Members of the MDP Class **October 21, 2022**

An interesting view of what may lie ahead with the overall economic picture. FYI. Andy

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STORM FORECAST — To hear President Joe Biden and other top administration officials tell it, the U.S. economy is very unlikely to hit recession anytime soon. And if we somehow do experience such an official economic slowdown, it will be brief and gentle, like a soft summer rain.

Don't bank on it.

Judging by almost any other economic measure, Wall Street forecast and historic precedent, the U.S. is absolutely headed to recession, probably soon. And nobody knows how long or bad it could be. There are reasons to hope it won't be super nasty — which we will deal with later — but absolutely no guarantee.

Biden last month said to CNN's Jake Tapper, "I don't think there will be a recession. If it is, it'll be a very slight recession. That is, we'll move down slightly."

Commerce Secretary Gina Raimondo this past Sunday told Bloomberg TV: "As I see it, a recession is not inevitable. Certainly any kind of a significant recession, I think, is absolutely not inevitable."

The problem is the data says otherwise. A model developed by Bloomberg that includes 13 macroeconomic and financial indicators this week upped its forecast for a U.S. recession within the next 12 months to ... wait for it ... 100 percent. As in: Zero chance of avoiding one.

Bloomberg's model could be wrong. This is an enormously difficult economy to figure out. Inflation remains historically elevated, the Fed is racing to boost interest rates to slow things down. But demand for labor, while slowing a bit, remains quite high and the jobless rate has not budged much from historic lows.

Still, many other signals are flashing bright red as well. The Conference Board Index of Leading Economic Indicators declined 0.4 percent in September and is down 2.8 percent over the last six months.

In a note to clients this week, Jeffrey Roach, chief economist at LPL Financial, wrote: "Since the inception of the Index, a decline of this magnitude over a six-month period always foreshadowed a recession in the coming quarters." Again ... there's that 100 percent thing.

Stocks rallied a bit today on a report suggesting that while the Fed remains on track to jack interest rates up another three quarters of a point next month, the central bank is also "likely to debate then whether and how to signal plans to approve a smaller increase in December."

That offered the first little glimpse that a Fed bent on doing whatever it takes to snuff out inflation is at least open to the idea that it might have to slow down the pace of hikes. At some point. Maybe.

But the latest whispers from the Fed are a pretty thin peg to hang a lot of hopes on. Powell has repeatedly said that recession is a serious possibility and that neither he nor anyone else on earth knows how bad such a recession could be.

Thus far, all the hikes have done pretty much nothing to bring down the pace of inflation but they have jacked up mortgage rates and slowed the housing sector. Sales of existing homes plunged 23.8 percent in September from a year ago.

Hiring remains fairly strong but job openings are declining and recent corporate earnings calls are filled with talk about being more selective about adding staff or stopping hires altogether. That's generally the precursor to actual layoffs. If consumer demand begins to cool, companies will be quick to trim investments including hiring.

The consumer has held up remarkably well thus far. But that could change quickly as Americans are burning through Covid-era savings at a rapid pace to keep up with high prices. **And while workers continue to see pay go up**, all of the gains and more are being burned away by higher prices, making it *feel* like a recession right now for most. And then there is history. While the Fed *tries* to avoid recessions when hiking rates, it almost always fails .

All of this presents obvious political problems for Biden and his happy band of "remain calm, all is well" warriors. If and when recession does hit late this year or early next, they risk looking **very wrong and very out of touch**. Then, of course, the *reality* of recession is never good for an incumbent party seeking to hold the White House. The non-recession economy we have right now is *already* the Democrats' biggest liability in the midterms by a large measure.

There are some reasons Biden and Co. could be at least somewhat correct that any recession won't be cataclysmic. There's no systemic banking sector failure like 2008 or a massive bubble bursting like the dot-com crash in 2000-2001. Inflation could finally relent under the weight of Fed hikes, allowing for a faster end to all the tightening. Business and consumer balance sheets are in pretty good shape despite the savings depletion.

But recessions are tricky beasts that can feed off themselves and turn out much worse than expected. And we haven't seen this many rate hikes, this fast, well, ever. And they are happening all over the world.

Bottom line: Recession is never inevitable until it happens. But avoiding one would be quite miraculous. And the argument that it will be mild is much more a happy wish than a solid forecast.