

On a Roll

- Economic activity in many countries during the opening months of 2021 continues to be greatly inhibited by the containment measures put in place to suppress the latest wave of Covid-19, including lockdowns in the UK and Ireland.** Forecasters, though, are not scaling back their growth projections for the world economy. Indeed, the opposite is happening as the outlook for growth continues to brighten with the roll out of Covid-19 vaccines gathering momentum and governments providing even more fiscal supports for businesses and households. The OECD's latest Economic Outlook published this week, saw significant upward revisions to its global growth forecasts. The world economy is now projected to expand by 5.6% in 2021, much faster than the 4.2% rate it had anticipated in December. It has also upped its projected growth rate for 2022 to 4% from 3.7%.
- This represents a remarkable turnaround for the global economy after it contracted by 3.4% last year, with many large economies registering historically large GDP declines of between 7-10%.** Recoveries from recessions usually take much longer than this. However, this is a unique cycle. The recession has not been caused by an economic shock or financial crisis that can prove protracted. Instead, large parts of the world economy were effectively put into cold storage by government decree, leading to big falls in supply and consumption. The evidence from last summer is that economies can rebound strongly when containment measures are lifted and they re-open for business. Meanwhile, unprecedented monetary and fiscal supports have been put in place to help economies recover, with governments moving to underpin household incomes in particular. This has led to an enormous build-up of private sector savings in many countries. These can be expected to be spent as containment measures are lifted, providing enormous fire power for what could be a boom like rebound in economic activity.
- The Eurozone economy contracted by 6.6% in 2020. This week saw the ECB re-affirm its forecast for the Eurozone economy to grow by circa 4% in 2021 and 2022, broadly in line with the OECD, IMF and EC projections.** This would leave the region trailing well behind recoveries in other major economies, with US and UK forecast by the OECD to grow by 6.5% and 5.1%, respectively, this year and to continue outperforming the Eurozone in 2022. There are two main reasons for this – the well documented, far slower pace of vaccine roll out in the EU and less action from governments in terms of fiscal supports. The budget deficit in the Eurozone has climbed to around 9% of GDP, compared to 15% in the US and 17% in the UK. It is crucial for the Eurozone's recovery prospects that its vaccine programme gathers significant momentum in the coming months.
- Regarding the Irish economy, the vaccine roll-out has been held back by supply issues afflicting the EU as a whole.** Nonetheless, the ESRI indicated this week that it still expects the economy to grow by 4% in 2021, despite many sectors being in lockdown for much of H1 2021. Recent EC forecasts are for the Irish economy to grow by 3.4% this year, with the latest Central Bank projection at 3.8%. CSO data confirm that the Irish economy expanded by 3.4% in 2020, owing to a strong export performance by multi-national companies. In addition, the contraction in the domestic economy at 5.4% was smaller than the declines in the Eurozone and UK economies. Hence, the scope for a sharp rebound by the Irish economy is not the same as elsewhere. Thus, the 4% growth forecast by the ESRI for Ireland would be an impressive performance given the circumstances.
- This week, the main highlights will be the latest monetary policy meetings held by the US Fed and Bank of England.** Starting with the Fed, the FOMC is expected to keep policy on hold. At the press conference Chair Powell will likely reiterate that an expected pick up in inflation this year will probably be transitory, given the large amount of labour market slack that remains. Meanwhile, the latest Fed forecasts are likely to revise economic growth and inflation upwards for 2021. However, the dot plot, which shows where Committee members expect interest rates to be over the next few years, will likely garner more attention. Currently, only one member expects a rate hike in 2022. **Likewise, the BoE is expected to leave monetary policy unchanged.** Governor Bailey may emphasise that the risks to the outlook have become more balanced, as the UK economy prepares to re-open in Q2.
- Data-wise, a busy US docket sees the release of retail sales and industrial production for February.** In January, retail sales surged by 5.3%, as fiscal transfers given to households as part of the December stimulus package were spent. The forecast is for retail sales to fall slightly, by 0.5% in February, but with another round of payments set to begin this weekend, a further jump in sales can be expected. Industrial production is projected to rise by 0.6% despite global supply chain issues, as US manufacturing continues to perform strongly. An update on the housing market, in the form of housing starts (February) and builder sentiment (March) is also due.
- Elsewhere, the European data diary is sparse.** The German ZEW is projected to rise to 74 from 71.2 as the economic outlook brightens. In the UK, the consensus is for consumer confidence to reach its highest level since March of last year.



