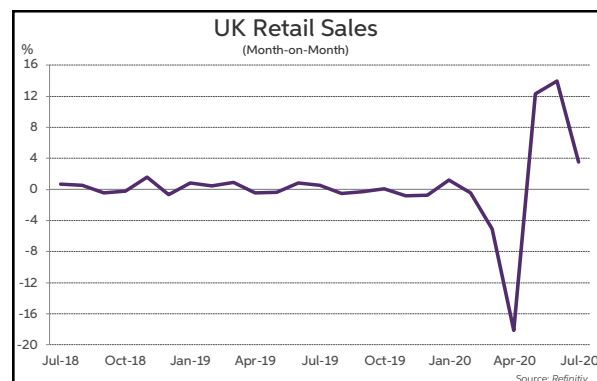


## Split Personality

- Irish GDP had been widely forecast to fall by between 7% and 10% this year, broadly in line with the Eurozone and UK.** However, national accounts data published this week for Q2 point to a much smaller decline in Irish GDP. This is largely due to the continuing strength of exports, most notably in the pharma sector and computer services. The value of pharma exports rose by 28% year-on-year in H1 2020, while exports of computer services were up by 10%. These are large sectors in the Irish economy. Exports in most other sectors held up relatively well, with the notable exception of tourism, travel and transport.
- Irish GDP fell by 6.1% in Q2, which was much less than the declines of 11.8% and 20.4% recorded in the Eurozone and UK.** This smaller Irish fall was a surprise given the extent and duration of the lockdown in Ireland during the second quarter, which was similar to that in the UK. However, the domestic economy, as measured by modified final domestic demand, contracted by 16.4% in Q2, which included declines of 20% in consumer spending and 28% in domestic fixed investment. Another indication of the scale of contraction in underlying activity is the 22% fall in average hours worked compared to last year. The data from H1 2020 highlight the dual nature of the Irish economy, with markedly different performances by the export and domestic sectors.
- Overall, the fall in GDP in 2020 could now be quite moderate.** Although the economy entered recession in H1 2020, it still grew by 1.4% in year-on-year terms. Net trade in H1 2020 was boosted by lower royalty payments on intellectual property rights, which is expected to remain a factor in the second half of the year. Exports also seem likely to continue to perform relatively well in H2 2020, given the favourable product mix. Meantime, the domestic economy has started to recover over the summer months. Core retail sales in July had recovered to above their pre-Covid levels and were up by 20% on Q2 and 6% higher than a year earlier. There has also been a sharp decline in the Covid-adjusted unemployment rate from a peak of 29% in April to 15.4% by August. Tax receipts continue to hold up better than expected. They were down by just 2.3% to end August, due to the strength of corporation taxes and to a lesser extent, income tax receipts. The housing market also seems to be withstanding the economic downturn, with output picking up again and prices holding firm.
- Nonetheless, the economy has undergone a deep shock and will take quite some time to recover fully, especially on the domestic side.** Sectors like hospitality and travel continue to be very badly impacted by social distancing measures. There remains considerable uncertainty about the economic outlook, both here and abroad, given the persistence of the coronavirus. Brexit will pose a major challenge to the economy next year, especially if the EU and UK fail to agree a free trade deal. The uncertainty and risks are reflected in continuing low levels of consumer confidence. It is also seen in a continuing strong rise in private sector savings that has been evident since the crisis hit in March, including household savings. Thus, it is important that both fiscal and monetary policy remain supportive of activity, with the focus now on October's budget.
- This week, the Fed will hold its September policy meeting.** No changes to policy are expected as the central bank continues to assess the recovery. Chair Powell can expect to face questions regarding the Fed's recent changes to its monetary policy framework, which places a greater emphasis on employment. Elsewhere, the BoE will hold its September MPC meeting. Markets, which are pricing in some further easing in 2021, will be eager to gain any insights into the BoE's view on the likely trajectory of rates.
- Data-wise, the main highlights come from the UK.** Retail sales for August are expected to grow by 0.7%, after rising 3% above February's pre-Covid levels in July. They have been helped by a government cut to VAT for the hospitality sector and the "Eat Out to Help Out" scheme. Indeed, following the recent government measures CPI inflation in August is forecast to fall to 0.1%. There is also a raft of labour market data due for July (Employment, unemployment, earnings). The job sector has been relatively protected from the recession by the UK government's furloughing scheme. The medium-term outlook though remains less benign, as the Job Retention Scheme is due to end in October.
- In the US, there are updates on three key sectors of the economy.** Retail sales are projected to rise by 1.0% in August, having risen above their pre-Covid levels in July. This would suggest the recovery is continuing, though some momentum has been lost following the rise in new Covid cases and the expiry of enhanced jobless benefits. The Michigan measure of consumer sentiment is expected to have edged up to 75 in September. On the supply side, industrial production is forecast to rise by 1.0% in September maintaining the recovery in activity. Finally, the August reading of the NAHB Homebuilder Sentiment index and housing starts are both expected to show a levelling off in momentum. **In the Eurozone, Industrial production is the only release of note.** Production for July is anticipated to have increased by 4.0%, but remain 8.2% below last years level.



