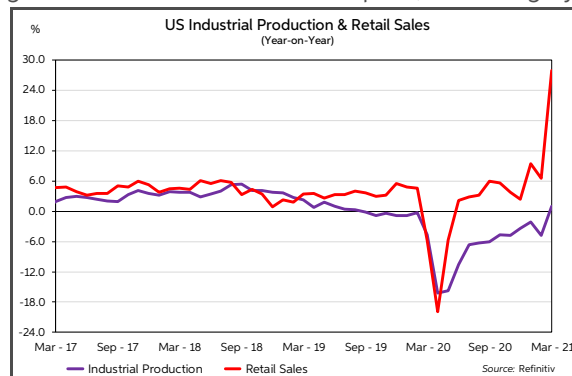


No Repeat of the Roaring Twenties Anticipated

- **There had been some speculation in the lead up to this week's monetary policy meeting that the Bank of England might announce a tapering of its QE bond purchase programme, given the improving prospects for the economy.** While the BoE did indeed announce a slowing in the pace of asset purchases, it emphasised that "this operational decision should not be interpreted as a change in the stance of monetary policy". Though the BoE reduced its weekly asset purchases to £3.4bn from £4.4bn, this can be viewed as a largely technical move as the size of the QE programme remained unchanged at £895bn. The BoE still intends to complete its latest programme of purchases in full by around the end of this year.
- **The general tone of the Bank's monetary policy meeting statement and minutes was one of growing optimism in relation to the outlook for the UK economy.** This was clearly evident in its latest Monetary Policy Report. The BoE revised higher its GDP growth forecast for this year to 7.25%, from 5%. It now anticipates that GDP will recover to its pre-Covid levels by the end of 2021. The pace of growth is expected to remain strong next year at 5.75%, before slowing to near its trend rate of 1.75% in 2023.
- **Meanwhile, in terms of labour market conditions, the Bank now envisages the unemployment rate peaking at just under 5.5% in the second half of this year.** This compares to its previous projection in the February Monetary Policy Report of it peaking at 7.75%. This largely reflects the extension in the March budget of the government's furlough scheme until September, well after the economy has reopened, which will certainly help contain the rise in unemployment. On the inflation front, the BoE expects that the CPI rate will rise temporarily above its 2% target towards the end of this year. It attributes this anticipated increase mainly to developments in energy prices. It expects these to be transitory and have few direct implications for inflation over the medium term, with the CPI rate expected to return to around 2% target over 2022-23.
- **Given the growing optimism about a strong economic rebound, minds are turning to when the Bank might tighten policy.** It is due to complete its current round of asset purchases by the end of 2021, opening up the possibility that interest rates could start to be raised at some stage next year. Futures contracts have moved in this direction in recent months, with markets pricing in a rate hike from the BoE during the second half of 2022 that would take the bank rate up from 0.1% to around 0.25%. Perhaps the most intriguing aspect of the Bank's forecasts, though, is the sharp deceleration in growth to 1.75% expected by 2023. The IMF takes a similarly cautious view in regard to the global economy, with no long lasting, lagged impacts on activity expected from the current very loose stance of macro policy, or indeed, from the return of big government, the acceleration of green and sustainable investment, multiplier effects, and the release of pent up demand. A repeat of the "Roaring Twenties" decade of the last century is thus, not anticipated. Hence, markets are looking for UK rates to rise at a snail's pace, increasing by circa 25bps a year from 2022 to get to 1% by end 2025.
- **This week, the first reading of UK Q1 GDP is due.** Despite the fact that a strong rebound is widely expected for 2021, the forecast is for GDP to contract by 1.7% in the opening quarter, as the national lockdown stymied economic activity. Indeed, monthly GDP data shows that the UK economy contracted by 2.2% in January, and expanded by just 0.4% in February, as services activity remained weak. However, March saw stronger economic data, with retail sales rising by 5.4% in the month. Meanwhile, industrial production is projected to rise by 1%, in March, although, this would leave industrial output 2.5% below its February 2020 level.
- **There is a busy data schedule in the US this week.** In terms of hard data, retail sales are forecast to rise by 1.0% in April, with ex-autos up 0.9%. In March, sales soared by 9.7% as consumer demand jumped in part due to substantial fiscal transfers amid a broader re-opening of the US economy. The 1.0% rise forecast in April, would leave retail sales to 18% above their pre-Covid level. Industrial production though, rose only modestly in March (+1.4%) and contracted by 1.9% in Q1 overall, leaving output 3.4% below its pre-pandemic level. Output is expected to increase by 1.2% in April as US firms take part in a global rebound in the manufacturing sector. Meantime, the Michigan Consumer Sentiment Index is projected to move higher in May to 91.0 from 88.3, buoyed by the rapid vaccine rollout. However, increasing consumer demand has contributed somewhat to rising price pressures. In March, CPI inflation rose to 2.6% from 1.7%, largely due to base effects, although, the core rate rose to 1.6% from 1.3% also, a sign that underlying price pressures had started to build. The consensus for April, is that the core rate will rise at a slightly faster pace (+0.3%) than the headline index (+0.2%). Base effects from the 2020 lockdown though, will see a further sharp acceleration in annual inflation rates to 2.3% for core, and 3.6% for headline CPI.
- **In the Eurozone, industrial production data will also feature.** Production is anticipated to have increased by 0.6% in March. In terms of national data, it is envisaged that the German ZEW edged higher in May.



