

# Global Watch

August 2022  
Economic Update

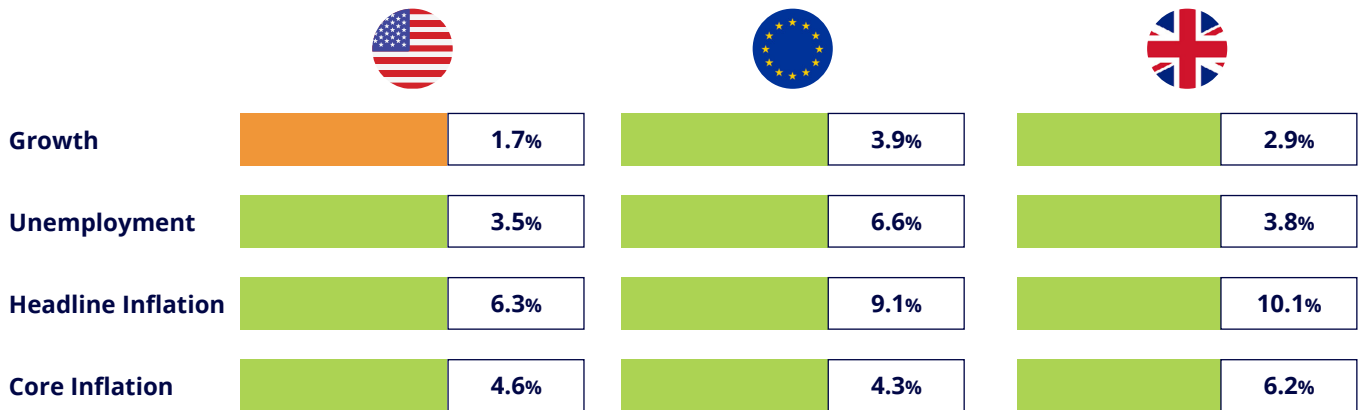


Bank of  
Ireland

## World economy feeling the strain

Economic activity globally is being dampened by a combination of the fallout from the war in Ukraine, lockdowns in China, and rising central bank interest rates in response to high inflation. The latter is exerting a significant squeeze on living standards and contributing to a slowdown in consumer spending in the US and other advanced economies. The IMF in its latest update has again lowered its forecasts for world GDP growth, which it now sees averaging 3.2% in 2022 and 2.9% in 2023 (-0.4 and -0.7 percentage points respectively relative to its April projections). It believes taming inflation should be the main priority for policymakers, arguing that while tighter monetary policy will 'inevitably have real economic costs, delay will only exacerbate them'. The Fed and the Bank of England have increased interest rates steadily in recent months while the ECB commenced the process with a 50 basis point hike at its most recent meeting in July, and all three have indicated that rates have further to rise. The IMF acknowledges that bringing down inflation could prove difficult - perhaps requiring more restrictive monetary conditions than it has factored in - citing this as one downside risk to the outlook. Another is a sudden stop to European gas imports from Russia, which have already been severely curtailed sending wholesale gas prices to record highs. The European Union has responded to the threat to supply by agreeing to reduce gas consumption during the coming winter, and moves are now also afoot to address elevated energy prices in the bloc.

