Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Media Briefing transcript

Quarterly Bulletin 2022:1 26 January 2022

Journalist 1:

Hi everyone, thanks very much for the question. I hope you can hear me okay. I wanted to start off with the growth picture because it's an extremely upbeat forecast you're making. Is this a little bit of the roaring twenties that we've been promised? And I'm wondering what you make of the downside risks because you really don't emphasise them in the forecast. I mean you mention COVID and Brexit but is the risk of overheating in the economy now gone? And then secondly, on insolvencies again, I don't see a lot of mention in the forecast but a lot of experts are warning that this could be a wave of insolvencies could be coming in 2023 after the phase-out of COVID supports. What do you make of those predictions and what impact could that have on the domestic economy which as you say in your forecast, is really booming? Thanks very much.

Mark Cassidy:

Thanks very much. And I might ask Martin in a moment to say something about the prospect for firms, businesses, insolvencies and the like. But let me just take the other parts of the question first. It is very, it certainly is a very positive outlook and a lot of I suppose… The uncertainty with regard to COVID has not gone. But the positive effects of vaccination programmes and I suppose the lower transmissibility, or not transmissibility, infection rate severity of Omicron means that the mood, the environment around COVID has improved significantly. So, we're really left with what we're seeing is an economy already very strong momentum, already very positive dynamics coming into 2022 that's reflected in activity across many parts of the economy that were not affected by COVID; so professional services, things like that. But also, the pace of recovery of parts of the economy that were affected. And now with the situation with respect to COVID having improved, we really have an economy that has strong momentum and is expected to get back to potential, back to full employment by 2024 which is much earlier than we would have previously expected. We think the risks around COVID have reduced, there's still significant uncertainty. We think the risks around Brexit will be important, very important for some parts of the economy, particularly food and agricultural exports, particularly when checks are imposed by the UK on imports into the UK from around the middle of the year will affect sectors rather than these overall economic figures. So, I do think you're right when you highlight… Like the balance of the risks has maybe turned more towards a risk of overheating but getting closer from that position of full employment, as labour shortages are already beginning to emerge particularly in some sectors. But indeed, the vacancy rate across the economy as a whole is at the highest rate on record, albeit that

records only go back to 2008. And therefore, what we're looking at is increasing wage pressures in the economy and the risk I suppose of some form of upward dynamic between wages and prices. And that's probably maybe the main risk on the horizon at the moment. It's an upside risk in a way in that it reflects the strengths of growth in the economy. But it's maybe the one we would draw most attention to. You're absolutely right in terms of insolvencies. The support provided by the government including the Wage Subsidy Scheme has significantly protected many sectors and therefore we won't see the full extent of the damage to some firms until the government supports are removed later this year. I might just pass to Martin. Martin, you might say something you know, maybe a little closer to what we're seeing in terms of firms, financing and liquidity.

Martin O'Brien:

Yeah sure. Thanks Mark. So yeah, as you said, I think the extent of the supports have been remarkably successful in supporting businesses since the pandemic started. There's been work by colleagues in the bank but also, you've seen publications by colleagues in the ESRI and the Department of Finance as well that have outlined how successful the supports have been in supporting businesses in key sectors in particular. So, we will see those insolvencies pick up as the supports get unwound. I think it's also noted in some of the work the Department of Finance has published today, what the ESRI published today is that you know, insolvencies have been remarkably low and lower than what would normally be the case. So, some pick up in insolvencies in general would be expected through the course of the economic cycle in any case. Work previously published by the bank, I think by colleagues in the bank have shown just before Christmas there that in the absence of having the kind of supports that we have seen during 2020, that there would have been a multiple of firms in distress than what was actually the case. And based on the forecast in that work by the bank, we would expect that the number of firms being in financial distress by about 2024 to be about 6%. And a significant proportion, part of that is about 5% of that is firms that would have been in danger anyway before COVID. So, a couple of things to note there. Insolvencies will increase as the supports get unwound, they've probably been artificially depressed in some way because of the success of the support measures that have been in place. And also, the strength of the recovery should also minimise the extent to which firms may continue to be in difficulty as we go through the forecast horizon.

