An Roinn Airgeadais
Department of Finance

Emerging economic developments

- real-time economic and financial indicators

3rd June 2020

Prepared by the Economics Division,
Department of Finance

www.gov.ie/finance

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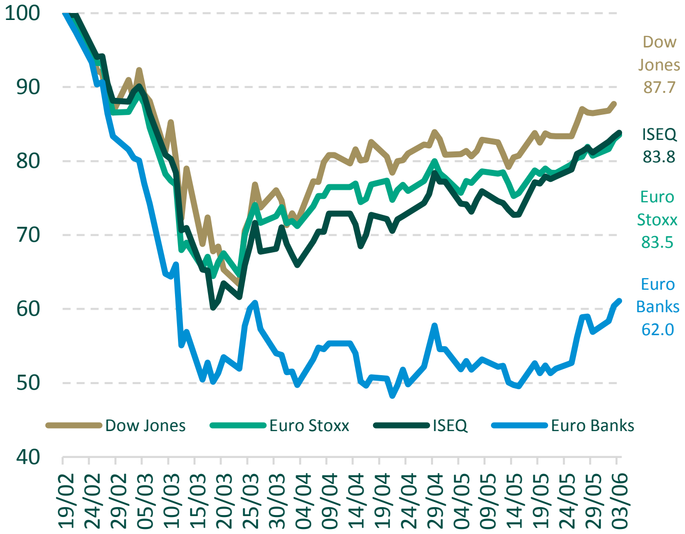
Note: This Chartpack includes indicators updated daily, and others for which data are updated monthly or quarterly.

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

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

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

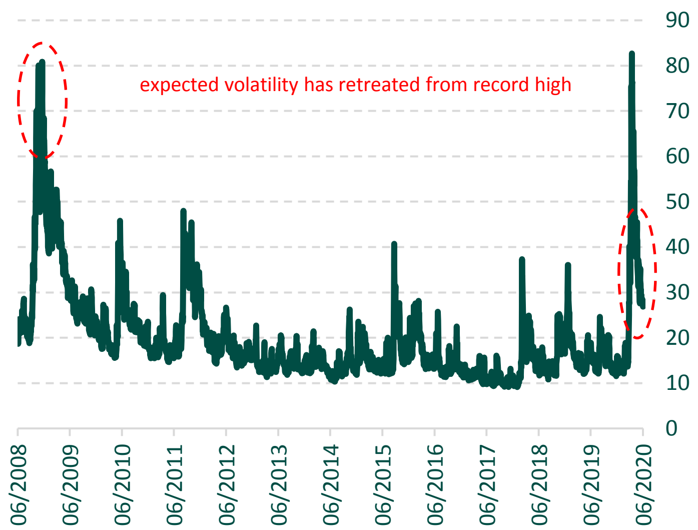


Latest developments:

- 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 from March lows, but remain below February levels. Change from 19/02 to 03/06:
  - **Dow Jones*** (-12.3 per cent)
  - **ISEQ** (-26.2 per cent)
  - **Euro Stoxx 600** (-16.5 per cent)
  - **Euro Banks** (-48.0 per cent)

Source: Bloomberg (*Dow Jones price as of close 02/06)

Figure 1.2 – Vix (volatility index)

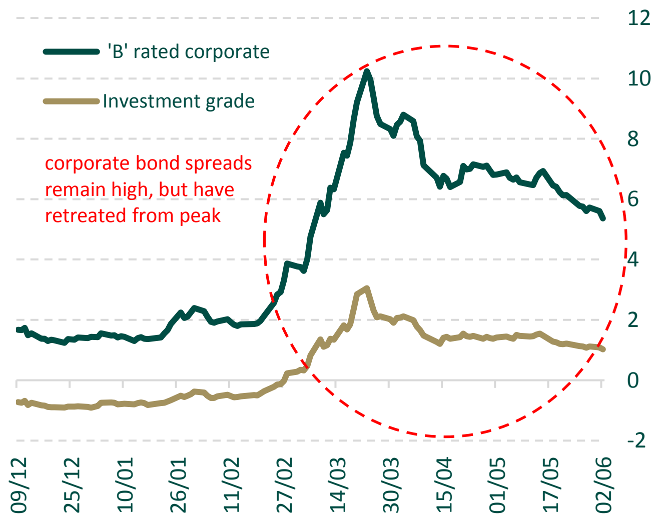


Latest developments:

- 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 26.84 on 02/06.

