

## Family Office Service: Global Economics and Markets Newsletter

### New COVID-19 wave threatens economic recovery

July 2020

#### This Month's Big Themes

##### Second wave of COVID-19 outbreaks

After some countries imposed lock-down measures and then began to ease them in an attempt to re-open the economies, some countries have started to experience regional outbreaks. The most notable of which is the USA which has almost 4 million cases of the virus and on 17 July 2020, there were over 75,000 new cases in a single day. Despite the surge in news case, the present government administration was to push ahead with opening schools and the economy. In Spain, there have been significant regional outbreaks that have required that economic restrictions be imposed again on a regional basis. The most worrisome such outbreak has been in Catalonia, home to Barcelona. In Melbourne, Australia's second largest city second lockdown, of six weeks in length has been imposed in response to a spike in new cases.

Source: <https://www.nytimes.com/2020/07/17/world/coronavirus-cases-update.html>

Source: <https://www.bbc.com/news/world-australia-53335745>

Source: <https://www.bbc.com/news/world-us-canada-53342222>

The economic implication being a prolonging of the recessions if these countries have to enforce country-wide lockdowns once again. Another issue, is that it is not clear whether the fiscal authorities can afford the cost of having to provide financial support to households and companies for a prolonged period of time. One such example is Italy. When Italy became the global epicenter of the crisis and after imposing strict lockdowns, investors worried that Italy could not service its debt in the face of a significant loss of revenue and a rise in spending. The only way to service the deficit would be to increase the issuance of bonds, increasing an already large fiscal debt. Fears were the debt would become unsustainable. From late February 2020, bond yields rose from 1% to 2.4% by late March. Then the European Central Bank (ECB) intervened, promising to purchase 750 billion euros in member state bonds. Quickly, the Italian bond yield fell to 1.24 percent. Then the yield rose again, approaching 2.2 percent, as investors worried that the ECB program might not be sufficient. Then the ECB pledged to nearly double its asset purchasing program. In addition, the EU indicated plans to issue its own bonds and distribute the money to member states as grants. The Italian bond yield fell again, currently at 1.27 percent – roughly where it had been in January. The decline in Italian bond yields has been matched by similar declines in the yields on bonds issued by Spain, Portugal, and Greece.

##### Global trade

Global trade volumes fell 16.2% month-on-month (m/m) from March 2020 to April 2020 which was a record amount. This followed a decline of 5.4% from February 2020 to March 2020. Global trade declined in every region around the world but was most pronounced in Europe where volumes fell 28.5%. In the US trade fell 19% and in Asia (excluding Japan) trade slipped 6.9%. Overall trade in goods and services fell 12.1% from March 2020 to April 2020. The decline in trade reflects several factors including weakened demand in advanced countries, disrupted supply chains, and capacity constraints for companies attempting to enforce social distancing within their facilities. The decline in trade has hurt many industries including shipping, energy, port operations, land transportation, and trade finance. Going forward, the World Trade Organization predicts that trade will continue to be suppressed. Moreover, there is a risk that governments will engage in further protectionist actions meant to protect jobs from foreign competition. It is not unusual such measures often happen during economic downturns. However, such action generally leads to higher costs, lower efficiency, and lower job growth than otherwise. Given it is an election year in the US, the current administration may push for such measures, especially against economies that the current administration has already taken a protectionist stance against, mostly notably China and the EU.

Source: <https://www.cpb.nl/en/unprecedented-decline-in-world-trade-in-april-2020>

## Country/Regional Updates

### 1. Japan

Household spending in Japan fell sharply in May 2020 as the impact of government restrictions on economic activity took a toll. Spending was down 16.2% year-on-year (y/y), the sharpest decline on record. Spending fell especially sharply in discretionary categories. For example, spending on clothing was down 38.3% y/y and spending on culture and recreation was down 37.9% y/y. On the other hand, spending on food was down only 5.4% y/y. In May the government encouraged citizens to stay at home causing spending in restaurants, hotels, and transportation to decline. By June, however, the government was easing restrictions. Some analysts are concerned however that Japanese consumers will be reluctant to significantly boost spending given their caution regarding the virus as well as the news that the economy is in a recession. Although the government has provided assistance to households in the form of cash, it is likely that unemployment among service workers will remain high. Moreover, analysts expect bonuses to be suppressed this year, especially in sectors that are disrupted by the virus. In Japan, an unusually large share of compensation is given in the form of bonuses. If bonus payments are sharply lower than in the past, this could have a negative impact on spending going forward.

