



An Roinn Airgeadais
Department of Finance

Emerging economic developments

- real-time economic and financial indicators

21st April 2020

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Department of Finance
www.gov.ie/finance

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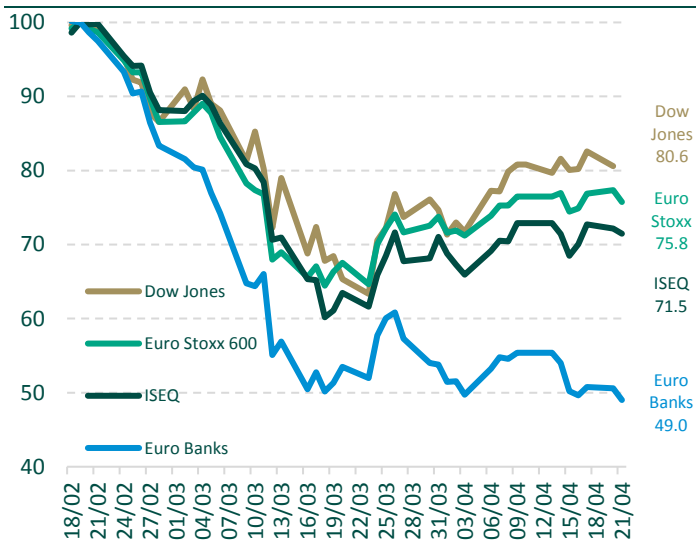
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Note: This Chartpack includes indicators updated daily, and others for which data are updated monthly or quarterly.

Data correct as of 09:00 am on cover date.

Section 1: financial markets – increasingly risk averse, with downstream economic impact

Figure 1.1 – Equity Indices, per cent change since 19/02

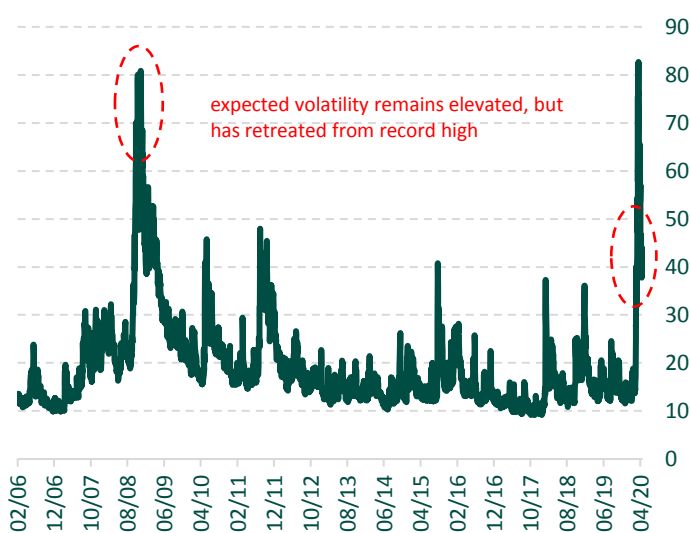


Latest developments:

- Growth expectations have been revised downwards.
- Financial market participants have become more risk averse, and pulled back from riskier assets such as equities.
- Markets have rallied somewhat from March lows, but remain below February levels. Change from 19/02 to 21/04:
 - **Dow Jones*** (-19 per cent)
 - **ISEQ** (-28 per cent)
 - **Euro Stoxx 600** (-14 per cent)
 - **Euro Banks** (-51 per cent)

Source: Bloomberg; (*Dow Jones price as of close 20/04.)

Figure 1.2 – Vix (volatility index)

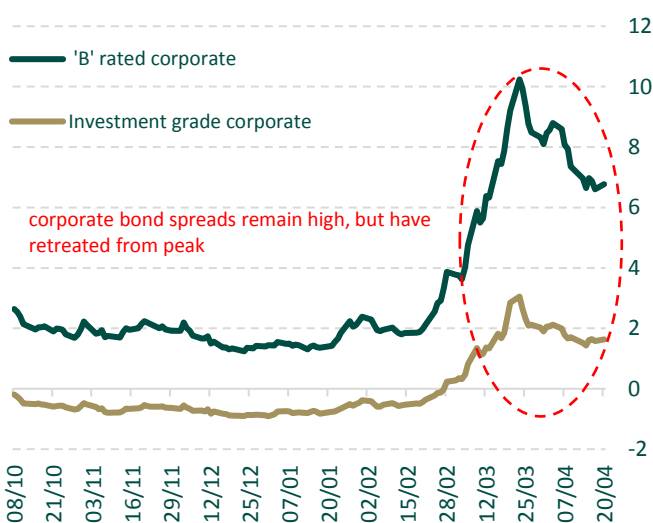


Latest developments:

- VIX is a real-time index that represents the market's expectation of 30-day forward-looking volatility.
- Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.
- The index reached its highest recorded value of 82.7 on 16/03; it has since decreased to 43.83 on 20/04.

