Global Watch

April 2020

Economic Update

Bank of Ireland

All changed, changed utterly

There was cautious optimism at the start of this year that the partial trade agreement reached between the US and China might herald a favourable change in fortune for the global economy after a difficult 2019. Instead the COVID-19 pandemic has imparted a huge shock, which the IMF believes will result in a downturn on a scale larger than during the Global Financial Crisis and the most severe since the Great Depression. Necessary measures to suppress the virus have led to large swathes of many economies effectively shutting down, resulting in steep declines in activity, rising unemployment, lower incomes for households and businesses and heightened uncertainty. National governments and central banks have responded forcefully – and on an unprecedented scale – to the fallout from the public health emergency through a variety of measures including income supports, tax deferrals, loans and loan guarantees, interest rate cuts, increased asset purchases, and programmes to ensure the continued flow of credit to their economies. While these will help to mitigate the impact and contribute to the subsequent recovery from the crisis, a contraction in the global economy still seems inevitable this year. Though the outlook is uncertain and much depends on the path of the virus, on the assumption that the pandemic fades in the second half of the year, allowing containment measures to be gradually unwound, the IMF sees GDP falling by 3.0% in 2020 before rebounding by 5.8% next year. Swift policy action has returned some semblance of calm to financial markets lately, but it is a fragile one and so not surprisingly the US dollar is trading at a multi-year high. This may remain the case until there is firm evidence that the worst is past and economies are beginning to emerge from the sudden downturn.

Central Bank Outlook

Bank of Ireland

Economic Conditions

	US	Euro Area	UK
Growth	0.3%	-3.3%	0.7%
Unemployment	4.4%	7.4%	4.0%
Headline Inflation	1.3%	0.4%	1.5%
Core Inflation	1.7%	0.9%	1.6%

Policy Stance

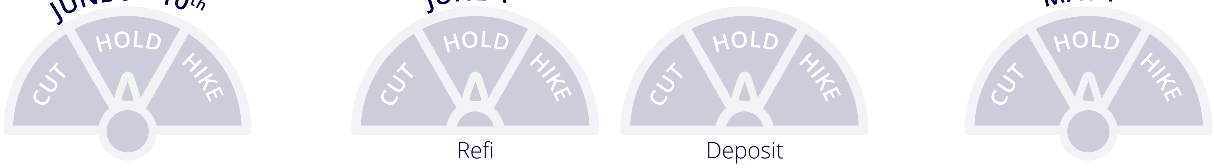
Fed	ECB	Bank of England
Committed to using full range of tools to support the economy	Will do everything necessary to help the economy through the COVID-19 crisis	Respond as necessary to the economic disruption caused by COVID-19

Current Policy Rate

Fed Funds	ECB Refi	Deposit	BOE Bank Rate
0.0%-0.25%	0.0%	-0.5%	0.1%

Next Meeting

Fed	ECB	Bank of England
JUNE 9th-10th	JUNE 4th	MAY 7th

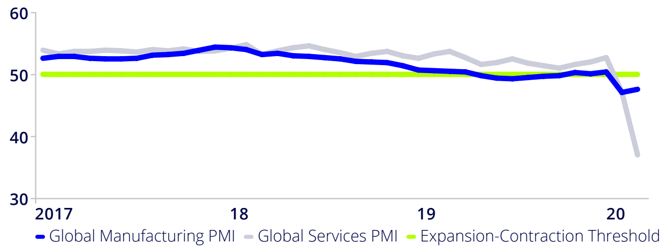


Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England
Growth: Annual % change in GDP (constant prices), US and Euro Area Q1 2020, UK December-February 2020
Unemployment: Rate (%), US and Euro Area March 2020, UK December-February 2020
Headline and Core Inflation: Annual % change, US PCE March 2020, Euro Area flash CPI April 2020, UK CPI March 2020, core inflation excludes food and energy (as well as alcohol and tobacco in the case of the Euro Area and UK)
Policy Rates: Federal Funds Rate, ECB Main Refinancing Rate and Deposit Rate, Bank of England Bank Rate

