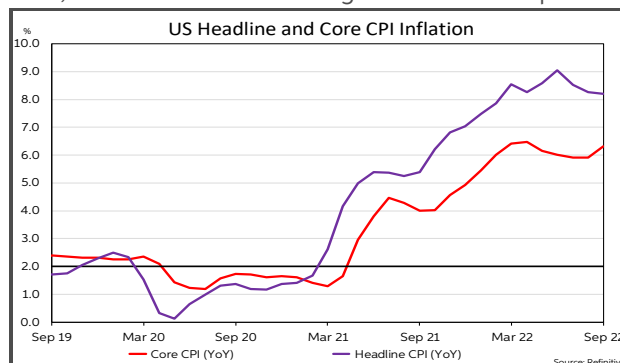


Horses for Courses

- **Weakening survey data in particular are pointing to the growing risks of a recession in some of the major world economies.** The Composite PMIs fell deeper into contraction territory, below the 50 mark, in October declining to 47.3 in the Eurozone and 48.2 in both the UK and US. The UK looks to be already in recession, with the BoE estimating that GDP declined by 0.5% in the third quarter and projecting it will fall by 0.3% in the current quarter. The UK economy faces more significant headwinds than elsewhere from both monetary and fiscal tightening and the damage being inflicted on external trade from Brexit. The Bank sees GDP contracting in both 2023 and 2024, even if interest rates are held at their current level of 3%.
- **The Fed and ECB remain more optimistic about their economies, which continued to expand in the third quarter.** US GDP rose by 2.6% annualised (0.65% quarterly) in Q3. US GDP data have been volatile this year owing to erratic movements in inventories and net trade. The domestic economy, though, has held up reasonably well, apart from the collapsing housing market which has been hard hit by the sharp rise in mortgage rates. Consumer spending rose by 1.4% annualised in Q3, with non-residential investment up by 3.7%, broadly in line with the pattern in the first half of the year. A strong labour market, characterised by robust job growth, is helping to underpin activity. Most forecasters expect the US economy to avoid a recession in 2023.
- **Eurozone GDP rose by 0.2% in Q3 after a strong performance in the first half of the year.** However, storm clouds are gathering for the euro area economy, with the war in Ukraine casting a long shadow. Inflation hit 10.7% in October. This is weighing heavily on real household incomes and spending power. The economy has lost considerable momentum in the second half of the year. We are likely to see GDP decline in both the final quarter of this year and opening quarter of 2023, a technical recession. One ray of hope has been the sharp fall in gas prices in the past two months, which should allow inflation to fall back. However, there remains considerable uncertainty about the security of European gas supplies in 2023, which represents a significant downside risk for the economy next year.
- **The differing outlooks for the three economies was reflected in the recent policy meetings of their respective central banks.** Very unusually, the BoE took issue with the markets, which are pricing in a considerable amount of additional rate tightening. It clearly guided that rates will not need to rise that much further and certainly by less than markets are anticipating. The ECB noted the increasing downside risks to the economy and the possibility of recession. It called out the substantial tightening of policy since mid-year. This suggests that rates will not need to rise beyond the 3% level priced in by markets. By contrast, a hawkish Fed Chairman said it still has some way to go in its tightening cycle even though rates are now close to 4%, and that policy will need to be tightened more than it had previously expected. Thus, markets are now looking for US rates to peak at above 5%. Quite an eclectic range of views from central banks then.
- **The main reason the Fed believes policy will have to tightened further than previously guided is that inflation has proved to be more persistent and stickier than anticipated.** In September, headline CPI inflation rose by 0.4% in the month, while the annual rate edged lower to 8.2% from 8.3%. However, the core CPI rate jumped to 6.6% from 6.3% in August, indicating that price pressures have become more broad-based. **This week, the consensus is for a sharp monthly increase of 0.7% in headline CPI, with the core-rate rising by 0.5%.** This would see the headline year-on-year rate move down to 8% and core-CPI to 6.5%, respectively. Meanwhile, the Michigan measure of consumer sentiment is projected to be unchanged, at a very low level of 59.0 in November, as inflation continues to weigh on households. Indeed, inflation has been a key talking point ahead of the US Midterm elections, which take place on Tuesday. The Republicans are currently expected to win back control of the House, and are slight favourites to take control of the Senate also.
- **In the UK, Q3 GDP data will feature.** GDP rose by 0.2% in Q2, having been negatively impacted by the double bank holiday weekend to celebrate the Queen's Platinum Jubilee. The available monthly readings of GDP show the economy grew by 0.2% in July (largely due to the unwinding of the Jubilee hit to growth) before falling by 0.3% in August, led by a fall in activity in the consumer-facing services sector. Overall, a 0.5% fall in GDP is pencilled in for Q3, in-line with the BoE's projections. Meanwhile, industrial output, is forecast to move lower for the fourth month running in September.
- **In the Eurozone, the only release of note will be the retail sales for September.** Retail sales fell by 0.4% in July and by 0.3% in August, with non-food sales being particularly weak, suggesting consumers may be cutting back on discretionary spending. Overall, retail sales were 3.2% below their peak from November last year by August. A modest 0.3% rise in sales is expected in September.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2022	2023	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	End Q1	End Q2
		2022	2023	2023
EUR/USD	0.9915	0.98	1.00	1.02
EUR/GBP	0.8771	0.89	0.90	0.90
EUR/JPY	145.67	145	148	151
GBP/USD	1.1301	1.10	1.11	1.13
USD/JPY	146.91	148	148	148
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 7th - Friday 11th November

