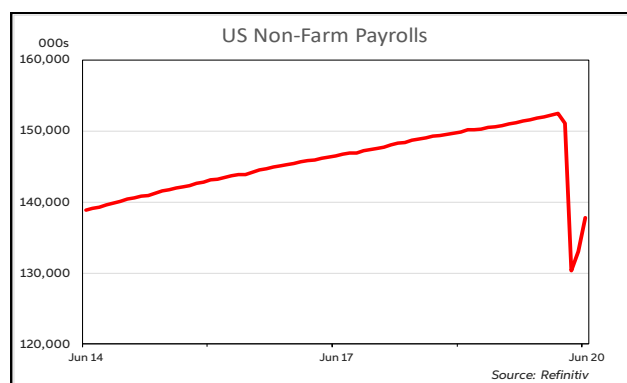


Mindblowing data

- The GDP data for the second quarter of the year in the US and Eurozone came in very close to expectations.** Nonetheless, the figures are mind-blowing and unprecedented in terms of the scale of contraction in activity. In the Eurozone, GDP fell by 12.1% in Q2 following the decline of 3.6% recorded in Q1. The figures are similar for the EU as a whole. Meanwhile, in the US, where Covid-19 lockdowns were not as widespread and of shorter duration, GDP contracted by 8.2% (32.9% annualised) in Q2, after a 1.25% (5% annualised) decline in Q1. In terms of the Eurozone, the biggest decline in Q2 GDP was seen in Spain at 18.5%, followed by France (13.8%), Italy (12.4%) and Germany (10.1%). Eurostat has not yet published an expenditure breakdown of the Q2 Eurozone data, but national data show big hits to consumer spending, investment and exports. In the US, consumer spending was down by 8.7% and investment fell 7.5%, while exports and imports declined by 16% and 13.4%, respectively.
- The data clearly show that the sharp contraction in activity as a result of the restrictions imposed to contain the coronavirus pandemic had a severe impact on spending right across economies.** The Q2 data don't tell the full story, though, as the decline in activity was primarily concentrated in April and early May when economies were in lockdown. Activity had rebounded strongly by June as shown by retail sales, labour market and PMI data. Even in Ireland, which imposed a stringent lockdown and was one of the last European countries to begin easing restrictions, retail sales have had a remarkable journey. Core retail sales (i.e. excluding the motor trade) collapsed by 24% in April, but had recovered to their pre-Covid levels by June. They fell by 12% in the quarter – co-incidentally the exact same fall as Eurozone GDP.
- The monthly profile here is important. If Irish retail sales remained unchanged from their June levels in Q3, they would rise by 16% in the quarter.** We suspect there was an element of catch-up spending in the June data, so they will probably fall back somewhat in Q3 from their June level. Nonetheless, a very large rebound is in store for the quarter. The same applies to GDP. Even allowing for the surge in new virus cases in the past month, the resulting restrictions imposed have been limited. Thus, we can still expect to see strong GDP rebounds in most economies in the third quarter, helped also by expansionary fiscal policies, including continuing government labour market income support measures. This question is what follows then?
- This is where the re-emergence of the virus is a real concern.** It is proving far more persistent than originally expected. Economies are not expected to be put back into large scale lockdown, but social distancing is set to remain in place, with curtailments on travel and some other activities. There is a growing risk of long-term scarring – hits to confidence, rising business failures, bankruptcies and permanent job losses – that will restrain the recovery in activity. So it could prove hard to build on the current rebound in activity. The IMF has labelled this a partial recovery, with the world economy, while not in a recession in terms of falling output, operating well below par over the next couple of years. Thus, we may well need major advances in treatments for the virus, or better still a vaccine, for the world economy to shake off the impact of Covid.
- This week, the BoE will hold its August MPC meeting.** Having increased its QE programme by a further £100bn in June, no changes to policy are anticipated. As a result, the focus will be on the accompanying press conference and on the Monetary Policy Report which will contain the central bank's latest macro projections. Markets, which are pricing in 10-15bps of easing by end 2021, will be eager to gain any insight into the BoE's view on the likely trajectory for policy.
- Data-wise, the highlight this week is the release of the US employment report for July.** Following a circa 21.5m drop in March and April, non-farm payrolls increased by a total of 7.5m in May and June as Covid-19 restrictions were gradually removed. This process continued in the North-East in July, but at the same time a surge in new Covid-19 infections prompted the re-imposition of lockdown measures in parts of the South and the West. This in turn will act as a partial headwind to the labour market recovery. Payrolls are expected to have risen by a further 1.4m in the month, with the risks to this forecast being to the downside. Meanwhile, the unemployment rate is projected to have dipped to 10.7%, from 11.1%, though classification issues seem to be underestimating the true rate.
- The July readings of the ISMs are also due. Notably, the non-manufacturing index is expected to have moved lower, while remaining well above the 50 threshold, reflecting the impact from the surge in new Covid cases. The sector has been disproportionately impacted by restrictions. In contrast, another increase is pencilled in for the manufacturing ISM. **In the Eurozone, retail sales figures for June will bear watching.** Another sizeable increase in sales volumes is envisaged, reflecting the easing of Covid-19 lockdowns and the associated partial rundown of forced savings. The forecast is for a 5.5% rise.



