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Budget 2020: macro-economic backdrop

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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

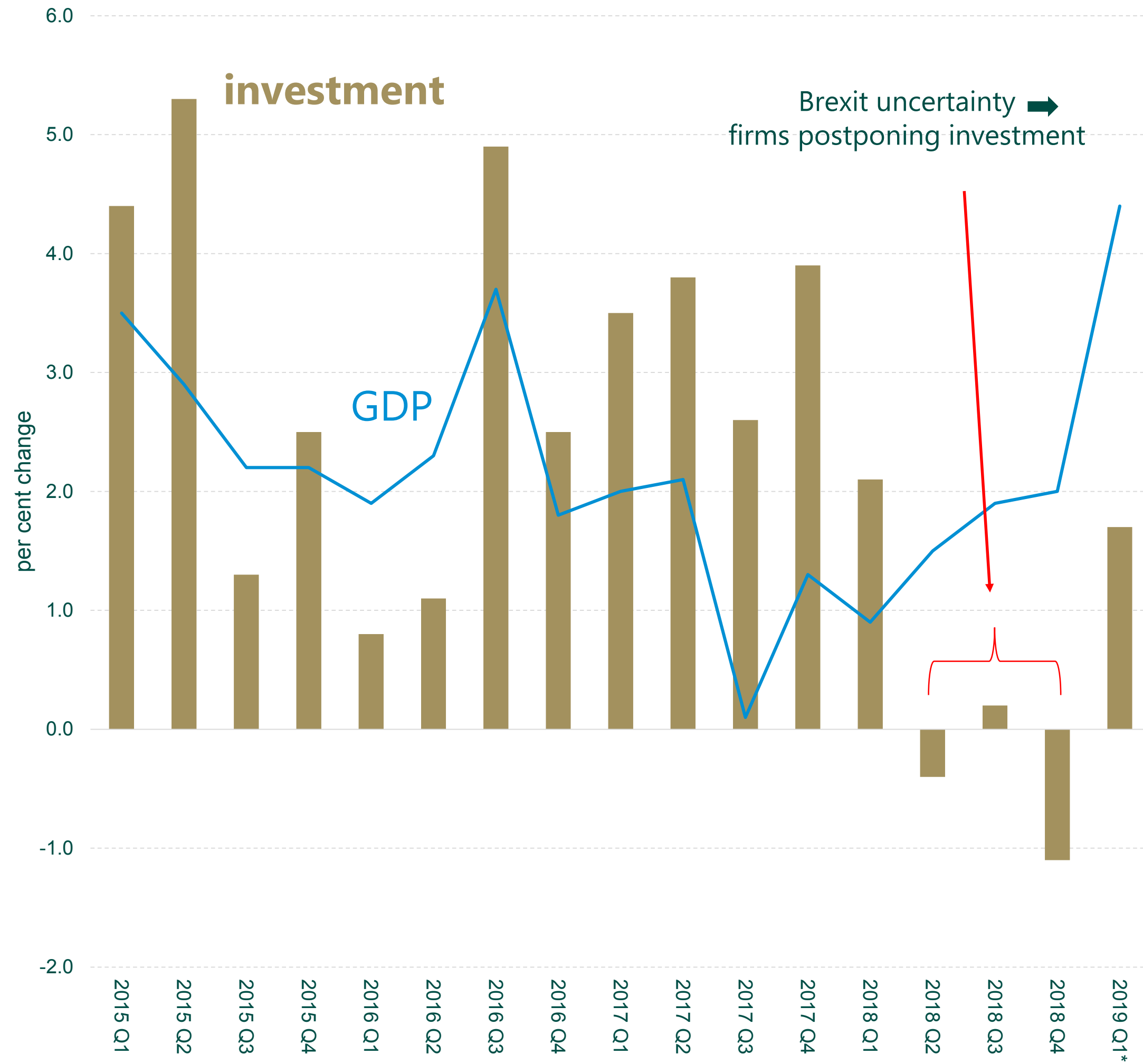


External demand: headwinds picking up

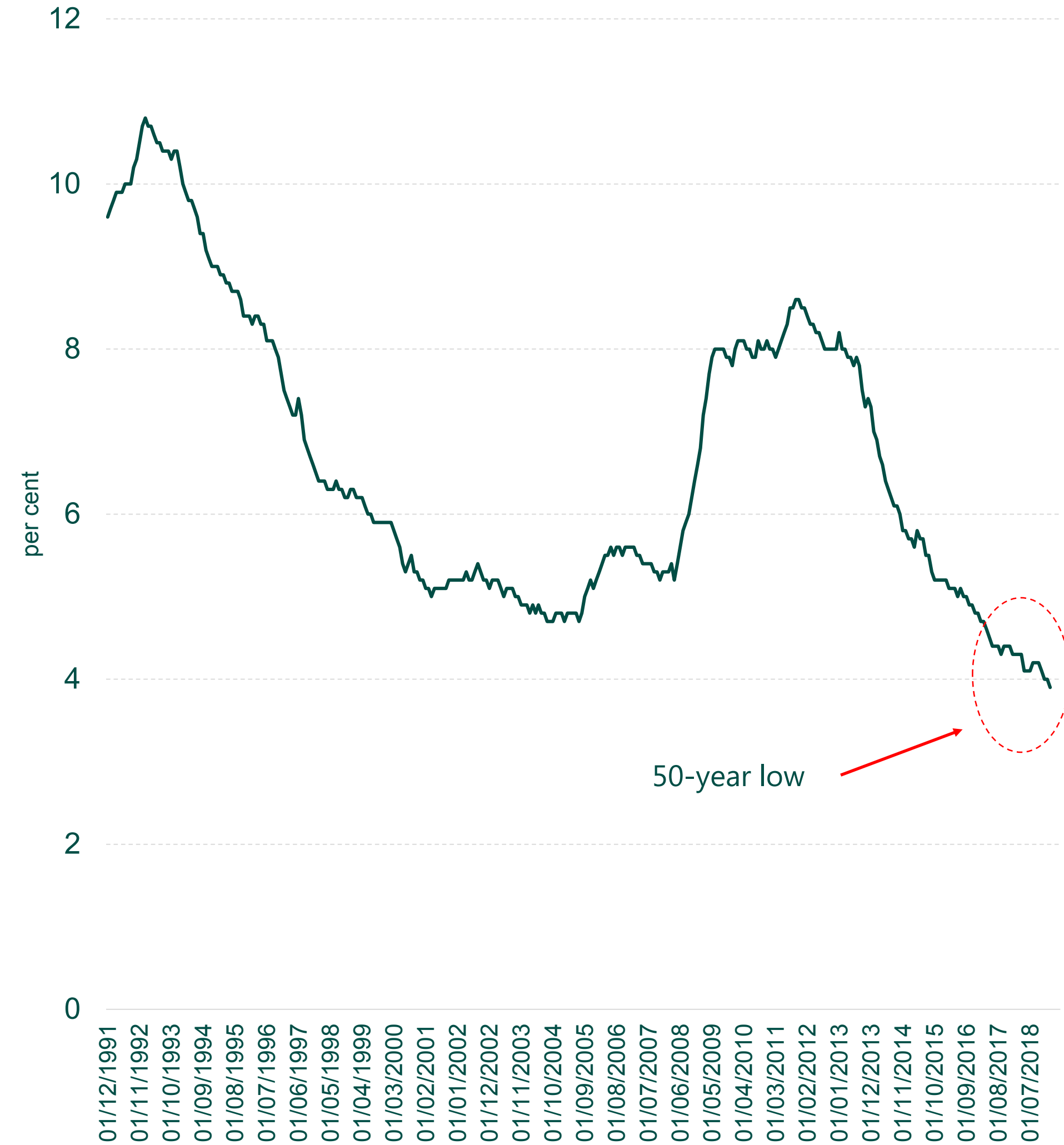
UK: business substituting labour for capital



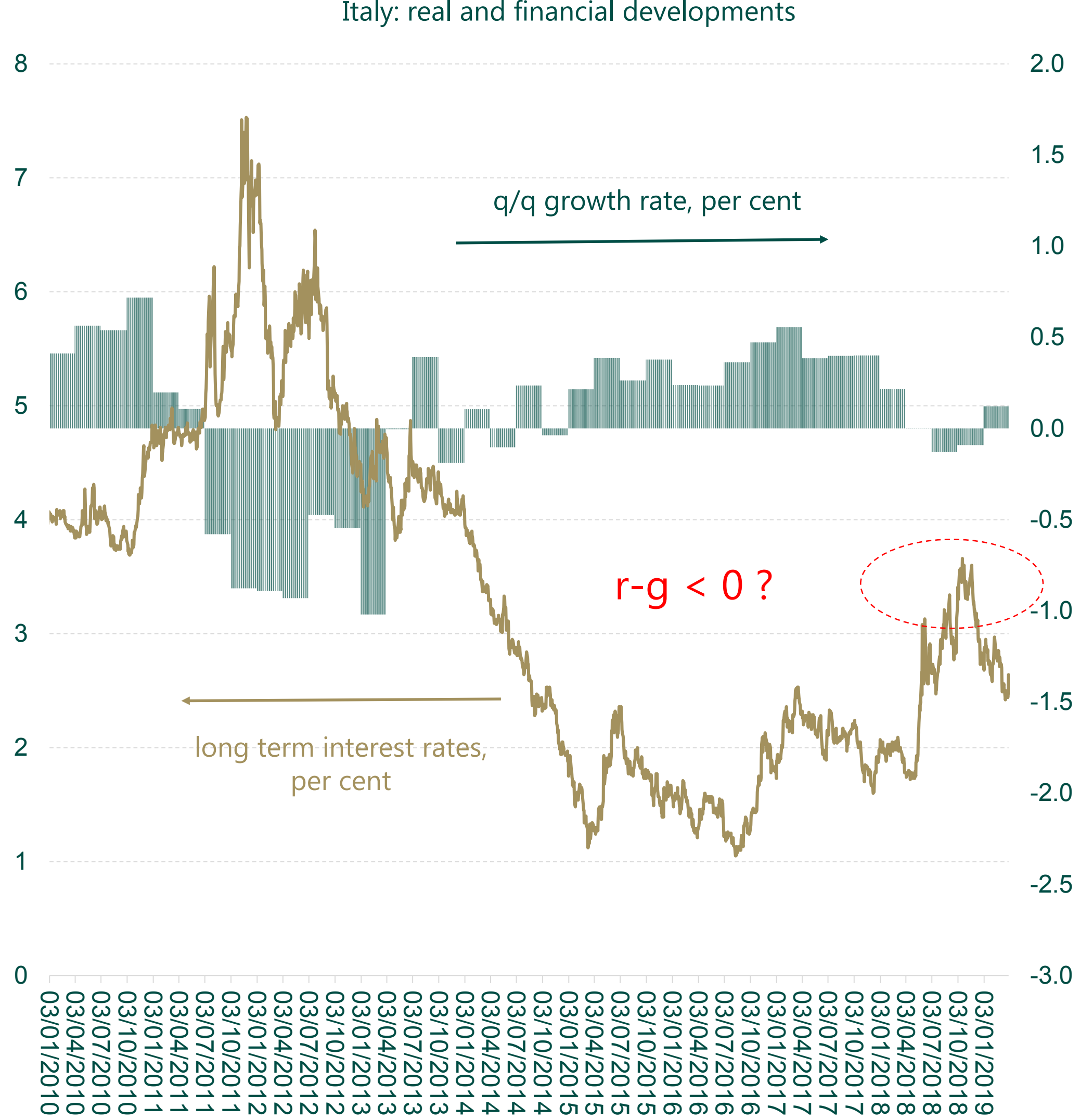
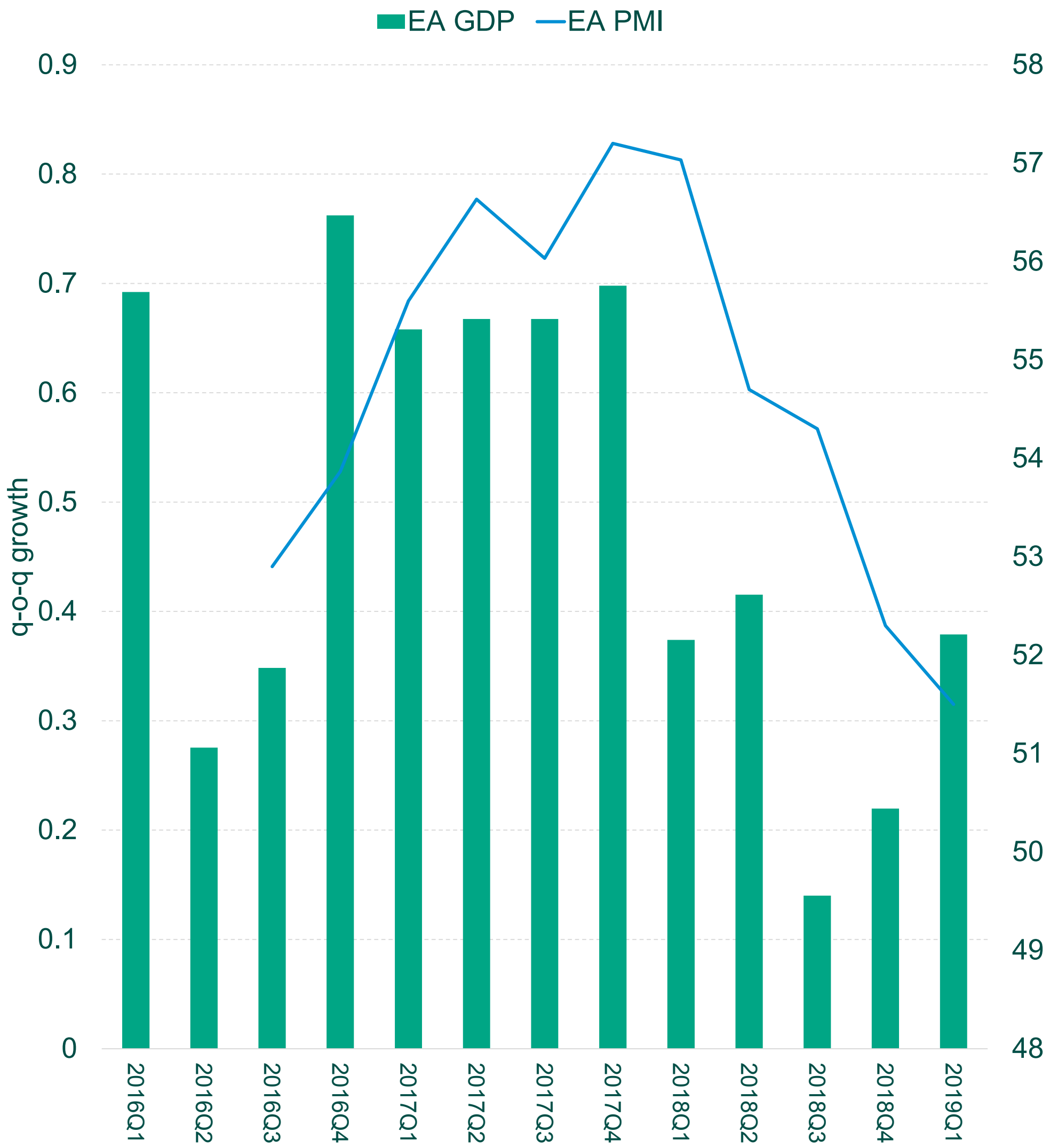
investment and output, y/y growth in the UK economy



