TRACKING THE POST- COVID ECONOMY:

The COVID-19 Economic Recovery Index©

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"In an industrial society, psychological benefits such as security, fulfilment, status, solidarity and conviviality are all delivered primarily through the jobs that people have or the work that they do."

— Ernst F. Schumacher, *Small Is Beautiful: A Study of Economics as if People Mattered*

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Overview

As oft repeated during a series of webinars, "Beyond the Headlines: The Current and Future Community & Economic Impacts of COVID-19" sponsored by the Jorge M. Pérez FIU Metropolitan Center, the impacts of the coronavirus pandemic are deep, far reaching, and expected to extend well into the future. After the initial economic shock and through the first ten months of the pandemic, the longer-term economic impacts have become clearer. In March-April, the job loss numbers were both stunning and unprecedented. South Florida lost over 677,000 jobs in the first months of the pandemic as the region's major industries – leisure and hospitality, transportation, and retail were immediately impacted. While much of the total job loss has receded, South Florida remains over 280,000 jobs short of where it was back in January 2020. Further, South Florida businesses within the most impacted sectors have faced substantial loss of revenue forcing many to close their doors.

With a better understanding of post-COVID economy, analysts are beginning to gauge various economic recovery patterns. The 2008 Great Recession, as moderate as it was in comparison to the current COVID Recession, offers some perspective in terms of length of recovery. Most notably, it took until 2013 following the Great Recession to return to 2007 employment numbers in South Florida. While different in its origin and characteristics than the COVID Recession, this period was marked by a massive loss of wealth, income stagnation, and previously unforeseen foreclosure activity. Given the toll the COVID-19 pandemic has already taken on the economy of South Florida, we can now project similar and even heightened levels of economic distress over the next several years compared to the Great Recession. This will play out during a period of economic transition fueled by consumer trends, technology, and industry restructuring in the coming years.

"Trouble with the Curve"

The unprecedented nature of the COVID-19 pandemic's economic shock has caused a good deal of consternation among economic analysts in projecting the shape and length of economic recovery. However, most analysts now agree the projected economic recovery will not follow historical patterns. At the start of the pandemic back in April, most economists cited in a Reuters Poll predicted a U-shaped recovery, where there would be prolonged stagnation before a recovery similar to the post-Great Recession. Other economists projected a more optimistic V-shape fast recovery with minimal long-term damage. This is the usual pattern of the modern American economy with periods of economic expansion followed by periods of contraction.

Since October, many economic analysts are now predicting a K-shape recovery in which the economy recuperates unevenly with a separate trajectory for two segments of society. The divergent K-shape lines show some portions of the economy quickly recovering, such as the communications and technology sectors, while others such as travel, tourism, and hospitality lagging. Essentially, the K-shaped spokes represent two sets of job sectors. Occupations that have survived due to remote work, telemedicine, communications, etc. may grow, while occupations in travel, hospitality, entertainment, and food services, which rely on in-person activities, will trend in a downward direction. How long the downward K-shape trend lasts will be determined by the Coronavirus pandemic and potential longer-term changes in consumer demand.

More recently, analysts have reacted to the second Coronavirus wave after the holidays and the real potential for a second recession. The resurgence of the Coronavirus would mean the U.S. and South Florida would be looking at a W-shape recovery meaning economic growth begins to rebound, as it had prior to the holidays, before falling back into a "double-dip" recession. The current situation is unique in how uneven economic impacts have been across sectors. This is a distinct change from the past when recoveries relied on broad economic factors like the unemployment rate and gross domestic product (GDP) with different sectors moving somewhat uniformly with one another.

Tracking the Post-COVID-19 Economic Recovery

The unprecedented nature of the COVID-19 pandemic's health and economic impacts and the uncertainty among economists on the shape of recovery, makes tracking national and regional indicators critically important for the nation and South Florida. An "economic recovery index" can provide such an analytical tool. An index is a statistical measure of change in a representative group of individual data points. Examples of the most frequently cited economic indices include Real Gross Domestic Product (GDP), Consumer Price Index (CPI), and Case-Shiller Housing Index. GDP is considered by most economists as the best measure of the overall condition of the economy because it includes the output of all sectors of the economy. However, with the post-COVID-19 economy, large aggregate numbers fail to capture the reality of a complex economy with diverse economic sectors and regions, with each sector and region performing differently. While either a K- or perhaps a W-shape recovery are all but certain post-COVID, the actual shape and timeline of the recovery will be affected by several factors, including the future spread of the virus and the degree to which the U.S. Congress intervenes with ongoing financial and fiscal support to local businesses, workers and local and state governments.

