Demand and GDP growth

III

Domestic private sector demand

Private consumption contracted again in Q4/2020 ...
Household consumption spending declined again between Q3 and Q4/2020, after strong quarter-on-quarter growth in Q3 (Chart III-1). The contraction turned out somewhat smaller than was assumed in the February forecast, however, and for the year as a whole it measured 3.3%, or 1 percentage point less than projected. In part, the deviation reflects the fact that real disposable income appears to have risen more in 2020 than previously anticipated.

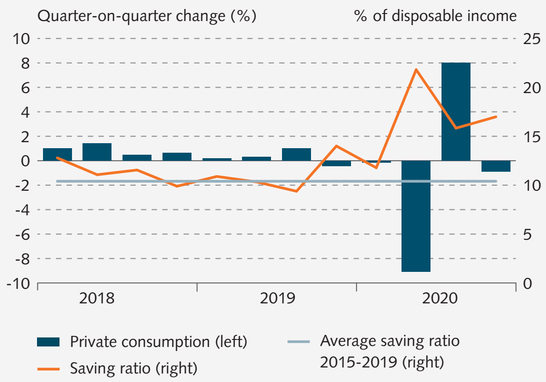
The COVID-19 pandemic surged again in September (Chart 2 in Appendix 1), prompting a tightening of public health measures, although the measures affected consumption behaviour less than in the first wave. Firms became more effective at adapting their activities to the public health measures and households increasingly took advantage of online shopping and home delivery services. According to the February forecast, the resurgence of the pandemic was expected to fuel greater household pessimism and lead to a rise in the saving rate, which had risen sharply at the start of pandemic, both in Iceland and abroad (see Chapter I). This did indeed happen, but not to the degree projected, and the setback in the autumn did not cause private consumption to contract as much in Q4 as was feared.

... but there are signs of a rebound in Q1/2021 ...
COVID case numbers began to decline in November 2020, and public health measures were relaxed again at the beginning of 2021. As January progressed, traffic returned to its pre-pandemic level, there was robust growth in payment card turnover within Iceland,

Chart III-1

Private consumption and household saving[1]

Q1/2018 - Q4/2020



1. There is some uncertainty about Statistics Iceland's figures on households' actual income levels, as disposable income accounts are not based on consolidated income accounts and balance sheets. The saving ratio is calculated based on the Central Bank's disposable income estimates, as Statistics Iceland figures are increased to reflect housholds' estimated expenses over a long period. Seasonally adjusted figures.

Sources: Statistics Iceland, Central Bank of Iceland.

and household spending on contact-intensive activities started to recover – although it remained weaker than before the pandemic (Chart III-2 and Chart 2 in Appendix 1). Even though the infection rate rose again in March and the tightest restrictions to date were put in place, payment card turnover continued to grow. New motor vehicle registrations (excluding rental cars) also indicate a strong recovery of private consumption year-to-date. Car registration numbers for the past three months are a full 15% higher than in the same period a year ago.

… and the prospect of robust growth for the rest of the year

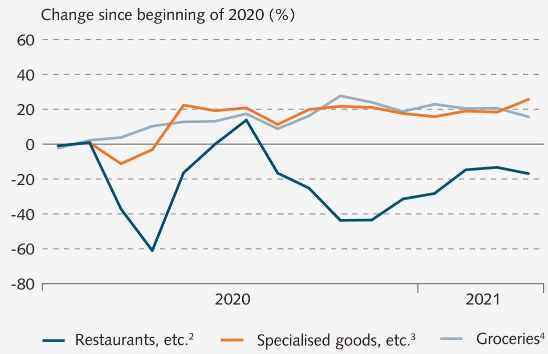
Private consumption appears to have increased again between quarters in Q1/2021, and looks set to grow strongly through the end of the year. Wages have risen, and broad-based Government measures have protected households' disposable income despite a lower employment rate. Households have also tapped their own savings to cushion against the economic shock, although the saving ratio remains above its historical average. In spite of the shock, household balance sheets are still strong overall, and debt levels have risen modestly since the pandemic struck (see Chapter II). Interest rates are low, and credit is readily available. Furthermore, households have grown increasingly more optimistic about the economic and employment outlook as the vaccine roll-out has progressed, and the Gallup Consumer Confidence Index reached a three-year high in March (Chart III-3). According to the baseline forecast, private consumption will be 5% stronger in Q1/2021 than in the same quarter a year ago. If this materialises, it will be the first time since the pandemic began that private consumption has grown year-on-year. The outlook for 2021 as a whole is for 5.2% growth, which is significantly more than was forecast in February, as the overall economic outlook has improved. The growth rate is then expected to ease in 2022 and 2023 (Chart III-4).

