Quarterly Economic Commentary – Spring 2021

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

DATE

March 24th 2021

AUTHORs

Kieran McQuinn, Conor, O'Toole, Ilias Kostarakos and Cathal Coffey.

Overview

- Despite the pandemic the Irish economy still grew by 3.4% compared to 2019 in real terms. This was linked to an increase in exports and a fall in imports.

- Contrasting impact of pandemic on traded and domestic sectors evident
  - Strong growth in exports (+6.2%)
  - Consumption and investment fall significantly - (-9%) & (-32.3%) respectively.

- Administrative restrictions having a significant impact on the labour market
  - Pandemic adjusted unemployment rate 24.8 % in February 2021.

- Real GDP forecast to grow by 4.4% in 2021 and 5.2% in 2022

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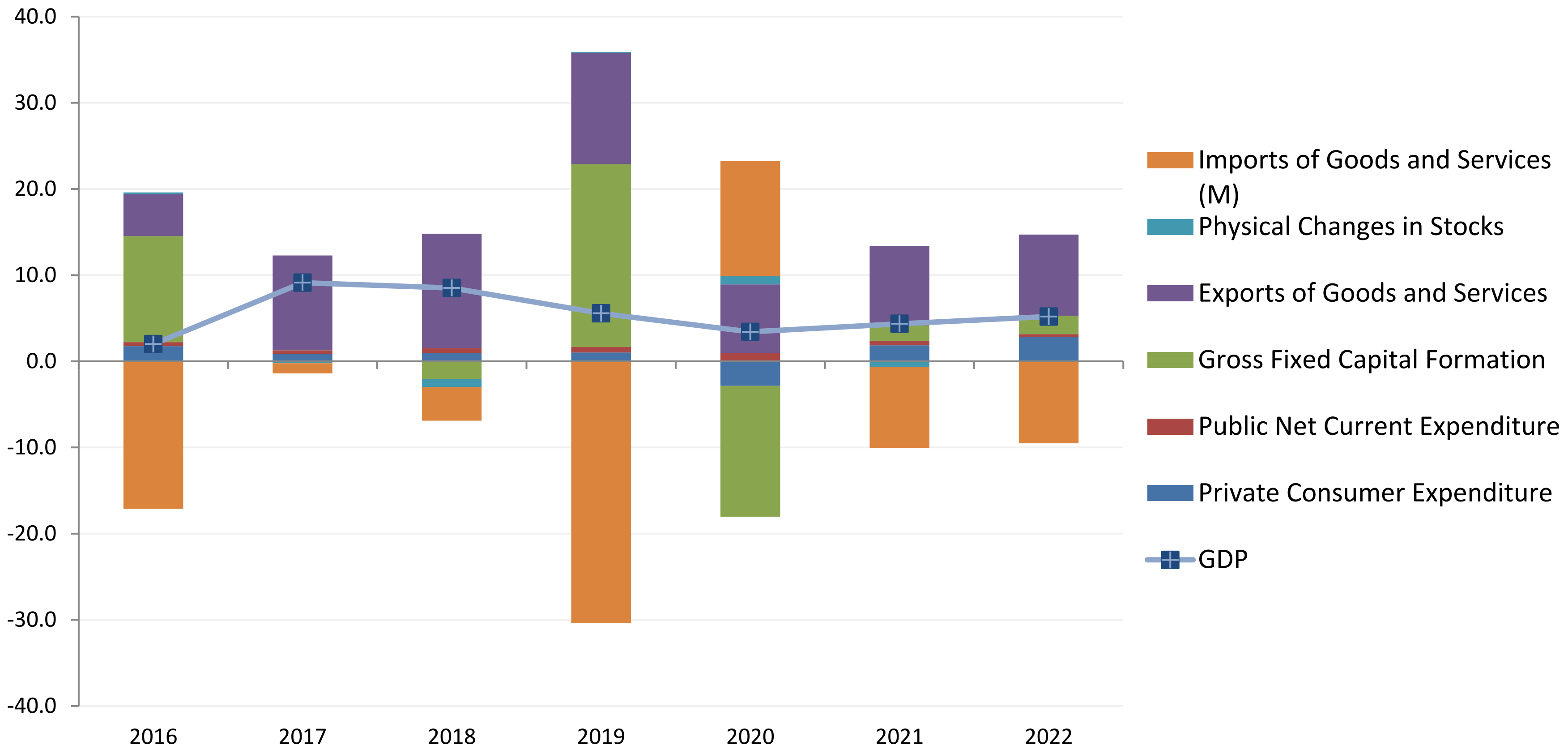
Summary