	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	1.1819	1.18	1.18	1.18
EUR/GBP	0.8990	0.91	0.88	0.88
EUR/JPY	124.72	125	126	126
GBP/USD	1.3144	1.30	1.34	1.34
USD/JPY	105.52	106	107	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Bullard, Evans (Monday); Mester (Wednesday)		
Mon 3rd	IRL:	August Bank Holiday		
	CHINA: 02.45	Caixin Manufacturing PMI (July)	51.2	51.3
	EU-19: 09.00	Final Markit Manufacturing PMI (July)	47.4 / 51.1 (p)	51.1
	UK: 09.30	Final CIPS / Markit Manufacturing PMI (July)	50.1 / 53.6 (p)	53.6
	US: 14.45	Final Markit Manufacturing PMI (July)	49.8 / 51.3 (p)	51.3
	US: 15.00	Manufacturing ISM (July)	52.6	54.0
Tue 4th	IRL: 01.01	AIB Manufacturing PMI (July)	51.0	
	EU-19: 10.00	PPI (June)	(-5.0%)	(-3.9%)
	US: 15.00	Factory Orders (June)	+8.0%	+5.0%
Wed 5th	CHINA: 02.45	Caixin Services PMI (July)	58.4	
	ITA: 08.45	Markit Composite PMI (July)	47.6	
	FRA: 08.50	Final Markit Composite PMI (July)	51.7 / 57.6 (p)	57.6
	GER: 08.55	Final Markit Composite PMI (July)	47.0 / 55.5 (p)	55.5
	EU-19: 09.00	Final Markit Composite PMI (July)	48.5 / 54.8 (p)	54.8
		- Services	48.3 / 55.1 (p)	55.1
	UK: 09.30	Final CIPS / Markit Composite PMI (July)	47.7 / 57.1 (p)	57.1
		- Services	47.1 / 56.6 (p)	56.6
	EU-19: 10.00	Retail Sales (June)	+17.8% (-5.1%)	+5.5% (-1.0%)
	IRL: 11.00	Covid-19 Adjusted Unemployment (July)	22.5%	17.0%
	US: 13.30	International Trade (June)	-\$54.6bn	-\$50.3bn
	US: 14.45	Final Markit Composite PMI (July)	47.9 / 50.0 (p)	50.0
		- Services	47.9 / 49.6 (p)	49.6
	US: 15.00	Non-Manufacturing ISM (July)	57.1	54.8
	IRL: 16.30	Exchequer Returns (July)	July 2019: €0.9bn	-€6.5bn
Thurs 6th	IRL: 01.01	AIB Irish Services PMI (July)	39.7	
	GER: 07.00	Industrial Orders (June)	+10.4%	+9.5%
	UK: 07.00	BoE Interest Rate Announcement	0.10%	0.10%
		- Meeting Minutes / Monetary Policy Report		
	ITA: 09.00	Industrial Output (June)	+42.1%	+7.5%
	US: 13.30	Initial Jobless Claims (w/e 1st August)	1,434,000	
Fri 7th	GER: 07.00	Industrial Output (June)	+7.8%	+8.8%
	GER: 07.00	Trade Balance (June)	€7.6bn	
		- Exports	+9.0%	
	FRA: 07.45	Industrial Output (June)	+19.6%	+10.0%
	US: 13.30	Non-Farm Payrolls (July)	+4.8m	+1.4m
		- Unemployment	11.1%	10.7%
		- Average Earnings	(+5.0%)	(+4.4%)

◆ 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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