Economy

The Great Lockdown

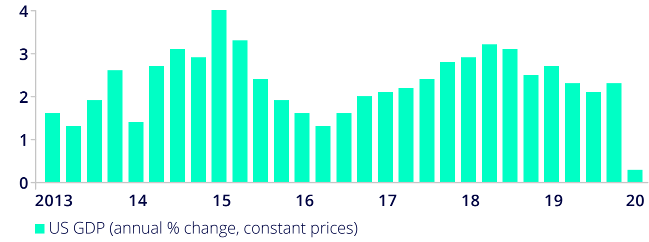
The IMF expects global GDP to fall by 3.0% in 2020 but - assuming the COVID-19 pandemic fades in the second half of the year allowing containment measures to be gradually lifted - sees growth of 5.8% in 2021.



Source: JP Morgan & IHS Markit

US expansion to end

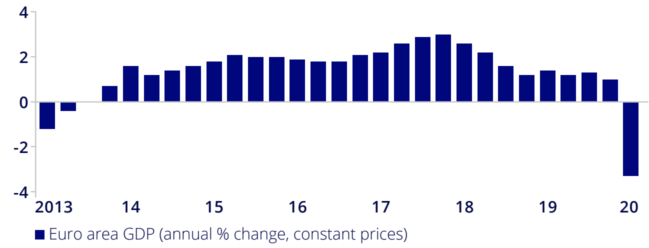
The record long US expansion is set to end this year. While the economy grew by 0.3% year-on-year in Q1, the IMF expects GDP to decline by 5.9% for 2020 as a whole. A rebound is envisaged in 2021 though, with growth of 4.7%.



Source: BEA

Downturn in the Euro area

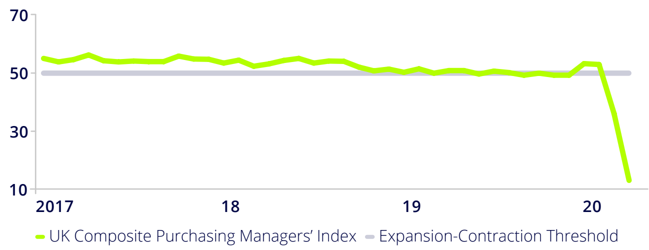
The Euro area economy contracted in the first quarter of 2020 with GDP down 3.3% in annual terms. The IMF expects a decline of 7.5% for the full year, but the economy is forecast to recover in 2021 expanding by 4.7%.



Source: Eurostat

UK economy to contract

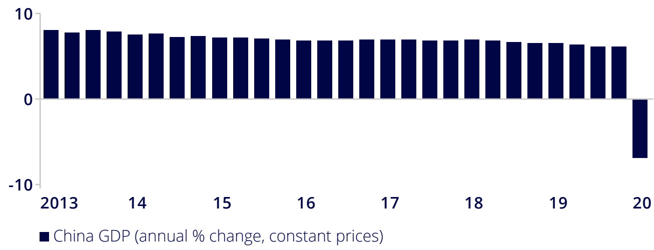
The Composite PMI for the UK has fallen very sharply - setting an all-time low in April - led by declining services activity in particular. The IMF has the economy contracting by 6.5% this year, but is projecting growth of 4.0% in 2021.



Source: IHS Markit

China's GDP falls sharply

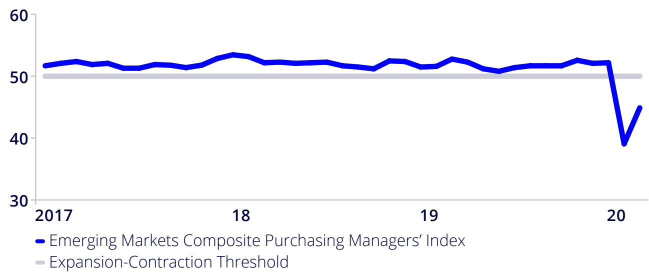
Extreme containment measures left a mark in Q1 2020 with Chinese GDP falling by 6.8% year-on-year. However, amid signs of activity recovering, the IMF expects modest growth of 1.2% for the full year, strengthening to 9.2% in 2021.



