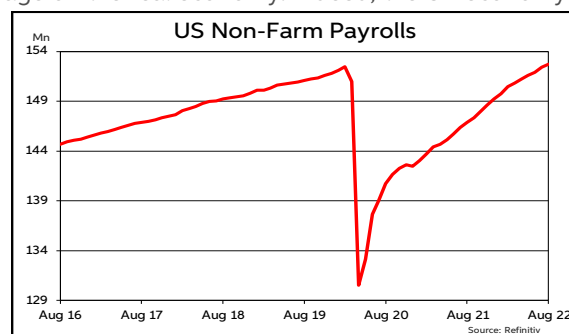


The Sick Man of Europe

- **The remarkable recovery of the Irish economy post the 2008-11 financial crisis was based around two main pillars;** a very painful programme of fiscal austerity to restore order to the public finances and a renewed focus on foreign direct investment and exports. Even in the aftermath of the COVID-19 pandemic and in the midst of a global energy crisis, the results are evident with the Irish economy in 2022 enjoying record levels of FDI and exports, full employment, low debt levels and both budget and balance of payments surpluses. The contrast with the UK economy today as well as its policy responses could not be starker.
- **The UK economy has gone from being the strongest performing G7 economy before the June 2016 referendum on EU membership to the weakest in the past number of years.** It had a relatively poor COVID crisis, with GDP contracting by 11% in 2020 compared to 6.2% in the Eurozone and 2.8% in the US. The UK is now having a poor energy crisis, with the economy's performance weaker than elsewhere. **UK GDP in Q2 2022 was still below its pre-COVID levels**, whereas it was higher by near 2% in the Eurozone and 3.5% in the US. In this regard, the UK's departure from the EU and the Single Market and Customs Union has seen a big hit to trade with mainland Europe, leaving the economy in a weakened state. The OECD recently estimated that the deterioration in UK net external trade post-Brexit, which is attributable to greatly shrunken exports, will knock more than 6% off its GDP over 2021-23. The financial fundamentals are not good either, with the OECD projecting a budget deficit of 5.3% of GDP and a balance of payments deficit of 7.2% of GDP for 2022.
- **The new UK Government has called out that action needs to be taken to** address the poor performance of the UK economy. However, **it is adopting short-term policies that will only make the situation even worse.** If there are large twin deficits, the last thing to do is pursue policies that add to the problem. However, this is exactly what is happening in the UK, with major tax cuts, and with the State picking up an open-ended potentially large tab to cap household energy bills. These measures could see the budget deficit blow out to over 10% of GDP by some estimates. Government debt is already high at 100% of GDP. Even more worrying, analysis by the Institute of Fiscal Studies suggests the budget deficit may still be close to 5% of GDP by 2026-27. The UK public finances, then, would seem to be on an unsustainable path.
- **Not surprisingly, the markets are not impressed.** The gilt market was already under pressure from the BoE's monetary tightening, including its QT plans, but chaos ensued on the fiscal loosening announcements. The Bank of England had to intervene with a purchase plan to stabilise the gilt market after yields soared. Meanwhile, sterling came under severe downward pressure. Government policy is now undermining the BoE's efforts to get inflation back under control. The MPC is likely to respond with an outsized rate hike at its next meeting in early November. Markets are looking for rates to be hiked by 125bps to 3.5%, and then to be raised even further to near 6% by next summer. We doubt there will be monetary tightening on this scale, as it would inflict far too much damage on the real economy. Indeed, the UK economy already looks like 'the sick man of Europe' once again.
