



StratEcon
Applied Economic Research

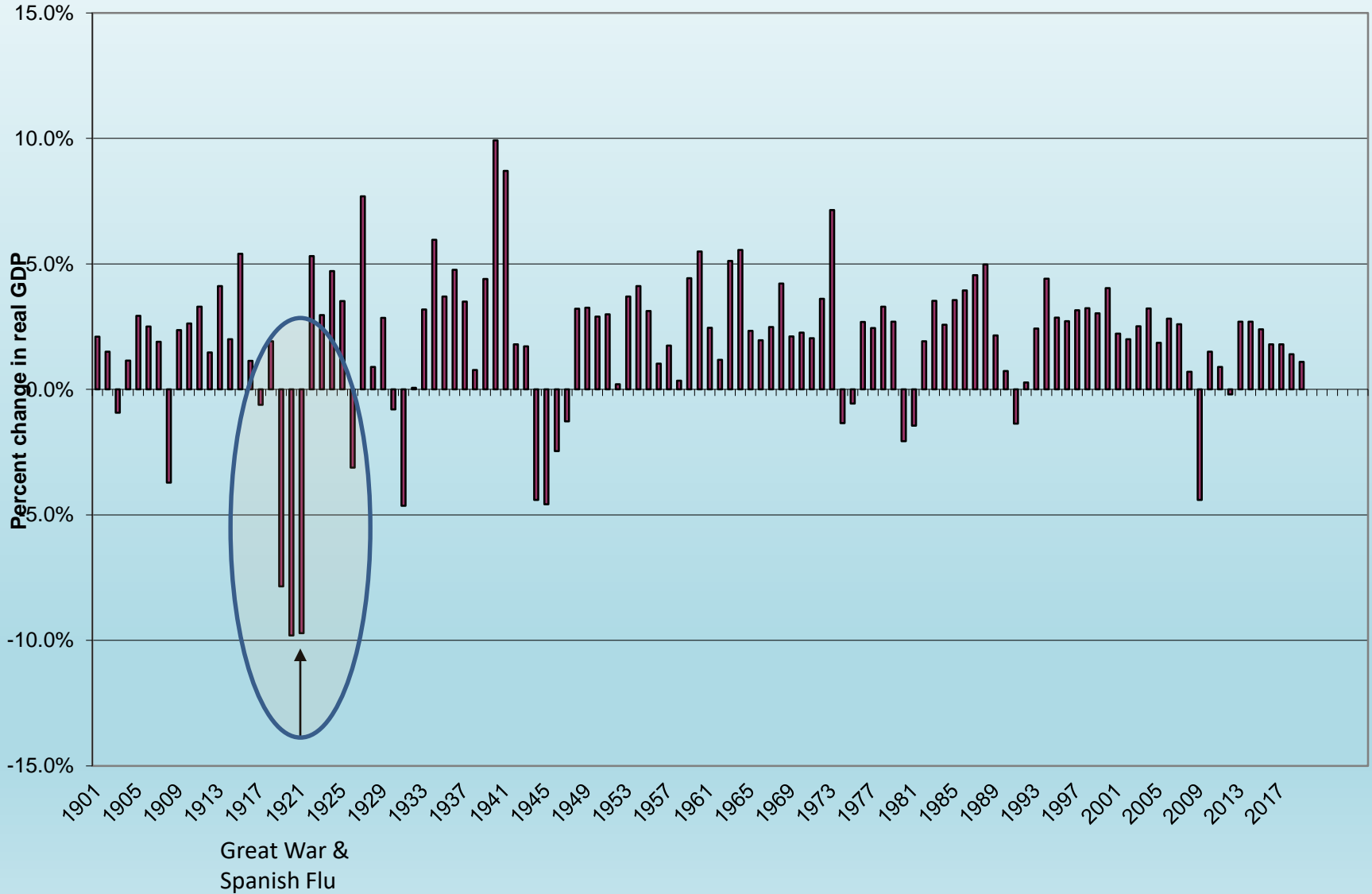
Covid 19 – Macroeconomic Environment & Implications

Barry Standish

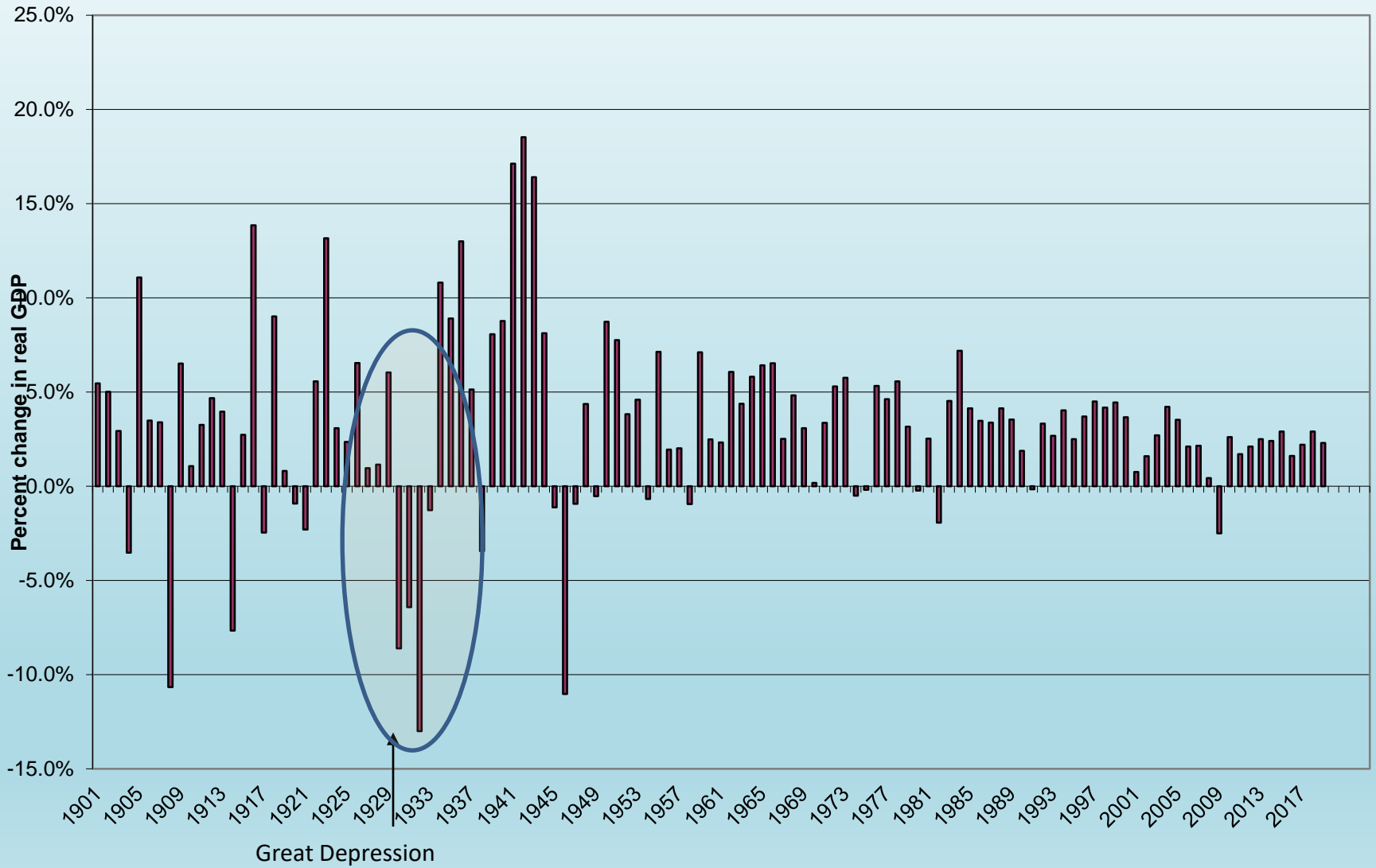
Contents

- Historical perspective
- Assessing conditions before Covid
- Immediate impact
- Wider implications
- Policy options & implications
- Political Fault Lines

UK Long Term



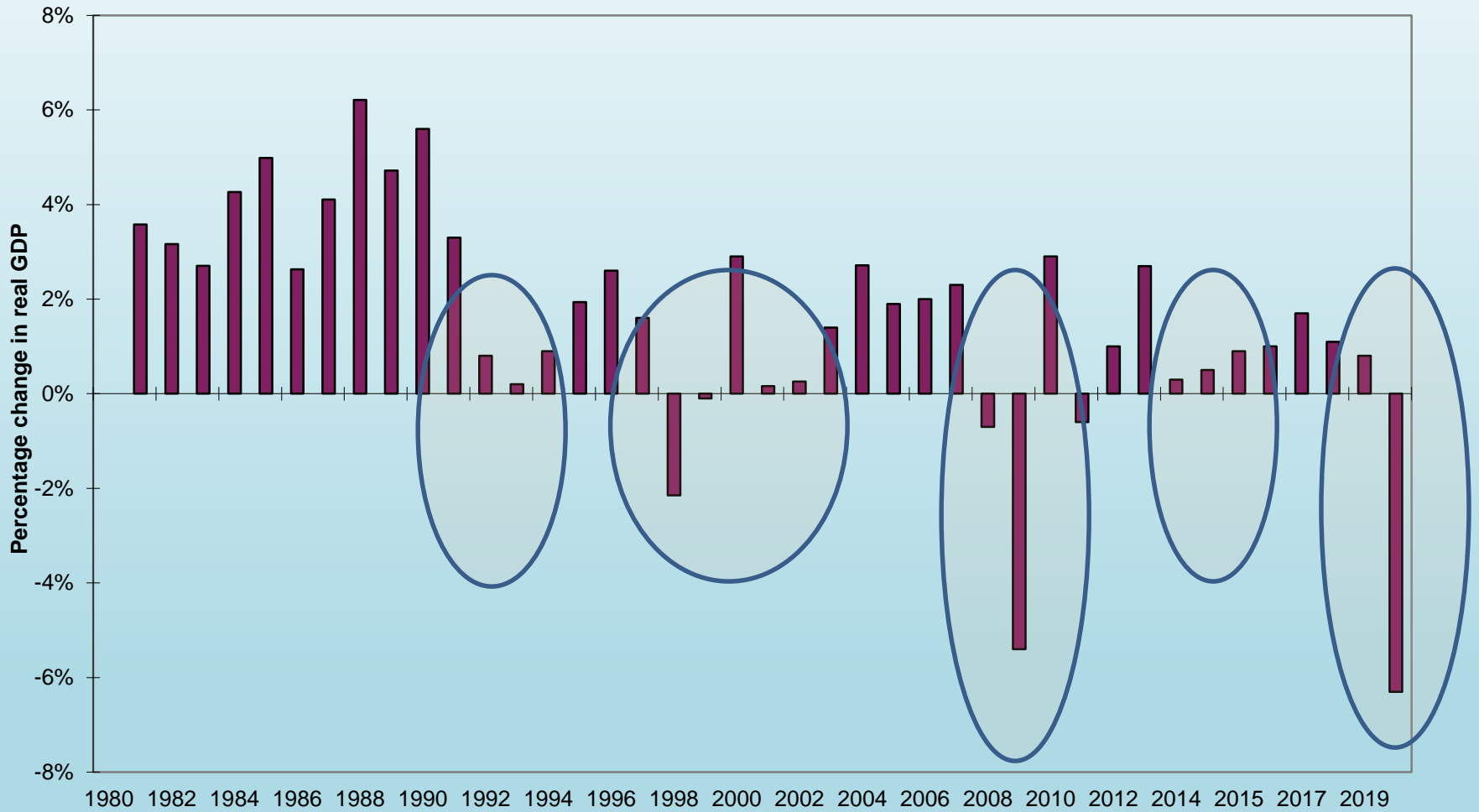
US Long Term



Great Depression Summary

- Equity and Housing bubbles
- Bank failures
- Natural events
- Poor policy
 - Monetary policy
 - Fiscal policy
 - Trade policy

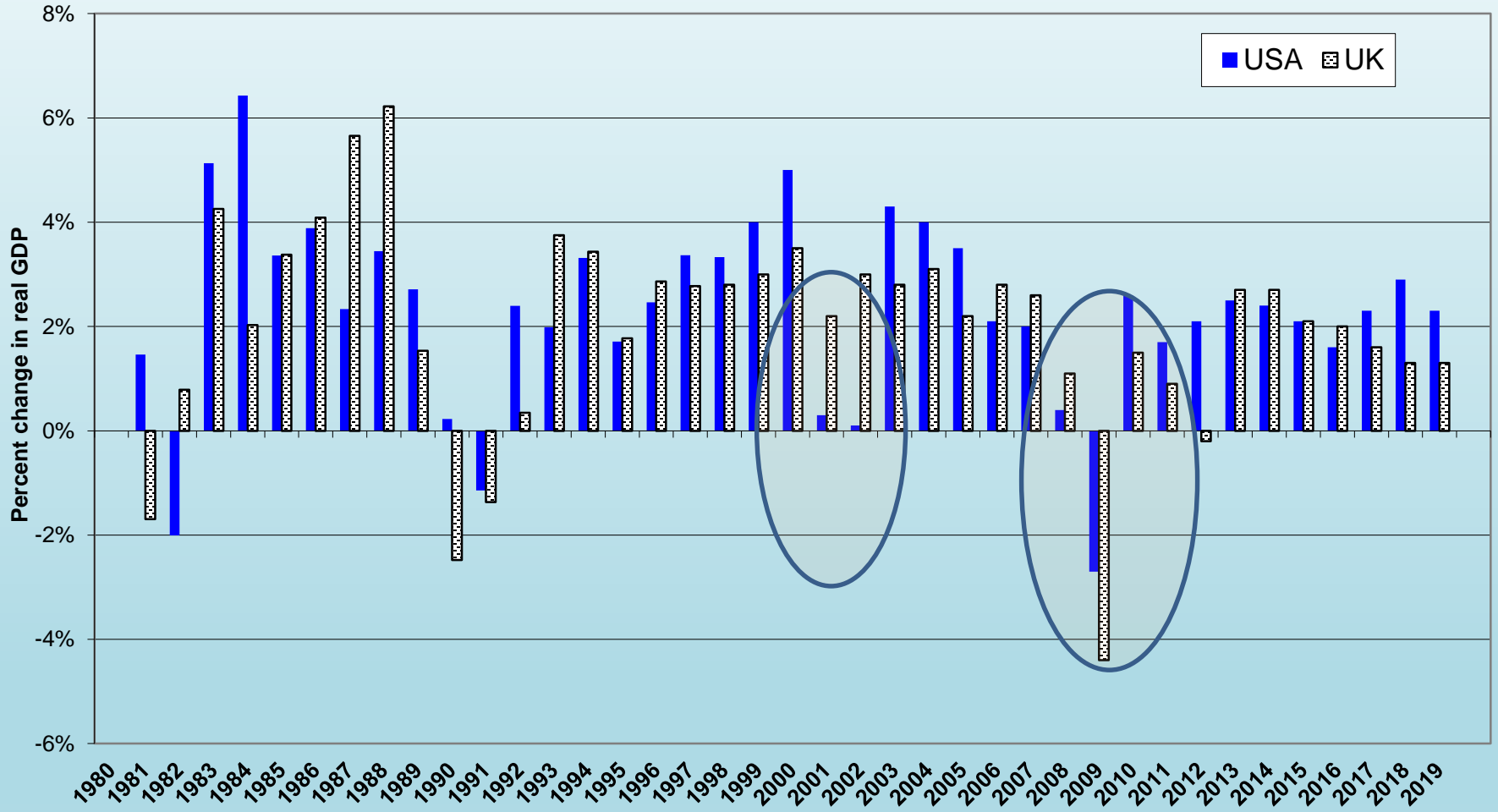
Business cycles in Japan



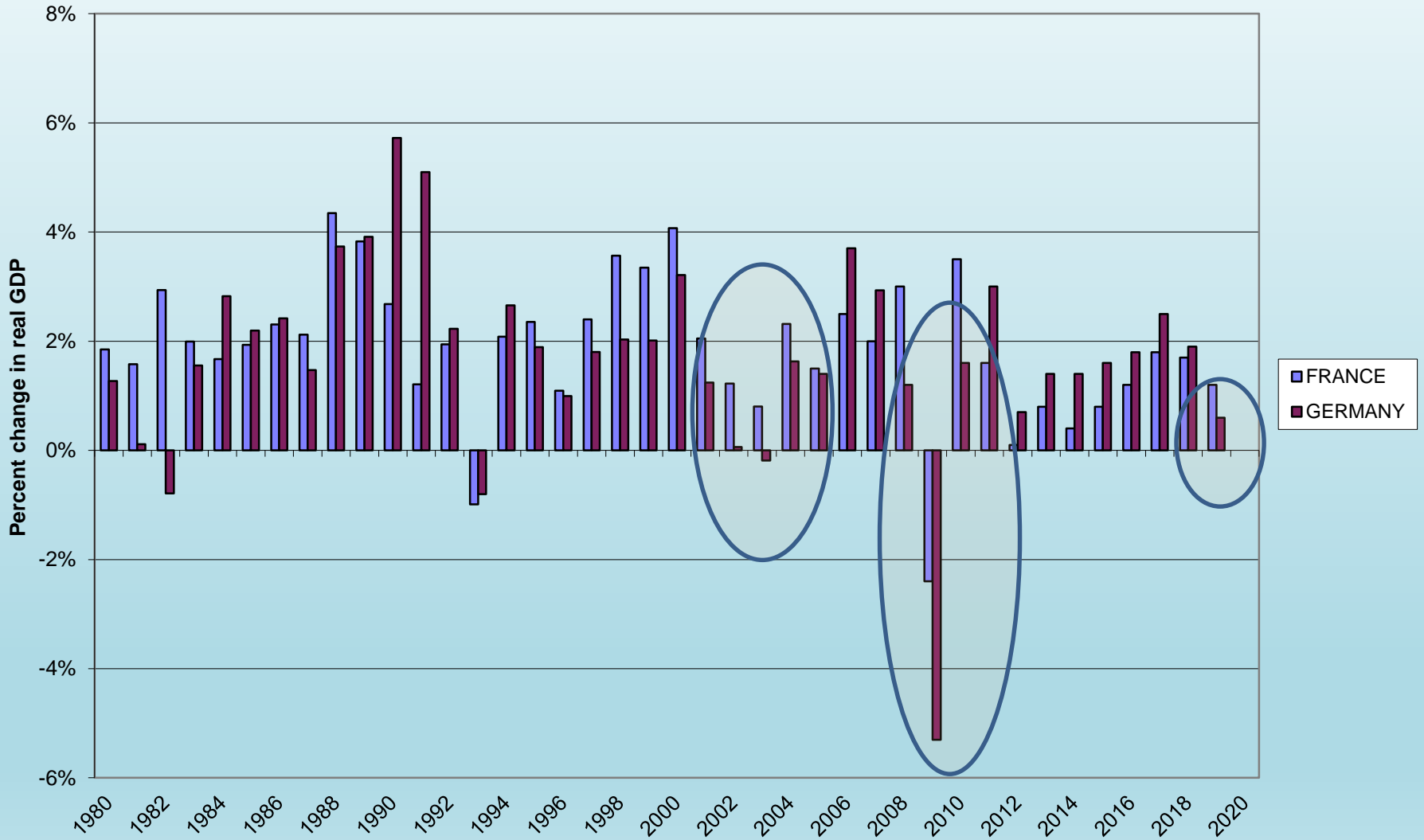
Japan 'Lost Decade' Summary

- Equity and Housing bubbles
- Bank failures
- Deflation
- Policy – too little too late
 - Monetary policy impotence
 - Fiscal policy impotence

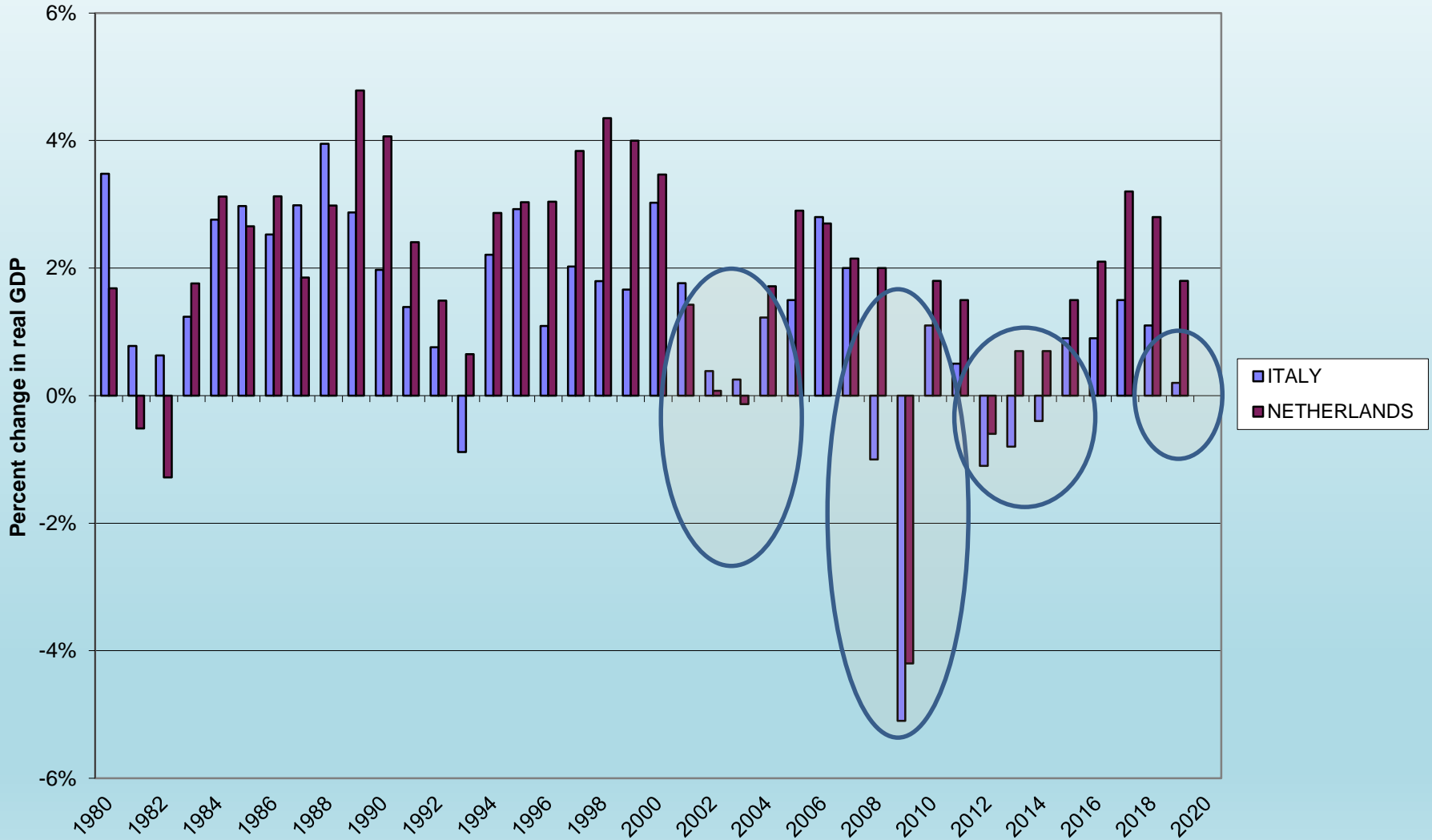
USA and UK business cycles



Business Cycles: France & Germany



Business cycles: Italy & the Netherlands



Dot Com Bubble Summary

- Equity bubble
- Initial contractionary monetary policy
- Policy – too much for too long
 - Excessive monetary stimulation
 - Excessive fiscal stimulation

