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A Recovery That Started Out Like a V Is Changing Shape

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Greg Ip, *The Wall Street Journal*, July 1st, 2020

Indoor shopping malls in New Jersey like Garden State Plaza in Paramus reopened on Monday after their Covid-19 shutdowns.

Photo: Seth Wenig/Associated Press

By

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After recovering rapidly from mid-April through mid-June the economy has shown signs of sputtering in the past two weeks.

The flattening may reflect a pullback by consumers in states where cases of Covid-19 have shot up, the exhaustion of pent-up demand driven by stimulus checks, or simply a pause after the first wave of low-risk workplaces were allowed to reopen.

Regardless of the reason, multiple data sources show that after an initial V-shaped plunge and partial rebound, activity has since flat-lined, resembling the reverse image of the square-root symbol (√).

“It was a straight line up for the better part of two months,” said Aneta Markowska, chief economist at Jefferies, a financial-services company that compiles a daily index of high-frequency data on mobility, jobs and other activity. “So this is definitely a notable slowdown that began around June 17th.”

Recoveries seldom proceed in a straight line and it’s too soon to write this one off. Its path this time has been especially unpredictable because it depends on the pandemic and the social-distancing measures undertaken to halt its spread.

From March until mid-April, the economy contracted at unprecedented speed as states ordered nonessential businesses to close and people to stay home. Then, daily cases and hospitalizations began to drop in the hardest-hit states and stimulus checks for up to $1,200 per adult arrived in bank accounts. In late April, some states began to lift restrictions and stores reopened. Spending, in particular by lower-income families, rose sharply, returning to prepandemic levels for some categories.

In early June, cases began to rise in some states that had reopened early, notably Arizona, Texas and Florida. California, the first state to shut down, recently saw caseloads surge as it slowly reopened.

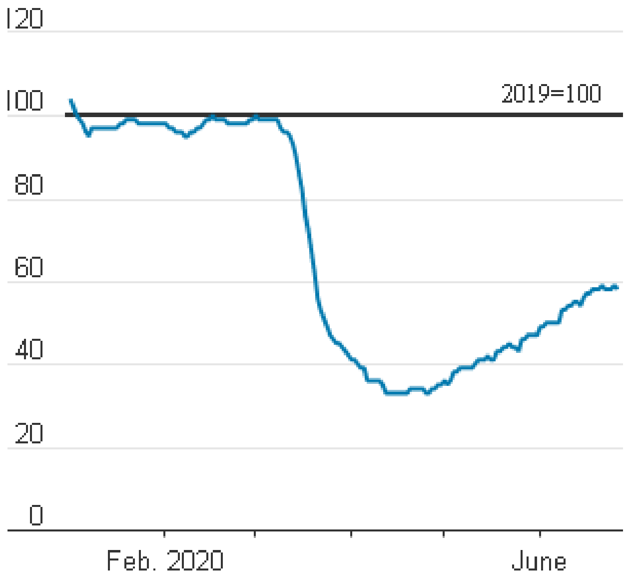
Initially, consumers didn’t respond. In fact, the connection ran the other way: Spending in restaurants tended to predict new virus cases roughly three weeks later, according to Jesse Edgerton, an economist at J.P. Morgan Chase, citing anonymized data from the bank’s credit-card customers. That suggests restaurants and bars, with their prolonged close contact and loud talking, are potent channels for spreading the disease.

The 'V' Starts to Roll Over

Economic Activity Index

Note: Index components include public transit ridership, traffic congestion, flight activity, foot traffic at discretionary verticals, state unemployment web traffic, online job listings, small business hours and restaurant bookings

Source: Jefferies



Then last week spending dropped, the Chase card data show. The decline is a bit more pronounced in states with faster-growing cases, like Arizona and Florida, but not uniformly so, Mr. Edgerton said. Spending was strong in Mississippi, where cases have grown a lot, but weak in Kentucky, where they haven't.

