Ulster Bank Weekly Economic Commentary

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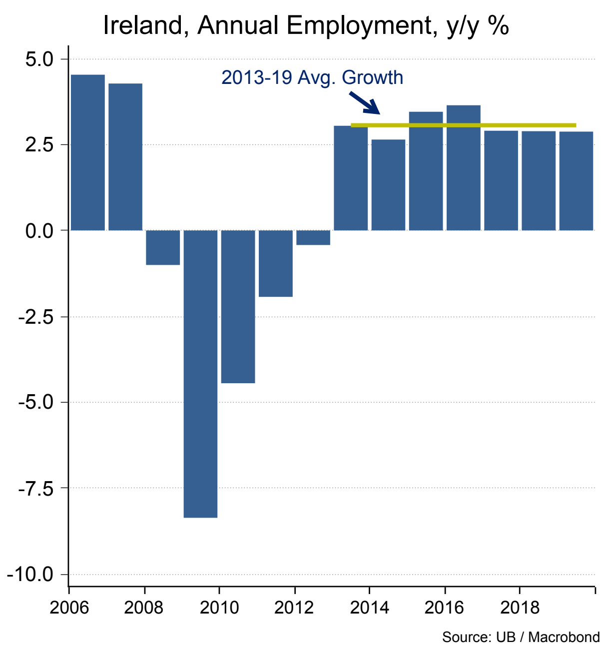
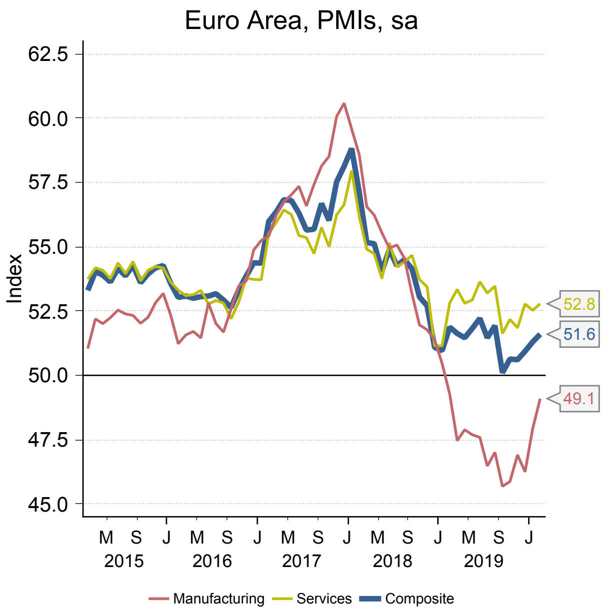
Ireland: A very robust end to a 7th consecutive exceptionally strong year for Irish job creation



As set out in our detailed analysis on Tuesday, the key highlight of the Q4 Labour Force Survey results was a further acceleration in the pace of jobs growth from 0.9% q/q in Q3 to 1.3% in Q4 – the second strongest quarter for jobs in the entire 7-year expansion. This left the annual uplift at an exceptionally rapid 3.5% y/y in Q4 (up from 2.4% in Q3) as the economy added almost 80,000 net new jobs over the 12 months to Q4. Moreover, the very broad based nature of the Q4 employment gains was also very encouraging. Employment was up in 13 of the 14 sectors, with particular strength evident across the large, broad Services sector, while all 8 regions across the country registered positive jobs growth of at least 2%. In fact, the pace of jobs growth outside Dublin at 3.6% outpaced that in the Capital of 3.4% in Q4, as 70% of the jobs created over the past year have been filled by workers from outside Dublin. Overall, we take the rapid growth in employment as important evidence of strong momentum in underlying activity in the Irish economy as 2019 drew to a close. Indeed, 2019 as a whole marked a 7th consecutive year of really strong job creation, with the 2.9% average growth last year broadly in line with the 3.1% average gain seen over the past 7 years of extremely rapid growth. In our view, somewhat less rapid, though still healthy, jobs growth probably lies ahead reflecting a likely moderation in demand as well as the increasingly restraining influence of labour force growth, now that the jobs market is now effectively operating at full employment with very little if any residual spare capacity.

