

Post #8: The magnitude of the coming US recession. November ECI report.

This post is an update to my previous posts on inflation and the US economy. Please read through those posts as in this post I'll not be going in depth over some relevant issues.

In my previous post on inflation (post #5*) I've explained why I believe that the negative real GDP numbers for the first two quarters of 2022 do not represent a typical recession. The issue is that, in my opinion, the high level of inflation is confounding what is Real GDP and what is Nominal GDP. It all comes down to what deflator is implicit in the computation for Real GDP. As unemployment rates during the period (first two quarters of 2022) were still dropping or already at record lows, I believe that the most accurate description for that period is Stagflation.

I've also previously posted in our August ECI report** an incoming recession warning for 6 to 9 months at the time, but that the severity of the recession was still an open question. In this report we observed that all the ECI indicators had suffered a significant drop relative to the previous month which pointed to an acceleration of the economic decline going forward.

* https://www.linkedin.com/posts/carlos-alegria-b68878a_inflation-post-5-the-coming-us-recession-activity-6962320029413453824-ub4K

** https://www.linkedin.com/posts/carlos-alegria-b68878a_eci-report-august-2022-activity-6964625414350606336-jlxc

Our latest (November) ECI report, which is attached to this post, gives us some clarity over the severity of the coming recession. It's going to be deep. Since August, the 6, 9 and 12 months ECI's have degraded substantially and are now anticipating a severe recession that will materialise in the coming 6 to 12 months. For now, our indicators point to a recession that is akin to the one experienced in the US in 1990 (the savings and loans crisis).

Furthermore, we believe that our indicators have still not reached a bottom. If a systemic bank in Europe fails, we could experience a "Lehman moment" that could trigger a systemic crisis like the one we experienced in 2008.

Please read the report attached for a more detailed analysis.