

Ireland Outlook

February 2021
Economic Update



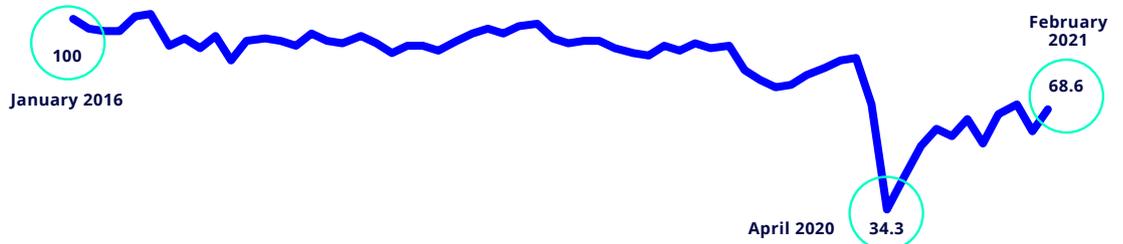
Bank of
Ireland

A dose of optimism for the economy as the vaccine cavalry arrives

While 2020 was a year like no other, the resilience of Ireland's exporting pharma-chemicals and ICT sectors has masked the economic fallout of the COVID-19 shock. GDP is now estimated to have expanded last year, even as many domestic sectors of the economy experienced an unprecedented contraction. Further increases in GDP are forecast for this year (5.0%) and next (5.8%) but importantly, growth is set to become more broad-based as domestic activity rebounds. The tightening of restrictions in response to the deterioration in the public health situation at the turn of the year has made for a challenging start to 2021 though, as have implementation difficulties in respect of the new trading arrangements with the UK (albeit the post-Brexit agreement reached before the transition period ended means the 'worst case' outcome has been avoided). There has been some adaption and innovation since last spring's lockdown however and the vaccine cavalry has also arrived. The Government's recently published 'Path Ahead' envisages a cautious easing of Level 5 restrictions from early April onwards - schools begin to return in March - and widespread vaccination by the autumn. So assuming these plans come to pass, a pick up in consumer and business spending is on the cards for later this year and in 2022. With virus-related anxieties receding, the labour market starting to mend and more opportunities to consume, some of the savings that households have involuntarily built up during the pandemic are set to be unleashed, while reduced uncertainty at home and abroad is a tailwind for investment and exports. There are risks to this picture of course, not least renewed waves / new variants of the virus. The possibility that the inoculation programme runs into trouble cannot be ruled out but neither can stronger than anticipated demand as the economy moves to a surer footing.

Recent Developments

Economic sentiment recovering

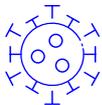


Brexit & COVID-19

UK-EU trade deal agreed



Public health measures to contain virus



No tariffs or quotas on goods

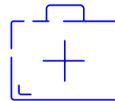


Vaccine roll-out progressing

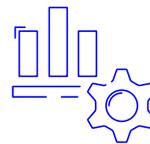


Policy Supports

Health Spending



Business



Income



Monetary



Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2020e	3.7%	-9.3%	-35.0%	3.9%	-15.1%	18.7%	-0.3%
2021f	5.0%	5.2%	-16.0%	5.0%	3.6%	16.0%	0.5%
2022f	5.8%	7.5%	3.0%	5.5%	12.4%	6.8%	1.0%

Widespread vaccination puts economy on a surer footing

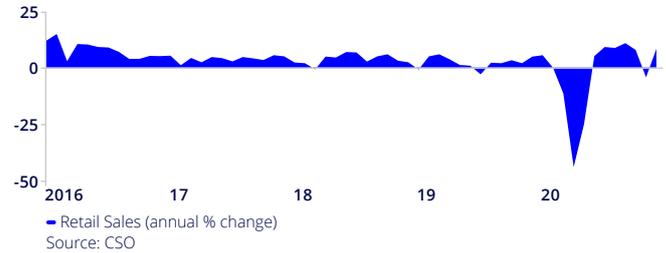
Pent up consumer and business demand unlocked

