Emerging economic developments : real-time economic and financial indicators, 30th July 2020

An Roinn Airgeadais
Department of Finance

Emerging economic developments

- real-time economic and financial indicators

30th July 2020

Prepared by the Economics Division,
Department of Finance
www.gov.ie/finance

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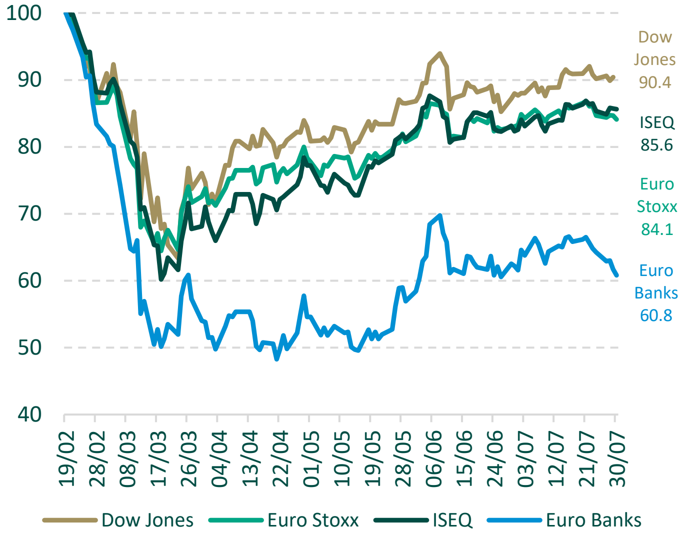
Note: This Chartpack includes indicators updated daily, and others for which data are updated monthly or quarterly.

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

Section 1: financial markets – investors more optimistic around recovery

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



Latest developments:

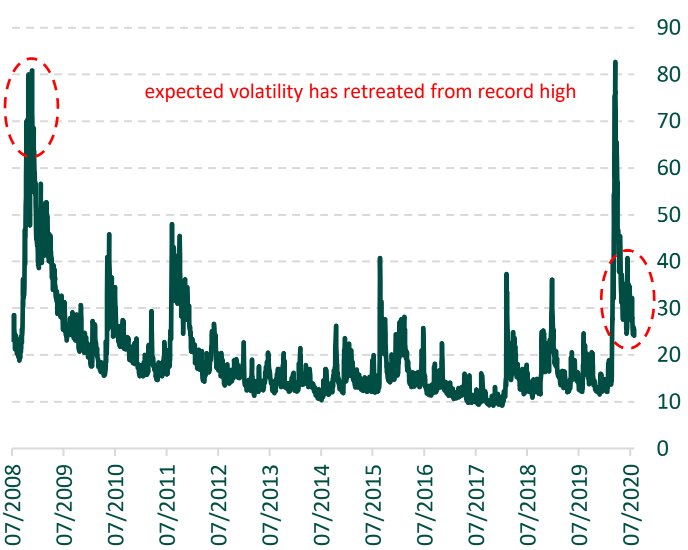
- Growth expectations have been revised downwards. Financial market participants initially became more risk averse, and pulled back from riskier assets such as equities.
- Markets rallied from March lows as investor confidence around recovery increased, but remain below February levels. Concerns around a potential 'second wave' have weighed on investor confidence somewhat following June highs.

Change from 19/02 to 30/07:

- **Dow Jones*** (-9.6 per cent)
- **ISEQ** (-14.4 per cent)
- **Euro Stoxx 600** (-15.9 per cent)
- **Euro Banks** (-39.2 per cent)

Source: Bloomberg (*Dow Jones price as of close 29/07)

Figure 1.2 – Vix (volatility index)

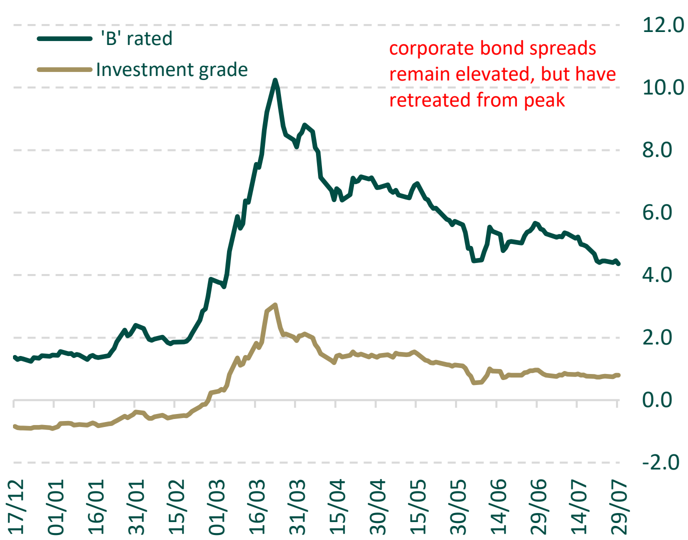


Latest developments:

- 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.
- Tension between better economic data and the potential for a 'second-wave' continues to drive expected market volatility.
- The index reached its highest recorded value of 82.7 on 16/03. It has fallen steadily since but rose to 40.7 on 11/06, and currently stands at 24.1 on 29/07.

