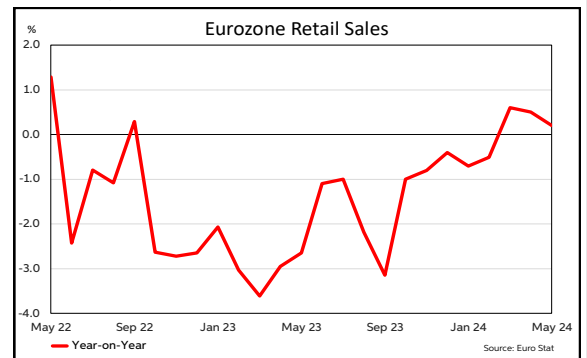


Stock take of the major economies

- Given the first half of the year is well and truly behind us, and with the summer round of the main central banks meetings completed, perhaps now is a good time to take stock of the current economic situation.** In the US, the economy continues to confound expectations. Despite some loss of momentum at the start of 2024, GDP accelerated in Q2, supported by strong outturns in consumption, non-residential investment and government expenditure. Meanwhile, the disinflationary trend, which had stalled in Q1, resumed in Q2, as evidenced by both core-CPI and core-PCE reaching their lowest levels since spring 2021. However, there have been some signs of softening in the labour market in recent months. Payrolls have risen more slowly, including in July, while the unemployment rate has tracked higher, and currently stands at 4.3%. Initial weekly jobless claims have also consistently trended higher this year. Overall though, the US economy appears to be in relatively good shape.
- In the UK, the economy has gathered some steam this year, having performed poorly in 2023.** GDP rose by 0.7% q/q in Q1, the fastest pace of growth since Q4 2021. Monthly data show GDP stagnated in April, but rose by 0.4% m/m in May. Meantime, survey data indicate economic activity continued to rise at a solid pace in Q2, with both the services and manufacturing PMIs printing in expansion mode, while consumer confidence improved. Furthermore, all three metrics continued to trend higher in July. However, the labour market has cooled in 2024. At the same time, both headline and core inflation are in decline, at 2% and 3.5%, respectively in May and June. It should be noted though, that services inflation and wage pressures remain elevated in the UK. Nevertheless, a majority of BoE MPC members were of the view that the risk of inflation becoming embedded had receded enough to facilitate a 25bps rate cut. Thus, the UK economy has done better than expected so far this year.
- The Eurozone economy has also returned to growth in 2024, with GDP rising by 0.3% q/q in Q1 and in Q2.** Among the four largest economies, Spain continued to perform the best, followed by Italy and France. However, the German economy remains weak, with GDP contracting once again in Q2. More broadly, there have been some indications that economic conditions have softened in the Eurozone during the summer months. Meanwhile, little further progress on the inflation front has been made since the end of Q1. Headline HICP has printed in a 2.4-2.6% range since February, while core inflation has come in at 2.7-2.9% since March. Similarly, services inflation has remained stuck in and around 4% this year. However, it should be noted that the ECB warned that inflation would be “bumpy” throughout the remainder of 2024 when it decided to cut rates in June.
- Looking ahead, futures pricing indicates that markets expect a number of rate cuts for all three regions between now and year end.** Following the resumption of disinflation in Q2 and the recent softening of the labour market, Chair Powell indicated that the Fed may start to cut rates as soon as its next meeting in September. The market is pricing in around 100bps of policy easing in the US by year-end. Meantime, the ECB and the UK have already cut rates by 25bps this year. Furthermore, the market anticipates two further rate cuts from both between now and end 2024. Given the ECB and BoE remain in data-dependent mode, the path of inflation, particular services inflation, will be key in determining the level of policy easing ahead. Further steps towards monetary policy normalisation should provide a supportive backdrop for all three regions, even if there are currently areas of concern (labour markets in the US & UK, and waning activity in the Eurozone). Thus, while a number of risks remain, a much talked about “soft-landing” for all three economies remains achievable.
- This week, there is a busy data schedule on the home front.** A number of releases will provide an update on economic conditions at the start of Q3. This will include the release of the Exchequer Returns, unemployment rate and services PMI for July. Meantime, CPI inflation data for July are also due.
- Elsewhere, the data calendar is quite sparse.** In the Eurozone, the main highlight will be retail sales for June. A modest 0.1% rise is forecast for the month, leaving sales 0.2% higher in year-on-year terms. Meanwhile, producer price inflation is set to remain well in negative territory, at -3.3% in June, up from -4.2% in May. Elsewhere, the EU Sentix Index is projected to deteriorate to -8.0 in August, having declined sharply to -7.3 in July.
- A slew of updates on the German economy, may garner some attention.** As mentioned above, the German economy fell back into contraction in Q2, amid ongoing structural and cyclical headwinds. Against this backdrop, industrial output has been trending lower over the past few years. Indeed, a modest 1% rebound in output is pencilled in for June, following a sharp 2.5% fall in May. Industrial orders are also projected to rise, by 0.8% in June, although, this is on the back of a 1.6% contraction in May.
- In the US, the only release of note will be the non-manufacturing ISM for July.** The index has fluctuated in and around the key 50 mark for the past number of months, and this is expected to continue in July, with the ISM rising to 51.0 from 48.0 in June. There is barren look to the UK data calendar this week.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.00	5.00	4.75	4.50
BoJ OCR	0.25	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0907	1.10	1.11	1.12
EUR/GBP	0.8498	0.87	0.87	0.88
EUR/JPY	160.19	160	159	158
GBP/USD	1.2835	1.26	1.28	1.28
USD/JPY	146.87	145	143	141