Source: <https://www.reuters.com/article/japan-stocks-midday/japanese-shares-fall-as-household-spending-slumps-softbank-group-soars-idUSL4N2EE0RX>

After having fallen sharply from March 2020 to April 2020, retail sales rose 2.1% in May month-on-month (m/m) from April. Despite this, sales remained 12.3% below the level from a year earlier. It was the third consecutive month in which sales were down on an annual basis. Moreover, sales were down especially sharply in discretionary categories. For example, sales were down 34.9% y/y at general merchandise stores such as department stores. Sales were down 34.3% y/y at apparel stores and 35.2% y/y at motor vehicle dealers. Food and beverage sales, however, were up 2.2% y/y. Evidently the continued restrictions on economic activity in May had a strong negative impact on consumer willingness to spend. The data for June, which will be released in a month, will likely show some improvement due to the easing of economic restrictions. However, social distancing guidelines remain in effect. Thus, it is likely that spending will remain below normal levels, at least until consumers perceive the virus to no longer be a threat.

Source: <https://www.reuters.com/article/us-japan-economy-retail/japans-retail-sales-extend-slump-as-coronavirus-curbs-keep-shoppers-away-idUSKBN24000L>

In May, industrial production continued to decline, falling 8.4% m/m and down 25.9% y/y. That was the sharpest decline since the global financial crisis 12 years ago. On a monthly basis, the biggest declines were in the production of big durable goods. Vehicle production was down 23.2% m/m while iron and steel were down 13.8% m/m. Machinery production was down 12%. The decline in output was accompanied by further damage to the job market. The jobs to applicant ratio fell from 1.32 in April to 1.2 in May, the lowest level since 2015. On the other hand, Japan's economy has begun to re-open and high frequency data suggest that demand is starting to improve. That bodes well for a return to growth of GDP in the coming months. Still, Japan's industrial sector is likely to continue to face headwinds from weak demand in the US and Europe.

Source: <https://www.reuters.com/article/us-japan-economy-output/japan-factory-output-retail-sales-seen-falling-more-sharply-in-april-reuters-poll-idUSKBN22Y0QA>

Source: <https://www.reuters.com/article/us-health-coronavirus-japan-sentiment/japans-service-sector-mood-jumps-in-june-as-lockdowns-ease-idUSKBN2491B4>

The decline in industrial output is in part linked to the weak external environment. Since the onset of the US-Chinese trade war and a general slowdown of global investment since 2019, the demand for Japanese goods into the Asia region and the rest of the world has not boded well for Japanese exports, a key contributor to Japanese economic growth. Up to June 2020, exports when measured in y/y changes has declined for 19 consecutive months. In June, exports fell 26.2% y/y. As a result, the level of exports has returned to what was seen during the global financial crisis more than 10 years ago. Vehicle exports were particularly weak, falling 50.1% as households and business curtail spending in the current economic climate. By destination, exports were down 46.6% to the United States, 29.9% to Germany, 51% to the UK, 27.7% to Singapore, 15.1% to South Korea, but only 0.2% to China. Evidently China's quickly rebounding economy involved stable imports of goods from Japan, both for China's domestic demand as well as components used in China's export economy.

Source: <https://www.reuters.com/article/us-japan-economy-trade/japans-sinking-exports-raise-risks-of-prolonged-economic-downturn-at-home-and-overseas-idUSKCN24L02M>

## 2. China

China's economy grew strongly in the second quarter. After having fallen at the fastest pace on record in the first quarter at 9.8% quarter-on-quarters (q/q), real GDP grew at the fastest pace on record in the second quarter. Specifically, real GDP was up 11.5% q/q, which is an annualized rate of 54.6%. Real GDP was up 3.2% y/y. China is the first economy to be hit by the virus and the first to begin to recover. Other large economies are likely to see growth return in the third quarter. Despite the positive numbers for China, investors reacted negatively, driving Chinese equity prices down sharply as it became apparent that the economy's strength derives from strong growth of the industrial sector, largely driven by government investment in infrastructure as well as a strengthening of exports. Yet consumer spending appeared to remain weak, with retail sales declining. Evidently, consumers remain wary of social interaction given that the virus has not gone away. Other concerns for investors include risk of the increasingly fraught relationship between the US and China, the risk of more US sanctions and trade restrictions, and increasing tension between China and the European Union.