Source: Bloomberg

Figure 1.3 – Corporate spread over treasury, per cent

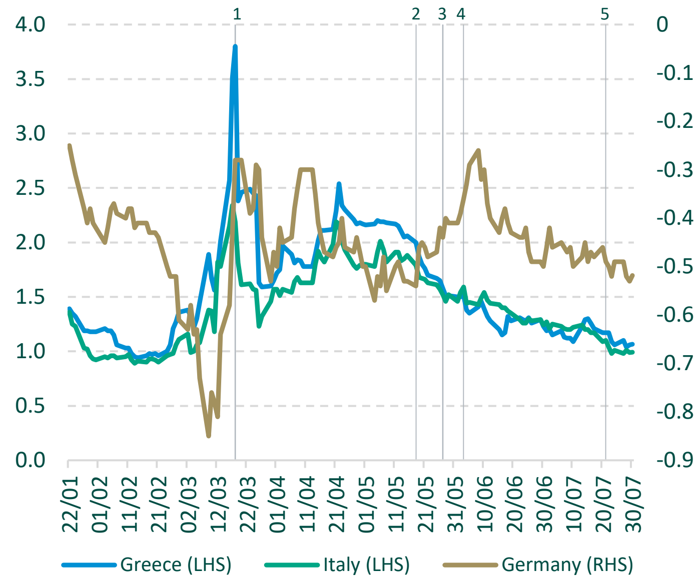


Latest developments:

- Demand for corporate bonds has declined, particularly for debt issued by 'riskier' (non-investment grade) corporates.
- The yield – the risk premium demanded, especially for those lending to non-investment grade firms – has risen accordingly.
- The average spread for 'B' rated corporates over treasuries widened to its highest level since 2009 on 24/03, but has since retreated.
- 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

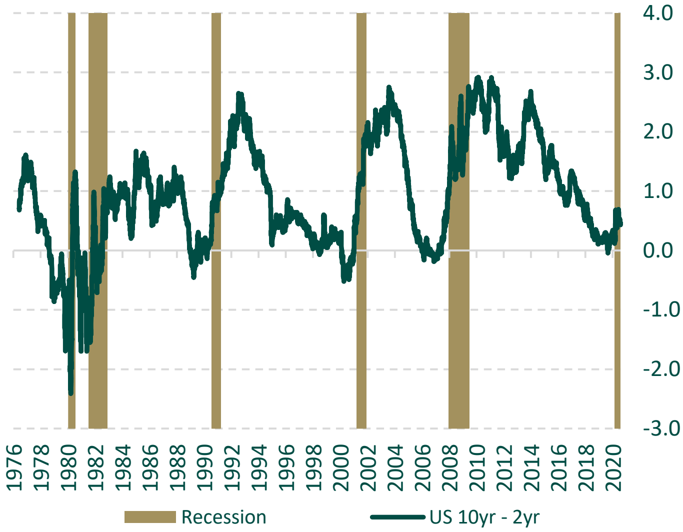


Latest developments:

- 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.
  1. ECB announce an extended asset purchase programme of €750 billion across all asset categories on 18/03
  2. Germany and France propose the creation of a €500 billion recovery fund on 18/05
  3. EU Commission puts forward its proposal for a 'major recovery plan' valued at €750 billion on 27/05
  4. ECB add an additional €600 billion to the PEPP purchase envelope on 04/06
  5. EU leaders agreed a deal on €750 billion recovery fund

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 0.46 per cent on 30/07, 32 basis points higher than 19/02.

Source: Macrobond, NBER (http://www.nber.org/cycles/general_statement.html)

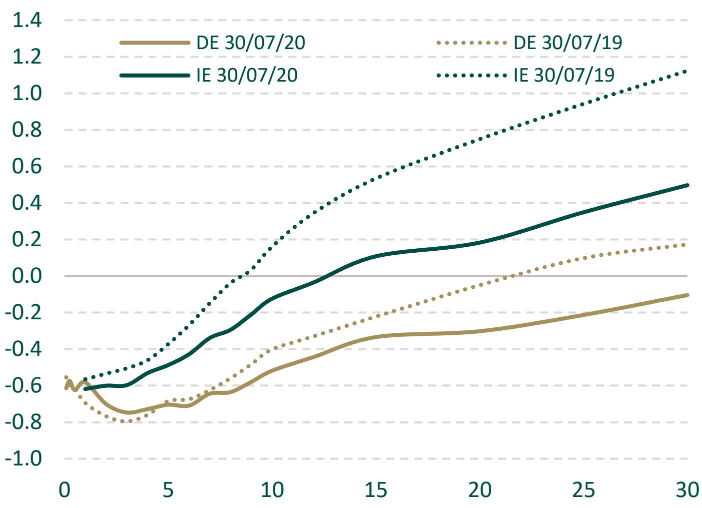
Figure 1.6 – Ireland 10YR sovereign bond yields, per cent

Latest developments:

- On 30/07, Irish yields are trading at c. -0.12 per cent, c.3.5 basis points lower than 19/02.

