

October 2020

Economic Alphabet

By Clinton Orr

In the spring of this year, with the onset of the COVID-19 pandemic, around the world, travel was restricted, businesses and schools were closed, and social distancing measures were put in place. Economies worldwide fell into recession. Months later we are starting to bounce back from the initial economic decline. Experts have used an alphabet soup in an attempt to forecast what will happen next. I have read reports in the paper and heard analysts on TV talk about the potential recovery in terms of a V, U, W, L, Z, check mark and even a K. It can be a little difficult to follow, and I won't go through all the letters, but I wanted to spend some time helping folks decipher the economic alphabet.

In general, when discussing an economic recession and recovery, it is common to graph the growth of the country's Gross Domestic Product. When using letters to describe an economic recovery, folks are often referring to the graph to see how the recovery would be visually represented.

V-Shaped Recovery: This is the most optimistic scenario; a steep decline followed by a rapid recovery. With a V, the overall recession is short. In Canada we experienced a V shaped recovery in the early 90s. Our economy slipped into recession in the middle of 1990 and roared back to life in 91.

U-Shaped Recovery: In this model we bump along the bottom for a while prior to experiencing a recovery. The overall recession lasts much longer, often years. In Canada the sub-prime melt down of 2008 and 2009 somewhat followed this pattern.

W-Shaped Recovery: After the initial drop, the economy experiences a quick recovery, only to slip into a second decline. This is sometimes called a double-dip recession. The US went through a W-Shaped Recovery in the early 80s. High inflation and an oil crisis pushed the US into a brief recession in 1980. They recovered, but with rising interest rates the US economy slipped back into recession in 81.

Clinton Orr

**Vice President, Investment Advisor
& Portfolio Manager**

T: 204.259.2860

Beausejour: 204.205.0101

corr@cgf.com

Kevin Becker

**Investment Advisor &
Portfolio Manager**

T: 204.259.2863

TF: 1.877.259.2888

kbecker@cgf.com

Alicia Roache

**Investment Advisor Assistant
(Licensed)**

T: 204.259.2851

asroache@cgf.com

Maricar Irwin

Investment Associate

T: 204.259.2861

mirwin@cgf.com

Adam Buss

Wealth & Estate Planning Specialist

T: 204.259.2865

abuss@cgf.com



**Canaccord Genuity
Wealth Management**

1010-201 Portage Avenue,
Winnipeg, MB R3B 3K6

beckerorr.com



cgf.com

.../2

L-Shaped Recovery: This is the worst-case scenario; economic growth falls and does not recover for a long time. The only example of an L-Shaped Recovery I can think of is Japan. In the early 90s Japan's economy slipped into recession. For a variety of reasons Japan's economy spent the next decade bumping along the bottom. It is known as "Japan's Lost Decade".

K-Shaped Recovery: Initially most economists were debating if the current recession would follow one of the patterns discussed above. After a few months of data, many analysts are now forecasting that the COVID-19 recovery will follow a K-Shaped Recovery. In this pattern, the overall economy bounces back, but growth is not evenly distributed. There is an economic divide, some sectors experience strong growth while others struggle and might even continue to decline. In most recoveries there are divergent sectors, but in a K-Shaped recovery it is far more pronounced. The divergent sectors form the two prongs of the K. In 2020 the general trend has been that large companies have been able to weather the storm better than the small companies. In addition, companies and sectors that can harness technology and have its employees work from home have done better than those that can't. I think it might be easiest to see this divergence if you dive into the sectors and look at specific companies. For example, compare the recent earnings of an airline company with the recent earnings of an e-commerce company like Amazon. That's an extreme example, but the two prongs of the K are clearly visible.

While many economists are currently forecasting a K, 2020 is peculiar year, we have not had a pandemic led recession before. It is likely that once there is a treatment or a vaccine, the shape of the recovery could change.

The above is by no means an exhaustive discussion, there are many nuances of how economies can bounce back. Hopefully our review will provide a bit of clarity and help you cut through the jargon and better understand the current situation.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is a vice president and portfolio manager with Canaccord Genuity Wealth Management.



CANACCORD GENUITY WEALTH MANAGEMENT IS A DIVISION OF CANACCORD GENUITY CORP., MEMBER-CANADIAN INVESTOR PROTECTION FUND AND THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

This newsletter is solely the work of the author for the private information of clients. Although the author is a registered Investment Advisor at Canaccord Genuity Corp., this is not an official publication of Canaccord Genuity Corp. and the author is not a Canaccord Genuity Corp. analyst. The views (including any recommendation) expressed in this newsletter are those of the author alone, and are not necessarily those of Canaccord Genuity Corp. The information contained in this newsletter is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or Canaccord Genuity Corp. assume any liability. This information is given as of the date appearing on this newsletter, and neither the author nor Canaccord Genuity Corp. assume any obligation to update the information or advise on further developments relating to information provided herein. This newsletter is intended for distribution in those jurisdictions where both the author and Canaccord Genuity Corp. are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is prohibited. The holdings of the author, Canaccord Genuity Corp., its affiliated companies and holdings of their respective directors, officers and employees and companies with which they are associated may, from time to time, include the securities mentioned in this newsletter.

The preceding information is for general information only and does not constitute tax advice. All investors should consult with a qualified tax accountant.

Tax & Estate advice offered through Canaccord Genuity Wealth & Estate Planning Services.

FOR DISTRIBUTION IN CANADA ONLY