Global Insights

The COVID-19 Report June 2020

run.

The Business Transformation Consultancy

What we do

The Run research team identifies and analyses financial information and trends. The business landscape is changing at a rapid pace. Run Intelligence helps organisations prepare for the future.

Our macro approach focuses on the intersection between economic and financial markets. We believe we can achieve more in partnership with others than if we act alone. Working with organisations to create and deliver custom-made solutions, even in some of the most complex, challenging and fragile environments in the world.

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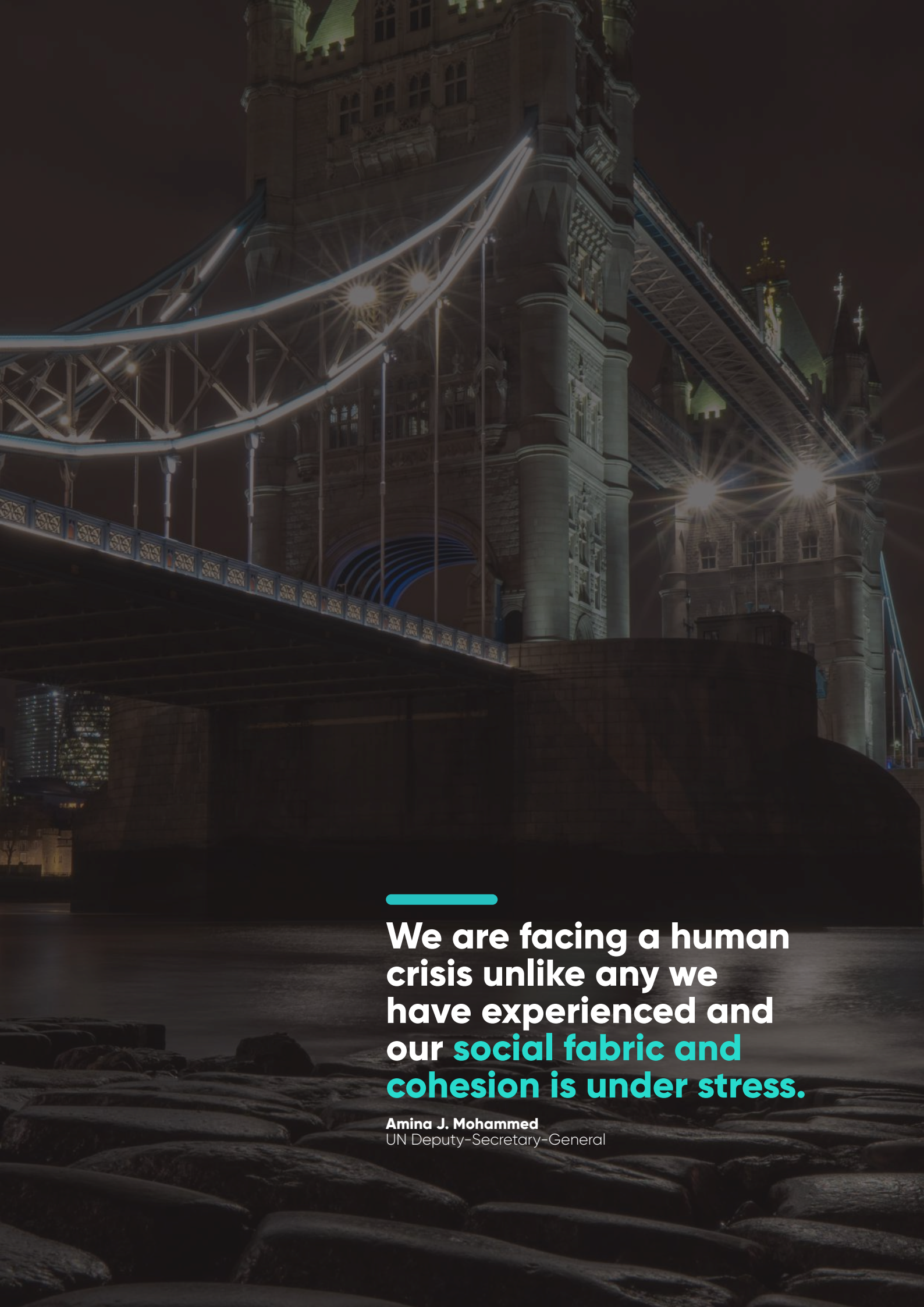


We are facing a human crisis unlike any we have experienced and our social fabric and cohesion is under stress.

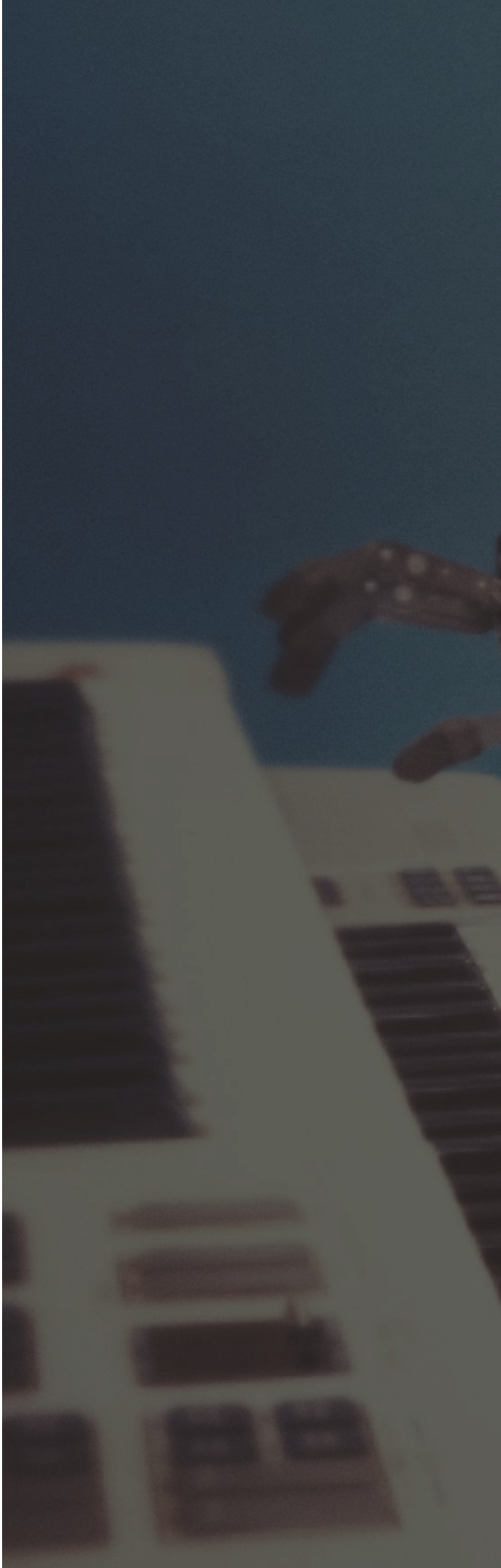
Amina J. Mohammed
UN Deputy-Secretary-General

The Author

Mark Feerick was formerly a Sales Trader at Investec Bank, focusing on FX, commodities and money markets. He covered various sectors such as airlines, manufacturing and retailing. These were generally in the midcap space, £15m EBITDA and above, including listed FTSE250 public companies.

He covered both developed and emerging markets over a wide section of markets, from jet fuel and copper through to Chinese Renminbi and Brazilian Real. His area of expertise later became derivative products. It involved working through often complex exposures, building trust and partnering with clients up to the deal execution. In 2006 Mark graduated from the London School of Economics (LSE) and has always had a deep and longstanding natural interest in markets and the wider global economy. He has worked in some phenomenal teams, and credits them for providing him with a brilliant foundation for his journey in investment banking.

Mark Feerick
Co-founder and Chief Market Analyst



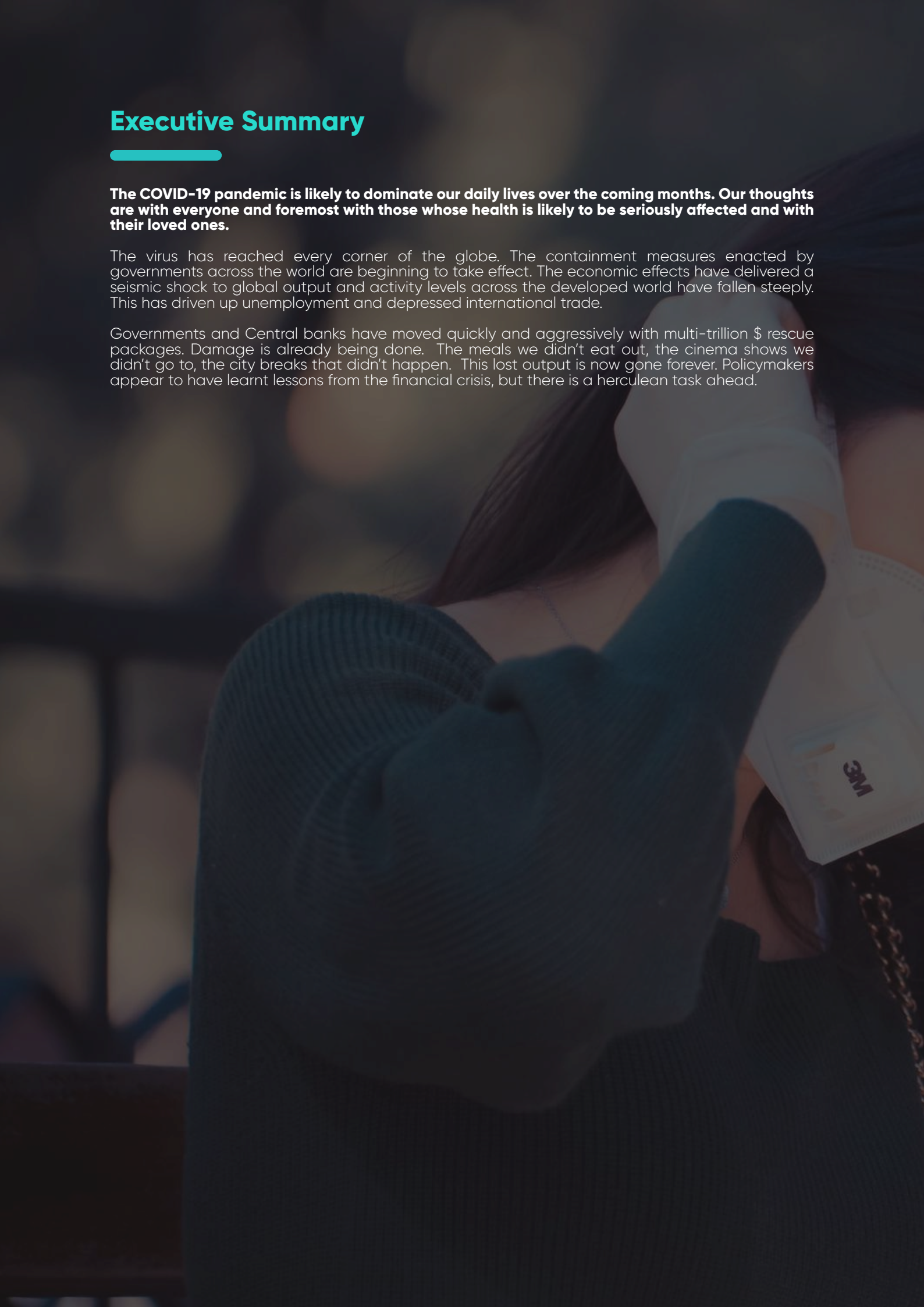
> **“We’re living in unprecedented times but I feel that there’s still opportunities for businesses to succeed.**
>
> Mark Feerick

