Banc Ceannais na hÉireann
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Box C: QB 1 – January 2022

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The Impact of the Omicron Variant of Covid-19 on the Irish Economy

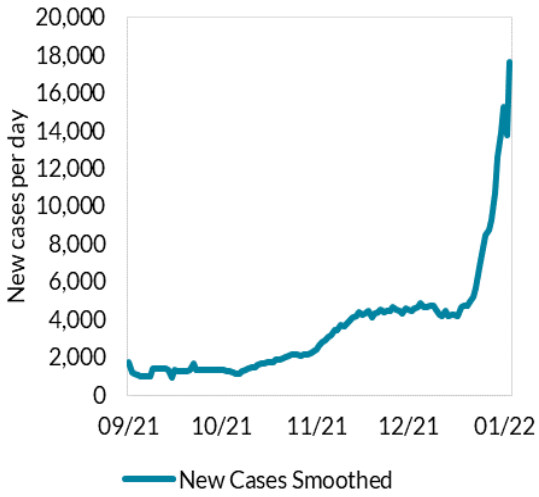
By Stephen Byrne[1]

In late November, a new variant of SARS-CoV-2, designated Omicron - was identified by public health officials. From an epidemiological point of view, Omicron is more transmissible and there is evidence that existing vaccines are less effective in preventing infection from this variant compared with Delta and earlier variants.[2] Since the emergence of Omicron in Ireland, the number of recorded daily infections rose to an average of 20,000 per day in early January, although constraints on testing capacity mean that this figure was most likely higher. [3]

[1] Irish Economic Analysis Division
[2] https://www.who.int/news/item/28-11-2021-update-on-omicron
[3] 14 Day Epidemiological Report – Health Protection Surveillance Centre

High daily infections s saw a shift to home working, but had a smaller impact on mobility in retail settings

Figure 1a: Daily Case Numbers



Source: HSE

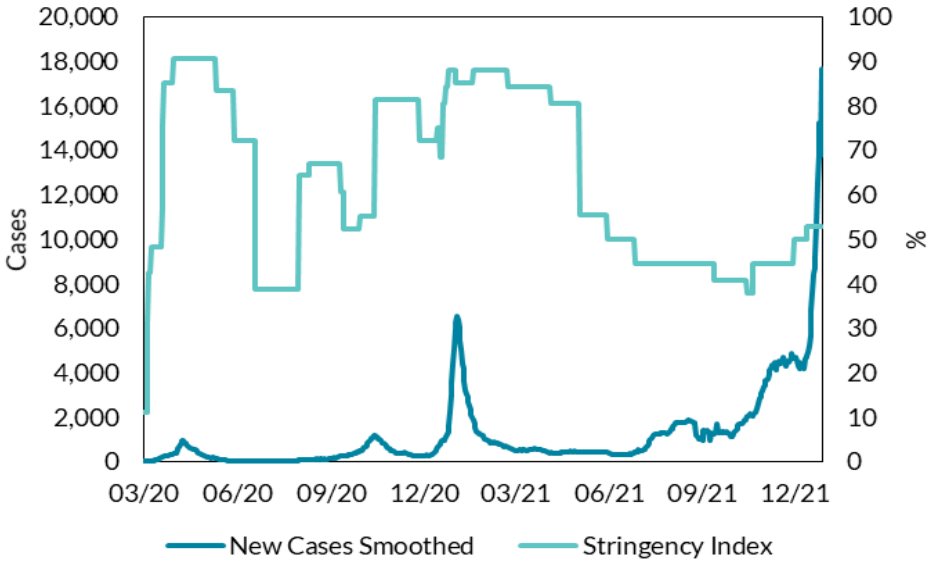
Figure 1b: Mobility

Source: Google Mobility

Despite the number of cases, this wave of the Covid-19 pandemic is likely to have a smaller impact on the Irish economy than previous waves in March 2020 or January 2021 for a number of reasons. First, more than 90 per cent of the adult population has received two vaccine doses, and throughout December and January a growing proportion have received a third dose. Moreover, emerging evidence suggests that Omicron is less likely to cause severe illness than other variants. Combined, these factors have reduced the proportion of Covid cases that require treatment in hospital. This has allowed fewer and less stringent restrictions on economic activity to be imposed to date during this wave despite the record number of cases (Figure 2). In December and January, public health measures were largely confined to the hospitality and entertainment sectors, and the measures reduced capacity and opening hours rather than blanket closures seen during previous waves.