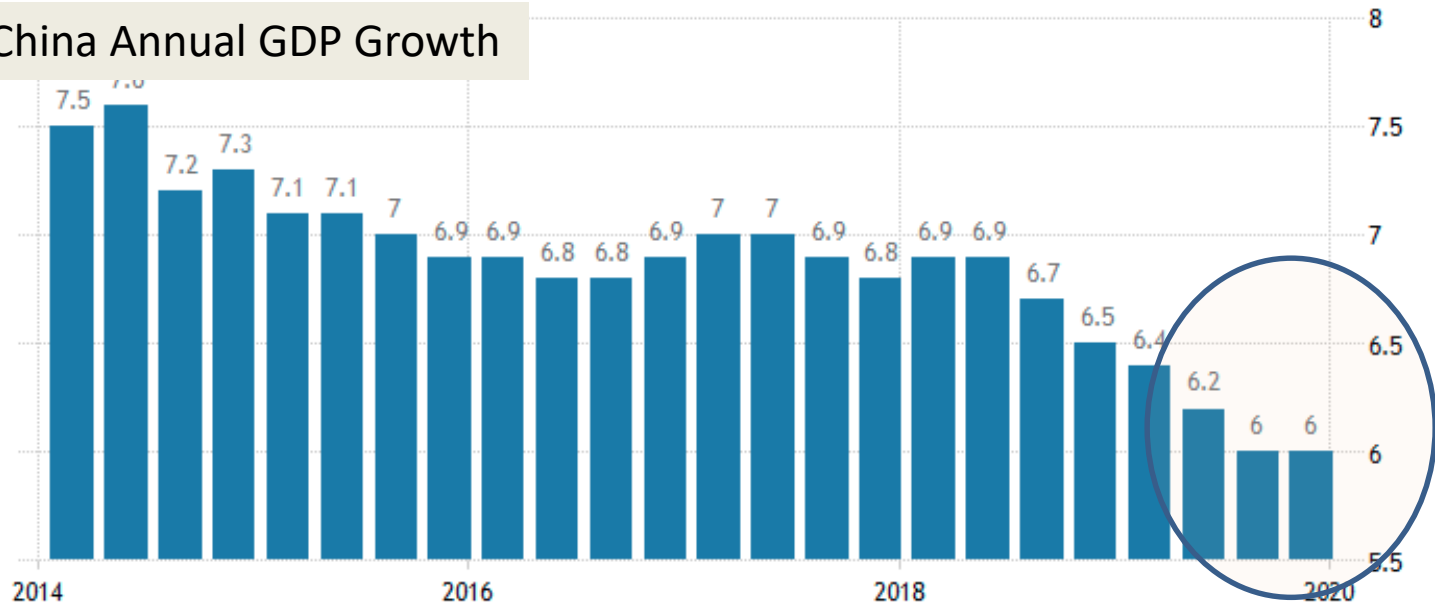
Financial Crisis Summary

- Equity and Housing bubbles
- Bank failures
- EU – sovereign debt
- Policy – too much too long
 - Monetary implications – massive money supply increases
 - Fiscal – massive increases in government debt
 - Little room to maneuver in next crisis

Economic Position before Covid

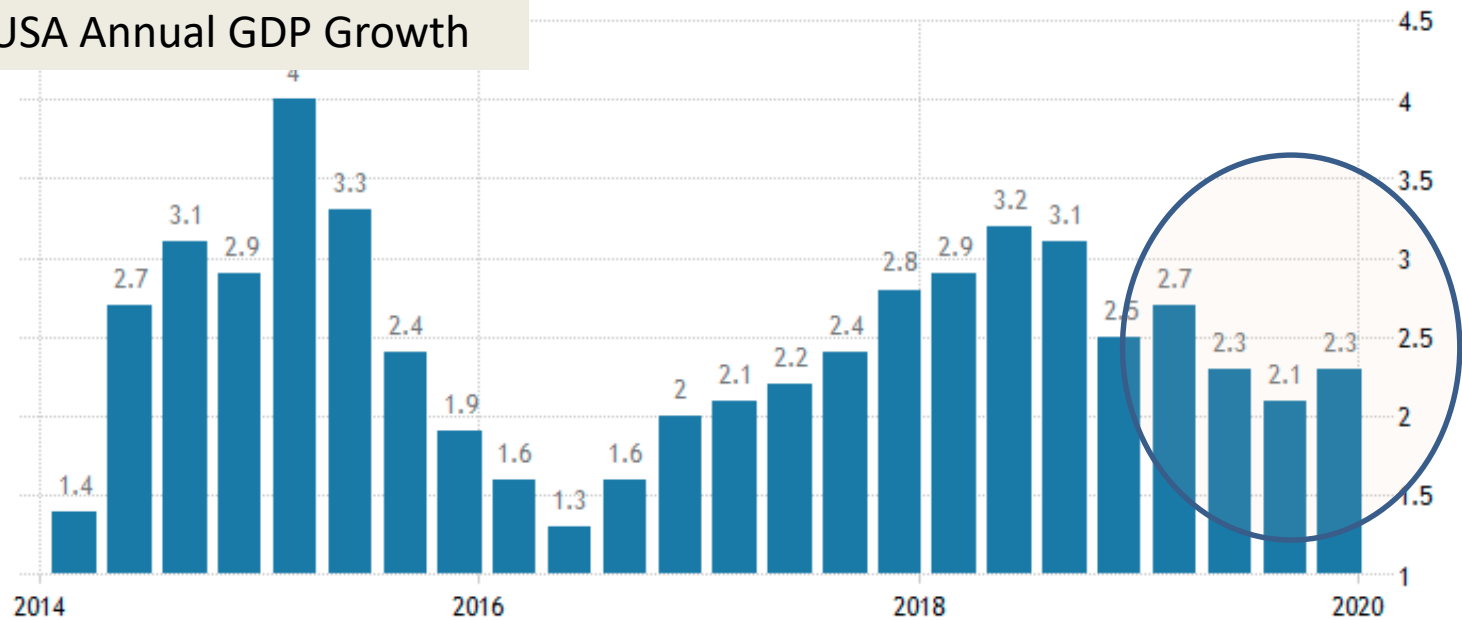
- Economic Growth
- Future Indicators:
 - Baltic Dry
 - Confidence
 - Purchasing Managers Index (PMI)
- Debt
- Bank Solvency
- Stock markets

China Annual GDP Growth



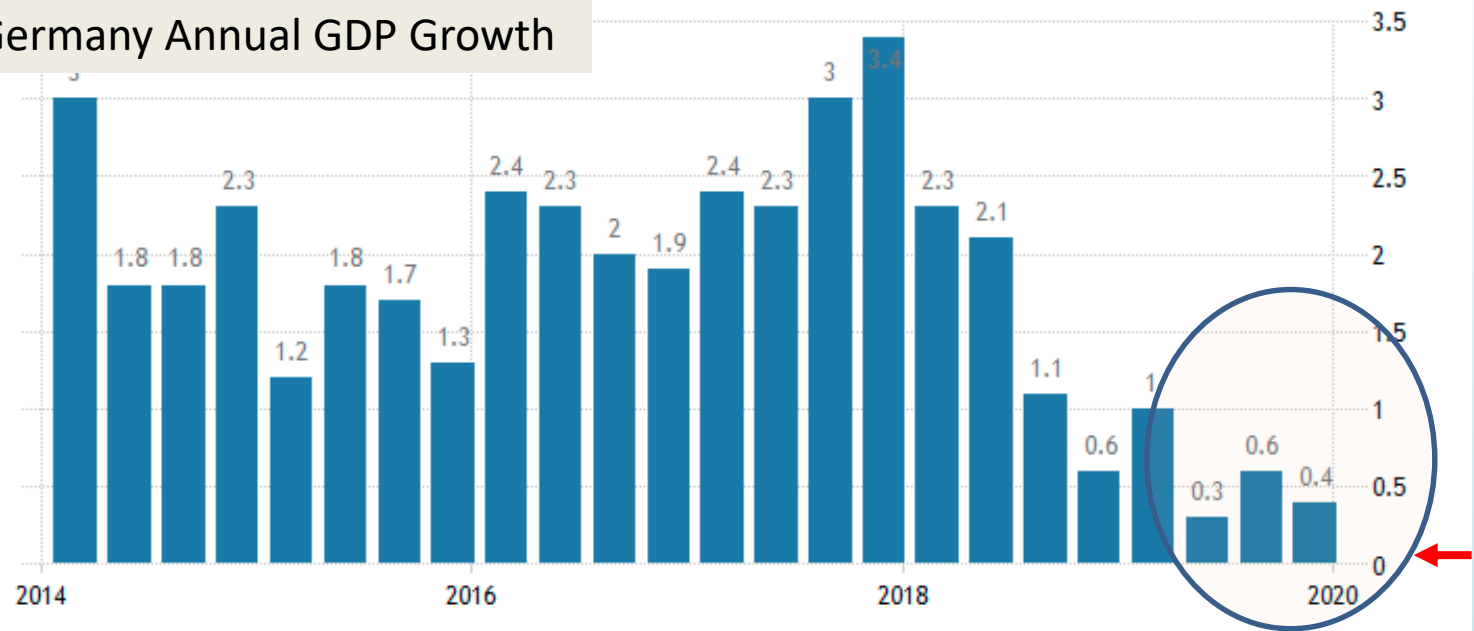
SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

USA Annual GDP Growth



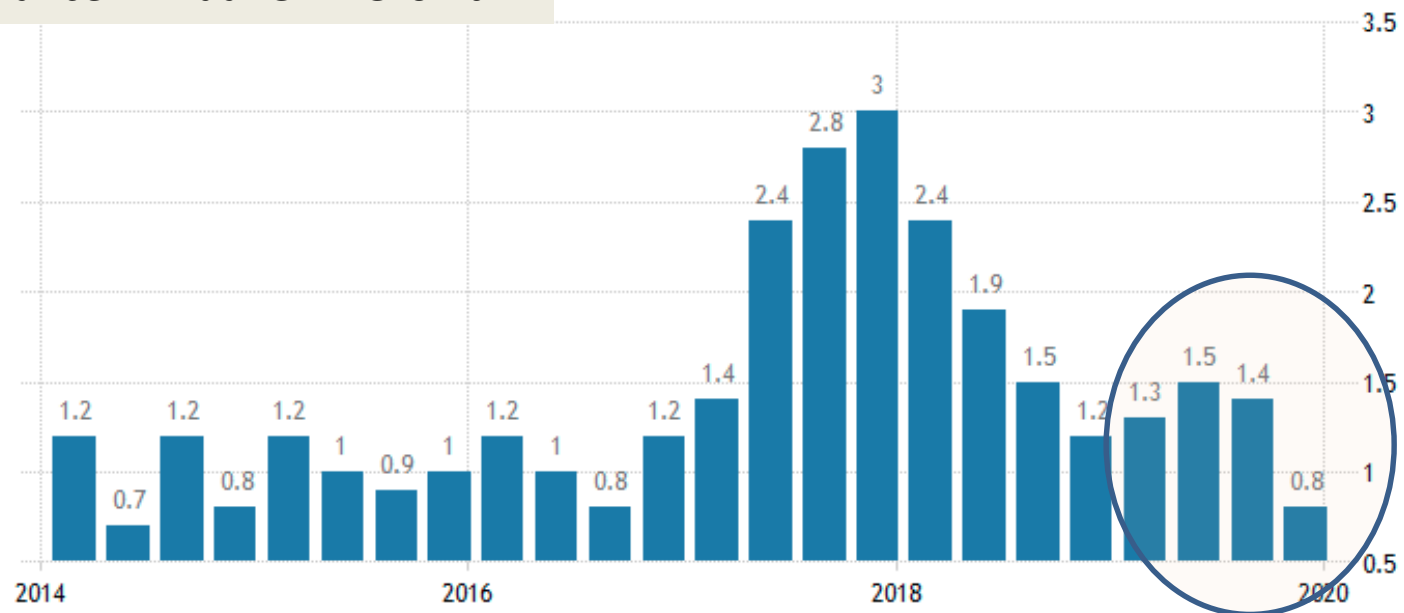
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Germany Annual GDP Growth



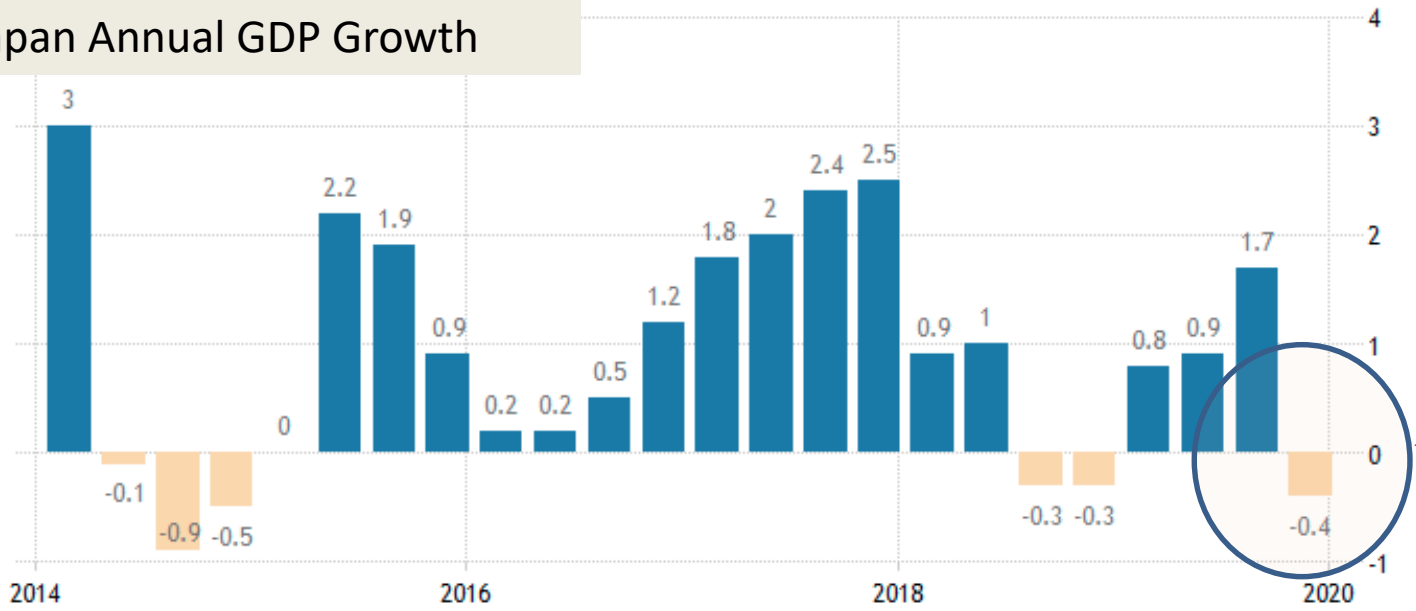
SOURCE: TRADINGECONOMICS.COM | FEDERAL STATISTICAL OFFICE

France Annual GDP Growth



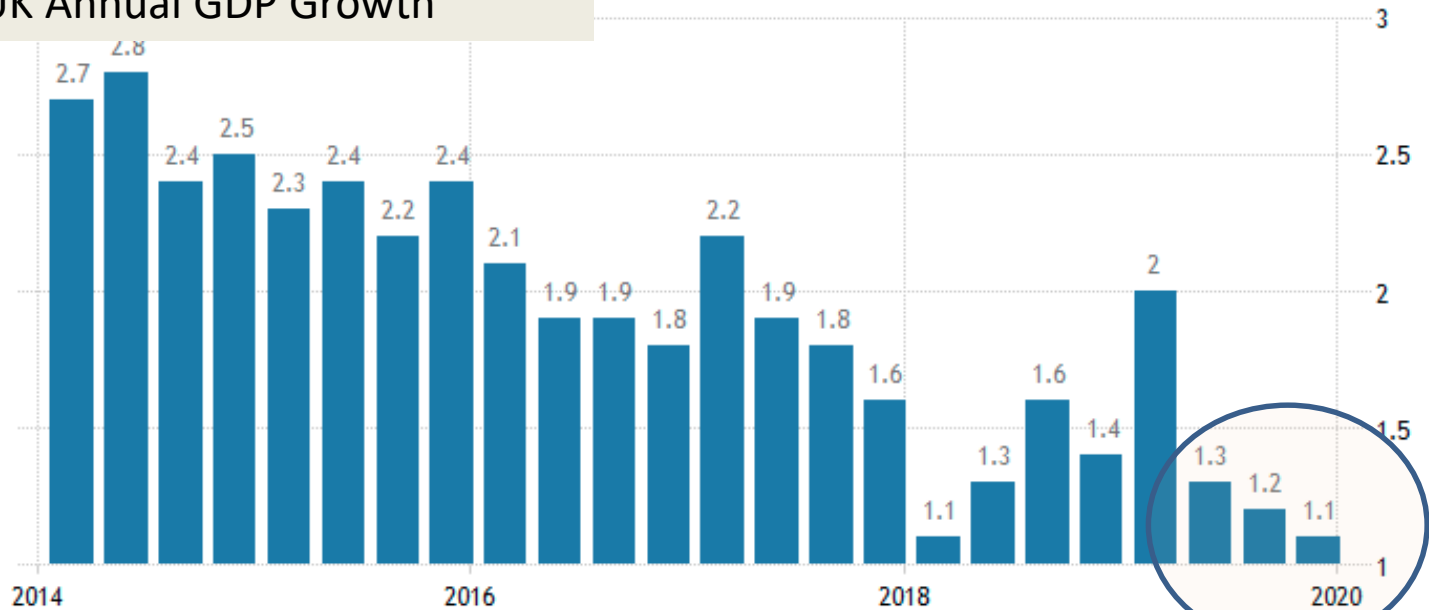
SOURCE: TRADINGECONOMICS.COM | INSEE, FRANCE

Japan Annual GDP Growth



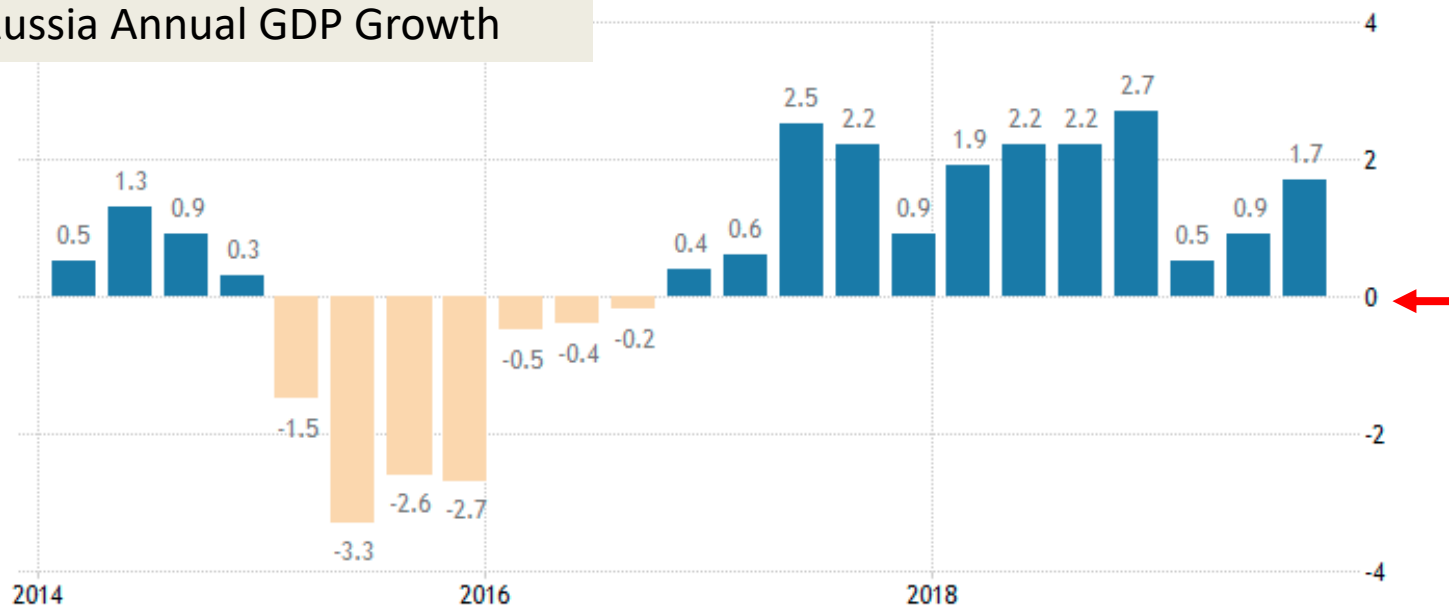
SOURCE: TRADINGECONOMICS.COM | CABINET OFFICE, JAPAN