Developments in private consumption both this year and over the forecast horizon will depend in large part on the success of efforts to control the pandemic. If these efforts bear fruit sooner than is assumed in the baseline forecast, private consumption could pick up more quickly, while a setback in the fight against the pandemic could cause the outlook to deteriorate. Box 1 describes the assumptions in the baseline forecast concerning the pandemic and public health measures. It also presents alternative scenarios describing differing assumptions about the pandemic and their impact on macroeconomic developments.

Chart III-2

Payment card turnover, by category[1]

January 2020 - April 2021



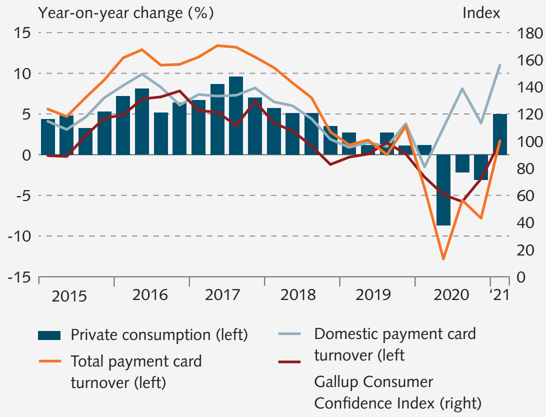
1. Seasonally adjusted. Change since average value of Jan. - Feb. 2020. 2. Restaurants, accommodation, transport, package tours, duty-free shopping, culture and recreation, and personal care and services. 3. Electronics, household appliances, furniture, clothing, and other specialised retail goods and services. 4. Grocery stores and supermarkets.

Source: Centre for Retail Studies.

Chart III-3

Private consumption and its indicators[1]

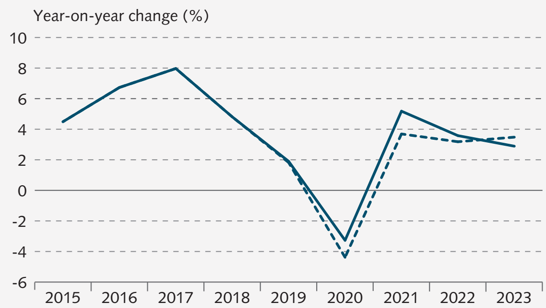
Q1/2015 - Q1/2021



1. The Gallup Consumer Confidence Index is seasonally adjusted. Central Bank

Chart III-4

Private consumption 2015-2023[1]



1. Central Bank baseline forecast 2021-2023. The broken line shows the forecast from MB 2021/1.

Sources: Statistics Iceland, Central Bank of Iceland.

Business investment contracted less than expected in 2020 …

Business investment declined by 8.7% in 2020, the third consecutive year-on-year contraction. The main driver of the downturn was a 10.5% contraction in general business investment (i.e., excluding energy-intensive industry, ships, and aircraft), although investment in the energy-intensive sector also contracted by nearly one-fourth. Investment in ships and aircraft grew year-on-year in 2020, mainly because of positive base effects due to the sale of aircraft from WOW Air's operations in 2019. The year-on-year contraction peaked in Q3/2020, when business investment was 17.8% less than in the same quarter of the prior year (Chart III-5).

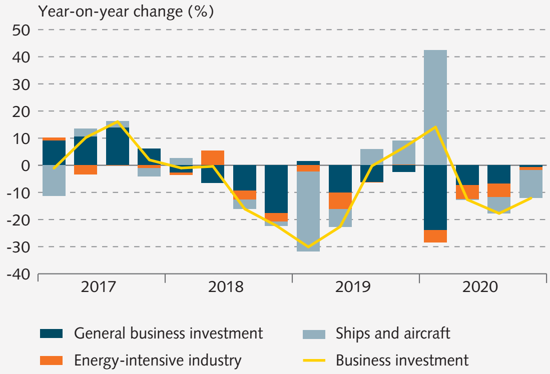
The downturn for the year as a whole was considerably smaller than the nearly 16% contraction forecasted in February. Revisions of previously published figures revealed that business investment was stronger than previously estimated in the first three quarters of the year, and the impact of the pandemic on companies' investment plans in Q4 turned out less pronounced than expected. This accords with the results of the Bank's investment survey from March 2021, which indicate that business investment ultimately contracted less than executives had projected last September. That said, the survey also suggests that the contraction was larger than Statistics Iceland data imply, which could indicate that a downward revision may be forthcoming.

… and looks set to grow marginally this year

According to the Bank's survey of firms' investment plans, taken in March, business investment will increase by approximately 10% in nominal terms this year (Chart III-6). This is an improvement since the September survey, which suggested that investment spending would decline marginally during the year. The outlook improved in all sectors included in the survey, apart from manufacturing and information technology. As before, the largest contraction is expected in the fishing industry, although it should be noted that the survey does not include investments in ships and related equipment. Extensive investment planned in the tourism and transport sector is due largely to a 12 b.kr. investment initiative by Isavia, the operator of Keflavík Airport, with over 9 b.kr. of that amount falling in 2021 and the remainder in 2022. This one company's investment plans weigh heavily in the survey results. If Isavia is excluded, the survey indicates a smaller increase this year, or about 4% in nominal terms. This is a more upbeat outcome than can be inferred from Gallup's survey among Iceland's 400 largest companies, carried out around the same time. According to that

Chart III-5

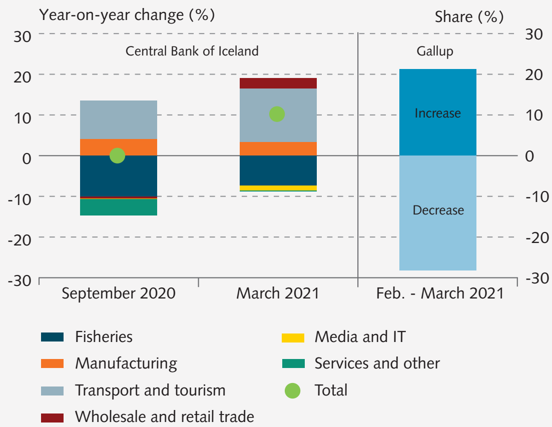
Business investment and contribution of components 2017-2020



Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-6

Indicators of investment plans in 2021[1]



1. Central Bank survey of firms' investment plans (excluding investments in hotels, ships and aircraft). Gallup survey of Iceland's 400 largest companies' investment plans. The chart shows the share of firms intending to increase investment and the share intending to decrease it.

Sources: Gallup, Central Bank of Iceland.

survey, it appears that respondents intend to scale down investment relative to 2020.

Moreover, the outlook is for a marked slowdown in hotel construction this year. A number of hotels are in the final stages of construction, and several other projects have been postponed or abandoned. Pulling in the opposite direction is investment in the aquaculture sector, which is expected to more than double year-on-year. In addition, imports of investment goods in the first three months of 2021 suggest that Q1 investment was stronger this year than in 2020. The Bank's forecast therefore assumes that general business investment grew by just over 10% year-on-year in Q1, which is a significant change from the February forecast. The outlook for 2021 as a whole is broadly unchanged, however, owing to the offsetting impact of positive base effects from 2020 and a higher investment level in 2021. Furthermore, investment in the energy-intensive sector is expected to be a full 6% stronger this year, albeit offset by weaker investment in ships and aircraft. As a result, total business investment is projected to grow by just under 1% between years.

Residential investment to contract slightly less in 2021 than was forecast in February

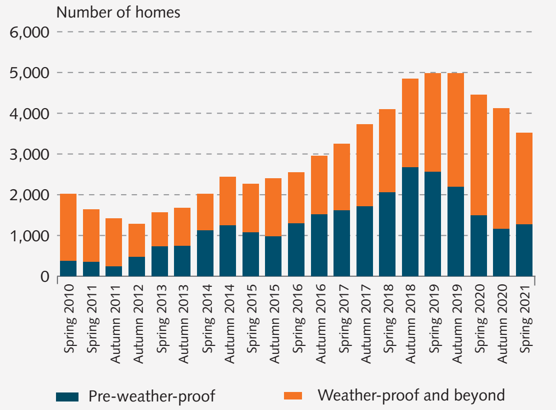
Residential investment contracted by just over 1% year-on-year in 2020 and not 6%, as was forecast in February. Figures for the first three quarters of the year were revised, and the year turned out more favourable as a result. In addition, a recent tally carried out by the Federation of Icelandic Industries indicates a slight rise in the number of weather-proof residential buildings since the autumn, suggesting an uptick in new construction (Chart III-7). Developers have been focusing recently on completing projects in later stages of construction, as demand for flats has surged. Therefore, all else being equal, increased sales of new homes should ease access to financing for new projects and mitigate uncertainty about planned construction. The outlook is for residential investment to contract by about 3% this year, slightly less than was forecast in February. If this forecast materialises, the contribution of residential investment to output growth should be about the same as in 2020 and the residential investment-to-GDP ratio about 5½%, just over 1 percentage point above the twenty-five-year average.

