

## Five stylized facts on the Great Lockdown



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*We outline five stylized facts that distinguish the Great Lockdown from other recessions and have important implications for the unfolding recovery. We argue that the recession will probably be V-shaped, not only because of quick policy responses which prevented a financial crisis, but also the world learned to adapt to the pandemics faster than expected and vaccines were developed in record time. Yet, the legacy of unprecedentedly large policy responses on the balance sheets can affect the shape of the recovery. In particular, the corporate sector balance sheets can hide bad surprises once exceptional measures expire. At the same time, households, who built up a stock of savings and invested in durable goods, are likely in a stronger position compared to other recessions and their pent-up demand could power the recovery.*

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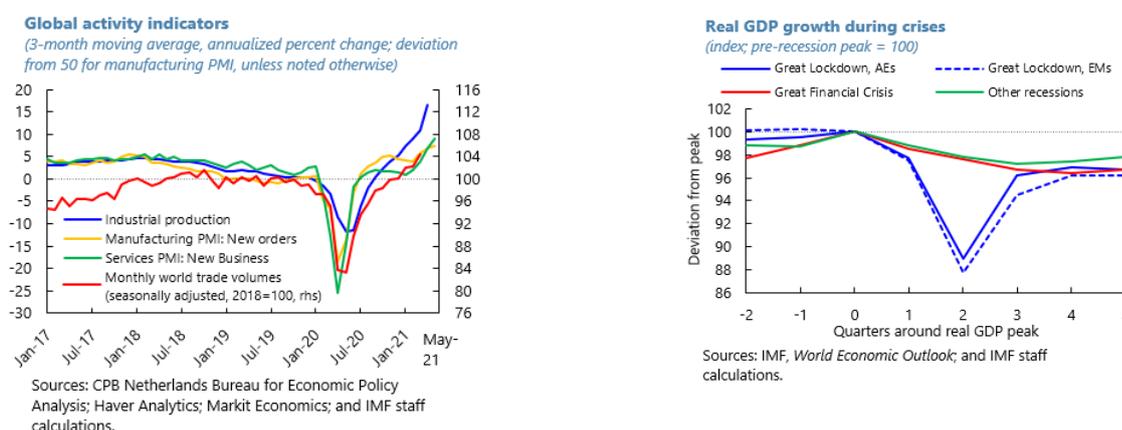
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## Fact I: A V-shape recession after the vaccine

At the beginning of the COVID-19 crisis there was a lively debate about the depth of the recession and the speed of the recovery. The discussion revolved around which letter would best describe the output dynamics: “L”, “V”, “U”, or “K”? This alphabet soup reflected the little we knew about the nature of the recession. If the proximate cause—the pandemics and the measures to contain them—were known, the propagation mechanisms were unclear. Was it a demand or a supply shock, or both? Which one would prevail? Now that several countries are on track with vaccination, we can observe a pattern: as the population of a country gets vaccinated the recovery becomes more robust. That is, conditional on a significant fraction of the population getting vaccinated, the recovery likely takes a “V shape”.

Yet, from a cross-country perspective, the recovery could turn out to be more akin to a “K-shaped” one as poorer countries are still waiting to have a significant proportion of the population vaccinated and activity remains subdued.

