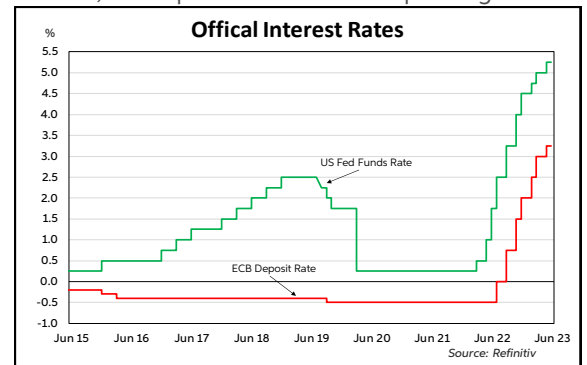


The Full Picture

- The scale of Irish contract manufacturing, whereby a company based in Ireland engages a firm abroad to manufacture products on its behalf, has grown enormously since 2015.** The production process is still recorded in the Irish National Accounts as part of imports, exports and GDP, even though none of the activity occurs in Ireland. Contract manufacturing has become a large part of the operations of some multi-national companies based in Ireland. Not surprisingly, this large scale subcontracting activity has introduced considerable volatility into the Irish Quarterly National Accounts and monthly industrial production data. GDP fell by 4.6% in Q1 2023 as a result of an 18% fall in manufacturing output in the quarter. With the exception of 2019, every year since 2016 has seen one large quarterly fall in the output of the multi-national sector and thus a decline in GDP, which subsequently unwound in the following quarter.
- Industrial production data for April show that Irish GDP is already on course to rebound in Q2. Manufacturing output fell by 45% in March, causing the marked decline in GDP.** It then rebounded by 70% in April, leaving it 12% above its average level for Q1. The very weak Q1 GDP data, though, are likely to see growth forecasts for the full year revised down. The ESRI, Central Bank and Dept. of Finance have all forecast that GDP will expand by 5.5% this year. The first official forecast post the Q1 National Accounts data came from the OECD this past week. It looks for Irish GDP to grow by 4.4% this year. Of course, the Q1 data highlight yet again that GDP is not a reliable measure of Irish economic activity and it is important to take a wide range of indicators into consideration in assessing the performance of the economy.
- In this regard, the Q1 National Accounts show that modified final domestic demand grew by 2.7% in the quarter to leave it 5.5% higher on a year-on-year basis.** Consumer spending rose by 1.7%, while there was very strong growth in investment, in both building & construction and machinery & equipment. On the labour market front, employment rose by 1.9% in Q1 and was 4.1% higher year-on-year. The unemployment rate fell to 4.1% in the quarter, down from 4.8% a year earlier. Preliminary estimates suggest the unemployment rate has continued to fall, reaching a historic low of 3.8% in May. Meanwhile, car sales have been strong this year, with industry data showing new car registrations up 18% to end May. Furthermore, tax receipts continue to grow strongly across all the main revenue headings, increasing by over 10% year-on-year to end May.
- Thus, the economy is continuing to perform strongly. That said, the pace of growth is slowing down.** The growth in tax receipts has decelerated considerably from the rates of over 20% recorded in both 2021 and 2022. Employment growth has also slowed significantly from the 6-7% rates seen in 2021-22. The marked rise in housebuilding activity appears to be levelling off. Modified final domestic demand is likely to see growth slow in 2023 to less than half the 8.2% rate recorded last year. The growth in service exports has already slowed sharply. The slowdown, though, is from very high growth rates and the economy is still set to record impressive growth in 2023.
- Turning to the global picture, this week sees a number of key central bank meetings taking place. First up is the US Fed meeting.** The FOMC hiked rates by 25bps in May to a target range of 5-5.25%, but opened the door to pausing its rate tightening cycle. Since then, a number of Fed officials have suggested a rate hike may be “skipped” in June, as the FOMC assesses the outlook for the economy and inflation. The market currently thinks a hike is more likely in July than June. Therefore, attention will be centred on the press conference and the updated dot plot to see if it encompasses a further hike in rates and rows back on the scale of easing previously projected for 2024-25.
- Meanwhile, the ECB Governing Council is widely expected to raise rates by 25bps on Thursday,** despite a slowdown in inflation and growth. Recent comments from a raft of Council members, including President Lagarde, have reiterated that the ECB has more ground to cover in terms of tightening monetary policy. The market is pricing in a 25bps rate hike this week, and another 25bps increase in July, with the deposit rate peaking at 3.75%. Thus, at the post-meeting press conference, President Lagarde can expect to face questions regarding the future path of interest rates, while the updated ECB staff projections will also garner close attention. Elsewhere, on the monetary policy front, the BoJ is anticipated to leave policy unchanged at its meeting on Friday.
- Data-wise,** US CPI inflation for May will be an important input into the Fed’s policy deliberations this week. The consensus is for the headline rate of inflation to fall to 4.1% from 4.9%, and the core rate to move lower to 5.2%, from 5.5%, having been in a 5.5-5.6% range so far this year. A packed US data schedule also includes retail sales, industrial production (May) and the Michigan measure of consumer sentiment (June). There is also a busy UK diary encompassing a plethora of labour market metrics as well as GDP data for April due for release over the coming days. GDP is forecast to rebound by 0.2% from a 0.3% fall in March.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2023			
Fed Funds	5.125	5.125	5.125	4.875
ECB Deposit	3.25	3.50	3.75	3.75
BoE Repo	4.50	4.75	5.00	5.00
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 Q2	End Q3	End Q4
	2023			
EUR/USD	1.0773	1.09	1.11	1.13
EUR/GBP	0.8559	0.87	0.88	0.88
EUR/JPY	150.16	149	150	149
GBP/USD	1.2582	1.25	1.26	1.28
USD/JPY	139.38	137	135	132

