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# The Spyglass Advisor: The Shape of the Economic Recovery: "V", "U" or "L"

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## The Spyglass Advisor: The Shape of the Economic Recovery: "V," "U" or "L"

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On this issue of The Spyglass Advisor, titled "The Shape of the Economic Recovery,"; we discuss three issues that are very much on the minds of every entrepreneur, citizen, or elected official, What will the economy look like after the pandemic. As we wrote this piece it reminded me of something author John C. Maxwell said to me last week, and we want to share it as food for thought, **Jonh C. Maxwell said: "On the other side of a storm is the strength that comes from navigating through it, raise your sail and begin."**

On that note, we discuss in this issue the following topics:

1. **What does the shape of the economic recovery look like, and what are their probabilities.**
2. **The primary economic benchmarks of the U.S. have begun to show weakness; we show you the impact.**
3. **We update the Coronavirus Pandemic in a series of graphs that include the worlds, the U.S., and Puerto Rico.**

### 1. The Shape of the Economic Recovery: "V," "U" or "L"

The Coronavirus Pandemic crisis 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 economy 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 need to figure out is how we come out of this economic contraction. There are three distinct variables to the economic recovery that follows. In these situations, the recovery represents itself in either "V," "U," or "L" shape. We predict a "U-shaped" recovery since it is 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 International Monetary Fund predicts that the U.S. Real GDP Outlook will contract during 2020 in the range of -5.90% and Puerto Rico Real GDP Outlook is predicting a -6.0% contraction, and we do not expect to experience optimal economic activity until the latter part of 2021.

The Coronavirus Pandemic is a classic example of what economists call an "exogenous shock," which means that it is an event or development coming from outside of the system itself that has excellent effects on an economy. Some examples include wars, natural disasters, technological change, changes in demographics, and pandemics.



### U.S. & Puerto Rico Real GDP Growth Outlook



## Defining the "V," "U," and "L" shaped economic recoveries:

- **The "V" shape:** it's probably the most bullish, the thought process is that the economy was fundamentally strong before the Coronavirus lock-down. Thus, a V-shaped recovery implies a fast return to the same levels the economy was and the second half of 2020 absorbing the shortfall of the first half, which would result in 2020 contracting by -1.2%. **Odds of occurring 27%.**
- **The "U" Shape:** this recovery occurs gradually, and the economy does not return to normal levels quickly, and the rest of 2020 does not recover fully. Those that predict the "U" shape recovery is based on the Coronavirus not spreading after the lock-down and

social distancing have been reduced. What the "U" shape predicts is that human behavior will change and alter how business is conducted, socialization happens. We tend to agree with the "U" shape as we are convinced that human behavior will be changed for the next three generations. You see, it takes a human being, on average, 66 days for a habit to become automatic. We will reach 66 days of lock-down on May 19, 2020, and once that happens, our new reality becomes a habit. In this scenario, GDP contracts by -3.2% in 2020, and even by late-2021, GDP has not returned to 2019 levels. **Odds of occurring 58%.**

- **The "L" Shape:** of the three, the "L" recovery is by far the most pessimistic, as it would maintain economic weakness and Coronavirus causing permanent damage to the economic model. The "L" shape would keep unemployment at higher levels, and thousands of businesses filing bankruptcy as the Government safety net would prove inadequate. In the "L" shape, depression takes place lasting beyond 2021. **Odds of occurring 15%.**

The permanent effects the Coronavirus may have in the U.S., and Puerto Rico economies are difficult to determine and calculate. Our new reality is wearing face masks, using latex gloves, carrying sanitizer, alcohol and practicing social distancing, avoiding large crowds is on route to becoming a long-term habit and a daily routine for all of us.

