

Will there be a recession, yes or no?

If you are reading this article hoping to find out what is going to happen in less than 30 seconds, please stop now. You will be disappointed. If you have come to this article from LinkedIn or Twitter, you may go back to reading headlines there. Alternatively, if you still read the *Monthly Report* romantically in paper format, you can close it and find another journal.

We are living in the age of the tweet; in the era of short, blunt messages without nuances. And us economists are constantly asked to make statements to that effect. *Will there be a recession, yes or no?*, is the question of the moment. When we succumb to the temptation to respond in these terms, without reflecting the true uncertainty that surrounds us, the only thing we achieve is to erode the limited reputation that our wonderful profession is left with. The reality is very complex, and the situation in which the global economy finds itself today is proof of that.

After a summer in which many capitals have taken worrying, often disconcerting, political decisions, September was the month of mediocre macroeconomic data, confirming that the global economy, and particularly that of the major countries, is heading into a considerable slowdown. This term, «considerable slowdown», is a somewhat enigmatic concept that requires some clarification.

«Considerable slowdown» means very different things depending on the country we are referring to. In China, it means going from a growth rate of 6.6% in 2018 to 6.0% in 2019. In the US, it refers to a reduction in growth of a similar magnitude, but from a lower starting point, going from 2.9% in 2018 to 2.2% in 2019. In both cases, the slowdown should be regarded as considerable. Even so, the pace of growth maintained by both countries is also considerable. And depending on which aspect is emphasised – the slowdown in growth or the pace they still maintain – the difference in the message is... considerable!

In Europe, where the starting point was more fragile and the indicators seem to be more sombre, «considerable slowdown» means that growth will drop from 1.9% to 1.0% this year. For a proper assessment of these figures, it is helpful to keep in mind that the euro area's medium-term growth potential is clearly lower than that of China, as well as that of the US (both because of its lower capacity for innovation, and therefore its productivity, and because of its demographics). In fact, the growth forecast for this year is not dissimilar to the estimated growth rate

for the euro area over the medium term. And, by the way, this medium-term growth will not increase with an easier monetary policy, nor with fiscal stimuli that only boost demand in the short term.

In part, the slowdown is the result of the major economies being in a more mature phase of the business cycle. Intuitively: it was easier to grow when the unemployment rate was high and a lot of people were looking for work. Now, however, in countries such as the US and Germany where the unemployment rate is at an all-time low, it is increasingly difficult to expand production due to difficulties in recruiting new workers.

Despite this, heading into the mature phase of the cycle was expected to only lead to a slight slowdown in growth. Indeed, there are no significant macroeconomic or financial imbalances in the major economies, which is what usually causes expansionary cycles to end abruptly. However, in recent quarters, and beyond each country's idiosyncrasies, two factors of global reach have entered the scene that are causing the slowdown to be more marked than expected: the trade war between the US and China, and the crisis in the manufacturing sector and especially in the automotive industry (moreover, Europe is being affected by the uncertainty generated by the political situation in the United Kingdom). Although the impact of these factors on the rest of the economy is by no means insignificant, there is no reason for them to end up causing a global recession. This consideration is reflected in CaixaBank Research's forecasts for the next few years.

However, in order for this forecast to be met, the messages we receive need to be sufficiently rich in nuances so as to differentiate what is happening in the different areas of the economy. For the past several months, a sharp slowdown in global trade and a significant drop in the indicators of the industrial sector have coexisted with consumer and services sector confidence that remain relatively high. However, in the last few weeks confidence has begun to show signs of weakening, reaching less comfortable levels. It is telling that this is being accompanied by a dramatic increase in Google searches for the word «recession», up to levels similar to those reached during the Great Recession of 2009. Is society becoming overly pessimistic? The reality does not fit in a tweet.

Oriol Aspachs
Head of Research