Source: Bloomberg.

Figure 1.3 – Corporate spread over treasury, per cent

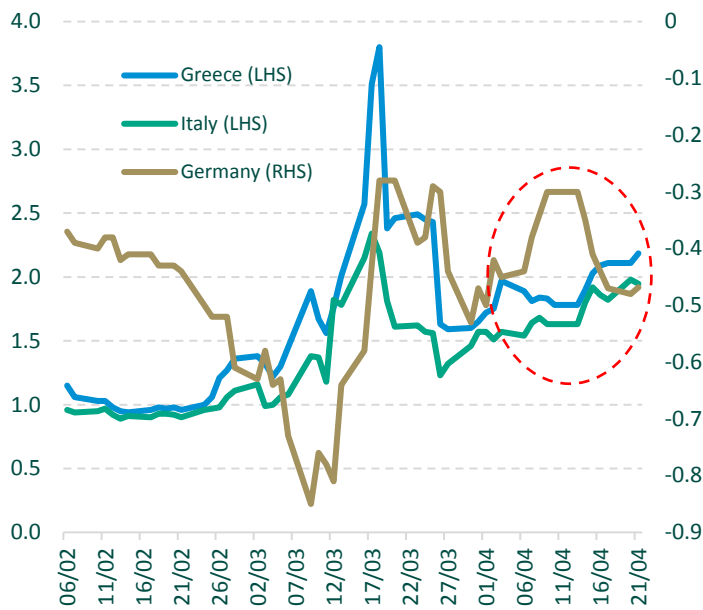


Latest developments:

- Demand for corporate bonds has declined, particularly for debt issued by 'riskier' (non-investment grade) corporates.
- Accordingly, the yield – the risk premium demanded, especially for those lending to non-investment grade firms – has risen.
- The average spread for 'B' rated corporates over treasuries widened to its highest level since 2009 on 24/03, but has since retreated somewhat.
- Widening spreads can affect the price and availability of capital for firms. This would be an important transmission channel to the 'real economy' – actual physical investment by firms could be affected.

Source: Bloomberg.

Figure 1.4 – 10YR sovereign bond yields, per cent

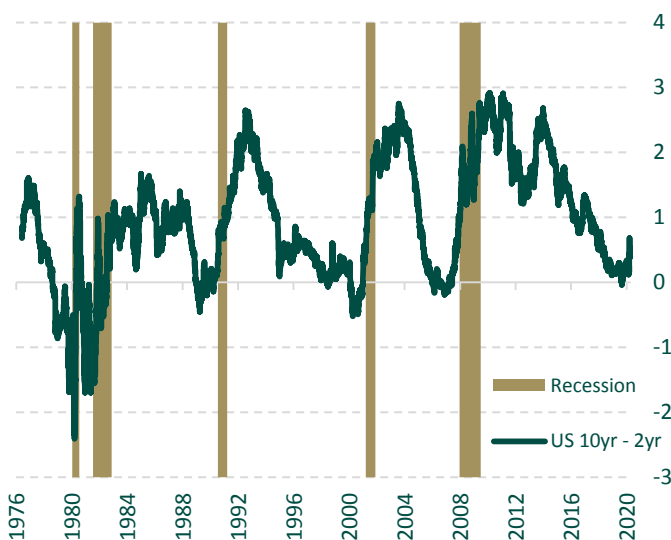


Latest developments:

- Investors moved into the safest sovereign debt, such as German and US (not shown), at the beginning of the crisis. Increased demand saw yields for the safest government paper, move increasingly into negative territory.
- Yields increased globally from 12/03 – 18/03, reflecting a number of factors, including investors' concerns around increasing sovereign deficits, particularly in states with already elevated debt ratios.
- The ECB announced an extended asset purchase programme across all asset categories, and with an envelope of €750bn on 18/03.
- Yields on Italian and Greek 10yr bonds are c.40 and c.160 basis points lower, respectively, compared with their March highs on 17th and 18th March.

Source: Macrobond.

