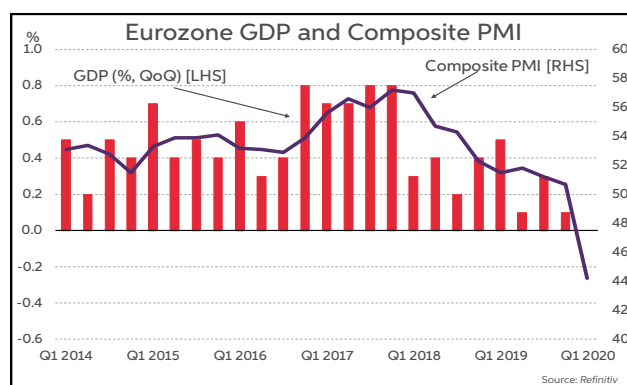


Shape of U

- U or V-shaped recoveries from the COVID-19 recession remain the base case scenarios for most forecasters, with the difference being largely due to how long it takes output to return to its pre-crisis levels.** Both scenarios involve deep recessions in H1 2020, with a recovery starting in the second half of the year and strong growth rates in 2021 following the steep fall in output in 2020. The IMF's bi-annual World Economic Outlook published on Tuesday offers the most comprehensive assessment of the impact on the global economy of the coronavirus pandemic and the measures to contain it. **The IMF's baseline case sees world GDP falling by 3% in 2020 and rebounding by 5.8% next year.** The impact is greatest on advanced economies, with GDP contracting by 6.1% this year, before increasing by 4.5% in 2021. This approximates a U-shaped recovery. The IMF calls it a partial recovery as despite the strong rebound next year, the level of GDP in 2021 would still be well below its pre-crisis path. Indeed, GDP in advanced economies next year would be 5% below the level projected before the virus struck and 2% below its 2019 level. This provides an indication of the likely scale of permanent output losses that economies will endure as a result of the pandemic.
- The contraction in GDP projected by the IMF for 2020 would be the largest seen since the Great Depression in the early 1930s.** The IMF baseline forecast is built on the assumption that the pandemic fades in the second half of this year, allowing containment measures to be gradually unwound. The IMF acknowledges that there is extreme uncertainty around its global forecasts and a range of outcomes, particularly much worse ones, are possible, if not likely. Markets retained their more optimistic mood in the past week, with stock markets consolidating recent gains. **It is hard to see a more optimistic outcome than the IMF's baseline forecast in the absence of a treatment being found for COVID-19** that would allow social distancing measures to be greatly relaxed. There is considerable research work and trials being done in this area. Such a development would not come soon enough to prevent a deep recession in H1 2020, but would allow for a faster rebound in activity, with lost output being recovered by 2021 – a V shaped recovery.
- As noted by the IMF, though, the risks remain substantial of an even deeper economic contraction owing to the virus proving more protracted than assumed in its base case.** The IMF says that measures to contain the virus may need to remain in place for a longer period of time in 2020 than assumed, leading to an even bigger fall in GDP this year. This could see global output being 3% lower than the IMF's baseline, i.e. a 6% fall this year. The IMF also points out that there could be a second, though most likely, milder outbreak of the virus in 2021. It estimates that this could leave global output almost 5% below its baseline in 2021, effectively meaning no recovery in activity in advanced economies next year. This would be an L-type recession. Obviously, the combination of these two downside risks would lower the path of global activity even further over 2020-2021.
- Should either of these risks materialise, it is hard to see the recent strong gains in stock markets and tightening of credit spreads being sustained.** For now, markets are taking hope from signs that the outbreak is peaking, allowing some countries to begin a very gradual and limited relaxation of some containment measures. This is going to be a drawn out process. Markets are also taking heart from the aggressive policy actions of governments and central banks to mitigate recessionary forces. This is a public health crisis, though, which has overwhelmed economies. We can't help feeling that it will require a medical solution to the crisis before economies recover fully. A treatment being found this year for COVID-19 may offer markets the best hope.
- This week, the highlight of the Eurozone schedule are the flash April PMIs.** The composite index is forecast to have fallen further to a new record low of 26.0 from 34.5, reflecting the impact of the coronavirus related restrictions on activity. On the demand side, the flash reading of consumer confidence for April is set to plunge. Nationally, the April prints of the German Ifo, French INSEE and Italian ISTAT measures of business sentiment are all set to decline. **In the UK, flash April PMIs will also feature.** It is anticipated that the composite index will fall further to 32.0 from 36.0. Meantime, March retail sales will provide evidence of the initial impact from the virus outbreak on consumer spending. March CPI data are also due, with lower oil prices likely to see the headline rate of inflation ease to 1.5% from 1.7%. Finally, UK labour market data for the three months to February are also due.
- Across the Atlantic, the flash PMIs will be of significant interest.** The more recent imposition of lockdown measures means that it is envisaged that the composite index will fall further in April. Durable goods orders for March will also attract some attention as they will offer a further read on the impact the virus outbreak is having on fixed investment and industrial production. Finally, weekly jobless claims numbers will remain in focus.



