Fed's offered flood of credit so far just a trickle in practice

REUTERS

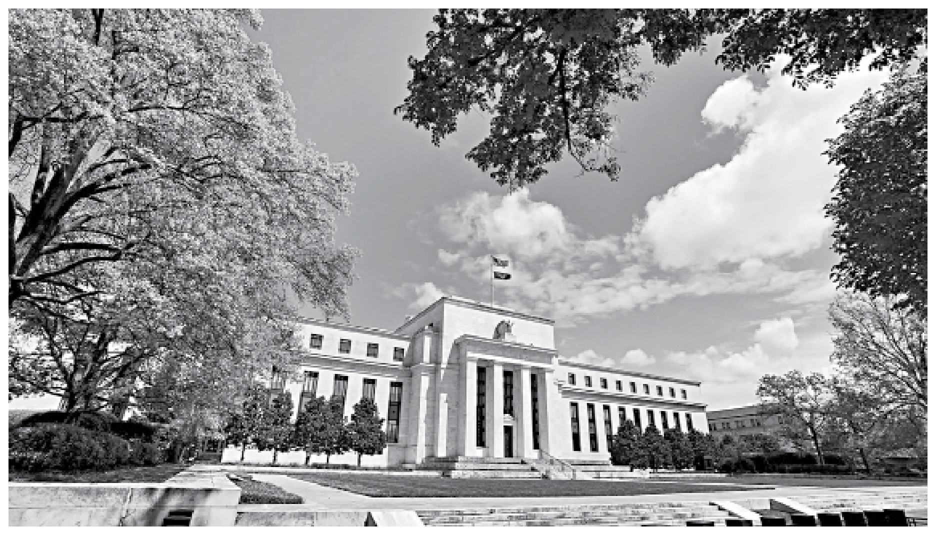
The Federal Reserve's promise in the early days of the coronavirus pandemic to flood the U.S. economy with trillions of dollars seemed like the proverbial central bank bazooka.

It has been more of a trickle in practice, with activity outside the U.S. Treasury and other core financial markets so far only a fraction of what's available, and with lending to companies in the "real" economy virtually nonexistent.

When Fed chair Jerome Powell appears before the House Financial Services Committee on Tuesday to discuss the central bank's crisis response he will likely be pressed on that: More than three months into the worst economic meltdown since the Great Depression the Fed so far has made no loans under a vaunted "Main Street" program for small and medium sized companies, provided only $1.2 billion to local governments, and holds just $8.3 billion in corporate bonds.

It may, as Fed officials contend, be overall good news, and evidence their mere announcement of support for the economy has kept private lenders and borrowers transacting on their own, kept financial markets stable, and lifted confidence the Fed could keep the worst from happening.

Still, analysts including former Fed chair Ben Bernanke have questioned whether the Fed has been too strict in setting up its programs. While many worked as intended, the fact no Main Street loans have been issued "is a concern both politically and also in terms of getting liquidity to the firms that need it," Bernanke said last week in a Brookings Institution webinar.



REUTERS

The Federal Reserve's promise in the early days of the coronavirus pandemic to flood the US economy with trillions of dollars seemed like the proverbial central bank bazooka.

Bernanke said the Fed may need to make its laboriously designed Main Street program "more generous," with lower costs for borrowers or subsidies for banks initiating the loans, if it wants to keep otherwise healthy small and medium businesses from ruin in the crisis.

"What we need is a compromise where we assist short term survival for small firms while not creating zombie firms," that survive on cheap credit alone, Bernanke said. "It is not clear that the Main Street program ... is going to be enough."

So far none of the programs set up to backstop companies and markets outside the financial sector have seen much use. By contrast more traditional programs to ensure financial institutions keep doing business in a crisis have been more extensive and by most accounts successful.

Since late February the central bank has increased its overall balance sheet - a measure of its footprint in the economy - from $4.2 trillion to $7.1 trillion.

Most of that stemmed from keeping the government bond and mortgage-backed securities markets on track: holdings of U.S. Treasuries and MBS increased around $2.4 trillion. Foreign central banks swapping their currencies for dollars accounted for another roughly $230 billion.

