

Anticipating the Next Recession: A Probabilistic Approach

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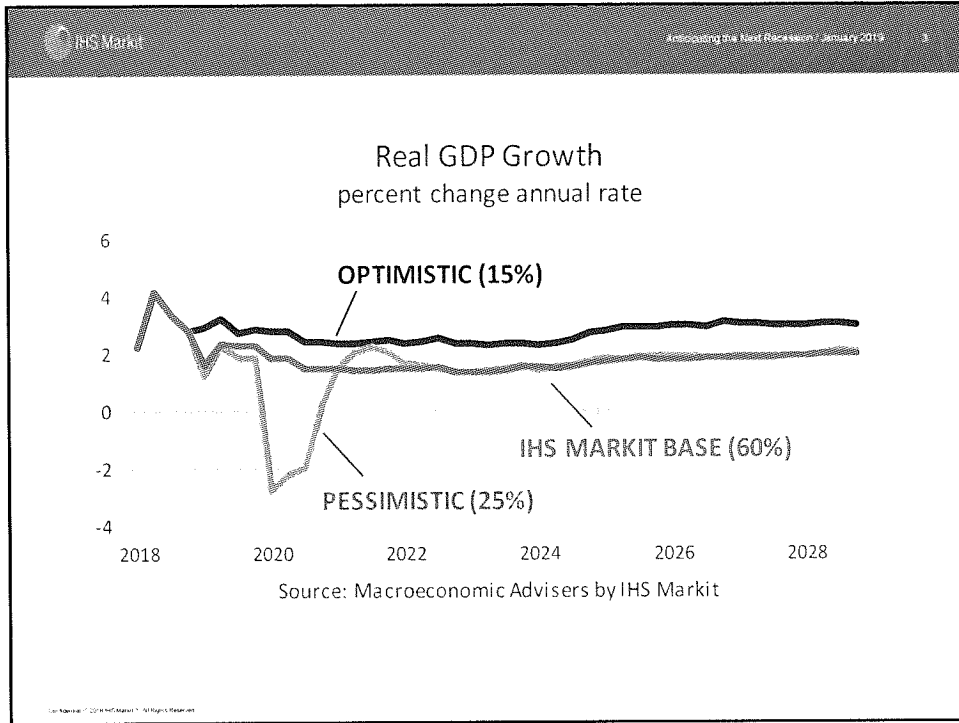
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Background

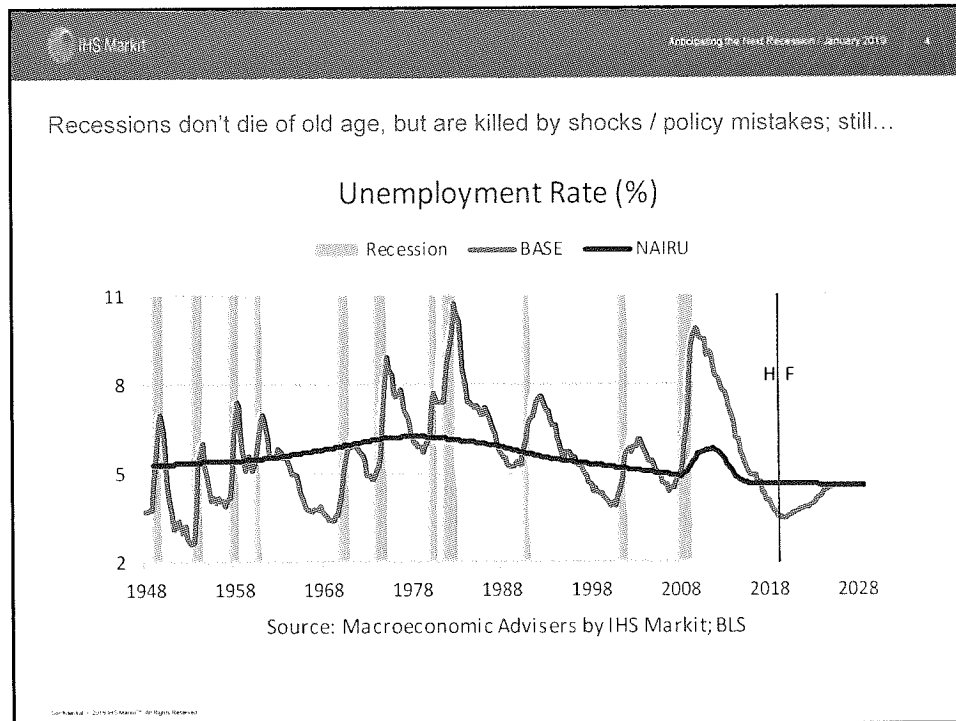
- Upturn in secular growth is possible, but idiosyncratic, so hard to ascribe a probability to that outcome
- (Much) faster cyclical growth seems unlikely
 - > Economy near capacity constraints