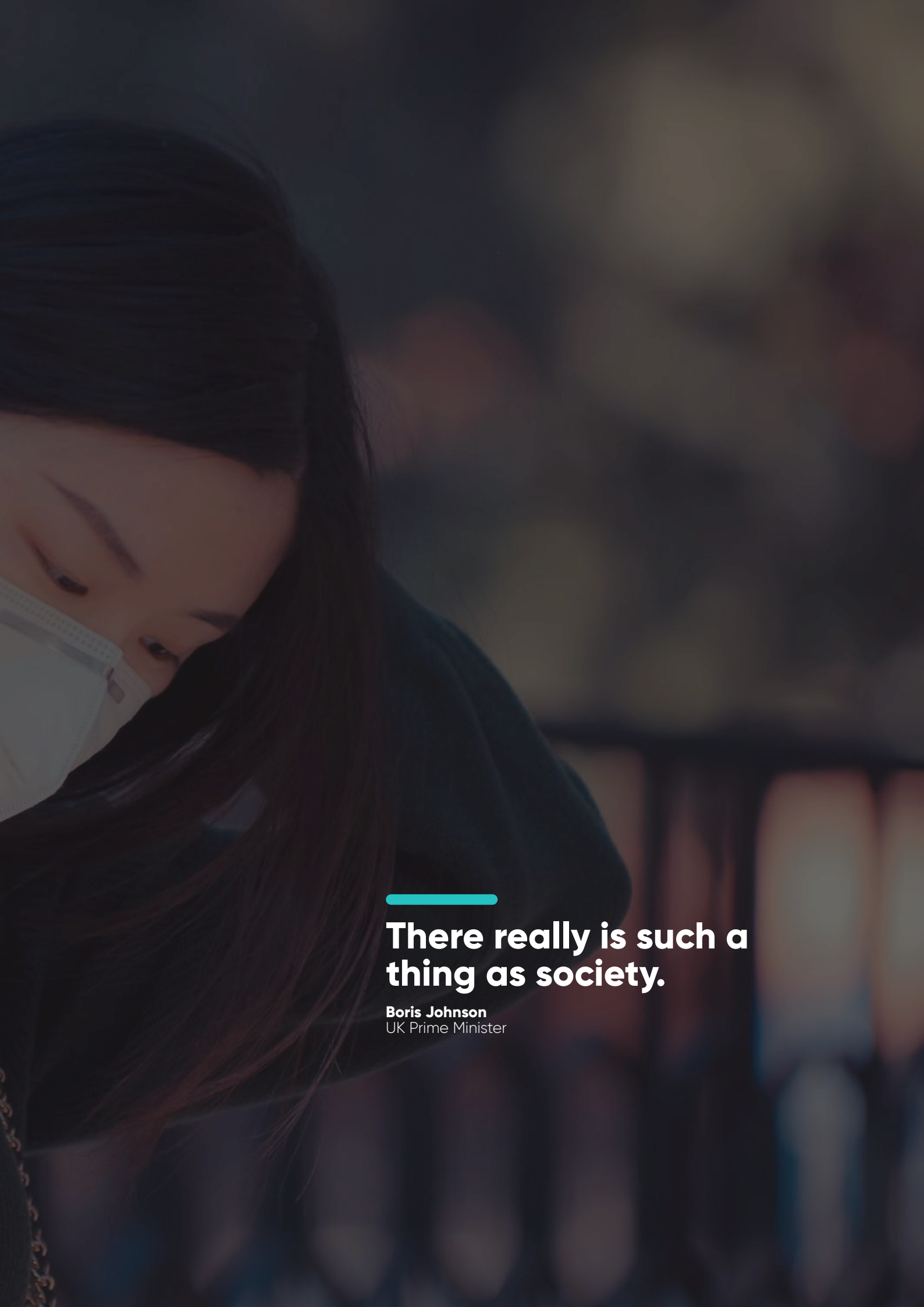
Executive Summary

The COVID-19 pandemic is likely to dominate our daily lives over the coming months. Our thoughts are with everyone and foremost with those whose health is likely to be seriously affected and with their loved ones.

The virus has reached every corner of the globe. The containment measures enacted by governments across the world are beginning to take effect. The economic effects have delivered a seismic shock to global output and activity levels across the developed world have fallen steeply. This has driven up unemployment and depressed international trade.

Governments and Central banks have moved quickly and aggressively with multi-trillion $ rescue packages. Damage is already being done. The meals we didn't eat out, the cinema shows we didn't go to, the city breaks that didn't happen. This lost output is now gone forever. Policymakers appear to have learnt lessons from the financial crisis, but there is a herculean task ahead.





There really is such a thing as society.

Boris Johnson
UK Prime Minister

COVID-19 Where are we?

The situation now

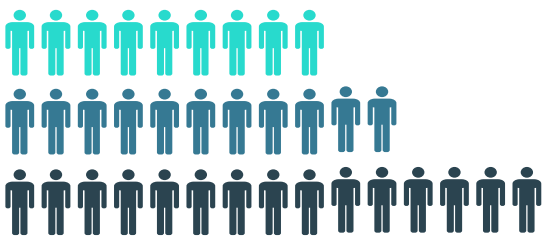
At the time of writing, COVID-19 cases have exceeded 6.19 million and are increasing quickly around the world, with concerns that a 15% hospitalisation rate could drive hospital system overload. To reduce growth in cases, governments have moved to stricter social distancing, with "shelter in place" orders in many areas in the U.S., Europe, India, and other countries. This has driven rapid demand declines and fears of recessions, which governments are trying to meet through bailouts and other fiscal measures. Some Asian countries, such as China, have kept incremental cases low, and are restarting economies. So far, there is little evidence of a resurgence in infections, though reinfection from travel abroad is being reported.

How the situation may evolve

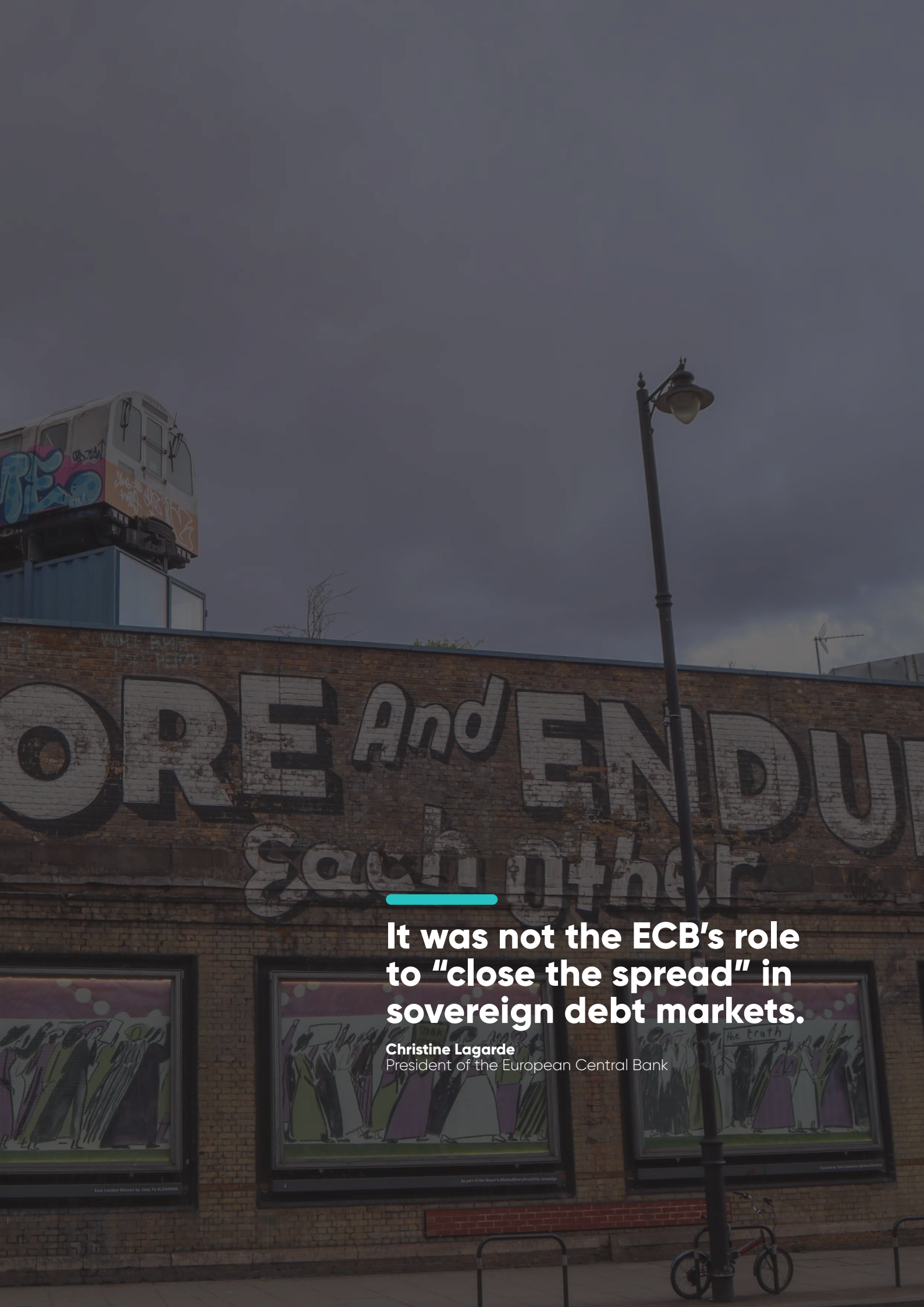
There is a limited window for governments to drive adequate public-health responses and meet demand drawdowns with proportionate economic interventions. Without this, the possibility of a deeper effect on lives and livelihoods is more likely. Scaled-up testing could clarify the extent and distribution of spread in the U.S., and Europe. There continues to be concern about the extent of spread and its consequences in countries with large populations and higher population densities. Learnings from other countries and recent innovations (strict social distancing rules, drive through testing, off-the-shelf drugs that can address mild cases, telemedicine enabled home care) could provide a basis for a restart.

