

Global Watch

December 2022
Economic Update

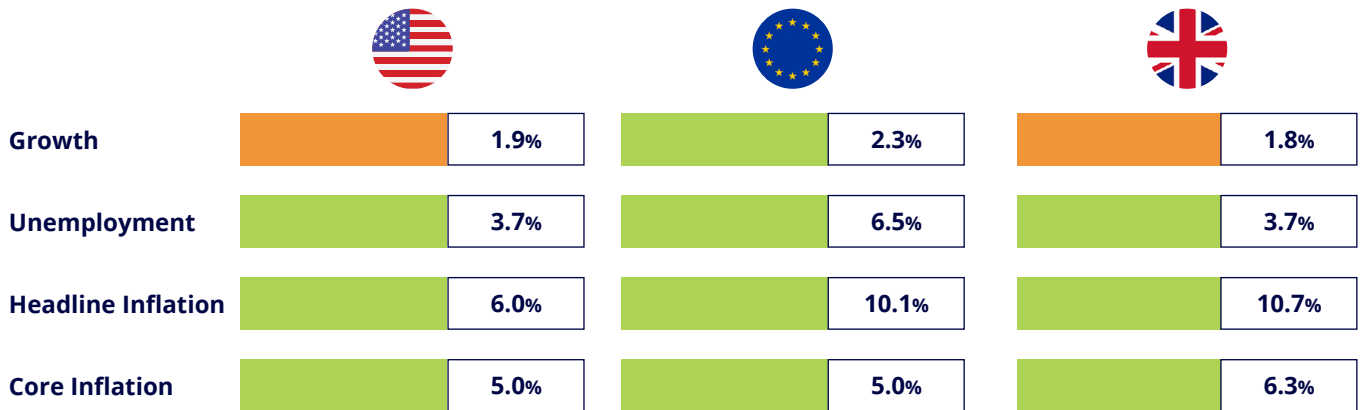


Bank of
Ireland

Global economy faltering

Global economic growth has slowed in the final months of the year judging by high frequency data. Elevated inflation, tighter monetary and financial conditions, and subdued confidence are weighing on activity, with the latest OECD update showing world GDP expanding by 3.1% for 2022 as a whole, about half the pace of increase in 2021, and by just 2.2% next year. It also warns that growth could be weaker than projected if, for example, energy shortages in Europe prompt a renewed spike in prices or risks related to China's economy materialise. Inflation in advanced economies is forecast to top out this year and moderate during the course of next year though, as higher central bank interest rates dampen price pressures. The Fed, ECB and Bank of England raised rates again in December - albeit all three stepped down the pace of increase to 50 basis points from 75 basis points at their October/November meetings - and while markets see them continuing to hike into 2023, they think that the peak in rates is relatively close at hand. Such a prospect has contributed to a rally in stocks and a decline in longer-term bond yields recently, as well as prompting a notable recovery in the euro-dollar exchange rate. Sterling, meanwhile, has rebounded strongly against both the dollar and the euro, having fallen sharply after the UK's 'fiscal event' in late September triggered market turmoil, before Bank of England intervention and measures taken by the new government managed to steady the ship.

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

4.25%-4.5%

Fed Funds

2.5%

ECB Refi

2.0%

Deposit

3.5%

BOE Bank Rate

Next Meeting



Refi



Deposit



Economy

World growth slowing

The fallout from the Russia-Ukraine conflict and rising interest rates are taking a toll on the world economy. In its November Outlook, the OECD forecast global GDP growth of 3.1% for 2022, down from 5.9% in 2021, and 2.2% for 2023.

US economy perks up

GDP in the US rose by 0.7% quarter-on-quarter in Q3 (following slight declines in both Q1 and Q2) and by 1.9% on an annual basis. The OECD expects full-year growth of 1.8% for 2022, moderating to 0.5% next year.

Euro area waning

Euro area GDP growth eased to 0.3% quarter-on-quarter (2.3% year-on-year) in Q3, from 0.8% (4.2%) in the second quarter. The OECD has revised up its forecast for growth this year a touch to 3.3% but has left 2023 unchanged at 0.5%.

