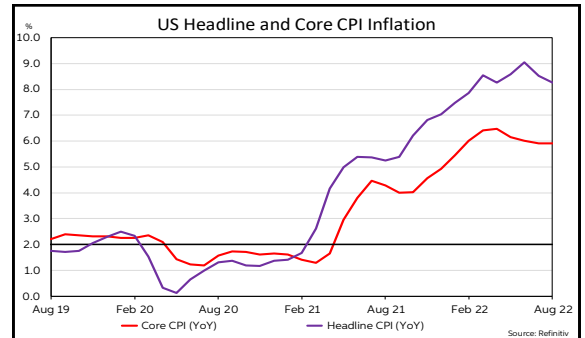


Bucking the Trend

- There has been a major scaling back of growth forecasts for the main economies in 2022-2023.** The exact opposite is happening in Ireland, though, with big upgrades to Irish GDP and domestic demand forecasts this year. The latest forecast upgrades have come from the Dept. of Finance at the end of September, and the Central Bank and ESRI in early October. These forecasters now see Irish GDP rising very strongly by between 8-12% this year, with modified domestic demand growing by 6.5-7.5%. This will be the second successive year of very robust growth by the Irish economy, largely driven by a marked pick-up in foreign direct investment. Ireland enjoyed a record year for inflows of FDI in 2021. The IDA reports that this was exceeded in the first half of 2022, while the pipeline remains positive for the second half of the year, despite a difficult global backdrop. It may well be that Brexit is resulting in increased flows of FDI into Ireland, with the UK, which has been the main competitor for such investment, no longer a member of the EU and Single Market.
- Having grown strongly in 2021, GDP rose by 11% year-on-year in the opening half of 2022.** Exports continued to perform strongly, rising by 14%. Modified domestic demand rose by 11.7% from its depressed levels in the opening half of 2021, when much of the economy was in lockdown, with very strong growth in investment in particular. The buoyant level of FDI is resulting in not just very strong growth in exports and investment, but also employment and tax revenues. Employment at mid-2022 was 11% higher than its pre-COVID levels three years earlier. Meanwhile, a large budget surplus has emerged this year driven by growth of over 25% in tax receipts.
- Turning to next year, the combination of emerging capacity constraints, a very weak global economic backdrop with Europe likely to be in recession, rising interest rates and tightening financial conditions, as well as the negative impact on real household incomes from high inflation, are expected to see a significant slowdown in the pace of growth in the Irish economy.** Indeed, we are already seeing signs of a softening in activity in the second half of 2022, as evidenced by declines in PMI survey data for manufacturing, services and construction as well as a slowdown in retail sales.
- Nonetheless, the economy is still expected to perform relatively well next year, on continued inflows of FDI and thus further strong export growth, as well as an expansionary fiscal policy and support from high levels of private sector savings.** Budget 2023 confirmed that fiscal policy will remain supportive of activity, with a provision for a rise of 6.3% in core government spending next year. In their recent forecast updates, the Central Bank projected GDP growth of over 5% in both 2023 and 2024, while the Dept. of Finance sees GDP increasing by 4.7% in 2023 and a more modest 3.5% in 2024-25. The ESRI sees GDP rising by 4.4% next year. Growth in modified domestic demand, though, is forecast to slow more sharply next year, to a 1.5-2.5% range on the back of higher inflation, rising interest rates and weaker investment, before recovering to around 3.3% in 2024. Ireland, then, is very much bucking the global trend of weak growth.
- This week, the main release of note will be the September US CPI inflation report.** Following the previous release, the S&P 500 shed 4.4% on the day, as the data indicated that inflationary pressures were proving to be stickier and more broad based than anticipated. In August, the headline rate was at 8.3%, and the core rate at 6.3%, respectively. The headline rate is projected to edge slightly lower to 8.1% in September, which would be a third straight decline. Worryingly though, the core rate is expected to rise to 6.5%, matching its recent peak from March.
