

Heading for a big economic downturn worldwide

The new Governor and the Bank of England have risen to the task in the last few days. They have thrown everything into keeping banks and markets liquid. They are offering huge facilities for banks to lend on to the many individuals and companies that will need credit, and have now signalled they want gilt yields to stabilise. They have announced substantial new buying of government bonds, and operated at scale on Friday to stabilise the market of gilts where prices had been falling. The commercial banks must now show speed and purpose in offering loans to companies that need them, and need to curb their appetite for ultra high rates on the money they advance as overdrafts.

The government last week upped their fiscal response to try to match the challenge. I have always argued the priority is to avoid mass unemployment from widespread redundancies. The new scheme to burden share on wages should go a long way to help businesses keep their teams together while we await an upturn in demand. The business rate holiday for the worst affected sectors and the direct cash grants also help. We still have not seen any decent response for the self employed, who are also an important part of our economy and should be helped.

Some argue that the large sums the government plans to borrow and the huge sums the Bank of England is committing to this task are excessive and dangerous. In a situation where there would be a very large fall in economic output some offsetting action is needed. Millions of people are temporarily banned from working in their jobs or have to stay at home to look after children or to isolate themselves so the government and Bank do need to offset some of this unprecedented hit to jobs, incomes and activity.

As the government has decided to close down a large part of the private sector, banning tourism, leisure, much travel, entertainment and hospitality, it needs to see it has to do more to plan for the consequences. Lots of discretionary spending areas from new homes and cars to clothes and many household appliances and furnishings will also drop sharply or effectively be banned.

Meanwhile there will be a continuing surge in demand for more food, food retail and home delivery. As many people used to have more than 5 out of their 21 meals a week at their place of work or in a restaurant or fast food place there will be a big transfer of food demand to the supermarket as they eat at home. This requires switching food from caterers products to retail products and needs volume changes to the delivery system to households. There will be strong demand for smartphones, laptops and digital services, for home entertainment and for business digital systems. There will be more strain on domestic utilities as families stay home and load the broadband and electricity networks.

The government is busy trying to divert more resources into NHS and social care. It is buying up bed spaces, hiring in more medical staff, offering to buy huge quantities of tests, ventilators, pharmaceuticals and protective clothing to handle a big outbreak. It also needs to help the private sector direct resource to home deliveries for all who have to self isolate, to ensure quick adjustment to the new patterns of food buying and consumption and the delivery of drugs where prescribed..

As the government is discovering, if it disrupts one thing like closing schools it has to help ensure enough people can still get to work in all the areas that do need to continue. As it closes restaurants, school lunches and works canteens it has to ensure all that food can be replaced through supermarket purchases. As it takes out train and tube travel and slashes services, it has to leave enough working for the key workers to get to the hospitals, broadband systems and electricity grid to keep things working.