



An Roinn Airgeadais
Department of Finance

Irish economic performance during the pandemic

Presentation to MBA class, University of Limerick

By John McCarthy, Chief Economist, Department of Finance

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Birds-eye view

- First wave – ‘lockdown 1.0’
- Post-lockdown recovery
- Second wave – ‘lockdown 2.0’
- Department of Finance short-term forecasts
- Impact on public finances
- Conclusion



First wave - lockdown 1.0

Global pandemic: truly **unique** economic shock

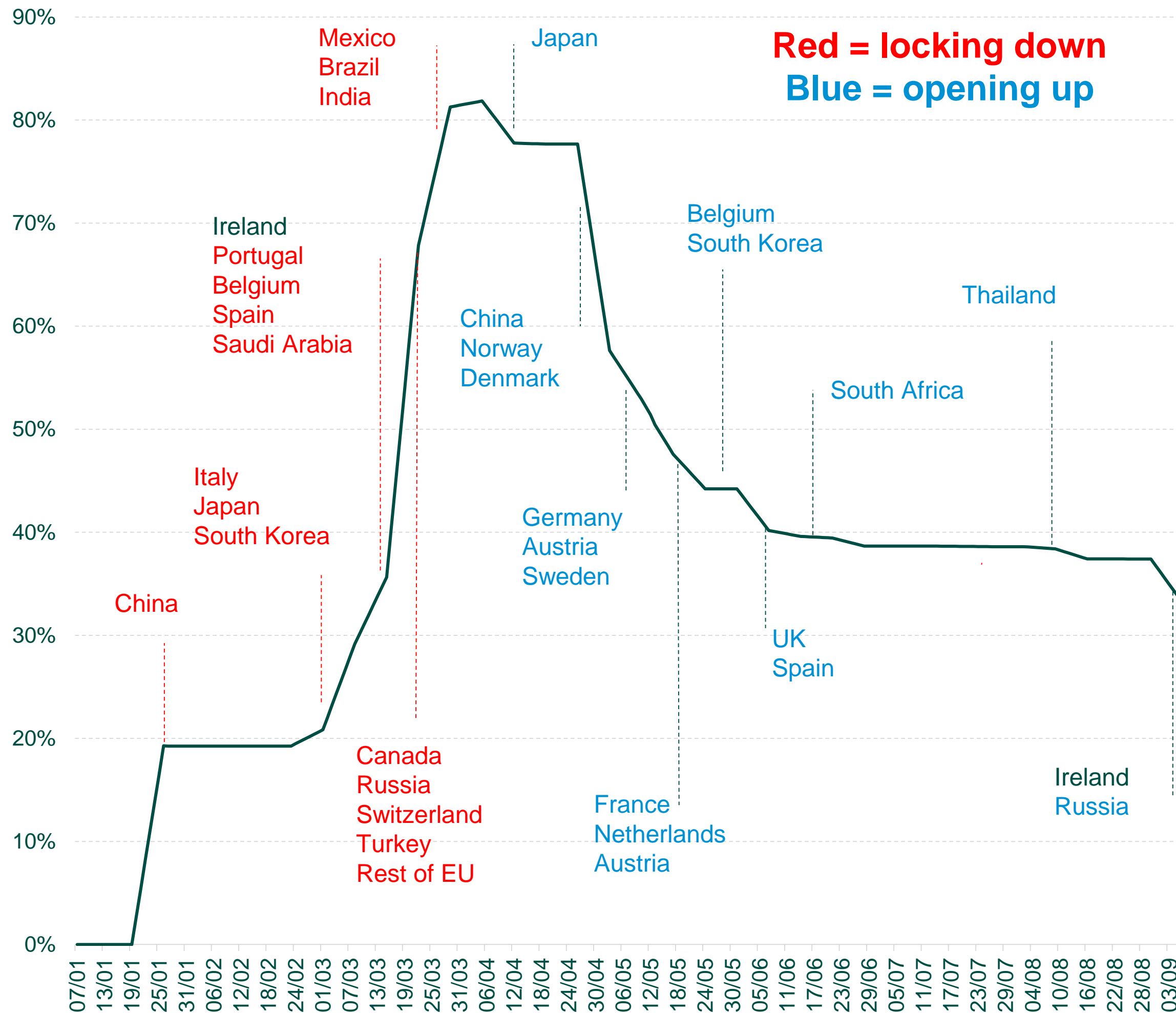


- **Speed** of transmission – immediate, no lags whatsoever
- **Depth** – q2: largest ever fall in global economic activity
- **Breath** – global [GFC = advanced economies only]
- **Exogenous** shock –
 - “normal” economic shocks usually endogenous
 - : due to inflation (70s, 80s, 90s,)
 - : financial and economic imbalances (00s, 10s)
- **Origin** – self-imposed
 - health outcomes > economic outcomes
- **Impact** – heterogeneous
 - young vs old ; skilled vs unskilled ; high vs low income earners

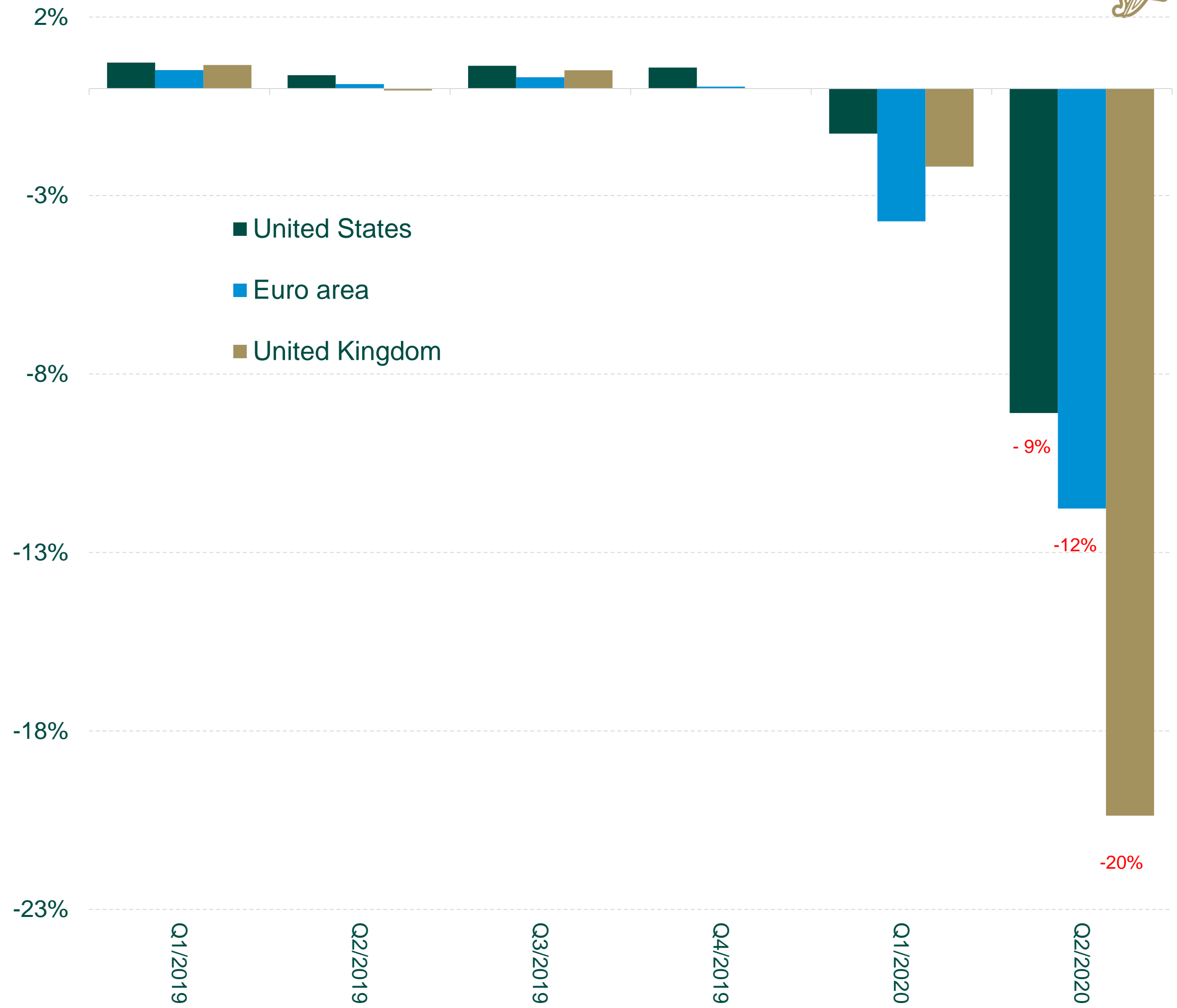
External developments: global symmetric shock



Share of global economy in lockdown



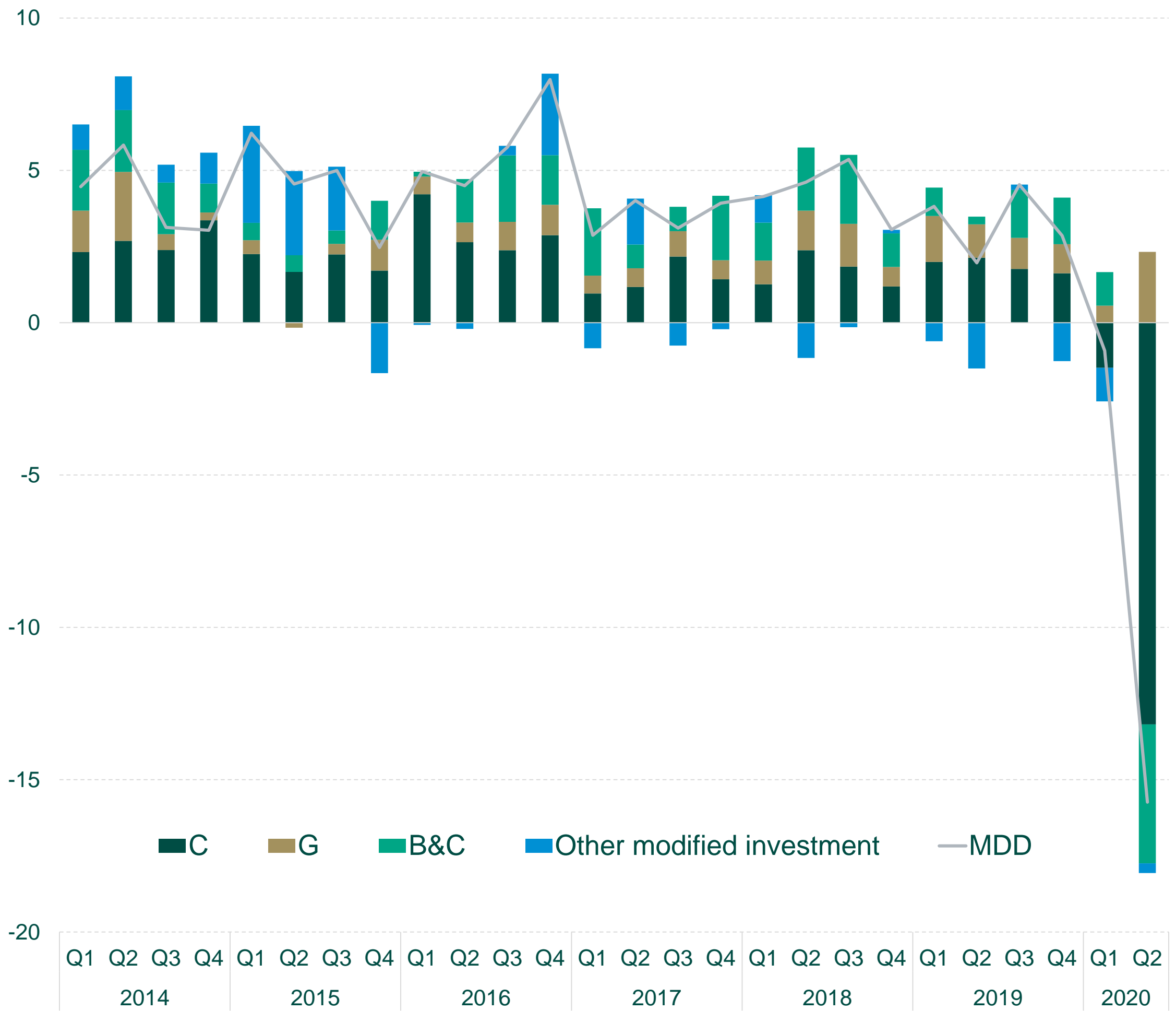
Record GDP fall in key trading partners (q/q per cent change)