Figure 1.5 – US yield curve, percentage points

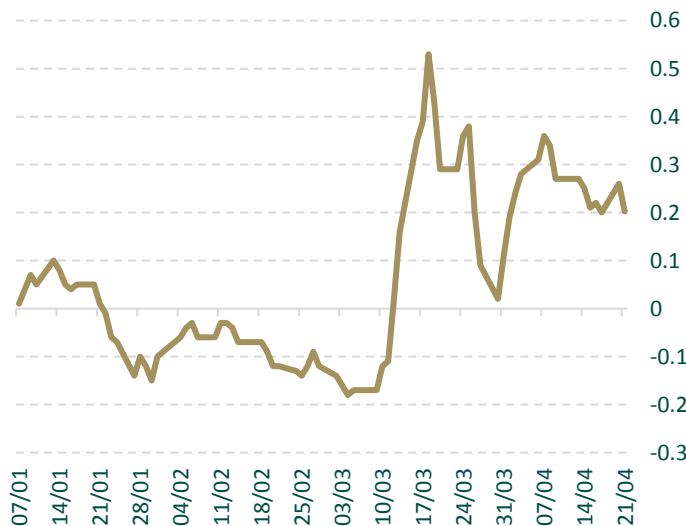


Latest developments:

- The US yield curve measures the difference between the long and short-term cost of borrowing.
- If the US yield curve inverts, then the cost of borrowing in the short-term is higher than in the longer-term, indicating that investors expect lower short-term interest rates in response to a downturn.
- This situation has arisen in the US on a number of occasions since 1980. On each occasion, the US economy subsequently moved into recession.
- The US yield curve turned negative for 3 days in August 2019, has been positive since, and remains positive at 0.43 per cent.

Source: Macrobond.

Figure 1.6 – Ireland 10YR sovereign bond yields, per cent

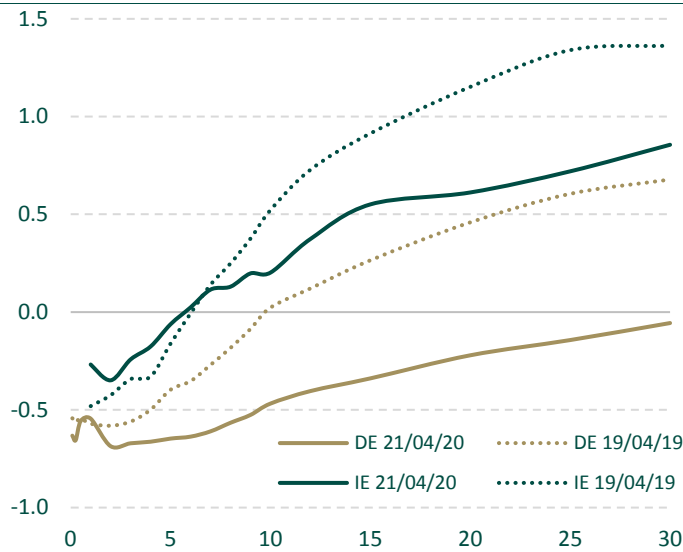


Latest developments:

- On 21st April, Irish yields are trading at c. 0.20 per cent, c.33 basis points higher than 19/02.

Source: Bloomberg.

Figure 1.7 – Irish and German yield curve

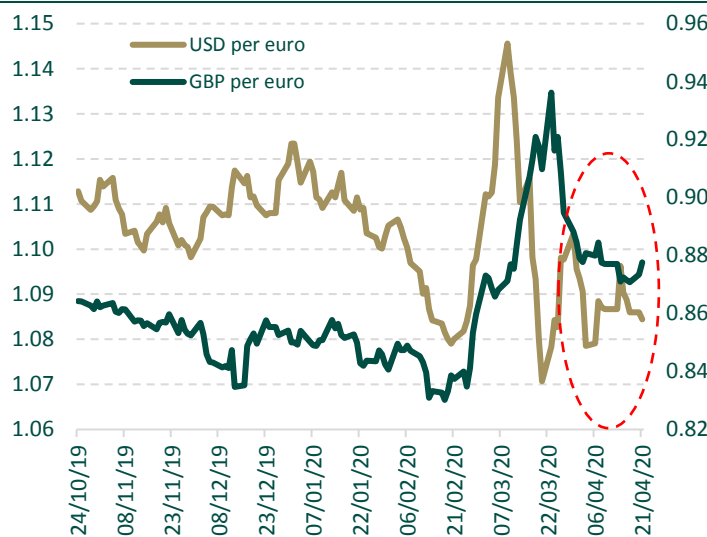


Latest developments:

- Irish sovereign bond yields remain historically low.
- Compared to one year ago, Irish yields are lower on long-term debt, and higher on short-term debt.
- German bond yields are lower across the whole of the yield curve, except on some very short-term debt.

Source: Bloomberg.

