

Fighting recession

Much of the world is in recession fighting mode. They need to be so, because the advent of the corona virus and the severe responses to it by governments makes recession more likely without action.

The virus has hit international travel and tourism hard, has disrupted Chinese output, slashed the demand for oil and other raw materials, brought freight rates well down and is now disrupting supply chains around the world. It has damaged confidence, and led to investments and orders being put off. Japan had a sharp fall in GDP last quarter thanks to a tax rise, whilst Germany is struggling to grow at all thanks to the anti car policies being followed.

This week the Stock markets of the world have suddenly woken up to the threat that comes from these events. For the first month of serious virus news gold, oil and bonds signalled trouble ahead, and share markets decided it would be short lived and they could look through it. Now they are not so sure.

What can governments and Central Banks do? They can take offsetting action to promote more economic activity, and provide more money to offset cash shortfalls by businesses hit by interruptions to their production and sales.

Taiwan has announced a stimulatory package. China has produced some tax cuts and bank lending at low rates. The Fed, the Peoples Bank of China, the ECB and the Bank of Japan have all put money into markets in various ways to increase liquidity and available funds. China has started to cut interest rates. So far the UK has taken no action to help.

These moves will ease some of the worst features of a slowdown brought on by the virus, but do not deal with the root cause. The best way out is to turn the tide in the battle against the virus by a combination of treatments, vaccinations and reducing the spread. That is not easy and we all wish them well in doing so.

As China is discovering, if you go in for lock down and isolation of whole cities after cases have been found you do not stop the spread as some people will already have carried it out of the area, but you do considerable damage to output and activity.