

Waiting for the real job

■ **The GDP data coming in for the third quarter are impressive and ahead of expectations, consistent with a V-shaped recovery.**

The US saw GDP rebound by 33% annualised, going a long way to overcoming the declines of 31.4% and 5% annualised seen in the opening two quarters of the year. It leaves the actual level of GDP 3.5% lower than in Q4 last year, before the virus struck. Meanwhile, Eurozone Q3 GDP also came in ahead of expectations at 12.7%, having contracted by 11.8% in Q2 and 3.7% in Q1. It leaves GDP now 4.3% down on Q4 2019 levels, having been 15% below in Q2 2020. Irish Q3 GDP data will not be available for some time yet. However, retail spending figures point to a strong rebound in Q3. Retail sales data released this week show core sales, which excludes the motor trade, rose by 21.3% in the third quarter, swamping their H1 decline to leave them 6.5% higher on a year-on-year basis.

■ **It's a bit like a death at a wedding though. Markets, though, are not celebrating what they see as rear-view mirror figures.**

Instead, we have seen increasing risk aversion in the past week, with stock markets falling back and safe-haven bond markets rallying as a second wave to the coronavirus takes a real hold. Very sharp rises in the number of new cases has seen restrictions being re-imposed on social and economic activity, with indeed more and more European countries going into lockdown. This prompted the ECB to acknowledge that downside risks to growth have increased despite the better than expected performance of the economy in the third quarter and that it would respond with further policy loosening at its next policy meeting in December. The expectation now is that GDP will contract in Q4 in the Eurozone, a double dip recession, while the recovery in the US, where restrictions are not as severe, is likely to stall. A difficult winter lies ahead for Western economies as the weakening in activity could extend into the early part of next year.

■ **However, all hope is not lost.**

The data for the third quarter show that economies can rebound quickly and strongly from the recession caused by the Covid-19 pandemic. The containment measures, including lockdowns, being put in place to overcome the second wave to the virus are not as severe as in the first wave. Countries are learning how to manage and treat the virus better and be more selective in terms of the restrictions that need to be imposed on activity. The economic policies put in place to aid an economic recovery were also clearly effective in the third quarter. More of the same is now required especially in terms of fiscal supports. The large build-up of savings in the private sector also points to considerable pent-up demand and available spending power.

■ **Crucially, we are also much closer now to the arrival of a vaccine than eight month ago when the first wave struck.**

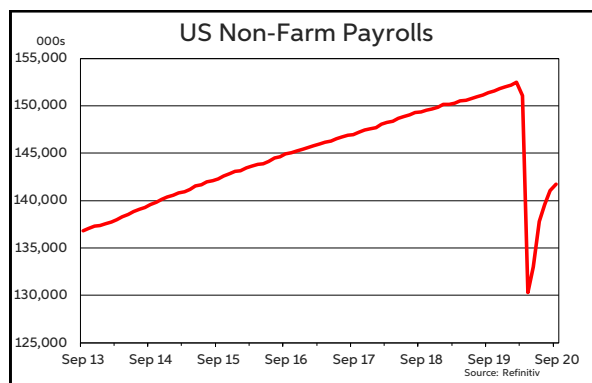
While the development of vaccine appears quite well advanced, it may not become widely available until later next year and it remains to be seen how successful it is at overcoming the virus. Not surprisingly, the ECB has indicated that the prospects for a rollout of vaccines is something that it will give careful consideration in its policy assessment. It is something everyone will be following closely.

■ **This week, the US diary is action packed with the Fed meeting, key data and the 2020 Presidential Election.**

The Fed is expected to keep policy unchanged as it continues to assess the economic recovery. Chair Powell is likely to once again emphasise the need for additional fiscal stimulus to support the economy, and that monetary policy will remain accommodative over the medium term.