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	deGuindos (Fri)		
	BoE Speakers:			
	Fed Speakers:	Bullard, Waller (Fri)		
Mon 12th				
Tue 13th	GER:	07:00 Final HICP (May)	-0.2% (+6.3%)	-0.2% (+6.3%)
	UK:	07:00 ILO Unemployment Rate (April)	3.9%	4.0%
	UK:	07:00 Employment Change (April)	+182,000	+ 150,000
	UK:	07:00 Claimant Count (May)	+46,700	
	UK:	07:00 Average Earnings (April)	(+5.8%)	(+6.1%)
		- Ex-Bonus	(+6.7%)	(+6.9%)
	SPA:	08:00 Final HICP (May)	-0.2% (+2.9%)	-0.2% (+2.9%)
	EU-20:	10:00 ZEW Economic Sentiment (June)	-10.7	-12.7
	US:	11:00 NFIB Small Business Optimism (May)	89.0	
	US:	13:30 CPI Inflation (May)	+0.4% (+4.9%)	+0.2% (4.1%)
		- Core-CPI	+0.4% (+5.5%)	+0.4% (+5.2%)
Wed 14th	UK:	07:00 GDP (April)	-0.3% (+0.3%)	+0.2% (+0.6%)
		- 3m/3m	+0.1%	+0.1%
	UK:	07:00 Industrial Output (April)	+0.7% (-2.0%)	-0.1% (-1.7%)
		- Manufacturing Output	+0.7% (-1.3%)	-0.4% (-0.9%)
	UK:	07:00 Goods Trade Balance (April)	-£16.4bn	
		- Non-EU	-£5.5bn	
	EU-20:	10:00 Industrial Production (April)	-4.1% (-1.4%)	+1.0% (+0.8%)
	IRL:	11:00 Residential Property Prices (April)	-0.6% (+3.9%)	0.0% (+3.5%)
	US:	13:30 PPI Final Demand (May)	+0.2% (+2.3%)	-0.1% (+1.5%)
		- PPI Ex-Food & Energy	+0.2% (+3.2%)	+0.2% (+2.9%)
	US:	19:00 Fed FOMC Interest Rate Announcement	5.00-5.25%	5.00-5.25%
Thu 15th	JPN:	00:50 Trade Balance (May)	-¥432.4bn	
		- Exports	(+2.6%)	(-0.8%)
	CHINA:	02:30 Industrial Output (May)	(+5.6%)	(+4.1%)
	CHINA:	02:30 Retail Sales (May)	(+18.4%)	(+13.9%)
	FRA:	07:45 Final HICP (May)	-0.1% (+6.0%)	-0.1% (+6.0%)
	EU-20:	10:00 Trade Balance (April)	+€17bn	
	EU-20:	13:15 ECB Interest Rate Announcement		
		- Deposit Rate	3.25%	3.50%
		- Refi Rate	3.75%	4.00%
	US:	13:30 NY Fed / Empire State Index (June)	-31.8	-15.75
	US:	13:30 Initial Jobless Claims (w/e 5th June)	+261,000	+250,000
	US:	13:30 Philly Fed Manufacturing Index (June)	-10.4	-12.0
	US:	13:30 Retail Sales (May)	+0.4% (+1.6%)	-0.1%
		- Ex-Autos	+0.4%	+0.1%
		- Control Group	+0.7%	+0.3%
	US:	14:15 Industrial Production (May)	+0.5% (+0.2%)	+0.1%
		- Manufacturing Output	+1.0%	
		- Capacity Utilisation	79.7%	79.6%
Fri 16th	JP	Bank of Japan Rate Announcement	-0.1	-0.1
	ITA:	09:00 Final HICP Inflation (May)	+0.3% (+8.1%)	+0.3% (+8.1%)
	EU-20:	10:00 Final HICP Inflation (May)	+0.0% (+6.1%)	+0.0% (+6.1%)
		- Ex-Food & Energy	+0.3% (+6.9%)	+0.3% (+6.9%)
		- EX-Food, Energy, Alcohol & Tobacco	+0.2% (+5.3%)	+0.2% (+5.3%)
	US:	15:00 Preli. Uni. Michigan Consumer Sentiment (June)	59.2	60.5

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