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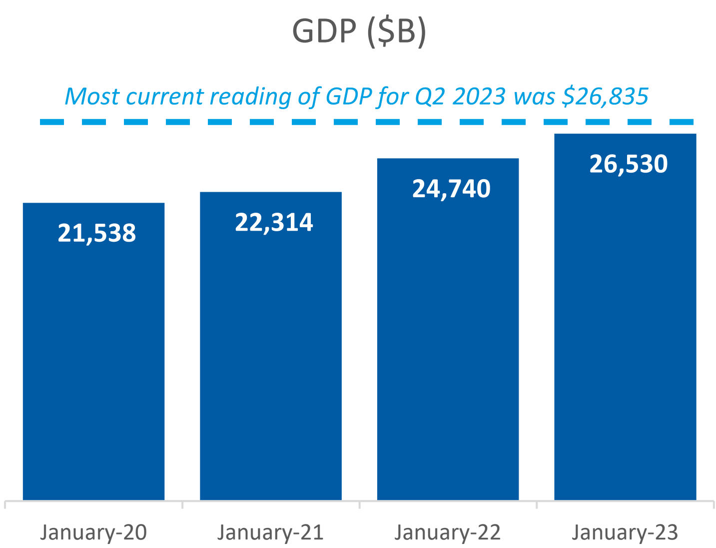
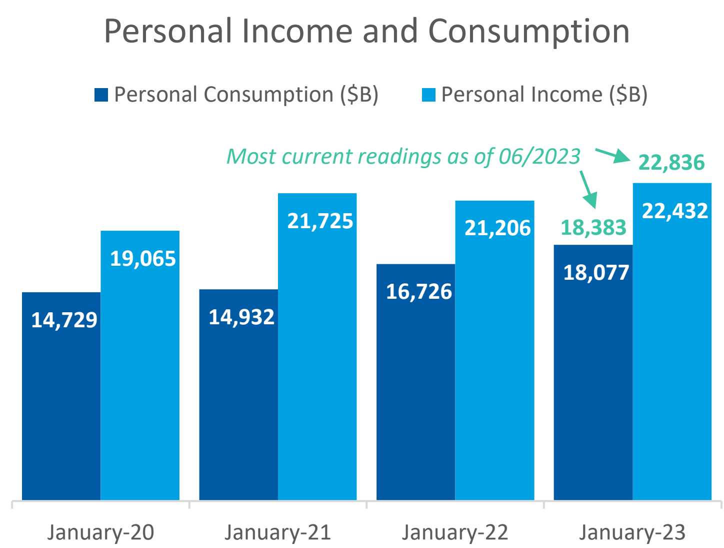
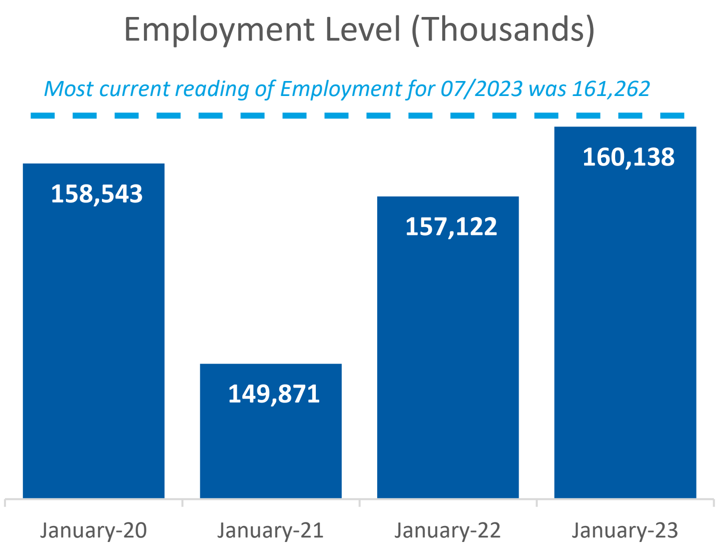
The Balog Group at Morgan Stanley

