An Roinn Airgeadais
Department of Finance

Emerging economic developments

- real-time economic and financial indicators

2nd July 2020

Prepared by the Economics Division,
Department of Finance

www.gov.ie/finance

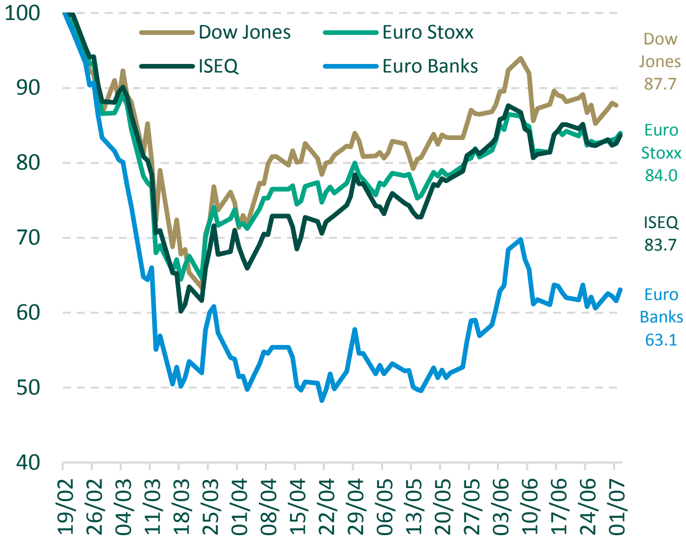
Table of Contents

Note: This Chartpack includes indicators updated daily, and others for which data are updated monthly or quarterly.

Data correct as of 09:00 am on cover date.

Section 1: financial markets – investors more optimistic around recovery

Figure 1.1 – Equity Indices, per cent change since 19/02



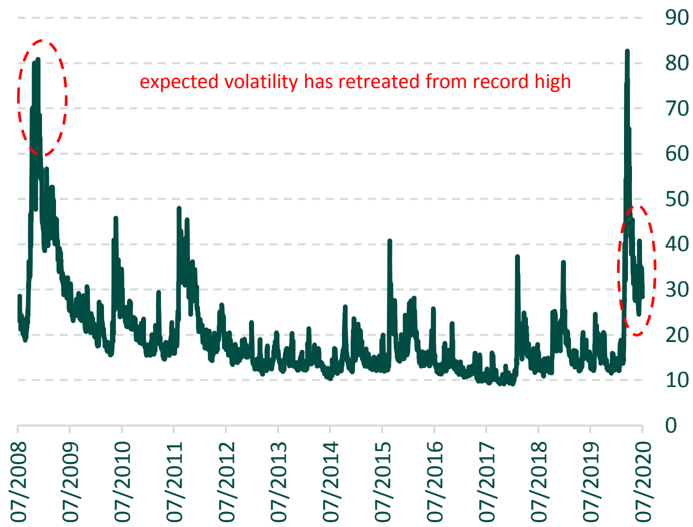
Latest developments:

- Growth expectations have been revised downwards. Financial market participants initially became more risk averse, and pulled back from riskier assets such as equities.
- Markets have rallied from March lows as investor confidence around recovery increased but remain below February levels. Investor concerns around a potential 'second wave' have weighed on confidence since June highs.

Change from 19/02 to 02/07:
- **Dow Jones*** (-12.3 per cent)
- **Euro Stoxx 600** (-16.0 per cent)
- **ISEQ** (-16.3 per cent)
- **Euro Banks** (-46.9 per cent)

Source: Bloomberg (*Dow Jones price as of close 01/07)

Figure 1.2 – Vix (volatility index)

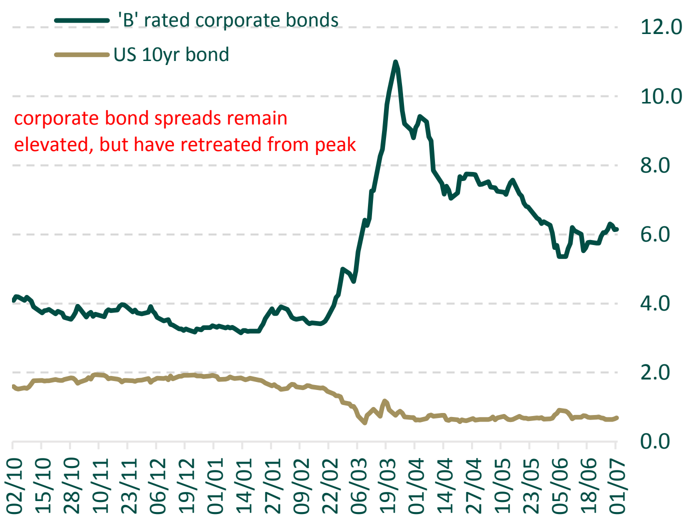


Latest developments:

- VIX is a real-time index that represents the market's expectation of 30-day forward-looking volatility.
- Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.
- Tension between better economic data and the potential for a 'second-wave' continues to drive expected market volatility.
- The index reached its highest recorded value of 82.7 on 16/03; it has fallen steadily since but rose to 40.79 on 11/06, and currently stands at 28.4 on 02/07.