- **Turning to the week ahead, the main data highlight will be the US labour market report for September.** Although, payroll growth has slowed recently, conditions in the job's market remain very tight. Overall, payrolls have risen by 3.5m so far in 2022. Meanwhile, the unemployment rate declined from 4% in January, to its pre-Covid low of 3.5% in July, before edging slightly higher to 3.7% in August, largely due to a much needed rise in labour force participation. The participation rate jumped to 62.4% from 62.1%, but it is still 1 percentage point below its pre-pandemic level. Tight labour market conditions have placed upward pressure on wages, with average earnings 5.2% higher YoY in August. Payrolls are projected to rise by a robust 250k in September. However, this would be the slowest pace of job's growth since an unexpected fall last December. The unemployment rate is expected to hold steady at 3.7%. A slight decline in average earnings to 5.1% YoY is also pencilled in. Meanwhile, the manufacturing and non-manufacturing ISMs are forecast to be little changed in September, remaining well above the key 50 level.
- **In the Eurozone, the latest ECB monetary policy meeting account will be released on Thursday.** At the last post meeting press conference, President Lagarde made reference to "different views around the table", although, the decision to raise rates by 75bps was unanimous. The minutes may shed some light on the discussions which may be of interest. Market participants will also be looking for greater details regarding the future path of rate hikes from the ECB in the minutes. Data-wise, Eurozone retail sales are anticipated to decline for the third month in five, falling by 0.4% in August. **There is a quiet look to the UK data docket this week.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
	2022	2022	2023	2023
Fed Funds	3.125	4.375	4.625	4.625
ECB Deposit	0.75	2.00	2.50	2.50
BoE Repo	2.25	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	2022	2023	2023
EUR/USD	0.9787	0.96	0.99	1.03
EUR/GBP	0.8792	0.90	0.90	0.90
EUR/JPY	141.49	139	142	144
GBP/USD	1.1129	1.07	1.10	1.14
USD/JPY	144.55	145	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		De Guindos (Mon); Lagarde (Tue)		
	BoE Speakers:		Ramsden (Fri)		
	Fed Speakers:		Bostic, Williams (Mon); Logan, Mester, Daly, Jefferson (Tue); Bostic (Wed); Evans, Cook, Mester (Thu); Willams (Fri)		
			OPEC+ Meeting (Wed)		
Mon 3rd	IRL:	01:00	AIB Manufacturing PMI (September)	51.8	
	EU-19:	09:00	Final S&P Manufacturing PMI (September)	48.5	48.5
	UK:	09:30	Final S&P/CIPS Manufacturing PMI (September)	48.5	48.5
	US:	14:45	Final S&P Manufacturing PMI (September)	51.8	51.8
	US:	15:00	Manufacturing-ISM (September)	52.8	52.3
Tue 4th	JPN:	00:30	CPI (September)	(+2.9%)	
			- Ex-Food & Energy	(+2.6%)	(+2.8%)
	EU-19:	10:00	Producer Prices (August)	+4.0% (+37.9%)	+5.0% (+43.2%)
	US:	15:00	Factory Orders (August)	-1.0%	+0.3%
	US:	15:00	JOLTS Job Openings (August)	11.2mn	
	IRL:	16:30	Exchequer Returns (September)	Sep'21: -€6.2bn	+€7.5bn
Wed 5th	IRL:	01:00	AIB Services PMI (September)		
	JPN:	01:30	Final Jibun/S&P Composite PMI (September)	50.9	50.9
	GER:	07:00	Trade Balance (August)	+€5.4bn	+€4.0bn
			- Exports	(-2.1%)	(+1.0%)
	FRA:	07:45	Industrial Output (August)	-1.6%	-0.3%
	ITA:	08:45	S&P Composite PMI (September)	49.6	
	FRA:	08:50	Final S&P Composite PMI (September)	51.2	51.2
	GER:	08:55	Final S&P Composite PMI (September)	45.9	45.9
	EU-19:	09:00	Final S&P Composite PMI (September)	48.2	48.2
			- Final Services PMI	48.9	48.9
	UK:	09:30	Final S&P/CIPS Composite PMI (September)	48.4	48.4
			- Final Services PMI	49.2	49.2
	IRL:	11:00	Unemployment Rate (September)	4.3%	4.3%
	US:	13:15	ADP National Employment (September)	+132,000	
	US:	13:30	International Trade (August)	-\$70.7bn	
	US:	14:45	Final S&P Composite PMI (September)	49.3	49.3
			- Final Services PMI	49.2	49.2
	US:	15:00	Non-Manufacturing ISM (September)	56.9	56.0
Thu 6th	EU-19:	10:00	Retail Sales (August)	+0.3% (-0.9%)	-0.4% (-1.7%)
	EU-19:	12:00	ECB Monetary Policy Meeting Account (Sept'22)		
	US:	13:30	Initial Jobless Claims (w/e 26th September)	+193,000	+200,000
Fri 7th	GER:	07:00	Industrial Output (August)	-0.3% (-1.1%)	-0.5% (+2.9%)
	GER:	07:00	Retail Sales (August)	+1.9% (-5.1%)	-1.0% (-5.1%)
	UK:	07:00	Halifax House Prices (September)	+0.4% (+11.5%)	
	US:	13:30	Non-Farm Payrolls (September)	+315,000	+250,000
			- Unemployment Rate	3.7%	3.7%
			- Average Earnings	+0.3% (+5.2%)	+0.3% (+5.1%)

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

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