U.S. Economy Faces Long Recovery From Coronavirus Effects, Experts Say

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The U.S. economy could take the better part of a decade to fully recover from the coronavirus pandemic and related shutdowns, a U.S. budget agency said, as a series of surveys pointed to continuing weakness in global manufacturing.

The Congressional Budget Office, a nonpartisan legislative agency, said the sharp contraction triggered by the coronavirus caused it to mark down its 2020-30 forecast for U.S. economic output by a cumulative $7.9 trillion, or 3% of gross domestic product, relative to its January projections. GDP isn't expected to catch up to the previously forecast level until the fourth quarter of 2029, the CBO added.

The roughly $3.3 trillion in stimulus programs enacted by Congress since March will only "partially mitigate the deterioration in economic conditions," the CBO said.

"After you get the initial bounce of economic activity simply from removing the lockdowns, I think what we'll see is an economy that is running at a level of activity notably below where we were prior to Covid," said Michelle Meyer, chief U.S. economist at BofA Merrill Lynch. "It's going to take a long time to heal. There will be scars as a result of such a painful shock of the economy."

The CBO analysis came as new surveys showed that factories in the U.S. and abroad continued to reduce output and shed jobs in May, though the pace of deterioration moderated as governments moved to ease coronavirus-related restrictions on their economies.

Surveys of purchasing managers at manufacturers in the U.S., Asia and Europe offered signs that the decline in global factory activity is starting to bottom out after the record fall seen in April. But sentiment remained negative, suggesting any recovery in the months ahead could be tentative.

The U.S. Institute for Supply Management's manufacturing index for May rose to 43.1 from an 11-year low of 41.5 in April. The index's core components all remained well below the 50 level that marks the threshold between contraction and expansion. A majority of survey respondents said both production and new orders worsened in May from April, and two-fifths reported lower employment levels.

The factory indexes add to other signs the U.S. and other countries may have reached an economic bottom, though recoveries could be slow. Unemployment is up sharply across the globe. Services industries, hit particularly hard by the virus, are just starting to recover. And consumer spending, an important catalyst for the U.S. and other economies, remains weak.

“We’re probably past the worst in terms of rates of decline, but things are still quite bad,” said Joshua Shapiro, chief U.S. economist at Maria Fiorini Ramirez Inc. He said forward-looking aspects of the ISM survey are still “extremely weak,”

The CBO now expects U.S. GDP to be 5.6% smaller in the fourth quarter of 2020 than a year earlier, a sizable markdown from its 2020 projection of 2.2% growth made at the end of 2019 before the pandemic.

While the economy is expected to resume growing after this year, the pace of growth likely won’t be fast enough to quickly make up for the ground lost during the coronavirus pandemic. The difference between the CBO’s latest projection for GDP and its January forecast “roughly disappears by 2030,” adjusted for inflation.

The outlook for weak manufacturing is one factor weighing on the ability of global economies to turn around.

Tim Fiore, who manages the ISM’s factory survey, said he expects further improvement in June as state governments allow more nonessential economic activities to resume. But until a vaccine or an effective treatment for Covid-19 becomes available, social-distancing efforts will limit the number of workers allowed on factory floors, likely restraining production.