## Economic Conditions



## Policy Stance



Firming of monetary policy to meet employment and inflation goals



Will adjust monetary policy as appropriate to meet the 2% inflation target



Tightening of monetary policy to sustainably meet the 2% inflation target

## Current Interest Rate

**2.25%-2.5%**

Fed Funds

**0.5%**

ECB Refi

**0.0%**

Deposit

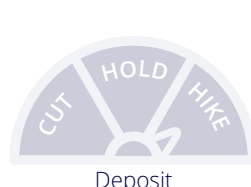
**1.75%**

BOE Bank Rate

## Next Meeting



Refi



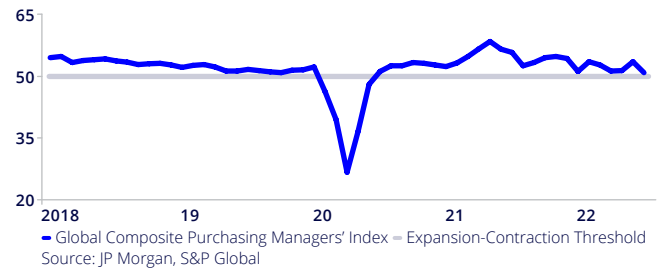
Deposit



# Economy

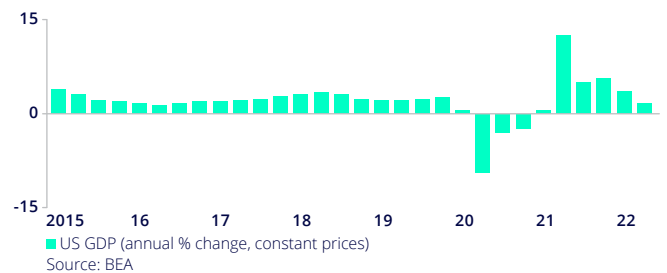
## Global growth slowing

The fallout from the war in Ukraine continues to weigh on the global economy. In its July update, the IMF lowered its forecast for world GDP growth to 3.2% in 2022 and 2.9% in 2023, from 3.6% for both years in April.



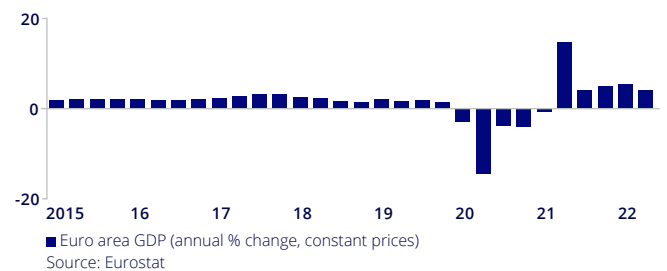
## US economy contracts

GDP in the US fell by 0.1% quarter-on-quarter in Q2 (following a decline of 0.4% in Q1) but it was still up 1.7% on an annual basis. The IMF now expects growth of 2.3% for 2022 as a whole, slowing to 1% next year.



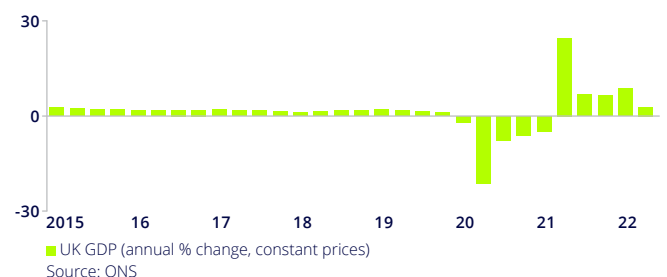
## Euro area expands

Euro area GDP rose by 0.6% quarter-on-quarter and by 3.9% year-on-year in Q2. But with the economy in the eye of an energy storm, the IMF has revised down its forecast for growth in 2022 and 2023 to 2.6% and 1.2% respectively.



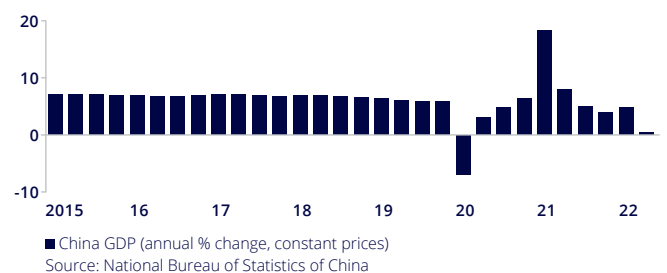
## Dip in UK GDP

GDP in the UK declined by 0.1% quarter-on-quarter in Q2 although it rose by 2.9% on an annual basis. Amid an ongoing 'cost of living' squeeze, the IMF expects full-year growth of 3.2% for 2022, decelerating to just 0.5% next year.