	Interest Rate Forecasts			
	Current	End Q3 2020	End Q4 2020	End Q1 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 Q3 2020	End Q4 2020	End Q1 2021
EUR/USD	1.1842	1.19	1.21	1.23
EUR/GBP	0.9248	0.92	0.92	0.92
EUR/JPY	125.69	127	127	127
GBP/USD	1.2804	1.29	1.32	1.34
USD/JPY	106.14	107	105	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b> Lane (Monday); Panetta (Tuesday); de Guindos (Thursday); de Guindos, Schnabel (Friday) <b>BOE Speakers:</b> Bailey (Thursday)			
<b>Mon 14th</b>	<b>EU-19:</b>	10:00 Industrial Production (July)	+9.1% (-12.3%)	+4.1%(-8.2%)
<b>Tue 15th</b>	<b>CHINA:</b>	03:00 Industrial Output (August)	(+4.8%)	(+5.1%)
	<b>UK:</b>	07:00 ILO Employment (July) - Unemployment	-220,000 3.9%	-120,000 4.1%
	<b>UK:</b>	07:00 Average Weekly Earnings (3 months to July) - Ex-Bonus	(-1.2%) (-0.2%)	(-1.3%) (-0.2%)
	<b>UK:</b>	07:00 Claimant Count (July)	+94,400	
	<b>FRA:</b>	07:45 Final HICP (August)	(+0.2%)	(+0.2%)
	<b>ITA:</b>	09:00 Final HICP (August)	(-0.5%)	(-0.5%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (September)	71.5	70.0
	<b>US:</b>	13:30 NY Fed / Empire State Index (September)	3.70	5.90
	<b>US:</b>	14:15 Industrial production (August) - Capacity Utilisation - Manufacturing Output	+3.0% 70.6% +3.4%	+1.0% 71.6% +2.3%
<b>Wed 16th</b>	<b>JPN:</b>	00:50 Trade Balance (August) - Exports	+¥11.6bn (-19.2%)	-¥37.5bn -16.1%
	<b>UK:</b>	07:00 CPI (August) - Core	(+1.0%) (+1.8%)	(+0.1%) (+0.6%)
	<b>UK:</b>	07:00 PPI Output Prices (August) - Input	(-0.9%) (-5.7%)	(-0.7%)
	<b>IRL:</b>	<b>11:00 Residential Property Prices (July)</b>	<b>+0.3% (+0.1%)</b>	<b>+0.4%(-0.3%)</b>
	<b>US:</b>	13:30 Retail Sales (August) - Ex-Autos - Ex-Gas, Autos & Buildings materials	+1.2% +1.9% +1.4%	+1.0% +1.5% +0.5%
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (September)	78	78
	<b>US:</b>	19:00 Fed Interest Rate Announcement	0.00-0.25%	0.00-0.25%
	<b>US:</b>	19:30 Fed Press Conference		
<b>Thurs 17th</b>	<b>JPN:</b>	01:00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>EU-19:</b>	10:00 Final HICP (August) - Core	-0.4% (-0.2%) -0.5% (0.4%)	-0.4%(-0.2%) -0.5%(0.4%)
	<b>UK:</b>	12:00 BoE Interest Rate Announcement - Meeting Minutes	0.10%	0.10%
	<b>US:</b>	13:30 Housing Starts (August) - Building Permits	1.496m / +22.6% 1.483m / +17.9%	1.450m / - 3.07% 1.500m / +1.14%
	<b>US:</b>	13:30 Philly Fed Index (September)	17.2	15.5
	<b>US</b>	13:30 Initial Jobless Claims (w/e 7th September)	884,000	
<b>Fri 18th</b>	<b>JPN:</b>	00:30 CPI August	(0.0%)	(-0.4%)
	<b>UK:</b>	07:00 Retail Sales (August)	+3.6% (1.4%)	+0.7%(+3.0%)
	<b>US:</b>	15:00 Prelim' Michigan Consumer Sentiment (Sept.)	74.1	75.0

◆ 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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