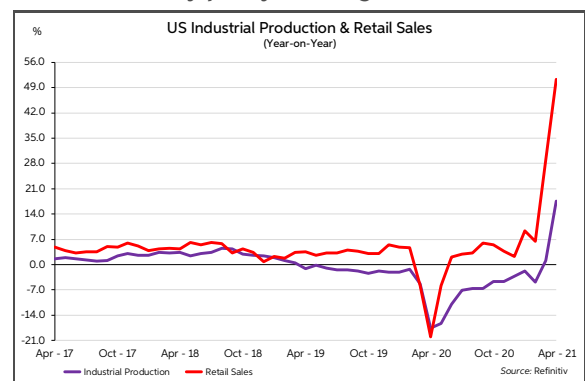


What's Going On Here?

- A clear picture is now emerging of the performance of the Irish economy in the opening half of 2021.** There are two distinct phases, but the message from both is the same, with data surprising to the upside as the pace of economic activity exceeds expectations. Much of the economy was in lockdown for all of the opening quarter of the year. Recently released National Account data for Q1, though, show that activity held up much better than expected. Headline GDP increased by 7.8% in Q1, but this is a very distorted figure, bloated by flows in the multi-national sector. GNP, on the other hand, which takes into account profit repatriations that negate many of these flows, contracted by 1% in the quarter, a better reflection of the economy's performance and close to the 1.5% fall registered by the UK.
- Within this, exports continued to perform strongly, while not surprisingly, modified or underlying domestic demand fell by 2.9%, led by a 5.1% fall in consumer spending and 1.5% decline in fixed investment.** However, this was a much better performance than during the first lockdown, when modified domestic demand contracted by 15% in Q2 2020. Clearly as elsewhere, the Irish economy has become much better able to cope with pandemic life and lockdowns. Retail sales data highlight this in particular. Although much of the sector was shut in Q1, sales were down by just 1.3% on year earlier levels, compared to the 21% yoy fall seen in Q2 last year.
- The data available so far in Q2 2021 point to a strong rebound taking shape as restrictions on activity were eased gradually over the quarter.** Retail sales rose by 7.8% in April and were 90% up on year earlier levels. An even bigger monthly rise is in prospect for May when the sector reopened fully. Meanwhile, the manufacturing PMI hit a record level in April and again in May, while the services PMI reached a five-year high in May. The construction PMI rebounded strongly in April as the sector reopened and an even better figure is likely for May. Exchequer Returns show a very strong pick-up in tax receipts in May, which were €573m or 8.2% ahead of profile for the month, with virtually all tax heads exceeding target. Meantime, the numbers of jobs in receipt of PUP income supports had fallen to 285,000 by early June from its peak level of 485,000 in Q1, with a strong downtrend evident in recent weeks.
- The recovery in activity can be expected to gain momentum over the second half of the year.** The government unveiled an additional fiscal stimulus package in early June, totalling €3.6bn, or 1.7% of gross national income, to aid the economy's exit from the pandemic. We can also expect to see a gradual rundown of some of the enormous rise in private sector savings since the pandemic began, which will add fuel to the recovery in household spending. The global economy is also set for very strong growth this year, which will benefit export orientated countries like Ireland. The Irish GDP growth rate this year is likely to be a blow out, but distorted, number. GNP will provide a better indication of real growth. Recent predictions that the economy could grow by circa 4.5% this year and 5% in 2022 do not in any way seem overly optimistic, given that activity appears to be building up quite a head of steam.
- Turning to next week's global macro calendar, the highlight is the Fed's monetary policy meeting for June.** While the Fed is expected to keep policy on hold, the meeting will still attract ample attention. The main point of focus for markets is when will the FOMC deem it appropriate to start QE tapering. The general consensus is that there will be no official guidance on tapering until later in the summer. The updated interest rate projections will be scrutinised to see if more FOMC officials expect rates to be raised before end 2023. In March, 11 of the 18 FOMC members expected no change in rates to end-2023. Note that the market is anticipating rate hikes will begin in H2'22. There is also likely to be upward revisions to GDP and inflation forecasts. At the press conference, Fed Chair Powell can expect plenty of questions on inflation risks and the timing of tapering.
- Data-wise, there are busy schedules in both the US and UK, while in contrast the Eurozone diary is quiet next week.** In the US, the calendar will provide a broad update on the economy, with the agenda including May retail sales and industrial production figures as well as a raft of housing market metrics (incl. housing starts and homebuilder sentiment). For the UK, there is a plethora of labour market data due for April (incl. unemployment, average earnings, along with retail sales and CPI updates for May). US data may be somewhat mixed, having registered big gains in recent months, while further strong data readings are expected in the UK as the economy opens up. Meanwhile, in the Eurozone, industrial production (April) is the only release of note, with another small rise expected.



