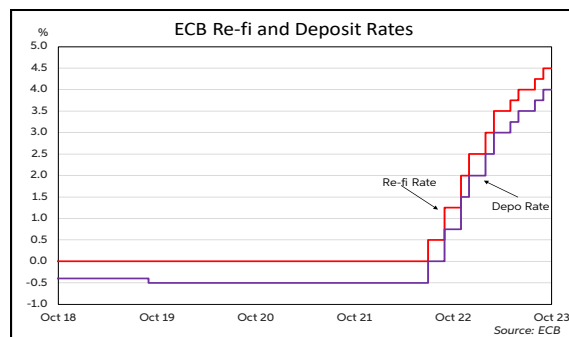


Back in the Pack

- **Fears that the UK could have entered recession by now have not come to pass, with the economy displaying unexpected resilience over the past year.** Twelve months ago, the Bank of England was predicting that the UK would enter a two-year recession against the backdrop of much higher interest rates, continuing very high inflation and weak global growth. The UK, though, has managed to eke out modest growth since last autumn. GDP in Q2 2023 was up by 0.5% year-on-year, which is right in line with the Eurozone economy. Meanwhile, the National Statistics Office recently made significant upward revisions to post-COVID GDP figures that showed the UK is no longer a laggard in terms of its recovery from the pandemic. The UK may be growing at a very sluggish pace, but this is no different to most other economies, with the notable exception of the strongly performing US.
- **The performances of the various parts of the UK economy are not out of kilter either with what is being seen in other countries.** Growth is concentrated in the services sector, manufacturing is contracting, while construction activity is weak, especially the CRE market. GDP growth in the first half of the year was driven by domestic spending, in particular by the consumer, but with solid contributions from government expenditure and business investment as well. Exports declined and were a significant drag on GDP in H1 2023. This is not much different to elsewhere. However, inflation in the UK has been slower to fall back than in most other economies, while wage growth is much more elevated, at above 8%. The strength of growth in household earnings, though, has been one of the main factors which has supported consumer spending, and helped the economy to avoid recession.
- **The risks to the UK economy are still tilted to the downside, but this is the same for other economies.** If the UK is eventually hit by a recession, it will most likely not be alone in this regard. The lagged effects of a sharp tightening of monetary policy, elevated geo-political tensions and stickiness of inflation are risks that are common to most economies. Meanwhile, markets believe that as with other central banks, Bank of England rates are at, or very close to, their peak, while interest rates are also expected to remain higher for longer than previously anticipated, as elsewhere. The UK economy, then, is back in the pack and no longer an outlier. This is reflected in the performance of sterling this year, with EUR/GBP confined to a relatively narrow trading range of 85-90p and the UK currency not subject to the sharp movements on forex markets that were seen in previous years.
- **That said, the UK economy still faces significant challenges.** Inflation is proving sticky and much slower to fall than elsewhere. Wage inflation is particularly high at around double the level of the US and Eurozone, and will need to moderate. Brexit also remains a headwind in terms of its impact on inward investment and exports. There are a wide range of views in regard to the medium-term prospects for the economy. The IMF is projecting a marked pick-up in growth from 2025, but the BoE is forecasting continued subdued growth. Much could depend on the scope to lower interest rates and whether the next election heralds a shift back to a closer trading relationship with the EU.
- **This week, the main focus will be the ECB monetary policy meeting on Thursday.** Having raised rates by a cumulative 450bps since July 2022, including by 25bps at its last meeting in September, the ECB is widely expected to leave interest rates unchanged this week. Although, the ECB did not state that interest rates have peaked in September, in a subtle, yet key change to its meeting statement, the Governing Council noted that they “have reached” significantly restrictive levels to bring inflation back down to 2%. However, the ECB maintained the flexibility to hike again if necessary, stating that it remains in a “data-dependent” mode. In this regard though, inflation fell sharply since the last ECB meeting, to 4.3% in September from 5.2%. The core rate also declined to 4.5%, its lowest level since August 2022. Against this backdrop, futures contracts pricing indicates the market thinks there is a very low probability that the ECB will hikes its policy rates this week. The post-meeting press conference will garner close attention though, given around 60bps worth of rate cuts are currently priced in for next year.
- **Data-wise, the flash PMIs for October in the US, Eurozone and UK are due.** The Eurozone PMIs were quite weak in Q3, with both sectors in contraction mode in August and September. Similarly, the UK PMIs were below 50 over the same period, as was the manufacturing sector in the US. Furthermore, the US services PMI fell to just 50.1 in September. The consensus is for very weak PMI readings across the board in October also, little changed from September’s levels.
- **In terms of other survey data for release this week, Eurozone consumer confidence is projected to deteriorate slightly in October, from already subdued levels.** In the US, the first reading of Q3 GDP is due. Data throughout the quarter (excluding the PMIs) suggest the US economy maintained good momentum. A robust 4.1% annualised rate of expansions is pencilled in for the quarter. Meanwhile, having fallen to 3.9% in August, its lowest level since June 2021, core-PCE inflation is expected to edge down to 3.7% in September. In the UK, the unemployment rate is forecast to remain unchanged at 4.3% in August.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
Fed Funds	5.375	5.625	5.625	5.625
ECB Deposit	4.00	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.50	5.50
BoJ OCR	-0.10	-0.10	-0.10	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
EUR/USD	1.0593	1.05	1.06	1.08
EUR/GBP	0.8715	0.87	0.87	0.87
EUR/JPY	158.74	155	153	151
GBP/USD	1.2153	1.21	1.22	1.24
USD/JPY	149.82	148	144	140

