

## COVID-19 Pandemic to See Very Deep, but Short Recession

It is important at the outset to bear in mind that the Irish economy is facing into this recession from a very strong starting position. The unemployment rate had fallen to below 5%. Meanwhile, the economy had undergone a period of major deleveraging in the private sector, including households, over the past decade. The household debt to disposable income ratio had fallen from a peak of around 210% to below 120%. Meanwhile, from a government finances perspective, the budget deficit had been eliminated at a quicker than expected pace, returning to a surplus in 2018/19, while government debt levels have been brought down. The balance of payments had also returned to significant surplus.

### Incoming global macro data starting to show sharp hit to economies

The wave of negative data has started to come through on the drastic impact that the measures to contain the spread of the coronavirus are having on economic activity, both in Ireland and elsewhere. Labour market statistics are giving the clearest indication of the immediate and severe effects of the shutdown on large parts of the world economy. The US has seen jobless claims rise by 10 million in just two weeks.

### Irish data also now showing the impact

Ireland saw an increase of 330,000 in jobless numbers to over 500,000 in March. It is estimated that the Irish unemployment rate may have risen from below 5% in February to 17% last month. The latest estimates are that the numbers in receipt of unemployment payments have risen to over 700,000 in early April. Meanwhile, PMIs for the services sector, including in Ireland, have fallen to the troughs seen during the 2008-09 recession in the space of just one month. Indicators such as car sales, which fell by over 60% in year-on-year terms in March, show the sharp fall-off in consumer spending. Other noteworthy data published in Ireland were the Exchequer Returns for March, which showed a big rise in government spending and a decline in tax revenues. As elsewhere, Ireland is heading for a blow-out budget deficit this year.

### Unprecedented sharp recession in prospect for the global economy

The recession the world economy is now facing is expected to be the deepest since the Great Depression of the 1930s. Some jaw-dropping forecasts are being published of close to double digit declines in GDP in 2020 for many advanced economies, including Ireland.

This is largely due to a collapse in output levels in the second quarter as a result of the lockdowns to contain the coronavirus. The OECD has estimated that the containment measures could see falls of between 20% and 30% in GDP in the second quarter of the year in most economies. The OECD believes that the impact on the Irish economy may be less severe than elsewhere. Notably, of the almost 50 countries analysed, Ireland had the smallest projected decline in GDP in Q2 at 15%. This reflects the composition of Irish output and exports, which is dominated by large multi-national companies operating in sectors such as pharmaceuticals, ICT and financial services. These are less negatively impacted than other sectors by global downturns.



