

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

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IS THERE A RECESSION ON THE HORIZON?

Between all the headlines of war, interest rate hikes, volatile markets, and the concerns emanating from these, theories about an upcoming recession are becoming ever-more frequent. Technically, a country is in a recession if that country experiences two consecutive quarters of negative, or contracting, growth. In addition to this, recessions are usually marked by job losses, declining real incomes, production and manufacturing slowdowns, and lower consumer spending. So, at least in the case of most 'rich' countries, we are not close to a recession. In many 'poorer' countries, like South Africa (SA), we might have been stuck in something that resembles a recession for quite some time now.

A lot of data is pointing towards a potential slowdown, especially consumer confidence data. Consumers have been bombarded with negative news since the beginning of the year. As a result, they feel more and more concerned about their future financial position and are, therefore, reluctant to spend. The arguments to qualify fears about upcoming recessions are consequently theoretically sound and warrant some attention but, more so, they warrant appropriate long-term planning. In the words of Mark Twain, we know that history does not repeat itself, but it often rhymes. But even so, there is no concrete way to accurately predict recessions consistently over time. There are simply too many moving parts and too many uncertainties.

Consequently, trying to time the market with entry and exit points is a fool's game. That is why businesses have long-term strategies that transcend short-term volatility, and why individuals have long-term financial plans that do the same. Often these plans favour conservative consistency over a long period. An example of this is Southwest Airlines who chose to grow their earnings consistently every year, instead of growing their earnings as their environment allowed them to. This enabled them to become one of the most profitable companies ever. Similarly you have savers who add to their investments every month regardless of what the markets do. If you view recessions in this way, you will probably be able to use them as buying opportunities and reap the rewards when asset prices once again reach all-time highs in the next bull run.

Other important recessionary questions concern themselves with how the next recession will look. In the past, most recessions were deflationary events, that is, consumer prices declined as growth weakened. In this guise, recessions are a bit more bearable because even though your income declines, so does the cost of living. Many believe that, if we were to see a recession in the current environment, it will probably be like the era of stagflation that the United States (US) experienced in the 1970s. In this unpleasant environment, incomes will decline while living costs will rise. I am, however, not yet sold on this idea. I understand that prices are high, but I do not see enough support for rising inflation. It is more likely that prices will remain elevated for an extended period, however long that may be. But, during this time, we will simply reduce the debt burden until we eventually return to a world of palatable inflation.

It is also important to note that, although recessions in the developed world are a global phenomenon that burden emerging markets, we might be a bit more protected this time around. Not only has the tide finally turned in favour of emerging economies, but a weaker US dollar will make commodities appear cheaper too. Add to that the slow but definite shift towards structural reforms in SA, from fiscal prudence to the privatisation of state-owned assets, and the case for a prosperous SA becomes even better.