	2020	2021	2022
Output (Real Annual Growth %)			
Private Consumer Expenditure	-9.0	6.7	10.0
Public Net Current Expenditure	9.8	5.0	3.0
Investment	-32.3	5.8	6.8
Exports	6.2	7.0	7.0
Imports	-11.3	9.3	9.0
Gross Domestic Product (GDP)	3.4	4.4	5.2
Gross National Product (GNP)	0.6	3.6	4.9
Labour Market			
Employment Levels ('000)	1,976	2,033	2,303
Unemployment Levels ('000)	450	407	181
Unemployment Rate (as % of Labour Force)	18.7	16.7	7.3
Public Finances			
General Government Balance (€bn)	-19.7	-18.5	-7.8
General Government Balance (% of GDP)	-5.4	-4.7	-1.9

Decomposition of GDP growth

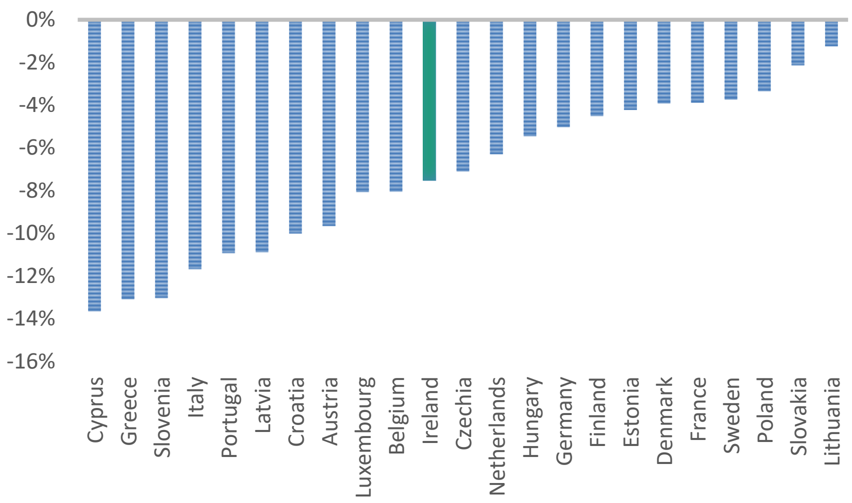


Source: *CSO data and* ESRI forecasts.

Consumption

- 2020: -9.0% 2021: 6.7% 2022: 10.0%
- Consumption expenditure fell by 9.0% in 2020 compared to 2019
- Mid-range performance relative to other European countries (graph)
- Level 5 restrictions in November and early 2021 have led to decline in retail sales. But these declines are not as large as those seen in April 2020.
- Consumption forecast is revised down due to longer than anticipated restrictions but Consumption still expected to rebound.
    - Rollout of Vaccines
    - Spending of Savings
        - Higher level in Ireland compared to other countries.