Trading partners recovering but post-Brexit red tape

Consumer

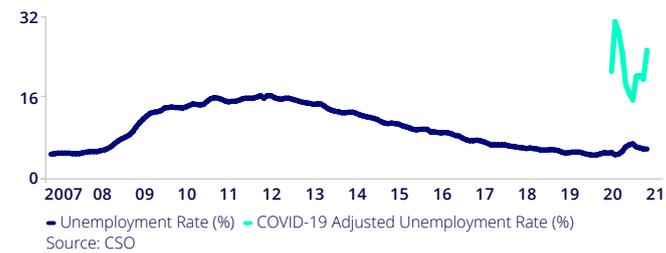
Spending seesawing

Consumer spending was volatile during 2020 - decreasing as public health measures were tightened and increasing as they were loosened - with spending patterns and how people shop also impacted.



Increased unemployment

At 25.0% in January 2021, the COVID-19 adjusted unemployment rate was down from its peak of 30.5% last April but remains high amid the countrywide return to Level 5 restrictions.



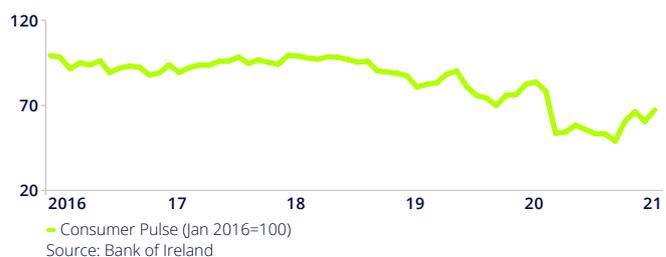
Income supports

Government supports have cushioned incomes while falling consumer prices have boosted households' purchasing power. A modest pick up in inflation is likely this year though as energy prices rise and post-Brexit red tape adds to business costs.



Confidence recovering

While households remain downbeat about the here and now, progress on the vaccination front has lifted recovery hopes and the Consumer Pulse lately, with 46% now expecting the economic situation to improve in the next 12 months.



Savings soar

With spending opportunities curtailed and households putting money aside for precautionary reasons, the savings rate rose sharply in Q2 2020 but should return to more normal levels as every-day life resumes.



Better prospects

After a large drop in 2020, consumer spending is forecast to increase over the course of this year and next as the vaccine roll-out broadens, allowing restrictions to be eased and pent up demand to be unlocked.



Source: CSO & Bank of Ireland

Investment

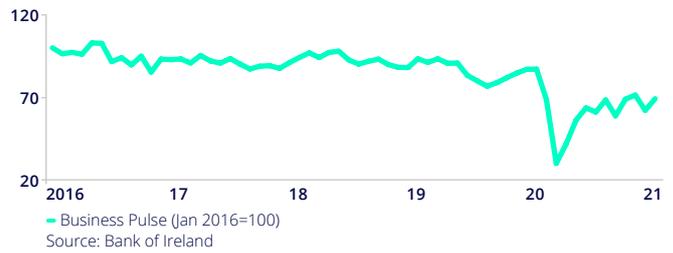
Investment squeezed

Brexit and COVID-19 uncertainty weighed on investment in 2020, with the modified measure - which excludes R&D-related intellectual property imports and aircraft leasing - down 9.2% year-on-year in the first three quarters.



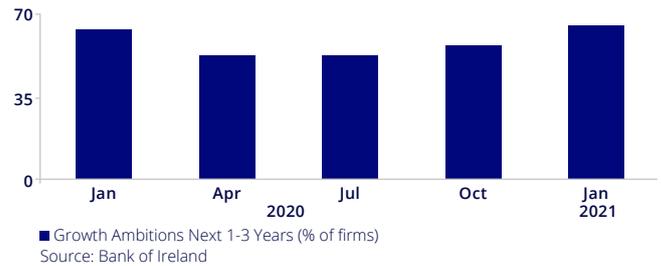
Sentiment off lows

While Level 5 restrictions are biting and adding to post-Brexit disruption, the Business Pulse recovered some ground in February 2021 as firms looked beyond them to the re-opening of the economy.