Journalist 2:

Thanks very much. I'm not sure if you can hear me? Yeah, great, thank you. Just two questions. One, I'm just wondering Mark do you have any sort of model that you, whereby you measure how quickly or otherwise wages normally follow increases in inflation? And you know, what might you expect to see if inflation continues along your forecast horizon averaging 4.5% this year? And then second question, just a little bit more detailed. In the report itself you say that contract manufacturing was the main factor behind export growth. And I'm just wondering what percentage of export growth was accounted for by contract manufacture? Thanks.

Mark Cassidy:

Thanks. I might ask, in a moment I might ask Martin if he's anything on that figure on contract manufacturing. I do have something here myself. But in the meantime, let me maybe. On wages this is a critical issue. We have already seen a pick up in wages including in hourly earnings and it seems to be across to a very modest extent we're seeing pick up in wages across all sectors. But the wage pressures are particularly strong. Incidentally, the comparison by sector is in a slide in the annex, in the slides that you have. You'll see that there are quite strong pick ups in wages in some of the sectors, particularly some sectors that continue to do well during the pandemic and also the sectors where the vacancies, the evidence of the labour shortages are particularly high. Now we think that the sectors where we're seeing the strongest wage increases, they have exhibited strong performance and they have exhibited productivity growth and therefore those sectors are able to absorb or afford the wage increases. What we do expect to see in the coming years, I wouldn't have an exact estimate how long it takes Robert because it depends on the circumstances, it depends on how high wages are, how sustained the increase is. But evidence, if you go back probably the best period of comparison would be the 2000's, the early 2000's and we did see wage pressures initially in some of the stronger sectors. Then feeding through to wages across the economy more generally. So, we expect to see this for up to a limited extent. It is already incorporated in our forecasts. We think that we will see wage increases including in the, I suppose the sectors that have performed less well. We're expecting average wage increases to pick up from, we think they'll average around 3.25% in the year. We expect this to pick up to 4.5% next year and 5% in 2024. So, that's a reasonably good pick up. It will translate, the inflation rate we're expecting in 2023/24 are less than that. So, that will translate into higher real incomes and that is important, that's very welcome. But of course, you would need to keep an eye out that excessive wage

increases are avoided, the type that lead to this type of unfavourable wage price spiral where wages and prices become interlinked and are pushing each other up which can have a damaging effect on the competitiveness of the economy. In terms of contract manufacturing, Martin I'm not sure if you have that figure to hand?

Martin O'Brien:

It's approximately 20%. It's just reaching 20% as total exports.

Mark Cassidy:

Is that the contribution to the growth or is that how much they account for?

Martin O'Brien:

That's how much they account for in total.

Journalist 2:

I'm just wondering is it possible to get a figure for the... It's just because you made a point of saying that the main factor behind the export growth had been contract manufacturing. So, just trying to get a sense of what that was, thanks.

Mark Cassidy:

I actually have it here. So, the data relates to the first three quarters of 2021 and contract manufacturing are projected to have grown by around 45% and maybe Martin, we might get back in terms of what contribution that is to overall export growth. So, they account for 20% of exports, they've increased by around 45% in the year and maybe you could have a little look for what contribution that is. We'll get back to you during this call.

Journalist 3:

Yeah, thank you very much. I have two questions related to the contribution of energy, the headline inflation in 2023 and 2024 which is essentially zero according to the chart I see. The first question is whether that's an independent result or you're just doing it the way the ECB does and therefore you arrived at the same conclusion. And the second question is how comfortable you are with that conclusion. Thank you.

