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Some will start to spread that we are in a technical recession. How should we react?

Some will soon start spreading the message that we have technically entered a recession.

My friend G.Mazzeo wrote today that “by some early estimates, the U.S. economy, as measured by GDP, may have shrunk in the three months from April through June. Add that to the decline from January through March, and that would be a contraction for two quarters in a row. By an often-cited rule of thumb, that means the US economy is officially in recession”.

What should be our interpretation?

I feel intellectually closer to those who define the recession as a significant decline in general activity that is spread across the whole economy and that lasts more than a few months. In order to consider an economy in recession, the effects must be made especially visible on things like jobs, industrial output, etc. The criteria for announcing a recession must examine the depth of any changes, as well as how long declines seem to be lasting, and how broadly any trouble is spread. In sum, the assertion of whether or not we have entered a recession must pass inscrutably through the criteria of depth, diffusion, and even duration.

Therefore, and if you allow me, let's stop talking nonsense and stop listening to the doomsayers, whose definition of a recession does not go beyond the idea of two negative quarters in GDP. A very poor definition, and an insult to the intellect.

Then, are we in a recession?

Almost certainly not. While the "two-quarters rule" is there, a recession has never been declared without job losses. Jobs are still being added in the U.S. by hundreds of thousands monthly. The pace will likely slow, but, what else could we expect from an economy at full employment? Those who interpret the decline in the rate of job creation as the preamble to a recession should simply walk the neighborhood dogs.

Industrial production, another factor that figured prominently in declaring the 2001 recession, has also been rising steadily, at least through May.

Bottom line. How should we react?

I certainly don't know what will happen in the future. There are so many uncontrollable factors capable of causing any result, that it is almost impossible to predict anything today. But for now, if in the next few weeks, you hear someone say we're in a recession, just ignore them.

Best