Weekly Market Brief

AIB Treasury Economic Research Unit

September 27th - 1st October 2021

Energetic Prices

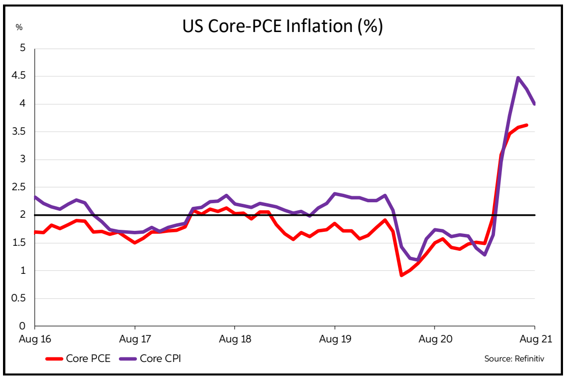
- **Ireland is no different than other countries in experiencing a marked rise in inflation over the past year.** The annual rate of HICP inflation stood at 3% in August, up from -1.5% last October, with the CPI rate rising to 2.8%. Yet when one looks at a detailed breakdown of the data, the rise in inflation is quite narrowly based. The CPI rate excluding energy stands at 1.9%, reflecting the fact that energy price inflation is running at 16% year-on-year (YoY). There are other pockets of high inflation in the economy as it re-opens following the lifting of Covid restrictions. Air fares are up 50% YoY, while hotel accommodation is running at 15.5% and package holidays are rising by 6% YoY. Private residential rents are up 4.5% YoY, while car prices are rising at over 7% YoY. It should be noted, though, that many of these steep price rises represent an unwinding of big price declines during 2020.

- **Meanwhile, most prices remain subdued.** Despite much talk, food prices are unchanged on year earlier levels, while clothing prices are down 5.5% YoY. A broad range of household and other goods are showing little change in prices also, while prices remain quite stable in important service sectors such as education, health and insurance. The spike in inflation, though, still has some way to run. There were steep price declines in September and October last year, before the CPI bottomed out. Thus, base effects alone are going to see the inflation rate rise further in the next couple of months, and the annual rate could get close to 4%. However, inflation should start to decelerate fairly quickly after that, with the CPI rate declining to around 2.5% in the spring and below 2% by next autumn.

- **Broadly similar price trends are evident elsewhere.** In the Eurozone, the HICP rate climbed to 3% in August, but if energy is excluded, the rate is much lower at 1.7%. Eurozone inflation is also set to move higher over the autumn before starting to fall back in 2022. In the UK, headline inflation accelerated to 3.2% last month and is forecast to rise above 4% in the coming months, possibly hitting 4.5% by November. Again, it is expected to fall sharply next year as the upward pressures on prices abate. Indeed, in the US, it may be that core inflation has already started to level off, given the economy reopened ahead of European economies, with less pronounced increases in July and August.

- **Upside risks to inflation have risen, though, in recent months.** Gas prices are expected to remain very elevated over the winter months owing to supply shortages. This could have knock-on consequences for prices elsewhere in the economy. More generally, disruptions to supply chains especially around transportation, shortages of key inputs, as well as high container and shipping costs, look set to persist for longer than expected. Meanwhile, a shortage of labour is becoming more acute, with many people it would seem, quite reluctant still to return to the workforce. This is starting to put upward pressure on wages in some economies. Thus, CPI rates may prove slower to fall back than originally anticipated and we have seen central banks revise upwards their forecasts for the near term trajectory of inflation. However, they are still strongly of the view that supply bottlenecks will eventually ease, allowing inflation to fall back close to target, or below in the case of the Eurozone, over the next couple of years. Markets would seem to agree given the continuing very low levels of bond yields and expectations for only a modest tightening of monetary policy during 2022-24.

- **This week, timely updates on inflation are due in the US and the Eurozone.** In the Eurozone, headline HICP inflation is projected to rise to 3.3% in September as some of the factors highlighted above - higher energy prices, base effects in certain sectors, and also, the reversal of a cut to VAT in Germany, place further upward pressure on prices. In the US, the Fed's preferred measure of inflation, the core-PCE deflator is forecast to inch lower in August to 3.5% from 3.6% in June and July. The latest FOMC projections, released last week, show the Fed expects only a further small increase in inflation this year, with core-PCE forecast to average 3.8% in Q4.



- **Elsewhere in the US, the latest personal income and consumption data are projected to show a modest increase in August, rising by 0.2% and 0.6% respectively.** Meanwhile, having declined sharply in July and August following a surge in Covid cases, consumer confidence as measured by the Conference Board survey is set to move slightly higher in September, as cases have stabilised in the US more recently. **In the Eurozone, the EC Sentiment Indices will feature.** The consensus is for sentiment in the services and industrial sectors to remain well above their pre-Covid levels, but to decline slightly in September. Meantime, it is envisaged that the Eurozone unemployment rate continued to decline in August, falling to 7.5% from 7.6% in July, and its peak of 8.6% last year.

