CANDRIAM
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PRESS RELEASE

Macroeconomic outlook

"A budget deal of significant magnitude is needed for businesses in order to kick-start an economic recovery'

London, the 15th of June 2020 - To contain the pandemic, governments have shut down entire sectors of the economy. At the same time, authorities reacted quickly to provide support to firms and households. Despite the scale of the measures taken so far, they may not be sufficient to get the global economy back on track.

Global economy: a deep shock
The contraction of activity has been so deep everywhere that measuring its intensity is tricky. Predicting how quickly the global economy will be able to catch its breath is equally tricky. At the beginning of June, the pandemic was far from contained. Moreover, predicting household spending behavior at the end of the lockdown period is difficult: the increased uncertainty, the concentration of excess savings that has just formed in the hands of the richest part of the population, but also a possible shift towards more "frugal" consumption is likely to lead to an insufficient rebound in household spending. "In addition, the extent of the damage to the economic fabric is still largely unknown," says Anton Brender, Candriam's Chief economist.

In most developed countries, governments have certainly reacted forcefully, compensating for most of the wage losses through transfers. But nowhere have they compensated businesses for their losses in operating income. In both the United States and Europe, however, these losses are likely to account for between 15 and 30 per cent of firms' capital expenditure. Without a timely and sufficient fiscal stimulus, productive investment is unlikely to return quickly to pre-crisis levels and activity could remain well below what was expected just six months ago.

United States: from a health crisis to a political crisis
In the United States, the decline in activity seems to have been less severe than on average in the euro area. "Nevertheless, the crisis has had a strong impact on sectors employing a large fraction of the labor force," notes Anton Brender, and despite massive budgetary support, including an incentive for small businesses to maintain employment (the Paycheck Protection Program), the unemployment rate approached 20% in April before dropping a bit in May. The rise in the savings rate has been just as spectacular: it reflects a sharp drop in consumption and a relative stability in income thanks to an increase in transfers received (unemployment benefits, Trump checks…).

What is needed now is for Congress to agree on voting for a budget deal of significant magnitude to spur the recovery. As Anton Brender notes, "the US has supported the economy up until now, but it is yet to provide the additional stiumulus needed to kickstart activity". Disagreements between Democrats and Republicans over support for state and local governments are currently blocking a new deal, but the nearing presidential election and the political context, which has been further degraded by the recent exacerbation of racial tensions, could push for a compromise. In this context, US GDP at the end of 2020 would still be 5% below the level expected at the beginning of the year and, on average over the year, activity would contract by nearly 6.5%.

Euro area: finally an act of solidarity…
Compared with the US, the crisis has been felt much more severely in Europe, which has seen a first quarter contraction of nearly 15%. Crucially, as Florence Pisani notes, "this shock is not symmetric". Countries like France, Spain and Italy have been worse affected than Germany and the Netherlands, mainly due to stricter confinement measures and a greater dependence on sectors – such as hopstality and entertainment – that have been particularly hard hit by the crisis.

At the beginning of June, despite the gradual easing of lockdown, the European economy was still far from having returned to a normal level of activity. "Without additional support, a return to pre-crisis levels by the end of the year seems unlikely," notes Florence Pisani, Global Head of Economic Research. Above all, "this crisis will aggravate divergences between Member States", she stresses. While, on average over 2020, activity will contract by 8% in the euro zone, the decline will be much more severe in France, Italy and Spain (between -10 and 12%) than in Germany (-6%).

In this context, the Next Generation EU program proposed by the European Commission is welcome: the most affected or less developed economies would be its main beneficiaries. In addition, out of the €750 billion of the plan, €500 billion would be grants and not loans. In trying to circumvent the EU's ban on borrowing to finance its budget, the Commission is finally laying the foundations for a genuine transfer mechanism within the Union. "However, the European decision-making process is too slow to hope that the program will support activity in 2020," warns Florence Pisani. Above all, even if this program, which requires the approval of the 27 Member States, is agreed on, "we will have to go further if we want to avoid markets to regularly question the sustainability of Italian public debt and end up questioning the integrity of the euro zone " concludes Florence Pisani.

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CANDRIAM is a New York Life Company. New York Life Investments[2] ranks among the world's largest asset managers[3].

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[1] As of 30 December 2019. Assets under management (AUM) includes assets which do not fall within the U.S. Securities and Exchange Commission's definition of 'regulatory AUM' in Form ADV, Part 1A.

[2] New York Life Investments is a service mark used by New York Life Investment Management Holdings LLC and its subsidiary New York Life Investment Management LLC. New York Life Investment Management LLC is a wholly-owned indirect subsidiary of New York Life Insurance Company

[3] Source: New York Life Investments ranked 34th among the world's largest money managers within *Pensions & Investments*, June, 05, 2019. Rankings are based on total worldwide institutional assets under management for the year-end 2018. New York Life Investments assets include assets of affiliated investment advisors.