Coronavirus: What is a V-shaped economic recovery and how likely is it really?

What about a W-shaped or L-shaped or checkmark-shaped recovery?

SAN FRANCISCO, CALIFORNIA – MARCH 24: The Crepe House on Polk Street is boarded up as the coronavirus shutdown enters its second week, Tuesday, March 24, 2020. (Karl Mondon/Bay Area News Group)

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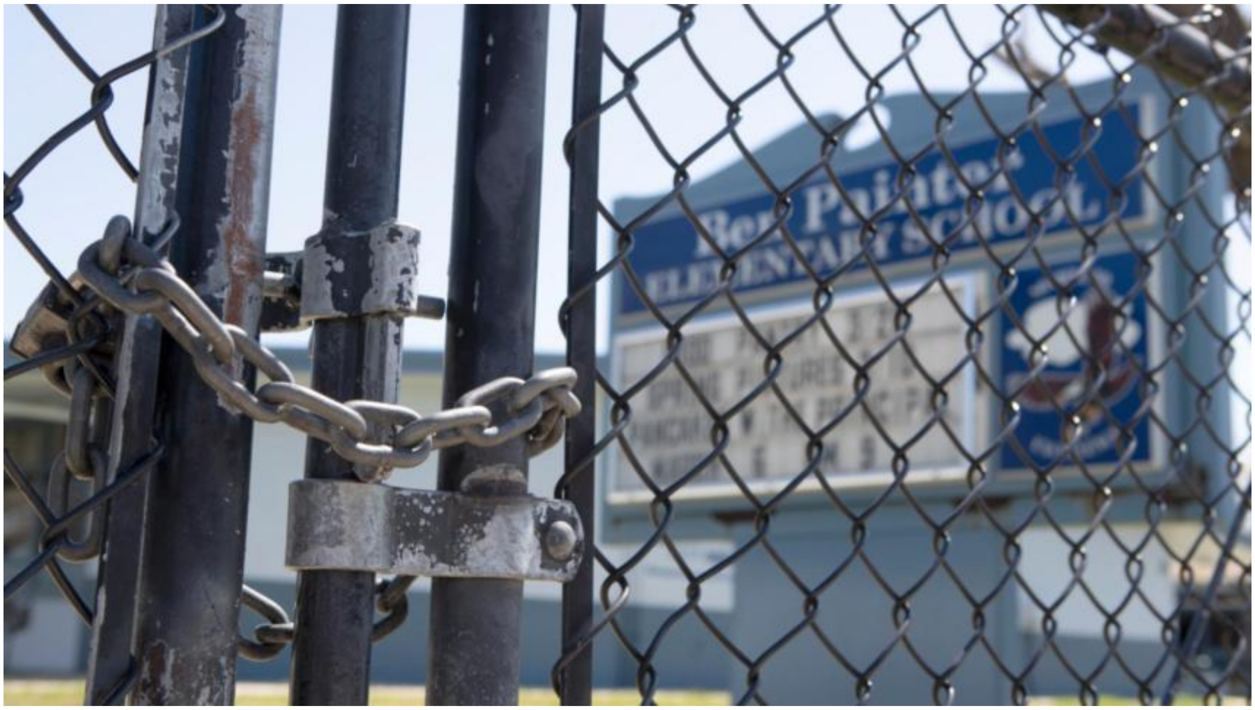
With Gov. Gavin Newsom further easing California's coronavirus restrictions, some economists are already talking about a speedy economic recovery.

The optimists call it a V-shaped recovery, in which the economy trampolines back up to normal as soon as lockdown restrictions are lifted. But others disagree about how likely that is, with some experts saying the coronavirus-induced recession is exposing deeper flaws in the U.S. economy.

The idea of a V-shaped recovery is simple: once the economy hits its lowest point and lockdown restrictions on businesses are lifted, workers will get rehired and shoppers will flock to stores like they did before COVID-19 — but with more social distancing and masks.

“You’ll bounce back and your recovery will be as steep as your decline,” said Jack Rasmus, an economics professor at St. Mary’s College. “In other words, you’ll gain back everything you lost.”



