

Sticky inflation won't alter ECB June rate decision

Inflation data across the Eurozone printed slightly higher than expected in May, but are unlikely to alter the ECB's monetary policy decision on Thursday. As signalled by earlier releases from Spain and Germany, the Eurozone inflation data came in at a slightly higher rate than forecast in May. Annual inflation ticked up to 2.6% in May, from 2.4% in April, slightly above the consensus of 2.5%. Two factors drove this rise in May. First, the base effects from earlier energy price cuts have washed through the data, with energy prices (+0.3% y/y) adding to annual headline inflation, albeit marginally, for the first time since April 2023. Second, services inflation remained sticky in May, with the annual rate increasing to 4.1% from 3.7% in April. However, this may reflect temporary factors such as the unwinding of public transport discounts in Germany, and the bounce back in prices following the early Easter in March/April.

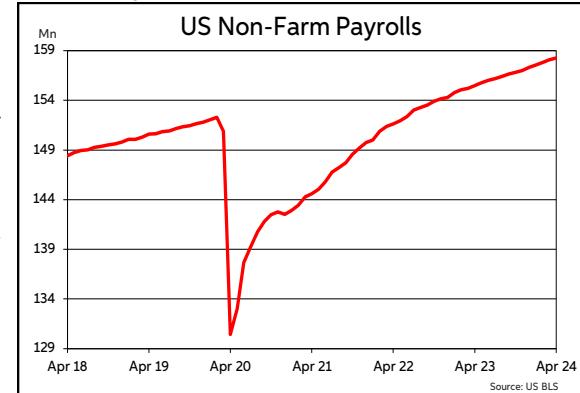
Near term, there may be some upside risk to energy prices, although earlier oil price rises have reversed significantly in recent weeks, with Brent Crude easing from above \$90/barrel at end-April to under \$82 by end-May. Longer term, as we discussed previously, the drivers of services and wider core inflation have dissipated significantly in recent month. The supply chain pressures evident post the pandemic in 2021/22, which drove up wholesale and consumer prices have also declined, as consumer demand normalised and firms built in resilience to geopolitical and trade disruptions.

More importantly, the sharp rise in wages across the Eurozone in recent years, which has underpinned services inflation, appears to be moderating sharply. Surveys such as the Indeed and ECB wage trackers signal a slowdown in pay growth across the Eurozone's major economies. In April, the Indeed data showed a deceleration in advertised wages to 3.4% y/y in the Eurozone, easing from 3.7% in March. **Nonetheless, still high measures of services inflation may embolden the hawks on the ECB to push for a more gradual decline in rates following the expected 25bps cut on Thursday.**

Thus, with the ECB now about to embark on a cutting cycle, the attention has turned to the pace of policy easing. In this regard, ECB Chief Economist Lane has recently given an important speech and interview on the outlook. Lane noted that monetary policy will "need to be restrictive all year long. But within the zone of restrictiveness we (the ECB) can move down somewhat". In other words, the ECB expects to have scope to lower rates throughout the remainder of 2024, but overall the stance of monetary policy will remain tight. This is based on the assessment that "inflation will bounce around this year". However, Lane highlighted that next year, if inflation moves back to target, a debate about removing the restrictiveness of monetary policy will need to be had, with the potential for policy normalisation. With this in mind, President Lagarde can expect to be asked about the pace of rate cuts in the second half of 2024 and into 2025 at the press conference, while the updated staff macro-projections will also be in focus. Current futures pricing is consistent with circa 60bps of cuts by year end, and a further 55bps of rate cuts in 2025.

Data-wise, the main highlight will be the US labour market report for May. In recent months, there have been some signs that conditions in the labour market are starting to soften. The unemployment rate printed at 3.9% in February and April, its highest level since January 2022 (It stood at 3.8% in March). Meantime, having been stuck in a narrow 4.3-4.5% y/y range between August and February, average earnings growth slowed to +4.1 y/y in March, and to +3.9% y/y in April, its lowest level since June 2021. at the same time, payroll growth has been broadly steady, running at +242k per month on average in the three months to April, matching the rate of growth in the November to January period, and just below the average of +251k per month in 2023. However, in May payrolls are forecast to rise by just 180k. Meanwhile average earnings growth and the unemployment rate are expected to remain at +3.9% y/y, and 3.8%, respectively. In terms of some other labour market indicators, JOLTS job openings for April are due. Elsewhere in the US, the manufacturing and non-manufacturing ISMs for May will be released. Both indices were in contraction mode in April, at 49.2 and 49.4. A slight improvement in both surveys is pencilled in for May.

