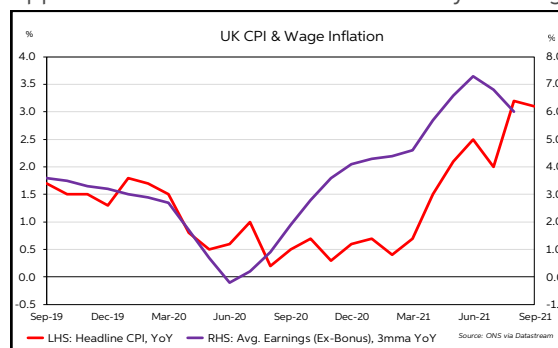


Brexit Bites Back

- **The Irish economy may be continuing to power ahead in its recovery, but the rebounds in the UK and US economies have lost considerable momentum since mid-year.** GDP growth slowed to 1.3% in the UK during Q3, down from 5.5% in Q2. A marked deceleration was expected after output rebounded sharply in Q2 as the economy reopened, but not on this scale. A sharp rise in Covid case numbers, as well as disruptions to supply chains and labour shortages, impeded activity in Q3. Similar factors were at work in the US, where quarterly growth slowed to 0.5% (or 2% annualised) from 1.9% and 1.8% in Q1 and Q2, respectively. The expectation is that growth will accelerate sharply again in the US in Q4, with a strong employment report for October already out. On the other hand, the likelihood is that growth will slow further in the UK, with the Bank of England projecting GDP will rise by circa 1% in Q4.
- **The pace of recovery in the Eurozone was maintained in Q3, with GDP rising by 2.2%, the same rate as in Q2.** Strong growth was evident across all the large member states. Exports are performing very well this year, helping to drive the rebound in activity. Covid case numbers have only picked-up recently in the EU, while labour market constraints are not as evident as elsewhere. Growth, though, is set to slow sharply in the final quarter of the year, owing to the recent marked rise in Covid cases, and as supply chain disruptions take more of a toll on activity.
- **A more complete picture of the major economies is provided by assessing where they stand now relative to their pre-Covid levels of GDP.** In this regard, the UK is a laggard, with GDP some 2% below its Q4 2019 level, as it struggles to recover fully from the outsized contraction in output seen in 2020. By contrast, GDP in the US is 1.4% above its pre-pandemic peak. Meanwhile, in the Eurozone, GDP is back to within 0.5% of its Q4 2019 level, despite major headwinds in Germany and Spain from difficulties in their auto and tourism sectors, respectively. This is a disappointing performance by the UK, given the relatively high level of fiscal support provided during 2020-21.
- **A notable feature of the UK GDP data in Q3 was the disappointing performance of exports, which fell by 2%.** The latest Bank of England report on the economy highlighted the weak performance of trade, especially with the EU, and noted that total exports remain well below their pre-Covid levels. While pandemic-related issues and supply chain disruptions are no doubt impacting trade, it would seem that Brexit is also a key factor. Data show that UK exports in Q3 2021 were almost 15% below their levels of three years earlier. By contrast, Eurozone exports have risen back above their levels of three years ago. The UK economy was the best performing of the G7 economies ahead of the Brexit referendum in 2016. Post Brexit, though, it has slipped to the bottom of the table. Hardly a strong base to risk starting a trade war with your biggest trading partner.
- **An area where the UK economy continues to perform well though, is in relation to the labour market.** Data due this week is expected to show, that despite the furlough scheme expiring at the end of September, with more than 1 million people still availing of the scheme, the jobless rate is forecast to remain unchanged at 4.5% in October. Indeed, there are signs that the demand for labour is very strong. Job openings are at a record level, with over 1 million vacancies between July and September.
- **Meanwhile, CPI inflation in the UK is projected to rise by 0.8% in October, largely due to utility prices which rose by 12% on the 1st of the month.** This would lift the year-on-year rate to 3.9% from 3.1%. The strong demand for labour coupled with the recent surge in prices may be placing more upward pressure on wages, which were 6% higher in August compared to last year, although, compositional effects are impacting the data. Rising wages would limit the impact of inflation on household disposable incomes, and may support a rebound in retail sales in the months ahead. Retail sales have declined for five months in-a-row, as supply shortages and rising Covid cases weighed on activity. However, this trend is expected to end in October, as a 0.3% rise is pencilled in this week. Consumer sentiment though, is set to remain unchanged at a low level of -17 in November.
- **Retail sales data will also feature in the US.** Having performed much better than expected in September, rising by 0.7%, a 1% increase is envisaged for October. In contrast industrial production data was disappointing in September, as output declined by 1.3%. Output is anticipated to rebound by 0.7% in October though. Meantime, we will get a raft of housing market data, including housing starts (October) and homebuilder sentiment (November). **In the Eurozone, the second reading of Q3 GDP and the final reading of HICP inflation for October headline an otherwise quiet week.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2021	2022	2022
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	0.25	0.50
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 Q4	End Q1	End Q2
		2021	2022	2022
EUR/USD	1.1444	1.14	1.13	1.12
EUR/GBP	0.8546	0.85	0.85	0.85
EUR/JPY	130.37	130	130	130
GBP/USD	1.3389	1.34	1.33	1.32
USD/JPY	113.91	114	115	116
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 15th - Friday 19th November