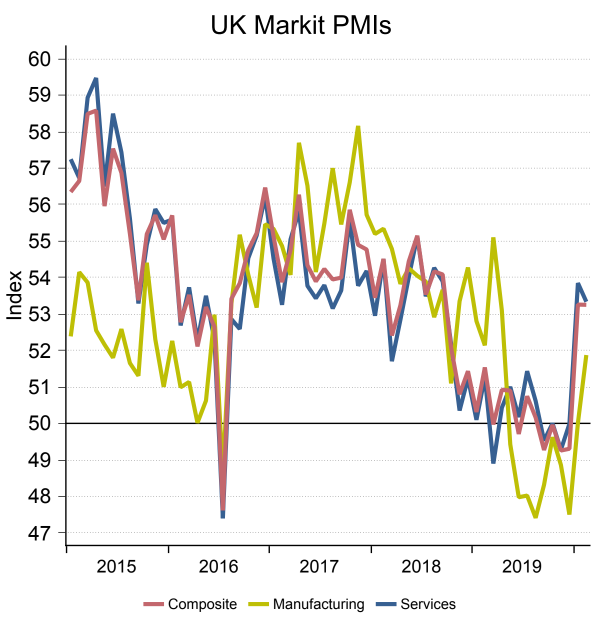
Eurozone: February PMIs signal further gradual improvement in growth momentum



Source: UB / Macrobond

This week's account of the January ECB Governing Council meeting reiterated the main message from President Lagarde's post-meeting press conference, namely that incoming information continued to be in line with the Council's assessment of "ongoing, but moderate, growth" in the Euro area in keeping with the December 2019 Eurosystem staff projections. In summary, "considering the tentative signals of a stabilisation in the Euro area economy, the Governing Council would await further data to see if there were firmer grounds for optimism". In this context, this week's upside surprise in the flash PMI survey results for February will have provided the ECB with some additional comfort. The Composite PMI registered a 3rd consecutive monthly increase to take it to a 6-month high of 51.6, helped by a continuation of, and slightly faster, growth in services activity. While manufacturing activity contracted for a 13th consecutive month, the pace of decline eased to its slowest in a year in a welcome sign that trends in the beleaguered factory sector are on a less negative trajectory. Overall, while the composite PMI is still at relatively weak levels consistent with sub-trend GDP growth, it does indicate that the euro area economy is managing to generate some improvement in growth momentum. That will likely keep the ECB in wait and see mode for the time being (markets have been speculating about possible action next month). But the threat of greater impacts from the coronavirus on both demand and supply means that the outlook remains both uncertain and subject to downside risk.

UK: PMI and jobs data beat expectations

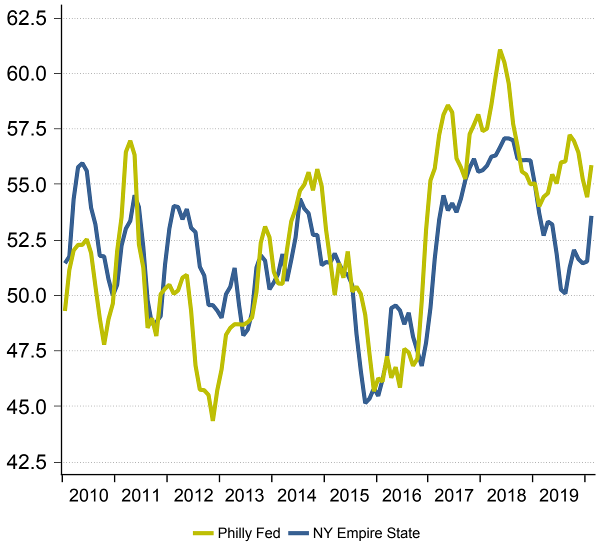


Source: UB / Macrobond

This week's February PMI survey results were better than anticipated. Helped by an unexpected pick up in manufacturing activity, the composite PMI beat City forecasts by holding steady at a reasonably healthy 53.3. The fact that it held on to the large gains recorded in January importantly suggests that the coronavirus hasn't, up to now at least, had much of an adverse impact on UK activity, though only time will tell how durable this resilience proves to be. Elsewhere, the latest jobs figures featured a 4th consecutive better-than-expected monthly outcome on employment. The economy generated 180k jobs in Q4, better than the 153k expected by City analysts, and the strongest quarter for jobs growth in almost 2 years. This leaves annual jobs growth running in line with its long-run average at 1% y/y. We again note that this is an impressive show of resilience for the UK jobs market given the headwinds (including those from Brexit uncertainty) that have been weighing on UK growth more generally. One important caveat is that these figures point to very weak productivity. Q4 GDP growth at a mere 0.9% y/y was lower than that of employment, indicating a decline in output per worker over the past year – one of the weakest outcomes on record. So while the relative health of employment helps to underpin consumer spending in the short term (this week's retail sales figures showed a larger than expected pickup in January sales volumes), the persistently weak trends in productivity continue to cast doubt over the medium-term prospects for sustained healthy increases in UK real wages and consumption.

