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Market Overview

Update

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1 million cases:

COVID-19 cases globally have reached one million, whilst over 50,000 of those have resulted in fatalities. The US now accounts for nearly a quarter of those million infections. Stock markets in the US ended their 2-day losing streak yesterday; with the S&P 500 closing 2.3% higher despite the truly abysmal data in the form of initial jobless claims (note below). The choppy session ended higher on the back of another of President Donald Trump's trademark, market-moving tweets. Despite the Saudis and Russia insisting there had been no dialogue between them over a resolution to the oil market, Mr Trump announced that they had agreed to cut their supply by "approximately 10 million barrels". Oil prices surged on the back of the news but have slowly pared back their gains this morning. As we noted yesterday, we don't know how much truth there is to it, whilst the '10 million barrels' isn't confirmed as being per day/week/month or just 10 million barrels in total. The lack of clarity leaves the S&P e-mini future down c. 1.5% with European futures not faring much better. Indeed, Asian stocks are mostly in the red this morning too. Japan's TOPIX is off 1.0%, while the Shanghai Composite has shed 0.6%.

US labour markets rattled:

In the week ending 28 March, a startling 6.65 million people filed an initial jobless claim in the US, that is over 4% of the American workforce. This was a second consecutive record high, more than doubling last week's release of 3.31 million. The consensus estimate for yesterday's figure was 3,500k, far underestimating the eventual outturn. In the record-breaking week of 15-21 March, Pennsylvania saw the highest initial jobless claims reading, with 362k claims made. Yesterday's release showed astonishing figures from the US's most populous state, California; 692k claims were filed in the Golden State (186k prior). Meanwhile, a further 286k were filed in New York State (80k prior). Investors will no doubt have their eyes peeled for the hugely important US non-farm payrolls print later this afternoon. Please note that this release will fail to capture much of the COVID-19 impact thus far, since the data related to payrolls in the week of 12 March. Whatever we see tomorrow will likely be eclipsed in the April report which will capture the full impact of lockdowns in full.

UK response:

In the UK, Chancellor Rishi Sunak has overhauled the Coronavirus Business Interruption Loan Scheme last night. Previously firms with an annual turnover of less than £45mn were only able to access government-backed loans once they had been rejected for a commercial loan from their bank. This requirement has been scrapped, alongside rules that will prevent lenders from asking company owners to guarantee loans up to £250k with their own personal property. Additionally, he has established a new Coronavirus Large Business Interruption Loan Scheme to enable firms with a turnover between £45mn and £500mn to access government-backed loans of up to £25mn. Meanwhile at the Bank of England, we have had some clarity as to the composition of the £200bn increase in QE announced by the Monetary Policy Committee last month. At least £10bn will be directed at corporate bonds, doubling the £10bn already undertaken since the first announcement in August 2016.

Irish Economy

Data indicates an unemployment rate of approximately 17% and rising

Yesterday's Live Register data, combined with new data on temporary COVID-19 related employment support schemes, show that more than half a million people are in receipt of unemployment related benefits.

The Live Register itself showed a 24,400 increase in March to 207,200. However the majority of those whose employment has ceased due to COVID-19 are being facilitated through the COVID-19 Pandemic Unemployment Payment and a remarkable 283,000 people were in receipt of this payment in the last week of March. In addition, 25,100 people were availing of the COVID-19 Wage Subsidy Scheme, introduced by the government just last week. In total, 513,350 were in receipt of unemployment related benefits at the end of March. It is worth noting that the data released yesterday does not translate into an unemployment rate (even the Live Register is not equivalent to unemployment). Indeed, the CSO has postponed the release of its Monthly Unemployment rate so that it can properly evaluate how the new unemployment assistance schemes should be evaluated for statistical purposes. This rate should be available next week and will be adjusted to include those in receipt of the COVID-19 Pandemic Unemployment Payment but not the Wage Subsidy Scheme.

Despite these issues, it is important to try and put the data we have in context. Of course these are unprecedented times, but the scale of these numbers is truly extraordinary. The peak level of unemployment during the last financial crisis was 356,000 in Q3 2011. Therefore, even leaving aside the Wage Subsidy Scheme, there are 38% more people currently receiving unemployment benefits than were classified as unemployed at the 2011 peak. The latest information we have shows that the labour force totalled 2.47m in Q4 last year, with 2.36m in employment. As such, around 20% of the labour force are currently either on the Live Register or receiving the Pandemic Unemployment Payment. Making an adjustment for those on the Live Register but not classed as unemployed (e.g. part-time and seasonal workers) suggests that the unemployment rate is currently in the region of 17%, but likely to go higher still and perhaps considerably so. Most parts of the construction industry remained employed until the government extended the scope of its restrictions last weekend for example.

Public finances begin to feel the burden

The pandemic affected economic data came thick and fast yesterday and included the Exchequer Returns for March.

Tax revenues in the month were close to €1bn lower y/y, and €1.1bn (-22.5%) below target, with effectively all of this under performance due to a collapse in VAT receipts. The Department of Finance was expecting VAT receipts of €2.19bn in March, but received just under half of this sum. The shortfall was related to non-payment and underpayment as a result of the outbreak. Both Income Tax and Corporation Tax held up relatively well in March and were slightly ahead of expectations, although both tax heads will come under increasing pressure from April. The concentration of Corporation Tax receipts amongst a small cohort of very large multinational payers has been seen as a weakness of the country's tax base but, ironically, we wonder if these payments will prove more resilient than if Corporation Tax was more oriented towards smaller domestic enterprises. Tax receipts in Q1 as a whole still showed a modest 1.1% increase y/y due to strong showings in January and February, but this is clearly about to change.

Total net expenditure to end-March was €13.6bn, a 13.5% (€1.6bn) y/y increase and 7.6% ahead of profile. The Department attributes the increase to COVID-19 related expenditure.

The nature of the current crisis unfortunately creates a multitude of issues for the public finances. Not only will expenditure hugely increase in areas such as health spending and social welfare (see Live Register data above) but tax receipts are about to take a huge hit from the collapse in economic activity. Although the outlook is extremely uncertain and dependent on the duration of the current restrictions, the Minister for Finance indicated that the impact of the outbreak could be north of €8bn to both the state's cash inflows and outflows