Source: Bloomberg

Figure 1.7 – Irish and German yield curve

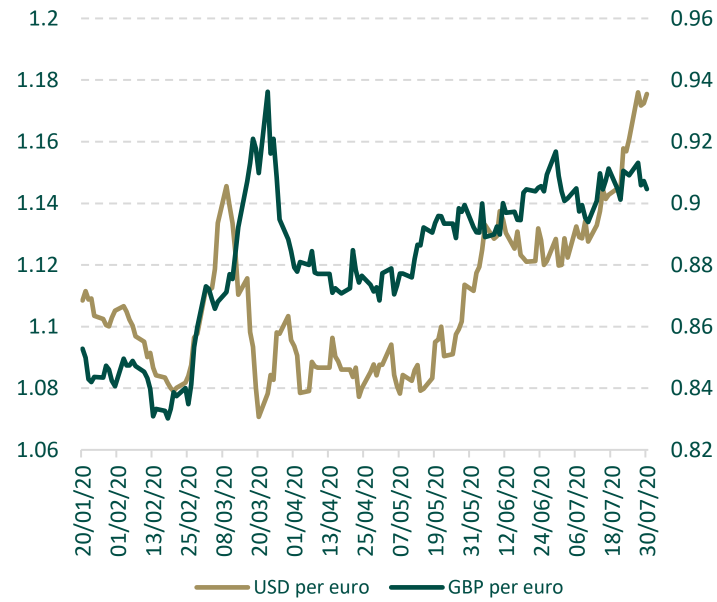


Latest developments:

- Irish sovereign bond yields remain historically low.
- Compared to one year ago:
  - Irish yields are lower across all maturities.
  - German bond yields are higher on short-term debt, and lower on medium and longer-term debt.

Source: Bloomberg

Figure 1.8 – Euro exchange rates

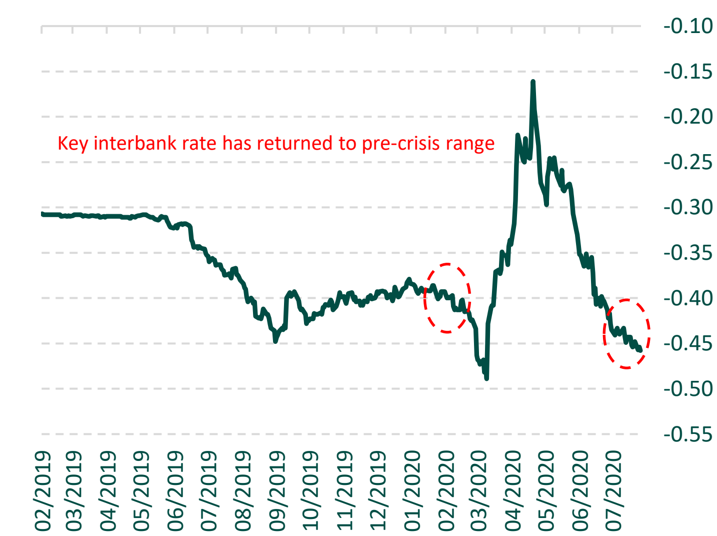


Latest developments:

- An initial depreciation of the euro against the dollar was, in part, driven by increased demand for dollar-denominated assets (‘safe haven’ flows).
- Improving investor sentiment and various fiscal and monetary policy measures have since influenced developments. Recent developments include:
  - **BoE** increased the target stock of purchased UK bonds, by £100 bn on 18/06.
  - **UK Government** announced additional stimulus worth £30 bn (c.1.5 per cent of GDP) on 08/07.
  - **EU** €750 bn **stimulus** agreed 21/07.
  - Announcement of $1 tn **US stimulus delayed** on 23/07.
  - **Fed extends** emergency measures to boost **dollar liquidity** & keep benchmark rate near zero on 29/07.
- The **euro** has gained c.8.8 per cent against the dollar since 19/02; and c.8.6 per cent against the GBP since 19/02

Source: Macrobond, Bloomberg

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



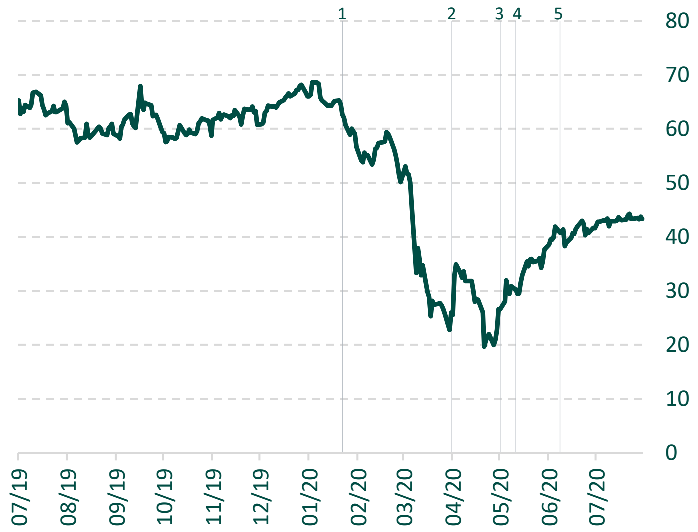
Latest developments:

- The Euribor 3-month interbank rate, the rate at which banks lend reserves to each other has returned to its pre-crisis range.
- The rate peaked at -0.16 per cent on 23/04 (an increase of 24 basis points from 19/02), but has since retreated to c. -0.46 per cent on 09/07, c.6 basis points lower than 19/02.

