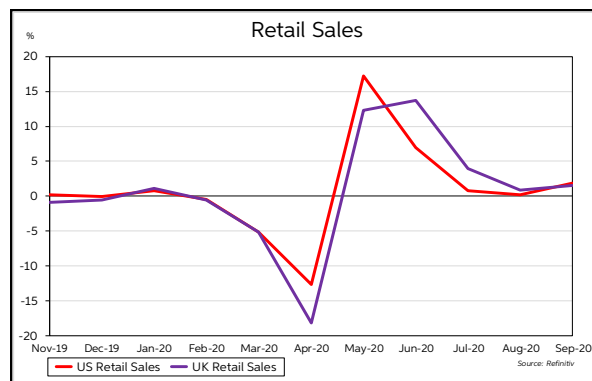


## Fast Moving Target

- Economic forecasting this year has been like trying to shoot a fast moving target.** As soon as you are locked in, the elusive target moves. Even forecasts published over a month ago by the IMF and OECD have been overtaken by events. A second wave to the coronavirus really took hold in many developed economies during October, resulting in the re-imposition of restrictions on activity, with many European countries going back into lockdown. The economic recovery seen in the third quarter has been stopped in its tracks, with many countries now looking at a double-dip recession in the fourth quarter. The virus is also proving persistent, which means the consequent economic restrictions are likely to extend well into next year. As a result, growth forecasts for 2020 and 2021 are being revised down. The Bank of England last week lowered its 2020 UK GDP forecast from -9.5% to -11%, with the projected size of the rebound in growth in 2021 cut from 9% to 7.25%.
- The past week, though, has seen news from Pfizer that it has developed what appears to be a highly effective vaccine, which points to upside risks to growth forecasts over the next couple of years.** There is still considerably uncertainty about the vaccine and it is likely to be mid-2021 or later before it becomes widely available. There are questions about whether the vaccine will be effective among the most vulnerable groups of the population in particular the elderly, how long will immunity last, and if other companies will be able to produce a successful vaccine also, boosting the available supplies. Despite these uncertainties, the news of a vaccine is seen as very positive for the world economy as reflected in the bounce in global stock markets following its announcement. It should allow restrictions to be lifted more quickly over the course of 2021, helping a strong sustained recovery to take root during next year.
- However, it still needs to be borne in mind that this has been a deep and severe recession, which is likely to leave scarring effects and accelerate structural changes that may inhibit the recovery in activity.** Scarring effects include rising numbers of business failures and bad debts, permanent job losses and lower labour force participation rates, inefficient uses of resources as well as long-term damage to confidence. Structural changes that will impact negatively on parts of the economy include a shift to remote working, lower levels of international trade and travel, as well as a fall-off in shopping on the Main Street. There have been casualties already and more are likely, while some sectors will take years to recover from the collapse in demand they have experienced in 2020.
- Thus, central banks will keep monetary policy very accommodative over the next number of years.** Indeed, expanded QE measures are still very much on the cards from the ECB next month. However, a successful vaccine reduces the chances of further rate cuts by central banks next year. Meantime, governments will also need to maintain supports for businesses and households through what is going to be a very challenging winter. Overall, it is still likely to be 2022 before we see a full recovery from the 2020 recession. However, the news of a vaccine means there is now increased confidence about a strong recovery. A vaccine can help unleash the pent-up demand that has built this year as a result of a forced curtailment of consumption, with fuel being provided by an unwinding of the surge in private savings in 2020 and the very pro-growth stance of macroeconomic policy. Markets can smell the recovery, even if it some time off.
