

The Roadmap to  
Economic Recovery in a



# Social Distancing World

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When we wondered if the 2020s would be deserving of the rebirth of the “Roaring Twenties” moniker, we certainly didn’t consider all the ways this decade might roar—or bite. Just 10 weeks into the new decade, the World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic. The fallout from the novel coronavirus resulted in the U.S. job gains from the entire prior decade getting wiped out in the five-week stretch from mid-March to mid-April.\* More than **200 countries** have reported COVID-19 cases, and this once-in-a-century health crisis has resulted in nearly **four million infections** and more than **270,000 deaths globally as of May 8.**<sup>1</sup>

The Centers for Disease Control and Prevention (CDC) reported the first U.S. case on January 21. By March 1, there were **30 reported cases in the U.S.**—a figure that grew to **213,144 by April 1**, and exceeded 1.2 million confirmed cases on May 7.<sup>2</sup> The U.S. government undertook extreme actions to slow the spread of COVID-19, and shelter-in-place orders were mandated in most states. While these measures helped flatten the growth curve of the virus, the impact on the economy has been severe, with the longest economic expansion in U.S. history coming to an abrupt halt in March, followed by a record surge in jobless claims. Several weeks of stay-at-home orders and social distancing have been effective at slowing the daily growth rate of new cases. State governments are beginning to lift lockdown restrictions to reopen the economy, but the recovery could be slow and occur in stages. And while a vaccine would be a welcome way to expedite the path forward, eventually, things will get back to normal—although it’s all but certain to be a new normal.

In the following, we’ll outline the impact on the economy from COVID-19, project what the U.S. economic recovery will look like, and discuss some of the emerging trends that could be here to stay.

\*26.5 million unemployment claims were filed from the week ending March 21 and the week ending April 18. That exceeds the total number of jobs created between January 2010 and December 2019 (22.2 million).

## A Century Ago

- With an outbreak that came in three waves starting in the spring, the 1918 Spanish flu was the deadliest pandemic in history,<sup>3</sup> infecting an estimated one-third of the world’s population.<sup>4</sup>
- The mortality rate for the 1918 flu was high, with an estimated 50 million people dying from the virus worldwide.<sup>4</sup>
- The outbreak occurred during the final year of World War I, and more U.S. servicemen died from the flu than in combat.<sup>5</sup>
- The 1918 flu pandemic is referred to as the Spanish flu because it was first reported by the news in Spain,<sup>3</sup> and while the virus was documented in other countries, it was censored because of World War I; Spain, remaining neutral through the war, had more freedom to report it.
- The actual origin of the 1918 flu is uncertain, but the earliest documented case was in March 1918 at a U.S. military base in Fort Riley, Kansas.<sup>5</sup>
- After the 1918 pandemic ended, life eventually got back to normal—as it did following all prior pandemics—and while there was a sharp economic downturn after World War I, one of the most transformative periods in American history followed: The Roaring Twenties.

# Impact on the Economy

The COVID-19 outbreak is having a disastrous effect on several industries. Shutdown orders and social distancing measures to curb its spread ended the longest economic expansion in U.S. history and created a record surge in claims for unemployment benefits:

- **Bars, dine-in restaurants, shopping malls, concert venues, movie theaters, schools, and sports arenas** literally shut down overnight.
- **Hotel occupancy rates and airline passenger traffic** fell by record numbers in March as tourism and corporate travel ground to a halt.
- **Only essential manufacturing** stayed in operation, with some factories converting their facilities to build ventilators, protective equipment, and other supplies to equip hospital systems throughout the U.S.

The speed at which the economy contracted is without precedent, and many areas of the economy are looking at a bumpy road ahead.

Even in tough times, there are areas of the economy that prosper, with some industries seeing an increase in demand during the pandemic. Grocery stores, streaming media services, online retailers, video-conferencing software, and cloud-computing services have all seen a spike in demand and usage.



# Recessions Are Part of the Economic Cycle

It's an unfortunate reality that all economic expansions end with a recession, and while every boom has its bust, the converse is true: every recession is followed by a new expansion. Not all recessions are identical, of course, varying by magnitude and duration. Since 1950, there have been 10 recessions prior to our current one.