Source: Macrobond

Section 2: economic outlook – gradual recovery underway but risks remain

Figure 2.1 – Oil prices, $ per barrel

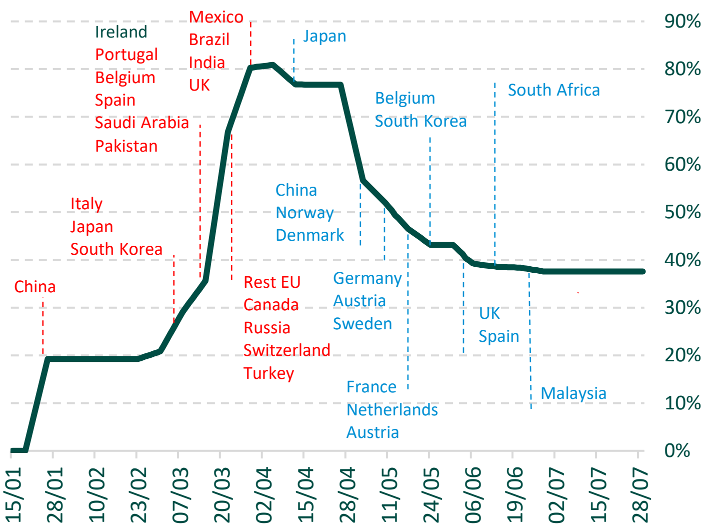


Latest developments:

- Oil prices have fallen sharply – from c.$68 pb to c.$43.3 pb – since the beginning of the year.
- Prices fell on lower demand, and a number of policy developments affecting supply.
  1. WHO announce evidence of human transmission of COVID-19 on 23/01
  2. OPEC+ fail to agree production cuts on 06/03 leading to 25 per cent supply increase in Saudi Arabia from April
  3. OPEC+ agree production cuts of 9.7m b/pd for May and June, equivalent to 10 per cent of global supply
  4. Saudi Arabia announce an additional unilateral production cut of 1 million b/pd in June on 11/05
  5. OPEC+ and Russia agreed to extend production cuts until end of July on 06/06

Source: Macrobond

Figure 2.2 – % of world GDP affected by COVID-19 restrictions

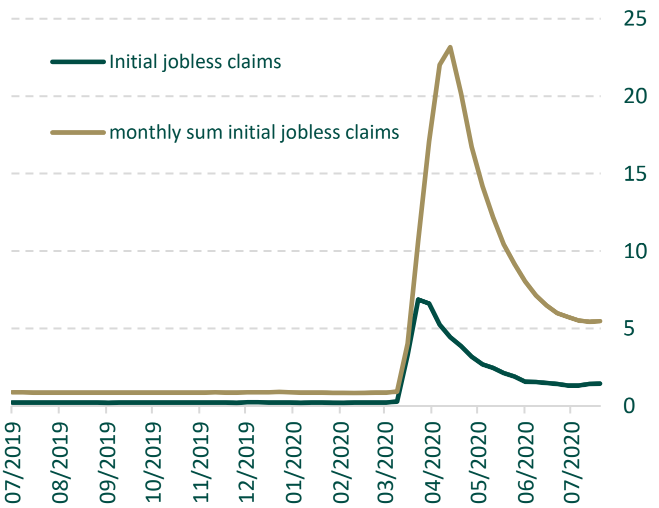


Latest developments:

- 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 29/07, 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 2.3 – US initial jobless claims, million persons

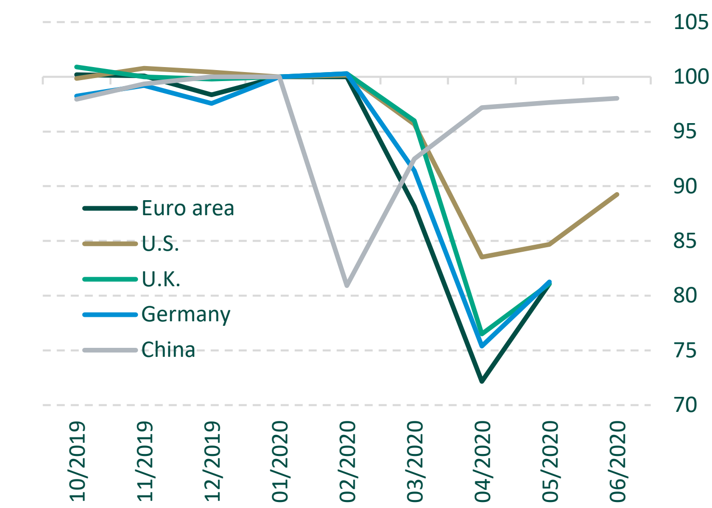


Latest developments:

- New jobless claims rose to 1.43m for the week ending 25th July, compared with 1.42m a week earlier.
- It was the second week in a row that jobless claims have risen, with renewed pandemic curbs in some states impacting the recovery in labour markets.
- The cumulative increase in initial claims over the period is equivalent to around 33 per cent of the US labour force. The unemployment rate dropped to 11.1 per cent in June from 13.3 per cent in May.
- The US posted its worst post-war contraction in GDP in the second quarter, falling at an annualised rate of 32.9 per cent.

Source: Macrobond

Figure 2.4 – Industrial Production (sa), index 01/20 = 100

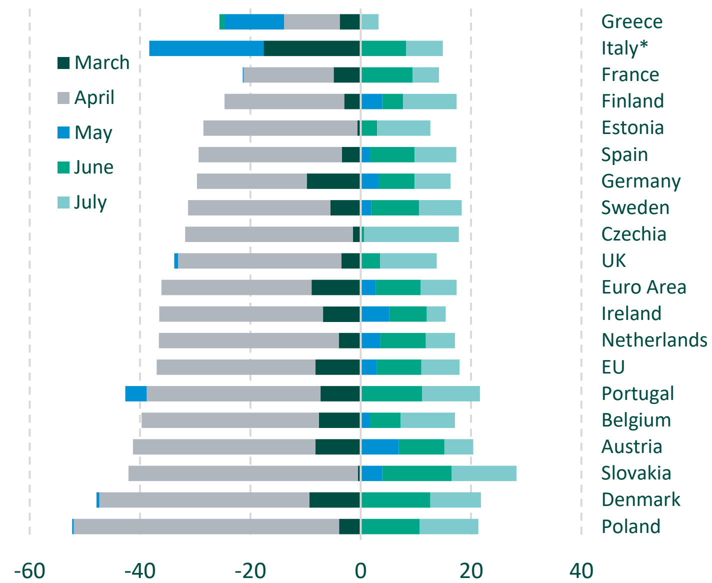


Latest developments:

