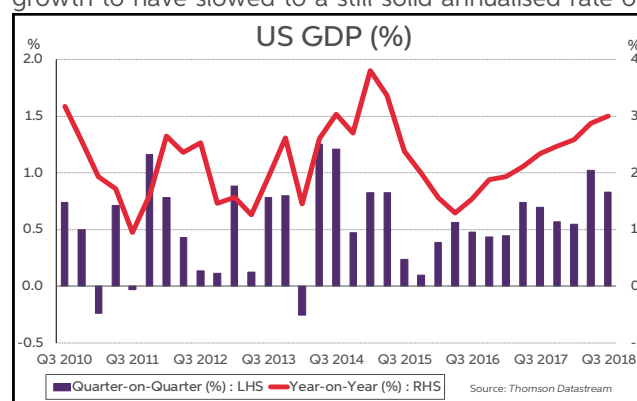


A Look Under the Bonnet

- It is now becoming clear that there were quite wide variations in the performance of the Eurozone economy in H2 2018, both geographically and by sector.** GDP growth slowed to just 0.2% in Q3 and Q4, but the slowdown was largely concentrated in Italy and Germany. The Italian economy went into recession in H2 2018, while the German economy contracted by 0.2% in Q3 and was flat in Q4 - it expanded by 0.4% in Q1 and 0.5% in Q2. By contrast, the French and Belgium economies grew at a steady pace of 0.3% per quarter right through 2018. Spain grew by 0.7% in Q4, up slightly from 0.6% in the first three quarters of the year. There were modest slowdowns in H2 in the Netherlands and Austria, but growth was still solid, averaging 0.3% and 0.4% per quarter, respectively. Thus, but for the sharp weakening of activity in Germany and Italy, the Eurozone economy would have continued to grow at a solid pace in H2 2018.
- The breakdown of the German data is very interesting.** The domestic economy grew by a robust 0.6% in Q4, with business investment, construction, public spending and household consumption all contributing. Growth was depressed by weakening exports and a rundown of inventories. This dichotomy is reflected again in the German flash PMI data for February. The Service PMI, which largely reflects the domestic economy, came in at a very robust 55.1. By contrast, the PMI for the export orientated manufacturing sector is deep in recession territory at 47.1, a six-year low. Meanwhile, encouragingly, the flash Composite PMI for the Eurozone picked up to 51.4 in February, with the services PMI rising to 52.3, but the manufacturing index falling to 49.2. **It leaves the ECB in a bit of a pickle, as while exports are being impacted by a slowdown in global trade, the domestic economy is continuing to perform well, apart from Italy.** It argues for a cautious approach, with any new policy moves likely to be confined to liquidity operations.
- Turning to the week ahead, market attention will be firmly focussed on events in the UK.** PM Theresa May is due to brief the House of Commons on Tuesday on the current state of exit negotiations with the EU. She has sought concessions on the contentious 'backstop' component of the Withdrawal Agreement. However, little progress has been made to date. The government will likely table another amendable motion on Wednesday seeking Parliament's approval to continue with May's current negotiating strategy. However, the main focus will be on the amendments to the motion that MPs may put forward in an attempt to influence the Brexit process. It is expected that the Cooper (Labour MP) amendment will be one of many attached to the motion. If passed, this would allow parliament to vote on extending Article 50 in order to avoid a hard, no-deal Brexit at the end of March.
- Meantime, the UK data calendar is light. However, we do get the February reading of the manufacturing PMI.** The index is forecast to have moved down to 52.0 in the month, as Brexit related uncertainty continues to weigh on activity in the sector.

- In the US, the gradual process of clearing the data backlog due to the government shutdown continues.** This week we get the preliminary reading of Q4 GDP. The consensus is for growth to have slowed to a still solid annualised rate of 2.4%, from 3.4% in Q3, in part due to slower growth in household expenditure. Meanwhile, the December reading of the Fed's preferred measure of inflation, core-PCE, is expected to show that inflation held at 1.9%.



- In terms of more timely macro updates, this week also sees the release of the manufacturing ISM for February.** The index is anticipated to have moved down from January's level, while remaining consistent with a good growth. Meantime, it is envisaged that the Conference Board measure of consumer confidence will show that sentiment improved in February, as the impact of the shutdown and financial volatility wanes. Fed Chair Powell's testimony before the Senate's Banking Committee this week will also likely attract investor attention.

- Elsewhere, a busy Eurozone diary includes flash HICP figures for February.** Headline inflation is forecast to have edged up slightly to 1.5%, from 1.4%. Meanwhile, the unemployment rate is judged likely to have remained at 7.9% in January. With regard to survey data, the EC sentiment indices for February are due. The headline index is projected to have declined very slightly to 106.0, from 106.2.