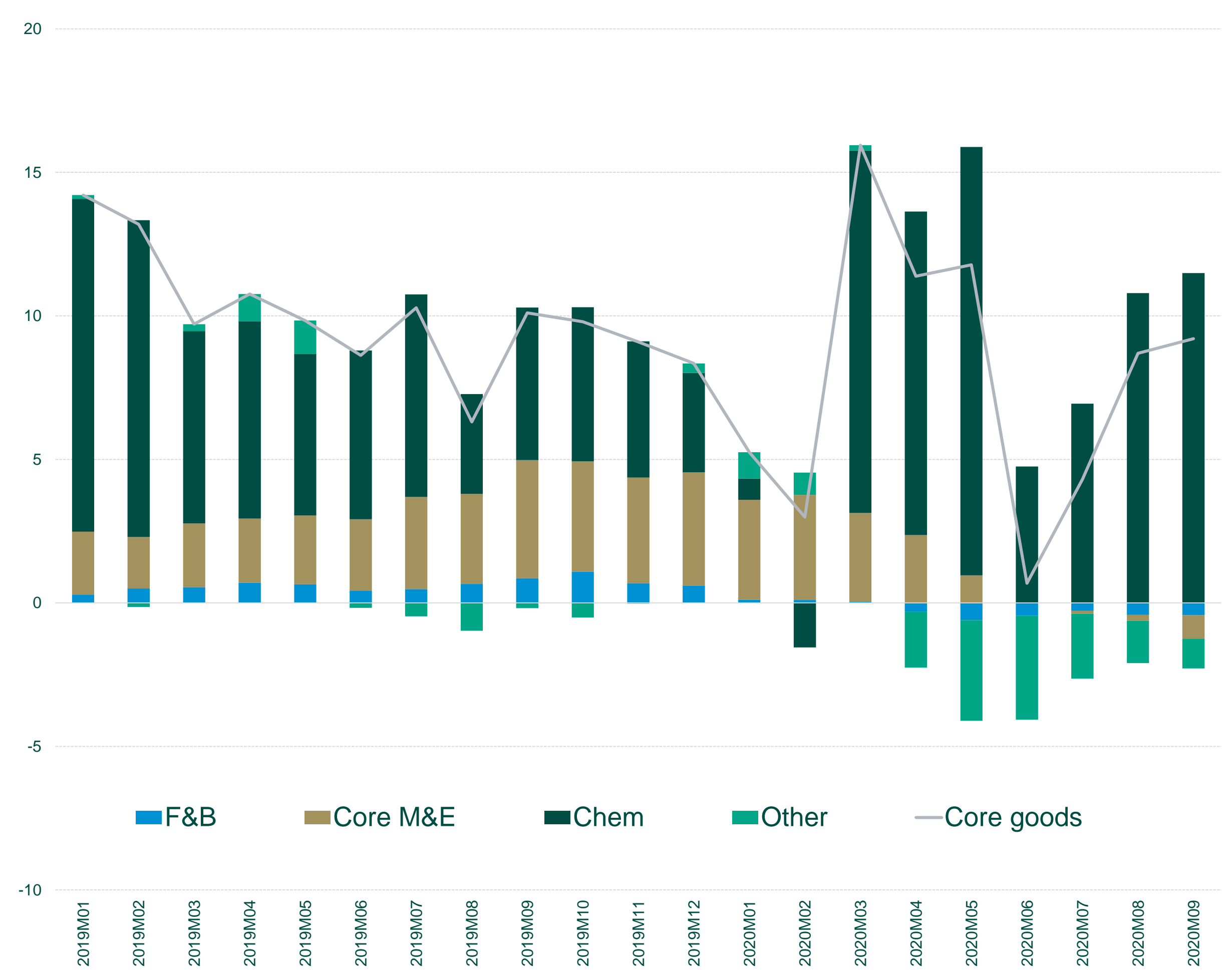
Irish economy: flying on one engine during lockdown



Q2: modified domestic demand = -16 per cent



Export resilience mainly pharm-related (y-on-y, 3MMA)



