

AIB Treasury Economic Research Unit

## Getting better but still sluggish

- **As the Eurozone economy makes the turn for the second half of 2025, the backdrop remains challenging.** Over the last few years, the region's economy has struggled to generate any sustained growth momentum in the aftermath of the Covid pandemic. The Russian invasion of Ukraine and the resulting energy price and supply shock were significant drags on the performance of its main economies, especially Germany and Italy. The series of rate hikes from the ECB over the period July'22-Sept'23 to get inflation back down towards its 2% target also acted as a hindrance to growth for the region overall. In short, the economic recovery in the Eurozone has been muted, with the currency bloc rebounding by less than half the rate of the US economy (the Eurozone is around 5% larger than in Q4 2019, whereas the US is over 12% bigger). Over the two-year horizon 2023-2024, growth for the Eurozone averaged just 0.6%. It is useful to look at the contribution from the region's 'Big 4' economies as these account for nearly 75% of overall Eurozone GDP. Over this 2-year period, the German economy averaged a 0.2% growth rate, France grew on average by around 1%, Italy averaged growth of 0.7%, while the Spanish economy registered a more robust performance, posting a 2-year average growth rate of 3%.
- Looking ahead, the outlook for the Eurozone economy remains clouded by trade tensions (with plenty of speculation regarding an incoming US 'tariff letter' to the EU, as we go to print) and elevated global uncertainty. The OECD in its recent Economic Outlook, published in June, noted that "substantial increases in trade barriers, tighter financial conditions, weakened business and consumer confidence and elevated policy uncertainty all pose significant risks" to global growth, which in-turn would hamper growth in the Euro area.
- **It is not surprising therefore that the consensus is for on-going muted growth for the Eurozone economy.** On a positive note, the labour market remains strong, employment is rising with unemployment near its all-time low. These jobs market fundamentals combined with a resumption of the disinflationary trend and less restrictive monetary policy should help to underpin growth in real wages which in-turn will be supportive of the domestic economy. New government spending initiatives, particularly in relation to Germany should strengthen Eurozone GDP from 2026 onwards also. Clarity on new trading relations or progress towards a new trade framework with the US could see a rebound in external demand, although recent euro strength is an unhelpful development in this regard. The ECB sees Eurozone GDP at 0.9% this year, a modest improvement from the 0.7% rate recorded in 2024. Thereafter, the central bank envisages growth picking up to 1.1% in 2026 and to 1.3% in 2027. In summary, on-going improvement is expected in the Eurozone, but the pace of growth is set to remain sluggish.
- Turning to the week ahead, we won't gain much new insight on the Eurozone economy, given there is a very quiet macro calendar. Indeed, industrial production is the only release of note. Output expanded sharply in Q1, as firms ramped up production to front-run potential US tariffs. Overall this meant output rise was 4.2% higher in March compared to December. However, at the start of Q2, it reversed course by a chunky 2.4% in April. A 0.9% rebound is forecast in May.
  - US & UK Core-CPI Inflation % 5.50 5.00 UK Core-CP 4.50 4.00 3.50 US Core-CP 3.00 50 Nov 23 Feb 24 May 24 Aug 24 Nov 24 Feb 25 May 25
- In contrast, a busy data calendar in the US includes updates on the consumer, manufacturing and the housing market. Starting with inflation, a disinflationary trend took hold in the opening months of this year, with the headline rate falling to 2.3% in April, its lowest level since February 2021, before inching slightly higher to 2.4% in May. At the same time, core-CPI

declined to 2.8% in March and has remained at that level so far in Q2. The consensus is for the headline and core rates to rise to 2.6% and 3.0%, respectively in June. Meanwhile, the available hard activity data in Q2 have been soft. Retail sales registered consecutive monthly falls for the first time since Q4 2023, contracting by 0.1% in April and by 0.9% in May. It should be noted though that the control group measure rebounded by 0.4% in May, after inching 0.1% lower in April. Expectations are for the former to stagnate in June and for the latter to increase by 0.3%. Elsewhere, industrial production declined by 0.2% in May, after a meagre 0.1% increase in April. However, another 0.1% expansion is pencilled in for June. In terms of the housing market, housing starts (June) and homebuilder sentiment (July) will feature.

■ In the UK, inflation data, which has been volatile recently, will also feature. Having fallen throughout the winter, headline and core inflation moved markedly higher in April, owing to a number of one-off factors, but inched marginally lower in May. It means that the headline and core rates are elevated at 3.4% and 3.5%. Both rates are forecast to be unchanged In June. Meanwhile a number of labour market metrics are due. Overall, conditions in the job's market have softened this year. Expectations are for the unemployment rate to remain at 4.6% in May. Amid the softening in the labour market, wage inflation has slowed, and this is expected to continue, with average earnings growth set to ease to +5.0% y/y in the three months to May.