Cases are resulting in less stringent restrictions owing to vaccinations and adaptation

Figure 2: Cases and Stringency

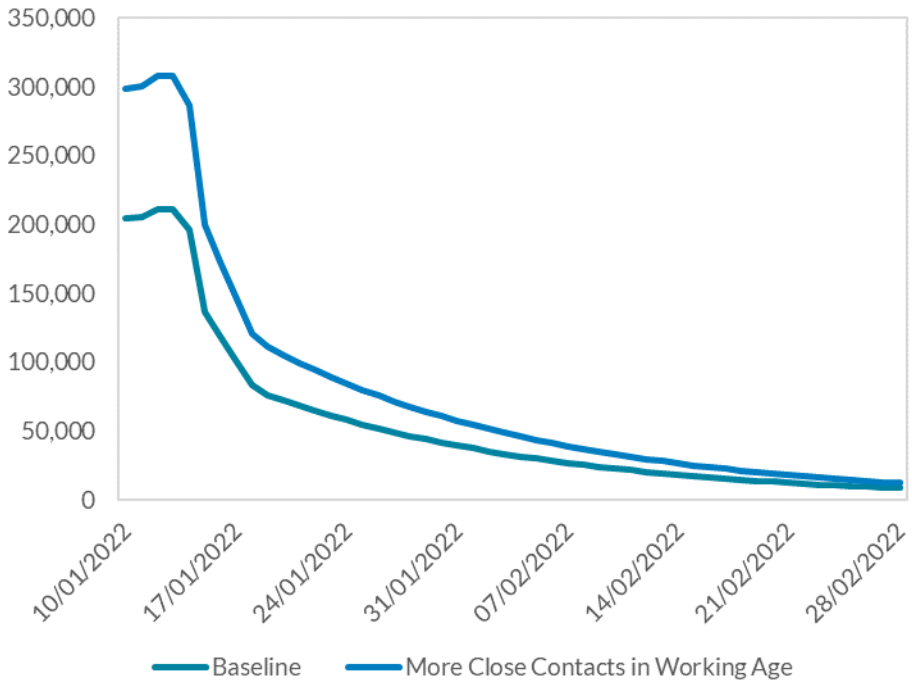


Source: HSE and Oxford Blavatnik School of Government
Note: Stringency Index measures the level of public health restrictions in place on a harmonised Basis for cross-country comparison. Case numbers are a 7-day moving average.

Secondly, the effect of an increase in cases or a tightening of restrictions on employment and output is now smaller than during previous waves of the pandemic. Households and firms have invested and learned to adapt quickly to a surge in cases. Those who can work from home have been able to switch easily, as the infrastructure and processes were acquired and developed during earlier waves. Retailers, who made significant investments in e-commerce and delivery logistics during 2020 and 2021, have been able to continue trading despite a decline in footfall. Even in the worst affected contact-intensive services sectors, medical interventions have supported demand by reducing risk. Vaccinations, as well as developments in the use of at-home testing, has allowed demand for hospitality and entertainment services to be higher than during previous waves where these interventions were not available or widely used.

Looking ahead, the expected decline in cases, coupled with an increase in the provision of booster vaccinations, will reduce the number out of work owing to isolation

