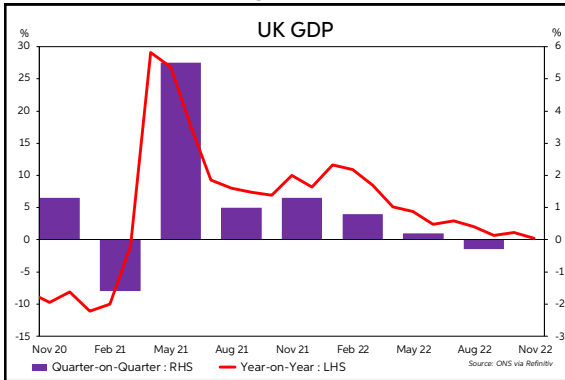


## Got Sunshine on a Cloudy Day

- **The title of the IMF's recent World Economic Outlook Update sums up the current state of the global economy quite well; "Inflation Peaking amid Low Growth".** For advanced economies, CPI rates are seen falling from an average 7.3% in 2022 to 4.6% in 2023 and to 2.6% in 2024. The process is already underway, with headline inflation in the Eurozone declining to 8.5% in January from a peak of 10.6% in October, while the US CPI rate stood at 6.5% in December, down from 9.2% last June. The recent further falls in energy and food commodity prices will see this trend continue. The UK, which has a heavy reliance on gas, will benefit in particular. Inflation is still very high in the UK at 10.5%. However, the BoE expects the CPI rate to fall sharply over the next year and is projected to end 2024 at 1.5%.
  - **The IMF made slight upward adjustments to its global growth forecasts for 2022 and 2023, raising them by 0.2 percentage points for both years, reflecting stronger than expected performances by numerous economies in the second half of last year.** In terms of the outlook, the IMF sees the world economy expanding by 2.9% in 2023 and 3.1% in 2024. Thus, no global recession, but these growth rates are well below the historical norm – the world economy averaged growth of 3.8% in the period 2000-2019 – so it points to a period of weak activity ahead. Moreover, growth in advanced economies is projected to be particularly subdued, averaging just 1.2% in 2023 and 1.4% in 2024.
  - **However, this could be viewed as a relatively positive outcome given the scale of the shock inflicted on a world economy that was just recovering from a global pandemic.** Real household incomes have taken a hammering from the surge in inflation to circa double-digit levels, while the rise in interest rates will now be of the order of 400-500bps in most Western economies. Perhaps the most important change in the recent IMF Update, though, was in its assessment of the balance of risks facing the world economy. While the risks remain tilted to the downside, the IMF says adverse risks have moderated since its previous update in October. The ECB, at its latest policy meeting, also commented the risks to the economic outlook have become more balanced, with the BoE also making a similar observation. In particular, fears of a recession are abating in most economies on the back of the sharp decline in commodity prices over the past few months.
  - **Risks remain, though.** The IMF notes an escalation of the War in Ukraine remains a major source of vulnerability, particularly for Europe and lower-income countries. Refilling gas storage supplies in Europe in the face of much lower Russian flows will be challenging ahead of next winter. Meanwhile, core inflation could prove sticky, especially if the tightness in labour markets continues to exert upward pressures on wages. This is a clear concern at present for central banks and would necessitate interest rates being even higher for longer. We have not yet seen the full effects either of the sharp tightening of monetary policy over the past year, with capacity also for serious debt distress problems in low-income and emerging economies. Thus, dark clouds still loiter amid some early rays of spring sunshine.
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**UK GDP**

Period	Quarter-on-Quarter (RHS) %	Year-on-Year (LHS) %
Nov 20	-10	-10
Feb 21	-5	-10
May 21	25	5
Aug 21	5	10
Nov 21	5	10
Feb 22	5	10
May 22	5	10
Aug 22	5	10
Nov 22	5	10