	Interest Rate Forecasts					Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1		Current	End Q3	End Q4 2025	End 20
		2025	2025	2026			2025		
					EUR/USD	1.1680	1.18	1.19	
Fed Funds	4.375	4.125	3.875	3.625	EUR/GBP	0.8658	0.86	0.85	
ECB Deposit	2.00	2.00	2.00	2.00	EUR/JPY	172.17	170	170	
BoE Repo	4.25	4.00	3.75	3.50	GBP/USD	1.3487	1.37	1.40	
BoJ OCR	0.50	0.50	0.75	0.75	USD/JPY	147.39	144	143	
Current Rates Reute	rs, Forecasts AIB's E	RU			Current Rates Re	uters, Forecasts AIB	s's ERU		



AIB Treasury Economic Research

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ECONOMIC DIARY
Monday 14th - Friday 18th July

Date	UK & Irish Time (GMT+1) ECB Speakers: BoE Speakers: Fed Speakers: JPN: 00:50		Release	Previous	Forecast			
This Week:			Cipollone (Mon)					
			Bailey (Tue)					
			Collins (Tue); Logan, Hammack, Williams, Barkin (Wed)					
Mon 14th			Machinery Orders (May)	-9.1% (+6.6%)	-1.5% (+3.4%)			
Tue 15th	SPA:	08:00	Final HICP Inflation (June) - Core-HICP	+0.6% (+2.0%) (+2.2%)	+0.6% (+2.2%) (+2.2%)			
	EU-20:	10:00	Industrial Production (May)	-2.4% (+0.8%)	+0.9% (+2.9%)			
	GER:	10:00	ZEW Economic Sentiment (July)	47.5	50.0			
	US:	13:30	CPI Inflation (June)	+0.1% (+2.4%)	+0.3% (+2.6%)			
			- Core-CPI	+0.1% (+2.8%)	+0.3% (+3.0%)			
	US:	13:30	NY Fed / Empire State Index (July)	-16.0	-9.50			
Wed 16th	UK:	07:00	CPI Inflation (June)	+0.2% (+3.4%)	+0.2% (+3.4%)			
			- Core-CPI (June)	+0.2% (+3.5%)	+0.2% (+3.5%)			
			- Services CPI	-0.1% (+4.7%)	(+4.6%)			
	ITA:	09:00	Final HICP (June)	-0.1 (+1.7%)	-0.1% (+1.7%)			
	EU-20:	10:00	Total Trade Balance (May)	+€14.0bn				
			- Eurostat Trade	+€9.9bn				
	IRE:	11:00	Residential Property Price Index (May)	+0.3% (+7.5%)	+0.3% (+7.5%)			
	US:	13:30	PPI Final Demand Inflation (June)	+0.1% (+2.6%)	+0.2% (+%)			
			- PPI Ex-Food & Energy	+0.1% (+3.0%)	+0.2% (+%)			
	US:	13:30	Industrial Production (June)	-0.2% (+0.6%)	+0.1% (+0.4%)			
			- Manufacturing Output	+0.1%	+0.0%			
			- Capacity Utilisation	77.4%	77.4%			
Thu 17th	JPN	00:50	Total Trade Balance (June)	-¥637.6bn	+¥353.9bn			
			- Exports	(-1.7%)	(+0.5%)			
	UK:	07:00	ILO Unemployment Rate (May)	4.6%	4.6%			
	UK:	07:00	Employment Change (May)	89k	49k			
	UK:	07:00	Average Earnings (May)	(+5.3%)	(+5.0%)			
			-Ex-Bonus	(+5.2%)	(+4.9%)			
	UK:	07:00	Claimant Count Change (June)	33.1k				
	EU-20:	10:00	Final HICP Inflation (June)	+0.0% (+2.0%)	+0.0% (+2.0%)			
			- Ex-Food & Energy	+0.1% (+2.4%)	+0.1% (+2.4%)			
			- Ex-Food, Energy, Alcohol and Tobacco	+0.4% (+2.3%)	+0.4% (+2.3%)			
	US:	13:30	Initial Jobless Claims (w/e 7th July)	+227,000	+235,000			
	US:	13:30	Philly Fed Business Index (July)	-4.0	-1.0			
	US:	13:30	Retail Sales (June)	-0.9% (+3.3%)	+0.0% (+3.6%)			
			- Ex-Autos	-0.3%	+0.2%			
			- Control Group	+0.4%	+0.3%			
	US:	15:00	NAHB Homebuilder Sentiment (July)	32.0	33.0			
Fri 18th	JPN	00:30	CPI Inflation (June)	(+3.5%)	(			
	055	07.00	- Core-CPI	(+3.7%)	(+3.3%)			
	GER:	07:00	Producer Prices (June)	-0.2% (-1.2%)	+0.0% (-1.3%)			
	US:	13:30	Housing Starts (June)	+1.26m / -9.8%	+1.30m / +3.5%			
		15:00	- Building Permits	+1.39m / -2.0%	+1.39m / -0.3%			
	US:	15:00	Preli. Uni. of Michigan Sentiment (July)	60.7	61.3			

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

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