We now know a return to a pre-COVID economy will be long and arduous and South Florida's economy will remain highly vulnerable to future economic shocks. A post-COVID economic index would provide an important policy tool during this turbulent period for tracking the uneven nature of the recovery. An economic index would also function as an analytical resource for identifying more resilient economic development strategies and programs to make the South Florida economy less vulnerable. As was noted in the FIU Metropolitan Center's Policy Brief, *When Work Disappears: Planning the Post-COVID Economy,* the economic recovery following the Great Recession masked disturbing trends in terms of economic resilience and opportunity. Despite healthy job numbers, South Florida's pre-COVID economy was marked by wage stagnation, an increasing number of working poor and growing levels of housing distress. With the rapid growth of unstable, low-paying jobs and the failure of even full-time work to pay family-supporting wages, the pre-COVID economy was already at a tipping point. There is now the growing realization COVID-19 impacts will ripple through the economy well into the future. Given the severity of the economic fallout, the challenge going forward for policy leaders will be to establish fresh outlooks with new determinants of economic growth and opportunity in a post-COVID environment where supply and demand factors and conditions have been significantly altered. These supply and demand factors and conditions focused on the health and safety of consumers will be the drivers of innovation in the post-COVID economy.

The COVID-19 Economic Recovery Index©

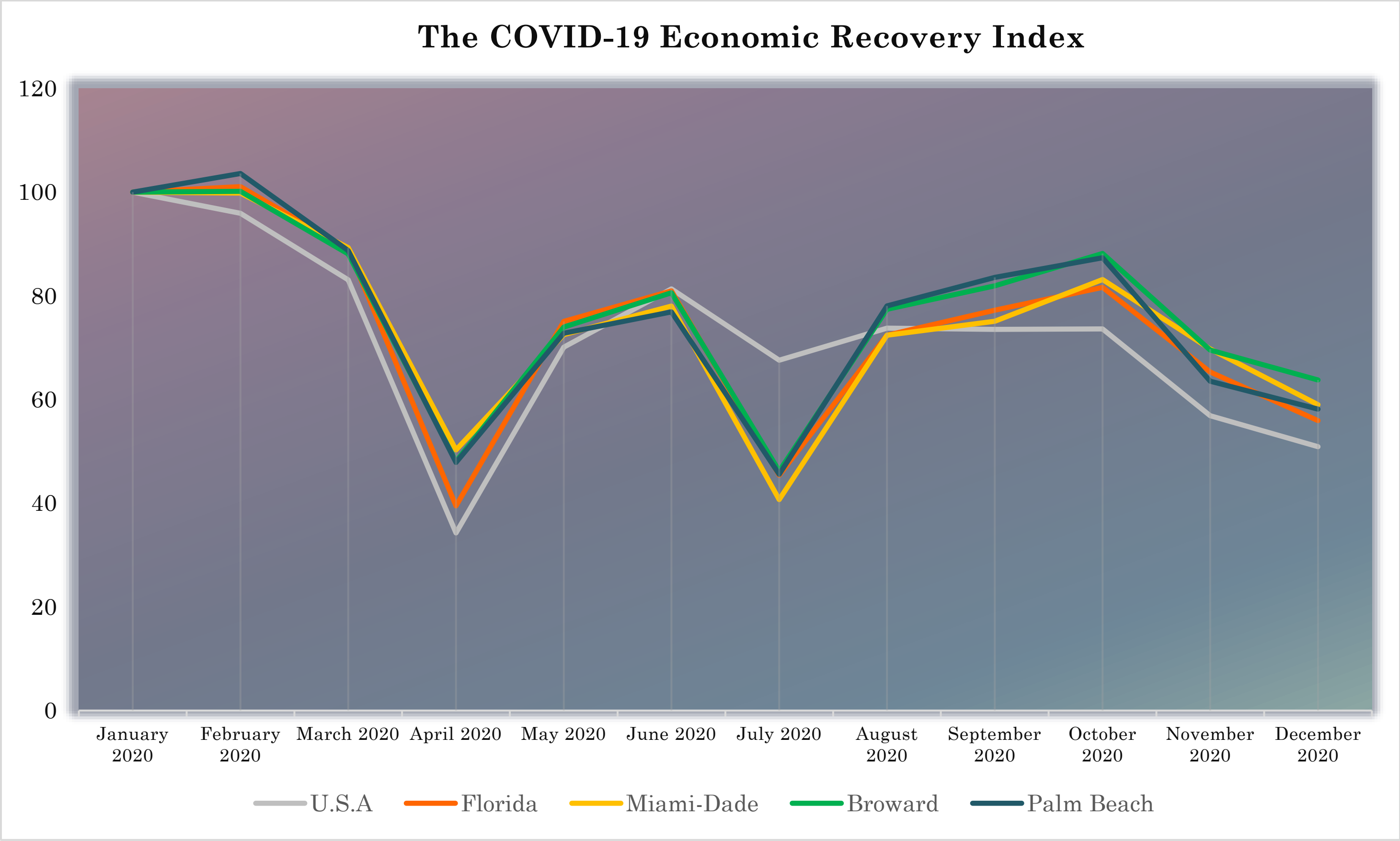
The COVID-19 Economic Recovery Index© developed by the Jorge M. Pérez FIU Metropolitan Center is a monthly economic Index which tracks key community and economic indicators at the county level against state and national statistics. The Index is supplemented by a quarterly "COVID-19 Economic Recovery: Behind the Numbers" series which provides a deep dive analysis and narrative on pandemic statistics, (un)employment figures, industry sectors, and housing market trends.

