



# The Economic Outlook:

*Economies makes strong start to 2022, but storm clouds gathering*

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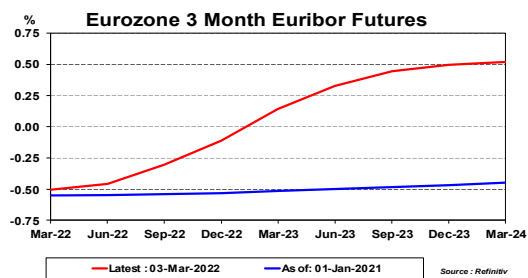
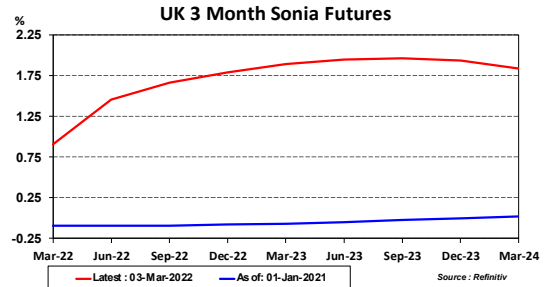
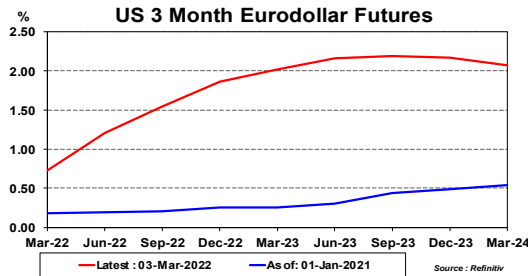
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## What has changed in terms of the outlook?



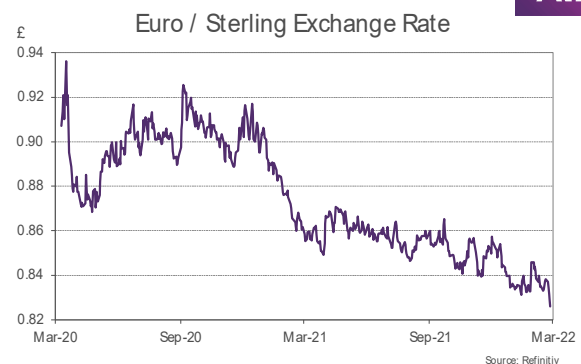
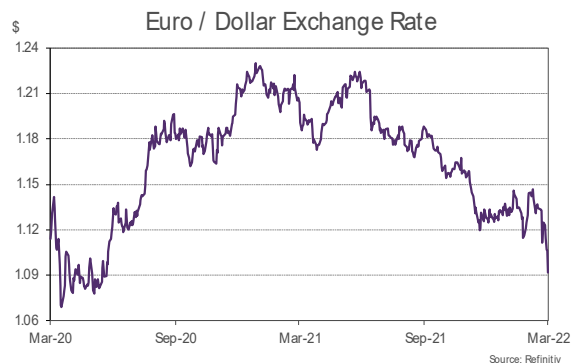
- Rapid roll-out of effective vaccines saw **much stronger than expected rebound in activity in 2021**, helped also by additional fiscal supports
- **Limited impact from Omicron**, though concerns remain about persistence of virus/ new variants
- **Labour markets show little sign of scarring** from the pandemic, with unemployment falling sharply to low levels
- However, **supply disruptions**, transport bottlenecks, labour shortages, high inflation are headwinds for recovery
- **Rise in inflation** far greater than anticipated in 2021 and very high inflation now likely this year, with the further surge in oil and gas prices and other commodity prices as Ukraine is invaded
- **Good start to activity in 2022, but global growth set to slow during 2022-23** on less supportive fiscal and monetary policies and as high inflation delivers big hit to real disposable incomes
- **Russia's invasion of Ukraine** will dampen growth, especially in the EU, via trade, inflation, uncertainty
- **House prices** everywhere rise very strongly against all expectations, including in Ireland and UK
- Strong economic rebound & rise in inflation see markets move to **price in earlier/far more rate hikes**
- **FX Markets**: euro comes under pressure on Russian invasion of Ukraine as Eurozone economy more exposed
- **Brexit**: EU-UK trade deal put in place for goods, but tensions persist in relation to NI protocol