Public investment to drive investment growth in 2021

The baseline forecast assumes that total investment will be 4.9% stronger this year than in 2020 (Chart III-8). The increase is mainly driven by 4½% growth in regular business investment and strong growth in public investment spending (see below). Because investment has

Chart III-7

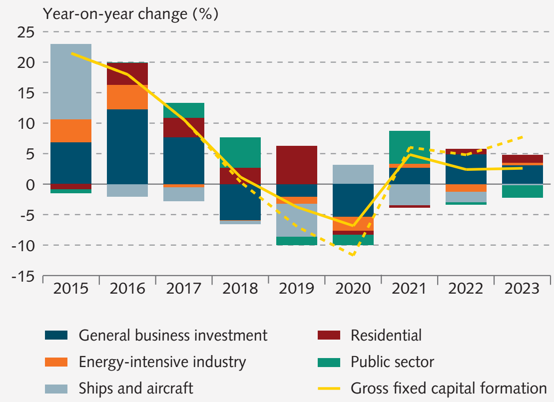
Residential housing in construction in the capital area[1]



1. According to residential construction tallies conducted by the Federation of Icelandic Industries.
Source: The Federation of Icelandic Industries.

Chart III-8

Gross fixed capital formation and contribution of main components 2015-2023[1]



1. General business investment excludes ships, aircraft, and energy-intensive industry. Central Bank baseline forecast 2021-2023. Broken line shows forecast from MB 2021/1.
Sources: Statistics Iceland, Central Bank of Iceland.

contracted less in the past two years than was forecast in February, the investment level will be higher than previously expected in 2021 and 2022, even though the growth rate is expected to slow. By the end of the forecast horizon, the investment-to-GDP ratio will be broadly in line with the February forecast, however.

Public sector

Public investment to rise as public consumption growth slows down in 2021

Public sector demand is projected to grow by 5% this year, slightly more than in 2020, mainly because a portion of the investment spending planned for last year has shifted to this year. Public investment is forecast to increase by nearly a third in 2021, while public consumption growth is set to be weaker than in recent years, measuring 1.5%. Based on the Government's fiscal plan, growth in public consumption is expected to remain similar over the next two years, while public investment will contract slightly. Public sector demand will therefore be virtually unchanged over the next two years.

Large fiscal deficit due to the pandemic

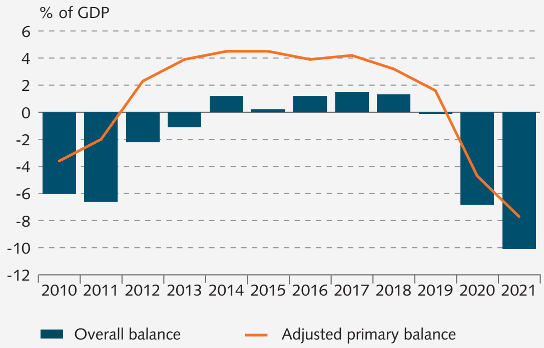
The Government's response to the COVID-19 pandemic, together with the impact of the economic contraction, generated a fiscal deficit equalling nearly 7% of GDP in 2020 (Chart III-9). Even so, the deficit was considerably smaller than the Bank and the Government had expected, as the economic contraction was less pronounced than originally feared. According to the Bank's baseline forecast, the fiscal deficit will grow to just over 10% of GDP this year, owing to fiscal support measures, automatic stabilisers, and the reduction in the lowest personal income tax rate. If the consolidation measures proposed in the new fiscal plan are implemented, the deficit will shrink markedly as the economic recovery takes hold. According to the fiscal plan, the primary balance will turn positive again in 2025.

Fiscal easing counteracts the economic contraction

The cyclically adjusted Treasury outcome is estimated to have deteriorated by nearly 4% of GDP in 2020, largely because of the Government's COVID-19 response measures. Similar fiscal easing is expected this year (Chart III-10). The Bank's previous estimate also assumed that the underlying Treasury outcome would worsen over these two years, but with fiscal easing showing more strongly in 2020. On the other hand, year-2021 tax revenues will decline more than developments in the output gap would generally indicate. This is because last year's

Chart III-9

Treasury outcome 2010-2021[1]

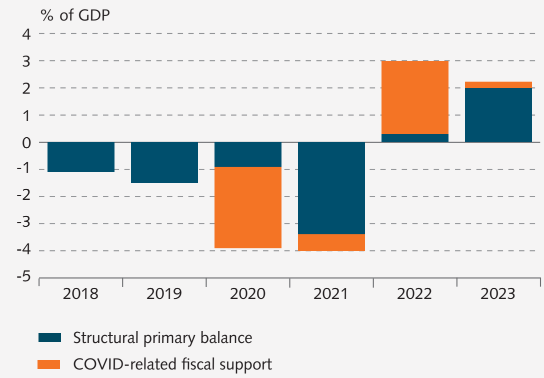


1. The primary balance is adjusted for one-off items. For 2016 through 2020, both the overall balance and the primary balance are adjusted for stability contributions, accelerated write-downs of indexed mortgage loans, a special payment to LSR A-division, dividends in excess of the National Budget, and other discretionary measures. Central Bank baseline forecast 2021.

Sources: Ministry of Finance and Economic Affairs, Statistics Iceland, Central Bank of Iceland.

