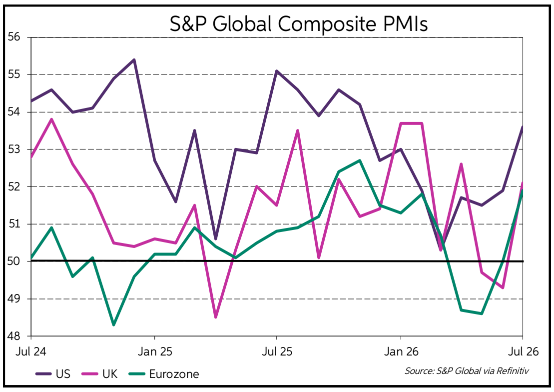
Weekly Market Brief

AIB Treasury Economic Research Unit

17th – 21st August 2026

Sick men of Europe?

- **In the 1970's, the UK was often referred to as the "Sick man of Europe", as low productivity, industrial unrest and a cost-of-living crisis crippled the economy.** By the 1990's the label had been passed to Germany, amid a prolonged economic downturn caused by industrial stagnation. A dose of privatisation and de-regulation proved to be a painful but successful remedy for the UK in the 1980s, while labour market reforms are often cited as curing the German economic malaise in the 2000s. However, Europe's two largest economies have struggled once again in recent years. Nonetheless, of late while Germany continues to flatline, recent UK data suggest the economy has been more resilient than expected in 2026.
- **Growth has been moribund across Europe since the pandemic.** The UK economy is roughly 3% larger now than it was at the end of 2019. Brexit and the pandemic have dealt blows to the economy. The German performance has been even worse; the economy has grown by just 0.3% since 2019. Industrial production has been battered by the cessation of access to cheap Russian gas and competition from China, which has upended the business model of Germany's exporters.
- **For comparison, the US economy has grown by roughly 13.0% in size.** Worryingly, the recent spike in energy prices amid the war in the Middle East is expected to raise inflation, dampen consumption and weigh on growth in both countries this year. The OECD is forecasting that GDP will expand by around 1% this year and in 2027 in both economies.
- **Furthermore, the uncertain political environment in both has acted as a headwind.** The UK is now onto its sixth Prime Minister in 10 years with the Labour government continuing to underperform in the polls. German Chancellor Merz is also facing pressure, with his CDU party behind the populist-right AFD in the opinion polls. In Germany, the CDU initially pushed through significant constitutional changes to enable investment in infrastructure and defence in 2025. However, the pace of rollout has been criticised, creating a sense that the government has over-promised and under-delivered.
- **New UK PM Andy Burnham has promised a renewed focus on devolution and cost of living measures.** Indeed, there are tentative signs that his economic inheritance may be better than initially feared, with latest GDP data putting the UK towards the top of the G7 growth tables in 2026.
- **The German Government has launched a "Summer of Reform",** introducing over 30 measures aimed at cutting red tape, capping healthcare and pensions costs, making the labour market more flexible, and to provide some financial relief for lower income households. In short, a package to try and restore competitiveness. Whether this will be a successful tonic for the German economy remains unclear. In the UK, outside of the piecemeal measures announced so far, Burnham's major "10-year plan for Britain" will have to wait until the Autumn, when the fiscal rubber will hit the road in the October budget.
- **Turning to the week ahead, the flash PMIs in the main advanced economies are due.** Across the board, the manufacturing sector has outperformed the services sector in recent months. However, in July, both sectors were in expansion mode in the Eurozone, UK and the US. The PMIs are forecast to be little changed and to remain in expansion territory in August.



- **A packed schedule in the UK also includes a number of key releases aside from the PMIs.** In terms of the labour market, conditions appear to have stabilised somewhat, having softened over the past year. The unemployment rate peaked at 5.2% in December/January, and has operated in a narrow 4.9-5.0% range in the past four months. The reduction seen in the unemployment rate appears to have been partly driven by people leaving the labour force rather than a significant drop in the number unemployed. Payrolls have contracted in seven of the past twelve months to June, and in all bar two months this year. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +4.3% y/y in the three months to May, compared to +4.9% over the same period last year. The consensus is for the unemployment rate to edge down to 4.8% in June, while wage inflation is set to ease slightly to +4.1% in Q2.
- **Meanwhile, UK CPI inflation has surprisingly moved lower in recent months.** This trend is set to reverse in July, with consensus forecasts for the headline rate to rise to 2.9% (from 2.6% in June), as the household energy price cap resets at a higher level. In contrast, the core rate is projected to inch lower to 2.5% in July (from 2.6%). Retail sales data for July will provide an indication on how UK household expenditure started the third quarter. Meantime, the consumer confidence index for August will give a timely snapshot of the mood amongst UK consumers.