US: February factory surveys offer reassurance

US, NY Fed and Philly Fed Manufacturing Surveys (ISM-weighted), sa (3-mth avg.)

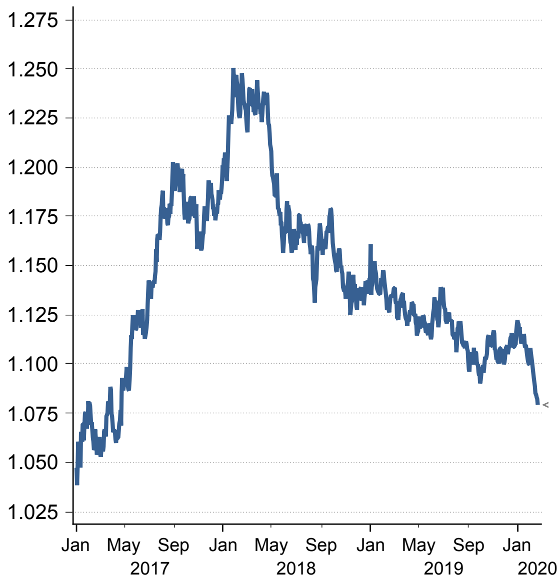


Source: UB / Macrobond

This week's minutes of the late-January policy meeting confirmed that the Fed remains comfortable with a patient, wait-and-see approach to interest rate policy as participants continue to view "the current stance of policy as likely to remain appropriate for a time, provided that incoming information about the economy remained broadly consistent with this economic outlook". Of course, the January meeting occurred in the early days of the Coronavirus outbreak, so the more timely communications from the Fed provide a better gauge of the Fed's thinking on that matter. Speaking this week, Vice-Chair Clarida and FOMC voter Kaplan both acknowledged that the coronavirus poses downside risks. However, Clarida reiterated that "the fundamentals in the US are strong", while Kaplan's base-case continues to envisage an unchanged Fed Funds rate through 2020. Recall that Powell's Congressional testimony last week also implied that the Fed would likely need to see a material and persistent impact on the economy before feeling the need to act. Importantly, incoming economic data for the US economy also continue to provide important reassurance, likely leaving the Fed reasonably comfortable with its current wait-and-see approach to policy. Indeed, the February readings of the NY and Philly Fed regional manufacturing surveys both topped expectations. Both recorded strong gains on an ISM-adjusted basis, with the Empire State jumping to a 1½ year high in February, while the Philly Fed is also painting a picture of improved trends in the manufacturing sector.

Financial Markets: Sterling slips back against majors, while further dollar gains leave Eur/USD at 3-year low

