Media Briefing transcript

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Journalist 1:

Considering the fact that we've got a lot of inflationary pressures in the economy at the moment, not just here but across Europe. What are your thoughts on interest rates and how quickly would you increase rates?

Mark Cassidy:

Yeah. No, I know clearly, we are part of the Euro system, our governor sits on the governing council. So, we know first of all that the headline rate in Europe, I think the flat estimate for the Euro area for March is 7.5%, so clearly the headline rate has spiked. But I think while the ECB does not ignore the current rate, it's more interested in the underlying rate of inflation over the medium-term. So, it's looking also at the core rate, excluding inflation, and it's looking at the outlook for two to three years down the line. And I think the main thing, it'll be looking at in terms of the current spike in inflation is two things. To what extent can that lead to underlying inflationary pressures over the medium term through either of two channels? First, the current high inflation leads to an increased inflation expectations which can lead to higher inflation becoming embedded. And second, to what extent can higher current inflation feed through to wages and the labour market through second round effects. So, these would be… they based the last decision only a couple of weeks ago. It cut back somewhat on its asset purchase programme as you know and you know, it set up the conditions, it set up the possibility of ending its asset purchase programme earlier than previously announced as long as it can make the assessment in the coming months that by doing so would not derail or set inflation kind of on a negative path, below target. So, I think the conditions… we're clearly getting closer to the conditions from what I recall a normalisation of interest rates. Whether that happens towards the end of this year into next year, I think that'll depend on the data available to the governing council, particularly if in its June meeting which is the next time that they will look at new forecasts, revised forecasts. I would maybe say something, the one thing I would say is at some stage interest rates will at some stage interest rates will start to increase. I do think what is more important than whether that's at the end of this year or into next year, the most important thing will be the pace of normalisation of policy. And on that, I think the ECB has been very clear that when interest rates start to increase, the pace will be gradual. So, that's… it's probably all I can say on that because…

Journalist 1:

That's good, thank you. What's your definition of normalisation then?

Mark Cassidy:

We'll there's no particular definition because what you're getting towards, what might be an equilibrium rate if interest changes over time. That's the rate of interest we know is particularly low. I wouldn't, I'm reluctant to put a figure on it but if you think that you know, it's estimated that the kind of potential rate of output… sorry, the real equilibrium rate of interest maybe something you know, around zero. Some people think as to what negative percent. And what you would do is you would add an expected rate of inflation, so 2% of that to get a nominal rate of interest. So, you know, it could be somewhere in the order of 1.5% to 2%. That varies over time. The pace at which the economy will return to that, or sorry, the pace at which rate will return to that is in no way certain except that it will be gradual. So, I don't think you could be more precise than that really Christian.

Journalist 1:

And you're talking about that 1%/1.5% as a base rate?

Mark Cassidy:

Yeah, that equilibrium rate which is what the ECB might set as its main refinancing rate. Please Christian, I'm not saying that's a target for the ECB, I'm not saying that's where it's going to end up. I'm just saying that might be where or whereabouts most people will think a nominal equilibrium rate of interest might be.

Journalist 2:

Hi everybody. Yeah, hi Mark. Just very briefly. What do you see inflation spiking this year? And obviously, that is helped by food inflation, perhaps you could say a few words about that. And you were citing about €50 million costs, estimated costs of the supports so far in this for inflation. What do you see the next round of likely to be in terms of your opinions Martin indeed of billions? Thanks very much.

Mark Cassidy:

Thanks. I can't say much about the latter. I think certainly given how things have developed it may well be that additional measures are warranted. Our advice, our main point about that is the importance that any such measures are temporary and are targeted. But it will be a political decision whether anything else is introduced. Therefore, I couldn't say anything more about the amount by which any further measures. And just quickly on your first point. So, it's uncertain of course but we think the inflation rate could peak somewhere around 8%, around the middle of the year. We see food price inflation is actually, in February it was only somewhat less than 2%. We do think the average this year could be upwards of 5.5%. So, our forecast does assume a reasonably significant increase in prices during the year. The one thing that helps bring the inflation rate down from around the middle of the year that underpins our forecast is that the increase in energy prices started at around the middle of last year. So, that big increase during the second half of last year is still in the year-on-year figures. It will remain in the year-on-year figures until around the middle of this year and then from around the middle of the year, that falls out of the figures. So, that… we call those base effects. So, those base effects combined with the expected future path of international oil and gas prices explains why we expect the rate to fall. So, as I say, maybe peaking at 8% might be an estimate for around the middle of the year. Is that okay Eamon?

Journalist 3:

Great stuff. Yeah, so just firstly in terms of the warning on the use of wages on profit growth to respond entirely to the current high rates on inflation. I can understand the wages part, I struggle to understand the profits part of that warning. And secondly, in terms of, I think you mentioned that there'd be a decline in aggregate earnings this year in real terms for the first time since 2013. Are you talking about total household incomes there?

Mark Cassidy:

Okay. Thanks. On the first point, maybe I might just ask you which part of the comment you're referring to. I think we might make a comment along the lines that if the firms are not able to meet the effective higher prices, through higher profits, then it's more likely that the effect will show up in higher prices for their products. Is that the…? I might just ask you to clarify the exact statement you're referring to in the first part of that in profits Joe?

Journalist 4:

Hi Mark, thanks for your time today. Just given what you've said there just about the recovery. I suppose targeting the temporary relief measures. I'm just wondering, I mean would you consider sort of broad-based increases to social welfare rates as a targeted temporary, given the fact that obviously in light of the disproportionate impact of inflation of those groups that traditionally you know, receive welfare payments? I'm just wondering how appropriate or would kind of broad-based increases to core social welfare rates be included in that sort of definition of target?

Mark Cassidy:

Yeah. Thanks. I think that is tired a bit. I would want to add something about the temporary nature of that. So, certainly target, we know lower income households are disproportionately affected. We also know lower income households not only do they spend more of their incomes on fuel and energy than higher income groups but we also know that they're more vulnerable to the effects because they don't have savings, they don't have a safe buffer between the money coming in and the money going out. And therefore, they are more vulnerable to the effects. So, I think measures that target those on lower incomes and I think you'd need to look at both social welfare payments and impacts on those at lower incomes are targeted. But then you also need to look at not adding permanently to the cost base of the economy for the period after the crisis moves. So, permanent increases in social welfare risk adding permanently… [00:10:32.7] there may be other political reasons. But just in terms of dealing with this particular crisis, I think you would also need to look at them being temporary in nature. Otherwise, you're permanently adding to the cost base for the period beyond the duration of the shock.

Journalist 3:

Yeah, you're referencing profits in the bottom of page five of the quarterly bulletin. So, it says, 'However, where growths in wages or profits respond entirely to the currently high rates of inflation are detached from underlying productivity growth. The likelihood increases are from higher inflation becomes embedded'.

Mark Cassidy:

Martin, do you have the bulletin there in front of you? Maybe you can…

Martin O'Brien:

Yeah sure. I think that, well the point on wages I think is one that has been reflected on by Mark already in his opening remarks. But in essence, the sentiment is that when businesses are facing you know, increased costs as they have been doing, they have you know, certain capacity to absorb those costs given you know, their own profit margins et cetera. And this will differ across sectors obviously and differ across the exposure that different sectors have to things like energy and other expenses. But certainly, you know, that's in essence the sentiment that's getting across there. That you know, the extent to which that profits can or profit margins can adjust will be important as well as the extent potential for a second round effects in wages, in how sort of inflation dynamics you know, roll out over the forecast horizon.

Mark Cassidy:

So, just, we're not prescribing anything about profits. We're just saying in the favourable cases where those profits do exist then they do allow the firm to absorb that higher cost to a greater extent than in a firm where profits are not there and therefore it is more likely the firm cannot absorb the higher costs and have passed those on to consumers. I think Martin, is that what that point is really getting at? Joe, you had a second point about incomes-v- earnings which is important because there's a lot going on in household disposable incomes. Particularly, lower income earners when you take into account the social welfare and other measures introduced during the last budget. Martin, I think you have some figures on the incomes versus earnings, do you?

