

Ulster Bank Weekly Economic Commentary

Ricardo Amaro
Economist

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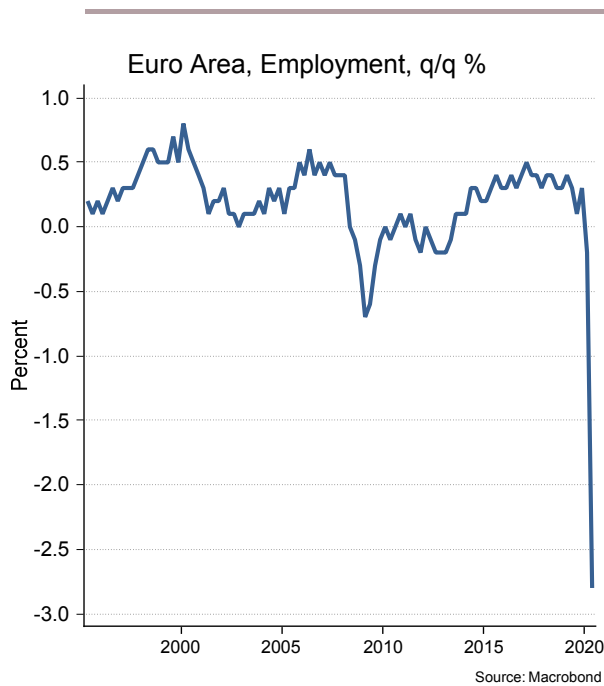
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Ireland: Completions figures confirm that homebuilding declined sharply (but didn't collapse) in Q2



New dwelling completions figures from the CSO this week confirmed that housing output took a big hit in Q2. Following a solid 17% y/y rise in Q1, annual growth plunged to a 7-year low of -31.9% as only 3,290 new units were completed in Q2 of this year. The breakdown highlights that all regions recorded negative annual growth last quarter, but Dublin showed particular weakness. New housing output was down 43.5% y/y in the capital vs. 26.7% outside Dublin. All in all, as negative as these numbers are, the Q2 drop is actually not as extreme as the falls recorded at the peak stress point of the last crisis, where housing output contracted by more than 50% y/y in Q2 2009. So it is another area where we think that the outturns could have been much worse given the circumstances, including full lockdown over the first half of the quarter, while the sector also appears to have been subject to some supply chain problems as it returned to work. This week's numbers also imply that housing output has rebounded strongly following the easing of the restrictions from May 18th. And encouragingly, the latest results of the Ulster Bank Construction PMI indicated that housing continues to lead the ongoing recovery in construction activity, with a Housing PMI reading of 57.8 in July signalling a solid start to Q3. Moreover, available figures on housing starts continue to point to a solid supply pipeline over the near-term, albeit that notable weakness in the Q2 starts data suggest that the coronavirus could impact homebuilding levels into 2021.

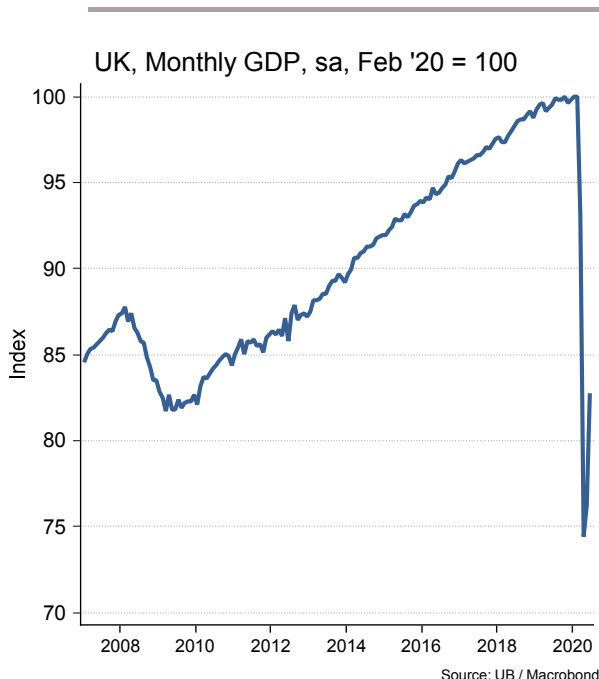
Eurozone: Extreme activity contraction also took a toll on jobs trends