UK Annual GDP Growth



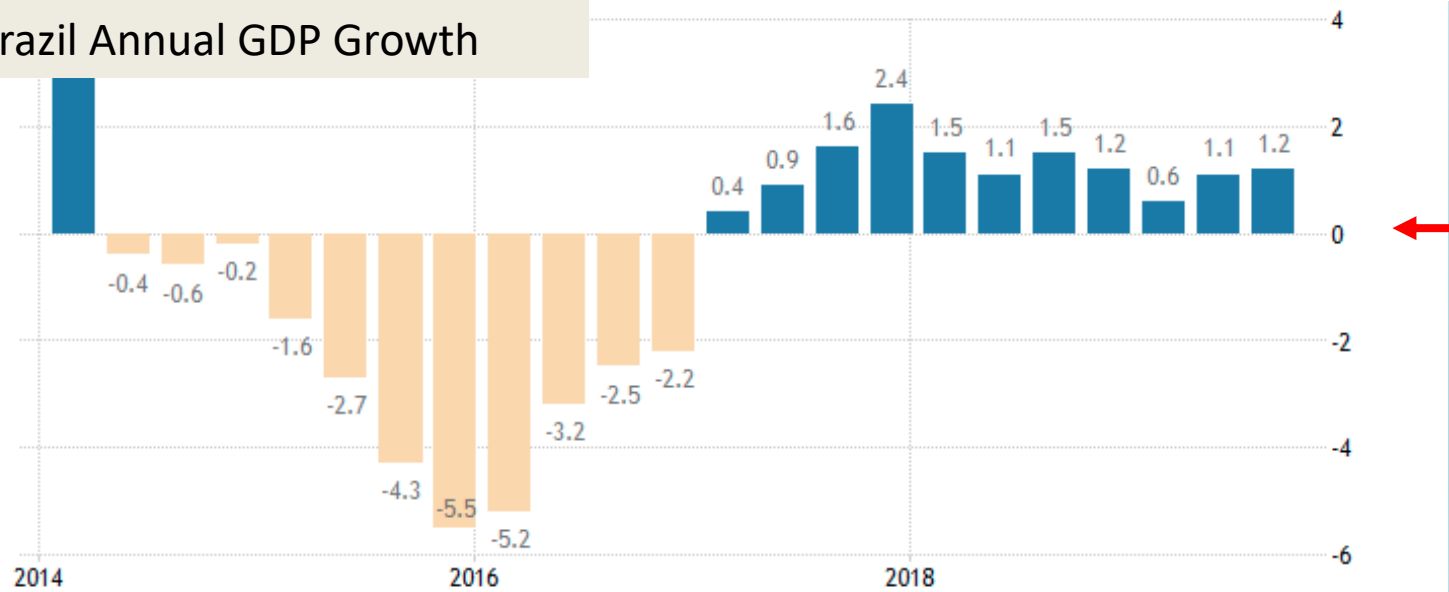
SOURCE: TRADINGECONOMICS.COM | OFFICE FOR NATIONAL STATISTICS

Russia Annual GDP Growth



SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE

Brazil Annual GDP Growth



SOURCE: TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

Baltic Dry Index

Baltic Dry Index



First reported Covid 19

Purchasing Managers Index

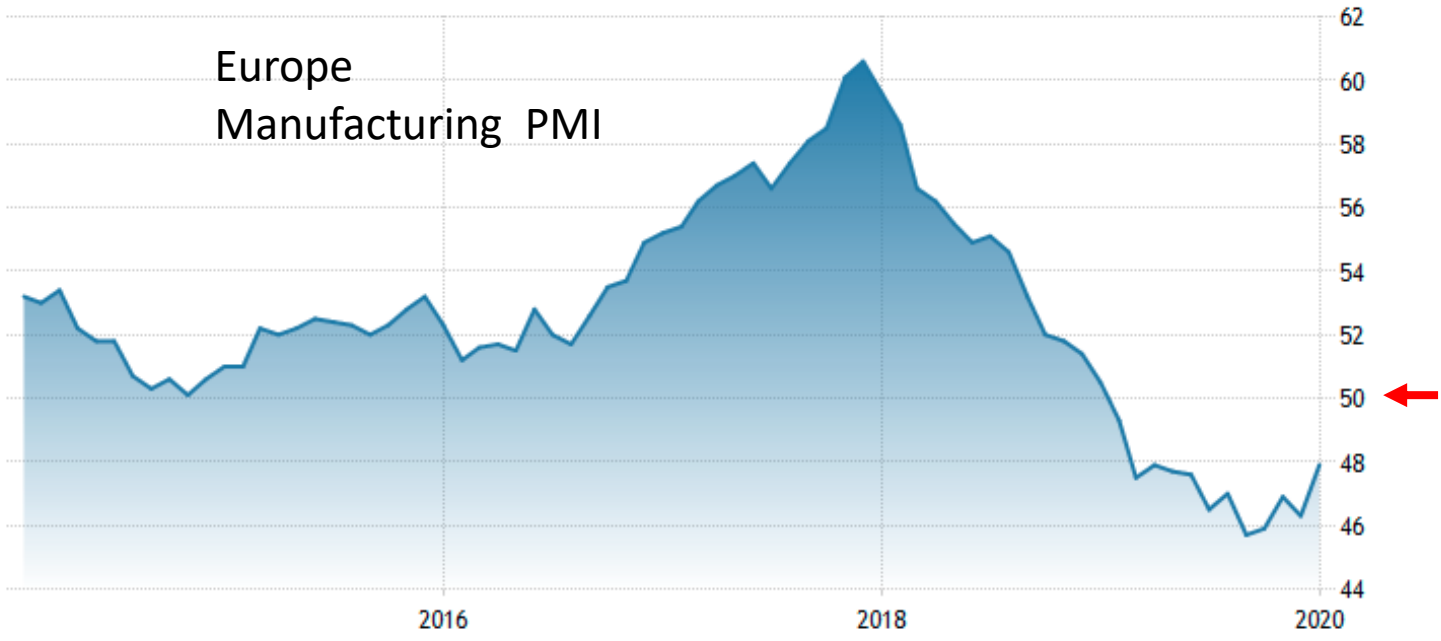
US Manufacturing PMI



US Services PMI



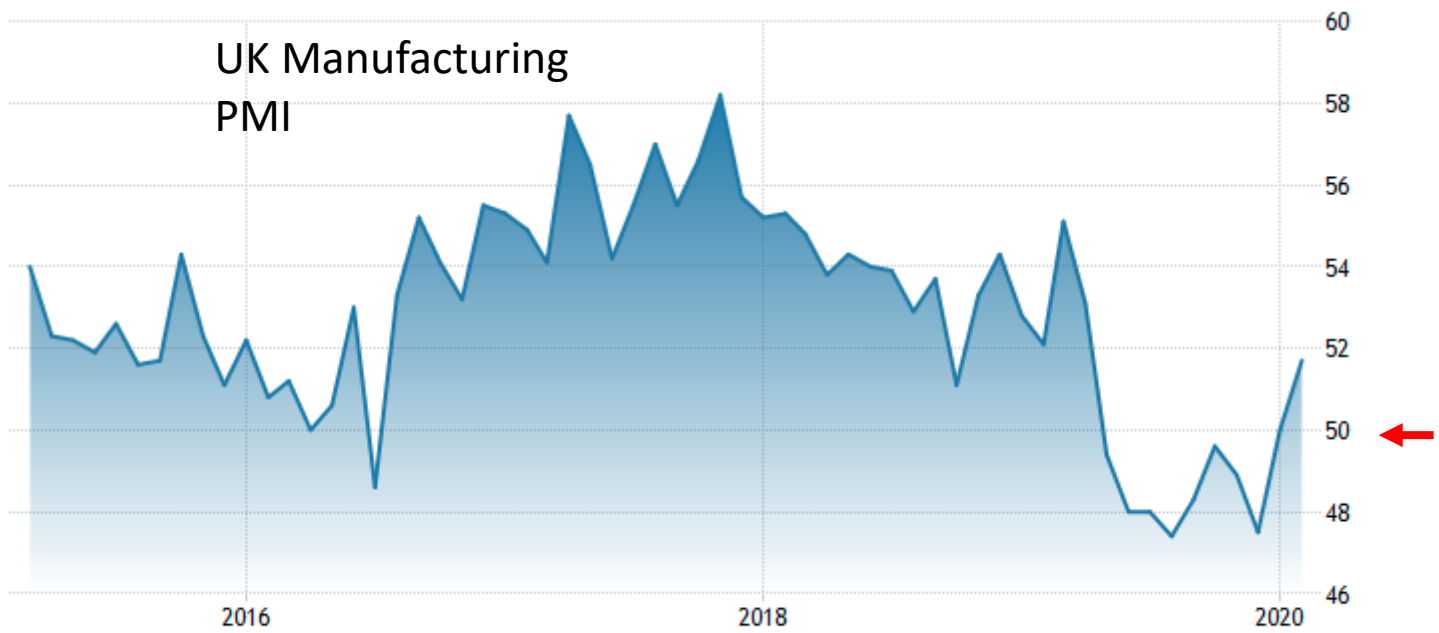
Europe Manufacturing PMI



Europe Services PMI



UK Manufacturing PMI



UK Services PMI



India Manufacturing PMI



China Manufacturing PMI



Netherlands Manufacturing PMI



Business and Consumer Confidence

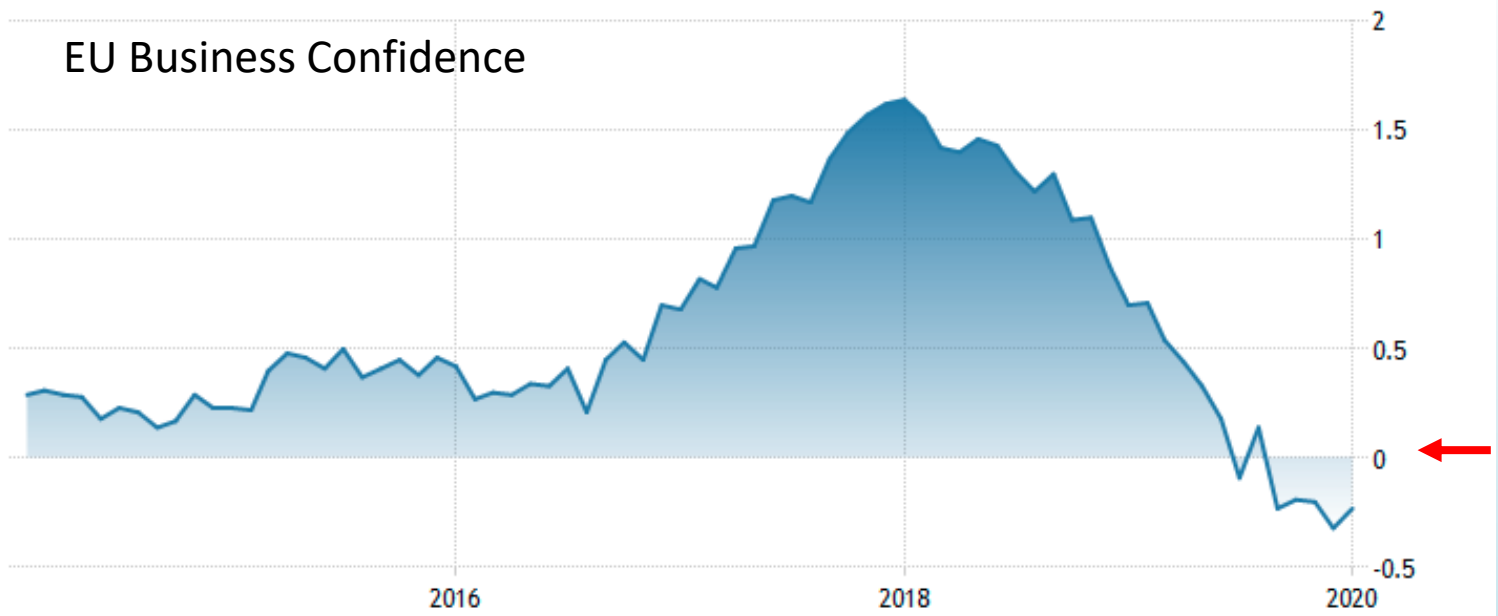
US Business Confidence



US Consumer Confidence



EU Business Confidence



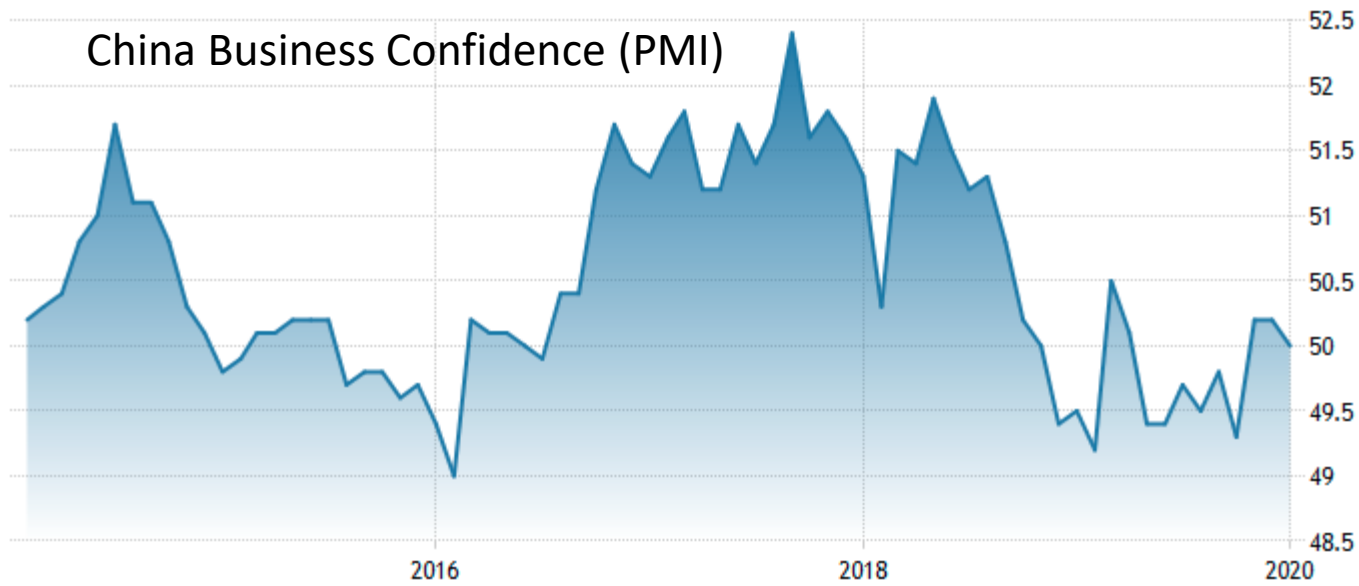
SOURCE: TRADINGECONOMICS.COM | EUROPEAN COMMISSION

EU Consumer Confidence



SOURCE: TRADINGECONOMICS.COM | EUROPEAN COMMISSION

China Business Confidence (PMI)



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

China Consumer Confidence



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA



Russian Business Confidence

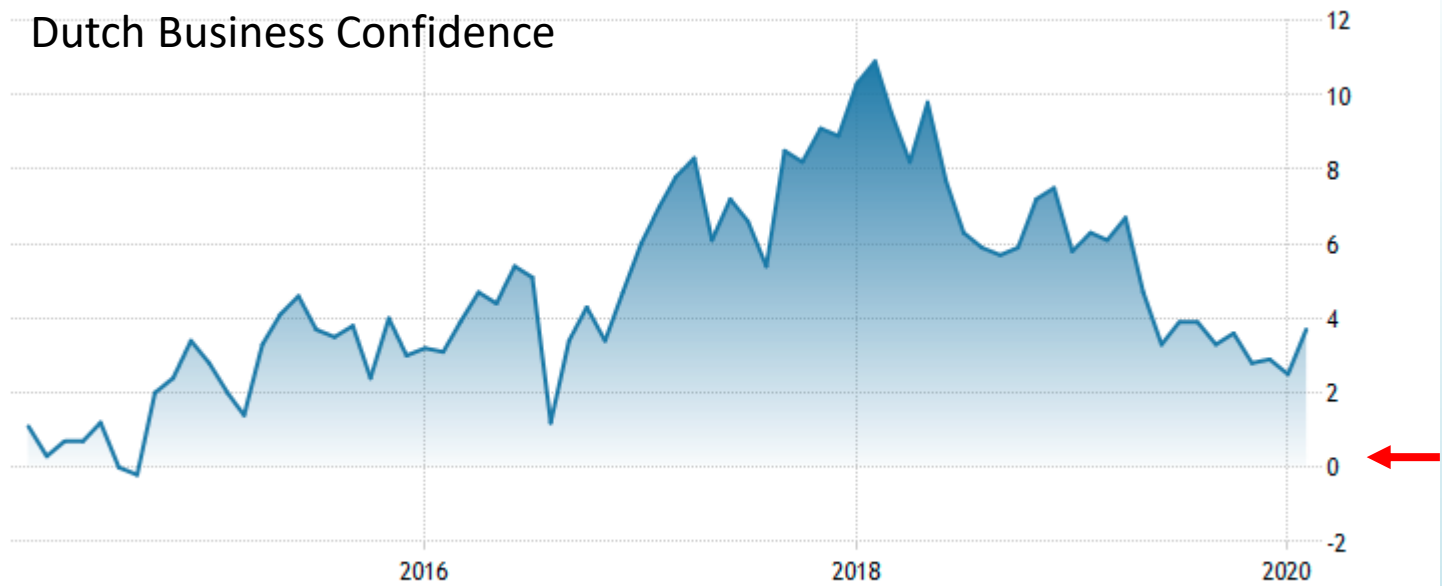
SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE



Russian Consumer Confidence

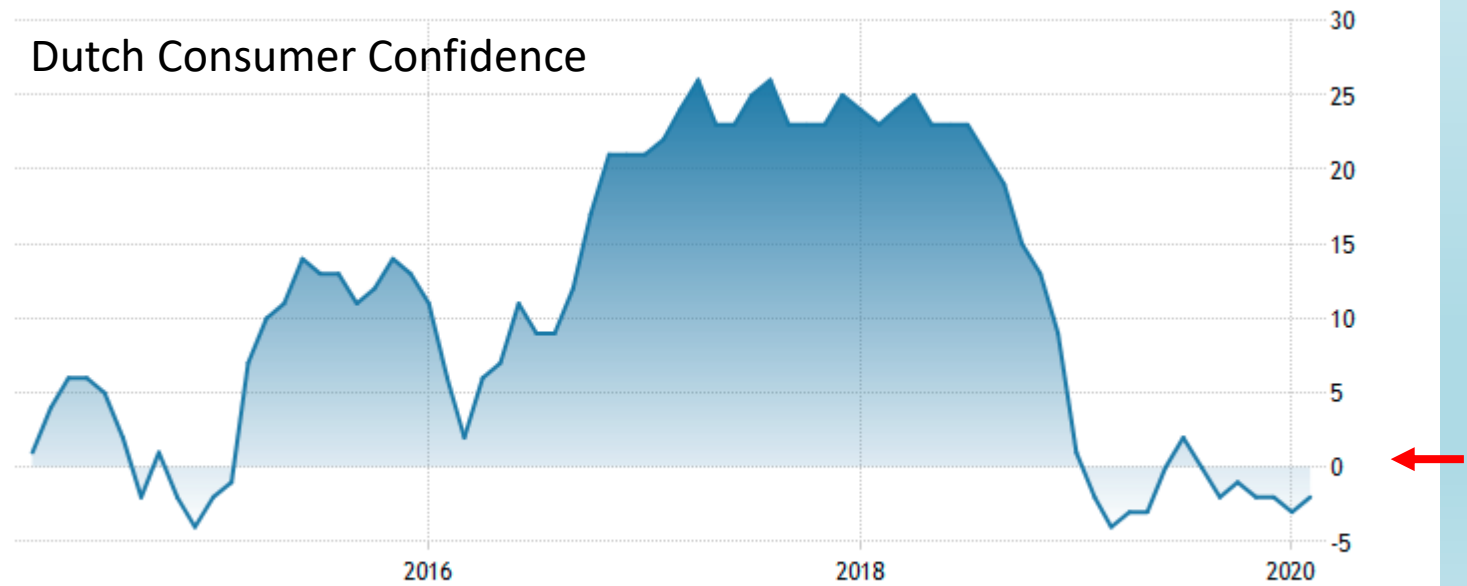
SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE

Dutch Business Confidence



SOURCE: TRADINGECONOMICS.COM | STATISTICS NETHERLANDS

Dutch Consumer Confidence



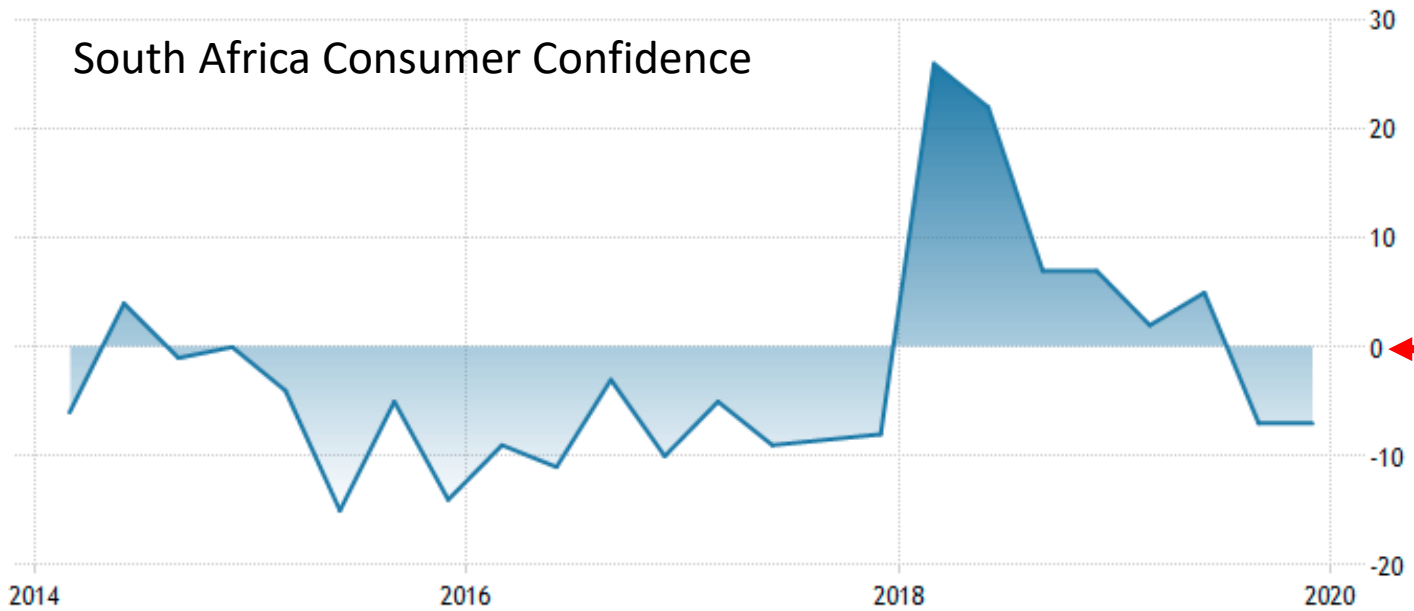
SOURCE: TRADINGECONOMICS.COM | STATISTICS NETHERLANDS

South Africa Business Confidence



SOURCE: TRADINGECONOMICS.COM | BUREAU FOR ECONOMIC RESEARCH (BER)

South Africa Consumer Confidence



SOURCE: TRADINGECONOMICS.COM | BUREAU FOR ECONOMIC RESEARCH (BER)

Debt

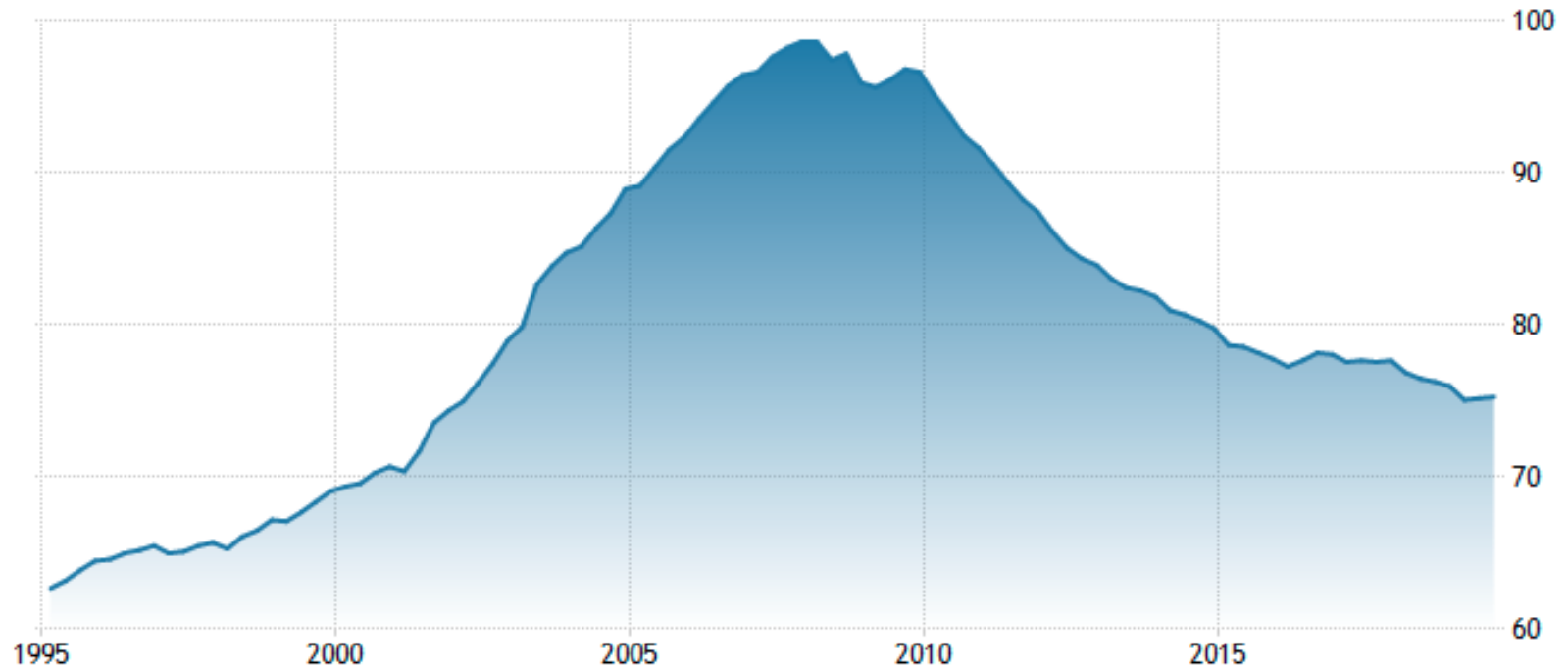
- Household debt as % of GDP

United Kingdom Household debt as % of GDP



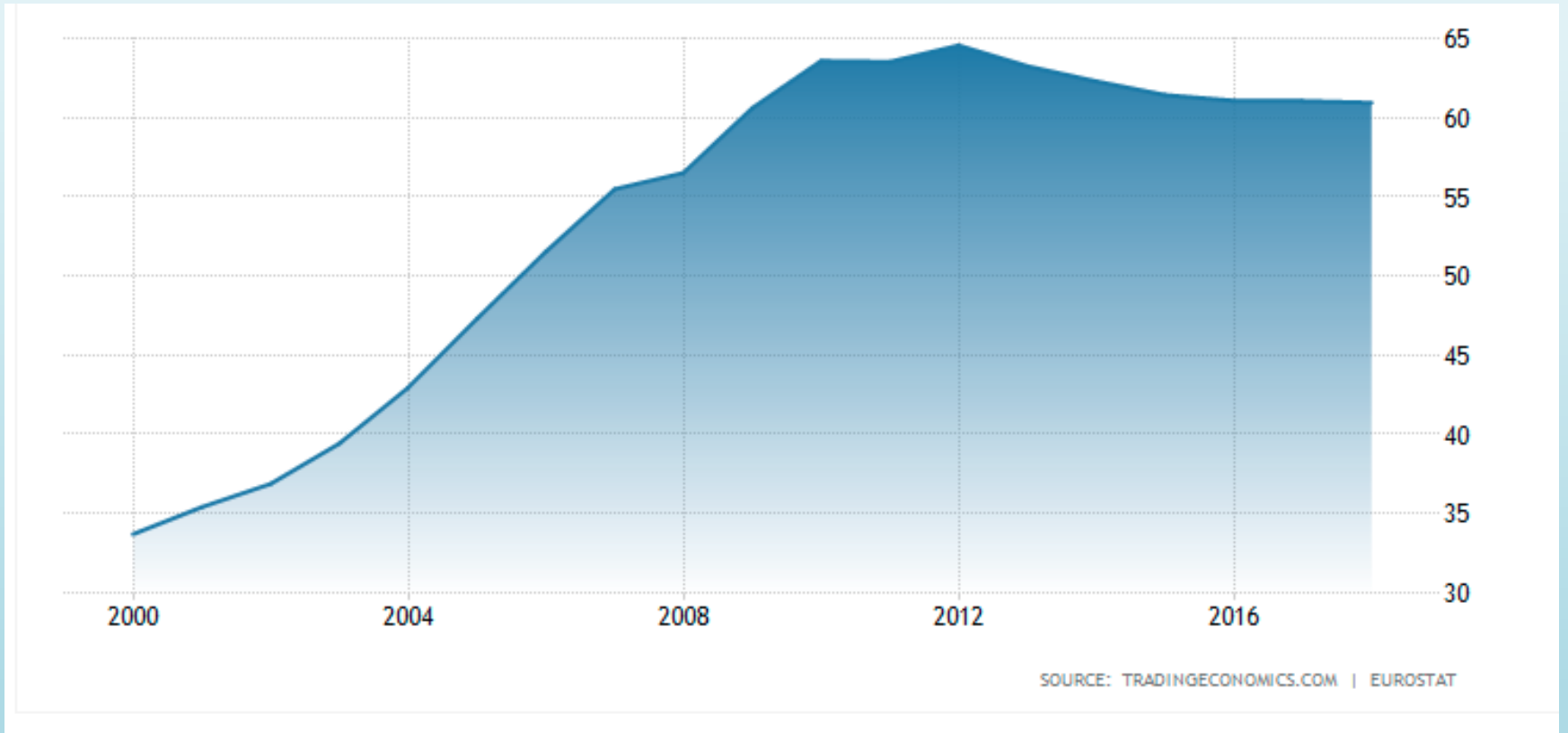
SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | BANK FOR INTERNATIONAL SETTLEMENTS