	Interest Rate Forecasts			
	Current	End Q2 2020	End Q3 2020	End Q4 2020
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 Q2 2020	End Q3 2020	End Q4 2020
EUR/USD	1.0881	1.09	1.10	1.11
EUR/GBP	0.8704	0.88	0.88	0.89
EUR/JPY	116.81	117	118	120
GBP/USD	1.2499	1.24	1.25	1.25
USD/JPY	107.34	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	BoE Speakers:	Broadbent, Haldane (Monday)		
	EU-27:	European Council Meeting (Thursday)		
Mon 20th	JPN: 00.50	Trade Balance (March) - Exports	¥1,109bn -1.0%	¥420bn -10.1%
	GER: 07.00	PPI (March)	(-0.1%)	(-0.8%)
	EU-19: 10.00	Trade Balance (February)	€17.3bn	
Tue 21st	UK: 07.00	ILO Employment (3 Months to February) - Unemployment	+184,000 3.9%	+102,000 3.9%
	UK: 07.00	Average Weekly Earnings (3 Months to Feb.) - Ex-Bonus	(+3.1%) (+3.1%)	(+3.0%) (+3.0%)
	GER: 10.00	ZEW Economic Sentiment (April)	-49.5	-41.7
	US: 15.00	Existing Home Sales (March)	5.77m / +6.5%	5.30m / -8.1%
Wed 22nd	UK: 07.00	CPI (March) - Core (Ex-Food & Energy)	(+1.7%) (+1.7%)	(+1.5%) (+1.6%)
	UK: 07.00	PPI Output (March) - Input	(+0.4%) (-0.5%)	(-0.1%) (-3.9%)
	EU-19: 15.00	Flash Consumer Confidence (April)	-11.6	-19.0
Thurs 23rd	JPN: 01.30	Flash Jibun Bank Manufacturing PMI (April)	44.8	
	FRA: 06.30	INSEE Business Climate (April)	98	85
	GER: 07.00	GfK Consumer Sentiment (May)	2.7	-2.3
	UK: 07.00	PSNB Ex-Interventions (March)	March '19: -£0.1bn	£2.1bn
	FRA: 08.15	Flash Markit Composite PMI (April)	28.9	26.2
	GER: 08.30	Flash Markit Composite PMI (April)	35.0	31.1
	EU-19: 09.00	Flash Markit Composite PMI (April) - Manufacturing / Services	29.7 44.5 / 26.4	26.0 39.6 / 25.0
	UK: 09.30	Flash CIPS / Markit Composite PMI (April) - Manufacturing / Services	36.0 47.8 / 34.5	32.0 41.5 / 29.4
	UK: 11.00	CBI Industrial Orders (April)	-29	-51
	US: 13.30	Initial Jobless Claims (w/e 18th April)	5,245,000	4,000,000
	US: 14.45	Flash Markit Composite PMI (April) - Manufacturing / Services	40.9 48.5 / 39.8	38.5 / 32.5
	US: 15.00	New Home Sales (March)	0.765m / -4.4%	0.650m / -15.0%
Fri 24th	UK: 00.01	GfK Consumer Confidence (April)	-9	-40
	JPN: 00.30	CPI (March)	(0.4%)	
	UK: 07.00	Retail Sales (March)	-0.3% (+0.0%)	-2.5% (-2.5%)
	GER: 09.00	Ifo Business Climate (April)	86.1	80.0
	ITA: 09.00	ISTAT Business Confidence (April)	89.5	
	US: 13.30	Durable Goods Orders (March)	+1.2%	-11.8%
	US: 15.00	Final Michigan Consumer Sentiment (April)	71.0	68.0

◆ 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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