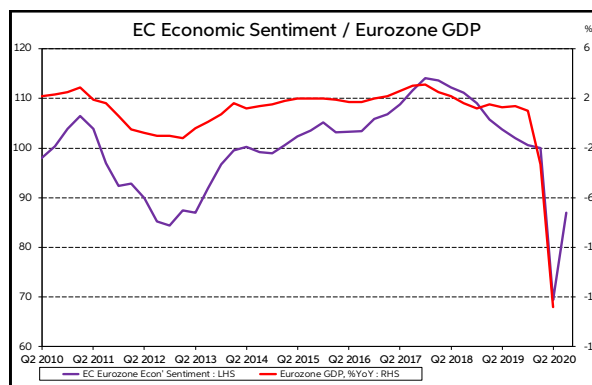


## Back in Lockdown

- Countries across Europe are increasing restrictions to try contain a second wave of Coronavirus, but to date only Wales and Ireland have gone as far as re-imposing national lockdowns.** The Welsh Government has introduced a two week 'fire-break' lockdown, but the Irish government has gone further with a six week lockdown, even though the second wave in Ireland is not particularly virulent compared to elsewhere in Europe. Furthermore, hospitalisation, ICU and mortality rates here remain low relative to the first wave. The number of Covid patients in ICU currently is 37, having reached 30 nearly two weeks ago, hardly a rapid rate of growth. Hospitalisation and mortality rates are much lower across Europe as well. This is not just because the second wave is impacting a broader cohort of the population and not mainly older people as happened in the spring. Countries are better at protecting the most vulnerable sectors of the population, especially the elderly, helped by the more widespread availability of PPE. In addition, treatments have improved, leading to better survival rates for those that are hospitalised.
- The six week lockdown in Ireland is quite a dramatic move, both in a European context and given the nature of this outbreak.** However, it is not as extensive as the lockdown in the spring. Construction, schools and all of manufacturing remain open. There has not been a complete shutdown of sporting activities. A broader range of retail stores are being deemed essential and can stay open. Stores that have to close may also have improved their online capability and can offer click and collect services. Nevertheless, a large part of the services sector of the economy has been shut down again. Employment will take another big hit. We can thus expect to see a large increase in the numbers on the Pandemic Unemployment Payment. These peaked at 600,000 in April before falling back to below 220,000 at end September. This figure could now double again.
- The Dept. of Finance has revised down its 2020 GDP forecast set out in the recent Budget of -2.4% to -3.5%, following the new lockdown.** The lockdown in the first half of the year had a very negative impact on the domestic economy. Modified final domestic demand fell by 1.3% in Q1 and then a whopping 16.4% in Q2. The resilience of exports, though, meant the decline in GDP was much more modest in Q2 at 6.1%, a lot less than in other countries. Thus, Ireland will be an outperformer in Europe this year, despite two lockdowns. The Dept.'s projection of a 3.5% decline in GDP in 2020 compares with expected falls of 8% in the Eurozone and 10% in the UK in the latest OECD Economic Update.
- Ireland, though, needs to be better at managing new waves of the coronavirus if they continue to materialise in 2021.** Rolling lockdowns risk inflicting permanent damage to the economy, especially from long term scarring effects such as rising business failures, increasing bad debts, permanently higher unemployment, lower labour force participation and the less efficient allocation of resources. Ongoing lockdowns would also test the limits of fiscal policy to continue providing high levels of support to the economy, as we are currently seeing in the UK. It will also be interesting to see if other European countries can bring their second waves under control without the need for full lockdowns.
- This coming week, the ECB's October Monetary Policy meeting will take place.** However, policy is expected to remain unchanged as the ECB assesses the economic recovery. At its last Governing Council meeting, the central bank revised its projections for the economic outlook upwards for 2020. The re-imposition of restrictions across the continent however, is likely to dampen the pace of recovery as we move through Q4. Many analysts therefore expect the ECB to act at its policy meeting in December, with an extension to PEPP deemed possible. It will be interesting to see if President Lagarde drops any hints in this regards.
- Staying with the Eurozone, a slew of data are due this week.** The main highlight will be the first reading of Euro-area GDP for Q3. The Euro-area economy rebounded in Q3, with the consensus being GDP increased by 7.8%, following an 11.8% contraction in Q2 and a 3.6% fall in Q1. The Eurozone unemployment rate is projected to edge higher to 8.2% from 8.1% in September. The EC sentiment index for October is forecast to fall back to 89.6 from 91.1, an already subdued level. The preliminary reading of HICP for October is also due. The forecast is for the headline and core rates to remain at -0.3% and 0.4%. The German Ifo is expected to fall back to 92.7 from 93.4 in October, mirroring last weeks PMI data.
- In the US, the first reading of Q3 GDP will also feature.** Output fell by a record 31.4% in annualised terms in Q2, with the Q3 forecast being for a rebound in the order of 32.5%. The Q3 print of the Fed's preferred measure of wage inflation, the wages subcomponent of the Employment Cost Index will also be released. Septembers measure of core-PCE inflation is expected to increase by 1.7%. There are also a number of updates from the consumer side of the economy, with the September reading of consumption forecast to have risen by 1% for the second month running. Meanwhile, consumer confidence for october is expected to be broadly unchanged. **In the UK, house price data are the main release of note.**