Source: National Bureau of Statistics of China

EM in recession

Both advanced and emerging market economies are expected to be in recession this year for the first time since the Great Depression. The latter are forecast by the IMF to post a decline in GDP of 1.0% in 2020, followed by growth of 6.6% in 2021.

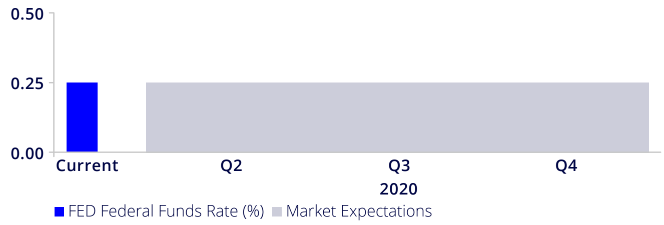


Source: JP Morgan & IHS Markit

Monetary

Fed eases aggressively

The Fed has responded to the COVID-19 fallout by cutting interest rates by 150bps to effectively 0%; re-starting asset purchases (QE); and launching facilities to support the functioning of markets and credit flow to the economy.



Source: Fed & Bloomberg

ECB launches PEPP

The ECB will buy government and corporate bonds under its new temporary €750bn Pandemic Emergency Purchase Programme. It has also enhanced its Targeted Long-Term Refinancing Operations (TLTROs) to ensure the provision of credit to firms and households.

Source: ECB & Bloomberg

BOE cuts rates

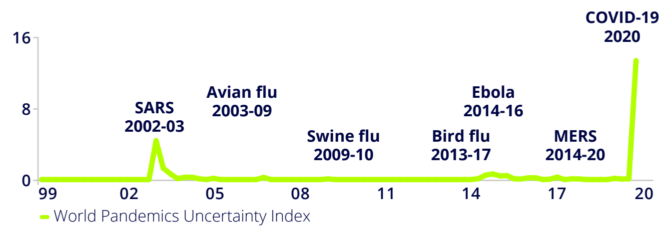
The Bank of England has cut rates to 0.1% and is conducting QE to the tune of £200bn. A new scheme will provide credit to SMEs in particular, while the Counter Cyclical Capital Buffer has been lowered to support lending.

Source: Bank of England & Bloomberg

Policy & Politics

Heightened uncertainty

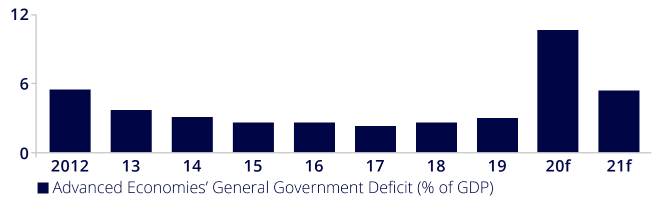
Uncertainty related to the current public health emergency is exceptionally high and much more elevated than during past pandemics and other disease outbreaks.



Source: IMF

Governments take action

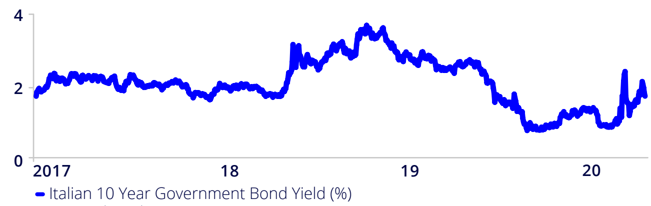
Fiscal policy has been loosened to mitigate the impact of COVID-19 and includes increased health spending, income supports (e.g. wage subsidies and tax deferrals) and loans and loan guarantees for business.



Source: IMF

Italian bonds under pressure

Concern about the impact of the crisis on Italy's public finances – the IMF sees the government debt/GDP ratio rising sharply – is putting upward pressure on yields, though ECB purchases are providing some offset.