■ **Data-wise, the main highlight will be October's non-farm payrolls.**

In September, payrolls surprised to the downside, increasing by 661k (vs. 850k f'cast), as the rate of rehiring levelled off. The forecast is for payrolls to have increased by 700k in October, although this would still leave payrolls close to 10m below their pre-Covid levels. The unemployment rate is forecast to fall to 7.7% from 7.9%. Staying with the US, both the manufacturing and non-manufacturing ISMs for October will feature. **Last but by no means least, Tuesday is election day in the US, with the Presidential election and control of the House and Senate up for grabs.** The impact on markets may be limited unless there is a contested outcome to the Presidential election that looks like its heading for the courts.



■ **In the UK, the BoE meeting (includes Monetary Policy Report and press conference) is expected to see policy eased further by an increase to its QE programme. The consensus view is for an additional £100bn to £845bn.**

Markets will also be eager to gain an insight into the BoE's view on the likely trajectory of rates, with a further cut expected in 2021. The only data release of note in the UK are house price data (Halifax measure) for October.

■ **Meanwhile, there is a fairly quiet Eurozone diary over the coming days.**

Retail sales data for September for the currency bloc and German industrial output (Sept) are the main data highlights.

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	2021	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 Q4	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.1674	1.18	1.20	1.22
EUR/GBP	0.9014	0.88	0.88	0.89
EUR/JPY	122.07	124	126	127
GBP/USD	1.2952	1.34	1.36	1.37
USD/JPY	104.55	105	105	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:				
ECB Speakers: Mersch (Monday); Lagarde , de Guindos, Enria (Tuesday); Panetta, Schnabel, McCaul (Wednesday)				
BoE Speakers:				
Fed Speakers:				
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Mon 2nd	IRL:	01:01	AIB Manufacturing PMI (October)	50.0
	EU-19:	09:00	Final Markit Manufacturing PMI (October)	54.4
	UK:	09:30	Final CIPS/Markit Manufacturing PMI (October)	53.3
	US:	14:45	Final Markit Manufacturing PMI (October)	53.3
	US:	15:00	Construction Spending (September)	+1.4%
	US:	15:00	Manufacturing ISM (October)	55.4
				55.6
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Tue 3rd	US:		Election 2020	
	IRL:	11:00	Unemployment Rate (October)	5.4%
	US:	15:00	Factory Orders (September)	+0.7%
	IRL:	16:30	Exchequer Returns (October)	Oct'19: -€1.7bn
				-€12.5bn
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Wed 4th	IRL:	01:01	AIB Services PMI (October)	45.8
	ITA:	08:45	Markit Composite PMI (October)	50.4
	FRA:	08:50	Final Markit Composite PMI (October)	47.3
	GER:	08:55	Final Markit Composite PMI (October)	54.5
	EU-19:	09:00	Final Markit Composite PMI (October)	49.4
			- Services	46.2
	UK:	09:30	Final CIPS / Markit Composite PMI (October)	52.9
			- Services	52.3
	EU-19:	10:00	PPI (September)	+0.1% (-2.5%)
	US:	13:30	International Trade (September)	-\$67.1bn
	US:	14:45	Final Markit Composite PMI (October)	55.5
			- Services	56.0
	US:	15:00	Non-Manufacturing ISM (October)	57.8
				57.8
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Thurs 5th	JPN:	00:30	Services PMI (October)	46.9
	GER:	07:00	Industrial Orders (September)	+4.5%
	UK:	09:30	Markit / CIPS Construction PMI (October)	56.8
	EU-19:	10:00	Retail Sales (September)	+4.4% (+3.7%)
	UK:	12:00	BoE Interest Rate Announcement	0.10%
			- Meeting Minutes / Monetary Policy Report	
	US:	13:30	Initial Jobless Claims (w/e 26th October)	751,000
	US:	19:00	Fed Interest Rate Announcement	0.00-0.25%
	US:	19:30	Fed Press Conference	
	JPN:	23:30	All Household Spending (September)	+1.7% (-6.9%)
				+2.2% (-10.7%)
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Fri 6th	GER:	07:00	Industrial Output (September)	-0.2%
	UK:	08:30	Halifax House Prices (October)	+1.6% (+7.3%)
	US:	13:30	Non-Farm Payrolls (October)	+661,000
			- Unemployment	7.9%
			- Average Earnings	(+4.7%)
				(+4.6%)

◆ 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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