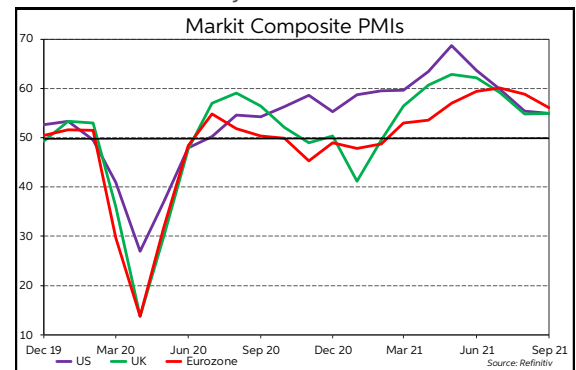


Not That Taxing

- Budget 2022 was framed against a backdrop of a strongly recovering economy and rapidly improving public finances as Ireland emerges from the grips of the Covid-19 pandemic, although, the virus is still very much with us.** The strength of the recoveries in both the labour market and public finances is particularly striking. Employment has rebounded strongly during 2021. This is reflected in the sharp decline in the jobless rate (including those on the Pandemic Unemployment Payment) from 27% earlier in the year to 10% by September, with the number continuing to fall in early October. Ireland is not unique in this regard, with the unemployment rates in both the UK and US now back below 5%. However, Ireland is enjoying a much quicker recovery in its public finances than elsewhere.
- The Irish economy entered last year's severe global recession in good shape, with surpluses in both the Government finances and balance of payments, full employment, low private sector debt levels and no sign of imbalances within the economy.** The large multinational sector performed very strongly through the pandemic, registering rapid export growth. Meanwhile, the domestic economy has benefited from enormous fiscal supports, which have totalled almost 20% of national income during 2020-21. Thus, the decline in the domestic economy at 5% last year, was considerably less than in most other European countries. Meanwhile, the latest forecasts from the Dept. of Finance and CBI are that the domestic economy will grow by 5.25-5.5% this year, recovering all the ground lost in 2020.
- The most striking thing about the public finances this year has been the strength of tax receipts.** Total tax revenues fell from €59.3bn in 2019 to €57.2bn in 2020, a decline of 3.5%. Tax receipts, though, have surged this year, with the DoF now forecasting that they will increase by 15.5%, or circa €9bn, to over €66bn. With Covid-19 related spending declining at a quicker than expected pace following a highly successful vaccination campaign, the outlook for the public finances has been transformed. The budget deficit is now anticipated to come in at €13.25bn in 2021, far below the target of €20bn. With the strong economic recovery expected to be sustained in the next couple of years, the budget deficit is projected to fall to €8.25bn in 2022 and just above €1bn in 2023.
- Thus, in the space of a couple of years, it is expected that a very large budget deficit, equating to almost 9% of national income, will be eliminated, without the need for any fiscal tightening.** This is crucially dependent, though, on a continuation of the strong economic recovery. Perhaps the biggest risk to the favourable outlook for the economy and public finances is that the current upsurge in inflation proves sustained. This would almost certainly trigger a marked tightening of monetary policy, with an end to QE and significant rate hikes. It is doubtful in this situation, whether fiscal policy could provide the type of support to the economy seen in the past two years. Governments could no longer rely on the support of substantial bond purchases by central banks and exceptionally low funding costs. Thus, it is important that inflation falls back over the course of next year to allow macroeconomic policy to remain supportive of the recovery.
- This week, the main release will be the flash PMIs for October in the US, UK and Eurozone.** Although, the composite PMIs stayed firmly in expansion mode in all three regions in Q3, they declined in the US and UK, as the Delta variant led to a larger surge in Covid-19 cases there, than in the Eurozone. In the US, the composite PMI averaged 56.8 in Q3 versus 65.3 in Q2, while in the UK, it declined to 56.3 in the third quarter from 62.0 in the second. In contrast, the Eurozone PMI rose from 56.7 to 58.4. This also reflects that Eurozone economies opened later than in the US and UK. In September though, both sector readings declined across the board, albeit they remained well above 50. A further small fall is pencilled in for the UK and Eurozone in October, while the PMIs are forecast to be unchanged in the US.
- Meanwhile, despite reports of widespread supply chain problems, US industrial production is forecast to rise by 0.2% in September.** This though, would be the slowest increase in production since April. We also get a raft of housing market data from the US, including housing starts and existing home sales.
- Elsewhere, CPI inflation and retail sales will be released in the UK.** CPI is projected to rise by 0.4% in September, leaving the year-on-year rate unchanged at 3.2%. The core rate is expected to edge lower to 3.0% from 3.1%. Having declined by 0.9% in August, retail sales are forecast to rebound by 0.4% in September. Meanwhile, consumer sentiment is due in the UK and the Eurozone next week, with both indices set to deteriorate in October.



