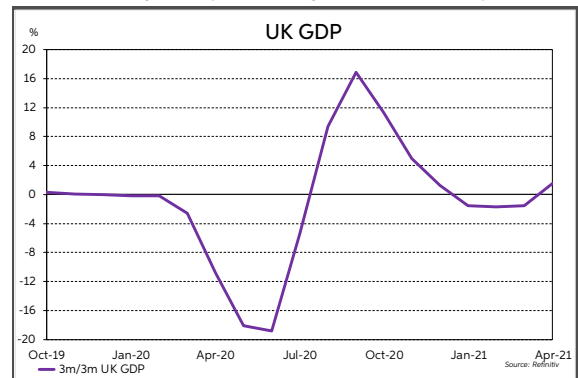


Bucking the Trend

- This week saw both the OECD and World Bank make dramatic cuts to their growth forecasts for the world economy in 2022, largely on the back of the fall-out from the War in Ukraine.** The OECD is now projecting global growth of 3% for this year, down from its previous estimate of 4.5% made at end 2021. The World Bank has cut its 2022 forecast from 4.2% to 2.9%. Meanwhile, we have also seen the Central Bank of Ireland, ESRI, Dept. of Finance and others lower their growth forecasts for Ireland in recent months. Recent data, though, suggest that we could well see Irish GDP growth forecasts revised upwards again, in marked contrast to the trend elsewhere.
- Irish National Accounts data released last week show a very robust opening quarter for the year, despite some sluggishness in spending. Output rose strongly across the economy.** We know the multi-national sector of the economy is performing strongly, with output up by 13.4% on year earlier levels in the first quarter. Meanwhile, output in the rest of the economy picked up strongly in the first quarter as the last of the COVID restrictions on activity were lifted, rising by 7.6% on its level in the previous quarter. This was led by a 12% increase in hospitality, transport and distribution, but output rose strongly across all private sector services as the economy reopened fully.
- The one soft spot in the economy in the opening quarter was domestic spending, which was still being held back by COVID restrictions in place during the first month of the year, as well as ongoing disruptions to supply chains, most notably in the motor trade.** Consumer spending fell by 0.7% in the first quarter. This is consistent with the trend in retail sales data for the period. Overall, modified final domestic demand (which excludes certain categories of global investment activity that distort the data) fell by 1%. However, when one includes the rebuilding of inventories, modified total domestic demand rose strongly in the quarter, in line with the increase in output in domestic sectors of the economy. **The available data for the second quarter point to ongoing strong growth in activity,** with a large rise in retail sales in April, strong services and manufacturing PMI surveys for April and May, as well as a further decline in the unemployment rate and continuing buoyant tax receipts.
- The latest forecasts are for Irish GDP to grow by around 6% this year. However, even if GDP remained unchanged over the remainder of the year from its level in quarter one, it would grow by 8% in 2022. **Thus, we can expect to see Irish GDP forecasts revised upwards over the summer.** Meanwhile, the domestic economy looks to be on course to grow by around 5%. The strength of the economy is likely to see the Irish public finances move back in to a budget surplus in 2022 in marked contrast to the deficit of €8.25bn projected in the Budget. It is also resulting in much lower unemployment. The current forecasts are for the Irish unemployment rate to average 6% or above this year. However the rate had dropped to 4.7% by May, so expect big downward revisions to these forecasts. The Irish economy will eventually be impacted by a slowing world growth, elevated inflation and higher interest rates, but its looks set to buck the global trend in 2022.
- This week, a key event will be the latest Fed meeting.** Having raised rates by 50bps in May, another 50bps hike is expected, bringing the Fed Funds target range up to 1.25-1.5%. Meanwhile, the latest interest rate projections ('dot plot') will garner close attention, as investors look for guidance as to where the terminal rate may lie. Markets have around 200bps of rate hikes priced in between now and year end. This would see the Fed Funds target range rise to 2.75-3.00%.
- Elsewhere, the BoE meeting also occurs this week.** The MPC raised rates for the fourth consecutive meeting in May, increasing the Bank rate by 25bps to 1%. Three members, though, voted for a 50bps hike. However, in an important change to its forward guidance, some members of the MPC noted that it was no longer appropriate to guide markets that some further tightening in monetary policy is apt in the coming months. Nevertheless, a further 25bps rate hike is expected this week. The market sees the Bank rate rising to 2.5% by end 2022.
- Data-wise, there is a busy schedule this week.** In the UK, a raft of labour market metrics as well as GDP figures for April feature. The unemployment rate is forecast to edge down to 3.6%, while GDP is expected to rise by a modest 0.2% m/m. The US diary includes retail sales for May with a modest 0.2% monthly increase being forecast. Meantime, US industrial production is expected to continue its solid performance, with a 0.4% rise anticipated in May. In the Eurozone, the main release of note is industrial production data for April, which is expected to register a 0.5% m/m increase.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2022	2022	2022	2022
Fed Funds	0.875	1.375	2.125	2.625
ECB Deposit	-0.50	-0.50	0.25	1.00
BoE Repo	1.00	1.25	1.75	2.00
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 Q2	End Q3	End Q4
	2022	2022	2022	2022
EUR/USD	1.0510	1.05	1.06	1.07
EUR/GBP	0.8510	0.85	0.86	0.87
EUR/JPY	140.93	140	142	144
GBP/USD	1.2349	1.24	1.23	1.23
USD/JPY	134.04	133	134	135