Mark Cassidy:

Thanks. Yeah, you're right. Essentially, as we get... In the near term, we take into consideration domestic specific factors. So, we generally would have advanced

notification if domestic electricity or gas suppliers are going to increase their prices and we factor that into inflation in the near-term, within the next 12 months. The period you're talking about, 2023 to 2024, the forecasts are based on future prices from oil and gas which as you suggest or you ask about is in line with the same methodology as the ECB. What we are seeing therefore, is that the rate of increase in energy, we have inflation, I think the energy inflation in both years is close to zero. What that means is that the rate of increase does not continue. So, we do not expect a significant reduction in energy prices or indeed any reduction in energy prices from the current high levels. But we do think that the rate of increase will not be sustained after 2022. Indeed, we think that oil and energy prices will fall modestly, not nearly back to where they were prior to COVID, but will fall modestly over that period. And that is the basis for our forecast during the period. I would say the uncertainty, the main uncertainty relates to future prices. The expectation is that future prices will only… Sorry, gas future prices, the expectation is now that they will remain much higher for much longer than was expected even at the very end of 2021. More than anything, that reflects uncertainty about Russia and the Ukraine. Any invasion of the Ukraine by Russia could lead to higher gas prices that that in futures markets. On the other hand, if there was to be an easing of political tensions, it may lead to a reduction in gas futures prices and a more benign outcome than we're currently forecasting. So, there are risks on both sides. And also, great uncertainty, whether developments over the past year or two, affecting both demand for gas but also the supply of gas have also had a significant impact on international gas markets which again are extremely hard to predict. So, essentially the stock of gas at the moment in Europe is extremely low. There's a chart on that in the annex we've provided for you. That makes Europe increasingly reliant on imported gas. In Ireland, we import around 50% of our gas and around 30% of our energy needs are provided by gas. So, we are very dependent on what happens in international markets. I hope that answers your question.

Journalist 4:

Thanks Ben. Afternoon Mark. Can you… I know this is kind of off-topic a bit but there are figures out today from the BPFI showing that mortgage drawdowns last year were the highest since 2008. Has there been any conclusion from the re-assessment of the mortgage rules in light of this high-pressure we're having at the moment in the mortgage, in the housing market?

Mark Cassidy:

Well, thanks, unfortunately we are as you know, we've commenced a consultation with regard to the mortgage rules. We are in the process of a detailed evaluation of the measures after them having been in place for five years. We will be taking into consideration all available information including what we're seeing with mortgage transactions. What I would say is that mortgage transactions, mortgage activity has been particularly low given what you might expect over quite a sustained period of time, over the past decade or so. And therefore, while there has been some recovery from those levels, it certainly does not in any way signal any excess transactions or any particularly high level of mortgage transactions. In fact, you would say that the level of mortgage transactions is, if anything, still on the low side compared to what you would expect given where the economy is. So, while I wouldn't anticipate anything in relation to the findings from mortgage measures, I would say that these findings with respect to mortgage transactions aren't something that would surprise us or impact on our findings if that answers the question.

Journalist 4:

Yeah, so there isn't undue pressure, it's just a return to a more normal level. So, it's not overinflated. And the other question…

Mark Cassidy:

Yeah, sorry, I would say very clearly there is no evidence of any type of excess credit or inflated demand at the moment. We're not seeing anything, the type of trends we would have seen in the 2000's, we're not seeing any type of credit induced pressure on prices at the moment.

Journalist 4:

Okay, good, thank you. On wage pressures, back to that issue. Can you see wage settlement? There's a lot of talk of people being in wage demands for increased wages. Do you see that following this inflation rate at the moment?

Mark Cassidy:

It is certainly the case that the higher the rate of inflation and the longer that higher rate persists, the more it feeds through to higher wages, both in terms of agreed wages who made settlements. And just in terms of market forces in sectors where there are no formal

agreements. So, for example, we are due at the end of this year I think, we're due to have a new public service agreement and of course, rates of inflation, current rates of inflation and expectations of rates of inflation will feed into those discussions. I think the, I think what you'll probably see in the private sector is that initially it'll be in private services sectors. Wages in these sectors tend to be determined by supply and demand rather than formal agreements. These are already taking the lead, I suppose. The amount of the economy that is covered by more formal type wage agreement or wage settlements is somewhat less maybe than it would have been in the past. So, I think it'll be what happens in terms of the shortages of labour across sectors and how this translates into more generalised wage pressures that will be important. But I do think, I can agree with most commentators that while there's uncertainty about the inflation outlook, there are good reasons to think that we can expect a moderation from the current high levels in the coming years. And that future outlook inflation is expected to also, we expect inflation will be taken into consideration in wage agreements. It's important to remember also, inflation has been extremely low over the last decade. Your average rate of inflation in the decade before 2020 was about 0.5% a year. So, we have had a sustained period of very low inflation for this which means that the living standards is maybe somewhat less than if we'd had a longer period of high inflation. Thanks.