The average duration was 11 months, with the shortest lasting only six months and the longest taking 18 months. Real GDP declined by an average of 2.2% and the unemployment rate rose by an average of 3.3%. The stock market fell as a result of each of these recessions, with an average decline of 30.5% from peak to trough [Figure 1].

Based on the number of recessions since 1950 and the duration of each one, it might appear as if the economy spends a lot of time in a downturn. In reality, it spends most of its time in an expansion. Between 1950 and 2019, the economy was in a recession for a total of 111 months, but it was in an expansion for 729 months—or 87% of the last 70 years. While recessions are fairly common, and result in rising unemployment (and anxiety), they only make up a small part of the economic cycle.

Prior to the pandemic, the U.S. economy was on solid footing and the labor market was growing at a healthy pace through February. Unlike prior recessions, the current economic downturn isn't the result of imbalances in the economy, but economic fallout from lockdown measures implemented to slow the COVID-19 outbreak. While the prior expansion was the longest on record, the level of GDP growth was stable and didn't reach a point where excesses emerged.

Hence, this recession is not likely to be similar to the last 10 recessions outlined previously, and will have a higher unemployment rate and a sharper contraction in real GDP than they did. What's uncertain, however, is the duration: this COVID-19 recession could be on the shorter end of the range if the economy begins to reopen soon and a second wave of virus outbreak does not occur.

**Figure 1:**  
**Duration and Effects of the Last 10 Recessions**

Recession Start Date	Duration (Months)	Real GDP Decline	Unemployment Rate Increase	Peak Unemployment Rate
Jul-'53	10	-2.5%	3.6%	6.1%
Aug-'57	8	-3.6%	3.8%	7.5%
Apr-'60	10	-1.3%	2.3%	7.1%
Dec-'69	11	-1.1%	2.7%	6.1%
Nov-'73	16	-3.1%	4.4%	9.0%
Jan-'80	6	-2.2%	2.2%	7.8%
Jul-'81	16	-2.6%	3.6%	10.8%
Jul-'90	8	-1.4%	2.6%	7.8%
Mar-'01	8	-0.4%	2.5%	6.3%
Dec-'07	18	-4.0%	5.6%	10.0%
<b>Average</b>	<b>11</b>	<b>-2.2%</b>	<b>3.3%</b>	<b>7.9%</b>

Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, National Bureau of Economic Research (NBER), Bureau of Labor Statistics. The rise in the unemployment rate is the difference between the pre-recession low and the post-recession peak unemployment rate.



## Social Distancing and Economic Recovery

The economy will not recover on a similar trajectory as in past economic expansions because of the social-distancing new normal we live in. The White House recently unveiled general guidelines for reopening the economy, and while a lot of the detailed procedures will be up to the states, the suggested federal recommendations include a three-phased approach once a clear downward trend in new COVID-19 cases has been established. Moving from one phase to the next will be data dependent, and any setback will slow the process.

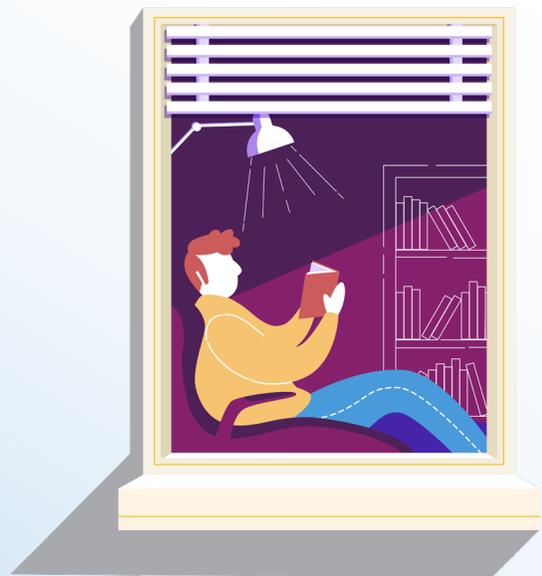
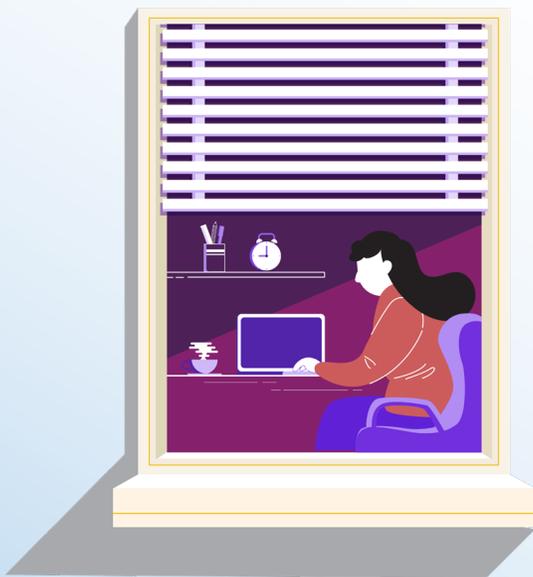
Areas of the economy that can begin to reopen in the **first phase** with the application of physical-distancing protocols include dine-in restaurants, movie theaters, and gyms. A resumption of nonessential travel and the opening of bars (with capacity restrictions) and schools would be part of **phase two**. **Phase three** would lift restrictions on workplaces and allow for a resumption of hospital and nursing-home visits.

