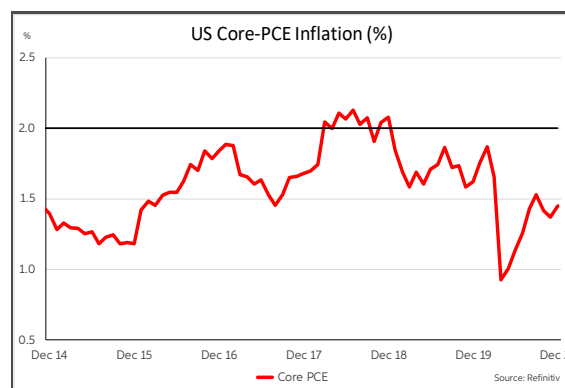


## The Price You Pay

- The data released in the past week show that the recovery in the US economy is gaining momentum in early 2021, even before President Biden's proposed, super-sized \$1.9trn fiscal stimulus package is passed into law.** The most eye-watering release was the 5.3% jump in retail sales in January, which far exceeded the forecast rise of 1%, with broad based gains in household spending. Meanwhile, manufacturing output rose by 1% in the month and is now just 1% below its pre-Covid level. Meantime, the NAHB index of homebuilder sentiment and activity remained close to all-time highs in February, while house building permits surged to a 15-year high in January. Flash PMI data for both the manufacturing and services sectors remained at high levels in February also, despite much of the US being in the grips of severe weather.
- It requires further growth of 2.5% (10% annualised) from its Q4 2020 level for the US economy to return to its pre-Covid GDP peak. This probably won't be achieved in this quarter, but looks certain to be reached and surpassed in Q2.** The US labour market, though, continues to lag in its recovery. The rebound in employment largely ground to a halt over the winter, leaving non-farm payrolls still almost 10 million, or 6.5%, below their pre-Covid level. Meanwhile, weekly jobless claims continue to run at historically high levels. The official unemployment rates may have fallen sharply to 6.3%, but this has been helped by an enormous decline of 4.3 million in the labour force over the past year. The broader U6 unemployment rate stands at over 11%. This weakness in the labour market is a clear focus for policymakers, with both the Fed and Biden administration determined about achieving a return to full employment.
- The scale of the proposed Biden fiscal stimulus is enormous, at some 9% of GDP and almost three times the size of the estimated output gap, in an economy that is close to fully rebounding from the Covid-19 recession.** Monetary policy is already very stimulatory, while household savings remain very high. The personal savings rate stood at 13.7% at end 2020, pointing to considerable consumer spending firepower. Meantime, a lot of progress is being made in the US in terms of the vaccine roll-out, with talk the country may be on the way to achieving herd immunity and thus an end to Covid related restrictions on activity. All the ingredients are in place, then, for a period of robust US growth ahead.
- There are major constraints on supply, though, with inventories of inputs and raw materials at low levels in many industries, including construction and autos, and delays also at ports.** Not surprisingly, then, January saw the core PPI leap by 1.2% in the month, far above expectations. Meanwhile, oil prices are surging as producers keep a lid on supply. In the services sector, we can expect to see margins widen after a difficult year in many industries. Inflation, then, looks set to accelerate over the course of this year, with a real risk of too much money chasing too few goods. The Fed may not be worried as it focuses on the slack in the labour market. The bond markets clearly are, though, as evidenced by the marked steepening of yield curves. There is likely to be little comfort for bond investors in the months ahead as the recovery gathers momentum and inflationary pressures build.
- This week, we will get a host of data from the demand side of the US economy.** Consumption is forecast to rise by 2.4% in January, as households spent their latest round of stimulus checks. Personal income is also set to surge, rising by 10% on the back of the government transfers. However, core-PCE, the Fed's preferred measure of inflation is set to remain subdued, moving lower to 1.4% from 1.5% in January. The more timely reading of consumer confidence for February is projected to edge higher to 90.0 from 89.3. Meanwhile, on the monetary policy front, Fed Chair Powell will give his bi-annual testimony to Congress. The second reading of US Q4 GDP is also due, with output forecast to be revised slightly higher to 4.1% from 4% s.a.a. Durable goods are projected to rise by 1% in January. Turning to the housing market, Case-Shiller house prices (Dec) and new home sales (Jan) are due.
- In the UK, the highlight will be the labour market data for December and January.** The government furlough scheme has sheltered the labour market from the full fallout of the pandemic. Although, GDP saw a 10% contraction in 2020, the unemployment rate has only risen from 4% to 5% so far. The forecast is for the jobless rate to edge higher to 5.1% in December. In Ireland, government supports have also held down the official unemployment rate. The labour force survey for Q4 is due next week, with the unemployment rate expected to fall to 6% from 6.5% in Q3.
- Turning to the Eurozone, the EC sentiment index is forecast to remain on its recent upward trend in February, moving higher to 92.3 from 91.5.** However, the consumer, services and industrial sentiment measures are all expected to remain at subdued levels. A slew of national survey releases are also due, including the German Ifo, French INSEE and Italian ISTAT business sentiment data for February. Consumer confidence measures for all three economies will be released as well. The flash reading of French and Spanish HICP inflation for February will also be closely followed, after rising sharply in January.



