Ulster Bank

Ulster Bank Weekly Economic Commentary

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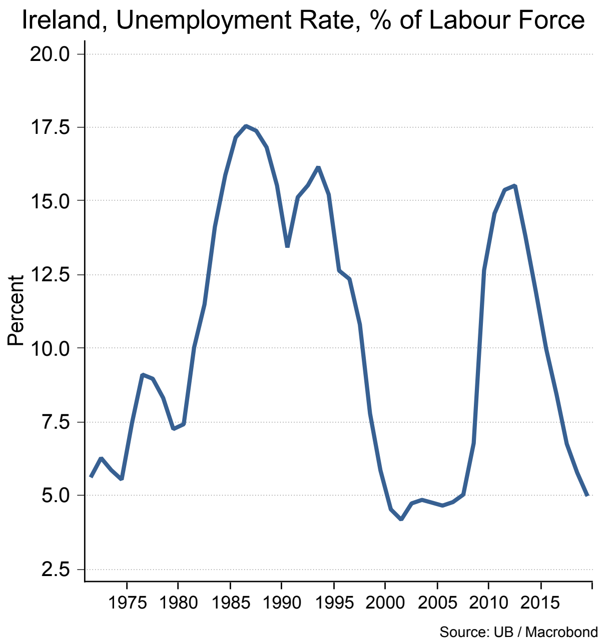
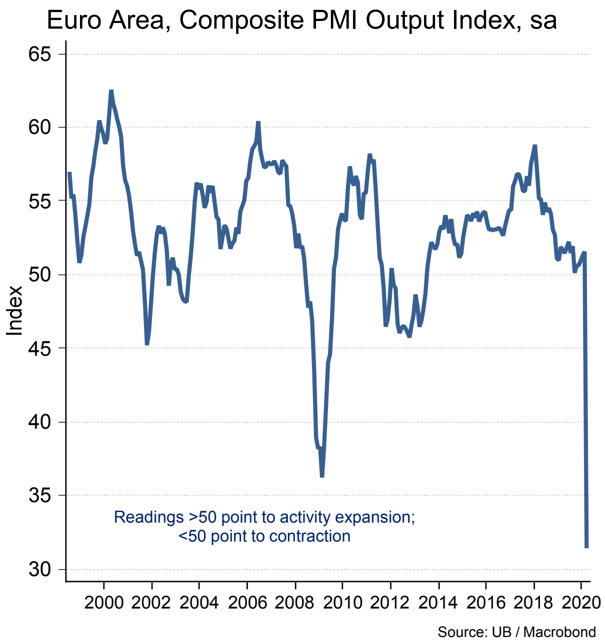
Ireland: Huge fiscal support should help prevent jobless outcomes as drastically severe as ESRI scenario projects



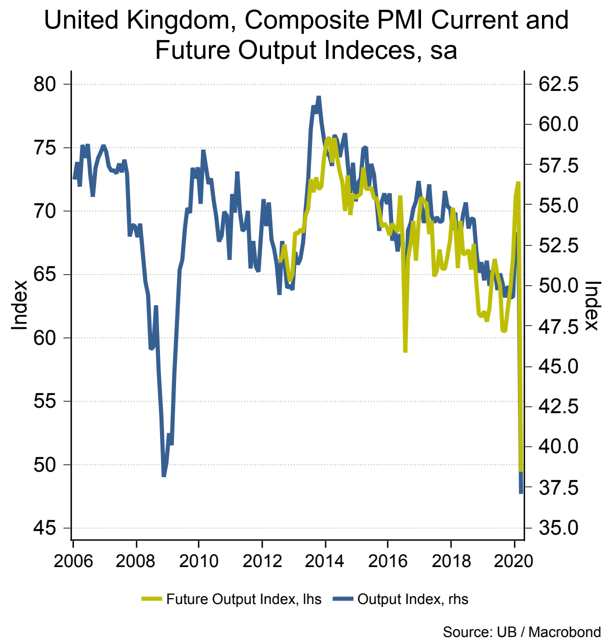
To its credit, the Irish government is attempting to follow emerging international best practice as it continues to reshape and recalibrate its own economic policy response to the Covid-19 pandemic. As we had suspected, this week brought a further dramatic upscaling of the fiscal response. This has taken the form of its Covid-19 Income Support Scheme, at a cost of €3.7bn over a 12-week period, as the government took further decisive steps in pursuit of the broad aims of keeping as many businesses alive as possible, keeping as many workers as possible connected to those businesses (thus facilitating the transition to recovery when it comes), and providing meaningful income support for those workers who do lose their jobs. Scenario analysis from the ESRI this week attempted to estimate the possible hit to the economy and its labour market. Of particular note was a projected dramatic and unprecedented upward surge in unemployment which may get to 18% (and possibly as high as 25%) in Q2 according to the ESRI. It is very important to note here that even though this analysis was issued yesterday (Thursday), the labour market impacts did not make allowance for the wage subsidy element of Tuesday's policy package. The wage subsidy scheme looks to have been costed on the basis of providing support to some 400k+ workers, equivalent to ca.16% of the labour force. So while there's major weakness ahead amid enormous uncertainty around the outlook, the size and scale of the policy response should prevent jobless outcomes as drastically severe as the ESRI is estimating.

