COVID-19 RECESSION

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PRE-RECESSION SITUATION

- Since the financial crisis of 2007–2008, there has been a large increase in corporate debt, rising from 84% of gross world product in 2009 to 92% in 2019, or about $72 trillion. During 2019, the IMF reported a "synchronized slowdown", with the world economy facing its slowest pace since the 2008 financial crisis.

- The world's total industrial output began to start a sustained decline in early 2018, which peaked in 2017. In April 2019, the U.S. yield curve inverted.

- The U.S.-China trade war (2018–2020) brought struggles for farmers and manufacturers and higher prices for consumers, which resulted in the U.S. manufacturing industry entering into a "mild recession" during 2019. The inverted yield curve and trade war fears prompted a sell-off in global stock markets during March 2019.

PRE-RECESSION SITUATION

- Uncertainty surrounding the UK's withdrawal from the EU (Brexit) contributed to trade losses and economic downturns in both the EU and the UK.

- One of the biggest causes of recession followed—COVID-19. The outbreak was identified in Wuhan, China, in December 2019, declared a Public Health Emergency of International Concern from 30 January 2020 to May 5, 2023, and recognized as a pandemic by the WHO on 11 March 2020. The situation was worsened economically by lockdowns.

- The Russia–Saudi Arabia oil price war, combined with a sharp decline in global travel and industrial activity, led to a significant drop in oil demand and caused a plunge in U.S. stocks.

MAJOR RECESSION INDICATOR ANALYSIS

1

Yield curve inverts when 2-year Treasury yields exceed 10-year, signaling potential economic downturn.

2

Day of first sustained inverted yield curve: May 23, 2019 (red marked in graph)

GDP

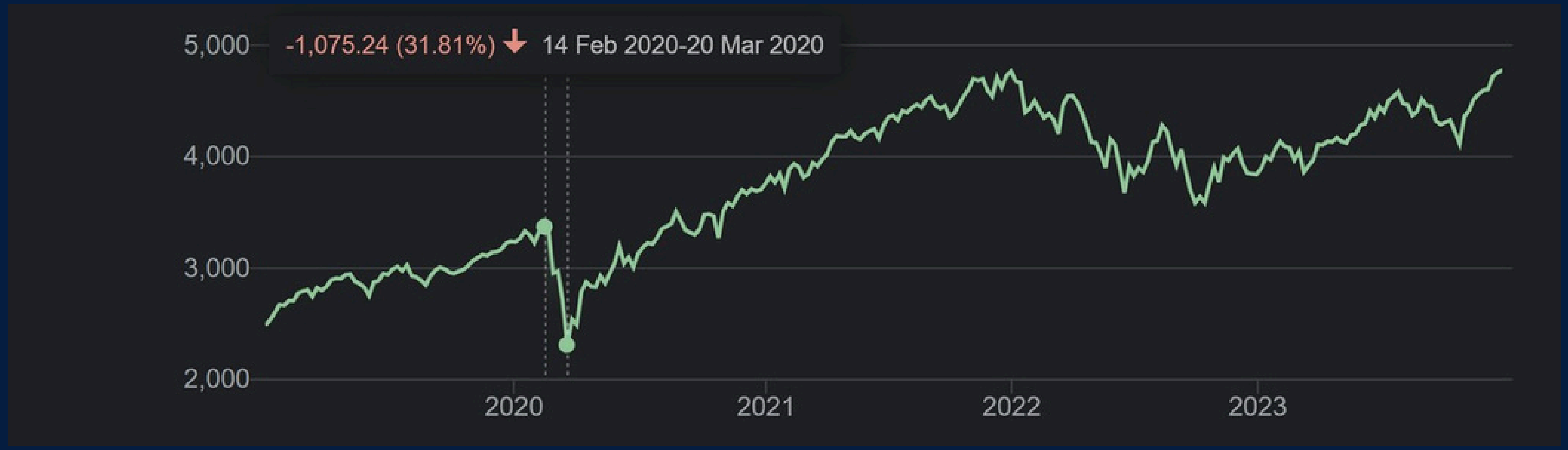
Two consecutive quarters of negative economic growth is a good rule of thumb to indicate a recession.

When GDP is shrinking sharply and/or consistently, that usually means a recession is happening.

The U.S. economy contracted 5% in the first quarter of 2020, then contracted a record 31.4% in the second quarter.

STOCK MARKET:

Dow Jones Industrial Average



S&P 500

As expected, during recession, stock market crashes as investors pull out their money because of fear of loss. Mostly, before recession, stock prices are at their peak.(here also it can be observed)

UNEMPLOYMENT RATE:

Unemployment is a powerful indicator but not in predicting recessions as job losses tend to happen mid-recession, not at the outset or in advance. In U.S., it started to increase from March 2020 (4.4%), peaked in April (14.7%) and returned to healthy rate (5%) in Aug 2021. Also, UR was minimum before recession since last 50 years suggesting that we are at peak position of economic cycle and a down trend might follow up.

MANUFACTURING:

The ISM Manufacturing Index is a leading economic indicator for the level of economic activity in the manufacturing sector in the United States.

As seen from graph, during recession (red box), it went below 50 indicating contraction of manufacturing sector (economic downfall).

POST-RECESSION SITUATION

- The 2020 economic decline occurred within three months, much faster than the Great Depression's four years. Although the economy grew 33.4% in Q3 and 4% in Q4, it couldn't fully recover earlier losses.

- Signs of recovery emerged: unemployment dropped to 5% by April 2021, consumer spending rose from Q3 2020, and ISM manufacturing PMI crossed 50 by Q3 end, indicating expansion.

- Retail sales improved by December 2020 but hadn’t normalized; the stock market showed strong recovery with the Dow hitting 29,950.44 on November 16, 2020. Various monetary and fiscal measures supported the recovery.

POST-RECESSION SITUATION

U.S. Monetary policies:

- In March 2020, the Fed cut the federal funds rate twice—from 1.25% to 0.25%—and reduced the discount rate by 1.5% to 0.25% on March 15.

- To boost liquidity, the Fed launched repo operations totaling $2 trillion and implemented Quantitative Easing, buying securities to lower interest rates and increase money supply.

- In response to recovery and rising inflation, the Fed raised rates sharply in 2022 and 2023, and introduced various now-discontinued lending programs under the CARES Act using Treasury's Exchange Stabilization Fund.

POST-RECESSION SITUATION

U.S. Fiscal policies:

- CARES Act (March 27, 2020): $2.2 trillion stimulus including direct payments, expanded unemployment benefits, small business loans, and healthcare funding.

- Paycheck Protection Program and Health Care Enhancement Act (April 24, 2020): $484 billion package providing additional PPP funding, healthcare support, and testing funds.

- HEROES Act (Proposed May 15, 2020): $3 trillion proposed relief package aiming to support state and local governments, offer hazard pay, and provide more direct payments.

- Consolidated Appropriations Act, 2021 (December 27, 2020): $900 billion relief including second round of direct payments, extended unemployment benefits, small business aid, and vaccine distribution funding.

THE END