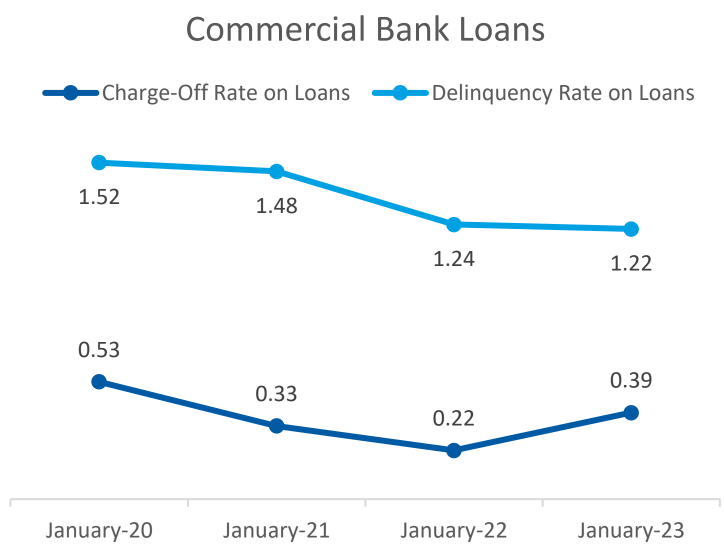
The Anatomy of a Recession *(or the Lack Thereof)* – 08/21/2023

Earlier in the year it seemed as if every pundit on TV was screaming “we’re heading for a recession!” Part of the reasoning for this was the yield curve inverted, which is a ‘bad omen’ and an ‘indicator’ that has preceded many recessions in the past. The difference this time? Employment levels have been steadily rising and the labor market has been extremely tight, with more job openings than unemployed[1]. It’s very hard to have a recession while at full employment as employment levels is one of the primary indicators of a recession, along with consumer spending and income which is in turn often tied to employment. Consumer spending is the biggest percentage of our GDP at 70%[2], so we repeat it again, employment is a big part of the economy. From what we’re seeing so far there are certainly headwinds given higher interest rates, but many of the pundits shouting “recession!” have just been way off base. Of the 6 indicators we monitor for a recession only one has headed in the wrong direction since January 2022 and that has been charge-off rates on bank loans. But mind you, those hit record lows during COVID[3] See the following charts for more details:









Sources: Bureau of Labor Statistics, Bureau of Economic Activity, and the Federal Reserve Bank of St. Louis

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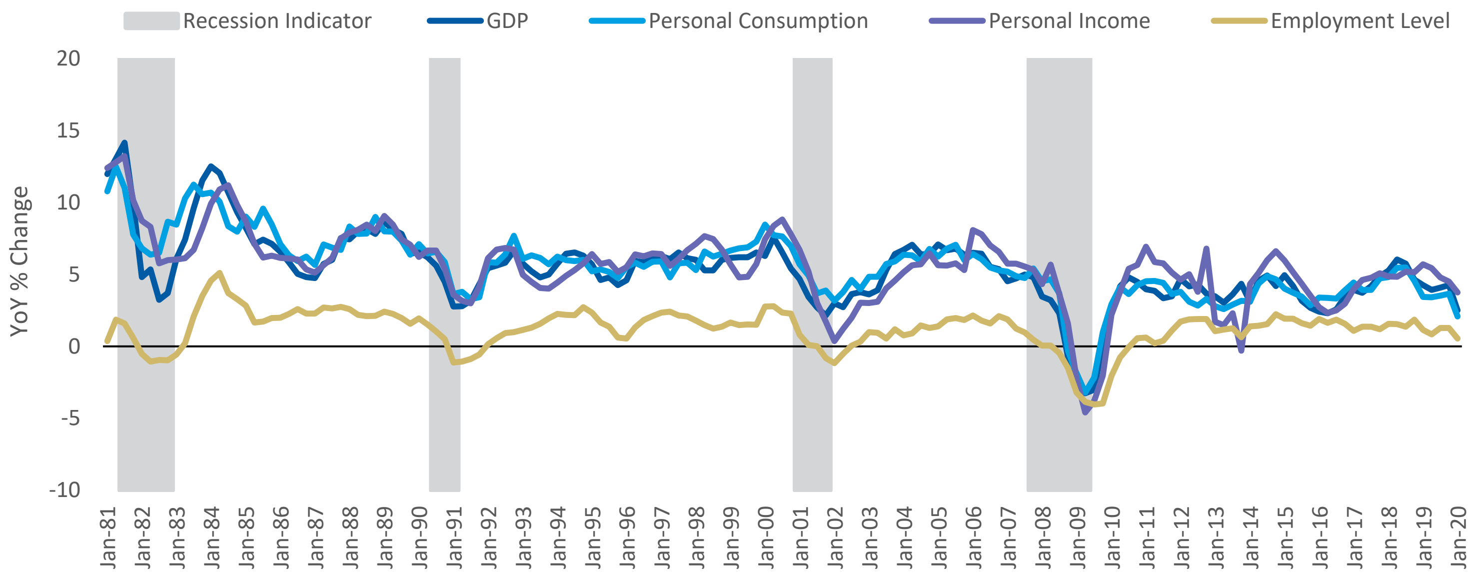
The Anatomy of a Recession