Figure 3: Estimated number of people unable to work due to Covid-19



Source: HSPC and Authors Calculations

However, while the economic impact of Omicron is smaller, there are still some effects arising from such a significant level of the virus in the community. Most critically, in late December and early January there were significant numbers of workers across all sectors isolating or restricting their movements (not leaving home) either due to infection or because they were designated close contacts of confirmed cases. In the first weeks of January, approximately 140,000 cases per week were notified to the public health authorities. It is estimated that between 140,000 and 300,000 people may have been physically out of work as a direct result of self-isolation on a given day in those weeks. This was significantly mitigated by eliminating the requirement to isolate for close contacts who have received their booster vaccination. Our estimate, informed by data from the HPSC and the CSO, assumes that each case has 3.4 close contacts, that 15 per cent of those isolating because they have tested positive for Covid are too sick to work, and that 46 per cent of the remaining working population that are isolating can work from home. Figure 3 shows the

significant effect of the changes in the guideline for close contacts and the shortening of the isolation times for confirmed cases. These assumptions do not take account of the indirect effects of self-isolation.[4] Throughout the economy, there are also likely to be thresholds over which certain firms are unable to operate if a given number of staff are absent. Consumer and business sentiment is also likely to be negatively affected by the upsurge in virus infection with some early evidence of this from survey data.[5] This could adversely affect consumption and investment spending during Q1 2022, part of which will then take place in subsequent quarters.

Table 1: Scenario estimates - numbers physically out of work in late December / early January as a result of isolation/restricting movements

	Cases Per Week (thousands)	Isolating (thousands)	Employed Isolating (thousands)	Out of Work (thousands)
Baseline	136	598.4	295	168.7
Higher cases	200	880	433.9	248.1
More close contacts[1]	136	680	335.3	190.4
Fewer close contacts[2]	136	544	268.2	154.2
Close contacts more likely to be working age[3]	136	598.4	430.8	242
Higher cases and close contacts more likely to be of working age	200	880	633.6	355.9

Source: CSO, HSPC, HSE, and Authors Calculations
Notes: 1) Assume each case has 4 close contacts, compared with the baseline assumption of 3.4.
2) Assume each case has 3 close contacts.
3) The baseline assumes that the isolating are distributed evenly across the population, i.e. 49 per cent of the population is employed and therefore 49 per cent of the isolating are employed. This row assumes those isolating mirror the percentage of Covid cases that are in the working age population (72%).

Using estimates of output per hour worked, the levels of absenteeism in early January (before the change in guidelines) would result in annual GNI* being between 0.1 and 0.3 per cent lower relative to a situation of no isolation requirements for each week such requirements are in place, depending on the scenario and the number of cases.[6] By early February, our estimate would suggest a decline of between 0.02 and 0.06 per cent in GNI*

[4] An example of indirect effects would be if childcare providers were unable to offer their service due to employees being absent, this in turn could limit the ability of working parents attending their own place of work.
[5] See https://www.kbc.ie/w/december-drop-consumer-confidence-points-to-seasonal-fear?redirect=%2Fblog%2Fconsumer-sentiment-surveys
[6] OECD estimates of output per hour worked

per week, gradually diminishing thereafter (based on current trends). In some sectors, part of any lost output in a given week would likely be pushed into a subsequent period, implying the net effect on GNI* over the course of the year would likely be even lower than these estimates.

Omicron will also affect the Irish economy through the global impact of the surge in the disease and its effect on supply chains and external demand. The pandemic has restricted labour supply internationally and there have been increases in the price of intermediate inputs used in the production process. These developments have contributed to increases in consumer price inflation. While this inflation is expected to be start to decline in the second half of 2022, the emergence of the omicron variant will cause these labour market and supply chain effects to persist for longer that might have been expected in the absence of the recent upsurge in the virus. Furthermore, the longer the inflation persists the greater the risk of second round effects, which may prove longer lasting.[7]

Looking ahead, our baseline macroeconomic projection assumes that future possible waves of the Covid-19 pandemic in 2022 and 2023 will have a diminishing economic impact compared with previous waves as households and firms continue to adapt, and as medical interventions become more sophisticated. As a result, the domestic economy, which has likely surpassed its pre-pandemic size by end-2021, is expected to converge on its potential over the course of our forecast horizon. However, demand in contact-intensive sectors such as hospitality and tourism is likely to remain below pre-Covid levels until at least 2023. Were a new variant of Covid-19 more severe and/or resistant to existing vaccines and treatments to emerge, then more negative economic outcomes than projected in our baseline forecasts would arise.

[7] Byrne, D and Zivile Zekaite. An Overview of Inflation Developments. Central Bank of Ireland Economic Letters. 2021(7)