	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	1.2116	1.20	1.20	1.21
EUR/GBP	0.8692	0.87	0.88	0.88
EUR/JPY	131.77	130	130	129
GBP/USD	1.3937	1.38	1.36	1.38
USD/JPY	108.74	108	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:	Bailey (Tue); Bailey (Wed); Cunliffe, Bailey (Thu)		
	Fed Speakers:	Evans (Mon); Williams, Daly, Brainard (Tue); Clarida (Wed); Bullard (Thu); Kaplan (Fri)		
Mon 10th	EU-19: 09:30	EU Sentix Index (May)	13.1	14.0
Tue 11th	UK: 00:01	BRC Retail Sales (April)	(+20.3%)	
	CHINA: 02:30	PPI (April)	(+4.4%)	(+6.6%)
	CHINA: 02:30	CPI (April)	-0.5% (+0.4%)	-0.2% (+1.0%)
	ITA: 09:00	Industrial Output (March)	+0.2% (-0.6%)	+0.4% (+37.0%)
	GER: 10:00	ZEW Economic Sentiment (May)	70.7	71.0
	US: 11:00	NFIB Business Optimism (April)	98.2	
Wed 12th	GER: 07:00	Final HICP (April)	+0.5% (+2.1%)	+0.5% (+2.1%)
	UK: 07:00	GDP (Q1 Preliminary Reading)	+1.3% (-7.8%)	-1.7% (-6.0%)
	UK: 07:00	GDP (March)	+0.4% (-7.8%)	+1.3% (-1.2%)
	UK: 07:00	Industrial Output (March)	+1.0% (-3.5%)	+1.0% (+2.8%)
	UK: 07:00	- Manufacturing	+1.3% (-4.2%)	+1.0% (+3.8%)
	UK: 07:00	Goods Trade Balance (March)	£16.44bn	£14.53 bn
		- Non-EU	£10.73bn	
	FRA: 07:45	Final HICP (April)	+0.3% (+1.7%)	+0.3% (+1.7%)
	EU-19: 10:00	Industrial Production (March)	-1.0% (-1.6%)	+0.6% (+11.6%)
	IRL: 11:00	Residential Property Prices (March)	+0.3% (+3.0%)	+0.4% (+3.3%)
	US: 13:30	CPI (April)	+0.6% (+2.6%)	+0.2% (+3.6%)
		- Core	+0.3% (+1.6%)	+0.2% (+2.3%)
Thurs 13th	JPN: 06:00	Economy Watchers Poll (April)	49.0	
	IRL: 11:00	CPI (April)	+0.8% (+0.0%)	-0.1% (+0.3%)
	US: 13:30	Initial Jobless Claims (w/e 3rd May)	+498,000	+500,000
	US: 13:30	PPI (April)	+1.0% (+4.2%)	+0.3% (+6.0%)
		- Ex-Food & Energy	+0.7% (+3.1%)	+0.2% (+3.7%)
Fri 14th	SPA: 08:00	Final HICP (April)	+1.1% (+1.9%)	+1.1% (+1.9%)
	EU-19: 11:00	ECB Monetary Policy Meeting Minutes		
	US: 13:30	Retail Sales (April)	+9.8% (+6.9%)	+1.0% (+51.3%)
		- Ex-Autos	+8.4%	+0.9%
		- Ex-Gas & Autos	+8.2%	+0.8%
	US: 14:15	Industrial Production (April)	+1.4% (+1.0%)	+1.2% (+17.1%)
		- Capacity Utilisation	74.4%	75.2%
		- Manufacturing Output	+2.7%	+2.3%
	US: 15:00	Prelim. Michigan Consumer Sentiment (May)	88.3	91.0

◆ Month-on-month changes (year-on-year shown in brackets)
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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