Figure 1.8 - Euro exchange rates

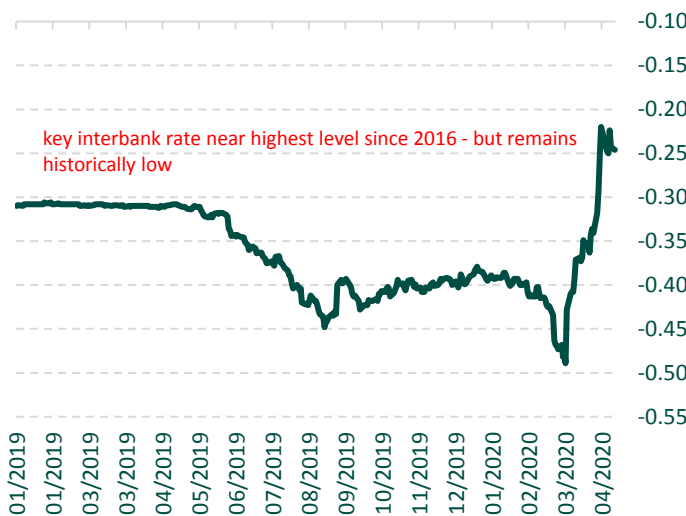


Latest developments:

- An initial depreciation of the euro against the dollar was, in part, driven by increased demand for dollar-denominated assets ('safe haven' flows).
- The US Senate passed a \$2tn stimulus package on 26/03.
- Eurogroup finance ministers agreed a €500bn package of economic measures on 09/04. The package included revised pandemic credit lines, and a boost to European Investment Bank lending capacity.
- The euro has gained c. 0.4 per cent against the dollar since 19/02. The euro has gained 5 per cent against the GBP since 19/02.

Source: Macrobond, Bloomberg.

Figure 1.9 - Interbank lending; 3-month Euribor, per cent



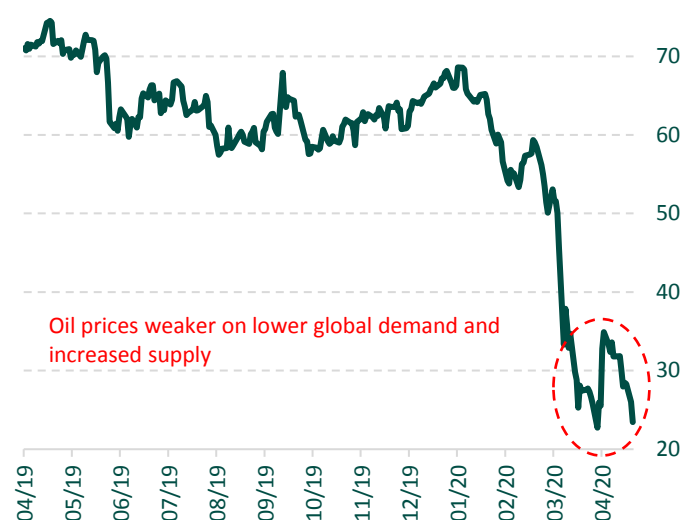
Latest developments:

- The Euribor 3-month interbank rate, the rate at which banks lend reserves to each other, has increased c.16 basis points from 19/02 to 20/04.
- It is now near to its highest level since March 2016, but remains at historically low levels.

Source: Macrobond.

Section 2: economic outlook increasingly precarious

Figure 2.1 – Oil prices, \$ per barrel

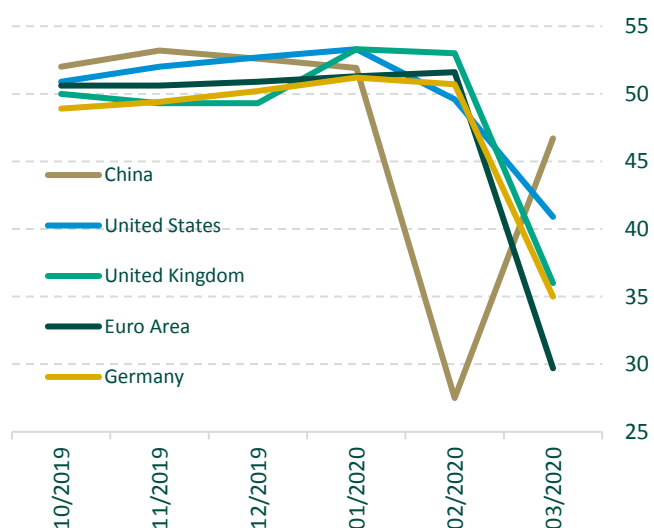


Latest developments:

- Oil prices have fallen sharply – from c.\$68 pb to c.\$23.5 pb – since the beginning of the year.
- Prices have fallen on lower demand, and also a c.25 per cent supply increase from Saudi Arabia beginning in April.
- April 12th, OPEC+ agreed production cuts of 9.7m b/pd in May and June, equivalent to 10 per cent of global supply.
- Dwindling storage capacity resulted in a collapse in prices of the US WTI benchmark on 20th April – to negative levels – and this has been reflected in prices for Brent also.