Martin O'Brien:

Yeah, we'll need to dig out some specific figures and we can send them on separately. But in general though, when we took, when we look at sort of the overall disposable, household disposable income, that would not be declining as much as say the wages part of that because of the measures that Mark mentions. That there is, through tax and welfare et cetera, there is sort of mitigating or offsetting impacts on sort of average or overall household disposable income. But we can dig out the specific numbers and send them through.

Journalist 3:

So, just to be clear, when you talk about aggregate earnings, you're talking about wages.

Mark Cassidy:

Yes. So, you've distinguished between your wages that people will get from say working obviously. But then on top of that you know, household income overall will also be determined by you know, taxes and welfare payments as well. So, there would be putting those two other elements into it, we don't see as much of a decline in overall household incomes in comparison to just sort of the real wage element of it.

Journalist 5:

Just a couple of ones. Can I ask on the Employment Wage Subsidy Scheme and that being wound down as obviously costs are increasing? What do you think the impact will be there and was I right in reading low down in the bulletin that you're kind of linking that to the forecasts for unemployment being slightly higher in this release at 6%, than 5.8% back in January? And secondly, in the scenarios of the more adverse energy shocks. I mean it doesn't seem to take a huge amount of modified domestic demand growth if there's a very big shock. We also mentioned what might happen if there are energy, if there has to be energy rationing for the industry. Can you just go into a bit more detail on what energy rationing would mean you know, for growth and for perhaps investment, jobs, et cetera? Thanks a million.

Mark Cassidy:

Thanks. So, in the first one in terms of the unemployment numbers and the impact that the ending of the PUP will have. So, just to provide a big of context. So, the latest official data we have is for Q4 of last year and it showed that in the official unemployment, the ILO measure, there were about 120,000 unemployed. If you use the COVID adjusted measure, this includes all the people on the PUP, the unemployed was 190,000. So, there's a 70,000 difference and that essentially reflected the number of people that were in receipt of the PUP payment during the final quarter of last year. So, that's to provide some context. So, now coming to the end of the, one quarter later, the end of March, the PUP scheme is now no longer. So, we think the unemployment rate, first of all we think some of those people who migrated from the PUP over recent months will have gone into unemployment. The number of people on the PUP scheme when it finished was around 45,000. So, we think that these 45,000 now need to be absorbed somewhere in the official statistics. The assumption we're making is that half of those, so these are people who have been on the PUP for a sustained period of time and are still out of work after that amount of time. So, we think that the majority will not move straight into alternative or previous employment. Our forecast is that around half of the people moving off the PUP will move onto the regular unemployment live register benefit. We assume that around a third will move out of the labour force, they won't start looking for different work, they'll move out of the labour force. So, we only assume that around a fifth, the remaining actually move from the PUP quite quickly into employment. So, that's our expectation, our assumption with regard to the profile. So, indeed as you say, the unemployment rate currently is somewhere between the official ILO rate which is 4.9% and the COVID adjusted rate which was 7.4%. So, the actual meaningful unemployment rate is somewhere between the two. So, we do expect, now the two will converge, there will be no more need for COVID adjusted rate after Q1. We expect therefore, the official rate will increase because some of those on the COVID rate will move onto that and that's why we think we'll get a temporary increase in the official unemployment rate. But then the underlying percent after that will continue to be downward and that's why we expect unemployment rate, on average 5% 2024, but 4.6% by the end of that year. If that explains that?

Journalist 5:

Yeah. If I could just jump back in sorry, I was referring to the end of the EWSS scheme. I thought there was a kind of link from that to potentially you know, the unemployment rates being so much higher this quarter. Maybe I read that wrong.

Mark Cassidy:

It's more about the PUP. Most people on the Employment Wage Subsidy, the cast, vast majority of the Employment Wage Subsidy are still counted as employed. They are still connected with their employer. Therefore, they don't show up even in the COVID adjusted rate of employment because they're still in employment. We do think there may be some of those jobs that are not showing up anywhere as unemployment but may have been sustainable only because of the payment of this scheme. So, there's still around 250,000 people on EWSS. We do think that maybe some of those jobs may not be sustainable. But a reasonable chance that people, if they weren't sustainable, would find employment quickly enough. Whether we have… I'll just ask Martin. I'm not sure we have an assumption for the number of people on the Wage Subsidy? We certainly expect a vast majority to remain in employment. Martin, I don't think we have that specific number?

