Media Briefing Transcript

Quarterly Bulletin 1 – January 2021

Journalist 1:

How do you see the future, or near future for inflation, at the moment, its non-existent?

Mark Cassidy:

Absolutely. So, first of all, there has been a – a very significant deflation, with pressures over the past year. So, inflation is currently – inflation – started the year probably around – sorry the start of 2020, it was probably around +1… we do therefore think, while inflation now stands at -1%, we do think the average for this year, will be positive, will be +0.6% on average. But inflation at present, but remaining quite subdued. Again, in fact overall information. And 0.6%, as you know, that is very low anyway. So, we are certainly not seeing any strong inflation repressers. And a little bit stronger than the case last year.

Journalist 2:

Mark could you put numbers of the housing figures please, for – in terms of what you think the completions will be, for last year, this year – I don't know if you done the year after that, it doesn't really matter – and then, just to follow up on Christian's question – relating to inflation. You mentioned Brexit related inflation I am just wondering, is that the predominant factor underlying your forecast for inflation in 2021? And, you haven't spoken much about Brexit, other than to say that the skinny deal is better than no deal. But we are beginning to see a suggestion that there are some problems – maybe they are just teething problems, I don't know, just wondering what your view is on that. Thanks.

Mark Cassidy:

Thanks very much and let me answer each of those in turn. Let me start with the housing figures. and let me give you what we were estimating for 2020-2022, but maybe to give you some context, I will also compare that to what we were forecasting prior to the pandemic to show you what the shortfall in housing might be. So, I'll bear out these figures – our new estimate – we estimate 18,500 units from last year. We think this has increased modestly to 21,500 this year, before increasing to 23,500 next year. Now, in our pre-COVID forecasts – we had housing output as high as 31,000 in 2022. So that is 2022 alone, 8,000 fewer houses. And indeed, over the entire period, over the three years, taken together, 2020-2022 – we are not projecting 23,000 fewer new housing units, compared to what we projecting prior to the beginning of the pandemic. So, that is a significant shortfall. In relation to inflation, I think I have mentioned most of the factors in the answer to Christian. So, the inflationary pressures are coming first of all from the rather weak economic environment, we also have a somewhat stronger Euro, vis-à-vis both Sterling and the Dollar and some modest impact, impact also. On the plus side, we have higher energy prices assumed, we have had recent developments and we also have some impact. This could be reasonably significant impact on imported goods from the UK, as a result of Brexit upsetting each other. And therefore, we have the may have been subdued, but the positive Brexit effect will – we do expect that it will be positive, unlike last year when it was negative and in addition to the Brexit effect, stronger domestic demand from the second half of the year. That is a strong factor in it going from negative to positive.

In relation to Brexit, so certainly it was always the case, certainly it is an enormous boom for the economy, it was always the case number of years, in the event of a trade deal, there would still be significant new trade frictions, new administrative costs and regulatory burdens, customs procedures that would reduce – would make trade more difficult, would increase the cost of trade between Ireland and the UK and also the as the land bridge and in terms of imports, in addition to a higher cost of exporters, there will also be an effect on the availability and the price of some consumer goods. So, we are seeing particular evidence of those trade frictions in recent weeks. I think we would expect effects to reduce over time. As all involved become more familiar with the new procedures, etcetera. But we do think there will be lasting effects. Trade between Ireland and the UK, is now subject to permanent new restrictions, which will permanently increase the cost of those and will have an effect, apart from on exporters, will have an effect on what goods come into this country and what goods are available for consumers. So, Katie I might hand back to you, if that is okay with Robert?

Journalist 3:

It was just – quite a rosy outlook given that that we are all sitting through at the moment. I was just wondering – you have a 'box b' where you outline possibly scenario. Could you just go through that for us?

Mark Cassidy:

Certainly, yes. So, we have done this since the emergence of the pandemic, we have taken the approach of publishing different scenarios which reflect the considerable uncertainty about the path of the virus and if, where, when the vaccines would become available. So, we have taken the opportunity to do this again. The substance, the adverse scenario, are similar to our previous severe or adverse scenarios, essentially it assumes that for whatever reason the vaccine is not effective in containing this virus during 2021, and indeed during much of 2022, in fact by the end of the horizon of 2022, the virus is still with us and there is still need for some containment measures. So, that is obviously a more severe, more negative scenario, than our baseline scenario. And the numbers, you will have seen them in the box, but in terms of modified domestic demand, that would – under that scenario, it would only increase by 0.6% this year, compared to +2.9% in the main forecast. It would only increase by a further 1.4% the following year, compared to 3.6% in the main forecast. What I would say about the scenario this time compared to the previous years, I do think it is clear that the probability of that scenario happening, is now much less than it has been in our previous bulletins. In none of our previous bulletins did we have the positive news about the development, the commencement of roll-out of the vaccines. So, certainly we would be more, much more confident in our baseline scenario, than we would have been in previous bulletins. Our baseline scenario does assume that during the second half of the year, the vaccines are successfully rolled out to an extent that it does allow for the containment of the virus. But we recognise, there is still uncertainty over that and there is uncertainty about the speed and effectiveness of rollout, certainly about how many people will choose to take up the vaccine. There is uncertainty about whether the vaccine will be resilient to the new strains of the virus. And in reflecting that uncertainty, we do still publish that alternative scenario, just to repeat, it assumes that the vaccine is not successful in fully containing the virus during the whole of this horizon. So, is that okay, Eoin?