## COVID setback in China

COVID-19 lockdowns impacted China's economy in Q2, with GDP falling by 2.6% on the quarter and the year-on-year rate of growth sliding to 0.4%. The IMF is projecting growth of 3.3% for 2022 as a whole, picking up to 4.6% in 2023.



## EM activity picks up

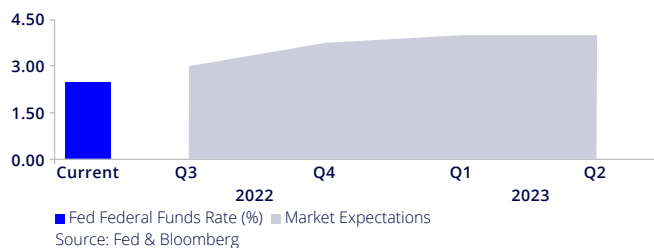
The emerging markets Composite PMI is back in expansionary territory after falling in the immediate aftermath of Russia's invasion of Ukraine, with the IMF expecting EM GDP growth to average 3.6% this year and 3.9% next year.



# Monetary

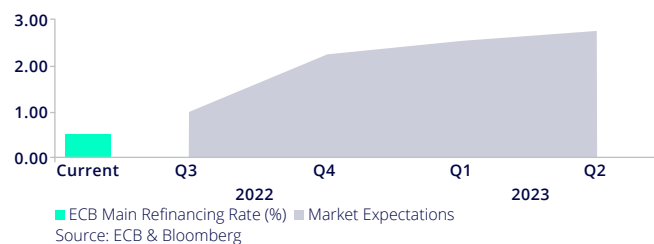
## Fed still tightening

The Fed raised interest rates by 75bps for a second consecutive meeting in July - bringing the cumulative increase in 2022 to date to 225bps - and has indicated another rise of 50bps or 75bps is on the cards in September.



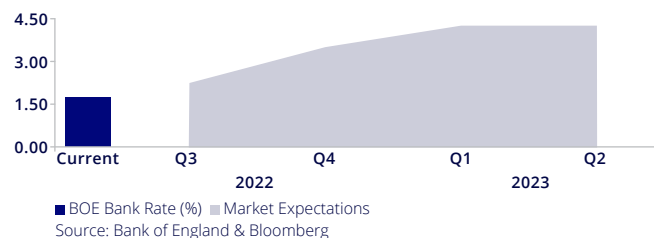
## ECB commences hiking

The ECB lifted interest rates by 50bps in July and said further tightening is likely in the coming months. It also announced a new anti-fragmentation tool to ensure the effective transmission of monetary policy.



## BOE ups the ante

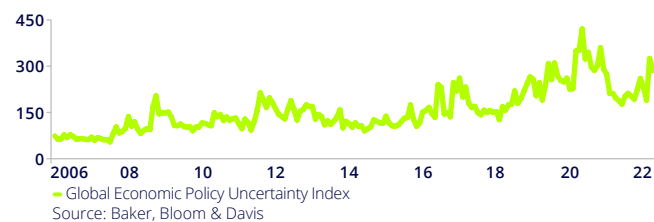
The Bank of England raised interest rates by 50bps in August, having hiked by 25bps at each of its previous four meetings, and will begin a programme of quantitative tightening (selling bonds back into the market) from September.



# Policy & Politics

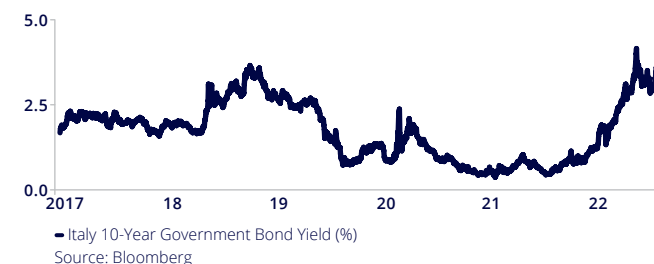
## Elevated uncertainty

With the war in Ukraine one of a series of shocks to hit the global economy in recent times, uncertainty remains at an elevated level and is serving to dampen the pace of activity.



