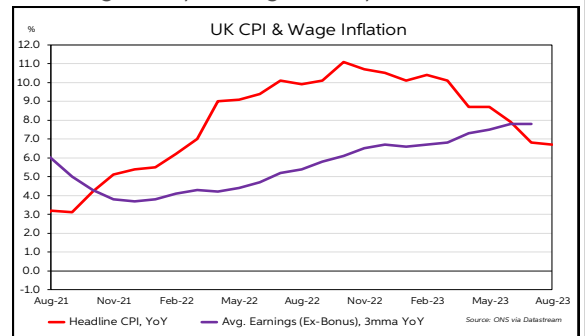


## Sweet Spot

- In recent years, the Irish public finances have been faced with the need to provide for short-term but often substantial government expenditure policy responses to a number of external shocks**, including Brexit, COVID-19 and both the Ukrainian humanitarian and Cost of Living crises. The framework adopted by the Department of Finance (DoF) has been to separate out the use of temporary ‘non-core’ measures to meet these short-term additional resource requirements from the ongoing day-to-day ‘core’ expenditure of government departments. While these non-core measures relate to temporary challenges, their duration can last a number of years. The good news is that this non-core expenditure is declining, from €16.5bn back in 2020 to €7.2bn this year, and a projected €5.4bn in 2024, with further falls on the cards thereafter.
- The principal unknown factor in relation to the future path of non-core spending is the duration of the €2.5bn required each year for expenditure on the Ukrainian humanitarian crisis.** As the Irish Fiscal Advisory Council notes, there is an argument that non-core expenditure that appears to becoming longer lasting should be treated as core spending. The classification is important in terms of the projected future path of the public finances. In this regard, the budget surplus target for next year of €8.4bn is broadly unchanged from €8.8bn in 2023 and €8.5bn in 2022. However, the surplus is projected to rise to over €14bn in 2025 and 2026, largely on the basis of non-core spending falling to very low levels. As the DoF acknowledges, there is inherent uncertainty in this regard, especially in relation to the future spending requirements on refugees.
- Furthermore, core/non-core spending classifications can lead to confusion around budgetary policy.** The headlines following Budget 2024 proclaimed a €14bn package. However, of the €14bn, some €7.5bn related to the continuation of existing non-core spending programmes in Q4 2023 and 2024, including humanitarian assistance, cost of living measures and COVID. In fact, the actual increase in gross voted government spending next year is €3.4bn or 3.7%, with a net tax cuts of €1.1bn, a total of €4.5bn. It is certainly true that core spending will increase by €5.3bn or 6.1% in 2024, but non-core expenditure is projected to fall sharply, in particular due to much lower spending on COVID and cost of living measures.
- Overall, the budget surplus should rise somewhat from current levels post 2024, but maybe not to the extent shown in the DoF projections, unless corporate tax receipts resume their strong upward trend.** There is scope for higher receipts, with the hike from 12.5% to 15% in the rate of corporate tax paid by larger companies coming into effect from next year. However, this could be offset by other factors, such as lower levels of profitability. Indeed, the DoF is of the view that a large portion of corporate tax receipts could be windfall or temporary in nature and thus, may fall significantly in the coming years. Hence, it is appropriate Ireland presently runs large budget surpluses and also that the government is establishing two Sovereign investment funds to house these surpluses. The funds are to be used to help finance spending pressures that will arise in the future from the ageing population, climate change, cyclical and other factors, in a welcome shift to greater long-term planning on the public finances.
- This week, there is a busy data schedule in the UK, with particular focus on consumer price and wage inflation.** CPI inflation remains elevated, but it has fallen sharply recently. The headline rate declined to 6.7% in August, down from 6.8% in July, and 7.9% in June. Meantime, core-CPI fell to 6.2% in August, from 6.9% in July and June. The consensus is for both rates to edge lower to 6.5% and 6% respectively, in September. In contrast, wage inflation has accelerated, rising for five consecutive months to 8.5% in July, up from 5.8% in February. However, a modest easing in average earnings growth to 8.3% is pencilled in for August, partly owing to the end of public-sector bonus payments. We would note though, that the official data have printed above the forecast for the past six months, and that there have been upward revisions to the prior month’s reading in eight of the last nine months, indicating that the risks are to the upside of expectations.
