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What shape will S'pore's economic recovery take?

Trajectory of GDP depends on factors like labour market here, global containment of the virus

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Like most countries, the impact of Covid-19 on Singapore's economic activities has been severe. In the second quarter of this year, the Republic's economy experienced a historic contraction of 13.2 per cent.

At this run rate, the annualised rate represents a contraction of 42.9 per cent in economic output.

Market analysts and economists have been using shorthand to describe various "shapes" of economic recovery – such as V-shaped, L-shaped, W-shaped and even K-shaped – to characterise the trajectory of the gross domestic product (GDP) that lies ahead of us.

These signal different levels of optimism and the underlying long-term effects of the pandemic.

The most optimistic situation is a V-shaped recovery, which treats the current pandemic as a pause button. Once we resume, economic life will return to normal, and GDP will quickly bounce back to pre-pandemic levels.

The most pessimistic form of recovery will be the anaemic L-shaped one.

This posits that the pandemic will yield permanent effects on the economic capacity of the country. The loss in investment, employment and output will cause a permanent change in global economic growth.

Somewhere in between these two extremes are the W-shaped and K-shaped recoveries. The W-shaped recovery describes a volatile path towards economic recovery, whereas the K-shaped recovery lays out different outcomes depending on the nature of the sectors.

A W-shaped recovery happens when we have ineffective containment policies that lead to a resurgence of Covid-19 cases after a general resumption of activities, creating partial recoveries and subsequent downturns.

KEY FACTORS THAT DETERMINE SHAPE OF THE RECOVERY

It is hard to predict when the coronavirus pandemic will end.

Even if the situation is contained in our local communities, much of the recovery in Singapore will depend crucially on the success of containment efforts in other countries.

The demand for exports and the revival in tourism-related sectors will require a healthy global population and global economy.

To ensure a speedy recovery, consumption needs to pick up, and for that, households need to feel safe.

The sense of security will translate to consumer spending once the economy opens up fully.

When a family member loses his or her job, the family may fall behind in their credit card payments and mortgages, reducing the household's ability to spend.

Even for households whose members are lucky to remain employed, greater uncertainty about the future alone can induce a reduction in consumption as families increase precautionary savings.

Hence, consumer spending will be the ultimate litmus test of whether we are headed on the road towards a speedy recovery.

Preventing a cascade of business bankruptcies will be another important front to tackle if we want to ensure a speedy recovery. It takes time to build businesses and investments are fundamental in determining long-term economic growth.

As long as we can prevent systemic bankruptcies when the economy fully opens up, investments will increase in tandem, boosting economic activity.

Finally, guaranteeing that the labour market has enough flexibility to reallocate workers in the post-Covid-19 economy will be essential.

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Unemployment and retrenchment are painful experiences for workers, not only because they suffer a loss in income, but also because these have long-term scarring effects if they are not able to find new employment quickly.

Prolonged periods of unemployment tend to generate loss in human capital and skills.

For that reason, the economic damage of the current pandemic can leave a scarring effect that can be translated into long-term unemployment.

That said, traineeships for recent graduates and training programmes for retrenched workers will mitigate the long-term damage of the current pandemic.

The road ahead of us will be uncertain, but recent data in the labour market provides some hope for a speedy recovery.

The mix of retrenchment – that is, the termination of permanent or term contract employees – and temporary layoffs in the current environment is very different from past recessions.

In Singapore's previous recessions, similar to the period following the global financial crisis, we observed a historical spike in retrenchment.

In contrast, in the current recession, companies are adopting temporary cost-saving measures, placing employees on shorter work weeks or enforcing temporary layoffs instead of permanently laying off staff.

This difference is important, and it bodes well for a speedy recovery.

Once economic activities pick up, staff who were temporarily laid off can quickly resume work, avoiding a prolonged spell of unemployment.

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