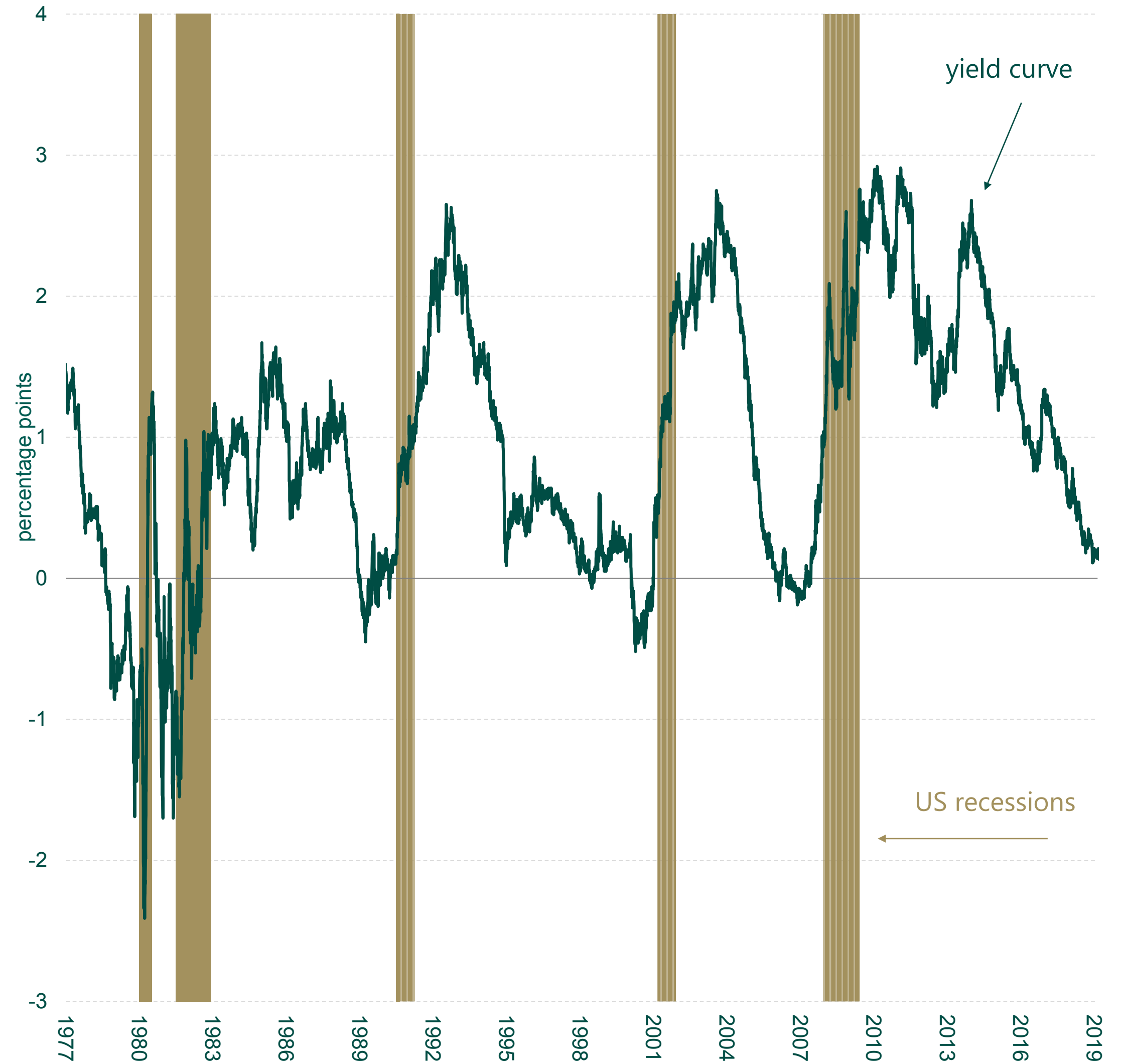
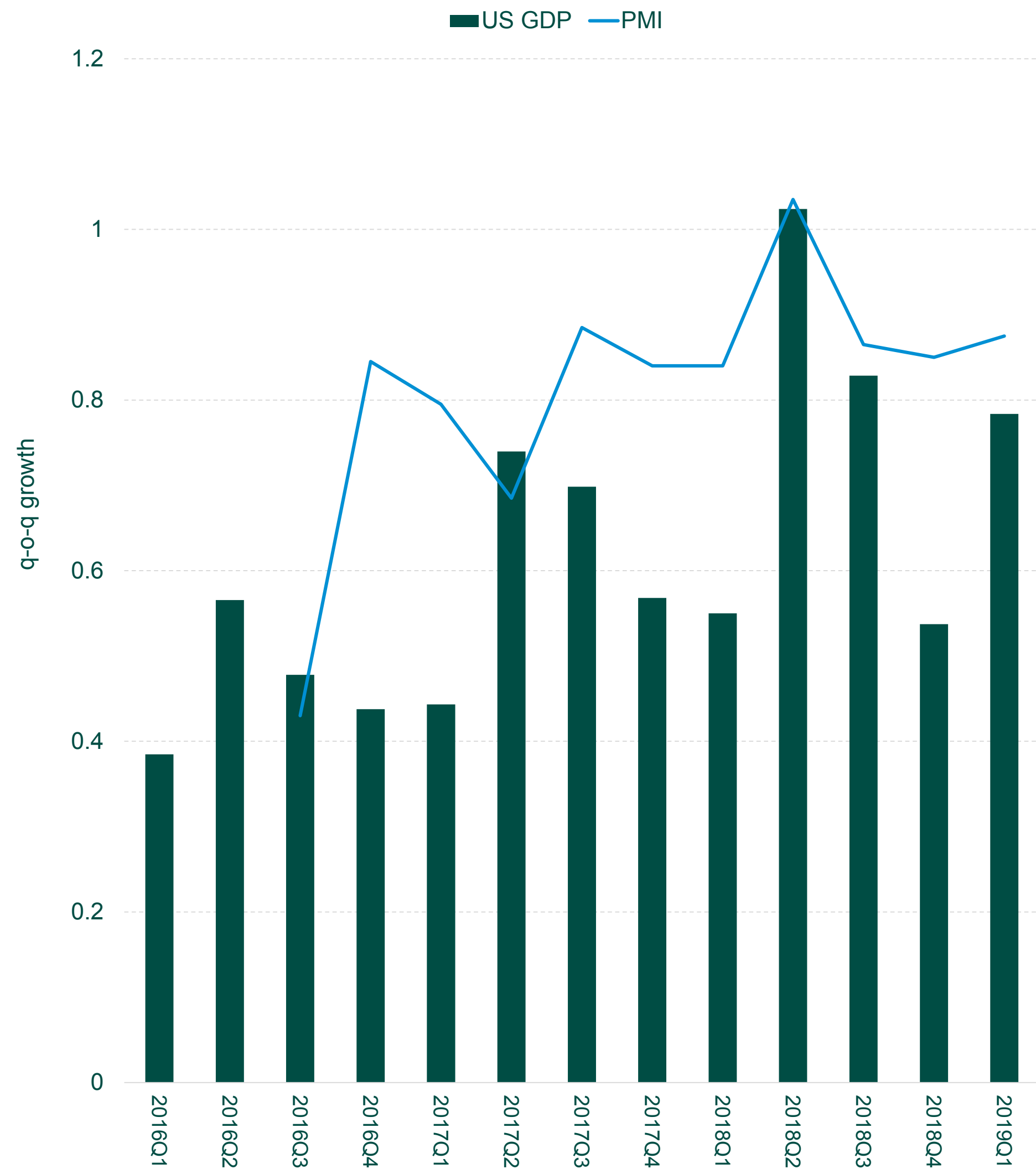
unemployment rate