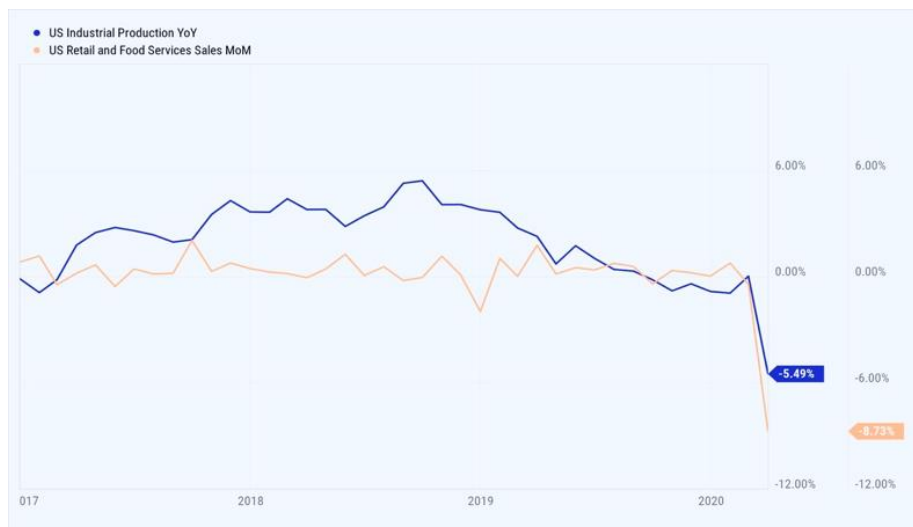
## 2. Principal Economic Benchmarks

- **U.S. Business Sales:** fell to \$1,465 Trillion down from \$1,471 Trillion last month or 0.48% less.
- **U.S. Initial Jobless Claims:** another 5,245 million American filed for unemployment, increasing the number of unemployed to 22,034 million.
- **U.S. Housing Starts:** fell to \$1.44 Trillion or -22.95% less
- **U.S. Business Inventories:** fell to \$ 1.42 trillion or -.043%
- **U.S. Industrial Production MoM:** fell -5.40%, compared to 0.46% last month.
- **U.S. Retail and Food Services Sales MoM:** fell -8.73%, down from -0.45% last month.



The Labor Department reported today 5,245 million of Initial Jobless Claims, which, when added to the 6,615mm, 6,867mm & 3,307mm from the last three weeks, reach a total of 22,034 million new jobless claims.



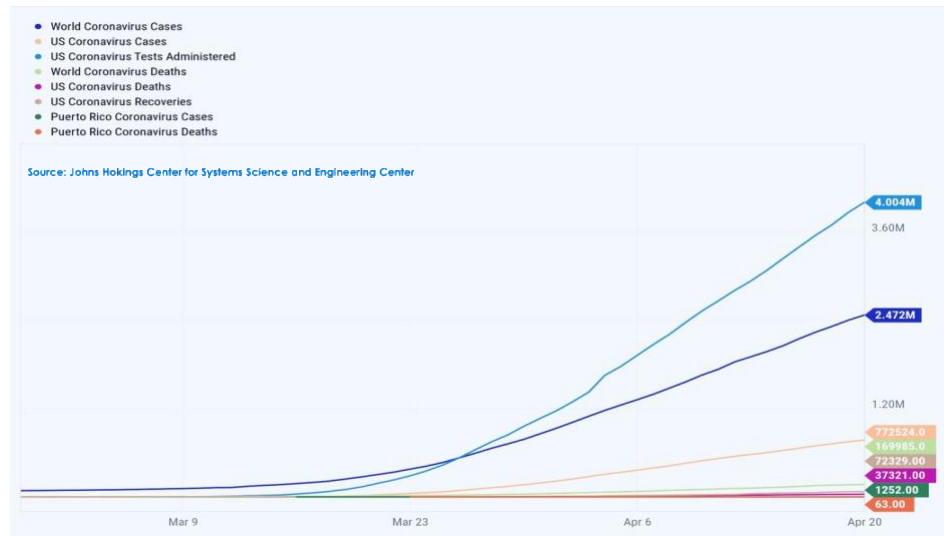


### 3. Coronavirus Update in Graphs



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## Coronavirus Update 4/21/20 World, U.S. & P.R.



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## Coronavirus Update 4/21/20 World Data

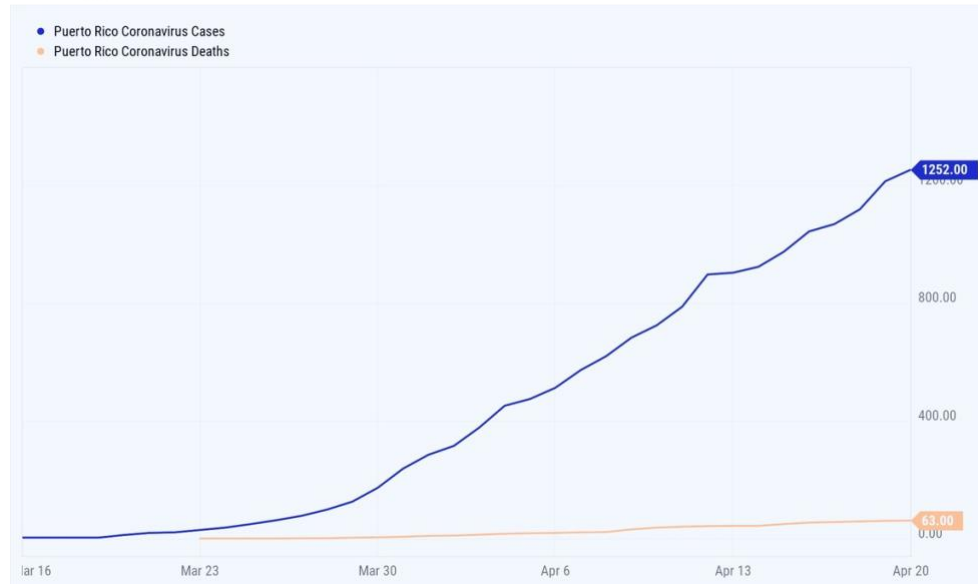
Source: Johns Hopkins Center for Systems Science and Engineering Center





## Coronavirus Update 4/21/20 P.R. Data

Source: Johns Hopkins Center for Systems Science and Engineering Center



We hope you have enjoyed this edition of The Spyglass Advisor and we welcome your thoughts and comments. Please feel free to call us at 787-247-2500 or write to us at [frc@BirlingCapital.com](mailto:frc@BirlingCapital.com)

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