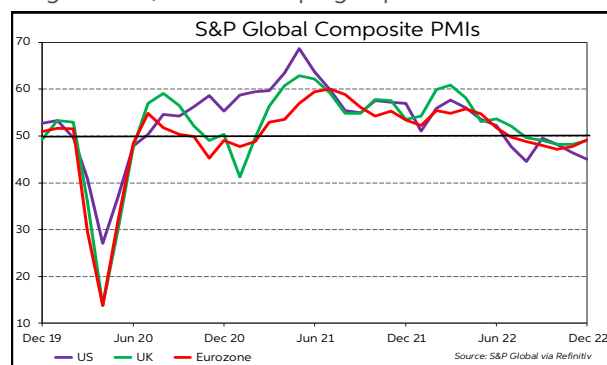


Some Silver Linings in Dark Clouds

- **The World Bank, in its latest Global Economic Prospects report released earlier this month, warned that the global economy is perilously close to falling into recession this year.** It said the world economy could register one of the weakest rates of growth seen in recent decades in 2023, following a year of very high inflation, worsening financial conditions and Russia's invasion of Ukraine. This follows similar downbeat assessments for 2023 published towards the end of last year by the IMF and OECD. They added that the risks to the outlook were skewed to the downside and so an even weaker outturn was quite possible.
- **Very high inflation combined with expected interest rate hikes of 400-500bps in many major economies have greatly increased the risks of a recession in 2023.** Indeed, the view of many forecasters is that inflation cannot be beaten without tipping economies into recession, especially when sharp hikes in interest rates are required. This was the widely held view at this week's World Economic Forum in Davos, with two-thirds of the economists surveyed there expecting a global recession in 2023. In this regard, the Global Composite PMI has been below 50 since August and thus in contraction territory. This usually signals a period of very weak economic activity ahead. Financial markets, though, have been rallying in the past couple of months, suggesting increasing optimism that a severe downturn may be avoided.
- **In this regard, some real economic data have continued to come in ahead of expectations in recent months.** Better than expected GDP data have been published in China and Germany for the fourth quarter, with monthly estimates of UK output performing better than anticipated in October and November also. Labour markets remain tight, with no sign yet of a rise in unemployment amidst continuing high levels of job vacancies. Meanwhile, inflation has turned the corner and started to move lower. The marked declines in energy and food commodity prices since last summer suggests that CPI rates could see sharp falls in 2023. This would alleviate the marked downward pressure on real household disposable incomes seen in the past year. With inflation in decline, central bank rates are also expected to peak in the coming months, which is helping improve conditions on financial markets.
- **Supply chains have also started to normalise after three years of COVID related disruptions.** Furthermore, 2023 growth forecasts for China are being revised upwards as it abandons its zero-COVID strategy. A strong rebound in China will have significant positive spill over effects for the global economy. Meanwhile, both consumer and corporate balance sheets are holding up well, aided by fiscal supports which are boosting cash balances. Thus, it may be that the global economic downturn will not be as intense as anticipated. Indeed, ECB Council member, Villeroy, commented this week that "we should be able to avoid a recession this year", adding he would not have thought this three months ago. Overall, the global economy is still in for a challenging year in 2023, but the downturn may prove to be less severe than previously feared. In this regard, it will be interesting to see what changes the main central banks make to their 2023 forecasts when they update their macro projections over the next couple of months.
- **The flash January PMIs for the US, Eurozone and UK, due on Tuesday, will shed some light on activity levels at the start of 2023.** In the US, the manufacturing and services PMIs fell sharply in December, moving further into contractionary territory. Both indices are forecast to remain at very low levels in January also, little changed from December. Meanwhile, in the Eurozone, both sector readings improved in December, albeit they remained below the key 50 threshold, consistent with a further fall in activity. The consensus for January is that the services sector will rise to 50.2, as it continues to outperform the manufacturing sector, which is projected to improve slightly to 48.5. Similarly, in the UK, services have held up better than manufacturing in recent months. This trend is set to continue at the start of the year, with the former seen as remaining at 49.9, while the latter is forecast to stay firmly below 50, at 45.5.
- **Elsewhere in terms of survey data, Eurozone consumer confidence is expected to improve at the start of the year.** The flash reading is forecast to rise to -20 in January, from -22.2. Similar improvements in German, French and Italian consumer sentiment are anticipated also. Meanwhile, the closely followed German Ifo is projected to rise to 90.2 in January, from 88.6.
- **In the US, the December reading of core-PCE inflation will garner close attention.** In November, core-PCE fell for the second consecutive month to 4.7%, its lowest level since July. The year-on-year rate is projected to ease again, to 4.4% in December. Despite inflation running at a rapid pace throughout 2022, consumption remained robust in the US. However, consumer spending stagnated in real terms in November, as rising prices and slowing income growth impacted households. A moderate fall of 0.3% in real consumption is expected in December. Meanwhile, it is envisaged that the first reading of US GDP for Q4 will show an annualised growth rate of 2.6%. Overall, the US economy is forecast to have expanded by circa 2% in 2022.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2023	2023	2023
Fed Funds	4.375	4.875	5.125	5.125
ECB Deposit	2.00	3.00	3.50	3.50
BoE Repo	3.50	4.25	4.25	4.25
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 Q1	End Q2	End Q3
		2023	2023	2023
EUR/USD	1.0806	1.09	1.10	1.12
EUR/GBP	0.8751	0.88	0.89	0.89
EUR/JPY	140.96	141	140	140
GBP/USD	1.2347	1.24	1.24	1.26
USD/JPY	130.44	129	127	125