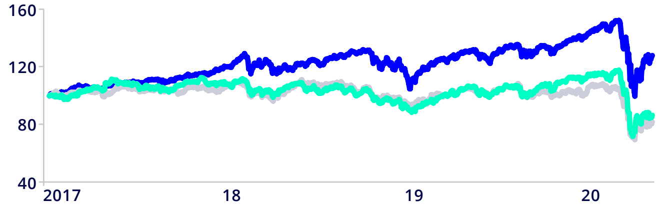


Source: Bloomberg

Markets

Stocks off lows

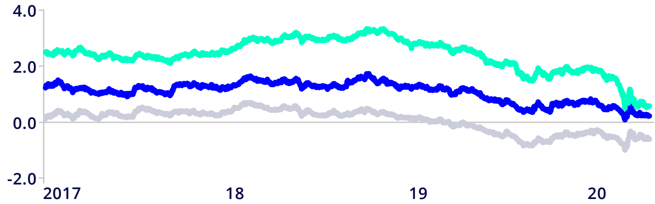
Equities sold off sharply as COVID-19 spread from China to Europe, falling to multi-year lows, but they have recovered some ground recently as governments and central banks have taken action to address the crisis.



Equity Indices (2017=100) S&P 500 Euro Stoxx 50 FTSE 100
Source: Bloomberg

Bond yields fall

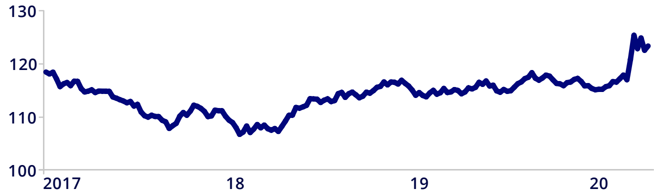
A combination of a 'flight to safety' and central bank interest rate cuts and bond purchases has pushed yields down, though they are off the lows set in early March 2020.



10-Year Government Bond Yields (%) US Germany UK
Source: Bloomberg

Dollar gains

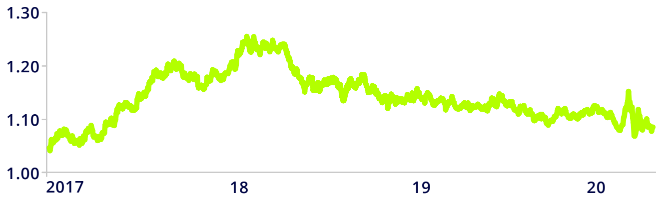
The dollar has strengthened in the current environment of heightened uncertainty, rising to a multi-year high against the currencies of its main trading partners in the process.



Dollar Trade Weighted Index (January 2006=100)
Source: Fed

Euro gives up ground

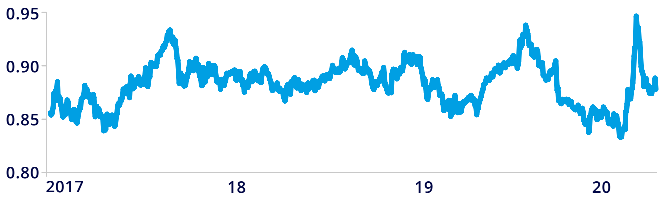
The euro rose to almost $1.15 against the dollar when the Fed initially cut US interest rates in March, but it has since fallen back to around $1.09.



€/$
Source: Bloomberg

Sterling recovers

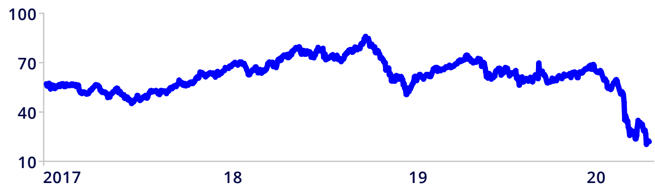
The pound came under pressure during March, falling to 94p against the euro - its weakest level since the Global Financial Crisis in the late 2000s - before recovering to around 87p.



€/£
Source: Bloomberg

Oil prices tumble

Despite OPEC and Russia agreeing to cut production, oil prices have fallen sharply as the COVID-19 induced downturn in the global economy depresses demand.



