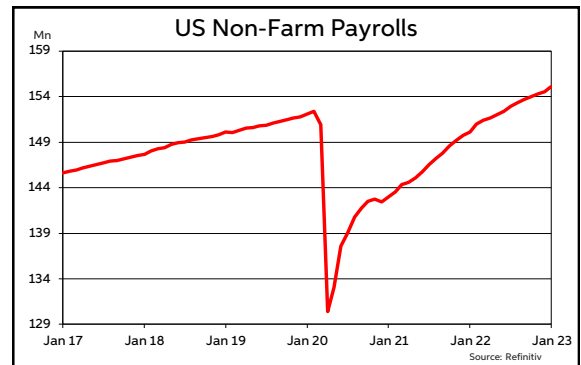


Good Inflation News in Short Supply

- Recent inflation data have been disappointing, especially in regard to core measures.** It started in the US, with the latest data for the Fed's favourite inflation gauge, the core PCE price index, posting unexpectedly large monthly increases of 0.6% and 0.4% for January and December, respectively, leaving the annual rate stuck around 4.7%. Meantime, February inflation data for the Eurozone were much poorer than expected, with the annual rate only edging down to 8.5% from 8.6%, well above the projected fall to 8.2%. More worryingly, the HICP rate excluding energy jumped from 7.3% to 7.7%, while the main core rate moved up from 5.3% to 5.6%. The Irish HICP rate shot up from 7.5% to 8% in February, following a number of months of marked falls. Big jumps in food and transport prices were the main culprits behind the acceleration in Irish inflation last month.
- The downtrend in headline inflation will resume in the months ahead on base effects as the surge in energy prices last year following the Russian invasion of Ukraine drops out of annual rates.** We would not be surprised to see the Irish inflation rate fall to around 6.5% in March and close to 4% by June. However, the recent upside surprises to inflation, especially core measures, validate the warnings from central banks that it will require keeping restrictive monetary policies in place for a considerable period of time to get inflation back down to 2%. Most notably, core inflation rates could take a long time to fall back. There are two factors in particular that could hinder the process of disinflation. Both are related to supply side constraints.
- The first relates to the tightness of labour markets, with unemployment rates at multi-decade lows amid sluggish growth in labour forces in the US and UK.** Even in Ireland, labour force growth in 2022 was wholly dependent on an influx of workers from outside the EU. The size of the indigenous labour force contracted last year due to a fall in the participation rate and net emigration by Irish citizens. Tight labour markets are already putting upward pressure on wages in many economies, especially in services sectors, which could keep core inflation rates elevated.
- The second factor relates to ongoing deficiencies in the supply side of economies.** The world economy remains characterised by weak output growth but strong demand, a recipe for higher prices. A rebound in the Chinese economy this year as it fully re-opens with the ending of COVID restrictions will only add to global demand. Meantime, changing trends in globalisation amid increased geopolitical fragmentation are damaging world trade and pressuring global supply chains. Countries are also struggling to make the much needed transition to green energy, while at the same time continuing to meet their economies energy requirements. Housing markets in numerous economies also remain characterised by a marked shortfall in supply. The numerous supply side deficiencies at a time of strong demand could make restoring price stability a tough challenge for central banks, pointing to a prolonged period of high interest rates.
- This week, the main highlight will be the US labour market report for February.** In January, payrolls surged higher by 517k, more than double the consensus forecast, and up from an average of around 290k throughout Q4 2022. Meantime, the unemployment rate fell to 3.4%, while average earnings rose by 0.3% month-on-month. The January jobs data though, may well have been boosted by unseasonably warm weather. Thus, a slower pace of jobs growth is anticipated in February, with payrolls expected to rise by 200k. The unemployment rate is projected to be unchanged at 3.4%. In terms of wages, average earnings are forecast to rise by 0.3% once again, with the year-on-year rate reaccelerating to +4.8% from +4.4%. Fed Chair Powell will face questions on the labour market and inflation, as well as the path of future rate hikes when he testifies to both houses of Congress on Tuesday and Wednesday.
- In the UK, the first monthly reading of GDP for 2023 will feature.** GDP contracted by 0.5% in December as the squeeze on real incomes from elevated inflation and higher interest rates, as well as a pause in the premier league season for the world cup weighed on activity. Overall though, the economy appears to have held up better than initially feared during the winter, and recent forecasts for growth this year have been upgraded. The consensus is for a small 0.1% rebound in GDP in January. At the same time, industrial production is projected to fall by 0.2% in the month.
- In the Eurozone, the revised reading of Q4 GDP will garner some attention.** German GDP was downgraded to -0.4% in the quarter (from -0.2% previously), as were very strong initial Irish data, which may result in the overall bloc wide measure being revised lower from +0.1% q/q previously. In terms of more up to date data, a 1% rise in retail sales is pencilled in for January.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2023			
Fed Funds	4.625	4.875	5.375	5.375
ECB Deposit	2.50	3.00	3.75	3.75
BoE Repo	4.00	4.25	4.50	4.50
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
	2023			
EUR/USD	1.0591	1.07	1.09	1.10
EUR/GBP	0.8850	0.88	0.88	0.89
EUR/JPY	144.44	144	145	143
GBP/USD	1.1965	1.22	1.24	1.24
USD/JPY	136.34	135	133	130

