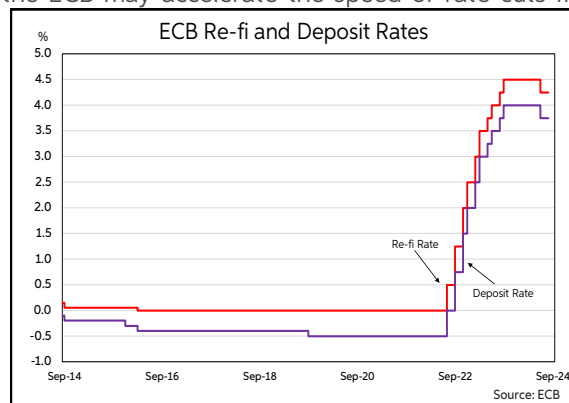


Moderate growth beneath volatile Irish GDP data

- **This week's Irish GDP data provide the first full breakdown of the economy in Q2 2024.** Beneath the perennially volatile GDP data (-1% q/q, -4% y/y), the domestic indicators point to a moderate growth picture so far in 2024. Modified Domestic Demand (MDD), which strips out some of the volatility of the multinational-dominated sectors, fell 0.5% q/q, but was up 1.5% y/y. However, within this, consumer spending was up 1.1% q/q and 1.3% y/y, while modified investment fell 7% q/q (-0.8y/y), reflecting a drop in machinery and equipment investment on a sector-specific basis, which might unwind in the coming quarters. Government spending rose sharply up 1.5% q/q (+4.1% y/y).
- **Other reliable domestic indicators point to continued robust growth in the Irish economy, including compensation of employees, up 3.7% y/y, mirroring the strong employment and wage growth in Q2.** In the medium term we expect Irish growth to persist at a more moderate pace, as the economy faces a number of capacity constraints and the recent exceptional labour force growth begins to slow.
- **Elsewhere, this week's exchequer returns also signalled ongoing growth in the Irish economy, with domestically-driven VAT receipts up 6% y/y in the three months to end-September, while income taxes were up 7% over the same period.** The exceptional growth in corporation taxes continues, with receipts more than doubling in August compared to August 2023, while year-to-date, the Irish Exchequer has collected €16.2bn in corporation taxes, a 28% rise on the same period in 2023. This gives significant leeway to the Minister for Finance as he prepares his first Budget for October 1st, but these multinational-driven tax revenues are highly concentrated amongst a small number of firms and subject to medium term risks. In this context, a commitment to directing more revenues than planned towards the newly-instituted sovereign wealth funds might be a prudent measure in the upcoming Budget to build up buffers for the next economic downturn.
- **Turning to the week ahead, the monetary policy spotlight will be on the ECB meeting this Thursday.** Having cut rates by 25bps in June, the ECB left policy on hold in July, but refused to rule out a rate cut in September if warranted by the data. Since then, headline HICP inflation has declined to 2.2% in August, its lowest level since July 2021, although there has been little progress in core inflation which remains at 2.8%, amid elevated services inflation at 4.2% in August. Furthermore, the unemployment rate returned to its all-time low of 6.4% in July, and timely measures of wage inflation such as the Indeed wage tracker have been little changed, suggesting labour market conditions are still tight. However, other metrics point to weakening activity in the Eurozone in recent months. Thus, despite market expectations for a 25bps rate cut this week, the decision from the ECB is likely to be a close call, although the meeting minutes from July indicate that a rate cut is likely this week. A lot of attention will also be on the ECB's updated macro-projections and the press conference with President Lagarde, as investors gauge the ECB's view on the future path of interest rates. Currently the market is pricing in around 60bps of policy easing between now and year end. **Our view is that the ECB will cut rates twice more this year, on Thursday and again in Q4, with the pace of policy easing likely to remain at 25bps per quarter in 2025 also.** However, we would note that the ECB may accelerate the speed of rate cuts if economic conditions deteriorate sharply in the coming quarters.
