

Ireland Outlook

July 2020
Economic Update



Bank of
Ireland

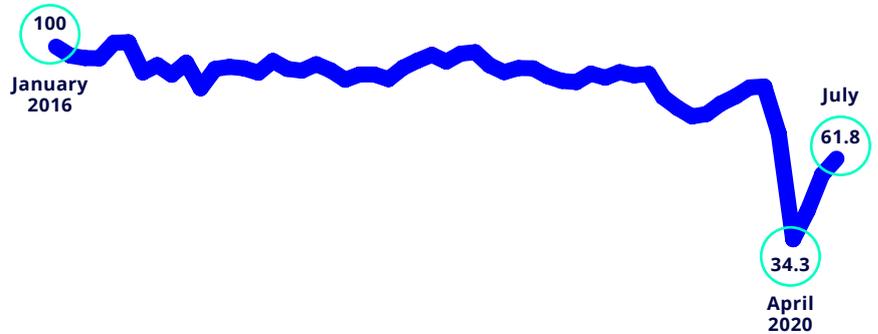
Economy rebooting but pandemic aftershocks

The recent period has been turbulent on a number of fronts, not least the economic one. Sentiment slumped in March as COVID-19 arrived on Irish shores and began to disrupt normal every-day and commercial life, while April saw an unparalleled fall in activity and sweeping job losses as the country went into full lockdown. But with the public health situation improving and a phased re-opening of the economy underway since mid-May, incoming data point to a nascent rebound. This is expected to continue over the remainder of the year and into next, with the policy actions already taken and the additional measures announced by the new government in July providing support for hard hit consumer-facing sectors in particular. Even so, the scale of the shock – GDP is forecast to contract by 7.0% in 2020 as a whole – is such that it will take time for the damage to the economy to unwind, with output unlikely to return to its pre-crisis level until 2022. The path of the virus remains uncertain and the recovery process may not be smooth as physical distancing requirements and behavioural changes will impact some business models more than others and some households will take longer to get back on their feet. Sectors like pharma-chemicals and ICT are proving relatively resilient though and assuming infection rates are kept in reasonable check, consumer spending, investment and exports should all make a positive contribution to GDP growth in 2021. With the latter projected to be in the order of 6.0%, the unemployment rate is set to track lower over the coming year but to remain well above ‘full employment’. A resurgence of the virus leading to the re-imposition of widespread restrictions is an obvious risk to this picture, and there is also the chance that the UK and EU fail to reach agreement on a post-Brexit relationship meaning the limited trade deal assumed to kick in next January does not materialise.

Recent Developments



Sentiment recovering after pandemic deals severe blow to economy



COVID-19 & Brexit



Outlook

| | GDP | Consumer Spending | Investment | Exports | Employment | Unemployment Rate | Inflation |
|-------|-------|-------------------|------------|---------|------------|-------------------|-----------|
| 2019 | 5.6% | 3.2% | 74.8% | 10.5% | 2.9% | 5.0% | 0.9% |
| 2020f | -7.0% | -10.5% | -12.0% | -6.0% | -9.5% | 13.5% | 0.0% |
| 2021f | 6.0% | 8.0% | 5.0% | 6.0% | 7.0% | 8.2% | 0.7% |



Deep downturn followed by rebound in activity



Consumer-facing sectors hard hit, pharma-chemicals and ICT more resilient



Supportive Government and EU policy

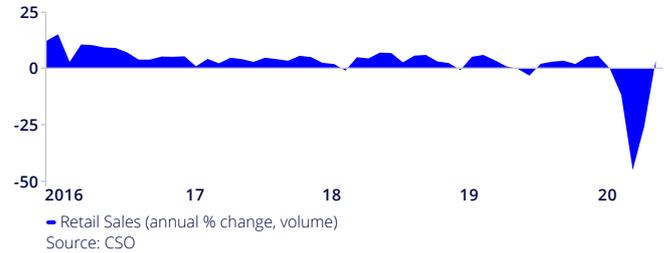


Virus and Brexit-related risks

Consumer

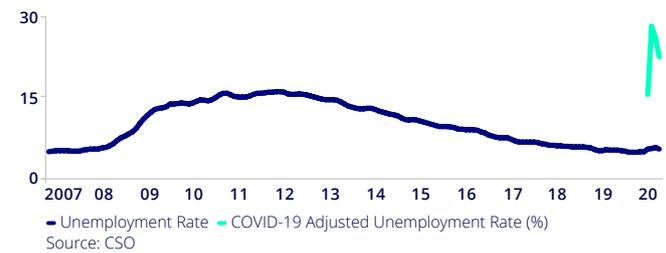
Spending impacted

Consumer spending fell 2.8% on an annual basis in Q1 2020, with retail sales nosediving in April as the economy shut down but increasing again now.



Unemployment rises

Having peaked at 28.2% in April, the COVID-19 adjusted unemployment rate stood at 22.5% in June and is set to fall further as more businesses re-open.



