

# Weekly Economic Outlook

Monday, 20 April 2020

## Is the Optimism Overdone?

Markets can have a tendency to move on to the next thing pretty quickly. The US S&P500 index has recovered 28.5% since its recent low was hit on March 23. It is still 15.1% lower than its peak struck in February, but it has been an impressive recovery.

In Australia, the recovery has been less pronounced. The ASX200 is up 20.4% from its recent low, also reached on March 23, but is down 24.9% from its recent peak. However, as of Friday, it ended higher for four consecutive weeks in a row, and on a rolling four-week average had its best performance since 2009. The relative outperformance in the US could relate to the resilience of tech and certain healthcare stocks in this environment, but it highlights a broad recovery underway in sentiment.

This optimistic tone is also evident in currency markets. The Australian dollar, which can be thought of as a key barometer of risk appetite, hit a low of 55.1 US cents on March 19, and has rebounded to trade at 63.5 US cents at the time of writing.

Is this optimism overdone? On the one hand, some recovery in risk appetite is justified. Central banks and governments are throwing everything they can to cushion the large economic shock from the measures aimed at curbing the spread. When panic sets in financial markets, they almost always overshoot.

There is also the news of a stabilising rate of new COVID-19 cases globally, and in key epicentres in the US and parts of Europe. There has even been talk of re-opening the economy in some major economies.

However, the range of estimates of the recession underway is wide and varied. The International Monetary Fund (IMF) last week published its forecasts and it expects global economic activity to contract by 3.0% this year, which would be the worst outcome since the Great Depression. We are only just seeing the early stages of the economic data, which is measuring the impact of COVID-19 and the containment measures, on the global economy.

Moreover, while markets may sense that an end is in sight, that end is not so clear given that any unwinding of restrictions comes with the risk of infections rising again, and that it would likely be done in stages.

In Australia last week, confidence measures painted a grim picture of how businesses and consumers are faring, with both indices recording their largest falls on record. As part of their expanded products in measuring the impact of COVID-19 on the economy, the Australian Bureau of Statistics (ABS) will be releasing a survey on Household Impacts of COVID-19 survey today and a Weekly Payroll Jobs and Wages report tomorrow. In addition to these releases, the preliminary release on retail sales for March on Wednesday will provide an early set of official statistics which will gauge the shift in consumer spending trends of when COVID-19 social distancing measures have taken place.

On Tuesday, we will also receive more insights into the RBA's thoughts and views surrounding the

economy. Along with the minutes of the April board meeting, RBA Governor Lowe will speak via Webcast and will speak on the Economic and Financial Update. The RBA Governor is also due to appear tonight on 7:30 on the ABC as part of a segment on the economy.

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## Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

End Period:	2020				2021	
	Close (Apr 17)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.13	0.15	0.20	0.25	0.30	0.35
3 Year Swap, %	0.32	0.35	0.35	0.40	0.40	0.45
10 Year Bond, %	0.86	0.75	0.75	0.80	0.85	0.95
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.64	0.60	0.65	0.70	0.75	0.80
<b>USD Exchange Rates:</b>						
AUD-USD	0.6366	0.62	0.64	0.66	0.68	0.68
USD-JPY	107.54	107	105	106	107	107
EUR-USD	1.0875	1.07	1.06	1.06	1.07	1.08
GBP-USD	1.2499	1.22	1.23	1.24	1.25	1.25
NZD-USD	0.6035	0.60	0.62	0.64	0.65	0.65
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6366	0.62	0.64	0.66	0.68	0.68
AUD-EUR	0.5853	0.58	0.60	0.62	0.64	0.63
AUD-JPY	68.45	66.3	67.2	70.0	72.8	72.8
AUD-GBP	0.5090	0.51	0.52	0.53	0.54	0.54
AUD-NZD	1.0546	1.03	1.03	1.03	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.2	-5.0
CPI (Headline), %	1.8	1.8	0.9
CPI (Trimmed mean), %	1.8	1.6	1.5
Unemployment Rate, %	5.0	5.2	7.8
Wages Growth, %	2.3	2.2	1.8

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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