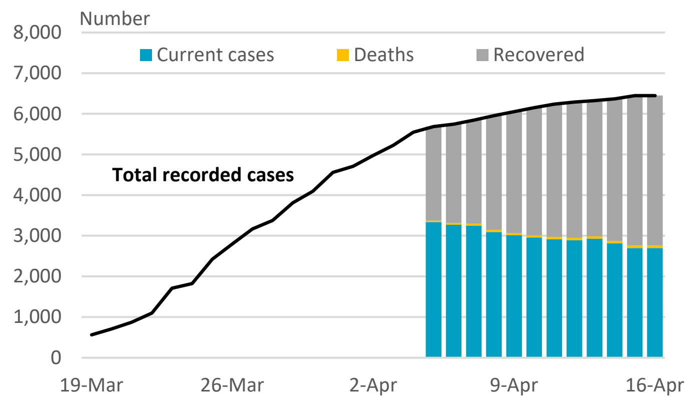
ASFA Economic Snapshot: week ending 17 April

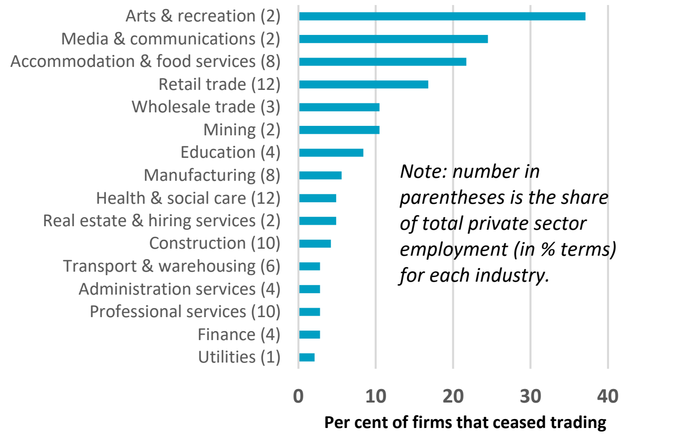
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

In Australia, the number of current cases is declining



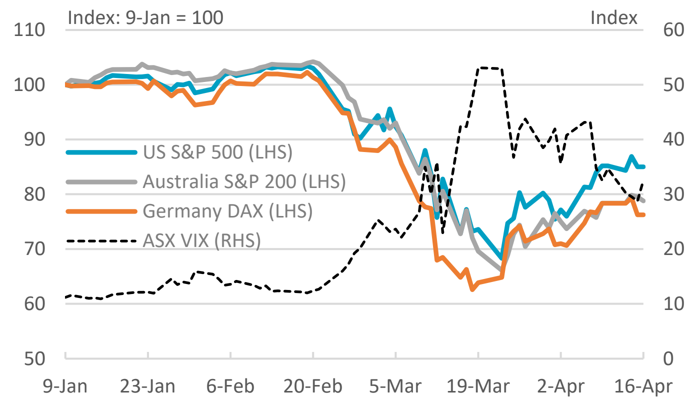
Restrictions on social interactions has led to a near-stabilisation of recorded virus cases. This means that as people recover, the number of infected persons is declining – at a rate of around 50 per day over the last week. Of those who are currently infected, around 350 (or around 13%) are hospitalised and 76 people are in intensive care.

In some industries, many firms have ceased trading



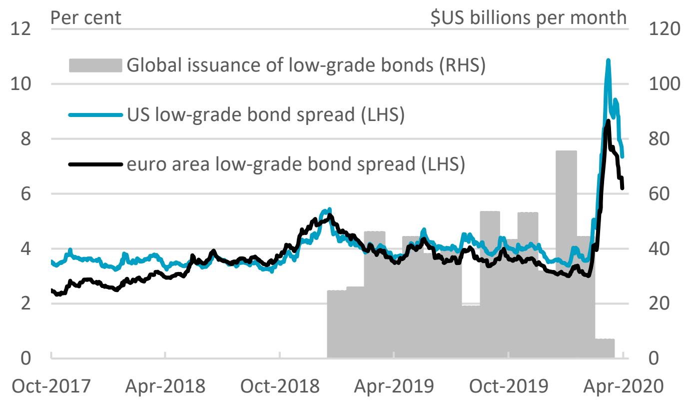
Government restrictions have had a dramatic impact on many firms. For the two weeks to 3 April, around 7% of firms ceased trading due to crisis-related conditions. In terms of industries, the most is affected is arts & recreation – although it accounts for 2% of total employment.