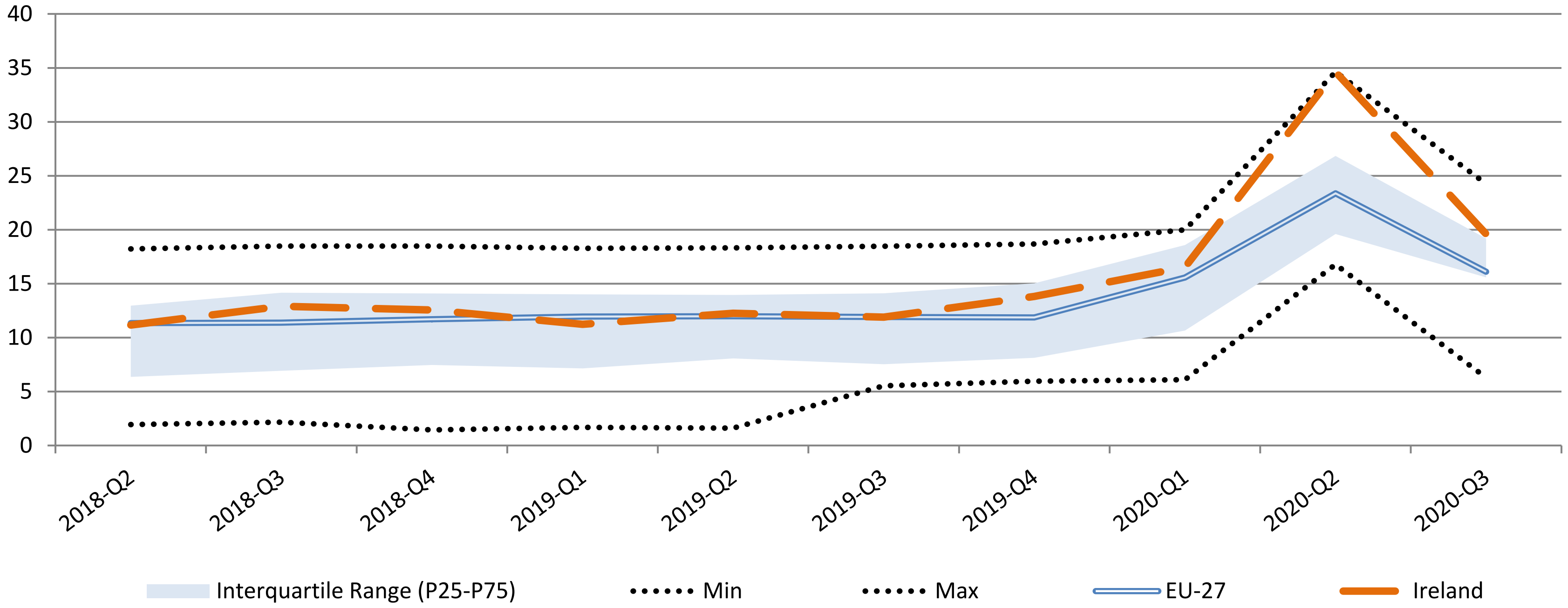
YEAR-ON-YEAR CHANGE IN CONSUMPTION FOR SELECTED EUROPEAN ECONOMIES



Source: ESRI Analysis of Eurostat data.

Series: Final consumption expenditure of households, chain linked volumes (2015). .

EVOLUTION OF THE GROSS SAVINGS RATIO IN SELECTED EUROPEAN COUNTRIES



Source: Eurostat data on gross savings ratio. Countries included in comparison are: Belgium, Czechia, Denmark, Germany, Ireland, Spain, France, Italy, Netherlands, Austria, Poland, Portugal, Finland, Sweden, UK.

Investment

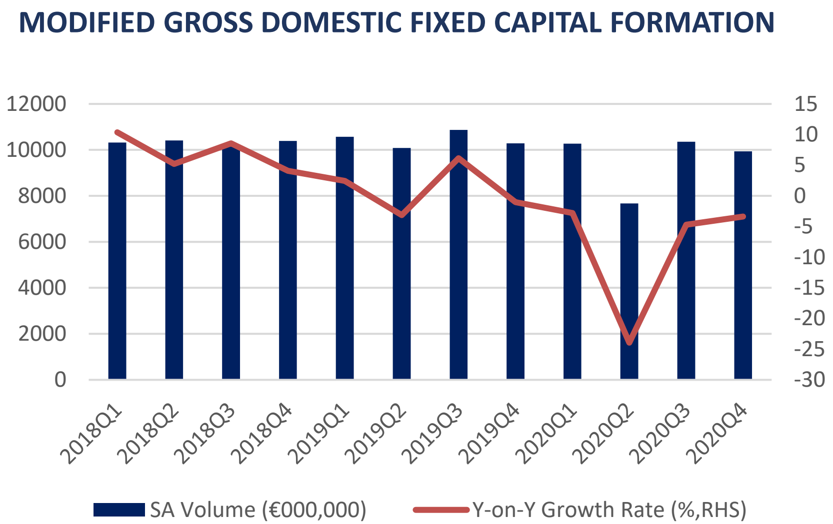
- 2020: -32.3%   2021: 5.8%   2022: 6.8%

- GDFCF declined by 32.3% in 2020.
    - Driven by yearly drops in Machinery and Equipment (-25.2%) and Building and Construction activity (-9.1%).

- Modified GDFCF decreased by 3.4% y-on-y in Q4 (graph).

- 15,000 housing completions forecast for 2021
- 16,000 completions forecast for 2022

- Marked reduction in corporate insolvencies internationally (IMF). This dynamic found in Ireland also. May be solvency issues for some businesses as supports are rolled back.



Source: Central Statistics Office

Trade

Trade

- Performance of Irish GDP linked to performance of Exports and Imports.
- Irish net exports were €108.96bn in 2020 an increase of €73.4 bn compared to 2019 (CSO).

Exports

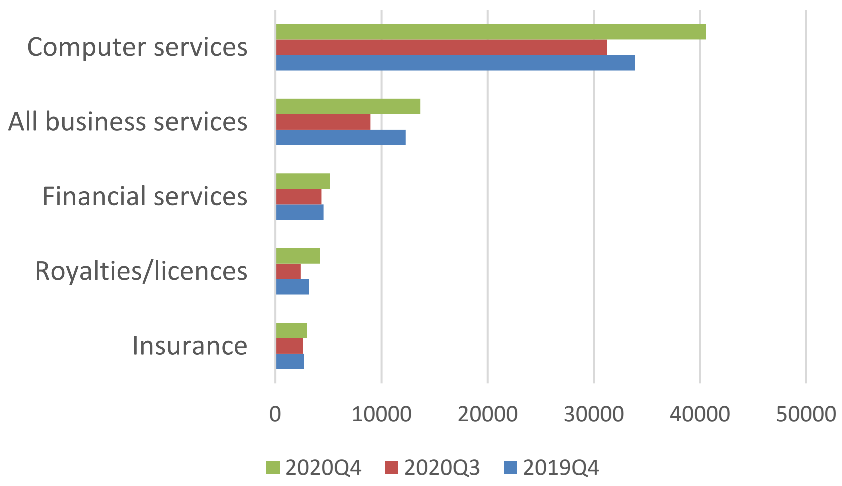
- 2020: 6.2% 2021: 7.0% 2022: 7.0%
- Largest components of goods and services performed very strongly Q4 2020
  - Medicinal and pharmaceutical products (+27.4% y-on-y)
  - Computer services (+19.8% y-on-y)
- Growth expected in 2021 as Ireland's main trading partners recover

