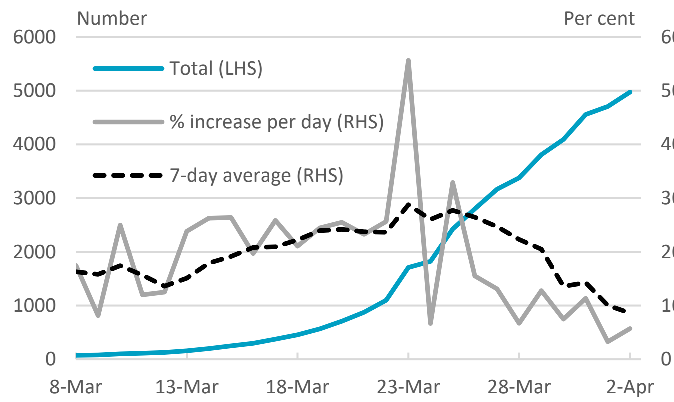
ASFA Economic Snapshot: week ending 3 April

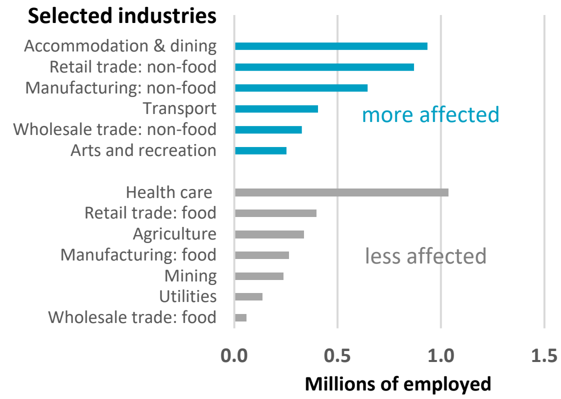
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

In Australia, restrictions are slowing virus spread



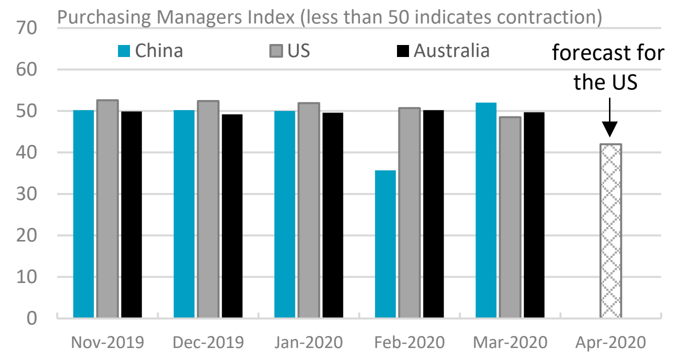
In Australia growth in confirmed virus cases appears to have slowed. The average daily increase was 9% this week, compared with 26% last week. This, coupled with Australia's relatively high testing rate (around 5,000 per million persons), suggests that the tighter restrictions on social interactions and travel are working. However, Western Europe and the US in particular continue to struggle to contain the virus.

Many large sectors are severely affected



Across the Australian economy, businesses are being forced to close or reduce operations, and lay-off or furlough workers. Some sectors that employ large numbers of workers have been severely affected. Prior to the crisis, the retail trade sector (excluding groceries and alike) employed around 870,00 workers, while the accommodation and food service industry employed around 930,000 workers.

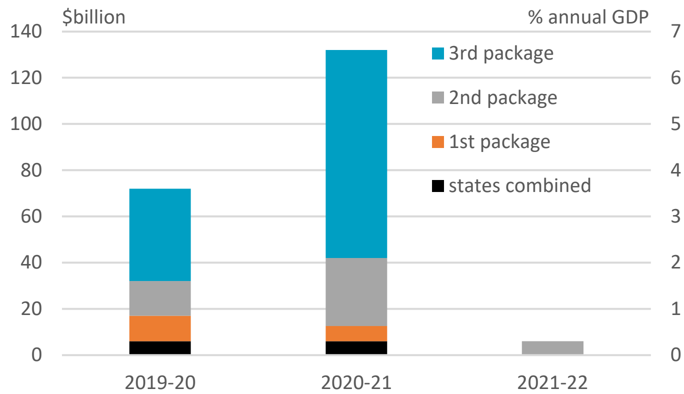
Australian manufacturing set to decline



Note: For the US the April figure is a consensus market forecast.