- This week, US October retail sales are the main highlight as we start to receive hard data for Q4.** Following a strong rebound in Q3, with GDP rebounding by an annualised growth rate of 33.1%, survey data such as the PMIs and ISMs suggest that the recovery continued in October. The forecast though is for a modest rise of 0.5% m/m in the headline figure,. This would bring retail sales 4.8% above their pre-Covid level. Core retail sales (ex-autos) are expected to rise by 0.6%. On the supply side, the recovery in industrial production has lagged behind the recovery in consumption. It is forecast to rise by 1.0% in October, leaving industrial output some 6% below its February level. An update on the housing market will be provided in the form of existing home sales, housing starts (both October) and the homebuilder sentiment (November). The builder sentiment index is projected to remain at 85, while it is envisaged that home sales will fall slightly. Housing starts are forecast to register a small rise. A number of regional Fed surveys for November are also due, including the bellwether Philly Fed Index (forecast to fall to 24 from 32)
- In the UK, October retail sales will also feature, with a rise of 0.3% anticipated, the smallest increase since the UK emerged from its first lockdown.** The November print of Gfk Consumer confidence may provide an early indication of the impact from the second lockdown, with the index forecast to fall to -34 from -31, an already low level. CPI inflation for October is expected to remain subdued at 0.6%, as transport costs and VAT cuts continue to hold down prices. **In the Eurozone, the flash reading of consumer confidence is the only release of note.** Novembers reading is forecast to fall to -17.6 from an already subdued-15.5.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	2021	2021
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	0.10	0.10
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	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.1828	1.18	1.20	1.22
EUR/GBP	0.8990	0.88	0.88	0.89
EUR/JPY	123.87	124	126	127
GBP/USD	1.3156	1.34	1.36	1.37
USD/JPY	104.72	105	105	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>				
<b>ECB Speakers:</b> Lagarde (Monday); de Guindos, Lagarde (Tuesday); Lagarde, Schnabel (Thursday); Lagarde, de Guindos (Friday)				
<b>BoE Speakers:</b> Haskel (Monday); Bailey, Ramsden (Tuesday); Haldane (Wednesday)				
<b>Fed Speakers:</b> Clarida (Monday)				
<b>Mon 16th</b>	<b>CHINA:</b>	02:00 Industrial Output (October)	(+6.9%)	(+6.5%)
	<b>CHINA:</b>	02:00 Retail Sales (October)	(+3.3%)	(+4.9%)
	<b>ITA:</b>	09:00 Final HICP (October)	+0.6% (-0.6%)	+0.6% (-0.6%)
	<b>US:</b>	13:30 NY Fed / Empire State Index (November)	10.5	13.0
<b>Tue 17th</b>	<b>IRL:</b>	<b>11:00 Labour Force Survey (Q3) Unemployment Rate</b>	<b>4.8%</b>	<b>6.7%</b>
	<b>US:</b>	13:30 Retail Sales (October)	+1.9% (+5.4%)	+0.5% (+5.2%)
		- Ex-Autos	+1.5%	+0.6%
		- Ex-Gas, Autos & Building Materials	+1.4%	+0.5%
	<b>US:</b>	13:30 Industrial Production (October)	-0.6% (-7.3%)	+1.0% (-6%)
		- Capacity Utilisation (October)	71.5%	72.3%
		- Manufacturing Output	-0.3%	+0.9%
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (November)	85	85
	<b>JPN:</b>	00:50 Trade Balance (October)	¥675bn	¥250bn
		- Exports	(-4.9%)	(-4.5%)
<b>Wed 18th</b>	<b>UK:</b>	07:00 CPI (October)	+0.4% (+0.5%)	-0.1% (+0.6%)
		- Core	+0.6% (+1.3%)	+0.1% (+1.3%)
	<b>UK:</b>	07:00 PPI Output Prices (October)	-0.1% (-0.9%)	+0.1% (-0.7%)
		- Input	1.1% (-3.7%)	+0.0% (-2.6%)
	<b>EU-19:</b>	10:00 Final HICP (November)	+0.1% (-0.3%)	+0.2% (-0.3%)
		- Core	+0.1% (+0.2%)	+0.1% (+0.2%)
	<b>IRL:</b>	<b>11:00 Residential Property Prices (September)</b>	<b>+0.3% (-0.6%)</b>	<b>+0.0% (-0.7%)</b>
	<b>US:</b>	13:30 Housing Starts (October)	1.415m / +1.9%	1.455m / +2.8%
		- Building Permits	1.545m / +4.7%	1.560m / +1.0%
<b>Thurs 19th</b>	<b>US:</b>	13:30 Philly Fed Index (November)	32.3	24.0
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 9th November)	709,000	
	<b>US:</b>	15:00 Existing Home Sales (November)	6.54m / +9.4%	6.42m / -1.8%
	<b>JPN:</b>	23:30 CPI (October)	+0.0%	
		- Core	-0.3%	-0.7%
<b>Fri 20th</b>	<b>UK:</b>	00:01 Gfk Consumer Confidence (November)	-31	-34
	<b>JPN:</b>	00:30 Flash Jibun Manufacturing PMI (November)	48.7	
	<b>UK:</b>	07:00 Retail Sales (October)	+1.5% (+4.7%)	+0.3% (+3.9%)
		- Core	+1.6% (+6.4%)	+0.4% (+5.9%)
	<b>EU-19:</b>	15:00 Flash Consumer Confidence (November)	-15.5	-17.6

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

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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