Imports

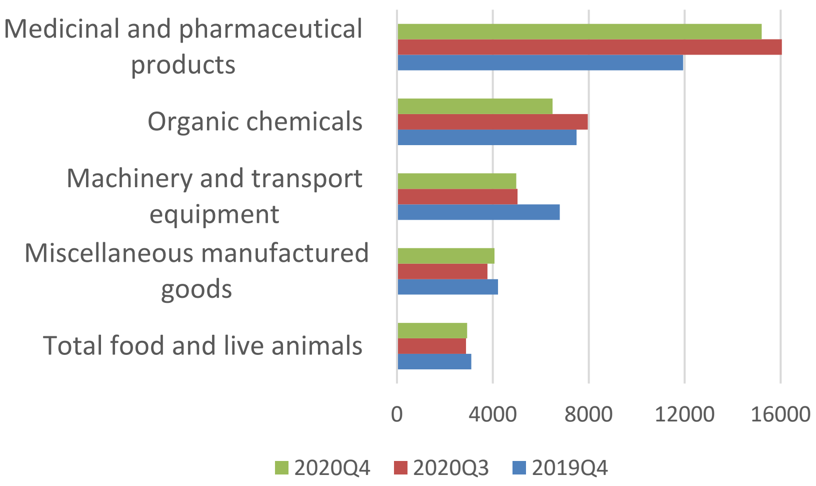
- 2020: -11.3% 2021: 9.3% 2022: 9.0%
- Related to decline in imports of IPP compared to 2019 (CSO).
- Imports of materials for production up by 6.3 % in 2020 compared to 2019 – linked to performance of exports with these goods being used in the production process

Exports by Component/Commodity Group

SERVICE EXPORTS BY COMPONENT (VALUE, €000,000)



MERCHANDISE EXPORTS BY COMMODITY GROUP (VALUE, €000,000)



Source: Central Statistics Office

Trade with the UK – January 2021

- At 11pm on 31 December 2020 the transition period ended and the UK now trades with EU on terms agreed in the trade deal signed on 30 December 2020. However, not all aspects of the trade deal are fully in force at present.

- Data from January 2021 suggest that UK goods exports to the EU fell by 40.7 per cent while UK goods imports from the EU fell by 28.8 per cent
  - Reduction in UK goods imports from the EU in January 2021 was driven by fall in importation of goods such as cars and medical and pharmaceutical products (ONS, 2021).

- Value of goods Imports into Ireland from Great Britain(UK excluding NI) decreased by €906m (-65%) to €497m in January 2021 compared with January 2020.
  - Imports from Great Britain accounted for 9% of total imports.
  - Compared with Jan 2020 imports of Food and live animals fell by €187m (-75%) to €62m, and imports of Mineral fuels decreased by €139m (-71%).
  - (CSO 2021)

- Value of goods Exports to Great Britain decreased by €149m (-14%) in January 2021 to €946m when compared with January 2020.
  - Exports to Great Britain were 7% of total exports.
  - Compared to Jan 2020 exports of Food and live animals fell by €92 million (-33%), Machinery and transport equipment decreased by €106 million (-51%).
  - Exports of Chemicals and related products increased by €157 (+56%) to €437 million.
  - (CSO 2021)

Labour Market

Unemployment

- 2020: 18.7% 2021: 16.7% 2022: 7.3%

- Pandemic adjusted unemployment rate increased to 24.8% in Feb. 2021
  - Down from over 30% in April 2020
  - Approx. 468,850 people claimed PUP in first week of March 2021

- Employers received EWSS payments for approximately 309,500 qualifying employees in February 2021
  - Schemes played an important role in helping individuals retain/regain employment
  - Approx. 260,900 individuals moved from the TWSS to non-TWSS employment

- Wage subsidies and PUP have helped to uphold incomes during the pandemic.
  - Median weekly earnings fall by 15 per cent in the year to Q2 2020 if supports are excluded.
  - Drop of only 6.5 per cent if COVID-19 income supports are taken into account. (CSO)

- Despite positive GDP growth forecast for 2021 unemployment will remain elevated
  - Due to restrictions Q1 unemployment looks set to average around 25%.
  - Forecast to decline to approx. 10% by end of 2021.

