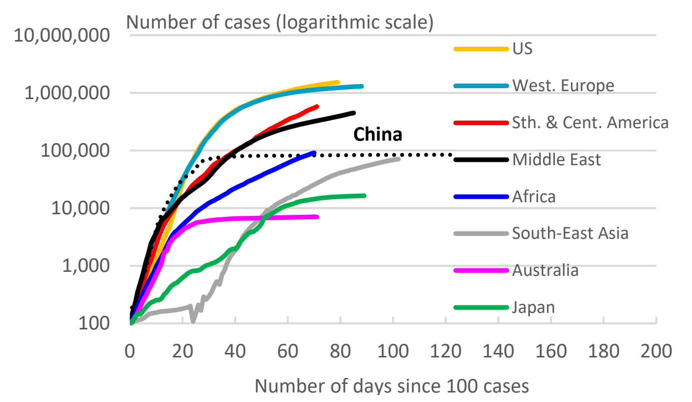
ASFA Economic Snapshot: week ending 22 May

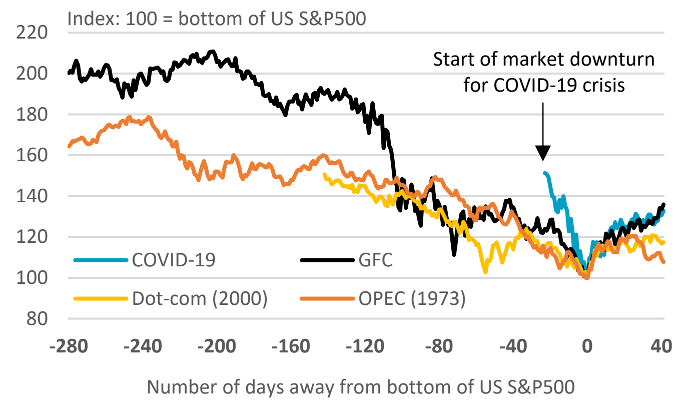
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Governments look to ease restrictions



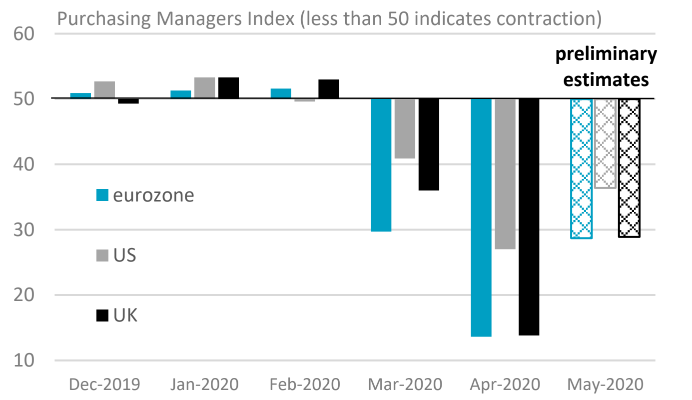
In advanced economies, social restrictions are working to slow the spread of the virus. In Western Europe, total cases increased by 4% in the last 7 days, down from 6% for the week prior. In US, total cases rose by 11% this week (down from 12%). Governments are now easing, or planning to ease, restrictions to re-boot parts of their economies.

Equity markets recovering (too?) quickly



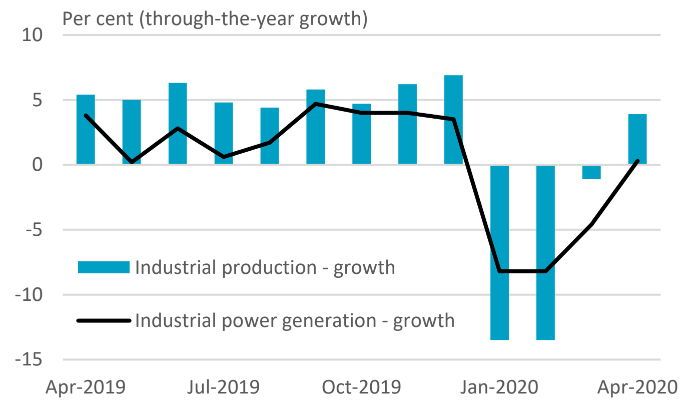
Major equity markets continue to recover – the US S&P500 is now only 13% below its mid-February peak. The pace of recovery is fast compared with some previous shocks, although not without precedent (see chart). However, this recovery does appear to be at odds with the severe (and still uncertain) real economic impacts.