The monthly Index uses January 2020 as the baseline for measuring the COVID-19 economic recovery. The single index metric is comprised of a blend of leading, coincident, and lagging indicators. The Index establishes three categories essential to a full and more resilient economic recovery: COVID-19 health, economic performance, and housing affordability. A score is given to each category based on the level of recovery out of a total number of 100 points, with a higher score indicating a more positive recovery pattern. Indicators under the COVID-19 health category include infection rates, death rates, and vaccination rates. The economic performance category tracks job loss/gain, wages, monthly job postings, first-time unemployment insurance claimants, and the unemployment rate. The housing affordability category tracks sales activity, rent payments, and foreclosures.

The COVID-19 Economic Recovery Index is based on the assumption the COVID-19 pandemic is the main driver of the economic recession. Essentially, the COVID-19 pandemic is both a public health crisis and an economic crisis. This duel crises have triggered a combination of radically altered consumer behavior (demand) and government imposed lockdowns resulting in rapid and unprecedented job loss numbers.

The ten-month tracking of the economic recession reveals dramatic fluctuations based on COVID-19 infections. As the graph below shows, there was a dramatic plunge in the Index in the months of March and April of 2020 as COVID-19 infections first began to soar in the US and Florida. Leisure & Hospitality and Transportation were the first industry sectors to absorb the economic shock. This resulted in massive job shedding in April both nationally and in Florida. This was followed by a significant plunge in Florida during July as infection rates spiked and businesses went back into lockdown and consumer behavior responded accordingly. The graph then shows a plateauing from August to October and a gradual plunge of the Index once again as infection rates increased through the holiday season.

The COVID-19 Economic Recovery Index's lag indicators, housing affordability in particular, have yet to be a major factor. This is primarily due to government interventions that have provided income relief to workers who have lost their jobs and eviction moratoria that have kept impacted renters in their homes. However, both eviction and foreclosure activities are expected to rise precipitously absent federal and state interventions pre-recovery.



Source: Jorge M. Pérez FIU Metropolitan Center

The COVID-19 Economic Recovery Index© as a Policy Tool

Faced with the devastating, long-term economic impacts of the COVID-19 pandemic, policymakers and local institutions must be guided by a conceptual framework based on resiliency, inclusivity, and opportunity. By tracking the dynamics of the post-COVID-19 economic recovery over time and viewing the interconnectedness of the key drivers and indicators, policymakers and local institutions will be better equipped to handle their decision-making responsibilities.

Why is this important? We have come to learn how the COVID-19 pandemic has hastened the urgency to invest in building more resilient local economies. The future of rapidly evolving technologies, including artificial intelligence and advanced robotics, is happening now and have the ability to help reshape local economies that have lagged in performance, productivity, and opportunities for its workers.

Localities that actively invest in the necessary institutional support, technologies, worker skills, capital, and infrastructure to respond to these needs will be rewarded with more resilient and inclusive economies in the post-COVID-19 environment.

Building local industrial development capacity in the post-COVID economy is the essential first step for local governments. Successful cities and counties will take a more aggressive role in supporting the ability of local businesses to innovate, adopt new technologies, even in traditional industry sectors, and improve performance and competitiveness. Local awareness and the capacity to adapt and perform will become the essential ingredients of a post-COVID resilient economy.

The COVID Economic Recovery Index© will be released at the February 17, 2021 Webinar, "The COVID-19 Economic Recovery Index© and on the Jorge M. Pérez FIU Metropolitan Center website: http://metropolitan.fiu.edu