

Ireland Outlook

April 2020
Interim Update

Deep recession as economy is locked down

The COVID-19 pandemic has sparked a huge shock and a sudden turnaround in the fortunes of the Irish economy. In the space of a couple of weeks, sentiment has collapsed, the labour market has gone from 'full employment' to shedding jobs at an unprecedented rate, and the budgetary position has moved from a small surplus to a large deficit. The virus has upended global trade and supply chains the world over and, while necessary from a public health perspective, the school and non-essential business closures and other containment measures being taken to limit its spread have led to large swathes of the domestic economy shutting down. To cushion the impact on incomes and help households and firms recover from this severe but 'transitory' shock, the Government has put in place important policy supports. But even with these, a large fall in GDP in the order of 8.0% is now in prospect for 2020. In setting out a tentative scenario for the economy, we assume that the current restrictions remain in place through the middle of this quarter or so and are only gradually lifted thereafter. This means that after plummeting in Q2, activity starts to rebound – at varying speeds and to varying degrees across sectors - over the remainder of the year and into next. And with growth of 7.5% pencilled in for 2021, unemployment comes back down albeit not quite to its pre-COVID rate. There are of course many unknowns, not least the path of the virus, and given the possibility that the lockdown could be extended or substantial restrictions re-imposed at some point, the risks to the economy are tilted to the downside at this juncture.

Forecasts	2019	2020 (f)	2021 (f)
GDP	5.5%	-8.0%	7.5%
Employment	2.9%	-8.8%	7.2%
Unemployment Rate (Average)	5.0%	13.5%	8.0%
CPI	0.9%	-0.8%	0.4%

Annual % change unless otherwise stated; GDP in constant prices

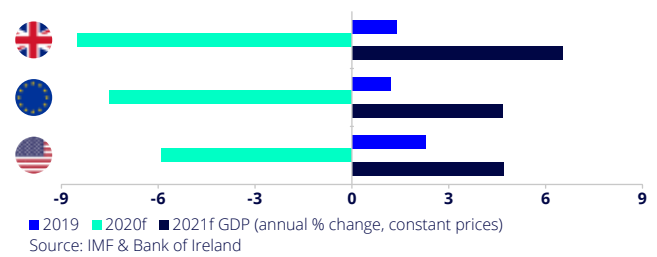
The UK and EU are assumed to reach a limited trade deal - mainly covering goods - by the end of the transition period

Source: CSO & Bank of Ireland

Economy

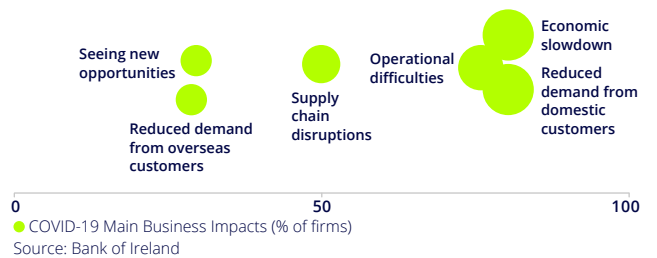
Changed external environment

The COVID-19 outbreak has dealt a severe blow to the global economy and Ireland's main trading partners - the UK, Euro area and US - are all expected to post large contractions in GDP in 2020.



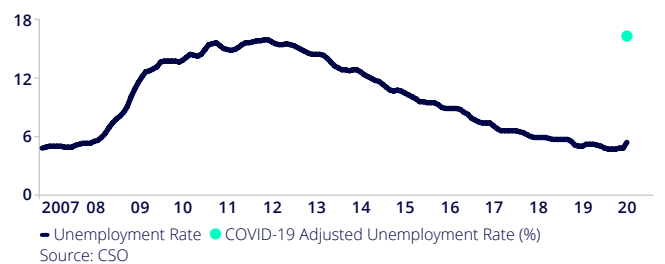
Business disruptions

Actions being taken to suppress the virus are affecting businesses through channels like demand, supply chains and operations, with firms for the most part downbeat about the near-term outlook for activity.



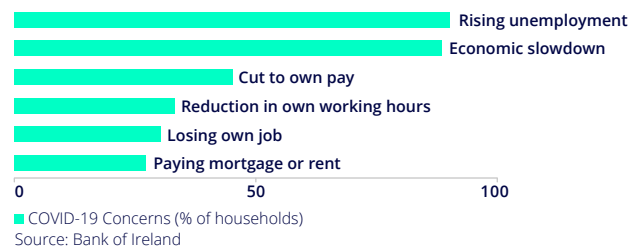
Jump in unemployment

Jobs in consumer-facing sectors were hit first but as the disruption has broadened out, around a million people are now in receipt of some form of Government pandemic-related income support.



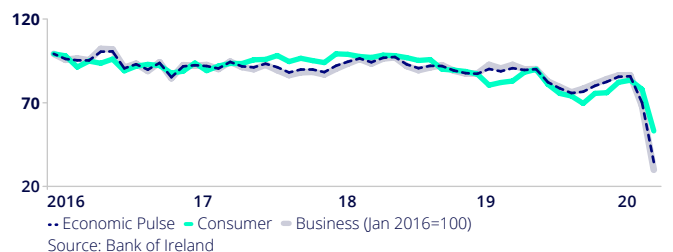
Spending heads south

Households are worried about the general economic situation and their own financial circumstances, with retail sales already down 1.9% year-on-year in the first quarter and set to fall further.



Sentiment plunges

With the country more or less in full lockdown, consumer and business confidence has plummeted. The Economic Pulse fell sharply in March and dropped even more in April to an all-time low.



Uncertain outlook

A deep downturn is on the cards for this year followed by a rebound in 2021, but with the public health emergency still playing out, risks to the economic picture are elevated and will be for some time.



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