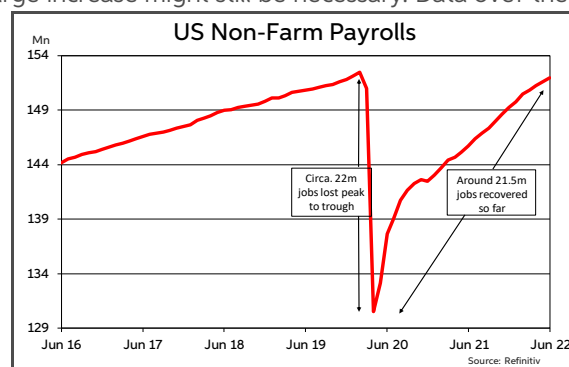


## Show Me the Money

- US GDP contracted in both the first and second quarters of this year, though the falls were modest at 1.6% and 0.9% in annualised terms, respectively.** No doubt, this will only add to the debate about whether or not the economy is in recession. There is no denying that the economy lost momentum in the first half of the year and some parts of the economy are in contraction, most notably housing. However, Federal Reserve Chair Powell was quite clear at his post-FOMC meeting press conference on Wednesday that he does not believe the US is in recession. He is correct in this regard, in our view. Indeed, much of the contraction in GDP in the first two quarters of the year was due to a slowdown in the rate of inventory accumulation or stock building. Real final sales of GDP, which exclude stock changes, actually rose by 1.1% in Q2.
- The National Bureau of Economic Research is generally recognised as the arbiter of business cycles in the US.** It defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in monthly data, such as real personal income, employment, real personal consumption expenditures including retail sales, as well as industrial production. On the basis of these gauges, the US economy is not in recession. Consumer spending rose by 1.8% in Q1 and 1% in Q2. Meanwhile, industrial production rose strongly in both quarters also. The US labour market has been particularly robust this year, with non-farm payrolls averaging a monthly rise of 450k, resulting in the unemployment rate falling to 3.6%. A recession in the midst of such rapid employment growth would be rather odd.
- The downside risks, though, are rising for the US economy with surging inflation weighing on real household incomes and consumer spending power, while the Fed continues to tighten monetary policy quite aggressively.** The US Composite Output PMI moved into contraction territory in July. The IMF sees the US economy growing by just 1% next year. Not surprisingly, then, the markets have scaled back their expectations for US rate hikes since mid-June. The Fed hiked rates by 75bps as expected this week, taking them up to a 2.25-2.5% range. Futures contracts in June had seen rates peaking at 4% in 2023. Now markets expect rates to peak at 3.25% by the end of this year, before being cut to 2.75% by end 2023.
- Chair Powell has indicated, though, that the Fed's June projections, which see rates getting to 3.4% by end year and peaking at 3.8% in 2023, are still its expected pathway.** The Fed will need compelling evidence over the coming months that inflation is coming down if it is to lower its trajectory for interest rates. Meanwhile, the Fed is not giving specific guidance on rates for its next policy meeting in September, though Chair Powell indicated that it would likely be appropriate to slow the pace of increase. However, he did not rule out a further 75bps hike, saying another unusually large increase might still be necessary. Data over the next two months, especially on inflation, will be crucial in this regard.
- This week, the Bank of England will hold its latest monetary policy meeting.** The BoE has raised rates at every meeting so far this year, bringing Bank rate up to 1.25%. In June, the BoE stated that it will, "if necessary act forcefully in response", to signs of more persistent inflationary pressures. Thus, the door has been left open to a 50bps rate hike, an increase which three of the nine strong MPC panel voted for in June. Recently, Governor Bailey has explicitly mentioned that a 50bps increase, "will be among the choices on the table" at this week's meeting, although, he did caution that a 50bps hike is not locked in. Markets have taken note, and current pricing gives around a 70% chance that the BoE will opt for its first 50bps rate hike since February 1995. The market currently sees Bank rate rising to 2.75% in Q1 2023. However most analysts project a lower peak in official UK rates. Meanwhile, the latest Monetary Policy Report containing the BoE's current assessment and outlook for the UK economy will garner close attention, having been quite downbeat in May.
- The main data highlight will be the US labour market report for July.** As mentioned previously, the labour market has performed very well so far in 2022. However, labour force participation is still over 1 percentage point below its pre-pandemic level, and is little changed since January. Tight conditions in the labour market have placed upward pressure on wages, with average earnings up 5.1% y/y in June. Another robust 250k rise in payrolls is anticipated in July, indicating that the pace of hiring remains strong, but is slowing. The unemployment rate is projected to be unchanged at 3.6%. A moderation in wage growth is forecast to see average earnings ease to +5.0% y/y also. Elsewhere in the US, the manufacturing and non-manufacturing ISMs are expected to move back towards the key 50 mark, but remain in expansion mode in July.
- In the Eurozone, there will also be an update on the labour market.** The unemployment rate, which has been trending lower since the start of 2021, fell to a record low of 6.6% in May. The consensus is for it to remain at 6.6% in June. Meanwhile, retail sales, which rose by 0.2% in May, having declined by 1.4% in April, are forecast to rise by a meagre 0.1% in June. Regarding data from the large Euro-area economies, industrial production is projected to fall in Germany, France and Italy in June.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
Fed Funds	2.375	2.875	3.375	3.375
ECB Deposit	0.00	0.50	1.00	1.25
BoE Repo	1.25	2.00	2.50	2.50
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	End Q4	End Q1
	2022	2022	2022	2023
EUR/USD	1.0160	1.02	1.04	1.06
EUR/GBP	0.8402	0.85	0.86	0.87
EUR/JPY	136.11	135	135	135
GBP/USD	1.2089	1.20	1.21	1.22
USD/JPY	133.94	132	130	127