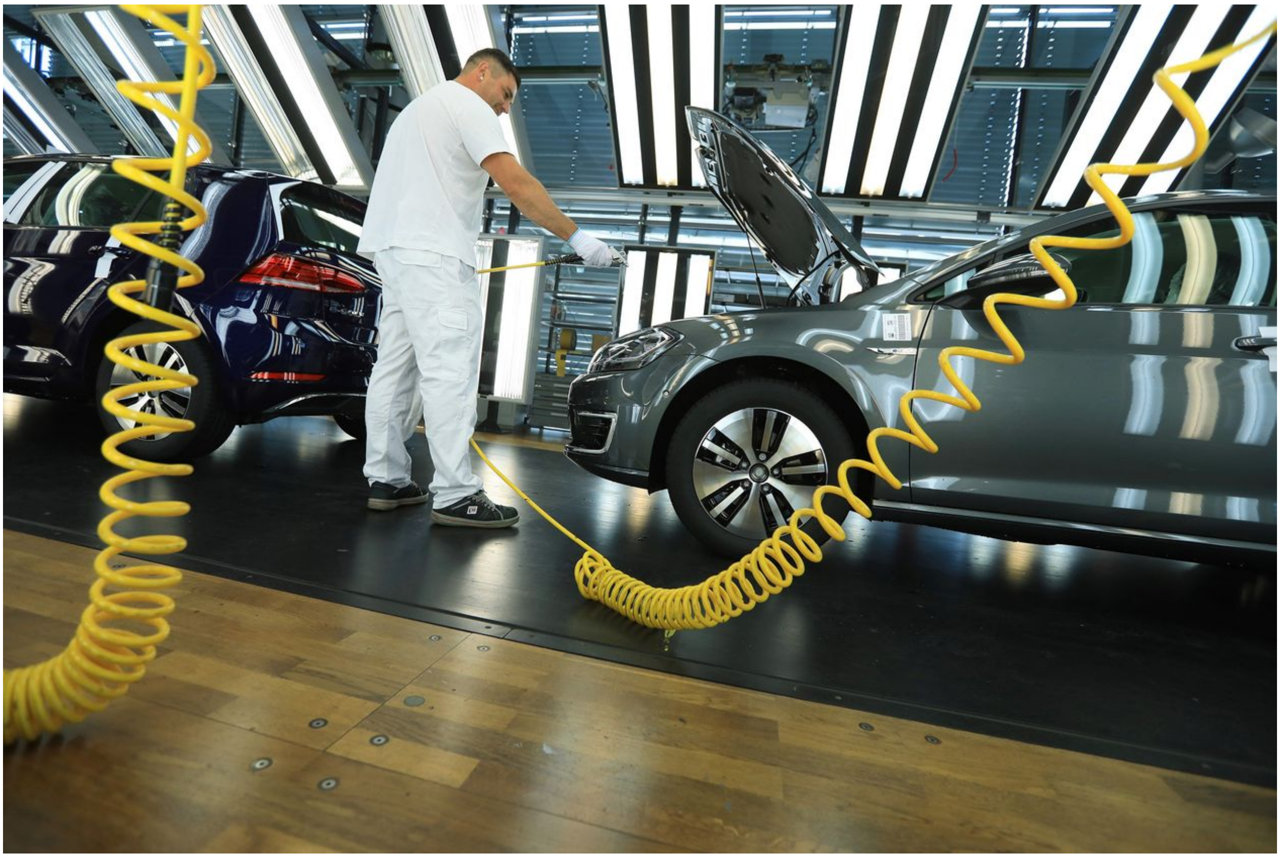
Only in China, the first major economy to begin reopening after the novel coronavirus outbreak, did factories report an increase in activity. But the surveys suggested that its nascent economic recovery is already beginning to stall, with export orders falling sharply amid continued global efforts to contain the pandemic.

The surveys indicate the worst might be over for manufacturers, and activity could start to increase in coming months. But the road back to the levels of output and employment seen at the end of last year is set to be long and bumpy.

“Whether growth can achieve any serious momentum remains highly uncertain, however, as demand looks set to remain subdued by social-distancing measures, high unemployment and falling corporate profits for some time to come,” said Chris Williamson, chief business economist at IHS Markit, the data firm that compiles most of the surveys outside the U.S.

In many countries, factory managers reported that restrictions on movement continue to make it difficult for them to operate at normal levels of output. But they also reported that weak demand is holding them back, with new orders continuing to fall.

In a sign that factories don't expect conditions to improve rapidly, many reported further job cuts. In India and South Korea, those reductions in payrolls were the largest on record.



A Volkswagen factory in Dresden, Germany. Manufacturing slid at a record pace in April but surveys of purchasing managers indicate the decline slowed in May.

Photo: Krisztian Bocsi/Bloomberg News

One problem highlighted by the surveys is that even where local restrictions have been removed, or were never very severe to begin with, the return to normality is being impeded by weak export demand.

China—the first country exposed to the virus—entered lockdown earlier than other countries. It also exited its lockdown earlier, but May surveys of purchasing managers pointed to a large decline in export orders.

That was also true of South Korea, which chose not to impose mandatory lockdowns and focused instead on widespread testing and tracing of those infected by the virus, and the people with whom they had come into contact.

Separate figures released on Monday showed South Korea's May exports were down 23.7% from a year earlier to $34.86 billion following the prior month's revised 25.1% contraction.

