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MACRO STRATEGY

The Shape of Things to Come

U.S. RECOVERY PROSPECTS

Key Takeaways

- The COVID-19 recession will likely be one of the "big four" recessions in modern U.S. history, according to at least some metrics.
- Looking at how past recessions have been shaped may provide some hints about what shape this recession could take.

One of the Big Ones

There was initially a lot of debate about the shape of the recession—V shaped, U shaped, W shaped, or "Nike swoosh". With some time, and some hard data coming through, forecasts are settling a bit. Now is a good time to compare the current consensus forecast with past recessions.

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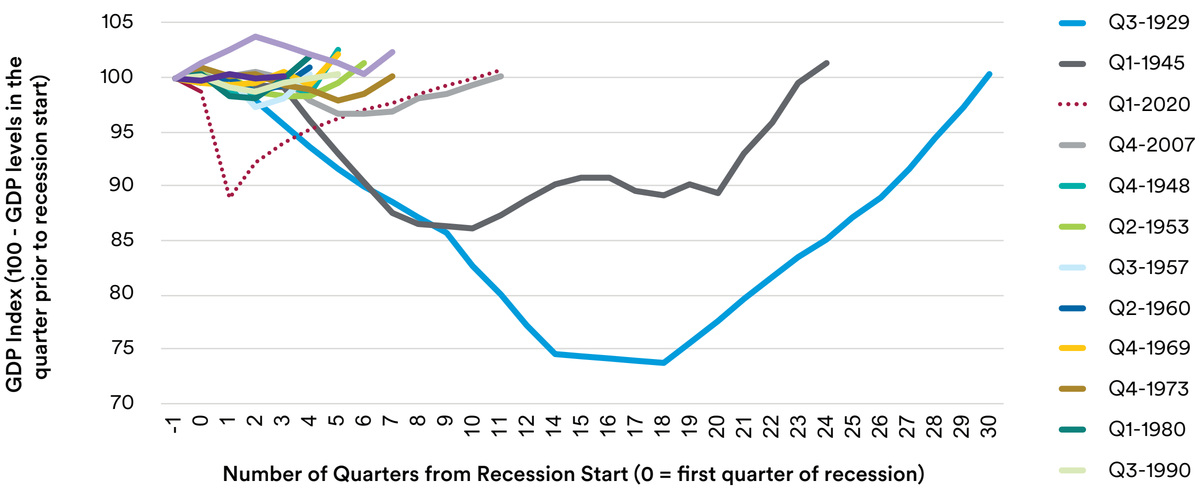
Figure 1 shows all prior recessions normalized by their pre-recession GDP levels. The “big four” recessions, including the current one, are highlighted. The most severe was obviously the Great Depression in 1929, with a nadir of 73.7 percent of its pre-recession GDP. The second worst was the post-World War 2 recession which bottomed out at 86.0 percent of pre-recession GDP. Most forecasters expect the current recession to be the third worst, at least in terms of the lost GDP at the recession’s lowest point. The consensus forecast from Bloomberg is for a bottoming out at 89.0 percent of GDP in Q2. By contrast, the nadir of the Great Financial Crisis was a relatively shallow 96.6 percent.

Figure 1 | Indexed GDP Paths During Recessions



Dashed line represents Bloomberg Consensus Forecast, accessed 5/19/2020
Source: BEA, NBER, Haver, Bloomberg, Metlife Investment

The Recession Takes Shape

Without a doubt, the current recession has had a unique shape to its beginning. How will its shape evolve going forward? We expect to see some rebound as government restrictions on movement are lifted. But it is not clear how sharp that bounce back will be. Initially, there was the strong sense that people would come out in droves to spend due to pent up demand. It is increasingly clear that this may not happen. Instead, the lingering personal safety concerns about catching the coronavirus and the actual economic damage suffered as a consequence of the lockdown may be producing their own recession response. That is, the recession may have an atypical beginning but a more typical ending.

How do recessions usually evolve? About half had a W shape—that is, a mid-recession recovery, followed by another decline. In terms of a front-weighted or back-weighted recession, they are split: about one-third have a longer recovery than decline, while another third have a longer decline, and the remaining one-third are balanced.[1]

On average, the rate of GDP recovery is 0.9 percentage points of GDP per quarter—once the economy hits bottom. Some recoveries have been slower, like the Great Financial Crisis which saw a recovery of 0.7 percentage points or the 1990 recession which saw a 0.4 percentage point recovery per quarter. Others have been more rapid, like the 1973 oil-crisis induced recession. The two most severe downturns—the 1929 Great Depression, and the post-WWII bust—had relatively quick rates of recovery, at 2.4 and 1.1 percentage points per quarter. However, that was partly due to the severity of their recessions, and recovery took several years in each case.[2]

The current recession is expected to have one of the lowest nadirs. Its length is expected to be longer than average. Consensus opinion expects recovery to be faster than average.

We believe the main downside risk is the speed of recovery. The current consensus forecasts a smooth acceleration back to "normal". This is looking increasingly unlikely. The expectation of continued waves of COVID-19 hotspots implies uncertainty about linear forward progress, and the need to continue social distancing which will require constant capacity adjustment as all firms try to keep up with the changing customer and employee needs as the pandemic evolves.

Figure 2 | Speed of Recovery

Year of Recession Onset	Quarters to Regain Pre-Recession GDP Level	Nadir (lowest share of pre-recession GDP)	Avg Quarterly Recovery from Nadir
1929	30	74	2.4
1937	8	100	NA
1945	24	86	1.1
1948	6	98	0.5
1953	7	98	0.6
1957	5	97	1.3
1960	5	99	0.7
1969	6	99	0.7
1973	8	98	1.1
1980	5	98	0.9
1990	6	99	0.4
2001	4	100	0.1
2007	12	97	0.7
2020*	12*	89*	1.1*
Average	10	95	0.9

*Forecast based on Bloomberg Consensus accessed 5/19/2020; recovery time is extrapolated from final quarters of published data

Source: BEA, NBER, Metlife.

Endnotes

1 MIM calculations based on BEA, NBER data.

2 MIM calculations based on BEA, NBER data.

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About MetLife Investment Management

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