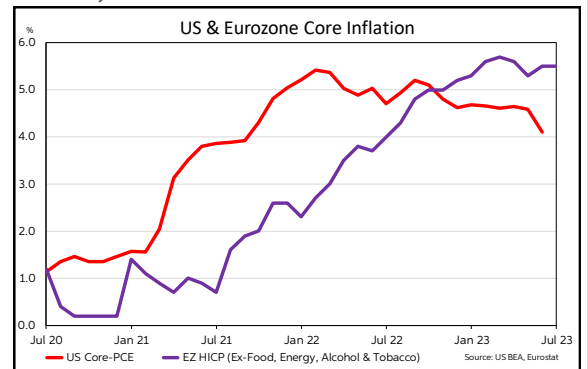


## Still Flashing Amber

- Surging inflation combined with a marked tightening of monetary policy, amid an environment of weakening confidence levels and heightened geo-political tensions, especially in relation to Ukraine, saw the world economy slow sharply during 2022.** However, concerns that advanced economies could be facing a recession in 2023 have largely abated. While survey data have been weak, especially on manufacturing, real economic data have generally printed ahead of expectations this year, most notably in the US, UK and Japan. Lower commodity prices, declining headline inflation and continuing strong labour markets have all supported economic activity, which was reflected in better than forecast GDP data for Q2 in all the main developed economies. Indeed, 2023 GDP forecasts for the US, UK and Japan have all been revised higher over the summer.
- Nonetheless, significant risks remain to the economic outlook.** The lagged effects of the sharp increases in interest rates in 2022-23 have yet to fully impact economies, especially in relation to the refinancing of maturing term debt at much higher rates. The OECD and IMF continue to warn that higher interest rates could yet expose underlying financial vulnerabilities with potential for rising loan defaults, most notably in weaker low-income countries, where signs of debt distress are already evident. CRE markets are also under pressure which could lead to rising bad debts, putting stress on the balance sheets of those lenders with significant exposure to the sector. More generally, if inflation proves more persistent than expected, it could lead to even higher interest rates than are currently priced into markets, putting further downward pressure on financial and real estate asset prices.
- Meanwhile, China's expected economic rebound this year has underwhelmed, amid ongoing problems in the real estate sector and concerns about the stability of the financial system.** Recent economic data have disappointed, with exports weakening and as China's debt fuelled investment in infrastructure and property comes home to roost. The focus is now on deleveraging, which is depressing domestic demand. There have been warnings that China is at risk of entering a prolonged period of stagnation and deflation in the absence of measures to boost activity, especially consumer spending. The problems in China are occurring at a time of growing geo-economic fragmentation as tensions intensify between the West and other leading global powers. The IMF has noted that deepening tensions could lead to more restrictions on trade, as well as cross-border movements of capital, technology and labour, damaging global growth.
- Thus, it is still too early to conclude the global economy will emerge largely unscathed from the substantial tightening of monetary policy seen in the past couple of years.** The weakening trend in business surveys, in particular PMIs, which tend to be a good leading indicator of activity, is a concern. The flash PMIs for the major economies in August were particularly weak, especially in Europe. The OECD and IMF remain cautious about next year's growth prospects for advanced economies. Subdued growth of around 1% may be best that the main economies achieve, despite much lower inflation. Not only that, as outlined above, the risks to activity remain very much to the downside. The world economy is not out of the woods yet.

- This week a busy US data schedule includes updates on inflation, the labour market, and the consumer.** Core-PCE inflation for

July is forecast to edge slightly higher to 4.2% from 4.1% in June. However, this is down from 4.6% between March to May, and a peak of 5.4% in February/March 2022. In terms of the labour market, payroll growth slowed to circa 186k in June & July. Conditions in the labour market remain tight, though, with the jobless rate at 3.5% in July. Ongoing tight conditions have placed upward pressure on wages, with average earnings rising by 0.3-0.6% per month since March 2022. Earnings were 4.4% higher in year-on-year terms in July. The consensus is for payrolls to rise by 170k in August, with the unemployment rate remaining at 3.5% and average earnings unchanged also, at +4.4% y/y. Meantime, nominal personal consumption is forecast to rise by 0.7% in July, supported in part by a 0.3% increase in incomes.



- The clear disinflationary path and tight labour market have boosted US consumer confidence, with the Conference Board measure climbing to a two year high in July.** However, the index is expected to drop marginally lower to 116.0 in August, from 117.0. Meanwhile, the manufacturing ISM is forecast to stay below the key 50 level in August. Elsewhere, the second reading of GDP is set to confirm the economy expanded by 2.4% annualised in Q2.

- In the Eurozone, updates on inflation and the labour market will also feature.** Headline inflation has fallen sharply from its peak of 10.6% last October, and stood at 5.3% in July. However, core inflation, as measured by the ex-food, energy, alcohol and tobacco rate has proven to be quite sticky, operating in a tight 5.3-5.7% range so far this year. Modest falls in both the headline and core rates to 5.1% and 5.3%, respectively, are pencilled in for August, but with variations in the moves in national rates. Meantime, it is anticipated that the unemployment rate remained at its all-time low of 6.4% in July, while the EC sentiment indices are projected to deteriorate in August. The ECB monetary policy meeting account from July will also garner attention.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2023	2023	2024
Fed Funds	5.375	5.625	5.625	5.625
ECB Deposit	3.75	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.75	5.75
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
		2023	2023	2024
EUR/USD	1.0831	1.09	1.10	1.12
EUR/GBP	0.8570	0.86	0.86	0.87
EUR/JPY	157.94	159	161	162
GBP/USD	1.2637	1.27	1.28	1.29
USD/JPY	145.82	146	146	145