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos (Mon); Lagarde (Tue); Lagarde , Schnabel (Wed), Panetta, Lane (Thu); Lagarde (Fri)		
	BoE Speakers:		Haskel (Mon); Pill (Fri)		
	Fed Speakers:		Barkin, George, Bostic, Daly (Tue); Bowman, Mester, Waller, Daly, Evans, Bostic (Wed); Bostic, Evans, Daly (Thu); Clarida, Williams (Fri)		
Mon 15th	CHINA:	02:00	Industrial Output (October)	(+3.1%)	(+3.0%)
	CHINA:	02:00	Retail Sales (October)	(+4.4%)	(+3.5%)
	EU-19:	10:00	Total Trade Balance (September)	€11.1Bn	
	US:	13:30	NY Fed / Empire State Index (November)	19.8	20.5
	IRL:	11:00	Residential Property Price Index (September)	+2.2% (+10.9%)	+1.0% (+11.7%)
Tue 16th	UK:	07:00	ILO Employment (September)	+235,000	+200,000
			- Unemployment Rate (September)	4.5%	4.5%
	UK:	07:00	Average Weekly Earnings (3mnths to Sept)	(+7.2%)	(+5.6%)
			- Ex-Bonus	(+6.0%)	(+5.0%)
	UK:	07:00	Claimant Count (October)	-51,100	
	FRA:	07:45	Final HICP (October)	+0.5% (+3.2%)	+0.5% (+3.2%)
	ITA:	09:00	Final HICP (October)	+0.8% (+3.1%)	+0.8% (+3.1%)
	EU-19:	10:00	Employment (Q3: Second Reading)	+0.7% (+1.8%)	+0.7% (+1.8%)
	EU-19:	10:00	GDP (Q3: Second Reading)	+2.2% (+3.7%)	+2.2% (+3.7%)
	US:	13:30	Retail Sales (October)	+0.7% (+13.9%)	+1.4% (+15.3%)
			- Ex-Autos	+0.8%	+1.0%
			- Ex-Gas & Autos	+0.7%	
	US:	14:15	Industrial Production (October)	-1.3%	+0.7% (+4.2%)
			- Manufacturing Output	-0.7%	+0.6
			- Capacity Utilisation	75.2%	75.7%
	US:	15:00	NAHB Housing Market Bulletin (November)	80	80
	JPN:	23:50	Machinery Orders (September)	-2.4% (+17.0%)	-1.8% (+17.4%)
	JPN:	23:50	Trade Balance (October)	-¥622.8Bn	-¥310.0Bn
			- Exports	+13.0%	+9.9%
Wed 17th	UK:	07:00	CPI (October)	+0.3% (+3.1%)	+0.8% (+3.9%)
			- Core	+0.4% (+2.9%)	+0.4% (+3.1%)
	UK:	07:00	PPI Output Prices (October)	+0.5% (+6.7%)	+0.7% (+7.3%)
			- PPI Input Prices	+0.4% (+11.4%)	+1.1% (+12.1%)
	EU-19:	10:00	Final HICP (October)	+0.5% (+4.1%)	+0.5% (+4.1%)
			- Ex-Food & Energy	+0.4% (+2.1%)	+0.4% (+2.1%)
	US:	13:30	Housing Starts (October)	+1.59m / -7.8%	+1.64m / +3.4%
			- Building Permits	+1.56m / -1.6%	+1.58m / +1.5%
Thu 18th	US:	13:30	Initial Jobless Claims (w/e 8th November)	+267,000	+260,000
	US:	13:30	Philly Fed Index (November)	23.8	22.0
	JPN:	23:30	CPI (November)	+0.4% (+0.2%)	
			- Ex-Food & Energy	-0.1% (-0.9%)	
Fri 19th	UK:	00:01	Gfk Consumer Confidence (November)	-17	-17
	GER:	07:00	Producer Prices (October)	+2.3% (+14.2%)	
	UK:	07:00	Retail Sales (October)	-0.2% (-1.3%)	+0.3% (-2.1%)
			- Ex-Fuel	-0.6% (-2.6%)	+0.4% (-3.1%)

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.

AIB
Treasury
Economic
Research

Oliver
Mangan
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist