

# Covid-19 economic impact

Hope on the other side?

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# Recovery under way - but steep climb ahead



The economic recovery is, thankfully, under way and people across the island of Ireland are returning to work and beginning to spend again. There is still considerable uncertainty over the shape and speed that the recovery will take, but the actions of Government, businesses and citizens can all play a part in reshaping the post-Covid economy to be one that is greener, healthier and more agile.

The economic data has been very challenging, though the impact of the unprecedented Government interventions across the island is evident. Incomes have been protected and jobs retained, at least for now. Sadly, for many markets across the world, the hardest yards are still ahead and the fear of a second wave and future economic disruption is prevalent.

The priority for the second half of the year is to support the recovery, target future support to where it can have maximum benefit and to remain alert and vigilant to the health risks that could derail the progress made in both economies.

GDP and job forecasts (base case - August 2020)

	GDP		Jobs	
	2020	2021	2020	2021
Republic of Ireland	-10.8%	+6.6%	-225K (-9.7%)	+95K (+4.5%)
Northern Ireland	-10.4%	+5.5%	-38K (-4.2%)	-25K (-2.8%)

Source: EY Economic Eye

Nurturing a recovery, dealing with Brexit and managing high levels of Government debt would be a challenge for any government, never mind a brand new coalition (ROI) or a fledgling regional assembly only in existence since January (NI). Both jurisdictions now have the complexity of a coalition arrangement with which to contend. This does make policy making more challenging, but perhaps better reflects the myriad of citizens' needs and wishes. We already knew that growth is not enough for voters, they want a focus on public services, their quality of life, the planet and the most vulnerable in society. Covid-19 has only accentuated this focus.

A desire for a new measure of success does not negate the importance of economic growth. Without a flow of tax receipts, there is no money to invest in public services to create a better society. With a sharp fall in spending, less profits being made by the majority of firms and public spending demands rising, the need for a robust recovery is acute. The governments on the island will need to have the resources to aid the transition towards the economy that citizens desire.

Our central forecast projects a similar level of GDP contraction across the two economies in 2020, though the ROI recovery is projected to be modestly stronger in 2021. The labour market outlook may appear very different, with ROI experiencing a sharp loss of jobs in 2020 followed by a rebound in 2021, whereas NI suffers a less severe fall in 2020 but continued losses in 2021. In reality, the labour markets are more similar than the headline figures show. It is the absence of the Pandemic Unemployment Payment (PUP) scheme in NI and a greater adoption of the wage subsidy scheme that distorts the figures somewhat. By 2021, the overall impact on the labour market is broadly similar.

# A disrupted labour market

Forecasting remains incredibly difficult due to the volatile spread of the pandemic, shifting time frames on reopening and the evolution of policy support. The latest EY Economic Eye forecast is for a contraction of -10.8% in ROI and -10.4% in NI. Slightly stronger than expected quarter one data and the acceleration of opening dates perhaps suggests that, if current trends continue, the next forecast revision could be upwards.

GDP remains a very imperfect measure and the labour market is the most visible indicator of the Covid-19 damage. At the time of writing, adjusted unemployment for July was nearly 17% in ROI and estimated at c.7% in NI. The apparently large differential reflects a difference in policy response, with furloughing more widespread in NI and the Covid-19 PUP scheme, which is counted in the adjusted unemployment figure, unique to ROI.

Our central forecast suggests a loss of 38,000 jobs in 2020 in NI and 225,000 in ROI (this figure is a four quarter average in each case, losses at points in the year will be higher). A rising working age population will also add upward pressure to unemployment as new school and college leavers look for work. Over 40% of jobs across the island were either lost or in direct receipt of government support in May, highlighting a similarity in impact despite the very different economic structures across the two economies.

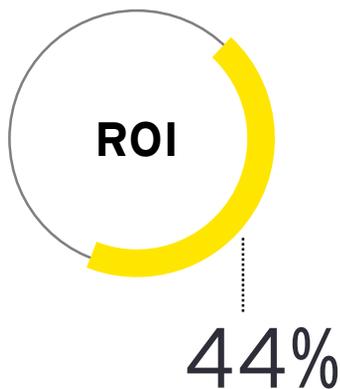
Different policy responses across the island make direct comparisons of the labour market complicated. As lockdown eases, increasing numbers of people in ROI are coming off the PUP scheme. However, many of those are moving across to the Temporary Wage Subsidy Scheme (TWSS).

In NI, there is no PUP scheme and though unemployment has risen sharply, by over 32,000, the greater concern is how many will drop off furlough or self-employed support into unemployment later in the year. Our forecast predicts roughly one-fifth of people on furlough or self-employed support in NI will fall into unemployment by the end of the year. In ROI, roughly one-quarter of those on PUP and one-tenth on TWSS are also expected to be out of work by the end of the year.

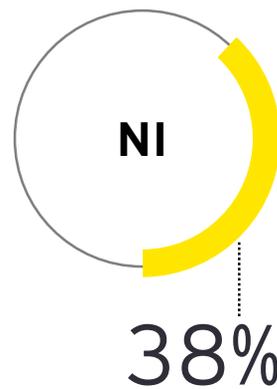
Covid-19 has had a more widespread impact than most commentators originally expected. Every sector has suffered job losses and needed to avail of government support, either through wage subsidy, direct grants, loans, deferral of tax bills, or other forms of aid. The July Stimulus package in ROI contained no less than 50 separate measures, and forthcoming budgets later in the year will likely add many more. The fact that ROI was in a position to spend as much as it is planning to do, is testament to the economic recovery over the last five years and the global perception of the Irish economy as one that has the ability to bounce back quickly.

It would have been impossible for certain sectors, such as arts and recreation, to have maintained employment without a wage support scheme, with parts of the sector still unable to operate due to social distancing. Our base assumptions assume no nationwide shutdowns later in the year, although it looks increasingly likely, from international experience, that localised lockdowns will, sadly, be something both economies may have to contend with.

## Proportion of labour market directly 'disrupted' by Covid-19 (at peak)



Jobs disrupted at peak  
(Unemployed, TWSS and PUP)



Jobs disrupted at peak  
(Unemployed, self-employed scheme and furloughed)

Source: CSO, NISRA, HMRC, EY analysis

# A disrupted labour market

Sectors such as retail, and accommodation & food, should see activity pick up later in the year as they adapt to a new socially-distant way of operating. The expectation is that the numbers returning to work will be less than employed previously, as suggested by recent redundancy announcements across the island. For retail, a continuation of the move to online that has been hastened by Covid-19 will alter the skills and quantum of workers required in the sector. It is possible that the more significant impact will be on hours worked, rather than numbers of people employed, as shift patterns evolve and health and safety standards require additional staff to implement.

One of the most surprising features of the Covid-19 impact has been its effect on a range of service sectors that may have been expected to adapt more easily to remote working. For example, ICT had c.16-17% of workers in both ROI and NI disrupted, either losing their job or being placed on a form of government support at the end of May.

The sectoral data is a stark reminder of the complex ecosystem that makes up a functioning economy. The high value-add exporting sectors often dominate the conversations about economic performance, but the importance to employment of sectors related to retail, tourism and leisure across the island should not be underestimated. Our sectoral forecasts project that in the base case, many of these consumer-facing sectors do not see employment return to 2019 levels until 2025 or beyond.

Despite the current outlook, disruption always leads to opportunity and there will be new jobs created within each sector. The demand for digital skills is on the rise, and policy choices to deliver on the fitter, healthier, greener agenda will also present opportunities in construction, consulting and life sciences. While it may be very difficult at present for struggling business owners or for those currently out of work, we must take some solace in the potential for a strong recovery across the island and have trust that there are better times ahead.

