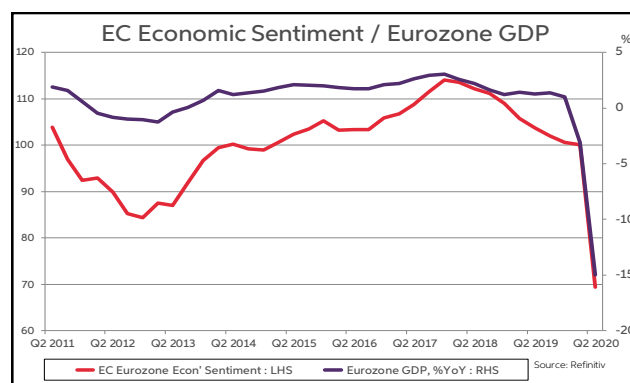


## Not Plain Sailing

- The macro data for the global economy over the last number of months have shown that activity levels have rebounded.** The recession appears to have been largely confined to the first half of the year. Indeed, there were already signs emerging of a bounce back in activity in May and June as the Covid-19 lockdown restrictions started to be unwound, allowing economies to gradually reopen. Despite this recovery, global GDP will still register a significant contraction this year. The IMF, European Commission and ECB project world GDP falling by close to 5% over the course of 2020 in their baseline scenarios, while the OECD is forecasting a contraction of 6%. This would represent the largest contraction since the Great Depression in the early 1930s. They all see GDP growth rebounding by between 5-6% in 2021. The recovery in growth projected for H2 2020 and 2021 will be supported by the aggressive stimulatory policy actions taken by governments and central banks across the world.
- While GDP registered record falls across most of the major advanced economies in Q2, the impact on labour markets and household incomes has been relatively contained in many countries.** This is as a result of job furlough schemes and other income support measures. It is expected, though, that the standard unemployment rates will rise sharply as these schemes/measures are wound down. The OECD sees unemployment rising to around 10% in advanced economies this year, compared to 5.5% in 2019. There are other obvious impacts on economies from the coronavirus pandemic. There has been a sharp decline in international trade, with both the OECD and IMF forecasting a fall of 11-12% in volume terms this year. There has also been a marked fall in inflation too, aided by a collapse in oil prices. We have also seen a sharp deterioration in public finances owing to government measures to mitigate the economic shock and declines in tax revenues due to the severe recession. Governments in virtually all economies are set to record large budget deficits this year and a corresponding jump in public debt.
- Despite the expected improvement in economic growth in the second half of this year and into 2021, activity levels are still anticipated to remain below pre-Covid levels, at least until the end of 2022.** A key reason for the prolonged recovery is due to the nature of the virus and the expectation that it will persist, with the on-going potential for fresh localized outbreaks. This in turn will require regional/partial lockdowns and containment measures such as social distancing, restrictions on airline travel and border closures. Given this backdrop, there is a huge degree of uncertainty regarding the economic outlook and the consensus view is that the balance of risks are to the downside. Not surprisingly then, incoming high frequency macro indicators are being closely monitored to assess if the improvement in the macro environment is being sustained. The release on Friday of the flash PMIs for August gave a mixed picture. The Eurozone data suggested some loss of momentum in the month, but the US survey was better than expected.
- The focus this week in the Eurozone will be on another batch of key survey data for August.** The highlight will be the EC sentiment indices. Another increase is pencilled in for the headline index, though the extent of the improvement may be more limited than in June and July, reflecting the fading boost from the easing of lockdowns. This would be keeping with the message from the aforementioned PMIs. Indeed, in the coming months the index may struggle to remain on its upward trend if a resurgence in infections prompts the re-imposition of restrictions. Nationally, the German Ifo, French INSEE and Italian ISTAT measures of business confidence will all feature. Similar to the Eurozone level data, the indices are projected to have moved slightly higher in August.
- In the US, there are a number of updates due on the consumer side of the economy.** This includes the July print of consumption, which will be looked to for an early read on household spending at the beginning of H2. In the month, the employment report suggested jobs growth remained robust, but consumer confidence dipped as rising Covid cases in the South and West saw parts of the economy shut down for a second time. The drag from the latter factor is expected to result in a 0.2% dip in consumption. The same report will also provide the July reading of the Fed's preferred measure of inflation, core-PCE. It is anticipated it held at close to 1%. In terms of timelier indicators, the consensus is for the Conference Board consumer sentiment index to have edged slightly higher in August. On the monetary policy front, the Fed's Jackson Hole Economic Policy Symposium event will also take place (virtually) this week.
- Meanwhile, there are no notable releases in the UK.** Closer to home, we will get the Q2 reading of the Irish Labour Force Survey. Employment plummeted in the quarter, reflecting the imposition of lockdowns to curtail the virus. However, this may not be fully reflected in the official employment figure given that the data will be distorted by the impact of the state income support schemes which may have seen the labour force participation rate decline. The Covid-19 adjusted rate hit a high of 28.8% in April (has since fallen to 16.7% in July), but the traditional monthly measure did not rise above 5.2% in the quarter.