	Interest Rate Forecasts			
	Current	End Q1 2021	End Q2 2021	End Q3 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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 2021	End Q2 2021	End Q3 2021
EUR/USD	1.2130	1.20	1.22	1.24
EUR/GBP	0.8651	0.87	0.88	0.89
EUR/JPY	128.13	126	127	128
GBP/USD	1.4019	1.38	1.39	1.39
USD/JPY	105.62	105	104	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde</b> (Mon); Lane, de Guindos (Thu); <b>Lagarde</b> , Panetta, Schnabel (Fri)		
	<b>BoE Speakers:</b>	Ramsden (Fri)		
	<b>Fed Speakers:</b>	Bowmann (Mon); <b>Powell</b> (Tue); <b>Powell</b> , Brainard, Clarida (Wed); Quarles (Thu)		
<b>Mon 22nd</b>	<b>GER:</b>	09:00 Ifo Business Climate (February)	90.1	90.5
<b>Tue 23rd</b>	<b>UK:</b>	07:00 ILO Employment (December) - Unemployment Rate	-88,000 5.0%	5.1%
	<b>UK:</b>	07:00 Average Weekly Earnings (December) - Ex-Bonus	(+3.6%) (+3.6%)	(+4.2%) (+4.0%)
	<b>UK:</b>	07:00 Claimant Count (January)	+7,000	
	<b>EU-19:</b>	10:00 Final HICP (January) - Ex-Food & Energy	+0.3% (+0.9%) -0.3% (+1.4%)	+0.2% (+0.9%) -0.3% (+1.4%)
	<b>IRL:</b>	<b>11:00 Labour Force Survey (Q4 2020)</b> - <b>Unemployment Rate</b>	<b>6.0%</b>	<b>6.5%</b>
	<b>UK:</b>	11:00 CBI Distributive Trades (February)	-50	
	<b>US:</b>	14:00 Case-Shiller House Prices (December)	+1.4% (+9.1%)	
	<b>US:</b>	15:00 Consumer Confidence (February)	89.3	90.0
<b>Wed 24th</b>	<b>GER:</b>	07:00 GDP (Q4: Detailed Reading)	+0.1% (-3.9%) (p)	+0.1% (-3.9%)
	<b>FRA:</b>	07:45 INSEE Business Climate (February)	98	98
	<b>US:</b>	15:00 New Home Sales (January)	+1.6% / +0.84m	+1.8% / +0.86m
<b>Thurs 25th</b>	<b>GER:</b>	07:00 Gfk Consumer Sentiment (March)	-15.6	-14.0
	<b>FRA:</b>	07:45 Consumer Confidence (February)	92	93
	<b>ITA:</b>	09:00 ISTAT Business Climate (February)	95.1	
	<b>ITA:</b>	09:00 Consumer Confidence (February)	100.7	101.0
	<b>EU-19:</b>	10:00 M3 Money Supply (January)	+12.3%	+12.5%
	<b>EU-19:</b>	10:00 EC economic Sentiment Index (February) - Industrial / Services / Consumer	91.5 -5.9 / -17.6 / -14.8	92.3 -4.5 / -18.3 / -14.8
	<b>US:</b>	13:30 Durable Goods (January) - Ex-Transport	+0.5% +1.1%	+1.1% +0.7%
	<b>US:</b>	13:30 GDP (Q4: Second Reading)	+4.0% s.a.a.r.	+4.1% s.a.a.r.
	<b>US:</b>	13:30 Initial jobless Claims (w/e 15th February)	+861,000	+820,000
	<b>US:</b>	13:30 Pending Home Sales (January)	-0.3%	
	<b>JPN:</b>	23:30 CPI (February)	-0.5%	-0.5%
	<b>JPN:</b>	23:50 Industrial Output (January)	-1.0% (-4.2%)	+4.0%
	<b>JPN:</b>	23:50 Retail Sales (January)	(-0.3%)	(-2.6%)
<b>Fri 26th</b>	<b>FRA:</b>	07:45 GDP (Q4: Second Reading)	-1.3% (-5.0%)	-1.3% (-5.0%)
	<b>FRA:</b>	07:45 Flash HICP (February)	+0.3% (+0.8%)	
	<b>SPA:</b>	08:00 Flash HICP (February)	-1.4% (+0.4%)	
	<b>US:</b>	13:30 Personal Income / Consumption (January) - Core PCE inflation	+0.6% / -0.6% +0.3% (+1.5%)	+10.0% / +2.4% +0.1% (+1.4%)
	<b>US:</b>	14:45 Chicago PMI (February)	63.8	61.0
	<b>US:</b>	15:00 Final Michigan Consumer Sentiment (February)	76.2	76.4

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

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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