- **Data-wise, the main focus will be on the release of US CPI inflation for August.** A shallow disinflationary trend has reasserted itself over the summer months in the US, having stalled at the start of the year. Indeed, headline CPI inflation declined to 2.9% in July, moving below 3% for the first time since March 2021. At the same time, core-CPI has continued to slowly dissipate, edging lower in 18 of the last 22 months, and falling to 3.2% in July, its lowest reading since April 2021. The consensus is for a further slight decline in the headline rate to 2.6% in August, while the core rate is expected to be unchanged at 3.2%. Despite the improvement in inflation over the past number of months, the University of Michigan measure of consumer sentiment is projected to be little changed in September.
- **Meanwhile in the UK, there will be updates of the labour market and GDP.** In terms of the labour market, there have been some signs of softening this year. The unemployment rate increased steadily from 3.8% in December to 4.4% in April and May, before printing at 4.2% in June. Amid the softening in labour market conditions, average earnings growth has slowed somewhat, despite a significant increase in the minimum wage. Average earnings were 4.5% higher year-on-year in Q2. The unemployment rate is forecast to edge back at 4.1% in July, while the downward trend in earnings growth is set to continue, with average earnings growth slowing to 4.1% y/y in the three months to July. In terms of GDP, the UK economy has performed better than anticipated so far in 2024, with GDP rising by 0.7% q/q in Q1 and by 0.6% q/q in Q2. However, on a monthly basis, GDP flat-lined in June. For July, a modest 0.2% rise in output is expected.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.625	4.125
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.00	5.00	4.50	4.00
BoJ OCR	0.25	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.1085	1.11	1.12	1.13
EUR/GBP	0.8424	0.84	0.84	0.84
EUR/JPY	158.12	160	160	160
GBP/USD	1.3158	1.32	1.33	1.35
USD/JPY	142.64	144	143	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Fri)		
	BoE Speakers:				
	Fed Speakers:				
			US Presidential Debate (Tue)		
Mon 9th	JPN:	00:50	GDP (Q2: Revised Reading)	+0.8%	+0.8%
	JPN:	06:00	Economy Watchers Poll (August)	47.5	
	EU-20:	09:30	EU Sentix Index (September)	-13.9	-12.5
Tue 10th	GER:	07:00	Final HICP Inflation (August)	-0.2% (+2.0%)	-0.2% (+2.0%)
	UK:	07:00	ILO Unemployment Rate (July)	4.2%	4.1%
	UK:	07:00	Employment Change (July)	+97,000	+115,00
	UK:	07:00	Claimant Count (July)	+135,00	
	UK:	07:00	Average Earnings (July)	(+4.5%)	(+4.1%)
			- Ex-Bonus	(+5.5%)	(+5.1%)
	ITA:	09:00	Industrial Output (July)	+0.5% (-2.6%)	-0.1% (-7.2%)
	US:	11:00	NFIB Small Business Optimism (August)	93.7	
Wed 11th	UK:	07:00	GDP (July)	+0.0% (+0.7%)	+0.2% (+1.4%)
			- 3m/3m	+0.6%	+0.6%
	UK:	07:00	Industrial Output (July)	+0.8% (-1.4%)	+0.3% (-0.2%)
			- Manufacturing Output	+1.1% (-1.5%)	+0.2% (-0.1%)
	UK:	07:00	Goods Trade Balance (July)	-£18.9bn	-£18.1bn
	US:	13:30	CPI Inflation (August)	+0.2% (+2.9%)	+0.2% (+2.6%)
			- Core-CPI	+0.2% (+3.2%)	+0.2% (+3.2%)
Thu 12th	UK:	00:01	RICS Survey (August)	-19.0	-14.0
	SPA:	08:00	Final HICP Inflation (August)	+0.0% (+2.4%)	+0.0% (+2.4%)
	IRL:	11:00	CPI Inflation (August)	+0.2% (+2.2%)	+0.1% (+1.7%)
			- HICP Inflation	Flash: +0.1% (+1.1%)	+0.1% (+1.1%)
	EU-20:	13:15	ECB Interest Rate Decision		
			- Re-fi Rate	4.25%	3.65%
			- Deposit Rate	3.75%	3.50%
	US:	13:30	Initial Jobless Claims (w/e 2nd September)	+227,000	+231,000
	US:	13:30	PPI Final Demand (August)	+0.1% (+2.2%)	
			- Ex-Food & Energy	+0.0% (+2.4%)	
	EU-20:	13:45	ECB Press Conference		
Fri 13th	FRA:	07:45	Final HICP Inflation (August)	+0.6% (+2.2%)	+0.6% (+2.2%)
	EU-20:	10:00	Industrial Production (July)	-0.1% (-3.9%)	-0.3% (-2.7%)
	US:	15:00	Prelim. Uni. Michigan Consumer Sentiment (Sept)	67.9	68.0

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

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