	Interest Rate Forecasts			
	Current	End Q2 2021	End Q3 2021	End Q4 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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 2021	End Q3 2021	End Q4 2021
EUR/USD	1.2119	1.21	1.21	1.20
EUR/GBP	0.8578	0.86	0.87	0.87
EUR/JPY	132.95	132	132	131
GBP/USD	1.4122	1.41	1.39	1.38
USD/JPY	109.70	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Schnabel (Mon); Lane, Enria, Panetta (Tue); Elderson, deGuindos (Wed); Lane (Thu)		
	BoE Speakers:	Bailey (Mon)		
	Fed Speakers:			
Mon 14th	EU-19:	10:00 Industrial Production (April)	+0.1% (+10.9%)	+0.4% (+37.4%)
Tue 15th	GER:	07:00 Final HICP (May)	+0.3% (+2.4%)	+0.3% (+2.4%)
	UK:	07:00 ILO Employment (April) - Unemployment Rate	+84,000 4.8%	+150,000 4.7%
	UK:	07:00 Average Weekly Earnings (3 months to April) - Ex-Bonus	(+4.0%) (+4.6%)	(+4.9%) (+5.3%)
	UK:	07:00 Claimant Count (May)	-15,100	
	FRA:	07:45 Final HICP (May)	+0.4% (+1.8%)	+0.4% (+1.8%)
	ITA:	09:00 Final HICP (May)	+0.0% (+1.3%)	+0.0% (+1.3%)
	US:	13:30 NY Fed / Empire State Index (June)	24.3	22.5
	US:	13:30 PPI (May) - Ex-Food & Energy	+0.6% (+6.2%) +0.7% (+4.1%)	+0.6% (+6.4%) +0.5%
	US:	13:30 Retail Sales (May) Ex-Autos Ex-Gas / Autos	+0.0% -0.8% -0.8%	-0.4% +0.5% +0.4%
	US:	14:15 Industrial Production (May) - Manufacturing Output - Capacity Utilisation	+0.7% +0.4% 74.9%	+0.5% +0.4% 75.0%
	US:	15:00 NAHB Homebuilder Sentiment (June)	83	83
Wed 16th	JPN:	00:50 Machinery Orders (April)	+3.7% (-2.0%)	+2.7% (+8.0%)
	JPN:	00:50 Trade Balance (May) - Exports	¥255.1bn (+38.0%)	-¥91.2bn (+51.3%)
	CHINA:	03:00 Retail Sales (May)	(+17.7%)	(+14.0%)
	CHINA:	03:00 Industrial Production (May)	(+9.8%)	(+8.9%)
	UK:	07:00 CPI (May) - Core	+0.6% (+1.5%) +0.3% (+1.3%)	+0.3% (+1.8%) +0.3% (+1.5%)
	UK:	07:00 PPI Output Prices (May) - Input Prices	+0.4% (+3.9%) +1.2% (+9.9%)	+0.4% (+4.5%) +1.1%
	EU-19:	10:00 Labour Costs (Q1)	(+3.0%)	
	IRL:	11:00 Residential Property Prices (April)	+0.7% (+3.7%)	+0.5% (+4.3%)
	IRL:	11:00 Unemployment Rate (May) - Covid-19 Adjusted Rate	5.8% 22.4%	5.7% 19.5%
	US:	13:30 Housing Starts (May) - Building Permits	+1.569m / -9.5% +1.733m / -1.3%	+1.630 / +3.9% +1.738 / +0.3%
	US:	19:00 Fed Funds Rate Announcement	0.00-0.25%	0.00-0.25%
	US:	19:30 Fed Press Conference		
Thu 17th	EU-19:	10:00 Final HICP (May) - Ex-Food & Energy	+0.6% (+2.0%) +0.5% (+0.9%)	+0.3% (+2.0%) +0.2% (+0.9%)
	US:	13:30 Initial Jobless Claims (w/e 7th June)	376,000	
	US:	13:30 Philly Fed Index (June)	31.5	31.0
Fri 18th	JPN:	00:00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	JPN:	00:30 CPI (May)	-0.3% (-0.4%)	
	GER:	07:00 Producer Prices (May)	+0.8% (+5.2%)	+0.6% (+6.3%)
	UK:	07:00 Retail Sales (May) - Ex-Fuel	+9.2% (+42.4%) +9.0% (+37.7%)	+1.8% (+29.2%) +2.0% (+27.3%)

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

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