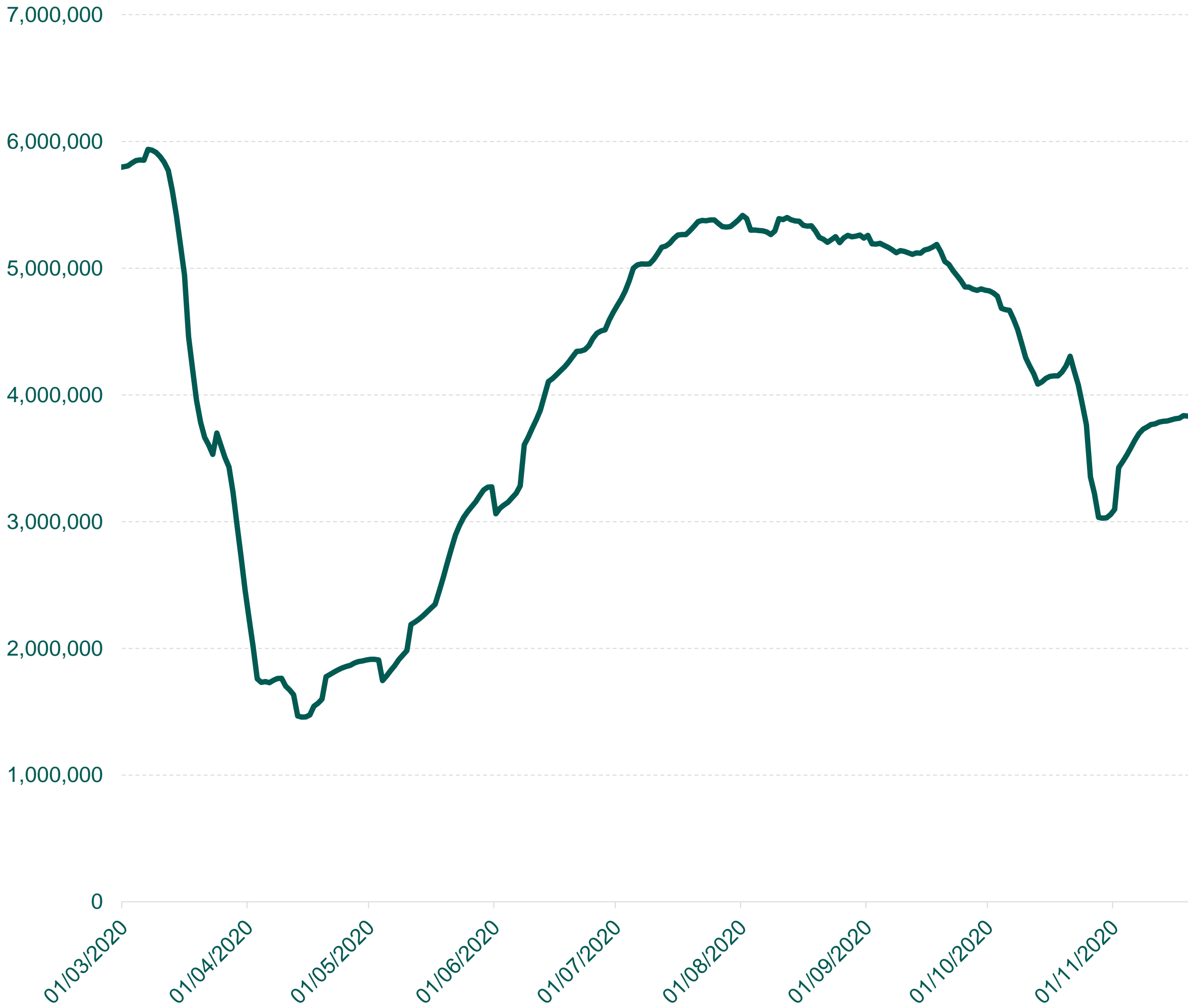


Recovery in third quarter

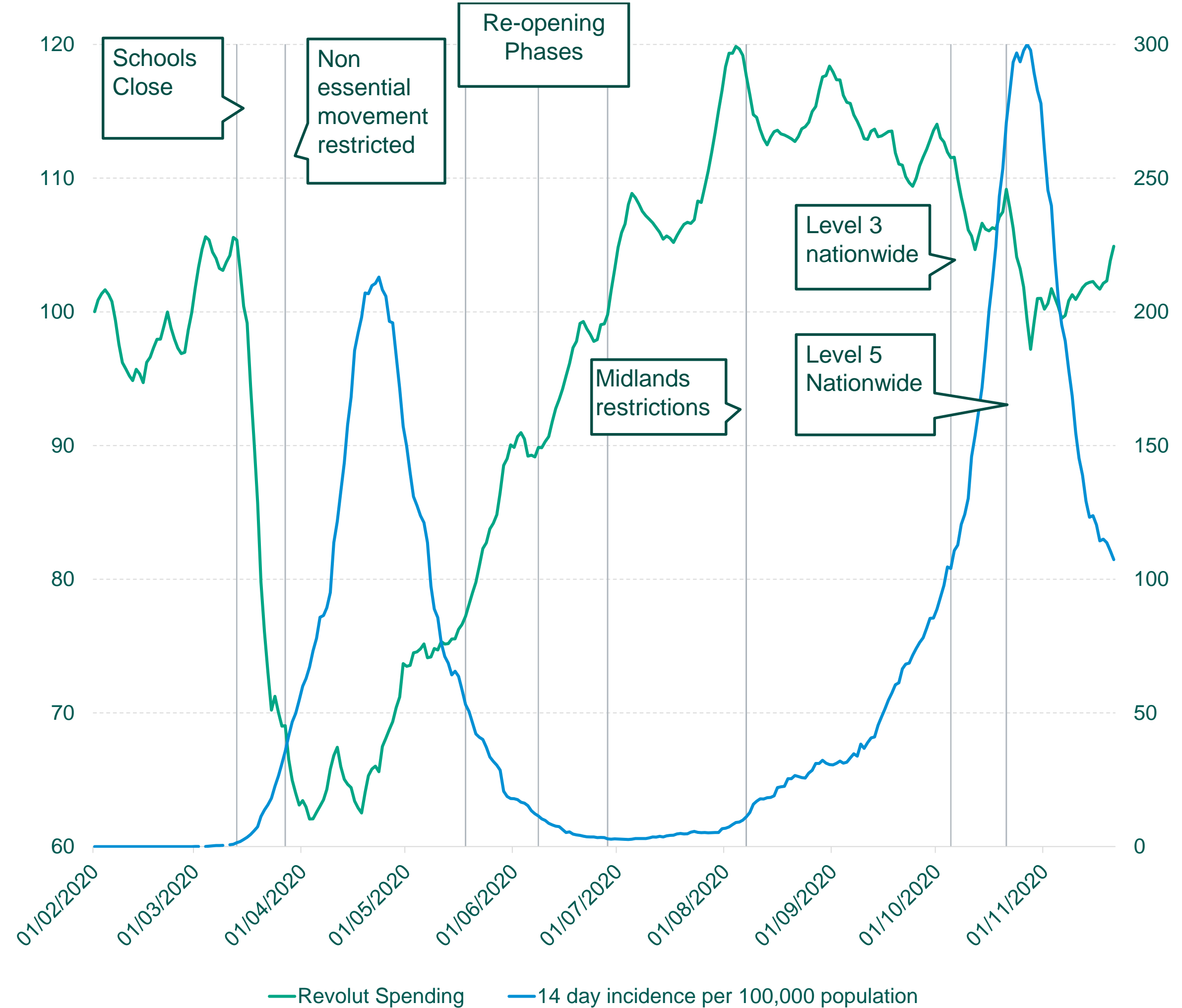
Real-time data confirm rebound in q3



Number of cars on Irish roads



Daily *Revolut* transactions vs new infections per 100,000



— Revolut Spending — 14 day incidence per 100,000 population

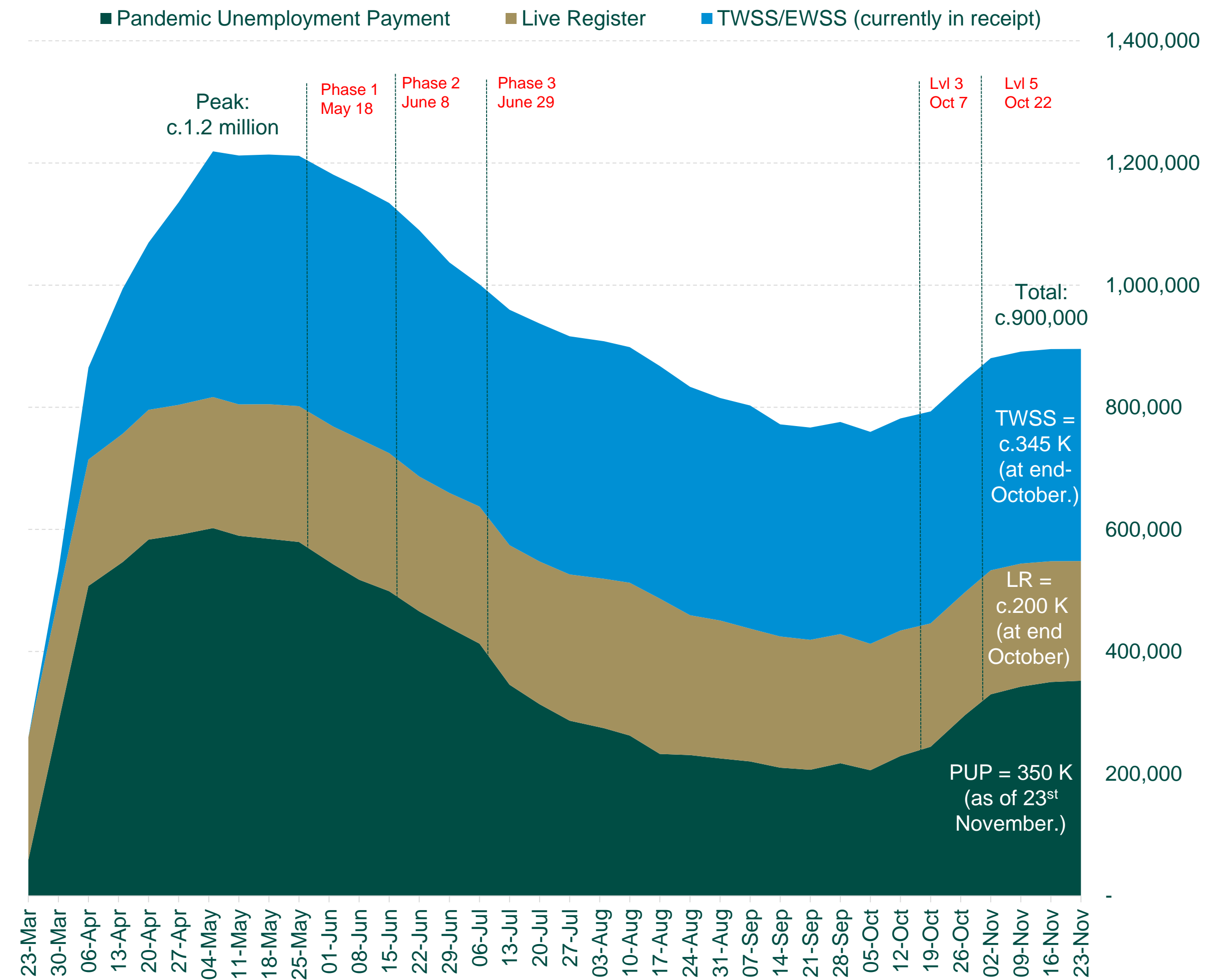
'Unofficial data' broadly confirmed by 'official data'