What distinguished the response to this crisis from the 2007 to 2009 financial meltdown was the offer to lend directly to private firms and local governments. Announced with fanfare in early April, the Fed said it would, among other steps, provide around $2 trillion to buy bonds to finance large corporations; lend directly to small and medium sized businesses; and help state and local governments raise funds to meet expenses.

Weeks later those programs are up and running - the Fed on Monday launched its latest effort to purchase new corporate bond issues - but of the $1.85 trillion notionally available only about $9.5 billion has been tapped.

The Fed of course can't make people apply for loans, and the credit costs and other measures that might trigger more aggressive purchases of corporate bonds, for example, have improved since the early days of the pandemic.

Powell in prepared remarks for Tuesday's hearing said Main Street lending may prove valuable "in the months ahead" for firms hit by the dramatic drop in economic activity during the pandemic.

Still, analysts are cutting estimates of how large the Fed's balance sheet might grow during a crisis some thought might test its capacities.

The CARES Act raised the possibility of $4.5 trillion in credit flowing from the central bank. The total may end up less than a fourth of that.

"The usage of the Fed credit facilities has been much slower and smaller than we had anticipated," Oxford Economics analyst Kathy Bostjancic wrote last week, estimating perhaps only half of the Main Street loans available will be taken and perhaps less than a third of the corporate bond fund be used.

Saudi Arabia's economy contracts by 1pc in Q1 amid oil plunge

REUTERS, *Dubai*

Saudi Arabia's economy contracted by 1% in the first quarter, official data showed on Tuesday, but the figures only marginally captured the collapse in oil prices and the coronavirus crisis, which deteriorated in March.

"This negative growth originated mainly from the contraction in the oil sector by 4.6%, while the non-oil sector recorded a positive growth rate of 1.6%," the General Authority for Statistics said, citing preliminary estimates.

The world's largest oil exporter is facing its worst economic decline this year after the COVID-19 pandemic dampened global crude demand and measures to contain the coronavirus hurt the kingdom's non-oil economy.

"The coronavirus crisis means that this is somewhat old news and the figures for Q2 will almost certainly be terrible," James Swanston, MENA economist at Capital Economics said.

In the first quarter, the value of Saudi Arabia's oil exports plunged by about $11 billion year on year, and in April alone the drop was of about $12 billion, official data showed this month.

Sharp production cuts in May and June, aimed at lifting oil prices, are likely to weigh further on oil GDP in the second quarter, and figures released by the central bank this week showed the non-oil economy continued to suffer in May.

Profits for the banking sector posted an annual decline of nearly 40% in May and points of sale transactions were down by nearly 16%, according to Saudi Arabian Monetary Authority data.

"Lockdown measures and weak confidence continued to take a toll on spending," said Dubai-based Arqaam Capital, which estimated consumer spending fell by 32% year on year last month after a 35% decline in April.

Hoping to raise non-oil revenues, the government has ordered an increase in value-added tax, but this is likely to dampen consumer spending and slow down economic recovery as measures to contain the coronavirus are lifted, economists have said.

The International Monetary Fund estimates Saudi Arabia's economy will shrink by 6.8% this year.

Japan pandemic jobless data mask woe for millions: experts

AFP, *Tokyo*

Unlike most major global powers, Japan has been spared an explosion in unemployment during the coronavirus pandemic, despite the world's third-biggest economy suffering its first recession in more than five years.

However, economists say the situation is not as rosy as the low headline figure may suggest, with millions struggling to make ends meet on precarious temporary contracts.

The latest figures published Tuesday showed Japan's unemployment rate climbed to 2.9 percent in May, up 0.3 percentage points from April and the third consecutive increase.

There were 120 jobs available for every 100 jobseekers, compared with 132 in April. This was the steepest fall in this closely watched indicator since the 1974 oil crisis.

Economists forecast the unemployment rate in Japan will hit 4 percent by the end of the year, as the tourism and hospitality sectors suffer from border closures and people staying at home because of the virus.

Many countries would welcome an unemployment rate of "only" 4 percent, with the luxury of having more jobs than jobseekers.

The US unemployment rate hit 13.3 percent in May, with more than 47 million people laid off since coronavirus lockdowns began.

So why has Japan's rate stayed so low? One major explanation lies in the country's dearth of workers owing to an ageing population.