Source: Bloomberg

Figure 1.3 – Corporate spread over treasury, per cent

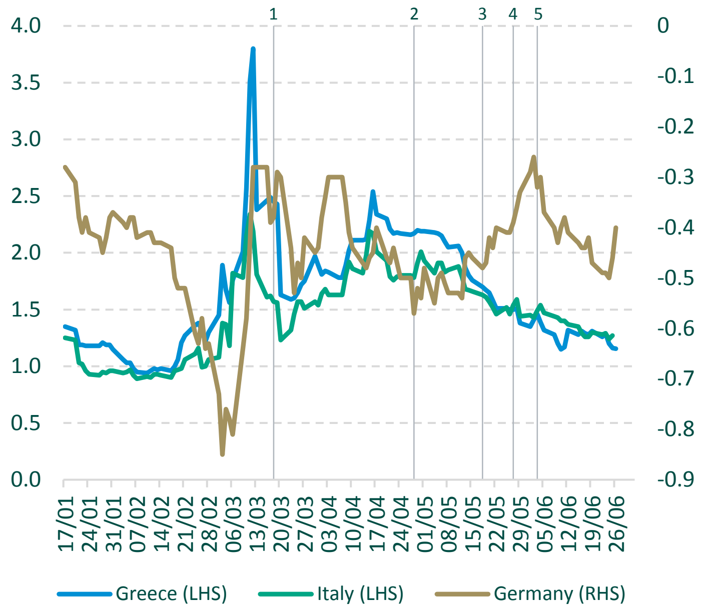


Latest developments:

- Demand for corporate bonds has declined, particularly for debt issued by 'riskier' (non-investment grade) corporates.
- The yield – the risk premium demanded, especially for those lending to non-investment grade firms – has risen accordingly.
- The average spread for 'B' rated corporates over treasuries widened to its highest level since 2009 on 24/03, but has since retreated somewhat.
- Widening spreads can affect the price and availability of capital for firms. This would be an important transmission channel to the 'real economy' – actual physical investment by firms could be affected.

Source: Bloomberg

Figure 1.4 – 10YR sovereign bond yields, per cent

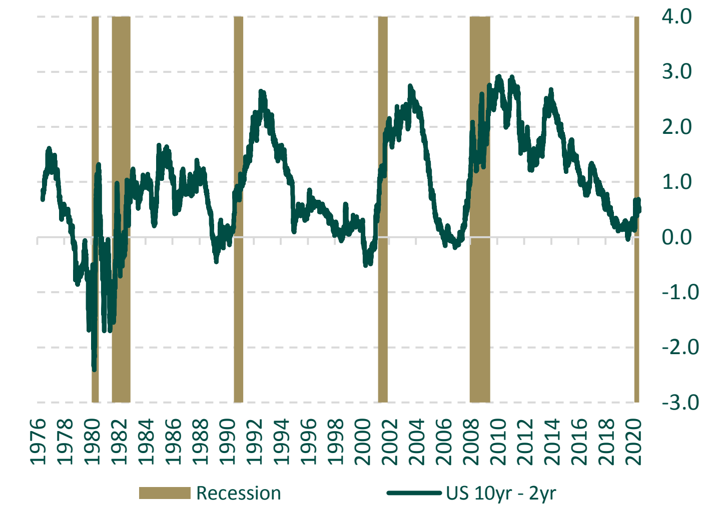


Latest developments:

- Investors moved into the safest sovereign debt, such as German and US (not shown), at the beginning of the crisis.
- Yields increased globally from 12/03 – 18/03, reflecting a number of factors, including investors' concerns around increasing sovereign deficits.
  1. ECB announce an extended asset purchase programme 0f €740 bn across all asset categories on 18/03
  2. Fitch downgrade Italy's credit rating to the lowest investment grade on 29/04
  3. Germany and France propose the creation of a €500 billion recovery fund on 18/05
  4. EU Commission put forward its proposal for a 'major recovery plan' valued at €750 billion 27/05
  5. ECB add an additional €600 bn to the PEPP purchase envelope on 04/06

Source: Macrobond

Figure 1.5 – US yield curve, percentage points

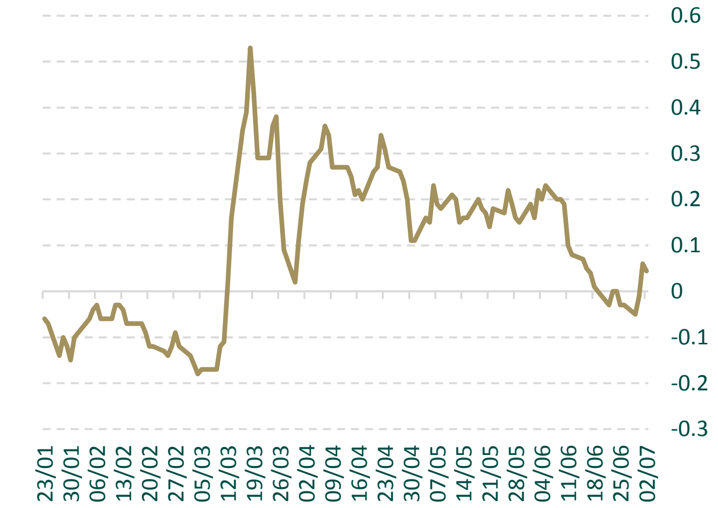


Latest developments:

- The US yield curve measures the difference between the long and short-term cost of borrowing.
- If the US yield curve inverts, then the cost of borrowing in the short-term is higher than in the longer-term, indicating that investors expect lower short-term interest rates in response to a downturn.
- This situation has arisen in the US on a number of occasions since 1980. On each occasion, the US economy subsequently moved into recession.
- The US yield curve turned negative for 3 days in August 2019, has been positive since and widened to 0.52 per cent on 02/07, 38 basis points higher than 19/02.