UK GDP declines

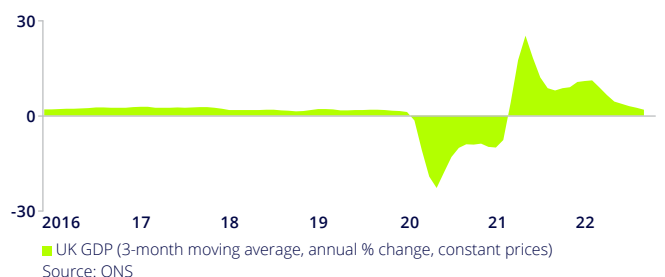
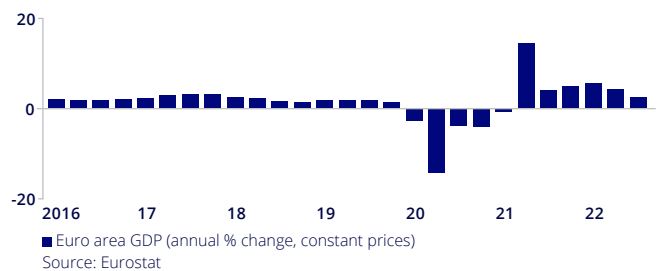
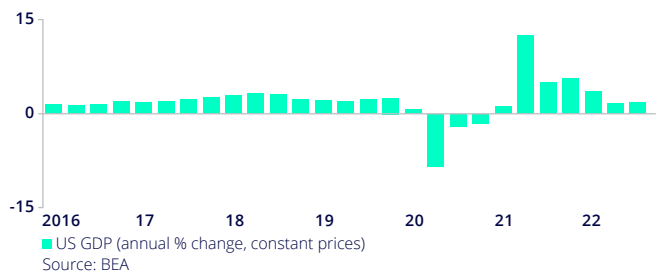
GDP in the UK fell by 0.3% on a three month basis but was up 1.8% in the year to August-October. While growth of 4.4% is anticipated for 2022 as a whole, the OECD sees the economy contracting by 0.4% next year as it dips into recession for a time.

Bounce in China

China's GDP rebounded in Q3 after COVID-19 lockdowns weighed on the economy in Q2, increasing by 3.9% on the quarter and on an annual basis. The OECD is projecting full-year growth of 3.3% for 2022, quickening to 4.6% in 2023.

EM activity weakening

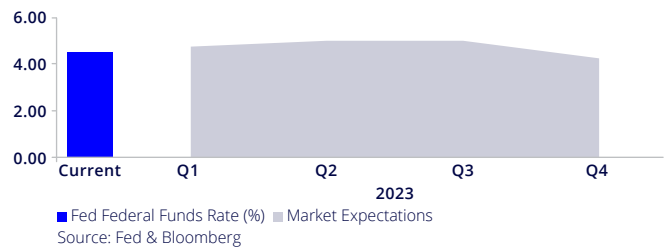
The emerging markets Composite PMI was in contractionary territory in October-November, pointing to softening economic activity. GDP in non-OECD countries is expected to increase by 3.4% this year (after 6.2% in 2021) and 3.3% next year.



Monetary

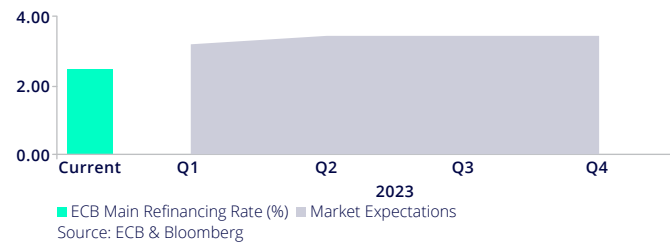
Fed slows pace of hikes

The Fed raised interest rates by 50bps in December, following a run of four consecutive 75bps hikes, but indicated that the peak in rates may be higher than previously anticipated.



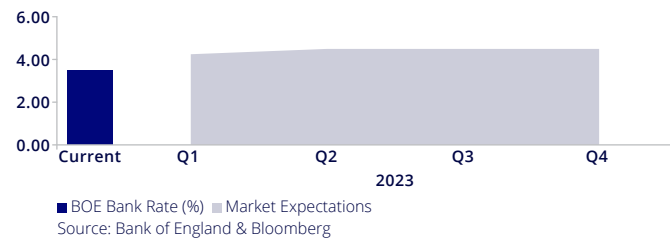
ECB tightens further

The ECB also lifted interest rates by 50bps at December's meeting - bringing the cumulative increase in 2022 to 250bps - and signalled it will have to raise them further in the New Year.



BOE raises rates again

The Bank of England increased interest rates by another 50bps at its final meeting of the year in December. It said more hikes may be required, if inflationary pressures prove more persistent than expected.