Journalist 5:

Hi everybody. Just back on the, still on wages and inflation. Is there, Mark can you say something about just the winners and losers from higher inflation, higher wages? I assume that that 5% average wage increases in 2014, that'll basically reflect the better paid, the multinationals. So, there are winners and losers on this, just like there's winners and losers out of the, relative winners and losers out of the COVID crisis. Can you say something about the, depending you know, higher for longer inflation figures and wage increases? And who benefits, who loses out. Thanks a lot.

Mark Cassidy:

Thanks. So, I think we can distinguish the relevant wages. What matters for households are real incomes. In other words, developments in both at the same time. So, at the moment, we're seeing that wage increases are not generalised across the economy and therefore, the main beneficiaries have been in certain sectors including professional service-type sectors where employment has increased sharply, shortages have been most acute and we are seeing quite significant wage increases as reflected in the chart that I provided in the annex. So, the winners very definitely. We do expect this will even up

somewhat. We do expect that the wage growth will become broader based in the coming years. But it will remain dominated by those sectors where they are most evident. So yes, that is not evenly spread. In terms of price increases, it is probably even more evident how different parts of the economy are bearing a larger cost than others. The reality is that overall price inflation has been dominated by energy price developments. So, prices on average of gas, electricity, heating oils, petrol, diesel, on average are up by around 30%. For some households the increase has been more than that. So, up by over a third in the year. And there's very clear evidence that lower income households spend a greater proportion of their income on these energy products, services and therefore lower income households are more negatively affected. So, on average, the average household spends 8% of their income on energy products, that includes both petrol and diesel and electricity and gas. Home heating oils, that can be as high, up to 15% or 18% for the lowest 10% or 20%. So, twice as high a share of their income is spent by lower income households and less than the average for upper income households. But getting, increasing… The issue is not as evident for food and groceries. But we are getting some increased price pressures for food and groceries and lower income households also spend a greater proportion of their income on that. So, that is one of the effects of what we're seeing at the moment is this disproportionate affect, effecting lower income households because of energy costs.

Journalist 6:

Hi everybody. Mark, just on that issue, I was going to ask a similar question as to Eamon. The government has this €100 electricity credit which its giving to households to mitigate some of the increase, increases we've seen over the last few months. Given this very rosy, robust economic recovery we're anticipating now, is there more scope for the government to do things like that in order to help out those lower paid people that you've been referring to there, who will carry most of the costs of these rising energy prices?

Mark Cassidy:

Thanks, thanks for the question. The public finances are in a better condition than we would have expected. So, it's a political matter, I don't want to weigh too much into the political choices facing the government. So, I would just say two things that probably finances are in a better situation and there have been EU Commission guidelines published during last year with I suppose some of the ways in which national governments can protect lower income citizens from the effects of higher energy prices. Realising that this is something, this is a problem that is being shared by lower incomes provided across Europe, different countries have different, take different approaches. Some countries

have put caps on energy prices from a rough basis like the in Ireland. So, it is an absolutely justifiable response to temporary energy prices to try to provide some form of protection for lower income households who are disproportionately affected by these. I won't say anything about the exact measures that have been taken, could be taken by the government. But certainly, it is… the types of… sorry measures, I'm not going to say this type of measurement that type of measurement. But measures of the type that protect lower income households can be absolutely warranted in these types of exceptional circumstances. I probably can't say more than that form our Central Banking perspective if that's okay.

