Coronavirus (COVID-19) bulletin

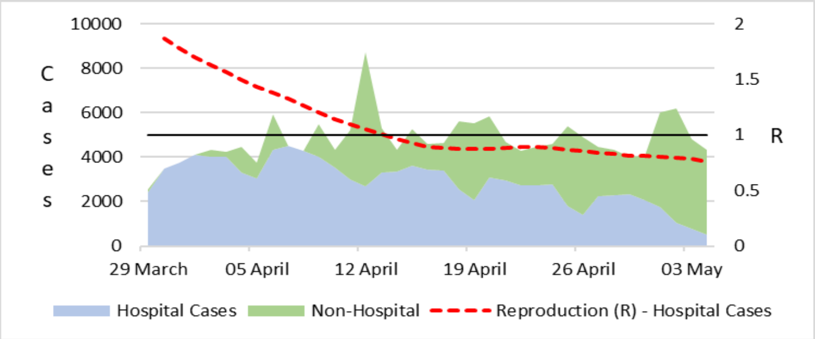
4 May 2020 to 7 May 2020

"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning"
- Churchill

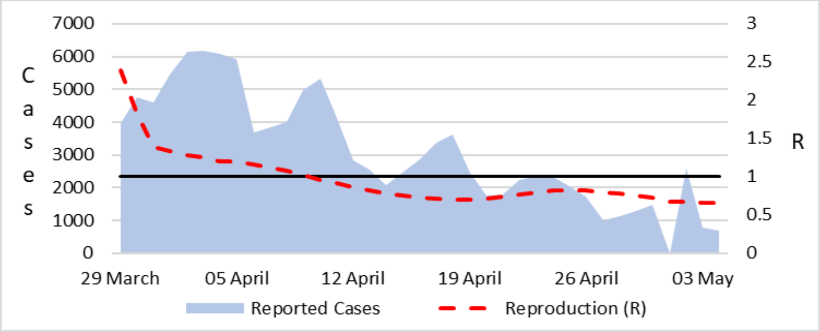
Lockdown Relaxation: Reduction in Case Numbers is Key

For trace-and-test to work effectively, case numbers must be sufficiently low that a country's health service is able to trace and test the contacts of each affected patient.

UK Daily COVID-19 cases and corresponding reproduction number (R)



German Daily COVID-19 cases and corresponding reproduction number (R)



- The UK has shown a decline in hospital cases since early April, however without widespread expansion of testing beyond hospital patients ("Pillar 2") the true picture is unknown.
- Throughout April, there has been approximately one death for every four hospital cases reported. In Germany, where testing is much more widespread, there is approximately one death for every 20 identified cases. This suggests that the UK hospital cases underestimate the true number by at least a factor of five, if not more.
- While Germany is rapidly approaching the point where test-and-trace becomes feasible, the recent expansion of "Pillar 2" testing is revealing how far away from that point the UK may be.

4most Economic Update:

The Job Retention Scheme (CJRS) extends until end-June. It now covers 19% of the those previously in employment.

- By 3 May, 6.3 million workers had been furloughed. After a slow initial take up, this is positive news. The current claims have cost the government £8bn so far. Unsurprisingly attention is already turning to withdrawing the scheme.
- The number of new claims for Universal Credit is slowing down, which is encouraging. However, between 17 March and 28 April there were a total of 2.3m new, individual Universal Credit claims. This is consistent with an unemployment rate of c10%.
- More than 100,000 small businesses applied for c£3.3bn of 'bounce-back' loans on the first day of operation. This has filled an important gap: the 8.2% jump in the annual growth rate of business lending in March was skewed towards larger firms.
- The lockdown will have an impact on the production of economic statistics. Consumer price information is hard to collect and the index weighting will not be representative of current consumption patterns. More dramatically, publication of the ONS HPI index will be suspended from June because there will not be enough transactions to create robust estimates for April.

Market News:

Consumer Credit growth slumped in March as household spending dried up. The £3.8bn net repayment of consumer credit mirrors a collapse in credit card borrowing. But repayments also fell – a possible early sign of stress as payment holidays were not as widespread at that time.

Approvals of mortgages for house purchases fell 24% to 56,200 in partially locked-downed March. But the re-mortgage market was also off 20%, which suggests firms are rationing credit for both operational and risk purposes.

Comparisons:
06/05/20 vs 02/01/20

GBP/USD	1/1.23	↓6%
FTSE 100	5854	↓22%
2Yr Yield	0.02%	↓56bps
S&P 500	2848	↓12%

Lockdown and Restrictions Update:

The Government will be announcing their review of the Lockdown restrictions on Sunday. With another week of grim economic news, the Prime Minister will be under intense pressure to allow some resumption of economic activity.

There have been some indications that in England restrictions on outdoor activities may be relaxed, and hints that those who can work may be encouraged to return to their jobs. The Scottish government, however, has been clear that any relaxation north of the border will be minimal.

The concern is that with the majority of the populace still susceptible to the virus, even a modest relaxation could lead to a second wave. No doubt many will be watching the US situation closely, where several states have begun to relax their own lockdown conditions in order to restart the economy.

BoE Interim Financial Stability Report – headlines:

The Bank of England has conducted a desktop stress test which concludes that the banking system has enough capital to both absorb losses and, with government support, maintain lending to help the corporate sector finance its loss of cash-flow, but this reflects a sharp economic rebound. Current experience is not expected to be as severe as in the 2019 stress test. BoE have assessed that:

- Over a two year period, banks' aggregate CET1 capital ratio falls from 14.8% to 11.0%. Around 45% of the margin above the minimum buffer is drawn down.
- By end-2021, banks might incur impairments on 3.5% of loans to businesses and households. The rate for corporates is estimated at 6.5%.
- 8% of the consumer credit stock may be written off; the implied impairment rate is 15%. Given an assumption of a 16% fall in house prices, the secured impairment rate would still only be 0.4%. Only 6% of all UK-mortgage loans would be in negative equity.

Contact details
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