US Household debt as % of GDP

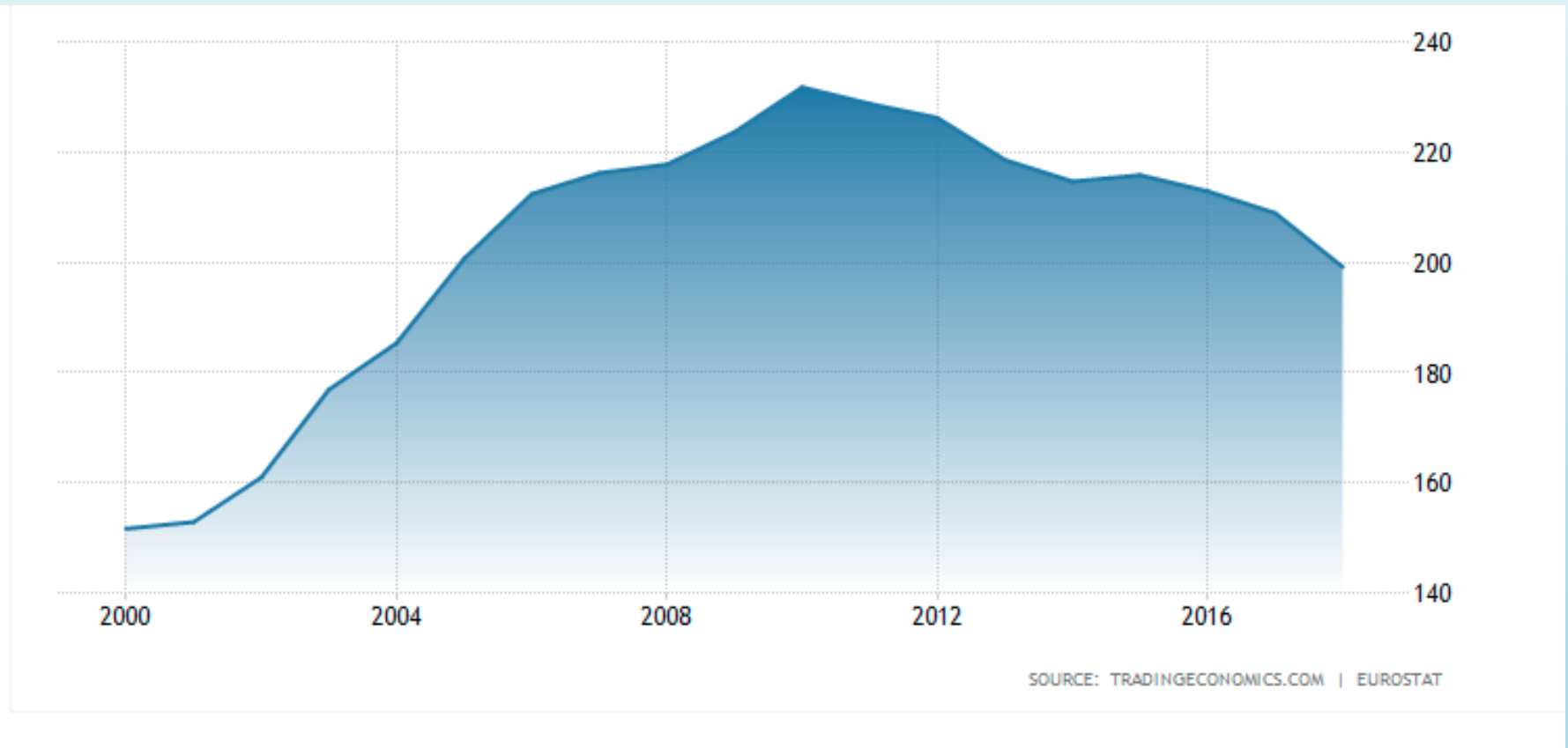


SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | BANK FOR INTERNATIONAL SETTLEMENTS

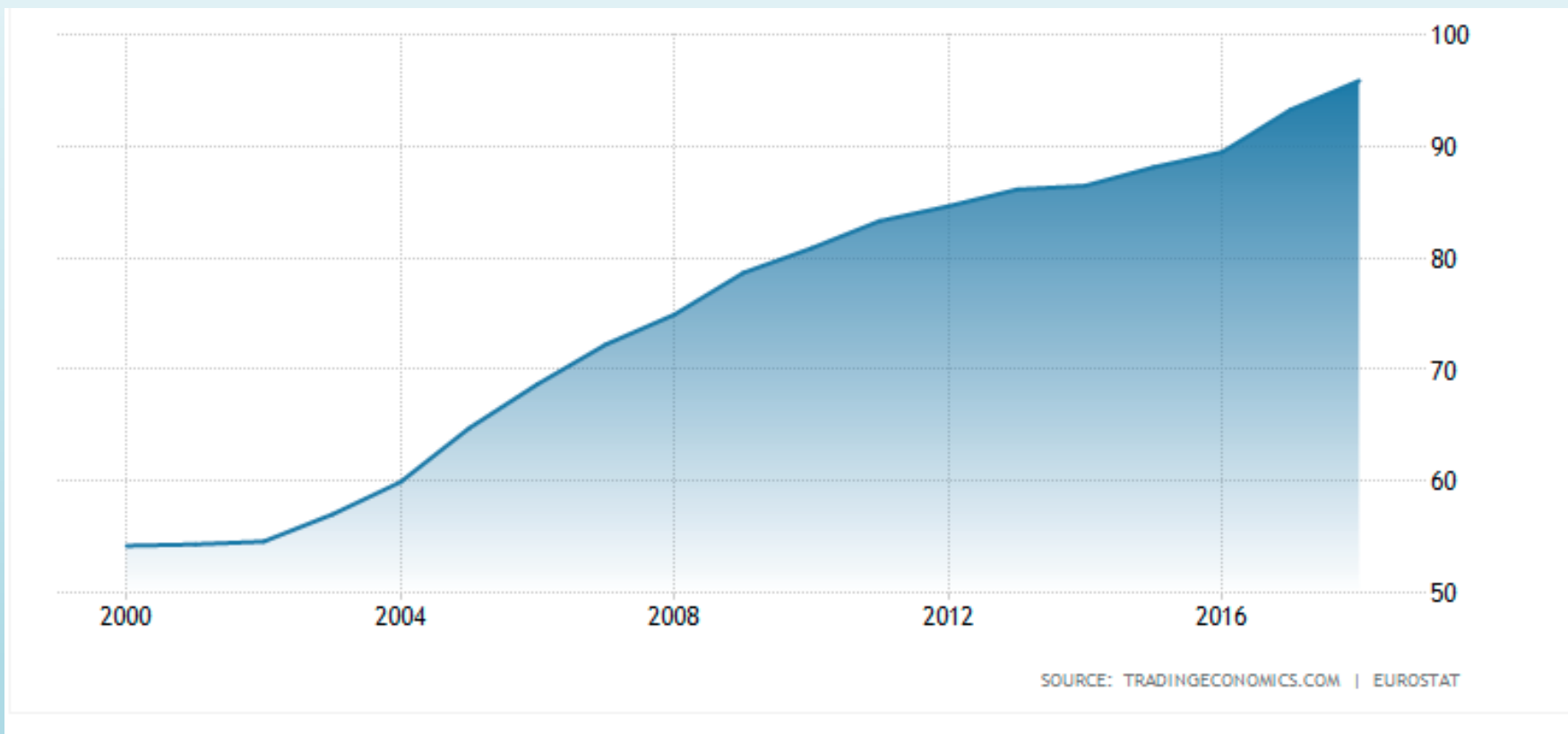
Italy Household debt as % of Income



Netherlands Household debt as % of Income



France Household debt as % of Income



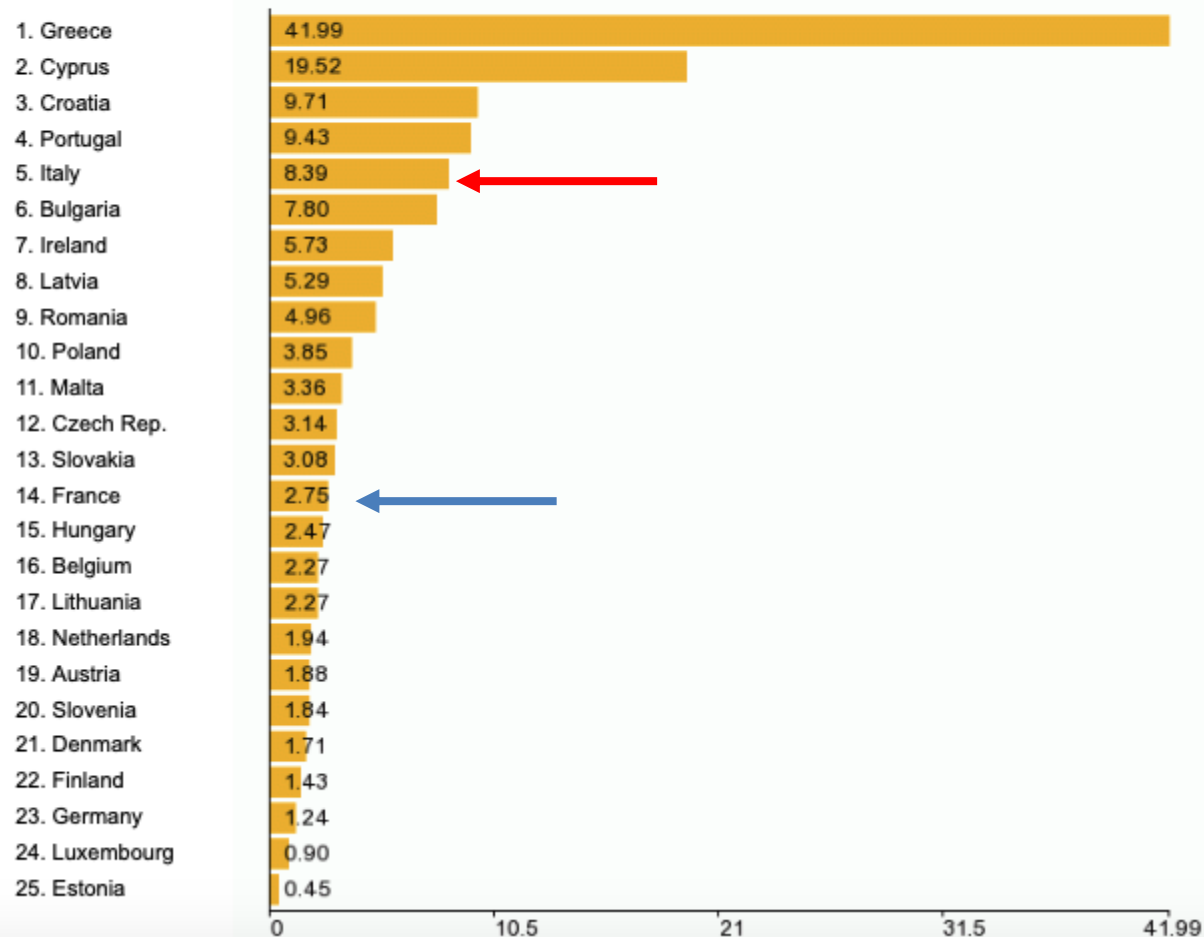
Bank Solvency

Banking

Non-performing loans as percent of all bank loans in the European union: The average for 2018 based on 25 countries was 5.9 percent. The highest value was in Greece: 41.99 percent and the lowest value was in Estonia: 0.45 percent. The indicator is available from 2000 to 2018. Below is a chart for all countries where data are available.

Measure: percent; Source: The World Bank

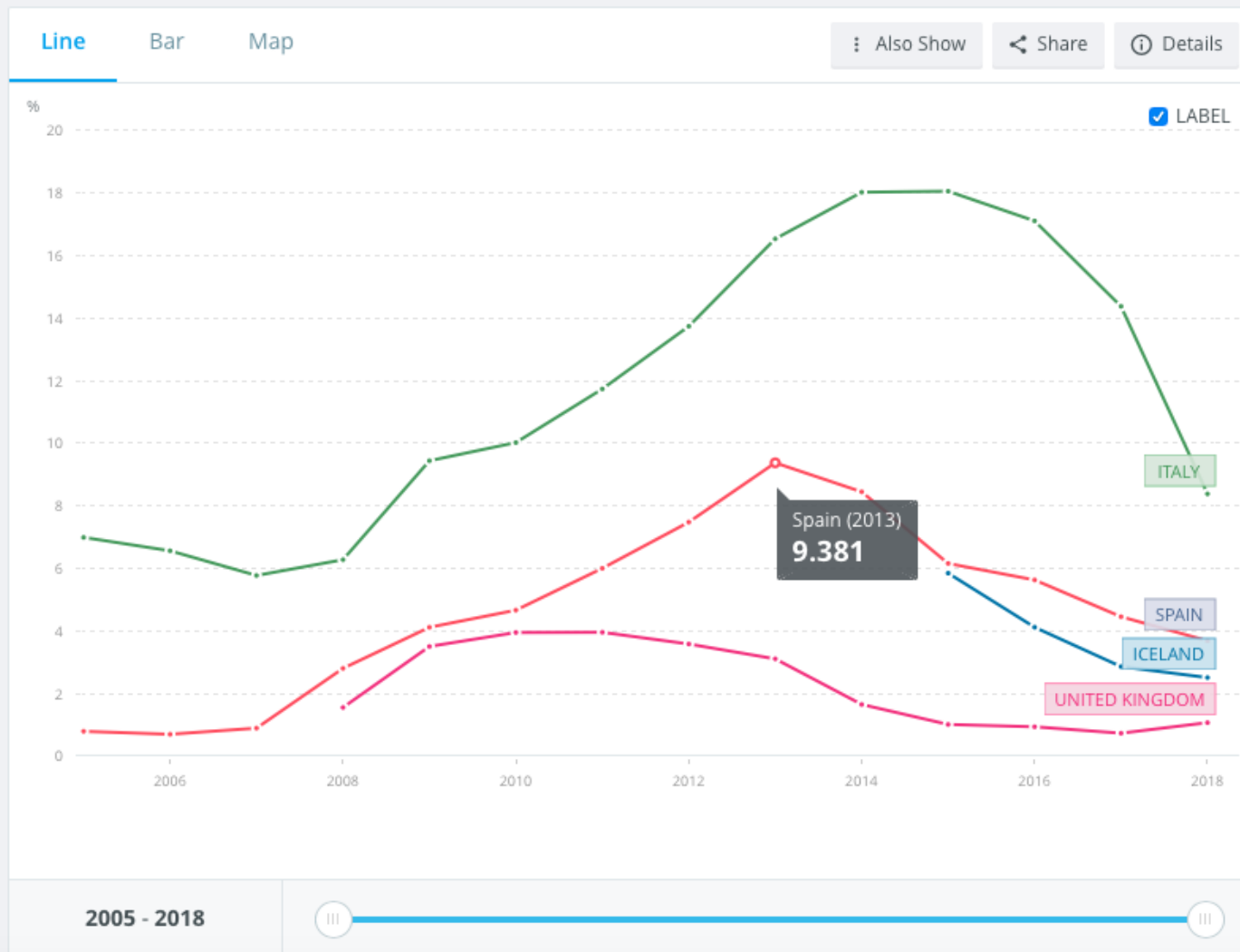
European L ▾ All ▾ 2018 ▾ [JPG](#) [Download data](#)



Bank nonperforming loans to total gross loans (%) - Iceland, Italy, Spain, United Kingdom

International Monetary Fund, Global Financial Stability Report.