Source: Bloomberg

Figure 1.3 – Corporate spread over treasury, per cent

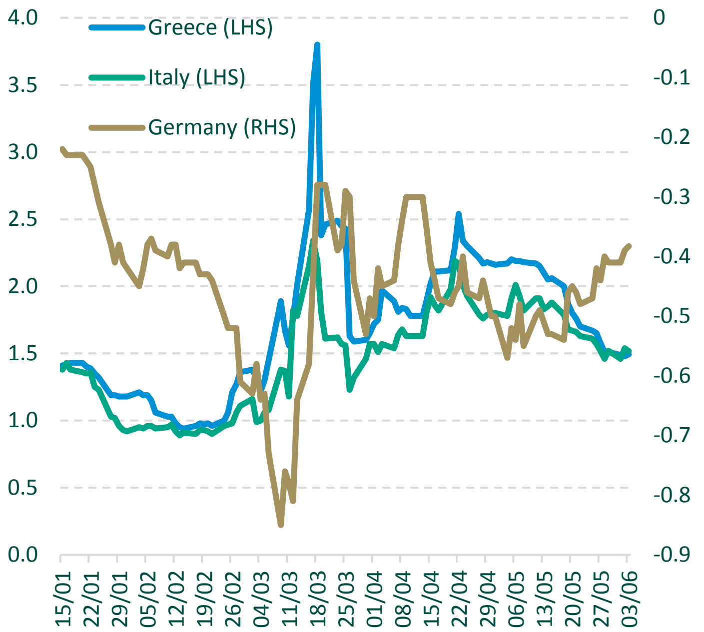


Latest developments:

- 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

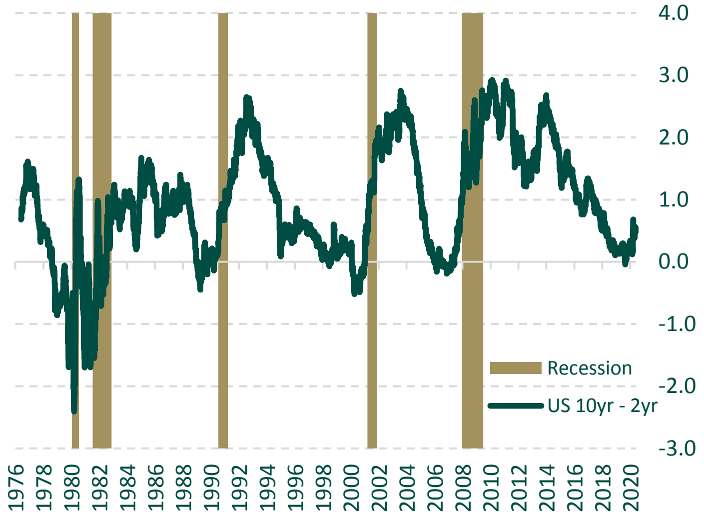


Latest developments:

- Investors moved into the safest sovereign debt, such as German and US (not shown), at the beginning of the crisis.
- Yields increased globally from 12/03 – 18/03, reflecting a number of factors, including investors' concerns around increasing sovereign deficits.
- The ECB announced an extended asset purchase programme across all asset categories on 18/03.
- Fitch downgraded Italy's credit rating to the lowest investment grade on 29/04.
- On 05/05, the German constitutional court ruled that the ECB QE programme may not respect the 'proportionality' of its mandate. The Court of Justice of the EU ruled in 12/2018 that the ECB is acting within its price stability mandate.
- Germany and France proposed the creation of a €500 billion recovery fund on 18/05.
- On 27/05 the EU Commission put forward its proposal for a 'major recovery plan' valued at €750 billion.

Source: Macrobond

Figure 1.5 – US yield curve, percentage points

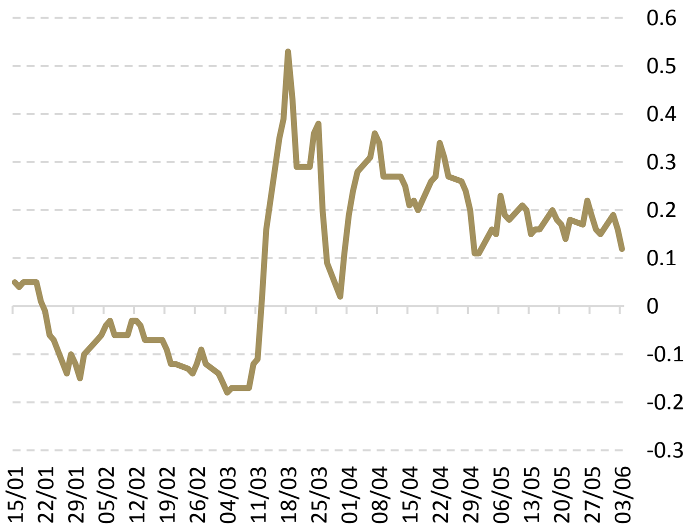


Latest developments:

- 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 widened to 0.51 per cent on 03/06, 37 basis points higher than 19/02.

