Money Talks by David Helscher

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On June 8, the National Bureau of Economic Research (NBER) announced that February marked the end of an expansion that began in 2009 and the beginning of a recession. This came as no great surprise considering the coronavirus pandemic and the resulting spike in unemployment, but it was unusually quick. The NBER defines a recession as "a decline in economic activity that lasts more than a few months", so it typically takes from 6 months to a year to determine when a recession started. In this case, NBER concluded that "the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy", warrants the designation of a recession. The U.S. economy shrank at an annual rate of 5% in the first quarter of 2020, a significant but deceptively small decline because the economy was strong during the first part of the quarter.

The first official estimate for the second quarter will not be available until July 30. The Federal Reserve Bank of Atlanta keeps a running estimate based on incoming economic data. As of early July, the Atlanta Fed estimated GDP would drop at a 35.5% annual rate in the second quarter. By comparison, the largest quarterly drop wince WW II was 10%. Most economists believe that GDP will turn upward later this year as businesses continue to open. But with the extreme decline in activity in the first half of the year, it will take sustained growth to return the economy to its pre-recession level. The Federal Reserve Open Market Committee (FOMC), in its June economic outlook, projected a 6.5% annual drop in GDP for 2020, followed by 5% growth in 2021 and 3.5% growth in 2022. This suggests the economy may not return to its 2019 level until 2022.

Some economists and commentators view economic recessions and recoveries as having a shape, named after the letter it resembles. A V-shaped refers to a rapid fall flowed by a quick rebound, similar to the 1990-91 recession. This type of recovery would require control of the virus through testing and treatment, a quick ramp-up of business activity, and a return to pre-recession spending habits by consumers. A U-shaped means an extended recession, followed by a slow recovery, much like the Great Recession of a decade ago. A W-shaped covers a double-dip recession where a quick recovery begins, drops back sharply before beginning again. We experienced this in 1980-82. An L-shaped cycle is a steep drop followed by a long period of high unemployment and low economic output. The Great Depression lasted 43 months and 4 straight years of negative GDP growth. This is unlikely now considering the strength of the economy and unprecedented economic support from the Federal Reserve. Finally, there is the "Nike swoosh" shape some commentators prefer to describe the current situation, suggesting a sharp drop followed by a long, slow recovery. There is the possibility of businesses being slow to rehire, consumers slow to resume spending, and that some businesses may be impacted longer than others.

Adding to the prognosis for a slow recovery is the fact that the rest of the world is also fighting the pandemic. If the virus resurges, the recovery may turn jagged with significant setbacks. While the general consensus suggests that the duration of the actual recession may be brief, it is much too early to know the true shape of the recovery. However, the economy will recover, as it has in even more challenging situations. The key factor in determining the shape of the recovery will be control of COVID-19. Beyond that, the underlying question is whether the virus has fundamentally changed the U.S. and global economies.