Eurozone: Slow pace of coordinated EU response is not helpful as PMIs point to collapse in activity



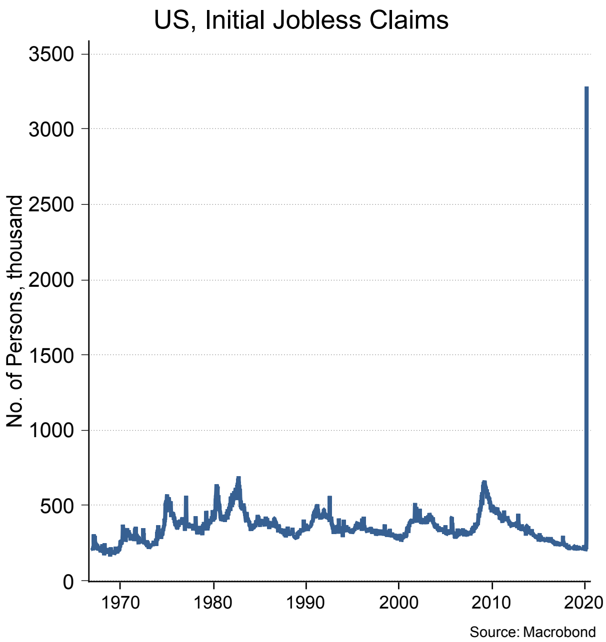
The early surveys covering March confirmed that Eurozone activity and confidence deteriorated sharply amid significant and widespread disruption from the coronavirus outbreak. Notably, the closely-followed 'flash' PMIs pointed to an unprecedented collapse in business activity, with the headline index registering the largest one-month decline in the survey's 22-year of history to reach a new record low of 31.4 in March. The services sector was especially hard hit, particularly within consumer-facing activities such as travel, tourism and restaurants. But the Manufacturing PMI also pointed to a marked contraction in output, which is likely to deteriorate in the coming weeks amid recent strong containment measures, including in some countries the shutdown of non-essential industries. The PMI survey results also showed a very steep and broad-based decline in forward-looking expectations of future output, with the latest Ifo survey of German business confidence and the latest reading of the Consumer Confidence index from the European Commission both showing very similar patterns. This suggests that EU policy-makers need to do more to lift business and consumer sentiment, so we welcome news from Germany that a package comprising direct stimulus of €156 bn (or around 4.5% of GDP) got the final green light today. However, yesterday's inconclusive EU leaders' summit ended up without agreement towards an EU-level joint strategy to limit the economic damage from the coronavirus. Negotiations will continue over the coming weeks, an unhelpful delay in a quickly deteriorating outlook.

UK: PMIs drop to a record low in March as further deterioration looks likely



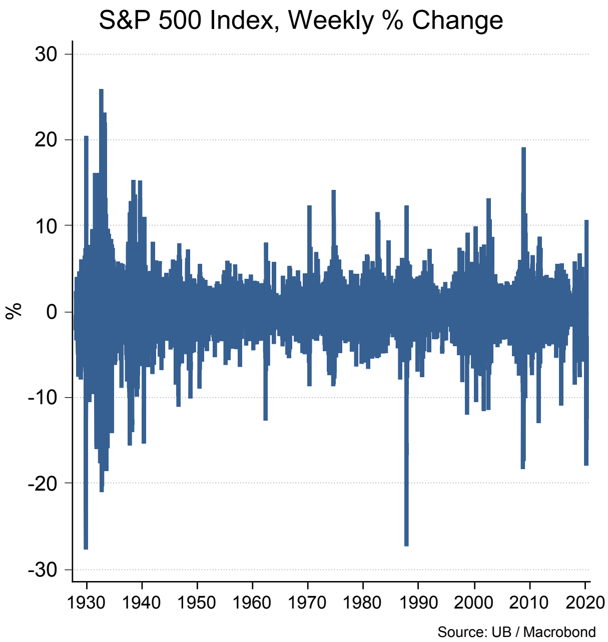
The March meeting from the BoE resulted in the expected no-change outcome, with the BoE minutes noting that "there was not a strong case for further policy changes at this meeting". Instead, the BoE opted to take stock of the recent extraordinary policy measures which have included two intermeeting interest rate cuts and a large programme of asset purchases. The minutes also shed further light on the BoE's assessment of the markedly changed economic outlook, with the BoE acknowledging that "the scale and duration of the shock to economic activity, while highly uncertain, would be large and sharp". Indeed, this week's closely-followed PMIs showed dramatic declines in the composite output and expectation indices, which reached new all-time lows in both cases. This is despite the fact that the PMI surveys were conducted before the latest, more restrictive, social distancing measures, signalling that trends might deteriorate further in April. Looking beyond the near-term, the BoE considers that the hit to economic activity "should ultimately prove temporary, particularly if job losses and business failures can be minimised". The latest developments on the fiscal front will prove helpful in that context, as last Friday's policy announcements featured an important Job Retention Scheme, while a set of measures targeted at helping the self-employed were announced this week. What happens from here will importantly depend on the duration of the ongoing lockdown and associated hits to activity, employment and business' cashflow, though more policy support may well be needed.

US: Historic relief package on the way as jobless claims show unprecedented surge



The historic Coronavirus Aid, Relief and Economic Security (CARES) Act received unanimous support in the US Senate, with the bill now moving to the House which is expected to approve the over $2 trillion (or around 10% of US GDP) fiscal stimulus package later today ahead of the final sign-off from President Trump. While there could be some challenges around how quickly the various previsions can be put in place and rolled out, the bill would represent a significant step forward in terms of helping to stem the decline in growth and employment, which is becoming increasingly visible in the economic data. Of course, the most notable development from the high-frequency data was the unprecedented surge in initial jobless claims to a 50-year record high of 3.28 million last week, an over ten-fold weekly increase and more than four times the previous record high of 695k weekly applications recorded in 1982. The spike in unemployment claims reflected broad-based deterioration far beyond city and state lockdowns, highlighting that the US labour market is quickly deteriorating across the board. Of course, a big part of the story relates to falling private sector activity, with the 'flash' (Markit) PMIs for March signalling that the initial decline was particularly acute in the services sector. Moreover, as the health crisis continues to worsen (the US yesterday became the country with the most cases since the outbreak), stay-in-a shelter policies are increasing at a municipal and state level, signalling that economic output will likely continue to deteriorate in the weeks ahead.

Financial Markets: S&P follows one of its weakest ever weeks with one of its strongest as beefed up policy effort helps ease risk aversion, for now



The key incoming economic indicators this week have provided a glimpse into the staggering suddenness and severity of the downturn facing much of the global economy in the months ahead, with the PMIs in particular pointing to eye-watering weakness in activity trends. And yet the overall tone of what has been another dramatic week of further extraordinary moves in many areas of the markets has been broadly positive, with the US S&P – the classic bellwether of global investor risk appetite - racking up remarkable gains of 11% this week. This is partly reflecting the enormity of the prior collapse in many risk asset prices, including equities (the S&P had plunged by 35% in about a month). But it also reflects investor recognition of the increasing size of the policy effort that, perhaps belatedly in some cases, is now being brought to bear on the situation. Of most note, is the huge US fiscal package we note above, which has certainly contributed to some easing in investor risk aversion. And yet, the week is ending on a clearly cautious note, with most major stock indices on track for daily losses of between 2 and 5% as we write. We take this as an indication that notwithstanding what is now unquestionably a huge global policy response, the reality is that the public health and economic impacts from the pandemic remain hugely concerning amid great uncertainty. The S&P is on track to record one of its strongest ever weeks, following one of its weakest ever in an episode of extreme volatility that we suspect has further to run.