Source: Macrobond, NBER (http://www.nber.org/cycles/general_statement.html)

Figure 1.6 – Ireland 10YR sovereign bond yields, per cent

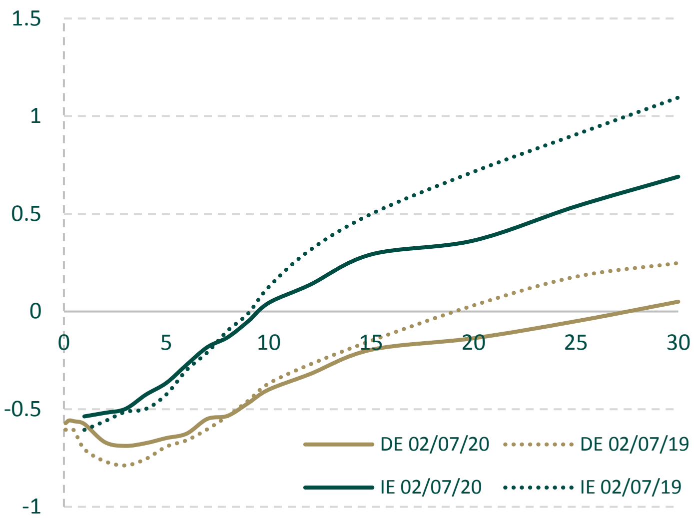


Latest developments:

- On 02/07, Irish yields are trading at c. 0.04 per cent, c.13 basis points higher than 19/02.

Source: Bloomberg

Figure 1.7 – Irish and German yield curve

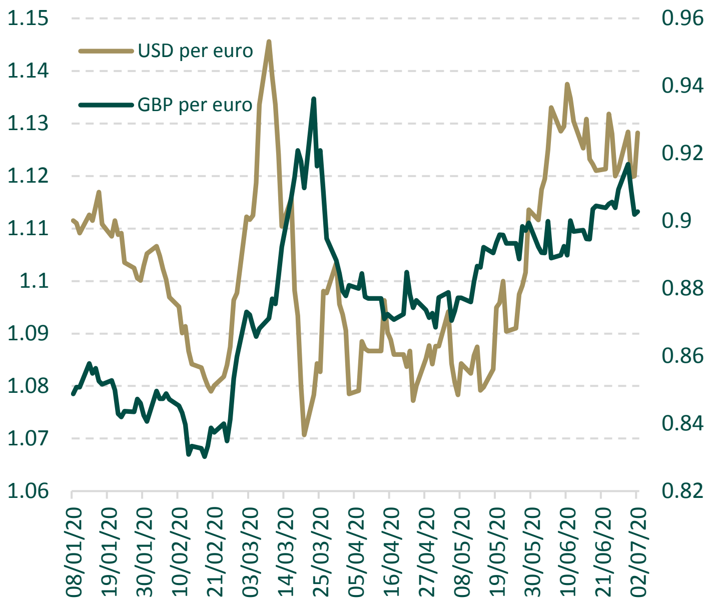


Latest developments:

- Irish sovereign bond yields remain historically low.
- Compared to one year ago:
- Irish yields are higher on short and medium term debt; and lower on long-term debt.
- German bond yields are higher on short and medium-term debt, and lower on long-term debt.

Source: Bloomberg

Figure 1.8 – Euro exchange rates

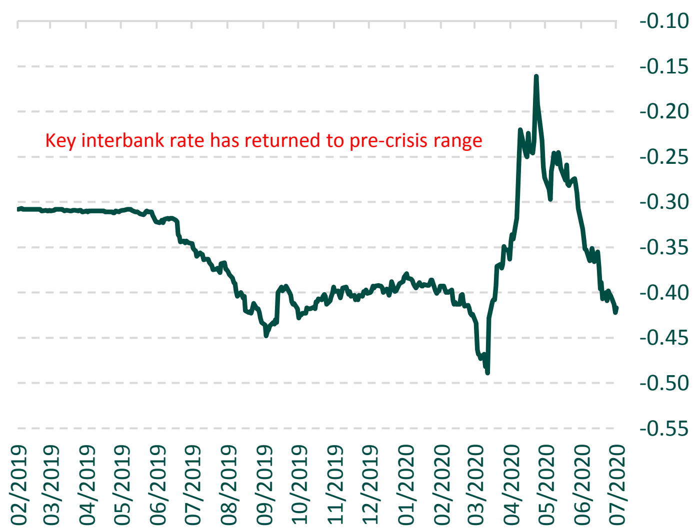


Latest developments:

- An initial depreciation of the euro against the dollar was, in part, driven by increased demand for dollar-denominated assets ('safe haven' flows).
- US Senate passed a $2tn stimulus package on 26/03. **Federal Reserve** left policy rates unchanged on 11/06, and signalled its intention to keep rates 'close to zero' through 2022.
- The **ECB** announced €750bn Pandemic Emergency Purchase Programme (PEPP) on 18/03.
- EU Finance Ministers agreed a €540bn package of economic measures on 09/04.
- The **ECB** increased the PEPP envelope by €600bn on 04/06. Policy rates were left unchanged.
- The **BoE** increased the target stock of purchased UK bonds, by £100bn on 18/06; and kept the short-term rate at 0.1 per cent.
- The euro has gained c. 4.5 per cent against the dollar since 19/02; and c. 8.3 per cent against the GBP since 19/02.