## Complete shift in expectations for interest rates in past year



- **Fed turns hawkish** – 5 hikes expected in 2022, and 2-3 more in 2023, taking rates from 0.125% to 2% by end of next year
- **BoE has hiked from 0.1% to 0.5%**. Markets look for further 125bps by end 2022, with rates peaking 2% in 2023
- **ECB slow to move**. Markets expect 25bps in late 2022 and another 50bps in 2023 – rates go to turn positive vs -0.5% now
- Markets have scaled back their rate hike expectations on **war in Ukraine** – they were expected to go even higher before then

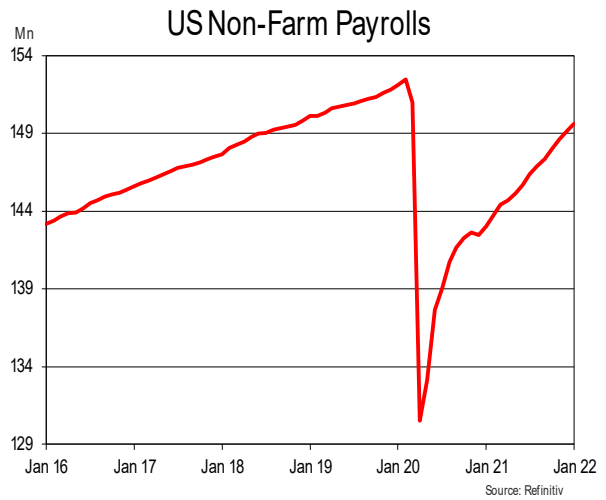
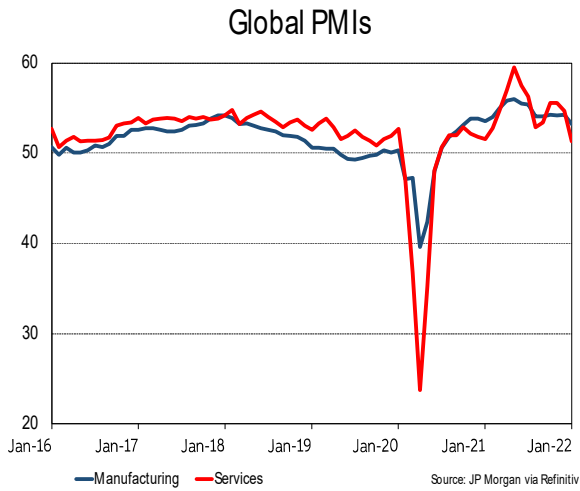
## War in Ukraine weighs on euro



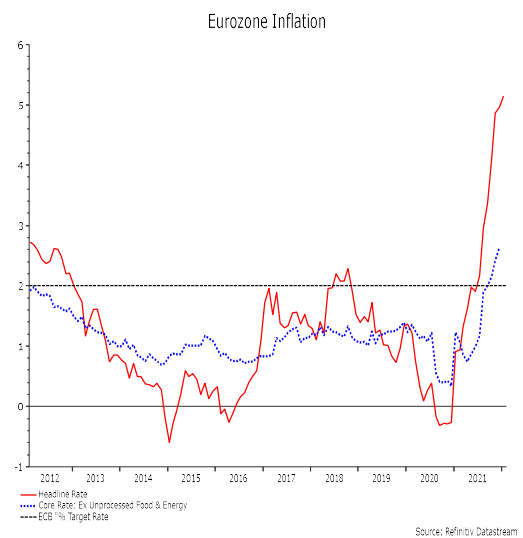
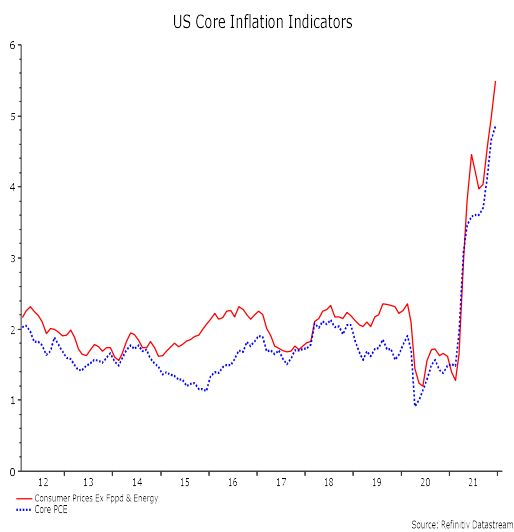
- Increased **currency volatility** in H2 2021 and early 2022 amid less stable interest rate outlook
- **Sterling stronger** over winter months as UK was first out of blocks with rate hikes
- **Dollar benefits** recently from geo-political tensions in Eastern Europe and likely Fed rate hikes
- **Euro under pressure** as markets now think ECB may delay rate hikes because of war in Ukraine
- Eurozone economy also has closer links to Russia – quite reliant on oil and gas imports from there



