



Economics

Tale of Two Economies Will Determine Post-Lockdown Growth

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- ▶ Companies are eager to do business but consumers aren't
- ▶ Manufacturing may see a V-shaped bounce, while services lag



Danes get a professional haircut for the first time in over a month, after lawmakers eased some lockdown measures on April 20. *Photographer: Carsten Snejbjerg/Bloomberg*

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The restart of the world economy risks going ahead without a key ingredient: the consumer.



Getting companies to resume operations and factories to reopen is one thing. Persuading consumers to brave catching the coronavirus and go out to shop, eat, travel or watch sports is another.

“Nothing about reopening the economy will be easy, but restarting businesses will be more straightforward than restarting aggregate demand,” Moody’s Analytics Chief Economist Mark Zandi said.

The result: An uneven reboot for the global economy, with manufacturing and the nations dependent on it bouncing back fairly quickly, while more communal service-sector activities and countries lag.

That will keep pressure on governments and central banks to continue their support as their economies claw their way back from the deepest worldwide downturn since the Great Depression.

Deep Global Recession

The IMF is predicting a 2020 global contraction of 3%

■ Annual GDP (YoY) ■ Forecast





Source: International Monetary Fund

Bloomberg

Policy makers from the Bank of Japan, the Federal Reserve and European Central Bank all meet this week, with investors on the lookout for any further steps they might take to aid their battered economies.

Some nations' recoveries "are a little more V-shaped because there's a little bit more manufacturing, a little more tech," Catherine Mann, Citigroup Inc. chief economist and former chief economist for the Organization for Economic Cooperation and Development, told Bloomberg Television. "That might be a South Korea or Taiwan. And then there are other economies that are extremely tourism dependent. Those are facing L's. Something like a Thailand, a Singapore."





Almost one-third of American business economists expect operations at their companies will return to normal within five to eight weeks, though almost as many say it's likely to be three to six months before virus-mitigation efforts wind down in earnest, according to a [survey](#) released Monday by the National Association for Business Economics.

By the end of the year, the U.S. will have recovered only about 40% of the output and employment it lost during the crisis, the Deutsche economists said.



This has ramifications for the November election. If consumers hold back and the economy fails to meaningfully recover, that would put President Donald Trump's chances for winning re-election at risk.

Trump on Friday hailed the coming restart. "There is a tremendous pent up demand. We will open big!" he declared in a tweet.





A worker gives a customer a pedicure at a nail salon in Atlanta, Georgia, on Friday, April 24, 2020. *Photographer: Elijah Nouvelage/Bloomberg*

Treasury Secretary Steven Mnuchin echoed that upbeat message on “Fox News Sunday.”



“As we begin to reopen the economy in May and June, you’re going to see the economy really bounce back in July, August, September,” he said. “We are putting in an unprecedented amount of fiscal relief into the economy.”

Some businesses will enjoy a one-time boost as stay-at-home orders are eased. Think barber shops and hair salons. And there’s always a chance that stir-crazy consumers worldwide could surprise economists by flocking back to the shops.

But that carries perils of its own -- as German Chancellor Angela Merkel highlighted in a closed-door meeting of her Christian Democratic party on April 20. She told her fellow politicians that “discussion orgies” about loosening lockdowns threatened to destroy the progress in fighting the pandemic, according to a participant.



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Singapore serves as a warning in that regard. It's gone from being seen as a global standard bearer for taming the deadly virus to the home of Southeast Asia's largest recorded outbreak.

"The one way not to reopen the economy is to have a rebound that we can't take care of," Anthony Fauci, the top infectious-disease expert on the White House coronavirus task force, said about the risk of a resurgence.

It's not just a fear of being infected that could keep consumers out of the malls. Anxiety over job loss and shrinking savings also could prompt them to husband their resources and cut back on spending, economists say.