- COVID-19 restrictions, disruptions to supply chains, and weaker demand contributed to significant falls in production in the early stages of the pandemic.
- Containment measures impacted China first where industrial production 'bottomed-out' in February, falling some 20 per cent compared to January.
- Lows in advanced economies followed in March, with significant falls in the euro area (-28 per cent), Germany (-25 per cent), UK (-23.5 per cent), and US (-16.5 per cent).
- Compared to January – industrial production remains c.19 per cent lower in the euro area, Germany, and the UK in May, and c.11 per cent lower in the US in June.

Source: Macrobond

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

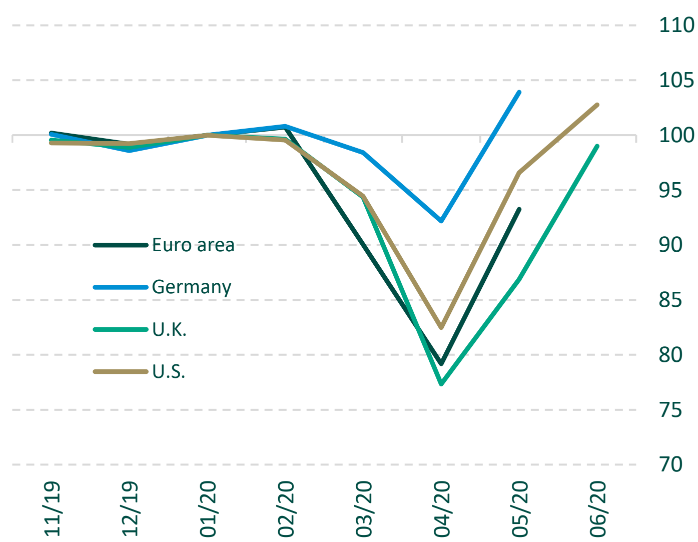


Latest developments:

- Economic sentiment continued to recover in June, with a sharp increase in the euro area (+6.5 points up to 82.3) and the EU (+6.9 points to 81.8).
- The ESI in both regions has so far recovered around half of the combined losses of March and April.
- In Ireland, the ESI increased by 3.4 points to 80.9. There were improvements in sentiment in Retail Trade (+14.6), Construction (+12.3), Services (+10.6), Consumers (+3.2), and Industry (+1.0).
- The ESI recovered in all of the largest euro area economies, namely Spain (+7.5), Italy (+6.7), Germany (+6.5), the Netherlands (+5.3), and France (+4.8).

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 – Retail Trade (sa), index 01/20 = 100

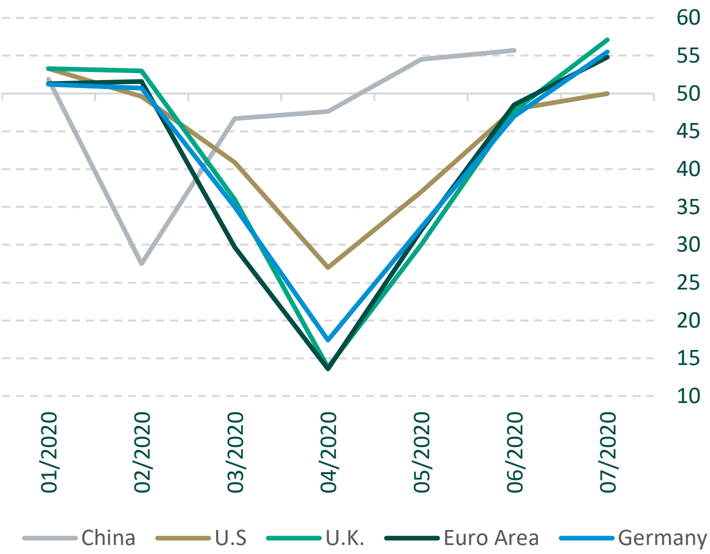


Latest developments:

- Containment measures and an increase in precautionary saving contributed to large declines in retail trade during April in advanced economies.
- Easing restrictions saw a return to monthly growth in May, with pent-up demand aiding a 'v-shaped' recovery in retail.
- Compared to January, the volume of retail trade is:
  - **Germany** (+3 per cent in 05/20)
  - **Euro area** (-7.5 per cent in 05/20)
  - **US** (+3.2 per cent in 06/20)
  - **UK** (-1.0 per cent in 06/20)

Source: Macrobond

Figure 2.7 – Composite PMI

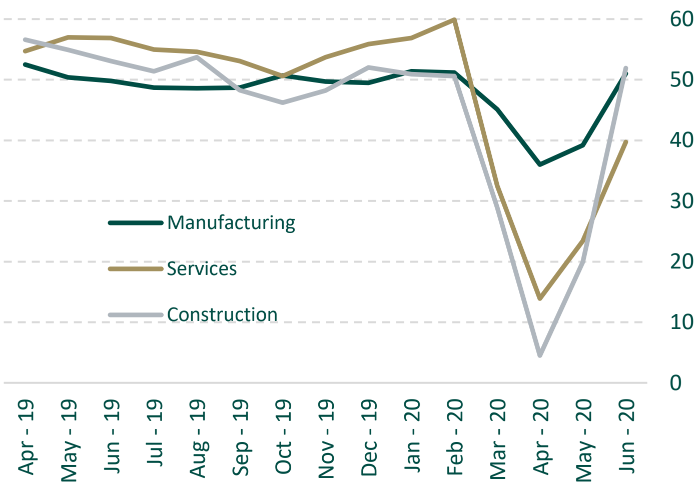


Latest developments:

- **Composite PMI** for the euro area rose to a 25-month high of 54.8 (+6.3) in July, from an all-time low in April.
- Euro area **Services PMI** rose to 55.1 (+6.8; a 25-month high) in July; **manufacturing PMI** increased to 54.0 (+5.1; a 23-month high).
- **Composite PMI** for the **US** rose to 50.0 (+2.1) signalling 'no change'**,** while the **UK**, and **Germany** signalled increased activity, rising to 57.1 (+9.4), and 55.5 (+8.5) points respectively.
- Composite PMI for **China** rose to 55.7 (+1.2) in June signalling a sharp and accelerated increase in overall Chinese business activity.

Source: Macrobond, IHS Markit

Figure 2.8 – Ireland PMI

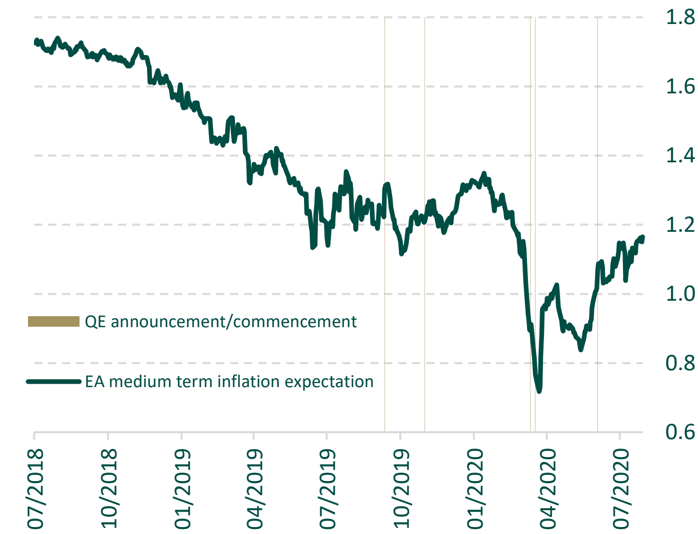


Latest developments:

- **Manufacturing** PMI rose to 51.0 in **June** from 39.2 in May, a record increase of 11.8 points. Large increases in the new orders and output components indicate of improving conditions as lockdowns have eased gradually.
- **Services** PMI rose to 39.7 in June from 23.4 in May, showing a much slower retrenchment in activity. Data for employment showed a less marked rebound, however, with job shedding continued at a marked pace.
- **Construction** PMI rose to 51.9, above the 50.0 no-change mark for the first time in 4 months. Increases occurred across all sub-sectors - in housing particularly with a ten-month high of 55.8 signalling a fast expansion in activity.

Source: Macrobond, IHS Markit

Figure 2.9 – Euro area 5yr – 5yr forward inflation expectation

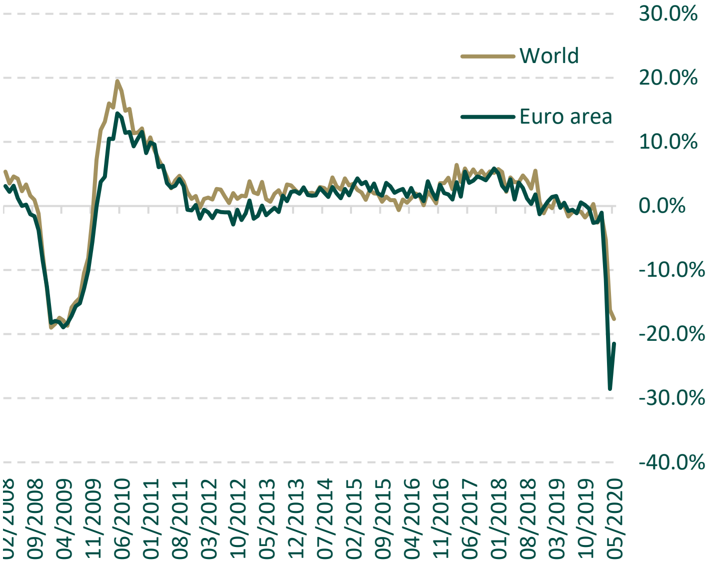


Latest developments:

- 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, has recovered somewhat following the ECB announcement of the Pandemic Asset Purchase Programme (PEPP) on 18/03.
- The ECB on 04/06, increased the envelope for the Pandemic Emergency Purchase Programme by €600bn to a total of €1,350 billion, with the horizon for purchases extended until at least June 2021. Policy rates were unchanged. EU leaders agreed a deal on €750bn recovery fund on 21/07.

