Weekly Economic Outlook

Monday, 30 March 2020

Recession, But as We Know it?

It has been 19 days since the World Health Organisation declared COVID-19 a pandemic. Just one day later, US President Trump suspended all arrivals to the US from Europe's Schengen border-free area. This was arguably the decisive moment when financial markets realised that the coronavirus would have far reaching consequences for the global economy, and that a global recession was becoming an increasing likelihood.

Ever since, society has been increasingly locked down – just overnight, Prime Minister Scott Morrison announced a limit of public gatherings to two people. Restaurants, cafes, gyms and an increasing number of retailers are closing shop.

The recession this year is now expected to be deeper and longer given that containment measures have escalated.

As an early sign of things to come, US unemployment claims for the week ending March 21 was off the chart, surging to 3.3 million. To put this into perspective, the global financial crisis saw a peak in jobless claims of 665k. The US economy is expected to post its first job loss since 2010, when non-farm payrolls will be released this Friday.

But this will be a recession unlike others we have seen before. Yes, there will no doubt be a sharp rise in the unemployment rate, and a big loss in national incomes and spending. Australia's unemployment rate is expected to hit double-digits. Population growth will also be hit as migration grinds to a halt. However, what is also different this time is that governments and central banks are pulling out all stops to provide support to households and businesses. They do not want otherwise viable businesses to go under and are striving to ensure a fast recovery once the virus comes under control.

So the scale of potential business failures and defaults that typically come with recessions is not very clear at all.

Moreover, authorities see the coronavirus as a temporary external threat rather than a systemic underlying problem, which gives more incentive for central banks and governments to do whatever would be necessary to provide that support.

Take for example, the US Federal Reserve. Lending facilities have been set up to purchase corporate bonds, and also to support small and medium-sized business loans and household loans. It has become a lender of last resort not just to banks, but to the wider business and household sector as well.

Similarly, the Reserve Bank (RBA) is also providing support to businesses through its term funding lending facility and according to RBA Governor Lowe, "nothing is off the table" in terms of what else they could do in terms of providing support.

The Government is doing its part too – the stimulus to date from the Federal Government alone has equated to over 4% of GDP, and more is expected to be announced this week.

Another unprecedented measure is a wage subsidy of up to $1,500 per employee for businesses to keep their workers. Details of the scheme are expected to be announced later today.

In terms of economic data locally this week, releases for March will be the highlights, in helping to gauge some of the early signs of the coronavirus's impact and the containment measures that have followed. These include CoreLogic house price data on Wednesday, and performance indices on manufacturing and construction from the AiG, on Wednesday and Friday, respectively.

While Wednesday's house price data will provide an early sign of things to come for the housing market, the biggest impact will likely be realised in April. April would be when the job losses and the restrictions on open homes and auctions would be in full-swing.

Further adding to Wednesday's calendar, the RBA will release its minutes of the ad-hoc monetary policy meeting on March 18, in which we could gauge further insight into the decision to lower the official cash rate, adopt a quantitative easing program and launch a term funding program to support lending for businesses.

Other economic data this week includes February data for private sector credit, building approvals and retail sales, but these are less relevant given the significant unfolding of events over recent weeks.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Forecasts

Due to the rapid change of recent, current and future developments, please note that there is greater than usual uncertainty surrounding the forecasts.

		2020				2021
End Period:	**Close (Mar 27)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.43	0.45	0.45	0.45	0.50	0.50
3 Year Swap, %	0.39	0.40	0.40	0.45	0.50	0.50
10 Year Bond, %	0.93	0.80	0.75	0.75	0.80	0.85
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.67	0.75	0.70	0.75	0.80	0.85
USD Exchange Rates:						
AUD-USD	0.6168	0.62	0.64	0.67	0.68	0.68
USD-JPY	107.94	107	105	105	106	107
EUR-USD	1.1141	1.05	1.04	1.05	1.06	1.07
GBP-USD	1.2460	1.16	1.18	1.20	1.22	1.23
NZD-USD	0.6035	0.60	0.62	0.64	0.65	0.65
AUD Exchange Rates:						
AUD-USD	0.6168	0.64	0.66	0.67	0.68	0.68
AUD-EUR	0.5535	0.59	0.62	0.64	0.64	0.64
AUD-JPY	66.54	66.3	67.2	70.4	72.1	72.8
AUD-GBP	0.4949	0.53	0.54	0.56	0.56	0.55
AUD-NZD	1.0223	1.03	1.03	1.05	1.05	1.05

	2018	**2019 (f)**	**2020 (f)**
GDP, %	2.2	2.2	-3.0
CPI (Headline), %	1.8	1.8	1.5
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.2	9.6
Wages Growth, %	2.3	2.2	2.1

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

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

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316