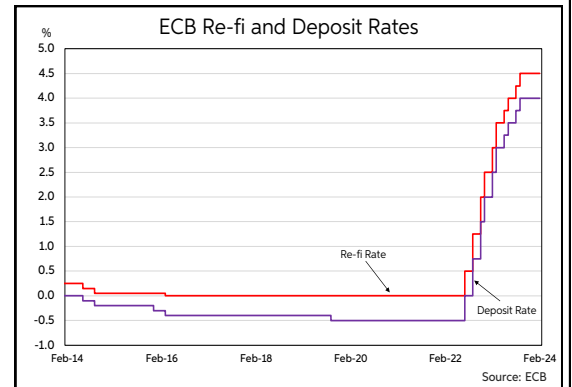


Ireland's Volatile Growth Metrics

- **Ireland's latest national accounts data for Q4 2023 reveal a sharp fall in growth, with GDP declining by 3.2% in 2023, revised down from a provisional estimate of -1.9%.** At face value this out-turn is the sharpest decline in the Irish economy since the Global Financial Crisis. In reality GDP is a wholly unreliable indicator of the Irish economy due to the presence of a small number of very large multinationals, whose activities generate volatility in the macroeconomic data. Other indicators such as employment, consumer spending, and exchequer tax revenues provide a more reliable picture of the economy last year, with each point to moderating, yet robust growth in the Irish economy compared to 2022.
- **The key driver of the fall in GDP in 2023 was activity in the pharmaceuticals sector, which dominates Ireland's industrial output and goods exports.** The Central Statistics Office indicated that a very small number of companies' activities in this sector drove the decline in GDP, likely linked to a normalisation of sales post-Covid, as well as some corporate restructurings. A broader decline in business investment in the last year following the surge in machinery and equipment investment post-Covid in 2022 also weighed on GDP, but was a much smaller contributor than the pharma sector decline. The other key multinational sector, Information and Communication - which includes the tech sector - held up relatively well, rising 8% in 2023. This left overall multinational sector growth down 6.8% in 2023 compared to a 3.8% gain in domestic sector output.
- **On the expenditure side, consumer spending grew by 3.1% in 2023, and was up 1.5% y/y in Q4 2023.** While a solid out-turn, spending growth has trended weaker throughout 2023 as the impact of inflation blunted household's purchasing power, alongside a general normalisation in spending patterns post-Covid. Modified investment, which excludes some volatile categories such as aircraft purchases, fell 7.1% in 2023 following a 16% rise in 2022, reflecting not only the aforementioned decline in machinery and equipment investment, but weaker trends in the construction sector. While residential activity continued to grow at an elevated pace (+9.4% y/y), Other Building and Construction investment fell 4%, owing to the slowdown in the commercial real estate sector.
- **Looking ahead, lead indicators suggest domestic growth has sustained a similar pace in early 2024.** Ireland's manufacturing PMI moved back into expansionary territory in February, and confidence indicators have generally improved amid a more supportive economic backdrop of easing inflation and a strong labour market.
- **This week, the main focus will be on the ECB policy meeting for March.** The reaction to the last ECB policy decision in January was centred on President Lagarde's refusal to rule out a first ECB rate cut in April. Since then, inflation has continued to trend lower. The headline rate fell to 2.6% in February, while the ex-food & energy rate eased to 3.3% also. Furthermore, some members of the Governing Council have stated that the time for the ECB to cut interest rates is fast approaching. Despite this though, market rate expectations have hardened in the past month. Current futures pricing is consistent with a first ECB rate cut in June. Interest rates are now expected to be lowered by just 90bps by year end, compared to 140bps in the immediate aftermath of the January ECB meeting. Rate expectations have firmed largely in response to a number of other Governing Council officials indicating that the ECB should be patient in assessing the outlook for inflation, with particular focus on services and wage inflation data. **Given no changes to policy are anticipated this week, remarks from President Lagarde at the press conference will be in the spotlight once again, amid signs of disagreement in the Governing Council.** The ECB's updated macro forecasts will also warrant significant attention.
- **On the data front, the Eurozone calendar features retail sales for January.** Having contracted in Q3 2023, retail sales declined further in Q4, largely due to a sharp 1.1% fall in December. The decline in retail sales was broad-based in December, with all of the sub-categories registering a fall. The consensus is for a very modest rise in retail sales in January, with Germany having already reported a 0.4% fall in the month. Meantime, German industrial production data are also due. German output weakened quite sharply in 2023, contracting by 1.5% during the year. A 0.7% m/m improvement is pencilled in for January.
- **However, the main data highlight this week comes from the other side of the Atlantic, in the form of the US labour market report for February.** The labour market data were stronger than expected in January, with payrolls and average earnings rising sharply. In February, both metrics are forecast to rise at a slower pace. Payrolls are projected to expand by 190k, while average earnings are seen as rising by 0.3% in the month, with the year-on-year rate remaining at +4.5%. At the same time, the unemployment rate is forecast to remain unchanged, at 3.7%. Elsewhere in the US, the non-manufacturing ISM for February is due. On the monetary policy front, remarks from Fed Chair Powell in testimony to both houses of Congress will be of interest this week. **Meantime, in the UK, all eyes will be on the Spring Budget due on Wednesday.**



