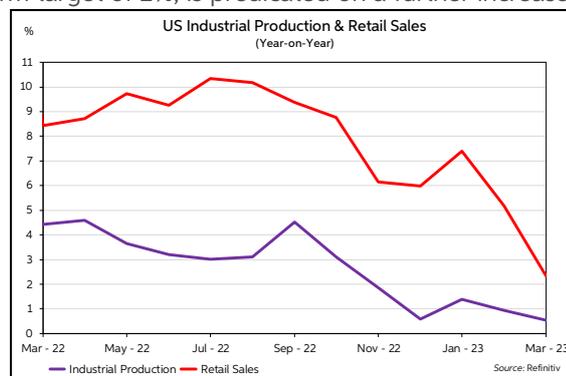


The Long March

- **The Bank of England's latest set of detailed economic forecasts show it is no longer expecting a recession in the UK.** The forecasts are contained in May's quarterly Monetary Policy Report (MPR). The shifts in the BoE's macro forecasts have been quite dramatic over the past six months, moving from a two-year long recession in 2023-24 to modest economic growth. For this year, the BoE has upgraded its UK GDP growth forecast to +0.25%, from -0.5% in February and the fall of 1.0-1.5% it projected last winter. For next year, the May MPR shows that the BoE is now expecting growth of 0.75%, compared to the 0.25% fall in GDP projected in February and the decline of up to 1% forecast last November. Further out, the BoE is forecasting growth of 0.75% in 2025, up from 0.25% previously. These are the biggest upgrades to its growth forecasts since the MPC was established in 1997.
- **However, as the BoE Governor pointed out, this is still a very subdued outlook, with growth running at below 1% over the period 2023-25, following twelve months of essentially, economic stagnation.** Activity remains very anaemic with the economy growing by just 0.1% in the first quarter of 2023, matching the weak performance in the final quarter of 2022. The fragility of the economy was underscored by March figures showing an unexpected fall of 0.3% in GDP in the month. It means the UK remains the only G7 country in which GDP has not yet recovered to its pre-COVID level. UK GDP in Q1 2023 was still 0.5% below its Q4 2019 level, in contrast to the US and Eurozone where it was 5.3% and 2.5% higher, respectively.
- **On the inflation front, the central bank reaffirmed that despite the CPI being higher than envisaged in Q1, it still expects the annual rate to decline sharply over the balance of the year, helped by sharp falls in energy prices, with the process starting in Q2.** The May MPR projections indicate, though, that the BoE is now expecting inflation to fall more slowly, declining to circa 5% by the end of this year, compared to a previous forecast of 4%. Inflation is then projected to fall to 2.3% by Q4 2024 and 1% by mid-2025. Thus, inflation is now not seen falling below its 2% target until 2025 compared to Q2 2024 previously. Furthermore, the Bank emphasised that the risks around its inflation forecasts are skewed significantly to the upside. Thus, the mean CPI inflation profile, which incorporates this risk, projects a rate at or just below the 2% target in 2025.
- **Following the hike of 25bps on Thursday, the twelfth increase in this cycle that brought the Bank rate to 4.5%, the BoE refrained from giving clear guidance on the future course of monetary policy.** However, it indicated a willingness to hike rates further if required and it did not seek to alter the market's view that some 25-50bps of additional tightening is in the pipeline in the UK. Given the significant upgrades to its growth and inflation forecasts, further tightening does indeed seem likely. In fact, the Bank's own mean CPI profile, which sees inflation falling to its medium term target of 2%, is predicated on a further increase in interest rates. The long march of the BoE does not seem over yet.
- **Key in determining when the BoE's hiking cycle will come to an end will be conditions in the labour market, with average earnings data in focus in particular.** Average earnings growth has decelerated only slowly over the past few months, reflecting tight conditions in the labour market. It stood at 5.9% y/y in the three months to February, down from a peak of +6.9% y/y last year. Wage growth is projected to edge slightly lower in March to 5.8% y/y, although, excluding bonuses, earnings growth is forecast to accelerate to 6.8% y/y from 6.6% y/y. Meantime, the consensus is for the unemployment rate to remain at a very low level of 3.8%, while the number of people employed is expected to continue to rebound, rising by 160k in March, regaining its pre-COVID level in the process.