Chart III-10

Change in central government cyclically adjusted primary balance 2018-2023[1]



1. The primary balance is adjusted for one-off items. Central Bank baseline forecast 2021-2023.

Sources: Ministry of Finance and Economic Affairs, Statistics Iceland, Central Bank of Iceland.

mitigating measures both dampened and postponed the impact of the pandemic on income tax. As a result, changes in the fiscal stance showed mostly in spending increases in 2020, whereas this year's easing will affect both revenues and expenditures.

According to the fiscal plan, most of the pandemic-related measures will expire in 2022, and the fiscal stance will tighten once again. The fiscal plan also provides for general consolidation measures starting next year and then increasing in 2023-2026, with the rise in the public debt ratio coming to a halt in 2025.

External trade and the current account balance

Exports to recover in Q4

After contracting in the first two quarters of 2020, exports started to increase again in Q3 and picked up more strongly in Q4 (Chart III-11), with growth measuring 19% quarter-on-quarter and nearly a third relative to H1/2020. Export growth in Q4 was due largely to increased services exports relating to intellectual property licensing revenues, supported by increased marine product exports. In accordance with the February forecast, the contraction for 2020 as a whole measured 30.5%, and export volumes were at their lowest since 2010. This is also a larger contraction in exports than in most trading partner countries (see Box 2). Because the pandemic affected tourism-related activities so strongly, services exports fell by about half between 2019 and 2020. This was compounded by an 8.5% contraction in goods exports, which stemmed largely from reduced marine product exports and base effects from aircraft exports in early 2019. Excluding ships and aircraft, the contraction in goods exports was smaller, at just under 5%.

In Q1/2021, exports are estimated to have contracted quarter-on-quarter, mainly because of base effects due to the aforementioned intellectual property exports in Q4/2020. There was little improvement in tourism in the first three months of the year, but on the other hand, industrial and marine product exports appear to have increased concurrent with strong growth in agricultural exports, primarily farmed fish.

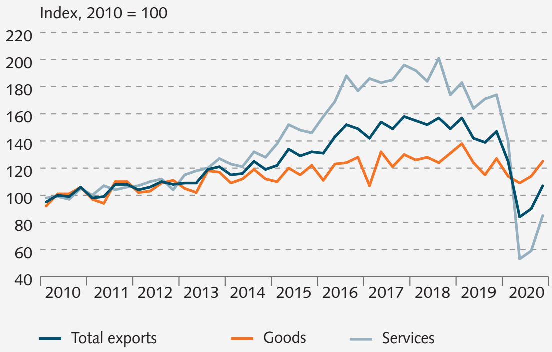
Goods exports stronger in 2021 than forecast in February

The outlook for this year's goods exports has improved since the last forecast, with growth now expected to measure 5% year-on-year instead of the previously projected 1%. The outlook for marine product exports has improved because of larger and more valuable capelin

Chart III-11

Exports of goods and services[1]

Q1/2010 - Q4/2020



1. Seasonally adjusted volume indices.
Source: Statistics Iceland.

catches. A slight increase in cod and haddock catches is expected as well, whereas a contraction was projected in February. Furthermore, aluminium exports are expected to grow more rapidly than previously thought, reflecting the improved global outlook and increased production, which stems in part from a new energy contract between Landsvirkjun and one aluminium manufacturer. Moreover, aquaculture exports are projected to continue growing, in view of recently announced plans for increased investment in the sector. Goods exports are estimated to grow by an average of 3% per year in 2022 and 2023, a slightly slower pace than was forecast in February.

Continued uncertainty in the tourism industry

The outlook is for activity in the domestic tourism sector to pick up starting in mid-year, as was forecast in February. Now, however, the rise in tourist numbers is expected to be less pronounced than was forecast then, as the pandemic has proven more persistent in Iceland's main trading partner countries and the authorities have tightened public health restrictions at the border in a bid to prevent the disease from spreading to Iceland (Chart 1 in Appendix 1). Two major factors in this are the emergence of new variants of the virus, which appear to be more contagious than their predecessors, and higher infection rates among children.

It is still uncertain when international passenger travel will return to normal and travel restrictions between Europe and North America can be lifted in full. Two US airlines have recently announced plans to fly to Iceland this summer, even though Europeans are generally not permitted to travel to the US. Travellers from the US accounted for more than a fifth of tourist arrivals in Iceland before the pandemic struck. In mid May, the number of foreign visitors was only about 7% of the tourist arrivals in early May 2019 (Chart 2 in Appendix 1). As in February, it is assumed that tourist numbers will rise as the year advances, the pandemic eases abroad, and restrictions at the border are eased (the assumptions in the baseline forecast concerning border restrictions are described in Box 1). The number of foreign tourists visiting Iceland in H2/2021 is projected at about half of the H2/2019 total. About 660,000 tourists are expected to visit Iceland this year, down from the February estimate of just over 700,000. This represents a year-on-year increase of about a third, which is broadly in line with the global estimate from the International Air Transport Association (IATA).[1] It is still expected that capacity in

1 See International Air Transport Association, *Outlook for the Global Airline Industry*, April 2021.

tourism-related sectors will be largely preserved, which will make it relatively easy to accommodate larger numbers of tourists.

