

Walden: Is Another Recession On The Way?

By Administrator

Wednesday, 25 August 2021 08:31 -

Just when we thought things were getting better, could they go the other way and get worse? For most of the year we were optimistic about the economy. Growth was surging, jobs were being added, and optimism was lifting. A big reason was the retreat of Covid-19.

But in recent weeks Covid-19 has made a comeback. The delta variant of Covid-19 is raging across the country with record infection rates. One solace we have is the delta variant appears to be less deadly than the original version. Still, we are worried.

To give some perspective to the concerns, here's a summary of where we've been with Covid-19 and the economy. Once Covid-19 spread rapidly in early 2020, business shutdowns and stay-at-home orders became common around the country. With normal economic interactions interrupted, the economy tanked in the spring and a deep recession took hold. The national unemployment rate soared to almost 15%.

But success in "flattening the curves" of both cases and deaths allowed restrictions to be eased. As a result, the economy grew in the third quarter of 2020 by almost as much as it dropped in the second quarter. Indeed, using the definition that recessions end once the economy resumes expanding, the Covid-19 recession no longer existed in the third quarter.

Growth continued, but at a much slower pace, in the winter as the virus re-surfed. But with vaccinations beginning in early 2021, the virus was significantly curtailed. In fact, by the summer of 2021, aggregate economic production was back to pre-pandemic levels, and aggregate employment had recovered all but 4% of its losses.

Then the Covid-19 delta variant began spreading in July, and it continues today. The variant is more contagious than the original version, but fortunately it is less deadly. Yet cases have been rising all over North Carolina, and in some areas hospital beds have become scarce.

This situation sounds eerily similar to where we were in early 2020. Will we need to react in the same way and have business lockdowns and stay-at-home orders? And if so, will another serious pandemic recession be the result?

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In addressing these questions, we do have the benefit of seeing what's transpired in other countries that contracted the delta variant before we did. Both the United Kingdom and India had the delta variant weeks before it came to us. Just as we have experienced, both countries had a rapid run-up in new cases. But – encouragingly – both countries also have had a rapid reduction in new cases after a peak was reached. In India, the new case peak came in early May, and now new cases are back to pre-peak levels. In the U.K., the top in new cases came in July, and although new cases have been declining, they have still not returned to pre-delta variant levels.

Medical experts are still trying to determine what has caused the rise and fall of the delta variant. But the fact the variant did subside in India and the U.K. is encouraging for us.

The immediate future of the economy will depend on two factors – how the delta variant progresses, and how we react to it. If the delta variant new cases peak and then subside – for whatever reasons – within the next four to six weeks, then the economy should continue to expand and improve. Growth may be slightly slower than it has been, but no “negative growth” – meaning a recession – will occur.

Conversely, if new cases climb with no obvious end in sight, then a more uncertain outlook is ahead. More communities would institute restrictions, like mask mandates. In-person gatherings would be postponed, and outdoor events could be cancelled or controlled.

Furthermore, even without the imposition of public regulations, individuals on their own would curtail activities, like shopping, eating-out, and vacationing. Studies of individual behavior during the pandemic have confirmed these reactions.

The result would be a more significant slowdown in the economy. Still, I don't believe these reactions would be enough to put us back into a recession. Households, businesses, and institutions such as education and healthcare learned to cope with the pandemic last year. Households worked remotely, businesses stayed afloat using cyber-buying and delivery, and

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education and healthcare accessed students and patients via the internet.

The coping mechanisms weren't perfect and not without costs, but they did soften the economic blow of the pandemic. If the delta variant puts us into a similar situation, I think the lessons we learned last year will improve our coping techniques and reduce the costs.

Many hoped and maybe expected Covid-19 to be banished this year. Others pointed to the pandemic of a century ago – the Spanish flu of 1918-1919 - which killed more Americans than Covid-19, as reason to be more cautious. That pandemic had several waves, something we've now unfortunately experienced with Covid-19.

We're going through another challenging time with the pandemic. Like everyone, I want Covid-19 to be gone. The virus and the economy are still intertwined. While economic conditions have adapted to the virus, we won't be able to freely engage in economic interactions until we are free of the virus. Like you, I hope we can someday absolutely decide when that is.