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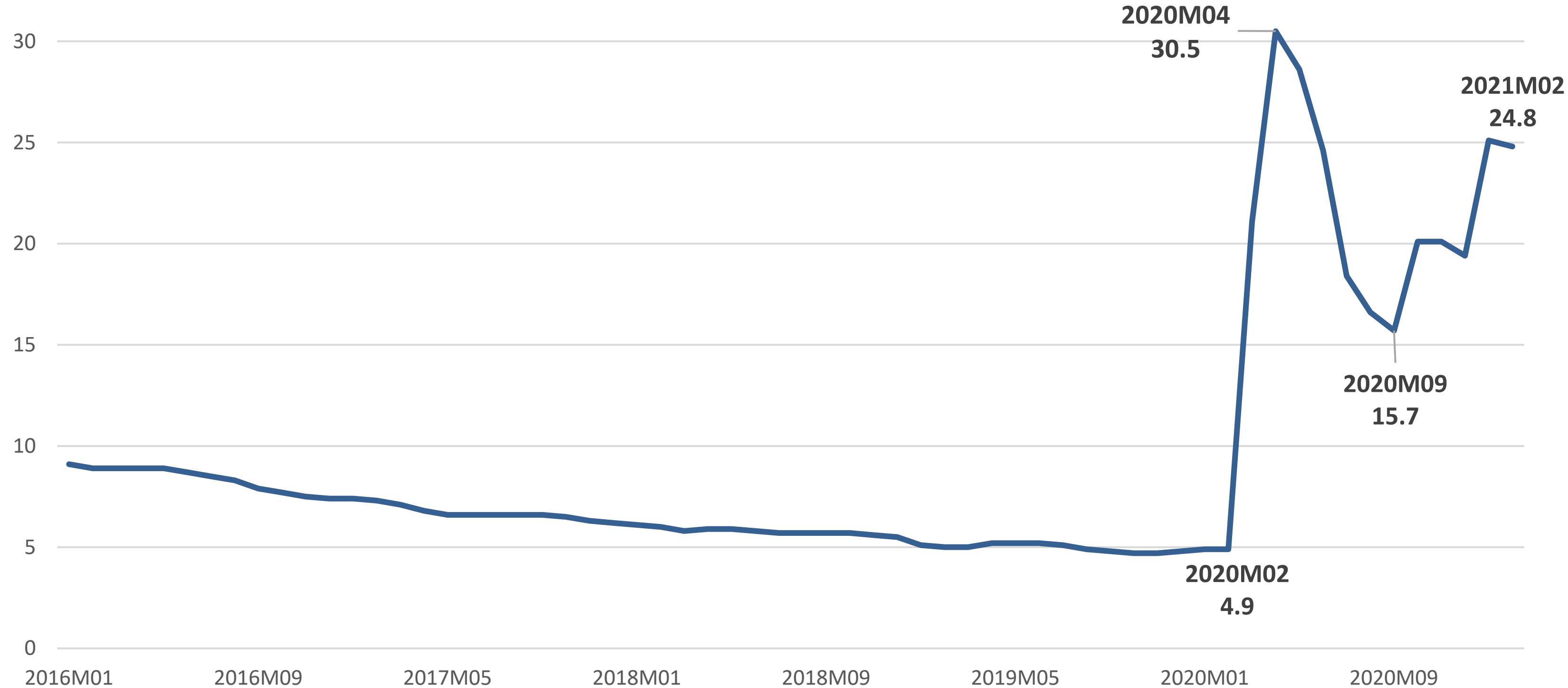
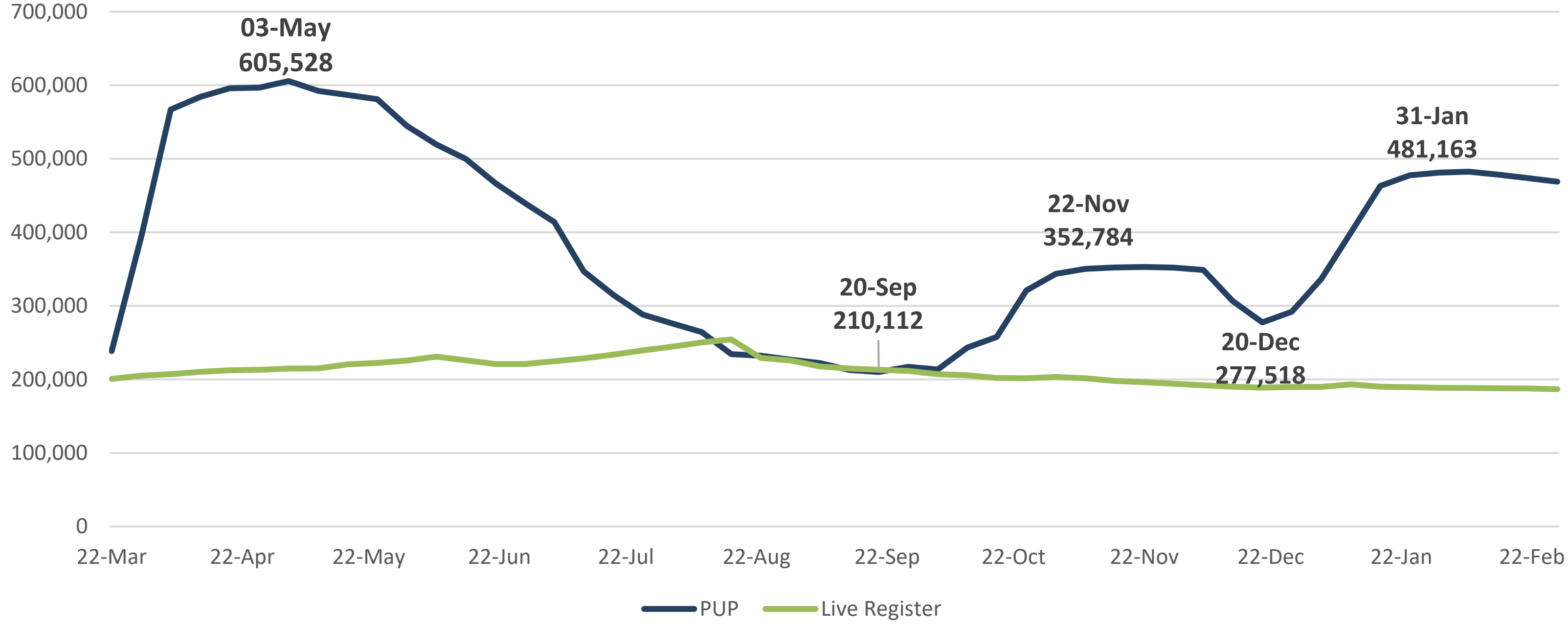
Unemployment rate (%)



