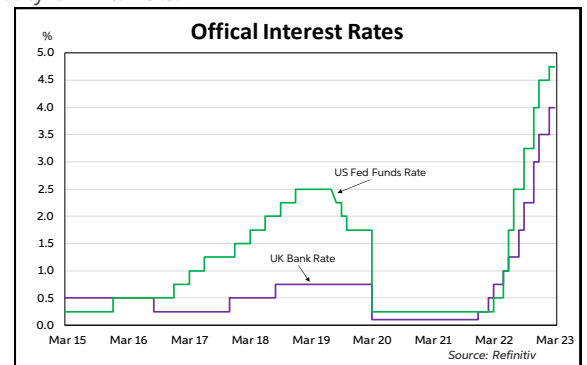


## Down, but Not Out

- **The Eurozone is Ireland's biggest trading partner, accounting for circa 35% of goods and 30% of service exports.** Thus, the health of this large economy is important for Ireland. The Eurozone economy lost considerable momentum in the second half last year. GDP stagnated in the fourth quarter of 2022, having expanded by 0.4% and 0.9% in Q3 and Q2, respectively. The squeeze on real household incomes from elevated levels of inflation and higher interest rates weighed heavily on consumer spending, which fell by 0.9% in the final quarter of 2022. Similarly, investment contracted by 3.6%, although, this came after a very sharp rise in the third quarter. Meantime, net external trade boosted GDP by nearly one full percentage point in the fourth quarter, but this was almost entirely driven by a sharp fall in imports as exports increased by just 0.1%.
- **Thus, it was a very weak finish to 2022.** Overall, though, Eurozone GDP grew by 3.5% last year, following a 5.5% rise in 2021 as the economy rebounded strongly from the COVID-19 pandemic. Reflecting this good performance, labour market conditions have tightened considerably in the Eurozone. Employment rose strongly in 2021 and 2022, including an increase of 0.3% in the final quarter of last year for an annual gain of 1.5%. It is estimated there are four million more people in employment now, than at end 2019 before the pandemic began. This has seen the Eurozone unemployment rate move downwards, falling to an all-time low of 6.6% in October before stabilising at 6.7% over the winter months.
- **Encouragingly, survey data suggest that the Eurozone economy has regained some momentum so far this year, helped by a fall in wholesale energy prices and supportive fiscal policies.** Having moved into expansion territory above 50 in January for the first time since July, the services PMI rose further to 52.7 in February. Meanwhile, the manufacturing PMI has also improved. Consumer confidence has been trending upwards, although it is still well below the level seen ahead of the Russian invasion of Ukraine. In terms of the limited amount of hard data available for 2023, both retail sales and industrial production rebounded in January, having declined sharply in December.
- **The Eurozone economy then, has proved more resilient than expected in the face of high inflation and rising interest rates.** Growth has slowed considerably, but the economy is expected to avoid the recession that had been anticipated for 2023. The recent volatility on financial markets also represent a new downside risk to growth. The ECB is also sounding more cautious about policy tightening. However, the war in Ukraine could continue to weigh on economic activity, while there is still uncertainty around European gas supplies for next winter. Overall, it is likely that growth will remain sluggish in the first half of this year, but pick up some momentum after that as inflation falls back. The IMF is forecasting Eurozone GDP growth of 0.7% in 2023 and 1.4% in 2024. The ECB is projecting the economy will expand by 1% this year, and 1.6% in 2024. This would constitute a reasonably good outcome, although, the forecasts were compiled before the recent volatility on markets.
- **This week, all eyes will be on the US Federal Reserve monetary policy meeting.** Up until the failure of SVB, the market was expecting a considerable level of further rate hikes on the back of strong data and hawkish remarks from Chair Powell, and was even starting to price in the possibility of a 50bps increase at this meeting. However, amid significant volatility due to concerns of stress in the financial system, market rate hike expectations have softened significantly. The market is no longer fully convinced the Fed will hike rates this week, although, there is a full 25bps increase priced in for the next meeting in May. Meanwhile, at least 50bps of rate cuts are currently priced in for the second half of the year. Thus, the Fed finds itself in a difficult spot. Inflation is still too high, with CPI at 6%, but ongoing concerns of financial stability may mean it is unable to raise rates much beyond their current level. Investors will be paying close attention to the post-meeting press conference for any guidance on the future path of interest rates. The updated interest rate dotplot and economic projections will also be of keen interest.
- **Similarly, the market is now unsure if the BoE will increase Bank rate at this week's MPC meeting.** Last time round, the BoE voted in a split decision, to raise rates by 50bps, for the second consecutive meeting. Seven members of the MPC were in favour of the rate hike, while two wanted to leave rates unchanged. In truth, although, the BoE maintained a bias to raise rates further, the post-meeting statement suggested it was nearing the end of its tightening cycle. Like in the US, the market has moved to price out further significant monetary policy tightening in the UK amid ongoing volatility in financial markets. Current pricing assigns just a 50% chance of a 25bps rate increase this week, but such a move is fully priced in for Q2. However, unlike in the US, the market does not expect the BoE to cut rates later this year, as inflation in the UK peaked later, and stood at 10.1% in January. The February reading of CPI is due on Wednesday, and is likely to show a further easing of inflationary pressures.
- **Elsewhere this week, the flash readings of PMIs in the US, Eurozone and UK for March are due on Friday.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2023	2023	2023
Fed Funds	4.625	4.875	5.125	5.125
ECB Deposit	3.00	3.00	3.50	3.50
BoE Repo	4.00	4.25	4.25	4.25
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 Q1	End Q2	End Q3
		2023	2023	2023
EUR/USD	1.0609	1.07	1.09	1.10
EUR/GBP	0.8767	0.88	0.88	0.89
EUR/JPY	141.09	144	145	143
GBP/USD	1.2101	1.22	1.24	1.24
USD/JPY	132.96	135	133	130