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos (Mon); Tuomien, McCaul, Schnabel(Tue); Panetta, Lagarde , (Wed) de Guindos (Fri)		
	BoE Speakers:			
	Fed Speakers:			
Mon 13th	UK:	07:00 GDP (April) - 3m/3m	-0.1% (+6.4%) +0.8%	0.2% (+3.9%) +0.4%
	UK:	07:00 Industrial Output (April) - Manufacturing Output	-0.2% (+0.7%) -0.2% (+1.9%)	+0.2% (+1.7%) +0.2% (+1.8%)
	UK:	07:00 Goods Trade Balance (April) - Non-EU	-£23.9bn -£13.8bn	-£22.5bn
Tue 14th	GER:	07:00 Final HICP (May)	+1.1% (+8.7%)	+1.1% (+8.7%)
	UK:	07:00 Unemployment Rate (March)	3.7%	3.6%
	UK:	07:00 Average Earnings (3 mnths to March) - Ex-Bonus	(+7.0%) (+4.2%)	(+7.6%) (+4.0%)
	UK:	07:00 Claimant Count (April)	-56.9k	
	GER:	10:00 ZEW Economic Sentiment (June)	-34.3	-27.5
	US:	11:00 NFIB Business Optimism (May)	93.2	
	US:	13:30 PPI Final Demand (May) - Ex-Food & Energy	+0.5% (+11.0%) +0.4% (+8.8%)	+0.8% (+10.9%) +0.6% (+8.6%)
Wed 15th	JPN:	00:50 Machinery Orders (April)	+7.1% (+7.6%)	-1.5% (+5.3%)
	CHINA:	03:00 Industrial Output (May)	(-2.9%)	(-0.5%)
	CHINA:	03:00 Retail Sales (May)	(-11.1%)	(-7.3%)
	FRA:	07:45 Final HICP (May)	+0.7% (+5.8%)	+0.7% (+5.8%)
	EU-19:	10:00 Total Trade Balance (April)	-€17.6bn	
	EU-19:	10:00 Industrial Production (April)	-0.8% (-1.8%)	+0.5% (-1.1%)
	IRL:	11:00 Residential Property Price Index (April)	+0.6% (+15.2%)	+0.6% (+14.9%)
	US:	13:30 NY Fed Manufacturing PMI (June)	-11.6	+5.0
	US:	13:30 Retail Sales (May) - Ex-Autos - Ex-Gas & Autos	+0.9% +1.0% +1.0%	+0.2% +0.8%
	US:	15:00 NAHB Homebuilder Sentiment (June)	69	68
	US:	19:00 Fed Funds rate Announcement	0.75-1.00%	1.25-1.50%
	US:	19:30 Fed FOMC Press Conference		
Thu 16th	JPN:	00:50 Trade Balance (May) - Exports	-¥839.2bn (+12.5%)	-¥2,022bn (+16.4%)
	ITA:	09:00 Final HICP (May)	+0.9% (+7.3%)	+0.9% (+7.3%)
	EU-19:	10:00 Labour Costs (Q1) - Wages	(+1.9%) (+1.5%)	
	UK:	12:00 BoE Interest Rate Announcement	1.0%	1.25%
	US:	13:30 Building Permits (May) - Housing Starts	+1.823m / -3.0% +1.724m / -0.2%	+1.788m +1.700m
	US:	13:30 Initial Jobless Claims (w/e +,000)	+229,000	+210,000
	US:	13.30 Philly Fed (June)	2.6	5.5
Fri 17th	JPN	Bank of Japan meeting	-0.1%	-0.1%
	EU-19:	10:00 Final HICP (May) - Ex-Food & Energy	+0.6% (+8.1%) +1.2% (+4.4%)	+0.8% (+8.1%) +0.7% (+4.4%)
	US:	14:15 Industrial Production (May) - Manufacturing Output	+1.1% (+6.4%) +0.8%	+0.4% +0.4%

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