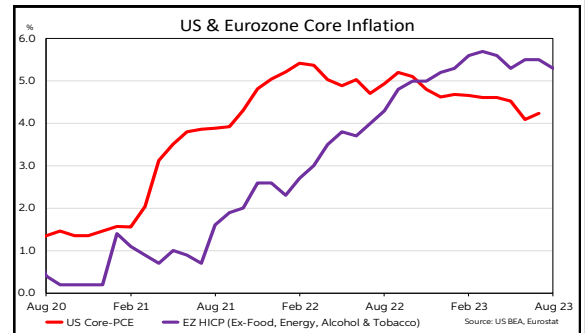


The Real Risk Takers

- The latest quarterly update from the OECD on the outlook for the global economy was published in the past week.** In a downbeat assessment, it notes that the impact of tighter monetary policy is becoming increasingly visible, business and consumer confidence have turned down, and the rebound in China has faded. Thus, although there was a stronger than anticipated start to 2023, helped by lower energy prices, this is not expected to be sustained. GDP growth in 2023 and 2024 is projected to be sub-par, at 3.0% and 2.7%, respectively. Not only that, the OECD says the risks to the outlook remain tilted to the downside. In this regard, the lagged impact of monetary tightening and the persistence of inflation are key concerns.
- The OECD says that the primary reason for the subdued global growth outlook is the substantial monetary policy tightening required to rein in inflation.** The main message emanating from nearly all the policy meetings of the main central banks in the past couple of weeks has been, that while the tightening cycle may be close to or at an end, interest rates are going to have to remain high for a considerable period of time to bring inflation back down to its 2% target. While headline inflation is declining, core inflation remains persistent in many economies, held up by cost pressures, rising wages and margin widening in some sectors. However, it is not just a restrictive monetary policy stance that is weighing on global growth prospects. Other factors are also at work.
- The IMF in its Economic Outlook published in the spring commented that the prospects for growth over the medium term seem dimmer now than at any time in recent decades.** Looking out to 2028, it projects that global growth will average around 3% per annum, the lowest medium-term forecast it has published since 1990. This reflects numerous factors besides higher rates, including the progress some large emerging economies, such as China and South Korea, have made in raising standards, and thus are now moving into a slower growth phase of their development cycle. It also reflects weaker labour force growth, with many developed economies at full employment. Technological change is also slowing down. Increasing geo-economic fragmentation, and growing protectionism with rising trade barriers, are contributing to a slowdown in international trade, which is impacting negatively on the world's highly integrated supply chains. Meanwhile, governments are faced with growing budgetary pressures from rising debt burdens and ageing populations.
- It all adds up to a challenging macro-economic environment.** A big risk for central banks, in the context of all these headwinds to growth, is that if they keep monetary policy as restrictive as it currently is for a prolonged period of time, then the chances of a hard landing (i.e. recession) become greater. Fed Chair Powell has consistently cautioned that a soft landing will be difficult to achieve and this week said he would still not call it a baseline expectation. Central banks, though, appear willing to risk a hard landing for economies in order to achieve their goal of getting inflation back down to 2%. This is not surprising as they view a failure to restore price stability as the biggest risk of all to living standards and long-term economic prosperity.
- Given the ongoing focus on inflation, it is no surprise that the latest releases from the Eurozone and US will garner close attention this week.** In the Eurozone, headline inflation has fallen sharply from its peak of 10.6% last October to 5.2% in August. However, inflation has become more broad based. The core rate that excludes energy, food, alcohol and tobacco, has been in a narrow 5.0-5.7% range since last October, and stood at 5.3% in August. Despite rising oil prices, the headline rate is forecast to fall sharply to 4.5% in September, while the core rate is projected to decline to 4.8%. Both will be helped by a sharp drop in German inflation, owing to the unwinding of the impact of subsidised rail fares last year. Irish inflation, by contrast, will be boosted by a reversal of a large VAT cut for the hospitality sector.
- In the US, a clear disinflationary trend has taken hold.** Core-PCE peaked at 5.4% in February/March 2022, before becoming stuck in a narrow 4.5-4.7% corridor in the six months to May of this year. However, it then declined to 4.1% and 4.2%, respectively, in June and July. In August, the consensus is that core-PCE fell to 3.9%, its lowest level since September 2021. Elsewhere in the US, personal income and consumption data for August are due. Nominal consumer spending has maintained good momentum so far this year, supported by solid growth in income. This trend is expected to continue, with personal income and consumption rising by 0.4% and 0.5%, respectively in the month. Nevertheless, the Conference Board measure of consumer confidence is projected to remain at rather subdued levels in September.
- Elsewhere, in terms of survey data, the EC sentiment indices for September are due.** The headline economic sentiment index has been trending lower since the start of the year, and fell to 93.3 in August, its lowest level since November 2020. The services, industrial, and consumer sector indicators are also at quite low levels. The headline and sector readings are forecast to deteriorate further in September. Likewise, the headline German Ifo figure is projected to edge lower in September.