Policy & Politics

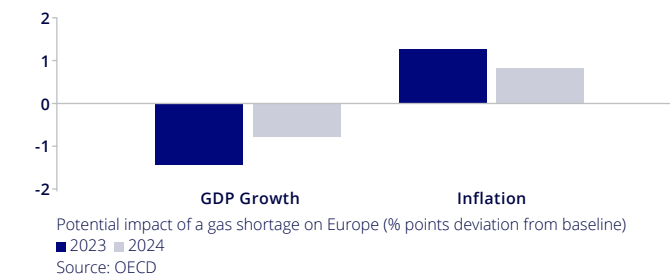
Uncertainty still high

The outbreak of the war in Ukraine earlier this year triggered a renewed increase in uncertainty, which remains at an elevated level and continues to act as a drag on the global economy.



More Russia sanctions

The EU and G7 have imposed a price cap (\$60 per barrel) on Russia's seaborne crude oil. The EU's ban on oil imports from the country is in effect since early December as well, while gas imports to the bloc have also declined.



Drama in the UK

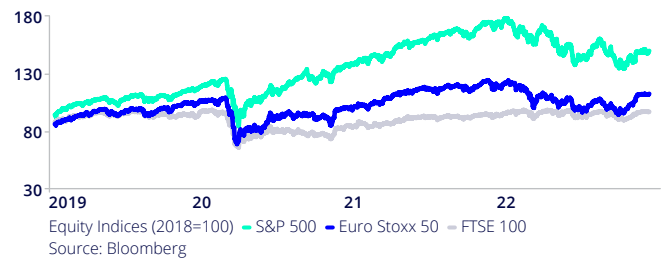
The short-lived Truss administration's mini-budget in late September resulted in political and market turmoil and a jump in uncertainty, though measures taken by the new Sunak government have helped calm the situation.



Markets

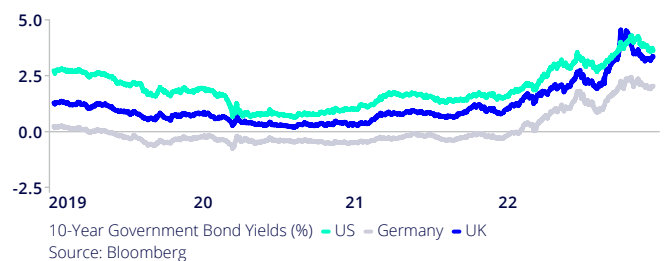
Stocks rally

International equity markets have regained ground over the past couple of months - the S&P 500 in the US is up 8% since the middle of October - albeit they have slipped a little of late.



Bond yields decline

Amid signs that inflation may have peaked, government 10-year bond yields have fallen back recently. UK bonds have also more than reversed the spike in yields that occurred following the mini-budget.



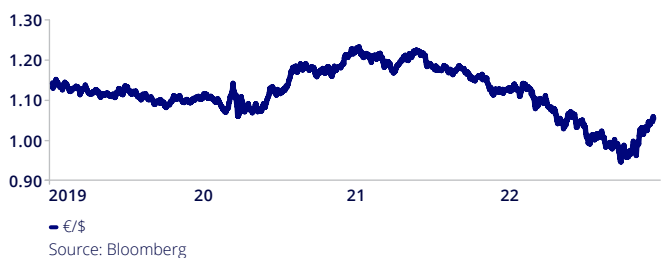
Dollar loses ground

With the Fed indicating it would be slowing the pace of interest rate increases, the dollar has been retreating against the currencies of its main trading partners and is down around 5% since late September.



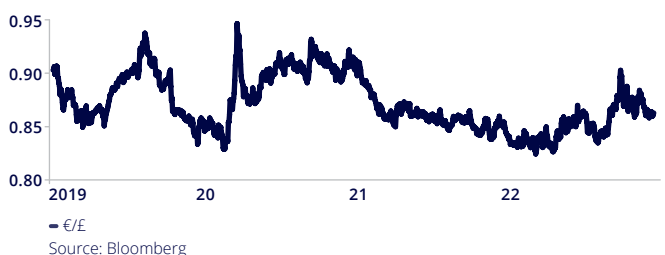
Euro strengthens

Having been on the back foot for much of the year, the single currency has rebounded quite strongly against the dollar over the last few months, gaining around eleven cents to \$1.06.