Source: Central Statistics Office

NUMBER OF PEOPLE ON THE PUP AND LIVE REGISTER BY WEEK



Source: Central Statistics Office and Dept of Social Protection

COST OF COVID-19 RELATED UNEMPLOYMENT IN TERMS OF DIRECT TAX AND WELFARE

	Cost per month for 100k displaced workers (€ million)	
	COVID – no policy response*	COVID – with policy response**
Change in earnings	-215	-155
(a) Change in tax/SIC revenue	-72	-54
(b) Change in welfare expenditure	72	69
Pandemic Unemployment Payment	0	61
(c) Employment Wage subsidy scheme	0	70
Net Exchequer impact (a-b-c)	**-144**	**-193**

Source: SWITCH v3.1 2021 direct tax and welfare policies applied to 2017 Survey of Income and Living Conditions data, uprated to 2021 income levels.

Notes: *Assumes 50 per cent of jobs supported by the EWSS would have been lost in the absence of this policy. **Assumes employers who avail of the EWSS pay employees their pre-pandemic wage. SIC stands for social insurance contributions.

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Public Finances

• GGB 2020: -€19.7bn	GGB 2021: -€18.5bn	GGB 2022: -€7.8bn
• (% of GDP) 2020: -5.4%	(% of GDP) 2021: -4.7%	(% of GDP) 2022: -1.9%
• Debt to GDP 2020: 61.0%	Debt to GDP 2020: 61.3%	Debt to GDP 2020: 59.4%

- Overall taxation receipts declined by around 3.6%
  - Income Tax (-1%) - disproportionate impact of the economic shock on the lower paid
  - VAT (-17.8%)
  - Corporation taxes (+8.7%)

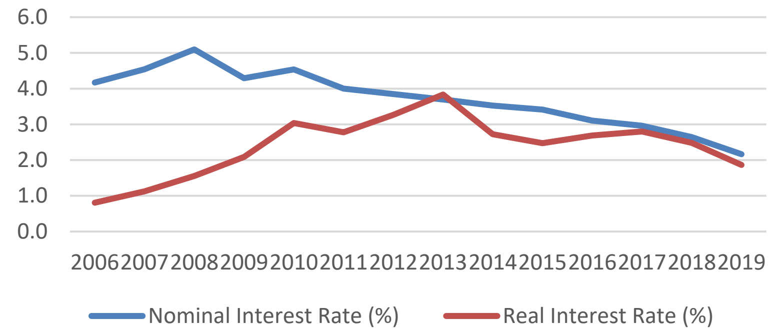
- Most tax headings forecast to register positive growth in 2021
  - Income Tax (4%)
  - Excise (15%)
  - Vat (25%)
  - Corporation tax is the exception – (0%) – Windfall nature of returns in recent years

- Expenditure to remain elevated through 2021
  - Social supports (assumed to remain in place throughout the year)
  - Health Expenditure

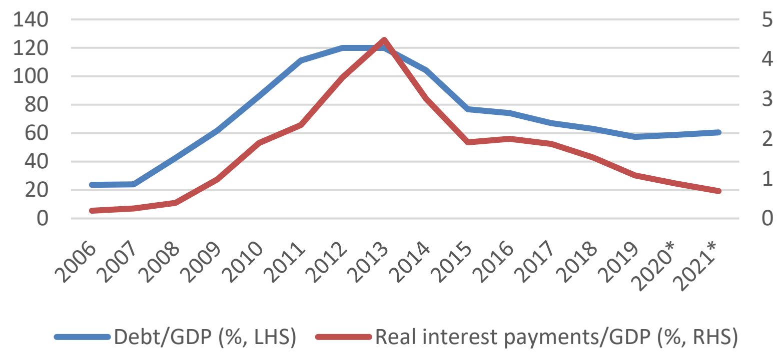
Box B: AN ALTERNATIVE MEASURE OF DEBT SUSTAINABILITY