	Interest Rate Forecasts			
	Current	End Q1 2024	End Q2 2024	End Q3 2024
Fed Funds	5.375	5.375	5.125	4.875
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.25	5.00
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1 2024	End Q2 2024	End Q3 2024
EUR/USD	1.0815	1.10	1.11	1.12
EUR/GBP	0.8572	0.86	0.86	0.87
EUR/JPY	162.62	158	155	152
GBP/USD	1.2615	1.28	1.29	1.29
USD/JPY	150.35	144	140	136

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Harker (Mon); Barr (Tue); Powell , Daly (Wed); Powell , Mester (Thur); Williams (Fri)		
Mon 4th	EU-20:	09:30 EU Sentix (March)	-12.9	-11.0
Tue 5th	JPN:	00:30 Final Jibun Composite PMI (February)	50.3	
	IRL:	01:01 AIB Irish Services PMI (February)	50.5	
	FRA:	07:45 Industrial Output (January)	+1.1%	-0.3%
	ITA:	08:45 HCOB Composite PMI (February)	50.7	
	FRA:	08:50 Final HCOB Composite PMI (February)	47.7	47.7
	GER:	08:55 Final HCOB Composite PMI (February)	46.1	46.1
	EU-20:	09:00 Final HCOB Composite PMI (February)	48.9	48.9
		- Final HCOB Services PMI (February)	50.0	50.0
	ITA:	09:00 GDP (Q4: Final Reading)	+0.2% (+0.5%)	+0.2% (+0.5%)
	UK:	09:30 Final S&P Composite PMI (February)	53.3	53.3
		- Final S&P Services PMI (February)	54.3	54.3
	EU-20:	10:00 Producer Prices (January)	-0.8% (-10.6%)	
	US:	14:45 Final S&P Composite PMI (February)	51.4	51.4
		- Final Services PMI (February)	51.3	51.3
	US:	15:00 Non-Manufacturing ISM (February)	53.4	52.5
	IRL:	15:00 Exchequer Returns (February)	Feb'23: -€2.5bn	-€0.3bn
		- Excluding Transfer to NRF	Feb'23: +€1.5bn	
Wed 6th	GER:	07:00 Trade Balance (January)	+€22.2bn	
		- Exports	-4.6%	
	EU-20:	10:00 Retail Sales (January)	-1.1% (-0.8%)	+0.1%
	IRL:	11:00 Unemployment Rate (February)	4.5%	4.5%
	UK:	12:30 UK Spring Budget 2024		
	US:	13:15 ADP Employment (February)	+107,000	+145,000
	US:	15:00 JOLTS Job Openings (January)	9.0m	8.9m
Thu 7th	CHINA:	03:00 Trade Balance (February)	+\$75.4bn	+\$107.0bn
		- Exports	(+2.3%)	(+2.5%)
	GER:	07:00 Industrial Orders (January)	+8.9%	-6.0%
	UK:	07:00 Halifax House Prices (February)	+1.3% (+2.5%)	
	EU-20:	13:15 ECB Monetary Policy Decision		
		- Re-fi Rate	4.50%	4.50%
		- Deposit Rate	4.00%	4.00%
	EU-20:	13:45 ECB Post-Meeting Press Conference		
	US:	13:30 International Trade (January)	-\$62.2bn	-\$63.2bn
	US:	13:30 Initial Jobless Claims (w/e 26th February)	+215,000	+212,500
Fri 8th	GER:	07:00 Industrial Output (January)	-1.6% (-3.1%)	+0.7%
	FRA:	07:45 Trade Balance (January)	-€6.8bn	
		- Exports	-€50.2bn	
	EU-20:	10:00 GDP (Q4: Final Reading)	+0.0% (+0.1%)	+0.0% (+0.1%)
	EU-20:	10:00 Employment (Q4: Final Reading)	+0.3% (+1.3%)	+0.3% (+1.3%)
	US:	13:30 Non-Farm Payrolls (February)	+353,000	+190,000
		- Unemployment Rate	3.7%	3.7%
		- Average Earnings	+0.6% (+4.5%)	+0.3% (+4.5%)

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