Journalist 6:

Yeah, that's okay. No, it was just to assess if there's more scope, if there was a policy debate, there's a bit more money sloshing about than perhaps we had anticipated just a short time ago.

Mark Cassidy:

Certainly, the public… If you compare, you and I when we talked about it Paul 18 months ago, 12 months ago, the outlook for the public finance and the idea that we could be getting to a surplus and a surplus of over 1% next year and public debt falling below 90% next year. It is a very expensive crisis. COVID measures cost around €40 billion, but the recovery in the public finances and where we are now compared to where we thought we would be is quite remarkable and a very positive story.

Journalist 7:

Hi everyone, and thanks for taking the questions. I just want to ask Mark again just on wages. The competition per employee forecasts for this year is actually lower than what you'd forecast three months ago, it's 3.5% versus 4.8%. But obviously it's remarkably higher in 2023 and 2024. I mean you have a little bit already but just if you can kind of explain why you no longer see that as being a sort of sharp increase post-pandemic followed by more moderate growth. And just secondly, you'd also mentioned in the bulletin, the price dynamics have started to strengthen in some contact intensive sectors most heavily affected by the pandemic. Can you just give some examples of that where you're seeing it et cetera? Thank you.

Mark Cassidy:

Thanks. I might ask Martin in terms of the wage forecasts. I would say about our wage forecasts that for 2021/2022 compositional effects have an enormous effect. But when we talk about composition per employee that is affected a lot by the increase in part-time workers for example which bring down the average hours worked in the week and therefore the average weekly earnings can be affected. Similarly, we've had trends from lower paying sectors into the higher paying sectors. So, in a moment I might just ask Martin if he's any reason why the forecast is a bit lower than it was because I don't have that information to hand. In terms of the price dynamics, in a way… so when we wrote our bulletin, we had the details of the inflation data up to November and what we were seeing was increasing price pressures in for example restaurants and hotels and bars and a combination. Restaurants and hotels have increased quite sharply and they were up to 4.2% in November. There was a slight falling off of that it felt at 2.6% in December, so I'm just going to urge a little bit of just wait and see in terms of what's happening there. But versus for accommodation services, hotels, accommodation services are up by 13.8%. Personal care, hairdressing, increases in these not exorbitant increases, not overly significant increases but just a bit of a recovery in prices in these sectors. The obvious one affected but it's affected by energy prices a lot, airline prices are up very significantly, international flights is up 66.4%. But that's really a category in itself. So, I'd say we have modest increases in these sectors. It may partly reflect just the rebound in these sectors affected, demand has picked up in a short period of time. They may also reflect a higher cost of production and labour shortage; we're seeing labour shortages in these too. So, a modest increase in restaurants, hotels, bars and accommodation services. But probably not more than that yet. We do expect some further modest increases in prices in those areas. Martin, I'm not sure whether we have anything, I may need to get back to you on the downward in relation to the wage forecasts unless you have anything to hand.

Martin O'Brien:

We can get back on the specific numbers. But basically, the issue is that you know, there's a very positive surprise in the latest labour force data on the numbers in employment you know, relative to what we would have had in previous bulletin. And that, when you look at the compensation per employee number then that brings it down just because the sheer numbers of people in employment is a little bit higher than what we would have expected for 2021 in the last bulletin. So, that's the mechanics of it. We can go back to the detailed numbers on that if needs be.

Mark Cassidy:

Ben, I might just interrupt for a moment just if Journalist 2. Martin has kindly got that figure. So, I think around the same Martin, 36% of export growth for 2021 is attributable to contract manufacturing, is that, that's correct? If you have that, we'll send that onto you separately.

Journalist 2:

That's 36% of merchandise exports, is it?

Martin O'Brien:

That's 30% of total.

Journalist 2:

Total, thank you.

Journalist 8:

Thanks Ben. Hi Mark, just one quick question for you. Just in the report, the report references that the overall with fiscal policy may have to be adjusted to avoid excessive inflationary pressures. In your judgement, how far off are we from that point at this stage?