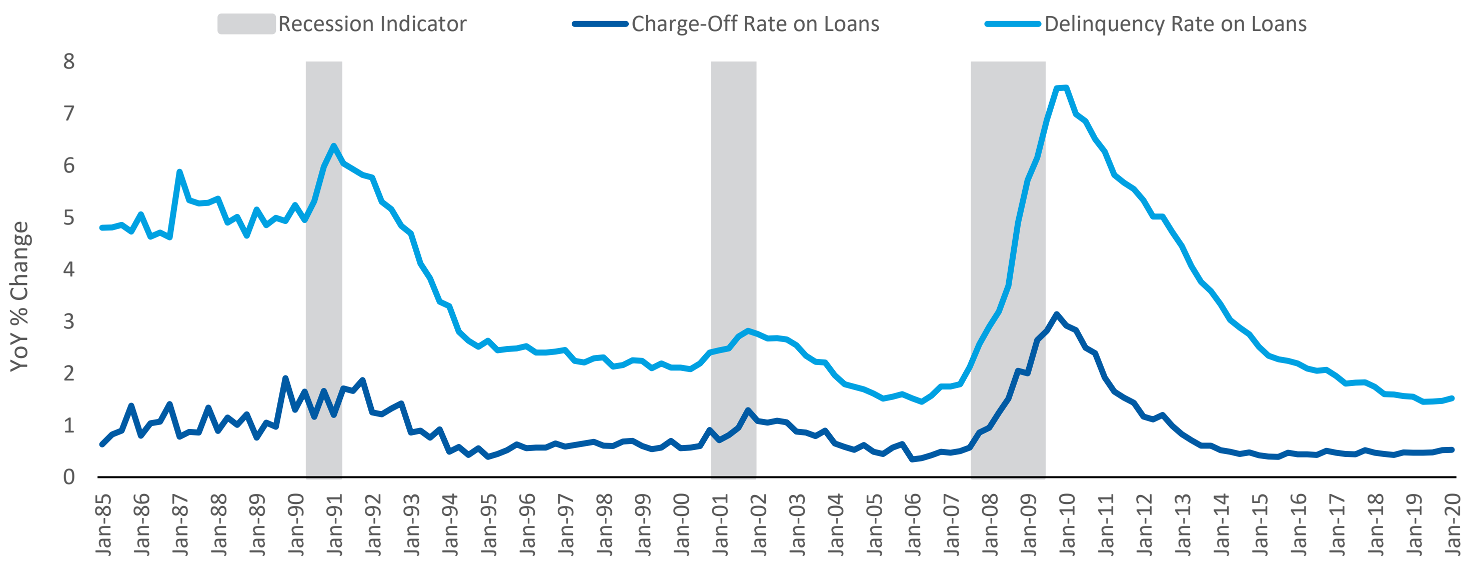
If we look at the last four recessions prior to COVID, you'll notice a trend of GDP, Incomes, Consumption, and Employment levels all take a hit. These are some of the economic barometers we monitor.



Sources: Bureau of Labor Statistics and the Bureau of Economic Analysis

The Anatomy of a Recession *[continued]*

Other indicators of a recession include a pickup in loan delinquencies and charge-offs. As people lose their jobs and businesses become less profitable, it's harder for loans to be paid back.



Source: Federal Reserve Bank of St. Louis

Sources:

1. Bureau of Labor Statistics
2. Bureau of Economic Analysis
3. Federal Reserve Bank of St. Louis

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