In the Economy...

A K-Shaped Recovery?

Six months into the pandemic, we continue to track the economic recovery. While we had hoped for the quick snapback of a V-shaped recovery, it increasingly looks like we are settling in for a K-shaped recovery (discussed further in a blog by Suzanne Clark) where things sharply rebound for some but keep declining for others.

What does a K-shaped recovery look like? Take employment, for example. On the one hand, the financial services sector was at 97% of its pre-pandemic employment level last month. Construction and manufacturing were at 94%. On the other hand, leisure and hospitality were only at 74% and personal services were at 78%. Even within industries there can be a K-shaped recovery. This explains why some retailers are setting records while others are headed for liquidation.

Consumer spending has been fairly robust, thanks in no small part to extra unemployment money and the $1,200 stimulus checks. However, spending habits have changed. People are spending *more* on home improvements, electronics, and food and *less* on leisure and travel.

What's the right policy response? In a K-shaped recovery, there is a risk that broad-based economic support—appropriate in a normal downturn—expends money where it is not needed. Alternatively, providing no support at all threatens to push some sectors, employers, and employees off the cliff, which could drive a larger recession. That is why the Chamber has called for Congress to enact targeted and temporary support. We should help those businesses that can't fully reopen under public health guidelines bridge this period. Displaced employees should be supported with targeted unemployment benefits *and* job training.

What's next? As we look at new economic data from employment figures to GDP, we will be breaking the numbers down to see where the economy has recovered and where it is still hurting. This may tell us more than the topline figures about how far we have to go to truly recover.

The Cost of Inaction

Our leaders deserve credit for early monetary and fiscal actions that prevented the initial economic fallout from being much worse. But more federal relief is needed, and gridlock has once again seized Washington. Economic data and analyses don't always move lawmakers to act, but real-world impacts do. The Chamber has started adding up the cost of inaction by various measures to ramp up the pressure on Washington. The longer lawmakers continue to wait, the worse the situation will become—and the more it will cost all of us. Some examples—

- **For schools:** The average school district will face $1.8 million, or $485 per student, in additional costs for disinfectants, personal protective equipment, and other preparations to bring students into classrooms this year.

- **For airlines:** If Congress fails to provide additional relief, U.S. airlines may be forced to furlough 75,000 pilots, flight attendants, mechanics, and other workers.

- **For restaurants:** If Congress fails to provide additional relief, the restaurant industry is on course to lose more than $240 billion by the end of 2020.

- **For small businesses:** Approximately 4 million small businesses, or almost 13% of America's 31 million small businesses, have likely already exhausted their Paycheck Protection Program funds. The longer Congress is paralyzed by inaction, the more storefronts lining Main Street are shuttered.

Learn more:

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