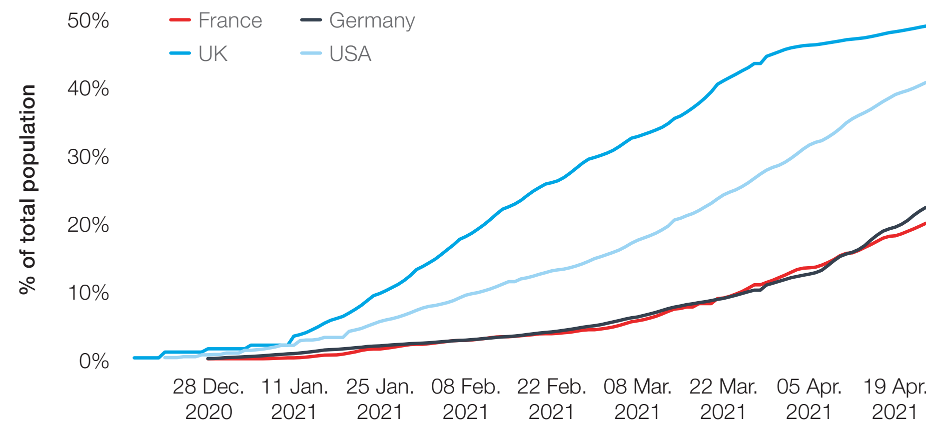
Accuracy

COMING OUT THE OTHER SIDE?

April 2021

This month in the Economic Brief, we look a little more closely at the impact of the pandemic in the developed world. We examine the different rates of vaccination in the West and consider how economic confidence has been affected. We go on to consider the impact of the crisis on debt servicing for companies before touching briefly on inflation.

COVID-19 vaccination – UK/USA superiority in dose administration

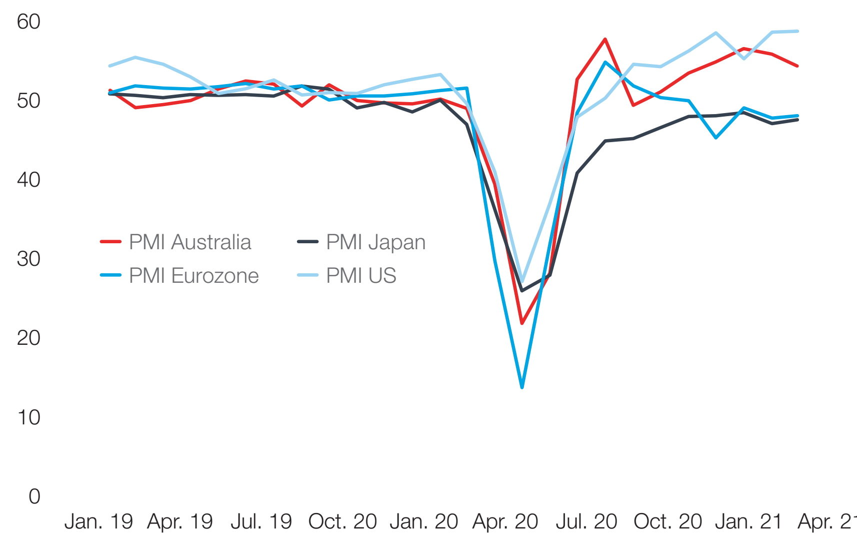


Note: Share of total population having received at least one dose of COVID-19 vaccine.

Source: Our World in Data

As demonstrated in the previous edition of the Economic Brief, national vaccination campaigns are progressing, albeit at different rates. As at 22 April 2021, the average vaccination rate (in terms of doses administered per 100 people) reached 49% in the UK, 40% in the US, 20% in the eurozone and 8% in developing countries. Until recently, the number of new cases across the world had been decreasing, an effect that could be seen much more clearly in the UK and the US than in continental Europe, thanks in part to their successful vaccination campaigns.

Composite PMI: a developed world cut in half

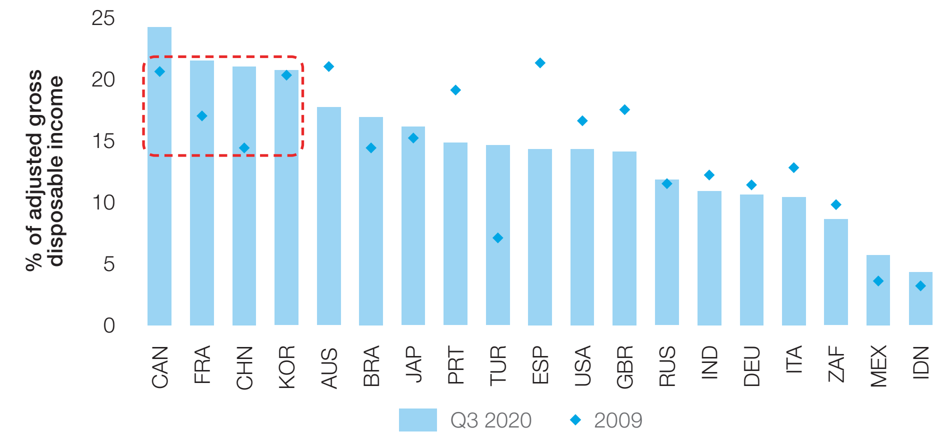


Note: A score of 50 suggests neutral confidence;
A score above 50 suggests increased confidence;
A score below 50 suggests decreased confidence.