License : CC BY-4.0



Equity Markets

- End February

Dow Jones Industrial Average



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

Japan Nikkei 225 Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

Euro Stoxx 50 Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

Germany Dax 30 Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

Netherlands (AEX) Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

UK FTSE 100 Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

France CAC 40 Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

China Shanghai Composite Stock Market Index



SOURCE: TRADINGECONOMICS.COM | OTC/CFD

Russia Micex Stock Market Index



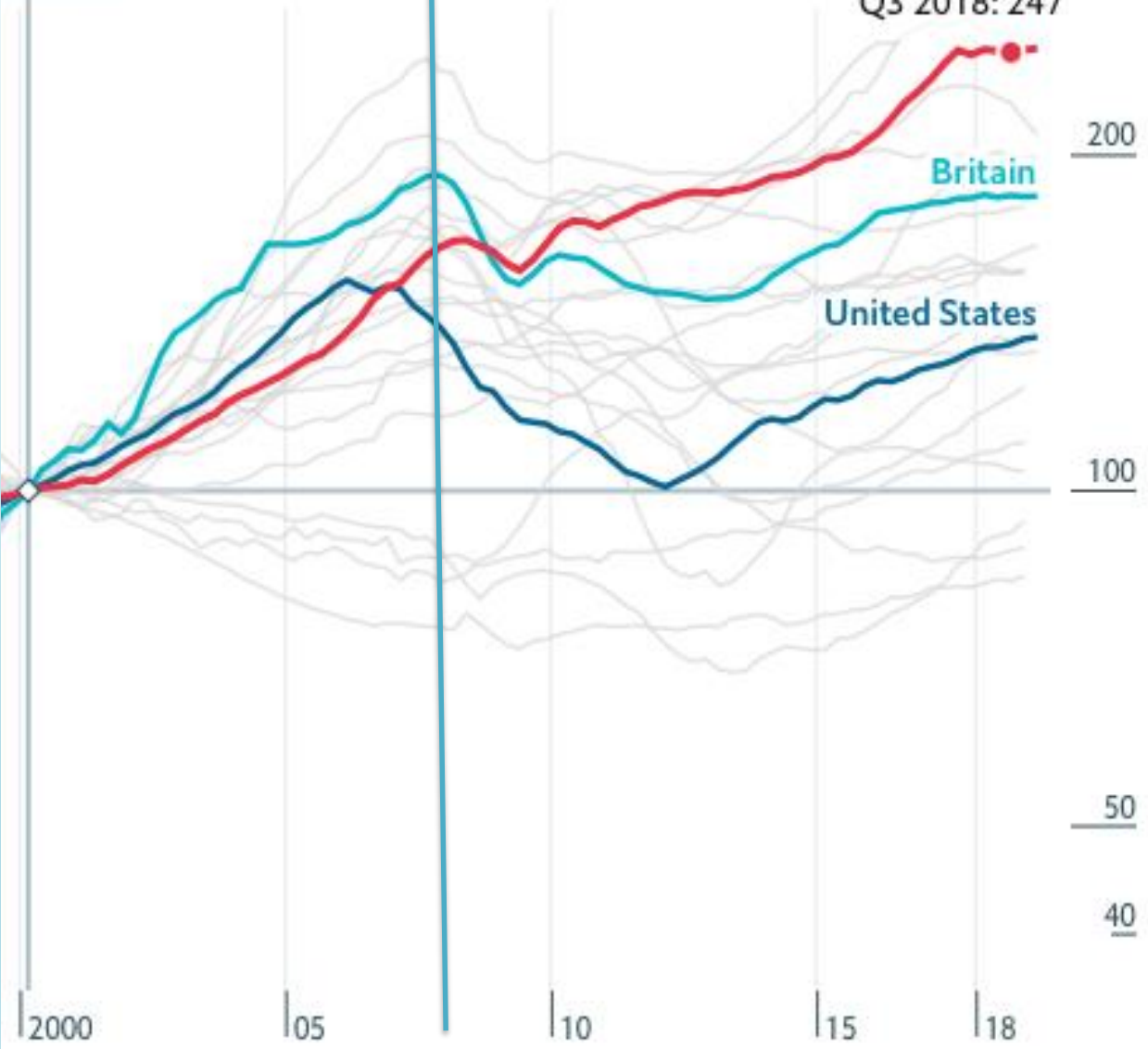
Housing Markets

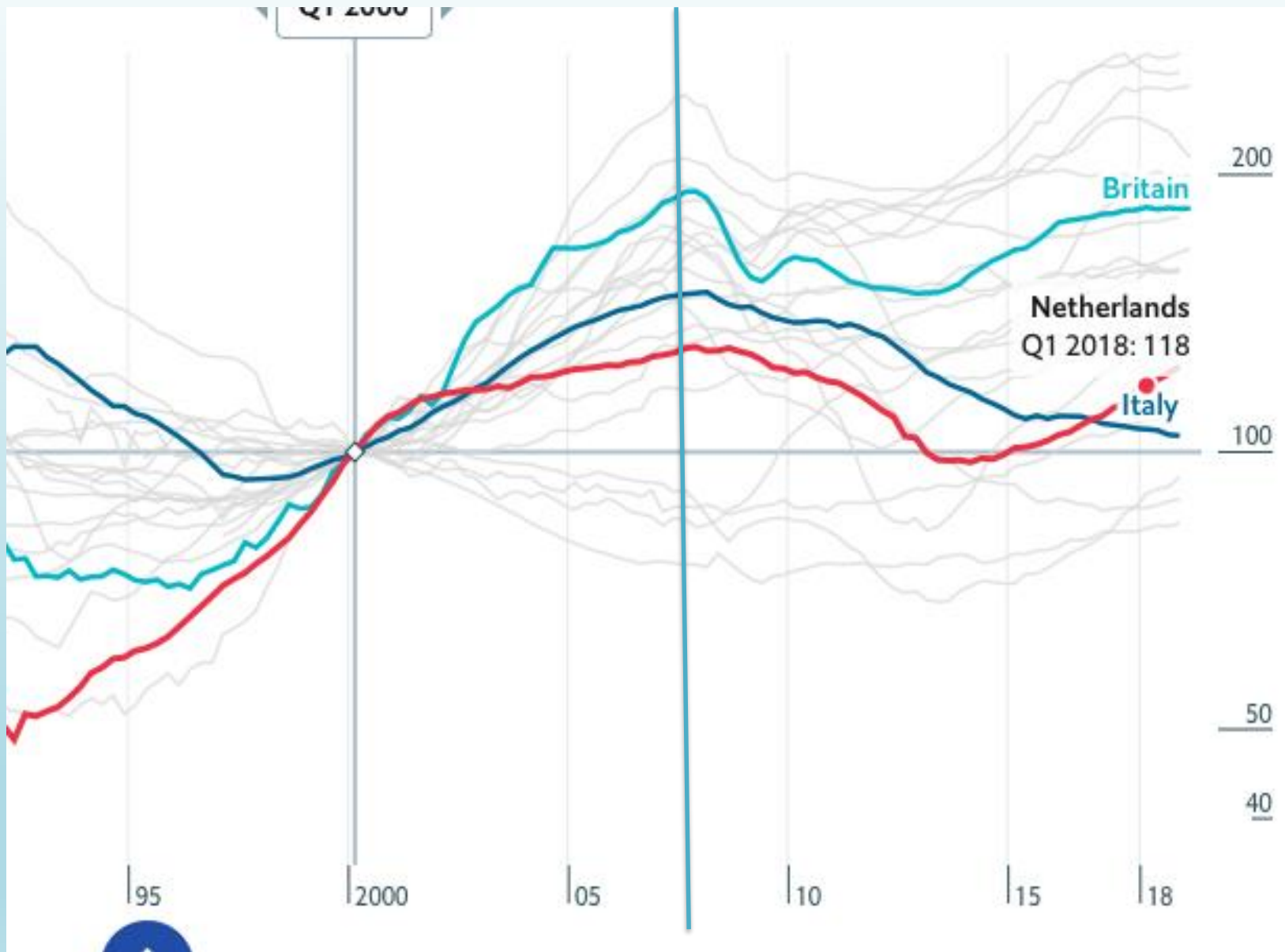
2000

Canada
Q3 2018: 247

Britain

United States





Q1 2009

200

China

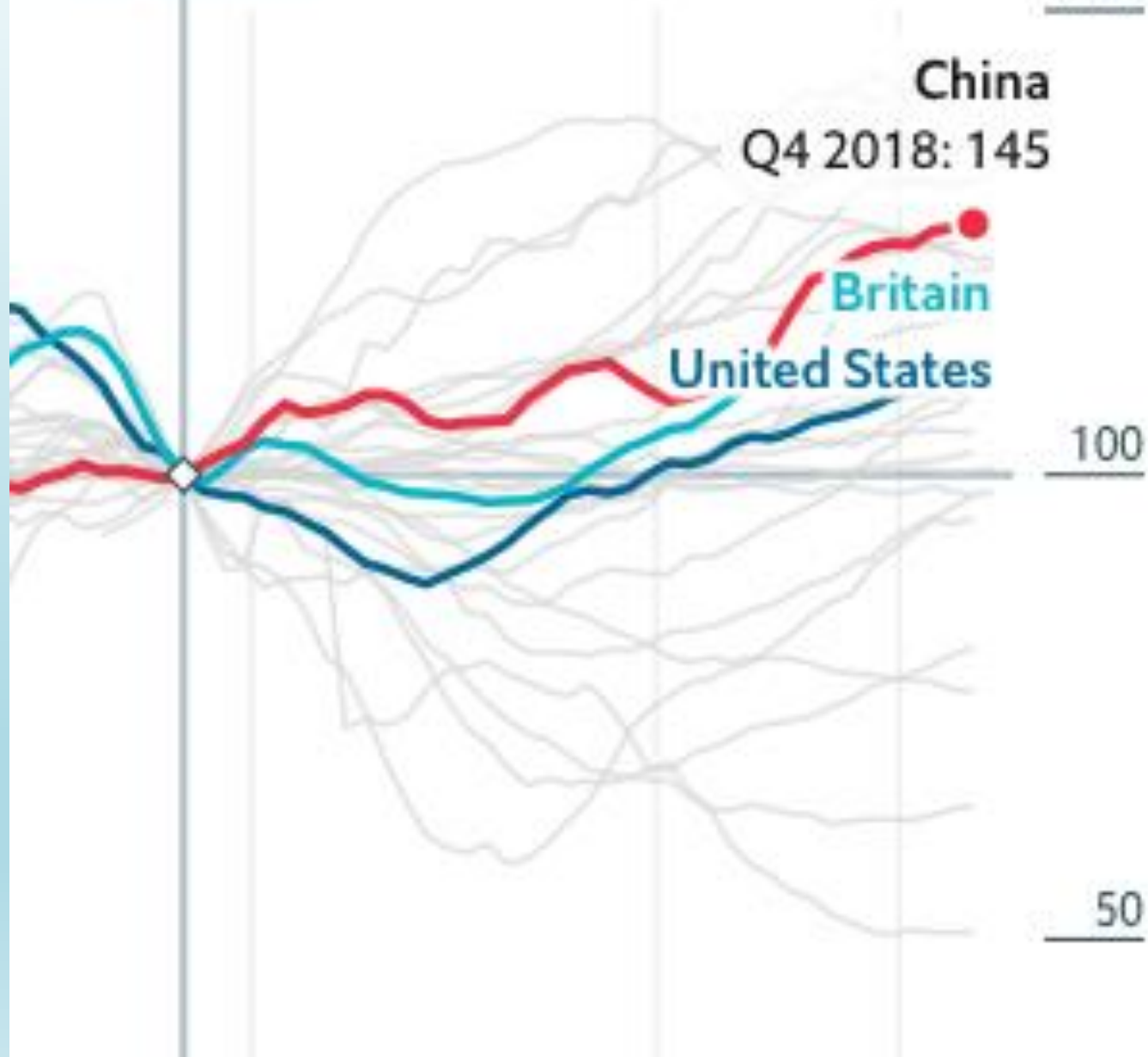
Q4 2018: 145

Britain

United States

100

50



Log scale

Q4 2007

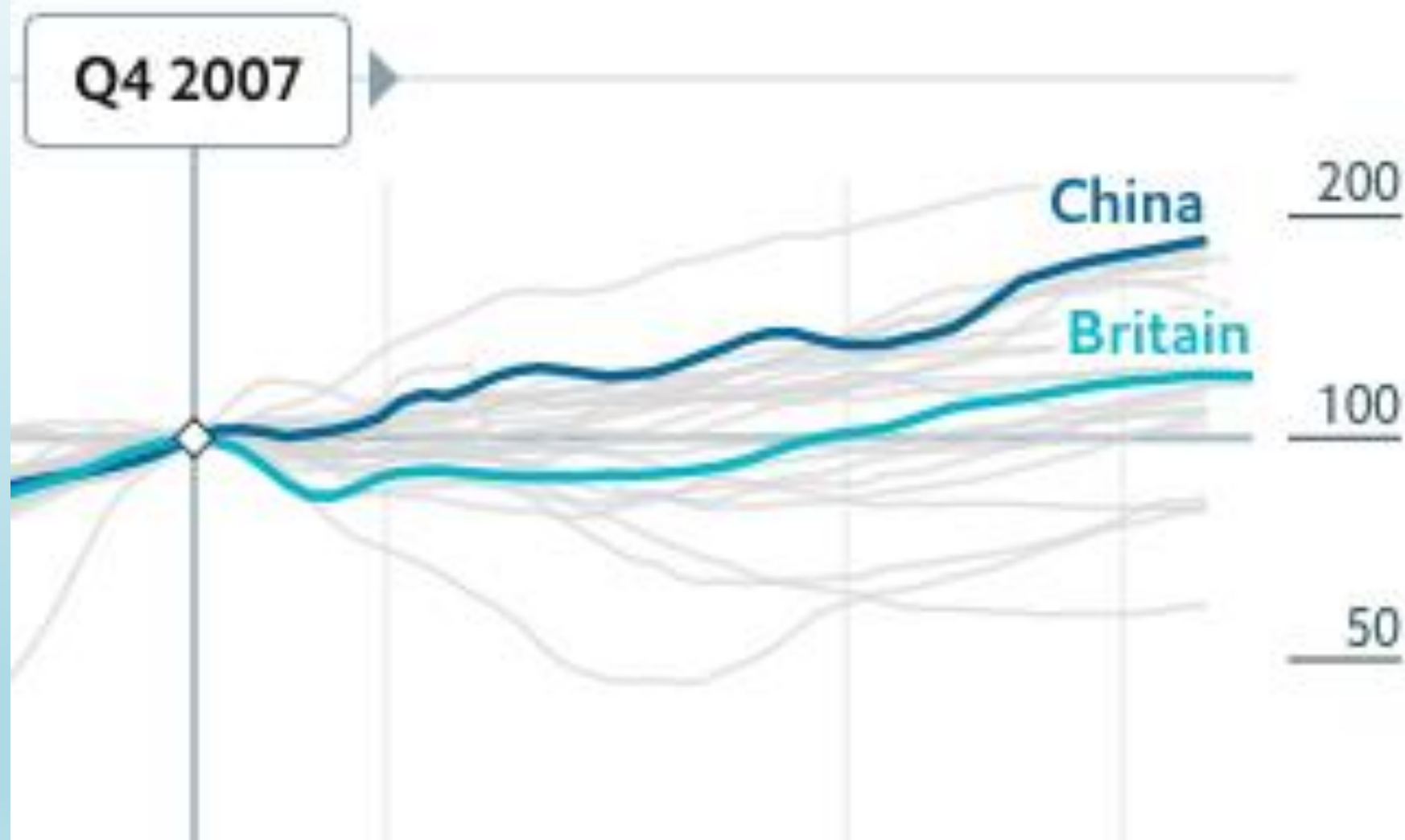
China

200

Britain

100

50

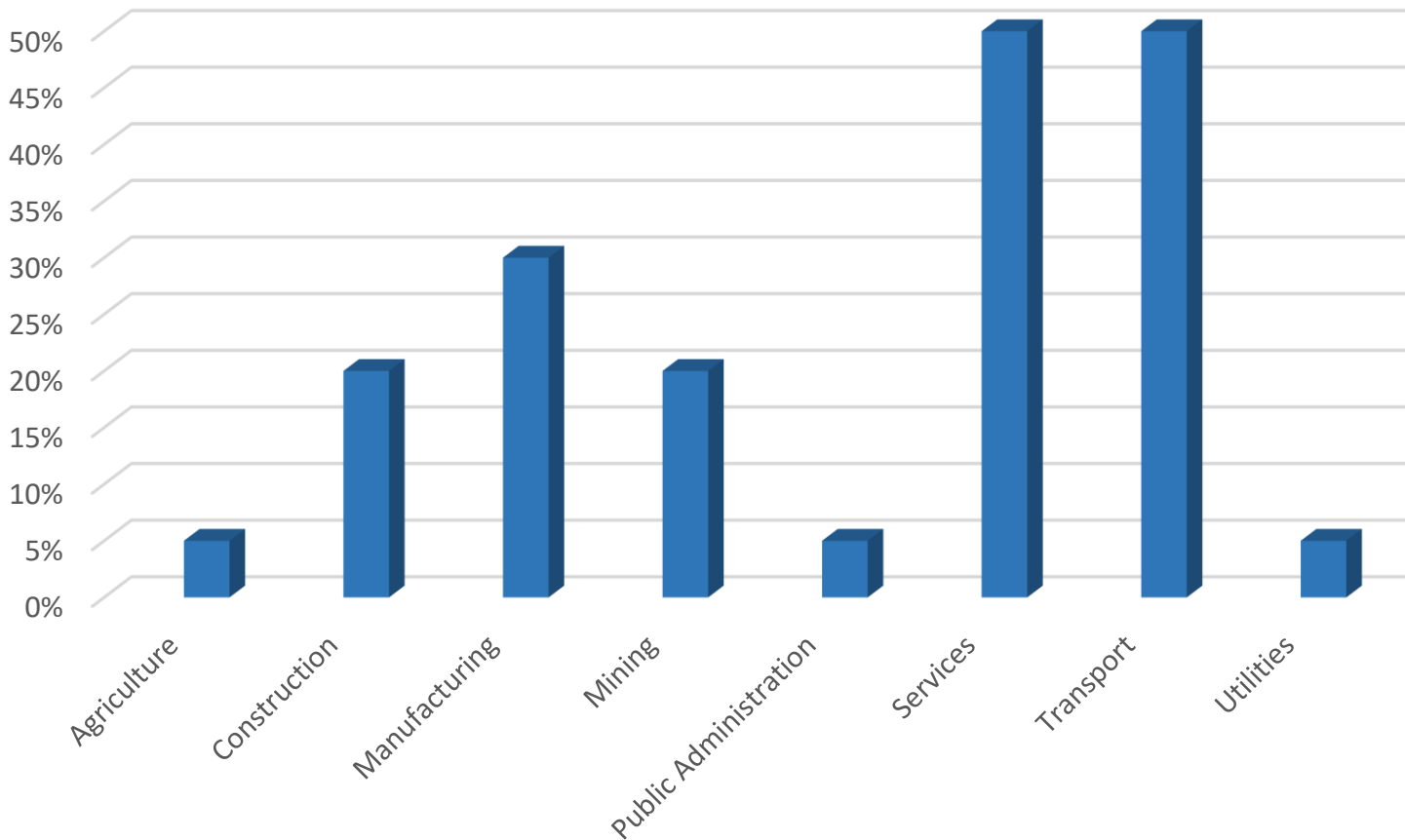


Conditions after Covid

- Immediate effects
 - Depend on:
 - Length of pandemic
 - Impact on trading partners
- Estimated impact on Dutch Economy
- Wealth bubbles
- Banks?
- Policy options