Source: Macrobond.

Figure 2.2 – Composite PMI

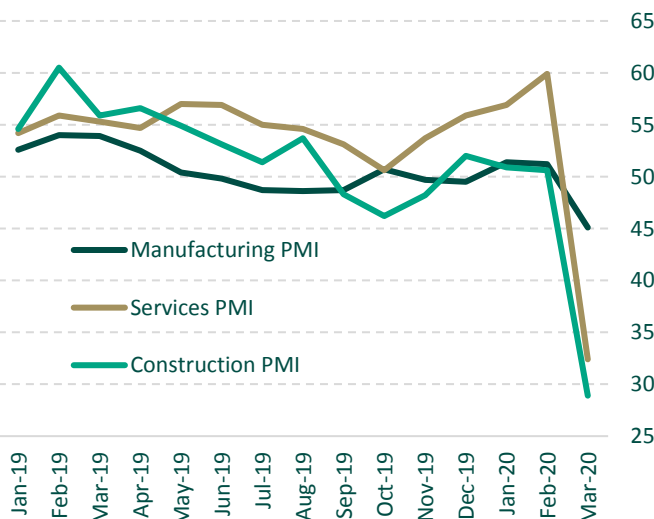


Latest developments:

- The flash composite PMI for the euro area fell to 31.4 in March from 51.6 in the previous month. This is the lowest reading since the series began in the late 1990s, and well below the lowest point of the financial crisis.
- The index is a weighted average of activity in the manufacturing and services sectors, a reading below 50 indicates that the majority of businesses reported a deterioration compared to the previous month.
- In China, the composite PMI rebounded from 27.5 in February to 46.7 in March, but still indicates contraction overall.

Source: Macrobond, IHS Markit.

Figure 2.3 – Ireland PMI

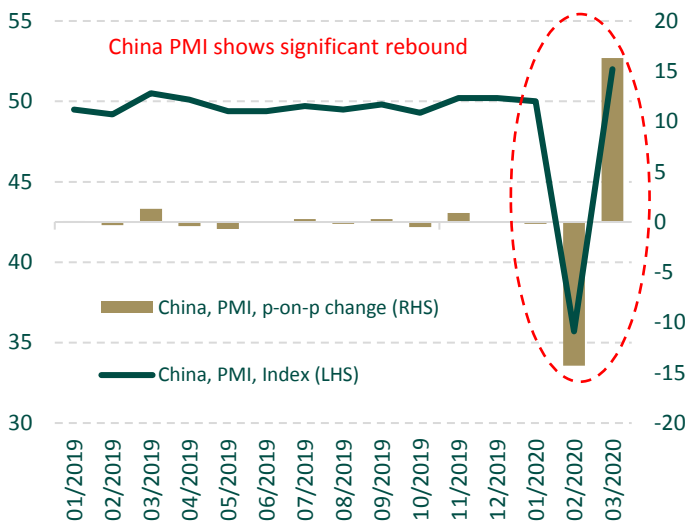


Latest developments:

- The March manufacturing PMI had its sharpest downturn since August 2009. The drop in production expectations was the largest recorded since May 2009, along with a record low for output expectations.
- Services PMI for March saw the strongest falls in output and new business since April 2009, a record decline in international new orders, and the fastest rate of job shedding since January 2012.
- March also saw the strongest reduction in construction activity for 11 years, with declines recorded in housing, commercial and civil engineering activity.

Source: Macrobond, IHS Markit.