Japan has the world's only "super-aged" society where more than 28 percent of people are 65 and over.

This means firms are reluctant to lay people off even during a recession, as they fear they will have few options to recruit when the crisis passes.

Japanese law also makes it difficult for companies to hire and fire flexibly during a downturn, notes Munehisa Tamura from the Daiwa Institute of Research.

The government launched a massive economic package that includes funds to help businesses keep employees on -- 4.2 million are on this furlough system, according to government data, some six percent of the workforce.

These staff are still technically on the payroll of their firms and so not

AFP/FILE

Japan's jobless rate has remained remarkably low during the coronavirus crisis.

"Therefore, even if an economic shock happens, generally speaking, it does not directly lead to an immediate and sharp spike in unemployment," he told AFP.

Even then, analysts point out the low rate does not account for millions -- especially women -- who gave up their job during the pandemic to care for family and are not counted as jobseekers.

And some critics say the apparently healthy unemployment data belies the daily reality for millions -- especially the 40 percent of the workforce on temporary or part-time contracts.

included in the official unemployment data but many temporary workers complain they are getting paid very little or nothing at all.

"I was told to stay home, using my paid holidays," said one restaurant employee, who spoke to AFP on condition of anonymity.

But his handful of paid holidays were quickly used up. "For all of April, May and until now, I have been paid no salary. Absolutely zero. "He said seven other shift workers were in a similar position, while four full-time regular employees were continuing to work and be paid.

Vietnam economy unexpectedly expands, bucking global plunge

AFP, *Hanoi*

Vietnam's economy unexpectedly expanded in the second quarter, shrugging off a coronavirus pandemic-caused global downturn, but it was still the country's slowest growth in nearly three decades.

Gross domestic product rose by 0.36 percent April to June compared to the same period last year, the General Statistics Office in Hanoi announced Monday.

"It's the lowest ever GDP growth since Vietnam started publishing GDP figures in 1991," official Duong Manh Hung was quoted as saying in local media.

Border closures from coronavirus restrictions took a punitive toll on Vietnam's exports, which fell nine percent year-on-year and were down 8.3 percent against the first three months of the year.

The country's economy is heavily reliant on exports, particularly after reaping the benefits of a trade spat between Washington and Beijing over the last two years.

UK economy suffers worst quarterly slump since 1979

AFP, *London*

Britain's economy has suffered its biggest quarterly contraction for more than 40 years as the coronavirus pandemic slashed activity, revised official data showed Tuesday.

Gross domestic product shrank 2.2 percent in the first quarter, or January-March period, compared with the prior three months, the Office for National Statistics said in a statement giving a second estimate.

The initial figure given by the ONS showed a GDP contraction of2.0 percent in the first quarter, or worst reading since the global financial crisis in 2008.

Second-quarter data will show the full impact of coronavirus because Britain's nationwide coronavirus lockdown was only imposed on March 23.

Recent official figures had showed UK economic activity crashed by a record 20.4 percent in April.

"Our more detailed picture of the economy in the first quarter showed... the largest quarterly fall since (the third quarter of) 1979," said ONS deputy national statistician Jonathan Athow.

"All main sectors of the economy shrank significantly in March as the effects of the pandemic hit. "Athow added however that "the sharp fall in consumer spending at the end of March led to a notable increase in households' savings".

This has been helped further by the government paying the bulk of private-sector workers' wages during the pandemic to keep them in jobs.

Economists meanwhile anticipate a double-digit slump in output during the second quarter or April-June period, placing Britain in a technical recession.

"It is evident that the UK economy witnessed a record GDP contraction in

the second quarter," said Howard Archer, economist at EY, which is forecasting a 17-percent slump before a 10-percent rebound in the third quarter.

The Bank of England has warned that COVID-19 paralysis could spark the nation's worst recession in centuries, after the coronavirus slammed economies worldwide. Earlier this month, the BoE unveiled an extra 100 billion ($126 billion, 112 billion euros) of cash stimulus to prop up Britain's coronavirus-hit economy.

It had already reacted by slashing its main interest rate to a record-low 0.1 percent and pumping 200 billion into the economy to get retail banks lending to fragile businesses.