

CoVID-19 and the Recovery of the US Economy

The first case of Coronavirus, later named COVID-19, was reported back on New Year's Eve in 2019.¹ Since then, the virus has viciously spread from Wuhan, China to other parts of Asia, and to every other part of the world. This pandemic is a catastrophe we have not witnessed at this magnitude in our lifetime. More than 6 million people have been infected as of June 6 and although some countries have been able to slow, and flatten the curve of the spread of this virus, total cases of people infected still continue to increase. Different measures have been taken by countries on stopping the spread of the virus. However, some of these measures indefinitely paused economic activity and increased the rate of unemployment. This downturn is due to a social distancing policy which has caused many to stop going outside unless necessary. In the US, social distancing and limiting what can be open and detailing what is essential and nonessential business has caused 20 million people to lose their jobs and millions of people each week to apply for unemployment benefits between March and June of 2020.² Likewise, the spread of Covid-19 led to overall stock price plummeting and stock market indexes such as the S&P 500 to fall by 33 percentage points in the span of a few days.³ Economists have been predicting possible trajectory for economic recovery and have introduced Z-shaped, V-shaped, U-shaped, Nike Swoosh-Shaped, W-shaped, and L-Shaped graphs to explain GDP recovery. Although all these GDP recovery predictions can be trajectories of economic recovery, the U-shaped curve, in my opinion, will be the most likely out of all of them.

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[https://wwwnc.cdc.gov/eid/article/26/6/20-0251_article#:~:text=The%20outbreak%20of%202019%20novel,China%20\(1\).](https://wwwnc.cdc.gov/eid/article/26/6/20-0251_article#:~:text=The%20outbreak%20of%202019%20novel,China%20(1).)

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<https://www.marketwatch.com/story/us-regains-25-million-jobs-in-may-bls-says-and-unemployment-falls-to-133-in-shockingly-upbeat-report-2020-06-05>

³ https://en.wikipedia.org/wiki/Financial_market_impact_of_the_COVID-19_pandemic

Sheiner and Yilla (2020) introduce a few projections of recovery for the United States' GDP. These projection graphs are Z-shaped, V-shaped, U-shaped, Nike Swoosh-Shaped, W-shaped, and L-Shaped. In the Z-shaped recovery projection, GDP initially decreases but overall has an upward trend. This upward trend is due to preventive measures such as lifting stay-at-home orders which results in pumping the economy resulting in the GDP increasing as a rebound. After a period of economic activity, the rebound from lifting the stay-at-home order settles. Eventually, the growth of GDP follows the upward trend that it has been following for the long-term. V-shaped recovery is similar to Z-shaped recovery except that it does not have the rebound after the economy restarts. As soon as the growth of GDP gets back to the track that it has been following in the past, GDP keeps following the upward trend with no bump. U-shaped recovery is similar to V-shaped recovery except that the economic recovery is slower than the V-shaped one. That is, the recovery after the decrease in GDP growth is a curve rather than a straight line. The Nike Swoosh-Shaped curve occurs from a rapid economic recovery and the following slowdown of that recovery. Yet, economic activity still takes some time to get back to what it would have been without the COVID-19 pandemic. The W-shaped recovery happens when there is a second or more round of economic closure. The GDP would once go up after a downfall, then another closure decreases the economic rate again. The L-Shaped recovery graph is the most pessimistic out of the economic projection graphs mentioned. The L-Shaped details that the influence of the economic closures last indefinitely. This shape is based on the assumption that the GDP will keep following the upward trend while also keeping the economic loss from COVID-19 forever.

I believe GDP recovery will look similar to a U-Shape. According to Sheiner and Yilla (2020), the potential damages are from these categories: household's willingness and capability to spend, state and

regional governmental finances, businesses, and human capitals. The damages in these four categories cause GDP to recover in the U-shape.

Sheiner and Yilla (2020) explain that when people lose their jobs, they start using their savings and borrowing more money. This means that people now have money to repay and a credit score to build up. Recovery in household finance takes time. Even if people are able to get employed again, they may not have the capability to repay the money they borrow. In other words, they would not be ready to boost their production and consumption as they used to. Therefore, it would take some time to bring the household's economy to the same level as before.

Furthermore, in regard to state and local government's finance, Sheiner and Yilla (2020) mention that the revenue from income and sales tax would decrease and the demand for welfare programs such as Medicaid would increase. They also mention that the past record suggests that state and local governmental employment needs 10 years to rebound to before-2008 recession level. I believe the U-shaped curve makes sense because 10 years seems like a long enough period.

The stay-at-home order has impacted businesses, especially small businesses severely. Most of these business owners may have lost local customers who have supported them due to a highly decrease in foot traffic. Unfortunately, these businesses who are impacted the most are the most susceptible to go bankrupt. Opening a new business takes a lot of time. Closing does not. Once a business is closed, it would take longer to reopen them than closing them. Hence the economic recovery graph for business would look like U-shaped curve because economic recovery is slow after there is a decrease.

The same logic previously mentioned can be applied for the human capital loss. When economic hardship hits businesses, business owners minimize their budget by cutting human capital. Getting a job is a long-term process whereas losing a job takes a moment. Therefore, the loss in human capital caused by unemployment does not recover as fast as the gain in human capital does. This means that human capital loss also creates a U-shaped recovery in GDP.

In conclusion, the shape of GDP recovery will look U-shaped because of the factors from household spending, governmental finances, private sectors' business, and human capital. Although, Z-shaped, V-shaped, Nike Swoosh-Shaped, W-shaped, and L-Shaped GDP graph projections may help create a picture of how the GDP will go in the coming months, the U-shaped graph more accurately paints the future of GDP growth.

Reference:

Sheiner, Louise, and Kadija Yilla. *The ABCs of the Post-COVID Economic Recovery*. 4 May 2020, www.brookings.edu/blog/up-front/2020/05/04/the-abcs-of-the-post-covid-economic-recovery/.