Source: Macrobond

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

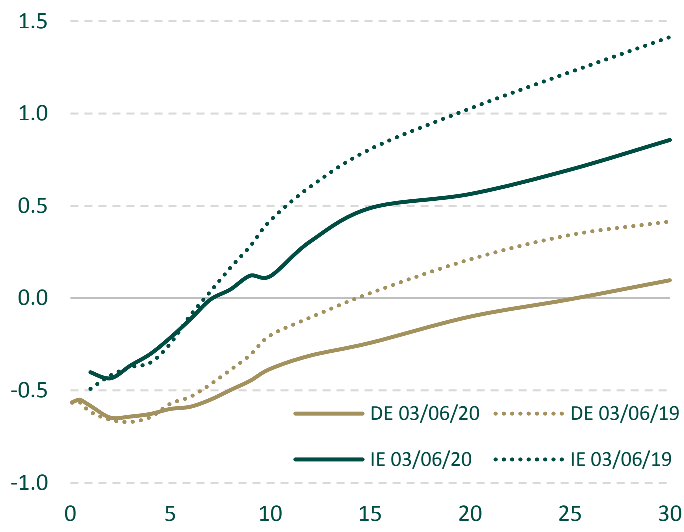


Latest developments:

- On 3rd June, Irish yields are trading at c. 0.12 per cent, c.21 basis points higher than 19/02.

Source: Bloomberg

Figure 1.7 – Irish and German yield curve

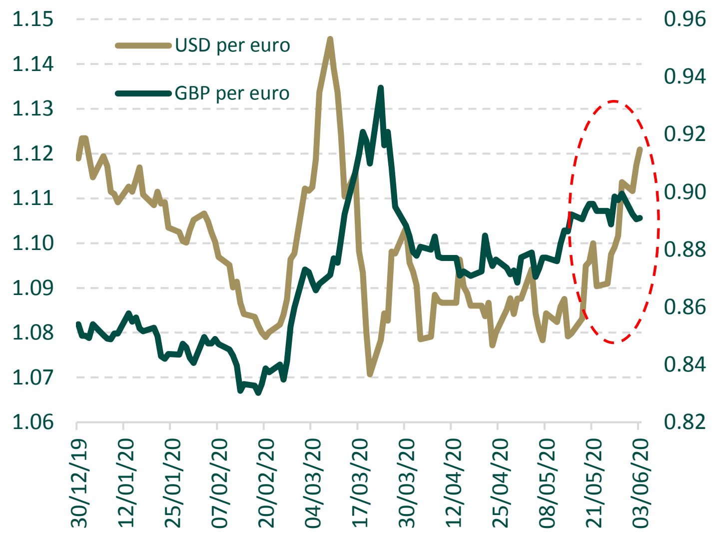


Latest developments:

- Irish sovereign bond yields remain historically low.
- Compared to one year ago, Irish yields are higher on very short-term debt, broadly in line on medium-term debt, and lower on long-term debt.
- German bond yields are broadly in line on short-term debt, broadly in line or lower on medium-term debt, and lower on long-term debt.

Source: Bloomberg

Figure 1.8 – Euro exchange rates

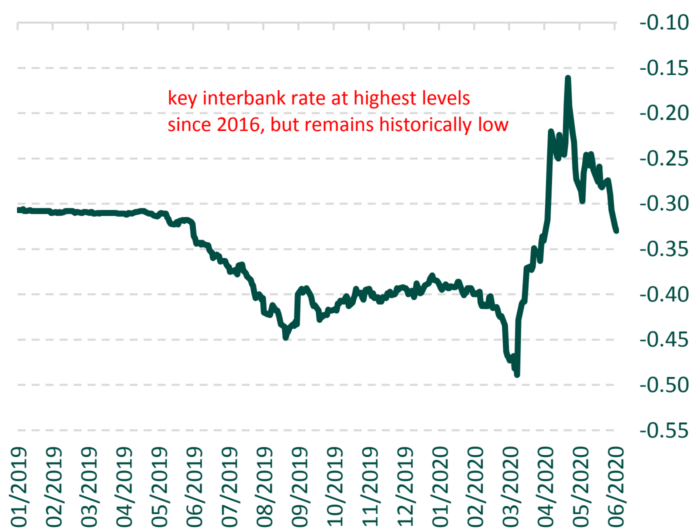


Latest developments:

- 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. The US Fed Reserve left policy rates unchanged on 29/04.
- The ECB announced €750bn Pandemic Asset Purchase Programme on 18/03.
- Eurogroup Finance Ministers agreed a €540bn package of economic measures on 09/04.
- The euro has gained c. 3.8 per cent against the dollar since 19/02. The euro has gained c. 6.9 per cent against the GBP since 19/02.

Source: Macrobond, Bloomberg

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



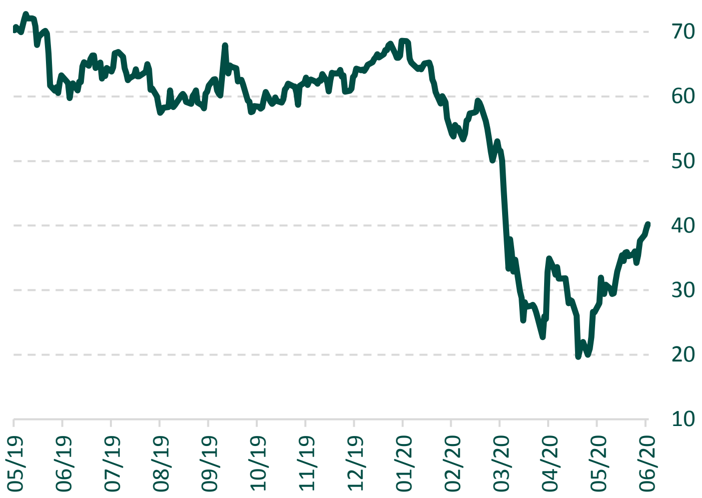
Latest developments:

- The Euribor 3-month interbank rate, the rate at which banks lend reserves to each other, has increased c.7 basis points to -0.33 per cent from 19/02 to 03/06, but remains at historically low levels.