	Interest Rate Forecasts			
	Current	End Q4 2020	End Q1 2021	End Q2 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 2020	End Q1 2021	End Q2 2021
EUR/USD	1.1832	1.18	1.20	1.22
EUR/GBP	0.9074	0.88	0.88	0.89
EUR/JPY	124.05	124	126	127
GBP/USD	1.3038	1.34	1.36	1.37
USD/JPY	104.82	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>	de Guindos (Friday)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>			
<b>Mon 26th</b>	<b>IRL:</b>	<b>October Bank Holiday (Market Holiday)</b>		
	<b>GER:</b> 09:00	Ifo Business Climate (October)	93.4	92.7
	<b>US:</b> 14:00	New Home Sales (September)	+1.011m	+1.022m
<b>Tue 27th</b>	<b>EU-19:</b> 09:00	M3 money Supply (September)	(+9.5%)	(+9.6%)
	<b>UK:</b> 11:00	CBI Distributive Trades (October)	11	
	<b>US:</b> 12:30	Durable Goods Orders (September)	+0.5%	+0.7%
	<b>US:</b> 13:00	Case-Shiller House Prices (August)	+0.6% (+3.9%)	-0.2% (+3.7%)
	<b>US:</b> 14:00	Conference Board Consumer Confidence (Oct.)	101.8	101.6
<b>Wed 28th</b>	<b>IRL:</b> 11:00	<b>Retail Sales (September)</b>	<b>+1.3% (+9.1%)</b>	<b>+1.0% (+8.4%)</b>
	<b>JPN:</b> 23:50	Retail Sales (September)	(-1.9%)	(-7.7%)
<b>Thurs 29th</b>	<b>JPN:</b> 00:00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>GER:</b> 07:55	Unemployment Rate (October)	6.3%	6.3%
	<b>UK:</b> 09:30	BoE Mortgage Approvals (September)	84,715	75,500
	<b>EU-19:</b> 10:00	Business Climate (October)	-1.19	
	<b>EU-19:</b> 10:00	EC Economic Sentiment Index (October)	91.1	89.6
		- Industrial / Services / Consumer	-11.1/-11.1/-15.5	-11.5/ -15.0/ -15.5
	<b>US:</b> 12:30	GDP (Q3: Advance Reading)	-31.4% s.a.a.r.	+30.8% s.a.a.r
	<b>US:</b> 12:30	Advance Core PCE Prices (Q3)	-0.8% s.a.a.r.	
	<b>US:</b> 12:30	Initial Jobless Claims (w/e 19th October)	787,000	763,000
	<b>EU-19:</b> 12:45	ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.50%	-0.50%
	<b>EU-19:</b> 13:30	ECB Press Conference		
	<b>GER:</b> 13:00	Flash HICP (October)	(-0.4%)	(0.1%)
	<b>US:</b> 14:00	Pending Home Sales (September)	+8.8%	
	<b>JPN:</b> 23:30	CPI (October)	(+0.2%)	
		- Core	(-0.2%)	(-0.5%)
	<b>JPN:</b> 23:50	Industrial Output (September)	+1.0%	+3.2%
	<b>JPN:</b> 23:50	Unemployment / Job Applicants (September)	3.0% / 1.04	3.1% / 1.04
<b>Fri 30th</b>	<b>FRA:</b> 06:30	GDP (Q3: Flash Estimate)	-13.8% (-19.0%)	+15.0% (-6.6%)
	<b>GER:</b> 07:00	GDP (Q3: Flash Estimate)	-9.7% (-11.3%)	+7.1% (-5.2%)
	<b>GER:</b> 07:00	Retail Sales (September)	+3.1% (+3.7%)	-0.5% (+5.7%)
	<b>UK:</b> 07:00	Nationwide House Prices	+0.9% (+5.0%)	+0.4% (+5.2%)
	<b>FRA:</b> 07:45	Consumer Spending (September)	+2.3%	
	<b>FRA:</b> 07:45	Flash HICP (October)	(+0.0%)	(+0.1%)
	<b>SPA:</b> 08:00	GDP (Q3: Flash Estimate)	-17.8% (-21.5%)	+13.1% (-12.4%)
	<b>ITA:</b> 10:00	Flash HICP (October)	(-1.0%)	(-0.8%)
	<b>EU-19:</b> 10:00	Flash HICP (October)	(-0.3%)	(-0.3%)
		- Ex-Food & Energy	(+0.4%)	(+0.4%)
	<b>EU-19:</b> 10:00	GDP (Q3: Flash Estimate)	-11.8% (-14.7%)	+9.0%
	<b>EU-19:</b> 10:00	Unemployment Rate (September)	8.1%	8.2%
	<b>ITA:</b> 11:00	GDP (Q3: Flash Estimate)	-13.0% (-18.0%)	+11.3% (-8.7%)
	<b>US:</b> 12:30	Personal Income / Consumption (September)	-2.7% / (+1.0%)	+0.3% / (+1.0%)
		- Core PCE prices	(+1.6%)	(+1.7%)
	<b>US:</b> 12:30	Employment Cost Index - Wages (Q3)	(+0.4%)	
	<b>US:</b>	Final Michigan Consumer Sentiment (September)	81.2	81.2

◆ 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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