Journalist 3:

Yeah, thanks. I just – a quick thing, just in relation to a previous question around 20,000 fewer housing units between 2020 and 2022, isn't that right, three years?

Mark Cassidy:

Exactly, so it's about 7,000-8,000 fewer in each of those three years.

Journalist 3:
Okay and last year, did you give an estimate of what we did last year, I know it hasn't come out yet?

Mark Cassidy:
Yeah, I certainly did. So, we were estimating 18,500 last year.

Journalist 4:

It is a quick follow-up on Brexit. I am just wondering; can you quantify the Brexit effects on the outlook in GDP terms? And, given what we have seen over the last three weeks in terms of supply chain disruptions, do you think that the outlook could be less positive or more positive in Brexit terms, over the next year?

Mark Cassidy:

Okay, thank you very much. Yes, we can. So, obviously there is a lot of uncertainty around this but we have, over the recent years done a lot of analysis, as to what the impact of Brexit would be. So, we think it – we think GDP - both GDP this year will be lower by about 0.8% compared to a situation where Brexit had not taken place. So, we think growth, if the UK stayed within the EU, we think growth will be around 0.8% higher. We also have a long-run estimate. So, over the long-run, say over a 10-year period – we think output in the economy will be about 3.5% lower than it would have been if the UK had stayed in. So, they will be our estimates in terms of GDP. In terms of employment, I think a longer-term figure is more relevant. We think maybe around 50,000 fewer jobs over the medium to long term, because of the EU leaving. And just to reiterate, they would have been substantially worse if no deal had been agreed. In terms of the risks, I think, we are only sort of three weeks into Brexit. So, that very much remains our central expectation. There was such uncertainty that the risks – the upside and the downside are significant. I wouldn't be able to say either dominate at the moment. I would emphasise the uncertainty but I wouldn't say upside or downside, at this juncture. We will certainly know a lot more in time for the next bulletin. We will have a lot more information about how the economy is adapting to the new trade, for example. Is that okay, Sarah?

Journalist 5:

Hi Mark, hi everybody. You talk about the trajectory of the path of unemployment, what will it be – obviously, the figures, the forecast as always, what will it be this summer, what will it be next summer and at the end of next year?

Mark Cassidy:

I will do my best. As you know, they are complicated by having these two measures. So, essentially what is happening – when the unemployment – when the pandemic first hit, and you immediately had 600,000 people moved onto the Pandemic Unemployment, essentially very, very few of them were counted as officially unemployed. Because almost all expected that they would return to work soon. The more time has gone on, the more people either become less pessimistic about the outlook for their existing firm, or indeed, many people have been laid off. They remain on the Pandemic Unemployment and they have become laid off and therefore, the official rate is increasing as we go along. So, the official rate and the latest value for the ILO rate – we see that kind of veering up, in the current quarter, we see that veering up towards 9%. The latest official reading I think on a quarterly basis was 7.3% for Q3 of last year. We see that going up to around 9%, almost 9% in the current quarter and continuing to increase. Peaking probably at around 10% in the third quarter of this year. So, that would be our estimate of the peak rate of official unemployment around 10% in the coming quarter, before it begins to gradually reduce. And this year as a whole, the rate we have is 9.3%, that is the average rate over the four quarters. By contrast, with the PUP rates, as per the COVID adjusted rate – so it officially stands at around 21%, we think it is probably now actually around 25%, from the new evidence from the PUP over the last 2-3 weeks. But we think that could be around 25% you know, with the coming weeks at least, until the very stringent restrictions are eased. And then gradually beginning to fall off – and that won't disappear, that will converge, or merge, I should say – that will merge with the official rate, once the Pandemic Unemployment is continued. So, that I think the official rate peaking at about 10% in the third quarter of this year, before beginning to fall and averaging – in next year then, averaging about 8%, is that okay?

Journalist 5:

That's okay, that is spot on. And can you – just a second question – can you just something about the potential delayed effects from this crisis on mortgage arrears, on business failures, insolvencies, household debt, given that this is – given that we know it is has been – incomes have been propped up by PUP and other wage supports. Can you say something generally maybe about the slow-breaking nature of this crisis on those areas?