- With inflation still remaining elevated, a change in direction from the Fed, as had been hoped for on markets at the beginning of October, appears “quite a ways away”,** as Minneapolis Fed President Kashkari stated recently. The Fed meeting minutes from the September FOMC due on Wednesday, may provide further insight on the Fed’s current thinking. Meanwhile, retail sales are forecast to inch higher by 0.2% in September. Elsewhere the preliminary reading of the Michigan measure of consumer sentiment is projected to improve in October, but remain at very weak levels.
- There is also a busy data schedule in the UK this week.** Recent revisions to UK GDP show that despite rising by 0.2% in Q2, the economy was still below its pre-pandemic level at the end of the quarter. In July, GDP rose by 0.2% in the month. A slight fall in growth of 0.1% is pencilled in for August. In terms of the labour market, conditions are very tight. The unemployment rate is currently near fifty year lows, at 3.6% in July. As a result, upward pressure on wages have remained elevated, with average earnings up 5.5% year-on-year in July. It is envisaged conditions in the labour market remained very tight in August, with the unemployment rate unchanged at 3.6%, and average earnings rising to 5.8% in year-on-year terms. **In the Eurozone, industrial production (August) is the only release of note.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
	2022	2023	2023	2023
Fed Funds	3.125	4.375	4.625	4.625
ECB Deposit	0.75	2.00	2.75	2.75
BoE Repo	2.25	3.50	4.25	4.25
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 Q4	End Q1	End Q2
	2022	2023	2023	2023
EUR/USD	0.9755	0.96	0.99	1.03
EUR/GBP	0.8776	0.90	0.90	0.90
EUR/JPY	141.66	139	142	144
GBP/USD	1.1115	1.07	1.10	1.14
USD/JPY	145.19	145	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Mon); Lane (Tue); Lagarde (Wed) ; de Guindos (Thu);		
	BoE Speakers:	Bailey (Mon) ; Haskel, Pill, Mann (Wed); Mann (Thu)		
	Fed Speakers:	Brainard, Evans (Mon); Mester (Tue); Kashkari (Wed)		
		IMF World Economic Outlook October 2022 (Tue)		
Mon 10th	EU-19:	09:30 EU Sentix Index (October)	-31.8	-33.5
Tue 11th	JPN:	06:00 Economy Watchers Poll (September)	45.5	
	UK:	07:00 Unemployment Rate (August)	3.6%	3.6%
	UK:	07:00 Average Earnings (3 mnths to August)	(+5.5%)	(+5.9%)
		- Ex-Bonus	(+5.2%)	(+5.3%)
	UK:	07:00 Claimant Count (September)	+6,300	
	ITA:	09:00 Industrial Output (August)	+0.4% (-1.4%)	+0.2% (+64.3%)
	US:	11:00 NFIB Business Optimism (September)	91.8	
Wed 12th	UK:	07:00 Goods Trade Balance (August)	-£19.4bn	-£20.5bn
	UK:	08:00 GDP (August)	+0.2% (+2.3%)	-0.2%
		- 3m/3m	+0.0%	-0.2%
	UK:	08:00 Industrial Output (August)	-0.3% (+1.1%)	-0.2% (+0.7%)
		- Manufacturing Output (August)	-1.6% (+1.3%)	+1.1% (+0.0%)
	EU-19:	10:00 Industrial Production (August)	-2.3% (-2.4%)	+0.5% (+1.1%)
	US:	13:30 PPI Final Demand (September)	-0.1% (+8.7%)	+0.2% (+8.3%)
		- Ex-Food & Energy	+0.4% (+7.3%)	+0.3% (+7.1%)
Thu 13th	GER:	07:00 Final HICP (September)	+2.2% (+10.9%)	+2.2% (+10.9%)
	IRL:	11:00 CPI Inflation (September)	+0.2% (+8.7%)	+0.0% (+8.3%)
		- HICP Inflation	+0.2% (+9.0%)	+0.0% (+8.6%)
	IRL:	11:00 Residential Property Price Index (August)	+0.8% (+13.0%)	+0.6% (11.2%)
	US:	13:30 CPI Inflation (September)	+0.1% (+8.3%)	+0.2% (+8.1%)
		- Core-CPI	+0.6% (+6.3%)	+0.5% (+6.5%)
	US:	13:30 Initial Jobless Claims (w/e 3rd October)	+213,000	+225,000
Fri 14th	CHINA:	02:30 CPI (September)	-0.1% (+2.5%)	+0.3% (+2.8%)
	CHINA:	04:00 Trade Balance (September)	+\$79.4bn	+\$81.3bn
	FRA:	07:45 Final HICP (September)	-0.5% (+6.2%)	-0.5% (+6.2%)
	SPA:	08:00 Final HICP (September)	+0.0% (+9.3%)	+0.0% (+9.3%)
	EU-19:	10:00 Trade Balance (August)	-€40.3bn	
	US:	13:30 Retail Sales (September)	+0.3% (+9.2%)	+0.2% (+8.5%)
		- Ex-Autos	-0.3%	-0.1%
		- Control	+0.0%	+0.0%
	US:	15:00 Preli. Uni Michigan Consumer Sentiment (Sept)	58.6	58.9

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