

Covid-19 economic impact

Trying to bridge across the
unknown

27 March 2020

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Covid-19 will permanently change the shape of the economy on the island of Ireland. Sadly, many lives will be lost and a number of businesses are also likely to perish, regardless of the level of Government or private sector lending support that is offered. There has been considerable talk about a return to normal, but the impact of this crisis may forever change our attitudes to saving, healthcare, lifestyle and even our career choices.

Like many across the island, I am coming to terms with a new reality, one for which I was ill-prepared. I am at home all day, my children are being home schooled and my elderly parents and in-laws are being taught how to stay in touch electronically. I am finding new ways to work with colleagues and I am trying to structure my days and find some inner discipline when all the days are merging into one.

My mind continually wanders to those whose situation is much worse than mine. The people on the front line of this crisis who are working harder than ever, keeping our hospitals and care homes running, our deliveries flowing and our emergency services on alert. And of course, those who are ill and in the critical care of our health staff.

One certain outcome of Covid-19 will surely be to adjust our perception of certain roles in society and it is my hope that we may see a new attitude to the funding of health and elderly care. We may even think differently about our working patterns and our lifestyle.

When this crisis passes, one major challenge will be the public's attitude to levels of Government spending. It will be important to persuade the public that the measures put in place for Covid-19 are not repeatable and that they cannot revert to borrowing to solve all future problems.

Measurement of economic impact is almost impossible due to the uncertainty over how long the crisis will last and the evolving nature of the response. However, we can look at sectors that are effectively closed and ones that are severely disrupted as a way of working out what a one or two-month shutdown might look like.

Using the workforce jobs measure in Northern Ireland and the Labour Force Survey (LFS) in ROI, we can track the exposure of key sectors to this crisis. While the NI and ROI measurements are not directly comparable (the former is the number of jobs and the latter is the number of people with jobs), it helps to illustrate how important many of the most impacted sectors are to the economy.

Number of jobs and share of GDP in key sectors facing significant Covid-19 disruption

	ROI		NI	
	Jobs	% GDP	Jobs	% GDP
Effectively closed	297,900	2.9%	102,700	5.3%
Accommodation and food	179,200	1.6%	56,000	2.6%
Arts and recreation	56,300	0.8%	19,300	1.1%
Other personal services	62,400	0.5%	27,400	1.6%
Severely disrupted	726,300	49.9%	316,700	46.9%
Retail	310,200	7.5%	149,800	14.2%
Real estate	11,900	5.7%	11,000	11.5%
Manufacturing	257,100	33.9%	94,500	14.1%
Construction	147,100	2.8%	62,300	7.1%

Note: Jobs refer to *people* with jobs in ROI and to *number* of jobs in NI; GDP within real estate is predominantly imputed rent which would be largely unaffected

Source: CSO, NOMIS, employment as at 2019 Q4 (unadjusted); EY 2020 GDP estimate

There are a few sectors that are seeing increased demand. Healthcare is the obvious one, but elements of agriculture and industry are also seeing a pick-up in demand. Most sectors will have some degree of disruption, if for no other reason than increased incidents of sickness, which will lead to a fall in output.

For the Republic of Ireland, the industrial sector is particularly hard to gauge. Elements of food production and pharmaceuticals will remain in high demand and it has less of its manufacturing in consumer goods which are being heavily impacted. This may give Ireland a degree of insulation from the most severe GDP impacts. However, tightening restrictions on social distancing may make a much larger proportion of industrial production impossible and conditions in the US and mainland Europe will impact export markets.

A base case scenario has been produced, which should be considered illustrative as the crisis is evolving daily, as are the guidelines for businesses and workers and the level and nature of government support. This scenario reflects the most likely outcome at the time of writing (26 March) in which the lockdown is short, there is a similar rate of improvement globally and the economy bounces back over the mid-late summer period. The economic impacts would worsen in a prolonged scenario in which severe disruption persisted later into the year.