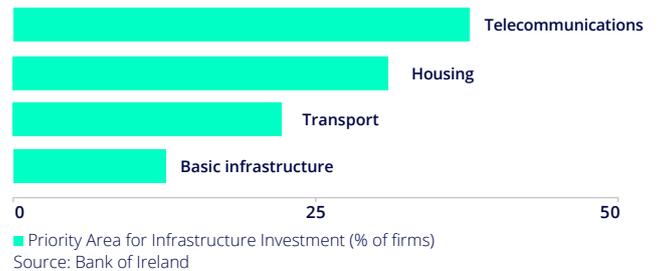
Business ambitions rebound

Buoyed by vaccine-related developments, three in five businesses are planning on expanding in the next one to three years meaning growth ambitions further out are back at their pre-pandemic level.



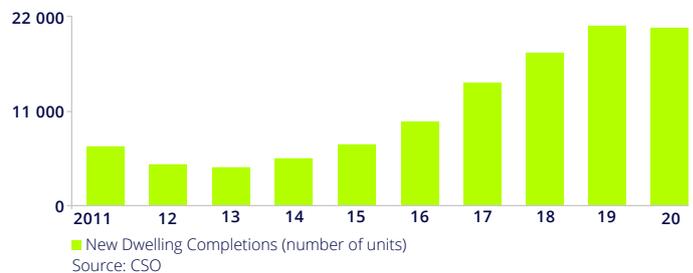
Infrastructure on the radar

More e-commerce and increased remote working have shone a spotlight on telecommunications infrastructure, with 36% of firms now identifying it as the priority area for investment, double the pre-COVID figure.



House completions hold up

20,676 new dwellings were completed last year, down just 1.9% on 2019, though the shutting of building sites as part of the latest round of containment measures is a headwind for supply this year.



Brighter outlook

Globalisation effects are set to dampen headline investment in 2021, whereas modified investment is expected to expand and strengthen further in 2022 on the back of reduced uncertainty and some catch up.



Exports

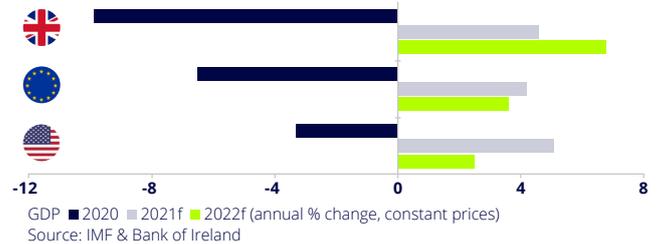
Exports outperform

Exports were up 4.3% on an annual basis in the first three quarters of last year thanks to a resilient product mix, while imports decreased by 6.7% over the same period.



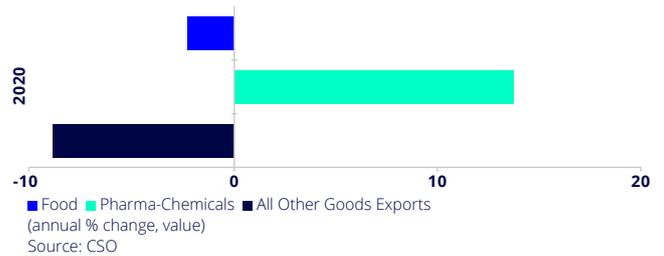
External demand to pick up

The COVID-19 shock pushed our main trading partners into deep recession in 2020 but all are expected to return to growth this year, with the US and China leading the rebound in global activity.