Mark Cassidy:

The facts are – like this is such a critical issue. I could say something from a qualitative perspective but I don't have numbers, we don't have estimates such as the degree of uncertainty around this. So, I mean nothing for certain. Firms – firm closures, firm liquidations have been recorded, have been very low so far. But this will not continue. Undoubtedly, we will see more firm closures, more firm liquidations and firms going out of business, to date, firms have been protected by a number of things. They have been protected by government supports, they have been protected by payment breaks and forbearance, they have been protected – we have produced some analysis, a lot of firms had very high cash buffers, coming into this crisis. They won't last forever. The longer the duration of the crisis, the greater the accumulated financial stresses for firms – and certainly the most affected sectors of hospitality, arts, recreation, physical wellbeing – there will be job losses in those sectors. Sorry, there will be firm closures in those sectors and that will be one of the factors that will weigh on the recovery. And this will result of course – we have seen job losses already and we have seen, not just temporary ones, we have seen permanent job losses already as a result. Low rate and that continues. Unemployment is something of a lag variable. So, there will be further job losses during this year, particularly when – it will become particularly evident once the income supports no longer exist. When everything becomes more transparent in terms of what jobs are lost more permanently and that is why the official unemployment rate continues to increase until the third quarter. Likewise, with mortgage arrears. Undoubtedly for those who have suffered income drops or loss of employment, undoubtedly, that will have an impact and will lead to an increase in mortgage arrears which is problematic given the high levels of mortgage arrears. But again, we don't have I am afraid. These are not variables.

Journalist 6:

Hi, Mark. I was going to ask similar to Eamonn really – so maybe just to follow-up. I appreciate that there is a degree of uncertainty but in terms of the insolvencies and business failures – do you have a sense as to when we are most likely to see that come to pass? I appreciate that it is dependent really on when the supports are withdrawn, I suppose. But do you have a best estimate, given what we know around that? And then, related to that, when we look at the worst hit sectors of hospitality, travel, tourism, these sorts of industries that have been particularly badly hit, what sort of policy responses would help those sectors to rebuild and jobs to be regained in those sectors, as quickly as possible, once this has passed.

Mark Cassidy:

Okay, thank you very much, let me take those two together – there is obviously some link between them. I believe when things might become more evident in terms of financial distresses. I think very much it will depend on two things that are interrelated, which is the path of the virus, the severity of restrictions, and then, the government support measures being in place. So, again I think we can expect the government support measures will remain in place, in some form or other, as long as restrictions remain this bad. So, it very much depends on what assumption you are making regarding the duration of the crisis. As the economy starts to recover, supports would be tapered, I would imagine, but it becomes more evident after that. So, I suppose in our forecast, make a technical assumption that really restrictions remain in place for really the first half of the year. That might mean that it is during the second half that – when the recovery starts that you might see more evidence of firms that have come to they are not viable. In truth, it has started already. In truth, we know some businesses will not reopen their doors. Many have announced this even if we don't have figures. And I think it will probably be something that will probably be gradual over the coming period. In terms of policy responses, I think there are a couple of objectives that need to be achieved. First of all, in order to produce long-term lasting effects from the economy – it is critical to avoid a situation where short-term unemployment becomes long-term unemployment and therefore policies that focus on the reskilling of workers, the reorienting of workers, I think there will be some reallocation, some sectors will decline in importance, others are already gaining in importance. So, for example, we see a demand for labour in sectors such as Pharma, IT, Finance, Legal, demand is quite strong in these sectors, but it is not easy to move workers from part of the economy to the other. I think reskilling, I think retraining, I think information about where jobs are available. I think they are the kind of policies that the labour market, the active labour market policies that would be most important in the coming years. Is that okay?

Journalist 1:

Going back to the inflation issue, the ECB's target is general inflation of 2% - is there any way you can see that target being reached in the near future?

Mark Cassidy:
Do you mean for Ireland or for the Euro Area?

Journalist 1:

Well for Ireland, for us.

Mark Cassidy:

Yeah, well, yeah. So, first of all, across the Euro Area, a target of below 2% is very average, it is always going to be the case, if that is an average, there will be some countries below. Not including the fact that at the moment, because of the weak economic environment, you are itself has inflated that is considerably below that percentile number. For ourselves – we have a rather modest pickup in inflationary pressures. We really see at the end of the horizon, we see inflation funding +0.8% - one never knows what might suddenly change that, for example a significant increase in energy prices could suddenly bring about quite a large increase in that. But at the moment, we see the economy being quite a bit away 2%, you could never rule out a rebound for some reason we don't imagine but certainly we don't envisage it being up to 2% during this period of 2022 and probably a couple of years after that. Although I cannot be precise about that – before we get up and out towards.

Journalist 1:

And what are the consequences of that, for normal people?

Mark Cassidy:
Well, more than anything, it means that the cost of living is not rising at a particularly fast rate. So, it means that the cost of living is not rising in a particularly fast rate. So, for a given increase in nominal incomes, increase in real income or spending power is greater. So, consumers generally for households, the lower rate of inflation is of benefit. There are issues, if inflation is too close to zero, there are issues for firms in the economy because they are not – they may be paying higher costs in return they are not getting higher incomes, so there can be economic problems and challenges if inflation is too low but 0.8% is a significant buffer between that and 0% and for households, it means that their prices, their cost of living is increasing at rate, which is an advantage.