

# CORONOMICS

## The shape of the recovery



**“We can only speculate as to how many Puerto Rico businesses will file for bankruptcy.”**

What’s the next normal for Puerto Rico owned businesses? Not only is the coronavirus pandemic one of the worst health crises of the last 100 years, it has also forced a complete overhaul of the global economy. We have seen once mighty corporations fall into bankruptcy as a result of the pandemic’s dramatic impact on their business. Among them, titans such as Avianca, Hertz, JCPenney, Neiman Marcus, and Virgin Australia.

We can only speculate as to how many Puerto Rico businesses will file for bankruptcy. But one thing is for sure: for most corporations in the near term, survival is the only item on their list, while others are attempting to see past the crisis to determine how to best position themselves

### **From surviving to thriving**

With most of our typical methods, customs, metrics, and operational behaviors rendered useless, many leaders are resorting to playbooks from as far back as World War 2 to understand how our grandparents and greatparents dealt with the stark realities of the time.

Five words, each depicting a specific phase, seem to summarize the mindset of those days:

- **Boldness**
- **Resilience**
- **Re-invention**
- **Restitution**
- **Revolutionize**

These words still ring true today, though they may vary across businesses. Some entities might find themselves operating through several phases at once. Duration could also differ depending on such things as industrial sector, rules, and regulations. But ultimately, these phases are the key to pivot from surviving to thriving.

## Boldness

This phase is all about action speed. It is not enough for companies to recover revenues over time as the pandemic staves off. As owners rethink their income streams, they must prepare their businesses for a long-term haul. Now is the time to adopt a start-up mindset that favors nimbleness, quick action, implementation, and testing new ways of doing business to get ahead of the competition. Technology and innovation are a crucial part of achieving agility. In our review, we note that 60% of companies stated in early May that their new remote sales models were proving to be 29% more effective than traditional channels. This latest crisis should serve as a unique opportunity to accelerate digital and technological innovations to enhance businesses.

## Resilience

A review of available data leads us to conclude that this pandemic has caused the most powerful economic and social shock that we have experienced in the last 100 years. In Puerto Rico, the decline in economic activity recorded in just a single quarter has been far higher than losses incurred during the Great Depression. Resilience proves vital in the face of such difficulties. Businesses are facing liquidity crunches or total insolvency as sales plummet. Resilience implies the ability to quickly modify business models as entire industries change long-established practices and customs.

## Re-Invention

If as a business you never thought of online sales, curbside pick-ups or deliveries, this is the time to implement them. And fast. Much of the progress will come from shifts in operating models, developing a new set of clear goals, having focused teams, and employing rapid decision-making. Over the past three months, we have witnessed a complete transformation of the way we interact with family and co-workers, perform our work, seek medical attention, and go about our



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daily routines. These changes have increased the migration to digital technologies at a stunning scale and speed and across every sector.

## Restitution

Seeking to return to things as they were before may be a lovely thought but one that will likely prove unattainable. For that reason, leaders must reassess their entire organizations and business models, and develop action plans for an effective and scalable restitution model that affords higher adaptability in the face of a new environment.

## Revolutionize

This pandemic will hopefully serve as a powerful learning experience – one in which our lessons are reflected through innovation and effective crisis models that can pave the way for long-term change. We now know that many businesses will have to come to terms with a new reality that includes remote working, flexitime, distance learning, less brick-and-mortar sales, and social distancing protocols. If history can spell the future, we should know that pandemics bring about transformative changes for the surviving population. This time around it won't be any different.

The five phases as detailed above offer leaders a clear path to a new normal – one that will be radically different from the pre-coronavirus world. Corononomics will encompass three major repositionings. First, some fundamentals will never regain their former status. Second, some current trends will surge because their immediate need has been indisputable during this critical period. Third, unique ecosystems will be created around these new heightened levels of personal protection and health security.

The transformation will impact at least three generations and will be irreversible, altering human behavior throughout their lifetimes. Every transformation brings about broad new economic opportunities.

## The Shape of the Recovery: “V,” “U” or “L”?

The pandemic has resulted in one of the fastest economic contractions in history. We have begun to analyze what may determine the shape of the recovery in the U.S. and Puerto Rico.

As the economies of the U.S. and Puerto Rico came to a

halt, we knew that the economic impact would be fast and severe. However, what we have yet to figure out is how we will come out of this economic contraction.

These situations are often illustrated using three letters, “V,” “U,” or “L,” each depicting the shape of the contraction and recovery. We predict a “U-shaped” recovery since it better represents the gradual resumption of activity that the White House Medical Task Force is favoring after the prolonged period of social distancing measures begins to ease.

The coronavirus pandemic is a classic example of what economists call an “exogenous shock,” which is defined as an outside event or development that has a significant impact on the economy. Some examples include wars, natural disasters, technological change, changes in demographics, and pandemics.

● **The “V” shape:** The most bullish of the three scenarios, this one points to an economy that was fundamentally strong before the exogenous shock and that therefore will experience a quick recovery. In the case of the pandemic, economic activity would decline severely in the first half of 2020 and then rebound quickly to where it was right before the pandemic

struck. This type of scenario is rather optimistic and implies a Gross Domestic Product (GDP) contraction of about 1.2% in 2020. The odds of seeing this scenario play out are 27%.

