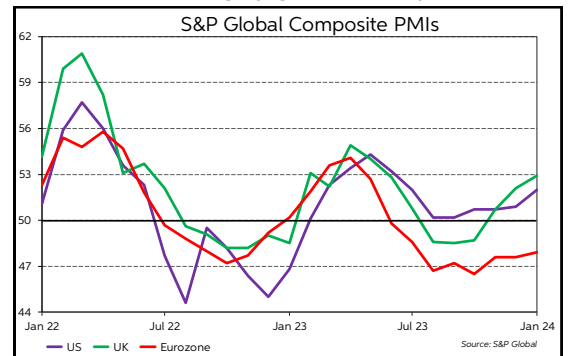


## UK data paint a muddled picture of the economy

- **A plethora of UK data this week provided conflicting evidence on the strength of the economy of late.** For the optimists, continuing strength in the labour market and solid retail sales figures for January suggest the UK consumer is recovering some momentum. However, sticky inflation and moribund GDP growth point to a wider malaise in the UK economy.
- **On the labour market, unemployment fell to 3.8% in December, down from 4.2% a month earlier.** Regular earnings growth – a key benchmark for the Bank of England – also slowed to 6.2% from 6.7% and is now on a clear downward trajectory. However, with core inflation stuck at 5.1% for a third month running in January, a still-tight labour market remains the primary driver of relatively high UK inflation. To add to the uncertainty, measurement issues with the UK labour market data provide a large caveat in interpreting the strength of the UK jobs markets at present. Nevertheless, markets digested this news by trimming expectations for Bank rate cuts this year to c.70 basis points by end-2024 by the end of the week, from 75bps at the start of the week, underpinned by a stronger-than-expected print for retail sales in January, up 3.4% on the month.
- **However, the Q4 GDP data released on Thursday provided further evidence of a longer-term trend of stagnation in the UK economy.** GDP declined by 0.3% on the quarter, rounding off a calendar year growth of just 0.1% in 2023, and the economy is now just 1% above its pre-Covid level in Q4 2019. This compares to 3% and 8.2% growth in the Eurozone and US GDP economies, respectively, during that same period, highlighting the relatively weak trajectory of UK GDP in recent years. With the labour market beginning to show signs of weakness, reflected in recent industry surveys, and inflation expected to slowly moderate to its 2% target, the Bank of England should be on course to begin cutting rates later this year in line with the other Central Banks, which should provide a boost to growth in the near term.
- **On the main currency markets over the past week, the GBP/USD was the main mover, with markets reacting to the UK macro news.** However, the sterling gains earlier in the week, rising above \$1.268, were largely given back by the end of the week, trading below \$1.26 by Friday. EUR/USD was also unchanged on the week at \$1.078 on Friday, with dollar gains on the back of a stronger-than-expected US CPI number unwound once again by the end of the week.
- **Turning to the week ahead, the main release of note will be the flash PMIs for February in the Eurozone, US and UK.** In the Eurozone, the PMIs have been in contraction mode for a number of months. However, the manufacturing PMI has edged higher over the winter, averaging 45.1 compared to just 43.3 in the three months to October. Meanwhile, the services sector reading has been little changed, averaging 48.6 in the winter, versus 48.1 in the autumn. Despite some modest improvement this month, both sector readings are expected to remain consistent with declining activity. In contrast, the UK services PMI has been in expansion territory for the past four months. However, the manufacturing PMI, has been well below the key 50 mark for over a year. Both UK PMIs are forecast to show minimal changes in February. Likewise the US services PMI has outperformed the manufacturing PMI in recent months, albeit they have both been above 50 in January. They are projected to maintain this trend in February.
- **Elsewhere in terms of other survey data, the flash measure of Eurozone consumer confidence will feature.** Having reached its highest level since February 2022 in December (albeit a subdued level historically), the index unexpectedly deteriorated in January. The consensus is for a modest uptick in February. The bellwether German Ifo, which fell to its lowest level since May 2020 in January, is forecast to rise marginally in February. In terms of monetary policy, the ECB monetary policy meeting account from January will garner attention. Investors will look to the minutes for any guidance on the timing of the first rate cut from the ECB.
- **The UK data schedule also features consumer confidence.** UK consumer sentiment rose to its highest level since the start of 2022 in January, largely owing to the slowdown in inflation in the second half of last year. A rise to –18 from –19.0 is pencilled in for February. Elsewhere, members of the BoE’s MPC, including Governor Bailey, will appear at the Treasury Select Committee, to speak about the Bank’s latest Monetary Policy Report.
- **After a busy diary last week, the US diary over the coming days is quieter.** Aside from the aforementioned PMIs, the main release of note will be the Fed minutes from their first FOMC meeting of 2024.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2024			
Fed Funds	5.375	5.375	4.875	4.375
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.00	4.50
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
	2024			
EUR/USD	1.0747	1.10	1.11	1.12
EUR/GBP	0.8556	0.86	0.86	0.87
EUR/JPY	161.82	158	155	152
GBP/USD	1.2558	1.28	1.29	1.29
USD/JPY	150.58	144	140	136

