

COVID19 & Economy

What is the difference between Recession and Depression in the Economy?

When my neighbor is fired, it's a recession and when I am fired, it's a depression. 😊

Economists have defined Recession as a decline in GDP for two consecutive quarters.

Now due to the tremendous contraction that happened last March 2020 in the economy because of the COVID19, all financial and economical institutes are considering what happened as a deep recession (blended with depression).

More than 10 trillion dollars were wiped from the world wealth portfolio, more than 100 million people are looking for unemployment support, more than 5 trillion dollars of stimulus in the markets (quantitative easing) to create a resistance for the huge downtrend.....and still more yet to come.

But what is the reason??

Is it simply because of the lockdown everywhere! Companies, trade and consumption are experiencing a drastic reduction as compared to before, while in some sectors it is almost reaching zero.

If that is the case, then obviously once the lockdown is over and once everyone is back to work, things will be better again specially if there is a vaccine or a medication to the virus.

That's why governments, politicians and the business society are pushing and looking to reopen as soon as possible, wishing that everything can be back to normal soon.

In parallel, with the financial markets (Equity, CFDs, Forex, ETF ...etc.) trying to anticipate and accommodate all future risks in their prices, one can argue that the decline experienced is probably nearer to the bottom of the market, but once we reopen the market trends will be on the upside trying to reach the pre COVID19 records.

NO!

There is one important missing parameter here which is the Crowd Psychology (Mob Psychology, science invented by Gustave Le Bon 1841-1931): When someone has a car accident, say, he/she usually faces Post-Traumatic Stress Disorder (PTSD) symptoms, and consequently cannot drive for months before symptoms are over and confidence is regained.

Similarly, for the crowd i.e. for all of us, and because of the current pandemic situation, we have to expect that this PTSD will affect us, resulting in changes in our psyche, our minds, our performances and consumer behavioral activities, towards a consistent mindset which will prohibit us from acting in a similar fashion to what used to be our normal expenditure towards our needs (maybe) and desires (definitely).

In other words, even after the markets reopen, our consumptions (cars, clothes, real estate, tourism, etc.) will definitely not follow a pattern similar to the way we use to behave, even if/when a vaccine is found and the proper medication will be available.

Accordingly therefore due to the PTSD in the crowd behavior, and simply because the "consumption" resulting factor of the GDP will not be as expected and will not reach the levels to balance out the positive uptrend that the markets will indicate, one has to expect that the market will react with **another downturn** and this time will be much stronger because it will be a spiral recession.

And in order to help this period -which will definitely happen- and shorten it as much as possible,

* All stimulus packages will have to be aimed to the consumer's pocket directly, so as to consistently and rapidly encourage him/her to spend and revive the economy (similar to what happened in Singapore 1998 during the Asian financial crisis)

* Governments will have to show serious investments in Education and Research to contain any future pandemic crisis, (look how South Korea, Israel and Singapore handled the COVID19 situation), and lastly

* The trust between the people and the government (system) has to be developed and enhanced (One of the secrets in Germany).

YG