Martin O'Brien:

I don't have the specifics on me but…

Mark Cassidy:

Yeah.

Martin O'Brien:

It would be expected that the vast majority of them would remain in employment, the adjustment could take place through different means you know, in terms of you know, not just being in employment you know, their hours worked or salaries or something like that. But the assumption would be that the vast majority of the people on the EWSS will continue in employment through the year.

Mark Cassidy:

And just secondly, we don't have estimates, we’re not forecasting that there will be energy rationing. It cannot be ruled out. I think we do have an integrated European energy market now. So, I think if there were to be acute shortages of gas later in the year, you're probably talking the winter when the demand will be greatest across Europe, then I think all European countries will share in that. So, I'm not ruling out the possibility there could be some need for rationing, but we haven't factored that into our forecasts and our scenario analysis are more on the price side rather than the rationing side. So, of course, if there was to be rationing, it would very much depend upon the nature of that rationing. But hopefully, the use of gas in those circumstances could be prioritised to minimise the effects of businesses and households. But I'm afraid I don't have further on that.

Journalist 6:

Yeah. My question was about the long-term impact of the growth path or the growth trend beyond 2024 due to the downward revisions of the three years that the quarterly report takes into consideration. So, you know, there was kind of one kind of growth path I guess maybe expected you know, in the long-term but now with these rapid downgrades you know, what does it look like, what does the overall recovery path look like for the Irish economy? And maybe when does it kind of converge you know, the actual path converge with where we thought we might be?

Mark Cassidy:

Thanks John. What first of all I would say at the time of our last bulletin, before this occurred, we published an analysis of this in with respect to the COVID shock. And in fact, we found that contrary to our previous expectations, the economy would already recover by 2024 to where we would have expected it to have been in the absence of COVID. So, in fact, very positively, no longer term effects from COVID were found. This of course is something different. This is a very different type of shock. As was COVID, it’s a supply shock but this is very much ultimately in terms of trade shock. Our economy as a whole is now paying more for imported energy than previously and that represents an economic cost. The longer-term effects… the short-term effects we set out in the bulletin. The longer-term effects will depend upon how persistent the increase in energy prices is for us as an oil importer and if they persist at higher levels, that will be a permanent shock to the economy. And then second, whether current events caused any structural changes in the economy and they could be positive or negative. Okay, it is very likely that the European markets, there will be a faster than previously expected restructuring in energy uses. A faster than expected move away from imported gas, from Russia in particular. Trying to accelerate the transition towards renewables. Trying to increase the supply of cleaner types of gas. So, they could have positive or negative effects, I wouldn't want to weigh on them in either way. So, overall, I would say the negative effects will persist for an amount of time because of higher production costs for the economy as a whole. But whether there are structural and the structural effects because of the different energy mix, that's slight being accelerated. But whether they will be positive or negative over the medium term I think remains to be seen. I'll just ask Martin if I'm leaving anything out from the longer-term perspective?

Martin O'Brien:

No, I think that covers it.

Mark Cassidy:

Is that okay John?

Journalist 6:

It is, thanks very much.

Journalist 7:

Yeah, just one question for Mark. I suppose two actually because to clarify. I think you said that the inflation you expected to peak at about 8% this year, I just want to check that's right. And then also given that there's I guess still a lot of upside to the inflation forecast for this year, would that be correct?

Mark Cassidy:

Thanks Peter. Yes, yes on both counts. So, as I say, the estimate for March is now 6.9%. We expect further increases in the coming months. We think this could peak around 8%. There's uncertainty over that and monthly figures are very difficult to estimate. But we think the peak could be around 8% around the middle of the year before starting to reduce in the second half of the year. And then sorry, the second question.

Journalist 7:

Just of the risk to your figures, yourself.

Mark Cassidy:

Yeah, I think the risks are still to the upside. We have as much as we can. We tried to be as realistic as we can in the forecast. So, like we do have a significant further increase already incorporated there. The risks, the main risk undoubtedly evens in Russia and the Ukraine and I would say the risks are tilted to the upside in terms of gas and oil prices and that's the main risk to the short-term forecast. Over the longer-term, I think the risks more relate to domestic inflationary pressers. The risk of overheating the economy as the labour market tightens. The risk of second round effects with higher current inflation, feeding through the higher future demands. So, that's more the risks towards 2023/2024.