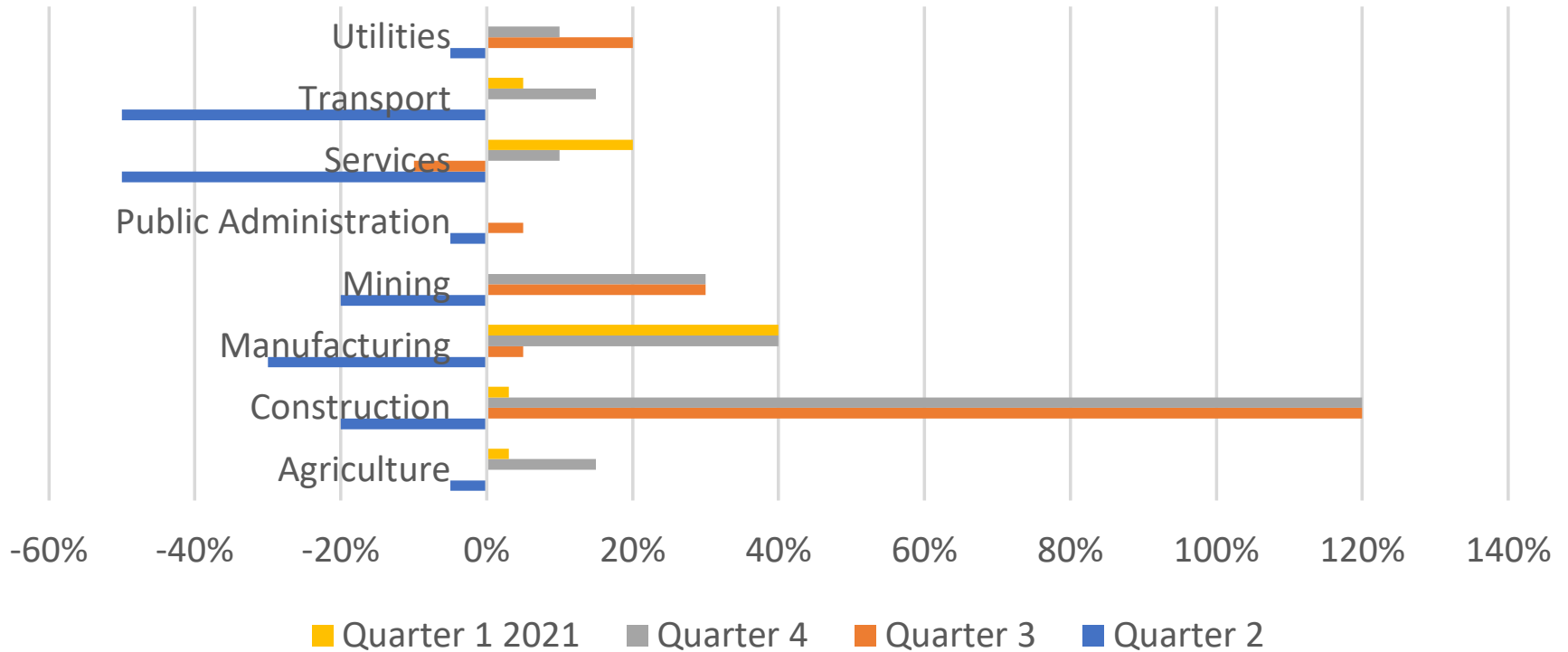
Sector Slowdown

Dutch Production Fall: 3 Month Covid -
Quarter 2



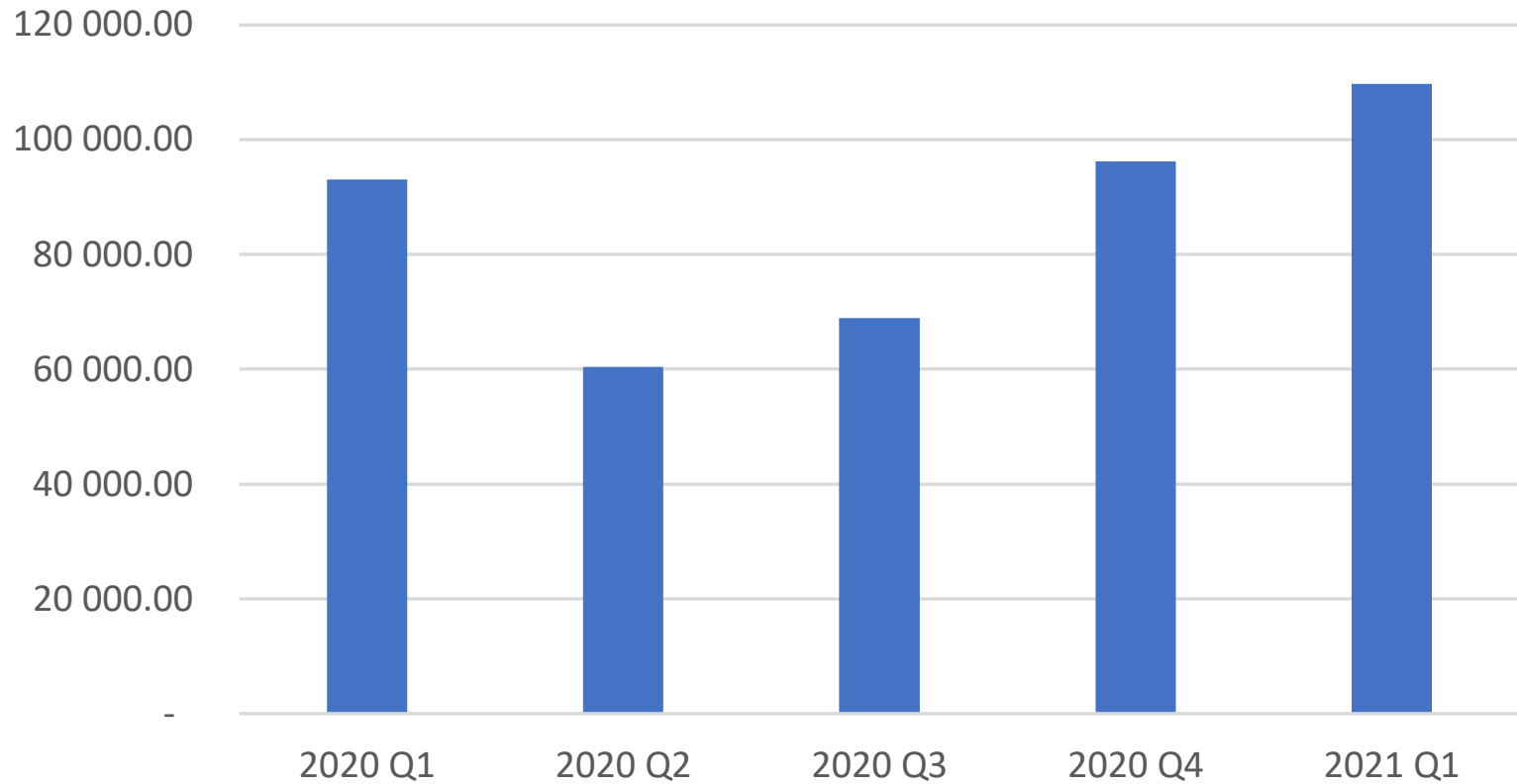
3 Month Major Impact

Change in GDP by Sector: Netherlands 1 Quarter Impact



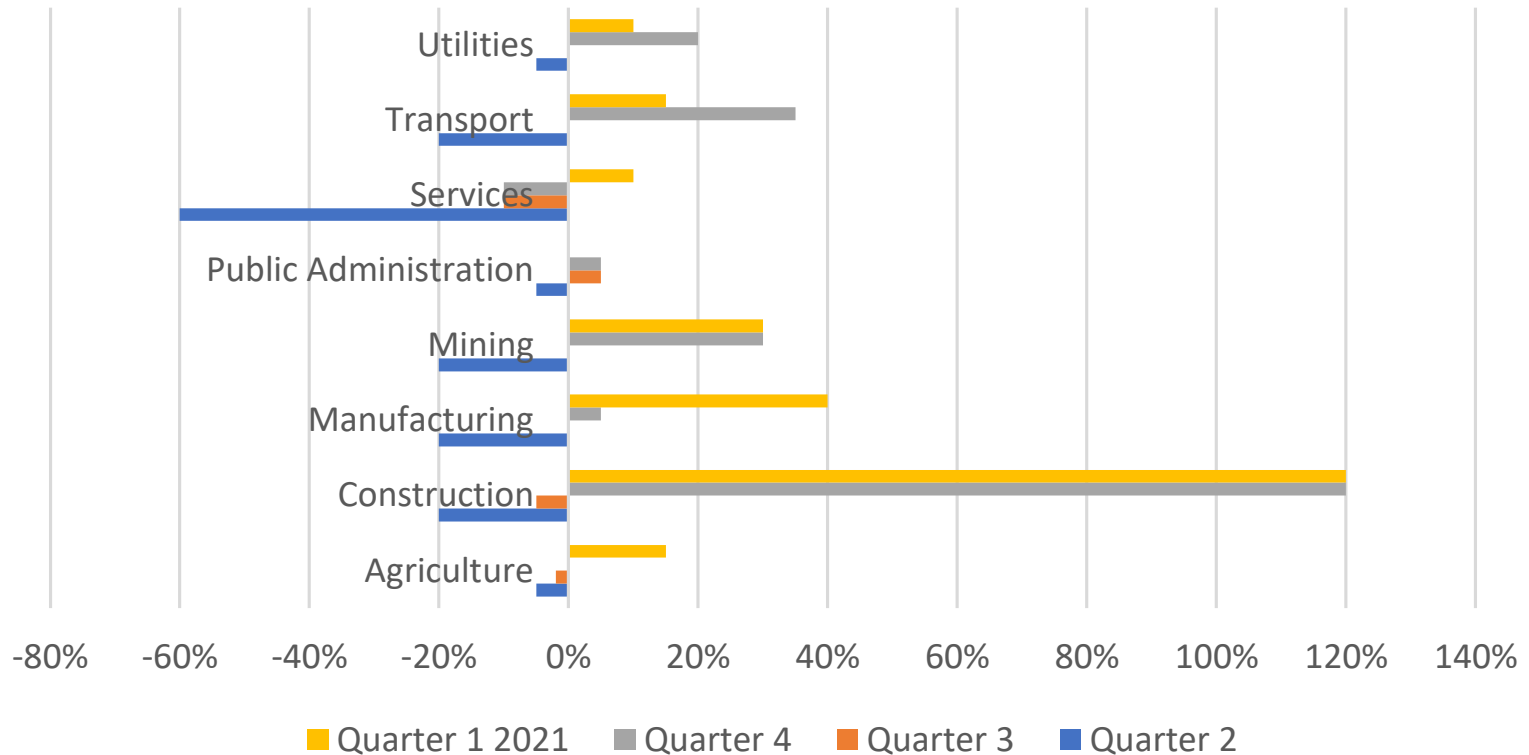
9% fall in GDP

Total GDP: Netherlands 1 Quarter Impact



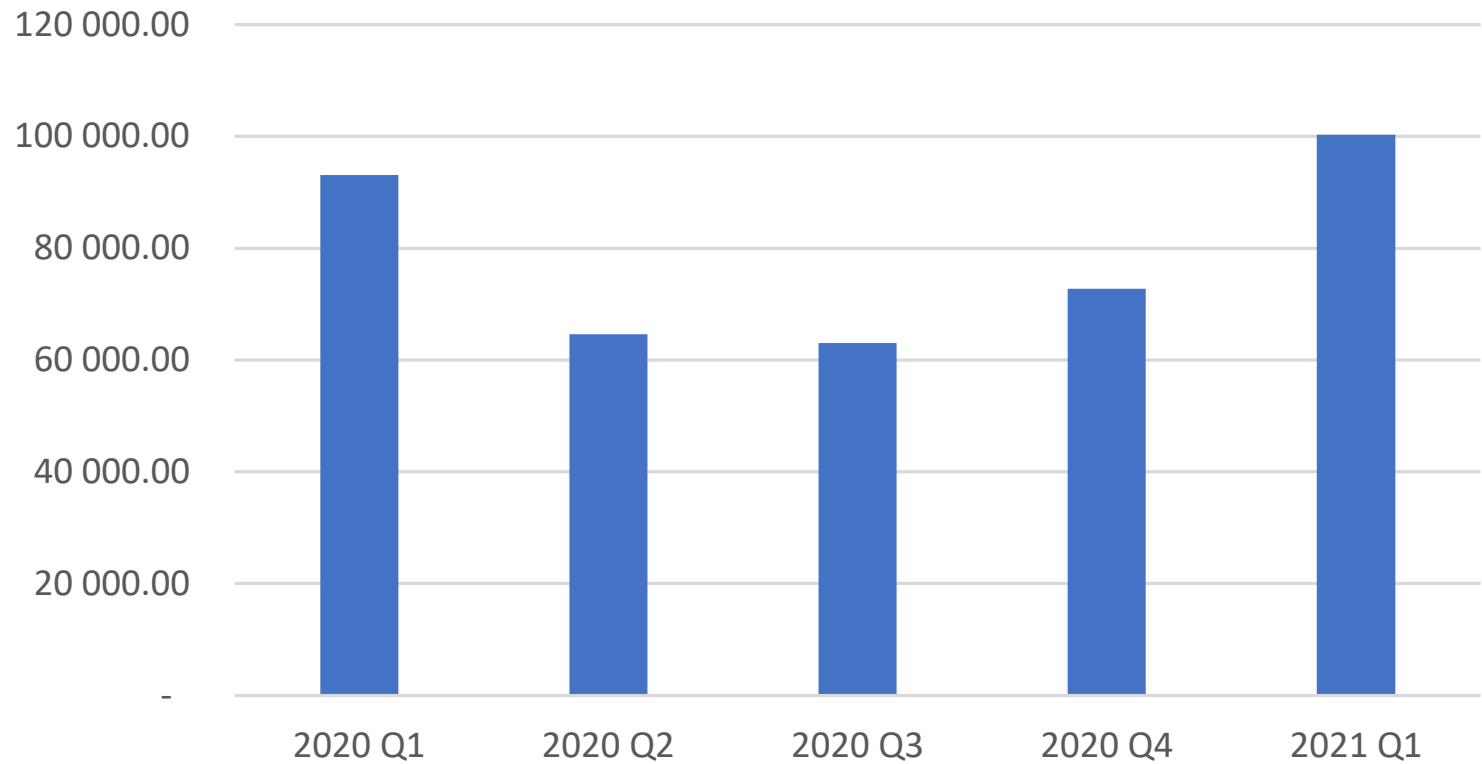
Six Month Major Impact

Change in GDP by Sector: Netherlands 2 Quarter Impact



19% fall in GDP

Total GDP: Netherlands 2 Quarter Impact



Equity Markets

- End March

Dow Jones Industrial Average 23827



5125

FTSE 100 5784



2025

01 May '20

5784.09

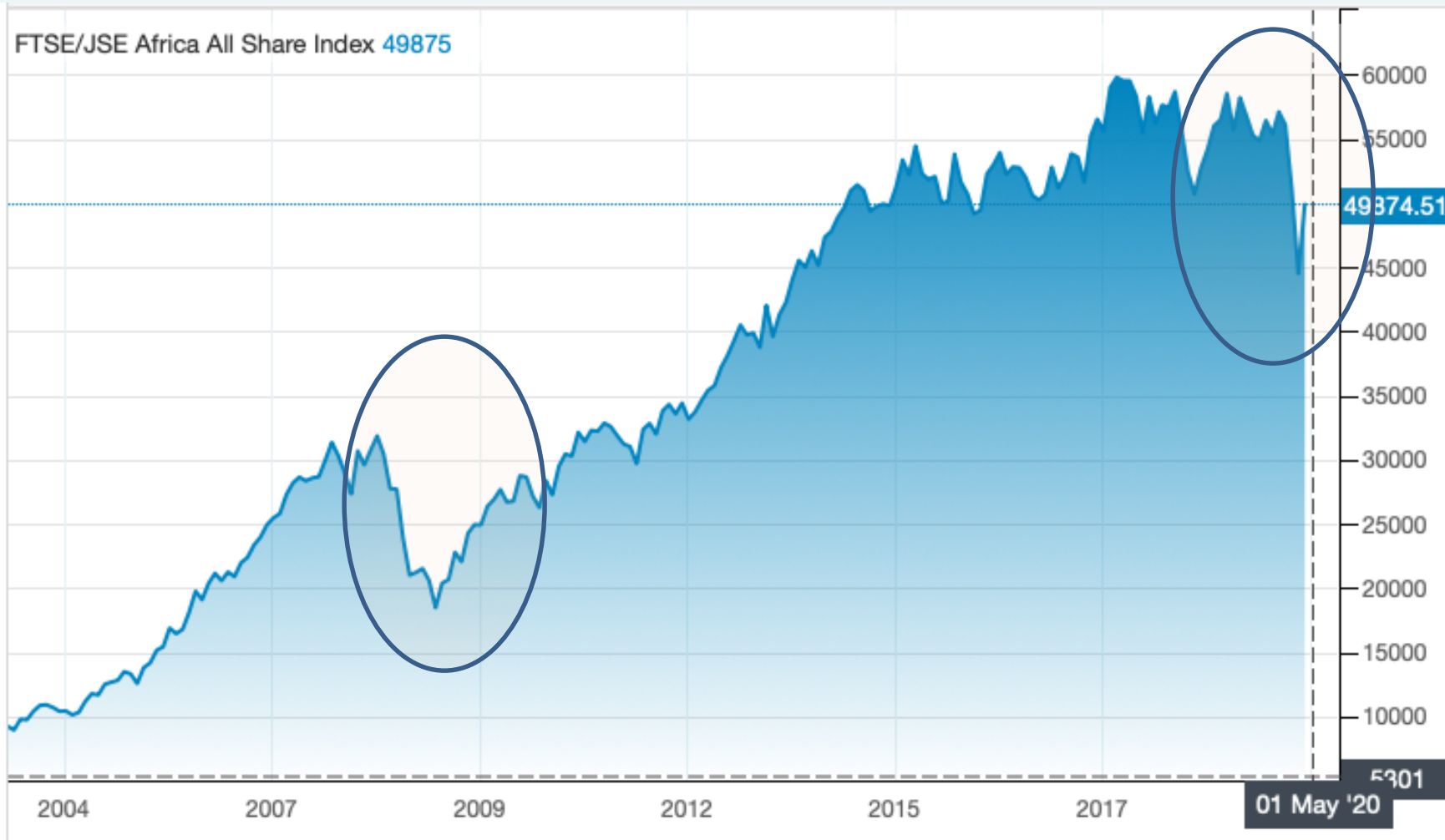
Amsterdam Exchange 475 -7 (-1.38%)



Australia



FTSE/JSE Africa All Share Index 49875



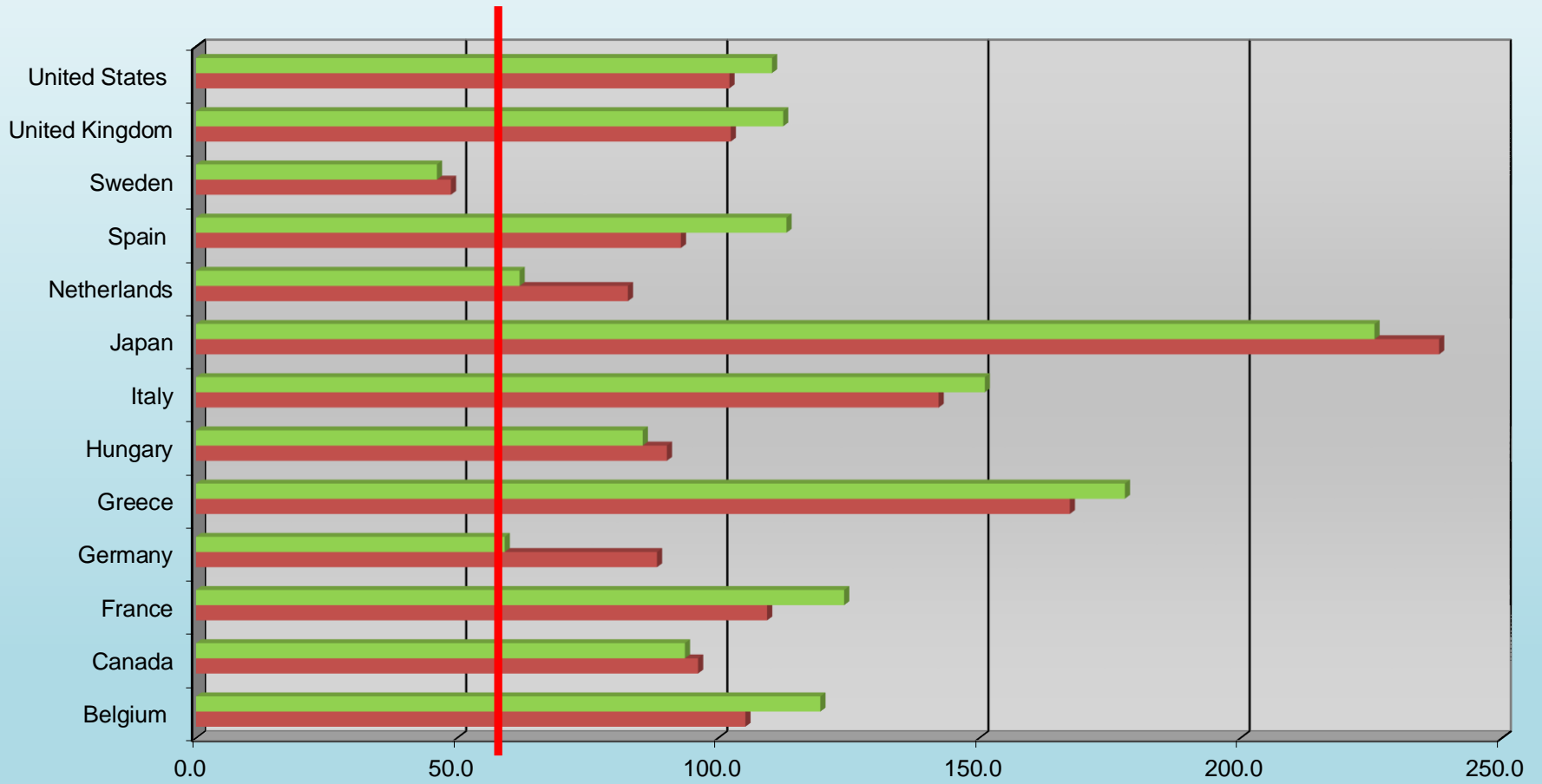
5301
01 May '20

Policy Options

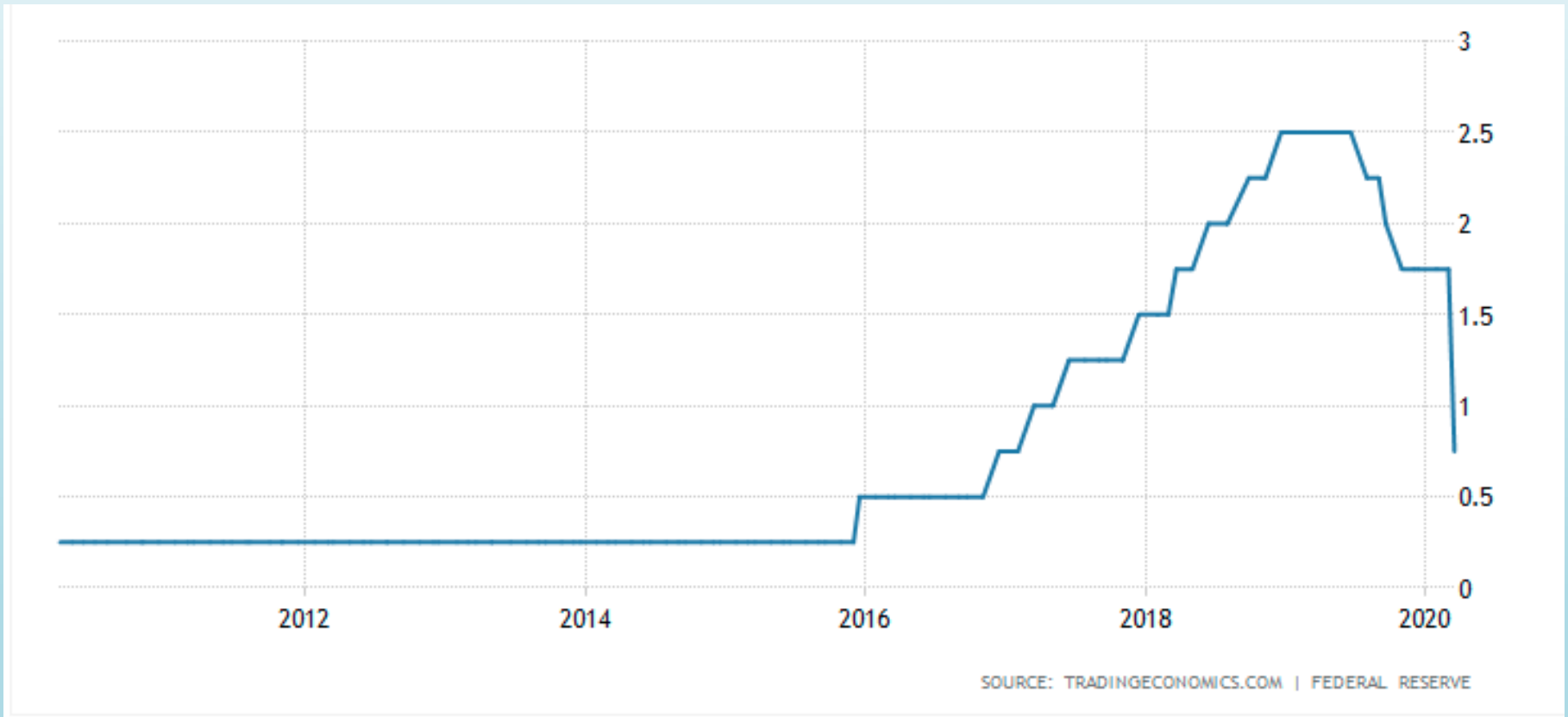
- Fiscal – Debt constraints
- Monetary:
 - Reduce interest rate
 - Quantitative Easing