The preliminary evidence for August, in the form of the Sentix ZEW surveys pointed to further improvement in investor and financial analyst sentiment in both Germany and the Eurozone more generally, indicating that financial market participants remain optimistic about the recovery prospects. Incoming hard data for June also continue to point to a solid activity bounce at the end of Q2 as the June industrial production figures for the Eurozone showed strong back-to-back monthly gains of 9.1% in June and 12.3% in May. Of course, it is fair to recognise that activity is recovering from deeply depressed levels, as it was again laid bare by the second estimate of Q2 GDP. Reflecting the extreme collapse that took hold at the end of Q1 and into April in particular, the Eurozone economy plunged by a record 12.1% q/q, with the figures at the country-level indicating that the large-scale GDP declines were widespread. In particular, double-digit declines were recorded across all of the zone's largest economies, with Spain so far showing the largest decline at 18.5%. Meanwhile, separately-released figures highlighted that such extreme activity contractions also took a toll on labour market trends, with numbers for Q2 showing a quarterly decline in employment of 2.8%. Not only is this a new all-time low for jobs growth in the Eurozone, but it also points to a more pronounced decline than in the UK where the corresponding employment drop stood at 0.7% q/q in Q2. However, it is also fair to recognise that worse outcomes were certainly possible as highlighted by a 12% quarterly contraction in US employment.

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UK: GDP growth picks up strongly in June but not enough to avoid a record quarterly plunge in Q2

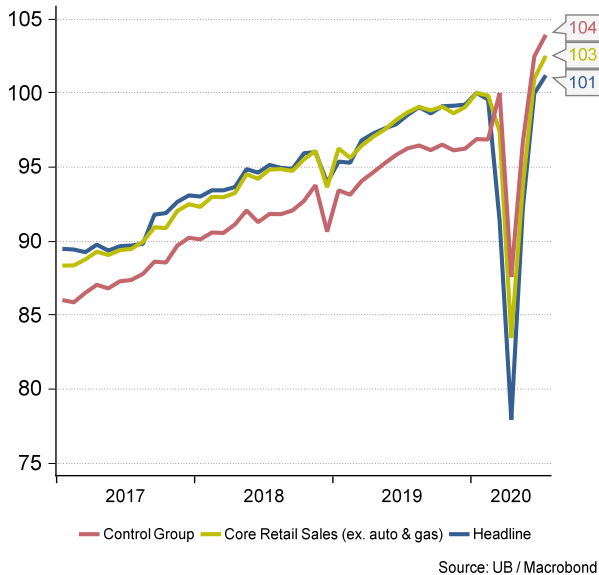


This week's monthly GDP figures confirmed that the UK economic recovery gained momentum in June. UK GDP rose by 8.7% m/m in June, a slightly stronger outturn than the 8% which the consensus had allowed for. There was also some positive news in the revisions, which slightly revised the extent of the initial increase in May to 2.4% m/m vs. 1.8% initially reported. This sequential monthly improvement in GDP in May and June didn't avoid a record quarterly GDP decline of 20.4% q/q in Q2 as a whole. But the recent growth trajectory does signal that the UK economy will very likely return to positive quarterly growth in Q3, a view which was reinforced by the details from the report. While the recovery continues to be industry-led, the key services sector is now also more clearly in recovery mode. Growth momentum picked up strongly at the end of Q2 as services output rose by 7.7% m/m in June, with another strong July bounce looking likely amid a further easing of restrictions last month. But this week's figures also served to remind the length of the recovery journey ahead. Indeed, following 2 months of back-to-back growth, the level of UK GDP remains 17% lower than its pre-virus (February) level. The extent of the H2 recovery will continue to significantly depend on virus trends and related social distancing constraints. Labour market developments will also remain hugely important. Disappointingly, the official data covering Q2 showed a 220k (or 0.7% q/q) fall in employment, with the new experimental PAYE statistics signalling that the pace of layoffs may have increased further in July.