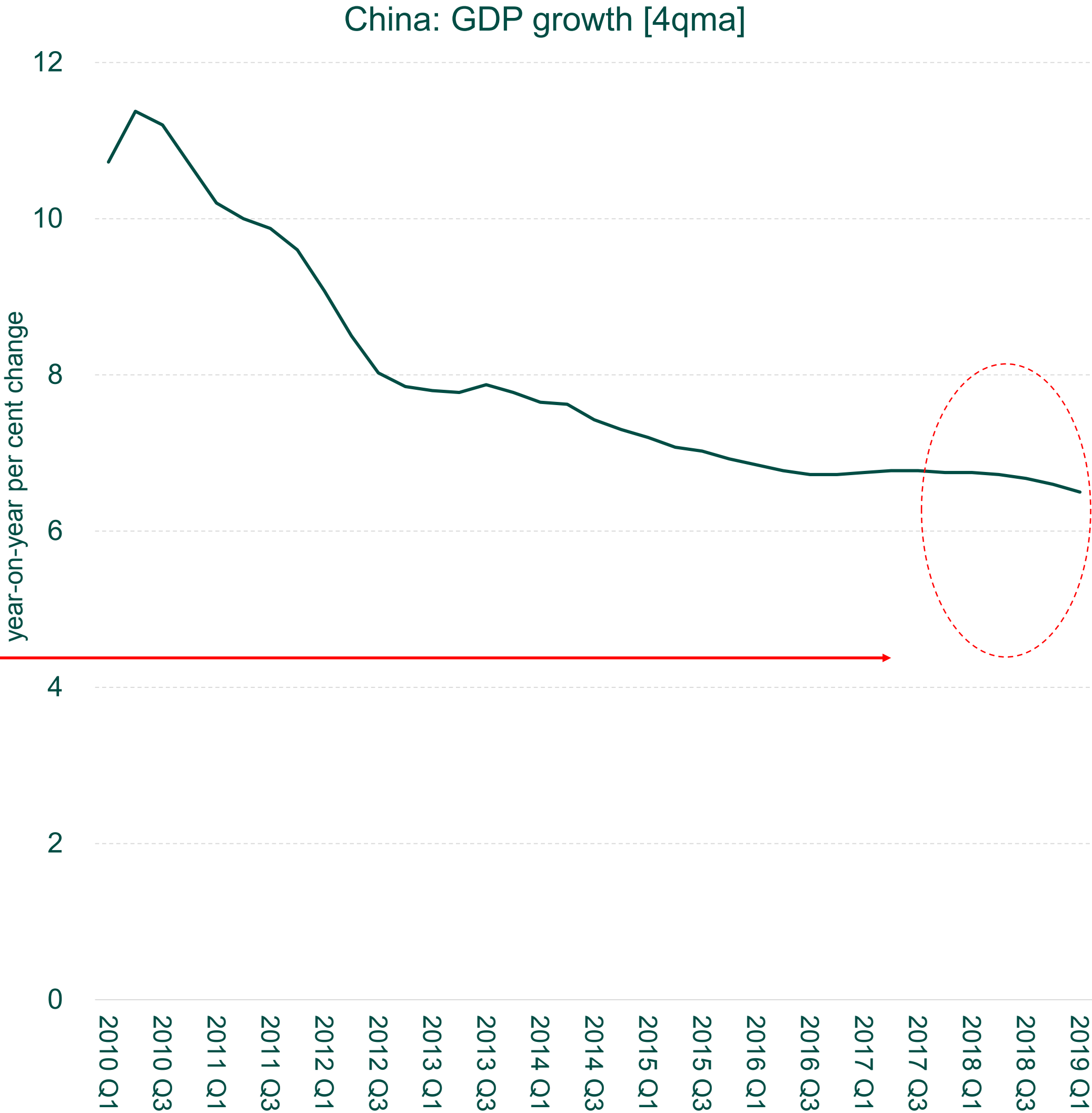
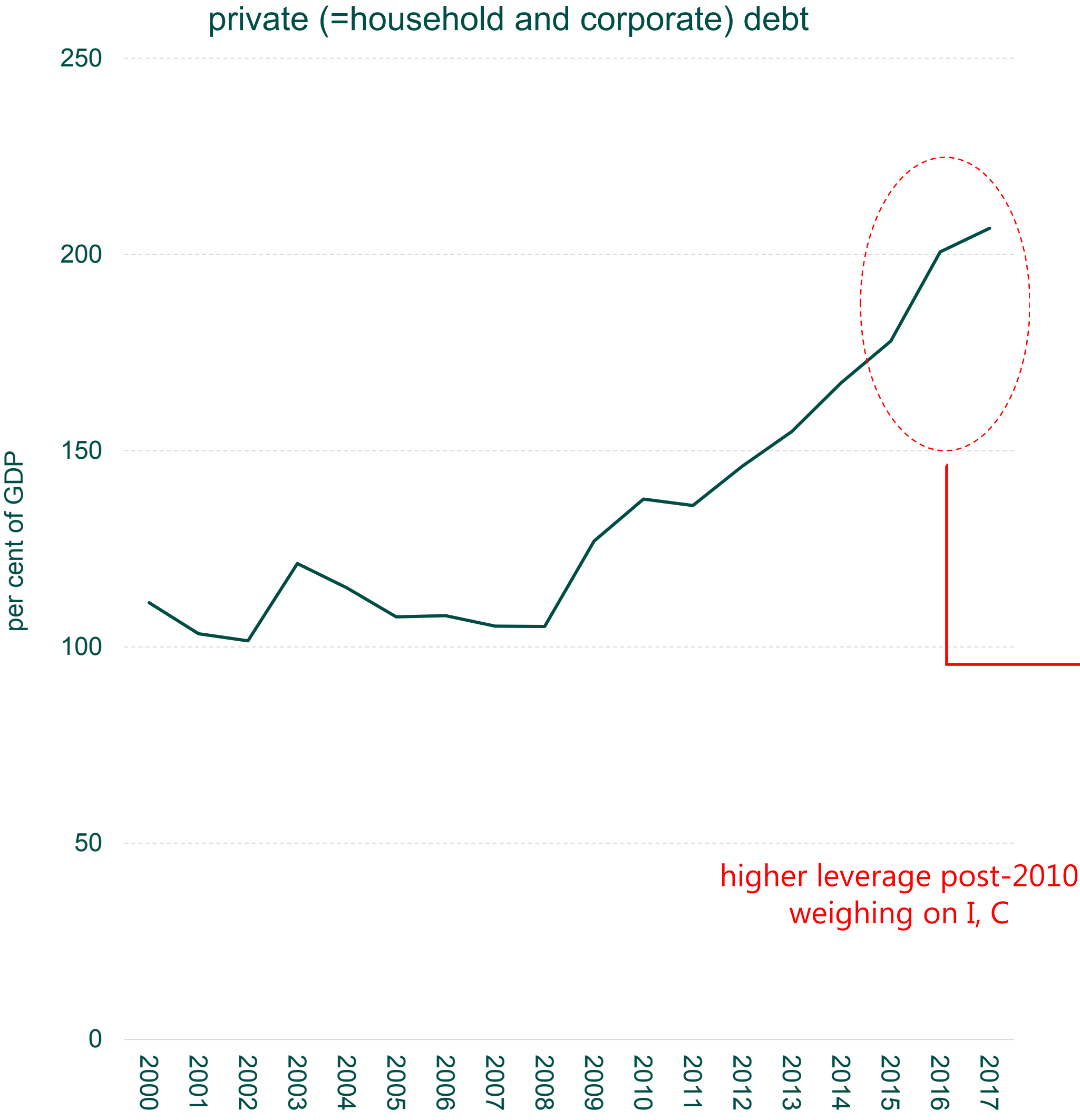
euro area: re-domination risk emerging?



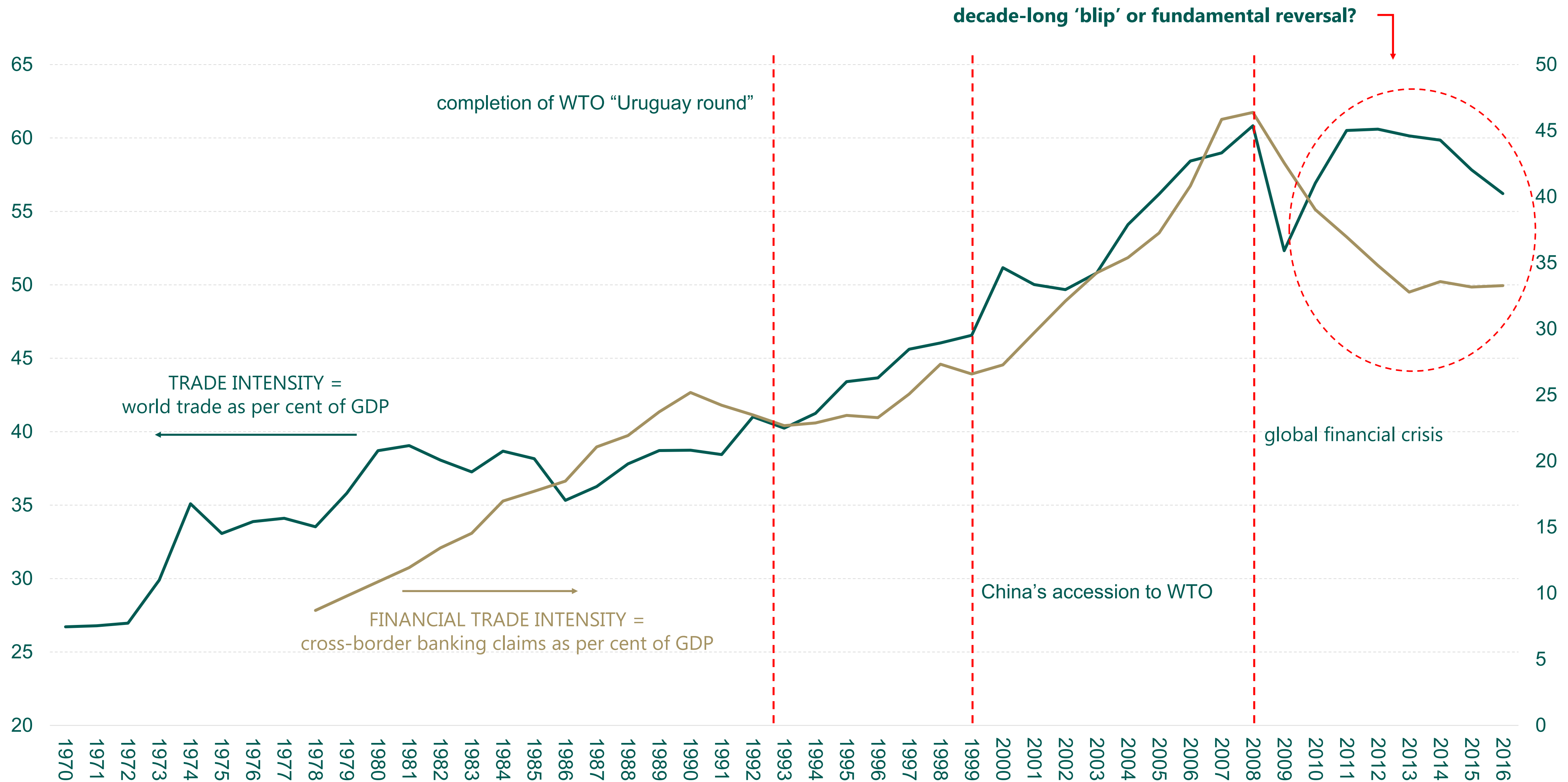
US: near-inversion of yield curve an omen?



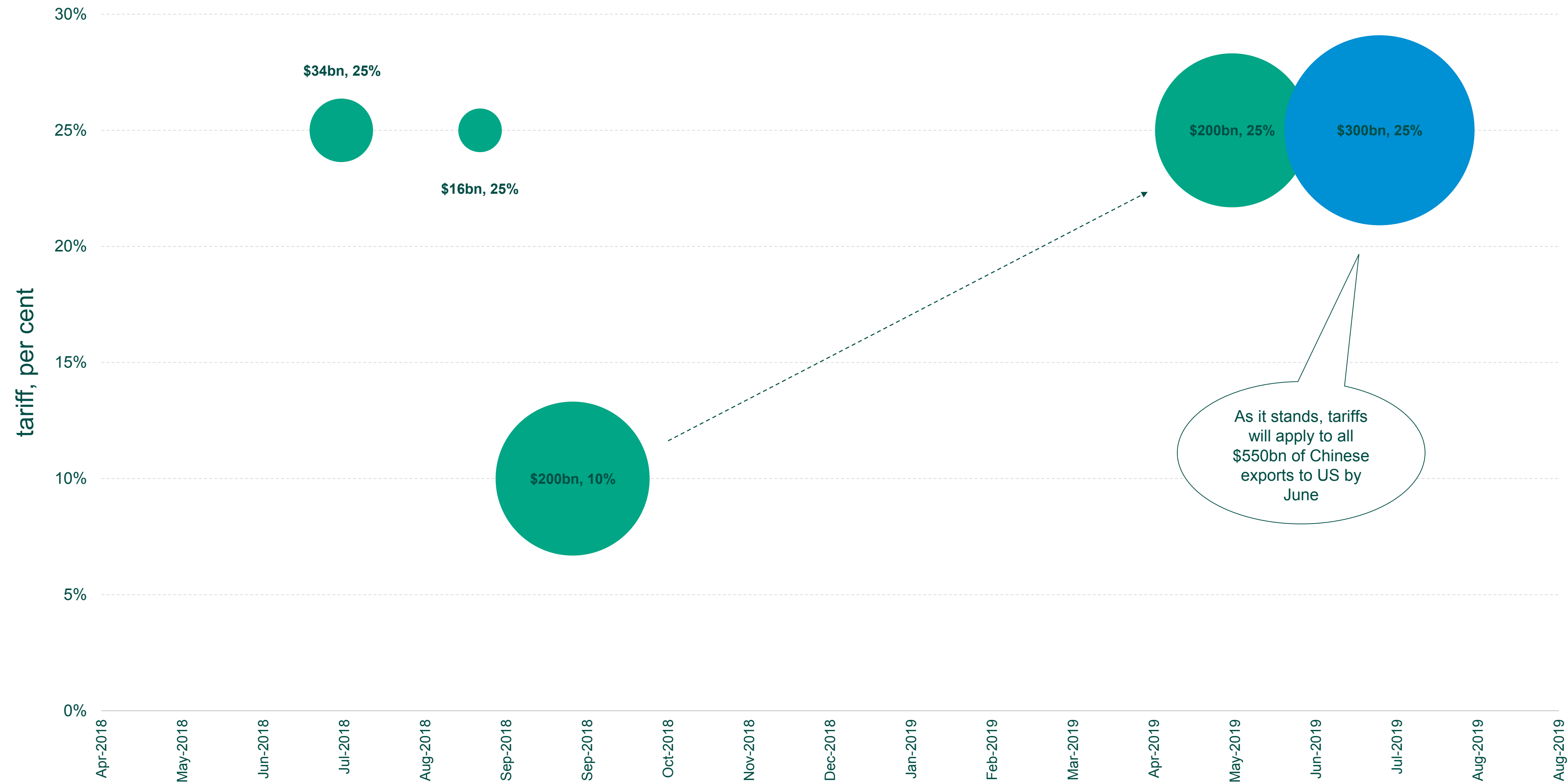
China: vulnerabilities weighing on output



Let' not forget about structural factors - peak' globalisation?



