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Three Factors That Will Determine the Pace of U.S. Economic Recovery

05.15.20

Rarely is there a single question that every business leader in America is asking simultaneously, but right now all anyone wants to know is when will the U.S. economic recovery start, and how long will it take before we are back to normal?

Unfortunately, it is impossible to answer that question with any kind of certainty. What businesses can do, however, is take stock of the key variables that will determine the shape and the timing of the recovery, and use that information to prepare their business for the most likely outcomes. Whether the recovery ultimately resembles a “U” or a “V” (ideally), or something closer to a “W” or an “L,” these same three factors will likely be the greatest determiners of the strength and pace of the recovery.

Economic Recovery Depends on Date of COVID-19 Containment

While many states have let their shelter-in-place orders expire and allowed businesses to reopen, it should be emphasized that allowing economic activity to resume is not synonymous with containment. “Containment” implies the virus is no longer a threat, which COVID-19 very much still is. For evidence that economic recovery cannot truly begin to take hold while the coronavirus pandemic rages on, consider the fact that even in places where shelter-in-place orders have been lifted, surveys indicate many Americans are hesitant to fully resume normal activities.

Whether your region’s sagging economy is the result of government mandate or citizens’ self-imposed limitations, each additional day the economy remains mostly shut-down, the deeper the contraction becomes, and the harder it will be for businesses to dig themselves out. The only way this ends—and the conditions for recovery are in place—is that scientists either find a vaccine or they discover an effective therapy that renders the infection non-lethal.

Even if we reach that point soon, it is important to be realistic about what kind of recovery is possible. While some economists are predicting pent-up demand to hit places like bars, stores and restaurants once they reopen, owners should not count on that making up for multiple months of closure or reduced income. Moreover, with unemployment nearing 15% and likely to reach 20% before this crisis is over, a lot of people are going to be hurting, too. That means less discretionary spending on activities like going out.

Recovery Also Depends on the Effectiveness of Government Aid

There is general consensus among experts that government intervention in the 2008-09 Great Recession helped reduce the length and severity of the economic decline. On the other hand, many believe the government could have done more to help speed up the recovery and jumpstart growth. Whether that was politically possible in 2009 is a separate question, but thankfully this time there seems to be more political willpower across the board to intervene.

The Paycheck Protection Program coffers, for instance, were recently replenished after the $350 billion in funding was insufficient for the scale of the crisis. And Congress is already working on a potential second round of stimulus checks.

In general, the more cash that the government can put into workers’ hands during this crisis, the quicker the recovery will be. And the longer there continues to be delays in getting Americans their stimulus checks, obstacles for small businesses applying for grants and emergency loans, and people struggling to get their unemployment benefits approved, the less of an impact any stimulus will have.

Economic Activity Must Resume for Recovery

The government cannot keep supporting tens of millions of out-of-work individuals forever (which may arguably also disincentive to find work depending on how long the “free money” will be provided), and there will come a time when the government is either incapable or unwilling to keep pumping money into the economy. This point may very well be reached before economic activity can fully resume. Moreover, even if the government does decide to extend benefits, it likely will not be enough to keep the economy from tanking further. Our economy is designed to produce things, and for that it needs a robust workforce. Current and government measures—while they might minimize some of the carnage—are still no substitute for a functional economic engine.

Each month the economy limps on in this liminal state, the less the government can do to prop it up. Ultimately, businesses should not expect economic growth to resume until all or most of the country’s workforce is employed once again. That could happen as soon as a few weeks or months from now. Or, it could be more than a year before everyone is able to work again. Either way, businesses should create a plan for how they are going to jump back in as soon as their situation allows them to.

The information provided in this summary is not intended to predict the future, but that does not mean you cannot be prepared for it. BPM's Economic Forecasting practice provides clients with key information they need to make informed, data-driven decisions during these difficult times. We analyze complex factors, such as the effects of government stimulus programs and the possible development of a COVID-19 vaccine, as well perennial factors including tax policy and debt and interest rates, to deliver a range of detailed, well-justified possible forecasting scenarios (revenues, costs, cash-flow etc.). Our team helps you plan for the best, and the worst, with confidence.

To learn more about how our Economic Forecasting team can help your business emerge confidently from this economic downturn, contact BPM Partner Sven Jost at SJost@bpmcpa.com and BPM Director Abe Valdez Bravo at AValdezBravo@bpmcpa.com