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US: Retail sales revival continues in July

United States, Headline, Core and 'Control Group' Retail Sales, Respective Pre-virus Peak = 100

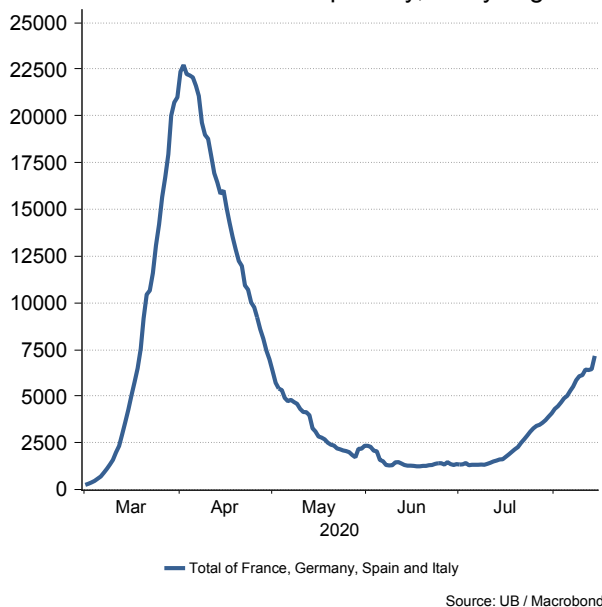


With today's revisions showing that all the main indicators of US retail sales ended Q2 above their respective pre-crisis levels, it was not a surprise to see signs of moderation in sales growth at the start of Q3. But beyond this, the retail sales report was actually broadly encouraging, with key indicators of underlying sales growth all showing further solid monthly gains in July. In particular, core retail sales and the so-called 'control group' rose by 1.5% and 1.4% last month, respectively. This is a somewhat firmer growth trajectory than the 0.8-1% which the consensus had allowed for, reinforcing expectations for a meaningful Q3 pick up in consumer spending. Elsewhere, official estimates also show a solid start to Q3 for the factory sector, with a consensus-aligned 3% rise in July production taking the cumulative gains from April's low point to nearly 10%. However, that still leaves industrial production running some 8.4% below its pre-virus (February) level, consistent with a more gradual recovery path in the factory sector relative to the V-shaped rebound in retail sales. Meanwhile, the latest initial jobless claims figures have once again surprised positively, with a 2nd large drop in a row leaving initial jobless claims running below 1 million for the 1st time since mid-March. So overall, this week's incoming news provided some further reassurance regarding recent trends. But one implication of the lack of progress on the new stimulus package is that the generosity of unemployment benefits has been significantly reduced at the end of July, representing an important headwind for near-term growth in some key areas of the US economy, including consumer spending.

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Financial Markets: Eur/USD moves back above \$1.18 as US stimulus negotiations remain in stalemate

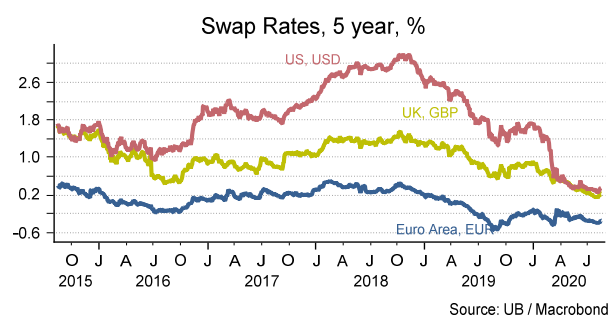
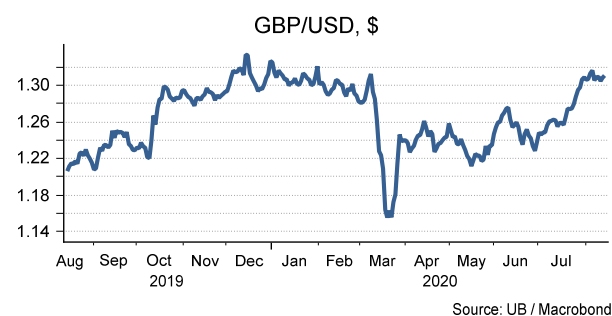
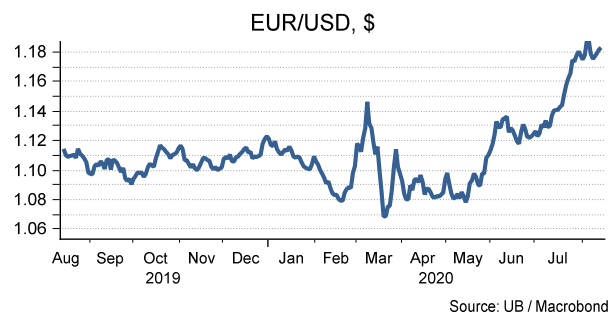
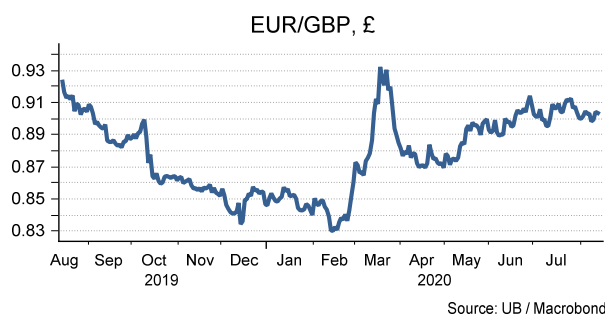
New COVID-19 cases per day, 7-day avg.