- Elsewhere in terms of UK labour market data, the unemployment rate is forecast to remain unchanged at 4.3% in August.** This is still a very low level by historical standards, but it is up from 3.5% last August, and 3.7% at the start of 2023. Overall, the data highlight that labour market conditions are softening, but they remain tight. Meantime, retail sales are projected to fall by 0.1% in September, after rebounding by 0.4% in August, and having plunged by 1.1% in July.
- In the US, retail sales data for September will also feature.** Retail sales have increased for five months running, including by 0.5% and 0.6% m/m in July and August. The control group, a key core retail sales indicator, rose by 0.7% and 0.1% in the past two months also. It is anticipated that both measures will rise by 0.3% and 0.1%, respectively, in September. Elsewhere, industrial production rose by 0.7% in July and 0.4% in August. A modest fall of 0.1% increase is forecast in September. Meanwhile, updates on the housing market, including, housing starts and existing home sales for September, as well as, homebuilder sentiment for October are due. **In the Eurozone, the German ZEW sentiment index for October is the only release of note.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
Fed Funds	5.375	5.625	5.625	5.625
ECB Deposit	4.00	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.50	5.50
BoJ OCR	-0.10	-0.10	-0.10	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
EUR/USD	1.0508	1.05	1.06	1.08
EUR/GBP	0.8651	0.87	0.87	0.87
EUR/JPY	157.27	155	153	151
GBP/USD	1.2146	1.21	1.22	1.24
USD/JPY	149.63	148	144	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
<b>This Week:</b>	<b>ECB Speakers:</b>	de Guindos (Tue); <b>Lagarde</b> (Wed)			
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>	Harker (Mon); Williams, Bowman, Barkin (Tue); Waller, Williams, Bowman, Harker, Cook (Wed) <b>Powell</b> , Jefferson, Goolsbee, Barr, Bostic, Harker (Thu); Harker, Mester (Fri)			
<b>Mon 16th</b>	<b>ITA:</b>	09:00	Final HICP Inflation (September)	+1.7% (+5.7%)	+1.7% (+5.7%)
	<b>EU-20:</b>	10:00	Total Trade Balance (August)	+€2.9bn	
	<b>US:</b>	13:30	NY Fed / Empire State Index (October)	1.90	-5.0
<b>Tue 17th</b>	<b>UK:</b>	07:00	ILO Unemployment Rate (August)	4.3%	4.3%
	<b>UK:</b>	07:00	Employment Change (August)	-207,000	+195,000
	<b>UK:</b>	07:00	Claimant Count (September)	+900	
	<b>UK:</b>	07:00	Average Earnings (August)	(+8.5%)	(+8.3%)
			- Ex-Bonus	(+7.8%)	(+7.8%)
	<b>GER:</b>	10:00	ZEW Economic Sentiment (October)	-11.4	-9.0
	<b>US:</b>	13:30	Retail Sales (September)	+0.6% (+2.5%)	+0.3% (+2.8%)
			- Ex-Autos	+0.6%	+0.2%
			- Control Group	+0.1%	+0.1
	<b>US:</b>	14:15	Industrial Production (September)	+0.4% (+0.3%)	-0.1% (-0.1%)
			- Manufacturing Output	+0.1%	
			- Capacity Utilisation	79.7%	79.6%
	<b>US:</b>	15:00	NAHB Homebuilder Sentiment (October)	45.0	45.0
<b>Wed 18th</b>	<b>CHINA:</b>	03:00	GDP (Q3)	+0.8% (+6.3%)	+1.0% (+4.4%)
	<b>CHINA:</b>	03:00	Retail Sales (September)	(+4.6%)	(+4.5%)
	<b>CHINA:</b>	03:00	Industrial Output (September)	(+4.5%)	(+4.3%)
	<b>CHINA:</b>	03:00	Unemployment Rate (Urban Area)	5.2%	
	<b>UK:</b>	07:00	CPI Inflation (September)	+0.3% (+6.7%)	+0.4% (+6.5%)
			- Core-CPI	+0.1% (+6.2%)	+0.4% (+6.0%)
	<b>UK:</b>	07:00	PPI Output Prices (September)	+0.2% (-0.4%)	
			- PPI Input Prices	+0.4% (-2.3%)	
	<b>EU-20:</b>	10:00	Final HICP Inflation (September)	+0.3% (+4.3%)	+0.3% (+4.3%)
			- Ex-Food & Energy	+0.2% (+5.5%)	+0.2% (+5.5%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+4.5%)	+0.2% (+4.5%)
	<b>US:</b>	13:30	Housing Starts (September)	+1.28m / -11.3%	+1.38m / +7.4%
			- Building Permits	+1.54m / +6.8%	+1.45m / -5.9%
<b>Thu 19th</b>	<b>FRA:</b>	07:45	INSEE Business Climate (October)	100.0	99.0
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 9th October)	+209,000	+220,000
	<b>US:</b>	13:30	Philly Fed Manufacturing Index (October)	-13.5	-5.9
	<b>US:</b>	15:00	Existing Home Sales (September)	+4.1m / -0.7%	3.9m / -3.9%
<b>Fri 20th</b>	<b>UK:</b>	00:01	Gfk Consumer Confidence (October)	-21.0	-20.0
	<b>JPN:</b>	00:30	CPI Inflation (September)	(+3.1%)	(+2.7%)
			- Ex-Food & Energy	(+4.3%)	
	<b>CHINA:</b>	02:15	1 Year Loan Prime Rate (October)	+3.45%	
			- 5 Year Loan Prime Rate	+4.20%	
	<b>GER:</b>	07:00	Producer Prices (September)	+0.3% (-12.6%)	+0.4% (-14.2%)
	<b>UK:</b>	07:00	Retail Sales (September)	+0.4% (-1.4%)	-0.1% (+0.0%)
			- Ex-Fuel	+0.6% (-1.4%)	-0.4% (+0.0%)

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

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