Interest Rate Forecasts

	Current	End Q3 2026	End Q4 2026	End Q1 2027
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.25	2.50	2.50	2.50
BoE Repo	3.75	3.75	3.75	3.50
BoJ OCR	1.00	1.00	1.25	1.25

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q3 2026	End Q4 2026	End Q1 2027
EUR/USD	1.1582	1.15	1.16	1.17
EUR/GBP	0.8541	0.87	0.88	0.88
EUR/JPY	183.97	184	184	185
GBP/USD	1.3557	1.34	1.33	1.33
USD/JPY	158.85	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

AIB
Treasury
Economic
Research

David
McNamara
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist

ECONOMIC DIARY
Monday 17th - Friday 21st August

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Lane (Mon); **Lagarde** (Wed)		
	BoE Speakers:				
	Fed Speakers:				
Mon 17th	**JPN:**	00:50	GDP (Q2: Preliminary Reading)	+0.5%	+0.5%
	US:	15:00	NAHB Homebuilder Sentiment (August)	34	33
Tue 18th	**UK:**	07:00	Unemployment Rate (June)	4.9%	4.8%
	UK:	07:00	Employment Change (June)	+147,000	
	UK:	07:00	HMRC Payrolls (July)	-4,000	
			- Claimant Count	+6,700	
	UK:	07:00	Average Earnings Growth (June)	+4.3%	+4.1%
			- Ex-Bonus	+3.4%	+3.4%
	GER:	10:00	ZEW Economic Sentiment (August)	26.3	30.0
	US:	13:30	Housing Starts (July)	+1.427m / +19.0%	+1.340m
			- Building Permits	+1.374m / -2.6%	
	US:	14:15	Industrial Production (July)	+0.1%	+0.3%
			- Manufacturing Output	+0.0%	
			- Capacity Utilisation	76.1%	76.3%
Wed 19th	**UK:**	07:00	CPI Inflation (July)	+0.1% (+2.6%)	+0.3% (+2.9%)
			- Core-CPI	+0.3% (+2.6%)	(+2.5%)
			- Services	+0.5% (+3.6%)	(+3.4%)
	UK:	07:00	PPI Output Prices (July)	+0.0% (+3.5%)	
			- PPI Input Prices	-2.0% (+7.3%)	
	EU-21:	10:00	Final HICP Inflation (July)	-0.1% (+2.9%)	+0.2% (+2.9%)
			- Ex-Food & Energy	+0.2% (+2.2%)	(+2.2%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.0% (+2.5%)	(+2.5%)
	IRE:	***11:00***	***Residential Property Price Index (June)***	***+0.5% (+6.2%)***	
Thu 20th	**JPN:**	00:50	Total Trade Balance (July)	-¥409.9bn	-¥680.0bn
			- Exports	+19.3%	+19.9%
	US:	13:30	Initial Jobless Claim (w/e 10th August)	199,000	
	US:	13:30	Philly Fed Business Index (August)	41.4	
Fri 21st	**UK:**	07:00	Gfk Consumer Confidence (August)	-17	
	JPN:	00:30	CPI Inflation (July)	+1.6%	
			- Core-CPI	+1.6%	+1.8%
	JPN:	01:30	Flash S&P Composite PMI (August)	52.7	
	UK:	07:00	Retail Sales (July)	+1.0% (+4.2%)	-0.3% (+2.3%)
			- Ex-Fuel	+1.1% (+5.4%)	-0.4% (+3.3%)
	FRA:	07:45	INSEE Business Climate (August)	97.0	
	SPA:	08:00	Overnight Stays (July)	July'25: 38.6m	
	FRA:	08:15	Flash S&P Composite PMI (August)	49.4	49.6
	GER:	08:30	Flash S&P Composite PMI (August)	51.3	51.5
	EU-21:	09:00	Flash S&P Composite PMI (August)	52.0	51.7
			- Manufacturing / Services	51.9 / 51.7	51.9 / 51.5
	UK:	09:30	Flash Composite PMI (August)	52.2	51.5
			- Manufacturing / Services	51.9 / 52.1	51.5 / 51.8
	US:	14:45	Flash S&P Composite PMI (August)	54.5	
	EU-21:	15:00	Flash Consumer Confidence (August)	-15.9	-16.3

♦ *Month-on-month changes (year-on-year shown in brackets)*