Source: Bloomberg

Figure 2.10 – World trade volume, % change y-on-y

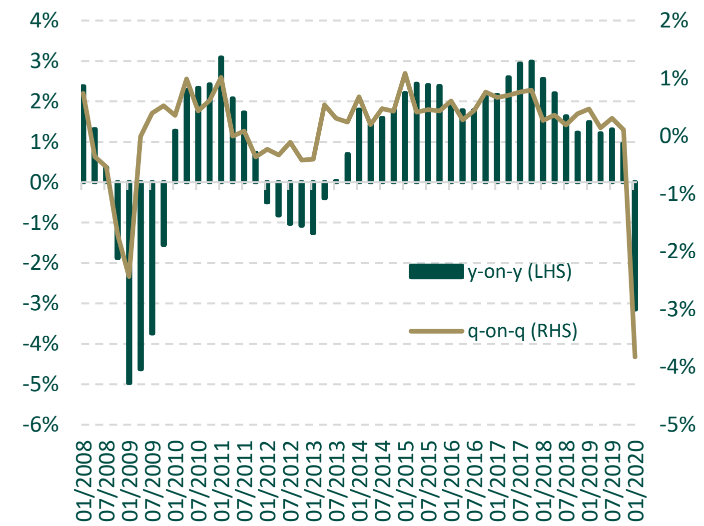


Latest developments:

- 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 17.7 per cent in May compared with May 2019. The volume of euro area trade decreased by 21.5 per cent in May compared to a year earlier.
- World trade fell 1.1 per cent in May compared to April, but trade in the euro area rebounded somewhat, increasing 8.3 per cent in May compared to the previous month.
- The latest release was on 24th July 2020, for data up to May 2020.

Source: Netherlands Bureau for Economic Policy Analysis

Figure 2.11 – Euro area GDP, per cent



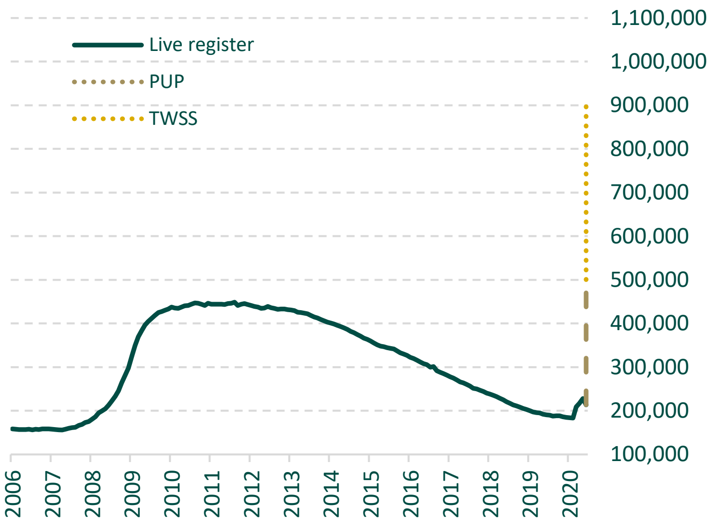
Latest developments:

- GDP decreased by 3.6 per cent in the euro area during Q1 2020 compared with the previous quarter.
- The quarterly contraction in Q1 was the sharpest decline since the series began in 1995.
- GDP decreased by 3.1 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

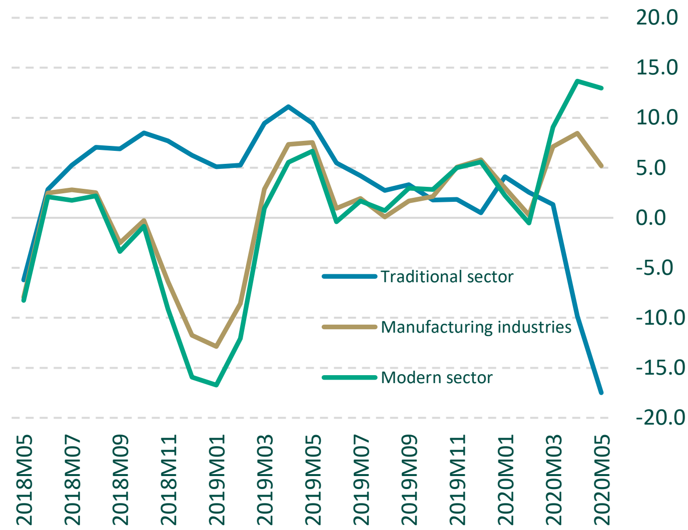


Latest developments:

- 286,900 people are in receipt of the COVID-19 Pandemic Unemployment Payment (PUP) on 28/07, a decrease of 26,900 compared to last week, a drop of 52 per cent from the peak on 05/05.
- These payments are in addition to the 213,700 people on the Live Register at end June, and some 400,000 in receipt of the Temporary Wage Subsidy (TWSS) at 23/07.
- Monthly unemployment for June (standard methodology) was 5.3 per cent, down from 5.6 per cent in May.
- The CSO's Covid-19 Adjusted Measure of Unemployment indicates a rate as high as 22.5 per cent in June, if all PUP claimants were classified as unemployed.