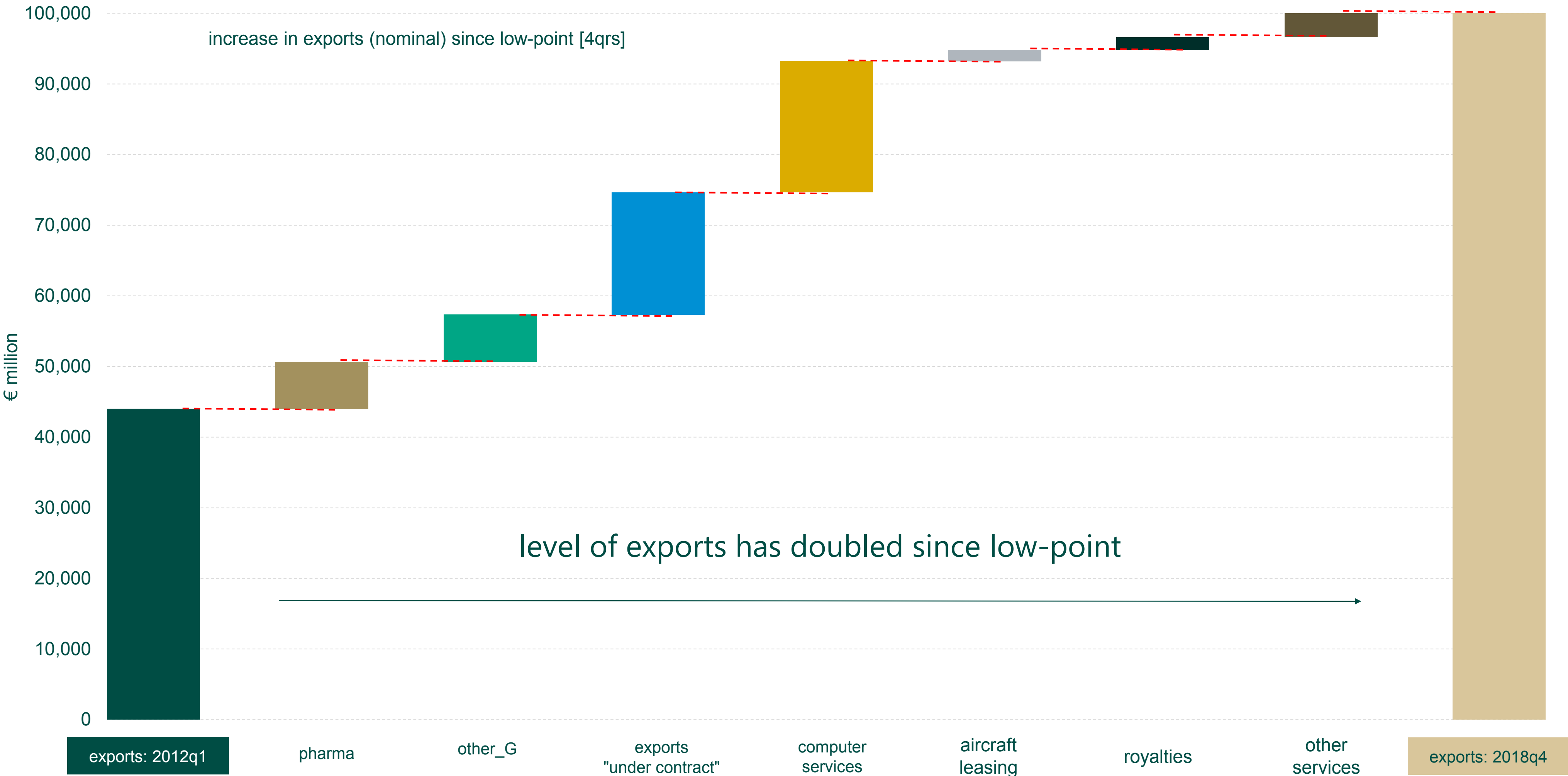
Import tariffs (and retaliatory measures) - ½ pp off level of world GDP



