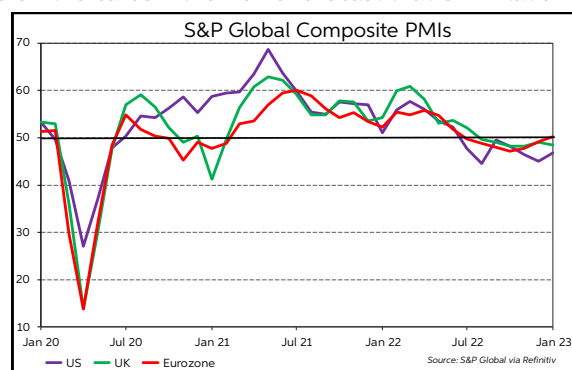


A Sticky Wicket

- **The UK economy has become a marked underperformer, a record that stretches back to the start of the pandemic in 2020 and Brexit.** UK GDP fell by a whopping 11% that year, compared to much smaller declines of 6.3% for the Eurozone and 2.8% in the US. It was hoped that this gap would be closed by a much stronger rebound by the UK economy in 2021-2022. However, the level of UK GDP at end 2022 was still 0.8% lower than at end 2019. By contrast, GDP exceeded its end 2019 level by 2.4% in the Eurozone and 5.1% in the US at end 2022. Even looking at the quarterly profile of UK GDP growth last year shows a very disappointing picture, at 0.5%, 0.1%, -0.2% and 0.0% for the four quarters. By contrast, the Eurozone economy grew by 0.6%, 0.9%, 0.3% and 0.1% in the four quarters, a cumulative 1.5% more than the UK and outperforming it in every quarter.
- **The marked underperformance of the UK economy is not expected to abate anytime soon, judging by some very recent forecasts.** The IMF is projecting that UK GDP will contract by 0.6% in 2023, the only major economy that it expects to go into recession this year. Its forecast is right in line with the BoE, which is also projecting a fall in UK GDP in 2023, of 0.5%. In contrast, the European Commission is projecting growth of 0.9% for the Eurozone economy this year. Meanwhile, the IMF sees the Eurozone economy expanding by 0.7% in 2023, with US GDP rising by 1.4%. For 2024, the IMF sees the UK economy expanding by 0.9%, while the BoE is much more pessimistic, in predicting a further fall in GDP, of 0.25%. By comparison, both the IMF and EC are forecasting that the Eurozone economy will grow by circa 1.5% in 2024.
- **There are numerous reasons for the UK's underperformance.** Brexit is having an ongoing negative impact on trade and foreign direct investment. Labour force growth has been very anaemic, with many workers leaving the workforce due to long-term illness or early retirement, while inward migration from the EU has declined sharply post Brexit. Meantime, unlike in most other countries, the UK has had to pursue fiscal tightening to stabilise the public finances. The rate of inflation in the UK has also risen to a higher level than in most other economies, partly reflecting its heavier dependence on gas which surged in price last year. This is putting marked downward pressure on real household incomes, which are also being hit by rising mortgage rates.
- **The weak performance of the UK economy has taken its toll on sterling.** While the currency has recovered from its autumn lows, it is still well below the levels of a year ago. Cable (GBP/USD) is trading at \$1.20, down from \$1.36 last spring, while the euro has risen from 83p to 89p over the past twelve months. It is difficult to see sterling recovering this lost ground given the bleak outlook for the UK economy. The challenge facing sterling will be even greater if the economy's weak performance sees the BoE start to cut rates well ahead of other central banks. This could well be on the cards if the BoE's forecast that UK inflation will fall comfortably below 2% next year, proves correct.
- **Turning to the week ahead, the main release of note will be the flash PMIs for the US, Eurozone and UK for February.** In the US, the services and the manufacturing PMIs improved in January, but they remained in contraction territory. Both indices are forecast to remain at low levels in February, little changed from January. Meanwhile, in the Eurozone, both sector readings edged higher for the second consecutive month in January, with the services index moving above 50 in the process. The consensus for February is that the services sector will rise to 51.0 from 50.8, as it continues to outperform the manufacturing sector, which is projected to improve slightly to 49.3 from 48.8. Similarly, in the UK, services have held up better than manufacturing recently, albeit both sectors have been in contraction mode. This trend is set to continue, with the former seen as rising to 49.2, while the latter is expected to increase to 47.4.
- **Elsewhere in terms of survey data, Eurozone consumer confidence is expected to improve once again in February.** The flash reading is forecast to rise to -19.0, from -20.9 in January. Similar improvements in German and French consumer sentiment are anticipated also. The closely followed German Ifo is projected to rise to 91.4 in February, from 90.2 as well. Meanwhile, the final reading of Eurozone HICP inflation for January is set to be revised higher now that the German statistics office has submitted its data. The consensus is for headline HICP to come in at 8.6%, up from 8.5% as registered earlier this month.
- **In the US, the January reading of core-PCE inflation will garner close attention.** In December, core-PCE fell for the third consecutive month to 4.4%, its lowest level since October 2021. The year-on-year rate is projected to ease again, to 4.3% in January. Meanwhile, consumer spending stagnated in real terms in November, and fell in December, as high prices and slowing income growth impacted households. A sharp rebound of circa 1% in real consumption is expected in January though, as indicated by a very strong retail sales report for the month. Elsewhere, the January Fed FOMC meeting minutes will be of keen interest, as a number of officials have stated they were in favour of a larger 50bps rate hike, than the 25bps increase that was delivered at that meeting. **In the UK, consumer confidence (February) will feature. Irish Q4 2022 labour force data are also due.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2023	2023	2023
Fed Funds	4.625	4.875	5.125	5.125
ECB Deposit	2.50	3.00	3.50	3.50
BoE Repo	4.00	4.25	4.25	4.25
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 Q1	End Q2	End Q3
		2023	2023	2023
EUR/USD	1.0655	1.09	1.10	1.12
EUR/GBP	0.8878	0.88	0.89	0.89
EUR/JPY	143.17	141	140	140
GBP/USD	1.1996	1.24	1.24	1.26
USD/JPY	134.40	129	127	125
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 20th - Friday 24th February