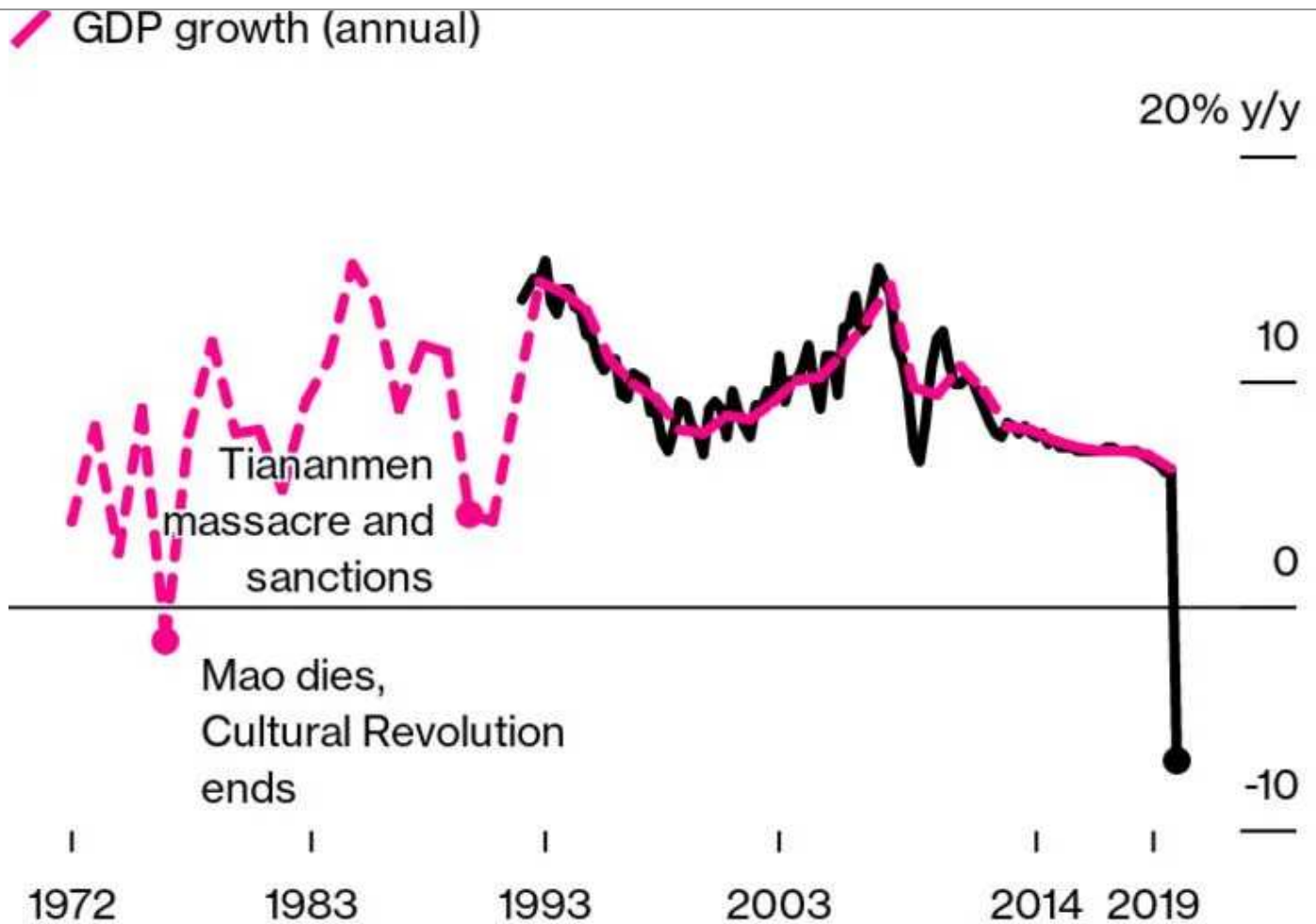
#AloneTogether

If you have symptoms, call your doctor and stay home!

The lopsided economic revival is playing out in China, home of the initial coronavirus outbreak.

China's Economy Comes to a Stop

An historic collapse in Chinese growth



Source: National Bureau of Statistics

Bloomberg

“There has been policy-directed resumption of factories on the supply side, but the picture for a demand recovery is more mixed.” said Selena Ling, head of treasury research and strategy at Oversea-Chinese Banking Corp. “There is talk about pent-up Chinese demand for some high-end luxury goods,” she added. “But general demand at the man of the street level is more subdued.”

Chinese industrial production in March was down about 1% from a year earlier, while retail sales were off almost 16%, according to calculations by Bank of America Corp. economists.



Marriott International Inc. Chief Executive Officer Arne Sorenson told Bloomberg Television on April 20 that occupancy at the company's roughly 350 hotels in mainland China has risen to about 25% from 6% to 8% in the first week of February.

“It's still down massively from where what it should be,” he added, noting that the normal rate is around 70% to 80%.

In Germany, the powerful automobile industry worries that buyers will be scarce as the country reopens for business. It's pushing for a “cash for clunkers” program to spur sales after the crisis.

Measures that could strengthen demand “in times of strong insecurity among customers” would be “worth considering,” Daimler AG said in a statement.

U.S businesses also are bracing for a long slog as the world's largest economy begins to reopen.



“Given the combined effects of the pandemic and associated financial impact on the global economy, we believe that it could be up to three years before we see a sustainable recovery,” Delta Air Lines Inc. CEO Ed Bastian told analysts on April 22.

With Americans over 65 years old accounting for 20% of consumer spending, demand could be constrained for a while given this group’s heightened vulnerability to the virus, according to Deutsche Bank Securities Chief Economist Torsten Slok.

Yale University senior lecturer Stephen Roach called the idea of a V-shaped U.S. recovery “a pipe dream.”

“With all this clamoring for economic liberation, we’ll get workers back on the job,” he said, referring to Trump’s call for selected states to reopen their economies. But fear of a fresh virus outbreak will “hold back consumer demand to unprecedentedly low levels.”



– *With assistance by Steve Matthews, Saleha Mohsin, and Christoph Rauwald*

(Adds business survey in ninth paragraph)

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