Source : <https://asia.nikkei.com/Economy/China-s-Q2-GDP-growth-beats-forecasts-and-recovers-to-3.2>

Some of the economic recovery is also likely related to the widespread availability of credit. The government reported that new bank loans were up 22.3% m/m in June 2020. There were notable increases in lending for mortgages as well as company loans. This reflects central bank policy of keeping interest rates and reserve requirements low and the government encouraging state-run banks to boost credit. In addition, the central government intends to boost bond issuance to fund more infrastructure projects. Public sector investment has been growing rapidly, helping to boost overall economic activity. On the other hand, China's central bank has not engaged in the kind of massive asset purchases that have characterized monetary policy in the US and Europe.

Source: <https://www.reuters.com/article/us-china-economy-loans/china-bank-lending-hits-record-1-72-trillion-in-first-half-after-solid-june-idUSKBN24B1W3>

China's trade with the rest of the world increased strongly in June. Exports (in US dollars) were up 0.5% y/y in June and imports (also in USD) were up 2.7% y/y. Both figures were improvements on the previous month. While neither figure is a big number, it is notable that trade has returned to a level above that of a year ago. Exports to the US, however, were down 1.4% y/y in June 2020, while imports from the US were up 11.3% y/y. The latter figure is likely welcome news for Beijing given the pressure it faces to boost imports from the US lest new tariffs be implemented by the US government.

Source : <https://www.reuters.com/article/us-china-economy-trade/china-posts-first-import-growth-since-pandemic-exports-also-up-idUSKCN24FOC1>

In the first six months of this year, Southeast Asia became the biggest trading partner with China, surpassing the European Union. China's trade with the rest of the world has been rising recently, but the increase has varied by region. For example Chinese trade with the EU fell 5% in the first half of 2020 y/y, and Chinese trade with the US fell 10% y/y over the same period. Meanwhile, Chinese trade with Southeast Asia increased considerably. There are several reasons that explain this change. Chinese manufacturers are seen to be shifting some production to Southeast Asia, both in order to reduce costs as well as to avoid US tariffs. Thus, there is more movement of components between China and Southeast Asia. In addition, increased trade with Southeast Asia gives Chinese producers access to technologies that, increasingly, the US is making difficult to obtain. Singapore, for example, is a prime supplier of high value-added components such as semiconductors while Vietnam is helpful in providing low-wage production. The increased trade between China and Southeast Asia has also entailed direct foreign investment in Southeast Asia by Chinese companies, although such investment has lately decelerated during the coronavirus crisis. Finally, to facilitate greater trade and cross-border investment, China and ASEAN signed a trade deal late last year that reduced trade barriers and intensified an existing free trade agreement. In addition, China is utilizing its Belt and Road Initiative to enhance the relationship. From a geopolitical perspective, this puts Southeast Asian nations in an awkward position. They are mostly dependent on China for economic success but dependent on the US for protection from Chinese aggression.

Chinese autonomous vehicle startup WeRide announced on Friday 10 July that it has become the first autonomous company to start fully driverless vehicle testing in China, as the world's biggest auto market accelerates development of autonomous technologies.

WeRide, which is backed by Nissan, Renault and Mitsubishi, announced it started tests on open roads in a designated area of Guangzhou after the southern Chinese city granted permission.

In China, companies such as Toyota-backed Pony.ai, Baidu Inc, and Didi Chuxing are also testing autonomous cars, but all with one or two safety staff onboard. The people onboard take control in unexpected situations whereas WeRide said it will use a remote centre to take control of their vehicles if needed.

Source: <https://www.reuters.com/article/us-china-autonomous-weride/chinas-autonomous-vehicle-company-weride-starts-driverless-testing-idUSKBN24B03Q>

### 3. EU and the Eurozone

After governments across the Europe removed restrictions on lockdowns and economic activity consumer spending has made a remarkable recovery. Retail sales in the Eurozone were up 17.8% m/m in May 2020. This followed declines of 10.6% m/m in March and 12.1% m/m in April. Year-on-year, in May, sales were down 5.1%.