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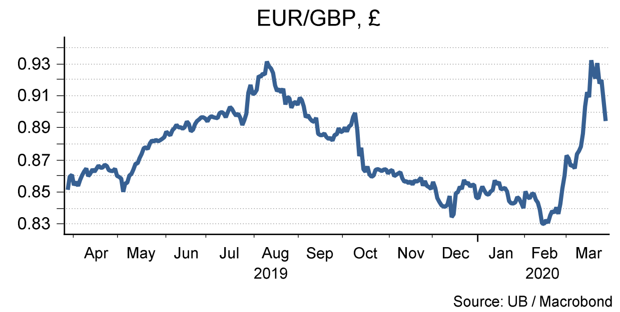
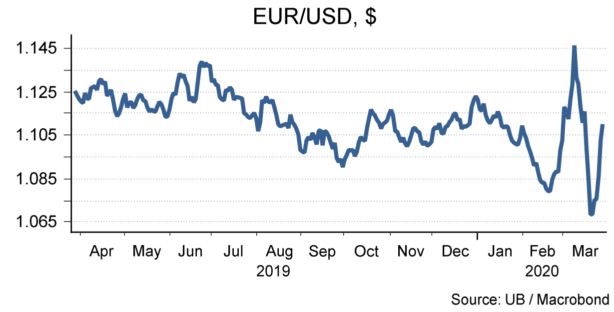
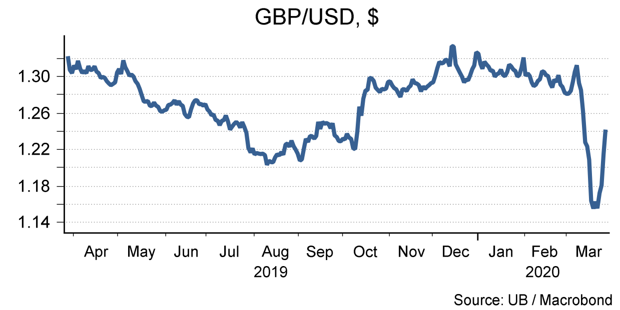
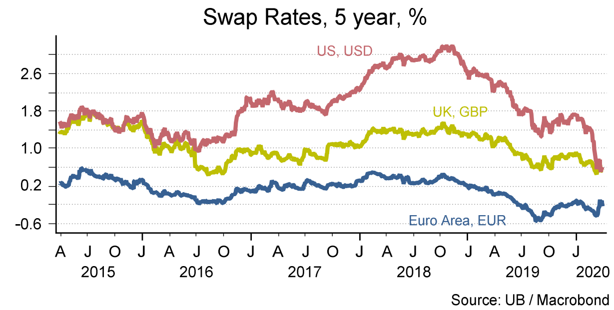
Currency and interest rate market trends









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Market Monitor

Foreign Exchange Markets

	Latest	weekly Δ, %
EUR/GBP, £	0.894	-2.9
GBP/EUR, €	1.119	2.8
EUR/USD, $	1.110	3.9
GBP/USD, $	1.243	6.8
EUR/JPY, JP¥	119.8	1.1
GBP/JPY, JP¥	134.1	4.1
USD/JPY, JP¥	107.9	-2.7
EUR/CHF, CHF	1.059	0.4

Stocks & Commodities

	Latest	weekly Δ, %
ISEQ	4,916	6.8
STOXX Europe 600	311	6.1
FTSE 100	5,510	6.2
S&P 500	2,575	11.7
Dow Jones	21,932	14.4
Nasdaq	7,598	10.4
NIKKEI	19,389	17.1
OIL (London Brent)	24.6	-8.7
Gold	1,624	8.4