Source: Macrobond

Section 2: economic outlook increasingly precarious

Figure 2.1 – Oil prices, $ per barrel

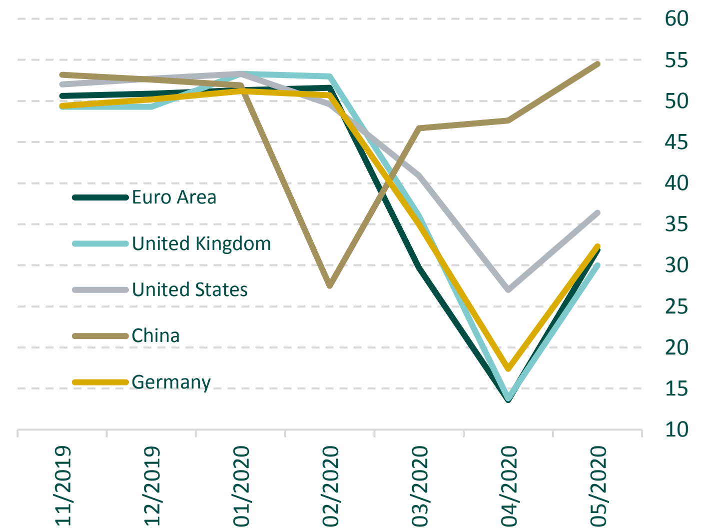


Latest developments:

- Oil prices have fallen sharply – from c.$68 pb to c.$40.22pb – 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.
- On 12 April, OPEC+ agreed production cuts of 9.7m b/pd in May and June, equivalent to 10 per cent of global supply.
- Saudi Arabia announced an additional unilateral production cut of 1 million b/pd in June on 11/05.
- Dwindling storage capacity resulted in a collapse in prices of the US WTI benchmark on 20th April – to negative levels - but has since recovered to c.$37.39 p/bl.

Source: Macrobond

Figure 2.2 – Composite PMI

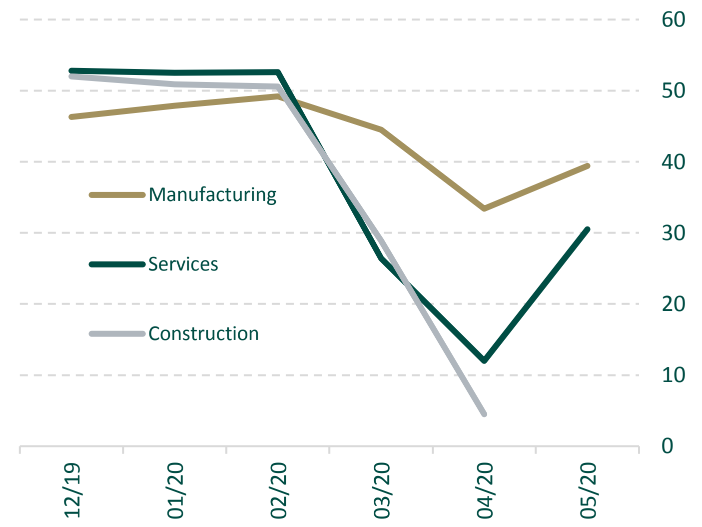


Latest developments:

- Composite PMI for the euro area rose to a 3-month high 31.4 (+18.5) in May, from a record low of 13.6 in April.
- Euro area Services PMI rose to 30.5 (+28.5) in May; manufacturing PMI increased to 39.4 (+6.0).
- Composite PMIs for the US, UK, and Germany also rebounded somewhat, rising to 36.4 (+9.4), 30 (+15.2), and 32.3 (+14.9) points respectively, while PMI for China rose to 54.5 (+6.9).
- However, values remain well below the 50.0 'no-change' level. This is consistent with sharply falling activity as restrictions continue to impact economic performance.
- The final PMIs for May were released 03/06, from data collected 12th-24th May.