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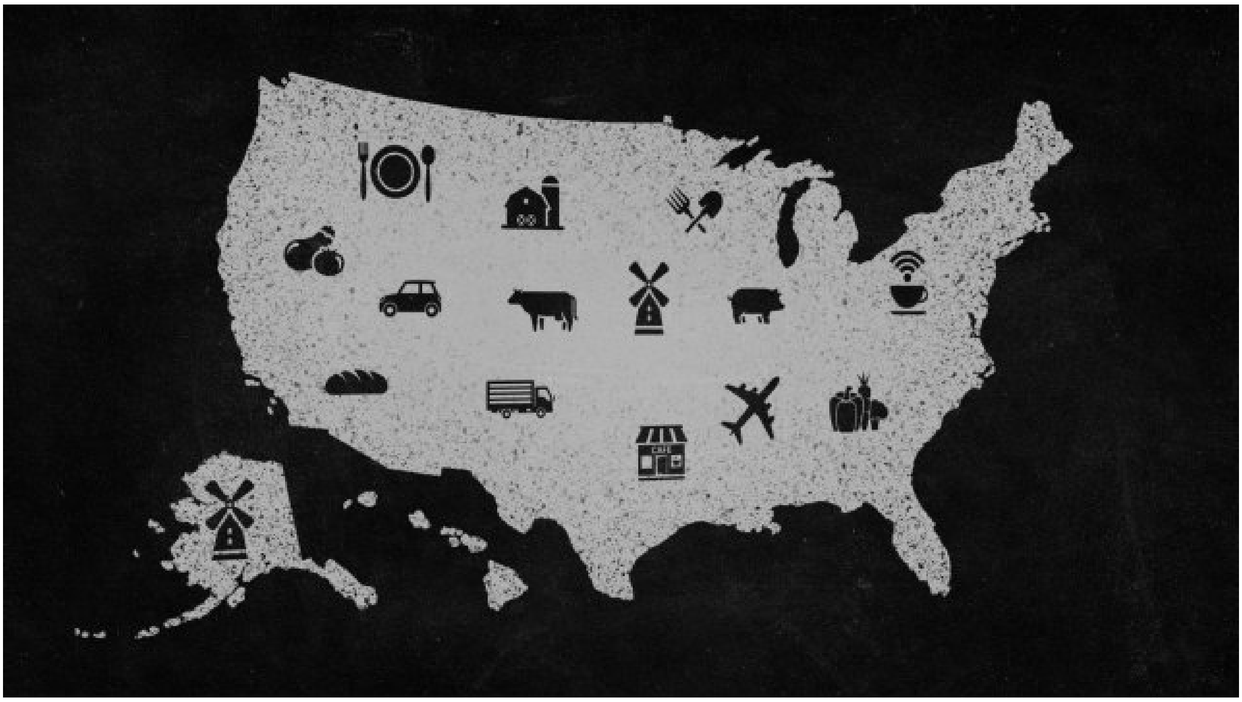

How GDP Tells Us if We're in a Recession

The U.S. economy contracted 5% in the first quarter of 2020. With the coronavirus crisis continuing into the summer, economists are expecting an even steeper contraction in the second quarter. WSJ's Carter McCall explains how GDP is calculated and how the coronavirus is impacting the equation. Photo Illustration: Jacob Reynolds/WSJ

China's Caixin general manufacturing purchasing managers index rose to 50.7 from 49.4, a sign that manufacturing activity increased after having fallen in April. A reading above 50.0 indicates an increase in activity, while a reading below that level indicates a decrease.

However, other manufacturing powerhouses continued to experience deep declines. Germany's PMI rose only slightly, to 36.6 from 34.5, while Japan's PMI fell to 38.4 from

41.9.

Across the eurozone, Italy moved closest to a manufacturing recovery, as its PMI rose to 45.4 from 31.1.

According to the CPB Netherlands Bureau for Economic Policy Analysis, global industrial production was 4.2% lower in the first three months of the year than in the final quarter of 2019. The surveys of purchasing managers suggest the decline in the three months through June might be even larger.

Corrections & Amplifications
China's Caixin Purchasing Managers Index rose. An earlier version of this article incorrectly called it the Caixan Purchasing Managers Index. (Corrected on June 1)

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