With a weaker recovery of tourism, services exports will grow more slowly than was forecast in February, or just over a fifth instead of the previously projected one-fourth. For next year, it is assumed that border restrictions will have been fully lifted, and tourist numbers are expected to surge to 1.5 million. As a result, services exports are projected to grow by over 55% in 2022.

Exports set to grow in 2021 and 2022

Despite bleaker prospects for services exports this year, the outlook for total exports has improved since February. Exports are expected to grow by 11%, about 1 percentage point more than was forecast in February. The outlook for 2022 and 2023 is broadly in line with the February forecast, however (Chart III-12). If the forecast materialises, total exports will have returned to their 2019 level by the end of the forecast horizon.

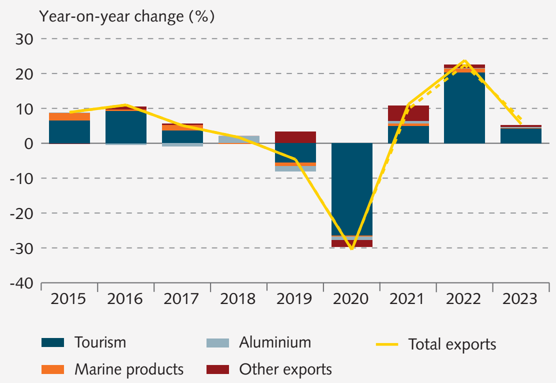
Imports to continue growing

As was forecast in February, goods and service imports grew quarter-on-quarter in Q4/2020 (Chart III-13). Growth during the quarter was due primarily to an 11% increase in service imports, driven mainly by imports of miscellaneous business services. In real terms, however, Q4 imports were still down by one-fifth relative to Q4/2019, and for the year as a whole the contraction measured 22%.

There are signs of a continued year-on-year contraction in imports in Q1/2021, as Icelanders' overseas travel has not increased discernibly, and it appears that goods imports contracted between years because of reduced imports of transport equipment and fuel. Icelanders are expected to start travelling abroad again in far greater numbers as the year progresses and the pandemic recedes. Growth in services imports will nevertheless be weaker this year than was forecast in February because the pandemic has proven more stubborn than was assumed then. On the other hand, the outlook is for stronger imports of consumer goods, investment goods, and export-related inputs, owing to the prospect of more robust growth in domestic demand and goods exports. Total imports are projected to grow by just over 12% this year, or 1 percentage point more than was forecast in February, and then by 16% in 2022, when Icelanders' spending abroad is expected to increase even more.

Chart III-12

Exports and contribution of subcomponents 2015-2023[1]



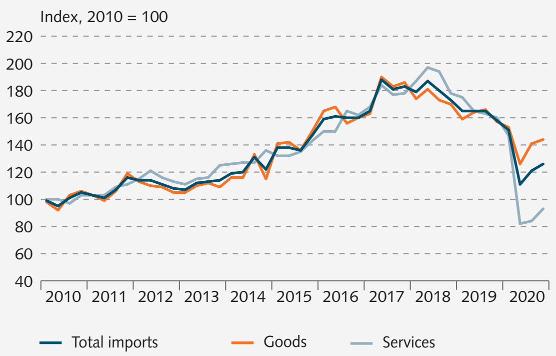
1. Because of chain-volume linking, the sum of components may not equal total exports. Tourism is the sum of "travel" and "passenger transport by air". Aluminium exports as defined in the national accounts. Central Bank baseline forecast 2021-2023. Broken line shows forecast from MB 2021/1.

Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-13

Imports of goods and services[1]

Q1/2010 - Q4/2020

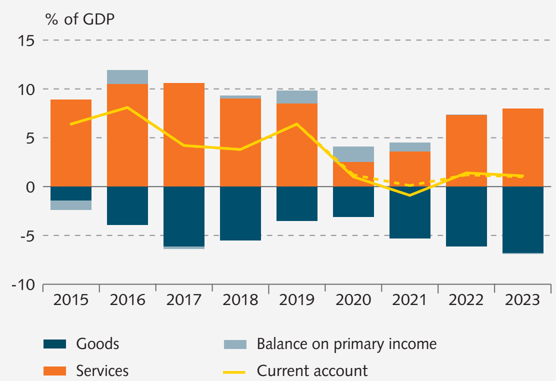


1. Seasonally adjusted volume indices.

Source: Statistics Iceland.

