

The economy is in for tough times, but here's a roadmap for recovery from the coronavirus

Success containing virus could spawn recovery before yearend



President Donald Trump declared a rare national emergency to contain the spread of the coronavirus on Friday. It's one of many steps the U.S. will have to take to protect the lives of Americans and support the economy.- Getty Images

So what next? When does the U.S. economy start to return to normal after the shutdowns resulting from the coronavirus epidemic?

Here's the optimistic view on what will happen in the next six to nine months.

Not for the next few months. The government still doesn't know how widely the coronavirus has spread across America because of repeated snafus creating a test and it will take time to contain it. Until then large parts of the economy — schools, sports leagues, workplaces, cultural sites — are likely to remain shut down or operating on a limited basis.

The result: The economy could shrink as much as 4% to 5% in the second quarter and trigger a sharp increase in unemployment, according to the most pessimistic Wall Street forecasts. The last time that happened was during the 2007-2009 Great Recession.

“There’s going to be a lot of bad news in the next three to four months,” said David Donabedian, chief investment officer of CIBC Private Wealth Management. “It will be pretty ugly. It is sure going to feel like a recession for a while.”

The good news?

The vast majority of economists predict the U.S. will start to rebound later in the year, though they are split over how soon and how fast. Some like Donabedian see a rapid recovery starting in the summer. Others predict a short recession that extends through the fall.

The more optimistic view is based on the assumption that the U.S. approach to containing the coronavirus more closely mirrors that of South Korea or Hong Kong than Italy or Iran.

In South Korea and Hong Kong, widespread testing, quarantines and “social distancing” appear to have dramatically reduced the increase in new cases. By contrast, Italy and Iran were slower to adopt tough measures to bottle up the virus.

“Some countries have proven that if you take precautionary measures such as social distancing you can get in front of this virus and contain it or at least slow it down,” said Sal Guatieri, senior economist at BMO Capital Markets.

If the U.S. achieves the same success as say, South Korea, the hope is that the spread of the coronavirus will taper off by early summer, when illnesses such as the flu and cold also tend to weaken because of the heat and humidity.

“Warm weather could alleviate the condition somewhat,” said Donabedian, giving drug companies more time to come up with treatments. It would also put the U.S. medical system in better position to cope with the COVID-19 illness if it returns in the fall.

The more optimistic scenario also assumes Congress and the Federal Reserve take unprecedented steps to shore up the economy through the worst of the

crisis.

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The Fed has already cut a key interest rate on March 3 and could reduce it to basically zero by next week. The lowest rates in modern times is already encouraging a fusillade of mortgage refinancings that will put more money in family's pockets.

Even more important is the response from Congress and the White House. President Trump on Friday declared a rare national emergency to provide up to \$50 billion in aid to the areas hit hardest by the coronavirus.

Congress, for its part, is assembling what's likely to be the first in a series of steps to cushion the blow to individuals and businesses most likely to suffer. A pending bill includes free testing, paid sick leave, emergency jobless benefits, and small-business bridge loans.

Economists say an overwhelming federal response is critical.

"An extremely strong safety net, even if it's only temporary, is going to keep people spending and paying their bills and also provide a psychological safety net that is crucial," said Robert Frick, chief economist at Navy Federal Credit Union.

If the U.S. response is effective, the economy could start to recover from July onward, with the stock market DJIA, +11.36% SPX, +9.38% offering early telltale signs. U.S. economic growth could return to the 2% pace that's prevailed over the past decade before the end of the year.

"We think we will see a nice bounce back in the third quarter," Guatieri said.

Still, even relative optimists such as Guatieri say there's still too much uncertainty to feel confident. He and Wells Fargo's Bullard say their firms have been changing their forecasts almost daily in the past week as the situation deteriorated. What's made matters worse is simply not knowing the scope of the problem

"We're not getting the insight into where we are or where we are going," Bullard said. "So we're all just speculating."

Source:

<https://www.marketwatch.com/story/the-economy-is-in-for-tough-times-but-heres-a-roadmap-for-recovery-from-the-coronavirus-2020-03-13>

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