	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2019	2019	2019	2019
Fed Funds	2.375	2.375	2.375	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	0.75
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 Q1	End Q2	End Q3
	2019	2019	2019	2019
EUR/USD	1.1333	1.13	1.14	1.15
EUR/GBP	0.8707	0.87	0.86	0.86
EUR/JPY	125.46	124	125	125
GBP/USD	1.3014	1.30	1.33	1.34
USD/JPY	110.70	110	110	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney , Haskel, Ramsden, Vlieghe (Tuesday)		
	ECB Speakers:	Mersch (Tuesday); Coeure, Weidmann (Wednesday)		
	Fed Speakers:	Powell (Tuesday); Powell (Wednesday); Clarida, Harker, Mester (Thursday)		
Mon 25th	US:	13.30 National Activity Index (January)	0.27	
Tue 26th	GER:	07.00 GfK Consumer Sentiment (March)	10.8	10.8
	FRA:	07.45 Consumer Confidence (February)	91	
	US:	13.30 Housing Starts (December)	+3.2% / 1.256m	-0.1% / 1.255m
		- Building Permits	+4.5% / 1.322m	-2.2% / 1.293m
	US:	14.00 Case-Shiller House Prices (December)	(+4.7%)	(+4.5%)
	US:	15.00 Consumer Confidence (February)	120.2	125.0
Wed 27th	ITA:	08.00 ISTAT Business Confidence (February)	102.1	
	ITA:	08.00 Consumer Confidence (February)	114.0	
	EU-19:	09.00 M3 Money Supply (January)	(+4.1%)	(+4.0%)
	EU-19:	10.00 Business Climate (February)	0.69	0.75
	EU-19:	10.00 EC Economic Sentiment (February)	106.2	106.0
		- Industrial / Services / Consumer	0.5 / 11.0 / -7.4	0.1 / 11.0 / -7.4
	US:	13.30 Durable Goods Orders (January)	+1.2%	+0.2%
	US:	13.30 Advance Goods Trade Balance (December)	-\$76.98bn	
	US:	15.00 Factory Orders (December)	-0.6%	+0.9%
	US:	15.00 Pending Home Sales Index (January)	-2.2% / 99.0	-0.4% / 98.6
	JPN:	23.50 Preliminary Industrial Output (January)	-0.1%	-2.5%
Thurs 28th	UK:	00.01 GfK Consumer Confidence (February)	-14	-15
	CHINA:	01.00 NBS Manufacturing PMI (February)	49.5	49.5
	UK:	07.00 Nationwide House Prices (February)	+0.3% (+0.1%)	+0.0% (+0.4%)
	FRA:	07.45 Consumer Spending (January)	-1.5%	
	FRA:	07.45 GDP (Q1: Final Reading)	+0.3%	+0.3%
	FRA:	07.45 Preliminary HICP (February)	(+1.4%)	
	ITA:	10.00 Preliminary HICP (February)	(+0.9%)	
	IRL:	11.00 Retail Sales (January)	-0.4% (+3.7%)	-1.5% (+2.2%)
	GER:	13.00 Preliminary HICP (February)	(+1.4%)	(+1.5%)
	US:	13.30 Initial Jobless Claims (w/e 18th February)	216,000	220,000
	US:	13.30 GDP (Q4: First Reading)	+3.4% s.a.a.r.	+2.4%
	JPN:	23.30 Unemployment / Jobs: Applicants (January)	2.4% / 1.63	2.4% / 1.63
Fri 1st	CHINA:	01.45 Caixin Manufacturing PMI (February)	48.3	48.5
	IRL:	06.00 AIB Manufacturing PMI (February)	52.6	
	GER:	08.55 Unemployment (February)	5.0%	5.0%
	ITA:	09.00 Unemployment (January)	10.3%	
	EU-19:	09.00 Final Markit Manufacturing PMI (February)	49.2	49.2
	UK:	09.30 BoE Mortgage Approvals (January)	63,793	63,500
	UK:	09.30 CIPS / Markit Manufacturing PMI (February)	52.8	52.0
	EU-19:	10.00 Preliminary HICP (February)	(+1.4%)	(+1.5%)
	EU-19:	10.00 Unemployment (January)	7.9%	7.9%
	US:	15.00 Personal Income / Consumption (December)	+0.2% / +0.4%	+0.3% / +0.0%
		- Core PCE Prices	(+1.9%)	(+1.9%)
	US:	15.00 Personal Income (January)		+0.3%
	US:	14.45 Final Markit Manufacturing PMI (February)	53.7	53.7
	US:	15.00 Manufacturing ISM (February)	56.6	56.0
	US:	15.00 Final Michigan Consumer Sentiment (February)	95.5	95.5
	US:	20.30 Total Vehicle Sales (February)	16.7m	16.8m

◆ 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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