7.27M

Confirmed COVID-19 cases world wide*

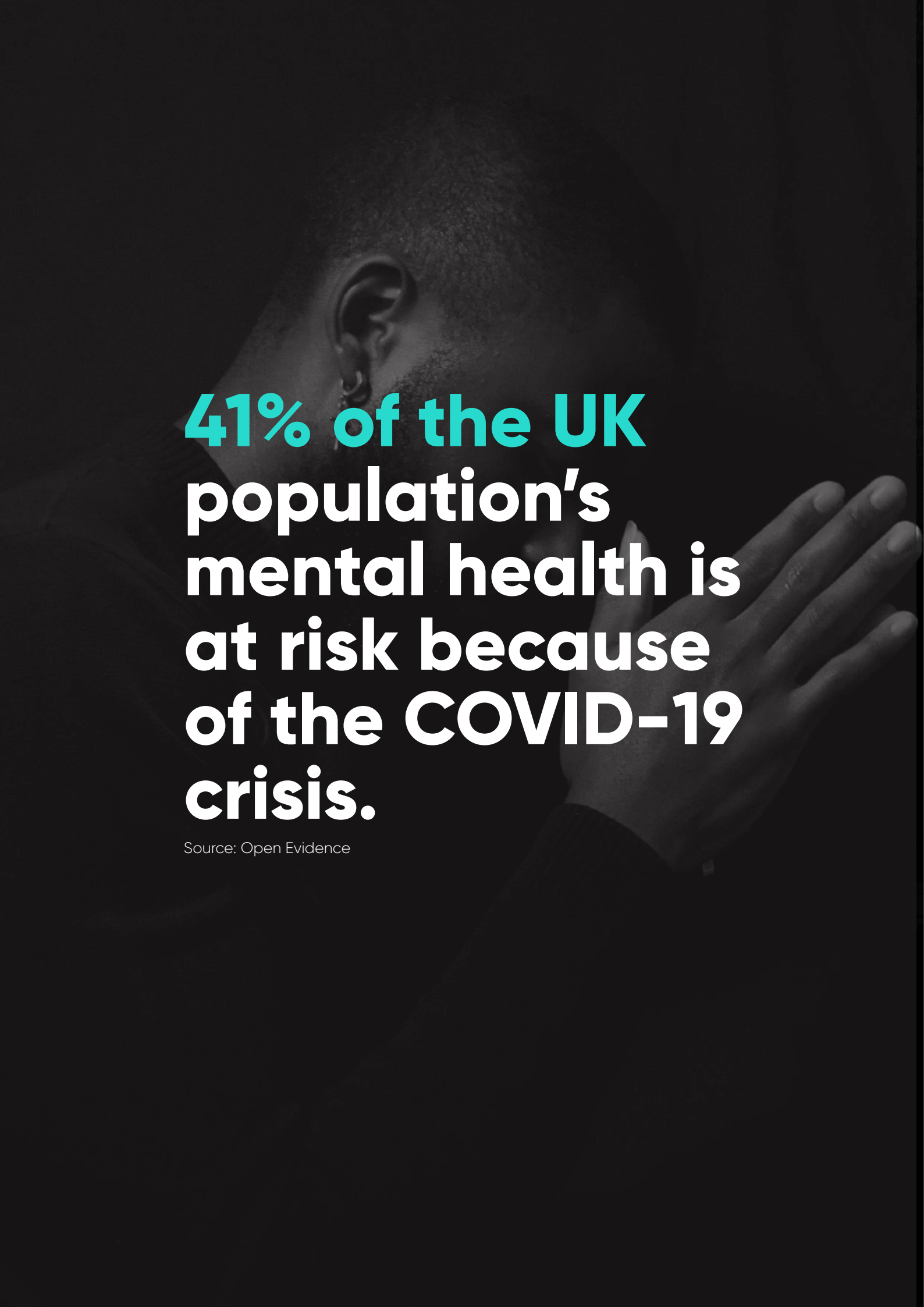


*At the time of writing



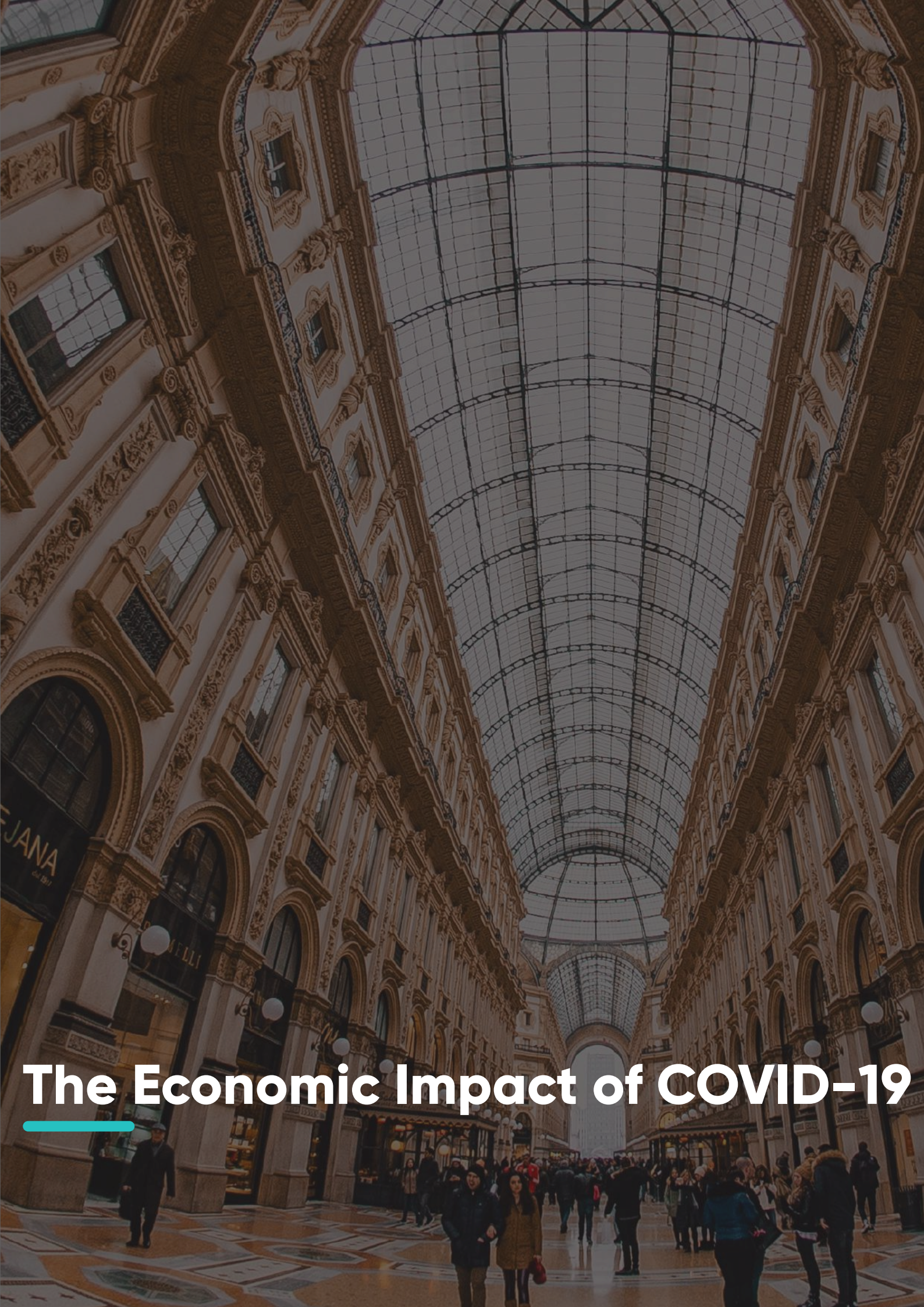
It was not the ECB's role to "close the spread" in sovereign debt markets.

Christine Lagarde
President of the European Central Bank



41% of the UK population's mental health is at risk because of the COVID-19 crisis.

Source: Open Evidence



The Economic Impact of COVID-19

The Economic Impact of COVID-19

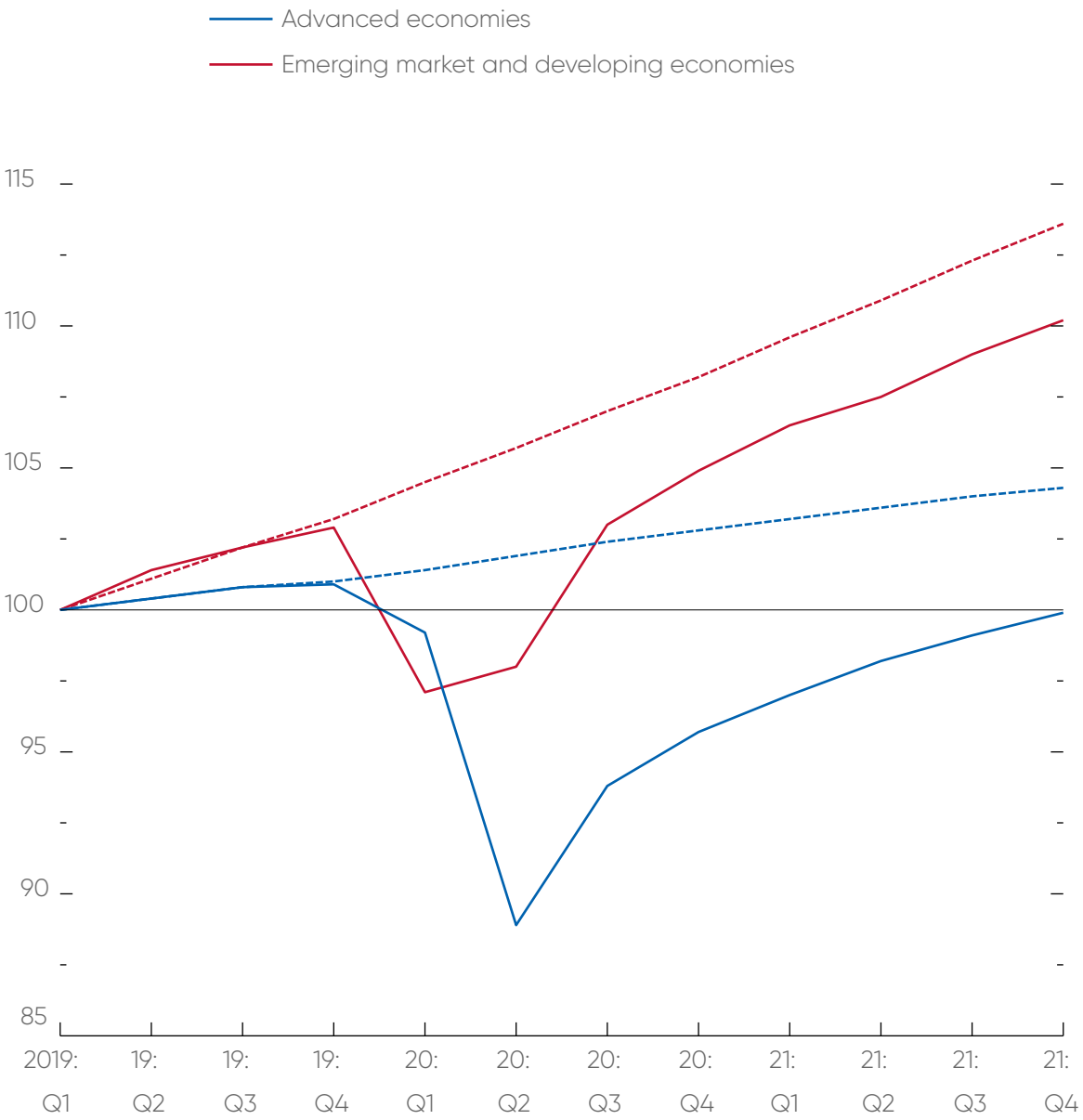
The outbreak is set to have a material impact on the global economy, at least in the short term, although it is too early to tell with any certainty how long the impact could last. A lot will depend on when a viable vaccine becomes available and how the pandemic evolves.

		Projections		Difference from January 2020 WEO Update[1]		Difference from October 2019 WEO[1]	
	2019	2020	2021	2020	2021	2020	2021
World Output	**2.9**	**-3.0**	**5.8**	**-6.3**	**2.4**	**-6.4**	**2.2**
Advanced Economies	**1.7**	**-6.1**	**4.5**	**-7.7**	**2.9**	**-7.8**	**2.9**
United States	2.3	-5.9	4.7	-7.9	3.0	-8.0	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3	-8.9	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8	-8.2	3.8
France	1.3	-7.2	4.5	-8.5	3.2	-8.5	3.2
Italy	0.3	-9.1	4.8	-9.6	4.1	-9.6	4.0
Spain	2.0	-8.0	4.3	-9.6	2.7	-9.8	2.6
Japan	0.7	-5.2	3.0	-5.9	2.5	-5.7	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5	-7.9	2.5
Canada	1.6	-6.2	4.2	-8.0	2.4	-8.0	2.4
Other Advanced Economies[2]	1.7	-4.6	4.5	-6.5	2.1	-6.6	2.2
Emerging Market and Developing Economies	**3.7**	**-1.0**	**6.6**	**-5.4**	**2.0**	**-5.6**	**1.8**
Emerging and Developing Asia	5.5	1.0	8.5	-4.8	2.6	-5.0	2.3
China	6.1	1.2	9.2	-4.8	3.4	-4.6	3.3
India[3]	4.2	1.9	7.4	-3.9	0.9	-5.1	0.0
ASEAN-5[4]	4.8	-0.6	7.8	-5.4	2.7	-5.5	2.6
Emerging and Developing Europe	2.1	-5.2	4.2	-7.8	1.7	-7.7	1.7
Russia	1.3	-5.5	3.5	-7.4	1.5	-7.4	1.5
Latin America and the Caribbean	0.1	-5.2	3.4	-6.8	1.1	-7.0	1.0
Brazil	1.1	-5.3	2.9	-7.5	0.6	-7.3	0.5
Mexico	-0.1	-6.6	3.0	-7.6	1.4	-7.9	1.1
Middle East and Central Asia	1.2	-2.8	4.0	-5.6	0.8	-5.7	0.8
Saudi Arabia	0.3	-2.3	2.9	-4.2	0.7	-4.5	0.7
Sub-Saharan Africa	3.1	-1.6	4.1	-5.1	0.6	-5.2	0.4
Nigeria	2.2	-3.4	2.4	-5.9	-0.1	-5.9	-0.1
South Africa	0.2	-5.8	4.0	-6.6	3.0	-6.9	2.6
Memorandum							
European Union[5]	1.7	-7.1	4.8	-8.7	3.1	-8.8	3.1
Low-Income Developing Countries	5.1	0.4	5.6	-4.7	0.5	-4.7	0.4
Middle East and North Africa	0.3	-3.3	4.2	-5.9	1.2	-6.0	1.2
World Growth Based on Market Exchange Rates	2.4	-4.2	5.4	-6.9	2.6	-6.9	2.6
World Trade Volume (goods and services)	**0.9**	**-11.0**	**8.4**	**-13.9**	**4.7**	**-14.2**	**4.6**
Imports							
Advanced Economies	1.5	-11.5	7.5	-13.8	4.3	-14.2	4.2
Emerging Market and Developing Economies	-0.8	-8.2	9.1	-12.5	4.0	-12.5	4.0
Exports							
Advanced Economies	1.2	-12.8	7.4	-14.9	4.4	-15.3	4.3
Emerging Market and Developing Economies	0.8	-9.6	11.0	-13.7	6.8	-13.7	6.6
Commodity Prices (US dollar)							
Oil[6]	-10.2	-42.0	6.3	-37.7	11.0	-35.8	10.9
Nonfuel (average based on world commodity import weights)	0.8	-1.1	-0.6	-2.8	-1.2	-2.8	-1.9
Consumer Prices							
Advanced Economies	1.4	0.5	1.5	-1.2	-0.4	-1.3	-0.3
Emerging Market and Developing Economies[7]	5.0	4.6	4.5	0.0	0.0	-0.2	0.0
London Interbank Offered Rate (percent)							
On US Dollar Deposits (six month)	2.3	0.7	0.6	-1.2	-1.3	-1.3	-1.5
On Euro Deposits (three month)	-0.4	-0.4	-0.4	0.0	0.0	0.2	0.2
On Japanese Yen Deposits (six month)	0.0	-0.1	-0.1	0.0	-0.1	0.0	0.1

Source: IMF staff.

