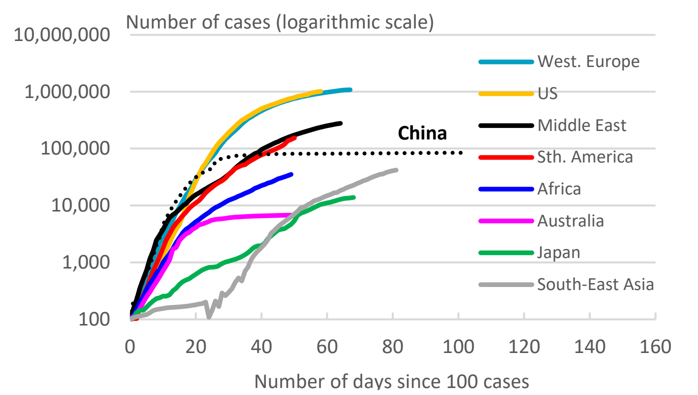
ASFA Economic Snapshot: week ending 1 May

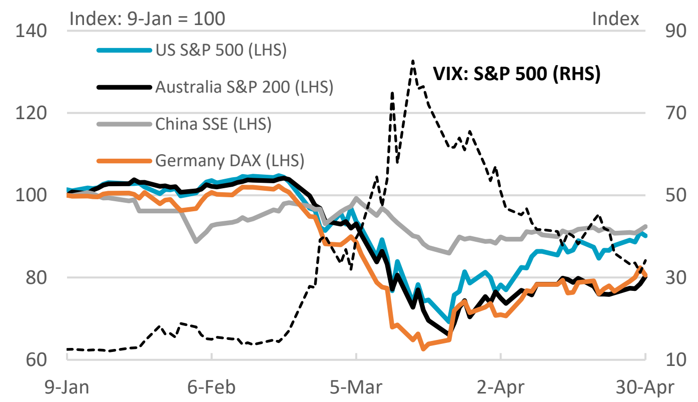
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Global progress on containing the virus remains slow



In the US and Europe, total cases continue to rise, albeit at slowing rates. In the US, total cases increased by 23% over the last 7 days, down from 35% for the week prior. In Western Europe, total cases rose by 11% this week (down from 17%). Both regions face difficult decisions – when to relax restrictions as economic activity contracts.

Equity markets are calmer (maybe too calm)

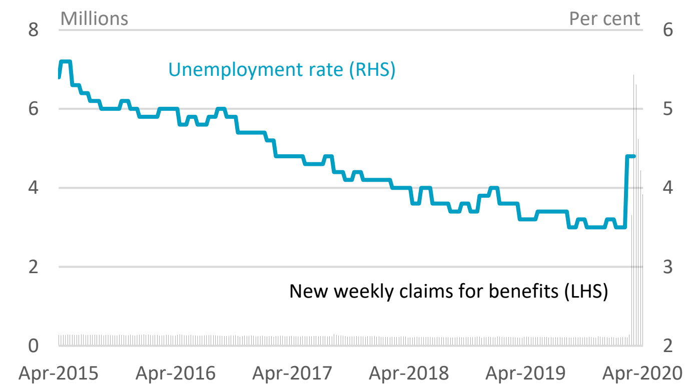


Major equity markets continue to recover and volatility (represented in this chart by the VIX for the US S&P500) continues to ease. The US market is now only 11% lower than the start of 2020, while European markets are down about 20%. However, current trends appear somewhat at odds with the real economic impacts of the crisis.

US GDP contracts…

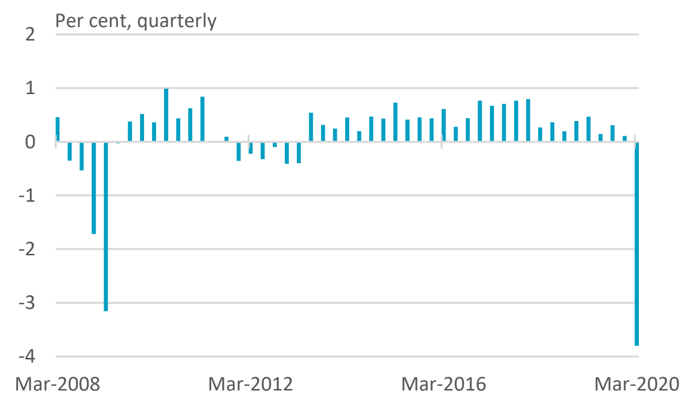
US GDP fell by 1.2% in the March quarter (grey bars in this chart). Looking ahead, the preliminary April outcome for the (composite) Purchasing Managers Index is 27.4, or 22.6 points lower than the threshold of 50 that indicates neither expansion nor contraction. This suggests another large fall in GDP for the June quarter. In annual terms, the IMF forecasts that US GDP will drop by 6% in 2020.

…and job losses reach 30 million



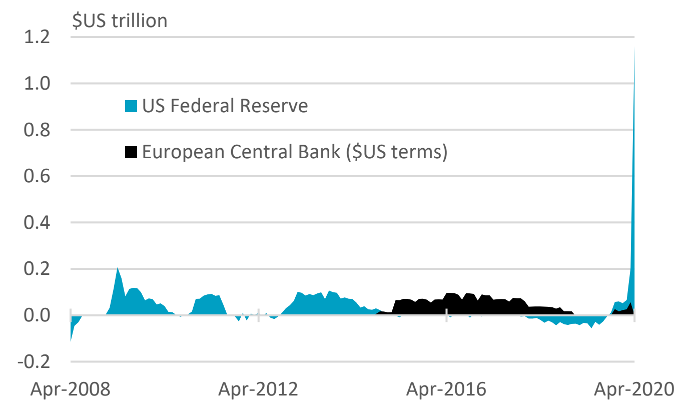
The US labour market has deteriorated faster, and by a greater extent than economists expected. Over the 6 weeks to 25 April, about 30 million people filed for unemployment benefits, which represents about 19% of the US labour force. While new claims are now falling week-on-week, the official unemployment rate is ultimately likely to exceed 20% – which would be the highest rate since the mid-1930s.

eurozone economic activity plummets



The eurozone economy suffered its largest and steepest-ever fall in economic activity in the March quarter. Preliminary data show that GDP shrank by 3.8% – a worse quarterly outcome than during the depths of the GFC. Other data point to further declines in GDP. In particular, the preliminary (composite) PMI outcome for April is 13.5 (a figure less than 50 indicates a contraction in activity).

The Fed expands its bond-buying program



The US Fed has resumed large-scale bond purchases – a tool it used during the GFC. Like then, the Fed is buying government and mortgage-backed securities to improve market functioning and reduce rates. However, the scale of the current program is higher. Net purchases in March and April totalled $1.4 trillion – more than for all of 2008-09. The ECB has also committed to expanding its program.

Sources for each panel: (1) Our World in Data (https://ourworldindata.org/coronavirus-source-data); (2) Google Finance; (3) Federal Reserve Bank of St. Louis database and IHS Markit; (4 to 6) Federal Reserve Bank of St. Louis database.