

Playing Catch-Up

- The main focus of the Irish residential property market over the last number of years has been supply, or more specifically the lack of adequate supply.** Taking into account the Census 2022 data which showed population growth has been stronger than previously estimated, annual housing demand was running at 35,000-40,000 in the period 2017-2021. However, completions were running at 15,000-20,000, implying an annual shortfall of close to 20,000 per annum. It was not until last year's bounce in new housing units to 30,000, that this gap was closed significantly. Going forward, based on underlying demographics, the economy needs at least 30,000 new units to be built per annum to meet annual demand. However, significantly more than 30,000 units are required to be built each year to also meet the pent-up demand that has been accumulating over the past decade or more, as well as new annual demand.
 - The latest official data suggest that the strong new supply performance seen in 2022 has been maintained this year.** The number of completions totalled just under 30,000 units in 2022 per CSO data, which was a 45% increase on 2021 levels. More recent completions data, show that new supply is on track to improve on last year's performance. The four quarter total is running at around 31,500 units in Q3, aided by a very strong performance in the July-September period. However, notwithstanding the strong rise in new housing output seen in the post-COVID period, homebuilder activity faces a number of challenges. These include rising building costs, shortages of workers, increased uncertainty regarding the macro-economic outlook, higher interest rates, availability of funding and delays in the planning process.
 - Forward looking homebuilder activity indicators paint a mixed picture in terms of future supply.** Housing starts, as measured by 'commencement notices', had been running around 27,000-28,000 on a 12-month cumulative basis during the first half of this year. More recently though, they have experienced some upward momentum, and were up by 15% on a year-to-date basis in October, with the 12-month total nearing 31,000 units. Elsewhere, the number of dwelling units granted planning permission rose by 13% in the first three quarters of this year. In contrast, survey data in the form of the housing component of the construction PMI has been in contractionary territory since October of last year and remains out of sync with actual 'hard' data. Its latest reading of 43.5 for November, signals a quickening in the pace of contraction compared to the previous month.
 - The latest forecasts from the Central Bank of Ireland and ESRI are that housing completions could amount to circa 30,000 units both this year and in 2024-2025, which appears conservative.** Looking ahead to 2024-2025, the negative impact on demand and activity from rising interest rates may see some reversal, with futures contracts anticipating significant ECB rate cuts next year and in 2025. Furthermore, with building activity in the commercial real estate now in decline, most notably new offices, it should, free up some resources for residential building, including construction workers. Meanwhile, Government policy is very much focused on boosting housing supply, in particular social housing. Thus, completions should rise from the levels seen in 2022-2023, although it is going to take many years to meet the pent-up demand that has arisen over the past decade.
 - Turning to the week ahead, a busy US data schedule includes the Fed's preferred measure of inflation, core-PCE.** In recent months, core-PCE has been trending steadily lower. It fell to 3.5% in October, down from 3.7% in September, and well below the 4.3-4.9% range it occupied during the first half of the year. The consensus is for core-PCE to ease further to 3.4% in November. Meanwhile, personal consumption has also slowed recently. It rose by 0.2% in nominal terms in October, down from 0.7% in September. Personal incomes increased by 0.2% in October as well. Both are forecast to expand, by 0.3% and 0.4% m/m, respectively, in November. Elsewhere, the Conference Board measure of consumer confidence is projected to edge slightly higher for a second consecutive month in December.
- | Date | US Core-PCE (%) | UK Core-CPI (%) |
|--------|-----------------|-----------------|
| Oct 20 | 1.5 | 1.5 |
| Apr 21 | 2.5 | 2.0 |
| Oct 21 | 4.5 | 4.0 |
| Apr 22 | 5.5 | 6.0 |
| Oct 22 | 4.5 | 6.5 |
| Apr 23 | 4.0 | 7.0 |
| Oct 23 | 3.5 | 5.7 |
- In the UK, inflation data will also feature.** In October, headline CPI inflation fell sharply to 4.6% from 6.7%, as steep increases in utility prices last year dropped out of the index. Meantime, core CPI has been declining more slowly. It fell to 5.7% in October, from 6.1% in September, and a peak of 7.1% in May. Both the headline and core rates are expected to inch marginally lower, to 4.4% and 5.5%, respectively, in November. Elsewhere, retail sales data for November are due. Having contracted by 0.8% in Q3, retail sales fell by 0.3% in October. However, a modest 0.4% rise is pencilled in for November, albeit, this would still leave retail sales 1.8% lower in year-on-year terms.
 - Meanwhile, there is a relatively quiet data docket in the Eurozone this week.** The main highlight will be the flash reading of consumer confidence for December. The index is forecast to improve slightly for a second consecutive month. In terms of some key national releases, measures of business and consumer sentiment in Germany, France and Italy are due. **On the monetary policy front, the BoJ is expected to stand pat, despite recent speculation that it could exit negative interest rates this week.**