## Global PMIs rebounded strongly, Labour markets recovering



## CPI inflation picked up sharply everywhere during past year



## No relief in sight as oil prices surge to well over \$100 per bbl



Last 12 months  
Brent Oil Price \$



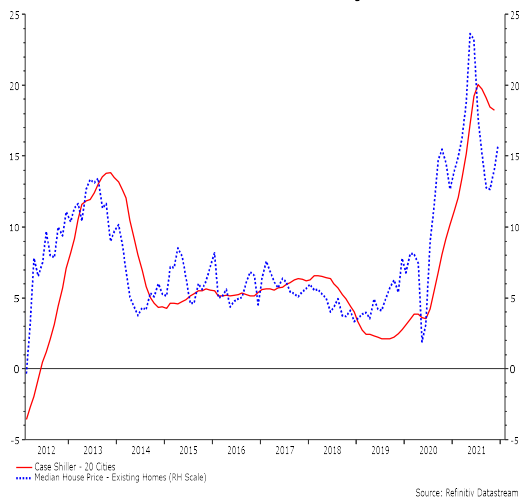
Last 12 months  
West Texas Oil \$



## House prices rise sharply in many countries



US House Prices: YoY % Change



UK House Price Inflation



## World recovery set to slow from 2022 as inflation surges



GDP (Vol % Change)	2019	2020	2021	2022(f)	2023 (f)
World	2.8	-3.1	5.9	4.4	3.8
US	2.2	-3.4	5.6	4.0	2.6
Euro Area	1.3	-6.4	5.2	3.9	2.5
UK	1.4	-9.4	7.2	4.7	2.3
Japan	0.0	-4.5	1.8	3.3	1.8

Source: IMF World Economic Outlook, January 2022

- **Growth in 2021 turned out to be much higher than expected at start of year** – very successful vaccine rollout triggered stronger than anticipated recovery, with more fiscal supports also
- **Pace of recovery to start to slow in 2022**, with policy less supportive and as surge in inflation hits real incomes and spending power. Supply bottlenecks/labour and Ukraine headwinds also
- **Weaker growth in 2023-24** as demand surge eases and policy is tightened
- **Very sharp rise in inflation in past year**. CPI rates expected to remain very high into 2022, after further energy price surge, Russian invasion of Ukraine, second round effects. Expected to fall back in 2023

## UK economy facing significant headwinds



- **Bigger decline in GDP in the UK** in 2020 recession than elsewhere, and thus it has lagged most other economies in terms of return to pre-Covid levels of activity
- **Bank of England quite downbeat** on prospects for UK economy
- BoE sees growth slowing to 1% in 2023 and 2024, below trend rate of 1.5%
- Hence, unemployment rate forecast to climb from 4% now to 5% by 2024
- **Big hit to real household disposable income** from tax hikes and surge in inflation expected to weigh on consumer spending. Could be even bigger hit with further surge in energy prices on Ukraine
- **Sharp tightening of fiscal and monetary policy** – interest rates seen rising by almost 190bps in total by 2023, taking them to 2%.
- Marked **fall in exports to EU in aftermath of Brexit**. Down by 15% on 2019 levels. Overall trade in goods still 8% below pre-pandemic levels at end 2021. Has recovered elsewhere
- Brexit, as well as COVID-19, also dampening **labour supply growth**