Interest Rate Forecasts

	Current	End Q4 2021	End Q1 2021	End Q2 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 2021	End Q1 2021	End Q2 2022
EUR/USD	1.1706	1.17	1.16	1.16
EUR/GBP	0.8555	0.85	0.84	0.83
EUR/JPY	129.56	129	128	128
GBP/USD	1.3680	1.38	1.38	1.40
USD/JPY	110.67	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday September 27th - Friday 1st October

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	**ECB Speakers:**		**Lagarde,** Panetta (Mon); **Lagarde,** de Guindos, Panetta, Schnabel (Tue); de Guindos, Lane, **Lagarde** (Wed); Panetta (Thu), Schnabel (Fri)		
	BoE Speakers:		**Bailey** (Mon); **Bailey** (Wed)		
	Fed Speakers:		Williams, Brainard, Evans (Mon); **Powell,** Bostic (Tue); **Powell,** Bullard (Wed); **Powell,** Williams, Bostic (Thu); Harker, Mester (Fri)		
Mon 27th	**EU-19:**	09:00	M3 Annual Money Growth (August)	(+7.6%)	(+7.8%)
	US:	13:30	Durable Goods (August)	-0.1%	+0.6%
			- Ex-Transport	+0.8%	+0.5%
Tue 28th	**GER:**	07:00	Gfk Consumer Sentiment (October)	-1.2	-1.8
	FRA:	07:45	Consumer Confidence (September)	99	100
	IRL:	***11:00***	***Retail Sales (August)***	***-1.7% (+5.2%)***	***+2.0% (+5.2%)***
	US:	14:00	Case-Shiller House Prices (July)	+1.8% (+19.1%)	+1.6% (+20.0%)
	US:	15:00	Consumer Confidence (September)	113.8	114.1
Wed 29th	**SPA:**	08:00	Flash HICP (September)	+0.4% (+3.3%)	+0.2% (+3.3%)
	UK:	09:30	Mortgage Approvals (August)	75,152	75,250
	EU-19:	10:00	EC Sentiment (September)	117.5	116.7
			- Consumer / Industrial / Services	-4.0 / 13.7 / 16.8	-4.0 / 12.0 / 16.2
	US:	15:00	Pending Home Sales (August)	-1.8%	+1.2%
Thu 30th	**JPN:**	00:50	Industrial Production (August)	-1.5% (+13.3%)	-0.5%
	JPN:	00:50	Retail Sales (August)	(+2.4%)	(-1.0%)
	CHINA:	02:00	NBS Manufacturing PMI (September)	50.1	50.2
	UK:	07:00	Nationwide Houses Prices (September)	+2.1% (+11.0%)	+0.6% (+10.7%)
	FRA:	07:45	Flash HICP (September)	(+2.4%)	(+2.8%)
	SPA:	08:00	Retail Sales (August)	(+0.1%)	
	GER:	08:55	Unemployment Rate (September)	5.5%	5.5%
	ITA:	09:00	Unemployment Rate (August)	9.3%	
	UK:	09:30	GDP (Q2: Second Reading)	+4.8% (+22.2%)	+4.8% (+22.2%)
	ITA:	10:00	Flash HICP (September)	+0.2% (+2.5%)	+1.8% (+3.2%)
	EU-19:	10:00	Unemployment Rate (August)	7.6%	7.5%
	GER:	13:00	Flash HICP (September)	+0.1% (+3.4%)	+0.2% (+3.8%)
	US:	13:30	GDP (Q2: Final Reading)	6.6% S.a.a.r.	+6.6% S.a.a.r.
	US:	13:30	Core-PCE (Q2: Final Reading)	6.2%	+6.2%
	US:	13:30	Initial Jobless Claims (w/e 20th September)	+351,000	+325,000
Fri 1st	**JPN:**	00:30	Jobs/Applicants Ratio (August)	1.15	1.14
	JPN:	00:30	Unemployment Rate (August)	2.8%	2.9%
	IRL:	***01:01***	***AIB Manufacturing PMI (September)***	***62.8***	
	GER:	07:00	Retail Sales (August)	-0.3% (-5.3%)	+1.5% (+1.5%)
	EU-19:	09:00	Final Manufacturing PMI (September)	58.7	58.7
	UK:	09:30	Final Manufacturing PMI (September)	56.3	56.3
	EU-19:	10:00	Flash HICP (September)	(+3.0%)	(+3.3%)
			- Ex-Food & Energy	(+1.6%)	(+1.8%)
	US:	13:30	Personal Income / Consumption (August)	+1.1% / +0.3%	+0.3% / (+0.6%)
			- Core PCE Prices	+0.3% (+3.7%)	+0.2% (+3.5%)
	US:	14:45	Final Manufacturing PMI (August)	60.5	60.5
	US:	15:00	Manufacturing ISM (September)	59.9	59.6
	US:	15:00	Final Michigan Consumer Sentiment (Sept.)	71.0	71.0

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