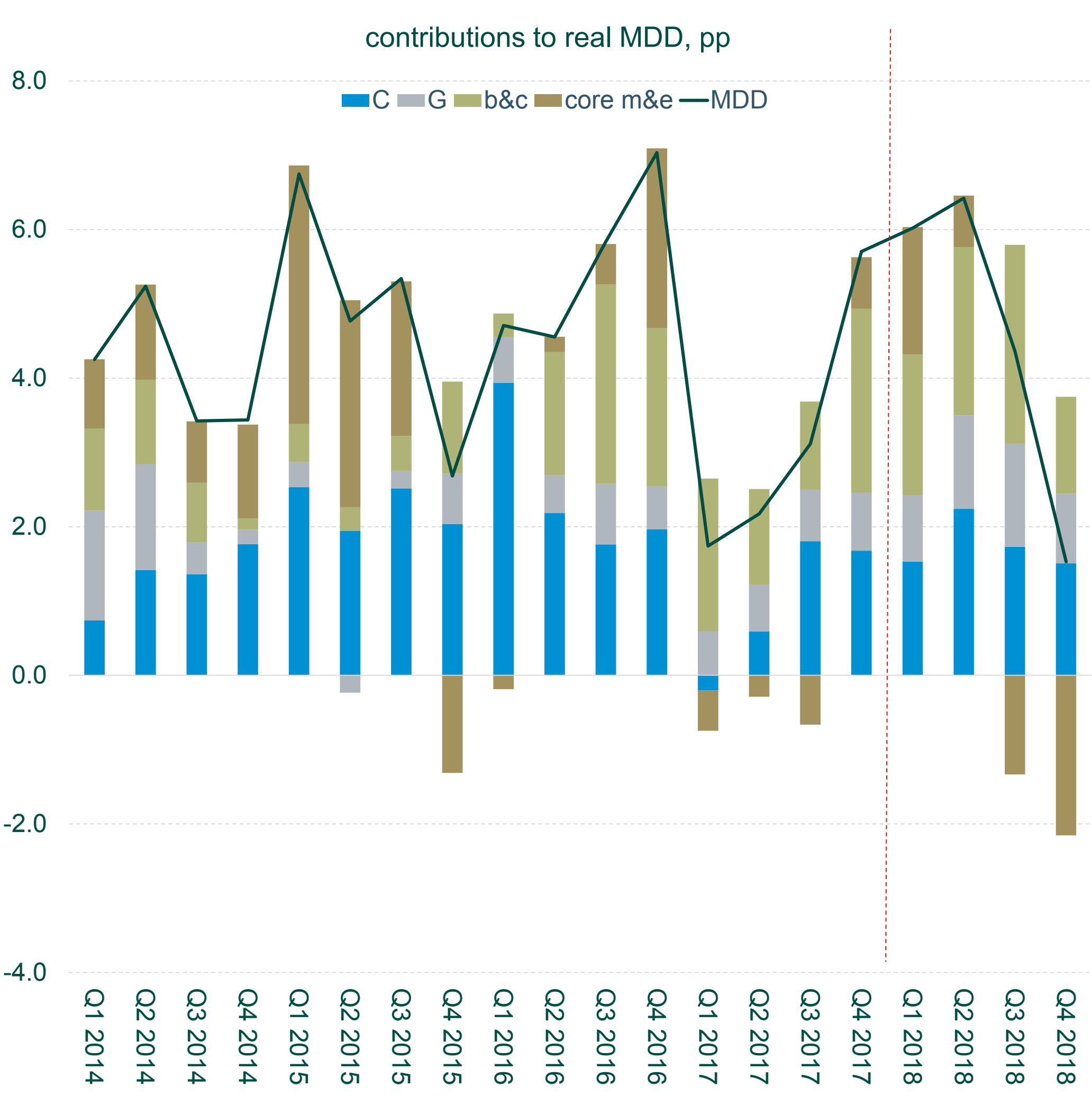


Latest macro-economic developments

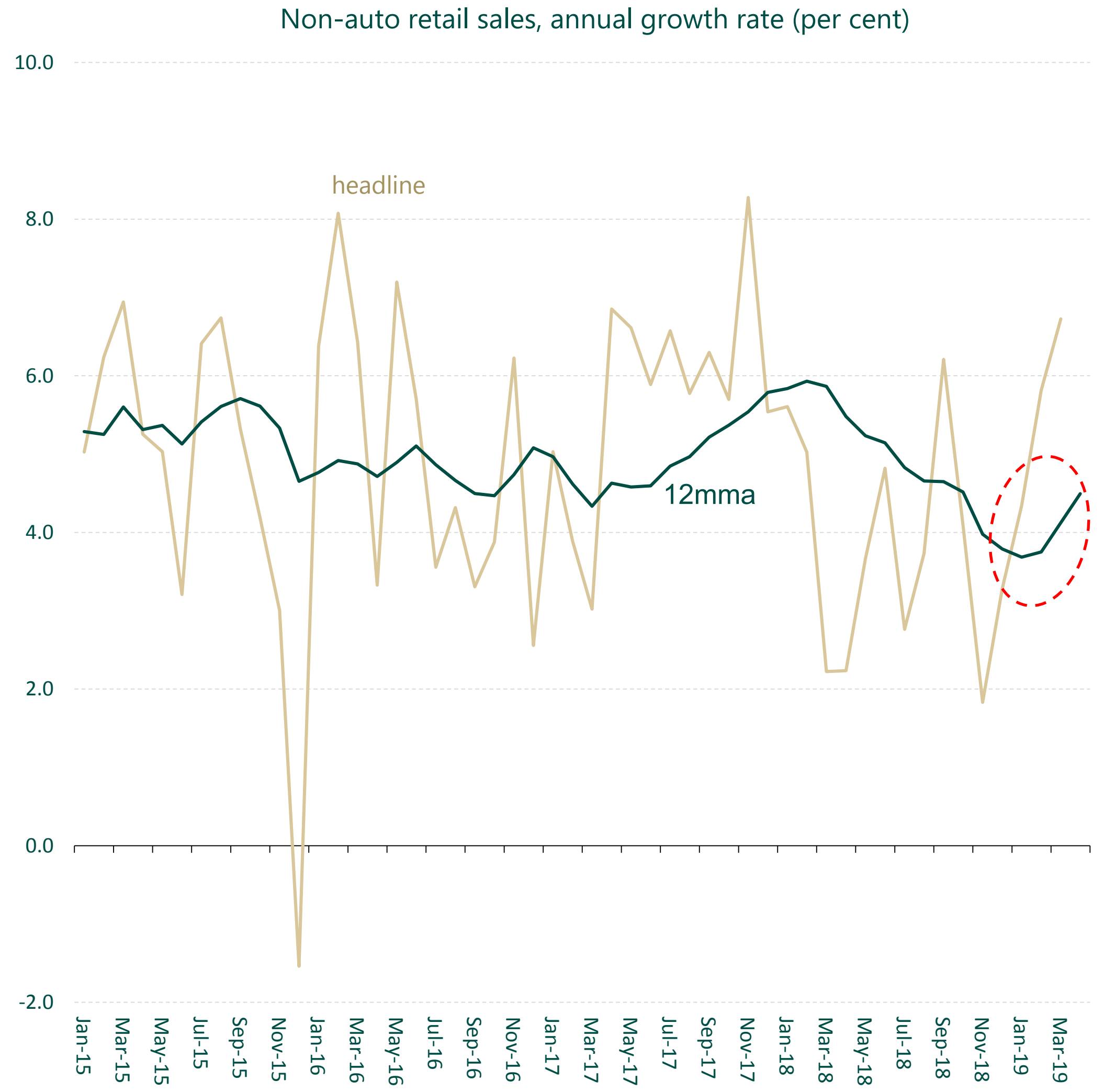
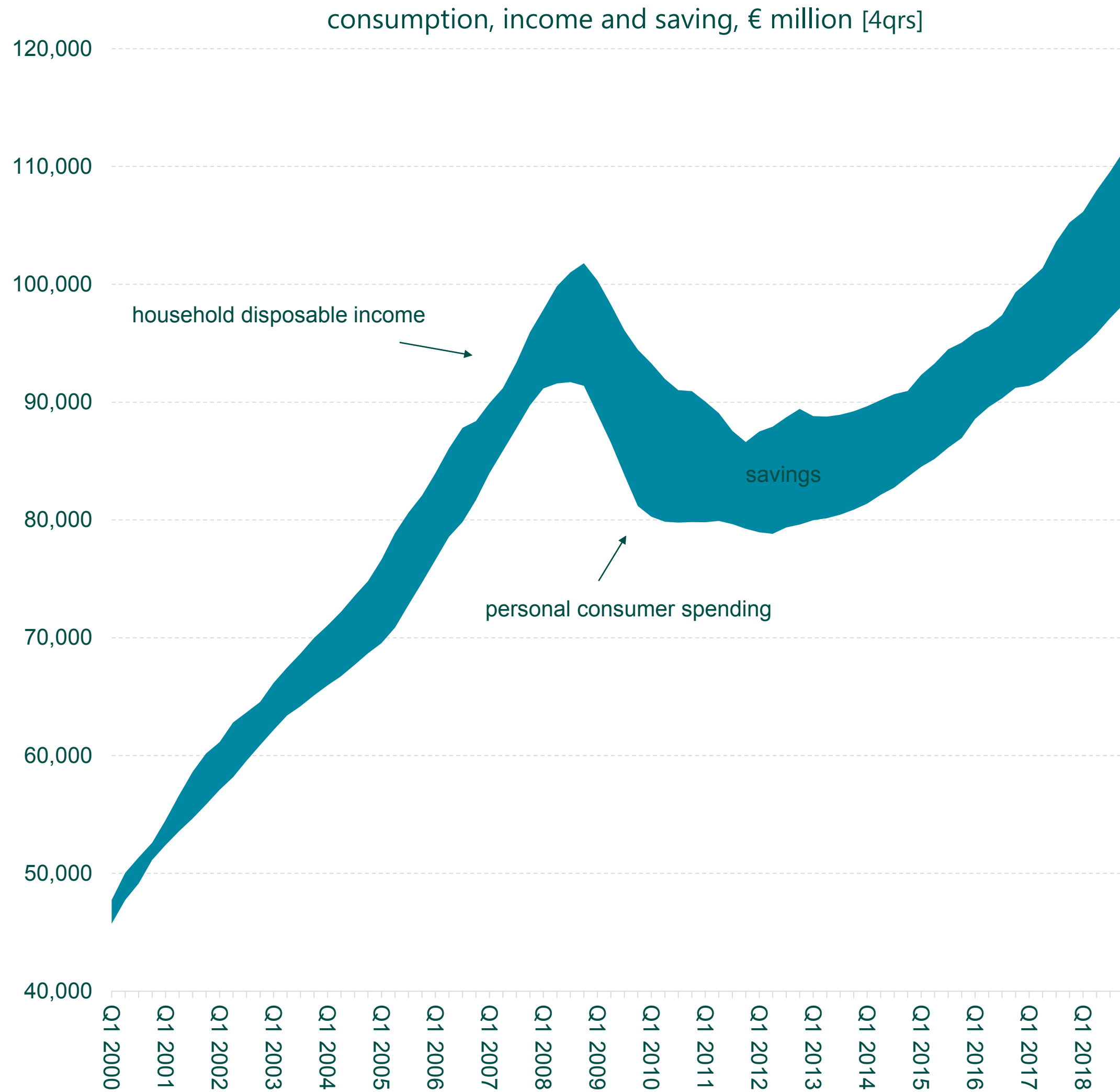
Exports continue to lead the way, less-so in labour-intensive sectors



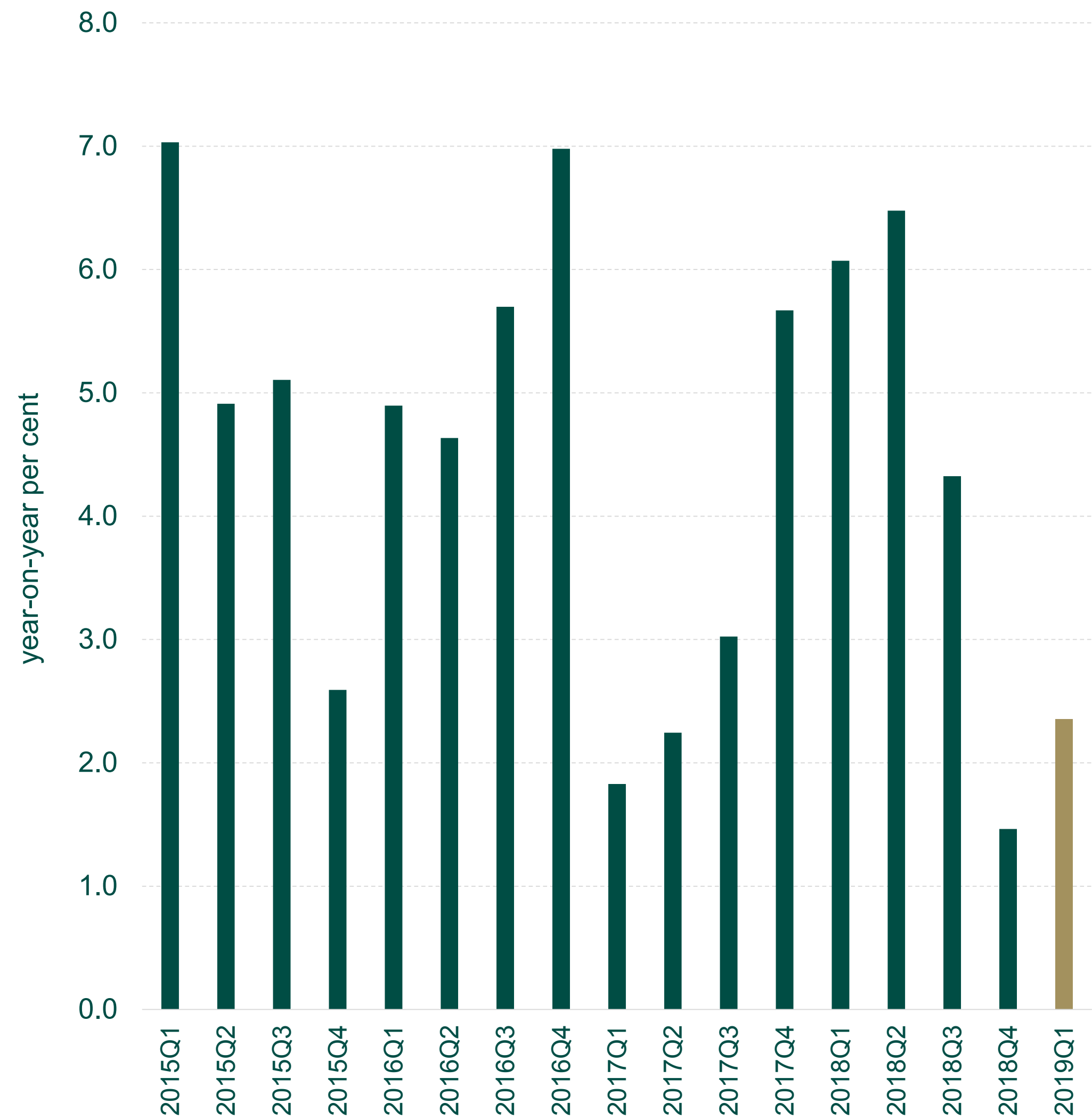
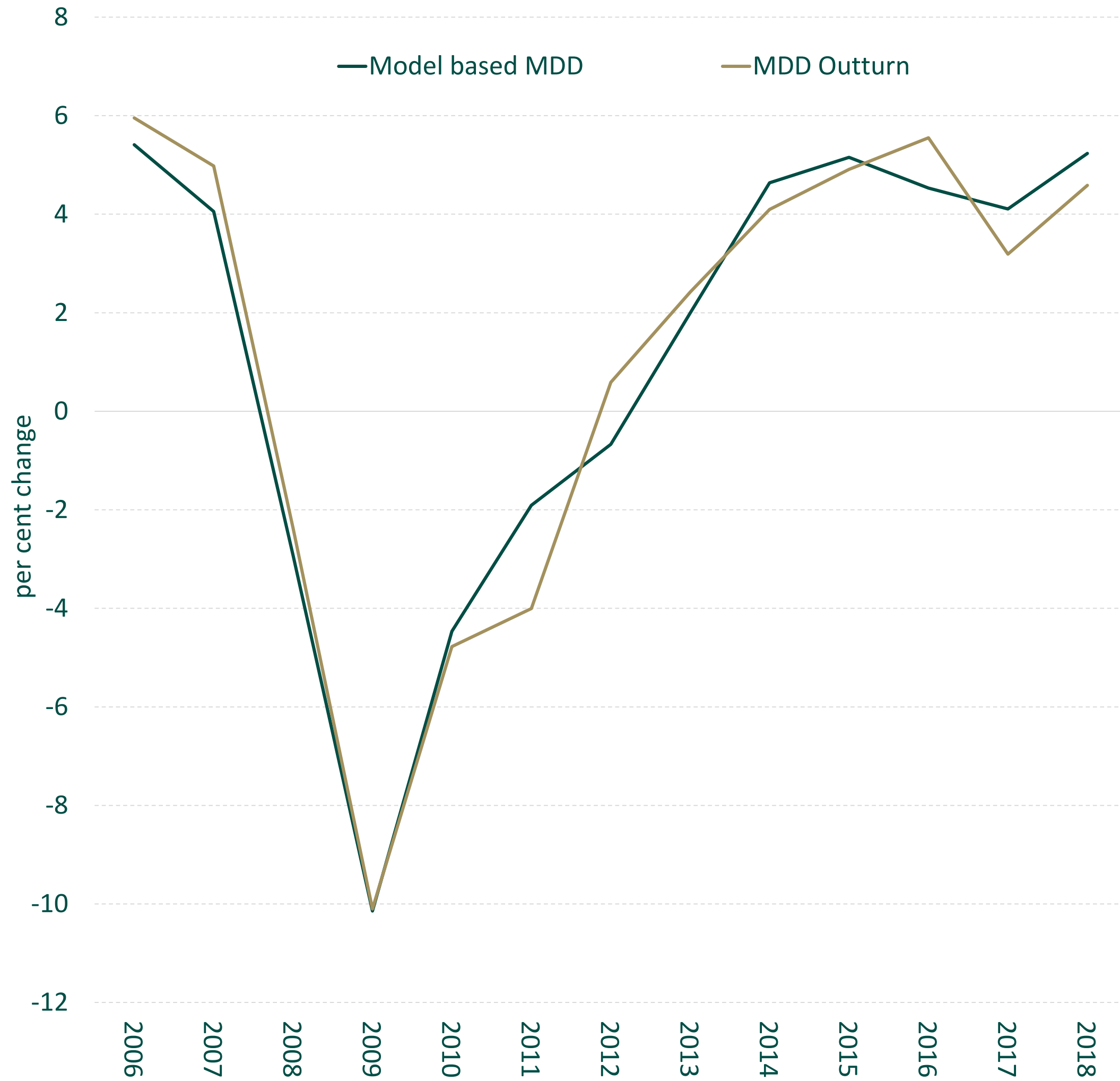
Low-frequency suggest moderation in H2/18 – higher frequency mixed bag