Job sector forecasts

	ROI	NI
	Back to 2019 levels	Back to 2019 levels
Agriculture	2025+	2025+
Mining and quarrying	2025	2025+
Manufacturing	2023	2025
Utilities	2022	2023
Construction	2024	2025
Retail	2025+	2025+
Transport and storage	2025	2025+
Accommodation and food	2025	2025
ICT	2020	2022
Finance	2023	2025+
Real estate	2023	2025+
Professional services	2022	2023
Admin services	2023	2025
Public admin	2022	2024
Education	2022	2025+
Health	2021	2023
Arts	2025	2025+
Other services	2025	2024
<b>Whole economy</b>	<b>2023</b>	<b>2024</b>

Source: EY Economic Eye; shaded sectors are expected to take five years or more to recover to 2019 levels

# Range of outcomes wider than ever

GDP and job impacts for 2020 under illustrative scenarios

	Base case		Late year surge		Worried world	
	GDP	Jobs	GDP	Jobs	GDP	Jobs
Republic of Ireland	-10.8%	-225K	-5.5%	-156K	-15.3%	-272K
Back to 2019 levels	2023	2023	2021	2022	2025	2027
Northern Ireland	-10.4%	-38K	-6.1%	-29K	-15.2%	-56K
Back to 2019 levels	2025	2024	2022	2022	2028	2029

Source: EY Economic Eye

Preparing for a range of scenarios is an integral part of business planning and the uncertainty surrounding Covid-19 and Brexit makes this more crucial than ever. Economic forecasts are often an input into this exercise and used to stress test various outcomes that might have a material impact on business performance. In several industries, it is a regulatory requirement to carry out such analysis, illustrating the need to manage risk and uncertainty.

The challenge that Covid-19 presents is that the range of potential outcomes is much wider than is usually the case. Our forecasts have evolved as more information has become available and have been revised downwards since March. However, there have been some positive glimmers of hope in the data since May, leading us to revise our forecasts upwards slightly from our interim April and May projections.

- ▶ **Base case:** the pandemic numbers continue to recover, with no nationwide shutdowns later in the year. Businesses can continue to operate with social distancing in place and consumers slowly begin to spend again. It is assumed that a free trade agreement is reached between the UK and EU
- ▶ **Late year surge (best-case scenario):** if the pandemic numbers remain under control and consumers feel confident to spend again, then a sharp pick up is possible in the second half of the year. Whilst not quite a 'V' shaped recovery, this would see job levels return to their peak by 2022. In this scenario, a free trade agreement is reached between the UK and EU

- ▶ **Worried world (worst-case scenario):** if consumers and businesses hold back on spending and investment due to continued waves of infection, this has the potential to create a very challenging spiral, in which less spending drives more layoffs, which in turn curbs spending further. The respective governments would be unable to provide sufficient spending to offset this confidence slump. In this case, the labour market would fail to return to its 2019 levels until 2027 and 2029 in ROI and NI respectively. For comparison purposes, following the financial crisis of 2008/9, it took 11 years in ROI and nine years in NI to return to previous employment peaks. In this scenario, the UK and EU fail to reach an agreement and a tariff situation arises for the majority of 2021

The hope is that the recovery would resemble our late year surge, rather than our base case, but that depends on many factors, some of which are not economic. In order for the damage to be limited, consumers and businesses can play a part by actively looking to spend or invest. This includes consumers spending in shops, travelling again and availing of entertainment when available.

For firms, the acceleration of investment, if cashflow allows, will be equally important. Perhaps this investment relates to accelerated digital investment or refitting property to create a new socially-distanced and greener footprint. Continuing to provide sponsorship for arts, culture and sports will also be a vital component in helping the economy recover.

This is not a problem only for the two governments, unlocking private sector spending potential will be critical in determining the trajectory of the recovery across the island.

# Recovery - better, cleaner, fitter?

Despite the hardship and distress that Covid-19 has brought, some positives have emerged. These are both economic and social and can help build an important foundation for recovery, as well as help to shape the type of economy and society that emerges.

Perhaps the most obvious change has been the acceleration of digital enablement. Many firms have reported that they have fast-tracked plans by years and, in a number of cases, by a decade. Online selling, remote working and the vision of a paperless world has become reality rather than an aspirational goal for many. It has not only been in the business world that digital transformation has accelerated, families have embraced technology in order to stay in touch and schools and colleges have transitioned to online education.

For all businesses, conversations are turning from 'survival' to 'what's next?'. This means re-examining the physical location of offices, potential diversification of supply chains, increasing the use of technology and embracing flexibility in the workforce. Each of these choices can present business opportunities across the island. Of increasing importance to ensuring a supply of talent and a growing customer base has been a greater emphasis on culture and purpose. Staying true to these principles in the face of financial pressure will be a defining challenge for many organisations.