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde, Panetta (Mon); Lagarde (Tue)		
	BoE Speakers:			
	Fed Speakers:			
Mon 23rd	EU-19:	15:00 Flash Consumer Confidence (January)	-22.2	-20.0
Tue 24th	JPN:	00:30 Flash S&P Composite PMI (January)	49.7	
	GER:	07:00 Gfk Consumer Sentiment (February)	-37.8	-33.0
	FRA:	07:45 INSEE Business Climate (January)	102	102
	FRA:	08:15 Flash S&P Composite PMI (January)	49.1	49.5
	GER:	08:30 Flash S&P Comp PMI (January)	49.0	49.6
	EU-19:	09:00 Flash S&P Global Composite PMI (January)	49.3	49.8
		- Manufacturing / Services PMI	47.8 / 49.8	48.5 / 50.2
	UK:	09:30 Flash Composite PMI (January)	49.0	49.3
		- Manufacturing / Services	45.3 / 49.9	45.5 / 49.9
	UK:	11:00 CBI Trends - Orders (January)	-6	
	US:	14:45 Flash S&P Composite PMI (January)	45.0	45.3
		- Manufacturing / Services	46.2 / 44.7	46.4 / 45.0
Wed 25th	UK:	07:00 PPI Input Prices (December)	+0.6% (+19.2%)	
		- Output Prices	+0.3% (+14.8%)	
	GER:	09:00 German Ifo (January)	88.6	90.2
Thu 26th	ITA:	09:00 ISTAT Business Confidence (January)	101.4	101.8
	ITA:	09:00 ISTAT Consumer Confidence	102.5	102.8
	IRL:	11:00 <i>New-Dwelling Completions</i>	Q4 2021: 6,966	Q4 2022: 7,200
	US:	13:30 Durable Goods (December)	-2.1%	+2.5%
		- Ex-Transport	+0.1%	-0.1%
	US:	13:30 GDP (Q4: Advanced Reading)	+3.2% s.a.a.r.	+2.6% s.a.a.r.
	US:	13:30 PCE Prices (Q4: Advance Reading)	+4.3% s.a.a.r.	
		- Core PCE (Q4: Advance Reading)	+4.7% s.a.a.r.	+3.9%
	US:	13:30 Initial Jobless Claims (w/e 16th January)	+190,000	+211,000
	US:	15:00 New Home Sales (December)	+0.64m / +5.8%	+0.62m / - 3.9%
Fri 27th	FRA:	07:45 INSEE Consumer Confidence (January)	82	84
	EU-19:	09:00 M3 Annual Money Growth (December)	+4.8%	+4.6%
	IRL:	11:00 <i>Retail Sales (December)</i>	-1.4% (-4.2%)	+0.3% (-0.7%)
	US:	13:30 Personal Income / Personal Consumption	+0.4% / +0.0%	+0.2% / -0.1%
	US:	13:30 PCE Prices (December)	+0.1% (+5.5%)	
		- Core-PCE Prices	+0.2% (+4.7%)	+0.3% (+4.4%)
	US:	15:00 Final Uni. Michigan Consumer Sentiment (Jan)	64.6	64.6

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