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Panetta (Mon); Schnabel (Thu); Panetta, de Guindos, Lane (Fri)		
	BoE Speakers:		Pill (Tue); Haskel (Wed); Ramsden (Thu); Tenreyro (Fri)		
	Fed Speakers:		Collins, Barkin (Mon); Williams, Barkin (Wed); Logan, Mester, George (Thu)		
			US Midterm Elections (Tuesday 8th November)		
Mon 7th	CHINA:	03:00	Trade Balance (October)	+\$84.7bn	+\$95.9bn
			- Exports	(+5.7%)	(+4.3%)
	GER:	07:00	Industrial Output (September)	-0.8% (+2.5%)	+0.2% (+2.5%)
	UK:	07:00	Halifax House Prices (October)	-0.1% (+9.9%)	
	EU-19:	09:30	EU Sentix Index (November)	-38.3	-35.0
Tue 8th	EU-19:	10:00	Retail Sales (September)	-0.3% (-2.0%)	+0.3% (-1.3%)
	US:	11:00	NFIB Small Business Optimism (October)	92.1	
Wed 9th	CHINA:	01:30	PPI (October)	(+0.9%)	(-1.4%)
	CHINA:	01:30	CPI Inflation (October)	+0.3% (+2.8%)	+0.4% (+2.5%)
	JPN:	05:00	Economy Watchers Poll (October)	48.4	
Thu 10th	UK:	00:01	RICS Housing Survey (October)	32	
	ITA:	09:00	Industrial Output (September)	+2.3% (+2.9%)	-1.5% (+%)
	IRL:	11:00	CPI Inflation (October)	+0.0% (+8.2%)	+1.6% (+9.1%)
			- HICP Inflation	+0.0% (+8.6%)	+1.6% (+9.5%)
	US:	13:30	CPI Inflation (October)	+0.4% (+8.2%)	+0.7% (+8.0%)
			- Core CPI	+0.6% (+6.6%)	+0.5% (+6.5%)
	US:	13:30	Initial Jobless Claims (w/e31st October)	+217,000	+221,000
Fri 11th	GER:	07:00	Final HICP Inflation (October)	+1.1% (+11.6%)	+1.1% (+11.6%)
	UK:	07:00	GDP (Q3: First Reading)	+0.2% (+4.4%)	-0.5% (+2.1%)
	UK:	07:00	GDP (September)	-0.3%	-0.6%
	UK:	07:00	Industrial Output (September)	-1.8% (-5.2%)	-0.2% (-4.4%)
			- Manufacturing Output	-1.6% (-6.7%)	-0.8% (-6.6%)
	UK:	07:00	Goods Trade Balance (September)	-£19.3bn	
			- Non-EU	-£11.1bn	
	US:	15:00	Preli. University of Michigan Sentiment (Oct)	59.9	59.0

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

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