	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	1.0652	1.08	1.09	1.10
EUR/GBP	0.8690	0.87	0.87	0.87
EUR/JPY	157.87	158	154	150
GBP/USD	1.2256	1.24	1.25	1.26
USD/JPY	148.17	146	141	136

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
This Week:	ECB Speakers:	Lagarde , Schnabel (Mon); Lane (Tue); Lagarde (Fri)			
	BoE Speakers:				
	Fed Speakers:	Kaskari (Mon); Bowman (Tue); Powell , Goolsbee, Cook, Barkin (Thu); Williams (Fri)			
Mon 25th	GER:	09:00	Ifo Business Climate (September)	85.7	85.2
	UK:	11:00	CBI Distributive Trades (September)	-44.0	
Tue 26th	US:	15:00	Conference Board Consumer Confidence (Sep)	106.1	105.6
	US:	15:00	New Home Sales (August)	+0.7m / (+4.4%)	+0.7m / -2.0%
Wed 27th	GER:	07:00	Gfk Consumer Sentiment (October)	-25.5	-25.5
	FRA:	07:45	INSEE Consumer Confidence (September)	85	84
	EU-20:	09:00	M3 Annual Money Growth (August)	-0.4%	-1.0%
	US:	13:30	Durable Goods (August)	-5.2%	-0.4%
			- Ex-Transport	+0.4%	+0.2%
Thu 28th	SPA:	08:00	Flash HICP (September)	+0.5% (+2.4%)	(+3.4%)
	SPA:	08:00	Retail Sales (August)	(+7.3%)	
	ITA:	09:00	ISTAT Consumer Confidence (September)	106.5	106.0
	ITA:	09:00	ISTAT Business Confidence (September)	97.8	98.0
	ITA:	09:00	Producer Prices (August)	-0.1% (-10.2%)	
	EU-20:	10:00	EC Economic Sentiment (September)	93.3	92.5
			- Consumer / Services / Industrial	-17.8 / 3.9 / -10.3	-17.8 / 3.5 / -10.5
	IRL:	11:00	Retail Sales (August)	-0.8% (+5.9%)	+0.7% (+4.0%)
	IRL:	11:00	HICP (September)	+0.5% (+4.9%)	+0.6% (+5.6%)
	GER:	13:00	Flash HICP Inflation (September)	+0.4% (+6.4%)	+0.4% (+4.7%)
	US:	13:30	GDP (Q2: Final Reading)	+2.1% s.a.a.r.	+2.3% s.a.a.r.
	US:	13:30	PCE Prices (Q2: Final Reading)	+3.7% s.a.a.r.	+3.7% s.a.a.r.
			- Core-PCE Prices	+2.5% s.a.a.r.	+2.5% s.a.a.r.
	US:	13:30	Initial Jobless Claims (w/e 18th September)	+201,000	+215,000
Fri 29th	JPN:	00:30	Tokyo CPI Inflation (September)	(+2.9%)	
			- Ex-Food & Energy	(+2.8%)	(+2.6%)
	JPN:	00:30	Job/Applicants Ratio (August)	1.29	1.29
	JPN:	00:30	Unemployment Rate (August)	2.7%	2.6%
	JPN:	00:50	Industrial Output (August)	-1.8%	-0.8%
	JPN:	00:50	Retail Sales (August)	(+6.8%)	(+6.6%)
	GER:	07:00	Retail Sales (August)	-0.8% (-2.2%)	+0.1%
	UK:	07:00	GDP (Q2: Second Reading)	+0.2% (+0.4%)	+0.2% (+0.4%)
	FRA:	07:45	Flash HICP Inflation (September)	+1.1% (+5.7%)	-0.2% (+5.9%)
	FRA:	07:45	Producer Prices (August)	-0.2% (+0.9%)	
	GER:	08:55	Unemployment rate (September)	5.7%	5.7%
	UK:	09:30	Mortgage Approvals (August)	+49,444	
	EU-20:	10:00	Flash HICP Inflation (September)	+0.5% (+5.2%)	+0.5% (+4.5%)
			- Ex-Food & Energy	+0.3% (+6.2%)	
			- Ex-Food, Energy, Alcohol & Tobacco	+0.3% (+5.3%)	+0.5% (+4.8%)
	ITA:	10:00	Flash HICP Inflation (September)	+0.3% (+5.4%)	+1.2% (+5.2%)
	US:	13:30	Personal Income / Consumption (August)	+0.2% / +0.6%	+0.4% / +0.5%
	US:	13:30	PCE Prices (August)	+0.2% (+3.3%)	+0.5% (+3.5%)
			- Core-PCE Prices	+0.2% (+4.2%)	+0.2% (+3.9%)
	US:	13:30	Final. Uni. Michigan Consumer Sentiment (Sep)	67.7	67.7

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