Chart III-14

Current account balance 2015-2023[1]



1. Current account excluding the effects of failed financial institutions in 2015. Balance on secondary income included in the balance on primary income. Central Bank baseline forecast 2021-2023. Broken line shows forecast from MB 2021/1.

Sources: Statistics Iceland, Central Bank of Iceland.

Trade deficit expected for the first time since 2008
The current account surplus measured 1% of GDP in 2020, the smallest surplus since 2008, when there was a sizeable deficit (Chart III-14). This is a significant change from the 6.4% surplus in 2019, reflecting the abrupt turnaround in the trade balance, which flipped from a 5.1% surplus in 2019 to a 0.6% deficit in 2020. The reversal is due to the strong contraction in services exports and a marked deterioration in terms of trade (see Chapter I). The composition of the current account surplus has changed somewhat in the wake of the pandemic. Over the past decade, it has been driven mainly by a surplus on goods and services trade, whereas in 2020 it reflected a 1.6% surplus on the primary and secondary income balance. The primary income surplus is due mainly to operating losses recorded by foreign-owned domestic companies.

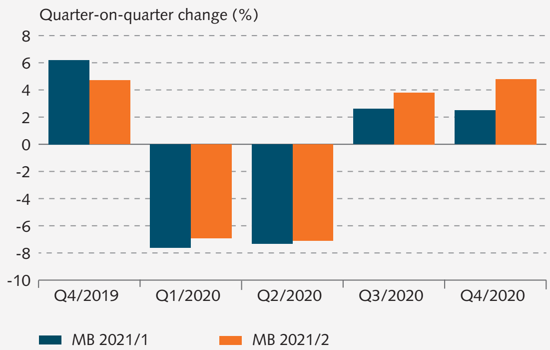
Last year's trade deficit was slightly larger than was expected in February, and the difference is projected to continue into this year. This is offset by a continued surplus on the primary income account, in part reflecting an increasingly positive net asset position. The current account is expected to show a deficit of 0.2% of GDP this year but then reverse to a surplus of nearly 2% next year, when tourism regains momentum and terms of trade improve.

GDP growth

GDP contracted sharply in 2020 …
Even though private consumption contracted quarter-on-quarter in Q4/2020, domestic demand grew by 0.5% over the same period. Added to this was strong growth in intellectual property-related exports, bringing GDP growth for the quarter to 4.8% – the second quarter in a row to see a rise in GDP (Chart III-15). However, because of the steep contraction in the first two quarters, GDP was still 5.1% lower in Q4 than in the same quarter of 2019, having bottomed out at -10.1% in Q2/2020 (Chart III-16).

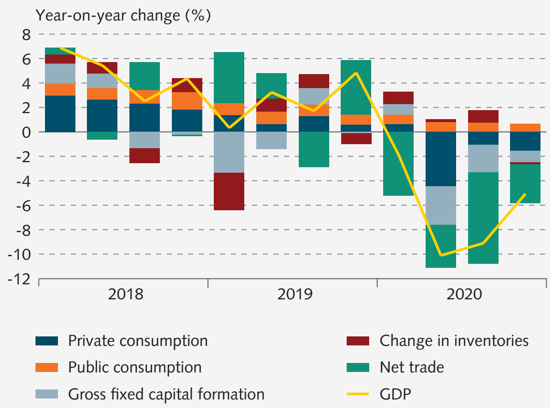
In 2020 as a whole, GDP contracted by 6.6%, owing to a 1.9% contraction in domestic demand and a negative contribution from net trade in the amount of 4.9 percentage points. All components of domestic demand contracted except public consumption. The contribution of inventory changes to output growth was marginally positive. The contraction in GDP somewhat exceeded the trading partner average (see Chapter I), but as is discussed in Box 2, this reflects the magnitude of the export shock relative to other countries.

Chart III-15
Quarterly changes in GDP growth[1]
Q4/2019 - Q4/2020



1. Seasonally adjusted figures. Data for the series MB 2021/2 show Statistics Iceland's measurement from February 2021, but data for the series MB 2021/1 show Statistics Iceland's measurement from November 2020, with the exception of Q4/2020 data, which are taken from the baseline forecast in MB 2021/1.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-16
GDP growth and contribution of underlying components[1]
Q1/2018 - Q4/2020



1. Because of chain-volume linking, the sum of expenditure components may not equal GDP growth.
Sources: Statistics Iceland, Central Bank of Iceland.

… but less than previously forecast

Nevertheless, the contraction in GDP was more than 1 percentage point smaller than was forecast in February. GDP growth turned out stronger than expected in Q4, and Statistics Iceland revised its previous estimates for the first three quarters of the year. Developments in external trade in 2020 as a whole were in line with the February forecast, but the contraction in private consumption and investment turned out smaller than previously projected.

