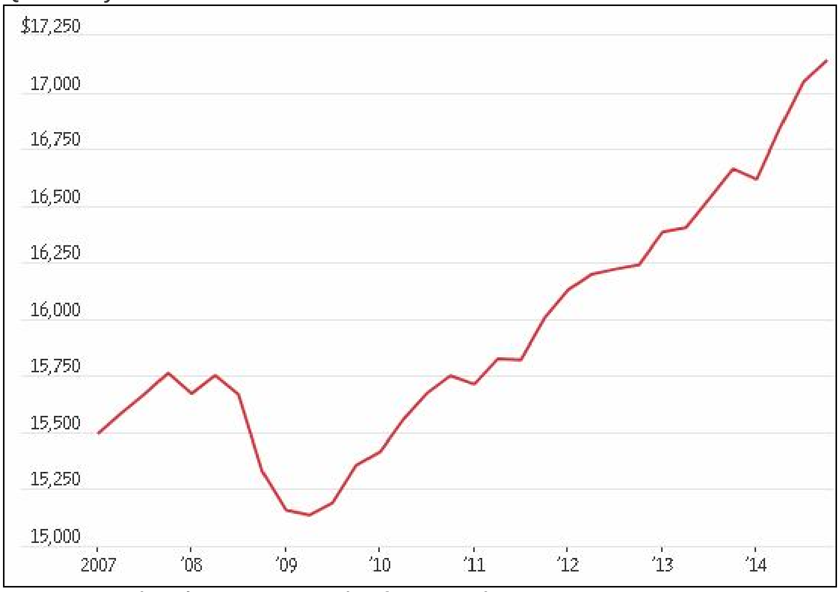
Why the Economic Recovery Will Be More of a ‘Swoosh’ Than V-Shaped

Paul Hannon *and* Saabira Chaudhuri, *The Wall Street Journal*, May 11, 2020

Some policy makers predict a large drop followed by a painfully slow recovery, similar in shape to the Nike logo

Swoosh-Shaped Recovery
The U.S. recovery from the 2008 recession was swoosh-shaped
Quarterly GDP in billions of 2012 dollars



Source: Federal Reserve Bank of St. Louis

Until recently, many policy makers and corporate executives were hoping for a V-shaped economic recovery from the coronavirus pandemic: a short, sharp collapse followed by a bounce back to pre-virus levels of activity.

Now, however, they expect a “swoosh” recovery.

Named after the Nike logo, it predicts a large drop followed by a painfully slow recovery, with many Western economies, including the U.S. and Europe, not back to 2019 levels of output until late next year—or beyond.

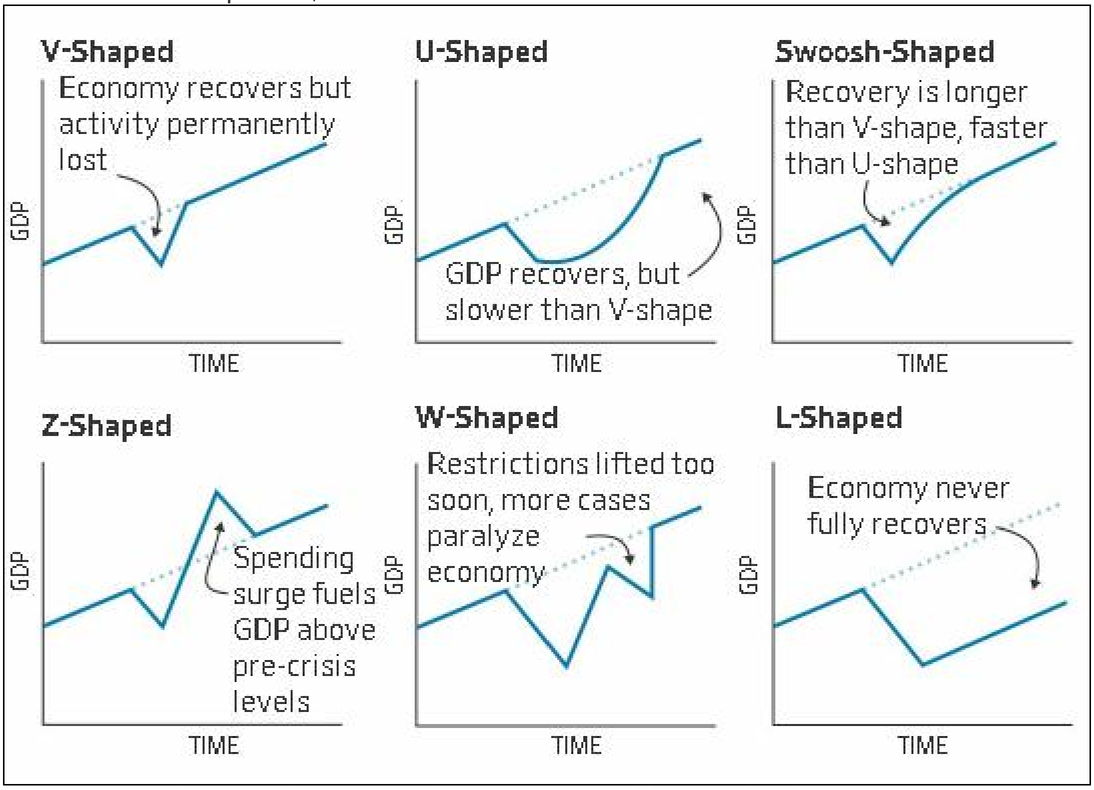
The sobering new view reflects the depth of the contraction now being recorded for the spring, as well as more evidence that soaring joblessness and months or years of social distancing—particularly in the West—will depress economic activity well into next year.