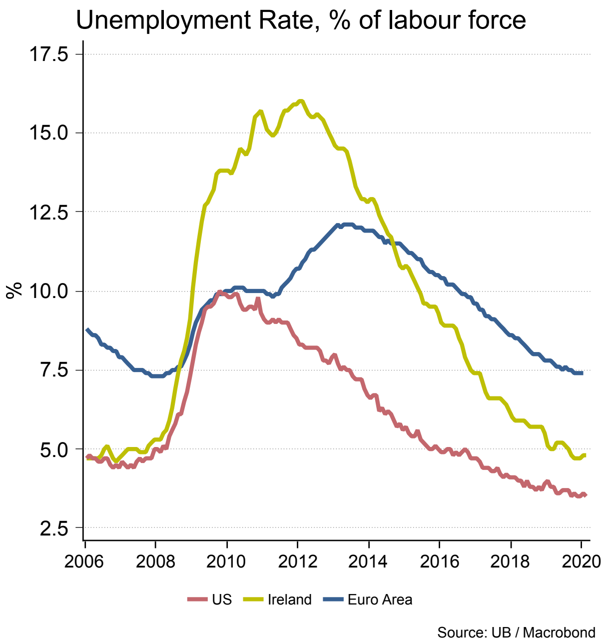
Interest Rate Markets

		Latest (%)	weekly Δ, bps
EUR	3 Month Euribor	-0.349	2.2
	2 Year Swaps	-0.32	-3
	5 Year Swaps	-0.23	-8
	10 Year Swaps	-0.02	-9
GBP	3 Month Libor	0.556	2.0
	2 Year Swaps	0.49	-3
	5 Year Swaps	0.52	-8
	10 Year Swaps	0.60	-13
USD	3 Month Libor	1.450	24.6
	2 Year Swaps	0.51	1
	5 Year Swaps	0.53	-2
	10 Year Swaps	0.68	-8

Note: the data in the tables are indicative only and are sourced from Bloomberg. Latest data are updated as at the time of publication. "weekly Δ" refers to the change from the previous week's closing levels.

Ulster Bank Cost of Funds Rate (365 day count) = 0.38%
Euro rates are quoted in 360-day convention.
To convert to 365 day count, divide by 360, & multiply by 365

Highlights for the week ahead: Labour market and PMIs at home and abroad in focus



A busy week ahead on the economic calendar sees the release of jobs data and the latest PMI survey results on both sides of the Atlantic. The ever-important monthly US employment report (on Friday) and the weekly jobless claims (on Thursday) will be particularly scrutinised as it will provide important evidence on the extent of the initial damage from the coronavirus. While the March payrolls numbers are expected to signal marked deterioration in US labour market trends, this week's unprecedented surge in initial jobless claims occurred after the March employment report survey period, suggesting that the timely jobless claims figures are more likely to accurately show the extent of the ongoing economic fallout for now. The labour market will also be in focus in this side of the pond, with the Eurozone and Irish figures expected to show large unemployment rate rises in March. However, it is important to note that the Irish figures will be a provisional estimate based on the unemployment claims, which will likely over-estimate the extent of the increase in the official unemployment rate from the Labour Force Survey which is based on the ILO methodology. Of course, there will also be plenty of interest in next week's PMI figures, with the Global, US (ISM) and final Eurozone and UK PMIs all in next week's docket. We will also get the Irish figures which are expected to show sharp declines in activity. The Irish docket also includes the March tax receipts which might provide an early glimpse of the initial coronavirus impacts on the public finances and domestic incomes and spending.

Economic calendar for the week commencing March 30th

Ireland / Eurozone	UK	US
Monday		
10.00 – EC Economic Sentiment Indicator (Mar)	09.30 – BoE Money & Credit Data (Feb)	15.00 – Pending Home Sales (Feb) 15.30 – Dallas Fed Manufacturing Activity (Mar)
Tuesday		
10.00 – HICP inflation (Mar) 11.00 – Provisional Unemployment Rate (Mar)	00.01 – GfK Consumer Confidence (Mar); Lloyds Business Barometer (Mar) 07.00 – GDP (Q4 – final)	15.00 – Conf. Board Consumer Confidence (Mar)
Wednesday		
01.00 – Manufacturing PMI (Mar) 09.00 – EZ Markit PMI (Mar - final) 10.00 – EZ Unemployment Rate (Mar)	00.01 – BRC Shop Price Index (Mar) 09.30 – Manufacturing PMI (Mar - Final)	13.30 – ADP Employment Change (Mar) 15.00 – ISM Manufacturing index (Mar)
Thursday		
10.00 – EZ PPI inflation (Mar) 11.00 – Unemployment Live Register (Mar) 16.30 – Exchequer Returns (Mar)	09.30 – Construction PMI (Mar)	13.30 – Initial Jobless Claims 15.00 – Factory Goods Orders (Feb)
Friday		
01.00 – Services & Composite PMI (Mar) 09.00 – EZ Services & Composite PMI (Mar) 10.00 – EZ Retail Sales (Feb)	09.30 – Services & Composite PMI (Mar - final)	13.30 – Change in Non-farm Payrolls, Unemployment Rate and Average Hourly Earnings (Mar) 15.00 – ISM Non-Manufacturing index (Mar)

The Calendar uses Irish local time

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