## Strong rebound in NI PMI business survey data



Northern Ireland Business Activity Index  
sa, >50 = growth since previous month

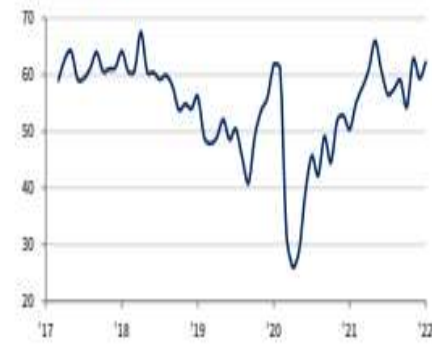


Future Activity Index

>50 = growth expected over next 12 months

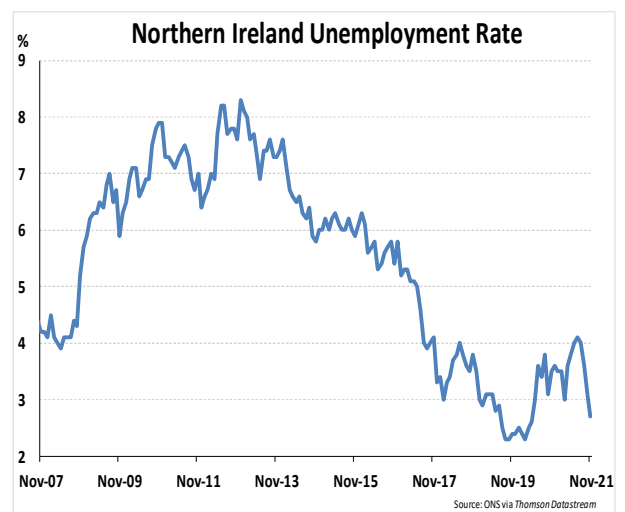
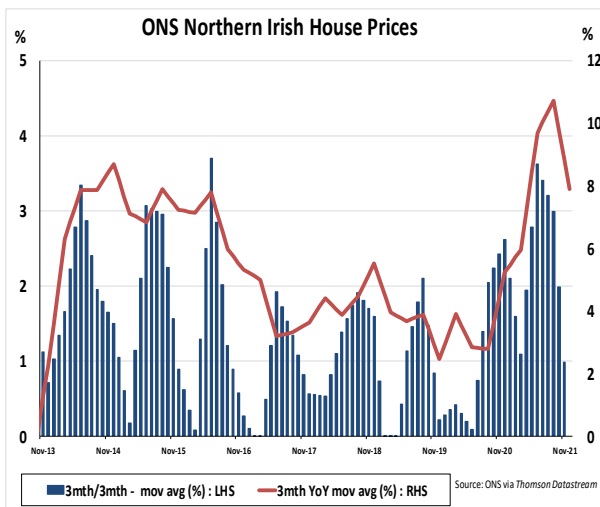
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Jan '22



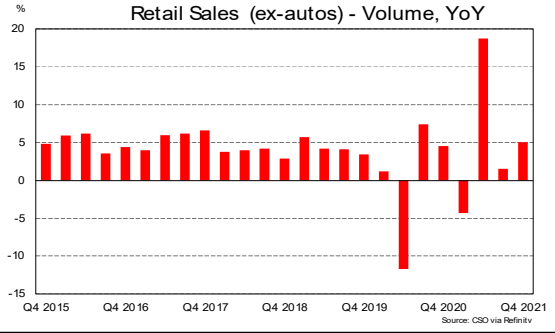
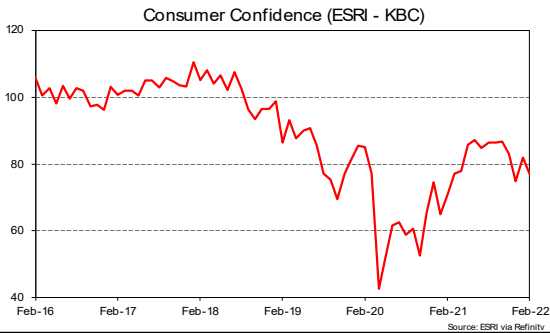
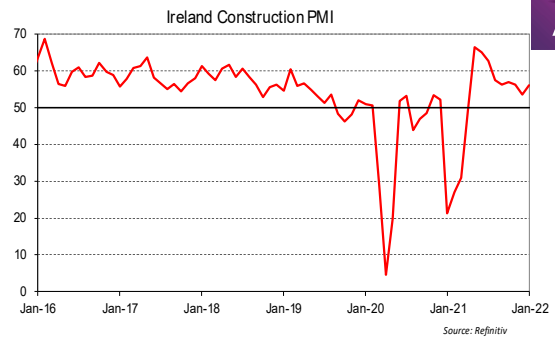
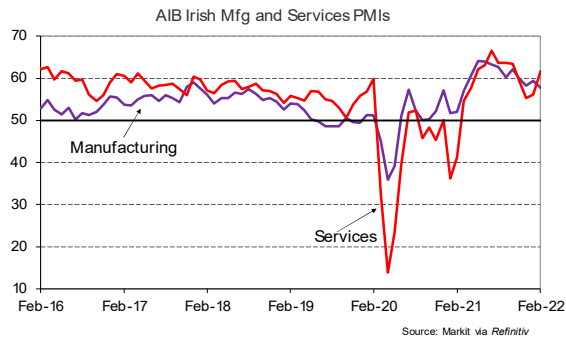
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## NI House prices on the rise, Unemployment back below 3%