Government Debt as a % of GDP

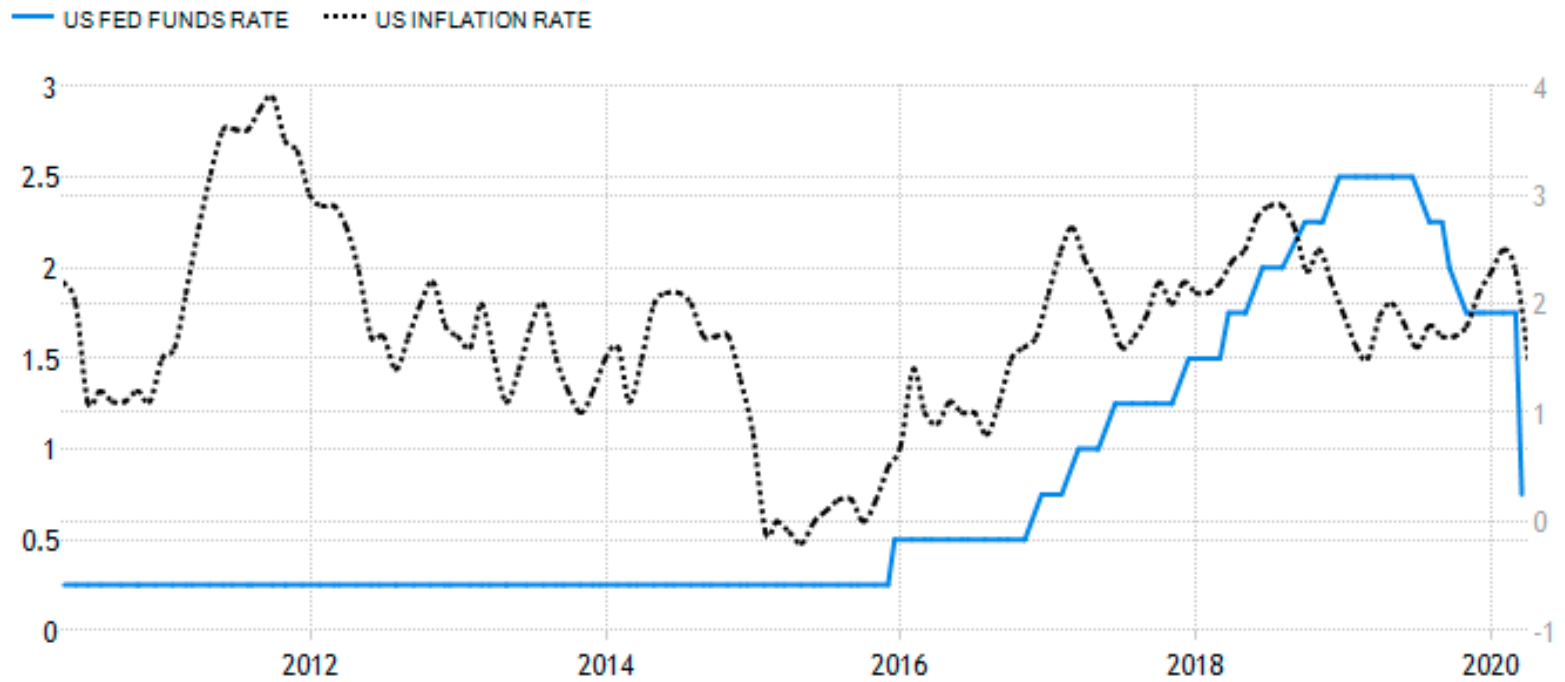
■ 2019 ■ 2012



United States Interest Rates

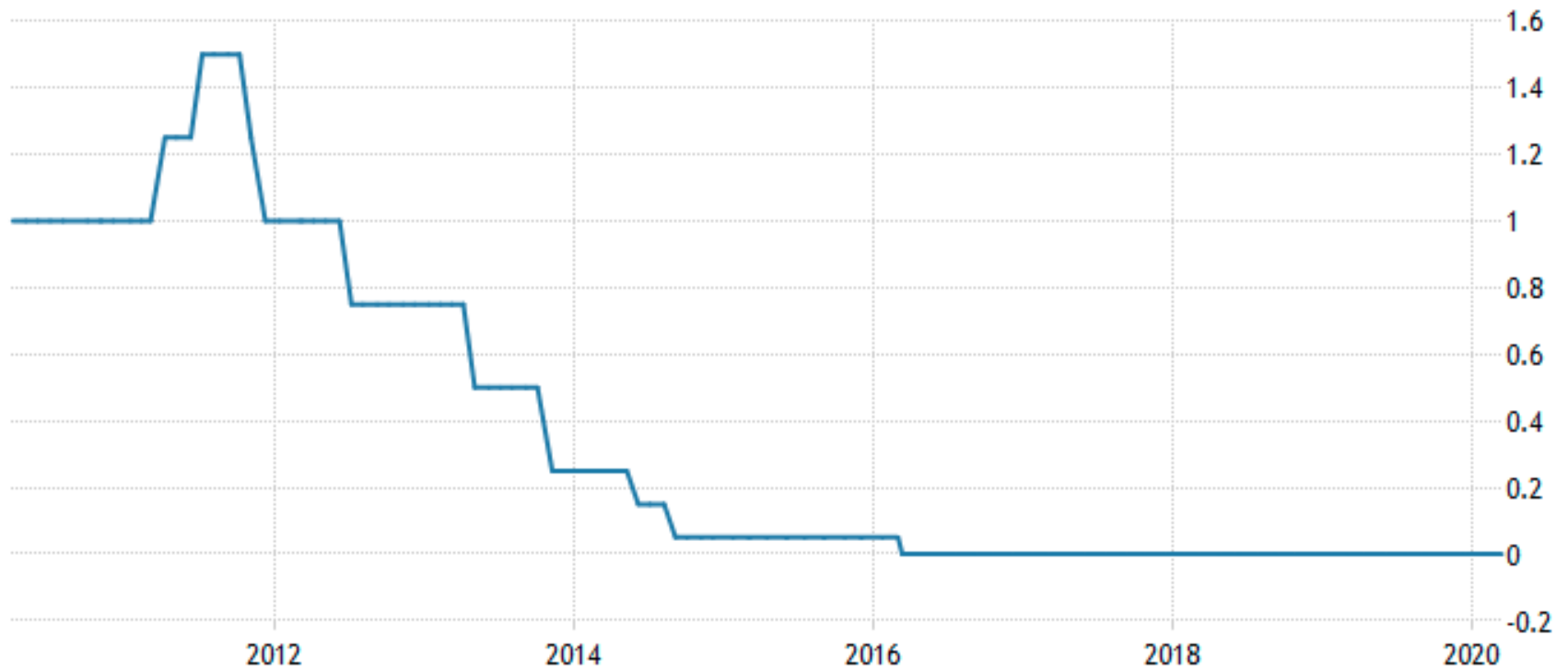


United States Real Interest Rates



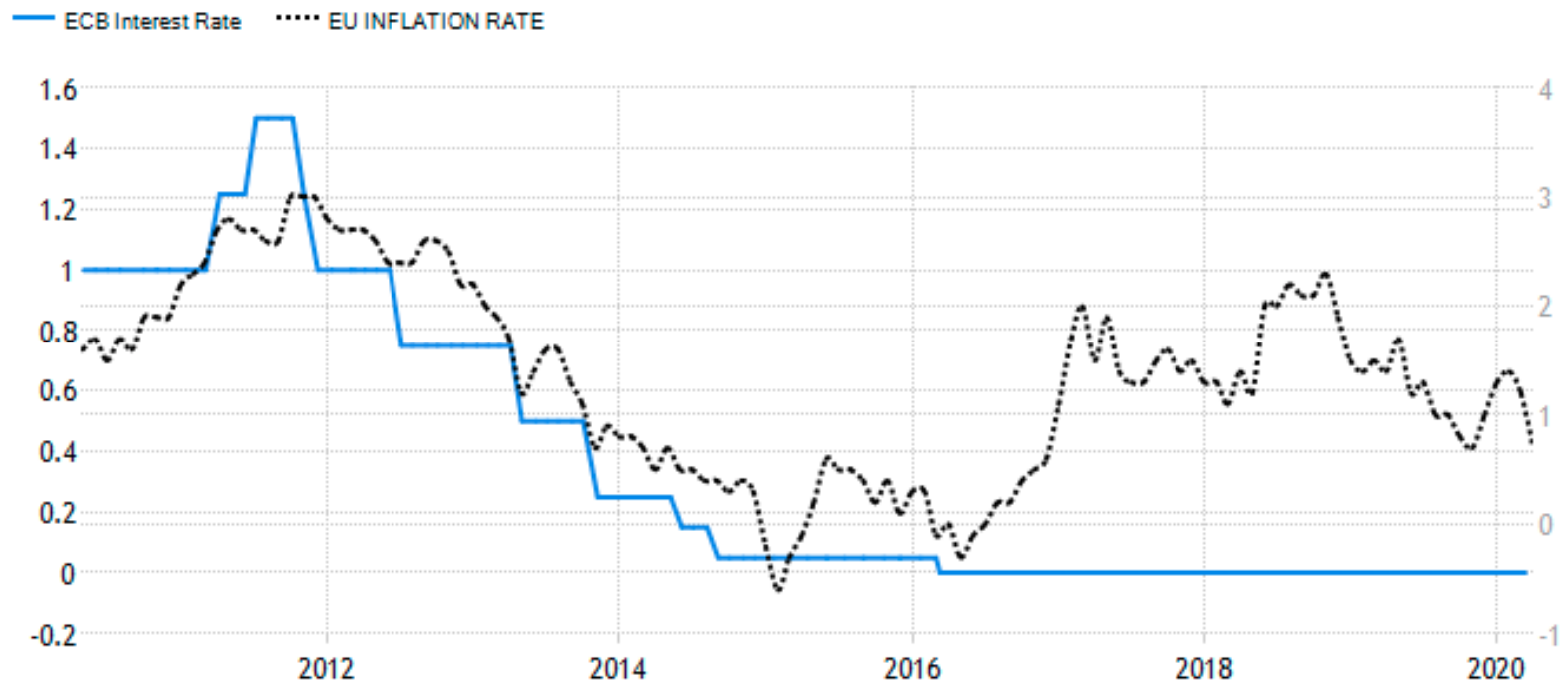
SOURCE: TRADINGECONOMICS.COM

Euro Zone Interest Rates



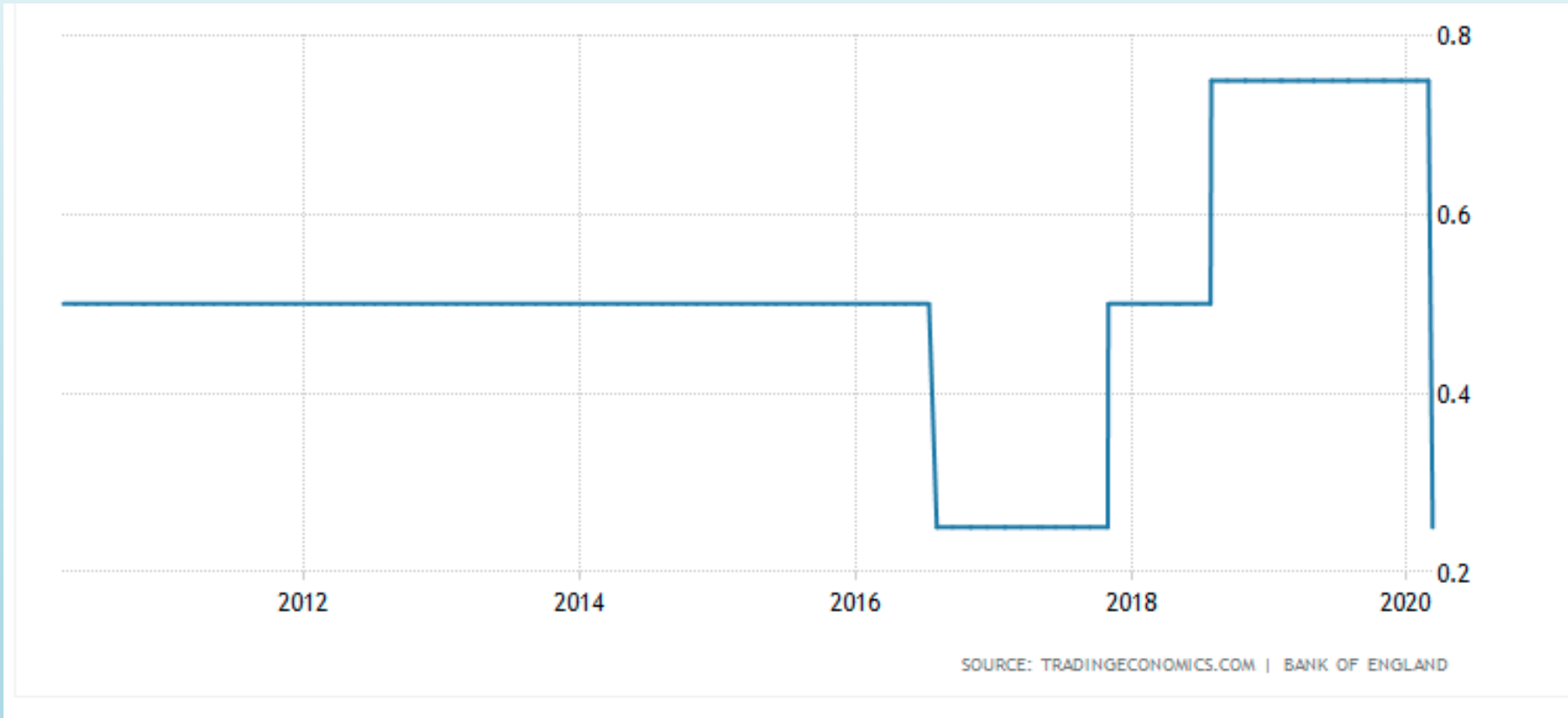
SOURCE: TRADINGECONOMICS.COM | EUROPEAN CENTRAL BANK

Euro Zone Real Interest Rates

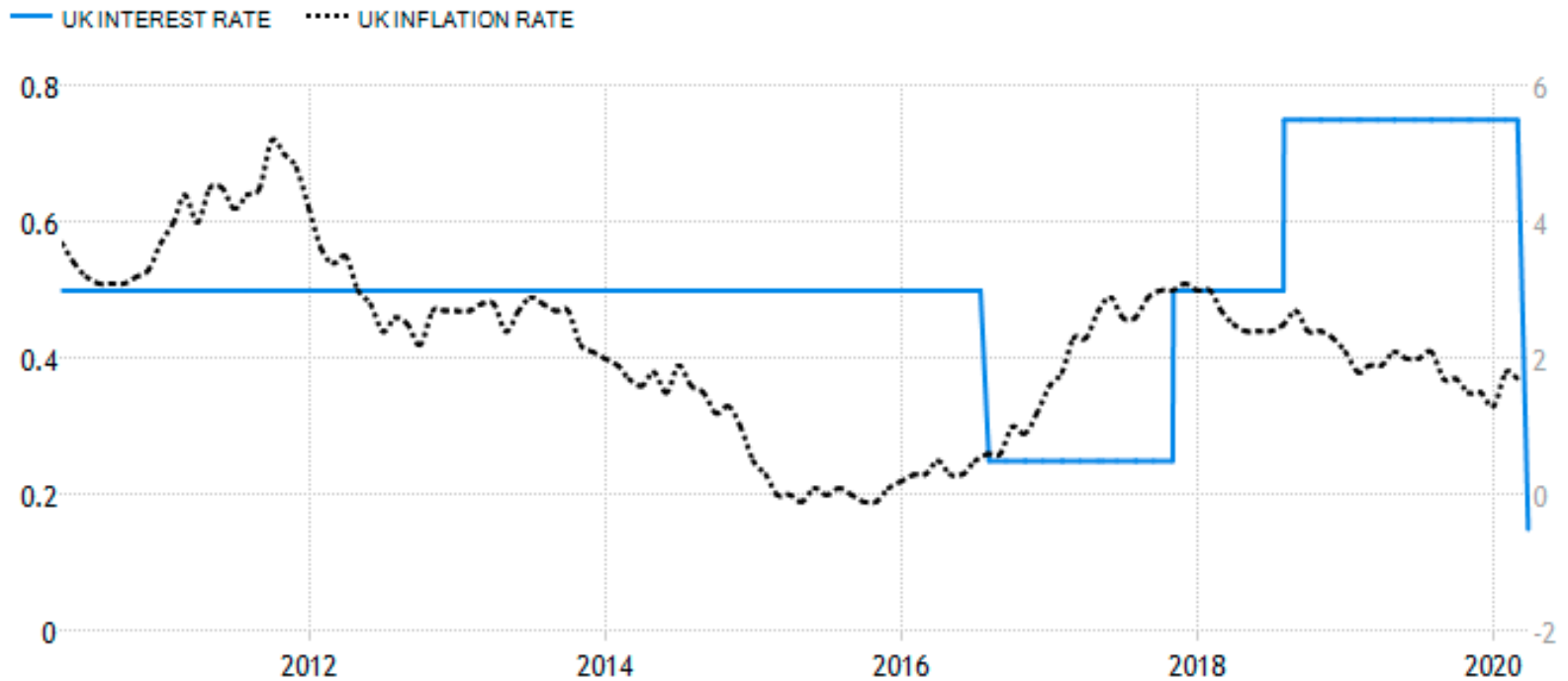


SOURCE: TRADINGECONOMICS.COM

United Kingdom Interest Rates

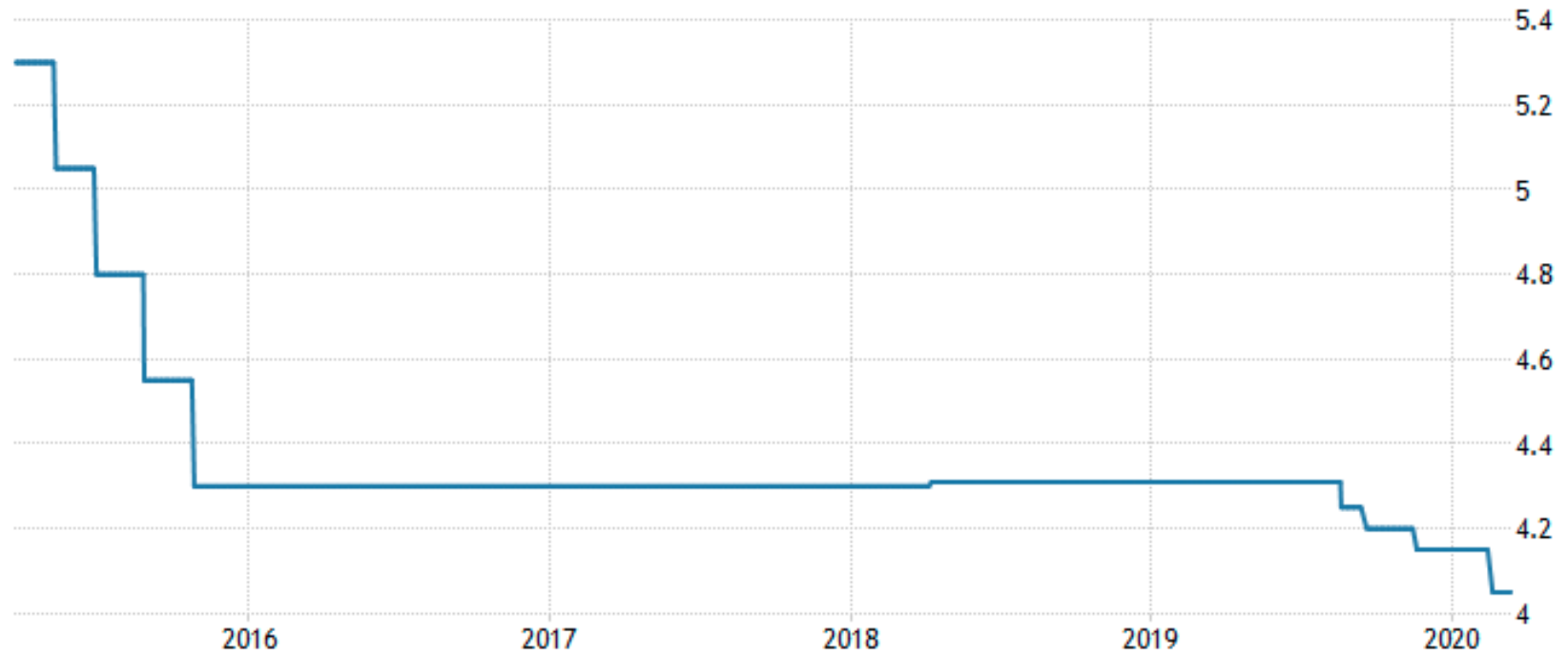


United Kingdom Real Interest Rates



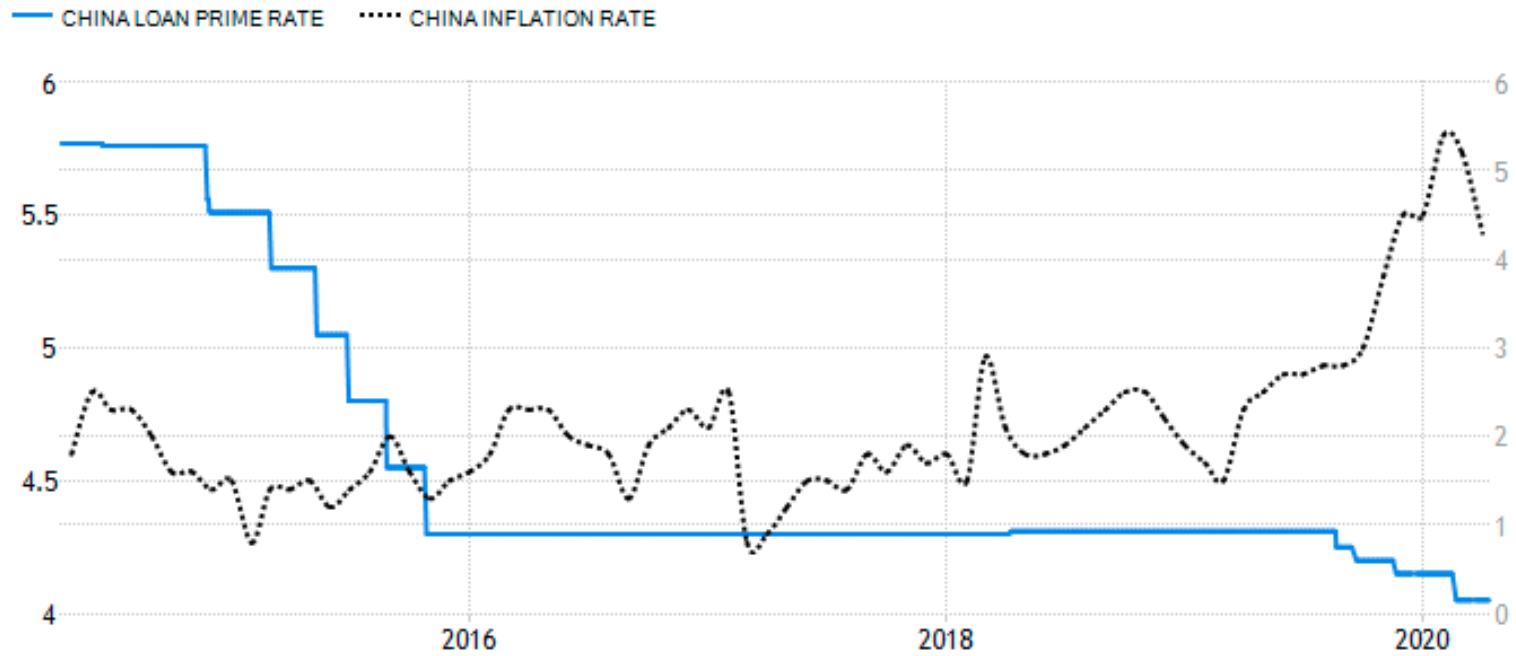
SOURCE: TRADINGECONOMICS.COM

China Interest Rates



SOURCE: TRADINGECONOMICS.COM | PEOPLE'S BANK OF CHINA

China Real Interest Rates



SOURCE: TRADINGECONOMICS.COM

US Quantitative Easing

\$3.5 Trillion

US Central Bank Balance Sheet (US\$m)



EU Quantitative Easing

€3.5 Trillion

ECB Balance Sheet (€ Million)



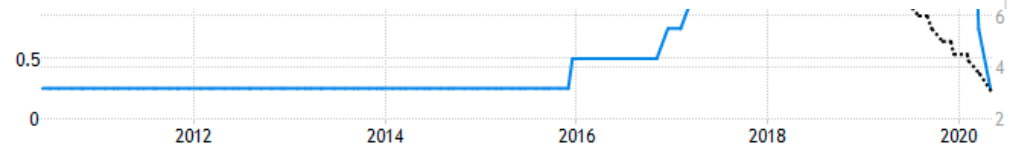
Policy Proposals

- US:
 - \$2.4tn fiscal stimulus
 - Funded through QE
- EU
 - €500bn fiscal stimulus
 - Funding ...
 - ESM (European Stability Mechanism)
 - Eurobonds ('Corona Bonds')?
 - QE?

So, what happens to the money?