# Government Response

As states soften shelter-in-place orders, the economy will begin to open up slowly and in stages. Governors may follow the recommendations included in the federal guidelines as a template or create a plan based on situations in their own state, and some states plan to operate in regional coalitions.

We are likely to see different states, regions, and even cities operate under their own set of policies, with less-populated areas that have few COVID-19 cases enlisting fewer restrictions than more densely populated ones. No matter their path forward, government officials are walking a tightrope. **They want to open the economy as soon as possible, but if they do it too soon and a second wave of coronavirus cases breaks out, the economic recovery could be prolonged even further.**

While select states have already begun to ease restrictions, and several more have plans to begin reopening certain sectors of their economies throughout May, social distancing will remain in effect for the foreseeable future. Extreme caution at the federal level could result in extended foreign travel restrictions.



## Business Response

Businesses will enforce physical distancing measures for workers and customers, possibly implementing stricter guidelines than required by federal or state mandates, and we are likely to see companies check the temperature of their employees, re-engineer office layouts and factory floors, increase sanitation and cleaning standards, and require face masks to reduce the risk of airborne spread.

However, until a vaccine or real-time testing is available, the path to recovery could be slow for businesses like dine-in restaurants, shopping malls, movie theaters, amusement parks, and those involved in the tourism industry.

To increase safety, movie theaters and schools will need to increase space between seats and desks, and restaurants will have fewer tables that are also spaced farther apart, using plexiglass barriers between customers. Professional sports leagues are exploring a path forward without fans in attendance, and once spectators are allowed in stadiums and arenas, enhanced testing measures and physical distancing will likely be required.

When retail stores begin to reopen, they are likely to implement measures similar to those of grocery stores, including limiting the number of customers who can come inside at the same time and requiring them to wear masks.

## Consumer Behavior

Because of health concerns, a sizeable percentage of the population could prioritize safety and refrain from being around large groups of people in close spaces. For this reason, live attendance at sporting events, concerts, theme parks, and conferences are likely to experience slow recoveries. We might also see an increase in the personal savings rate as a result of massive layoffs and the uncertain path of the economic recovery.

Although trillions of dollars of monetary and fiscal stimulus have been pumped into the system, people will not go out and spend money at a high rate if they're worried about their health or if they're unemployed. In addition, some businesses may be extra cautious because they don't want to be held responsible for a coronavirus outbreak.



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## Hope on the Horizon

There is a silver lining. The economy is beginning to reopen and there are ways in which the economic recovery could accelerate. Scientists are working on the development of scalable COVID-19 testing, an effective treatment, and a vaccine. Tracing mechanisms along with mass testing programs will make it easier to contain the virus and isolate regional virus outbreaks.

The quicker the economy recovers, the faster millions of recently unemployed Americans can go back to work. China's experience points to clues as to what the early stages of the economic recovery will look like.

GDP growth in China contracted 6.8% in the first quarter of this year because of lockdown measures, and while economic activity has been tepid since China's economy began to open up, there have been some positives.

