Weekly Market Brief

AIB Treasury Economic Research Unit

14th – 18th November 2022

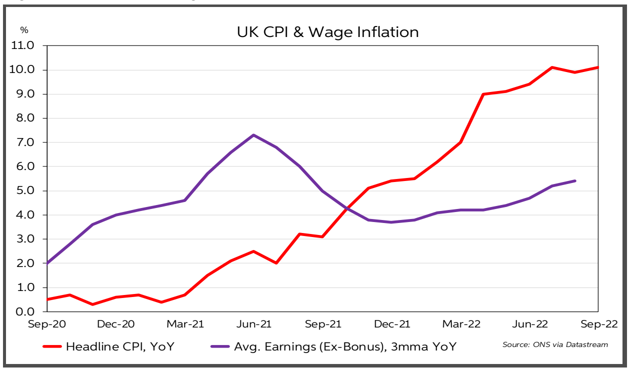
Field of Dreams

- **The first signs of the marked slowdown in the pace of global growth impacting the Irish economy have become apparent recently, with announcements of imminent job losses in a number of high profile tech companies.** This is part of a worldwide retrenchment plan by these companies, who acknowledge that they expanded their workforces too rapidly in the past couple of years given we are now facing into a period of much weaker global demand. Social media companies, in particular, are vulnerable to a downturn in advertising revenues. However, the IDA has reported this week that it continues to see a strong flow of inward investment and the pipeline of new foreign direct investment remains "healthy" for the first half of next year. Ireland has a well-diversified pool of FDI in sectors such as life sciences, financial services, pharma, as well as technology and media, with new capacity coming on stream all the time.

- **It should be noted that the very open Irish economy was never expected to escape the impact of the global downturn.** Recent forecasts from the CBI, ESRI and Dept. of Finance are for Irish GDP growth to slow sharply to 4.5-5.25% in 2023 from circa 10% this year. Meanwhile modified domestic demand is projected to grow by around 2% next year, down from a 6.5%-7.5% range in 2022. Further out, the DoF sees Irish growth slowing to 3.3% in 2024, with the IMF at 4% and the CBI at 5%. Most forecasts see the unemployment rate rising somewhat to around 5% next year, up from 4.4% at present. Thus, a marked slowdown is expected in the pace of growth in the Irish economy in the next two years, though, activity is projected to remain considerably stronger than in most other advanced economies.

- **It is generally recognised that the risks to the global economy are skewed to the downside and the weakening in activity may prove more severe than currently anticipated.** While the pipeline looks healthy for 2023, the flow of inward investment into Ireland could take a bigger hit in 2024-25 if there is a severe downturn in the global economy next year. Regardless, a key focus for Ireland should be that it remains an attractive destination for FDI. Brexit has certainly helped in this regard, as the UK has been the main competitor for Ireland in relation to FDI. However, the UK is now handicapped by being outside the EU and Single Market. It is notable that there has been a marked pickup in FDI into Ireland in 2021-22, i.e. post Brexit

- **There are important issues to be addressed by Ireland, though, to maintain its attractiveness and competiveness.** Severe capacity constraints have emerged in the labour market, housing, electricity grid, water, infrastructure and planning, as has been called out by the IDA and others. Actions to ease these constraints are being taken. However, they need to be on a scale that is large enough to prove successful in maintaining Ireland's attractiveness for FDI relative to other locations. FDI flows may vary with the state of the global economy, but to quote a famous movie line, "If you build it, they will come".



- **This week, a busy data schedule in the UK includes labour market and inflation updates.** Conditions remain very tight in the labour market. The unemployment rate was at 3.5% in August, 0.5 percentage points below its pre-COVID level. Tight conditions are placing upward pressure on wages, which were 5.4% y/y higher in August. The consensus is for the jobless rate to be unchanged at 3.5% in September, while average earnings are forecast to be up by 5.6% y/y. Meantime, CPI inflation edged higher to 10.1% y/y, while the core rate rose to 6.5% in September. The headline rate is forecast to rise by 1.7% in October, due to a steep rise in utility bills, pushing the annual rate up to 10.6%. However, this should represent the peak in headline CPI. The core rate is seen as edging slightly lower to 6.4% in October. The rapid rise in prices this year is squeezing real household incomes and weighing on spending, as evidenced by retail sales data. In volume terms, retail sales have fallen in eight of the past nine months. They are forecast to stagnate in October, leaving them down 6.5% y/y. **Elsewhere in the UK, the long-awaited Autumn Statement by Chancellor Hunt will garner close scrutiny on Thursday.**

- **In the US, retail sales data will also feature.** In September, retail sales were unchanged from August, largely due to a decline in spending on fuel. "Control group", a measure of core sales rose by 0.4% in the month. However, the US retail sales report is based on nominal growth figures, meaning that in real-terms, retail sales likely contracted in August. A significant 0.9% rise in headline retail sales is expected in October. Meanwhile, industrial production, which has slowed more recently, is forecast to rise by 0.2% in October. A slew of housing market metrics, including, housing starts, existing home sales (Oct) and homebuilder sentiment (Nov), will provide an update on the sector, which has weakened considerably. October PPI data are also due.

- **Industrial production data for the Eurozone have been quite volatile in recent months.** A modest 0.3% rise in output is pencilled in for September. Meantime, the second reading of Eurozone Q3 GDP and the final reading of HICP inflation are set to confirm the economy grew by 0.2% in the quarter, while prices were 10.7% higher y/y in October.