	Interest Rate Forecasts			
	Current	End Q1 2021	End Q2 2021	End Q3 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 Q1 2021	End Q2 2021	End Q3 2021
EUR/USD	1.1915	1.20	1.22	1.24
EUR/GBP	0.8589	0.87	0.88	0.89
EUR/JPY	130.02	128	128	128
GBP/USD	1.3870	1.38	1.39	1.39
USD/JPY	109.12	107	105	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde , Panetta (Mon); de Guindos (Tue); Lagarde , de Guindos, Schnabel (Thu); Panetta (Fri)		
	BoE Speakers:	Cunliffe, Haldane (Thu);		
	Fed Speakers:			
Mon 15th	CHINA:	02:00 Industrial Output (February)	(+7.3%)	(+30.0%)
	CHINA:	02:00 Retail Sales (February)	(+4.6%)	(+32.0%)
	US:	12:30 NY Fed / Empire State Index (March)	12.1	14.5
Tue 16th	FRA:	07:45 Final HICP (February)	+0.0% (+0.7%)	+0.0% (+0.7%)
	ITA:	09:00 Final HICP (February)	-0.2% (+1.0%)	-0.2% (+1.0%)
	GER:	10:00 ZEW Economic Sentiment (March)	71.2	74.0
	US:	12:30 Retail Sales (February)	+5.3% (+7.4%)	-0.4% ()
		- Ex-Autos	+5.9%	+0.0%
		- Ex-Gas & Autos	+6.1%	+0.0%
	US:	13:15 Industrial Production (February)	+0.9% (-1.8%)	+0.6% ()
		- Capacity Utilisation	75.6%	75.8%
		- Manufacturing Output	+1.0%	+0.6%
	US:	14:00 NAHB Housing Sentiment (March)	84	83
	JPN:	23:50 Trade Balance (February)	-¥323.9bn	¥420.0bn
		- Exports	+6.4%	-0.8%
Wed 17th	IRL:	Public Holiday (St. Patricks Day)		
	EU-19:	10:00 Final HICP (February)	+0.2% (+0.9%)	+0.2% (+0.9%)
		- Ex-Food & Energy	-0.3% (+1.2%)	-0.3% (+1.2%)
	US:	12:30 Housing Starts (February)	+1.58m / +10.7%	+1.57m / -0.6%
		- Building Permits	+1.89m / +10.7%	+1.75m / -7.2%
	US:	18:00 Fed Interest Rate Announcement	0.00-0.25%	0.00-0.25%
	US:	18:30 Fed Press Conference		
Thurs 18th	EU-19:	10:00 Trade Balance (January)	+€27.5bn	
	UK:	12:00 BoE Interest Rate Announcement	0.10%	
	US:	12:30 Initial Jobless Claims (w/e 8th March)	+712,000	
	US:	12:30 Philly Fed Index (March)	23.1	24.5
	JPN:	23:30 CPI Inflation (February)	(-0.6%)	(-0.4%)
		- Core	(-0.6%)	(-0.4%)
Fri 19th	JPN:	BoJ Interest Rate Decision	-0.10%	-0.10%
	UK:	00:01 Gfk Consumer Confidence (March)	-23	
	GER:	07:00 Producer Prices (February)	+1.4% (+0.9%)	+0.7% (+2.0%)

◆ 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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