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>			
<b>Mon 20th</b>	<b>GER:</b> 07:00	Producer Prices (February)	-1.0% (+17.8%)	
	<b>EU-20:</b> 10:00	Trade Balance (January)	-€8.8bn	
<b>Tue 21st</b>	<b>GER:</b> 10:00	ZEW Economic Sentiment (March)	28.1	
	<b>US:</b> 14:00	Existing Home Sales (February)	+4.00m / -0.7%	
<b>Wed 22nd</b>	<b>UK:</b> 07:00	CPI Inflation (February) - Core-CPI	-0.6% (+10.1%) -0.9% (+5.8%)	
	<b>UK:</b> 07:00	PPI Input Prices (February) - Output Prices	-0.1% (+14.1%) +0.5% (+13.5%)	
	<b>UK:</b> 11:00	CBI Trends - Orders (March)	-16	
	<b>US:</b> 18:00	Fed Funds Target Range	4.50-4.75%	4.75-5.00%
	<b>US:</b> 18:30	FOMC Post-Meeting Press Conference		
<b>Thu 23rd</b>	<b>UK:</b> 12:00	BoE Interest Rate Announcement - Bank Rate	4.00%	4.25%
	<b>US:</b> 12:30	Initial Jobless Claims (w/e 13th March)	+192,000	
	<b>US:</b> 14:00	New Home Sales (February)	+0.670mn	
	<b>EU-20:</b> 15:00	Flash Consumer Confidence (March)	-19.0	
	<b>JPN:</b> 23:30	CPI (February) Core-CPI	+0.5% (+4.3%) +0.1% (+4.2%)	
<b>Fri 24th</b>	<b>UK:</b> 00:01	Gfk consumer Confidence (March)	-38	
	<b>JPN:</b> 00:30	Flash S&P / Jibun Composite PMI (March)	51.1	
	<b>UK:</b> 07:00	Retail Sales (February) - Ex-Fuel	+0.5% (-5.1%) +0.4% (-5.3%)	
	<b>SPA:</b> 08:00	GDP (Q4: Final Reading)	+0.2% (+2.7%)	
	<b>FRA:</b> 08:15	Flash S&P Composite PMI (March)	51.7	
	<b>GER:</b> 08:30	Flash S&P Composite PMI (March)	50.7	
	<b>EU-20:</b> 09:00	Flash S&P Composite PMI (March) - Manufacturing / Services	52.0 48.5 / 52.7	
	<b>UK:</b> 09:30	Flash S&P / CIPS Composite PMI (March) - Manufacturing / Services	53.1 49.3 / 53.5	
	<b>US:</b> 12:30	Durable Goods (February) - Ex-Transport	-4.5% +0.8%	
	<b>US:</b> 13:45	Flash S&P Global Composite (March) - Manufacturing / Services	50.1 47.3 / 50.6	

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

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