

## Labour Pains

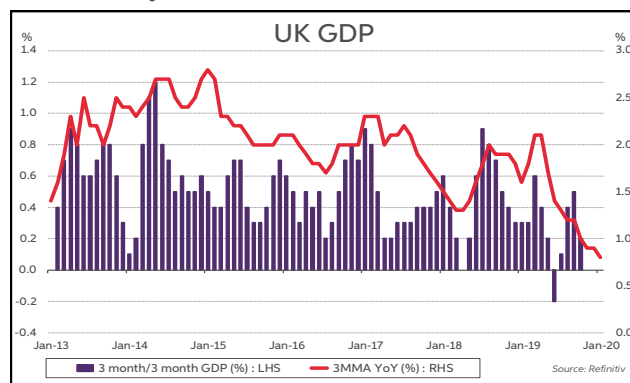
■ **The wave of negative data has started to come through on the drastic impact that the measures to contain the spread of the coronavirus are having on economic activity.** Labour statistics are giving the clearest indication of the immediate and severe effects of the shutdown on large parts of the world economy, with a rise of 10 million in jobless claims in a fortnight in the US, while Ireland saw an increase of 330k in jobless numbers to over 500k in March. It is estimated that the Irish unemployment rate may have risen from below 5% in February to 17% in March. Meanwhile, PMIs for the services sectors have fallen to the troughs seen in the 2008-09 recession in the space of one month.

■ **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 Q2 in most economies. Obviously, the decline in GDP for the year as a whole is critically dependent on how long lockdowns remain in place. The OECD gave a useful rule of thumb that annual GDP growth is likely to decline by up to 2 percentage points for each month that strict containment measures continue. Quite interestingly, of the almost 50 countries analysed by the OECD, 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, medical devices, ICT and financial services. These are less negatively impacted than other sectors by downturns in the global economy. Nonetheless, the domestic economy in Ireland is experiencing a severe contraction, as labour market data show.

■ **Meanwhile, the other noteworthy data from Ireland this week 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. In a strong opinion piece in the FT, the widely respected former President of the ECB, Mario Draghi, argued that it is the duty of the state to deploy its balance sheet to protect citizens and the economy against shocks that the private sector is not responsible for and cannot absorb, such as the coronavirus pandemic. This is done through greatly increasing public debt. The challenge for public policy is to act with sufficient speed and strength to prevent the coronavirus recession morphing into a prolonged depression. He argues the alternative to the state offsetting much of the hit to private demand would be much more damaging to the economy and eventually the public finances. Mr. Draghi notes that with interest rates being kept very low, higher public debt levels will not add to servicing costs.

■ **Despite all the bad data on economies published in the past week, stock markets have been relatively calm.** Meanwhile, debt markets have had no problems absorbing high levels of fresh supply from governments and corporates, reflecting the fact that central banks will underpin the market. It may also be the case that at this stage, financial markets have priced in that the second quarter will see very steep declines in output. The key questions now are how long the shutdowns will last for and how strong will the rebound in activity be when it arrives. The answers to these questions are unknown, but will determine how risk markets perform in the coming months.

■ **This week, there is a relatively sparse look to the data calendar in what is a holiday shortened week.** Attention will be on the US, where the calendar includes a couple of important releases, including the March print of CPI. It is envisaged that the recent collapse in oil prices will see inflation moderate to just 1.6% from 2.3%. Meanwhile, it is anticipated that the flash reading of the Michigan measure of consumer sentiment will show confidence dropped sharply again in April. Finally, weekly jobless claims figures will remain in focus as they continue to offer a timely assessment of labour market developments. **Elsewhere, the scheduled releases in both the Eurozone and the UK are of limited interest as they pre-date the onset of the coronavirus.** In the former, national industrial output data for February are the highlight, while in the latter the latest monthly estimate of GDP is due. The UK economy is projected to have expanded by 0.1% in the three months to February.