increase in household savings rate last year – some reversal in Q1



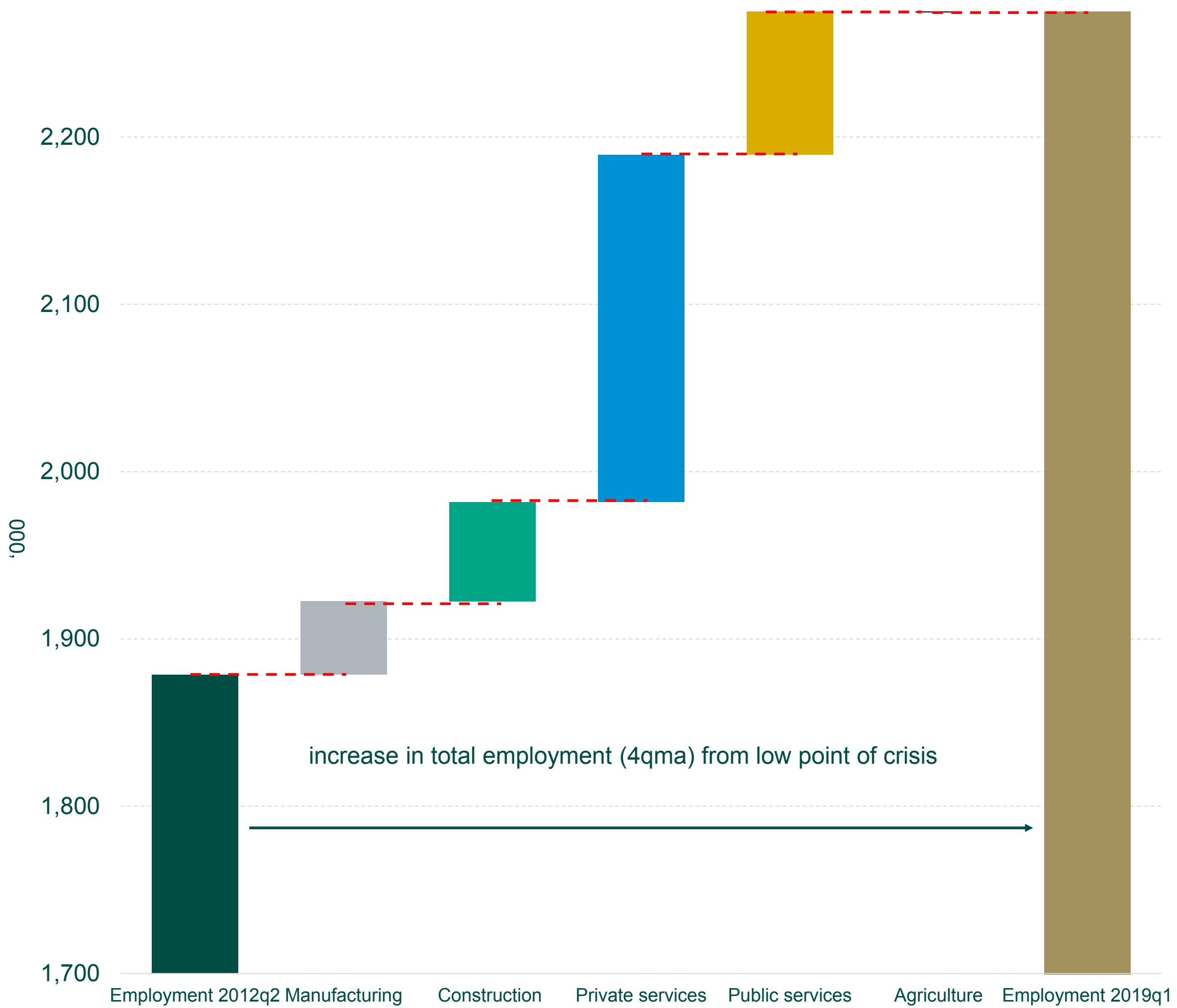
“now-casting” modified domestic demand – principal component analysis





