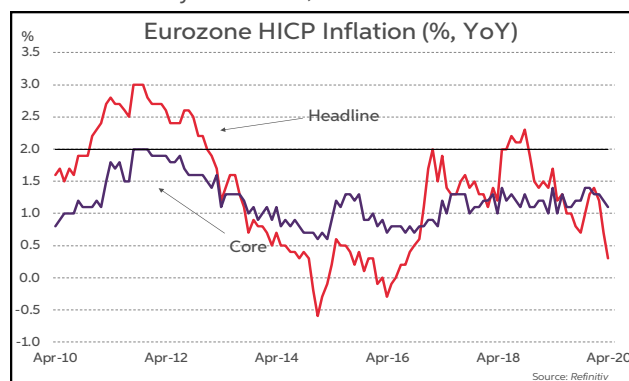


Doubling Down

- Survey data that are beginning to come through on the main economies for May warrant careful interpretation.** Diffusion indices, in particular, need close scrutiny at times when activity is shifting rapidly and economies are at turning points. They are also generally surveys rather than hard data. However, they are both timely and good at picking up directional shifts in activity. The flash PMI data for May show a large bounce from the extremely low levels seen in April when economies were put into lockdown. The indices, though, remain well below the 50 level, with the flash Composite PMIs at 36.4, 30.5 and 28.9 for the US, Eurozone and UK, respectively.
- Taken at face value, the data suggest that output and activity fell even further in May from already very low levels in April.** It is more likely, though, that what PMI respondents had in mind was where output in May was relative to pre-COVID levels. The rise in the indices, though still well below 50, is most probably an indication that output picked up somewhat in May, but it remains well below pre-COVID norms. This would be consistent with the fact that the lockdowns in the major economies started to be eased in May, allowing some businesses to re-open again. Other high-frequency data also point to a re-awakening of economies in May. This easing of restrictions, though, is going to be a gradual process and while activity came to a sudden halt in late March and April, the re-opening of economies will be at a much slower pace.
- April looks like being the nadir, then, in terms of economic activity, while Q2 should be the trough in terms of GDP output.** As the IMF has pointed out, though, while economies should rebound in H2 2020 and 2021, it will be a partial recovery as it is going to take at least a couple of years for output to return to pre-COVID levels, certainly in advanced economies. In this regard, labour market data require close watching to see if firms that have kept workers on through government supported wage subsidy or furlough schemes, now begin to lay them off. Notably, both initial jobless claims and continuing claims in the US are still increasing at a sharp pace even as the economy starts to re-open, which is something of a worry. We are now seeing job losses being announced in numerous countries in sectors that will be very slow to recover from the pandemic.
- A continuing very high level of unemployment would weigh on the pace of economic recovery.** It suggests that further supports will be required to ensure that economies can rebound quickly. Authorities are preparing to double-down in this regard. More QE can be expected from central banks, with the BoE also now saying that a move to negative UK interest rates is being actively considered. Meanwhile, the US Treasury Secretary has indicated a further fiscal stimulus package will most likely be required to help the economy. EU authorities are also mulling over the finer details of a large recovery fund. The Irish Government has indicated that economic support measures will have to be extended well into the second half of the year, boosting the budget deficit even further. In the absence of a vaccine for the coronavirus, it is going to be some battle to restore economies to anything like rude health.
- This week, May inflation data in the Eurozone will be of some interest.** The recent collapse in oil prices, as well as the disinflationary impact of the negative demand shock from Covid-19, is expected to see the headline rate of HICP decelerate to just 0.1%. At the same time, the core measure is projected at 0.9%. In terms of activity indicators, the EC sentiment indices for May are due. The headline index is projected to have moved higher, but there is some potential for a downside surprise given that the survey is based on responses to questions over the past 3 months.
- In terms of national data releases, the German Ifo, French INSEE and Italian ISTAT measures of business confidence are all due.** Each index looks to have increased, reflecting the fact that lockdowns are being gradually unwound. Finally, on Wednesday the European Commission is due to outline its proposed plan for the aforementioned EU Recovery Fund. A key focus will be on the proportion of the fund that is set aside for grants, rather than loans.
- In the US, personal income and consumption figures for April will offer an insight into the impact of the imposition of “stay-in-place” orders on economic activity at the start of Q2.** The sharp rise in lay-offs is expected to result in a substantial fall in incomes. With regard to consumer spending, the available retail sales data suggest household expenditure plummeted as shopping outlets closed. The same report will also provide the April reading of the Fed’s preferred measure of inflation, core-PCE. It is anticipated that inflation eased to 1.1% in the month. In relation to timelier releases, the Conference Board consumer confidence index is forecast to have moved higher in May, while remaining at a subdued level. **Finally, the only notable UK data release this week is the CBI distributive trades survey for May.** It will be looked to for any signs of improvement in the retail sector after the index dropped sharply to -55 in April.



