selector group

Please reach out if you need to chat.

In a world of rapid change, what could happen next?

With talk of 'negative interest rates', what does that mean for you? Should you fix your mortgage rate, and how do you get a better return on the cash you have?

Lot's of questions, and lots of 'Sliding Doors' moments, so please reach out if you need to chat.

Brett

Brett & the team

Economic Update

WHAT HAS HAPPENED IN 2020?

The spread of Coronavirus (COVID-19) has been one of the most devastating global pandemics we have seen for decades with over 4.3 million confirmed cases and almost 300,000 deaths globally (as of mid-May).

In an effort to limit the spread and contain Coronavirus outbreaks, governments globally imposed lockdown measures that shut down businesses and restricted citizens' freedom of movement. International travel almost entirely ceased as many countries closed their borders. The economic damage caused by these measures has been stark. Substantial government stimulus and monetary policy measures may help with the economic recovery but it will take time for businesses to restart and jobs to return.

WHAT COULD HAPPEN FOR THE REST OF 2020 AND BEYOND?

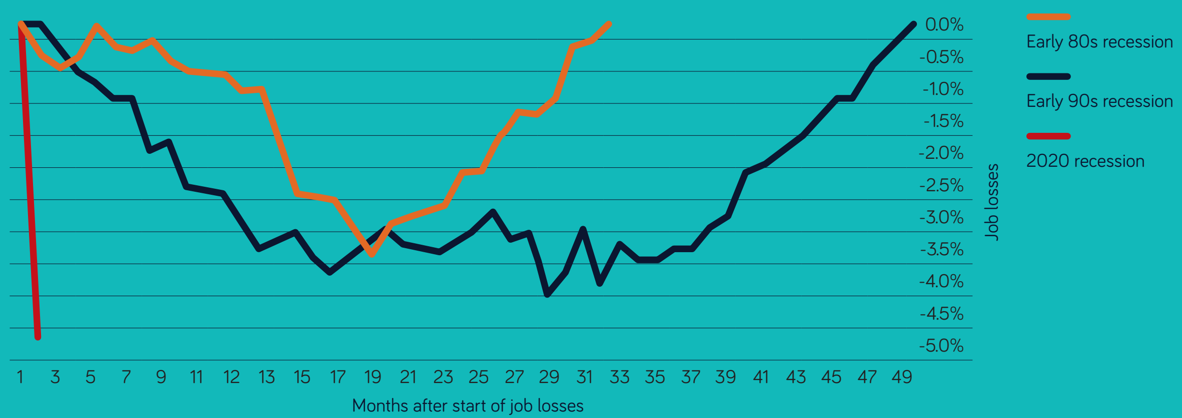
In Australia, although government stimulus payments have helped dull the impact, the economic cost from the Coronavirus has been substantial with Australia likely to see its first recession this year since the 90s.

The stimulus programs, including spending on infrastructure and the "JobKeeper" scheme (a wage subsidy) have helped to avoid businesses collapsing for now. We should see gradual improvement as lockdown restrictions are removed. As the Prime Minister outlined in early May, lifting restrictions will unlock more freedom and the ability for people to "go back to normal". That includes giving people the confidence to spend and businesses the confidence to hire new staff, which will help the recovery.

History shows that it can be a long road back to where we were before a crisis. It took over two and a half years in the early 80s and almost four years in the early 90s for jobs to return.

We are only a few months into the current crisis. The last Australian recession in the early 90s saw an initial loss of 4.2% of all jobs. The recent April jobs report showed a loss of almost 600,000 jobs or 4.6% of workers that were employed in March. Unemployment has risen more quickly this time around and it highlights the scale of the challenge and how long it may take to recover, compared to history, as shown in the chart below.

JOB LOSSES IN PAST RECESSIONS VS 2020 (% OF STARTING JOBS)



RETURNING TO THE NEW "NORMAL"

The "normal" we return to after this crisis may be very different. The success of working from home could see changes in how some companies offer staff flexibility or where offices are located – many businesses have already "handed back the keys" and not renewed leases, which is having a big impact on the commercial property sector.

Other industries such as tourism and education are likely to struggle for some time until people feel safe enough to fly internationally.

Universities have been heavily reliant on international students to grow their revenues. They were not set up for a sudden, material loss of student numbers. Without government support, it is likely that we will see pay cuts as well as job losses as the sector adjusts to reduced business.

In relation to the property market, job losses will pose challenges. Rent deferral schemes have seen sharp declines in rental yields, impacting investor income. Job losses will tighten bank lending and it will be harder for buyers to secure a loan. This will have an impact on property prices, with less buyers in the market.

IT WILL BE A SIMILAR STORY OVERSEAS

Globally, the focus will be on lockdowns to limit outbreaks, gradually relaxing restrictions and governments supporting businesses and workers through the worst of the economic slump. However, there will be some important differences.

Regions such as Europe are more vulnerable to weaker global growth. This will likely see pressure to relax restrictions within Europe ahead of the upcoming tourist season. As Europe is still not a united region, differences between countries have prevented a coordinated approach to government spending.

Outside of Europe, many countries have still not controlled outbreaks, particularly in emerging economies such as Brazil. This suggests a longer period of recovery for these countries which represent the majority of the global population. The risk of new waves of infection is more pronounced overseas than in Australia and New Zealand. Some of this has played out already in countries such as Singapore and South Korea.

Lastly, in the US, the lack of coordination in managing the outbreak with different responses by different states and disagreements at a national level increases the chances of new outbreaks. This could pose a material challenge to their economic recovery. In addition, they, and other countries, are facing high unemployment for some time.

We acknowledge that the road to recovery will be long, however, if we don't see a second phase of outbreaks, we can expect some parts of the economy to bounce back such as hairdressing or retail, whilst tourism and travel will take considerably longer. It is important to think long term about your investments. Please contact us if you need financial advice during this time.

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