The labour market

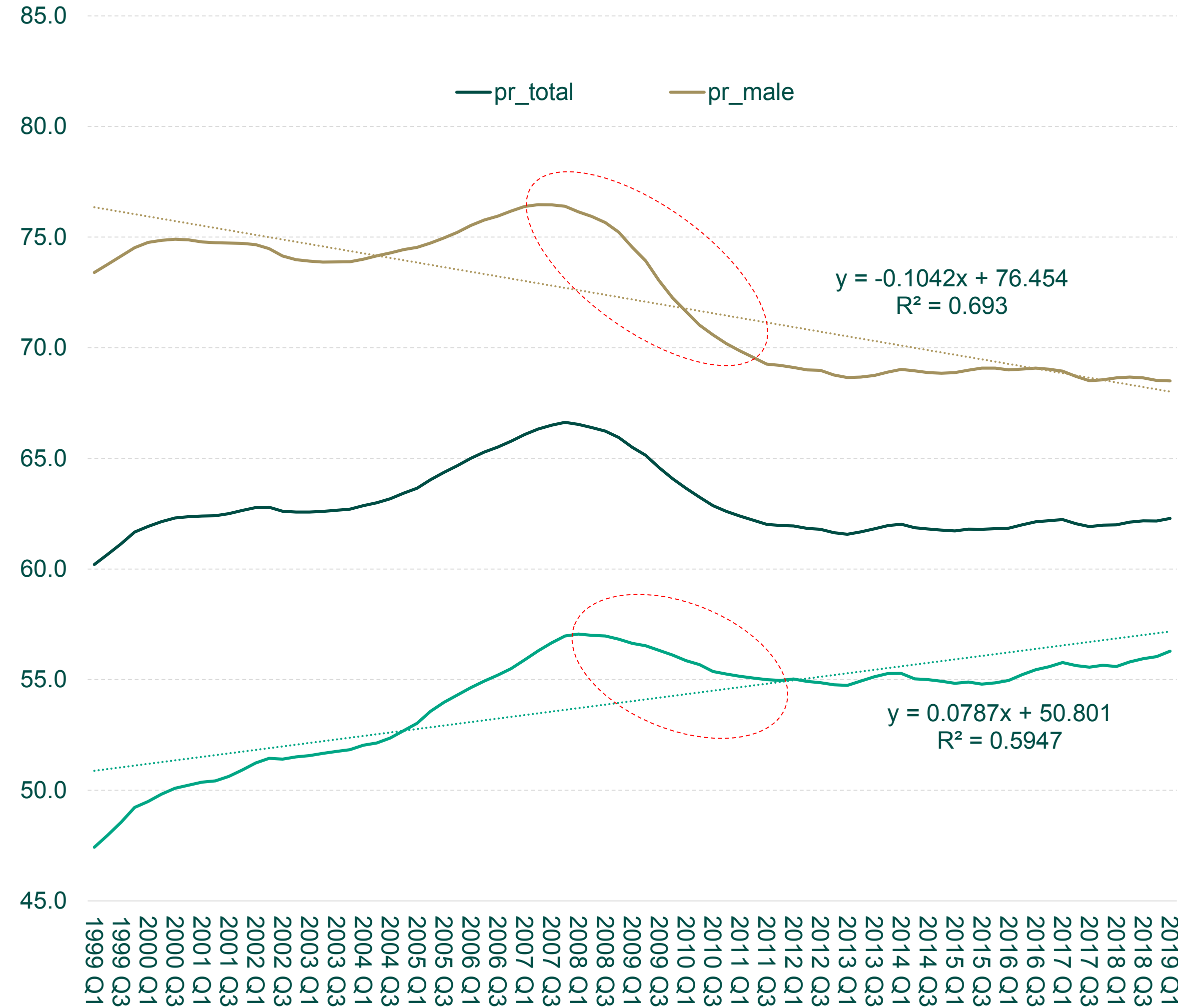
Employment surprise in Q1



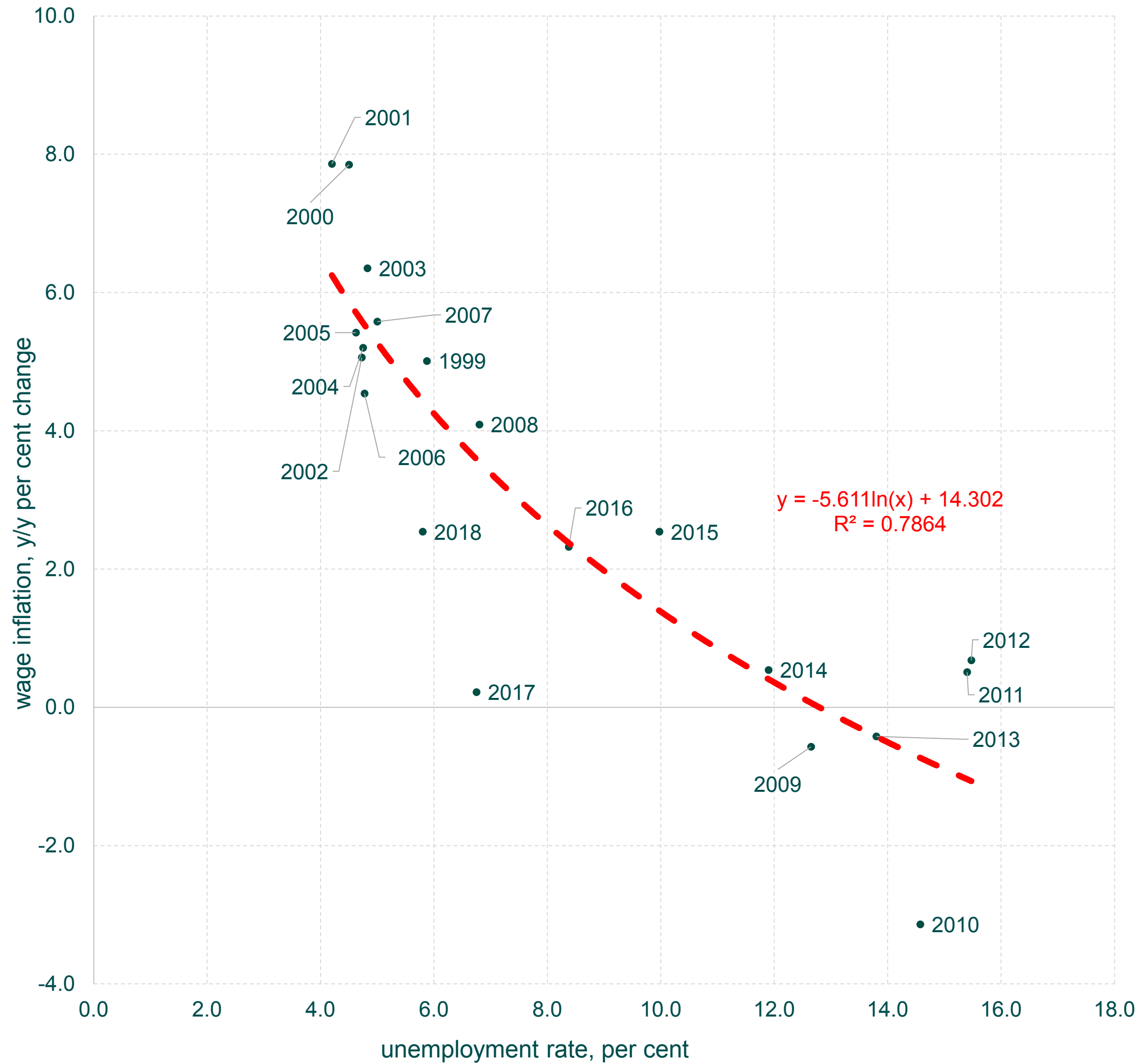
Demographic induced PR slowdown



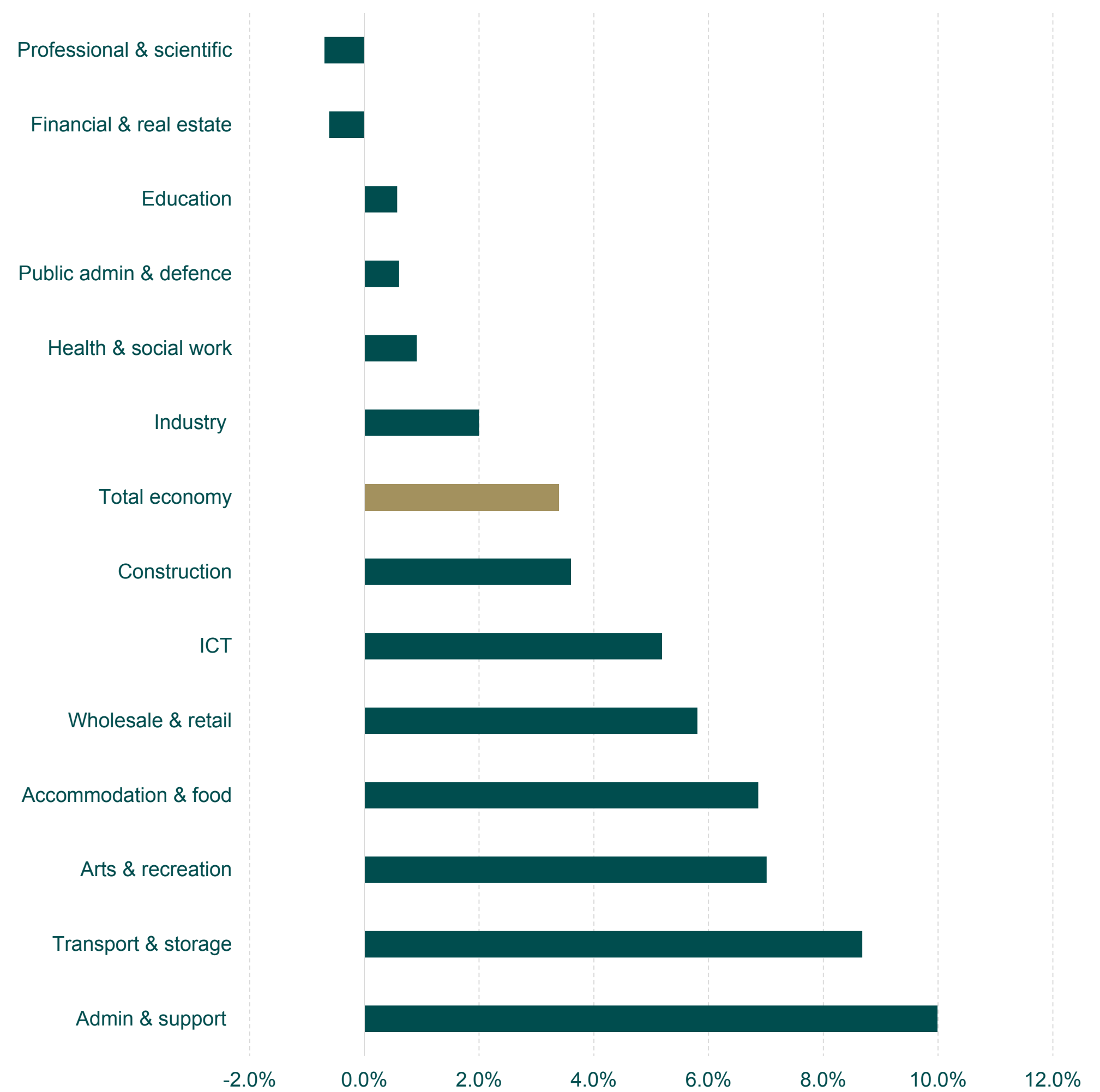
participation rate, 4qma



The philips curve: dead or alive?



annual change in weekly earnings in 2019 Q1, per cent



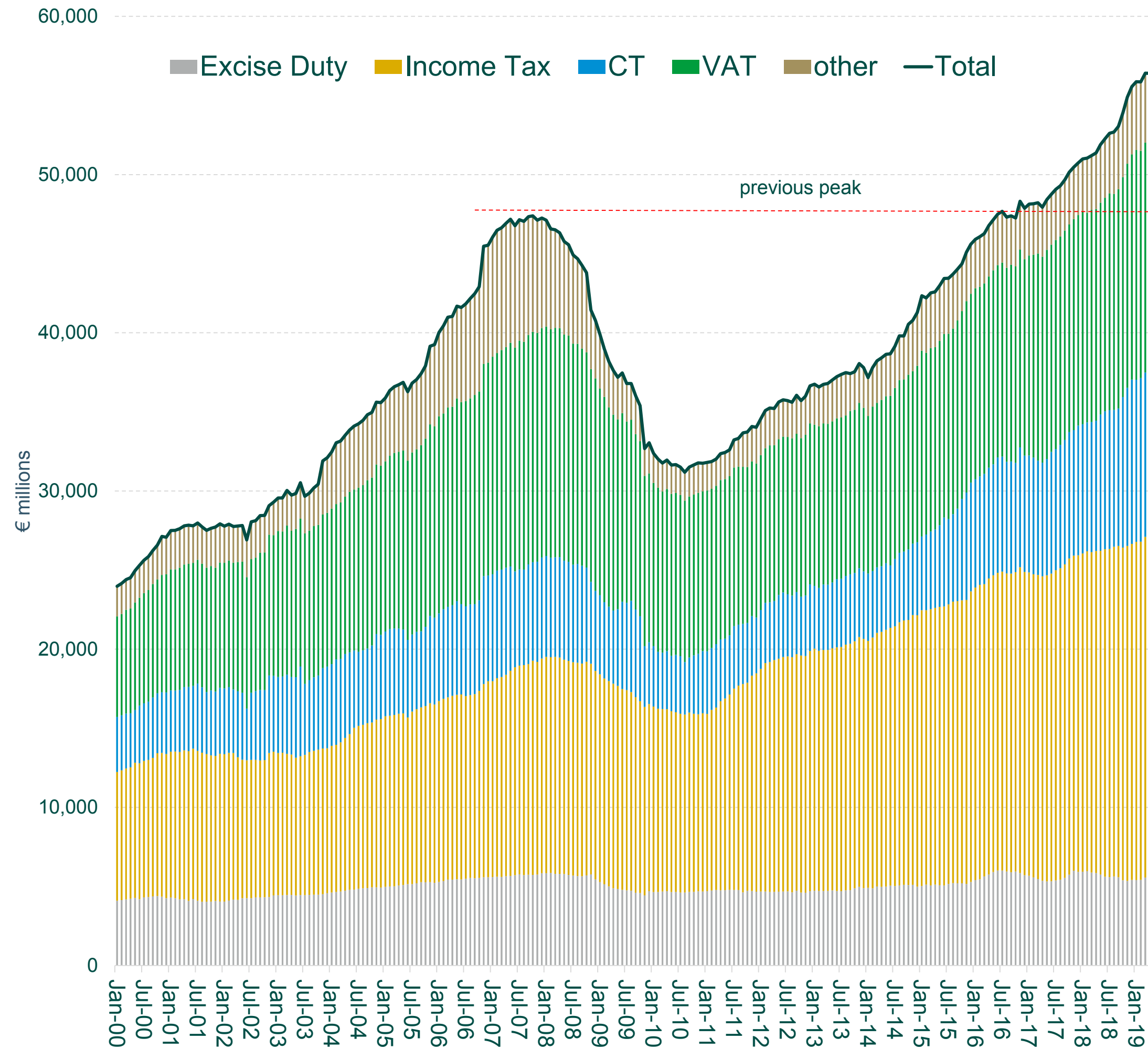


The public finances

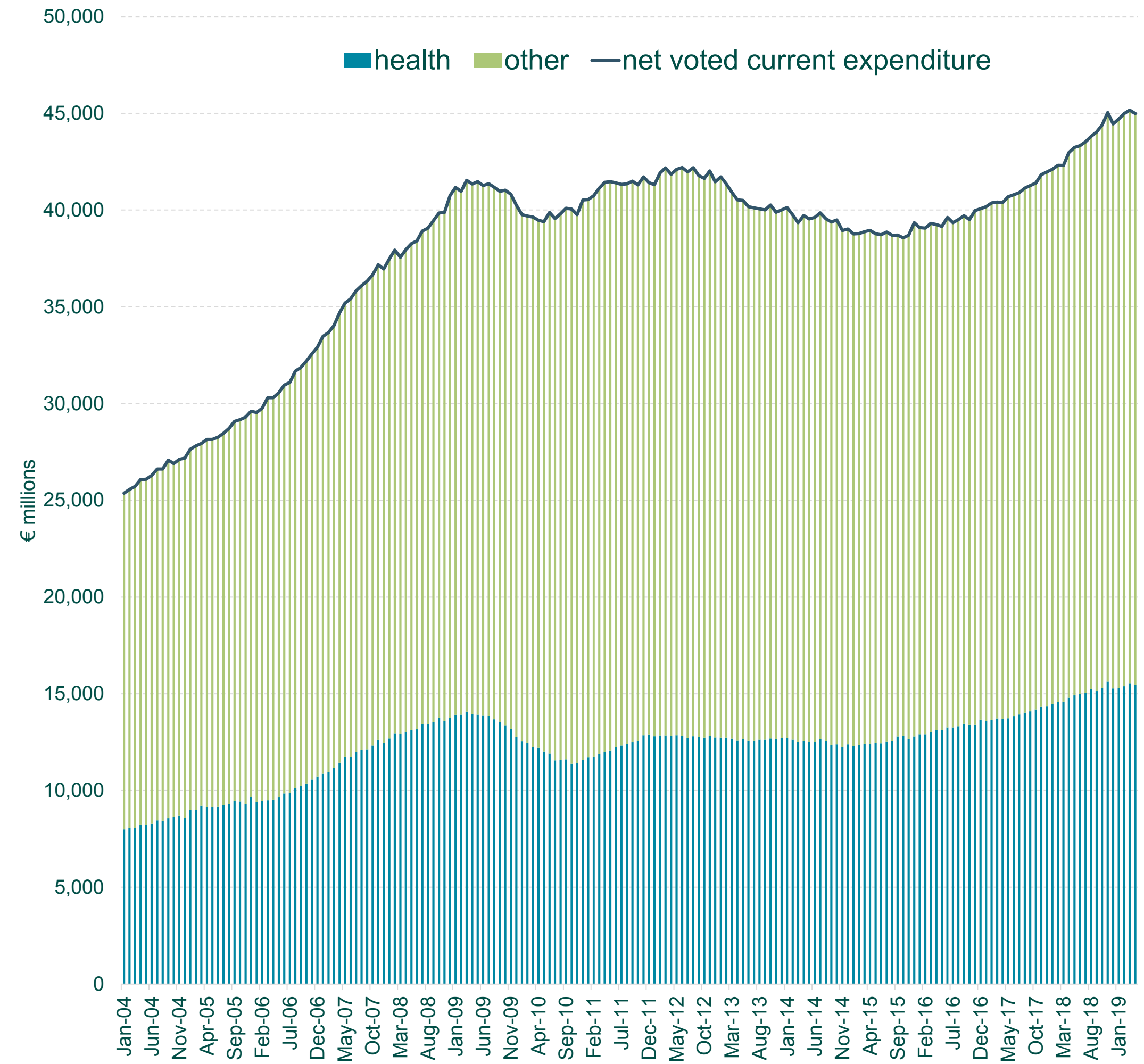
Budgetary implementation: in line with expectations