Source: Macrobond, Bloomberg

Figure 1.9 - Interbank lending; 3-month Euribor, per cent



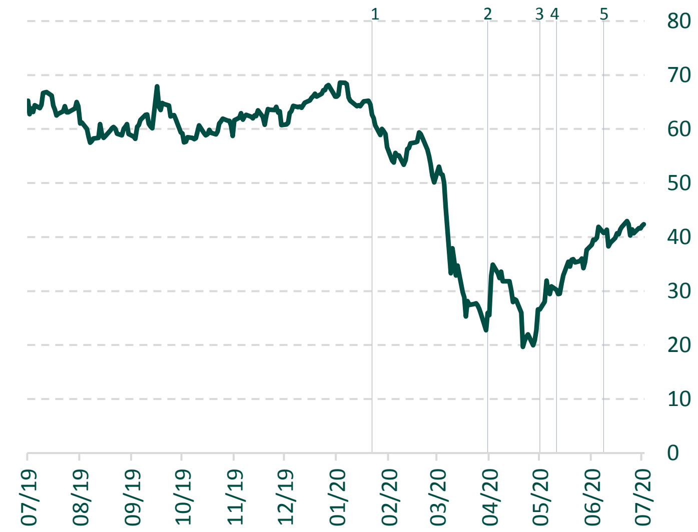
Latest developments:

- The Euribor 3-month interbank rate, the rate at which banks lend reserves to each other has returned to its pre-crisis range.
- The rate peaked at -0.16 per cent on 23/04 (an increase of 24bps from 19/02), but has since retreated to -0.42 per cent on 01/07.

Source: Macrobond

Section 2: economic outlook – gradual recovery underway but risks remain

Figure 2.1 – Oil prices, $ per barrel

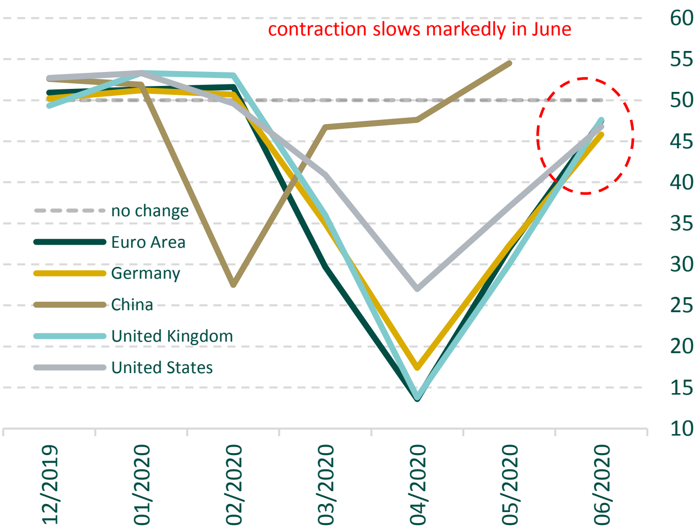


Latest developments:

- Oil prices have fallen sharply – from c.$68 pb to c.$42.3 pb – since the beginning of the year.
- Prices fell on lower demand, and a number of policy developments affecting supply.
  1. WHO announce evidence of human transmission COVID-19 on 23/01
  2. OPEC+ fail to agree production cuts on 06/03 leading to 25 per cent supply from Saudi Arabia from April
  3. OPEC+ agree production cuts of 9.7m b/pd for May and June, equivalent to 10 per cent of global supply
  4. Saudi Arabia announce an additional unilateral production cut of 1 million b/pd in June on 11/05.
  5. OPEC+ and Russia agreed to extend production cuts until end of July on 06/06

Source: Macrobond

Figure 2.2 – Composite PMI

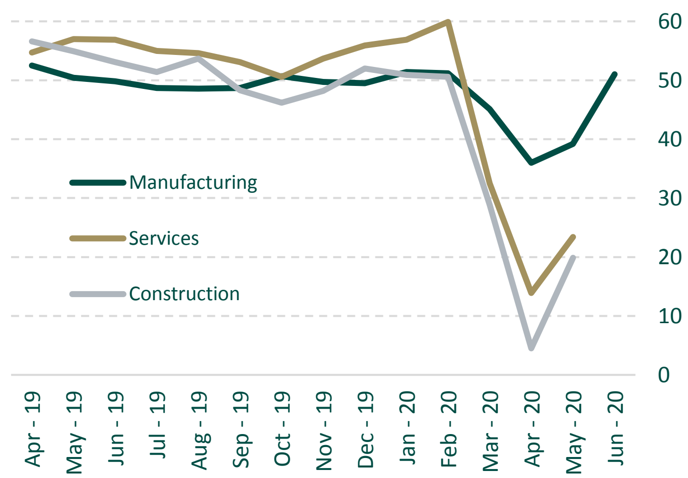


Latest developments:

- **Composite PMI** for the euro area rose to a 4-month high 47.5 (+15.6) in **June**, from a record low of 13.6 in April, though still indicating a decline in business output.
- Euro area **Services PMI** rose to 47.3 (+16.8) in June; **manufacturing PMI** increased to 46.9 (+7.5).
- **Composite PMIs** for the **US, UK**, and **Germany** also reported markedly reduced rates of contraction, rising to 46.8 (+9.8), 47.6 (+17.6), and 45.8 (+13.5) points respectively.
- However, values remain below the 50.0 'no-change' level. This is consistent with still falling activity
- The flash PMIs for June were released 23/06, from data collected 12th-24th June.