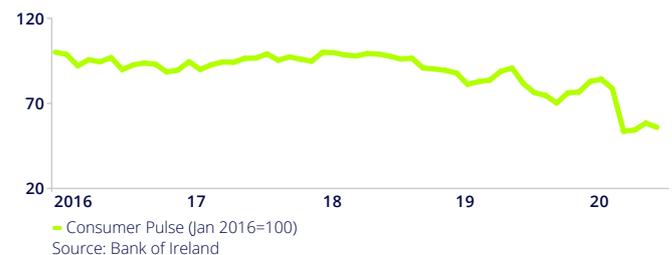
Incomes hit

While government pandemic-related income supports have helped cushion the impact of the shock, many households are worried about their financial circumstances.



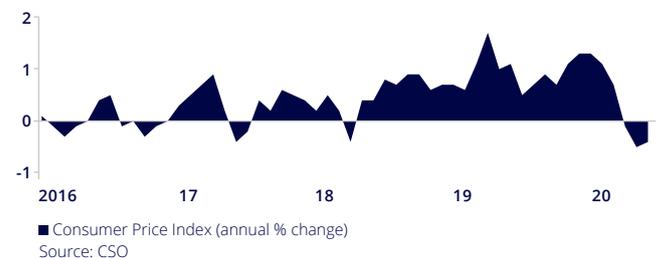
Confidence edging up

The Consumer Pulse plunged to an all-time low as the country went into lockdown in April. Since then confidence has improved slightly but concerns about the economic situation in particular persist.



Inflation eases

Annual consumer price inflation slipped into negative territory in Q2, with subdued demand and the temporary VAT cut set to keep it low for the time being, whereas more red tape in trade with the UK implies upward price pressure in 2021.



Rebound on the cards

Consumer spending should firm over the remainder of this year and into next as some pent up demand and forced savings are unlocked and the labour market begins to mend.

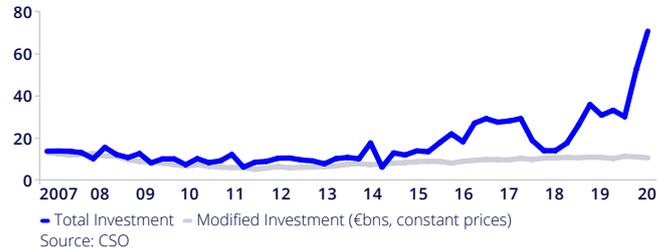


Source: CSO & Bank of Ireland

Investment

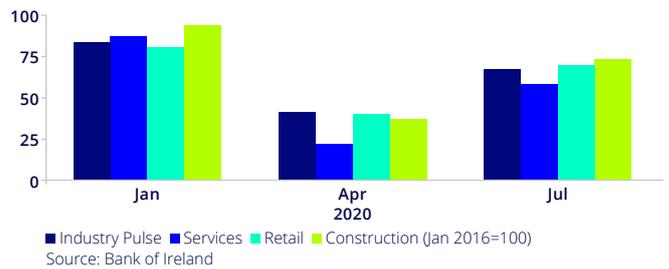
Globalisation effects

R&D-related intellectual property imports boosted headline investment in Q1 2020, whereas the modified measure – which excludes globalisation effects – fell 2.3% year-on-year.



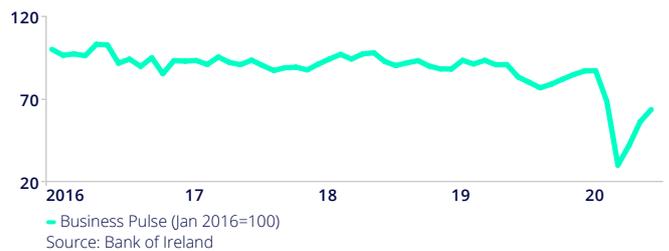
Commerce interrupted

The COVID-19 pandemic has led to widespread business disruption, with the services sector hit especially hard and lagging behind in the recovery to date.



Confidence off its low

The Business Pulse posted a record low in April but was up for a third month running in July as the gradual lifting of the public health-related restrictions continues.



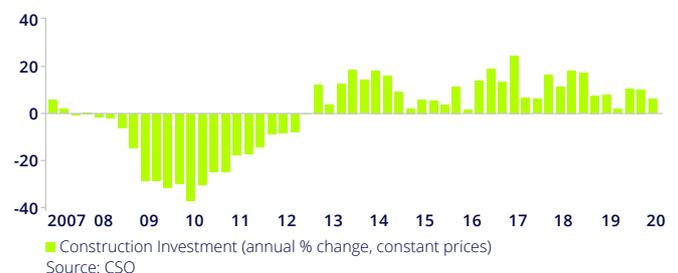
Business ambitions

Growth ambitions among firms have dipped a little lately, though over half are still planning on expanding their business in the next one to three years.



Construction delays

New house completions were up 17.2% year-on-year in Q1 but are expected to be down for 2020 as a whole given site closures at the height of the crisis and physical distancing requirements since.