 - > Vehicle sales have already peaked, and housing might be peaking
 - > Fiscal stimulus is waning, could shift towards restrictive in 2020; and then there's the shutdown
 - > Monetary policy is tightening, and could shift towards restrictive by 2020
 - > Trade policy is a downside risk, as is recent financial turmoil
 - > Global growth is slowing, and the dollar is strong
 - > And plenty of geo-political uncertainty being here at home
- So, a plausible "optimistic" scenario is continued trend-like growth until the next recession
- We know that's coming, but not sure when, so we make it an alternative with a (subjective) probability
- Still, the current unemployment rate is (likely) unsustainable
- How do we eventually transition back to a higher unemployment rate?
- By showing a base forecast including a "growth recession" and the mystical "soft landing from below"
- But is this the best "expected" outcome upon which clients should base their plans?
- Spoiler alert. I'm going to suggest "maybe not!"

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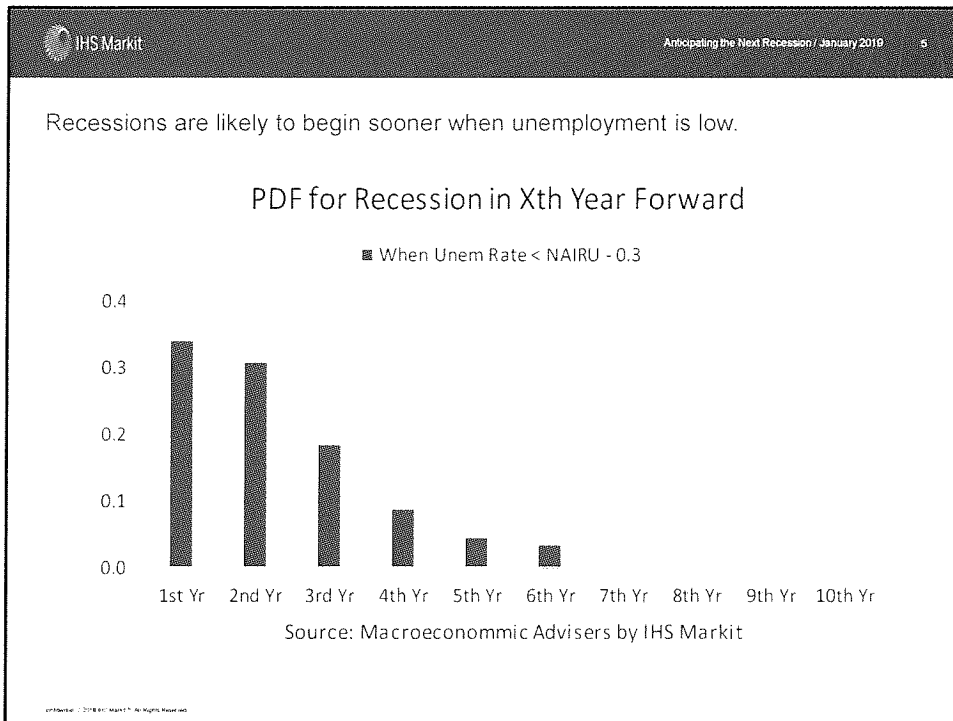
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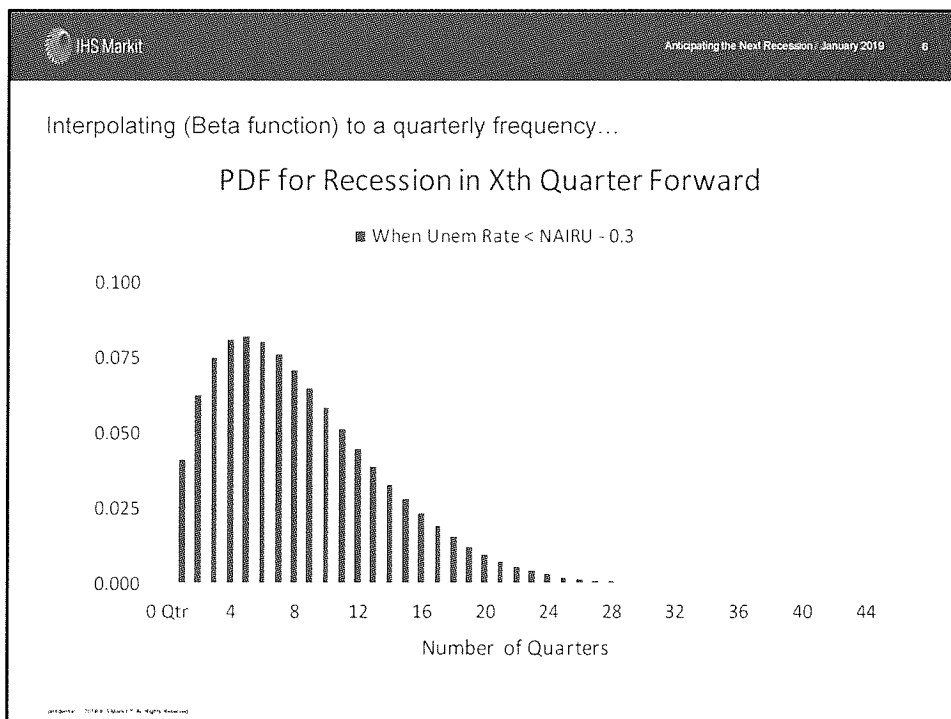
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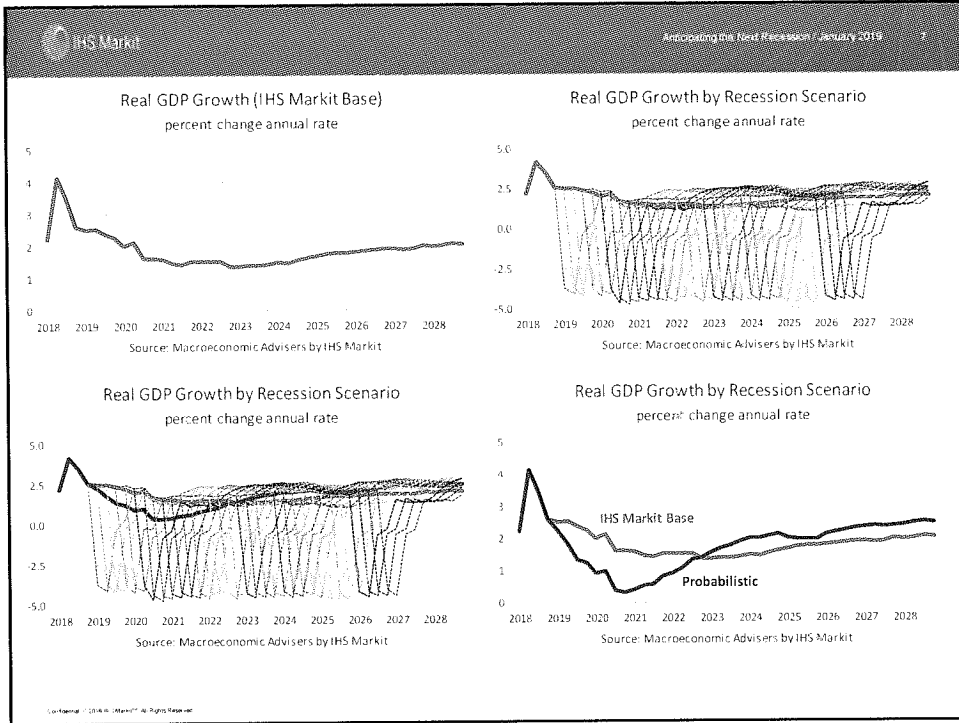
