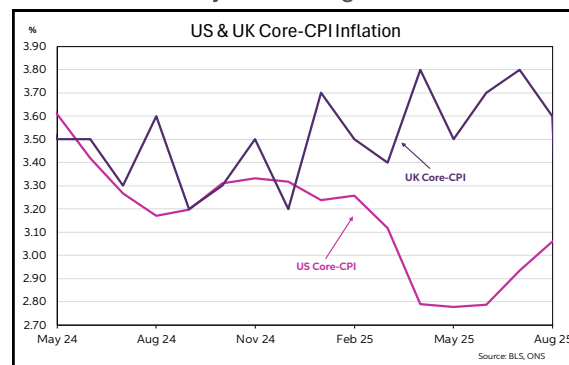


Highway to Hell

- **Ahead of an expected difficult Budget on November 26th, the UK Chancellor must shepherd an economy which, while resilient, continues to churn out mediocre growth.** This week's UK labour market and GDP data provided the latest snapshot of activity in the economy, and paints a nuanced picture, better than some of the more hellish narratives surrounding the UK economy at present.
- **On the growth side, GDP rose by 0.1% on the month in August.** The 3-month growth rate was just 0.3% in August, down from 0.7% in April, and the annual growth rate eased from 1.5% to 1.3%. However, the economic base is larger than previously thought, with recent upward revisions to the level of GDP. The breakdown shows some softness in the key services sector, which was flat on the month, and an outright fall in construction, but this was offset by solid gains in hospitality and manufacturing. Overall, the outlook is for further modest gains for the remainder of the year, which is likely to leave annual GDP growth in the range of 1.2-1.4% for 2025. While not stellar, that is likely to beat the anaemic growth expected in the Eurozone and would represent a second year of accelerated growth for the UK economy.
- **The labour market trends look more concerning.** Payroll employment fell once again in September, continuing a series of weak out-turns in recent months. The unemployment rate edged up to 4.8% from 4.7% but remains historically low. Meanwhile, despite a softer jobs market, wage growth remains elevated in a 5-6% range based on various measures. That rate of wage inflation presents the Bank of England with a dilemma as it prepares its Monetary Policy Report for November. While the weak jobs market might merit a rate cut, the central bank has placed more store on inflation indicators which suggest it is far from achieving its 2% inflation mandate.
- **The weak jobs numbers may be due to the continued impact of the tax rises announced in last year's budget, particularly the rise in employer national insurance contributions, which also feed into higher inflation.** The November 2024 budget damaged business and consumer sentiment and this year's budget could well do the same, if expected tax hikes materialise. This remains the key near-term risk for the UK economy alongside ongoing external geopolitical threats. **A Chancellor who has backed herself into a corner with a razor thin margin to meet her new fiscal rules must now revisit tax hikes, following the failure to implement promised welfare cuts and the fresh commitment to more defence spending.** The budget tightrope is made even more challenging by the renewed scrutiny of bond markets on the fiscal sustainability of the UK government.
- **Turning to the week ahead, a busy schedule in the UK once again includes updates on consumer spending, sentiment and prices.** Retail sales have risen by a steady 0.3-0.5% per month between June-August, amid a broad-based increase in spending across sectors. However, this trend is set to come to an end in September, as a slight 0.1% m/m decline is forecast. Meantime, consumer confidence is projected to deteriorate to -21.0 in October, from -19.0. This may partly be due to a recent rise in inflation. Having declined throughout Q1, both headline and core inflation jumped markedly higher in April, owing to a number of one-off factors. They inched marginally lower in May, before rising again between June-August, meaning that the headline and core rates were elevated at 3.8% and 3.6% at the midpoint of Q3. Services inflation also remains at a very high level, printing at 4.7% in August. Expectations are for the headline and core rates to accelerate to 4.0% and 3.7% in September.
- **In the US, CPI inflation data will also be the highlight.** The US Bureau of Labour Statistics confirmed that despite the government shutdown it will release the CPI report for September this Friday. In recent months, tentative signs of tariff related price increases have emerged, following a period of disinflation at the start of the year. Indeed, having reached its lowest level since February 2021 in April, at 2.3%, the headline rate has re-accelerated in three of the last four months, and stood at 2.9% in August. Likewise, the core rate rose to 3.1% in July and August, having printed between 2.8-2.9% in the four months prior. A further increase in the headline rate is anticipated, to match an unchanged core rate, at 3.1% in September.
- **Elsewhere, the flash PMIs in the main advanced economies for October are due this week.** In the Eurozone, the manufacturing PMI returned to expansion territory in August for the first time since 2022, before it unexpectedly fell to 49.8 in September. Meanwhile, the services PMI has been in and around the key 50 level recently, averaging 50.9 in Q3. The consensus is for manufacturing to be unchanged and for a slight decline in services, albeit it is set to remain above 50. Likewise in the UK, the services sector continued to outperform manufacturing throughout Q3. The former is projected to remain in expansion mode in October, while the latter is forecast to remain weak at 46.6. Across the Atlantic, both surveys stayed firmly in expansion mode in September, at 52.0 and 54.2. However, they are forecast to fall back towards 50 in October.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
Fed Funds	4.125	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
EUR/USD	1.1666	1.19	1.20	1.20
EUR/GBP	0.8703	0.88	0.88	0.87
EUR/JPY	175.62	174	174	174
GBP/USD	1.3401	1.35	1.36	1.38
USD/JPY	150.54	146	145	145