Figure 2.4 – China manufacturing PMI

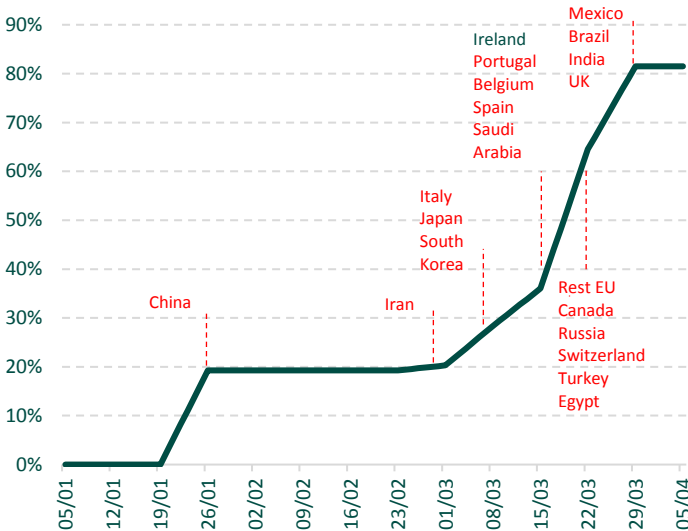


Latest developments:

- Soft data – such as surveys – point to a fast-moving economic shock; manufacturing PMI survey data for China fell to its lowest level on record in February
- PMI survey data for March recorded its largest increase on record.
- The reading reflects the fact that more than half of surveyed enterprises have resumed work and resumed production.

Source: Macrobond.

Figure 2.5 – % share of world GDP affected by Covid-19 restrictions



Latest developments:

- The temporary suspension of ‘non-essential’ economic activity in order to contain the Covid-19 pandemic has resulted in a dramatic reduction in global economic activity.
- Economies accounting for some 80 per cent of global GDP have introduced measures to address the pandemic.
- These measures are projected to lead to significant short-term contractions in the affected economies, and thus to impact the global economic outlook.

Source: Macrobond, UNESCO; quarantines measured by school closures, 100 per cent of GDP affected by closure.

Figure 2.6 – Economic sentiment, change from February

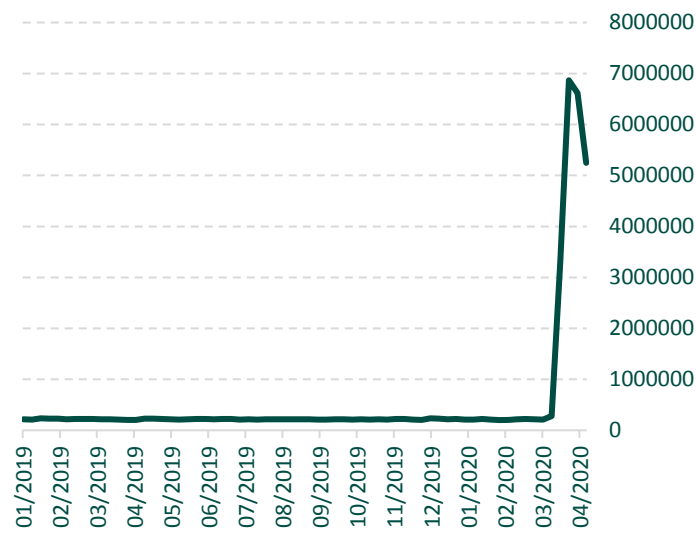


Latest developments:

- The Economic Sentiment Indicator (ESI) for March registered the strongest monthly decline on record for the euro area.
- In Ireland, the ESI fell 6.8 points with the largest declines in Services (-24.6), Retail Trade (-13.5), and Construction (-8.5).
- Amongst the largest euro area economies, the ESI plummeted in Italy (-17.6) and Germany (-9.8), and fell significantly in France (-4.9), the Netherlands (-4.0), and Spain (-3.4).

Source: European Commission.

Figure 2.7 – US initial jobless claims

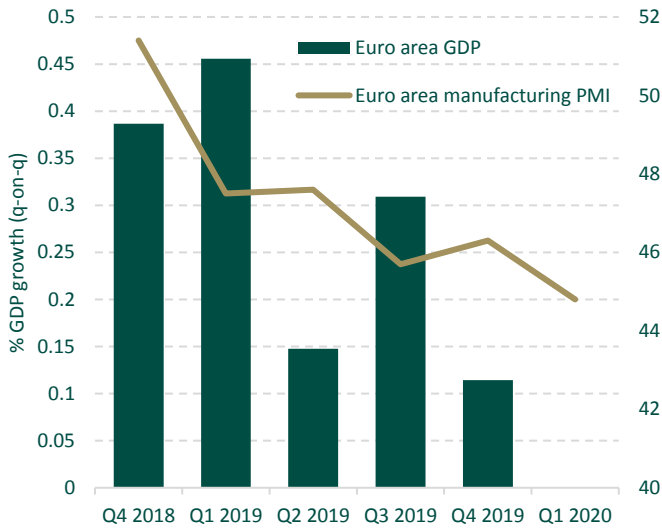


Latest developments:

- 5.25 million initial jobless claims were filed in the US for the week ending April 11th.
- This brings total jobless claims to more than 22 million in just four weeks.
- The increase in jobless claims is equivalent to 13 per cent of the US workforce.