Most major forecasts reflect that the global economy is already in a severe recession. The only question is how deep and how long. The long term implications of this pandemic will leave no part of political, social or economic life untouched for years to come. The performance of the global economy, on globalisation, sovereign debt levels and other areas, will be constantly watched and debated over.

Figure 1.6. Quarterly World GDP
(2019:Q1 = 100; dashed lines indicate estimates from January 2020 World Economic Outlook Update)

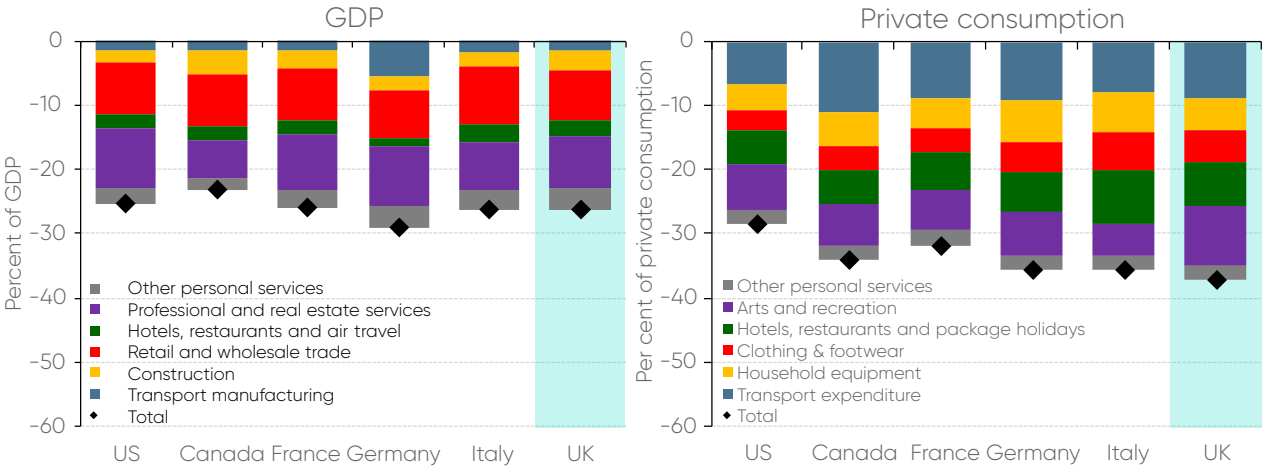


Source: IMF staff estimates.

The Economic Impact of COVID19

The risks to the V-shaped forecasts are very much to the downside. The main uncertainty is how long the lockdown measures will remain in place. There are also questions about the severity of the lockdowns, their impact on economic data and how statistics authorities will treat these unprecedented events. For the labour market, the biggest risk relates to insolvencies. If there is a significant rise in business failures, there will be fewer jobs for workers to go back to as the economy recovers.

Chart 1.1: OECD estimatesof initial GDP and private consumptionlosses



Source: OECD

A deep recession in North America and Europe is all but guaranteed. High-frequency data and available leading indicators point to an unprecedented collapse in economic output in Q2. In our view, what matters isn't so much the size of the contraction as the shape of the recovery and the extent to which policy measures can limit the lasting damage. To 'V' or not to 'V', that is the question.

The composition of the recession is likely to be unusual. Typically, households try to smooth their consumption spending as much as possible, while firms slash capex. Household consumption barely fell through the financial crisis. This time, we expect a double-digit drop. The current lockdown means households are simply unable to consume many goods and most services. But when shops, restaurants and entertainment venues re-open, consumer spending should rise rapidly – provided the furloughing measures, fiscal cushions and central bank lending schemes meet with success. The unusual consumption-led nature of this recession could mean an unusually sharp GDP recovery. This does appear now to be looking less and less likely.

-2.9%

Forecasted global real Gross Domestic Product (GDP) growth due to the coronavirus

Source: Statista

The World Economy

The World Economy

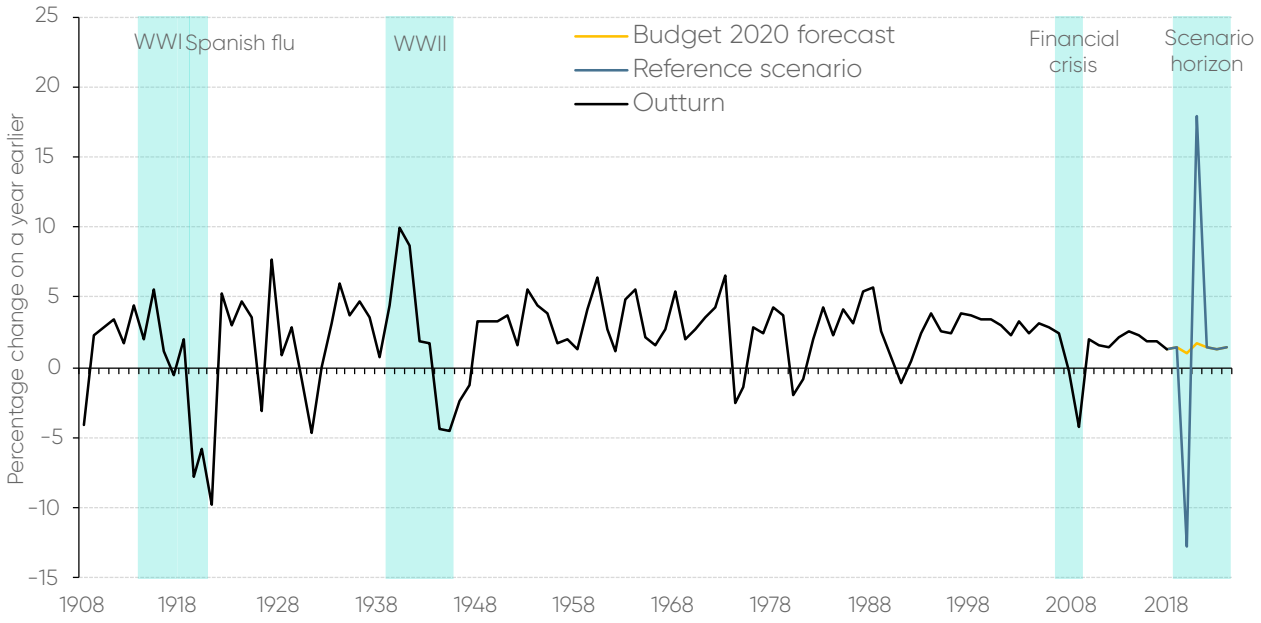
The UK

COVID-19 has overtaken Brexit as the dominant risk factor in the short-term outlook for the UK economy. The disease, and the social distancing measures enforced to limit its spread, will drag the UK economy into a recession this year.

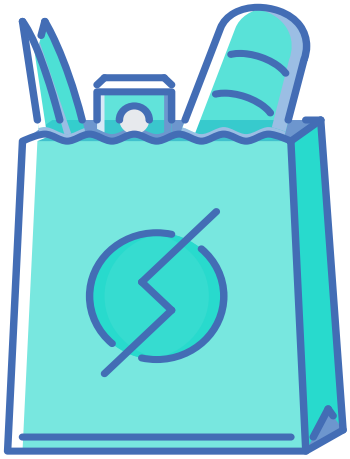
After December's decisive election result and the aversion of a cliff-edge Brexit, 2020 began with a wave of optimism about the outlook for the UK economy. But that did not last. The disruptive outbreak of COVID-19 put paid to the upbeat sentiment, with the new coronavirus set to dominate the economic picture at least this year. Things are moving fast though.

This is an unusual type of economic shock. Its size will depend on the effectiveness of public health measures and the potential development of a vaccine.

Chart 1.2: GDP decline in historical perspective



Source: OBR



50.2%

Retail Sales Down

The volume of clothing sales in April 2020 plummeted by 50.2% when compared with March 2020, which had already fallen by 34.9% on the previous month.

Source: ONS

Given the extreme uncertainty about the longevity and likely extent of the COVID-19 pandemic in the UK and elsewhere, we are working on the basis of two potential scenarios:

1 Main scenario: the negative economic impacts of COVID-19 peak in the UK at the end of the first half of this year, quarantine measures are gradually lifted from the summer, but economic activity doesn't fully recover until early next year.

2 Downside scenario: the outbreak persists in 2021, with some quarantine measures and significant disruptions to supply chains during the first half of next year.

We expect the quarantine measures and negative effects on consumer confidence to erode demand for a wide swathe of consumer goods and services – from spending on travel to high street retail as well as in the restaurant and hospitality sectors. As consumers take steps to avoid exposure to the disease, whether voluntary or enforced, they will spend less, creating a temporary dip in demand in these sectors. We expect **consumer spending to fall by 2.5% in 2020 as a whole.** We then anticipate a modest recovery, with 1.6% growth in 2021.

In addition, we expect the temporary closure of some workplaces and the disruption of supply chains to limit the productive capacity of many sectors. Shortages of intermediate components will lead to mothballing of production until supplies can be restored. As inventories become depleted, delivery delays of some goods will become increasingly likely.

Even so, we do not expect the overall rate of consumer price inflation to rise; rather, to continue on its recent low trend. While shortages of some goods may push up prices slightly in certain categories, the overall impact on headline inflation will be moderated by the falling price of products and services affected by lower demand as a result of the outbreak. The additional introduction of charging caps on water bills by the industry regulator Ofwat from April will bring overall inflation further down. **We expect inflation to average 1.4% in 2020 before rising to 2% in 2021.**

Table 1.3: Key economic variables: reference scenario versus Budget forecast

	Percentage change on a year earlier, unless otherwise stated					
		Scenario horizon				
	2019	2020	2021	2022	2023	2024
Gross domestic product (GDP)	1.4	-12.8	17.9	1.5	1.3	1.4
GDP levels (2019=100)	100.0	87.2	102.8	104.3	105.7	107.1
CPI inflation	1.8	1.2	2.3	2.4	2.3	2.2
RPI inflation	2.6	1.8	2.9	3.4	3.2	3.0
Employment (millions)	32.8	31.8	32.3	33.0	33.3	33.4
Average earnings	2.8	-7.3	18.3	1.6	2.5	3.1
Unemployment (millions)	1.3	2.5	2.1	1.6	1.4	1.4
Unemployment rate (per cent)	3.8	7.3	6.0	4.5	4.0	4.1
		Differences from Budget 2020 forecast				
Gross domestic product (GDP)		-13.8	16.1	0.0	0.0	0.0
GDP levels (2019=100)		-13.8	0.0	0.0	0.0	0.0
CPI inflation		-0.2	0.5	0.4	0.2	0.1
RPI inflation		-0.4	0.1	0.3	0.2	0.1
Employment (millions)		-1.2	-0.8	-0.2	0.0	0.0
Average earnings		-10.6	14.7	-1.8	-0.7	0.0
Unemployment (millions)		1.2	0.8	0.2	0.0	0.0
Unemployment rate (per cent)		3.5	2.2	0.6	0.0	0.0

Source: OBR

The World Economy

Don't forget, Brexit is around the corner

The coronavirus crisis had effectively put Brexit on hold. Now that negotiations have re-started, the UK government has insisted that there will be no extension to the transition period. It's therefore likely the UK and the EU will eventually agree to some form of fudge or step-by-step approach that means their trading relationship doesn't change significantly all at once.