Tentative recovery

While COVID-19 and Brexit uncertainty will temper investment, some rebound is being factored in as economic activity – helped by government spending and supports for business – picks up.



Exports

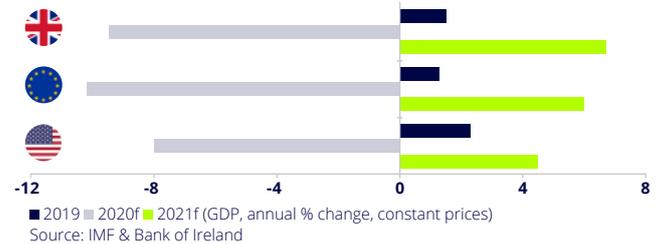
Good start to the year

Exports put in a solid performance in Q1 2020, expanding by 6.8% year-on-year. Imports grew by 47.7% in the same period, driven by R&D intellectual property imports.



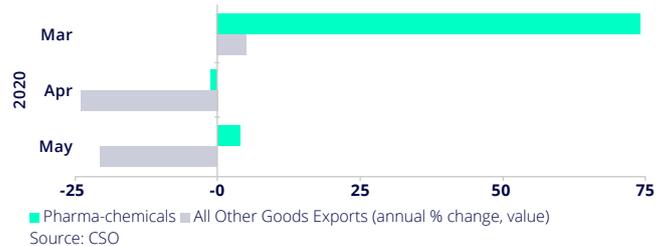
External backdrop softens

The COVID-19 outbreak has upended the global economy and with our main trading partners in recession, export order books have come under pressure in recent months.



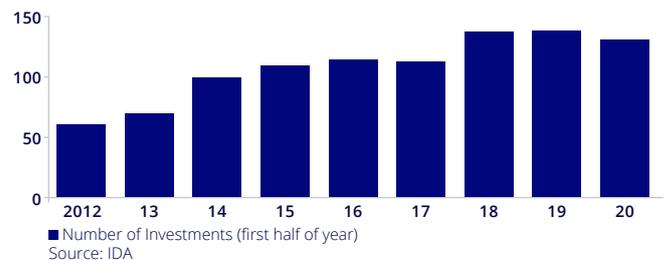
MNC sectors more resilient

Given the nature of the current crisis, Ireland's export concentration in pharma-chemicals and ICT is a positive, with available information suggesting that these sectors are faring relatively well.



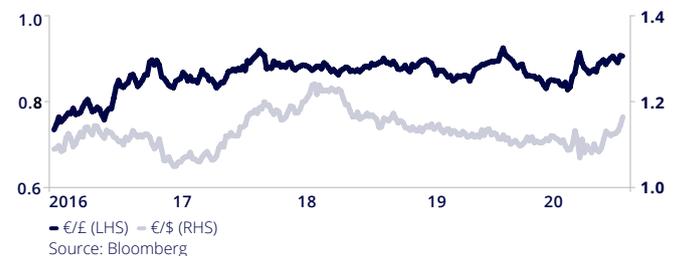
FDI holding up

Foreign direct investment inflows continued in the first half of 2020. The IDA announced another 132 investments but noted that the environment for FDI is becoming more challenging.



Weak pound

With Brexit coming back on the agenda, the pound is under pressure and unhelpfully for exporters in indigenous sectors is now trading at around 91p against the euro.



Mixed outlook

Export prospects are set to improve as global growth resumes over the coming quarters, though changed trading arrangements from 2021 on will impact exports to the UK.



Overall Activity

Deep downturn, gradual recovery

GDP rose by 5.1% year-on-year in Q1 2020 before taking a huge knock in Q2 as measures to contain the spread of COVID-19 were put in place. But as the economy opens again, activity is picking up.



● GDP (annual % change, constant prices)
Source: CSO & Bank of Ireland

Policy supports

A wide range of domestic policy measures have been taken, while the ECB has upped its emergency bond buying purchases programme and the European Council has agreed on an EU recovery fund.



Uncertainty remains high

Downside risks to the outlook include a second wave of the virus and an irrevocable breakdown in the post-Brexit trade talks, whereas faster than expected medical advances pose an upside risk.



Forecasts

| | 2019 | 2020 (f) | 2021 (f) |
|-----------------------------|-------|----------|----------|
| Personal Consumption | 3.2% | -10.5% | 8.0% |
| Government Consumption | 6.3% | 6.5% | 1.5% |
| Investment | 74.8% | -12.0% | 5.0% |
| Exports | 10.5% | -6.0% | 6.0% |
| Imports | 32.4% | -7.6% | 5.6% |
| GDP | 5.6% | -7.0% | 6.0% |
| GNP | 3.4% | -8.5% | 6.5% |
| Employment | 2.9% | -9.5% | 7.0% |
| Unemployment Rate (Average) | 5.0% | 13.5% | 8.2% |
| CPI | 0.9% | 0.0% | 0.7% |

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices

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