By country, sales growth from April to May was 13.9% in Germany, 25.6% in France, 18% in Spain, and 8.9% in the Netherlands. Sales in Germany and the Netherlands were higher than a year earlier while sales in France and Spain remained well below year ago levels. The strength of consumer engagement in Europe is helping to offset weaker growth of the industrial sector. Europe is being hurt by weak global demand for its exports and weak business investment. For example, Germany reports that factory orders, after having fallen 15% in March and 26.2% in April, increased only 10.4% in May. This means that, for German manufacturers, the worst is behind them but the recovery is relatively muted. Meanwhile, the strong consumer numbers bode well for third quarter economic growth.

Finally, the improvement in consumer spending might, in part, reflect pent up demand following lockdowns as well as a decision by households to dramatically boost saving in the first quarter when the virus first reared its ugly head. The EU reports that, in the Eurozone, the personal savings rate increased from 12.7% in the fourth quarter of 2019 to 16.9% in the first quarter of 2020. This was due to a small increase in income combined with a sharp decline in spending. The dramatic shift most likely took place in March which is when governments introduced measures aimed at enforcing social distancing.

Source: <https://www.reuters.com/article/us-eurozone-economy-salesfigures/euro-zone-retail-sales-in-record-rebound-in-may-as-lockdowns-eased-idUSKBN2470Y3>

### 4. Singapore

Singapore reported second quarter real GDP contracted 41.2% q/q from the previous quarter when measured at an annualized rate. That is the sharpest decline ever for the economy. Real GDP was -12.6% y/y. Clearly, Singapore is in recession. Interestingly, manufacturing output was up 2.5% y/y, construction output was -54.7% y/y, and services output was -13.6% y/y. The increase in manufacturing activity was almost entirely due to strong demand for Singapore's biomedical output. Other manufacturing segments suffered from weak global demand. For the past three months, Singapore has experienced a shutdown of workplaces and schools, with only a gradual recent reopening. Singapore's Trade and Industry Minister said that "the road to recovery in the months ahead will be challenging. We expect recovery to be a slow and uneven journey, as external demand continues to be weak and countries battle the second and third waves of outbreaks by reinstating localized lockdowns or stricter safe distancing measures."

Source: <https://www.singstat.gov.sg/-/media/files/news/advgdp2q2020.pdf>

### Useful Resources

Investing	Economic Data	Economic Analysis
<ul style="list-style-type: none"> <li>investing.com</li> <li>MarketWatch</li> </ul>	<ul style="list-style-type: none"> <li>United States: Bureau of Economic Analysis</li> <li>United States: Bureau of Labor Statistics</li> </ul>	<ul style="list-style-type: none"> <li>Deloitte Insights: Economics</li> <li>Deloitte Weekly Global Economic Update</li> </ul>
<ul style="list-style-type: none"> <li>Yahoo! Finance</li> </ul>	<ul style="list-style-type: none"> <li>Cabinet Office of Japan</li> </ul>	<ul style="list-style-type: none"> <li>International Monetary Fund</li> </ul>
<b>Central Banks</b>	<ul style="list-style-type: none"> <li>European Commission: Eurostat</li> </ul>	<ul style="list-style-type: none"> <li>Project Syndicate</li> </ul>
<ul style="list-style-type: none"> <li>Federal Reserve Board</li> </ul>	<ul style="list-style-type: none"> <li>United Kingdom: Office for National Statistics</li> </ul>	<ul style="list-style-type: none"> <li>Organization of Economic Cooperation and Development</li> </ul>
<ul style="list-style-type: none"> <li>Bank of Japan</li> </ul>	<ul style="list-style-type: none"> <li>National Bureau of Statistics of China</li> </ul>	<ul style="list-style-type: none"> <li>Central Intelligence Agency: The World Factbook</li> </ul>
<ul style="list-style-type: none"> <li>European Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>Federal Reserve Economic Database</li> </ul>	<ul style="list-style-type: none"> <li>Aon: Political Risk Heatmap</li> </ul>
<ul style="list-style-type: none"> <li>Bank of England</li> </ul>	<b>News</b>	
<ul style="list-style-type: none"> <li>People's Bank of China</li> </ul>	<ul style="list-style-type: none"> <li>Reuters</li> </ul>	

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- Family Governance and Council Support for Owner Family

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