Retail sales [=goods] suggest release of pent-up demand



Unemployment / under-employment falling but v. high



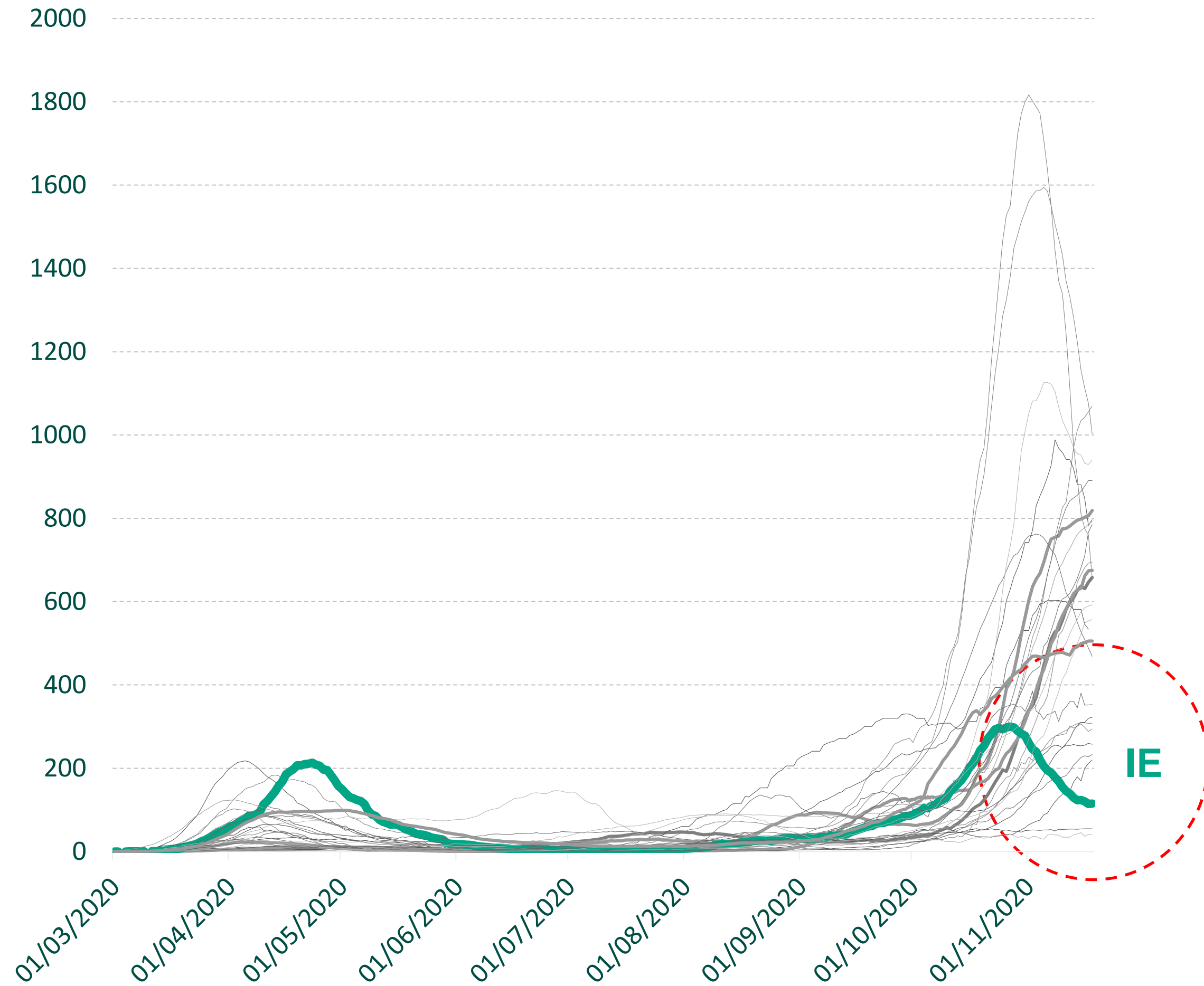


Second wave - lockdown 2.0

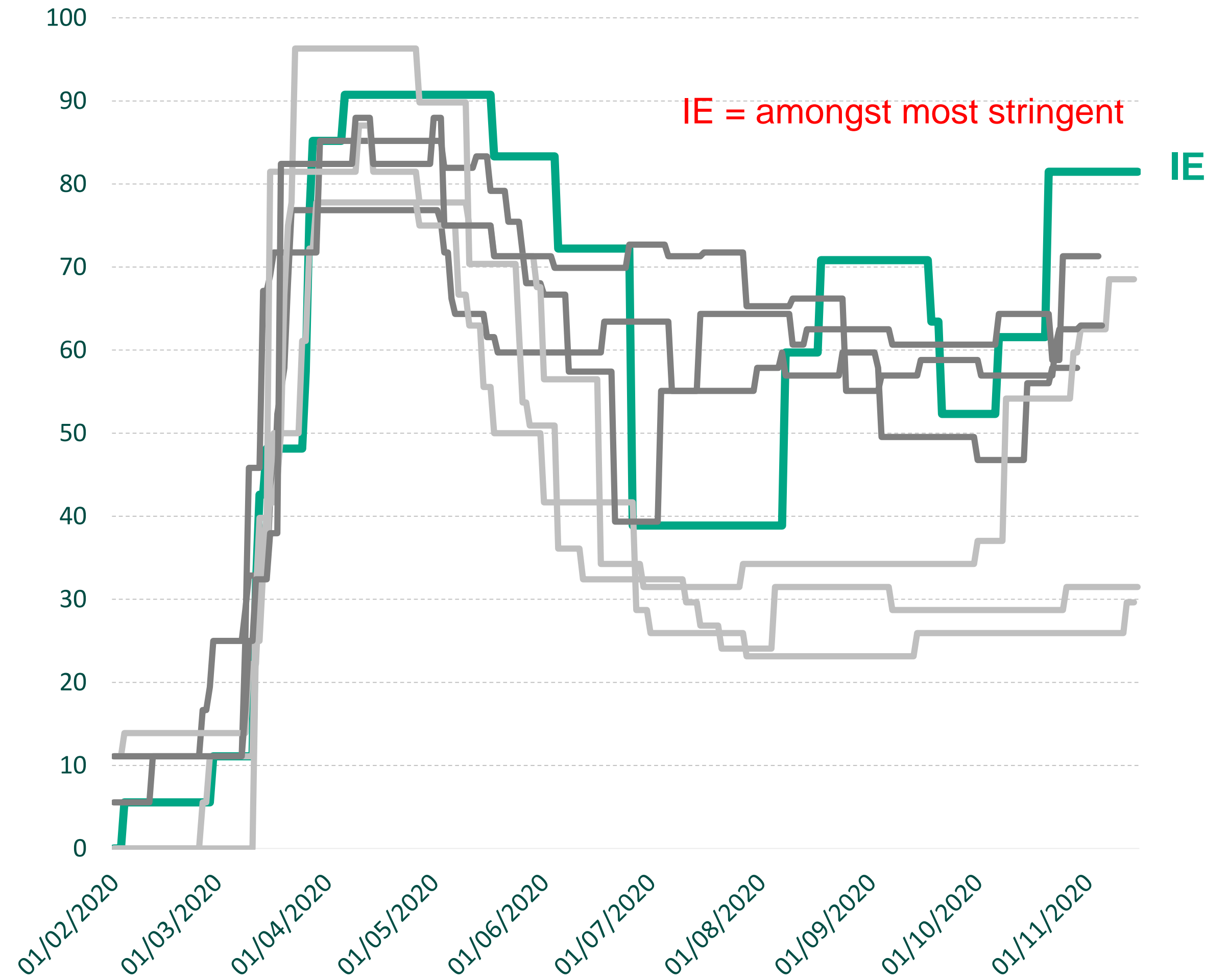
Virus-resilience: mid-August = inflection point



Up-tick in infection rate in EU (infections per 000, 7 day m.a.)



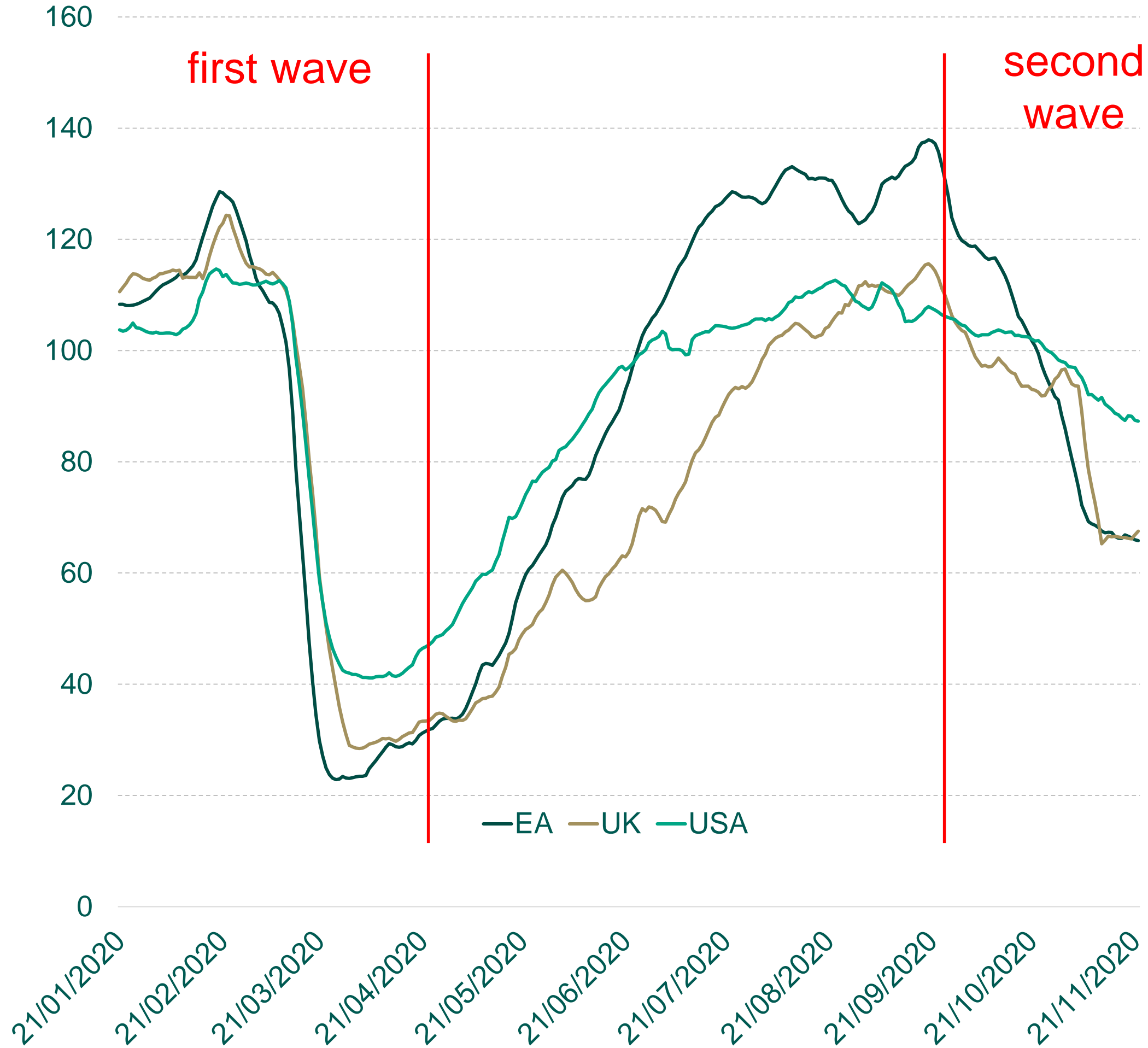
Re-introduction of restrictions in several EU MS



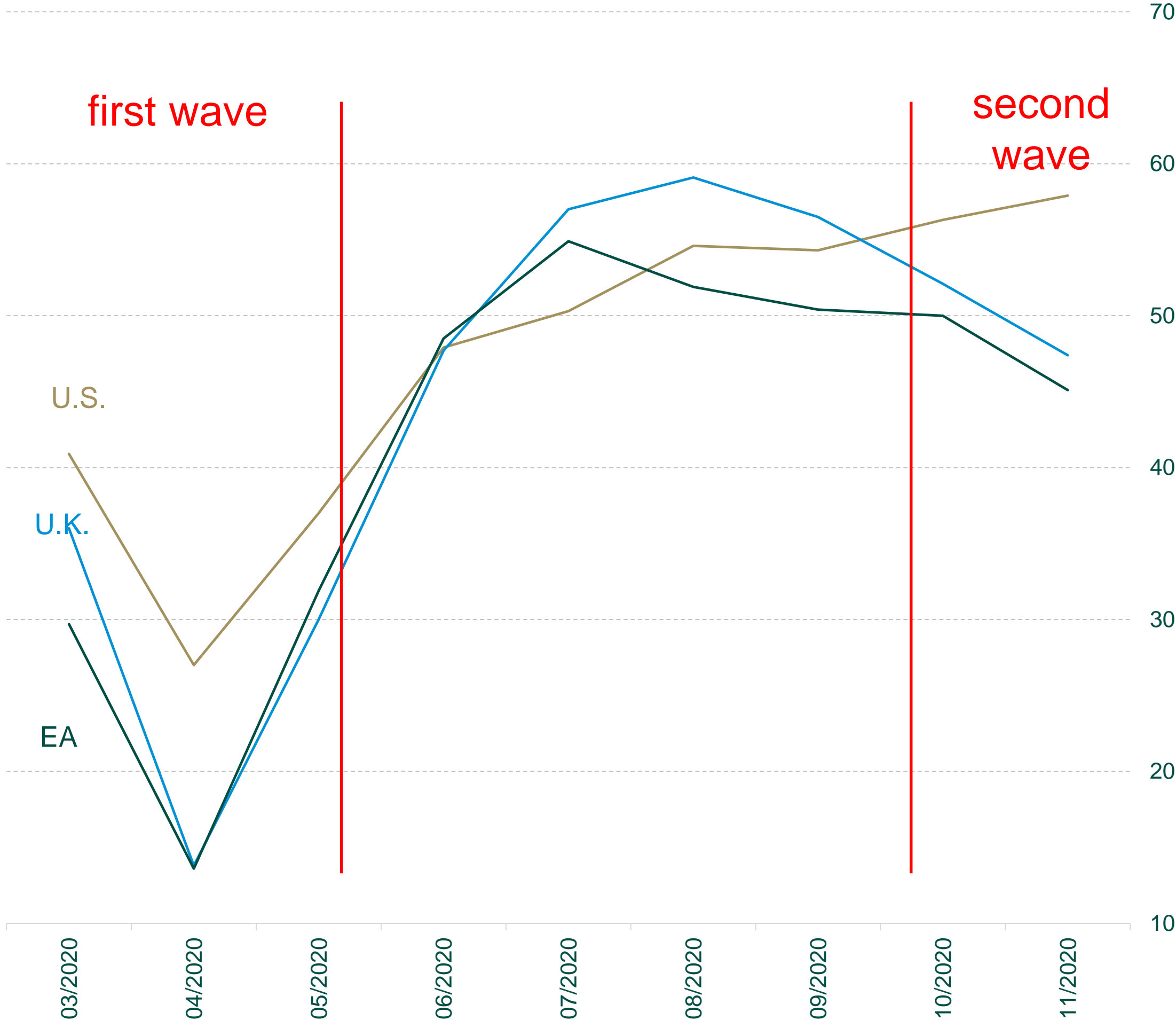
Spilling over into real-time data



Apple mobility indices for Ireland's MTPs



Composite PMI, 50 = no change



Direct economic impact unlikely as severe as in spring



- Schools / childcare open:
 - output of working parents (less) unaffected
- Scope not as wide:
 - construction sector output unaffected
- Transition to remote working:
 - physical infrastructure already in place
- External demand less negatively affected
- **Indirect costs** may be significant
 - signalling effect
 - : dispelled notion that lockdown = one-off
 - : induce adverse behavioural response [precautionary savings; cancel (vs delay) investment]



Short-term macro-forecasts

Department's autumn forecasts: key building blocks



- Key **assumptions**

- : no vaccination [some demand / supply constraints]

- : some upside risk – depends on roll-out / logistics / efficacy for different groups

- : disorderly end to transition period

- tariffs

- NTBs

- supply chains

- Methodological **approach**

- : circular flow – expenditure (C+I+G+NX) = income (profits + wages) = Value-Added