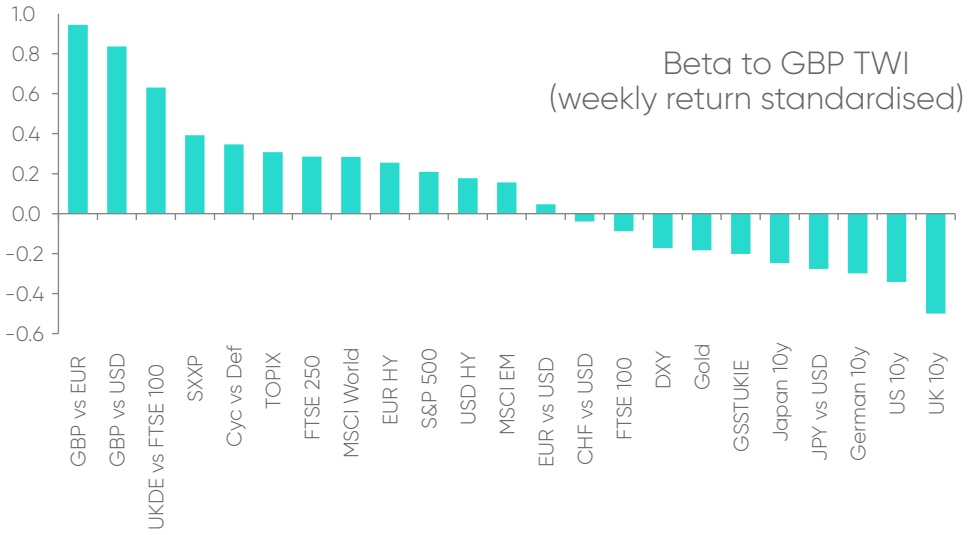
The consensus view:

Negotiations are going to be arduous and bumpy. The chances of an upside and a downside surprise for the economy will be higher than most investors assume.

The most likely outcome is a fudge that prevents a major step change in the UK-EU relationship at the end of the transition period.

In the near-term, the economic fallout from the coronavirus will be a more important factor influencing the UK economy. Some argue that these conditions significantly raise the possibility of a 'hard' Brexit.

Exhibit 3: UK Assets are the most sensitive to Brexit, followed by European equities Cross asset beta of normalised weekly return of 1 st. dev. move in GBP TWI (data since 2016)



Source: Datastream, Goldman Sachs Global Investment Research

-20.4%

GDP Growth

ONS showed GDP growth fell by 20.4% in April, following a 5.8% fall in March. The monthly decline in GDP in April, when the country was in full lockdown, is three times greater than the fall experienced during the 2008 to 2009 economic downturn and was worse than economists had forecast.

Mark Shapland
Evening Standard

North America
The U.S. economy appeared to be gaining some traction early in the year, but it has been recently hit by two major shocks. First, the COVID-19 outbreak will weigh on exports as well as consumer spending via cancelled air travel, conventions, etc. Supply chains in the United States could also be potentially disrupted by the outbreak. Second, the recent collapse in oil prices will lead to cutbacks in the important energy sector à la 2014-2016. Together, the two shocks have caused financial market conditions to tighten via slumping equity prices and wider credit spreads.

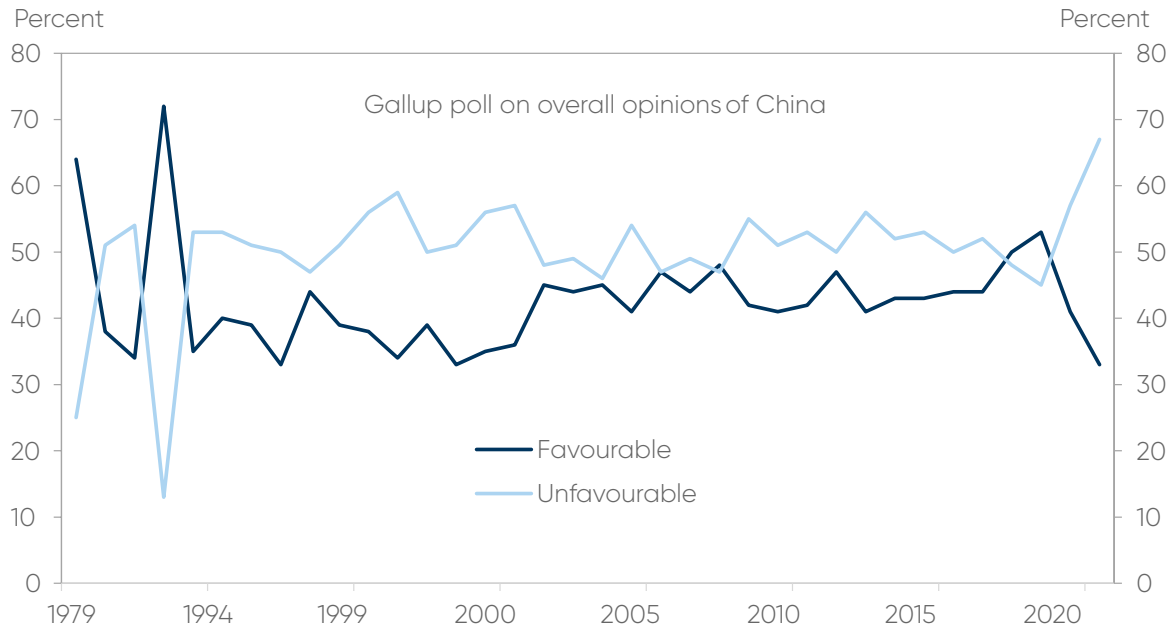
Europe
Europe the base case is for 2020 GDP growth of -6.4% in the eurozone, followed by +6.1% in 2021. This seems like a significant bounce but the level of eurozone GDP is still 2% lower at the end of 2021 than it was under our forecast made three months ago. Italy and Spain will be hit hardest and see a slightly more protracted rebound due to disruption to tourism that is likely to impact the entire season. In the UK, expect a 2020 GDP growth of -5.5%, followed by a 6.3% expansion in 2021. So forecasters are assuming a somewhat smaller impact than in the eurozone, in part because the UK's lockdown began a little later and has been less stringent than in some other economies.

Asia
In China, where the outbreak began, while the number of new cases have nearly fallen back to zero; the economic impacts of the outbreak are becoming apparent. The data shows that industrial output fell by 13.5% compared to a year ago, while retail sales fell by 20.5% over the same time span prompting a raft of monetary and fiscal measures to support the economy. Some believe that we could still see 3% year on year growth, assuming an exceptional growth hit in the first half, followed by a gradual recovery over the second half of the year. To achieve this, more monetary and fiscal easing is likely to be needed.

The growth impulse for the rest of the world will, however, fall short of what the economy delivered in 2009, reflecting the Q2 2020 changed nature of China's economy, being less manufacturing and construction led, and a desire for more restrained calibration of corrective measures by officials.

Another difference between now and the past few years is the deteriorating sentiment toward China among Americans during a presidential election year. Gallup polls show that the share of Americans having unfavourable opinions of China has increased to the highest level since the poll started in 1979.

Exhibit 7: Public opinion in the US has turned more negative toward China



Source: Gallup

India
In India, the virus continues to spread, the nationwide lockdown, with gradual relaxation of restrictions, while concerns among consumers and businesses continue. The deeper trough in our Q2 forecasts reflects the extremely poor economic data we have received so far for March and April, and the continued lockdown measures, which are among the most stringent across the world.

We expect a strong sequential mechanical rebound in Q3. However, beyond Q3, we expect only a gradual recovery, as the targeted policy support continues to be tepid compared to other emerging economies, and far less than most advanced economies.

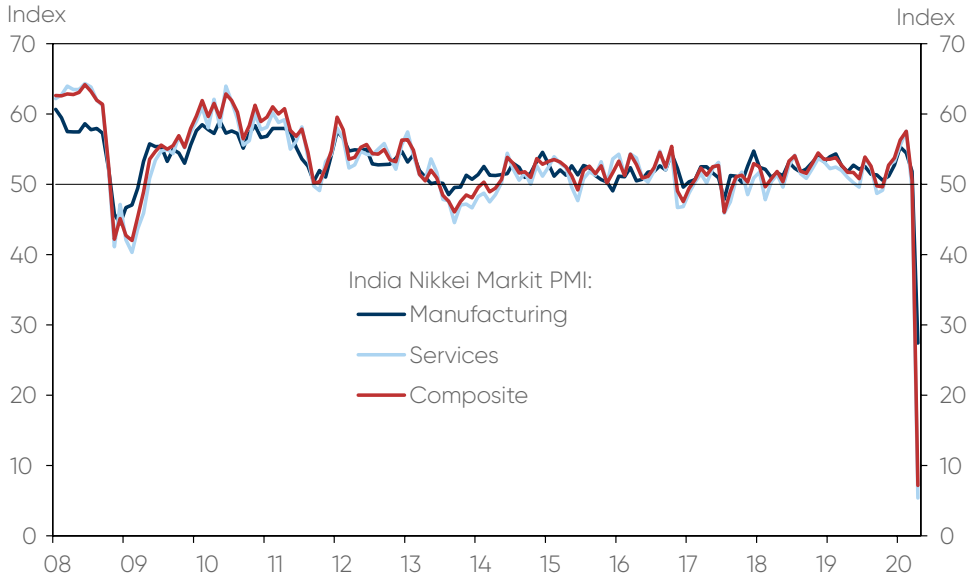
Hong Kong
Hong Kong, among the most open economies in the region, will likely see growth slide again this year, being hurt externally by the fall in logistics turnover and tourist arrivals, and domestically by social distancing policies. Taiwan is among the countries that has so far managed to contain the virus relatively well, but remains vulnerable to a sharp downturn in global exports.

Australia
Australia, though potentially benefitting from stabilisation in mainland China's construction sector, will likely see output contract by much more than during the GFC, with a growth forecast for 2020 at -4.3%. New Zealand's decline may be even sharper, with currently more aggressive lockdown measures in place than its immediate neighbour.

Japan
Japan's economy, too, will likely be dragged lower by a drop in exports, while the postponement of the Tokyo Olympics will also take a bite out of growth. A key uncertainty, here, is whether the government will need to implement stricter social distancing policies in the near future.

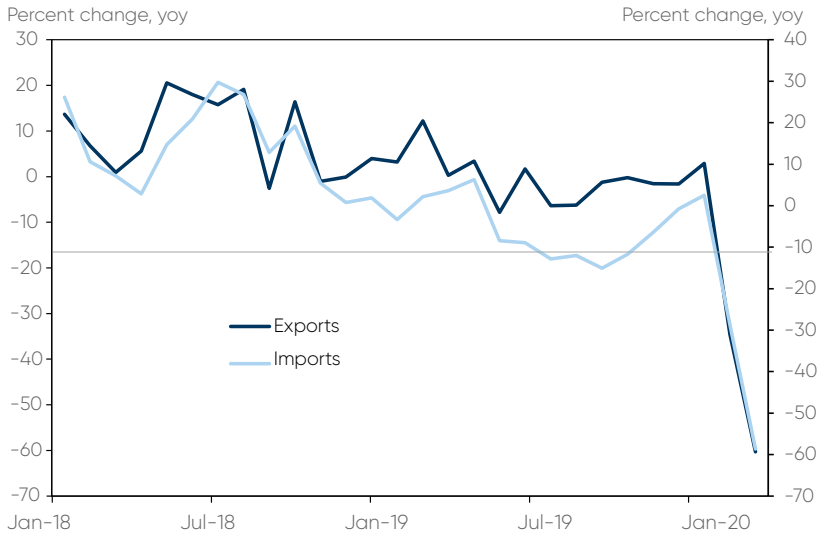
The position of the Japanese economy was already precarious at the start of 2020, with negative impacts from a rise in the consumption tax, trade tensions with Korea and the adverse effects of Typhoon Hagibis. Following an estimated contraction of 1.8% in the fourth quarter of 2019 and facing an increasing impact from the COVID-19 pandemic, the Japanese economy is expected to contract further this year. The Bank of Japan has so far focused on expanding the scale of its QE programme with limited room to cut headline interest rates as they are already negative. Japan's government has also unveiled stimulus measures focusing on providing loans to businesses affected by the slowdown as well as subsidies for working parents affected by school closures.