Source: Macrobond.

Figure 2.8 – EA GDP and manufacturing PMI



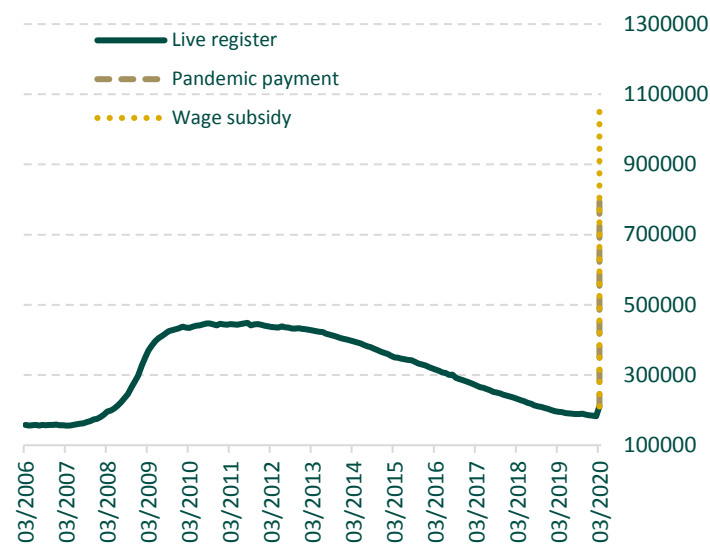
Latest developments:

- The economic shock is occurring when activity is already weak in many regions, including in the euro area
- GDP growth in the euro area in Q4 was at a seven-year low, and the manufacturing PMI indicated contraction.
- Economic activity in all of the bigger Member States is at a virtual standstill, if not on a declining path in the first quarter.
- Euro area manufacturing PMI in Q1 2020 was at a seven year low, indicating further contraction in the sector.

Source: Macrobond, IHS Markit.

Section 3: Irish economy – impact becoming evident in real time indicators

Figure 3.1 – Live register, persons

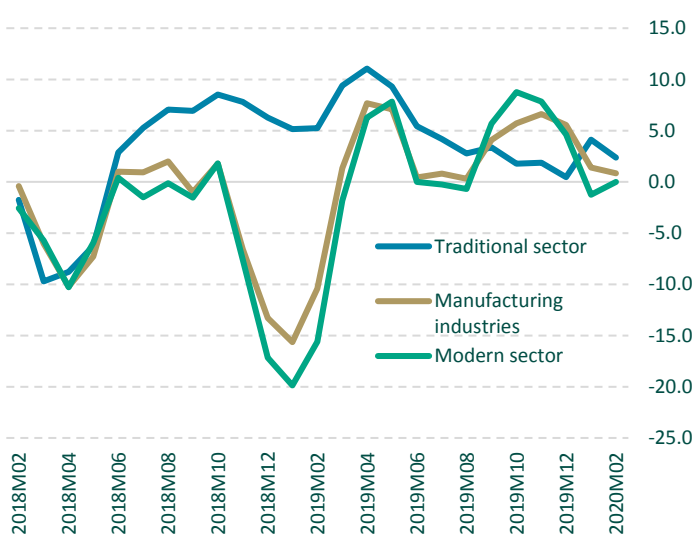


Latest developments:

- The Department of Employment Affairs and Social Protection (DEASP) issued payments to 584,000 people in respect of their application for the COVID-19 Pandemic Unemployment Payment (PUP) on 20/04.
- These payments are in addition to the 212,000 people on the Live Register on 20/04, and 281,200 covered by the Temporary Wage Subsidy.
- The CSO released the monthly unemployment rate for March on 09/04. The unemployment rate was 5.4 per cent for March, compared with 4.8 per cent in February.
- A new COVID-19 Adjusted Measure of Unemployment indicates a rate as high as 16.5 per cent in March, if all claimants of the PUP were classified as unemployed.

Source: DEASP, CSO.