Journalist 8:

Thanks, Mark, for your presentation. Two questions. Firstly, you mentioned the potential second round inflationary effects that could materialise this year. Can you just give a little detail as to the extent to which you think that that may come to pass and the effects that that would have on the economy more broadly then? And then secondly, the bulletin calls out the relatively healthy state of the public finances at the moment and our ability to meet the immediate costs that come from the war in Ukraine, including welcoming refugees here. What sort of cost estimate for welcoming refugees, for accommodating them, allowing access to social welfare et cetera have you built into those forecasts? And can you maybe comment a little bit on the effects, especially of the social welfare costs there into 2023. We obviously have the COVID fund which will likely be used this year to cushion those. But as social welfare costs will obviously be permanent, the effect then on the public finances from 2023 onwards to that.

Mark Cassidy:

Yeah, thanks Peter. So, on the first question in terms of the second-round effects. So, we are forecasting quite a large pick up in wages over 2023/2024. The first thing I would say is it's very difficult to interpret the current wage trends because of current statistics are very much complicated by COVID effects. But if we look forward, we do see a pick up in average earnings, we have it rising to 4.7% next year, 5.1% in 2024. In part, this reflects the strengths of demand in the economy overall. The fact that unemployment rate is getting towards full employment. We see it closer to 4.5% by the end of 2024. So, in part, that reflects the strengths of domestic demand, the tightness of the labour market. But there is usually some degree of pass through from higher current inflation rates towards future wage demands. Now we're certainly not forecasting, we're certainly not expecting full pass through of current rates of inflation, I think that would be extremely economically damaging. But it does, through several channels. When current inflation rises, it does lead to some increase in future inflation rates. So, we don't have a number in terms of wage and demands. I think our recommendation is very firmly that while some increases what we're forecasting in wages and incomes is very welcome. At the same time, it is critically important and experience shows that you do need to avoid this situation where wages and prices become automatically interlinked and you get this spiral where they're chasing each other upwards. In that case, ultimately the long… the economic effects are negative for households and firms. They are higher prices, they are reduced real incomes, they do damage economic competitiveness and ultimately, they damage living standards and growth. So, it is particularly important that wage pressures remain relatively contained and are not led by the current high rate of inflation. In terms of the fiscal, so we do incorporate fiscal costs from accommodating and supporting the refugees. We take these numbers from some preliminary estimates put into the public domain by the government. So, essentially, we're assuming… which I think look, it is extrapolating from what the usual cost of an additional member of the population is and then by how many additional refugees might come into Ireland in the coming years. So, the cost we factored in is one billion for this year, two and a half billion euro for next year, for 2023 and falling to one billion euro and some of the pressures begin to ease in 2024. So, the cost is greatest next year because I suppose we're a certain amount into this year already and the numbers are still increasing. So, the largest effect we think we'll be seeing next year. And you're absolutely right in the last thing you said Peter, the one billion euro this year, we are assuming will be covered by the pre-existing contingency fund that… So, we don't have any additional effect on the public finances because we previously assumed and we're still assuming that all of that COVID contingency fund is allocated and this just involves a reallocation from COVID related supports towards these supports. That fund does not exist for next year and hence, the full amount of two and a half billion is showing up in our estimate for the public finances next year. It does lead to a weakening of the balance and the debt position even though the overall trends in those we think remain favourable.

Journalist 8:

That's great, thanks very much Mark. Can I just clarify very quickly on the first point? The 4.7% and I think 5.1% in 2024. Is it possible to break down the proportion of those increases that are we'll say natural wage increases that we would have seen anyway versus these second-round effects that we may see coming through from inflation?