Current Rates Reuters, Forecasts AIB's ERU

<i>Date</i>	<i>UK &amp; Irish Time</i>	<i>Release</i>	<i>Previous</i>	<i>Forecast</i>
<b>This Week:</b>	<b>ECB Speakers:</b>	Bollo, Tuomien (Wed); Bollo, Tuomien (Thur); <b>Lagarde</b> , Buch, Cipollone, Schnabel (Fri)		
	<b>BoE Speakers:</b>	Bailey, Broadbent, Dhingra, Greene (Tue)		
	<b>Fed Speakers:</b>	Bostic, Bowman (Wed); Jefferson, Harker, Cook, Waller (Thur)		
<b>Mon 19th</b>	<b>US:</b>	<b>Presidents Day (Market Holiday)</b>		
<b>Tue 20th</b>	<b>CHINA:</b>	01:15 1 Year Loan Prime Rate (February)	3.45%	
		- 5 Year Loan Prime Rate	4.20%	
	<b>UK:</b>	10:00 BoE MPR Testimony to TSC		
	<b>JPN:</b>	23:50 Trade Balance (January)	+¥68.9Bn	-¥1.9Bn
		- Exports	(+9.7%)	(+9.5%)
<b>Wed 21st</b>	<b>UK:</b>	11:00 CBI Trends - Orders (February)	-30.0	
	<b>IRL:</b>	<b>11:00 Residential Property Price Index (December)</b>	<b>+0.8% (+2.9%)</b>	<b>+0.5% (+3.1%)</b>
	<b>EU-20:</b>	15:00 Flash Consumer Confidence (February)	-16.1	-15.6
	<b>US:</b>	19:00 Fed Meeting Minutes (January)		
<b>Thu 22nd</b>	<b>JPN:</b>	00:30 Flash Jibun Composite PMI (February)	51.5	
	<b>FRA:</b>	07:45 INSEE Business Climate (February)	98.0	99
	<b>FRA:</b>	08:15 Flash HCOB Composite PMI (February)	44.6	45.5
	<b>GER:</b>	08:30 Flash HCOB Composite PMI (February)	47.0	47.4
	<b>EU-20:</b>	09:00 Flash HCOB Composite PMI (February)	47.9	48.5
		- Manufacturing / Services	46.6 / 48.4	47.1 / 48.7
	<b>ITA:</b>	09:00 Final S&P HICP Inflation (January)	-1.1%(+0.9%)	-1.1% (+0.9%)
	<b>UK:</b>	09:30 Flash S&P Composite PMI (February)	52.9	52.7
		- Manufacturing / Services	47.0 / 54.3	47.1 / 54.4
	<b>EU-20:</b>	10:00 Final HICP Inflation (January)	+0.2% (+2.8%)	-0.4% (+2.8%)
		- Ex-Food, Energy, Alcohol & Tobacco	-0.9% (+3.3%)	-0.9% (+3.3%)
	<b>EU-20:</b>	10:00 ECB Monetary Policy Meeting Account (24-25th January)		
	<b>IRL:</b>	<b>11:00 Labour Force Survey ( Q4 2023)</b>		
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 12th February)	+212,000	+217,000
	<b>US:</b>	14:45 Flash S&P Composite PMI (February)	52.0	51.4
		- Manufacturing / Services	50.7 / 52.5	50.2 / 52.0
	<b>US:</b>	15:00 Existing Home Sales (January)	+3.78m / -1.0%	+3.95m
<b>Fri 23rd</b>	<b>UK:</b>	00:01 Gfk Consumer Confidence (February)	-19.0	-18.0
	<b>GER:</b>	07:00 GDP (Q4: Detailed Reading)	-0.3% (-0.4%)	-0.3% (-0.4%)
	<b>GER:</b>	09:00 Ifo Business Climate (February)	85.2	85.5
	<b>EU-20:</b>	09:00 M3 Annual Money Growth (January)	+0.1%	

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.