ATMOSPHERICS

07.14.23

U.S. RECESSIONS

Bottom Line Up Front:

- What defines a recession can be mystifying at times since it's hard to apply a binary reality (e.g., "in" a recession vs "not in" a recession) to a system as complex as a nation's economy; what is more certain is that recessions are a natural, as well as necessary, part of economic cycles.
- Between periods of economic recession are periods of economic expansion, and though recessions are painful, expansions have been powerful; over the past 70 years within the U.S. the average expansion has lasted 69 months with 24.6% GDP growth, while the average recession has lasted 10 months with -2.5% GDP growth.
- A few of the common indicators of whether an economy is heading into a recession are factors such as an inverted bond yield curve (2-year vs 10-year), the unemployment rate, and consumer confidence. However, in today's post-COVID environment, it is equally critical to understand how the unprecedented amount of government stimulus working its way through the system can distort the traditional view of the economy's 'health'.

INFORMATION

A view of the information space related to the topic of the week, based on on headline frequency.

US Recessions defined: The most common definition of a recession is what most news headlines will pick-up on – two consecutive quarters of negative GDP growth. But as with everything in life, it's not really that simple. Beyond GDP, are variables like employment levels, industrial production, trade, and retail sales which represent their own systematic-contribution to economic expansion and/or contraction. That's to say, in such a complex system, not everything will go up or down at the same time. Which brings up the question of 'who' or 'what' makes the call on whether we're officially in a recession or not. This too is not a simple answer, however a common "arbiter" is the National Bureau of Economic Research (NBER). Its name might suggest that it's a government entity, but it's actually a private non-profit which was founded in 1920. In its determination of whether the economy is in a recession (or not) it applies the broader definition of "significant decline in economic activity spread across the economy, lasting more than a few months..." normally visible by the variables listed above.

Why this topic is important right now: Over the past 11-12 months, the topic of 'recession' has been almost as volatile as the markets themselves. It comes in waves across news headlines; some believe the US has been in a recession that entire time, while others believe it's too far off to even worry about. Regardless of who is right, what is arguably more important is the fact recessions are a normal part of economic and business cycles with a history of indicators which organizations/individuals can learn from to better anticipate and plan for the inevitable economic shifts which come with both expansion as well as contraction.

TECHNOLOGY

AI Generated Image

" Recessions are crucibles within which ingenuity is forged. They impel us to question the status quo, to seek out and adopt new technologies that make our economy more robust. It's during these times that we sow the seeds of future prosperity. "

- ChatGPT 2023

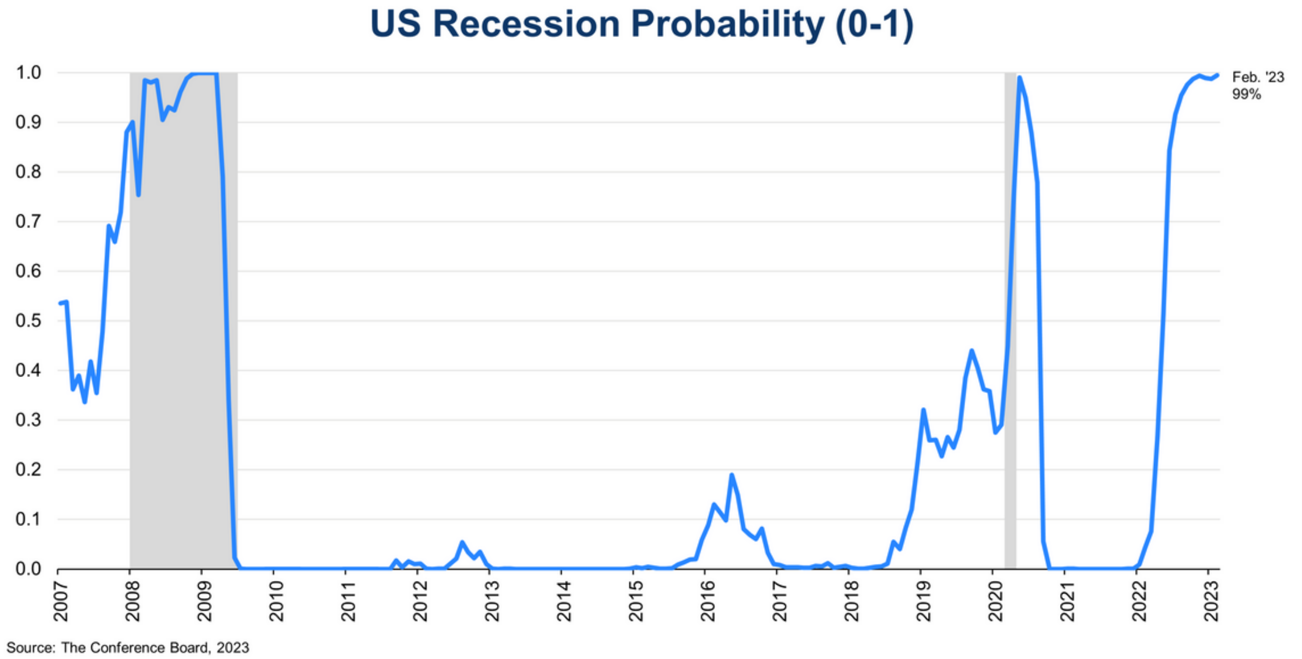
Recessions, despite their stark, forbidding reputation, serve as more than economic upheaval. They are a kind of litmus test, revealing the resilience and vulnerabilities of our economic landscape. These periods of downturn, often seen as a destructive force, can also stimulate adaptation and innovation, particularly in the realm of technology. Viewed from this perspective, recessions can be potent catalysts for transformation and progress.

