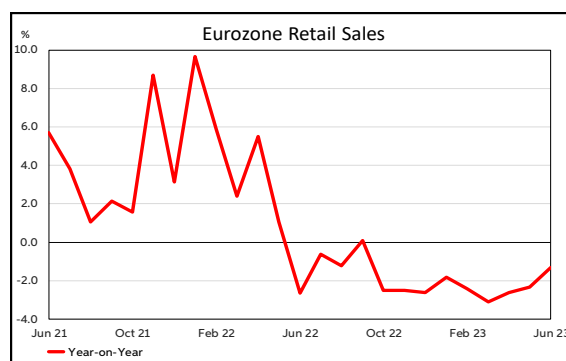


## Payback Time

- **The National Accounts data from the CSO for H1 2023 show that the rate of growth in the Irish economy has decelerated markedly from the breakneck speed seen in 2021 and 2022.** Just to recall, Irish GDP grew by 15.1% in 2021 and 9.4% in 2022, while modified Gross National Income, which excludes some distortionary globalisation effects of multi-national companies, rose by 13.9% and 6.7%. Gross Value Added rose by 14.7% and 10.7% in both years. Meanwhile, the domestic economy as measured by Modified Final Domestic Demand, expanded by 7.3% in 2021 and 9.5% last year. So no matter what measure you choose, the economy boomed in 2021-22.
- **The first quarter of this year saw a sharp decline in the output of multi-nationals operating in the manufacturing sector.** As a result, GDP fell by 2.6% in the quarter. This marked fall in manufacturing output followed a period of exponential growth in 2021-2022. There was a partial recovery in the second quarter, with manufacturing output rising by 3.8% following the decline of 13.4% seen in the first quarter. Meanwhile, the services sector of the economy performed very strongly in the second quarter. Overall, the CSO estimate that Gross Value Added rose by 4% in the quarter. However, this translated into a rise of just 0.5% in GDP for the period.
- **Overall, it is probably best to look at the first half of the year in total, given the volatility of the data.** GDP growth slowed very sharply to just 0.2% year-on-year in the period from the very rapid rates seen in 2021-22. Gross Value Added rose 2.6% year-on-year. Growth in the domestic economy also slowed rapidly, with Modified Final Domestic Demand rising by 1.9%. Consumer spending was the main contributor to growth, increasing by 3.75% year-on-year. The real damage, though, is being done by export growth which slumped to 1.4% from 14-15% in 2021-22, reflecting the sharp fall in manufacturing output and thus goods exports. Services exports actually performed well in H1 2023. Given the volatility in output from the multinational sector in H1 2023, as well as big revisions to the data, there are very wide divergences of view in relation to the outturn for GDP growth this year. The ESRI projecting a rise of just 0.1%, but the Central Bank is forecasting a 5.3% expansion. The odds are now favouring a result closer to the ESRI forecast.
- **Other data, though, point to the economy continuing to perform well this year.** The labour force data for H1 2023 show the unemployment rate has fallen to a 4.1-4.2% range, down from 4.5% in 2022. Employment growth has remained strong, averaging 3.8% year-on-year, with the number at work at mid-year up by over 2% from its end 2022 level. Not surprisingly then, tax receipts continue to rise strongly, increasing by 10% to end July. Meanwhile, the Irish PMIs for manufacturing and services remain comfortably above those for other advanced economies. The IDA has also reported that inflows of foreign direct investment remained elevated in the first half of 2023. In terms of the financial fundamentals, Ireland continues to enjoy a very large balance of payments surplus, the general government budget also remains in a strong surplus, while private sector balance sheets are characterised by low levels of debt and high savings. Thus, although growth has come off the boil this year, the economy remains in very good shape.
- **Turning to the week ahead, there is a relatively quiet top tier data schedule across the board.** In the US, there is a holiday shortened week, as markets are closed on Monday for Labour Day. The main release of note in the US will be the non-manufacturing ISM for August. The services ISM has printed in expansion mode for seven consecutive months, albeit, the index slipped to 52.7 in July, from 53.9 in June. A further moderation is projected for August, with the index edging lower to 52.5. Meantime, remarks from a number of Fed speakers will garner close interest in the latter half of the week.
- **In the Eurozone, the revised reading of Q2 GDP is expected to confirm the economy expanded by 0.3% in Q2, although, the risks are tilted to the downside, given recent revisions to Irish GDP data.** Elsewhere, producer prices are forecast to fall for a seventh consecutive month in July, down 0.6%. On an annual basis, producer price inflation is projected to decline sharply to -7.6%, from -3.4%. Meanwhile, a 0.2% contraction in retail sales in July is anticipated to leave them 1.2% lower in year-on-year terms. Regarding more timely indicators, a further deterioration in the EU Sentix index is pencilled in for September. Elsewhere, the consensus is for a 0.2% fall in German industrial production in July, meaning it was 1.7% lower annually. A number of key ECB Governing Council officials are also due to speak this week, including President Lagarde.
- **In the UK, members of the BoE Monetary Policy Committee, including Governor Bailey appear at the Treasury Select Committee.** On the home front, Exchequer returns, unemployment and inflation data for August will be released.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2023	2023	2023	2024
Fed Funds	5.375	5.375	5.625	5.625
ECB Deposit	3.75	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.75	5.75
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 Q3	End Q4	End Q1
	2023	2023	2023	2024
EUR/USD	1.0839	1.08	1.09	1.10
EUR/GBP	0.8559	0.86	0.87	0.87
EUR/JPY	157.71	159	159	158
GBP/USD	1.2660	1.26	1.25	1.26
USD/JPY	145.49	147	146	144