Exhibit 3: Services PMI fell to 5.4, composite PMI was down to 7.2 in April 2020



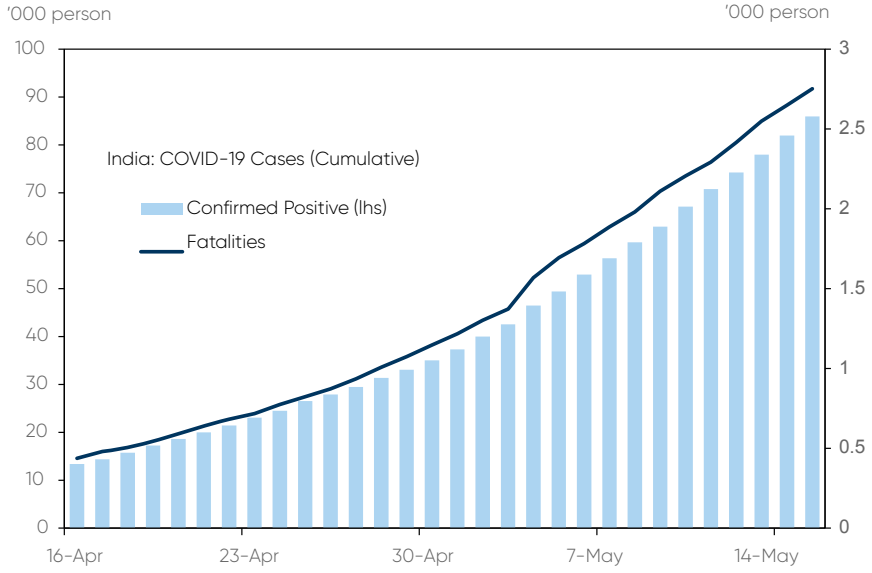
Source: Haver Analytics, Nikkei Markit

Exhibit 4: Both exports and imports contracted by 60% in April 2020



Source: CEIC

Exhibit 1: Confirmed cases of COVID-19 increased from 12,000 to over 80,000 in past 1 month



Source: Ministry of Health and Family Welfare | Numbers as of 15th May 2020

The markets are bridging to the future. There are three issues at play. When will we fully reopen? How will we reopen? Can central banks bridge us to that point.

Mohamed Aly El-Erian
Chief economic adviser at Allianz

The Financial Markets

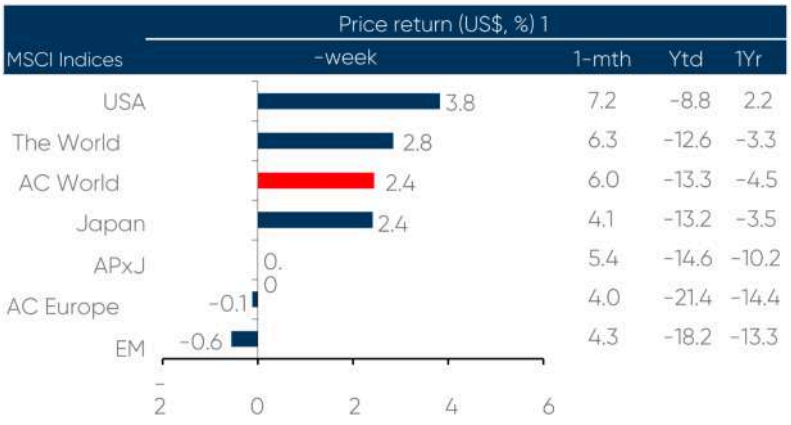
The Financial Markets

Financial markets reacted sharply and adversely as fresh news of the spread of the pandemic exposed the scale of the public health emergency. Worries about liquidity and sector exposure have fuelled drops in both equity prices and bond yields as investors have sought the relative safety of the latter, with recent falls in bond prices amid the urgent need to meet redemptions.

Volatility in equity markets around the globe has reached record breaking levels. The FTSE 100 lost nearly a third of its value since the start of the year to 16 March, while the S&P 500 index fell by 23%. Markets have bounced back strongly on renewed hopes of a vaccine and relaxation in the containment measures.

Weaker fundamentals versus strong beta. Most EMs feature fundamentals that, relative to DMs, suggest a more challenging path to better market performance during the coronacrisis. Still, most EM assets continue to display their typical strong beta to shifts in global risk factors. As volatility normalises, we outline our key views within each asset class.

Exhibit 1: Global market performance



Source: MSCI

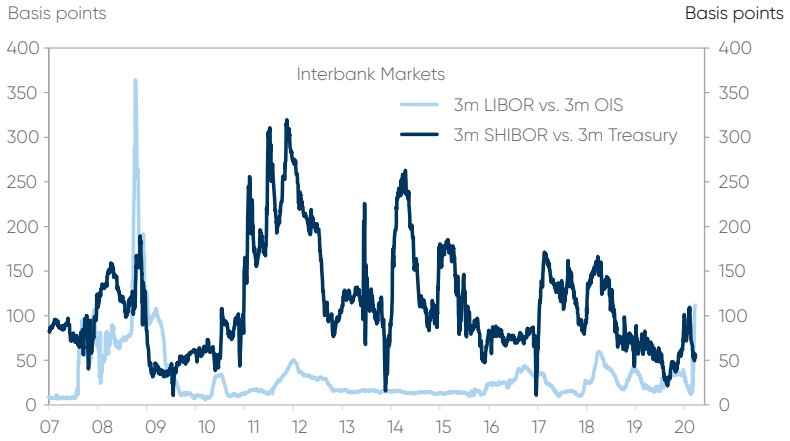
Exhibit 2: MSCI The World and EM Index performance (rebased to 100)

Source: MSCI, FactSet

Even before the effects of the COVID-19 pandemic reverberated across the developed world, a range of interest rates had begun to fall in the UK. Following poor data on GDP growth in January, the yield on the 10-year gilt fell well below the level of the Bank of England's policy rate, in line with the already low rate on the two-year gilt. When more bad news in relation to the COVID-19 pandemic came out in March, the market started to panic. The dramatic downturn in equity markets worldwide further pushed investors into safe assets and gilt yields fell to historic lows (Chart 17). An emergency interest rate cut of 50 basis points, and the additional measures announced by the Bank of England, were aimed at softening some of the impacts from the outbreak.

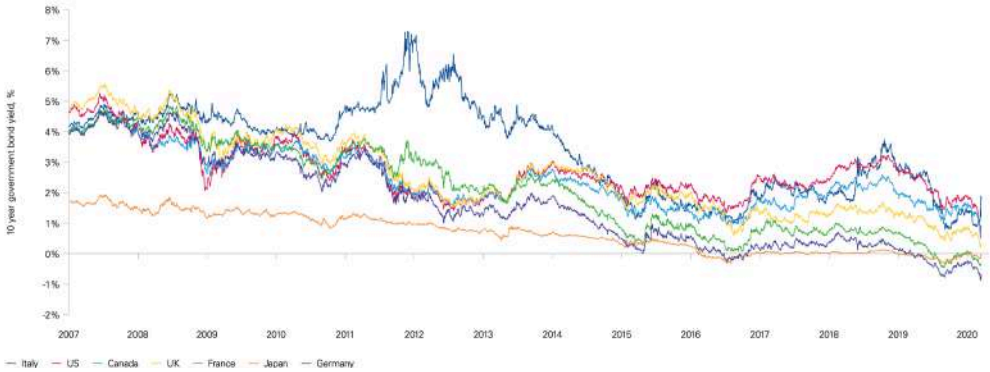
The failure of OPEC and Russia to agree on new quotas to support the global price of oil has ignited a price war: both Saudi Arabia and Russia have increased production to above their current market equilibrium levels by dipping into their oil reserves. Excess supply and worries about the worsening outlook for the COVID-19 pandemic sent the global oil price plummeting to US$31 per barrel on 16 March. There is now potential for significant restructuring in the sector with higher cost producers driven out, if the oil price remains at low levels.

Exhibit 1: Interbank liquidity relatively normal in China



Source: Bloomberg

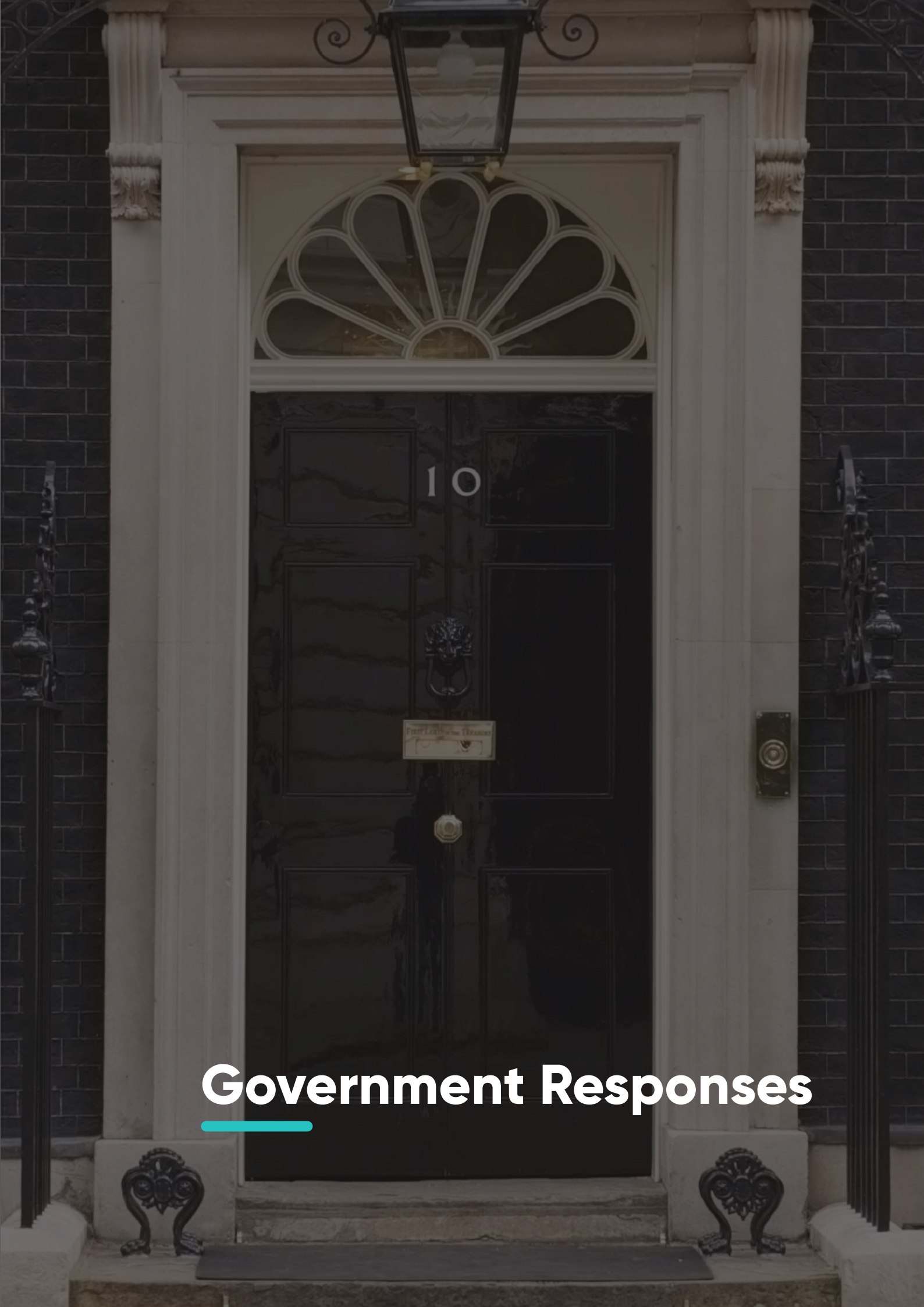
Chart 2: 10-year government bond yields for G7 countries



Source: US Treasury, Bank of England, Banque de France, Deutsche Bundesbank, Japan Ministry of Finance, Bank of Canada, Refinitiv via Haver.