Mark Cassidy:

At the moment, I think the budgetary outlook as would have been announced last October seems appropriate for the expected path for the economy. What we're I suppose referring to here is we see some upside risks to the growth forecast. We see the possibility that something in particularly could be somewhat stronger than we're expecting because of the amount of accumulated in the economy. We think if the pace of expansion in the labour market continues as it is at the moment, then we could begin to see labour shortages beginning to emerge and inflationary pressures beginning to emerge. So, essentially, if the economy performs better than we are currently expecting, then there may be a need for the government to look at the pace of current spending and to calibrate that in a way that it is achieving the objectives but not adding to domestic demand in a way where the main effect is either inflationary or I suppose to crowd out the parts of the public sector. So, that would hold for the pace of current spending and also the pace of delivery with the capital programme which at the moment is appropriate but you always

just keep an eye that you're not adding to imbalances, you're not creating excessive demand in the economy at a time when demand is strong. So, it's just something I suppose to keep an eye out if the economy does better than expected in the coming years Peter.

Ben Burton:

So, Mark, I'm just going to one question for Journalist 9 who is on but has got audio issues as well. So, just want to, he just wanted to look at that increased level of female participation. So, a few elements to this. How high did it get in the Celtic Tiger period? What has unlocked it now and what sectors are seeing in placements on increased levels of female participation from the labour force?

Mark Cassidy:

Yeah, thanks. I hope you can hear. If you can't hear we can get back to you on this. So, essentially, it has increased by 3.5 percentage points since pre-COVID. So, it's increased from 56.1 to 59.8. The previous high, the record high was 57.6 in 2007 and 2008 it reached that level. So, it is actually a full two percentage points above the record high. What we're seeing here is quite broad-based across sectors actually. First of all, it does partly reflect this general trend we're seeing of more part-time work, including more part-time workers of younger age groups, including student age groups. And we know that may not be sustainable. We know people may have taken up work temporarily because there weren't the same availability of workers from abroad to take jobs with hospitality, retail. So, part of that may not be sustainable. But very encouragingly, and we have data on this in the bulletin. The increase in participation of females and the increase in employment of females has been strong across all sectors and there has also been a particularly strong increase of female employment in the higher skilled professional services sectors; professional services, financial services, public/private administration. It's a little difficult in explaining why this has happened. Certainly one, wages have increased significantly in some of those sectors and higher wages will always draw more people and particularly females into the labour market. But it seems to be more than that. One possibility is that it relates to more flexibility around working practices that we have experienced during COVID. People that… women/females have been more attracted by working from home arrangements, by options, opportunities that allow them to balance other responsibilities whether caring for childcare responsibilities with entering the labour force. So, there's a number of possible reasons, we'll need more evidence to see which of these dominate, which of these are sustained. But certainly, we're not the only country and the box in the bulletin compares international experiences. We're certainly not experiencing what some

countries, this idea of the great resignation. We're certainly not experiencing that. On the contrary, very positive developments which may relate to increased opportunities by wages but may also relate to more flexible working arrangements and we're going to get more evidence and have more of an idea about that. Thanks.

Mark Cassidy:

Ben, I might just give one final figure, I just have it to hand in relation to that previous question. So, if Eoin is still there. Just in terms of the female, increase of female employment. So, over the two years, female employment has increased by… sorry, full time female employment is up by 7%, that's up by 56,000 people. Part time female employment is up by 10%, so up by 34,000 people. So, clearly very significant in full time employment, not just in part time employment. Just as some support for my previous point. Sorry about that Ben.

Ben Burton:

Thanks Mark, that's very useful. Just to double check that anybody else here that has an extra burning question they want to ask now that you please get in touch with us directly, we can give any follow-ups if there's more specifics that aren't in the pack. We will leave it there, thank you everyone. Just a reminder obviously on the embargo, the embargo for tonight. If there are any other questions about this afternoon, please let us know and we will do our best to help. Mark, Martin, thanks very much for the contribution and thanks to all the team and I will close the call there. Thanks very much, bye.