US: in recession?

Fears about a possible recession in the US economy have intensified in recent months, a risk which has crystallised with the second consecutive fall in GDP in Q2 2022 and with the inversion of some sections of the sovereign yield curve. The deterioration in some economic data, the significant tightening in financial conditions and the high degree of uncertainty surrounding the global macroeconomic outlook have triggered alarm bells. On the other hand, employment continues to grow steadily, while the signs from business earnings suggest that private consumption remains resilient. In this context, we take a look at various elements that might offer us some clues about how the US economy could perform over the coming quarters.

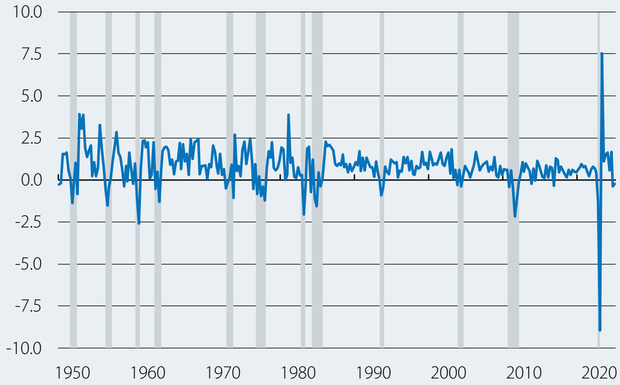
What is understood by the term recession?

First of all, it is worth clarifying what is meant by recession. Recession is often referred to when GDP declines for two quarters in a row. However, this definition is not universally used by all countries, nor does it match the empirical evidence from periods considered recessive (see chart).

In the case of the US, the National Bureau of Economic Research (NBER) is the entity responsible for assessing whether a decline in economic activity should be qualified as a recession. According to this institution, the economy enters a recession when there is a significant and widespread decline in economic activity across various economic spheres and for a relatively prolonged period. Depth, breadth and duration are the three features that usually define these periods, although the NBER does not provide rigid guidelines for these criteria.[1]

US: real GDP

Quarter-on-quarter change (%)



Note: *The areas shaded grey correspond to recessive periods according to the NBER.*
Source: *CaixaBank Research, based on data from the BEA.*

Besides GDP, the NBER tracks a series of monthly variables in order to broaden its reading of the economy's performance. Among others, these include real disposable household income, employment, consumer spending, retail sales and industrial production. Let us take a look at what has happened to these variables in recent months and how they compare to previous recessive episodes.

Recent economic indicators

If we look at what has happened to GDP over the last two quarters, the US economy could be considered to be in recession, with a cumulative decline of 0.5%. This is greater, at least in depth, than the decline registered

US: business cycle dashboard

*Trend (%) **

	Crisis of 1973-1975	Crisis of 1980	Crisis of 1981	Crisis of 1990	Crisis of 2001	Crisis of 2007-2009	COVID crisis	Average 2002-2006	Average 2015-2019	Last 3 months	Latest figure
Real personal income excluding current transfer receipts	–3.3	–2.8	0.7	–2.6	–2.0	–3.8	–22.1	3.1	2.5	0.8	5.1
Employment (Establishment Survey)	–0.8	–1.5	–2.1	–0.3	–1.6	–3.3	–30.3	0.9	1.6	3.0	2.5
Employment (Household Survey)	–0.6	–1.9	–0.8	–1.5	–1.3	–2.8	–34.9	1.4	1.5	0.1	3.4
Real Personal Consumption Expenditures	–0.6	–1.6	1.2	–1.0	2.6	–1.4	–44.9	3.5	2.5	1.0	2.5
Real Retail sales	–	–	–	–	8.3	–3.6	–49.7	8.4	5.6	14.6	23.4
Industrial production	–8.1	–9.7	–5.2	–5.0	–4.5	–10.4	–37.9	2.8	–0.2	3.1	6.9

Notes: ** The trend during crisis and expansionary periods corresponds to the average annualised monthly or quarterly growth rates. In the case of the latest figure, this corresponds to the annualised month-on-month or quarter-on-quarter growth. In the case of the last three months, this is the average annualised growth for the last three months compared to the previous three months. All variables are in real terms. Retail sales have been deflated using the PCE price index. The real personal consumption expenditure uses vintage data drawn up by the Philadelphia Fed.*
Source: *CaixaBank Research, based on data from the BEA, the BLS and the Board of Governors.*

1. There are some exceptions where not all of the criteria have been met but the period in question has nevertheless been considered a recession, such as in the case of the COVID crisis.

during the recession associated with the dot-com crisis at the turn of the century.

Secondly, if we look at the average growth over the last three months of the other monthly variables that are tracked by the NBER, we see how most of them still grew at rates compatible with expansionary periods (see table). Most notably, there was strong growth in employment (according to the establishment survey), industrial production and retail sales. In contrast, real personal income (excluding benefits) and real personal consumption expenditure have shown a much more modest trend since the end of last year, although they are still in positive territory for the three-month average.

Other economic activity indicators have also deteriorated sharply, such as Markit's composite PMI, which fell substantially into restrictive territory in July and August (47.5 and 45.0 points, respectively), and consumer confidence indices. In contrast, the ISM business surveys continued to show positive economic activity growth over the summer, which in the case of the services sector was even more buoyant in July than in previous months.

Taken as a whole, the latest data are indicative of an economy that is slowing considerably but which is probably not in recession according to the NBER definition.

Recession: high but controlled risks

The rapid cycle of interest rate hikes initiated by the Fed, the loss of household purchasing power as a result of high inflation and the end of the state aid programmes, as well as the heightened uncertainty in general, are all factors that are weakening economic activity. That said, the impact is not even across the economy.

There is a more pronounced cooling in sectors that are more sensitive to the rise in rates, such as housing, where we have seen a sharp deterioration in the monthly indicators (sales, construction projects started and planning permissions granted) since the beginning of the year. The retail sector, meanwhile, and in general the production of durable goods (such as furniture and cars) and some non-durable goods (such as clothing and footwear), has seen a reduction in demand following two years of boom in the context of the COVID-19 pandemic.

In contrast, most areas of the services sector, which accounts for around three quarters of GDP, continue to show considerable growth in their activity. Private consumption, for instance, has proved particularly resilient, favoured by a number of factors. Firstly, we have the savings accumulated during 2020-2021, which exceed 10% of GDP and which we expect will continue to provide a significant contribution over the coming quarters – around 400 billion dollars in real terms (1.5% of GDP) of extra consumption in 2022-2023.[2] In addition, the labour market has enjoyed a highly dynamic recovery, with unemployment near all-time lows and wage growth at around 5% year-on-year – factors that have supported household disposable income. Finally, households' financial position is solid, both on the asset side – household net worth is around the all-time highs – and on the liability side, with a household debt ratio of around 80% of GDP at the beginning of 2022, in line with 2001 levels and well below the peaks reached in 2007-2008.[3]

In short, the evidence does not suggest that the US economy has entered a recession, and if it did, it would most likely not be a terribly deep or long one. That said, the risks affecting the outlook remain concentrated on the downside, not only linked to the US domestic outlook but also the challenges facing the global economy, which include a possible recession in Europe due to the gas crisis, the economic slowdown in China with its zero-COVID policy and problems in the real estate sector, the growing geopolitical tensions and the fragile macro-financial situation in many emerging economies.

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2. See the Focus «US: how can the accumulated savings support the economy?» in the MR07/2022.
3. Figures for the total liabilities of households and non-profit organisations.