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 23rd - Friday 27th October

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Wed); Lagarde (Fri)		
	BoE Speakers:		Cunliffe (Thu)		
	Fed Speakers:				
Mon 23rd	EU-20:	15:00	Flash Consumer Confidence (October)	-17.8	-18.2
Tue 24th	JPN:	01:30	Flash Jibun Composite PMI (October)	52.1	
	GER:	07:00	Gfk Consumer Sentiment (November)	-26.5	-26.5
	UK:	07:00	Unemployment Rate (August)	4.3%	4.3%
	FRA:	08:15	Flash HCOB Composite PMI (October)	44.1	44.2
	GER:	08:30	Flash HCOB Composite PMI (October)	46.4	46.7
	EU-20:	09:00	Flash HCOB Composite PMI (October)	47.2	47.4
			- Services / Manufacturing	48.7 / 43.4	48.7 / 43.7
	UK:	09:30	Flash CIPS / S&P Composite PMI (October)	48.5	48.8
			- Services / Manufacturing	49.3 / 44.3	49.5 / 45.0
	IRL:	11:00	Residential Property Price Index (August)	+0.3% (+1.5%)	+0.1% (+0.5%)
	US:	14:45	Flash S&P Composite PMI (October)	50.2	49.9
			- Services / Manufacturing	50.1 / 49.8	49.9 / 49.5
Wed 25th	EU-20:	09:00	M3 Annual Money Growth (September)	-1.3%	-1.7%
	GER:	09:00	German Ifo Business Climate (October)	85.7	85.9
	US:	15:00	New Home Sales (September)	+0.68m / -8.7%	+0.68m / +0.0%
Thu 26th	EU-20:	13:15	ECB Interest Rate Announcement		
			- Deposit Rate	4.00%	4.00%
			- Re-fi Rate	4.50%	4.50%
	US:	13:30	Durable Goods (September)	+0.1%	+1.0%
			- Ex-Transport	+0.4%	+0.2%
	US:	13:30	GDP (Q3: Advance Reading)	+2.1% s.a.a.r.	+4.1% s.a.a.r.
	US:	13:30	PCE Prices (Q3: Advanced Reading)	+2.5% s.a.a.r.	
			- Core-PCE Prices	+3.7% s.a.a.r.	
	US:	13:30	Initial Jobless Claims (w/e 16th October)	+198,000	+210,000
Fri 27th	JPN:	00:30	Tokyo CPI Inflation (October)	(+2.8%)	
			- Ex-Food & Energy	(+2.4%)	(+2.5%)
	FRA:	07:45	INSEE Consumer Confidence (October)	83.0	83.0
	SPA:	08:00	GDP (Q3: First Estimate)	+0.5% (+2.2%)	+0.3%
	ITA:	09:00	ISTAT Business Confidence (October)	96.4	96.0
	ITA:	09:00	ISTAT Consumer Confidence (October)	105.4	104.7
	IRL:	11:00	Retail Sales (September)	-0.1% (+3.6%)	-0.3% (+4.5%)
	US:	13:30	Personal Income / Consumption	+0.4% / +0.3%	+0.4% / +0.4%
	US:	13:30	PCE Prices (September)	+0.4% (+3.5%)	+0.3% (+3.4%)
			- Core-PCE	+0.1% (+3.9%)	+0.3% (+3.7%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Sep)	63.0	63.1

♦ 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.