	Interest Rate Forecasts			
	Current	End Q3 2020	End Q4 2020	End Q1 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 Q3 2020	End Q4 2020	End Q1 2021
EUR/USD	1.1774	1.18	1.18	1.18
EUR/GBP	0.8988	0.91	0.88	0.88
EUR/JPY	124.52	125	126	126
GBP/USD	1.3098	1.30	1.34	1.34
USD/JPY	105.76	106	107	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Schnabel (Wednesday); Lane, Panetta, Schnabel (Thursday); Lane, Panetta, Schnabel (Friday)		
	<b>Fed Speakers:</b>	Daly (Tuesday); <b>Powell</b> (Thursday)		
	<b>BoE Speakers:</b>	Haldane (Wednesday); <b>Bailey</b> (Friday)		
	<b>US:</b>	Jackson Hole Economic Policy Symposium (27-28th August)		
<b>Mon 24th</b>	<b>US:</b>	13:30 National Activity Index (July)	4.11	
<b>Tue 25th</b>	<b>GER:</b>	07:00 GDP (Q2: Second Reading)	-10.1% (-11.7%)	-10.1% (-11.7%)
	<b>GER:</b>	09:00 Ifo Business Climate (August)	90.5	92.0
	<b>IRL: 11:00</b>	<b>LFS—Employment (Q2)</b>	<b>(+2.2%)</b>	
	<b>UK:</b>	11:00 CBI Distributive Trades (August)	4	8
	<b>US:</b>	14:00 Case-Shiller House Prices (June)	+0.0% (+3.7%)	
	<b>US:</b>	15:00 Consumer Confidence (August)	92.6	93.6
	<b>US:</b>	15:00 New Home Sales (July)	+13.8% / 0.776m	-3.4% / 0.75m
<b>Wed 26th</b>	<b>FRA:</b>	07:45 Consumer Confidence (August)	94	
	<b>US:</b>	13:30 Durable Goods (July)	+7.6%	+3.3%
<b>Thurs 27th</b>	<b>FRA:</b>	07:45 INSEE Business Climate (August)	82	84
	<b>EU-19:</b>	09:00 M3 Money Supply (July)	(+9.2%)	(+9.2%)
	<b>US:</b>	13:30 GDP (Q2: Second Reading)	-32.9% s.a.a.r	-32.5%
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 22nd August)	1,106,000	925,000
	<b>US:</b>	15:00 Pending Home Sales (July)	+16.6%	+1.5%
<b>Fri 28th</b>	<b>GER:</b>	07:00 Gfk Consumer Sentiment (September)	-0.3	2.0
	<b>FRA:</b>	07:45 Consumer Spending (July)	(+9.0%)	
	<b>FRA:</b>	07:45 GDP (Q2: Final Reading)	-13.8% (-19.0%)	-13.8% (-19.0%)
	<b>FRA:</b>	07:45 Flash HICP (August)	(+0.9%)	(+0.7%)
	<b>ITA:</b>	09:00 ISTAT Business Confidence (August)	85.2	87.0
	<b>EU-19:</b>	10:00 Business Climate (August)	-1.80	
	<b>EU-19:</b>	10:00 EC Economic Sentiment Index (August)	82.3	84.9
		- Industrial / Services	-16.2 / -26.1	
	<b>IRL: 11:00</b>	<b>Retail Sales (July)</b>	<b>+38.4%</b>	<b>+5.0%</b>
	<b>US:</b>	13:30 Personal Income / Consumption (July)	-1.1% / +5.6%	+1.5% / -0.2%
		- Core PCE Prices	(+0.9%)	
	<b>US:</b>	15:00 Final Michigan Consumer Sentiment (August)	72.8	72.8

◆ 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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