Big falls in GDP ahead for major advanced economies …



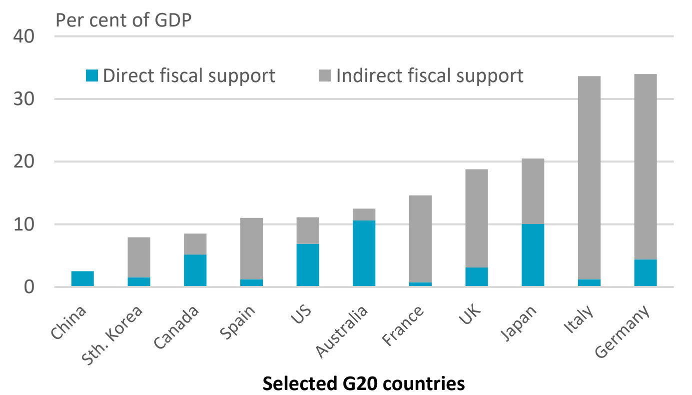
For major advanced economies, preliminary outcomes for (composite) Purchasing Managers Indexes show that economic activity continues to contract sharply in May, albeit by less than in April (a reading less than 50 indicates contraction). Together, this suggests very large falls in GDP for the June quarter. In the US, the Congressional Budget Office forecasts that GDP will decrease by a staggering 9.5% in the June quarter. If realised, this means a fall of 11.6% for the first half of 2020.

… which will delay China's recovery



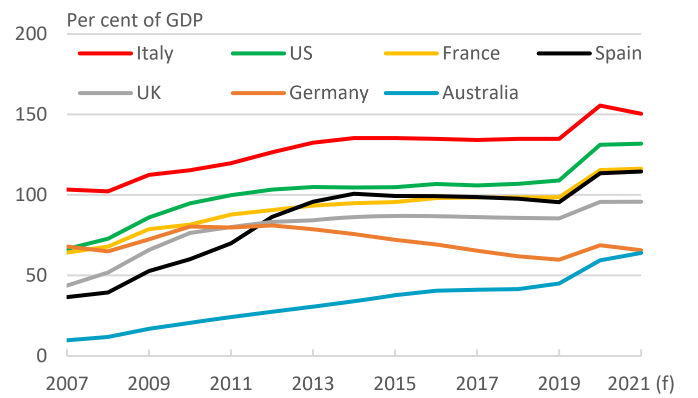
Chinese activity has bounced-back. In April, industrial production was 4% higher than the same time last year, while electricity generation (a proxy for activity) was around the same as a year ago. However, there is doubt whether this will translate into a broad recovery in the short-term given weakness in key export markets. And while household consumption is not as big a driver of growth as in advanced economies, weak retail trade outcomes are also weighing growth prospects.

G20 governments providing massive fiscal support …



Thus far, G20 governments have committed to direct fiscal support averaging 3.5 percent of GDP – which is higher than during the GFC. Governments are also using indirect fiscal measures, such as guarenteed loans and equity injections for firms, in part due to concerns about already-high levels of government debt.

… which is sending government debt higher



IMF projections show that the current set of committed fiscal measures will lead to another sharp increase in government debt – which for many countries had already increased substantially following the GFC. For some countries – particularly those in the euro zone – higher levels of debt will constrain future fiscal action.

Sources for each panel: (1) Our World in Data; (2) Google Finance; (3) IHS Markit; (4) National Bureau of Statistics China; (5 & 6) IMF Fiscal Monitor.