Budget 2020: macro-economic backdrop

John McCarthy
Chief Economist, Department of Finance
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Birds-eye view

• External demand: headwinds picking up
• Latest macro developments
• The labour Market
• The public finances
• ‘Brexit’ casts a long shadow
• Conclusion
External demand: headwinds picking up
UK: business substituting labour for capital

investment and output, y/y growth in the UK economy

Brexit uncertainty
firms postponing investment

investment
GDP

unemployment rate

per cent change

per cent

50-year low
euro area: re-domination risk emerging?

Italy: real and financial developments

EA GDP          EA PMI

q-o-q growth

EA GDP
EA PMI

long term interest rates, per cent

q/q growth rate, per cent

r-g < 0?
US: near-inversion of yield curve an omen?
China: vulnerabilities weighing on output

higher leverage post-2010 weighing on I, C

China: GDP growth [4qma]
Let' not forget about structural factors - peak’ globalisation?

TRADE INTENSITY = world trade as per cent of GDP

FINANCIAL TRADE INTENSITY = cross-border banking claims as per cent of GDP

completion of WTO “Uruguay round”

global financial crisis

China’s accession to WTO

decade-long ‘blip’ or fundamental reversal?

Source: World Bank, OECD, BIS, DoF calculations
Import tariffs (and retaliatory measures) - ½ pp off level of world GDP

As it stands, tariffs will apply to all $550bn of Chinese exports to US by June.

Note: size of bubble corresponds to export volume.
Latest macro-economic developments
Exports continue to lead the way, less-so in labour-intensive sectors

Level of exports has doubled since low-point

Increase in exports (nominal) since low-point [4qrs]

Exports: 2012q1

Exports: 2018q4

0
10,000
20,000
30,000
40,000
50,000
60,000
70,000
80,000
90,000
100,000

€ million

exports, pharma, other_G, exports "under contract", computer services, aircraft leasing, royalties, other services
Low-frequency suggest moderation in H2/18 – higher frequency mixed bag

contributions to real MDD, pp

-4.0  -2.0   0.0   2.0   4.0   6.0   8.0


Services PMI

Manufacturing PMI

C G b&c core m&e MDD
increase in household savings rate last year – some reversal in Q1

consumption, income and saving, € million [4qrs]

Non-auto retail sales, annual growth rate (per cent)

household disposable income

personal consumer spending

savings
“now-casting” modified domestic demand – principal component analysis
The labour market
Employment surprise in Q1

- Increase in total employment (4qma) from low point of crisis

Demographic induced PR slowdown

- Participation rate, 4qma
  - $y = -0.1042x + 76.454$
  - $R^2 = 0.693$
  - $y = 0.0787x + 50.801$
  - $R^2 = 0.5947$
The philips curve: dead or alive?

\[ y = -5.611 \ln(x) + 14.302 \]

\[ R^2 = 0.7864 \]

annual change in weekly earnings in 2019 Q1, per cent
The public finances
Budgetary implementation: in line with expectations

Revenue side equation

Expenditure side of equation
‘snowball’ main driver of debt reduction; interest burden remains high

Debt burden: interest / revenue ratio

EU 28 25th-75th (inter-quartile range)

Ireland

Source: Annual Debt Report 2019, Department of Finance (forthcoming)
Brexit: casts a long shadow
Forecasting in a highly uncertain environment

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>GDP</td>
<td>6.7</td>
<td>3.9</td>
<td>3.3</td>
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<tr>
<td>BoP (% GDP)</td>
<td>9.1</td>
<td>8.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.7</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Employment (% change)</td>
<td>2.9</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>5.7</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>GGB (% GDP)</td>
<td>0.0</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>GG debt (% GNI*)</td>
<td>107.3</td>
<td>101.7</td>
<td>93.0</td>
</tr>
</tbody>
</table>

*GG debt (% GNI*)

Range of outcomes = wide

![Graph showing different scenarios]

- No exit
- Hard exit
- Smooth exit
Impact of Brexit on Ireland (change from baseline in levels)

Brexit impact on level of Irish GDP

-2.4 2020
-3.3 2023
-5.0 2028

pp of GDP

Deal Disorderly

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Conclusion
Main take-aways

• Difficult juxta-position
  - strong economy
  - serious external risks
    : existential threat to some sectors

• “Normal” cyclical slowdown in global economy
  - momentum has softened
  - maturing cycle
  - structural factors potentially more worrying

• Brexit casts a long shadow
Disclaimer and other information:

The views expressed in this presentation are those of the presenter and do not necessarily reflect the views of the Department of Finance, the Minister for Finance or the Government of Ireland. Analysis and forecasts based on Stability Programme, April 2019 Update.

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

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