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Schnabel, de Guindos (Thu);		
	<b>BoE Speakers:</b>	Pill (Thu)		
	<b>Fed Speakers:</b>	Barr (Mon); Barr (Tue); Bostic, Collins (Thu); Mester, Bostic (Fri)		
<b>Mon 28th</b>	<b>EU-20:</b> 09:00	M3 Annual Money Growth (July)	+0.6%	+0.0%
	<b>IRL:</b> 11:00	<b>Retail Sales (July)</b>	<b>+0.4% (+7.6%)</b>	<b>+1.0% (+9.3%)</b>
<b>Tue 29th</b>	<b>JPN:</b> 00:30	Jobs/Applicants Ratio (July)	1.30	1.30
	<b>JPN:</b> 00:30	Unemployment Rate (July)	2.5%	2.5%
	<b>GER:</b> 07:00	Gfk Consumer Sentiment (September)	-24.4	-24.3
	<b>FRA:</b> 07:45	INSEE Consumer Confidence (August)	85.0	84.0
	<b>IRL:</b> 11:00	<b>Earnings &amp; Labour Costs (Q2 2023)</b>	<b>(+4.3%)</b>	<b>(+4.7%)</b>
	<b>US:</b> 14:00	Case-Shiller House Prices (June)	+1.0% (-1.7%)	+0.8% (-1.3%)
	<b>US:</b> 15:00	JOLTS Job Openings (July)	+9.6m	
	<b>US:</b> 15:00	Conference Board Consumer Confidence (Aug)	117.0	116.0
<b>Wed 30th</b>	<b>SPA:</b> 08:00	Flash HICP Inflation (August)	-0.1% (+2.1%)	+0.6% (+2.6%)
	<b>ITA:</b> 09:00	ISTAT Business Confidence (August)	99.3	98.0
	<b>ITA:</b> 09:00	ISTAT Consumer Confidence (August)	106.7	105.0
	<b>UK:</b> 09:30	Mortgage Approvals (July)	54,662	51,000
	<b>EU-20:</b> 10:00	EC Economic Sentiment (August)	94.5	93.9
		- Industrial / Services / Consumer	-9.4 / 5.7 / -16.0	-9.8 / 4.2 / -16.0
	<b>IRL:</b> 11:00	<b>Flash HICP Inflation (August)</b>	<b>+0.2% (+4.6%)</b>	<b>+0.4% (+4.8%)</b>
	<b>GER:</b> 13:00	Flash HICP Inflation (August)	+0.5% (+6.5%)	+0.3% (+6.2%)
	<b>US:</b> 13:15	ADP National Employment (August)	+324,000	+188,000
	<b>US:</b> 13:30	GDP (Q2: Second Reading)	+2.4% s.a.a.r.	+2.4% s.a.a.r.
	<b>US:</b> 13:30	PCE Prices (Q2: Second Reading)	+2.6% s.a.a.r.	+2.6% s.a.a.r.
		- Core-PCE Prices (Q2: Second Reading)	+3.8% s.a.a.r.	+3.8% s.a.a.r.
<b>Thu 31st</b>	<b>GER:</b> 07:00	Retail Sales (July)	-0.8% (-1.6%)	+0.3% (-1.5%)
	<b>FRA:</b> 07:45	Flash HICP Inflation (August)	+0.0% (+5.1%)	+0.7% (+5.2%)
	<b>GER:</b> 08:55	Unemployment Rate (August)	5.6%	5.6%
	<b>ITA:</b> 09:00	Unemployment Rate (July)	7.4%	7.4%
	<b>EU-20:</b> 10:00	Flash HICP Inflation (August)	+0.3% (+5.3%)	+0.4% (+5.1%)
		- Ex-Food & Energy	-0.1% (+6.6%)	+0.4% (+6.3%)
		- Ex-Food, Energy, Alcohol & Tobacco	-0.1% (+5.5%)	+0.4% (+5.3%)
	<b>EU-20:</b> 10:00	Unemployment Rate (July)	6.4%	6.4%
	<b>EU-20:</b> 12:30	ECB Policy Meeting Account (26-27th July)		
	<b>US:</b> 13:30	Personal Income / Consumption (July)	+0.3% / +0.4%	+0.3% / +0.7%
	<b>US:</b> 13:30	PCE prices (July)	+0.2% (+3.0%)	+0.2% (+3.3%)
		- Core-PCE Prices	+0.2% (+4.1%)	+0.2% (+4.2%)
	<b>US:</b> 13:30	Initial Jobless Claims (w/e 21st August)	+230,000	+239,000
<b>Fri 1st</b>	<b>IRL:</b> 01:01	<b>AIB Manufacturing PMI (August)</b>	<b>47.0</b>	
	<b>EU-20:</b> 09:00	Final HCOB / S&P Manufacturing PMI (August)	43.7	43.7
	<b>UK:</b> 09:30	Final CIPS / S&P Manufacturing PMI (August)	42.5	42.5
	<b>IRL:</b> 11:00	<b>Quarterly National Accounts (Q2 2023)</b>	<b>Q1: -2.8% (+2.2%)</b>	
		- GDP (Q2 2023)	<b>Flash Q2: +3.3% (+2.7%)</b>	<b>+3.3% (+2.7%)</b>
	<b>US:</b> 13:30	Non-Farm Payrolls (August)	+187,000	+170,000
		- Unemployment Rate (August)	3.5%	3.5%
		- Average Earnings (August)	+0.4% (+4.4%)	+0.3% (+4.4%)
	<b>US:</b> 14:45	Final S&P Manufacturing PMI (August)	47.0	47.0
	<b>US:</b> 15:00	Manufacturing ISM (August)	46.4	47.0

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

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