“This is not going to be a quick recovery,” said Mark Schneider, chief executive of Nestlé SA, the world’s biggest packaged foods maker, recently. “This is going to be a several-quarter, if not several-year kind of process.”

Airlines don’t expect passenger numbers to return to pre-coronavirus levels until 2022 at the earliest. Social distancing will make it harder to go to the movies, eat out or visit beauty salons until a vaccine is developed.

Consumer goods companies anticipate that shoppers will switch to cheaper items and forgo splurges, likely remaining tightfisted long after lockdowns end. Some corporations have already announced fresh layoffs for the fall, prolonging the joblessness surge that has already left more than 30 million Americans unemployed.

Recovery Alphabet
Economists compare the shape of potential recoveries
to letters of the alphabet, and a swoosh



Note: Recoveries are using sample data Source: Brookings Institution

Among the reasons for the darker outlook is that lockdowns are being eased more slowly than originally expected in some countries. Even when they do lift, some large-scale activities—such as concerts and professional sports—won't be possible again for months. Retailers and restaurants that have reopened are allowing in fewer customers at a time due to social distancing. And consumers worried about infection risks may take a long time to return to their old habits.

According to a survey by market research group Coresight Research, more than 70% of Americans expect to avoid some public spaces after the lockdowns ease, with more than half saying they expect to stay away from shopping malls. Of those, almost a third expect to stay away for more than six months. In a separate Coresight poll, more than half of respondents plan to scale back on Christmas shopping.

The possibility of the virus resurging in the fall or next winter has prompted some analysts to warn of potential setbacks, which could make even a "swoosh" recovery look jagged rather than smooth.

"All the scenarios we had that were V-shaped, we parked," said Graeme Pitkethly, chief financial officer at Unilever PLC, maker of Hellmann's mayonnaise and Lipton tea. "We're probably going through an extended period of living with Covid," the disease caused by the coronavirus.

The outlook is so uncertain that a string of large companies have suspended financial guidance for the year.

"While comparisons can certainly be drawn to weather-related disruptions or natural disasters or recessions, the reality is that we have never seen so many factors at play at the same time on such a global scale," said Michele Buck, CEO of Hershey Co., which has withdrawn its fiscal 2020 guidance.

W-Shaped Recovery
After bouncing back from the 2008–2009 financial crisis,
the eurozone's economy contracted again in 2011–2012.
Annualized change in the eurozone's quarterly GDP