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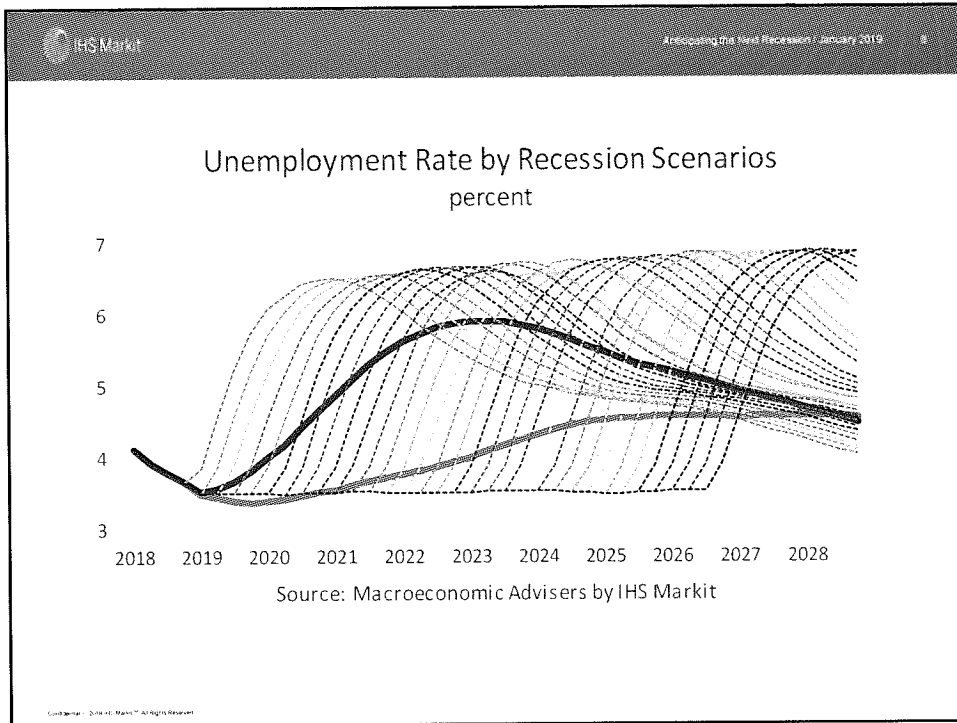
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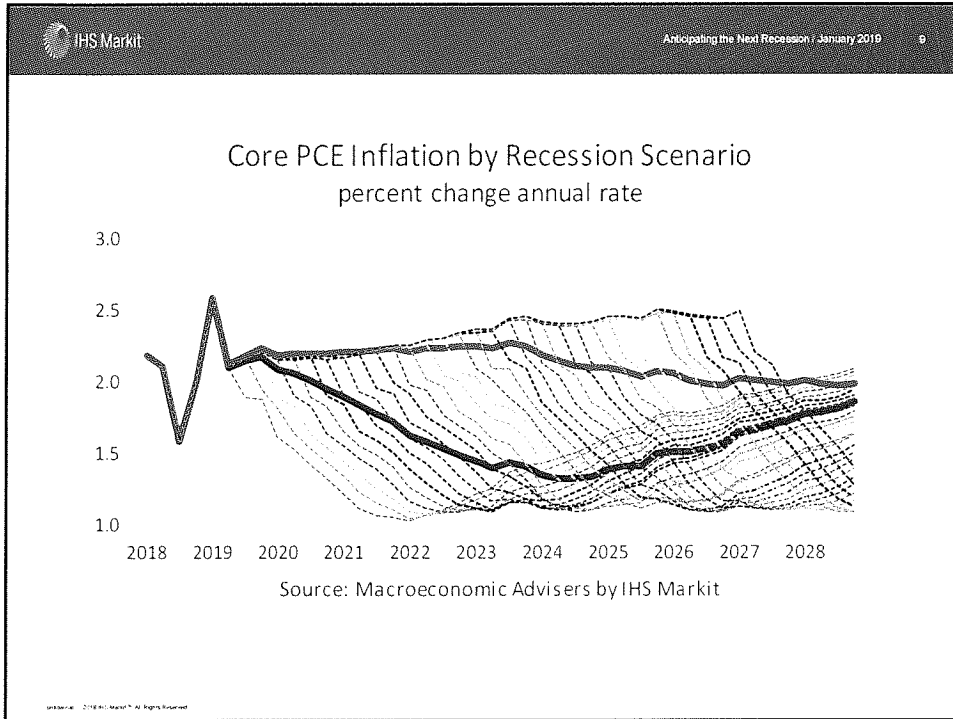
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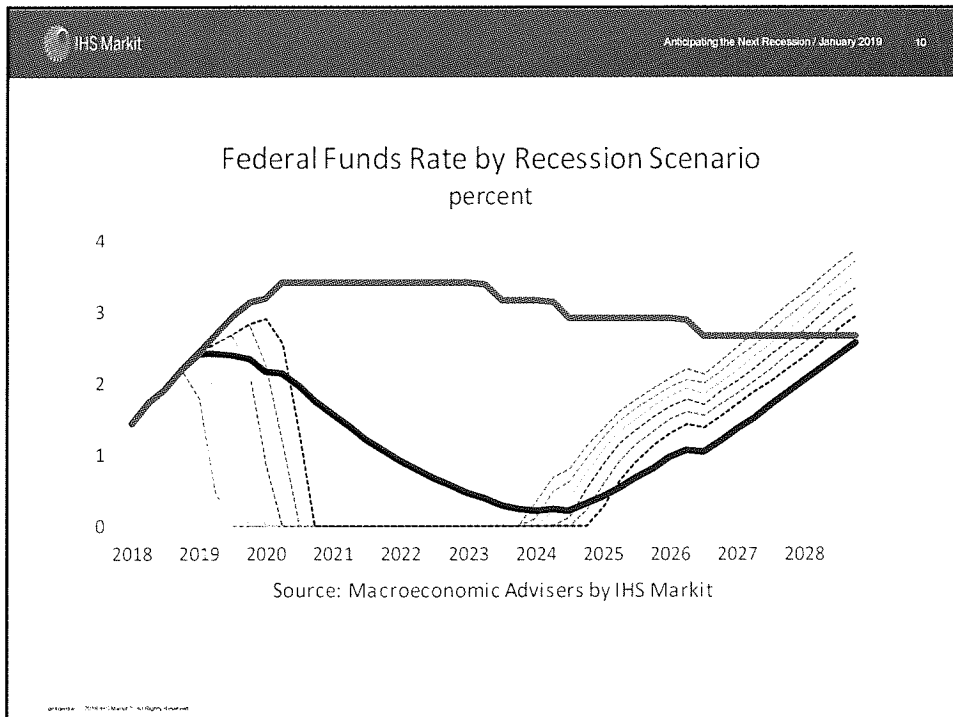
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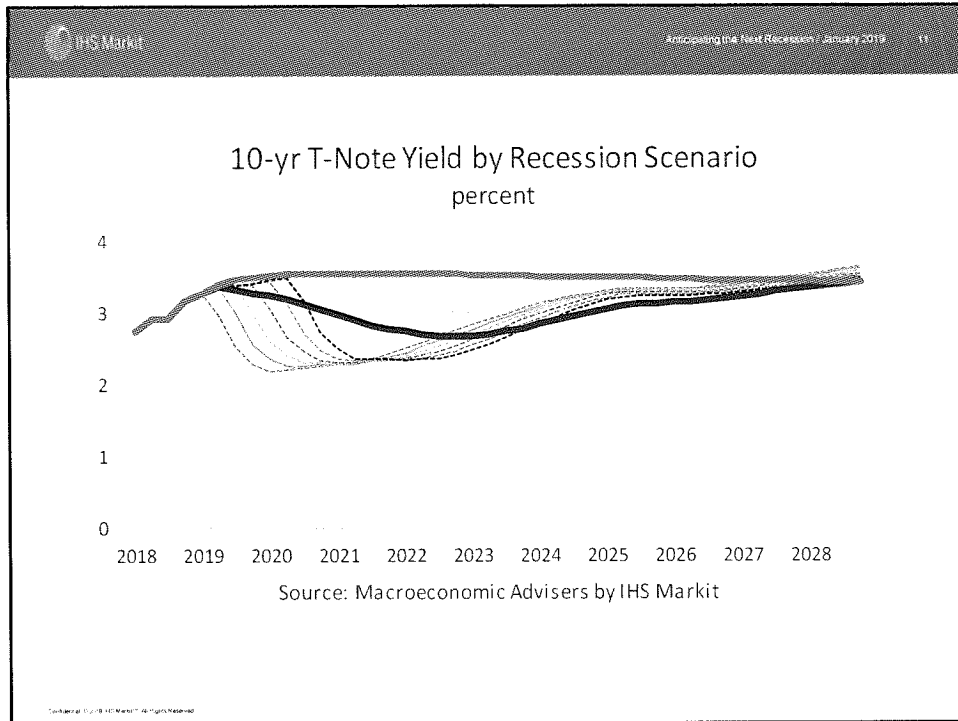
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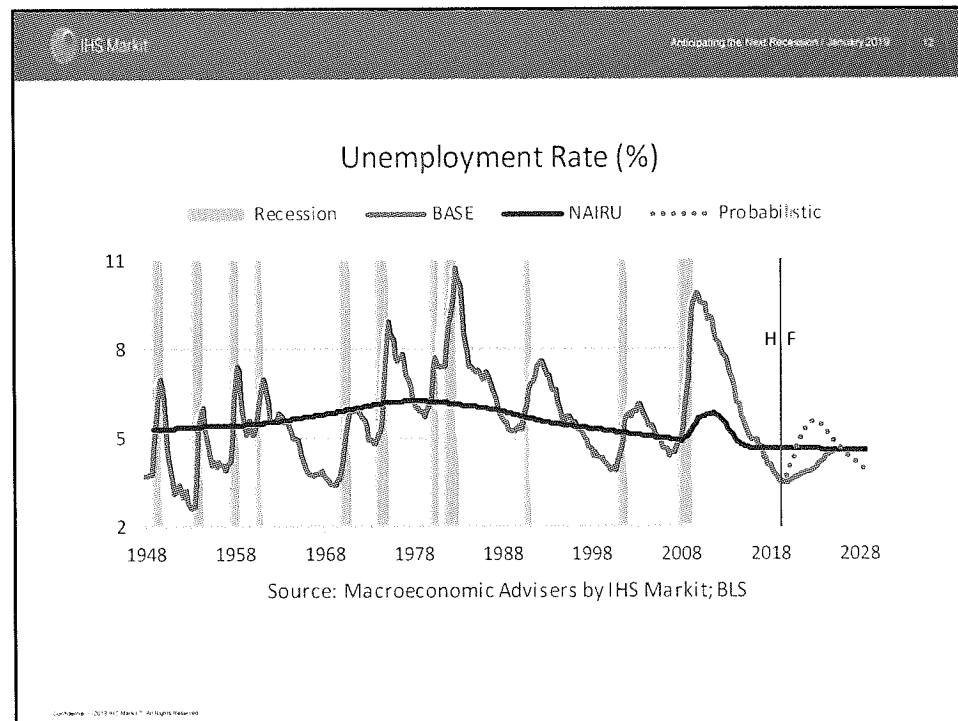
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Key Take-Away

Maybe we all should all be putting more emphasis on the expectation of a macro environment that is softer than is suggested by the typical or consensus-like forecast

Thank You Questions?

See also: "Anticipating the Next Downturn: A Probabilistic Approach" (Macroeconomic Advisers by IHS Markit, *MACRO FOCUS*, December 12, 2018.

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