Source: DEASP, Revenue, CSO

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

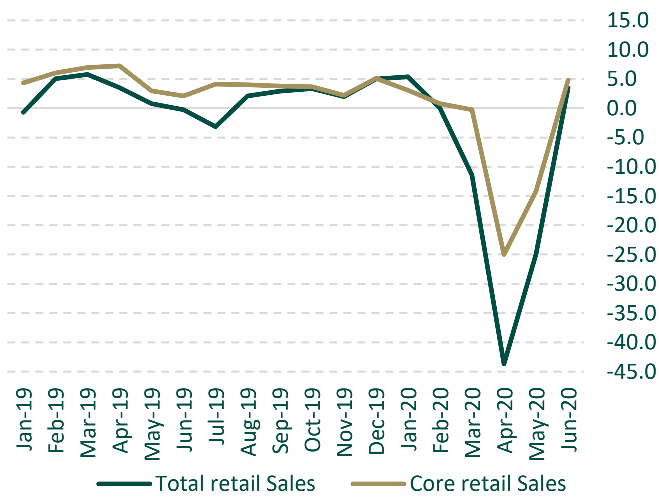


Latest developments:

- On a moving average basis, production in the mainly indigenous **traditional sector** decreased by 17.5 per cent (year-on-year) in the three months to May.
- Production in the **modern sector**, comprising a number of high-tech and chemical sectors, increased by 13 per cent over the same period on the same basis.
- Production in the **manufacturing sector** increased by 5.2 per cent year-on-year over the same period and on the same basis.
- The **traditional sector** is less impacted by contract manufacturing, thus giving a more accurate picture of domestic economy activity.
- **Industrial turnover** (i.e. sales) decreased in May by 2.6 per cent m-o-m, and increased by 2.6 per cent y-on-y.

Source: CSO

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

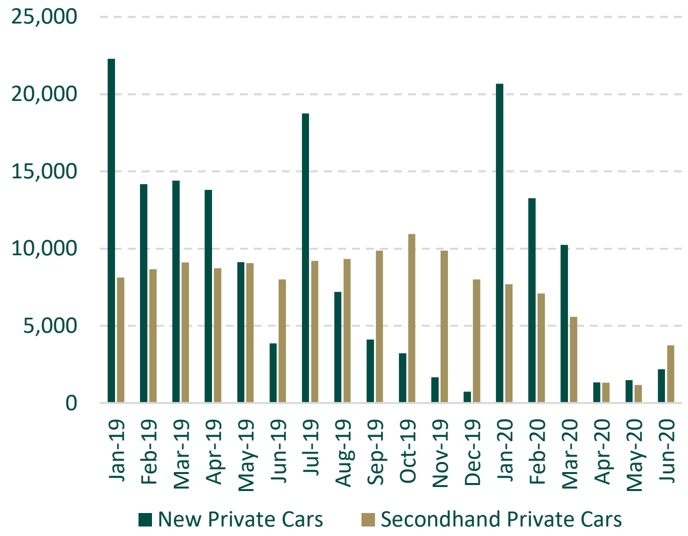


Latest developments:

- Year-on-Year;
  - The volume of retail sales increased by 3.5 per cent (sa) when compared with June 2019.
  - The volume of 'core' sales (excluding Motor Trades) increased by 4.8 per cent compared with June 2019.
- Month-on-Month;
  - The volume of retail sales increased by 38.0 per cent (sa) in June compared with May.
  - The volume of 'core' sales (excluding Motor Trades) increased by 22.0 per cent (sa) in June compared to May.
- On a quarter-on-quarter basis, retail sales were 22 per cent lower in Q2 2020 compared to Q2 2019.

Source: CSO

Figure 3.4 – Cars licensed for the first time, number

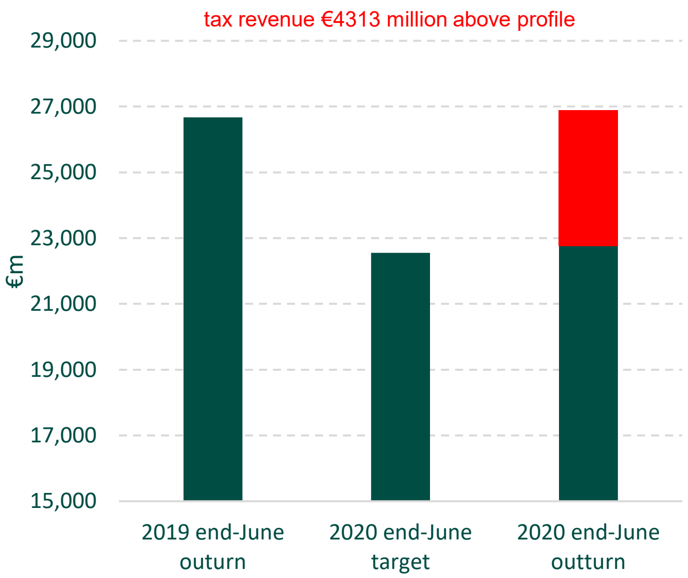


Latest developments:

- 2,189 private cars were licensed for the first time in June 2020. This is down 43 per cent on the same month last year.
- 3,738 second-hand private cars were licensed for the first time in June 2020, down 53 per cent on the same month last year.

Source: CSO

Figure 3.5 – Tax receipts, € millions



Latest developments:

- Cumulative tax receipts of €26,863 million are broadly flat year-on-year, ahead by €192 million or 0.7 per cent.
- Revenue was driven by large Corporation Tax receipts and boosted by a strong performance at the start of the year, which has compensated to some degree for significant declines across other tax heads.
- In general, the pattern in recent months has been for substantial year-on-year declines across most major tax heads, although not as severe a shock as initially anticipated.
- VAT and Excise receipts are down significantly, by 20.5 per cent and 23.9 per cent respectively, on an annual basis, mirroring the steep fall in personal consumption.
- Income Tax has proved somewhat more resilient than anticipated to date, attributable to the progressivity of the income tax system and sectoral effects. However, recent months have nonetheless shown sharp year-on-year declines, with June receipts down 20.8 per cent on last year.

Source: Department of Finance

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