

Ireland Outlook

October 2020
Interim Update



Bank of
Ireland

Recovery clouded by COVID and Brexit uncertainty

GDP took a turn for the worse in the second quarter of the year as the public health emergency saw the Irish economy effectively shut down. While high frequency indicators are consistent with a rebound in activity over the summer months and into the autumn, the phased re-opening of society and business has come unstuck lately amid a rise in virus cases. With the entire country now at Level 5 of the Government's 'Plan for Living with COVID-19' - meaning tighter restrictions on social interactions and hospitality and non-essential retail / services closures for a six week period - and tensions over post-Brexit trading arrangements high, the growth outlook for the final quarter of the year looks increasingly challenged. The situation is fluid of course but at this point, we envisage GDP contracting by 2.0% in 2020 as a whole. This is a considerable improvement on our July forecast and owes much to the resilience of the exporting pharma-chemicals and ICT sectors. Unemployment this year is expected to be somewhat higher than previously projected though, reflecting the disproportionate impact the pandemic is having on domestic consumer-facing sectors. Helped by unprecedented policy supports, and assuming the restrictions that may be periodically required into the middle of next year are targeted / localised in nature, GDP growth in the order of 5.0% is forecast for 2021. Uncertainty remains elevated however, with a move to WTO trading terms a key risk for the recovery. Should a 'bare bones' free trade agreement between the UK and EU fail to take effect in January, growth next year could be around 2 percentage points lower.

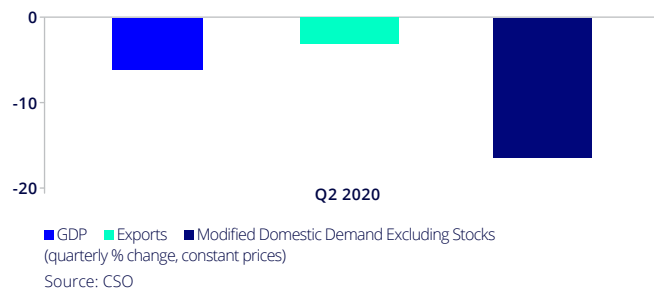
Forecasts	2019	2020 (f)	2021 (f)
GDP	5.6%	-2.0%	5.0%
Employment	2.9%	-15.6%	10.2%
Unemployment Rate (Average)	5.0%	17.8%	10.4%
CPI	0.9%	-0.3%	0.5%

*Annual % change unless otherwise stated; GDP in constant prices
The UK and EU are assumed to reach a limited trade deal by the end of the transition period
Source: CSO & Bank of Ireland*

Economy

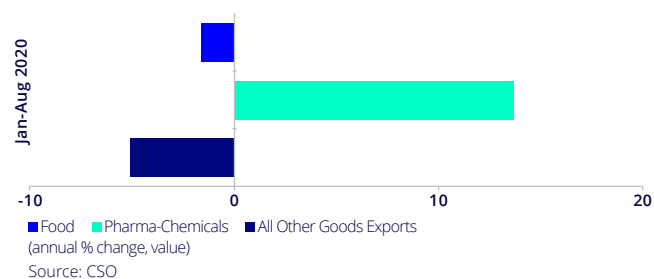
Domestic downturn

GDP was down 6.1% quarter-on-quarter in Q2 with the domestic economy, particularly consumer-facing sectors, hard hit by the stringent measures imposed to contain the spread of the virus.



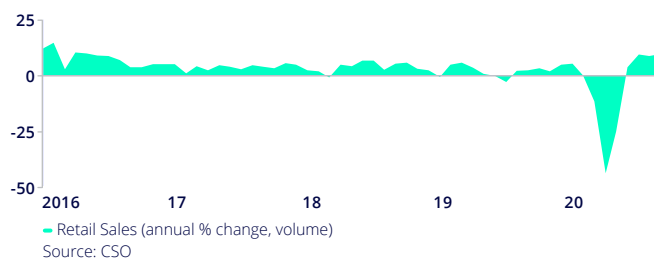
Exports more resilient

Multinational-dominated sectors like pharma-chemicals and ICT are performing strongly whereas changing trading arrangements with the UK pose a headwind for exporters in indigenous sectors like food.



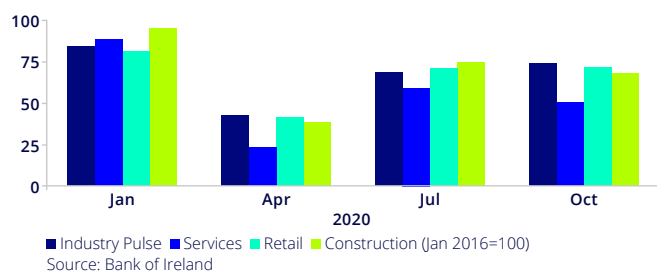
Re-opening bounce

Retail sales surged as the economy re-opened and were over 10% higher than their pre-pandemic (February) level in September, while the Economic Pulse had recouped almost 60% of its COVID-related losses.



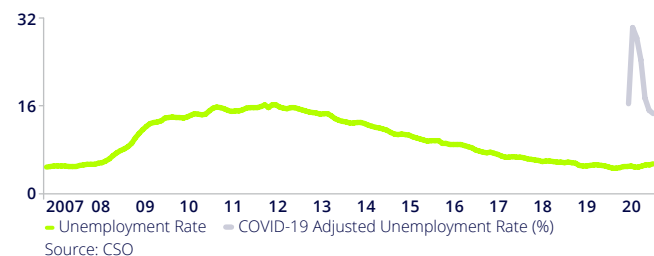
Recovery setback

Consumer confidence and business sentiment - led by the services sector - headed south in October as public health restrictions were tightened in response to rising virus cases and fears of a 'no deal' Brexit increased.



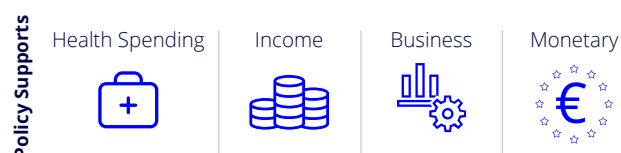
Temporary rise in unemployment

The COVID-19 adjusted unemployment rate stood at 14.7% in September, well below its peak of 30.4% in April, but is expected to tick up in Q4 before resuming its downward trajectory in 2021.



Additional policy supports

Measures announced as part of Budget 2021 include a €3.4bn recovery fund, a VAT cut for the hospitality and tourism sectors, a new COVID Restrictions Support Scheme for businesses and an extension of wage subsidies.



Contact Us

economics@boi.com

Dr. Loretta O’Sullivan

Group Chief Economist

+353 (0) 766 244 267

Patrick Mullane

Senior Economist

+353 (0) 766 244 269

Conn Creedon

Senior Economist

+353 (0) 766 235 134

Mark Leech

Head of Media Relations

+353 (0) 766 234 773

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