The market was not able to respond to COVID-19. We had created a market economy that lacked resilience.

Joseph Stiglitz
Nobel Laureate professor at Columbia University and the former chief economist of the World Bank



Government Responses

Government Responses

To safeguard lives and livelihoods, we must restore confidence.

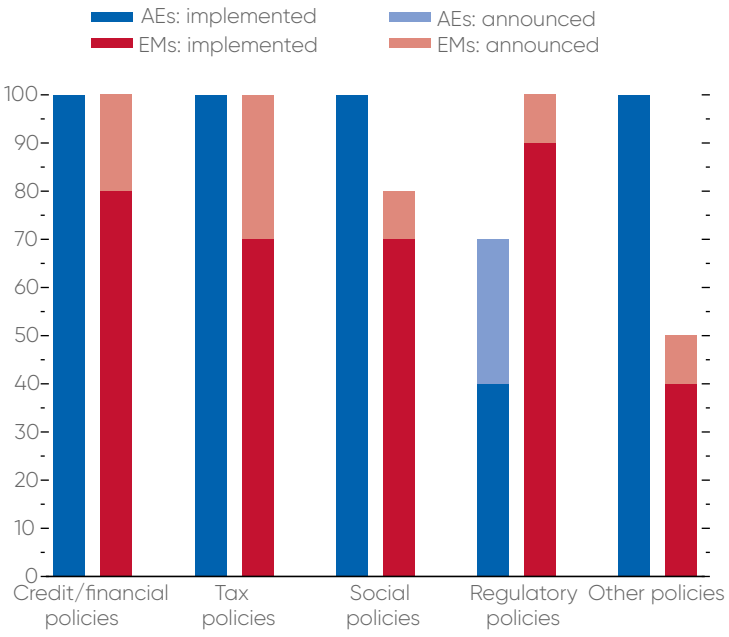
The Bank of England reduced its policy rate by 50 basis points on the day of the Budget, and cut rates further to 0.1% on 19 March. Interest rates are expected to stay just above zero, as the Bank of England uses the policy rate to support the economy through the outbreak and the subsequent recovery. This translates into lower market rates and easier financial conditions.

The success of the policy response is crucial. Governments are promising to do 'whatever it takes' to limit the lasting economic damage of the slump. Even Germany, where fiscal discipline is highly valued, has temporarily suspended its constitutional debt brake. Based on policy measures announced so far, we think the discretionary fiscal impulse (i.e. the change in the structural primary deficit) is in the region of 1.5% of GDP.

This has been an unprecedented time for government action and central bank policy. Since the Fed's expansive measures were announced there has been a raft of policy rate cuts delivered by dozens of central banks around the world.

But rate cuts are only part of the monetary medicine: trillions of dollars of asset purchases will be made by the Fed, the ECB, and, for the first time, the Reserve Bank of Australia, which is also adopting a yield cap. Others could choose to follow. Liquidity measures have been numerous, too. The Fed's swap lines to a growing number of foreign central banks should ease the provision of dollar liquidity while other central banks' such as the BoE have announced new term funding schemes for SMEs. But potentially the biggest liquidity measures will be backed by governments in the form of loan guarantees.

Figure 1.7. G20+: Economic Policy Responses to COVID-19
(Percent of countries)



Source: IMF staff calculations.

Companies

Companies

It's all about survival

> Many dividends have been cut, largely out of necessity, but for some at the insistence of politicians or regulators

> As swathes of the economy shut down, companies have to act with unprecedented speed to ensure survival

Despite aggressive attempts at containment in China, the spread of COVID-19 across the world has unleashed an unprecedented growth shock. Activity, both domestic and external, in virtually all economies in Asia, will likely decline more rapidly than during the Global Financial Crisis.

Table 1.2: Output losses by sector in the second quarter of 2020

Sector	Per cent	
	Weight in whole economy value added	Effect on output relative to baseline
Agriculture	0.7	0
Mining, energy and water supply	3.4	-20
Manufacturing	10.2	-55
Construction	6.1	-70
Wholesale, retail and motor trades	10.5	-50
Transport and storage	4.2	-35
Accommodation and food services	2.8	-85
Information and communication	6.6	-45
Financial and insurance services	7.2	-5
Real estate	14.0	-20
Professional, scientific and technical activities	7.6	-40
Administrative and support activities	5.1	-40
Public administration and defence	4.9	-20
Education	5.8	-90
Human health and social activities	7.5	50
Other services	3.5	-60
Whole economy	100.0	-35

Source: OBR

Strong labour market was in the UK economy's favour, as it faced up to the challenge of COVID-19, although the robust earnings growth workers enjoyed in 2019 cooled at the start of the year.

Although a strong jobs market and healthy earnings growth helped keep household budgets afloat, consumers opted to save more rather than embark on a spending spree. Outstanding credit card lending declined for the second successive quarter over the final three months of 2019, suggesting consumers were making fewer major purchases on credit and seeking to reduce their debt. This could reflect a combination of factors, including increases in some credit card rates and falling consumer confidence (Chart 5). In addition, consumer expectations about the general economic situation over the next 12 months were already low. And while there was a significant bounce in consumer confidence at the beginning of 2020, it is likely to have been reversed by the coronavirus outbreak.

As demand disappears and revenues evaporate in the face of population lockdowns, the only thing that matters for companies is survival. It is virtually impossible for anyone to predict what profits will be this year as the outcome is so intertwined with rates of infection and recovery. All that matters is

having enough cash to survive. Some of this will come from government support, for example the UK's commitment to pay 80% of a furloughed employee's wages up to a certain level. Much of it though will depend on cash resources, both those that existed prior to the crisis and additional sums that can be found. New cash is coming from a variety of sources ranging from draconian cost saving measures through to debt drawdowns, state guaranteed loans and equity issuance.

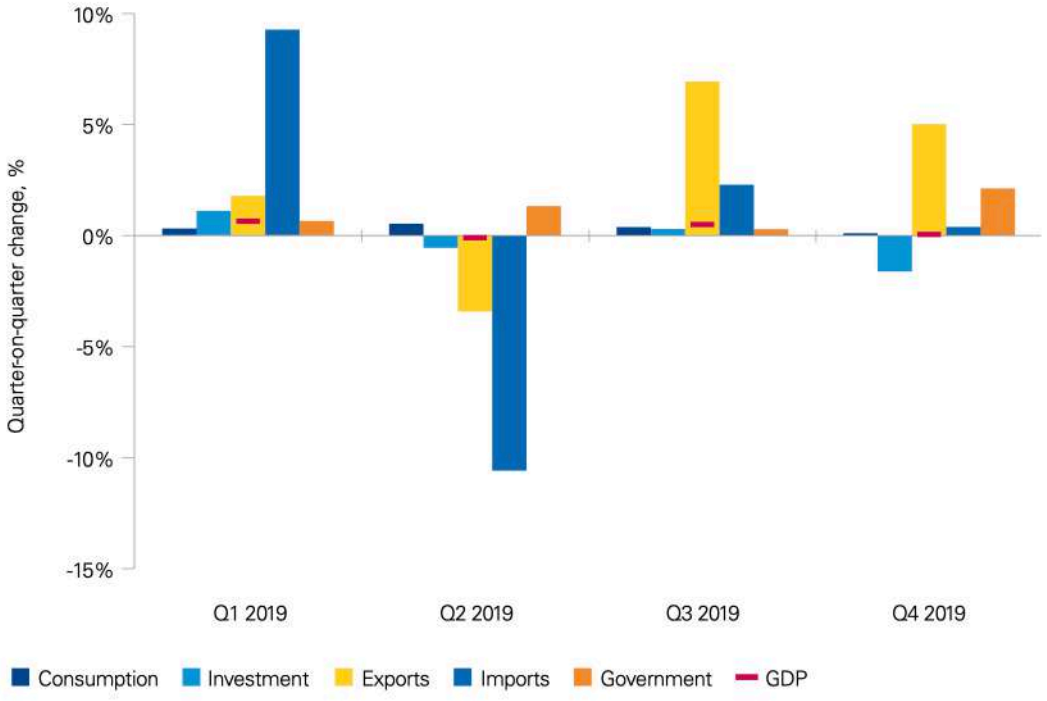
Action being taken now is to ensure that businesses are able to capitalise on the recovery, when it comes. Again the timing and speed of any upturn remains highly uncertain and is likely to be closely linked to current trends of infection rates. As we have argued in previous reports a moderation in infection rates has proven to be a reliable catalyst for equity markets both with SARS in 2003 and in China in recent months.

Whether owing to weaker demand or to production difficulties, many businesses will suffer falling revenues, potentially leading to liquidity problems and a possible spike in insolvency and bankruptcy rates. The Bank of England and the Chancellor have announced measures to help support small businesses and the most affected industries, however, the loss of some businesses may be inevitable.

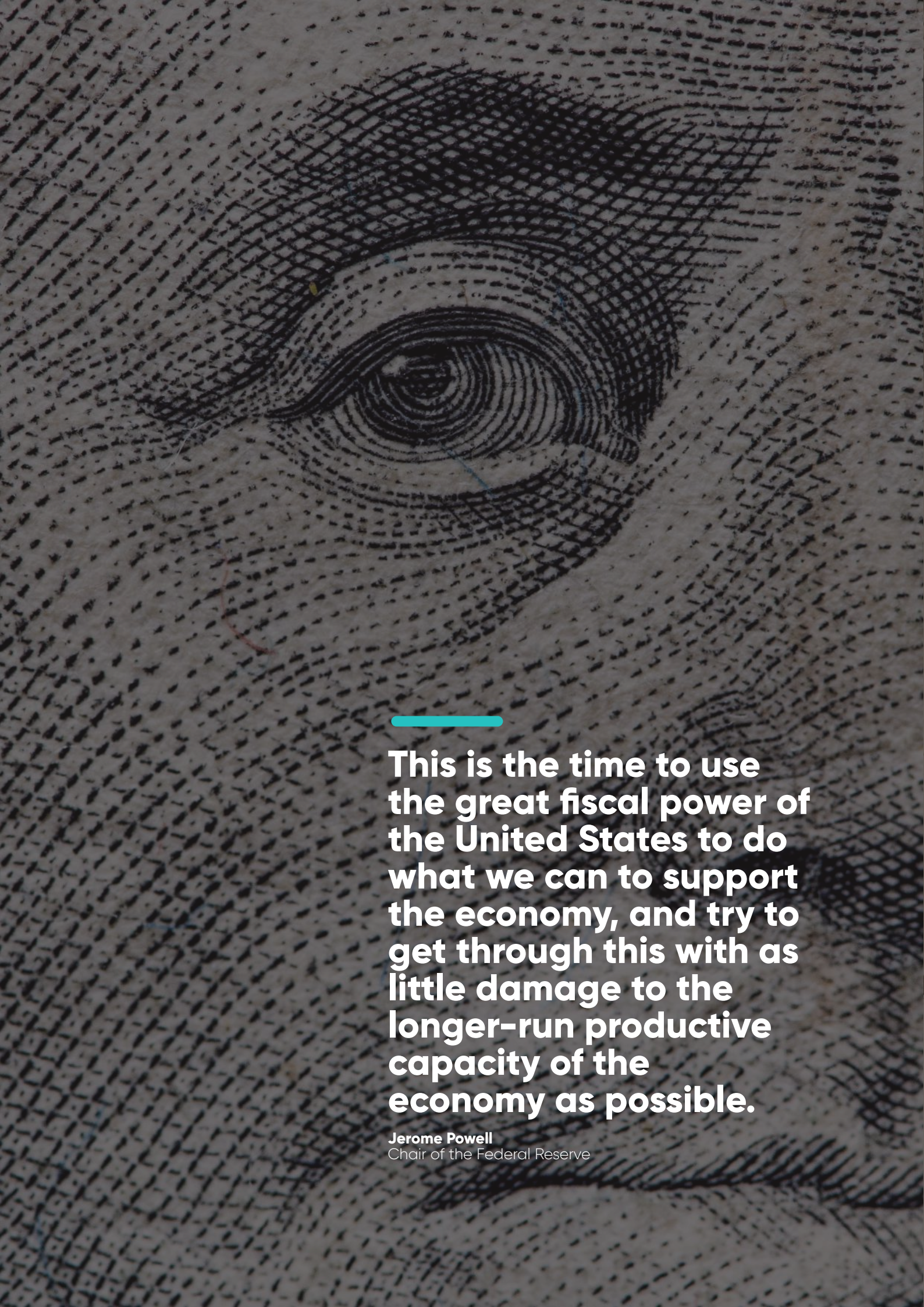
Some support will come from lower interest rates, which the Bank of England reduced by 50 basis points on 11 March, and by another 15 basis points on 19 March. We expect rates to remain low throughout 2020 and 2021, as the Bank of England keeps a very accommodative stance to ease the end of the Brexit transition period.