- The pandemic has resulted in an increase in the Irish government deficit which in turn increases the stock of Irish government debt.
- Debt/GDP ratio used a standard gauge for the sustainability of debt levels. It also appears in fiscal rules of EU Stability and Growth Pact.
    - Relevance of the debt/GDP ratio has been called into question due to persistent low interest rates in the Euro Area over the last decade.
- Alternative metric is real interest payments to GDP ratio. Furman and Summers (2020)
    - Advantage: It explicitly takes into account debt service payments and so measures the affordability of debt to the state in any given period.
- Pre-2019 both debt/GDP and real interest payments/GDP moved in a similar manner. In 2020 they diverge - declining real interest rates on Irish debt.
- Based on real interest payments/GDP there is further room for the Irish government to continue to its expansionary fiscal policy
    - This is conditional on low interest rates being maintained going forward.

NOMINAL AND REAL INTEREST RATE



REAL INTEREST PAYMENTS AND DEBT TO GDP

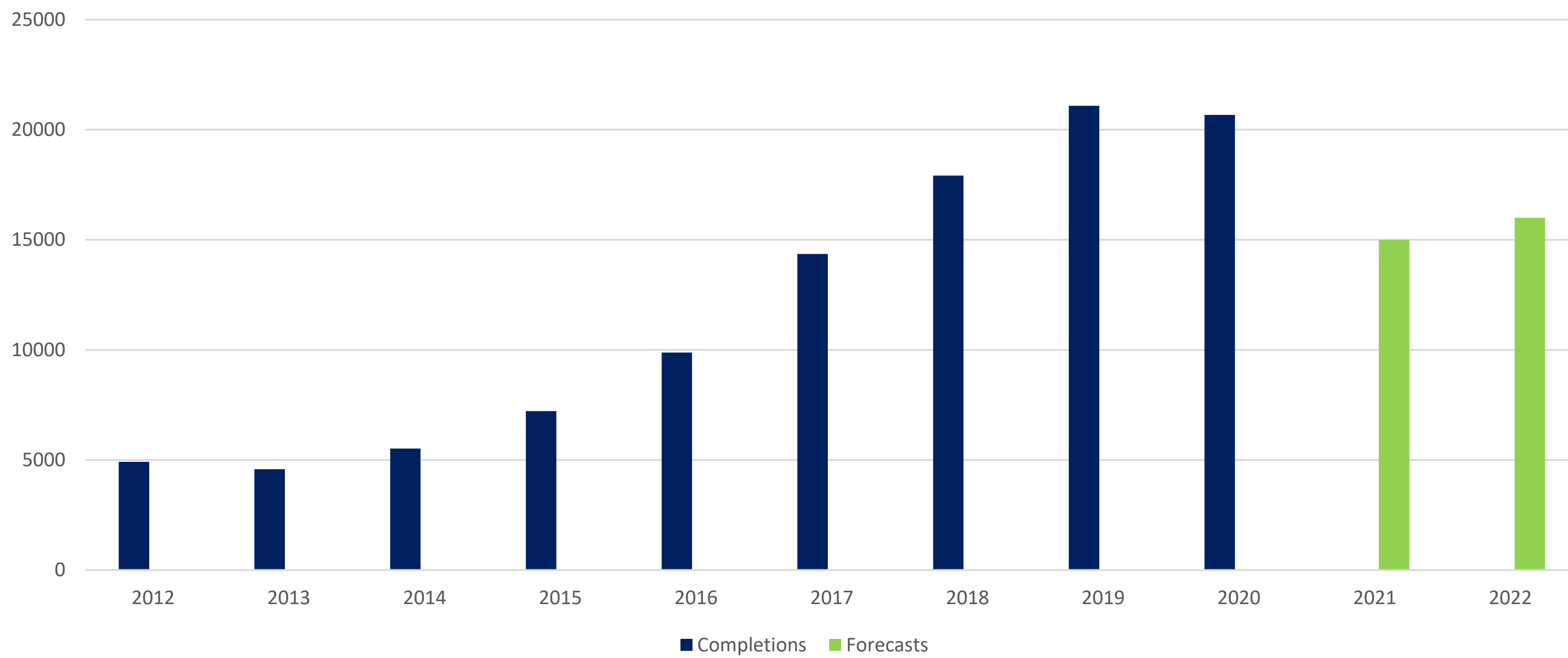


Assessment

- Strong performance of the export sector and a drop in imports resulted in +3.4% growth in real GDP in 2020.
- Despite longer than anticipated lockdown in 2021, growth of 4.4% is still expected for this year. Growth of 5.2% expected in 2022.
- Rollout of the vaccine will see an increase in consumption, investment and imports in 2021.