Source: Macrobond, IHS Markit

Figure 2.3 – Ireland PMI

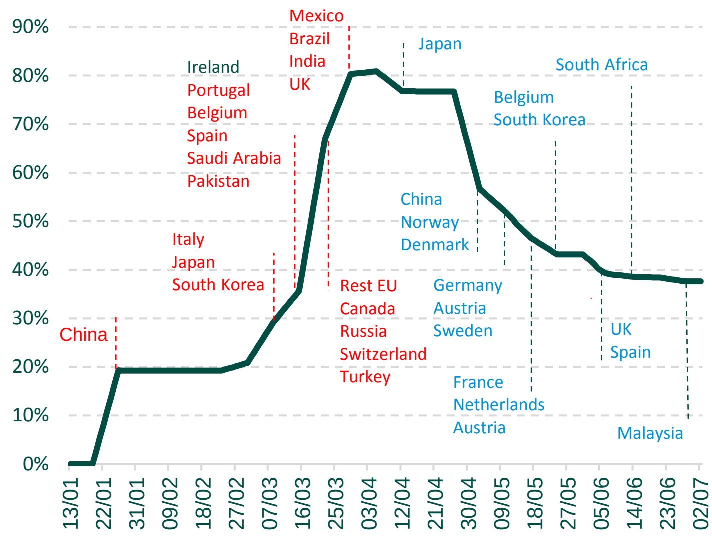


Latest developments:

- **Manufacturing** PMI rose to 51.0 in **June** from 39.2 in May, a record increase of 11.8 points.
- Large increases in the new orders and output components of manufacturing PMI are an indicator of improved conditions, as lockdowns have eased gradually.
- **Services** PMI rose to 23.4 in **May** from its lowest ever reading of 12.0 in April.
- **Construction** PMI rose to 19.9 in **May,** from a series low of 4.5 in April.

Source: Macrobond, IHS Markit

Figure 2.4 – % of world GDP affected by COVID-19 restrictions

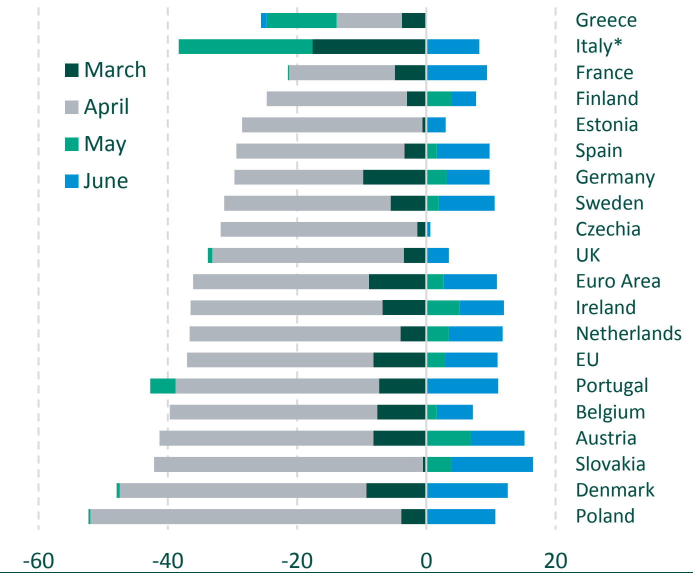


Latest developments:

- The temporary suspension of 'non-essential' economic activity in order to contain the COVID-19 pandemic has resulted in a dramatic reduction in global economic activity.
- Economies accounting for some 80 per cent of global GDP had introduced nationwide restrictions to address the pandemic.
- Some countries have started to ease restrictions, and to 02/07, 38 per cent of world GDP remains with nationwide restrictions.

Source: Macrobond, UNESCO; quarantines measured by school closures, 100 per cent of GDP affected by closure

Figure 2.5 – Economic sentiment, m-o-m change

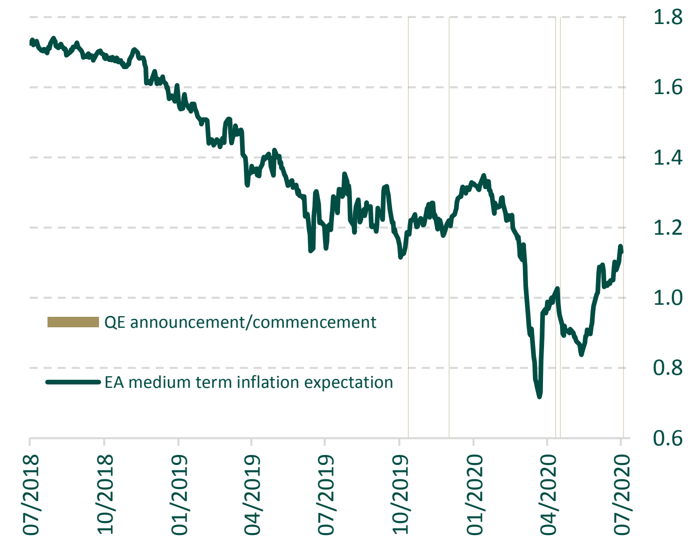


Latest developments:

- The tentative recovery in May intensified in June with the sharpest month-on-month increase on record in the euro area (+8.2 points up to 75.7) and the EU (+8.1 to 74.8).
- The ESI in both regions has so far recovered some 30 per cent of the combined losses of March and April.
- In Ireland, the ESI increased by 6.8 points to 77.5. There were improvements in sentiment in Services (+17.2), Industry (+7.5), Construction (+6.0), Retail (+5.6), and amongst Consumers (+3.1).
- The ESI recovered in all of the largest euro area economies, France (+9.4), the Netherlands (+8.3), Germany (+6.6), Spain and Italy (+8.2).