Consider, for example, how recessions have historically fertilized the grounds for technological innovation. The oil shocks of the 1970s ignited a race to improve energy efficiency through technology. The dotcom crash of 2001, while initially wreaking havoc on Silicon Valley, paved the way for new tech giants to emerge from the ashes. Similarly, the financial crisis of 2008 birthed an era of fintech innovation as both businesses and consumers sought more cost-efficient online banking alternatives. Through necessity and opportunity, challenging times often inspire a surge of entrepreneurial activity that propels technological advancement.

Recessions are not merely economic calamities, but integral parts of our economic cycle. They cleanse the excesses of preceding booms and set the stage for future growth. More so, they offer rigorous stress tests for our systems, highlighting areas ripe for innovative solutions. In these environments, technology serves as an exceptional problem-solving tool, providing a beacon of opportunity amid adversity. However, the shield of technology does not protect all industries equally during recessions. Firms heavily reliant on discretionary spending, such as those in consumer electronics, can face significant downturns as consumers tighten their belts. In contrast, companies offering essential services, such as cloud computing or cybersecurity, generally weather these economic storms with greater resilience.

Despite their volatility, downturns can prune away the unnecessary, fostering fresh growth. They hold the potential for future technological advancements, pushing our adaptability and creativity. With fortitude and ingenuity, these periods can drive systemic evolution, underpinning robust, thriving economic landscapes.

SENTIMENT



People experience different concerns and issues during a recession. The sentiment is captured under the following categories:

Job Loss: Rising unemployment and layoff rates can be an immense source of worry for individuals who fear losing their employment or finding alternative opportunities to do the work they once enjoyed.

Financial Insecurity: Economic downturns often cause income losses, savings decrease, and stress increases as people worry about meeting their obligations while maintaining their standard of living.

Housing Market: Recessions have the ability to have devastating repercussions for the housing market, such as declining home values, foreclosures and difficulty in securing or refinancing mortgages. Owners might worry about property values while renters might worry about rising rents or potential eviction risks.

Business Closures: Recession can result in the closure of both large and small businesses, leading to job losses and decreased economic activity - this may have detrimental repercussions for communities reliant on these companies for employment or services provided.

Access to Credit and Loans: In times of recession, banks and financial institutions often tighten lending standards, making it more challenging for both individuals and businesses to gain access to credit or obtain loans for various needs.

Healthcare and Social Services: Economic recessions can put tremendous strain on healthcare systems and social service programs, prompting individuals to question the affordability and accessibility of health services such as unemployment benefits or other social safety nets during these difficult times.

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