Although retail sales in China are well below pre-virus levels, industrial production is starting to pick up—certainly a start in the right direction. At the same time, social distancing measures have resulted in restaurants in China operating at 50% to 70% capacity. In time, economic growth in the U.S. will normalize, but phase one of the reopening is likely to have its challenges.

# Social Distancing Trends That Could Be Here to Stay

A number of trends that have developed as a result of mass quarantine may be here for the long haul. Working from home may become more the norm after the pandemic is over. Video conferencing software that can accommodate large group meetings from remote locations and other technologies have made it possible for millions of workers to keep businesses moving from home.

If a large enough percentage of the labor force continues to work remotely and meet virtually instead of in person, roads could become less congested and business travel would likely decline. Moreover, companies can slash overhead costs by reducing their office space and employees would cut transportation costs and achieve better work-life balance by skipping the commute.

Video meetings could become more common in other areas as well, including consultations with attorneys, doctors, accountants, and other services that are traditionally offered face to face. In response to these changes, there will be enhancements to digital network security infrastructure and more cloud computing services.

In the wake of the pandemic, grocery stores experienced a sharp rise in online orders for delivery and curbside pickup, and after stay-at-home orders are lifted, consumers may find they prefer the convenience.

For many online and in-store shoppers looking for their preferred items, it was hard not to notice how the global supply chain experienced disruptions. In response, several countries might in-source production of essential goods to ensure adequate stock during emergencies. We could see regionalized supply chains for pharmaceuticals, critical medical supplies, and strategic goods—driving up the demand for domestic manufacturing labor.



# Conclusion

Researchers are working around the clock and on a global scale to develop better testing, new treatments, and a vaccine for COVID-19. There is an all-out war to fight this disease. In time, we'll get to a place where there is a sense of normalcy and the economy will enter a new expansion. Before we do, however, the economy will operate at less than full capacity and the unemployment rate might remain elevated longer than expected.

But there is hope. Shelter-in-place orders will be lifted and the economy will open up in stages. The federal government has already provided trillions of dollars of fiscal and monetary stimulus to aid in the recovery effort, and more will arrive. If history is any guide, the stock market is likely to be in a new uptrend ahead of when the economic recovery is firmly in place.

Spring weather has arrived, flowers are in bloom, and trees are green again. A lot of the country has been in quarantine since the second half of March, and cabin fever is setting in; like its people, America's economy is ready to come out of hibernation. New business practices, along with scientific and technological innovation, will lead the way to recovery. There will be some challenges ahead to be sure, but this too shall pass.

Everyone at Cetera Investment Management hopes you and your loved ones stay healthy and safe during these challenging times.

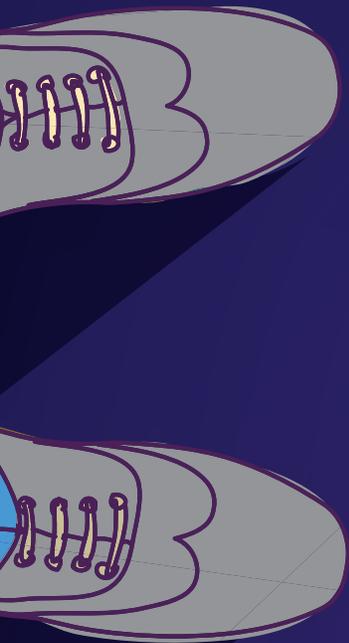
<sup>1</sup> COVID-19 Dashboard by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU). Retrieved from: <https://coronavirus.jhu.edu/map.html>

<sup>2</sup> Centers for Disease Control and Prevention. Retrieved from: <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>

<sup>3</sup> Barry, J. (2005). *The Great Influenza. The Story of the Deadliest Pandemic in History*. New York: Penguin Books

<sup>4</sup> Centers for Disease Control and Prevention. (2018, March 21). *History of 1918 Flu Pandemic*. Retrieved from: <https://www.cdc.gov/flu/pandemic-resources/1918-commemoration/1918-pandemic-history.htm>

<sup>5</sup> History.com Editors. (2010, October 12). *Spanish Flu*. Retrieved from: <https://www.history.com/topics/world-war-i/1918-flu-pandemic>



**This report was created by Cetera Investment Management LLC.**

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