	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	1.0898	1.08	1.09	1.10
EUR/GBP	0.8947	0.89	0.91	0.88
EUR/JPY	117.26	116	117	119
GBP/USD	1.2181	1.21	1.20	1.25
USD/JPY	107.58	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Tuesday); de Guindos, Lagarde (Wednesday)		
	Fed Speakers:	Kashkari (Tuesday); Bullard (Wednesday); Williams (Thursday)		
Mon 25th	UK/US:	Market Holiday		
	GER: 07.00	GDP (Q1: Second Reading)	-2.2%	-2.2%
	GER: 09.00	Ifo Business Climate (May)	74.3	78.8
Tue 26th	GER: 07.00	GfK Consumer Sentiment (June)	-23.4	-18.6
	FRA: 07.45	INSEE Business Climate (May)	82	85
	UK: 11.00	CBI Distributive Trades (May)	-55	-50
	US: 14.00	Case-Shiller House Prices (March)	+0.4% (+3.5%)	
	US: 15.00	Conference Board Consumer Confidence (May)	86.9	88.0
	US: 15.00	New Home Sales (April)	-15.4% / 0.627m	-21.1% / 0.495m
Wed 27th	EU-27:	European Commission to Present EU Recovery Fund Proposal		
	FRA: 07.45	Consumer Confidence (May)	95	96
	US: 19.00	Fed's Beige Book Published		
Thurs 28th	ITA: 09.00	ISTAT Business Confidence (April)	89.5	
	EU-19: 10.00	Business Climate (May)	-1.81	
	EU-19: 10.00	Economic Sentiment Index (May)	67.0	70.5
		- Industrial / Services / Consumer	-30.4/-35.0/-18.8	-25.4/-28.4/-18.8
	IRL: 11.00	Retail Sales (April)	-12.7% / (-11.1%)	
	GER: 13.00	Preliminary HICP (May)	(+0.8%)	(+0.6%)
	US: 13.30	Durable Goods Orders (April)	-14.7%	-18.1%
	US: 13.30	GDP (Q1: Second Estimate)	-4.8% s.a.a.r.	-4.8%
	US: 13.30	Initial Jobless Claims (w/e 23rd May)	2,438,000	2,000,000
	US: 15.00	Pending Home Sales (April)	-20.8% / 88.2	-15.0% / 75.0
Fri 29th	JPN: 00.30	Unemployment / Jobs: Applicants (April)	2.5% / 1.39	2.7% / 1.33
	JPN: 00.50	Industrial Output (April)	-3.7%	-5.1%
	GER: 07.00	Retail Sales (April)	-5.6%	-11.0%
	FRA: 07.45	Consumer Spending (April)	-17.9%	-14.4%
	FRA: 07.45	GDP (Q1: Second Estimate)	-5.8%	-5.8%
	FRA: 07.45	Preliminary HICP (May)	(+0.4%)	(+0.3%)
	ITA: 09.00	GDP (Q1: Second Estimate)	-4.7%	-4.7%
	EU-19: 09.00	M3 Annual Growth (April)	(+7.5%)	(+7.6%)
	ITA: 10.00	Preliminary HICP (May)	(+0.1%)	(-0.2%)
	EU-19: 10.00	Preliminary HICP (May)	(+0.3%)	(+0.1%)
		- Ex-Food & Energy	(+1.1%)	(+0.9%)
	US: 13.30	Personal Income / Consumption (April)	-2.0% / -7.5%	-6.0% / -12.0%
		- Core PCE Prices	(+1.7%)	(+1.1%)
	US: 15.00	Final Michigan Consumer Sentiment (May)	73.7	73.7

◆ 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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