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
Fed Funds	5.375	5.375	5.375	4.875
ECB Deposit	4.00	4.00	4.00	3.50
BoE Repo	5.25	5.25	5.25	5.00
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	1.0916	1.09	1.10	1.11
EUR/GBP	0.8601	0.86	0.86	0.86
EUR/JPY	155.56	156	154	152
GBP/USD	1.2686	1.27	1.28	1.29
USD/JPY	142.49	143	140	137

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Schnabel, Lane (Mon); Lane (Wed); Lane (Thu)		
	BoE Speakers:	Broadbent (Mon); Breeden (Tue)		
	Fed Speakers:	Golsbee (Mon); Bostic, Goolsbee (Tue); Goolsbee (Wed)		
Mon 18th	GER:	09:00 Ifo Business Climate (December)	87.3	87.8
	US:	15:00 NAHB Homebuilder Sentiment (December)	34.0	36.0
Tue 19th	EU-20:	10:00 Final HICP Inflation (November)	-0.5% (+2.4%)	-0.5% (+2.4%)
		- Ex-Food & Energy	-0.4% (+4.2%)	-0.4% (+4.2%)
		- Ex-Food, Energy, Alcohol & Tobacco	-0.6% (+3.6%)	-0.6% (+3.6%)
	US:	13:30 Housing Starts (November)	+1.37m / +1.9%	+1.36m / -0.9%
		- Building Permits (November)	+1.50m / +1.8%	+1.46m / -4.5%
	JPN:	23:50 Trade Balance (November)	-¥662.5bn	-¥962.4bn
		- Exports	(+1.6%)	(+1.5%)
	JPN:	BoJ Rate Decision	-0.10%	-0.10%
Wed 20th	CHINA:	01:15 Loan Prime Rate 1Year	3.45%	3.45%
		- 5 year	4.20%	4.20%
	GER:	07:00 Gfk Consumer Sentiment (January)	-27.8	-27.0
	GER:	07:00 Producer Prices (November)	-0.1% (-11.0%)	-0.2% (7.4%)
	UK:	07:00 CPI Inflation (November)	+0.0% (+4.6%)	+0.2% (+4.4%)
		- Core-CPI	+0.3% (+5.7%)	+0.2% (+5.5%)
	UK:	07:00 PPI Input Prices (November)	-0.2% (+6.1%)	
		- Output Prices	+0.1% (-0.6%)	
	EU-20:	15:00 Flash Consumer Confidence (December)	-16.9	-16.5
	US:	15:00 Conference Board Consumer Confidence (Dec)	102.0	104.3
	US:	15:00 Existing Home Sales (November)	+3.79m / -4.1%	+3.77m / -0.5%
Thu 21st	FRA:	07:45 INSEE Business Climate (December)	97.0	
	US:	13:30 GDP (Q3: Final Reading)	+5.2% s.a.a.r.	+5.2% s.a.a.r.
	US:	13:30 PCE Prices (Q3: Final Reading)	+3.5% s.a.a.r.	+3.6% s.a.a.r.
		- Core-PCE Prices	+2.3% s.a.a.r.	+2.3% s.a.a.r.
	US:	13:30 Initial Jobless Claims (w/e 11th December)	+202,000	+218,000
	US:	13:30 Philly Fed Business Index (December)	-5.9	-3.0
	JPN:	23:30 CPI Inflation (November)	(+2.9%)	(+2.5%)
		- Core-CPI	(+2.9%)	
Fri 22nd	UK:	07:00 GDP (Q3: Second Reading)	+0.0% (+0.6%)	+0.0% (+0.6%)
	UK:	07:00 Retail Sales (November)	-0.3% (-2.7%)	+0.4% (-1.8%)
		- Ex-Fuel	-0.1% (-2.4%)	+0.0% (-1.8%)
	FRA:	07:45 Consumer Confidence (December)	87.0	
	FRA:	07:45 Producer Prices (November)	+0.0% (-1.2%)	
	SPA:	08:00 GDP (Q3: Final Reading)	+0.3% (+1.8%)	+0.3% (+1.8%)
	ITA:	09:00 ISTAT Business Confidence (December)	96.6	
	ITA:	09:00 ISTAT Consumer Confidence (December)	103.6	
	US:	13:30 Personal Income / Consumption (November)	+0.2% / +0.2%	+0.4% / +0.3%
	US:	13:30 PCE Price Index (November)	+0.0% (+3.0%)	+0.0% (+2.8%)
		- Core-PCE Price Index	+0.2% (+3.5%)	+0.2% (+3.4%)
	US:	13:30 Durable Goods (November)	-5.4%	+2.0%
		- Ex-Transport	+0.0%	+0.2%
	US:	15:00 Final Uni. Michigan Consumer Sentiment (Dec)	69.4	69.7

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

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