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By Erik Ford



Are We There Yet

The chatter across the business and economic news sources is all about recession. Are we in a recession? When will a recession start? What are the chances? Is it inevitable? Will it be deep or shallow? So many questions and always the worry as to whether it will lead to the big “D”: Depression. One simple answer to one of the questions above is that a recession is indeed inevitable, eventually, as that is the nature of our cyclical economic activity. As for specifics and timing, well, that is more difficult to say.

The generally accepted definition cited for an economic recession is two consecutive quarters of decline in real gross domestic product (GDP). The National Bureau of Economic Research (NBER) is the government entity charged with declaring a recession. The reality is that the data inputs considered by the NBER in making its decision are much more nuanced and involved. The one truth is that any declaration of a recession having started comes after the fact. So, where are we now? As of this writing, we have had one quarter of economic decline, and many of the economic pundits are speculating on whether we will have a second as of the end of June. A recent survey by *The Wall Street Journal* of “top economists” has 44% of them predicting a recession in the next 12 months. It is much more complicated than two spot measurements and, for all of us, much more personal.

Our economy is vastly intertwined and interconnected. Some factors that may devastate certain industries may be beneficial to others. The nature of our innovation and free enterprise creates ebbs and flows through creative destruction, Schumpeter’s description of how economic progress leaves economic debris in its wake. Looked at another way, there may be mini recessions for certain industries or regions. When the economic forces result in a broader economic disruption, the recession is declared. One of the typical outcomes of a recession is increased unemployment. Interestingly we are experiencing very low unemployment and have more jobs than job seekers. How this fact plays into the depth of any coming recession will be interesting to watch, as the starting point may cushion the impact. Of course, the 2020 COVID-19 recession quickly shot up unemployment to a high not seen since the Great Depression, but that was a unique situation.

The issues pushing us toward an economic downturn are inflation and energy prices. Supply chain disruption, overhang from the pandemic, also continues to stress the economy. After enjoying a virtually non-existent inflation rate for several years, we have experienced an increase to inflation levels not seen in over 40 years. This is disconcerting to consumers, employers and employees. It leads to caution in spending, investing and planning. The

economic hesitancy caused by this naturally creates contraction in economic activity. Rising interest rates, one of the tools available to combat inflation, also curtails economic activity. The process can be self-fulfilling.

The financial markets reflect expectations for the future. While everyone waits for the recession to be declared, the markets have made that determination and moved on. Markets typically begin declining before the start of a recession is “declared” and begin to anticipate recovery, and historically, markets have always recovered. This roller coaster is what is difficult for individual investors and can lead to decisions made in panic on data of the past, when we are investing toward the future. So, when we ask the question about recession, “Are we there yet?”, the answer may be it’s in the rear-view mirror when it comes to our portfolios.

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