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Mon); Lagarde , Panetta (Wed); Panetta (Thu)		
	BoE Speakers:	Dhingra, Tenyero (Wed)		
	Fed Speakers:	Powell Congressional Testimony (Tue); Powell Congressional Testimony (Wed); Barr (Thu)		
Mon 6th	EU-20: 10:00	Retail Sales (January)	-2.7% (-2.8%)	+1.0% (-1.8%)
	US: 15:00	Factory Orders (January)	+1.8%	-1.5%
Tue 7th	CHINA: 03:00	Trade Balance (February) - Exports	+\$78bn (-9.9%)	
Wed 8th	GER: 07:00	Industrial Output (January)	-3.1% (-4.2%)	+1.5% (-3.7%)
	GER: 07:00	Retail Sales (January)	-5.3% (-6.4%)	+2.0% (-6.1%)
	ITA: 09:00	Retail Sales (January)	-0.2% (+3.4%)	
	EU-19: 10:00	GDP (Q4: Revised Reading)	+0.1% (+1.9%)	
	US: 13:15	ADP National Employment (February)	+106,000	+185,000
	US: 13:30	International Trade (January)	-\$67.4bn	-\$69bn
	US: 15:00	JOLTS Job Openings (January)	+11.012m	
	JPN: 23:50	GDP (Q4: Revised Reading)	+0.2%	+0.2%
Thu 9th	UK: 00:01	RICS Housing Survey (February)	-47	
	CHINA: 01:30	CPI Inflation (February)	+0.8% (+2.1%)	
	CHINA: 01:30	PPI Inflation (February)	-0.8%	
	US: 13:30	Initial Jobless Claims (w/e 27th February)	+190,000	+200,000
	JPN: 23:50	BoJ Rate Decision	-0.10%	-0.10%
Fri 10th	GER: 07:00	Final HICP (February)	+1.0% (+9.3%)	+1.0% (+9.3%)
	UK: 07:00	GDP (January) - 3m/3m	-0.5 (-0.1%) +0.0%	+0.1% (-0.1%) +0.0%
	UK: 07:00	Industrial Output (January) - Manufacturing Output	+0.3% (-4.0%) +0.0% (-5.7%)	-0.2% (-4.0%) -0.2% (-5.0%)
	UK: 07:00	Trade Balance (January) - Non-EU	-\$19.3bn -\$7.5bn	-\$18.0bn
	US: 13:30	Non-Farm Payrolls (February) - Unemployment Rate - Average Earnings	+517,000 3.4% +0.3% (+4.4%)	+200,000 3.4% +0.3% (+4.8%)

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