COVID-19 hit tourism-related sectors particularly hard

Last year's contraction in output extended to nearly half of all sectors, according to the production accounts, but the hardest-hit were sectors related to tourism and those that were most affected by public health measures (Chart III-17). For example, activities relating to travel bookings, air transport, and accommodation and restaurant services shrank by 50-75% from the prior year. However, the downturn was not restricted to tourism and related sectors. Other services and manufacturing also contracted markedly. That said, output did increase in some sectors, including retail sales, but the biggest contribution came from 3% growth in public sector activities.

Output growth in 2021 set to exceed the February forecast

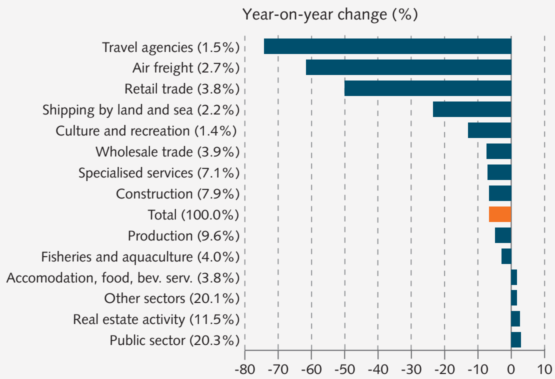
Owing to one-off effects from strong intellectual property exports in Q4/2020, GDP is estimated to have contracted quarter-on-quarter in Q1/2021 but to have grown by just over 2.2% relative to Q1/2020, the first increase year-on-year in more than a year. GDP growth is projected to gain momentum in Q2 and average 3.1% in 2021 as a whole, or 0.6 percentage points above the February forecast (Chart III-18). Private consumption growth will be the main driver of output growth, albeit offset in part by a slightly weaker rise in investment. The contribution from net trade is unchanged from the February forecast, however.

GDP growth is projected to accelerate further in 2022, measuring 5.2%, which is broadly similar to the February forecast. It will be driven mainly by strong growth in exports, and the contribution from net trade will be positive for the first time since 2019. Over the course of 2023, however, GDP growth will begin to ease towards its long-term potential and is expected to measure 2.3% (see Box 3).

If the forecast materialises, GDP will not return to its 2019 level until 2022, and in 2023 it will still be 3% below the level projected in the Bank's last pre-pandemic

Chart III-17

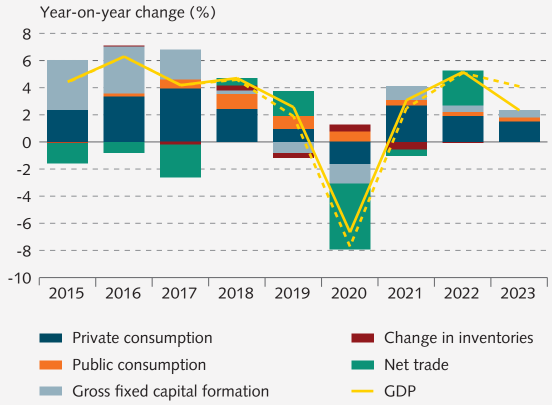
Contraction in selected sectors[1]



1. The contraction in gross national income (GNI) in 2020, by economic sector. GNI measures the income of all parties involved in output. It is equal to GDP adjusted for indirect taxes and production subsidies. Figures in parentheses show the share of individual sectors in nominal GNI in 2019.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-18

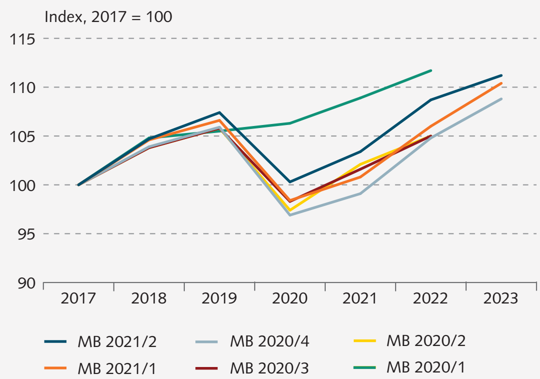
GDP growth and contribution of underlying components 2015-2023[1]



1. Central Bank baseline forecast 2021-2023. Broken line shows forecast from MB 2021/1.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-19

Gross domestic product 2017-2023[1]



1. Central Bank baseline forecasts from February 2020 onwards.
Sources: Statistics Iceland, Central Bank of Iceland.

forecast. It is therefore clear that the economic damage done by the pandemic will be long-lasting (see also Boxes 3 and 4), although it will apparently be less severe than was initially feared (Chart III-19). This outlook is subject to considerable uncertainty, however. Box 1 presents alternative scenarios that describe various possible output growth paths, depending on how successfully the pandemic can be brought under control.