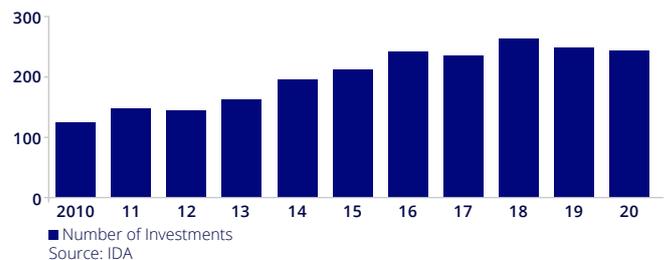
New trade frictions

While multinational-dominated sectors like pharma-chemicals and ICT are going strong, exporters in indigenous sectors like food and firms importing from the UK are dealing with new non-tariff trade barriers.



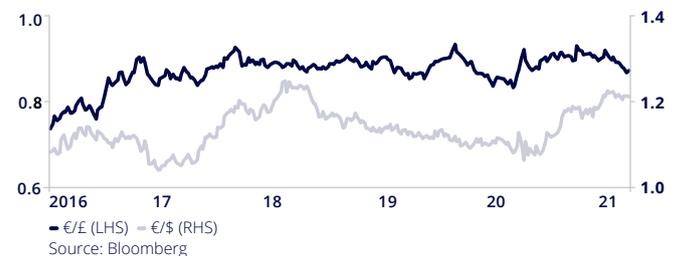
FDI resilient

Foreign direct investment inflows continued last year despite the difficult backdrop - another 246 projects were won - though the IDA has cautioned that the environment for FDI is likely to remain challenging.



Sterling gains

The pound has been on the front foot since the post-Brexit trade deal was agreed in late 2020, strengthening to around 87p against the euro and providing some relief for Irish firms selling into the UK market.



Outlook positive

With the world economy entering recovery mode and a no-deal Brexit avoided, solid export growth has been pencilled in for this year and also for 2022.

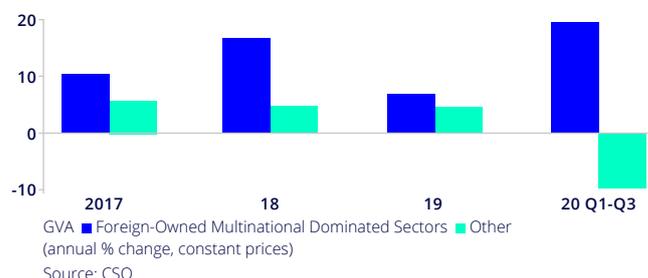


Exports (annual % change, constant prices)
Source: CSO & Bank of Ireland

Overall Activity

GDP bucks the global trend

The pandemic has taken a toll on the domestic economy but with the foreign-owned multinational dominated sector more than holding up, GDP growth averaged 3.8% year-on-year in Q1-Q3 2020.



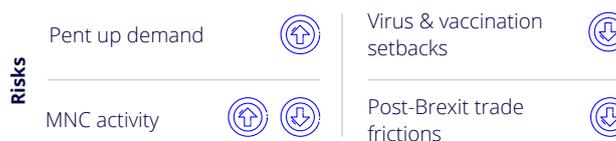
Growth to continue

Even though 2021 has gotten off to a weak start, a vaccine-driven recovery is in prospect for later this year, with economic activity and the labour market expected to firm in 2022.



Risks abound

Downside risks to the outlook include a slowdown in the pace of the inoculation programme and renewed waves / new variants of the virus, whereas a faster unleashing of savings poses an upside risk.



Forecasts

	2020 (e)	2021 (f)	2022 (f)
Personal Consumption	-9.3%	5.2%	7.5%
Government Consumption	8.8%	1.5%	1.0%
Investment	-35.0%	-16.0%	3.0%
Exports	3.9%	5.0%	5.5%
Imports	-14.3%	-2.4%	4.6%
GDP	3.7%	5.0%	5.8%
GNP	0.2%	4.6%	6.2%
Employment	-15.1%	3.6%	12.4%
Unemployment Rate (Average)	18.7%	16.0%	6.8%
CPI	-0.3%	0.5%	1.0%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports, GDP and GNP are in constant prices

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