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>	Pill (Fri)		
	<b>Fed Speakers:</b>	Evans, Bullard (Tue); Mester (Thu)		
<b>Mon 1st</b>	<b>IRL:</b>	<b>Bank Holiday</b>		
	<b>GER:</b> 07:00	Retail Sales (June)	+0.6% (-3.6%)	+0.2% (-8.0%)
	<b>UK:</b> 09:30	Final S&P / CIPS Manufacturing PMI (July)	52.2	52.2
	<b>EU-19:</b> 10:00	Unemployment Rate (June)	6.6%	6.6%
	<b>US:</b> 14:45	Final S&P Manufacturing PMI (July)	52.3	52.3
	<b>US:</b> 15:00	Manufacturing ISM (July)	53.0	52.0
<b>Tue 2nd</b>	<b>IRL:</b> 01:01	<b>AIB Manufacturing PMI (July)</b>	<b>53.1</b>	
	<b>UK:</b> 07:00	Nationwide House Prices (July)	+0.3% (+10.7%)	+0.5% (+11.8%)
	<b>US:</b> 15:00	JOLTS Job Openings (June)	11.254m	
<b>Wed 3rd</b>	<b>GER:</b> 07:00	Trade Balance (June)	-€1.0bn	+€0.2bn
		- Exports	(-0.5%)	(+0.7%)
	<b>ITA:</b> 08:45	S&P Composite PMI (July)	51.3	49.7
	<b>FRA:</b> 08:50	Final S&P Composite PMI (July)	50.6	50.6
	<b>GER:</b> 08:55	Final S&P Composite PMI (July)	48.0	48.0
	<b>EU-19:</b> 09:00	Final S&P Composite PMI (July)	49.4	49.4
		- Final S&P Services PMI	50.6	50.6
	<b>ITA:</b> 09:00	Retail Sales (June)	+1.9% (+7.0%)	
	<b>UK:</b> 09:30	Final S&P/CIPS Composite PMI (July)	52.8	52.8
		- Final S&P/CIPS Services PMI	53.3	53.3
	<b>EU-19:</b> 10:00	Producer Prices (June)	+0.7% (+36.3%)	+1.0% (+35.7%)
	<b>EU-19:</b> 10:00	Retail Sales (June)	+0.2% (+0.2%)	+0.1% (-1.6%)
	<b>US:</b> 14:45	Final S&P Composite PMI (July)	47.5	47.5
		- Final S&P Services	47.0	47.0
	<b>US:</b> 15:00	Factory Orders (June)	+1.6%	+1.2%
		- Ex-Transport	+1.7%	
	<b>US:</b> 15:00	Non-Manufacturing ISM (July)	55.3	53.5
	<b>IRL:</b> 16:30	<b>Exchequer Returns (July)</b>	<b>July'21: -€5.8bn</b>	<b>+€4.5bn</b>
<b>Thu 4th</b>	<b>IRL:</b> 01:01	<b>AIB Services PMI (July)</b>	<b>55.6</b>	
	<b>IRL:</b> 11:00	<b>Unemployment Rate (July)</b>	<b>4.8%</b>	<b>4.8%</b>
	<b>UK:</b> 12:00	BoE Interest Rate Announcement	1.25%	1.75%
	<b>UK:</b> 12:30	BoE Press Conference		
	<b>US:</b> 13:30	International Trade (June)	-\$85.6bn	-\$80.1bn
	<b>US:</b> 13:30	Initial Jobless Claims (w/e 25th July)	+256,000	+265,000
<b>Fri 5th</b>	<b>GER:</b> 07:00	Industrial Output (June)	+0.2% (-1.4%)	-0.4% (-0.9%)
	<b>UK:</b> 07:00	Halifax House Prices (July)	+1.8% (+13.0%)	
	<b>FRA:</b> 07:45	Industrial Output (June)	+0.0%	-0.3%
	<b>FRA:</b> 07:45	Trade Balance (June)	-€13bn	
	<b>ITA:</b> 09:00	Industrial Output (June)	-1.1% (+3.4%)	-0.5% (+2.1%)
	<b>US:</b> 13:30	Non-Farm Payrolls (July)	+372,000	+250,000
		- Unemployment Rate	3.6%	3.6%
		- Average Earnings	+0.3% (+5.1%)	+0.3% (+5.0%)

◆ Month-on-month changes (year-on-year shown in brackets)