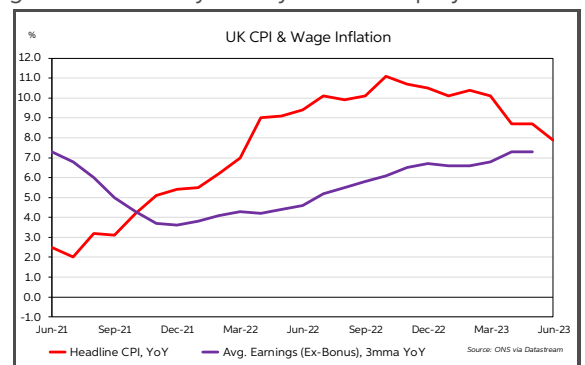


## Supply and Demand

- Based on underlying demographics, the Irish economy needs at least 30,000 new residential units to be built each year.** However, new supply has been running well below this level since 2009, until it jumped sharply to 30,000 last year. Indeed, the recently released 2022 Census data showed that similar to the 2016 survey, population growth (+8% vs 2016) has been outpacing the growth in the housing stock (+5.0%). Although, this was mitigated to some extent by the number of vacant homes falling by 11% (circa 20,000) compared to 2016. Taking this into account, growth in occupied dwellings averaged 23,000 in the period 2016-2021 versus estimated annual demand of 30,000. In short, it means that significantly more than 30,000 units are required to be built on an annual basis to meet yearly demand as well as the pent-up demand that has been accumulating over the past decade.
- There are a number of challenges, though, to further boosting housing supply.** These include higher building costs, shortages of workers, increased uncertainty regarding the general macro-economic outlook, rising interest rates, availability of funding and delays in the planning process. Indeed, recent forward looking supply indicators suggest the construction sector may fall short of matching last year's level of 30,000. Commencement notices have been running around 27,000-28,000 on a 12-month cumulative basis during H1 2023, below their peak level of 35,000 reached in early 2022. Elsewhere, the total number of dwelling units granted planning permission in the 12-month period to Q1 2023 stood at 37,313, which was 16% lower than the same period in 2022.
- The latest forecast from the Central Bank of Ireland is that housing completions could amount to 27,500 units this year, rising to 29,000 in 2024.** The marked increase in new housing in the past 18 months combined with the rising interest rate environment has seen a notable moderation in house price inflation. The most recent official CSO data (June figures due Wed 16th) showed that prices nationally fell by 0.2% in May, marking the fifth straight month of declines. On a year-over-year basis, the rate of growth slowed to 2.4%, well down from the 15% pace of increase registered in the February-March 2022 period.
- In terms of demand indicators, underlying mortgage market metrics suggest homebuyer activity remains solid.** The first time buyer segment of the market continues to exhibit some strength. Drawdowns by first time buyers rose by 7.6% y/y in value terms in Q2. Meanwhile, the number of new mortgage approvals was around 5% higher in H1 2023 compared to the same period last year. Looking ahead, the rising interest rate environment may act as a headwind to homebuyer activity and exert some further downward pressure on prices. As a result, we would expect a further moderation in house price growth over the remainder of this year. Given the current downtrend in prices, there is a distinct possibility that prices could end the year below where they started it. However, the on-going supply shortfall is likely to mean the magnitude of these falls should be modest.
- This week sees a busy UK data schedule, including inflation and labour market updates.** Inflation has proven to be stickier than expected. The headline rate remained very elevated at 7.9% in June. Similarly, core-CPI remained very high, but edged slightly lower to 6.9%. However, inflation is expected to fall sharply in the UK over the coming quarters. The consensus is for the headline rate to drop to 6.8%, with the core rate easing marginally, to 6.8% in July. Meantime, conditions in the labour market have softened slightly in recent months. The unemployment rate rose to 4% in the three months to May, up from 3.5% last August. Furthermore, employment grew more slowly in May. The unemployment rate is expected to remain at 4.0%, with a further slowdown in the pace of employment growth in June. Meanwhile, underlying earnings growth is forecast at 7.4% y/y. Elsewhere, retail sales, which have been volatile so far in 2023, are projected to contract by 0.5% in July.
- Retail sales data also feature in the US this week.** Sales rose for the third month running in June, up by 0.2% m/m. It is envisaged that sales rose again in July, by 0.4%. Meanwhile, a slight 0.3% rise in industrial production is forecast in July. A batch of housing market data are also due, including housing starts (July) and homebuilder sentiment (August). Elsewhere, the Fed meeting minutes from the end of July will garner very close attention from investors.
- Similar to many other advanced economies, Eurozone industrial production has struggled recently.** A modest fall of 0.1% is pencilled in for June. Meantime, the second reading of Eurozone Q2 GDP is set to confirm the economy expanded by 0.3% q/q. No revisions are expected for the final reading of July HICP inflation, with the headline rate at 5.3%, and the core rate at 5.5%.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2023			2024
Fed Funds	5.375	5.375	5.375	5.375
ECB Deposit	3.75	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.75	5.75
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 Q3	End Q4	End Q1
	2023			2024
EUR/USD	1.0955	1.12	1.13	1.14
EUR/GBP	0.8630	0.86	0.87	0.87
EUR/JPY	158.64	159	161	162
GBP/USD	1.2691	1.30	1.30	1.31
USD/JPY	144.79	142	142	142