- : series of partial models

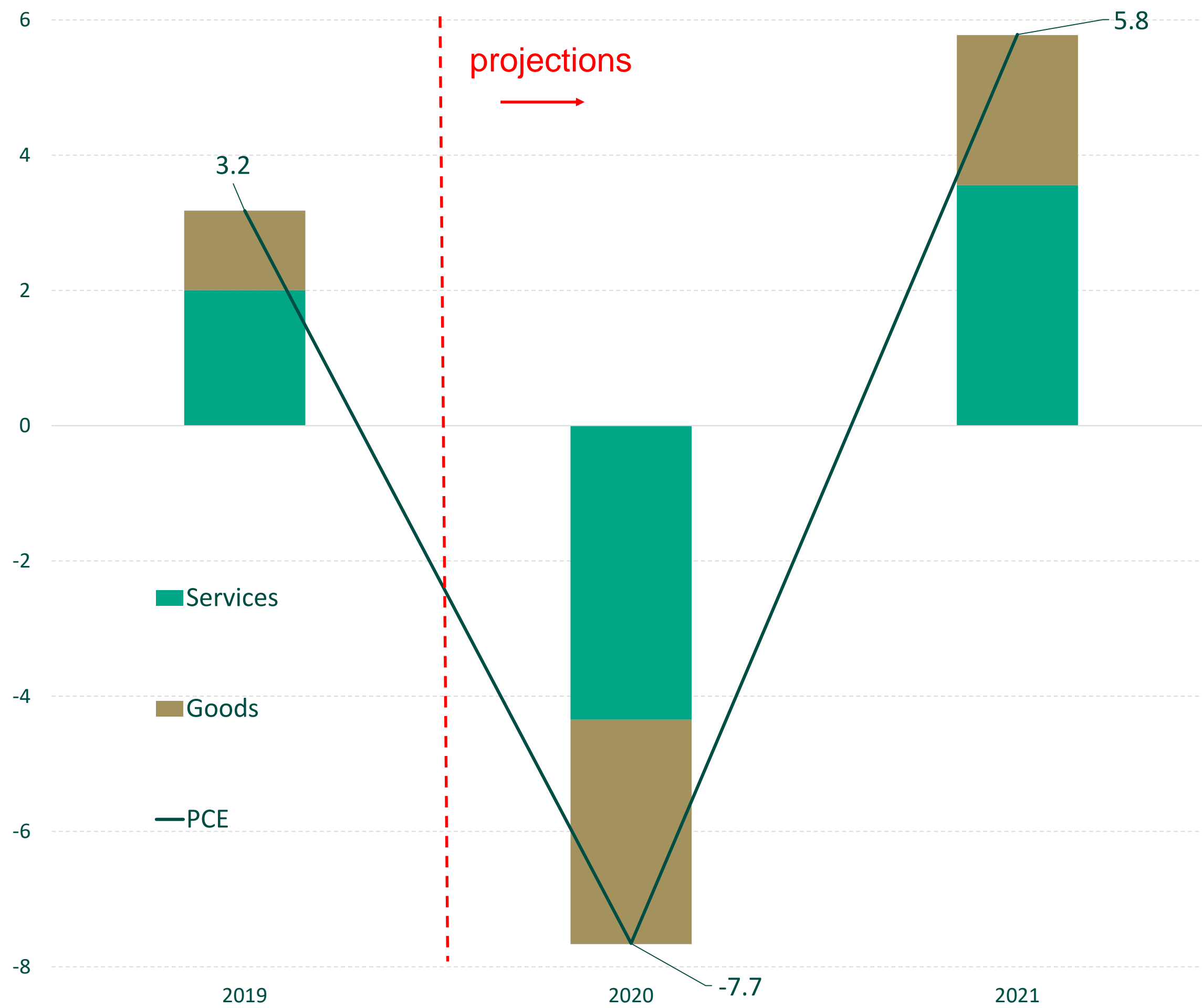
- “hub-and-spoke” approach

- Forecast **horizon** = short-term (t, t+1)

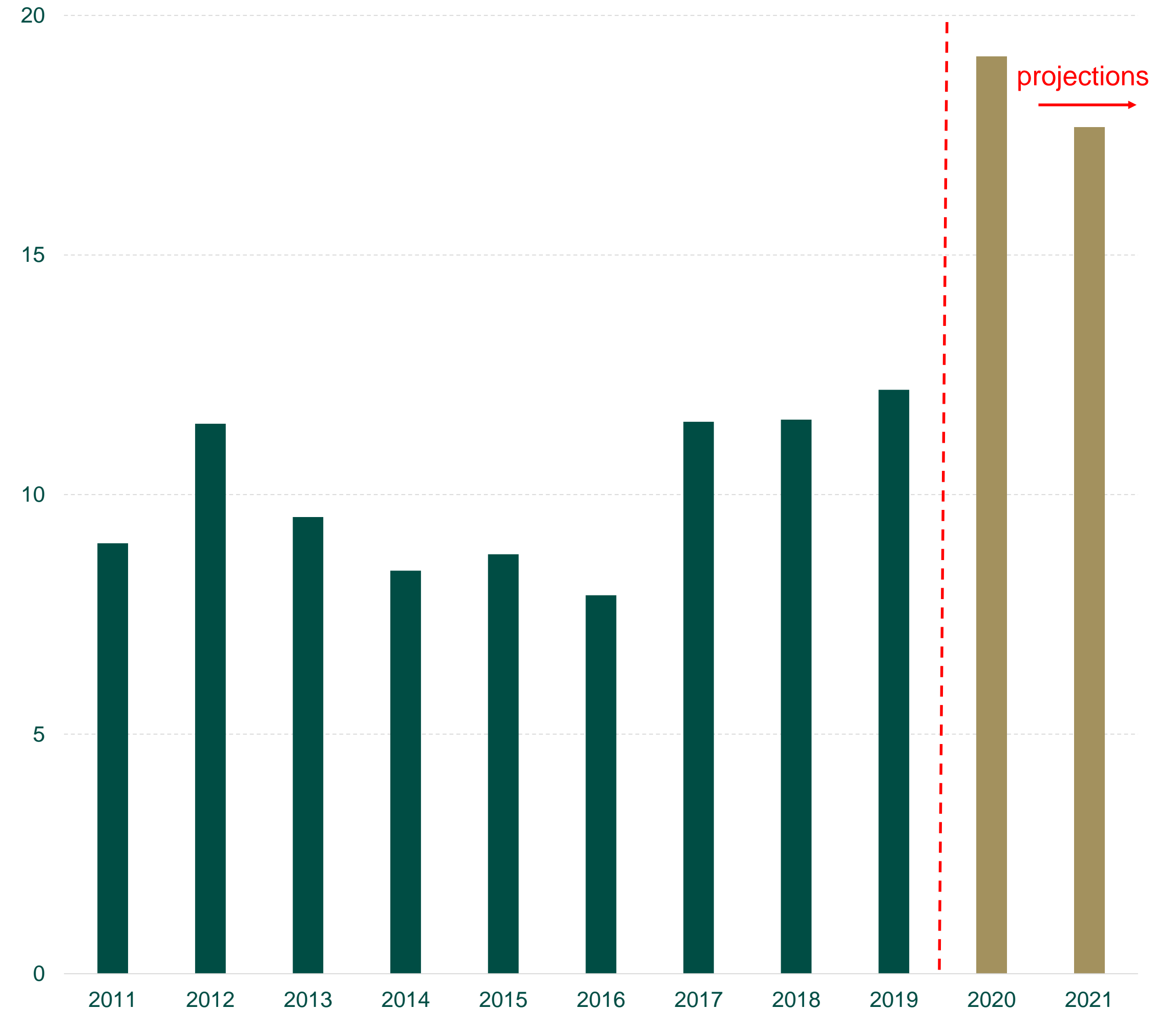
Consumer spending: precautionary savings to remain high



Personal consumer spending, contribution to y/y % change



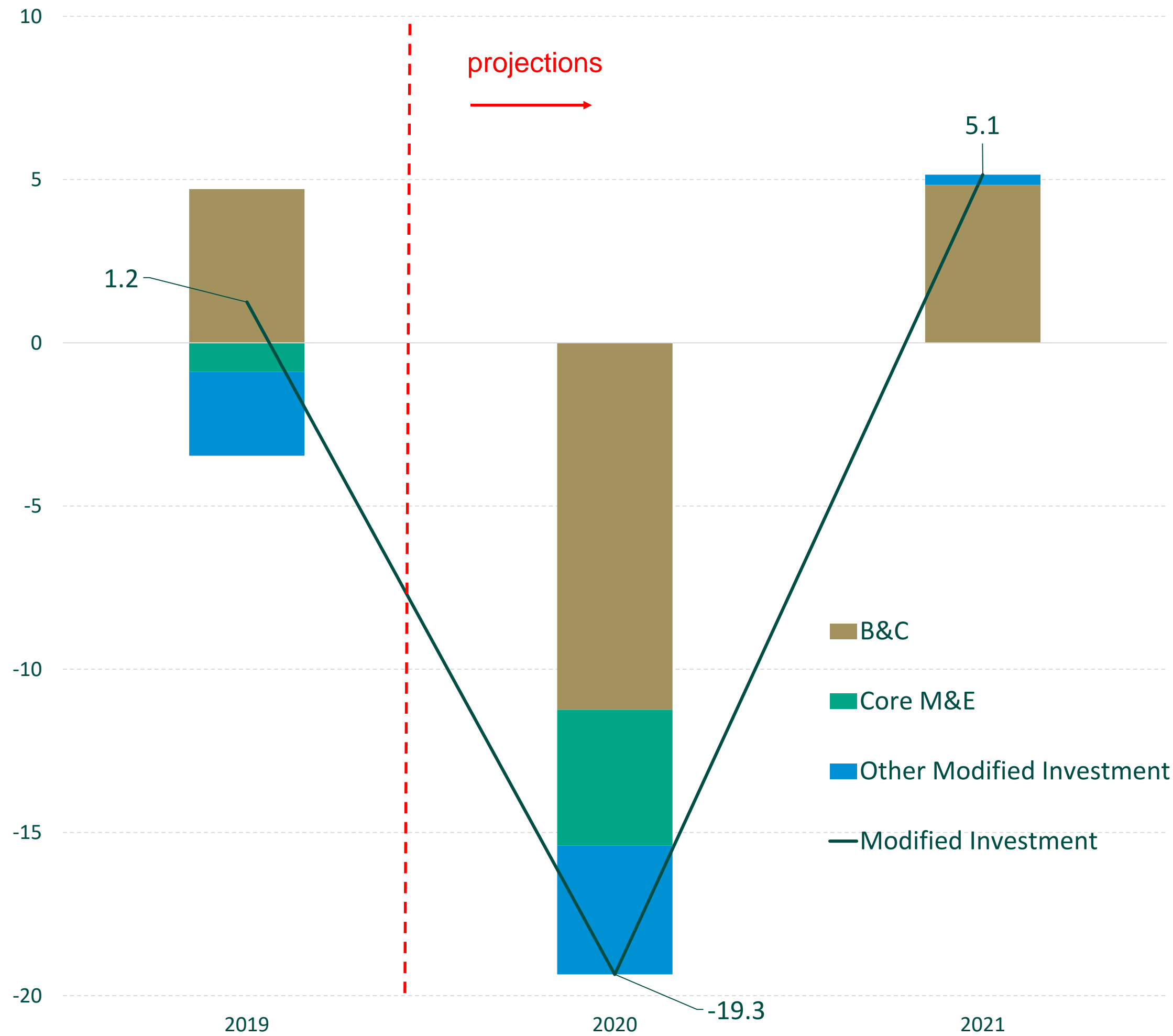
Household savings rate, per cent of disposable income



