The global policy response to the coronavirus

March 2020

Key points

> The global fiscal and monetary response to the coronavirus has been mammoth. Global fiscal stimulus is worth over 3% of GDP, interest rates have been slashed to the lower bound, quantitative easing programs have been launched and central banks are providing cheap lending facilities.

> The latest US stimulus program provides broad support to the economy and injects a fiscal impulse worth 6% of GDP. Fiscal stimulus won't be enough to keep the economy from falling into a recession because of the loss of output from lockdowns.

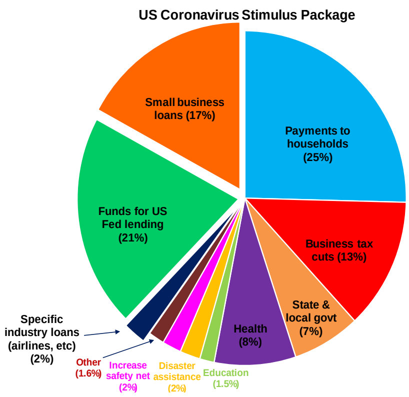
> But, fiscal stimulus is necessary to keep the unemployment rate from rising too far and will supercharge the eventual recovery in the economy.

Introduction

The global fiscal and monetary response to the devastating impacts of the worldwide coronavirus outbreak is unprecedented. Central banks and governments have moved at an incredible pace in announcing and approving stimulus packages. We go through the details of the latest US stimulus package and its impact on the US economy and update our global fiscal policy tracker in this *Econosights.*

What is included in the latest US fiscal stimulus?

The latest US stimulus package totals over $2 trillion or 9% of US GDP and includes payments to households, increase in unemployment benefits, decrease in business taxes, healthcare spending, loans to businesses and funds for US Federal Reserve lending programs. Loan programs are not typically considered as direct fiscal expenditure so on our estimates fiscal stimulus is worth a decent 6% of GDP over the next year. A breakdown of expenditure is in the chart below:



Source: Evercore ISI, BCA Research, CRBF, AMP Capital

The details of the package include:

Household payments:

- Eligible households to get a $1200 payment/person and $500/child. Payments are phased out slowly after an income of $75,000. The average US household will get around $1600.
- An increase in value of unemployment benefits ($600/week for four months) and a broadening in eligibility. Households who have been let go, stood down or whose income has been seriously affected by the coronavirus will be eligible.

Business tax cuts

- Major changes include increase eligibility for interest deductions and operating losses, offer some payroll tax credits and allow deferral of payroll taxes.

Small business loans

- Cheap funding facilities have some qualifications like keeping targets for employment which is useful in keeping the unemployment rate from spiking too far.
- Specific industry relief for some sectors (airlines, cargo and national security).

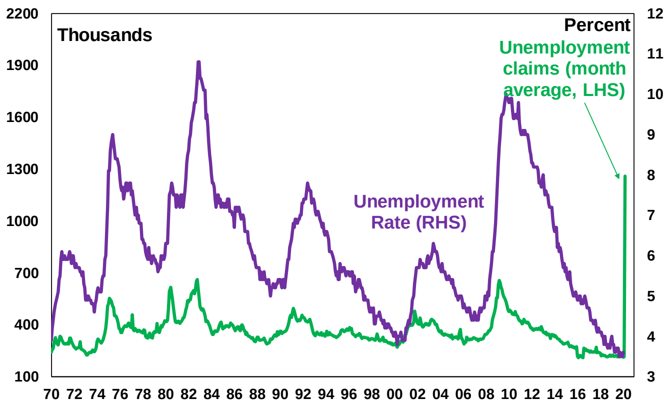
Money for Fed lending facilities

There is more coordination between fiscal and monetary in this fiscal stimulus package compared to history The $454bn allocation for the Fed's lending programs will give the Fed the capability to lever up these funds (up to 10x or up to $4.5trillion) for lending and gives the Fed capacity to purchase broader assets (beyond government bonds) including municipal bonds, corporate bonds and secondary mortgage market securities. Fed loan programs will lead to a big increase in the Fed's balance sheet assets. On our estimates, the Fed's balance sheet is heading to over 40% of GDP (from 20% currently).

Another US stimulus package is likely, especially with targeted payments to households who have lost a decent chunk of their wages. It is in President Trump's best interests to keep the unemployment rate from spiking too far and to keep the US recession as shallow as possible to help his re-election odds.

Our base case is for a spike in the unemployment rate towards 10%. Weekly unemployment claims (for the week to 20 March) already spiked from 282K to a record high of over 3million, and are likely to continue rising (see chart below).