**Figure 1: Virus, Variants, Vaccines, and V-shaped service-intensive recession**

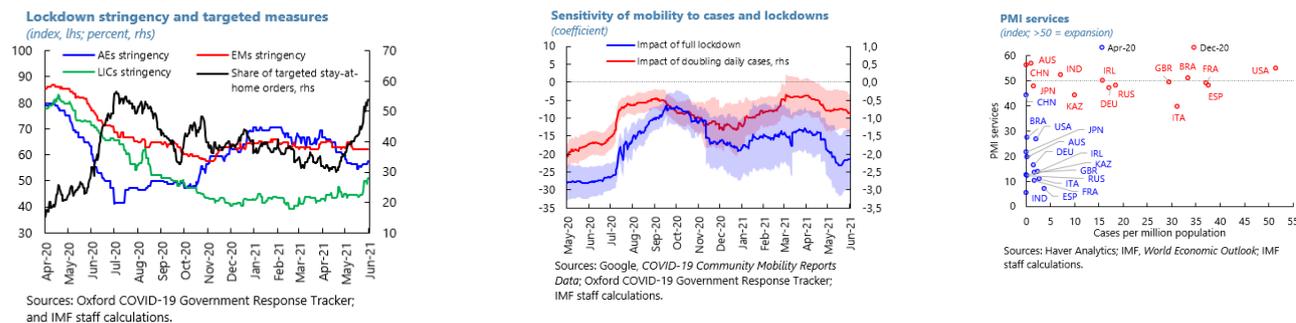


## Fact II: “V-shaped” is due to many factors

Which factors made it a “V-shaped” recession for countries where vaccination is more advanced? There are, at least, four concurring reasons: 1) strong policy response; 2) no financial crisis after the initial drop of the markets in March; 3) scientific breakthrough and development of the vaccine happened much faster than anticipated; 4) adaptation and learning. The last factor was particularly interesting. Agents (households, governments, and firms) learned to live with the pandemic and recurrent lockdowns.

This learning is illustrated in Figure 2. The left panel shows that stringency measures declined over time. The middle panel shows that the sensitivity of mobility to lockdowns and increases in COVID-19 cases declined over time. Also, the contraction in the service sector that was so prominent in April 2020 was generally irrelevant in December (right panel).

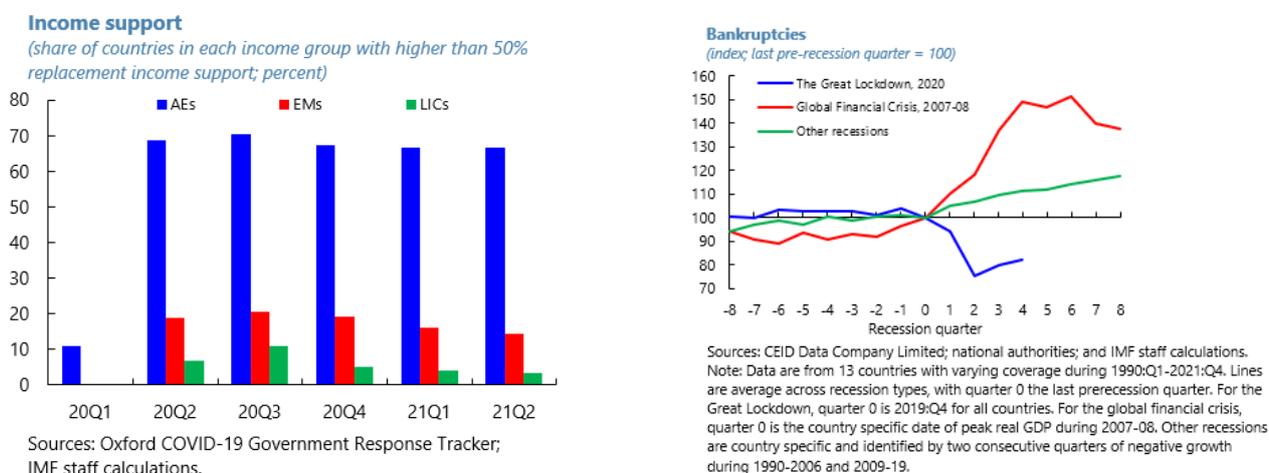
Figure 2: Learning to live with the virus



### Fact III: Exceptional policy support

One key factor contributing to the V-shaped recession is the exceptional policy support. This took the form of direct household support (also in emerging economies) and of forbearance. The chart below illustrates both facts. In sharp contrast with what happened in previous recessions, bankruptcies went down in advanced economies. This was certainly important to avoid the deepening of the crisis but creates a challenge for the future as regulatory forbearance may have hidden ‘zombie firms.’