Current Rates Reuters, Forecasts AIB's ERU

<i>Date</i>	<i>UK &amp; Irish Time</i>	<i>Release</i>	<i>Previous</i>	<i>Forecast</i>
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane (Fri)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Kashkari (Tue);		
<b>Mon 14th</b>				
<b>Tue 15th</b>	<b>JPN:</b>	00:50 GDP (Q2: preliminary Reading)	+2.7% annualised	+3.1%
	<b>CHINA:</b>	03:00 Industrial Output (July)	(+4.4%)	(+4.5%)
	<b>CHINA:</b>	03:00 Retail Sales (July)	(+3.1%)	(+4.8%)
	<b>UK:</b>	07:00 ILO Unemployment Rate (June)	4.0%	4.0%
	<b>UK:</b>	07:00 Employment Change (June)	+102,000	+50,000
	<b>UK:</b>	07:00 Claimant Count (July)	+25,700	
	<b>UK:</b>	07:00 Average Earnings (June)	(+6.9%)	(+7.3%)
		- Ex-Bonus	(+7.3%)	(+7.4%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (August)	-14.7	-14.4
	<b>US:</b>	13:30 NY Fed / Empire State Index (August)	1.10	-1.00
	<b>US:</b>	13:30 Retail Sales (July)	+0.2% (+1.5%)	+0.4%
		- Ex-Autos	+0.2%	+0.4%
		- Control Group	+0.6%	+0.5%
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (August)	56	56
<b>Wed 16th</b>	<b>UK:</b>	07:00 CPI Inflation (July)	+0.1% (+7.9%)	-0.5% (+6.8%)
		- Core CPI Inflation	+0.2% (+6.9%)	+0.3% (+6.8%)
	<b>UK:</b>	07:00 PPI Output Prices (July)	-0.3% (+0.1%)	
		- Input Prices	-1.3% (-2.7%)	
	<b>EU-20:</b>	10:00 GDP (Q2: Second Reading)	+0.3% (+0.6%)	+0.3% (+0.6%)
	<b>EU-20:</b>	10:00 Industrial Production (June)	+0.2% (-2.2%)	-0.1% (-4.2%)
	<b>IRL:</b>	<b>11:00 Residential Property Price Index (June)</b>	<b>-0.2% (+2.4%)</b>	<b>-0.1% (+1.2%)</b>
	<b>US:</b>	13:30 Housing Starts (July)	+1.434m / -8.0%	+1.441m
		- Building Permits	+1.441m / -3.7%	+1.454m
	<b>US:</b>	14:15 Industrial production (July)	-0.5% (-0.4%)	+0.3%
		- Manufacturing Output (July)	-0.3%	
		- Capacity Utilisation	78.9%	79.0%
	<b>US:</b>	19:00 Fed FOMC Meeting Minutes (25-26th July)		
<b>Thu 17th</b>	<b>JPN:</b>	00:50 Trade Balance (July)	+¥43.0bn	+¥24.6bn
		- Exports	(+1.5%)	(-0.8%)
	<b>JPN:</b>	00:50 Machinery Orders (June)	-7.6% (-8.7%)	+3.6% (-5.5%)
	<b>EU-20:</b>	10:00 Total Trade Balance (June)	-€0.9bn	
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 31st July)	+248,000	+240,000
	<b>US:</b>	13:30 Philly Fed Manufacturing Index (August )	-13.5	-9.5
<b>Fri 11th</b>	<b>JPN:</b>	00:30 CPI (July)	+0.1% (+3.3%)	
		- Core-CPI	(+3.3%)	(+3.1%)
	<b>UK:</b>	07:00 Retail Sales (July)	+0.7% (-1.0%)	-0.5% (-2.1%)
		- Ex-Fuel	+0.8% (-0.9%)	-0.7% (-2.2%)
	<b>EU-20:</b>	10:00 Final HICP (July)	+0.3% (+5.3%)	-0.1% (+5.3%)
		- Ex-Food & Energy	+0.4% (+6.6%)	+0.0% (+6.6%)
		- EX-Food, Energy, Alcohol & Tobacco	0.1% (+5.5%)	-0.1% (+5.5%)

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