

Ric Deverell Transcript

[Ric Deverell, Chief Economist and Global Head of Macro Strategy, Macquarie Group] The reason economics is so interesting is it's really a study of people. It's a social science. So I think people try and quantify too much and try and make it too precise, but what you're trying to really understand is how people will behave in different circumstances.

People, like me, who've been doing this for a long time, thought that the GFC would be the worst that we ever saw. And already the downturn we're seeing is just materially bigger. What we're seeing now is first and foremost a health issue and it's a human tragedy. And the reason governments are responding with such overwhelming force is because this is really a big issue for a lot of people's lives. We're seeing an unprecedented number of people among a lot of countries losing their jobs, and we need to look after those people. We need to support the businesses, so that when we control the virus, we can allow people to get back to work. Because ultimately, it's about people and the reason that governments, including the Australian government, are spending an unprecedented amount of money, is to make sure that we look after those people in those businesses, so that hopefully we can resume activity at the end of this.

When thinking about the economic outlook, the spread of the virus is the key. Because the shutdown is being driven by governments, we can't reopen until the virus is under control. It has been very interesting in that, effectively, there have been three waves globally. The first one was in Asia, so it started in China, of course. But interestingly the peak number of daily new cases in China was in early February. So, it's quite a long time ago now. About six weeks later, it started to really pick up in Europe – and particularly in Italy in Spain. But even in Italy in Spain, it's pretty clear that the peak is now in, and that the number of new cases is actually declining. The third wave was in the United States, which was about two weeks later than we saw in Europe. But again, thankfully, it does look like the peak is in. It's still early days in the United States, but it does look like it's starting to decline, and that's a very positive thing.

The Australian example's really interesting actually in that we, like a lot of other Western countries, watched what was happening in China and didn't really know what to make of it. But then, of course, it started to turn up in big numbers in Europe and we were lucky in that we are far enough away – and it came with a lag – that we were able to implement really quite dramatic measures quite quickly. And the initial evidence has been remarkably effective. So it does look like – everyone likes talking about the curve flattening – it does look like the curve has flattened in Australia. It's still early days and there are a lot of risks that could come back, but I think the government's been remarkably successful in containing it.

Central banks and governments have basically said, to quote Dr Draghi who ran the ECB for a long time: “We will do whatever it takes”. So, from a government point of view – both in Australia and a lot of other countries – we've had the biggest fiscal response we've ever seen. So, for example – in the United States, there is a 10% of GDP stimulus hitting the system over the next couple of months. And, of course, central banks very quickly went to

zero, so interest rates almost everywhere are effectively zero again. But most importantly, central banks are intervening very heavily in asset markets, to ensure that markets continue to function. So again, the most important central bank in the world is the Federal Reserve in the United States, and they've purchased \$1.5 trillion of assets in the last month. So, it's really quite remarkable.

Like everywhere else in the world, the government has intervened massively in the economy and effectively, they've said you can't do a lot of activities. So that means that if you run a restaurant, or if you run a bar, or if you run a concert organization machine, those activities don't exist at the moment. So very big interventions. But once the virus is under control, I would expect that incrementally things will be reopened again. Already the government is talking about sometime in the next month, they will start considering turning things back on. My guess is that from next month, so in May, we will start to see the economy reopened. I think it will be gradual, it will be incremental – by necessity, it needs to be very careful. But I think that means that you will see a really big contraction in economic activity in Q2. But I think if you look at the monthly data, even from May, things will start to bottom out. And as we move into Q3, we'll start to get growth again. Now, it will take some time to get back to anything that looks like normal, because it is such a danger that we need to be careful. But I do think that we're near an inflection point and the worst is probably pretty close. And certainly, as we get into Q3 and Q4, even though things won't be back to normal (it always takes a long time for the level of economic activity to return to previous peaks) I do think that things will be feeling a lot better than they are now.

At this point in the cycle, people generally extrapolate, and they say that everything's going to be different. History shows that often it's much less different than you think. So, in terms of the current episode, if it does turn out to be a three- to six-month event, I think it will accelerate a lot of trends that were happening already. So, I think people have learned that we can use technology in different ways and they will continue to do that. But a lot of people say, for example, that people will not get back on airplanes. My guess is, to be honest, that people are getting so stir crazy at home, that as soon as they're allowed to get on an airplane and go on a holiday again, they will get back on an airplane and go again. So, if it is a three- or six-month event, I think there will be changes but it won't be a complete new world, as a lot of people are talking about. If it goes on for 18 months, if it takes 18 months for us to control the virus, and to hopefully get a vaccine – I think the economy will be fundamentally different.

I mean, I think of economies as a bit like a body in that the body needs blood circulating. For an economy, you need payments to be circulating, you need activity to be happening. And, at the moment, the government's put it on life support. I think it will probably, in the main, work and we can turn a lot of stuff back on in three months' time. But if it's six months or nine months or 12 months, that becomes much more difficult. So, I think there are some really difficult decisions to be made by government (I'm glad I'm not making them). There are big trade-offs in all of this but, ultimately, we need to get people back to work.