Interest Rate Forecasts

	Current	End Q4 2022	End Q1 2023	End Q2 2023
Fed Funds	3.875	4.375	4.875	4.875
ECB Deposit	1.50	2.00	2.75	2.75
BoE Repo	3.00	3.50	4.00	4.00
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 Q4 2022	End Q1 2023	End Q2 2023
EUR/USD	1.0311	1.00	1.02	1.04
EUR/GBP	0.8768	0.89	0.90	0.90
EUR/JPY	143.69	142	143	143
GBP/USD	1.1756	1.12	1.13	1.16
USD/JPY	139.34	142	140	138

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 14th - Friday 18th November

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	**ECB Speakers:**		Panetta, de Guindos (Mon); **Lagarde,** Panetta (Wed); **Lagarde,** Lane (Fri)		
	BoE Speakers:		**Bailey,** Broadbent, Mann, Dhingra (Wed); Pill, Tenreyro (Thu); Mann, Haskel (Fri);		
	Fed Speakers:		Williams (Mon); Harker, Barr (Tue); Williams, Brainard (Wed); Mester, Jefferson, Kashkari (Thu		
			G20 Summit (15th-16th November)		
			UK Autumn Statement (Thursday 17th November)		
Mon 14	**EU-19:**	10:00	Industrial Production (September)	+1.5% (+2.5%)	+0.3% (+2.8%)
	JPN:	23:50	GDP (Q3 First Reading)	+3.5% s.a.a.r	+1.1% s.a.a.r
Tue 15th	**CHINA:**	02:00	Industrial Output (October)	(+6.3%)	(+5.2%)
	CHINA:	02:00	Retail Sales (October)	(+2.5%)	(+1.0%)
	UK:	07:00	Claimant Count (October)	+25,500	
	UK:	07:00	Unemployment Rate (September)	3.5%	3.5%
	UK:	07:00	Average Earnings (September)	(+6.0%)	(+6.0%)
			- Ex-Bonus	(+5.4%)	(+5.6%)
	UK:	07:00	Employment Change (September)	-109,000	
	FRA:	07:45	Final HICP (October)	+1.3% (+7.1%)	+1.3% (+7.1%)
	SPA:	08:00	Final HICP (October)	+0.1% (+7.3%)	+0.1% (+7.3%)
	EU-19:	10:00	Employment (Q3)	+0.4% (+2.7%)	+0.3% (+1.8%)
	EU-19:	10:00	Total Trade Balance (September)	-€47.3bn	
	EU-19:	10:00	GDP (Q3: Second Reading)	+0.2% (+2.1%)	+0.2% (+2.1%)
	GER:	10:00	ZEW Economic Sentiment (November)	-59.2	-50.0
	US:	13:30	NY Fed/Empire State Index (November)	-9.1	-7.0
	US:	13:30	PPI Final Demand (October)	+04% (+8.5%)	+0.5% (+8.3%)
			- Ex-Food & Energy	+0.3% (+7.2%)	+0.4% (+7.2%)
Wed 16th	**UK:**	07:00	CPI (October)	+0.5% (+10.1%)	+1.7% (+10.6%)
			- Core CPI	+0.6% (+6.5%)	+0.5% (+6.4%)
	ITA:	09:00	Final HICP (October)	+4.0% (+12.8%)	+4.0% (+12.8%)
	IRL:	***11:00***	***Residential Property Price Index (September)***	***+1.3% (+12.2%)***	***+0.8% (+11.2%)***
	US:	13:30	Retail Sales (October)	+0.0% (+8.2%)	+0.9% (+7.7%)
			- Ex-Autos	+0.1%	+0.4%
			- Control	+0.4%	+0.3%
	US:	14:15	Industrial Production (October)	+0.4% (+5.3%)	+0.2%
			- Manufacturing Output	+0.4%	+0.2%
			- Capacity Utilisation	80.3%	80.4%
	US:	15:00	NAHB Homebuilder Sentiment (November)	38	36
	JPN:	23:50	Trade Balance (October)	-¥2,094bn	-¥1,610bn
			- Exports	(+28.9%)	(+28.1%)
Thu 17th	**EU-19:**	10:00	Final HICP (October)	+1.2% (+10.7%)	+1.2% (+10.7%)
			- Ex-Food & Energy	+0.9% (+6.4%)	+0.9% (+6.4%)
	US:	13:30	Building Permits (October)	+1.5m / +1.4%	+1.5m / -3.1%
			- Housing Starts (October)	+1.4m / -8.1%	+1.4m / -2.0%
	US:	13:30	Initial Jobless Claims (w/e 7th November)	+225,000	+220,000
	US:	13:30	Philly Fed Index (November)	-8.7	-8.2
	JPN:	23:30	CPI (October)	(+3.0%)	(+3.5%)
			- Core-CPI	(+3.0%)	(+3.5%)
Fri 18th	**UK:**	07:00	Retail Sales (October)	-1.4% (-6.9%)	+0.0% (-6.5%)
			- Ex-Fuel	-1.5% (-6.2%)	+0.6% (-6.7%)
	US:	15:00	Existing Home Sales (October)	+4.7m / -1.5%	+4.4m / -6.6%

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