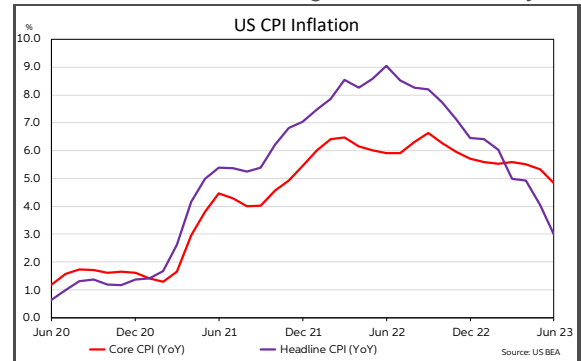


Still Coming Up Trumps

- The US economy continues to strongly outperform Europe, as it confounds fears that it could enter recession this year.** US data have come in well ahead of expectations to date in 2023. This has seen US GDP rise by 0.5% and 0.6% (or 2.0% and 2.4% annualised) in the first two quarters of the year. By contrast, Eurozone data have disappointed. GDP has been weak, flat-lining in Q1 and rising by 0.3% in Q2. Meanwhile, although the UK has avoided recession, GDP growth has been very anaemic at an estimated 0.1% in the first two quarters of 2023. As a result, US GDP was 2.6% higher in Q2 on a year-on-year basis, much stronger than the 0.6% annual growth seen for the Eurozone and estimated 0.3% in the UK. Indeed, US GDP is now 6.2% above its end 2019 pre-COVID level. Eurozone GDP is 2.7% higher, held back somewhat by a weak performance by Germany, while UK GDP is still some 0.5% below its pre-COVID end 2019 level.
- The outperformance of the US economy in recent years can be put down to a number of factors;** the less restrictive COVID measures imposed on the economy, expansionary fiscal policy both during and after the pandemic, being better insulated from the energy price shock with the economy now a net energy exporter, as well as a less severe inflation shock – the annual CPI rate in the US in June stood at 3.0%, well below the rates of 5.5% in the Eurozone and 7.9% in the UK. Not surprisingly, the war in Ukraine has also proved more of a headwind for the European economy than the US. However, the US outperformance is nothing new - in 2018 and 2019 before COVID hit, US GDP rose by 5% in total, double the level of increase in Europe.
- The reality is that the US has been outperforming the European economy for many decades and continues to do so, reflecting stronger labour force and productivity growth.** Labour force growth in the US is currently running at 1.8% year-on-year, boosted by continuing high levels of immigration. Indeed, the number of foreign-born workers in the US has risen to almost 20% of the workforce. Productivity is also higher, partly because employees in the US work significantly longer hours than those in Europe. Greater levels of investment, more benign regulatory environment, higher spending on education and research, more use of technology, as well as deeper, more efficient capital markets that result in lower funding costs, also help boost US productivity growth.
- The surprising strength of the US economy in 2023 is reflected in the 17.5% rise in the S&P 500 stock market index year-to-date.** By contrast, the main Euro area stock market index is up by 7%, while the FTSE indices in the UK are broadly flat. Overall, the US economy appears to be emerging in good shape from a very testing period that has included a global health pandemic, inflation shock and substantial monetary tightening. In this regard, the icing on the cake would be if the Fed is able to bring an end its rate hiking cycle before the ECB and BoE, even though the US economy is growing more strongly and has a lower unemployment rate.
- This week, the main focus will be the US CPI inflation data for July.** Inflation has been on a clear downward path now for a number of months. The headline rate fell to 3.0% in June, from 4.0% in May, and well below its peak of 9.1% in June 2022, helped by lower energy prices. Meantime, core inflation is proving stickier, but it has moved lower in recent months. Core-CPI remained in a 5.5-5.7% range in early 2023, before falling to 5.3% in May. It then declined to 4.8% in June, its lowest level since October 2021. **The consensus is for both indices to rise by a modest 0.2% in the month. This would see the headline rate move slightly higher to 3.3%/y/y, with the core rate remaining unchanged, at 4.8%.** The fall in inflation has been partly responsible for an improvement in consumer sentiment in recent months, with the University of Michigan measure hitting its highest level in two years in July. However, the index is projected to edge slightly lower in August.
- Meanwhile, in the UK the first reading of GDP for Q2 will be of interest.** The UK economy has narrowly avoided falling into technical recession over the past number of quarters. GDP expanded by 0.1% in both Q4 of last year and Q1 of this year. The available monthly readings of GDP indicate that economic growth remained muted in Q2 also, although, this is partly due to one-off factors, such as an extra public holiday for the coronation of King Charles. A 0.2% rise in GDP is pencilled in for June, while a 0.1% reading for the quarter is envisaged. Industrial production is projected to be stagnant in June, leaving it 1.1% lower on a year-on-year basis.
- In the Eurozone, industrial production data for Germany will also feature.** Like elsewhere, German manufacturing has struggled over the past year. Output is forecast to fall for the fourth time in five months, by 0.5% in June. Meantime, the EU Sentix index is expected to deteriorate for the fourth month running in August.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2023			2024
Fed Funds	5.375	5.375	5.375	5.375
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			2024
EUR/USD	1.1007	1.12	1.13	1.14
EUR/GBP	0.8628	0.86	0.87	0.87
EUR/JPY	156.04	159	161	162
GBP/USD	1.2755	1.30	1.30	1.31
USD/JPY	141.74	142	142	142