Mark Cassidy:

It won't be possible to distinguish what might be second round effects, that distinction isn't possible. I would say one thing that is very important in understanding these which is the distinction between hourly compensation and the compensation per employee. So, during the crisis, we had quite a significant reduction in hours worked and that had the effect of even if hourly earnings stayed the same, it has the effect of pushing down compensation per employee. Now we're expecting the opposite, we're expecting a recovery in the aver hours worked and therefore that will boost. If people are working more hours per week as we're expecting, the average hours worked per week is increasing as we're expecting, then that is boosting compensation per employee. So, partly those quite strong figures for increasing compensation per employee, partly they reflect an increase in hourly earnings and partly they reflect the assumption that the average hours worked in the economy will increase. But we can't break down the distinction that you make unfortunately, wouldn't be possible.

Journalist 8:

That's okay. I just wanted to I suppose get back to two previous questions in a way. So, on page 58 of the quarterly, you're saying that there may be a real decline of 3.8% in compensation per employee this year. Is that broadly how you see the reduction in disposable incomes that Martin, I think you were saying you might be getting back to Joe about? And then, I caught your estimate for next year and 2024 in terms of wage growth, but I'm not sure if I picked up what you think wages are going to go up by this year based on what you've seen in the first three months of the year. I'm just wondering do you have that? And then I suppose lastly, I'm just wondering what degree of confidence you have about your inflation forecast for next year and the year after? You know, particularly depending on the future market projections for gas and oil. I mean they really only just go so far. So, just wondering if you could comment on that as well. Thank you.

Mark Cassidy:

Yeah, certainly. Thanks very much for those. Yeah, so in terms of earnings and wages, the figure you mentioned is simply looking… so first of all let me start with your second question which is 2022. So, in terms of wages for 2022, what we're forecasting is an average increase of 2.3%. So, the figure that you're referencing is I think very simply we have average inflation this year of 6.5%, we're expecting average earning growth of somewhere around 2.5%. So, I think the difference between the two is what gives you a very simple breakdown of the estimate of the incline in real compensation per worker during the period. Now I'll ask Martin to come in again. The change in… so that's quite a substantial decline in real incomes, sorry, real earnings, real wages. But that is offset somewhat, the decline in real incomes or the change in real incomes particularly real disposable incomes which is ultimately what's important is less than that. And it's less than that because we have also had the supports introduced by the government during budget 2022 which included social welfare increases, targeted increased to protect lower income households against the affects of higher prices. And that mitigates somewhat the affect of inflation upon overall incomes in the economy and again in a moment I might just ask Martin if he wishes to say something more about that. So, hopefully I've mentioned also there the compensation per employee. Again, I would emphasise Robert that it's very difficult to interpret what's happening in the current wage and earnings data because they are distorted so much by COVID effects, by changes for example in the composition of the labour force. People having moved out of lower income jobs during COVID because hospitality and places were closed down and then coming back into them. All of that affects the average earnings. Similarly, if people reduced their hours worked, this is more part-time work. So, I would put a health warning on the current wage data, but our forecast is 2.25% this year. In terms of the uncertainty, absolutely more considerable uncertainty around inflation forecasts, more than normally the case. The reason being that inflation this year is dominated so much by what's happening in energy and that the uncertainty in energy is particularly high. What I would say about oil and future markets, obviously this is what the market is expecting to pay for oil or gas down the line. We've done a lot of analysis about how useful these futures are. What I would say about them is we have no better way, we've looked at alternative methods, we do this most in the context of European Central Bank modelling exercises. We've looked at alternative ways of forecasting oil and energy prices. We've looked at if they just follow a random walk. We've looked at economic models and the estimates show that while oil and gas futures may not be particularly reliable, none of the alternative methods are better. But clearly, there's more uncertainty than normal and we do incidentally, we've referenced some of the cross check at euro system level with our models as well to ensure that they're as good as can be. So, they're as good a method as we have, very considerable uncertainty which could go in either direction. But referring back to a previous question we'll say the risks are to the upside. Martin, I don't think we've anything more. We answered a little bit on incomes versus earnings.

Martin O'Brien:

Yeah, I don't have the specific numbers to hand just yet but we will get them and we can forward them to Joe and Robert as well. If we don't have it within the next couple of minutes before the call ends.

Mark Cassidy:

Yeah. We'll forward those and then if you've any further questions Robert or indeed John, we're very happy to take those then. Okay, we're good.

ENDS