- **In the US, the latest retail sales and industrial production data will provide an update on activity at the start of Q2.** Retail sales data were somewhat volatile in Q1, rising sharply by 2.8% m/m in January, supported by unusually good weather, before declining by 0.7% m/m and 0.6% m/m in February and March, respectively. The consensus is for a 0.7% m/m rise in April, but with the year-on-year rate decelerating to 1.9% from 2.3%. Meanwhile, industrial production trended higher throughout Q1, having contracted in Q4. Output is forecast to stagnate in April though, leaving it up just 0.2% YoY. Meantime, manufacturing output is expected to rise by 0.2% in April. Regional manufacturing surveys for May, such as the Philly Fed and the Empire State index will provide a more timely update on conditions in the sector, and they will also be assessed for any indication of spillovers from the recent turmoil in the banking sector to the real economy. Elsewhere in the US, a slew of housing market data, including housing starts, existing home sales (April) and homebuilder sentiment (May), are due.
- **Industrial production will also feature in the Eurozone this week, albeit with a greater lag than in the US.** Following very disappointing German, French and Italian production data, a significant 2.5% m/m fall is pencilled in for the Eurozone overall in March. Meantime, the second reading of Eurozone GDP is set to confirm the economy grew by 0.1% in Q1, while the final reading of HICP is expected to verify inflation stood at 7% in April. Eurozone Q1 employment will also be of keen interest.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2023			
Fed Funds	5.125	5.125	5.125	4.625
ECB Deposit	3.25	3.50	3.75	3.75
BoE Repo	4.50	4.75	4.75	4.75
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	1.0879	1.11	1.13	1.14
EUR/GBP	0.8702	0.88	0.88	0.88
EUR/JPY	147.06	150	150	150
GBP/USD	1.2499	1.26	1.28	1.30
USD/JPY	135.14	135	133	132

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde , Panetta (Mon); Lagarde , de Guindos (Tue); Panetta, de Guindos (Wed); Lagarde de Guindos (Thu) Schnabel (Fri)		
	BoE Speakers:	Pill (Mon); Bailey (Wed); Bailey , Broadbent, Ramsden, Pill (Thu); Haskel (Fri)		
	Fed Speakers:	Bostic, Kashkari, Cook (Mon); Mester, Williams, Barr (Tue); Bostic, Goolsbee, Logan (Wed); Jefferson, Logan, Barr (Thu); Powell , Williams, Bowman (Fri)		
Mon 15th	EU-20:	10:00 Industrial Production (March)	+1.5% (+2.0%)	-2.5% (+0.9%)
	US:	13:30 NY Fed / Empire State Index (May)	10.8	-2.0
Tue 16th	CHINA:	03:00 Industrial Output (April)	(+3.9%)	(+10.1%)
	CHINA:	03:00 Retail Sales (April)	(+10.6%)	(+20.1%)
	UK:	07:00 ILO Unemployment Rate (March)	3.8%	3.8%
	UK:	07:00 Employment Change (March)	+169,000	+160,000
	UK:	07:00 Claimant Count (April)	+28,200	
	UK:	07:00 Average Earnings (March)	(+5.9%)	(+5.8%)
		- Ex-Bonus	(+6.6%)	(+6.8%)
	ITA:	09:00 Final HICP (April)	+1.0% (+8.8%)	+1.0% (+8.8%)
	EU-20:	10:00 Employment (Q1: Flash Reading)	+0.3% (+1.5%)	
	EU-20:	10:00 GDP (Q1: Second Reading)	+0.1% (+1.3%)	+0.1% (+1.3%)
	GER:	10:00 ZEW Economic Sentiment (May)	4.1	-5.5
	US:	13:30 Retail Sales (April)	-0.6% (+2.3%)	+0.6% (+1.9%)
		- Ex-Autos	-0.4%	+0.3%
		- Control Group	-0.3%	+0.1%
	US:	14:15 Industrial Production (April)	+0.4% (+0.5%)	+0.0% (+0.2%)
		- Manufacturing Output	-0.5%	+0.2%
		- Capacity Utilisation	79.8%	79.7%
	US:	15:00 NAHB Homebuilder Sentiment (May)	45	45
Wed 17th	JPN:	00:50 GDP (Q1: Preliminary Reading)	+0.1% s.a.a.r.	+0.7% s.a.a.r.
	EU-20:	10:00 Final HICP Inflation (April)	+0.7% (+7.0%)	+0.7% (+7.0%)
		- Ex-Food & Energy	+1.0% (+7.3%)	+1.0% (+7.3%)
		- Ex- Food, Energy, Alcohol & Tobacco	+1.0% (+5.6%)	+1.0% (+5.6%)
	IRL:	11:00 Residential Property Price Index (March)	-0.4% (+5.0%)	+0.2% (+4.7%)
	US:	13:30 Housing Starts (April)	+1.42mn / -0.8%	+1.41mn / -1.1%
		- Building Permits	+1.43mn / -7.7%	+1.43mn / -0.1%
Thu 18th	JPN:	00:50 Trade Balance (April)	-¥754.5bn	-¥755.1bn
		- Exports	(+4.3%)	
	US:	13:30 Initial Jobless Claims (w/e 8th May)	+264,000	+253,000
	US:	13:30 Philly Fed Manufacturing Index (May)	-31.3	-19.0
	US:	15:00 Existing Home Sales (April)	+4.44mn / -2.4%	+4.35mn / -2.1%
Fri 19th	UK:	00:01 Gfk Consumer Confidence (May)	-30	-27
	JPN:	00:30 CPI Inflation (April)	+0.4% (+3.2%)	
		- Core CPI	+0.5% (+3.8%)	
	GER:	07:00 Producer Prices (April)	-2.6% (+7.5%)	-0.5% (+4.0%)

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