



INSTITUTE OF DIRECTORS  
IN IRELAND



# Our Economy and COVID-19

with Jim Power, Economist and Media Commentator

Morning and Evening Briefings Series: Kindly Sponsored by Mazars



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## Global Economic Impact COVID-19

- COVID-19 a massive shock to the global economy
- Impact on Health, Economic Activity, Wellbeing & Jobs
- Dramatic decline in economic activity everywhere
- ‘Sharpest slowdown since 1920s’ (IMF)
- ‘Global health crisis without precedent’ (OECD June 20)
- ‘The Economic outlook is exceptionally uncertain’ (OECD June 20)
- Until a vaccine is developed, policymakers will walk a tightrope
- Some key differences from 2007/08
- Stronger/Co-ordinated Response: Financial System still functioning

## Strong Global Response

- Massive bond buying by Central Banks > ECB an extra €600 bln > €1.35 Tn mid-2021
- 144 Interest Rate cuts
- Significant fiscal expansion
  - I. Fiscal expenditure packages
  - II. Deferred tax payments
  - III. Liquidity provisions & guarantees
- EU State Aid Rules & Fiscal Rules suspended
- More support will be necessary & will come
- Much better global response than 2007/08

## Where are We Today?

- High frequency data suggest that economic activity has bottomed out and is now starting to bounce back
- Real data still lagging, but showing signs of improvement
- Peak to trough decline varies dramatically across different countries
- Sweden smaller decline: UK, Italy, Spain & France more severe: Germany & US in the middle
- Response to COVID-19 important
- Sectoral makeup of economies important
- Tourism, Car Production, Retail & Leisure, Personal Services > most severe impact
- IT, Financial Services, Agri-Food, Pharma > much smaller impact

## Prospects for Recovery

- Global economy is being opened up again on gradual basis
- Policy backdrop very supportive & will have to remain so for next couple of years
- Economic activity cannot return to normal anytime soon
- Physical distancing will remain a feature
- Testing, Tracking, Tracing & Isolation (TTTI) essential
- TTTI may not be enough
- The risks to recovery are very obvious

## The Risks to Recovery

- Second outbreaks > China & Japan showing what is possible
- How to deal with second or subsequent outbreaks > much more knowledge now than in March
- Trade & Investment restrictions
- ‘Great Integration to Great Fragmentation’
- Crisis has exacerbated inequality – young & lower-skilled workers worst affected
- Trump in trouble, what might he do ahead of November?
- Debt crisis & Banking fragility
- Brexit > prepare for WTO regime just in case
- Deep uncertainty persists

## OECD Global Outlook: Single-Hit Scenario

	2019	2020f	2021f
World	2.7%	-6.0%	5.2%
OECD	1.7%	-7.5%	4.8%
United States	2.3%	-7.3%	4.1%
Euro Zone	1.3%	-9.1%	6.5%
Germany	0.6%	-6.6%	5.8%
France	1.5%	-11.4%	7.7%
Ireland	5.5%	-6.8%	4.8%
United Kingdom	1.4%	-11.5%	9.0%
Japan	0.7%	-6.0%	-0.5%
China	6.1%	-2.6%	6.8%
India	4.2%	-3.7%	7.9%
Brazil	1.1%	-7.4%	4.2%

## OECD Global Outlook: Double-Hit Scenario

	2019	2020f	2021f
World	2.7%	-7.6%	2.8%
OECD	1.7%	-9.3%	2.2%
United States	2.3%	-8.5%	1.9%
Euro Zone	1.3%	-11.5%	3.5%
Germany	0.6%	-8.8%	1.7%
France	1.5%	-14.1%	5.2%
Ireland	5.5%	-8.7%	-0.2%
United Kingdom	1.4%	-14.0%	5.0%
Japan	0.7%	-7.3%	-0.5%
China	6.1%	-3.7%	4.5%
India	4.2%	-7.3%	8.1%
Brazil	1.1%	-9.1%	2.4%



## Ireland

- Dramatic decline in activity since early-March
- Govt. & EU will have to accept higher deficits
- Fiscal Austerity cannot follow
- Strong support required for business for prolonged period
- Ireland borrowing ability strong
- Personal savings increasing
- Recovery will come, but will be driven by medical fundamentals

## Snapshot of Irish Data

- Retail Sales (April YoY) Value -44.8%; Volume -43.3%
- Exports (Jan-April)+8.2%; Chemical & Pharma +12.3% (64.3% of total Exports)
- New Car Sales (Year to 22/06/20) -34.6%
- Overseas Visitors -99.1% (April, YoY) -44.4% (Jan-April)
- Exchequer Deficit (Jan-May) €6.1 bln > €6 bln higher than last year
- Dramatic increase in spending on Social Protection & Health
- Corporation Tax +€1.65 bln, but VAT -€1.6 bln
- Income tax take tells a story (+4.8%)

## Merchandise Exports (Jan-April 2020)

SECTOR	€m	Year-on-Year	% of Total Exports
Food & Live Animals	3,703	+1.3%	6.8%
Beverages & Tobacco	442	-13.5%	0.8%
Chemicals & Related Products	35,181	+12.3%	64.3%
Machinery & Transport	8,204	+8.7%	15.0%
Other	7,142	-2.2%	13.1%
Total	54,672	+8.2%	100.0%

## Impact on Global Travel

- Economic Recession > should gradually dissipate over next 18 months
- International travel has become much more difficult
- Travel restrictions > heavily influenced by how well countries avoided or contained virus
- Travellers from higher-risk airports face significant restrictions
- Testing, Self-Isolation/Quarantine (14 Days), Supervised Quarantine, Travel Bubbles & Corridors
- Ryanair expects 40% capacity July & 60% in August
- Apart from restrictions, re-building consumer confidence will be challenging

## The Irish Recovery Issues

- Economy re-opening > secondary outbreak risks
- Consumers have not lost spending habit
- FDI export base provides solid foundation
- Prospects for international tourism very challenging
- New Government?
- COVID-19 support essential for next 18 months
- Housing the big issue for new Government
- Health will absorb a lot more resources
- Brexit still poses major threat
- Likely to take couple of years to revert to 'normal' level of activity

## Long-Term Impact

- Massive government debt legacy
- Social Distancing Protocols will apply until vaccine
- Economic nationalism > tighter borders/restrictions?
- Migration to Online > significant implications for retail sector
- Remote Working works for some, but not for the majority
- Essential to prevent economic crisis from morphing into a banking crisis
- Re-employing workers essential
- A bright future now shrouded in uncertainty



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