Whilst it is cathartic to think of the positives in the toughest of times, it is important to bear in mind that benefits may not be universal. The challenges of remote working vary considerably from individual to individual and, over time, issues around mental health and the benefits that come from interaction will be more apparent. Locking in the benefits of the new, while bringing back the best of what we miss, will be critical to seizing the opportunities presented by the Covid-19 crisis.

## Positives emerge from even the toughest of times

<p><b>Digitally enabled</b></p>	<p><b>Public, private partnerships</b></p>	<p><b>New opportunities</b></p>	<p><b>Moving faster</b></p>
<ul style="list-style-type: none"> <li>▶ Selling online</li> <li>▶ Communicating digitally</li> <li>▶ Reducing travel and commute times</li> </ul>	<ul style="list-style-type: none"> <li>▶ Government's role in supporting incomes has improved their standing in the eyes of the public and business</li> <li>▶ Change towards new partnership models to tackle other Covid-19 scale challenges</li> </ul>	<ul style="list-style-type: none"> <li>▶ ICT, pharma, local food production, online retail, media and gaming are just a selection of areas that have enjoyed new business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>▶ The pace of hospital building and moving to new ways of working have set a precedent of 'getting things done'</li> </ul>
<p><b>Working flexibly</b></p>	<p><b>'Can-do' attitude</b></p>	<p><b>New investment</b></p>	<p><b>Finding better balance</b></p>
<ul style="list-style-type: none"> <li>▶ An end to presenteeism and a true flexible working environment now seems possible in many sectors</li> <li>▶ New shifts, flexible hours and times of working</li> </ul>	<ul style="list-style-type: none"> <li>▶ Rising to the Covid-19 challenge has re-energised the focus on meeting other equally significant challenges</li> <li>▶ Climate change, caring for an aging society, and leading fitter lives are all on the agenda</li> </ul>	<ul style="list-style-type: none"> <li>▶ To meet the greener, healthier challenge, investment will be required in equipment, facilities and infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▶ Spending more time with family and loved ones, balancing work and leisure could unlock productivity improvements and inspire creativity</li> </ul>

# Businesses looking to the 'beyond'

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The shape and pace of the recovery depends, as it always does, on who spends, and on what. This can be government, consumers or businesses, either local or international. Government has spent heavily to date, and tax receipts will contract. National debt is projected to rise by €30bn in ROI according to estimates by the Department of Finance and over £370bn in the UK according to the OBR, and our own modelling suggests these estimates could be conservative. However, partly due to the global nature of the crisis, governments can borrow at a very affordable rate.

Looking ahead, choices need to be made and priorities determined, as public funding will be at a premium. A commitment has been made that austerity is not set to return in the near term, which makes economic sense. As should have been the case in the last crisis, Government should step forward when others cannot do so. Bear in mind, however, that spending needs to fall when the economy is booming, and this is not an easy political switch to make.

Across most developed markets, the case has been made for significant infrastructure spend but, equally, the pressure is rising to get money into stretched front-line services, most notably health and elderly care. This may require some creative thinking and a willingness to unlock other sources of capital to deliver much needed development and jobs.

There are reasons to be optimistic and inspired by the role we can play, either within our business or as individuals, in helping the economy return to robust growth. We can strive for a fitter, faster, greener lifestyle, putting our ingenuity and creativity to work solving the next big challenges. They may not be as obvious or immediate as Covid-19, but there are plenty of them.

The economic data may be sobering, and there are tough days ahead as the Covid-19 journey continues and Brexit comes back into sharp focus, but avoiding a feeling of despondency is crucial to help steer the economy towards more optimistic outcomes. While there are many businesses facing an uncertain future and a generation of people coming out of education looking for work, it is a time for creative thinking and a 'whole society' approach to plotting the best way forward.

This might require a little bit more patience, along with sympathy towards the tough choices of elected officials and, while we may get frustrated along the way, we can all be part of the recovery effort. Spend, invest and give opportunities to those out of work if you can, seize opportunities when they present themselves and try to make an effort to help those hit hardest by this crisis.



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