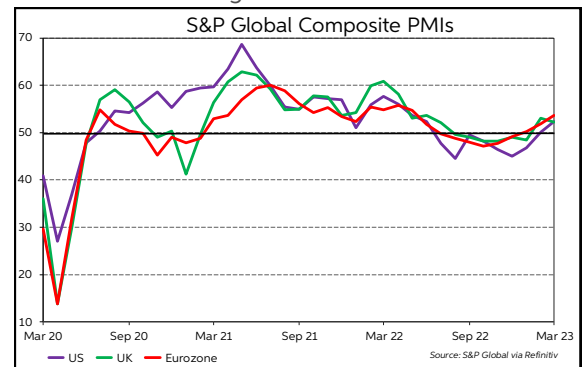


## Storm Clouds Gathering

- The latest quarterly update from the IMF on the outlook for the world economy published last Tuesday saw little change to its forecasts from those issued in January and last October.** The global economy is expected to grow by 2.8% this year and 3.0% in 2024, after expanding by 3.4% in 2022. The stabilisation in forecasts over the past six months is welcome as there had been fears towards the end of last year that many advanced economies could be hit by a recession in early 2023. However, data held up reasonably well in the final quarter of 2022 and the opening three months of 2023, with labour markets in particular remaining strong. That is the end of the good news, though, as the IMF report is quite downbeat in its assessment of the global economy and the increasing downside risks to growth.
- The first point to note is that historically, a 3% growth rate is quite low for the global economy.** Furthermore, the IMF sees the world economy being stuck on a 3% growth path out to 2027, the lowest medium-term forecast it has made since it began to do such projections back in 1990. This is partly due to a very weak growth performance by advanced economies, which are expected to expand by just 1.3% in 2023 and 1.4% in 2024, half the growth rate achieved in 2022. Meanwhile, the IMF notes that the balance of risks has shifted firmly to the downside following the emergence of signs of stress in the financial system recently, and the likely consequent tightening of credit conditions.
- The IMF comments that the tentative signs this year, that the world economy could achieve a soft landing have receded amid sticky core inflation and recent financial sector turmoil.** While uncertainty is high, it believes that a hard landing has become a much larger risk, especially for advanced economies. The IMF notes that the recent banking system turbulence could result in a sharper and more persistent tightening of global financial conditions than previously anticipated. There could also be greater than expected contractionary effects from the marked hikes in central bank rates given the historically high levels of private and public sector debt. Indeed, if inflation remains sticky, it could prompt central banks to do more tightening than currently envisaged. The IMF also lists other downside risks, such as, an escalation of the war in Ukraine, geo-economic fragmentation that hampers global trade and co-operation, as well as a possible faltering of the post-COVID economic recovery in China.
- The US economy could be most at risk to a downturn, given the stresses in the banking system have been most evident there, and concerns are also greatest about a tightening in credit conditions.** Though, most data have held up well in the US economy recently, some early warnings indicators are beginning to flash amber signals. Weekly jobless claims are on the rise, while the NFIB's hiring index fell to a 34-month low in March. The ISM services index for March saw a sharp decline to 51.2 from 55.1, led by a big drop in new orders. Meanwhile, the March ISM manufacturing index fell to 46.3, its lowest level since 2009, excluding COVID. US money supply is falling at its fastest pace in decades, while there has been a large outflow of deposits from the banking system into money market funds that will curtail lending. US data will need close watching in the months ahead.
- This week, the release of the flash PMIs for April will provide an update on economic conditions at the beginning of Q2.** In recent months, the US services sector has outperformed manufacturing, with the former rising above the key 50 threshold, and the latter remaining in contraction mode. A modest decline is pencilled in for both indices in April. Similar to the US, both the Eurozone and UK services PMIs were above 50 in March, while the manufacturing indices were in contraction territory. The Eurozone April services PMI is expected to fall, with a rise anticipated for manufacturing. Meantime, The UK services PMI is projected to rise slightly to 53.0 from 52.9, while the manufacturing figure is expected to improve to 48.5 from 47.9.
- Elsewhere in the UK, there are a number of data releases, including updates on the labour market and inflation.** Headline CPI inflation ended a run of three straight falls in February, rising to 10.4% from 10.1%. Core CPI rose to 6.2% from 5.8% also. However, both rates are projected to fall to 9.8% and 6.0%, respectively, in March. Regarding the labour market, the unemployment rate remained at 3.7% in January, although, average earnings growth softened slightly. No change to the jobless rate is anticipated in February, while average underlying earnings are forecast to ease further to +6.2% y/y from +6.5%. Meanwhile, a 0.5% fall in retail sales is pencilled in for March, following two sharp monthly increases. Consumer confidence is expected to improve further in April.
- The flash reading of Eurozone consumer confidence is also forecast to improve in April, rising to -18.5 from -19.2.** A number of national business and economic sentiment measures are due as well. The ECB monetary policy account for March will also be an important release from a Eurozone perspective. **In the US, an update on conditions in the property market will include, housing starts, existing home sales (Mar) and homebuilder sentiment (Apr), while the April Philly Fed index will also be watched, as an early signal of activity in Q2.** Meanwhile, strong Q1 GDP data are expected in China.



