The ABCs of the post-COVID economic recovery

The economic activity of the U.S. has plummeted in the wake of the coronavirus pandemic and unemployment has soared—largely the result of social distancing policies designed to slow the spread of the virus. The depth and speed of the decline will rival that of the Great Depression. But will the aftermath be as painful? Or will the economy swiftly recover once the pandemic has passed? And when will that be?

Analysts are using shorthand when discussing the shape of the recovery: Z-shaped, V-shaped, U-shaped, W-shaped, L-shaped, and even the Nike Swoosh. We explain what these mean, and which one of these appears most likely. But first, let’s talk about the downturn itself.

WHAT ARE THE IMMEDIATE EFFECTS OF THE VIRUS ON ECONOMIC ACTIVITY?

According to the most recent Bureau of Economic Analysis estimate, the level of real (inflation-adjusted) GDP in the first quarter was 1.2 percent below the fourth-quarter level, and analysts expect GDP to drop another 8.5 percent to 11 percent in the second quarter. At annualized rates—the way changes in GDP are reported—these translate into a decline of 4.8 percent in the first quarter and 30 percent to 40 percent in the second quarter. (Annualized rates show what would happen to the level of GDP if the quarterly rate of growth persisted over an entire year.) To put these numbers in context, the largest quarterly GDP decline observed during the Great Recession was 8.4 percent at an annual rate in the fourth quarter of 2008.