Source: Accuracy & LBPAM

Such differing circumstances in the fight against the pandemic are reflected in the graph opposite, which shows the composite purchasing managers index (a reasonable proxy for economic confidence) in parts of the developed world. We can clearly see confidence plummet in all zones after the World Health Organisation's official declaration of the pandemic in March 2020. However, in areas where there is progress in controlling or countering the novel coronavirus – Australia has significantly curbed the spread of the virus through containment measures and the US has seen substantial progress in its vaccination programme – confidence is high, even exceeding where it was in January 2019; in areas with less progress, confidence remains negatively affected.

Debt servicing of non-financial companies

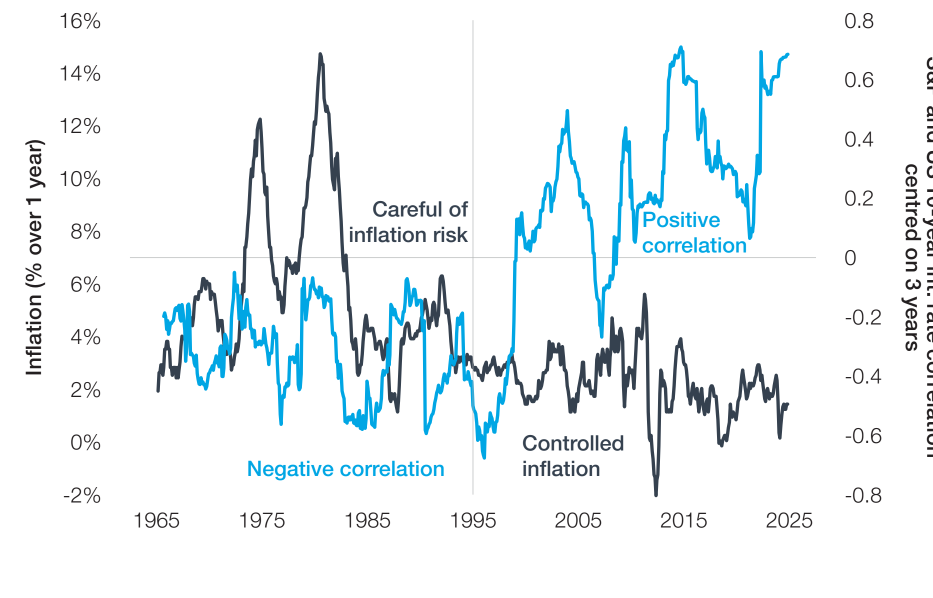


Note: Disposable income adjusted for interest payments and dividends to reflect the income available to service debt.

Source: OECD & BIS

An interesting consequence of the public health crisis has been its effect on the level of company debt servicing (i.e. the percentage of disposable income allocated to repaying debt capital and interest). The graph opposite shows just this across a number of countries, drawing a comparison between the impact of the current pandemic and that of the 2009 financial crisis. It is worth remembering that non-financial company indebtedness was already high at the time of the Great Recession (2008–2009). Indeed, this has been a serious matter of concern for policymakers and for the markets alike. The fact that some countries today are recording even higher levels can only be perceived as a serious issue. What happens next when public support is reversed? Of course, this trend also applies to national governments: the level of public debt is skyrocketing in countries around the world in order to pay for their various economic stimulus packages. While interest rates are low, such levels of debt may be sustainable, but what happens when interest rates start to climb? The consequences globally will be significant.

Correlation long-term interest rates/stock markets and inflation in USA



Sources: LBPAM & Bloomberg

Finally, let us look into the risk of inflation in the current climate. It appears that inflation has entered into a new paradigm: when the stock markets are negatively correlated to long-term interest rates, inflation is uncertain; when these metrics are positively correlated, as has been the case since the year 2000, inflation remains under control. The graph opposite demonstrates this effect in the USA over the past 60 years. But given this unprecedented crisis, just how will these trends unfold in the future?

What the future holds is inherently uncertain, but this uncertainty has been heightened by the events of the pandemic. Levels of debt continue to rise both at company and at national levels; for how long will this be sustainable? When will economic confidence fully return? The answers remain unclear. What is clear is that it will be a long time before the full effects of the pandemic are known and subsequently reversed.