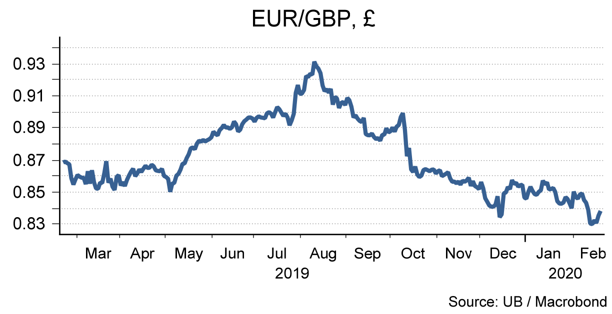
EUR/USD, $

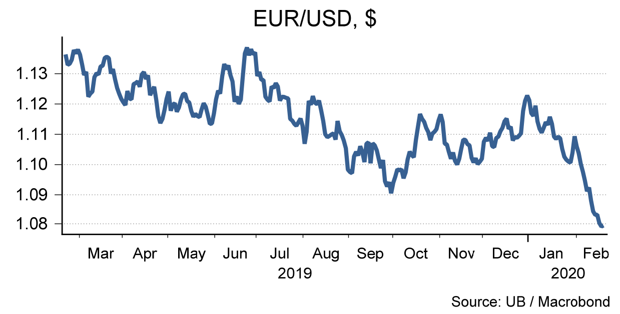


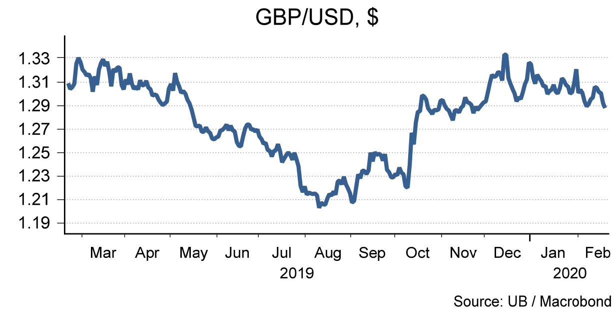
Source: UB / Macrobond

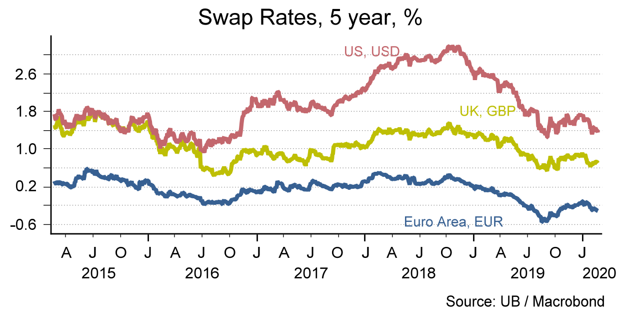
Sentiment towards the pound shifted in an adverse direction this week with the pound failing to sustain the very positive momentum that emerged at the end of last week. A flurry of UK economic releases have surprised positively, which ordinarily would be associated with some sterling strength. However, Brexit-related newsflow and further signs of disagreement between the two-sides over the trade-offs involved around a Canada-style FTA have provided a somewhat less constructive backdrop for the UK currency, with the pound ending the week around 0.6% and 0.9% lower vs. the euro and dollar, respectively. This means that after having tested the bottom of the 83-93p range which has prevailed since the referendum, Eur/GBP is now back at 83.5p, not far from where the pair stood on Thursday of last week before sterling's move to the upside. While sterling weakness was the main theme in this week's fx market price action, there was also some dollar strength. Notably, a further move to the downside has left Eur/USD trading at a 3-year low of ca. $1.08. A key part of the story here relates to concerns that the Eurozone's export-driven economy has a potentially large exposure and downside to weakness in China and in the global economy, albeit that this week's better than expected PMI results from the zone point to some resilience, for now at least. In that context, the single currency may remain under pressure until a clearer picture emerges on the coronavirus outbreak, while the dollar continues to look well positioned to benefit from some risk aversion in the marketplace.

Currency and interest rate market trends









Market Monitor

Foreign Exchange Markets

	Latest	weekly Δ, %
EUR/GBP, £	0.835	0.6
GBP/EUR, €	1.198	-0.6
EUR/USD, $	1.080	-0.3
GBP/USD, $	1.294	-0.9
EUR/JPY, JP¥	120.9	1.6
GBP/JPY, JP¥	144.8	1.1
USD/JPY, JP¥	111.9	1.9
EUR/CHF, CHF	1.061	-0.3

Stocks & Commodities

	Latest	weekly Δ, %
ISEQ	7,241	1.0
STOXX Europe 600	430	-0.1
FTSE 100	7,425	0.2
S&P 500	3,373	-0.2
Dow Jones	29,220	-0.6
Nasdaq	9,751	0.2
NIKKEI	23,387	-1.3
OIL (London Brent)	58.2	1.5
Gold	1,634	3.2