Current Rates Reuters, Forecasts AIB's ERU

<i>Date</i>	<i>UK & Irish Time</i>	<i>Release</i>	<i>Previous</i>	<i>Forecast</i>
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Bostic (Mon); Harker, Barkin (Tue); Harker (Thur)		
Mon 7th	IRL:	August Bank Holiday		
	GER: 07:00	Industrial Output (June)	-0.2% (+0.8%)	-0.5%
	EU-20: 09:30	EU Sentix Index (August)	-22.5	-24.0
Tue 8th	CHINA: 04:00	Trade Balance (June) - Exports	+\$70.6bn (-12.4%)	
	JPN: 06:00	Economy Watchers Poll (July)	53.6	
	GER: 07:00	Final HICP Inflation (July)	+0.5% (+6.5%)	+0.5% (+6.5%)
	US: 11:00	NFIB Small Business Optimism (July)	91.0	
	US: 13:30	International Trade (June)	-\$69bn	-\$65.0bn
Wed 9th	CHINA: 02:30	CPI Inflation (July)	+0.0% (-5.4%)	
	CHINA: 02:30	PPI Inflation (July)	(-5.4%)	
Thu 10th	UK: 00:01	RICS Housing Survey (July)	-46	-50
	ITA: 09:00	Final HICP Inflation (July)	-1.5% (+6.4%)	-1.5% (+6.4%)
	IRL: 11:00	CPI Inflation (July)	+0.8% (+6.1%)	+0.2 (5.9%)
		- HICP Inflation	+0.8% (+4.8%)	+0.2 (4.6%)
	US: 13:30	CPI Inflation (July)	+0.2% (+3.0%)	+0.2% (3.3%)
		- Core CPI Inflation	+0.2% (+4.8%)	+0.2% (+4.8%)
	US: 13:30	Initial Jobless Claims (w/e 31st July)	+227,000	+230,000
Fri 11th	UK: 07:00	GDP (Q2: First Reading)	+0.1% (+0.2%)	0.1% (+0.3%)
	UK: 07:00	GDP (June)	-0.1% (-0.4%)	+0.2 (+0.5%)
	UK: 07:00	Industrial Output (June) - Manufacturing Output	-0.6% (-2.3%) -0.2% (-1.2%)	0.0% (-1.1%) 0.0% (+0.3%)
	UK: 07:00	Goods Trade Balance (June) - Non-EU	-\$18.7bn -\$6.8bn	
	FRA: 07:45	Final HICP Inflation (July)	+0.0% (+5.0%)	+0.0% (+5.0%)
	SPA: 08:00	Final HICP Inflation (July)	-0.1% (+2.1%)	-0.1% (+2.1%)
	US: 13:30	PPI Final Demand (July) - Ex-Food & Energy	+0.1% (+0.1%) +0.1% (+2.4%)	+0.2% (+0.7%) +0.2% (+2.2%)
	US: 13:30	Prelim. Michigan Consumer Sentiment (August)	71.6	71.0

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

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