th May)	+444,000	+430,000	
Fri 28th	JPN:	00:30	Overall CPI (May)	(-0.6%)	
			- Ex - Food & Energy	(+0.0%)	(-0.2%)
	JPN:	00:30	Jobs/Applicants Ratio (April)	1.10	1.10
	JPN:	00:30	Unemployment Rate (April)	2.6%	2.7%
	FRA:	07:45	Consumer Spending (April)	-1.1%	
	FRA:	07:45	Q1 GDP (Final Reading)	+0.4% (+1.5%)	+0.4% (+1.5%)
	FRA:	07:45	Flash HICP (May)	+0.2% (+1.6%)	+0.3% (+1.8%)
	SPA:	08:00	Retail Sales (April)	(+14.9%)	
	EU-19:	10:00	EC Economic Sentiment (May)	110.3	112.1
			- Industrial / Services / Consumer	10.7 / 2.1 / -8.1	11.0 / 7.0 / -6.0
	IRL:	11:00	Retail Sales (April)	-1.9% (+8.5%)	+3.0% (+78.0%)
	US:	13:30	Personal Income / Consumption (April)	+21.1% / +4.2%	-14.0% / +0.6%
			- Core PCE Deflator	+0.4% (+1.8%)	+0.7% / (+3.0%)
	US:	15:00	Final Michigan Consumer Sentiment (April)	82.8	82.9

♦ Month-on-month changes (year-on-year shown in brackets)
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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