This week's moves have been contained, with relatively tight ranges observed across major equity markets and currency pairs. But for what it's worth, most major indices managed to chalk up some further modest gains. This was however driven by a positive start to the week, with the pricing action turning somewhat less constructive as the week progressed. A key part of the story likely relates to further evidence of accelerating new coronavirus cases in a number of European countries, a theme reinforced by last night's announcement from the UK Government which has re-instated a mandatory 14-day quarantine requirement on travellers arriving from a number of countries, including France. Risk has also responded to yesterday's comments from Senate majority leader McConnell which suggested that a deal on new US fiscal stimulus is not likely to be struck before September, as basic disagreements remain over the size and scope of further supports as Congress head to recess for the rest of August. This delay has resulted in a (hopefully temporary) scaling back of unemployment benefits, an important headwind to near-term growth in the US. All in all, this resulted in some further modest downward pressure on the dollar, which ends the week around 0.3% down both against the euro and sterling, leaving Eur/USD back at above \$1.18. Meanwhile, Eur/GBP is broadly unchanged at 90.3p, with sterling not capitalising on recent remarks from the UK's chief negotiator and the Irish Prime Minister, which struck a positive tone in both cases. Perhaps, investors need to see some concrete signs of progress at next week's new round of negotiations before turning less bearish on the pound.

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Currency and interest rate market trends



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Market Monitor

Foreign Exchange Markets

	Latest	weekly Δ, %
EUR/GBP, £	0.903	↓ 0.0
GBP/EUR, €	1.108	↓ 0.0
EUR/USD, \$	1.183	↑ 0.3
GBP/USD, \$	1.310	↑ 0.3
EUR/JPY, ¥	125.9	↑ 0.9
GBP/JPY, ¥	139.5	↑ 0.9
USD/JPY, ¥	106.5	↑ 0.5
EUR/CHF, CHF	1.076	↓ 0.0

Stocks & Commodities

	Latest	weekly Δ, %
ISEQ	6,367	↑ 1.4
STOXX Europe 600	368	↑ 1.2
FTSE 100	6,087	↑ 0.9
S&P 500	3,370	↑ 0.6
Dow Jones	27,889	↑ 1.7
Nasdaq	11,006	→ 0.0
NIKKEI	23,289	↑ 4.3
OIL (London Brent)	44.8	↑ 0.8
Gold	1,946	↓ -4.4