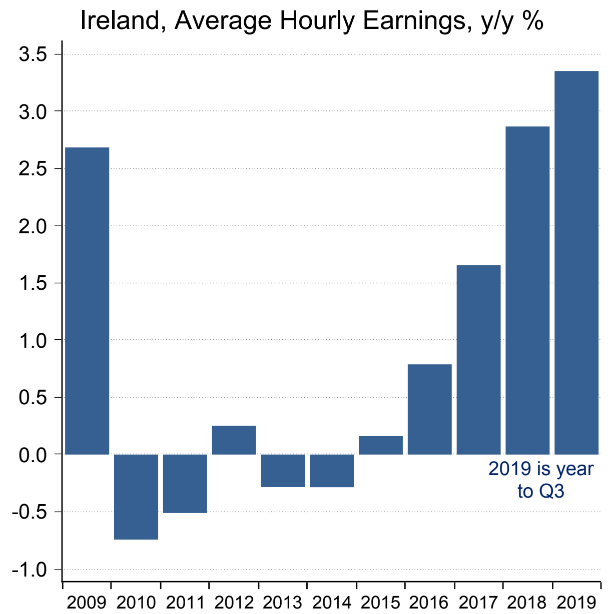
Interest Rate Markets

		Latest (%)	weekly Δ, bps
EUR	3 Month Euribor	-0.410	0.3
	2 Year Swaps	-0.38	0
	5 Year Swaps	-0.31	-1
	10 Year Swaps	-0.11	-5
GBP	3 Month Libor	0.748	-0.6
	2 Year Swaps	0.71	-1
	5 Year Swaps	0.71	-3
	10 Year Swaps	0.76	-5
USD	3 Month Libor	1.679	-1.2
	2 Year Swaps	1.40	-6
	5 Year Swaps	1.33	-8
	10 Year Swaps	1.42	-11

Note: the data in the tables are indicative only and are sourced from Bloomberg. Latest data are updated as at the time of publication. "weekly Δ" refers to the change from the previous week's closing levels.

Ulster Bank Cost of Funds Rate (365 day count) = 0.36%
Euro rates are quoted in 360-day convention.
To convert to 365 day count, divide by 360, & multiply by 365

Highlights for the week ahead: Q4 labour cost figures the pick of the domestic calendar, while European surveys and US capex numbers also in focus



Source: UB / Macrobond

Following this week's Labour Force Survey (LFS) results for Q4, the highlight of next week's domestic economic calendar will be Tuesday's release of Q4 figures on Earnings and Labour Costs. Following generally subdued rates of wage inflation up to 2017, the past couple of years have brought clear signs of acceleration, with average hourly earnings up 3.3% y/y over the first three quarters of 2019, double the pace recorded in 2017. The ongoing tightening of the labour market signalled by the LFS is consistent with further upside for wage growth trends. The combination of strong jobs growth and firming wage growth is a very favourable one indeed for Irish household income trends, and coupled with the further recovery in consumer sentiment in January, argues for a healthy near-term outlook for consumer spending and core retail sales (January sales figures are out next Friday). Elsewhere, following this week's flash PMIs, next week's February readings of the German Ifo (Monday) and the European Commission's Economic Sentiment Index (Thursday) will provide further signals on the trajectory of the Eurozone economy mid-way through the first quarter. In the US, January figures on Durable Goods orders (out on Thursday) will be in focus as analysts look for signs that the recent decline in trade uncertainty may help lift business capex spending. It's a quiet week in the UK, though there will be in interest in consumer-related surveys on retailing (on Tuesday) and confidence (on Friday), both of which cover February.

Economic calendar for the week commencing February 24th

Ireland / Eurozone	UK	US
Monday		
09.00 – IFO GE Business Climate (Feb)	07.00 – Nationwide House Price Index (Feb)	13.30 – Chicago Fed National Act. Index (Jan) 15.30 –Dallas Fed Manufacturing Activity (Feb) 20.00 – Fed speech (Mester – voter)
Tuesday		
07.00 – GE GDP incl. Breakdown (Q4 - final) 11.00 – EHECS – Earnings and Labour Costs (Q4)	11.00 – CBI Retail Sales survey (Feb)	14.00 – FHFA House Price Index (Dec) 15.00 – Conf. Board Consumer Confidence (Feb); Richmond Fed Manufacturing Index (Feb) 20.15 – Fed speech (Vice Chair Clarida)
Wednesday		
11.00 – Overseas Trips (Jan)	00.01 – BRC Shop Price Index (Feb)	15.00 – New Home Sales (Jan)
Thursday		
09.00 – EZ Money & Credit Stats (Jan) 10.00 – EC Economic Sentiment Indicator (Feb)		13.30 – Durables Goods Orders (Jan); GDP (Q4 – 2nd release); Initial Jobless Claims 15.00 – Pending Home Sales (Jan)
Friday		
10.00 – EZ HICP inflation (Feb - Flash); ECB speech (Bundesbank President Weidmann) 11.00 – Retail Sales (Jan)	00.01 – GfK Consumer Confidence (Feb); Lloyds Business Barometer (Feb)	13.30 – Personal Income and Spending & Core PCE Deflator (Jan)

The Calendar uses Irish local time

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