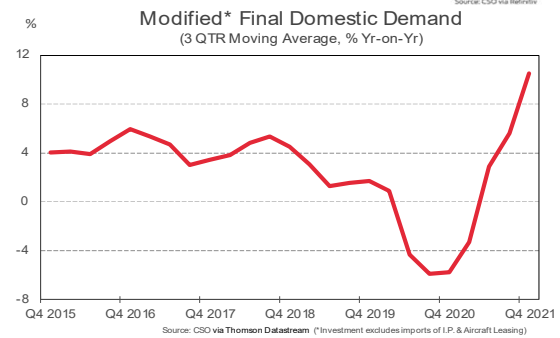
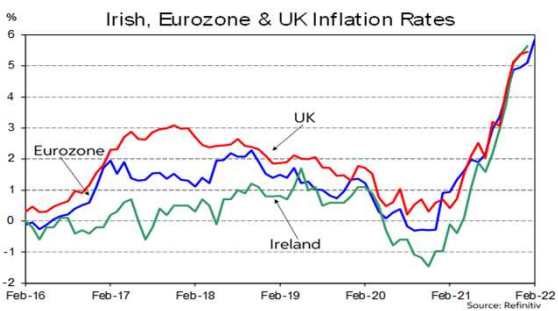
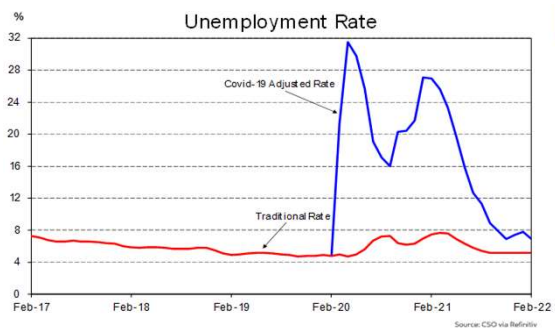
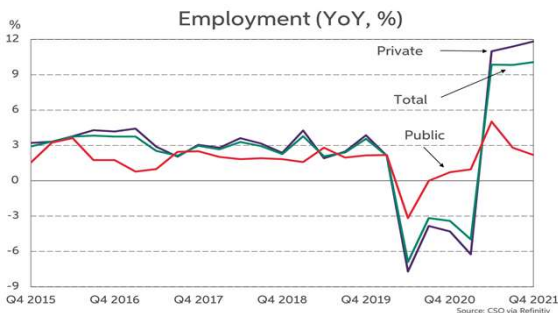


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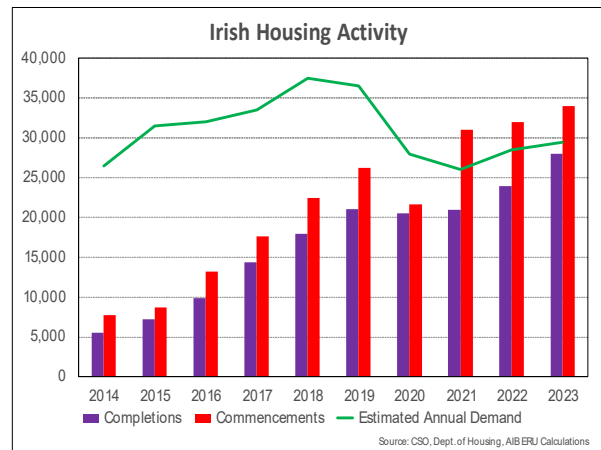
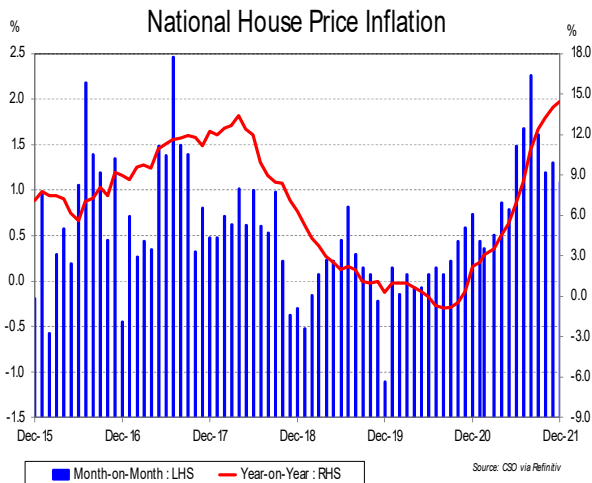
## RoI indicators pick up strongly, with good start to 2022