Interest Rate Markets

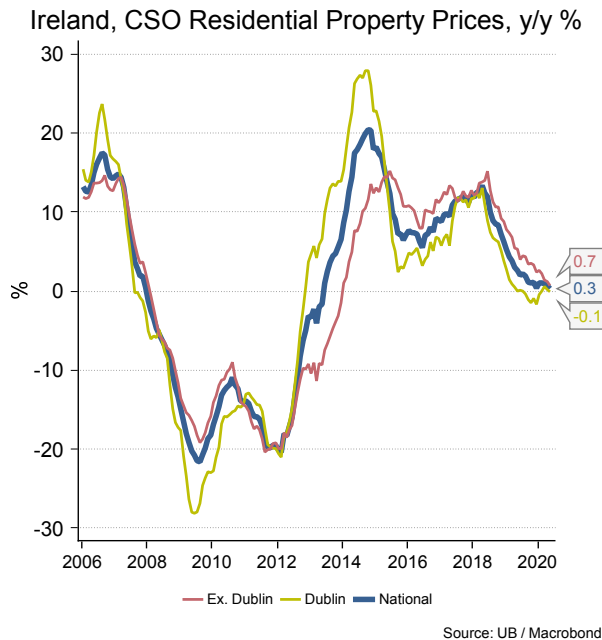
	Latest (%)	weekly Δ, bps
EUR 3 Month Euribor	-0.481	↓ -0.3
2 Year Swaps	-0.41	↑ 1
5 Year Swaps	-0.35	↑ 3
10 Year Swaps	-0.16	↑ 6
GBP 3 Month Libor	0.072	↓ -0.1
2 Year Swaps	0.12	↑ 1
5 Year Swaps	0.23	↑ 4
10 Year Swaps	0.41	↑ 9
USD 3 Month Libor	0.270	↑ 1.8
2 Year Swaps	0.24	↑ 2
5 Year Swaps	0.35	↑ 5
10 Year Swaps	0.69	↑ 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) = 0.40%
Euro rates are quoted in 360-day convention.
To convert to 365 day count, divide by 360, & multiply by 365

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Highlights for the week ahead: Irish house prices, international surveys for August and UK retail sales in focus







June house price figures are the pick of an otherwise relatively quiet week on the Irish economic calendar. Next week's data will provide a steer on price trends at the end of Q2 following relatively modest initial coronavirus impacts. Of course, we will also continue to pay close attention to Friday's updates from the Central Bank and CSO on debit and credit card spending and on the labour market, respectively.

On the international data front, next week's docket includes key business and consumer surveys for August. Of course, the closely-followed (Markit) PMI surveys will likely be a particular late-week focus for investors, with the 'flash' survey results released on Friday. The July figures for the Eurozone, UK and US showed a return to above the 50 breakeven level in all cases but with the US recovery lagging key peers, a trend which is expected to have continued in August. Next week's docket also includes prominent US and UK manufacturing surveys, such as the Empire and Philly Fed surveys for the US and the CBI survey for the UK. Meanwhile, we will also get August results of the European Commission and GfK surveys of Eurozone and UK consumer confidence, respectively. The UK docket also includes important July data on consumer spending (via the retail sales report) and inflation (via the CPI report), with the former likely to be particularly-scrutinised following recent strength in sales growth. Finally, central bank updates will also attract investor interest as we get meeting minutes from the Fed and the ECB.

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Economic calendar for the week commencing August 17th

Ireland / Eurozone  		UK 	US 
Monday			
10.00 – EZ Construction Output (Jun)		00.01 – Rightmove House Prices (Aug)	13.30 – NY Empire Manufacturing Survey (Aug) 15.00 – NAHB Housing Market Index (Aug)
Tuesday			
11.00 – CSO Residential Property Prices (Jun)		Start of 4-day round of negotiations between the UK and the EU on their future relationship	13.30 – Building Permits & Housing Starts (Jul)
Wednesday			
09.00 – EZ Current Account (Jun) 10.00 – EZ HICP Inflation (Jul – final)		07.00 – CPI Inflation (Jul)	12.00 – MBA Mortgage Applications 13.30 – Fed Minutes of the July Policy Meeting
Thursday			
12.30 – ECB Account of July Policy Meeting		11.00 – CBI Industrial Trends survey (Aug)	13.30 – Initial Jobless Claims; Philly Fed Manufacturing Survey (Aug)
Friday			
08.15 to 09.00 – FR, GE & EZ 'flash' PMIs (Aug) 11.00 – Wholesale Price inflation (Jul); Detailed Trade Statistics (Jul); Weekly Update on Debit and Credit Cards Payments; CSO Weekly Labour Market Update 15.00 – EZ Consumer Confidence (Aug)		00.01 – GfK Consumer Confidence (Aug) 07.00 – Retail Sales (Jul); Public Sector Net Borrowing (Jul) 09.30 – 'Flash' PMIs (Aug)	14.45 – Markit 'Flash' PMIs (Aug) 15.00 – Existing Home Sales (Jul)

The Calendar uses Irish local time

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