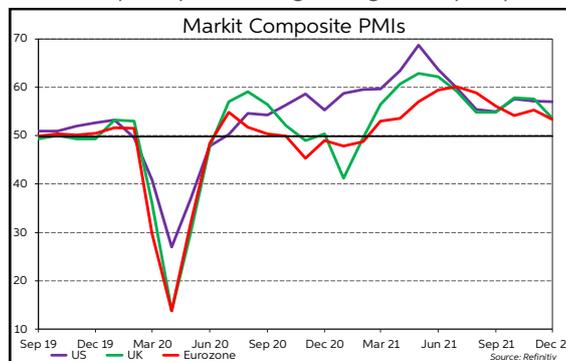


Risk Never Sleeps

- When assessing where the Irish economy stands after almost two years of the Covid-19 pandemic, it is best to use 2019 as the base for comparisons.** Overall, the economy has come through the crisis in very strong shape, although there are some sectors which have been badly impacted and are recovering more slowly. Very substantial fiscal support measures amounting to circa 20% of national income have played a key role in limiting the damage to the economy. Ireland has also benefitted from the favourable product mix in its large multi-national sector, with a large presence of pharma, medical, ICT and financial services companies, which have seen very strong export growth over the past two years.
- The underlying strength of the economy is best exemplified by the data on tax receipts and the labour market.** Tax revenues in 2021 were up by 15% on their 2019 level, before the pandemic struck. Notably, income tax receipts were over 16% higher. This is consistent with the latest labour force data, for Q3 2021. These show employment up by 6.4% on the same period in 2019. Unlike in other countries, the labour force continues to grow strongly, rising by almost 7% over the two years, with the participation rate increasing sharply from 62.5% to 65.1% and a continued rise in the number of non-Irish nationals in the workforce. The official unemployment rate stood at 5.1% at end 2021, only slightly up on its end 2019 level of 4.8%. The rate including those on the PUP (Pandemic Unemployment Payment), stood at 7.5% in December, but this should fall sharply as the current restrictions on activity are lifted in the opening months of 2022.
- In terms of the domestic economy, the latest data show modified final domestic demand was 3.3% higher in the third quarter of 2021 compared to the final quarter of 2019.** Consumer spending in Q3, though, had yet to return to its end 2019 level. While core retail sales (i.e. ex the auto sector) were 10% higher than two years ago, new car sales were down by 10% in 2021 on 2019 levels. Spending in some service sectors such as travel, hospitality and entertainment has also yet to fully recover. Meanwhile, housing output as measured by completions in 2021, is estimated to have been broadly on a par with 2020 and 2019 at circa 21,000 units. However, overall construction output was still well down on 2019 in Q3 2021. Again, this is reflected in labour market data, with construction employment still below 2019 levels.
- A legacy of the pandemic here and elsewhere is higher inflation, both in terms of consumer prices and housing.** CSO data shows the Irish CPI rate finished last year at 5.5%, broadly in line with the UK and Eurozone. Meanwhile, house prices were up by 14% year-on-year in November, again, similar to trends in other countries. The growth prospects for the Irish economy look very favourable over the next few years, as the global economy continues to recover from the 2020 recession. However, the OECD warned in its end year Economic Outlook that inflation could prove persistent and continue to surprise to the upside. This could force central banks to tighten policy to a greater extent than anticipated, endangering the recovery. High inflation may now be replacing Covid-19 as the principal risk to global growth prospects.
- Indeed, continued high inflation data are the primary reason central banks have turned much more hawkish, most notably the Federal Reserve in the US.** At its last policy meeting of 2021, the Fed doubled the pace of QE tapering, and more significantly, indicated that it expects to raise the funds rate three times this year. The minutes of the meeting showed that the first rate hike could come as early as March, and hinted at quantitative tightening (QT) starting this year also. The market is now of the view that the Fed will hike interest rates four times in 2022, starting in March. The FOMC is expected to tee-up the March rate hike this week, while comments on the pace of rate hikes and QT will garner close attention as well. Meantime, the Bank Of Canada may start to raise rates this week.