## Elections in Italy

The latest bout of political turmoil - which has prompted some volatility in government bond yields - culminated in the resignation of Prime Minister Draghi and the calling of parliamentary elections for September 25th.



## New UK PM

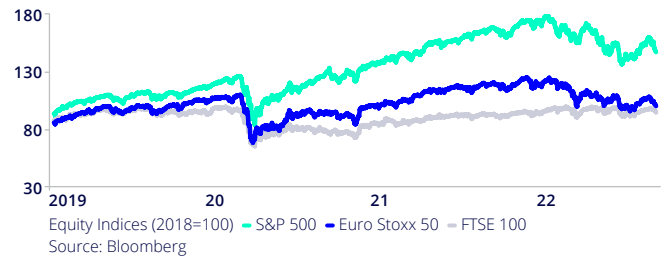
Boris Johnson's resignation as Prime Minister and leader of the Tory party has caused fresh political uncertainty, with Liz Truss (current Foreign Secretary) and Rishi Sunak (former Chancellor) going head to head in the race to succeed him.



# Markets

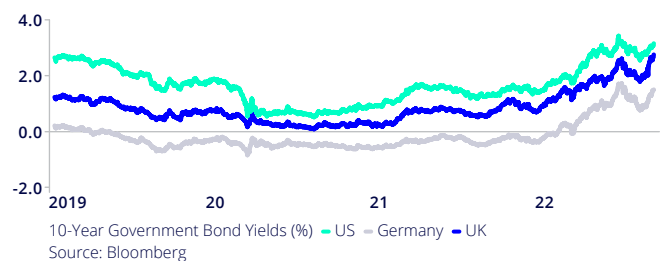
## Stocks faltering again

Having had some respite recently following a partly war-related decline earlier this year, equity markets have started to lose some ground again lately.



## Bond yields head higher

After falling back from intra-year highs during the summer, government bond yields have resumed their ascent as central banks continue to tighten monetary policy.



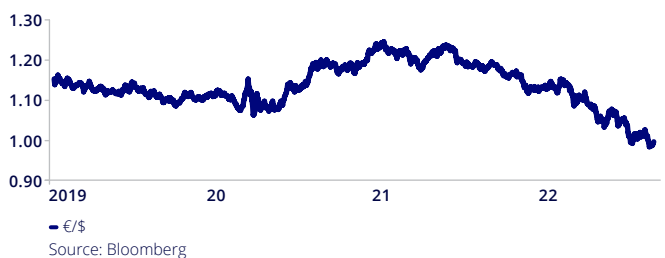
## Dollar strengthens

With the Fed leading the way in terms of interest rate hikes, the dollar has gained ground against the currencies of its main trading partners during 2022.



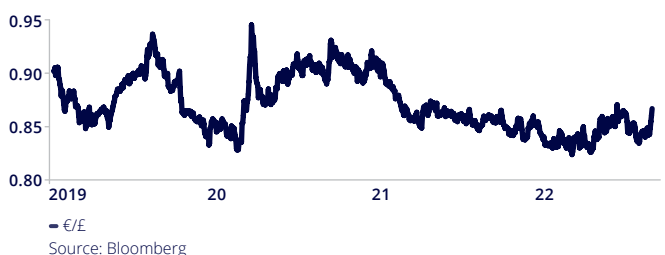
## Euro weakens

The single currency has been under pressure against the dollar since around mid-2021, falling to a circa 20-year low of just under parity in late August.