Despite lower interest rates, the high level of disruption due to the COVID-19 pandemic will hold back investment in 2020. After a sharp fall in investment in the first half of 2020 a rebound will only begin next year, with overall investment falling by an estimated 11.2% this year. Once the pandemic uncertainties clear, we expect a significant pick-up, with investment rising by 5.2% in 2021.

Chart 4: Growth was flat in the last quarter of 2019, with exports and government spending the main positive contributors

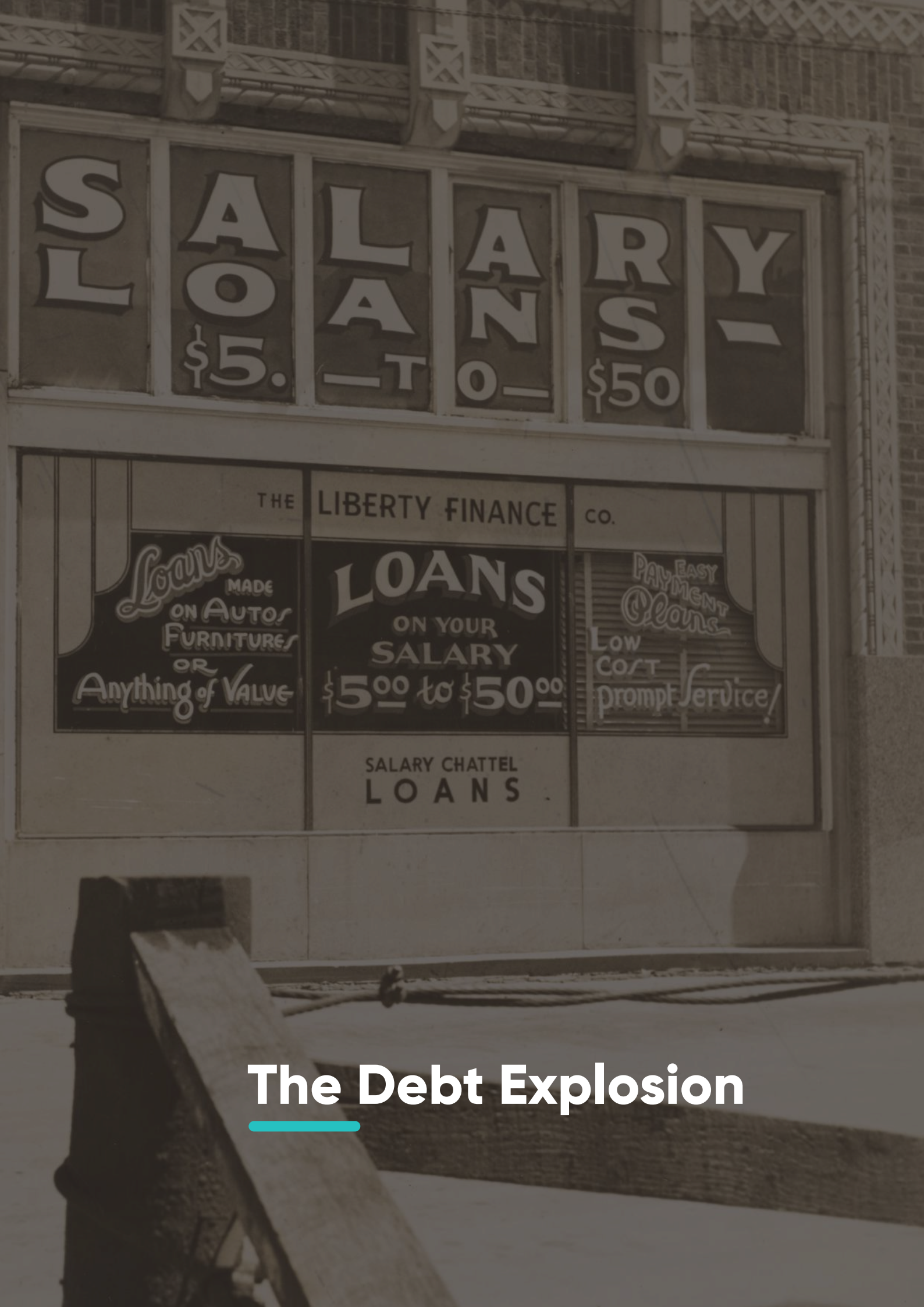


ONS via Haver.



This is the time to use the great fiscal power of the United States to do what we can to support the economy, and try to get through this with as little damage to the longer-run productive capacity of the economy as possible.

Jerome Powell
Chair of the Federal Reserve



The Debt Explosion

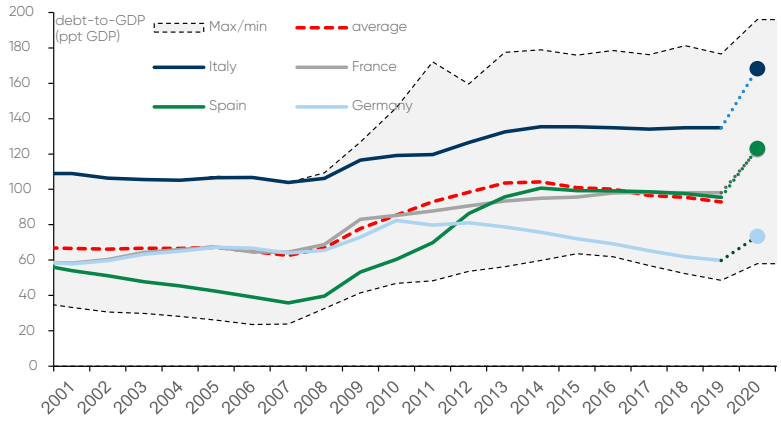
The Debt Explosion

"We need to adjust to a world of more debt, less globalisation and greater digitalisation".

Investors considering the coming decade can rely on one clear outcome from the great coronavirus shutdown: debt and plenty of it, with central banks bearing a significant amount of that burden.

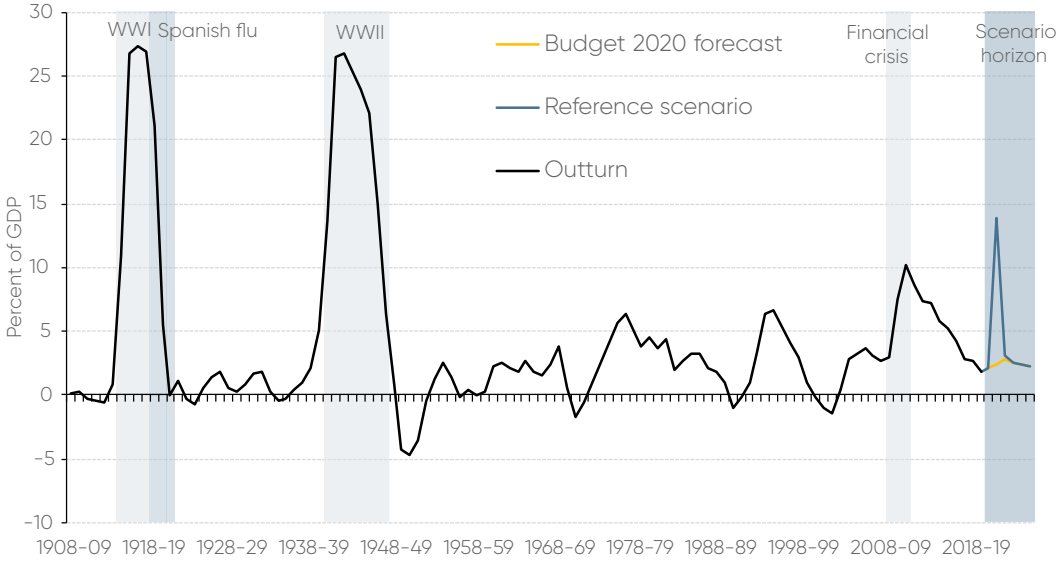
The pandemic has triggered trillions of dollars in emergency spending. No one can quibble with governments trying to soften blows from shutdowns of economic activity. Nor can they argue with companies raising cash reserves so that they can bridge gaps in revenues to make it to the eventual restoration of business activity.

Exhibit 1: Debt-to-GDP differentials hitting new wides in Europe
GS forecasts for 2020. Average includes DE, FR, IT, ES, NL, PT, AT, BE, FI, IE, GR, CY



Source: Haver Analytics, Goldman Sachs Global Investment Research

Chart 1.4: Public sector net borrowing: reference scenario versus Budget forecast



Source: Bank of England, ONS, OBR

The result is a likely surge of 10 to 15 percentage points in the ratio of debt to economic output for many countries as they finance extra spending. Moody's estimated that the US government's announced stimulus efforts "along with materially weaker revenues and growth" stand to propel the federal fiscal deficit from 4.6 per cent of gross domestic product last year to more than 15 per cent this year.

Much rests with the recent actions of central banks, which are buying government and corporate debt at a rapid pace. Some of the business support packages announced in recent weeks will sit heavily on public sector balance sheets, placing a further constraint on economic growth. Central banks will do their best to alleviate debt loads through asset-purchase programmes and low interest rates.

The balance sheets of the US Federal Reserve and the European Central Bank are currently north of $6tn and €5tn respectively. That is equivalent to about a 13 per cent share of the global economy.

Expect that proportion to expand a lot further, as policymakers keep the borrowing costs of indebted countries and companies low for an extended period to allow growth to return.

The hope is that an eventual and sustained recovery in economic activity will ease the debt burden over time. As seen after the last financial crisis, creating a robust recovery that includes rising consumer prices can be difficult when debt loads and demographics are already challenging. A bigger central bank presence in markets also limits efforts at normalising policy, given the sensitivity of asset prices to even a small rise in long-term interest rates.

Steven Blitz, economist at TS Lombard, says the "mammoth" deflationary forces of technology advances and ageing societies will intensify, offsetting loose monetary policy and the higher prices that will come as globalisation unwinds.

This should encourage investors to buy the shares of companies that are expanding quickly, and have pricing power for their goods and services, against a backdrop of slower economic growth.

James Paulsen, chief investment strategist at The Leuthold Group, says the most likely scenario is "another economic recovery with feeble growth, much like the last one", held back by factors such as weak demographics. "This should keep the defensive nature of growth stocks in favour," he adds.

The combination of extended bond-buying programmes and greater fiscal spending has helped absorb shockwaves from the virus's hit to the global economy. Investors can breathe a little easier for now, but looking beyond the pandemic is difficult.

The prospect of a more indebted financial system, with increasing distortions that encourage market and sector herding, is unlikely to lead to a genuine and powerful economic upswing.

Federal Reserve leaders predict a slow recovery for the U.S. economy, with unemployment falling to 9.3 percent by the end of this year and to 6.5 percent by the end of 2021, after tens of millions of Americans lost their jobs in the stunning recession caused by the outbreak of the novel coronavirus.

Heather Long
The Washington Post

Conclusion

In January 2020, hardly anybody took notice of COVID-19. Back then, most of those outside China who did notice just shrugged their shoulders. Then, all of a sudden, the pandemic was upon us. Humans have an innate difficulty in processing exponential events.

That may explain why so many organisations are lagging behind in their preparations for getting people back to work safely. It is hard to blame anyone for not anticipating the full extent of the economic issues coming toward us as few of us have ever experienced an economic shock of this proportion.

We now know that speed is of the essence. It was for controlling the initial spread of the virus; it is for stopping its spread now; and it will be for decisively moving on to the path to recovery. Ultimately, speed helps reduce uncertainty, which, in turn, will revive economic growth and lessen human suffering.

Communicating clearly to citizens and employees about actions, timelines, and expected outcomes is another critical factor. The more factual and forward looking your messages are, the faster confidence will return and the faster economic recovery can begin.

Notes

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