- Following the FOMC meeting, the latest reading of core-PCE inflation in the US is forecast to edge higher to 4.8% in December, from 4.7% previously.** The employment cost index though, a measure of wage inflation is projected to rise by 1.2% in Q4. The first reading of Q4 GDP is also due. The economy is expected to have grown by 5.6% in annualised terms, up from 2.3% in Q3. Consumption, income (Dec) and consumer sentiment (Jan) data will feature in the US too.
- The other main data highlight this week though, will be the flash PMIs for January in the US, UK and Eurozone.** Overall, it is envisaged that the indices will be little changed, remaining above 50 across the board. Elsewhere in terms of survey data in the Eurozone, the EC sentiment indices and the bellwether German Ifo are forecast to decline slightly in January. A number of large Eurozone countries, including Germany, France and Spain will release Q4 GDP data also. Growth is expected to have slowed, albeit from very high levels in Q3. However, the consensus is that France and Spain will still show good growth in the quarter, while the German economy likely contracted by 0.2%.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2022	2022	2022
Fed Funds	0.125	0.375	0.625	0.875
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.25	0.50	0.75	1.00
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
		2022	2022	2022
EUR/USD	1.1337	1.14	1.14	1.15
EUR/GBP	0.8366	0.82	0.82	0.83
EUR/JPY	128.93	131	131	131
GBP/USD	1.3550	1.39	1.39	1.39
USD/JPY	113.72	115	115	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:			
	IMF:	World Economic Outlook (Tuesday, January 25th)		
Mon 24th	JPN:	00:30 Flash Jibun Manufacturing PMI (January)	54.3	
	FRA:	08:15 Flash Markit Composite PMI (January)	55.8	54.5
	GER:	08:30 Flash Markit Composite PMI (January)	49.9	49.2
	EU-19:	09:00 Flash Markit Composite PMI (January)	53.3	52.6
		- Manufacturing / Services	58.0 / 53.1	57.2 / 52.2
	UK:	09:30 Flash Markit / CIPS Composite PMI (January)	53.6	55.0
		- Manufacturing / Services	57.9 / 53.6	57.9 / 54.8
	US:	14:45 Flash Markit Composite PMI (January)	57.0	56.9
		- Manufacturing / Services	57.7 / 57.6	56.8 / 55.0
Tue 25th	GER:	09:00 German Ifo (January)	94.7	94.7
	UK:	11:00 CBI Trend Orders (January)	24	
	US:	14:00 Case-Shiller House Prices	(+18.4%)	(+17.8%)
	US:	15:00 Conference Board Consumer Confidence (Jan)	115.8	111.8
Wed 26th	FRA:	07:45 Consumer Confidence (January)	100	98
	CAN:	15:00 BoC Interest Rate Decision	+0.25%	+0.50%
	US:	15:00 New Home Sales (December)	+0.74m / +12.4%	+0.75m / +0.8%
	US:	19:00 Fed Funds Rate Announcement	+0.00-0.25%	+0.00-0.25%
	US:	19:30 Fed FOMC Press Conference		
Thu 27th	GER:	07:00 Gfk Consumer Sentiment (February)	-6.8	-8.0
	UK:	11:00 Distributive Trades (January)	8	
	IRL:	11:00 New Dwelling Completions (Q4 2021)	Q3: 4,656	Q4: 7,400
	US:	13:30 Durable Goods (December)	+2.6%	-0.5%
		- Ex-Transport	+0.9%	+0.5%
	US:	13:30 GDP (Q4: First Reading)	+2.3% s.a.a.r.	+5.6% s.a.a.r.
	US:	13:30 PCE Prices (Q4: First Reading)	+5.3%	
		- Core-PCE Prices (Q4: First Reading)	+4.6%	
	US:	13:30 Initial jobless Claims (w/e 17th January)	+286,000	
Fri 28th	FRA:	06:30 GDP (Q4: Flash Reading)	+3.0% (+3.3%)	+0.5% (+4.9%)
	SPA:	08:00 GDP (Q4: Flash Reading)	+2.6% (+3.4%)	+1.4% (+4.4%)
	GER:	09:00 GDP (Q4: Flash Reading)	+1.7% (+2.5%)	-0.2% (+1.9%)
	ITA:	09:00 ISTAT Business Confidence (January)	115.2	115.5
	ITA:	09:00 ISTAT Consumer Confidence (January)	117.7	116.5
	EU-19:	09:00 M3 Annual Money Growth (Dec)	(+7.3%)	(+6.9%)
	EU-19:	10:00 EC Economic Sentiment (January)	115.3	114.5
		- Industrial / Services / Consumer	14.9 / 11.2 / -8.5	15.0 / 10.0 / -8.5
	IRL:	11:00 Retail Sales (Dec)	+0.6% (+16.3%)	-1.5% (+1.0%)
	US:	13:30 Personal Income / Consumption (December)	+0.4% / +0.6%	+0.5% / -0.6%
		- Core-PCE Prices	+0.5% (+4.7%)	+0.5% (+4.8%)
	US:	13:30 Employment Cost Index (Q4: First Reading)	+1.3%	+1.2%
	US:	15:00 Final Uni. Michigan Consumer Sentiment (Jan)	68.8	68.6

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