Source: Macrobond, IHS Markit

Figure 2.3 – Ireland PMI

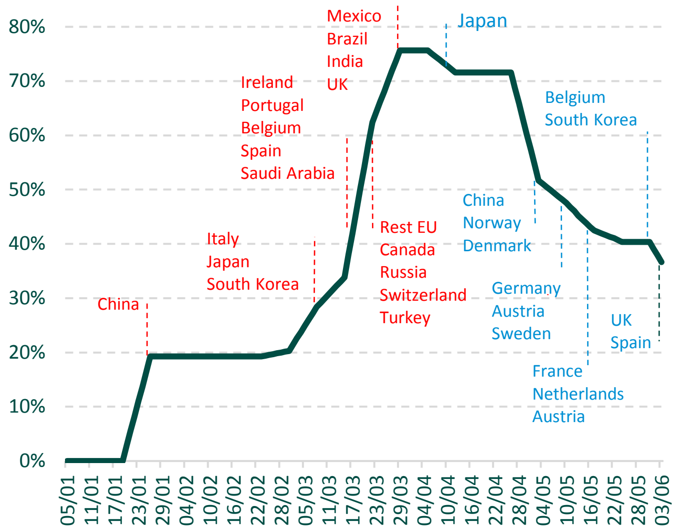


Latest developments:

- **Manufacturing** PMI rose to 39.4 in **May**, from April's 11 year low of 33.4.
- **Services** PMI rose to 30.5 in **May** from its lowest ever reading of 12.0 in April.
- The latest Manufacturing and Services PMI data represent a slower month-on-month deterioration, but still indicate rapid contraction.
- **Construction** PMI fell to an unprecedented 4.5 in **April**. Around 93 per cent of respondents reported a fall in activity in the month.

Source: Macrobond, IHS Markit

Figure 2.4 – % of world GDP affected by COVID-19 restrictions

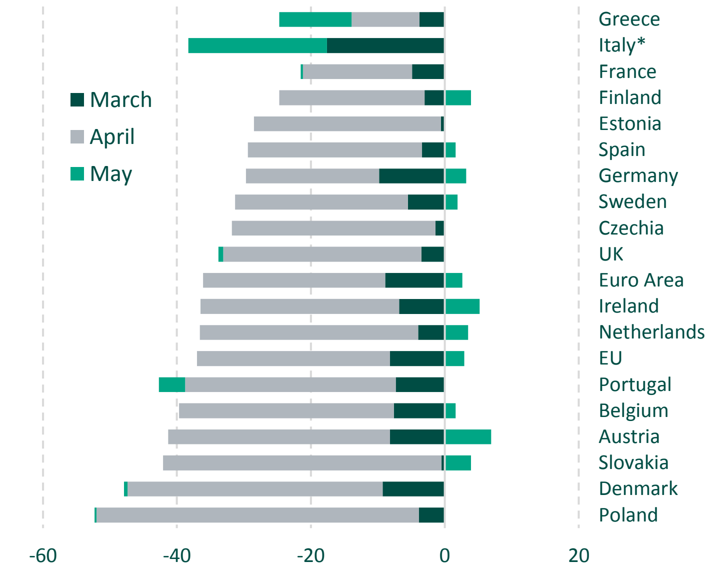


Latest developments:

- 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 had introduced nationwide restrictions to address the pandemic.
- Some countries have started to ease restrictions, and to 03/06, 38 per cent of world GDP remains with nationwide restrictions.

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

Figure 2.5 – Economic sentiment, m-o-m change

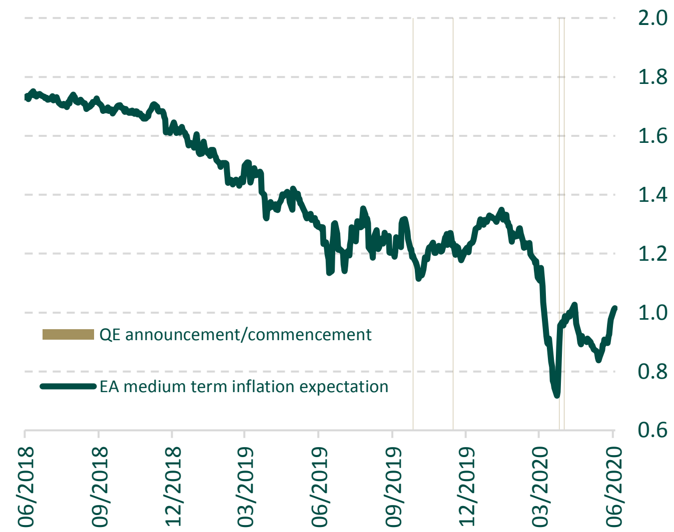


Latest developments:

- The Economic Sentiment Indicator (ESI) for May was released on 28/05. The ESI edged up in both the euro area (by 2.6 points to 67.7), and the EU (by 2.9 points to 66.7) following a record monthly decline in April.
- In Ireland, the ESI increased by 5.2 points to 70.7. There were increases in sentiment in Industry (+11.1), Retail Trade (+7.5), and amongst Consumers (+2.6). There was weaker sentiment in Construction (-3.8) and Services (-0.4).
- Amongst the largest euro area economies, the ESI edged up in the Netherlands (+3.5), Germany (+3.2) and Spain (+1.6), while it was broadly stable in France (-0.3).