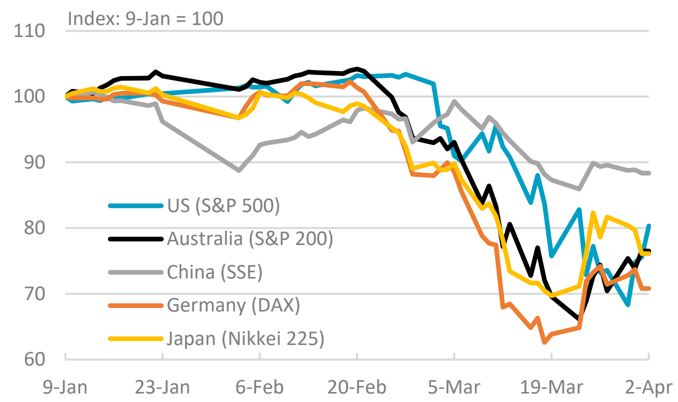
Purchasing Managers Indexes compile views of supply-chain managers about market conditions – a reading less than 50 indicates contraction. For manufacturing, Chinese conditions improved in March as factories reopened. However, US activity is expected to contract sharply in April. Australian conditions have held steady, buoyed by food manufacturing, but broader conditions will deteriorate in April.

Another week, more fiscal stimulus



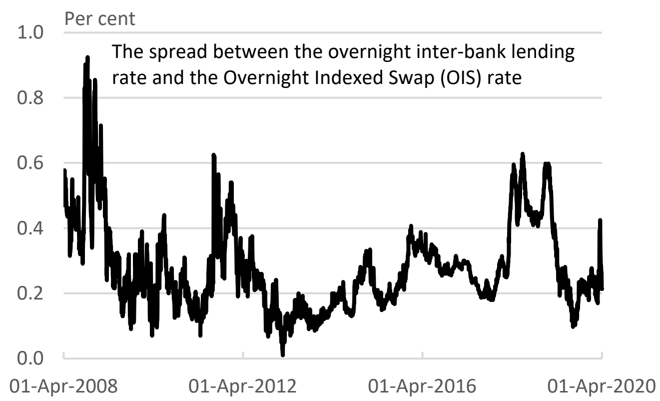
This week the Australian government announced a third tranche of fiscal measures: $130 billion for business to retain and pay employees. All told, the Commonwealth's direct fiscal measures now total almost $200 billion, or about 10% of annual GDP. Together, the states have committed an extra $12 billion of measures. In comparison, the fiscal response to the GFC and its aftermath totalled around 7% of GDP.

Aggressive policy action is stabilising equity markets



Around the globe, further aggressive policy action has helped support equity markets. Notably, the US Congress passed a $US2 trillion fiscal package. That said, markets remain well down from the start of 2020. For the March quarter the ASX was down around 24%, which is similar to losses for the December quarter 2008 (during the GFC).

There is little stress in the banking system yet



Unlike the GFC, this crisis didn't originate in financial system. This chart shows the difference between the interest rate on overnight loans between banks and a (credit) risk-free rate, and so reflects perceptions of bank creditworthiness. While the current level is below GFC-highs, a weakening real economy is likely to heighten banking-system stress.

Sources: Our World in Data, the Federal Reserve Bank of St. Louis database (FRED), the Reserve Bank of Australia, the Australian Government, the Australian Bureau of Statistics, the Australian Industry Group.