|             | Interest Rate Forecasts |        |        |        |
|-------------|-------------------------|--------|--------|--------|
|             | Current                 | End Q2 | End Q3 | End Q4 |
|             |                         | 2023   | 2023   | 2023   |
| Fed Funds   | 4.875                   | 5.125  | 5.125  | 4.625  |
| ECB Deposit | 3.00                    | 3.50   | 3.50   | 3.50   |
| BoE Repo    | 4.25                    | 4.50   | 4.50   | 4.50   |
| 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   | 2023   | 2023   |
| EUR/USD | 1.1026                                       | 1.11   | 1.13   | 1.14   |
| EUR/GBP | 0.8839                                       | 0.88   | 0.88   | 0.88   |
| EUR/JPY | 146.68                                       | 144    | 145    | 143    |
| GBP/USD | 1.2473                                       | 1.26   | 1.28   | 1.30   |
| USD/JPY | 133.00                                       | 130    | 128    | 125    |

Current Rates Reuters, Forecasts AIB's ERU

| Date              | UK & Irish Time      | Release  | Previous        | Forecast      |
|-------------------|----------------------|--|-----------------|---------------|
| <b>This Week:</b> | <b>ECB Speakers:</b> | McCaul, Tuominen, <b>Lagarde</b> (Mon); Lane, Schnabel (Wed), <b>Lagarde</b> , Schnabel (Thu); deGuindos, Elderson (Fri) |                 |               |
|                   | <b>BoE Speakers:</b> |  |                 |               |
|                   | <b>Fed Speakers:</b> | Barkin (Mon); Williams (Wed); Mester, Logan (Thu)  |                 |               |
| <b>Mon 17th</b>   | <b>ITA:</b>          | 09:00 Final HICP (March)   | +0.8% (+8.2%)   | +0.8% (+8.2%) |
|                   | <b>US:</b>           | 13:30 NY Fed / Empire State Index (April)  | -24.6           | -18.0         |
|                   | <b>US:</b>           | 15:00 NAHB Homebuilder Sentiment (April)   | 44              | 44            |
| <b>Tue 18th</b>   | <b>CHINA:</b>        | 03:00 Industrial Output (March)  | (+2.4%)         |               |
|                   | <b>CHINA:</b>        | 03:00 Retail Sales (March)   | (+3.5%)         |               |
|                   | <b>CHINA:</b>        | 03:00 GDP (Q1)   | +0.0% (+2.9%)   | +2.2%(+4.0%)  |
|                   | <b>UK:</b>           | 07:00 ILO Unemployment Rate (February)   | 3.7%            | 3.7%          |
|                   | <b>UK:</b>           | 07:00 Employment Change (February)   | +65,000         |               |
|                   | <b>UK:</b>           | 07:00 Claimant Count (March)   | -11,200         |               |
|                   | <b>UK:</b>           | 07:00 Average Earnings (February)  | (+5.7%)         | (+5.1%)       |
|                   |                      | - Ex-Bonus   | (+6.5%)         | (+6.2%)       |
|                   | <b>GER:</b>          | 10:00 ZEW Economic Sentiment (April)   | 13.0            | 15.1          |
|                   | <b>US:</b>           | 13:30 Housing Starts (March)   | +1.450m /+9.8%  | +1.420m       |
|                   |                      | - Building Permits   | +1.55m / +15.8% | +1.45m        |
| <b>Wed 19th</b>   | <b>UK:</b>           | 07:00 CPI Inflation (March)  | +1.1% (+10.4%)  | +0.5%(+9.8%)  |