Figure 3.2 – Industrial Production (3mma), y-on-y growth



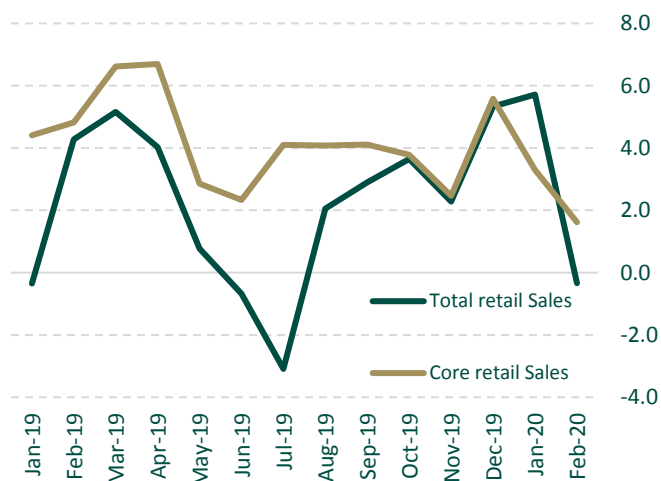
Latest developments:

- Industrial production in the manufacturing sector decreased by 1.1 per cent in February, month-on-month, and by 1.3 per cent on a year-on-year basis.
- Production in the mainly indigenous traditional sector decreased 11.5 per cent (m-on-m); 4.4 per cent (y-on-y).
- In the 'modern sector', output decreased by 5.9 per cent (m-on-m), but increased by 1.7 per cent (y-on-y).

Industrial turnover (i.e. sales) decreased by 10 per cent in the month, and by 6 per cent year-on-year. Overall, February's production figures are below expectations.

Source: CSO.

Figure 3.3 – Retail sales, annual growth rate, per cent

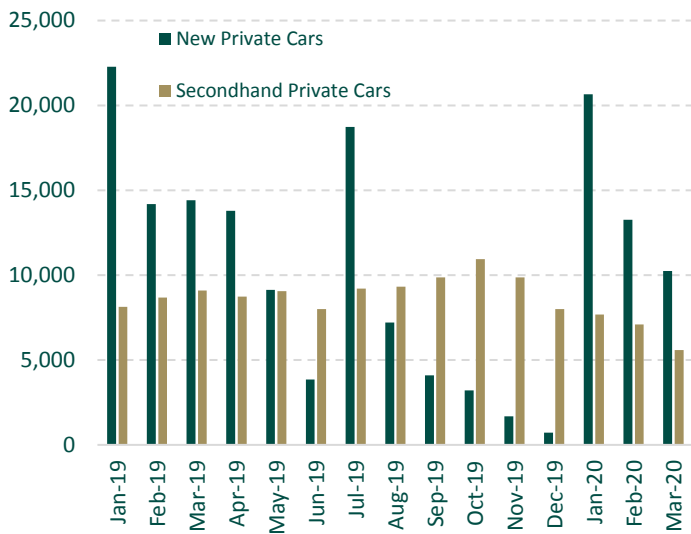


Latest developments:

- Total retail sales decreased by 0.3 per cent year-on-year in February.
- 'Core' retail sales which excludes the volatile 'motor vehicles' grew by 1.6 per cent year-on-year in February.

Source: CSO.

Figure 3.4 – Cars licensed for the first time, number

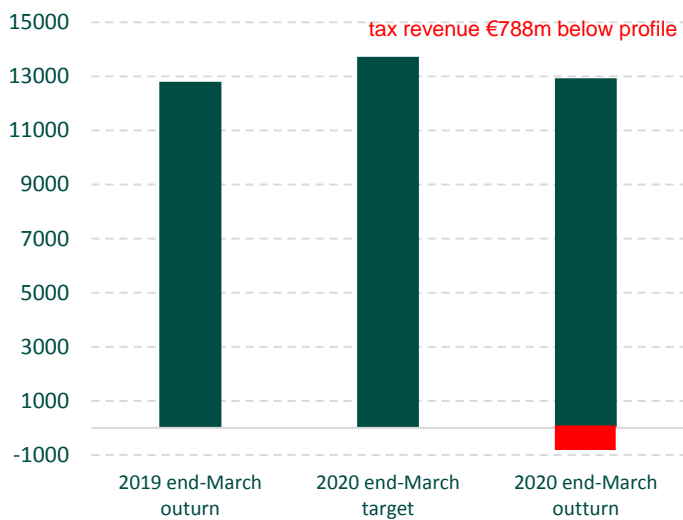


Latest developments:

- 10,239 private cars were licensed for the first time in March 2020. This is down 29 per cent on the same month last year.
- 5,582 second-hand private cars were licensed for the first time in February 2020, down 39 per cent on the same month last year.

Source: CSO.

Figure 3.5 – Tax receipts, € millions



Latest developments:

- Tax revenues to end-March of €12.9 billion were below target by €788 million (-5.7 per cent), and up 1.1 per cent year-on-year.
- The underperformance against profile is attributable primarily to non-payment and underpayment of VAT as a result of the Covid-19 related forbearance measures introduced by the Revenue Commissioners.

Source: Department of Finance.



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