

# The shape of things to come

What is the shape of recovery from the Covid-19 recession? The range of possibilities is unusually wide because so much hinges on what happens with public health and the timing of recovery.

So what is more likely? **BY CHUANG PECK MING**

### V-SHAPED

This assumes that customers will return immediately and employees are ready to provide products and services. Companies will return to the normal path they were on in January 2020.

A V-shaped recovery requires enough testing to be set up for people to go back safely to work without creating another surge in cases; and there's effective treatment of existing cases. Economic damage must also be limited by rapid government protection of jobs and businesses, plus help for consumers.

A V-shaped recovery was earlier thought possible because China appeared to have tamed the virus from spreading and the Chinese economy seemed to have bounced back quickly.

Around 38 per cent of US companies polled had believed a V-shaped recovery would happen in the third quarter. But we are now into the third quarter with global Covid-19 cases exceeding 16 million (as of July 26). For J P Morgan's chief economist Michael Feroli, "V is for Very Unlikely".

### U-SHAPED

The most hopeful scenario for now, because the virus has continued to spread worldwide with no sign of slowing. While economies are re-opening, some are facing another lockdown because of a second wave of outbreak.

While there is a release of pent-up demand driven in part by government stimulus, consumers won't race back to the shops or restaurants.

Factories and other workplaces take time to return to full capacity and not every job lost in the crisis is won back. Time is needed to repay debts built up during the crisis.

The global recovery will eventually materialise, but not until late 2020 or beyond. Even after the health risks recede, economies will take a slow climb back to where they would have been.

### L-SHAPED

If everything goes wrong in dealing with the Covid-19 crisis, an L-shaped recession is likely. Failure to control the virus will lead to years-long lockdowns and sluggish growth, if not outright stagnation.

As of now, the virus has forced social distancing rules to remain in most economies in the second half of the year.

While there is an uptick in economic activity, the recession can linger longer than anticipated, or the recovery will be stretched out. In this scenario, people continue to cut back on services spending.

Debts built up become hard to pay down, setting off a spiral of default and business bankruptcies that raise fears of a credit crunch.

For many economists, this is a worst case scenario. Polls show only 8 per cent of US companies see an extended recession that lasts till 2022, or longer.

An L-shaped prolonged recession is unlikely because the global economy is already showing a partial rebound. Data is limited but it so far jibes with the idea that the recovery will be more gradual than the collapse.

### W-SHAPED

If the response to the pandemic is a first round of openings that's followed by a surge in Covid-19 cases and another round of closures, the recovery could be W-shaped. It could be that the global economy will partly bounce back before plunging again amid a second wave of infections as economies reopen and people face renewed exposure to the coronavirus, or if the virus stages a comeback in the last quarter.

A W-shaped recovery is still on the table though not the most-likely scenario, because it hinges on two totally unknowns: whether there is another spike in infections, and whether economies will shut down again if that happens.

### Z-SHAPED

This happens when the economy in a downturn bounces back up above the level it would have been in a pre-pandemic baseline, thanks to pent-up demand that fans a temporary boom.

A good part of the GDP foregone during lockdowns was simply delayed and is made up once the risk from the pandemic passes.

### 'NIKE SWOOSH'-SHAPE

This takes the shape of businesses and spendings resuming slowly as limits are carefully eased.

The level of output stays beneath the level of its pre-crisis trend well into 2021 and people stay cautious of over-spending, especially if they have debts. The sharp downturn will be followed by a slightly flatter upturn that ultimately goes beyond the pre-coronavirus level of GDP.

### UNCONVENTIONAL SHAPED RECOVERY?

Economists are not ruling out a recovery that looks very different from the alphabet shapes. The latter, with their sharp bounces and mean reversion assumptions, seem to belong to a 1945-2007 world; post-2008 structural trends have rendered them mostly irrelevant.

The U-shaped view seems to ignore 10 years of lower growth rates. Analysts at Robeco Institutional Asset Management think the Arabic letter "Baa" is a more apt illustration of the projected recovery.

What lies ahead is so wildly uncertain that it makes prediction dicey. Second-wave virus outbreaks, changes in consumer behaviour or a spike in unexpected business closures could reshape the future.

Some forecasters have resorted to a range of possibilities instead of declarative forecasts. They say it's more helpful for policymakers to prepare for every eventuality, as it is really hard to model a virus or a pandemic, the likes of which have not been seen in 100 years. Analysts who venture a guess increasingly favour a non letter shape as their base-case: the checkmark.

Official baseline expectations suggest that growth will contract slightly in the first quarter and sharply in the second, before making a gradual rebound. The climb back will be slower than the drop, making the trajectory look like a checkmark on a graph. Perhaps, the economy's future is a question mark.

