

Dissatisfaction with the business cycle

Every 10 years, we ask ourselves the same question. Has a new decade begun? Many new year celebrations marked its beginning on 1 January 2020. However, in contrast with this popular spontaneity, a technically correct reading of the calendar tells us we should wait until 1 January 2021. Whatever the case may be, with the change of digit it is natural to look back and ask ourselves whether we have finally overcome a decade that was particularly turbulent for the economy. Similarly, it is natural to wonder where we are heading in the following 10 years.

As set out in this *Monthly Report*, **economic activity has kicked-off the new decade with cautious optimism**. Two of the major sources of uncertainty that gripped 2019, namely the tensions between the US and China and the fear that the UK would leave the EU without a deal, have eased with the signing of a basic trade agreement between the US and China and the confirmation of an orderly Brexit, which was made official 31 January. In addition, some indicators suggest, timidly, that the global industrial sector is leaving behind the worst of the weakness suffered in 2019, while services and domestic demand continue to follow the path of the economic expansion.

Yet, January ended with unease in financial markets and a rebound in risk aversion in the face of the coronavirus health emergency. As economists, we cannot shed much light on the medical element, but we can draw lessons from the economic impact of previous episodes. First, such phenomena can have a considerable economic cost. Second, their impact tends to be contained both in time (in the case of the coronavirus of 2003, the macroeconomic figures suffered for no more than one or two quarters) and in their geographical scope (probably concentrated in China and its neighbours). Third, they tend to be followed by a rebound in economic activity in the following quarters.

This agitation of the markets highlights a more general risk: that of another shift in economic sentiment. Just as uncertainty set the tone for 2019, the optimism or pessimism of the coming quarters will also determine the performance of the global economy. This prism helps us to analyse the modest pace of growth in the euro area in Q4 2019. The figure (0.1% quarter-on-quarter) was in line with expectations, but that does not mean it is not disappointing. Moreover, at these low levels, it is easy for minor disruptions (or statistical volatility itself) to trigger fears of recession. A prime example is France, where GDP unexpectedly contracted by 0.1% due to a decline in stocks, a somewhat erratic component. It will only take one more unexpected scare in Q1 2020 for there to be a slurry of headlines talking of recession.

There is no shortage of data to counter this pessimistic reading of the current business cycle. The world's leading economy, the US, is currently in the longest period of expansion in its modern history (a record of more than

150 years!), and it is doing so with very low unemployment and contained inflation. In Europe, unemployment (7.4%) is virtually at its pre-crisis lows (7.3% in 2007). Furthermore, if we focus on the Iberian Peninsula, in Spain the last labour force survey shows that today there are 400,000 more people with jobs than a year ago, while in Portugal unemployment has fallen below 7% (something not seen not only since before the financial crisis, but since 2002).

Yet, in spite of all these figures, **it does not seem that we are going to remember the past 10 years with such evocative names as «the roaring twenties» (1920s) or «Les Trente Glorieuses» (the thirty glorious years of 1946-1975):** in fact, a decade on, it is still common to hear people talk of the «economic crisis» in the present tense. Sometimes we are unrighteous: according to a survey by IPSOS, in 2018, the average Spaniard thought that 41% of people of working age were unemployed (actual figure: 11%; unemployment rate: 15%), in a widespread misperception (US citizens: 22%, *versus* the actual figure of 3%). But perhaps we are also less complacent and more critical with the world in which we live due to the harshness of the recession that irrupted in 2007. We cannot speak about a growth in employment of 400,000 people without noting that in Spain the rate of temporary employment is above 25%. The same goes for the euro area, where unemployment is at the same low point as it was 2007, yet broader measures of unemployment place it at twice the conventional rate.

This dissatisfaction with the current business cycle is compounded by the disquiet that is generated by underlying transformations, such as technological change. It is no coincidence that concern over inequality has resonated more in recent years, even though the phenomenon is anything but new (the increase in the income share of the top 1% began in 1980 in the US, and was much more intense between 1980 and 2000 than between 2000 and the present). In 2020, we change the digit with the challenge of embracing the opportunities offered by new technologies to shore up growth, but also to make it more inclusive and sustainable.

This brings us back to the question of when a decade begins. By the way, the origin of the disagreement is the number 0, which was not yet known in Europe when the *anno Domini* was defined in the 6th century. This is the system under which we count the years in our Gregorian calendar beginning from the birth of Christ. Thus, the beginning – point 0 – was named using the number 1, and the year 1 BC was immediately followed by the year 1 AD. Even knowing this history, in 2030 it is very likely that we will pick up the discussion again. We hope to do so with less dissatisfaction with the business cycle.

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