■ **With regard to monetary policy updates, the Fed and the ECB will publish the minutes from their respective March meetings.** The minutes will be looked to for any evidence that further unconventional stimulus measures are being considered by either central bank. Although, in both the Eurozone and the US, there are now some concerns that monetary policy is nearing the limit of its effectiveness. Meanwhile, Eurozone finance ministers meet on Tuesday.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2020	2020	2020
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2020	2020	2020
EUR/USD	1.0785	1.09	1.10	1.11
EUR/GBP	0.8788	0.88	0.88	0.89
EUR/JPY	116.98	117	118	120
GBP/USD	1.2272	1.24	1.25	1.25
USD/JPY	108.45	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast	
<b>This Week:</b>					
<b>Mon 6th</b>	<b>GER:</b>	07.00	Industrial Orders (February)	+5.5%	-2.8%
	<b>EU-19:</b>	08.30	Markit Construction PMI (March)	52.5	
	<b>UK:</b>	09.30	Markit/CIPS Construction PMI (March)	52.6	44.0
	<b>EU-19:</b>	09.30	Sentix Index (April)	-17.1	-30.0
<b>Tue 7th</b>	<b>EU-19</b>		Eurogroup Meeting		
	<b>JPN:</b>	06.00	Leading Indicators' Index (February)	-0.4	
	<b>GER:</b>	07.00	Industrial Output (February)	+3.0%	-0.9%
	<b>FRA:</b>	07.45	Trade Balance (February)	-€5.9bn	-€4.93bn
	<b>US:</b>	20.00	Consumer Credit (February)	\$12.02bn	
<b>Wed 8th</b>	<b>JPN:</b>	00.50	Core Machinery Orders (February)	(-0.3%)	(-2.9%)
	<b>JPN:</b>	06.00	Economy Watchers' Poll (March)	27.4	
	<b>US:</b>		Minutes from March FOMC Meeting Published		
<b>Thurs 9th</b>	<b>GER:</b>	07.00	Trade Balance (February)	€18.5bn	€17.6bn
			- Exports	+0.0%	-1.0%
	<b>UK:</b>	07.00	GDP (3 Months to February)	+0.0% (+0.6%)	+0.1% (+0.5%)
	<b>UK:</b>	09.30	Industrial Output (February)	-0.1% (-2.9%)	+0.3% (-2.8%)
			- Manufacturing	+0.2% (-3.6%)	+0.3% (-3.9%)
	<b>UK:</b>	09.30	Goods Trade Balance (February)	-£3.720bn	-£5.750bn
			- Non-EU	£2.232bn	
	<b>ITA:</b>	09.00	Industrial Output (February)	+3.7%	-1.5%
	<b>IRL:</b>	<b>11.00</b>	<b>CPI (March)</b>	<b>+0.2% (+1.1%)</b>	<b>+0.3% (+0.6%)</b>
	<b>EU-19:</b>	12.30	ECB Account from March Governing Council Meeting Published		
<b>US:</b>	13.30	Initial Jobless Claims (w/e 30th March)	6,648,000	5,000,000	
<b>US:</b>	13.30	PPI (March)	(+1.3%)	(+0.4%)	
<b>US:</b>	15.00	Prelim' Michigan Consumer Sentiment (April)	89.1	75.0	
<b>Fri 10th</b>	<b>IRL/UK/US/Most EU:</b>		<b>Good Friday (Market Holiday)</b>		
	<b>JPN:</b>	00.50	Domestic Wholesale Prices (March)	(+0.8%)	(-0.1%)
	<b>FRA:</b>	07.45	Industrial Output (February)	(+1.2%)	+0.1%
	<b>US:</b>	13.30	CPI (March)	(+2.3%)	(+1.6%)
			- Core	(+2.4%)	(+2.3%)
	<b>US:</b>	19.00	Federal Budget (March)	March '18: -\$147bn	

◆ Month-on-month changes (year-on-year shown in brackets)  
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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