There is a quieter look to the data schedule on this side of the Atlantic. In the Eurozone, the revised reading of Q1 GDP is set to confirm GDP expanded by 0.3% in the quarter. Meanwhile, an update on the German industrial sector in the form of industrial output and orders will feature. Having consistently fallen throughout 2023, German industrial production expanded by 1.3% in January, and by 1.7% in February, before contracting again by 0.4% in March. Worryingly, industrial orders have weakened during Q1. However, both output and orders are forecast to rise by 0.2% and 0.5% in April. **Elsewhere, the European Parliamentary elections will take place at the end of the week.** On the home front, a busy calendar in a holiday shortened week, includes the Exchequer Returns, unemployment rate and the PMIs for May, as well as the preliminary reading of the National Accounts for Q1.



	Interest Rate Forecasts				Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2 2024	End Q3 2024	End Q4 2024	Current	End Q2 2024	End Q3 2024	End Q4 2024
Fed Funds	5.375	5.375	5.125	4.875	EUR/USD	1.0867	1.08	1.10
ECB Deposit	4.00	3.75	3.50	3.25	EUR/GBP	0.8521	0.86	0.87
BoE Repo	5.25	5.25	5.00	4.75	EUR/JPY	170.20	167	171
BoJ OCR	0.10	0.10	0.25	0.25	GBP/USD	1.2750	1.25	1.26

Current Rates Reuters, Forecasts AIB's ERU

	Current	End Q2 2024	End Q3 2024	End Q4 2024
USD/JPY	156.60	155	155	153

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 3rd - Friday 7th June

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:	Schnabel (Fri) Cook (Fri)		
		European Parliamentary Elections (Thursday-Sunday)		
Mon 3rd	IRL: EU-20: UK: US: US:	June Bank Holiday Final HCOB Manufacturing PMI (May) Final S&P Manufacturing PMI (May) Final S&P Manufacturing PMI (May) Manufacturing ISM (May)	47.4 51.3 50.9 49.2	47.4 51.3 50.9 49.8
Tue 4th	IRL: GER: US: US:	AIB Manufacturing PMI (May) Unemployment Rate (May) Factory Orders (April) - Durable Goods JOLTS Job Openings (April)	47.6 5.9% +1.6% +0.7% +8.49m	5.9% +0.6% +8.34m
Wed 5th	JPN: FRA: ITA: FRA: GER: EU-20: UK: EU-20: US: US: US:	Final Jibun Composite PMI (May) Industrial Output (April) HCOB Composite PMI (May) Final HCOB Composite PMI (May) Final HCOB Composite PMI (May) - Final HCOB Services PMI (May) Final S&P Services PMI (May) - Final S&P Services PMI (May) Producer Prices (April) ADP National Employment (May) Final S&P Composite PMI (May) - Final Services PMI (May) Non-Manufacturing ISM (May)	52.4 -0.3% 52.6 49.1 52.2 52.3 53.3 52.8 52.9 -0.4% (-7.8%) +192,000 54.4 54.8 49.4	52.4 +0.2% 49.1 52.2 52.3 53.3 52.8 52.9 -0.5% (-5.1%) +173,000 54.4 54.8 50.5
Thu 6th	IRL: GER: EU-20: IRL: IRL: EU-20: US: EU-20: IRL: EU-20: IRL:	AIB Services PMI (May) Industrial Orders (April) Employment (Q1: Final Reading) Unemployment Rate (May) National Accounts (Q1: Provisional Reading) - GDP ECB Interest Rate Announcement - Deposit Rate - Re-fi Rate Initial Jobless Claims (w/e 27th May) ECB Post-Meeting Press Conference Exchequer Returns (May) - Ex-Transfer to NRF	53.3 -0.4% +0.3% (+1.0%) 4.4% Flash: +1.2% (-0.8%) 4.50% 4.00% +219,000 May'23: -€0.6bn May'23: +€3.4bn	+0.5% 4.4% 4.25% 3.75% +220,000 May'24: +€1.2bn May'24: +€1.2bn
Fri 7th	GER: GER: FRA: EU-20: US:	Industrial Output (April) Trade Balance (April) - Exports Trade Balance (April) GDP (Q1: Revised Reading) Non-Farm Payrolls (May) - Unemployment Rate - Average Earnings (May)	-0.4% (-3.4%) +€22.3bn +0.9% -€5.5bn +0.3% (+0.4%) +175,000 3.9% +0.2% (+3.9%)	+0.2% +1.1% +0.3% (+0.4%) +180,000 3.9% +0.3% (+3.9%)

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

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