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Panetta (Fri)		
	BoE Speakers:		Mann, Cunliffe (Thu); Tenreyro (Fri)		
	Fed Speakers:		Williams (Wed); Bostic (Thu); Mester, Jefferson, Collins (Fri)		
Mon 20th	US:		President's Day (Market Holiday)		
	EU-19:	15:00	Flash EC Consumer Confidence (February)	-20.9	-19.0
Tue 21st	JPN:	00:30	Flash Jibun Composite (February)	50.7	
	FRA:	08:15	Flash S&P Composite PMI (February)	49.1	50.1
	GER:	08:30	Flash S&P Composite PMI (February)	49.9	50.4
	EU-19:	09:00	Flash S&P Composite PMI (February)	50.3	50.6
			- Manufacturing / Services	48.8 / 50.8	49.3 / 51.0
	UK:	09:30	Flash S&P /CIPS Composite PMI (February)	48.5	48.7
			- Manufacturing / Services	47.0 / 48.7	47.4 / 49.2
	GER:	10:00	ZEW Economic Sentiment (February)	16.9	22.0
	US:	14:45	Flash S&P Composite (February)	46.8	47.5
			- Manufacturing / Services	46.9 / 46.8	47.1 / 47.1
	US:	15:00	Existing Home Sales (January)	4.0m / -1.5%	4.1m / +1.9%
Wed 22nd	GER:	07:00	Final HICP (January)	+0.5% (+9.2%)	+1.0% (+9.2%)
	FRA:	07:45	INSEE Business Climate (February)	102	103
	GER:	09:00	Ifo Business Climate (February)	90.2	91.4
	ITA:	09:00	Final HICP (January)	-1.3% (+10.9%)	-1.3% (+10.9%)
Thu 23rd	EU-19:	10:00	Final HICP (January)	-0.4% (+8.5%)	-0.2% (+8.6%)
			- Ex-Food & Energy	+0.7% (+7.0%)	-0.7% (+7.0%)
	IRL:	11:00	Labour Force Survey (Q4 2022)		
			- Unemployment Rate	4.4%	4.5%
	US:	13:30	GDP (Q4: Second Reading)	+2.9% s.a.a.r.	+2.9% s.a.a.r.
	US:	13:30	PCE Prices (Q4: Second Reading)	+3.2% s.a.a.r.	+3.2% s.a.a.r.
			- Core-PCE Prices	+3.5% s.a.a.r.	+3.5% s.a.a.r.
	US:	13:30	Initial Jobless Claims (w/e 13th February)	+19400	+200,000
	JPN:	23:30	CPI Inflation (January)	+0.2% (+4.0%)	+0.4% (+4.2%)
			- Ex-Food & Energy	+0.2% (+4.0%)	
Fri 24th	UK:	00:01	Gfk Consumer Confidence (February)	-45	-42
	GER:	07:00	GDP (Q4: Detailed Reading)	-0.2% (+1.1%)	-0.2% (+1.1%)
	GER:	07:00	Gfk Consumer Sentiment (March)	-33.9	-30.4
	FRA:	07:45	INSEE Consumer Confidence (February)	80	81
	US:	13:30	Personal Income / Consumption	+0.2% / -0.3%	+0.9% / 1.3%
	US:	13:30	PCE Prices (January)	+0.1% (+5.0%)	
			- Core-PCE Prices (January)	+0.3% (+4.4%)	+0.4% (+4.3%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Feb)	66.4	66.4
	US:	15:00	New Home Sales (January)	+0.6m / +2.3%	+0.6m / +0.6%

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

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