|                   |                      | - Core CPI   | +1.2% (+6.2%)   | +0.6% (+6.0%) |
|                   | <b>UK:</b>           | 07:00 PPI Input Prices (March)   | -0.1% (+12.7%)  |               |
|                   |                      | - PPI Output Prices  | -0.3% (+12.1%)  | -0.1% (+8.7%) |
|                   | <b>EU-20:</b>        | 10:00 Final HICP (March)   | +0.8% (+6.9%)   | +0.9% (+6.9%) |
|                   |                      | - Ex-Food & Energy   | +0.9% (+7.5%)   | +1.2% (+7.5%) |
|                   |                      | - Ex-Food, Energy, Alcohol & Tobacco   | +1.2% (+5.7%)   | +1.2% (+5.7%) |
| <b>Thu 20th</b>   | <b>JPY:</b>          | 00:50 Trade Balance (March)  | -¥897.7bn       |               |
|                   |                      | - Exports  | +6.5%           | +2.6%         |
|                   | <b>FRA:</b>          | 07:45 INSEE Business Climate (April)   | 103             | 103           |
|                   | <b>EU-20:</b>        | 11:30 ECB Monetary Policy Account (15-16th March)  |                 |               |
|                   | <b>US:</b>           | 13:30 Initial Jobless Claims (w/e 10th April)  | +239,000        | +240,000      |
|                   | <b>US:</b>           | 13:30 Philly Fed Index (April)   | -23.2           | -20.0         |
|                   | <b>EU-20:</b>        | 15:00 Flash EC Consumer Confidence (April)   | -19.2           | -18.5         |
|                   | <b>US:</b>           | 15:00 Existing Home Sales (March)  | +4.58m / +14.5% | +4.50m        |
| <b>Fri 21st</b>   | <b>UK:</b>           | 00:01 Gfk Consumer Confidence (April)  | -36             | -35           |
|                   | <b>JPY:</b>          | 00:30 CPI (March)  | (+3.3%)         |               |
|                   |                      | - Core   | (+3.1%)         | (+3.1%)       |
|                   | <b>JPY:</b>          | 01:30 Flash Jibun / S&P Composite PMI (April)  | 52.9            |               |
|                   | <b>UK:</b>           | 08:00 Retail Sales (March)   | +1.2% (-3.5%)   | -0.5% (-3.1%) |
|                   |                      | - Ex-Fuel  | +1.5% (-3.3%)   | -0.7% (-3.1%) |
|                   | <b>FRA:</b>          | 08:15 Flash S&P Composite PMI (April)  | 52.7            | 53.0          |
|                   | <b>GER:</b>          | 08:30 Flash S&P Composite PMI (April)  | 52.6            | 52.9          |
|                   | <b>EU-20:</b>        | 09:00 Flash S&P Composite PMI (April)  | 53.7            | 54.0          |
|                   |                      | - Manufacturing / Services   | 47.3 / 55.0     | 48.0/54.5     |
|                   | <b>UK:</b>           | 09:30 Flash CIPS / S&P Composite PMI (April)   | 52.2            | 52.6          |
|                   |                      | - Manufacturing / Services   | 47.9 / 52.9     | 48.5 / 53.0   |
|                   | <b>US:</b>           | 14:45 Flash S&P Composite PMI (April)  | 52.3            |               |
|                   |                      | - Manufacturing / Services   | 49.2 / 52.6     | 49.1 / 51.5   |

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

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