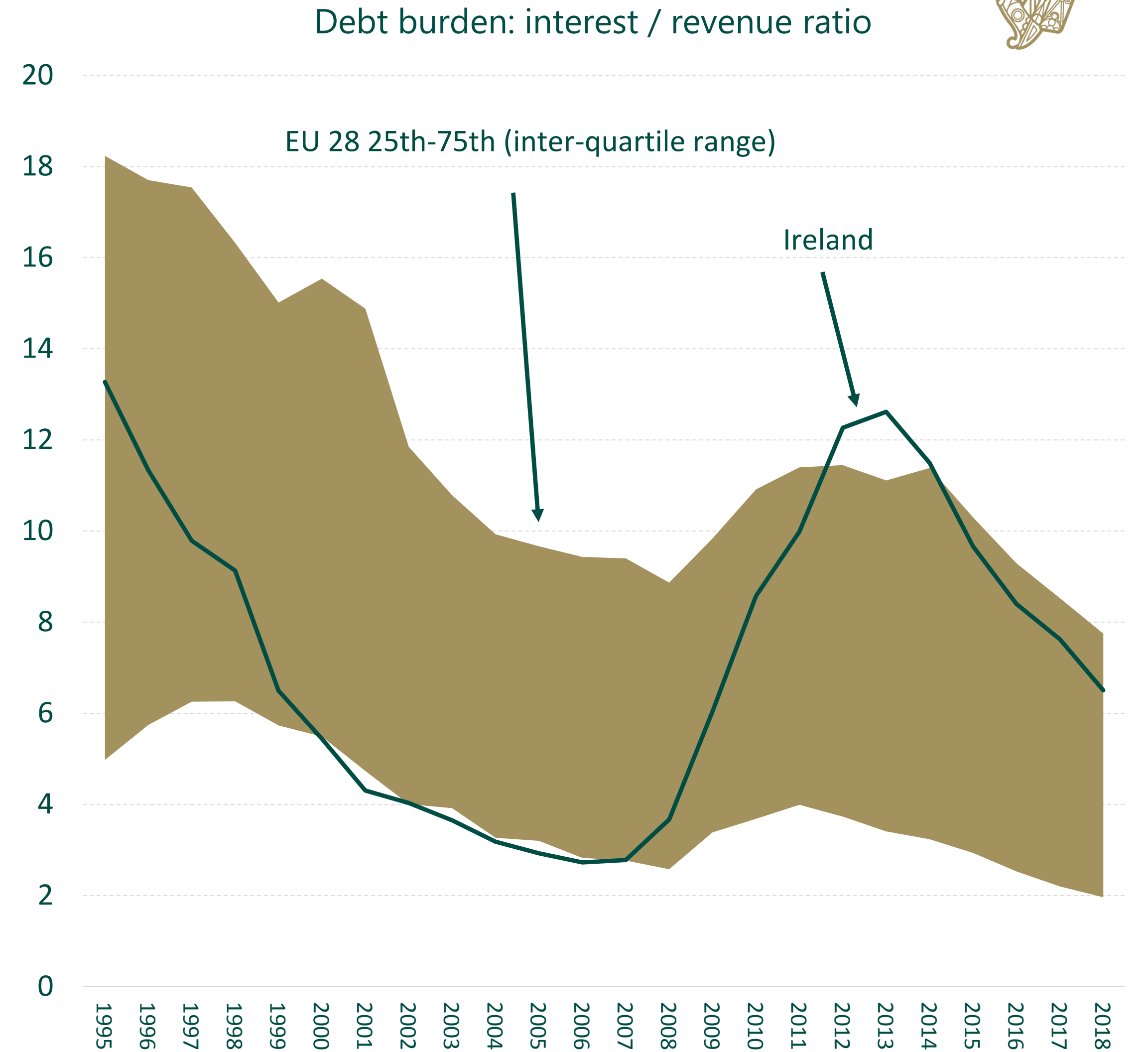
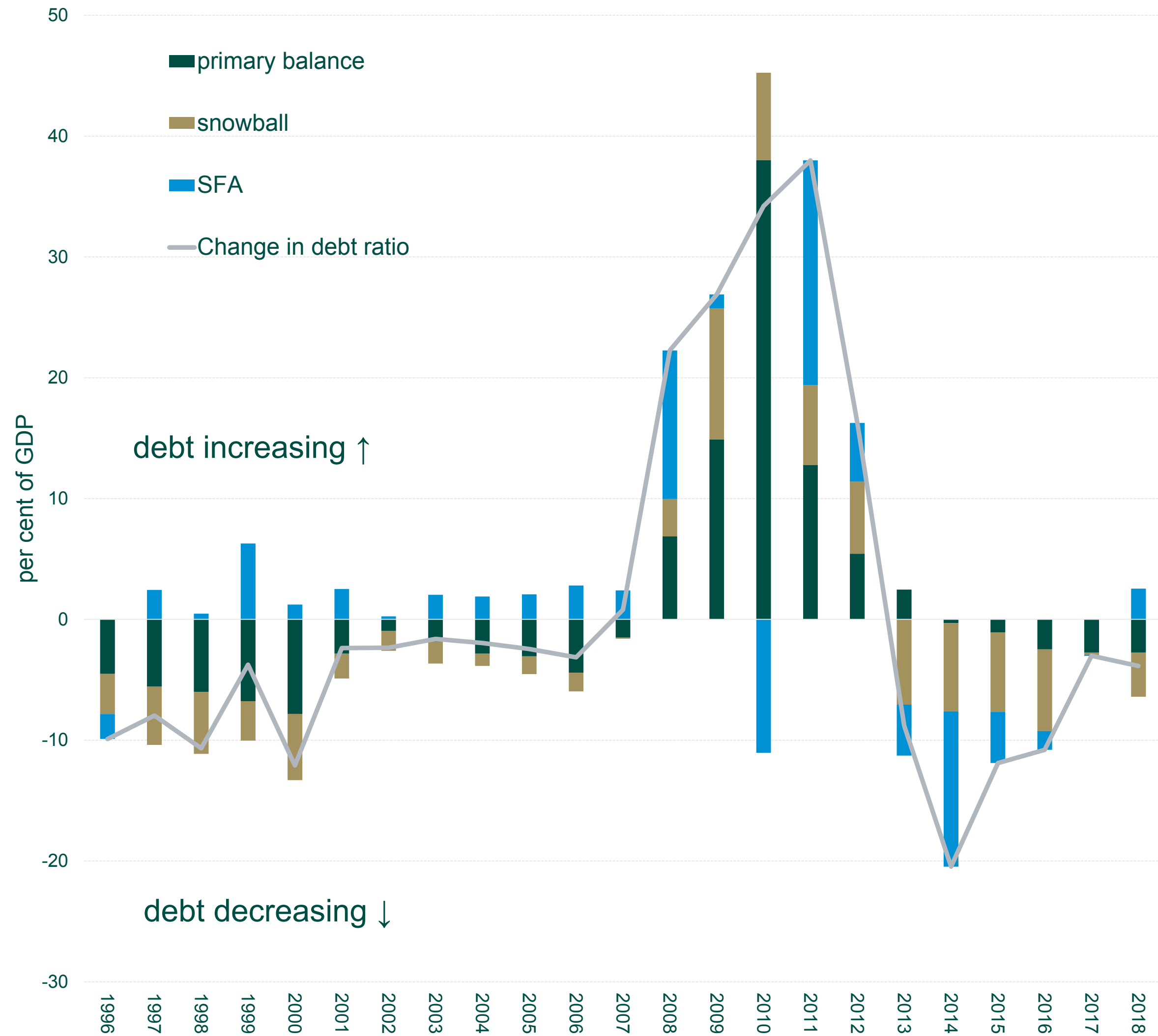
Revenue side equation



Expenditure side of equation



'snowball' main driver of debt reduction; interest burden remains high



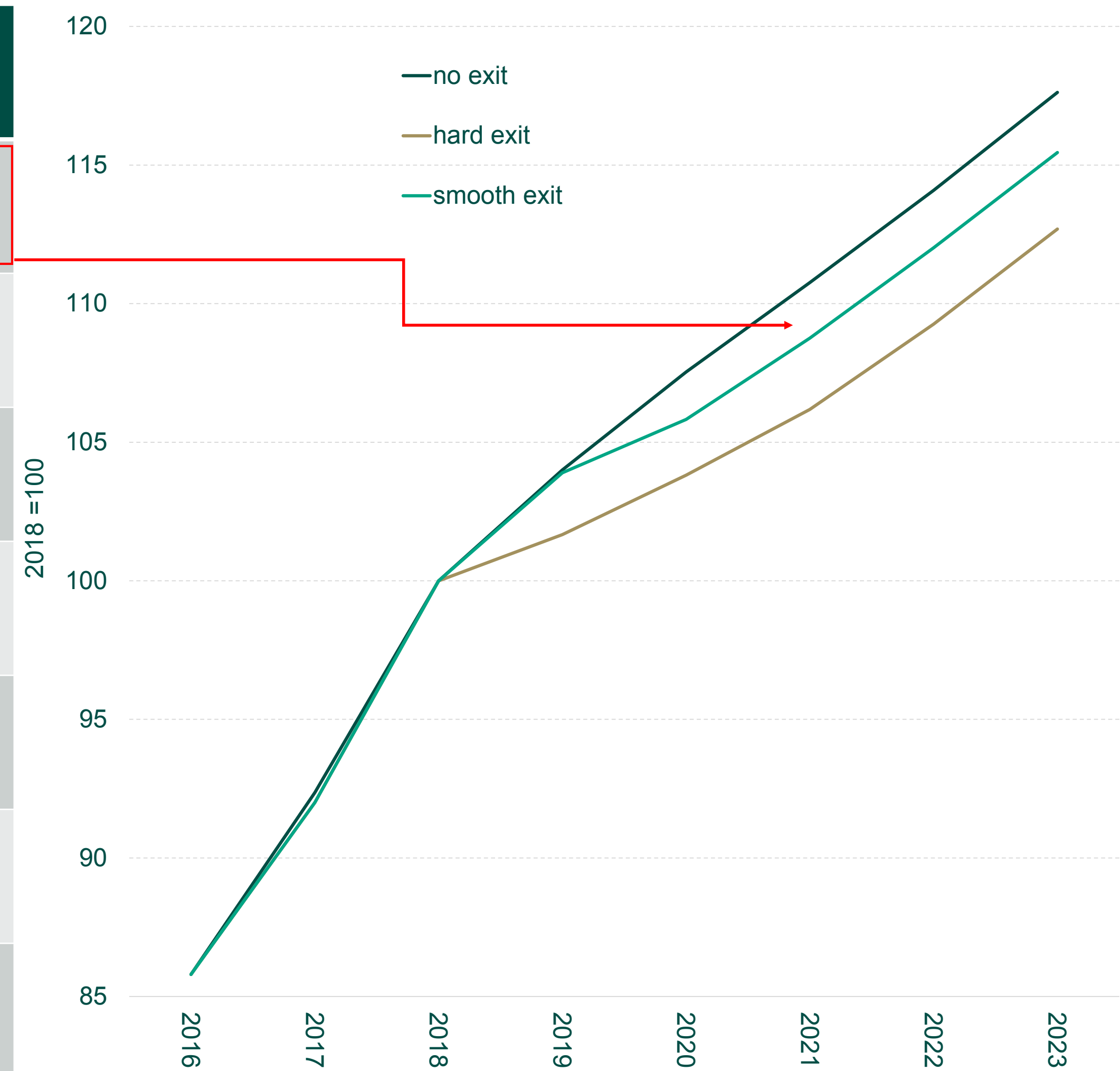


Brexit: casts a long shadow

Forecasting in a highly uncertain environment



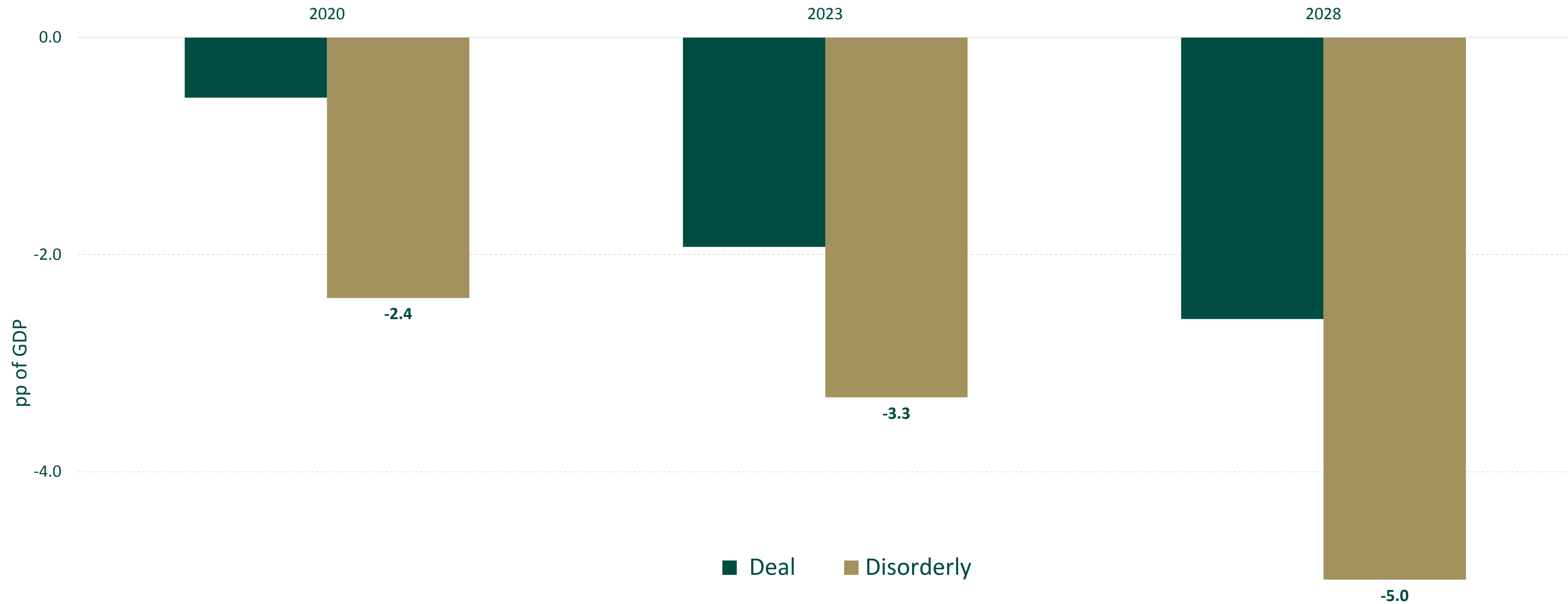
	2018	2019	2020
GDP	6.7	3.9	3.3
BoP (% GDP)	9.1	8.4	8.0
Inflation	0.7	0.9	1.1
Employment (% change)	2.9	2.2	2.1
Unemployment (%)	5.7	5.4	5.2
GGB (% GDP)	0.0	0.2	0.4
GG debt (% GNI*)	107.3	101.7	93.0



Impact of Brexit on Ireland (change from baseline in levels)



Brexit impact on level of Irish GDP





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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