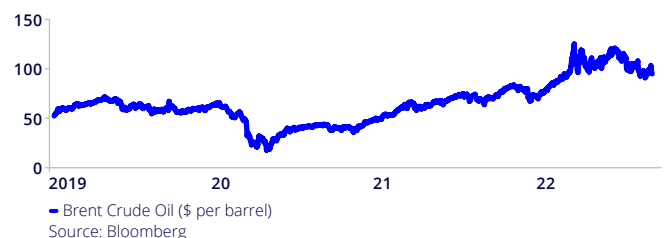
## Sterling under strain

The pound has been on the back foot against the dollar for a while and has now started to cede ground to the euro, falling to almost 87p.



## Oil prices lower

While wholesale gas prices have been advancing, Brent crude oil prices have fallen back to below \$100 per barrel, which should provide some relief on the inflation front.



# Forecasts

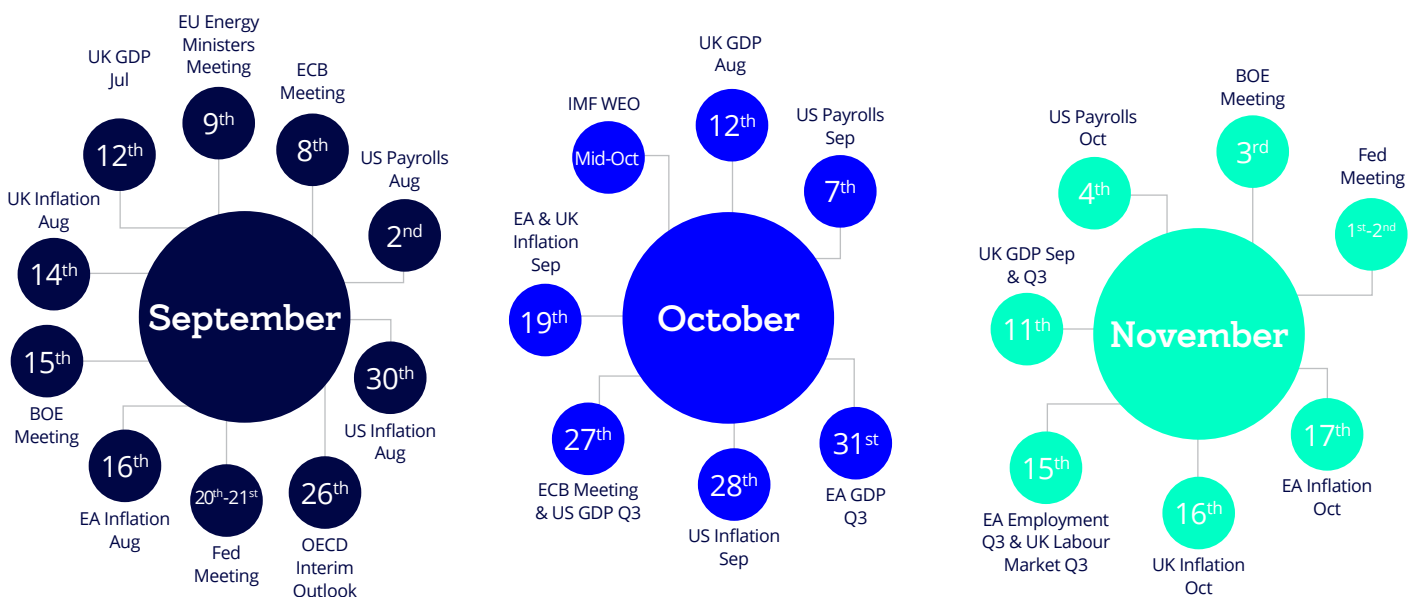
GDP Growth*	2021	2022(f)	2023(f)
Global Economy	6.1%	3.2%	2.9%
Advanced	5.2%	2.5%	1.4%
Emerging	6.8%	3.6%	3.9%

FX**	Current	End Sep 22	End Dec 22
€/\$	1.00	1.00	1.03
€/£	0.86	0.87	0.87
£/\$	1.16	1.15	1.18

\*Annual % change, constant prices (Source: IMF)

\*\*Current Rate is as of 31st August 2022 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

# Upcoming Events



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