- Unemployment higher than expected in Q1 2021 (approx. 25%) but forecast to decline to just over 10% in Q4 2021.
- Housing completions in 2021 forecast to be 15,000 units - lower than previously forecast.
- Notable feature of the Covid-19 crisis has been a marked reduction in corporate insolvencies internationally (IMF). This has been the case in Ireland also. Company insolvencies may become an issue as supports are wound back.
- EU Commission is set to review the European fiscal framework.
    - While ensuring a return to fiscal discipline amongst member states in the medium-term,
    - Enable Governments to invest in key physical and social infrastructure over the same period.

Thank You

Housing – Completions



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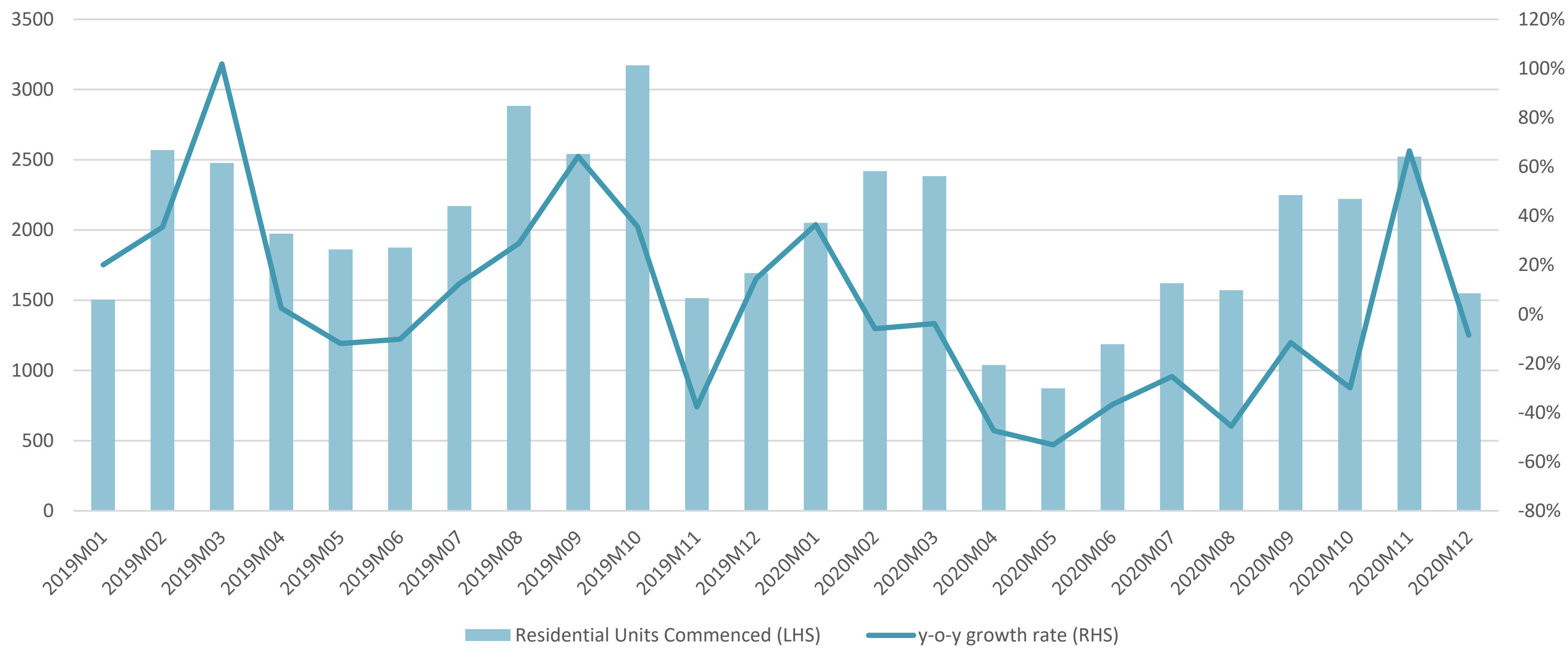
Residential Commencements



Box A: ECONOMIC GROWTH BETWEEN 2013 AND 2019

- Prepared by J. Fitzgerald.
- The globalisation of the Irish economy means traditional national accounting data no longer provide all the information that policymakers need.
- Institutional Sector Accounts for Ireland were updated and this Box updates an earlier paper outlining a new variable for measuring Irish economic activity to take account of the latest data.
- Using the updated data, this new measure suggests the Irish economy grew on average by 5 per cent between 2013 and 2019 (average GDP rate for the period was 8.6 per cent).

							Average
	2014	2015	2016	2017	2018	2019	2013-2019
NNP adjusted for redomiciled PLCs	7.9	3.5	5.6	2.2	7.2	3.9	5.0