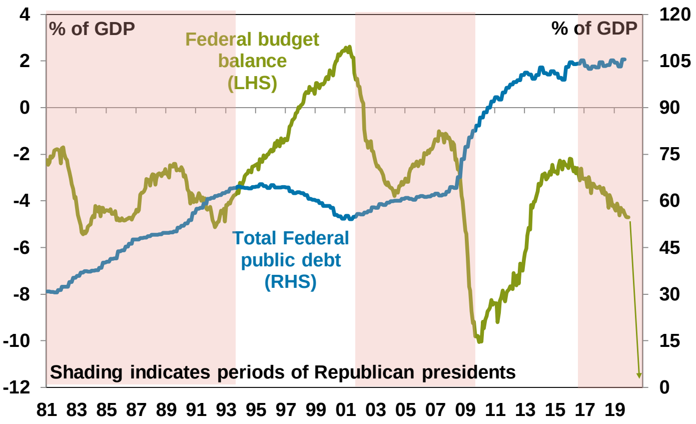
US unemployment rate vs jobless claims



Source: Bloomberg, AMP Capital

The significant level of fiscal stimulus will lead to a big deterioration in the budget deficit (see chart below) and higher federal public debt. Given the large size of the stimulus package and the expected deterioration in the US economy, the budget deficit is expected to deteriorate to more than 10% of GDP. However, a blowout in the budget deficit is better than allowing the economy to move into a depression.

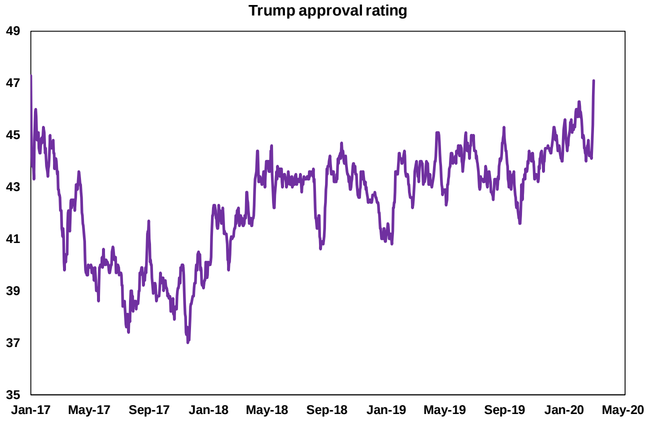
US Federal budget deficit and debt



Source: Bloomberg, Reuters, FRED, AMP Capital

Over the past few days, Trump's approval rating has risen, to the highest since he started office (see chart below), a sign that his handling of the coronavirus crisis has been more or less taken positively by the public, which may help his re-election odds despite a looming US recession (it is unusual for an incumbent President to be re-elected in a time of recession).

Trump approval rating

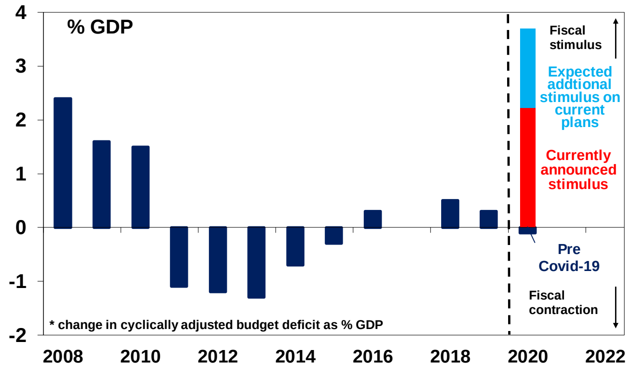


Source: Bloomberg, AMP Capital

Tracking global fiscal spending

On our estimates, the global value of stimulus is worth close to 4% of GDP (see chart below), higher than in any year around the Global Financial Crisis. Additional stimulus is still on the cards, especially from China. The monetary response has also been colossal – including interest rate cuts to the effective lower bound, broad quantitative easing programs and a variety of cheap lending facilities.

G20 countries fiscal thrust *



Source: UBS, Bloomberg, AMP Capital

Fiscal stimulus over the next 12 months

	Actual	Expected
	% GDP	% GDP
Australia	10.0	
Canada	7.0	
China	1.2	5.0
Czech Republic	1.7	
France	2.5	
Germany	4.5	
Hong Kong	4.1	
Indonesia	0.2	
India	0.8	
Italy	1.4	
Japan	0.1	5.0
Korea	0.6	
Malaysia	17.0	
Mexico	0.7	
New Zealand	8.8	
Norway	2.3	
Philipines	0.2	
Poland	9.0	
Russia	0.2	
Singapore	11.0	
Spain	2.8	
Sweden	5.8	
Switzerland	2.9	
Taiwan	0.3	
Thailand	3.6	
Turkey	1.6	
UK	3.2	
US	6.5	2.0
Vietnam	1.8	

Source: UBS, Bloomberg, AMP Capital

Implications for investors

The significant level of stimulus in response to the coronavirus is necessary to assist the eventual recovery once the coronavirus has passed (and may even prove to be inflationary). Global monetary and fiscal stimulus won't help to get consumers spending while they are in lockdown. But it will help the global economy from falling into a depression. It will also help sharemarket returns that have fallen significantly since their peaks in January (22% in US from peak to current levels and 26% in Australia). However, more signs of progress in controlling the spread of coronavirus infections is necessary for sharemarkets to recover. There has been some good news recently with the daily change in infections easing in Europe (especially in Italy) over recent days. However, US infections are still rising at a fast pace and needs to be watched.

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