	Interest Rate Forecasts			
	Current	End Q4 2021	End Q1 2022	End Q2 2022
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.25	0.50
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 Q4 2021	End Q1 2022	End Q2 2022
EUR/USD	1.1599	1.16	1.15	1.14
EUR/GBP	0.8426	0.84	0.84	0.83
EUR/JPY	132.44	132	131	130
GBP/USD	1.3765	1.38	1.37	1.37
USD/JPY	114.16	114	114	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Panetta, Lane (Tue)		
	BoE Speakers:	Cunliffe (Mon); Bailey , Pill, Mann (Tue)		
	Fed Speakers:	Quarles, Kashkari, George (Mon); Daly, Waller, Bostic (Tue); Quarles, Bostic, Kashkari, Evans, Bullard (Wed); Waller (Thu); Daly (Fri)		
Mon 18th	CHINA:	03:00 Industrial Output (September)	(+5.3%)	(+4.5%)
	CHINA:	03:00 Retail Sales (September)	(+2.5%)	(+3.3%)
	CHINA:	03:00 GDP (Q3: First Reading)	+1.3% (+7.9%)	+0.5% (+5.2%)
	US:	14:15 Industrial Production (September)	+0.4% (+6.0%)	+0.2% (+6.6%)
		- Manufacturing Output	+0.2%	+0.3%
		- Capacity Utilisation	76.4%	76.5%
	US:	15:00 NAHB Homebuilder Sentiment (October)	76	75
Tue 19th	US:	13:30 Housing Starts (September)	+1.62m / +3.9%	+1.62m / +0.3%
		- Building Permits	+1.72m /	+1.68m / -2.3%
Wed 20th	JPN:	00:50 Trade Balance (September)	-¥635.4Bn	-¥519.2Bn
		- Exports	(+26.2%)	(+11.0%)
	UK:	07:00 CPI (September)	+0.7% (+3.2%)	+0.4% (+3.2%)
		- Core	+0.7% (+3.1%)	+0.3% (+3.0%)
	UK:	07:00 PPI Output Prices (September)	+0.7% (+5.9%)	
		- Input Prices	+0.4% (+11.0%)	
	EU-19:	10:00 Final HICP (September)	+0.4% (+3.4%)	+0.5% (+3.4%)
		- Ex-Food & Energy	+0.2% (+1.9%)	+0.2% (+1.9%)
Thu 21st	FRA:	07:45 INSEE Business Climate (October)	106	105
	UK:	11:00 CBI Trend Orders (October)	22	
	US:	13:30 Initial Jobless Claims (w/e 11th October)	+293,00	+298,000
	US:	13:30 Philly Fed Index (October)	30.7	25.0
	EU-19:	15:00 Flash Consumer Confidence (October)	-4.0	-5.3
	US:	15:00 Existing Home Sales (September)	+5.88m / -2.0%	+6.01m / +2.2%
Fri 22nd	UK:	00:01 Gfk Consumer Confidence (October)	-13	-16
	JPN:	00:30 CPI (September)	+0.0% (+0.0%)	
		- Ex-Food & Energy	-0.1% (-0.8%)	
	JPN:	01:30 Flash Jibun Manufacturing PMI (October)	51.5	
	UK:	07:00 Retail Sales (September)	-0.9% (+0.0%)	+0.4% (-0.5%)
		- Ex-Fuel	-1.2% (-0.9%)	+0.4% (-1.7%)
	FRA:	08:15 Flash Markit Composite PMI (October)	55.3	54.8
	GER:	08:30 Flash Markit Composite PMI (October)	55.5	54.0
	EU-19:	09:00 Flash Markit Composite PMI (October)	56.2	55.2
		- Manufacturing / Services	58.6 / 56.4	57.0 / 55.4
	UK:	09:30 Flash Markit / CIPS Composite PMI (October)	54.9	54.0
		- Manufacturing / Services	57.1 / 55.4	55.5 / 54.6
	US:	14:45 Flash Markit Composite PMI (October)	55.0	55.2
		- Manufacturing / Services	60.7 / 54.9	60.7 / 55.2

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