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		<b>Lagarde</b> , Lane, Panetta (Mon); <b>Lagarde</b> , Schnabel, de Guindos (Tue)		
	<b>BoE Speakers:</b>		<b>Bailey</b> , Cunliffe, Dhingra (Wed)		
	<b>Fed Speakers:</b>		Collins (Wed); Harker, Williams, Bostic, Bowmann (Thu); Barr (Fri)		
<b>Mon 4th</b>	<b>US:</b>		<b>Labour Day (Bank Holiday)</b>		
	<b>GER:</b>	07:00	Trade Balance (July)	+€18.7bn	
			- Exports	+0.1%	-1.5%
	<b>EU-20:</b>	09:30	Sentix Index (September)	-18.9	-20.0
	<b>IRL:</b>	<b>16:30</b>	<b>Exchequer Returns (August)</b>	<b>Aug'22: +€6.3bn</b>	<b>Aug'23: +€2.0bn</b>
			<b>- Excluding Transfer to NRF</b>		<b>+€6.0bn</b>
<b>Tue 5th</b>	<b>IRL:</b>	<b>01:01</b>	<b>AIB Services PMI (August)</b>	<b>56.7</b>	
	<b>JPN:</b>	01:30	Final Jibun Composite PMI (August)	52.6	52.6
	<b>ITA:</b>	08:45	HCOB Composite PMI (August)	48.9	
	<b>FRA:</b>	08:50	Final HCOB Composite PMI (August)	46.6	46.6
	<b>GER:</b>	08:55	Final HCOB Composite PMI (August)	44.7	44.7
	<b>EU-20:</b>	09:00	Final HCOB / S&P Composite PMI (August)	47.0	47.0
			- Final HCOB / S&P Services PMI (August)	48.3	48.3
	<b>UK:</b>	09:30	Final CIPS / S&P Composite PMI (August)	47.9	47.9
			- Final CIPS / S&P Services PMI (August)	48.7	48.7
	<b>EU-20:</b>	10:00	Producer Prices (July)	-0.4% (-3.4%)	-0.6% (-7.6%)
	<b>US:</b>	15:00	Factory Orders (July)	+2.3%	-2.5%
			- Durable Goods	-5.2%	
			- Durables Ex-Transport	+0.5%	
<b>Wed 6th</b>	<b>EU-20:</b>	10:00	Retail Sales (July)	-0.3% (-1.4%)	-0.2% (-1.2%)
	<b>IRL:</b>	<b>11:00</b>	<b>Unemployment Rate (August)</b>	<b>4.1%</b>	<b>4.1%</b>
	<b>US:</b>	13:30	International Trade (July)	-\$65.5bn	-\$68.0bn
	<b>US:</b>	14:45	Final S&P Composite PMI (August)	50.4	50.4
			- Final S&P Services PMI (August)	51.0	51.0
	<b>US:</b>	15:00	Non-Manufacturing ISM (August)	52.7	52.5
<b>Thu 7th</b>	<b>CHINA:</b>	04:00	Trade Balance (August)	+\$80.6bn	+\$78.0bn
			- Exports	(-14.5%)	(-8.8%)
	<b>GER:</b>	07:00	Industrial Production (July)	-1.5% (-1.8%)	-0.2% (-1.7%)
	<b>UK:</b>	07:00	Halifax House Prices (August)	-0.3% (-2.4%)	
	<b>ITA:</b>	09:00	Retail Sales (July)	-0.2% (+3.6%)	
	<b>EU-20:</b>	10:00	Employment (Q2: Final Reading)	+0.2% (+1.5%)	
	<b>EU-20:</b>	10:00	GDP (Q2: Revised Reading)	+0.3% (+0.6%)	+0.3% (+0.6%)
	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (August)</b>	<b>+0.2% (+5.8%)</b>	<b>+0.5% (+6.2%)</b>
			<b>- HICP Inflation</b>	<b>Flash: +0.5% (+4.9%)</b>	<b>+0.5% (+4.9%)</b>
	<b>US:</b>	13:30	Initial Jobless Claims (28th August)	+228,000	+235,000
	<b>US:</b>	13:30	Unit Labour Costs (Q2: Revised Reading)	+1.6% s.a.a.r.	+1.6% s.a.a.r.
			- Productivity	+3.8% s.a.a.r.	+3.8% s.a.a.r.
<b>Fri 8th</b>	<b>JPN:</b>	00:50	GDP (Q2: Revised Reading)	+6.0% s.a.a.r.	+5.5% s.a.a.r.
	<b>JPN:</b>	06:00	Economy Watchers Poll (August)	54.4	
	<b>GER:</b>	07:00	Final HICP (August)	+0.4% (+6.4%)	+0.4% (+6.4%)
	<b>FRA:</b>	07:45	Industrial Output (July)	-0.9%	-0.2%

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

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Treasury  
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Oliver  
Mangan  
Chief  
Economist

John Fahey  
Senior  
Economist

Daniel  
Noonan  
Economist