- Low yields and lo



Equity Markets

- Early May

Dow Jones Industrial Average 24202



NASDAQ 100 9234



9235

9500

9000

8750

8500

8250

8000

7750

7500

7250

7000

6825

Jul

Sep

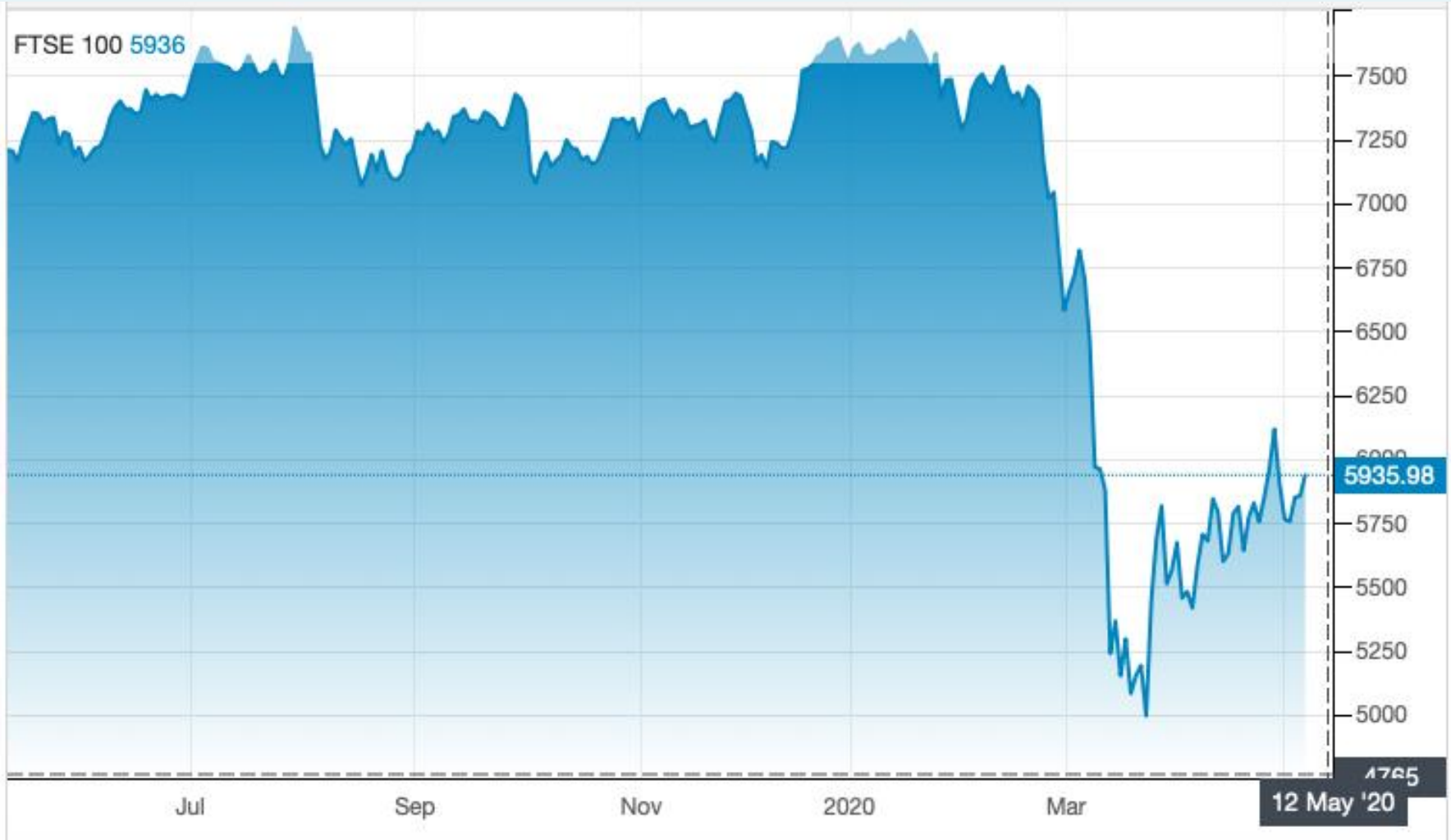
Nov

2020

Mar

12 May '20

FTSE 100 5936



5935.98

12 May '20

1765

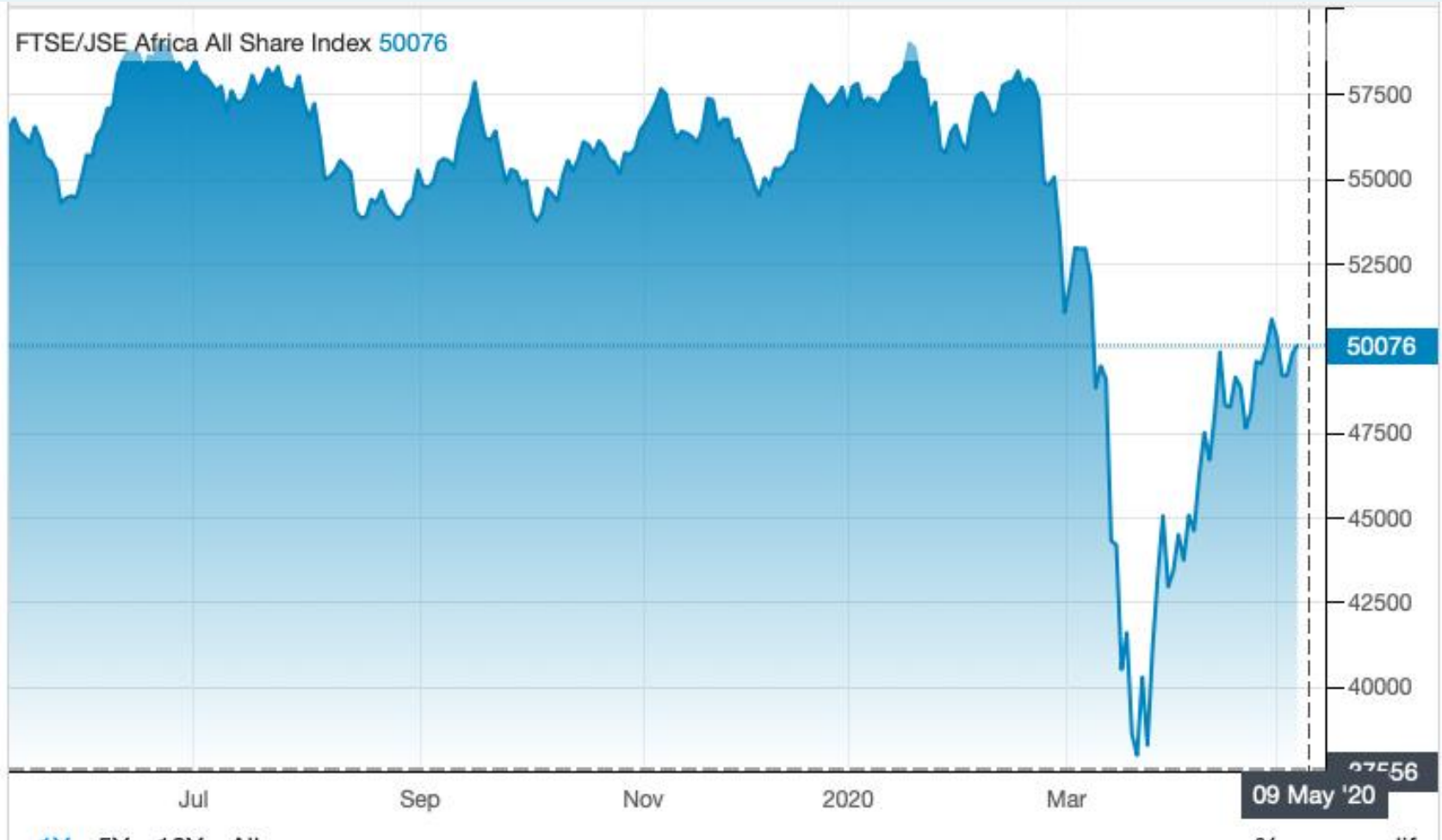
Amsterdam Exchange 516



Australia



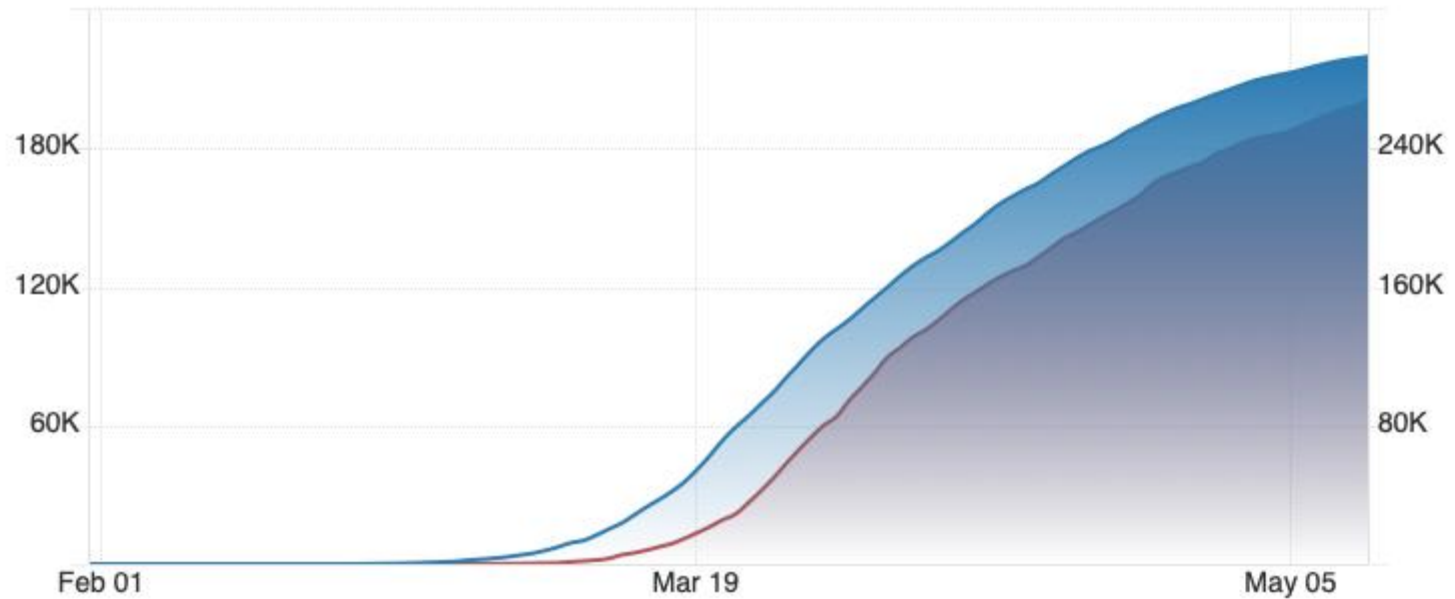
FTSE/JSE Africa All Share Index 50076



Political Fault Lines

- US (and others) accusation of China complicity in Covid 19
- Italy and Euro Zone
- Spain and Euro Zone

Corona Cases – Italy and Spain



ES Coronavirus Cases Persons

IT Coronavirus Cases Persons

Value



R

x

Value

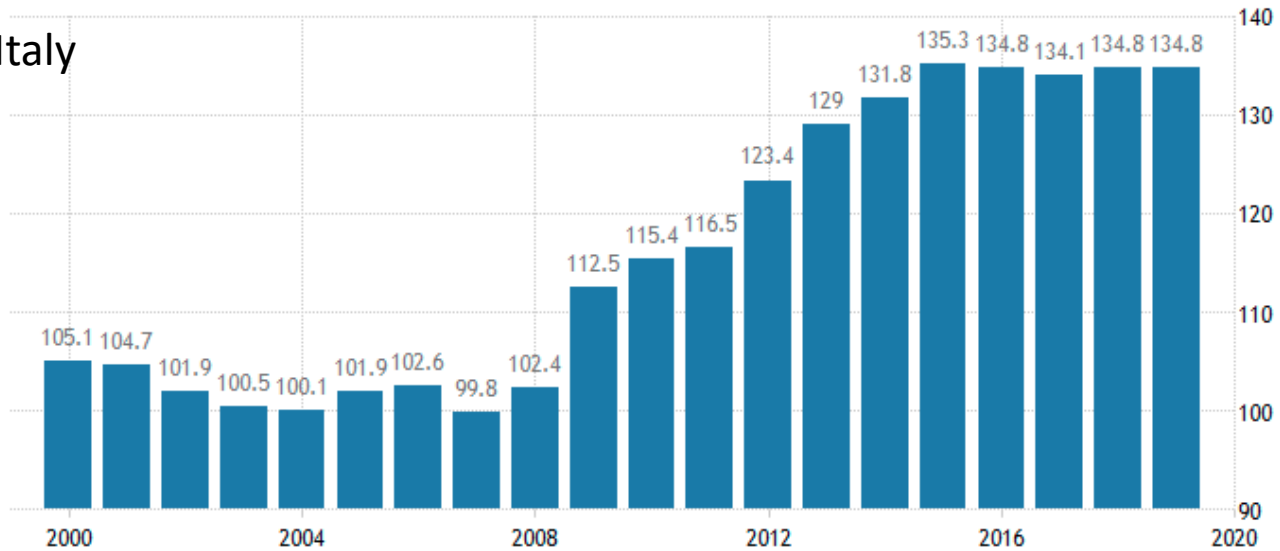


L

x

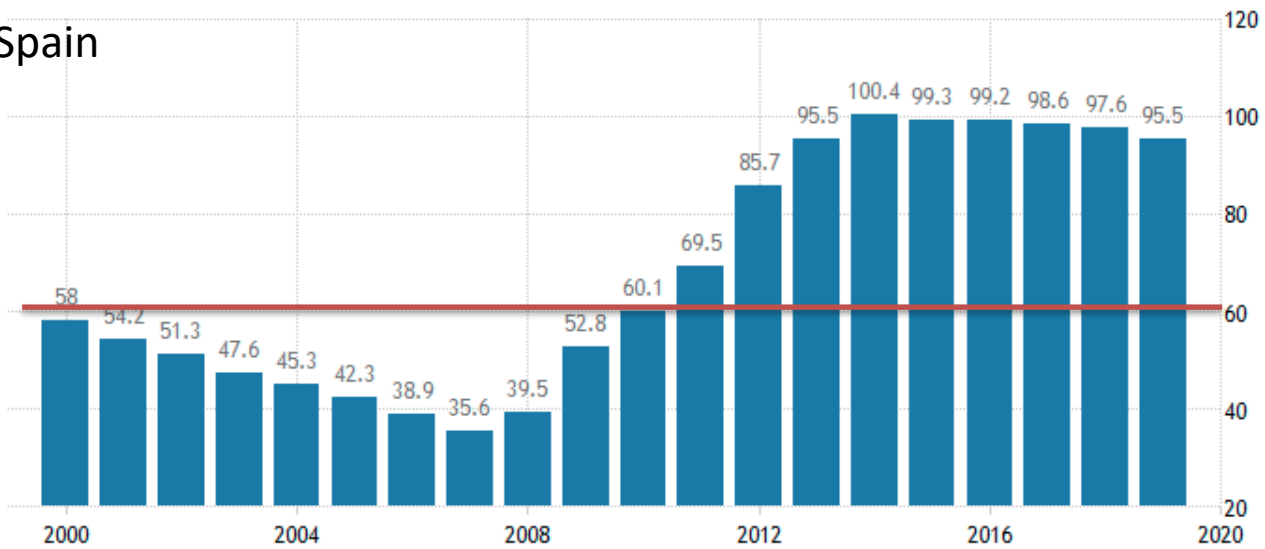
Government Debt % of GDP

Italy



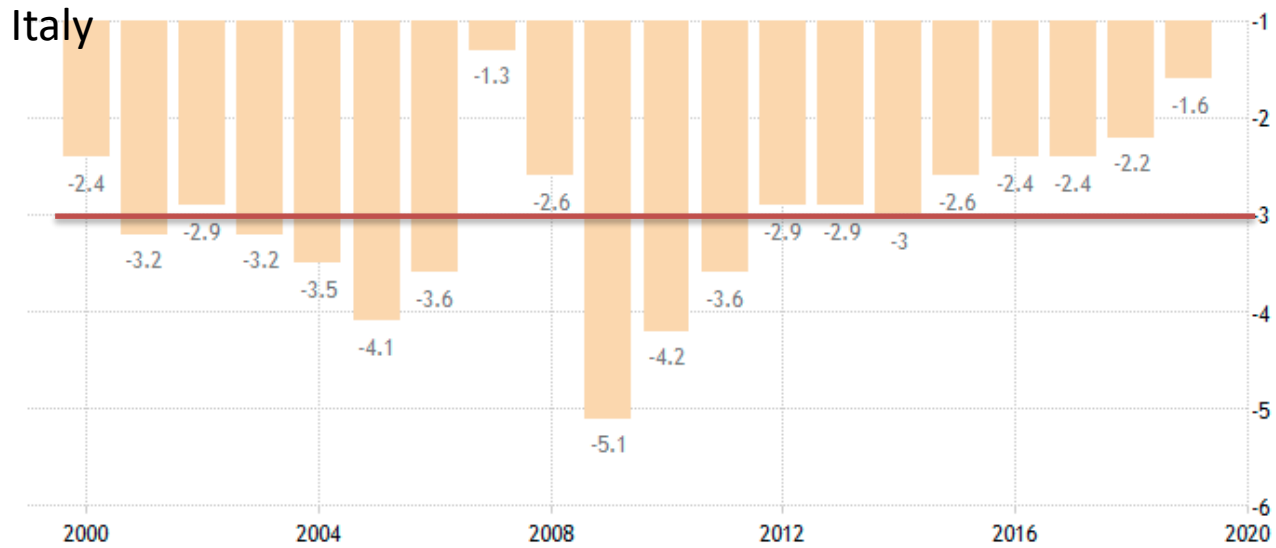
SOURCE: TRADINGECONOMICS.COM | NATIONAL INSTITUTE OF STATISTICS (ISTAT)

Spain

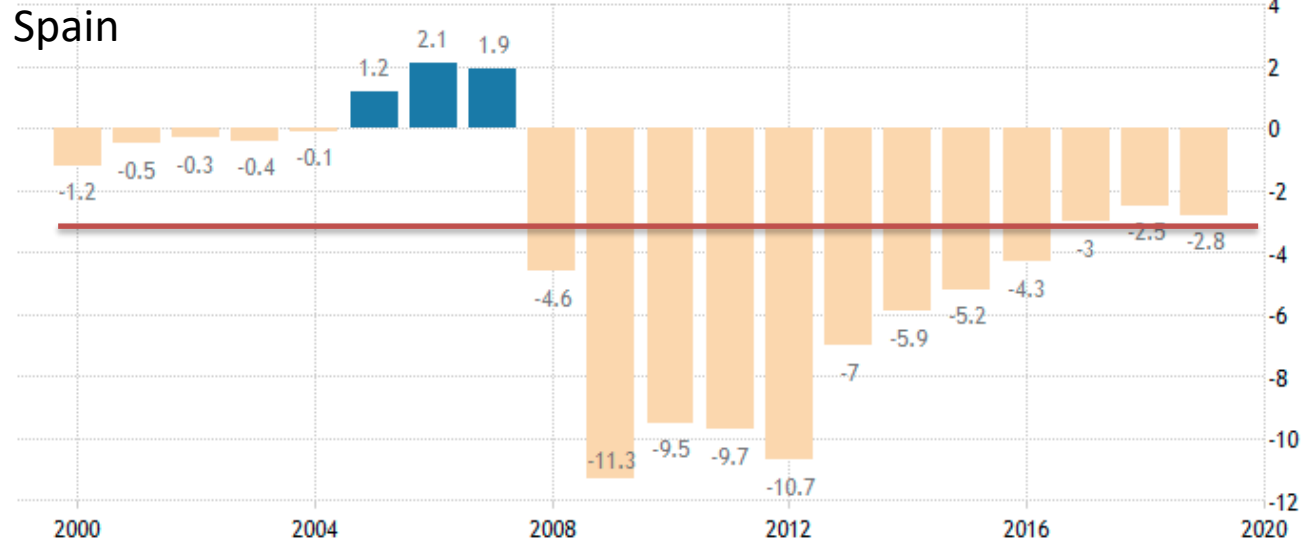


SOURCE: TRADINGECONOMICS.COM | BANK OF SPAIN

Government Deficit % of GDP



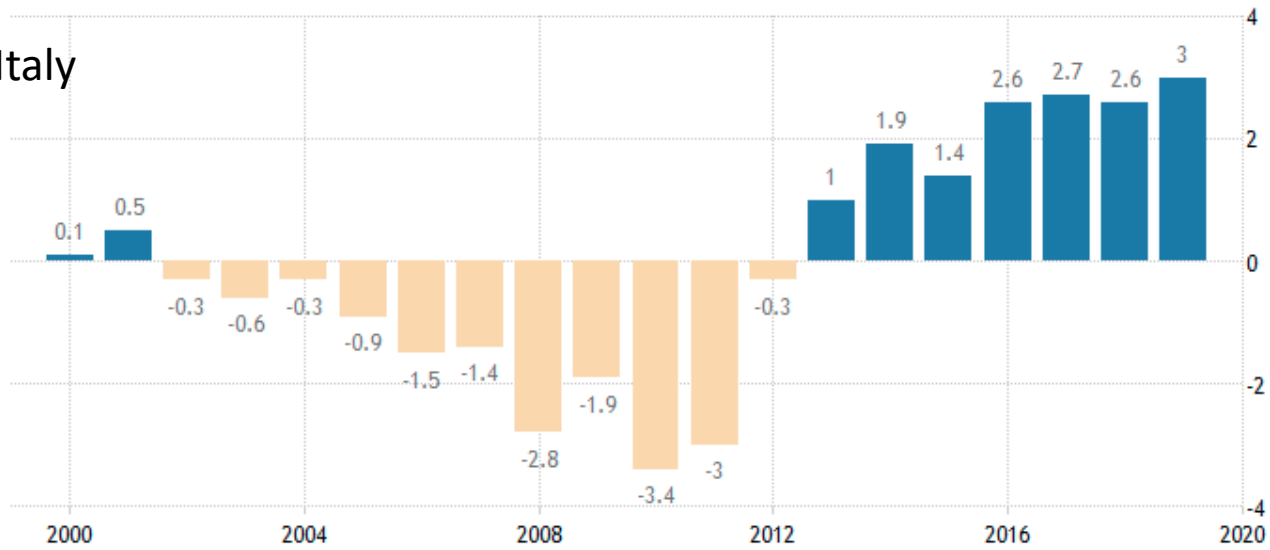
SOURCE: TRADINGECONOMICS.COM | NATIONAL INSTITUTE OF STATISTICS (ISTAT)



SOURCE: TRADINGECONOMICS.COM | BANK OF SPAIN

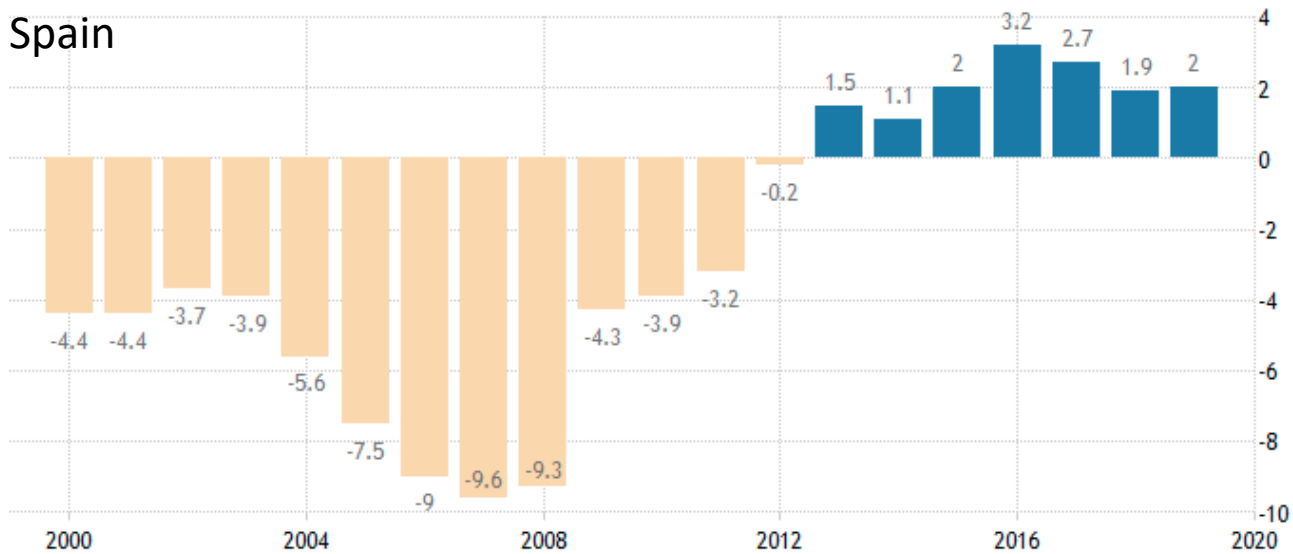
Current Account Deficit/Surplus

Italy



SOURCE: TRADINGECONOMICS.COM | EUROSTAT

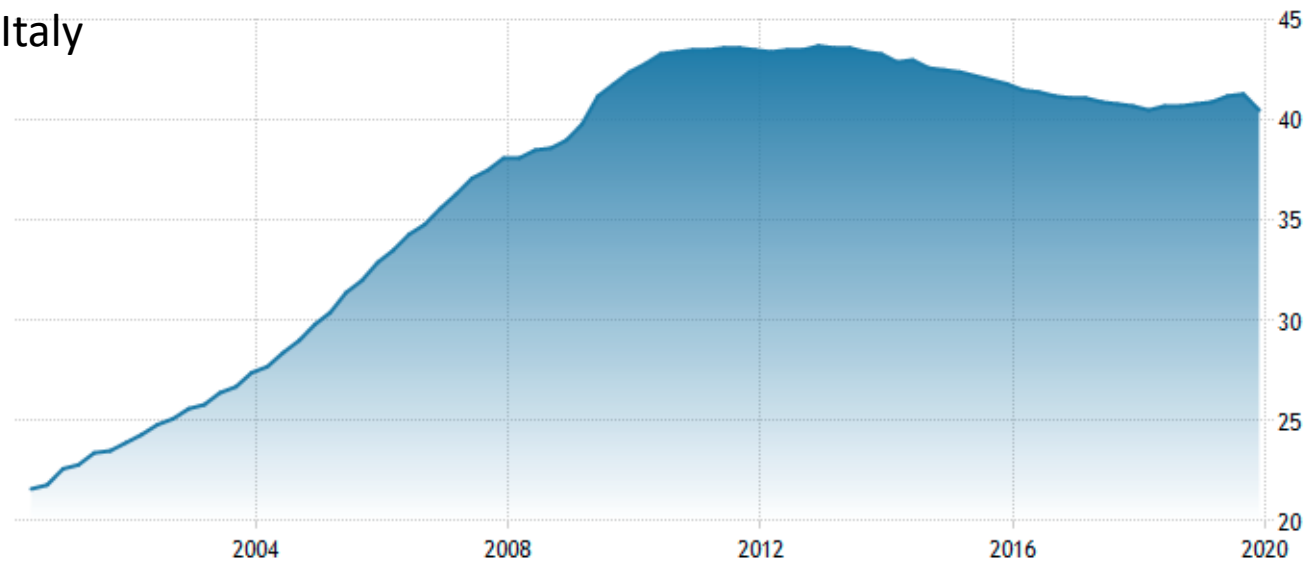
Spain



SOURCE: TRADINGECONOMICS.COM | EUROSTAT

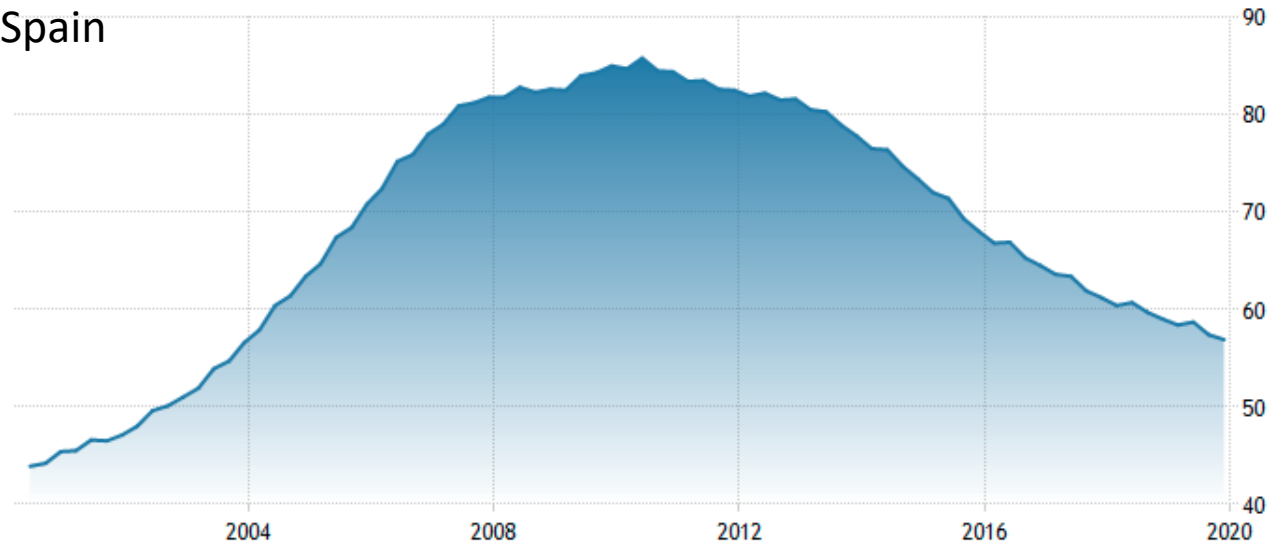
Household Debt to GDP

Italy



SOURCE: TRADINGECONOMICS.COM | BANK FOR INTERNATIONAL SETTLEMENTS

Spain



SOURCE: TRADINGECONOMICS.COM | BANK FOR INTERNATIONAL SETTLEMENTS

Questions & Discussion



StratEcon

Applied Economic Research

Closure

Be Safe