● **The “U” Shape:** Under this scenario, economic recovery occurs gradually, meaning we would only see a partial recovery in 2020. Those predicting a “U” shape recovery point to a reduced spread of the virus once lockdown and social distancing protocols are relaxed. The “U” shape also implies changes in human behavior, both social and economic, that will slowly but surely lead to a true recovery. This is the model we most agree with, as we firmly believe that the next three generations will behave differently as a result of this pandemic. It takes an average of 66 days for a habit to become automatic in humans. We reached 66 days of lockdown on May 19, 2020, which very likely means our new reality is now firmly engrained in us. The “U” scenario would result in a GDP contraction of 3.2% for 2020, with a full recovery not happening until at least the end of 2021 or beginning of 2022. The odds of having this scenario play out are 59%.



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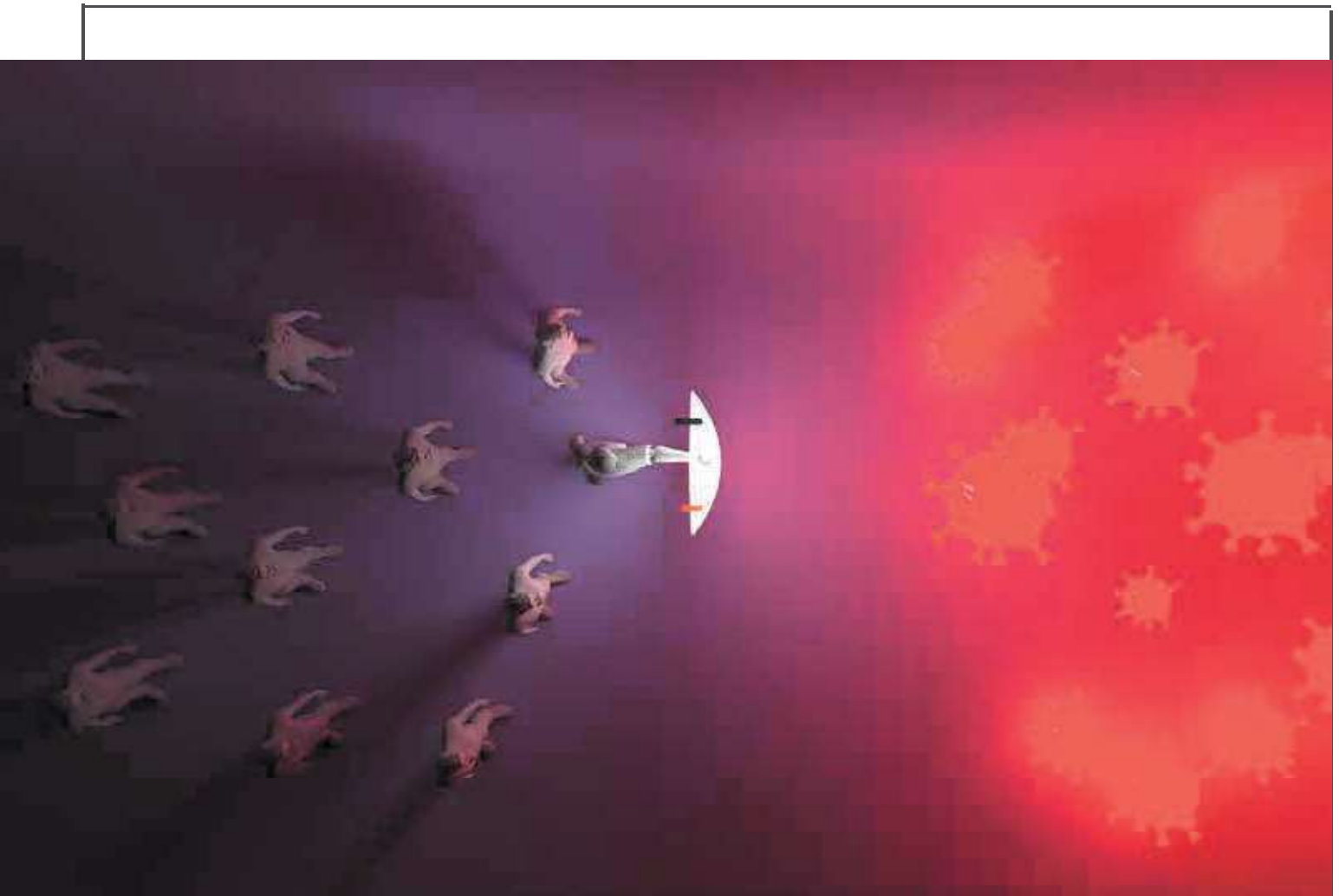
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● **The “L” Shape:** The “L” recovery is by far the most pessimistic, as it implies permanent economic damage. Under this scenario, the economic recession would extend beyond 2021, unemployment would remain high, thousands of businesses would file for permanent bankruptcy, and the government’s safety net would prove inadequate. The odds for this scenario stand at 15%.

As mentioned previously, we predict a gradual “U” shaped recovery, with the economy returning to normal sometime in late 2021. Our prediction is contingent on a contained spread of the virus following the lockdown, which will mostly depend on our ability to maintain proper social distance and continue using of masks, face shields, gloves, alcohol, and hand sanitizer. Our prediction also is based on our assumption that human behavior will have permanently changed as a result of this pandemic. **i**

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**Editor’s note:** \*The author is the president and CEO of Birling Capital LLC