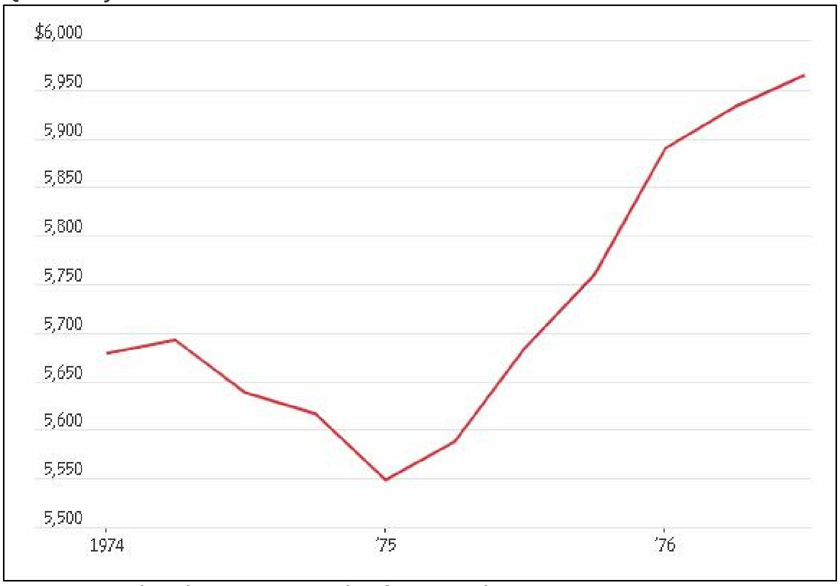
Source: Eurostat

Months or even years of social distancing will cascade through economies. The commercial real-estate sector, already struggling with troubled hotels and retailers, is facing questions about office space since some companies in the U.S. and Europe have already told employees they won't return to the office for several months. On Thursday, Facebook said its employees can work from home for the balance of 2020.

"The crisis has showed that we can work in different ways and maybe we don't need all the offices that we currently have around the world," said Dirk Van de Put, CEO of Mondelez International Inc. which makes Oreo cookies and Trident gum.

Airlines have already started to take permanent steps to reshape their businesses as they prepare for a yearslong recovery, rather than a quick return to business as usual.

V-Shaped Recovery
The U.S. experienced a V-shape recovery after a recession in 1974
Quarterly GDP in billions of 2012 dollars



Source: Federal Reserve Bank of St. Louis

United Airlines Holdings Inc. on Monday said it plans to cut about 30% of white-collar jobs starting in October. The airline had agreed not to lay off workers through the end of September as a condition of receiving some $5 billion in aid from the federal government.

In Europe, British Airways, which doesn't expect to return to 2019 passenger levels for several years, will cut up to 12,000 staff.

Such cuts are eating into investment.

Aircraft makers Boeing Co. and Airbus SE have slashed production, while General Electric Co., which makes engines for both, will cut 25% of the workforce in its jet engine business. Robert Bosch GmbH, the world's biggest auto supplier by sales, said last week that it expects global auto production to decline as much as 20% this year.

Deutsche Bank expects only 30-40% of lost output and employment in the U.S. will be recovered by year-end. It forecasts that the U.S. economy will shrink 7.1% this year and won't return to its pre-virus size until 2022 or later.

In a survey of 57 economists, the European Central Bank found that they expect the eurozone's economy to shrink by 5.5% this year, and grow by just 4.3% next year. They don't expect pre-virus levels of activity before 2022.

"There is no such thing yet as a new normal. Nobody has the faintest idea of what the new normal looks like," said Unilever CEO Alan Jope.

The relatively low-growth trajectory that many rich countries were on before the crisis could also limit how strongly they bounce back afterward.

China, where the coronavirus pandemic peaked earlier than in the West and which lifted many restrictions in March, could be a harbinger for the U.S. and Europe.

China appears to be emerging gingerly from its period of hibernation, with consumers staying cautious. After a 21% decline year-on-year in the first two months of 2020, Chinese retail sales recovered somewhat in March, down 16%. Companies such as L'Oréal SA, Nike Inc. and LVMH Moët Hennessy Louis Vuitton SE all said Chinese demand was encouraging and should return somewhat in the spring.

However, Unilever's Mr. Pitkethly says that while 80% of restaurants in China have reopened, they are only operating at 50%-70% capacity because of social distancing. He thinks about 15% of restaurants are likely to never reopen.

"I think China's back to some degree of normalcy but they're operating in a very 'living with Covid environment,'" he said. "They're seeing some stabilizing but it's not like before."

Moreover, a survey of purchasing managers in its services sector found that activity continued to decline in April, as did job losses.

Businesses reported that overseas demand was weak. Even though no longer in lockdown, China suffered because most of the rest of the world is still locked down. A clearer picture will likely emerge when data becomes available for May, when most of the world's lockdowns are set to ease.

"It's a fair bet that the global economy is going to be deeply challenged in the years ahead," said Mr. Pitkethly on an investor call.

—William Boston in Berlin and Ben Katz in London contributed to this article.