Source: ONS via Refinitiv
- **Turning to the week ahead, the main highlight will be the first reading of UK GDP for Q4.** In Q3, GDP contracted by 0.3%, partly due to the cancellation of public events and an extra Bank Holiday to mark the Queen's passing. The most recent hard data remained soft, but suggest economic growth was not as weak in Q4. The monthly readings of GDP show the economy rebounded by 0.5% in October, and grew by 0.1% in November. This puts the average level GDP in Q4 so far, 0.1% higher than in Q3. However, retail sales fell by 1% in December, industrial production likely declined, and the composite PMI remained below 50, consistent with a contraction in activity. The consensus is GDP fell by 0.3% in December, leaving it flat for the quarter overall. Meanwhile, industrial production which has contracted every month since March is forecast to fall by 0.2% in December.
  - **In the Eurozone, retail sales data for December will feature.** Retail sales have been very volatile over the past few months, rising by 0.8% in September, falling by 1.5% in October, before rebounding again, by 0.8% in November. A 2.5% fall in the month is pencilled in for December, meaning that on a quarterly basis, retail sales would be 1.3% lower in Q4 than in Q3. Elsewhere, the flash reading of German HICP inflation for January, which was postponed last week, will garner some attention. A 1.4% increase in consumer prices is expected in January, resulting in the annual rate rising to 10% from 9.6% in December. This would indicate that the flash reading of Eurozone HICP, which fell to 8.5%, will likely be revised higher later this month.
  - **The only release of note in the US is the University of Michigan measure of consumer sentiment for February.** The survey, which focuses on US households finances, shows that consumers were very concerned about the squeeze on their incomes from surging inflation and higher interest rates in 2022. Given inflationary pressures have shown signs of easing more recently, the index has been tracking steadily higher since reaching its nadir in June, albeit it remains at very low levels. However, in February, the index is projected to be unchanged.

	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	1.0851	1.09	1.10	1.12
EUR/GBP	0.8952	0.88	0.89	0.89
EUR/JPY	141.95	141	140	140
GBP/USD	1.2120	1.24	1.24	1.26
USD/JPY	130.80	129	127	125
Current Rates Reuters, Forecasts AIB's ERU				

# ECONOMIC DIARY

## Monday 6th - Friday 10th February

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		Schnabel (Tue); <b>Lagarde</b> , de Guindos (Thu); <b>Lagarde</b> , de Guindos (Fri)		
	<b>BoE Speakers:</b>		Pill, Mann (Mon); Pill, Cunliffe, Ramsden (Tue); <b>Bailey</b> , Pill, Haskel, Tenreyro (Thu); Pill (Fri)		
	<b>Fed Speakers:</b>		Bullard (Mon); <b>Powell</b> , Barr (Tue); Williams, Cook, Bostic, Kashkari, Waller, Barr (Wed); Waller, Harker (Fri)		
<b>Mon 6th</b>	<b>IRL:</b>		<b>St. Bridgids Day Bank Holiday</b>		
	<b>GER:</b>	07:00	Industrial Orders (December)	-5.3%	+2.0%
	<b>EU-20:</b>	09:30	Sentix Index (February)	-17.5	-12.6
	<b>EU-19:</b>	10:00	Retail Sales (December)	+0.8% (-2.8%)	-2.5% (-2.7%)
<b>Tue 7th</b>	<b>GER:</b>	07:00	Industrial Output (December)	+0.2% (-0.5%)	-0.6% (-1.7%)
	<b>FRA:</b>	07:45	Trade Balance (December) - Exports	-€13.8bn €51bn	
<b>Wed 8th</b>	<b>JPN:</b>	05:00	Economy Watchers Poll (January)	47.9	
	<b>ITA:</b>	09:00	Retail Sales (December)	+0.8% (+4.4%)	
<b>Thu 9th</b>	<b>GER:</b>	07:00	Flash HICP (January)	-1.2% (+9.6%)	+1.4% (+10.0%)
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 30th January)	+183,000	+195,000
<b>Fri 10th</b>	<b>CHINA:</b>	01:30	PPI Inflation (January)	(-0.7%)	
	<b>CHINA:</b>	01:30	CPI Inflation (January)	+0.0% (+1.8%)	
	<b>UK:</b>	07:00	GDP (Q4: First Reading)	-0.3% (+1.9%)	+0.0% (+0.4%)
			- GDP (December)	+0.1% (+0.2%)	-0.3% (-0.2%)
	<b>UK:</b>	07:00	Industrial Output (December)	-0.2% (-5.1%)	-0.2% (-5.3%)
			- Manufacturing Output	-0.5% (-5.9%)	-0.2% (-6.1%)
	<b>US:</b>	07:00	Preli. Uni. Michigan Consumer Sentiment (Jan)	64.9	64.8

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

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