Source: EU Commission; *note: the response rate in April was lower than usual. *No data could be collected in Italy in April

Figure 2.6 – Euro area 5yr – 5yr forward inflation expectation

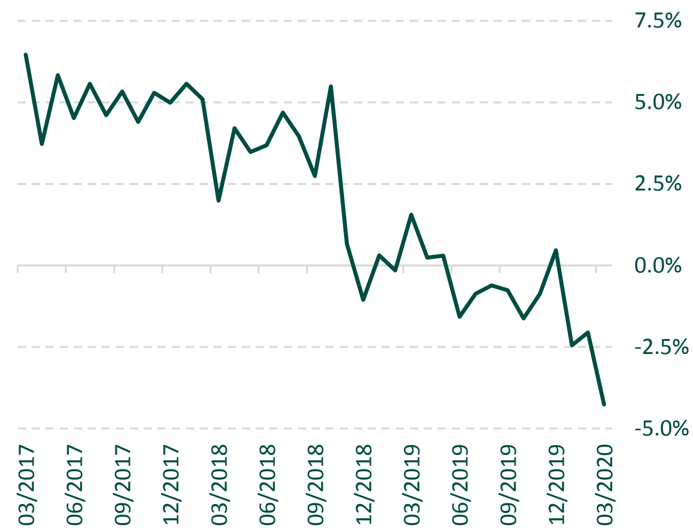


Latest developments:

- The 5 Year – 5 Year forward inflation expectation rate is a market-based measure of medium-term inflation expectations.
- The indicator, which was falling through February and March, recovered somewhat following the ECB announcement of the Pandemic Asset Purchase Programme on 18/03.
- Market-based expectations have returned to mid-April values at c.1.0 per cent this week.
- The next meeting of the Governing Council of the ECB takes place on the 4th of June.

Source: Bloomberg

Figure 2.7 – World trade volume, % change y-on-y

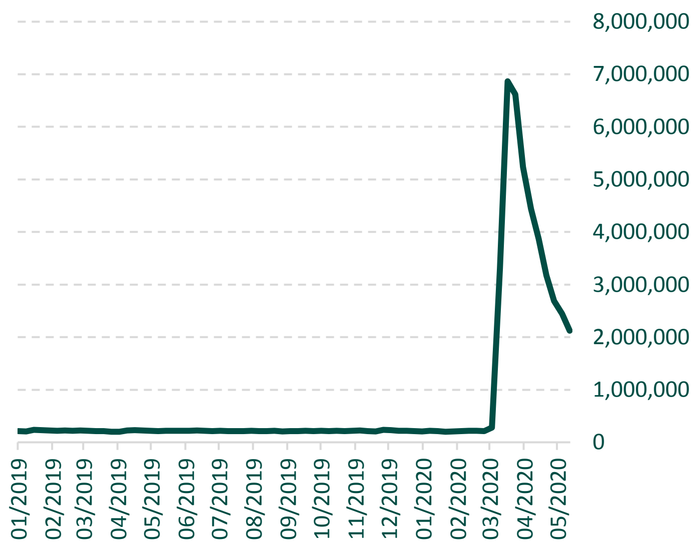


Latest developments:

- The CPB Netherlands Bureau for Economic Policy Analysis publishes its 'CPB World Trade Monitor' (WTM) every month.
- The Monitor showed that the volume of world trade decreased by 4.3 per cent in March compared to March 2019.
- The CPB expect a stronger decline in trade and production in April and May, in line with a tightening of COVID-19 restrictions.
- The WTM is an instrument that aggregates and summarises worldwide monthly data on international trade. The latest release was on 25th May 2020, for data up to March 2020.

Source: Netherlands Bureau for Economic Analysis

Figure 2.8 – US initial jobless claims

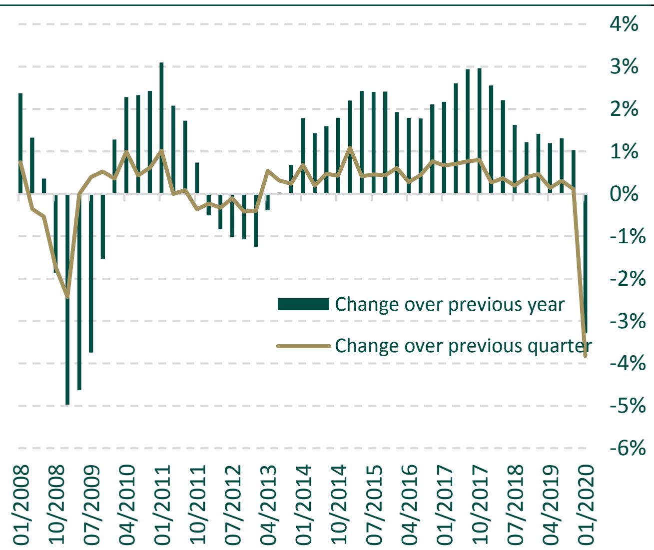


Latest developments:

- 2.1 million initial jobless claims were filed in the US for the week ending May 23rd.
- This brings total initial jobless claims to around 40.8 million over the past ten weeks.
- The official unemployment rate reached 14.7 per cent in April.
- The increase in initial jobless claims over the period is equivalent to 24.0 per cent of the US workforce.