## Unemployment declines rapidly, sharp rise in inflation



## House prices pick up strongly, while commencements surge in past year



## Residual Brexit Issue Remains over NI Protocol

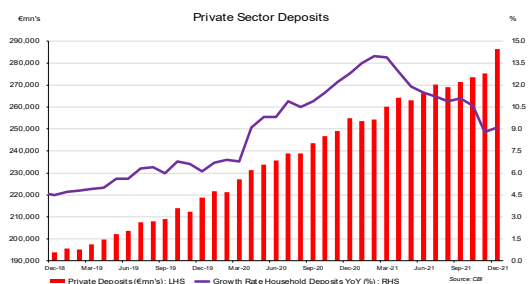
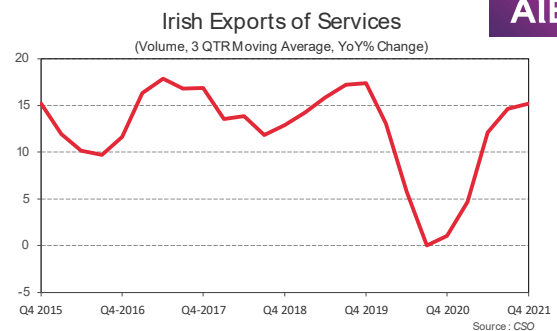


- UK has not ruled out triggering Article 16 in dispute with EU over operation of NI Protocol
- EU has offered concessions on Protocol. Discussions with UK continuing, which is a positive sign
- Triggering Article 16 would effectively suspend operation of NI Protocol – relates to GB-NI trade
- Should not have any great immediate impact as many checks on trade are not in operation
- Any EU response would have to be proportionate and thus limited. Both parties must enter talks
- Overall then, triggering Article 16 would lead to much uncertainty and protracted negotiations
- Solutions, though, expected to be found in current talks on freer flow of goods from GB to NI
- Strong support in NI to remain in Single Market. ECJ has to retain key oversight role
- Sterling shows no reaction to issue as markets expect problems with NI Protocol to be resolved
- In the event of a deep crisis in EU-UK relationships, 12 months notice must be given to terminate Trade & Co-operation Agreement if either wished to go down that route
- Talks must be held over this period to try to resolve differences and save the TCA

## Elements in place for period of strong Irish growth



- Key ingredients in place for continued strong growth by Irish economy, following sharp rebound in 2021
- Very **high Irish vaccination rates** against Covid-19, with all restrictions on activity lifted in late January
- **World economy rebounding**, which augurs well for export orientated countries like Ireland
- **House building** to pick up in coming years from still low output levels – big focus of government policy
- **Fiscal policy** will remain supportive of growth -DoF forecasts provide for 5% p.a. rise in core spending
- Eurozone **interest rates** to stay low, even with hikes
- Economy has deleveraged; low private sector debt
- A rundown of some of the 31% **surge in private savings in 2020-2021** would boost domestic spending
- Strong growth projected for 2022-2024 period
- Economy forecast to grow by circa 6-7% in 2022 and 4-5% in 2023



## But Risks to Economic Recovery Remain



- **Covid-19** proving more **persistent** than expected, with vaccine roll-out not enough to stop transmission. Could yet see the emergence of new **vaccine-resistant strains**
- Some containment measures re-imposed for a while this winter. Could happen again in the future
- Disruptions to global **supply chains and labour shortages** may continue in 2022-23, restraining growth
- **Rise in inflation** in 2021 could prove persistent amid ongoing bottlenecks in supply and labour market shortages – this may lead to further price rises and rapid wage growth
- Central banks may be forced to **raise interest rates very aggressively** to tackle an inflation problem of too much money chasing too few goods.
- **War in Ukraine** which has sent commodity prices spiralling even higher, especially oil and gas. Will hit real incomes and consumer spending power. The war also creates uncertainty.
- **China** has been a major driver of global growth in past number of decades, but signs emerging of some financial and economic imbalances that could weigh considerably on pace of activity there
- **Brexit** risk has re-emerged in relation to NI Protocol, with UK not ruling out triggering Article 16



Note: All Irish data in tables are sourced from the CSO unless otherwise stated. Non-Irish data are from the IMF, OECD and Thomson Financial. Irish forecasts are from AIB Economic Research Unit. This presentation is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This presentation is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.