Jobs maintained through payroll support are still considered 'job losses' to illustrate the severity of impact. However, the impact on GDP has the offsetting Government spending factored into the overall calculation, though in the case of the Republic of Ireland, this will considerably increase national debt.

GDP and job impacts for 2020 under illustrative scenario

	Pre-Covid-19 forecast		Base case scenario	
	Jobs	GDP	Jobs	GDP
Republic of Ireland	+3.4%	+38K	-7.3%	-177K (-453K)*
Northern Ireland	+0.8%	+1K	-6.7%	-78K (-175K)*

Source: EY analysis

*Jobs lost figure refers to the annual loss and the figure in brackets is the loss at the peak of the crisis. As a proportion of the jobs lost (or on pay-roll support) will return, the annual figure is more modest

These numbers are subject to significant margins of error and only can be considered illustrative at this point. The scale of intervention to keep the level of permanent job losses as modest as possible will be significant, and the long-term debt repayment arduous. However, this is a global problem and the island will not face any significant backlash from doing too much or helping too quickly. Money will be available to borrow according to the ECB and the Bank of England. The Republic of Ireland will not face the same escalating cost of borrowing as it did in the financial crash.

At present policy is focused on 'bridging'. We can see the other side of this crisis - we are just not sure how far away it is. Perhaps the gap will prove too large to bridge with the current policy responses and further intervention will be required, but priority number one for now is to keep businesses viable for when the crisis abates.

Cash to citizens is recommended by some, and the US is intending to go down this route, but with the majority of local spending choices closed, personally I do not think this is the best use of a finite pot of money - at least not now. Savings would increase and the money would not circulate fully in the economy. This is a societal problem and it is my view that the debt burden falling on to all citizens through government borrowing is probably better than onto firms or individuals themselves.

Many of the island's smallest firms understandably would be nervous at the prospect of taking on major levels of debt, with no certainty of an end date to the crisis. We will all need to make an effort to support our local businesses when the time is right and we also need to think about those who have lost a job or a business during this difficult time. They will face their own pressures and stress over the coming weeks, meaning they too are vulnerable.



Unquestionably, these are difficult and stressful times, but amongst all the trauma, there are positives and uplifting lessons to be learned.

- ▶ Our collective respect for healthcare workers has risen immeasurably - they have been the heroes of the crisis globally
- ▶ We are a global economy - interlinked and co-dependent. Hopefully we will be inspired to embrace many of the world's challenges as a global family, just as we are tackling this one. We do need to be mindful of any increase in citizens' desire for more protectionist or insular policies as pandemics do not respect borders
- ▶ Firms and people are resourceful. Businesses have pivoted, changed what they do and how they do it. Some of the lessons learned will be valuable going forward including how to work remotely, how to use technology effectively and how to deal with crises. Our ways of purchasing may never revert to the way they used to be, with online now the norm
- ▶ Streets have been quieter, and pollution has reduced. There may be lessons to learn from this. For example, how to operate a more flexible and less time-dependent economy for the benefit of production and the planet. Staggered school starting times, working hours and working from home on a more regular basis could be good examples of this
- ▶ For many people, myself included, this has afforded time at home with family without many of the usual activities available. This has brought its challenges (home schooling is harder than I thought and live sport is a helpful distraction!) but it has been a reminder of what really matters
- ▶ Governments can respond. They have moved rapidly and implemented responses that would have seemed unimaginable a few months ago. There have been criticisms in certain areas, but policy makers have moved swiftly and shown a fleetness of foot and adaptability that, hopefully, will remain part of their approach to future challenges

The economic implications across the island are going to be very challenging, but they pale in comparison to the human cost. Many citizens across the island will inspire us over the coming months as they keep the country moving and work to find solutions to the Covid-19 pandemic. For the rest of us, let's be ready to spring back into action when the opportunity allows and work hard to get things back up and running. Then we can talk about the long-term implications for the economy and society. As species, we are vulnerable, but, thankfully, also resourceful, imaginative and capable.

Stay safe, look out for others and thank you to those keeping the island functioning at this time.

Neil

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