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Daly, Goolsbee (Mon); Barkin (Thu)		
Mon 5th	IRL:	Bank Holiday		
	JPN: 01:30	Final Jibun Composite PMI (July)	52.6	52.6
	ITA: 08:45	Final HCOB Composite PMI (July)	51.3	51.3
	FRA: 08:50	Final HCOB Composite PMI (July)	49.5	49.5
	GER: 08:55	Final HCOB Composite PMI (July)	52.0	52.0
	EU-20: 09:00	Final HCOB Composite PMI (July)	50.1	50.1
		- Final HCOB Services PMI (July)	51.9	51.9
	EU-20: 09:30	EU Sentix Index (August)	-7.3	-8.0
	UK: 09:30	Final S&P Composite PMI (July)	52.7	52.7
		- Final S&P Services PMI	52.4	52.4
	EU-20: 10:00	Producer Prices (June)	-0.2% (-4.2%)	+0.4% (-3.3%)
	US: 14:45	Final S&P Composite PMI (July)	55.0	55.0
		- Final S&P Services PMI	56.0	56.0
	US: 15:00	Non-Manufacturing ISM (July)	48.8	51.0
Tue 6th	IRL: 01:01	AIB Services PMI (July)	54.2	
	GER: 07:00	Industrial Orders (June)	-1.6%	+0.8%
	IRL: 11:00	Unemployment Rate (July)	4.2%	4.2%
	EU-20: 10:00	Retail Sales (June)	+0.1% (+0.3%)	+0.1% (+0.2%)
	US: 13:30	International Trade (June)	-\$75.1bn	-\$72.9bn
	IRL: 16:30	Exchequer Returns (July)	July'23: +€0.7bn	+€2.6bn
		- Excluding Transfer to NRF	July'23: +€4.7bn	
Wed 7th	GER: 07:00	Industrial Output (June)	-2.5% (-6.7%)	+1.0% (-4.0%)
	GER: 07:00	Trade Balance (June)	+€24.9bn	+€23.5bn
		- Exports	-3.6%	
	FRA: 07:45	Trade Balance (June)	-€7.9bn	
Thu 8th	JPN: 06:00	Economy Watchers Poll (July)	47.0	
	IRL: 11:00	CPI Inflation (July)	+0.4% (+2.2%)	+0.2% (+2.2%)
		- Final HICP Inflation	Flash: +0.2% (+1.5%)	+0.2% (+1.5%)
	US: 13:30	Initial Jobless Claims (w/e 29th July)	+249,000	
Fri 9th	GER: 07:00	Final HICP Inflation (July)	+0.5% (+2.6%)	+0.5% (+2.6%)

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

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