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 20th - Friday 24th October

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Schnabel (Mon); Lagarde , Lane (Tue); Lagarde , de Guindos (Wed); Lane (Thu); Cipollone (Fri)		
	BoE Speakers:			
	Fed Speakers:			
Mon 20th	GER:	08:00 Producer Price Inflation (September)	-0.5% (-2.2%)	+0.2% (-1.5%)
Tue 21st				
Wed 22nd	JPN:	00:50 Trade Balance (September)	-¥242.8bn	
		- Exports	(-0.1%)	(+4.6%)
	UK:	07:00 CPI Inflation (September)	+0.3% (+3.8%)	+0.2% (+4.0%)
		- Core-CPI	+0.3% (+3.6%)	+0.2% (+3.7%)
		- Services CPI	+0.2% (+4.7%)	(+4.9%)
	UK:	07:00 PPI Output Prices	+0.5% (+0.3%)	
		- PPI Input Prices	-0.1% (+0.8%)	
Thu 23rd	FRA:	07:45 INSEE Business Climate (October)	96.0	96.0
	FRA:	07:45 INSEE Consumer Confidence (October)	96.0	95.0
	SPA:	08:00 Overnight Stays (September)	Sept'24: 38.97m	
	IRE:	11:00 New Dwelling Completions (Q3 2025)		
	UK:	11:00 CBI Trends - Orders (October)	-27.0	
	EU-20:	15:00 Flash consumer Confidence (October)	-14.9	
	US:	15:00 Existing Home Sales (September)	+4.00m / -0.2%	
Fri 24th	JPN:	00:01 Gfk Consumer Confidence (October)	-19.0	-21.0
	JPN:	00:30 CPI Inflation (September)	(+2.7%)	
		- Core CPI	(+2.7%)	(+2.9%)
	JPN:	01:30 Flash S&P Composite PMI (October)	51.3	
	UK:	07:00 Retail Sales (September)	+0.5% (+0.7%)	-0.1% (+0.6%)
		- Ex-Fuel	+0.8% (+1.2%)	-0.3% (+0.8%)
	FRA:	08:15 Flash HCOB Composite PMI (October)	48.1	48.1
	GER:	08:30 Flash HCOB Composite PMI (October)	52.0	51.6
	EU-20:	09:00 Flash HCOB Composite PMI (October)	51.2	51.0
		- Manufacturing / Services	49.8 / 51.3	49.8 / 51.1
	UK:	09:30 Flash S&P Composite PMI (October)	50.1	50.6
		- Manufacturing / Services	46.2 / 50.8	46.6 / 51.0
	US:	13:30 CPI Inflation (September)	+0.4% (+2.9%)	+0.4% (+3.1%)
		- Core CPI	+0.3% (+3.1%)	+0.3% (+3.1%)
	US:	14:45 Flash S&P Composite PMI (October)	53.9	53.3
		- Manufacturing / Services	52.0 / 54.2	51.8 / 53.5
	US:	15:00 Final Un. Michigan Consumer Sentiment (Oct)	55.0	55.0

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

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