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As Virus Cases Rise, a Florida Restaurant Stays Flexible to Stay Open
Jacksonville Beach restaurant owner Don Nicol explains how he is keeping his staff and customers safe from the coronavirus, while also complying with state occupancy regulations, as Florida reached new case records in June. Photo: Don Nicol/TacoLu

Ms. Markowska was more emphatic: "There's a clear decoupling in activity between these hot-spot states in the Sunbelt and the Northeast where activity continues to improve. Texas, Arizona and Florida have not just leveled off but are outright contracting. [For them,] what began like a V is morphing into a W."

The economy officially entered recession in February and a recovery may have begun in April. But whether it continues depends, first, on the virus and social distancing, and second, on income growth, which in turn depends on jobs and government stimulus.

After collapsing by 22 million in March and April, employment rose, surprisingly, by 2.5 million in May. Economists think it rose by 2.9 million in June, according to a survey by The Wall Street Journal. The Labor Department reports the June data on Thursday. Economists' estimates are unusually wide, ranging from 2 million to 7 million, and the unemployment rate has been harder to predict because of misclassification errors by survey takers.

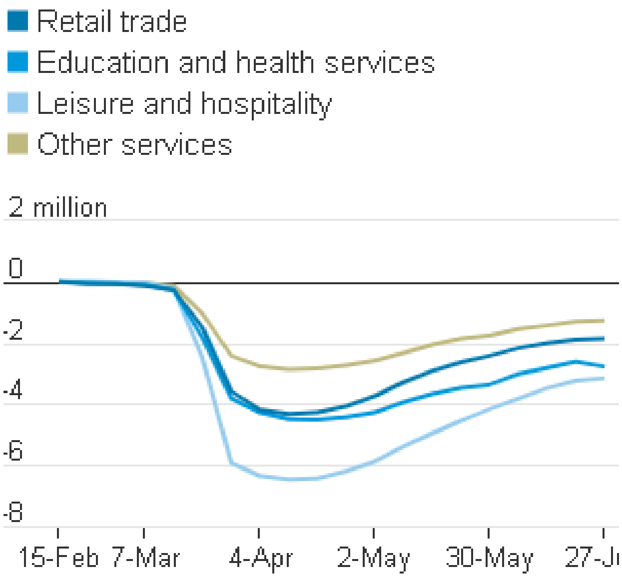
In any case, the jobs data are a snapshot of the second week of June, and since then, hiring appears to have slowed. Data from Homebase, which supplies scheduling software to small businesses, suggests small-business employment rose rapidly from mid-April to mid-June, as businesses reopened, said André Kurmann, an economist at Drexel University who with two co-authors has analyzed the Homebase data.

But the recovery, he added, is “now all but stalled: Employment and the proportion of businesses open last week is flat.”

Hiring Hiatus

Change in small business employment since Feb. 15

Source: Andre Kurmann, Etienne Lale, Lien Ta, Homebase



In the past week, Florida and Texas have ordered bars to close or stop serving alcohol; Houston issued a stay-at-home order, and California Gov. Gavin Newsom ordered bars and restaurants in 19 counties to close. Those moves alone are probably not enough to derail the recovery.

But if case counts keep climbing, states might impose more restrictions, or people will simply stay home. If hiring grinds to a halt in July, that will deprive households of income just when enhanced unemployment-insurance benefits are due to expire.

IHS Markit, an economic-analysis firm, sees a 20% chance that a second wave of infections could result in a W-shaped recovery. “Official backtracking on the relaxation of restrictions as well as voluntary pullback on the part of consumers could cause spending to weaken again sharply, throwing the economy back into a brief two-quarter recession,” it said.

If the recovery does resemble a reverse square-root symbol, that would likely be in line with most economists’ forecasts. Indeed, it was the most popular prediction of academic economists surveyed by the University of Chicago’s Initiative on Global Markets.

Being economists, however, they took pains to use the most abstruse expression available, referring to it as a “reverse radical.”

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