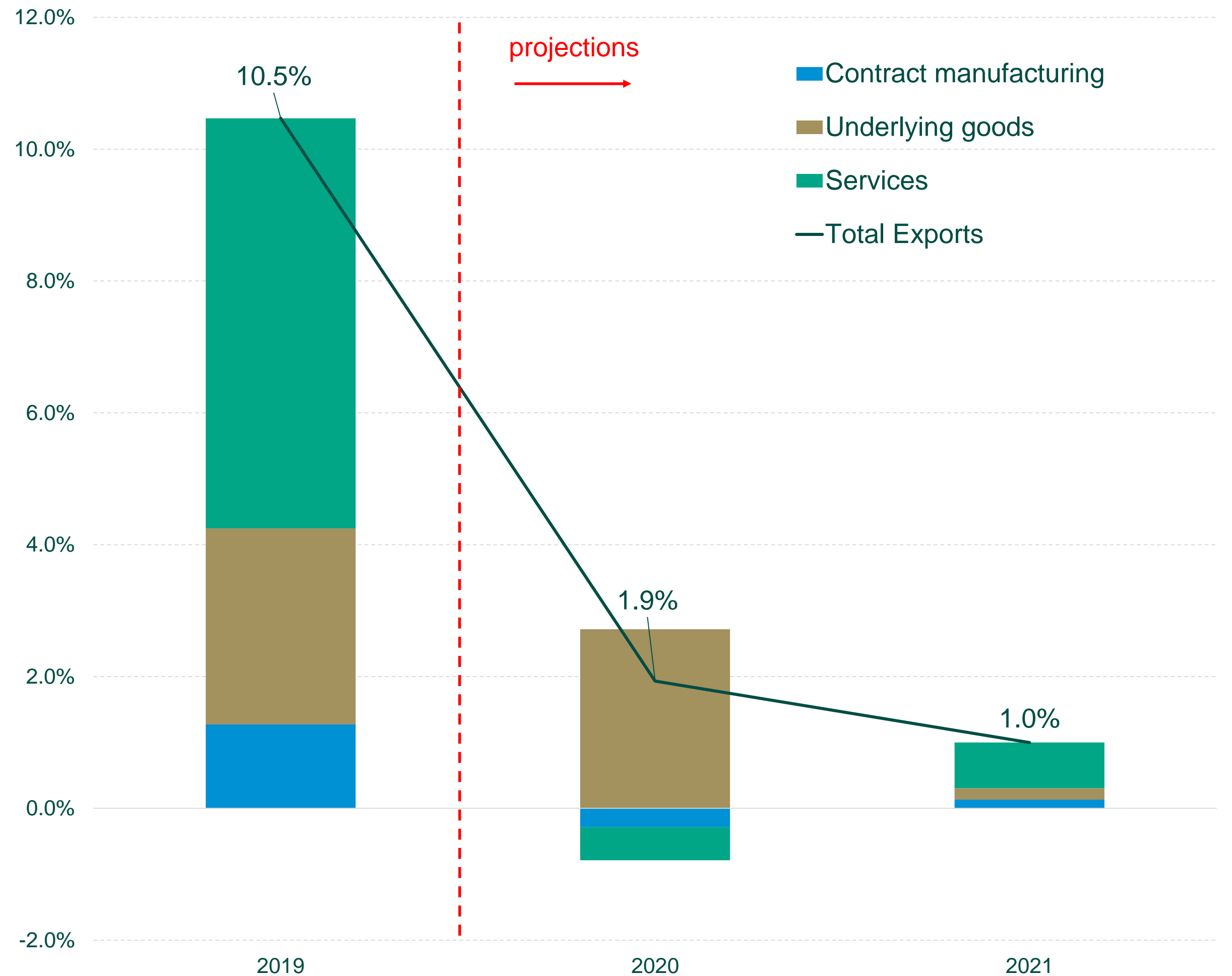
Uncertainty to curtail investment; tariffs curtail exports



Modified investment, contribution to y/y % change



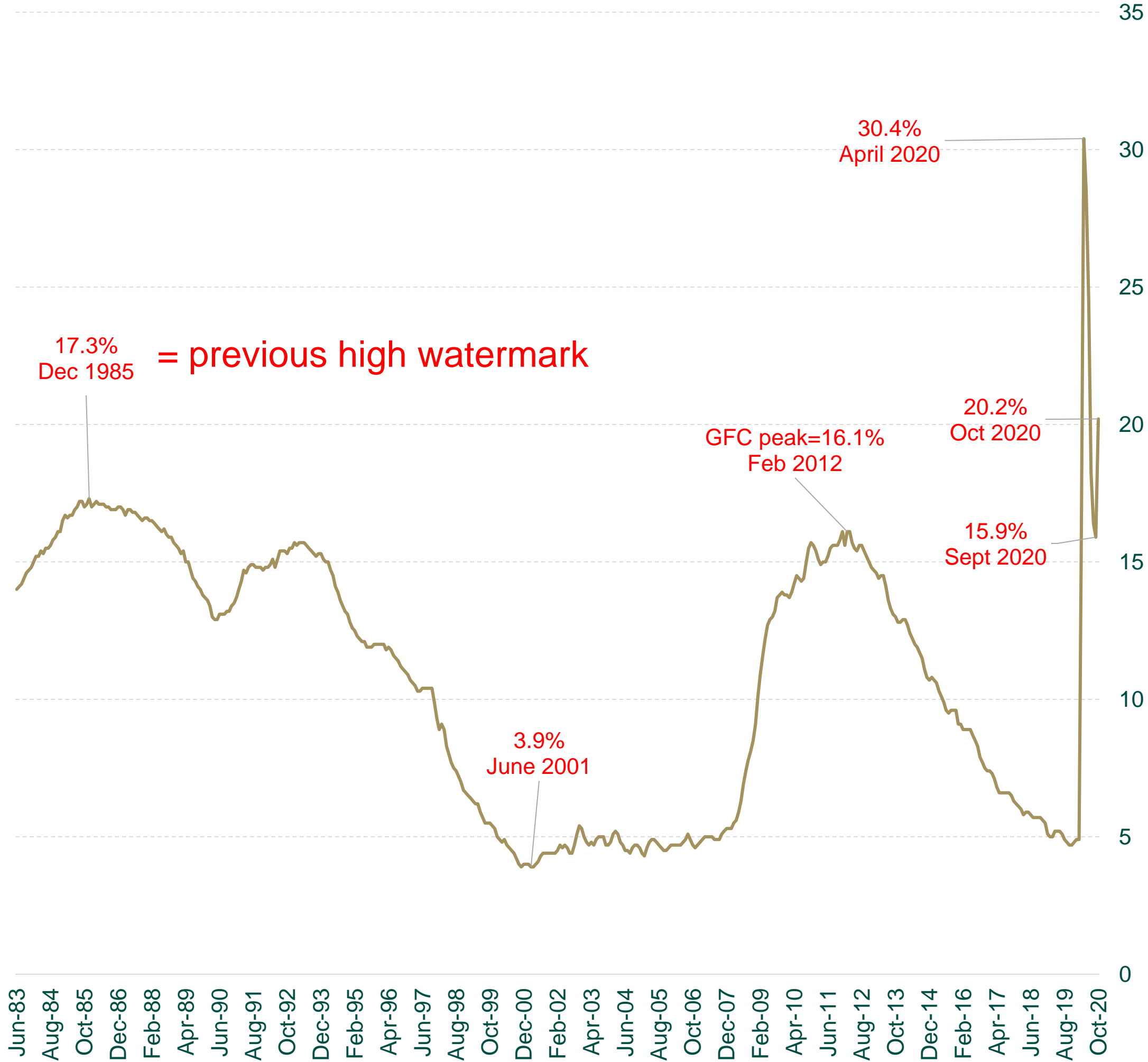
Contributions to export growth, pp



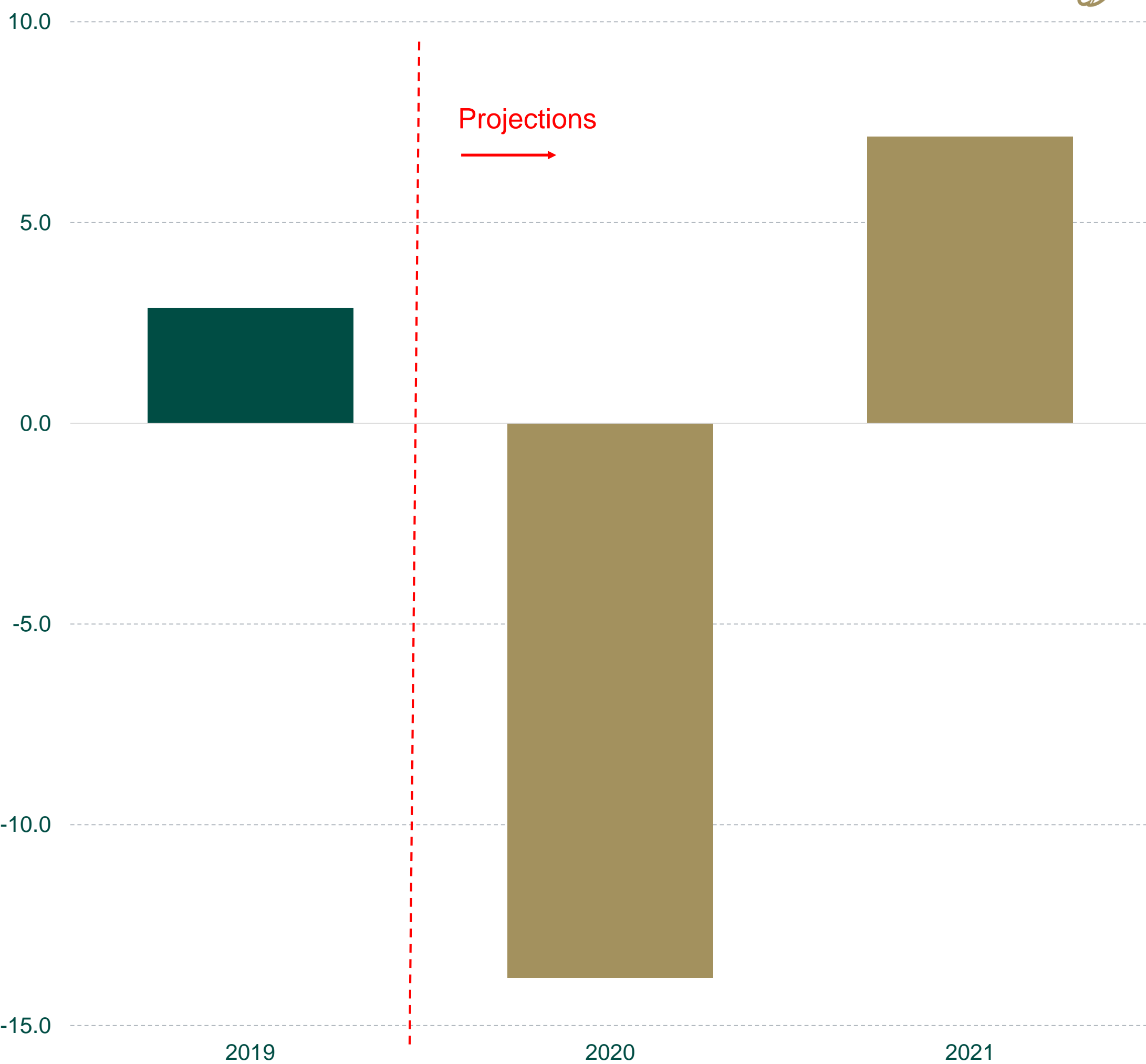
Severe fall-out in labour market



Unemployment rate, per cent = highest level ever [c. twice GFC rate]



