May 14, 2020

Is This Time Different?

In December 2018, Your Blogger was responding to a “Request for Proposal” which is what funders issue when they want some work done. Often there are many proposals, and none, one, or several might be funded. As it happened a group of three Universities was planning to respond as a consortium, and we needed to meet.

“I can set up a Skype meeting,” YB intoned. “We have Zoom” responded a colleague at another institution. “It’s better than Skype”, he said. The rest, as they say, is history, as *Zoom* became a noun, verb, adjective and sometimes a curse. When COVID-19 hit, in late February 2020, the whole world was quickly on Zoom. And, as it happened, the consortium sent in a proposal, which was subsequently funded for a five-year period.

With the arrival of COVID-19, the Zoom and other technology and streaming stocks took off like rockets. The “tech-heavy” NASDAQ index, comprised of many of these stocks, followed suit. After an initial downward jolt following the initial COVID lockdowns, the NASDAQ rose from 6898 on March 15, 2020, to 16057 on November 14, 2021. This was an increase of 133%. Was it sustainable?

YB, with the perspective of having seen the semi-conductor stock price boom (as a boy) of the 1960s, and the Dot.com boom of the late 1990s, was skeptical. He and partner did NOT rush into these stocks, although some of their mutual funds might have (it is hard to monitor all of the activity). Was this time different? After some negative news from Netflix, among others, in April and early May 2022, the NASDAQ settled on May 13, 2022, at 11805, down 27% from its November 2021 peak.

So, is this time different? What will happen to the technology stocks from here? The development of computers in the 1970s and the 1980s built on the 1960s advances in electronics? The prominence of the Internet, after 2000, built on the establishment of tens of thousands of “dot.com” web sites. The economy moved forward at these times, largely as it had been moving forward previously.

In contrast, two years plus into COVID, in-person businesses are working at fractions of their 2019 capacities. Workers are reluctant to come in five days (or even three days) per week. The numbers of virtual meetings via Zoom, Teams, or other software stand at levels that would have been unthinkable in early 2020.

Movie theaters and restaurants are still trying to grasp the new realities of 2022 commerce. There are some movie blockbusters to be sure, but there are far more theaters closing than opening. Some restaurants have gone back (largely) to in-person dining, but many have transitioned to “take-out” or “pop up”.

Many of these new ways of doing business represent not a continuation of the trend that got briefly interrupted by COVID-19, but rather a "new business model."

YB has recently retired as a full-time University faculty member, but he observes that COVID-19 did for online education what years of advertising could not. Universities pushed online education for years, because they thought it was inexpensive to do, and bring a flood of new students at a very low incremental cost (it appears to be inexpensive to bring the 301st student into an online lecture set up for 300 people).

COVID-19 put everyone on line and millions of students are apparently demanding that it continue. This means more Zoom, more online platforms, and many other messaging, and conference apps. Most universities want the students back on campus, but there is considerable resistance.

Theaters want people back too, but millions in the United States and elsewhere still use Netflix, Amazon, Apple+, and other tech high fliers. Will these tech companies continue to survive and prosper? Will their stocks maintain their prices and will the companies prosper as they have recently?

It is wise to be cautious. In the mid-1970s YB interviewed for a position in Rochester, New York. Rochester, he was told, was virtually recession-proof because their anchor companies were Eastman Kodak, and Xerox. Both companies were strong and well-managed, and produced products that everyone wanted. History, of course, proved them wrong.

The relation of the stock market to COVID-19 depends on the long-term impacts of COVID-19 on the health of the population, and on the organization of its economic activities. By Gross Domestic Product terms, the economy has bounced back, and perhaps even overheated. But the longer-term organization of activities suggest that we will be meeting virtually, and streaming electronically, far more than one would have expected even two years ago. Analysts will continue to debate how these trends will factor into the stock market pricing of company assets.

Allen C. Goodman
Professor of Economics