Source: EU Commission; *note: the response rate in April was lower than usual. *No data could be collected in Italy in April

Figure 2.6 – Euro area 5yr – 5yr forward inflation expectation

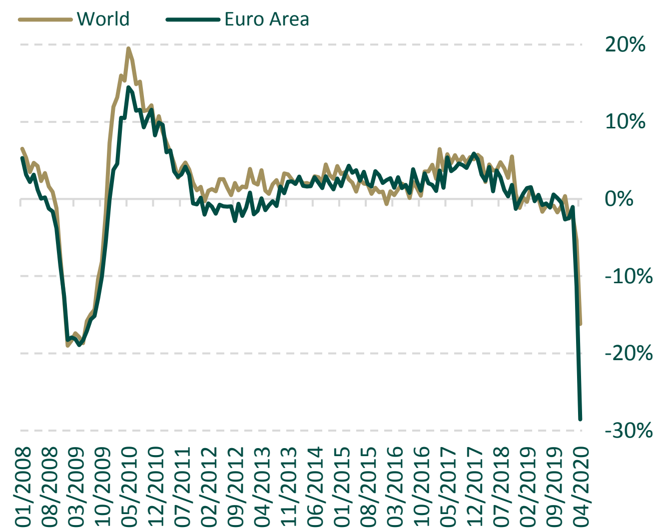


Latest developments:

- The 5 Year – 5 Year forward inflation expectation rate is a market-based measure of medium-term inflation expectations.
- The indicator, which was falling through February and March, has recovered somewhat following the ECB announcement of the Pandemic Asset Purchase Programme (PEPP) on 18/03.
- The ECB on 04/06, increased the envelope for the Pandemic Emergency Purchase Programme by €600bn to a total of €1,350 billion, with the horizon for purchases extend until at least June 2021. Policy rates were unchanged.

Source: Bloomberg

Figure 2.7 – World trade volume, % change y-on-y



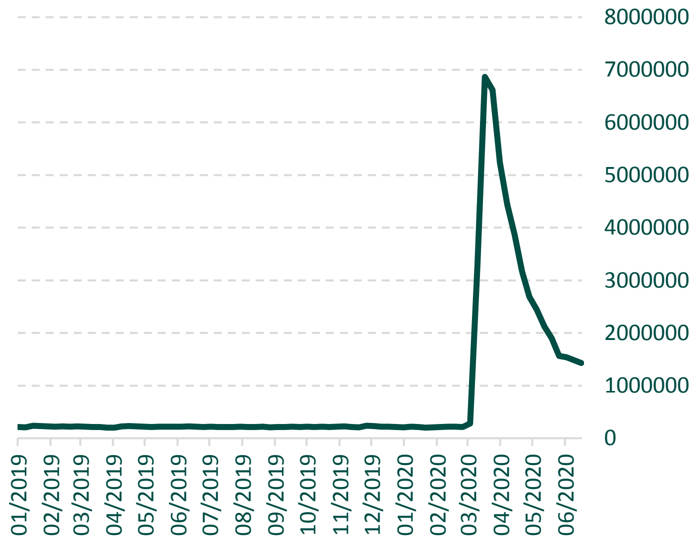
Latest developments:

- The CPB Netherlands Bureau for Economic Policy Analysis publishes its 'CPB World Trade Monitor' (WTM) every month.
- The Monitor showed that the volume of world trade decreased by 16 per cent in April compared with April 2019. The volume of Euro Area trade decreased by 28.5 per cent in April compared with a year earlier.
- No region showed a month on month increase in trade volume; the Euro Area was the most negative (-13 per cent exports; and -11 per cent imports).

  The latest release was on 25th June 2020, for data up to April 2020.

Source: Netherlands Bureau for Economic Policy Analysis

Figure 2.8 – US initial jobless claims

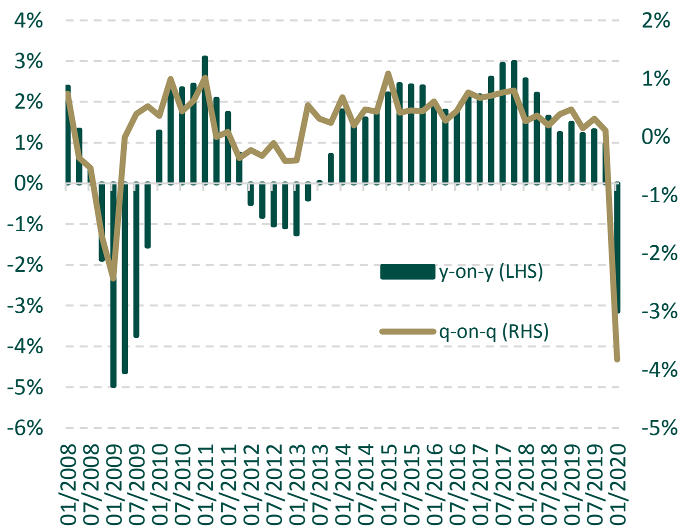


Latest developments:

- 1.42 million initial jobless claims were filed in the US for the week ending June 27th- significantly down from the peak of 6.6 million at end March. This brings total initial jobless claims to around 48.7 million over the past thirteen weeks.
- US employers added 4.8m new jobs in June and the unemployment rate dropped to 11.1 per cent from 13.3 per cent in May.
- The cumulative increase in initial jobless claims over the period is equivalent to c. 28.7 per cent of the US workforce.

Source: Macrobond

Figure 2.9 – Euro Area GDP, per cent



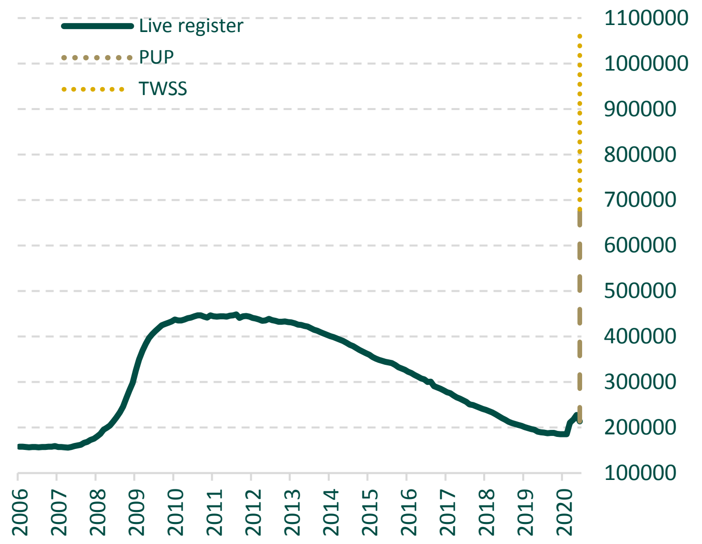
Latest developments:

- GDP decreased by 3.6 per cent in the euro area during Q1 2020 compared with the previous quarter.
- The quarterly contraction in Q1 was the sharpest decline since the series began in 1995.
- GDP decreased by 3.1 per cent compared with the same quarter of the previous year. This was the sharpest decline since Q3 2009.

Source: Macrobond

Section 3: Irish economy – impact evident in real-time indicators

Figure 3.1 –Live register, persons

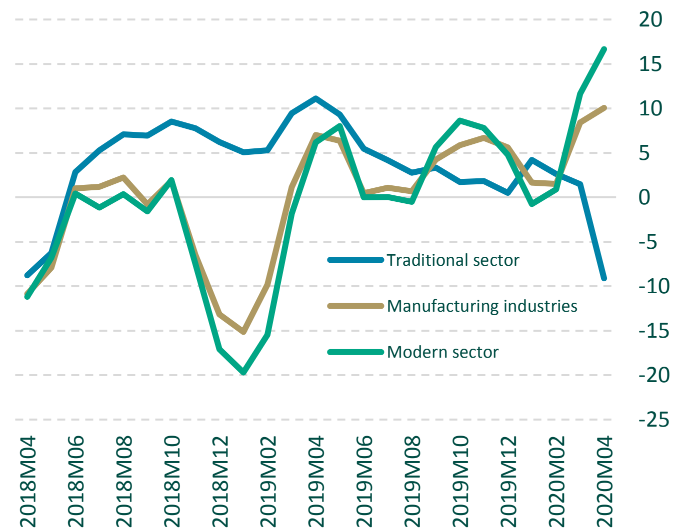


Latest developments:

- 439,000 people are in receipt of the COVID-19 Pandemic Unemployment Payment (PUP) on 29/06, a decrease of 26,900 compared to last week.
- These payments are in addition to the 213,700 people on the Live Register at end June, and some 382,018 in receipt of the Temporary Wage Subsidy (TWSS) in June
- The monthly unemployment rate for June (standard methodology) was 5.3 per cent, down from 5.6 per cent in May.
- The CSO's new COVID-19 Adjusted Measure of Unemployment indicates a rate as high as 22.5 per cent in June, if all PUP claimants were classified as unemployed. This is down from 26.1 per cent in May.

Source: DEASP, Revenue, CSO

Figure 3.2 – Industrial Production (3mma), y-on-y growth

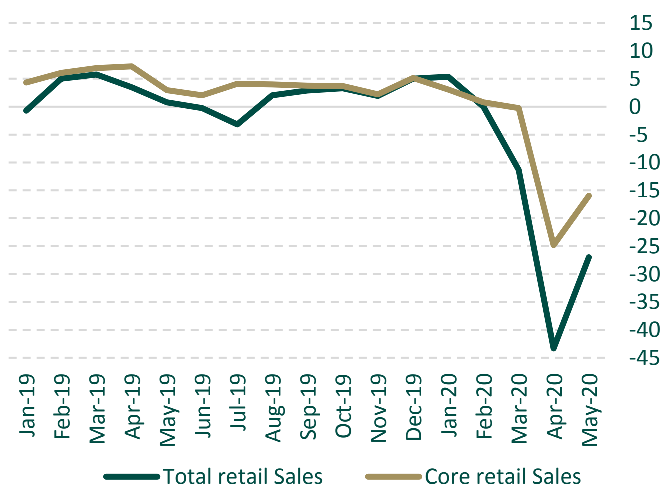


Latest developments:

- On a three month moving average basis, production in the mainly indigenous **traditional** sector decreased by 9 per cent year-on-year.
- Production in the **modern** sector, comprising a number of high-tech and chemical sectors, increased by c.17 over the same period on the same basis.
- Production in the **manufacturing** sector increased by 10.1 per cent year-on-year over the same period and on the same basis.
- The **traditional** sector is less impacted by contract manufacturing, thus giving a more accurate picture of domestic economy activity.
- **Industrial turnover** (i.e. sales) decreased by 9 per cent in the month and by 6.1 per cent year-on-year.

Source: CSO

Figure 3.3 – Retail sales, annual growth rate, per cent

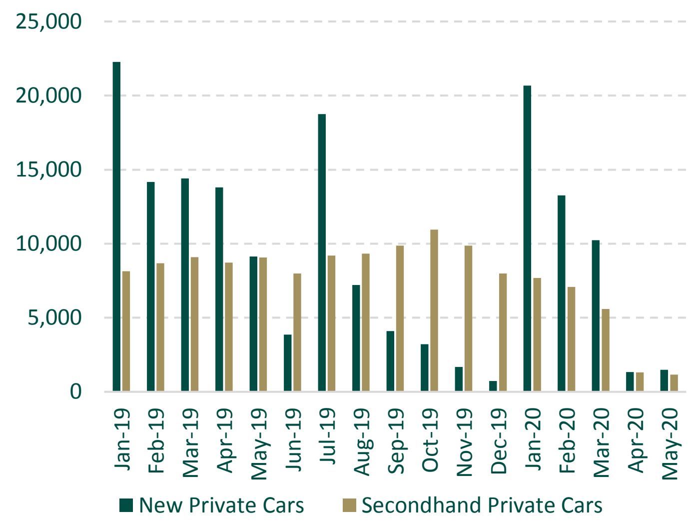


Latest developments:

- Year-on-Year;
  - The volume of retail sales decreased by 26.6 per cent (sa) when compared with May 2019.
  - The volume of 'core' sales (excluding Motor Trades) decreased by 16.2 per cent compared with May 2019.
- Month-on-Month;
  - The volume of retail sales increased by 29.5 per cent (sa) in May compared with April.
  - The volume of 'core' sales (excluding Motor Trades) increased by 9.3 per cent (sa) in May compared to April
- Despite monthly increases, consumer spending is still significantly below pre-Covid levels, with retail sales 27 per cent below the average level in January/February.

Source: CSO

Figure 3.4 – Cars licensed for the first time, number

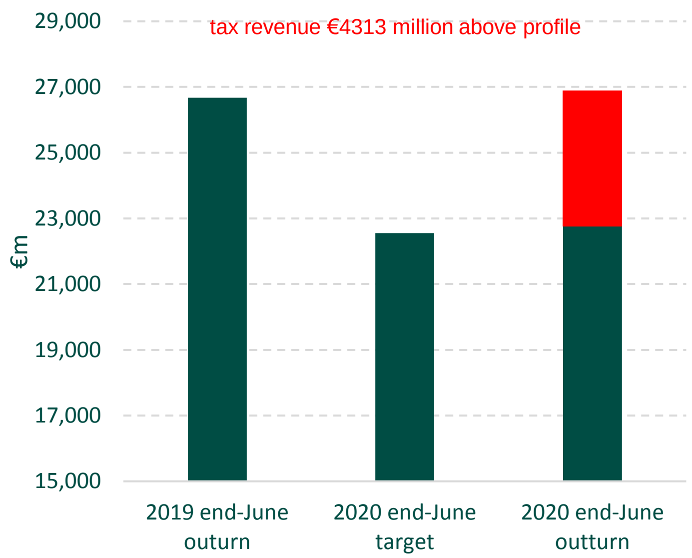


Latest developments:

- 1,490 private cars were licensed for the first time in May 2020. This is down 84 per cent on the same month last year.
- 1,170 second-hand private cars were licensed for the first time in April 2020, down 87 per cent on the same month last year.

Source: CSO

Figure 3.5 – Tax receipts, € millions



Latest developments:

- Cumulative tax receipts of €26,863 million are broadly flat year-on-year, ahead by €192 million or 0.7 per cent
- Revenue was driven by large Corporation Tax receipts and boosted by a strong performance at the start of the year, which has compensated to some degree for significant declines across other tax heads.
- In general, the pattern in recent months has been for substantial year-on-year declines across most major tax heads, although not as severe a shock as initially anticipated.
- VAT and Excise receipts are down significantly, by 20.5 per cent and 23.9 per cent respectively, on an annual basis, mirroring the steep fall in personal consumption.
- Income Tax has proved somewhat more resilient than anticipated to date, attributable to the progressivity of the income tax system and sectoral effects. However, recent months have nonetheless shown sharp year-on-year declines, with June receipts down 20.8 per cent on last year.

Source: Department of Finance

Tithe an Rialtas. Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T:+353 1 676 7571
@IRLDeptFinance
www.gov.ie/finance