Global equity markets are improving…



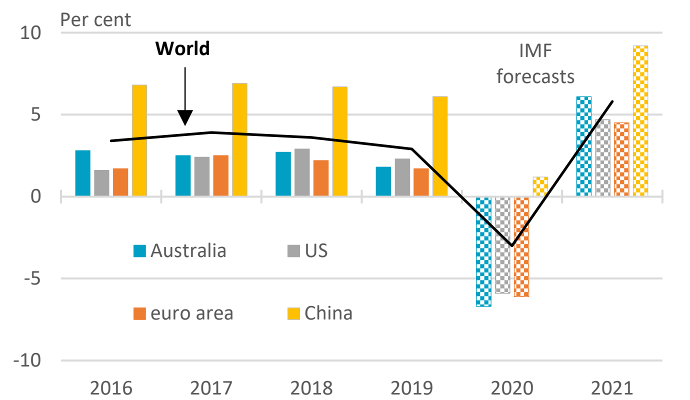
Global equity markets continue to improve, after being sold-off heavily in March, with investor sentiment buoyed by (slow) progress in containing the virus. Major indices are around 20% up from their lows of mid-March, but still around 20% down from the start of 2020. Volatility has reduced somewhat. For the ASX, the VIX (implied volatility) measure, while still elevated, is well down from mid-March.

…corporate debt markets remain tight



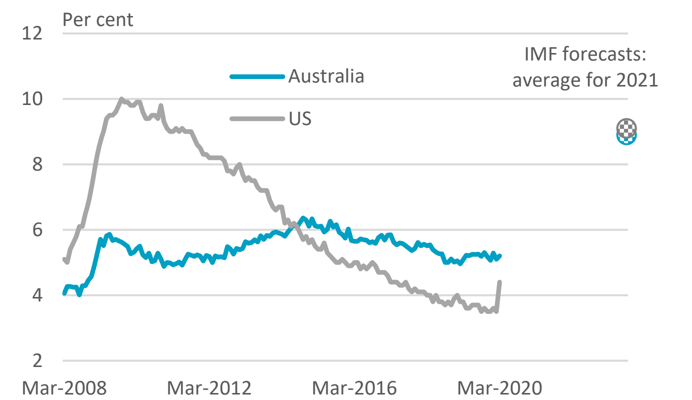
To varying degrees, conditions in corporate debt markets have deteriorated since mid-February. For low-grade debt in particular, investor concerns about high corporate leverage has pushed up yields, and firms are having difficulty raising funds. Some major central banks have committed to buy high-grade bonds to support issuance and liquidity, but the Fed has extended its purchases to low-grade bonds.

The IMF forecasts GDP to contract sharply…



For advanced economies, the IMF forecasts a sharp, synchronised recession – with GDP to fall by an average of 6% in 2020 (although the IMF warns of "extreme" uncertainty around its forecasts). If realised, this would be significantly worse than the Great Recession, where advanced-economy GDP fell by 3.3% in 2009. The IMF's V-shaped recovery is based on the pandemic fading in the second half of 2020.

…and unemployment to spike



Around the globe unemployment will increase sharply during 2020 as economic activity contracts. For Australia, the IMF forecasts that the unemployment rate will average around 9% in 2021, which is equivalent to job losses of around 500,000. However, recent data on reduced business activity – as reported above and in last week's note – suggest that the IMF forecast could be somewhat optimistic.

Sources for each panel: (1) https://www.covid19data.com.au/; (2) the Australian Bureau of Statistics, *Business Indicators: Business Impacts of COVID-19* and ASFA calculations; (3) Google Finance; (4) the IMF World Economic Outlook (WEO) and the Federal Reserve Bank of St. Louis database; (5 & 6) the IMF WEO.