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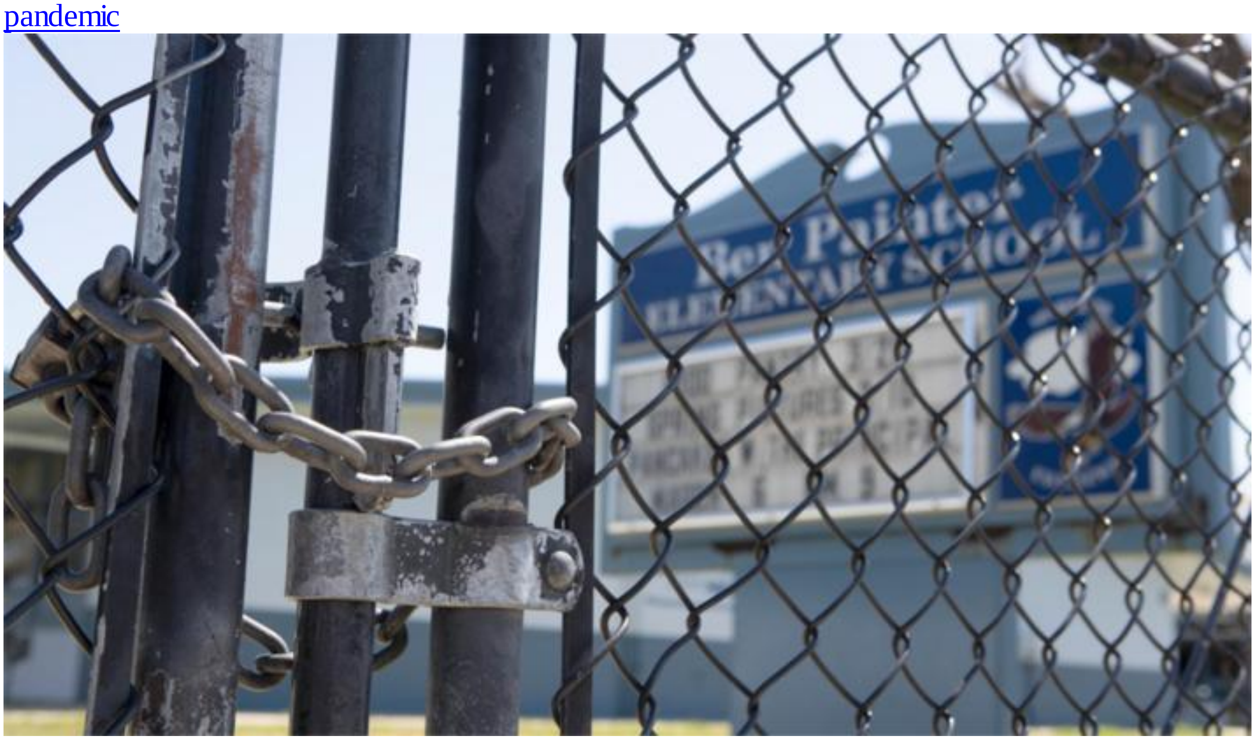

But the likelihood of that happening is dependent on whether this is purely a coronavirus-driven economic slowdown.

“My view on that is, nonsense,” he said.

The economy will maybe bounce back some, he said, but not enough to make up for the 30 to 40 percent decline in GDP that some analysts, including the nonpartisan [Congressional Budget Office](), are predicting for the second quarter of 2020. Customers, he said, are not going to flood back into stores, restaurants and car dealerships. Airlines and hotels will take a long time to return to normal, and companies such as JC Penney and Neiman Marcus that were already teetering are starting to collapse. Only one in 10 global fund managers are anticipating a V-shaped bounceback, according to the Financial Times.

Rasmus and others say the crisis has accelerated and worsened existing economic fault lines, like the decline in U.S. manufacturing, the trade war with China, and an all-time high in Americans’ personal credit card debt even before the crisis. Plus, history suggests we could be in for a second wave of infections, which could prompt another round of shutdowns.

“There’s nothing on the horizon that suggests a robust economy, let alone a V-shaped recovery,” Rasmus said.

Chris Thornberg, founding partner at Beacon Economics, said the case for a quick recovery is obvious.

“When the mandates go away, people get back to work,” Thornberg said.

Restaurants that closed will reopen, and people who are still working — despite almost unprecedented unemployment rates, 84.5 percent of California workers still have a job — have built up savings that they’ll spend as soon as they can. Americans’ personal savings rate in March was the highest in 39 years. Even workers who lost their jobs are protected by a weekly

There’s no sustained damage to the economy from the virus, Thornberg said, unlike during the Great Recession when the entire financial system buckled and major lending institutions either went bankrupt or required massive federal bailouts.

“Everything says we’re already on the rebound, it’s already happening,” he said. “The faster the government gets out of the way, the better off we’ll be.”

A V-shaped recovery is not the only possibility. There’s a U-shaped recovery, in which the economy slowly picks up over years after hitting a low point. There’s the checkmark or swoosh recovery, which is essentially a slower V-shaped recovery. Then there’s the L-shaped model where the economy never recovers to pre-recession levels.

Rasmus favors another alternative: the W-shaped recovery. That’s essentially what happened after the 2008 Great Recession.

“There’ll be ups and there’ll be downs,” he said. “But this is going to take years to recover.”