Brent Crude Oil ($ per barrel)
Source: Bloomberg

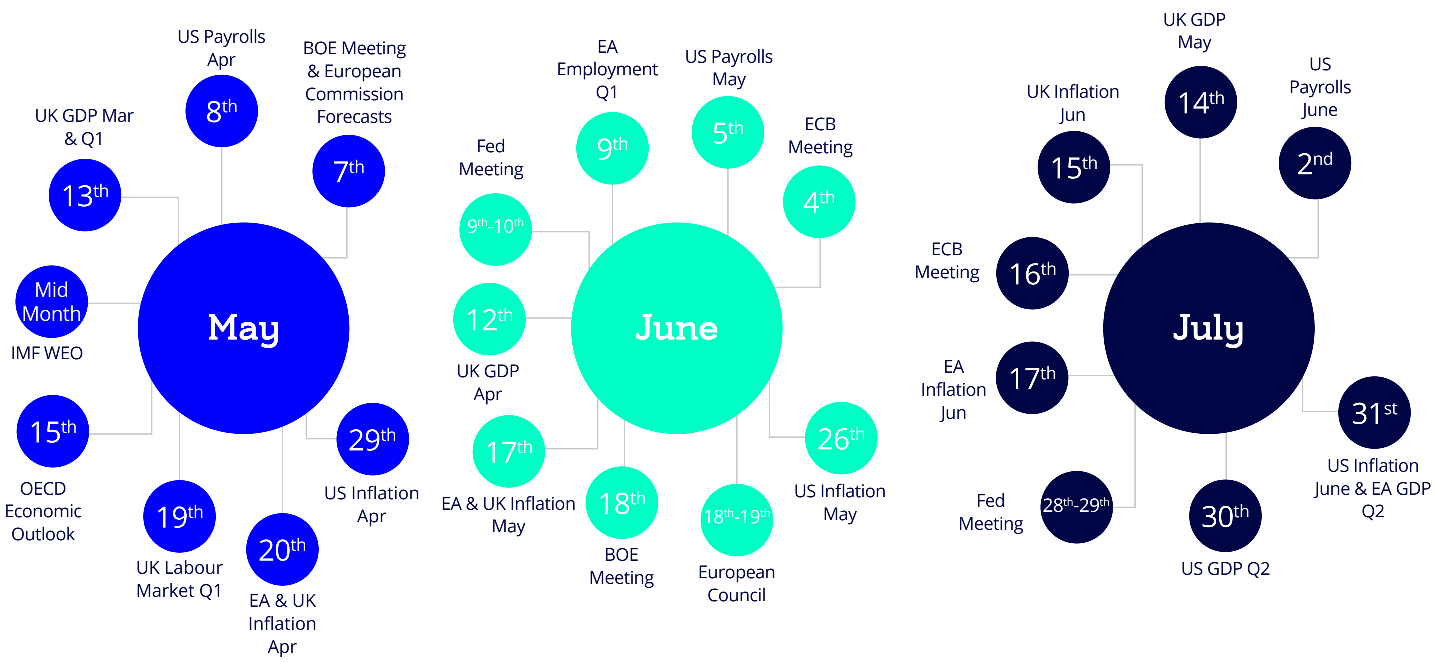
Forecasts

GDP Growth*	2019	2020 (f)	2021 (f)
Global Economy	2.9%	-3.0%	5.8%
Advanced	1.7%	-6.1%	4.5%
Emerging	3.7%	-1.0%	6.6%

FX**	Current	End Jun 2020	End Sep 2020
€/$	1.09	1.09	1.12
€/£	0.87	0.88	0.86
£/$	1.25	1.24	1.30

*Annual % change, constant prices (Source: IMF)
**Current Rate is as of 30 April 2020 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



Contact Us

economics@boi.com

Dr. Loretta O'Sullivan
Group Chief Economist
+353 (0) 766 244 267

Michael Crowley
Senior Economist
+353 (0) 766 244 268

Mark Leech
Head of Media Relations
+353 (0) 766 234 773