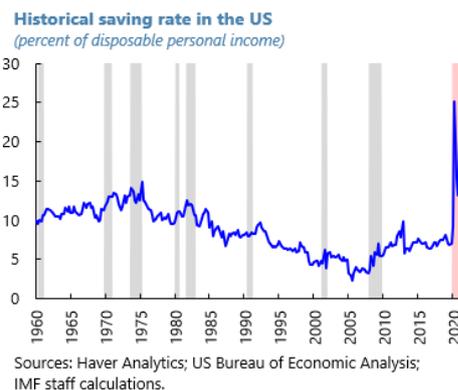
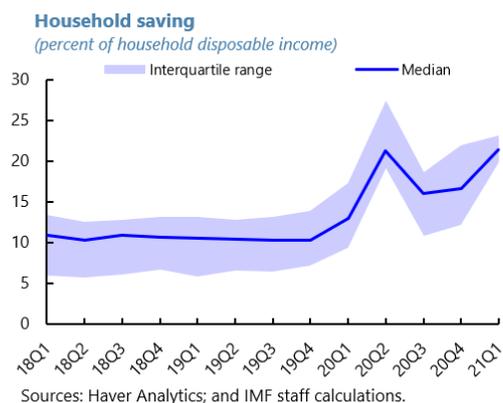
Figure 3: Exceptional support (the snow blanket effect)



### Fact IV: Unusual saving behavior

If support to companies may have created zombie firms, support to households has had clear effects on household saving, which boomed in all advanced economies (left chart). This is in contrast with previous recessions in the US (right chart). The unusual behavior of the household saving rate is because households had few opportunities to spend the direct fiscal support and will help the incipient recovery once mobility restrictions ease. The US saving rate spikes also reflected the especially large and broadly targeted government transfers.

Figure 4: Record saving rate

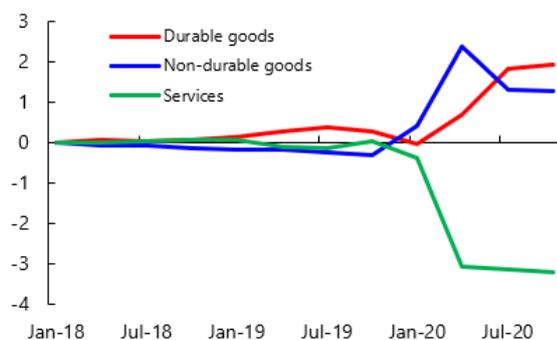


### Fact V: Unusual consumption patterns

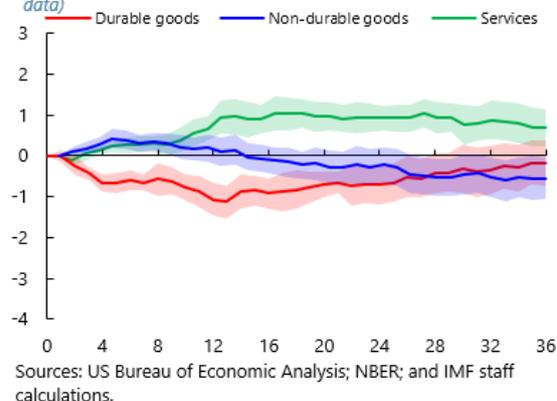
If the saving rate was abnormal, how do consumption patterns look like? They were also very different during the Great Lockdown compared to other recessions. Consumption of durable goods boomed while the consumption of services collapsed, consistent with the evidence showing that the pandemic hit contact-intensive sectors harder, and, with people spending more time at home, increased demand for electronics, furniture, and other consumer goods. ■

Figure 5: Unique consumption patterns

**Consumption patterns in advanced economies during the Great Lockdown** (cumulative changes in the share of total consumption; quarterly data)



**Consumption patterns in the US during past recessions** (cumulative changes in the share of total consumption; monthly data)



### About the authors

**Francesco Grigoli** is an Economist in the IMF's Research Department and an adjunct professor at Georgetown University. Previously, he worked in the IMF's Fiscal Affairs and Western Hemisphere Departments and was a visiting scholar at Columbia University. He published extensively in academic journals on a wide range of topics in macroeconomics and international economics. His current research focuses on expectation formation mechanisms, monetary policy, and the role of firms' shocks in aggregate fluctuations. He received his PhD in Economics from the University of Insubria and holds a Master's in International Economics from the University of Sussex.

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