Employment growth, y/y per cent change



Budget 2021 forecasts, annual per cent change unless stated



	2019	2020	2021
GDP	5.6	-2.5	1.4
Modified Domestic Demand	3.3	-6.5	3.9
Modified gross national income (current prices)	7.6	-5.6	1.8
Personal consumption	3.2	-7.7	5.8
Government consumption	6.3	13.3	-1.8
Modified investment	1.2	-19.3	5.1
Exports	10.5	1.9	1.0
Modified imports	12.4	1.8	2.3
Modified current account	7.7	6.7	3.4
Employment	2.9	-13.8	7.1
Unemployment (rate)	5.0	15.9	10.7

Possible recovery scenarios



Baseline (as published in January):

- No Covid, Brexit 'deal' scenario

Scenario 1: Recovery

- rapid rebound to pre-pandemic level output

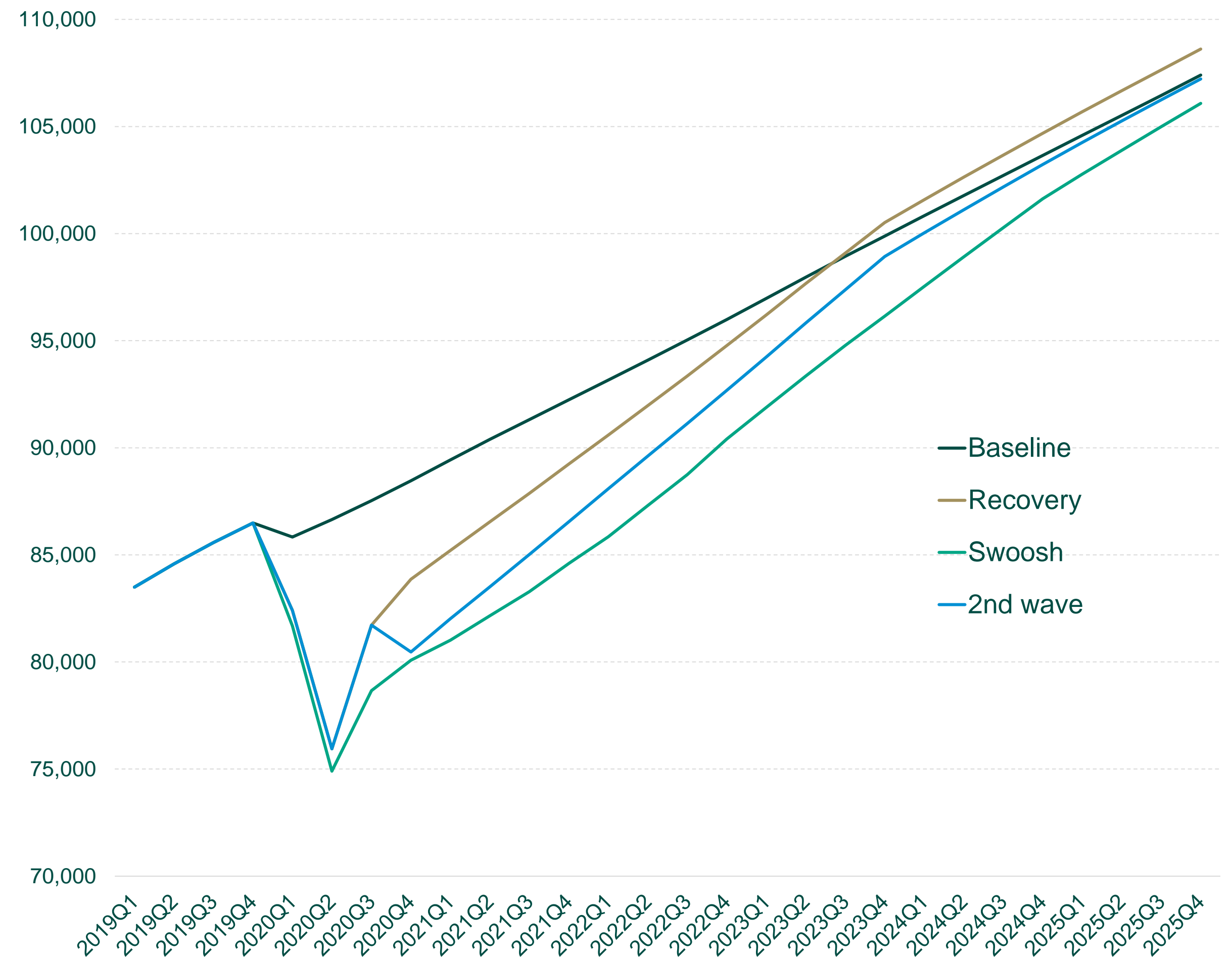
Scenario 2: Nike swoosh

- slow recovery due to "scarring"
- more likely the longer it lasts

Scenario 3: 2nd wave (as transpired)

- 2nd lockdown but less severe cost
- slow recovery due to precautionary saving etc.

Medium term scenarios for real GDP (€mn)





Fiscal response

Objective – distinguish between short- and medium-term



SHORT-TERM = COUNTER-CYCLICAL :

1. Protect household incomes:

- PUP
- TWSS / EWSS

2. Provide life-line to firms:

- Liquidity supports (loan guarantees)
- Direct grants ('restart' / CRSS)
- Rate waivers

3. Boost healthcare capacity:

- PPE
- Additional beds

MEDIUM-TERM = LIMIT “SCARRING” :

1. Minimise labour market exit:

- Maintain employee-employer relationship

2. Minimise impact on market-clearing unemployment rate:

- Investing in skills

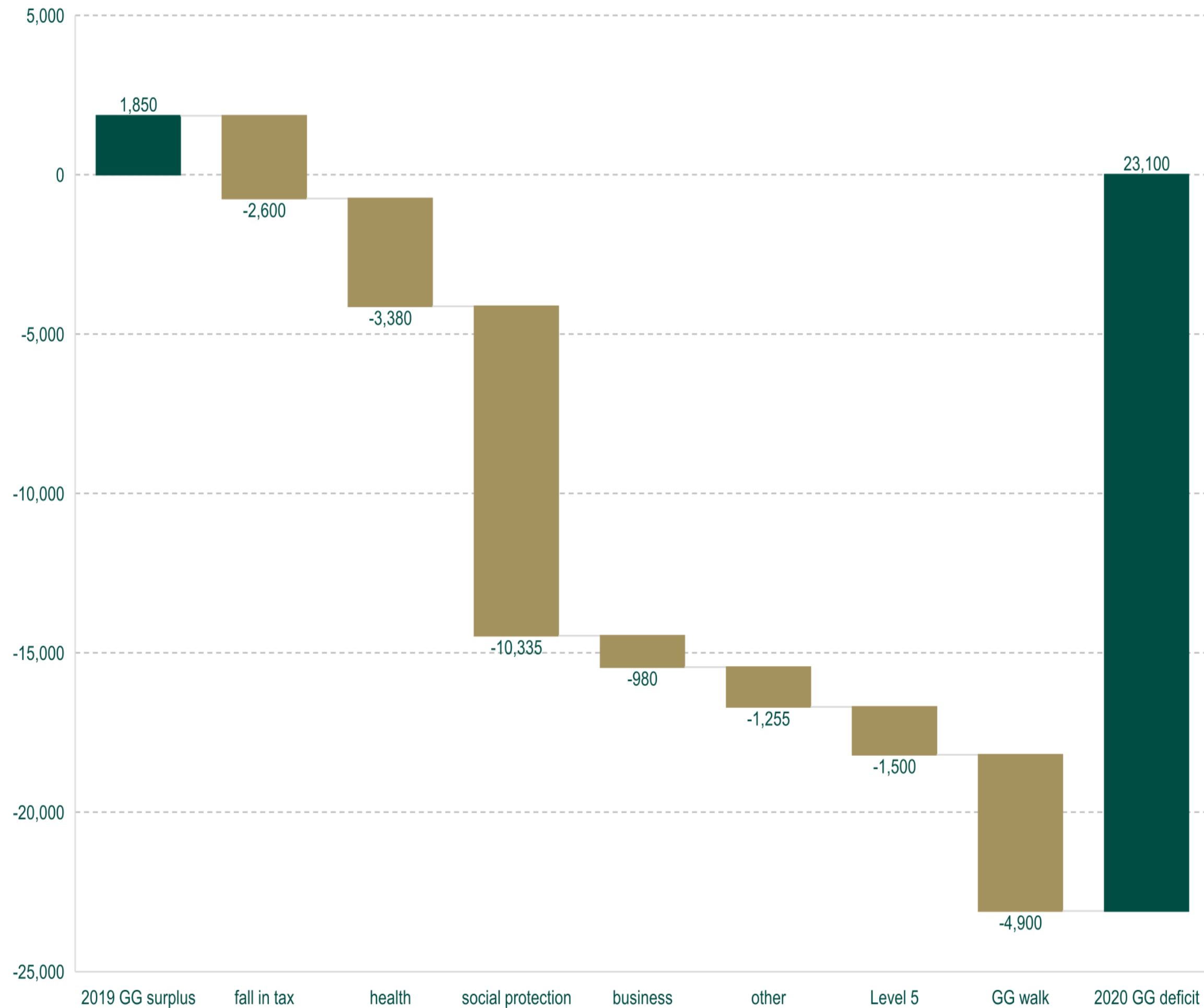
3. Maximising firm-survival rate:

- Firm level supports

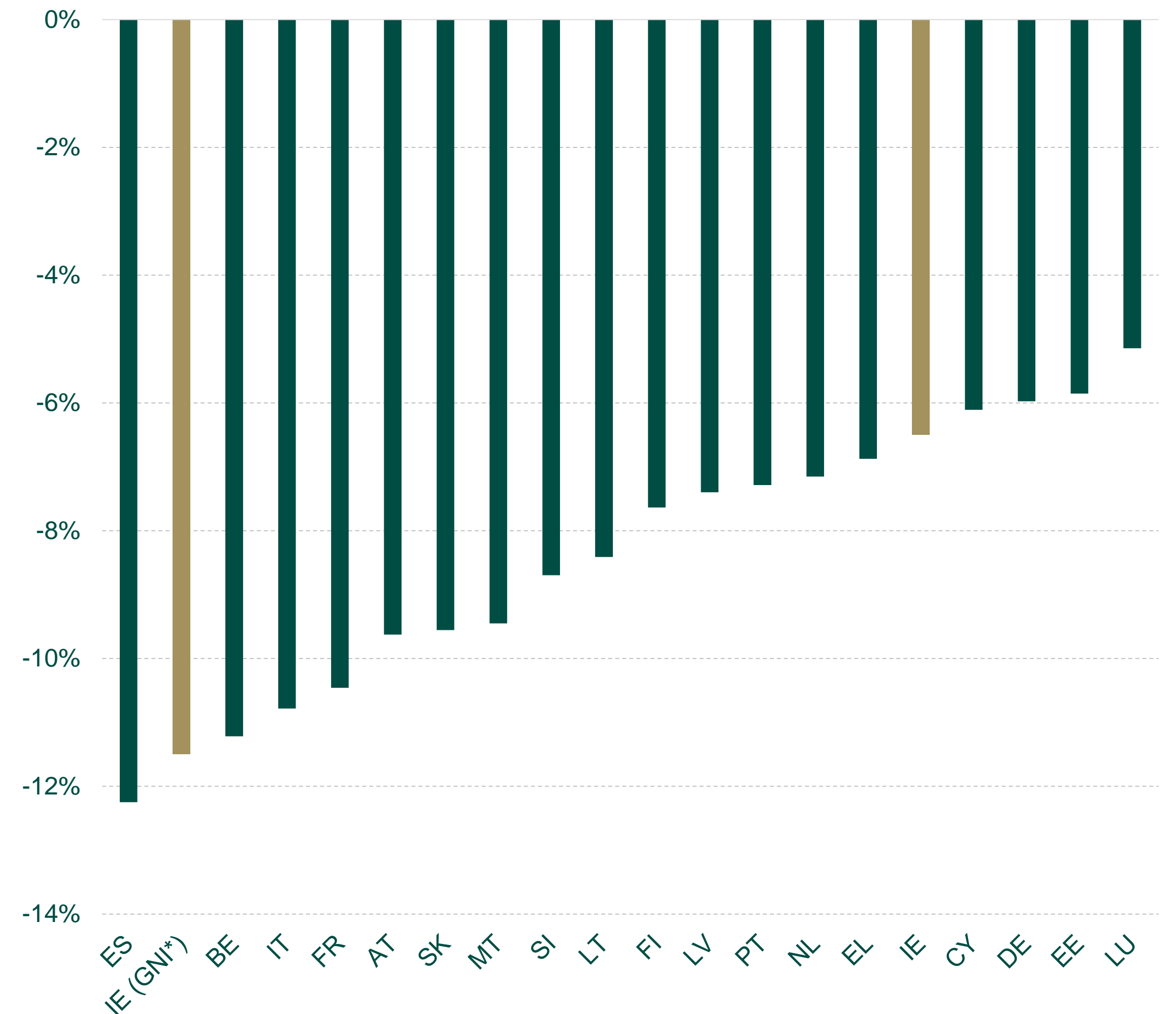
Fiscal response = c. €25 bn [all instruments]



Direct 'above the line' response, per cent of GDP



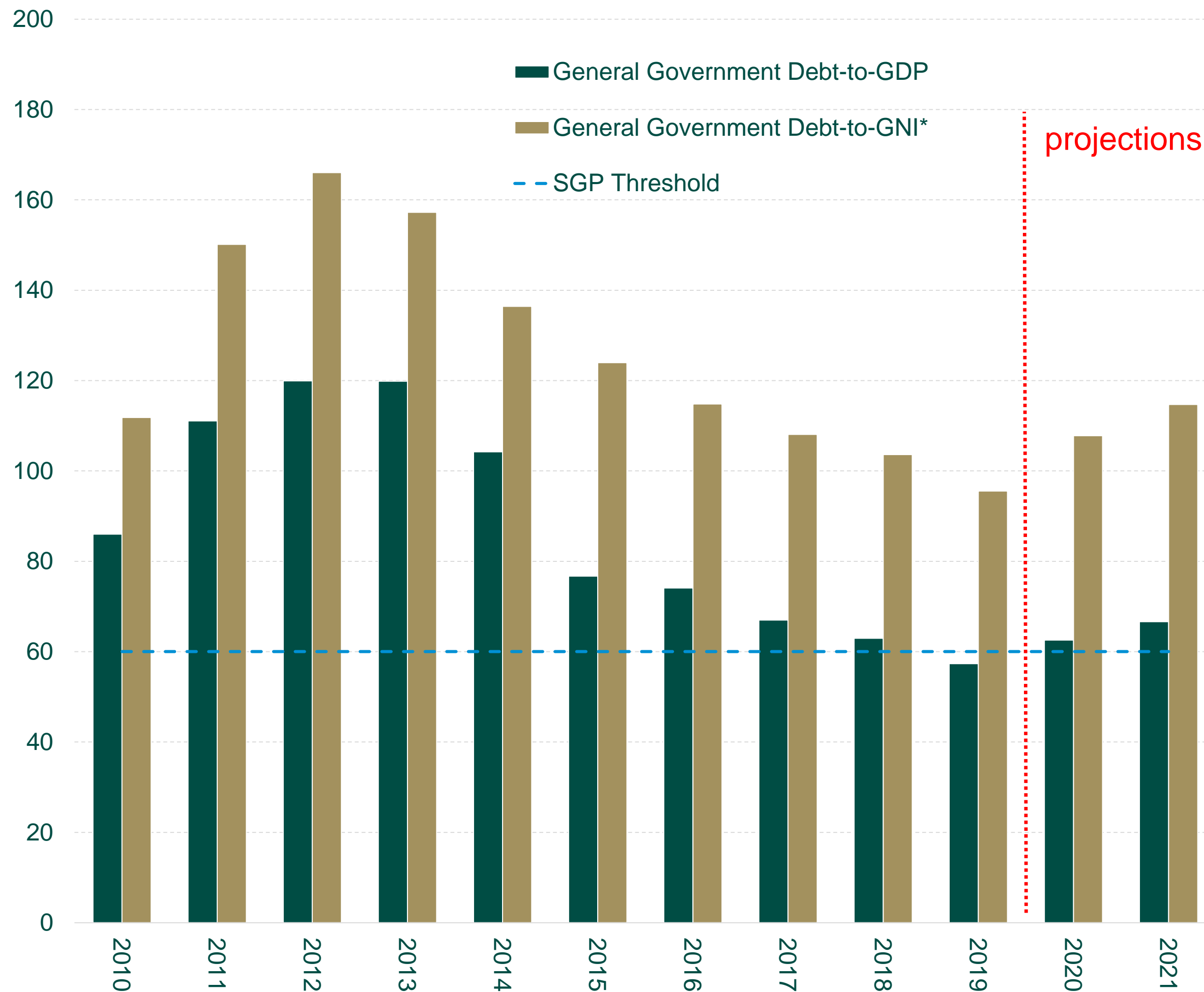
Projected 2020 deficit, per cent of GDP



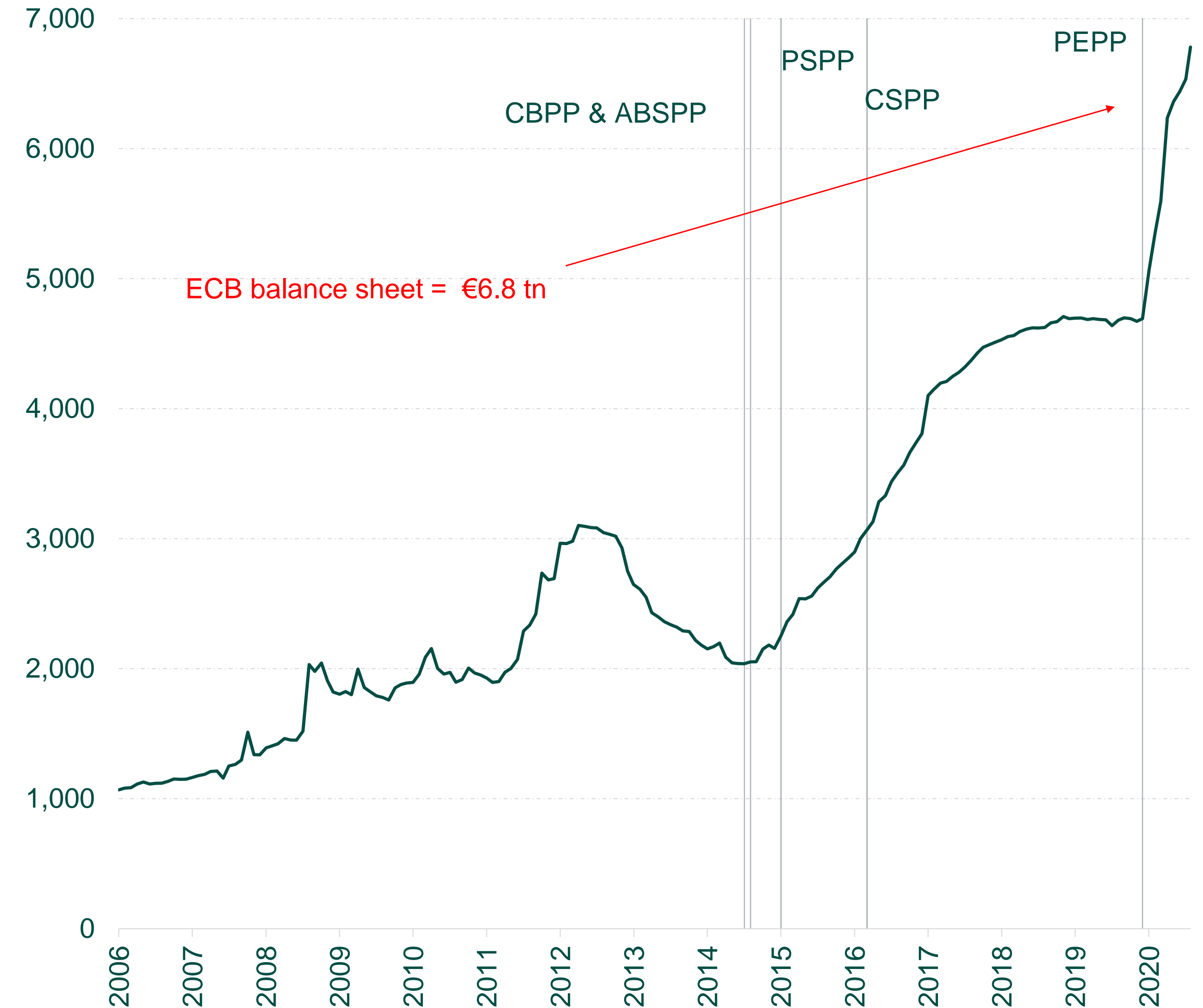
Blurring of lines between fiscal and monetary policy



Gross public debt, per cent of GDP/GNI*



Massive expansion of ECB balance sheet, € billions





Conclusion

Summary



- **Economy fall-out severe**
 - disproportionate impact on labour-intensive service sectors
 - **Labour market has borne the brunt**
 - some firms / sectors potentially not viable with 'social distancing'
 - **Scarring effects likely to be significant**
 - **Labour market** channel
 - : equilibrium unemployment ; discouraged workers, 'life-time' incomes
 - **Capital stock** channel
 - : some capital scrapping
 - **Productivity** channel
 - : + ve [accelerating technological progress / increasing digital penetration rate]
 - : - ve ['zombies' ??? / home-working ???]
- } jury is out
- **Public finances can absorb one-off shock:**
 - debt-ratio must be put on downward trajectory once vaccine rolled-out



Disclaimer and other information:

The analysis and views set out in this presentation are those of the author and are not necessarily those of the Minister for Finance nor the Department of Finance.

Outturn data are sourced from a variety of sources including the Department of Finance, Central Statistics Office, European Commission (AMECO) and European Central Bank.

In slide 24: CBPP = covered bond purchase programme; ASBPP = asset backed securities pp; PSPP = public sector pp; PEPP = pandemic emergency pp

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