Source: Macrobond

Figure 2.9 – Euro Area GDP, per cent



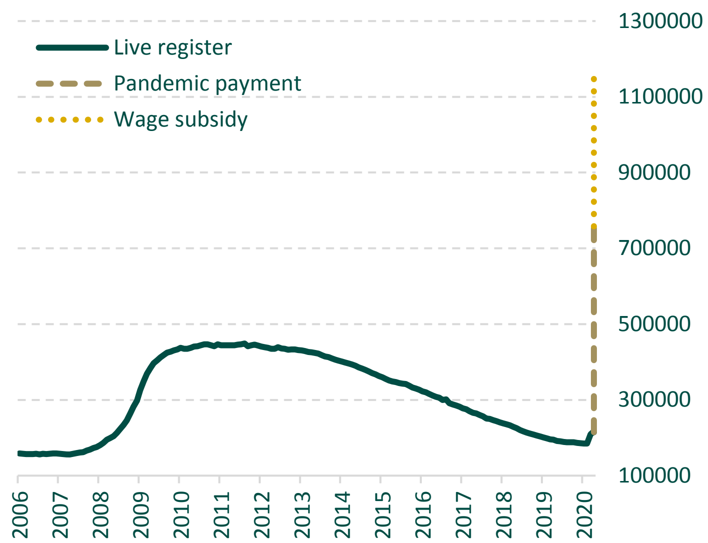
Latest developments:

- GDP decreased by 3.8 per cent in the euro area during Q1 2020 compared with the previous quarter, according to a preliminary flash estimate published by Eurostat on 30/04.
- The quarterly contraction in Q1 was the sharpest decline since the series began in 1995.
- GDP decreased by 3.3 per cent compared with the same quarter of the previous year. This was the sharpest decline since Q3 2009.

Source: Macrobond.

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

Figure 3.1 –Live register, persons

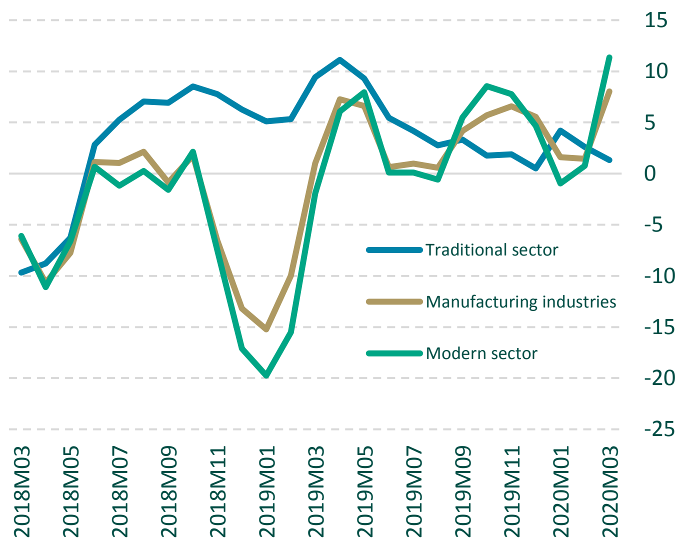


Latest developments:

- 543,200 people are in receipt of the COVID-19 Pandemic Unemployment Payment (PUP) on 02/06, a decrease of 36,200 compared to last week.
- These payments are in addition to the 214,700 people on the Live Register at end April, and some 410,000 in receipt of the Temporary Wage Subsidy (TWSS) on 28/05, an increase of 9,100 compared to the previous week.
- The monthly unemployment rate for May (standard methodology) was 5.6 per cent, up from 5.4 per cent in April.
- The CSO's new COVID-19 Adjusted Measure of Unemployment indicates a rate as high as 26.1 per cent in May, if all PUP claimants were classified as unemployed. This is down from 28.2 per cent in April.

Source: DEASP, Revenue, CSO

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

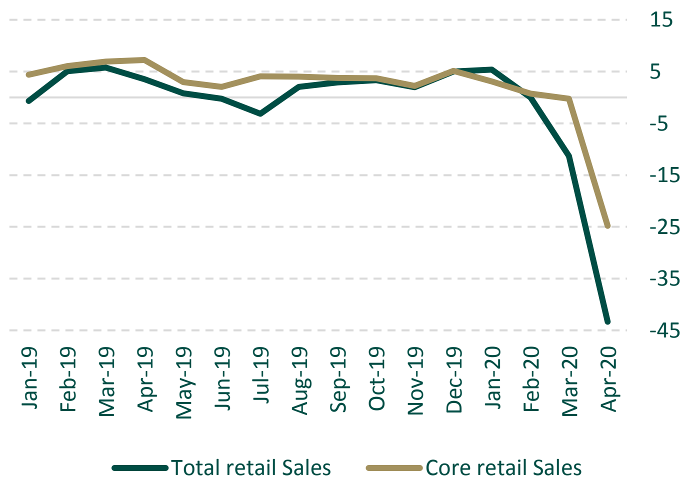


Latest developments:

- Production in the manufacturing sector in March increased by 16 per cent month-on-month (seasonally adjusted) and increased by 24 per cent on a year-on-year basis.
- Production in the mainly indigenous "traditional sector" decreased in the month (down 0.6 per cent) and was down 4.8 per cent compared with March 2019.
- In the "modern sector", comprising a number of high-tech and chemical sectors, output increased by 15 per cent in the month, and increased by 35 per cent compared with March 2019. This is likely due developments in pharmaceuticals and related sectors.
- Industrial turnover (i.e. sales) increased by 16 per cent in the month and by 21 per cent year-on-year.

Source: CSO

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

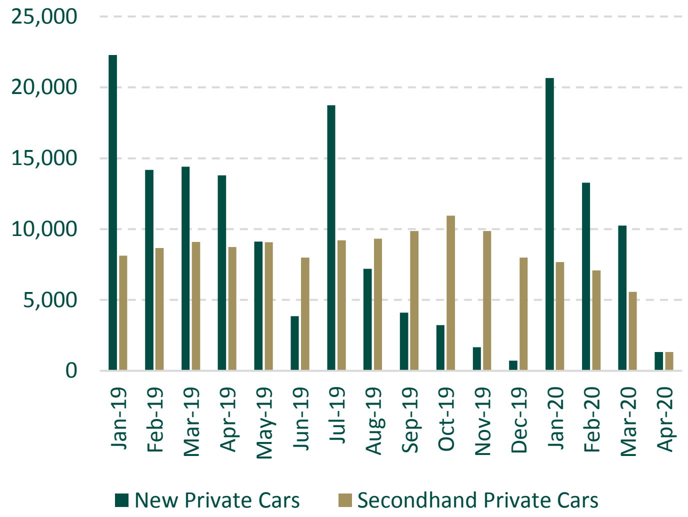


Latest developments:

- On a monthly basis, the seasonally adjusted (sa) volume of retail sales decreased 35.4 per cent in April and decreased by 43.3 per cent in year-on-year terms
- The volume of 'core' sales (excluding Motor Trades) decreased by 23.7 per cent (sa) month-on-month in April, and decreased by 24.8 per cent year-on-year.
- COVID-19 has had a significant impact on consumer spending. Overall, retail sales are down 43.7 per cent in April relative to the January/February average (pre-COVIID-19 period).
- The sectors with the largest annual declines were Bars (-90.5 per cent) and Textiles, Clothing and Footwear (-86.2 per cent).

Source: CSO

Figure 3.4 – Cars licensed for the first time, number

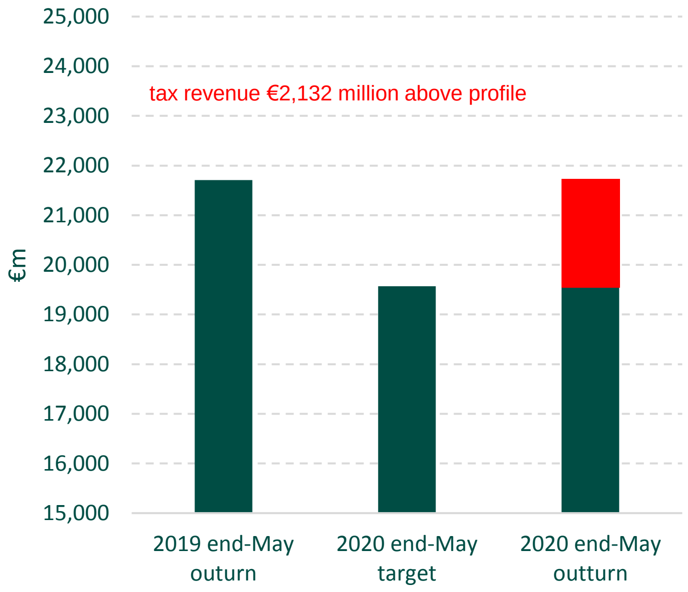


Latest developments:

- 1,338 private cars were licensed for the first time in April 2020. This is down 90 per cent on the same month last year.
- 1,321 second-hand private cars were licensed for the first time in April 2020, down 85 per cent on the same month last year.

Source: CSO

Figure 3.5 – Tax receipts, € millions



Latest developments:

- Cumulative tax receipts of €21,703 million were broadly flat year-on-year, down by €8 million.
- The negative impacts of the COVID-19 pandemic have, for now, been offset by a combination of Corporation Tax receipts and strong outturns in January and February.
- VAT and Excise receipts are down significantly, by 21.7 per cent and 22.5 per cent respectively, on an annual basis. This reflects a large decline in consumption as a result of the unprecedented period of economic and social restrictions introduced in March.
- Income Tax has proved more resilient than anticipated to date, attributable to the progressivity of the income tax system and some sectoral issues.

Source: Department of Finance

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