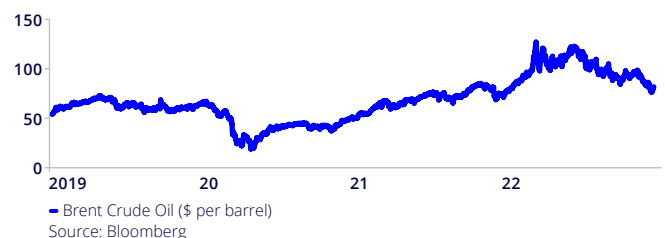
Sterling recovers

The pound fell sharply against both the dollar and the euro in the immediate aftermath of the mini-budget but has staged an impressive recovery since, rising to \$1.22 and 87p respectively.



Oil prices off highs

Slowing global growth is taking a toll on oil prices. Brent crude has fallen to around \$80 per barrel, down from a peak of almost \$130 p/b immediately following Russia's invasion of Ukraine.



Forecasts

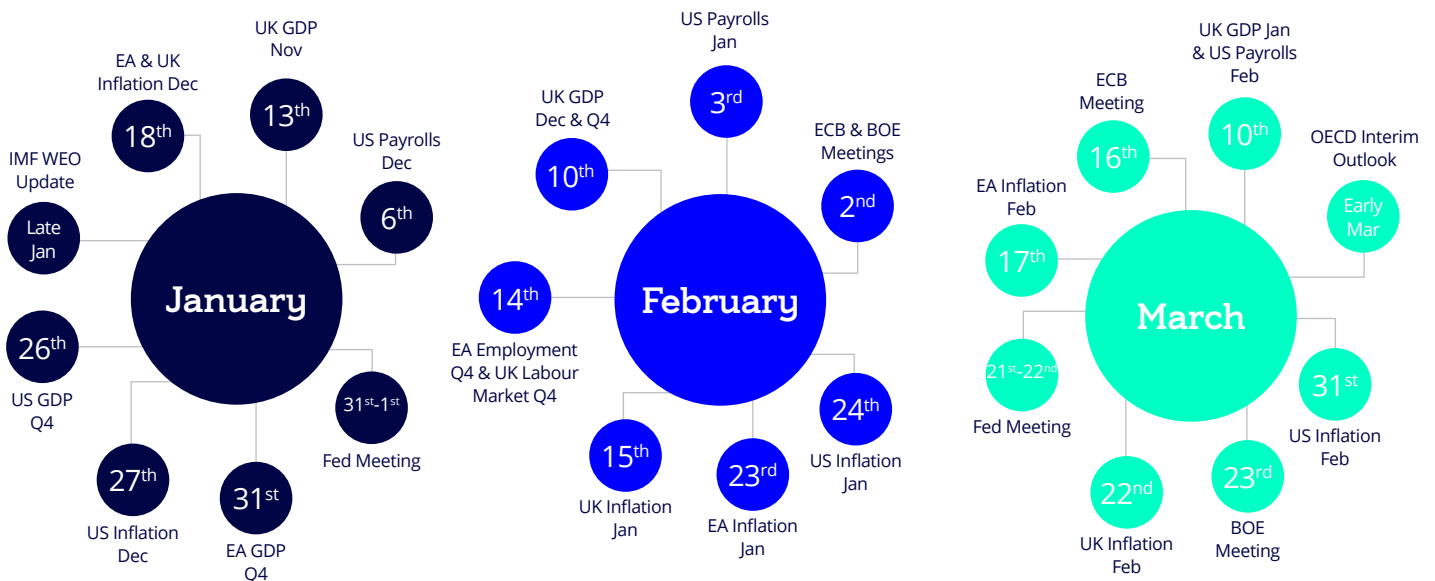
GDP Growth*	2021	2022(f)	2023(f)
Global Economy	5.9%	3.1%	2.2%
US	5.9%	1.8%	0.5%
Euro area	5.3%	3.3%	0.5%
China	8.1%	3.3%	4.6%

FX**	Current	End Dec 22	End Mar 23
€/\$	1.06	1.06	1.05
€/£	0.87	0.86	0.86
£/\$	1.22	1.23	1.22

*Annual % change, constant prices (Source: OECD)

**Current Rate is as of 16th December 2022 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



Contact Us

economics@boi.com

+353 1 250 8900

Dr. Loretta O’Sullivan

Group Chief Economist

ext. 44267

Michael Crowley

Senior Economist

ext. 44268

Mark Leech

Head of Media Relations

+353 87 905 3679

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