

How likely is a recession?

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Economics - Global

The key charts on the growing risks facing the world

- ◆ As markets price in a higher chance of a downturn...
- ◆ ...economic data across the world are proving resilient...
- ◆ ...but the question remains how long this can last

James Pomeroy
Economist
HSBC Bank plc

Financial markets are gripped with the idea of a global, or at least a US or eurozone, recession in the coming quarters being inevitable at this point, and the questions are, when and how deep? However, our latest global economic forecasts suggest that while the probability of such an event has risen, we should steer clear of an outright downturn even as the pace of growth slows.

But what is it that has made many market participants so sure of an impending downturn? The surge in the cost of living, the collapse in consumer confidence, higher rates and wobbles in the housing market create reasons for worry. But it may not be that simple. A partial recession – where some parts of the economy do suffer but others don't – may be the result, rather than an outright global economic contraction.

In 2022, so far, the global economy has shown remarkable resilience in the face of war, surging commodity prices and higher rates. For example, in May, UK consumers bought 2.6% more (in volume terms) than in February 2020 and in the US, real PCE spending was 4.4% higher in May than before the pandemic. Although the pace of growth has clearly slowed, for now, spending so far has not shown a rapid deterioration.

In Brazil and Mexico, we've had to revise up growth forecasts for 2022 on the back of better-than-expected data and across much of Asia the reopening bounce is supporting activity. In mainland China, things may be improving, slowly, after lockdowns. The global economic data suggest that we're not in a recession yet, and there are pockets of resilience in some geographies. Trends in labour markets, business confidence and services spending give some cause for comfort about the months ahead. The sharp drop in global shipping costs in recent weeks may bode well for inflationary pressures.

That said, we need to be realistic about how much longer this can last. While there may well be an element of reopening propping up economic activity as travel and mass events are possible again – can this be sustained through the back end of 2022 and into 2023? A tight labour market is supportive of household incomes, but real wages are being squeezed and a turn in the labour data can't be ruled out. For now, there's little suggestion of a rapid slowdown, but we need to be aware of the growing downside risks from higher inflation and weak consumer sentiment in some major economies.

And so, while calls for recession are getting louder, there is scant evidence of an impending economic collapse in the data for now, especially on a global basis. Whilst markets and investors are looking around the corner and worrying about the mounting downside risks, the remarkable resilience of the global economy so far in 2022 needs to be acknowledged. But as the year progresses we expect economic performance to become increasingly uneven across sectors and geographies

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Reasons for worry are growing

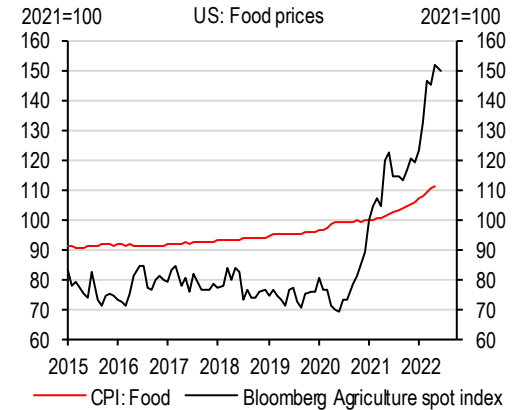
Recession and inflation fears are spooking markets and the cost of living squeeze shows no let-up for now

1. Recession searches are at record highs...



Source: Google Trends. Note: Grey bars show dates of US recessions as defined by NBER. Google trends search data indexed to 100 = series maximum

2. ...and CPI may not be capturing the doubling in market food prices, yet

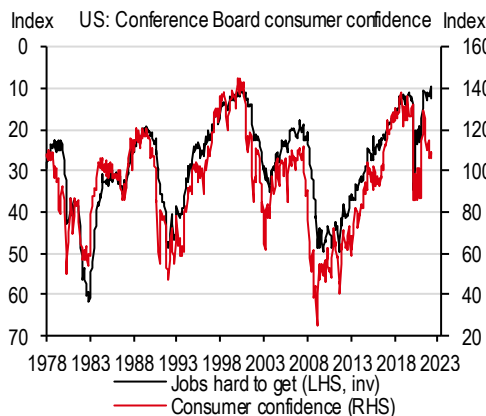


Source: Refinitiv Datastream. Note: Jan 2021 = 100.

Some surveys look better than others

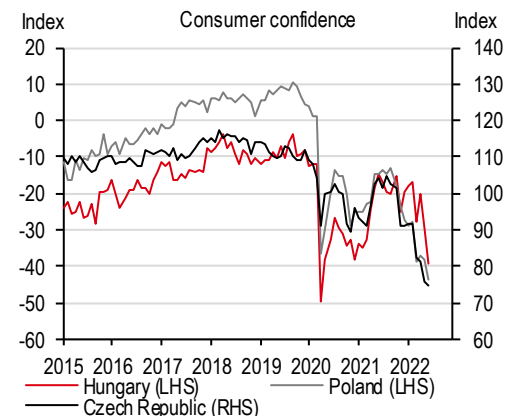
Consumer confidence and labour market optimism have lost their correlation

3. US consumers may be pessimistic but they remain confident in terms of getting jobs



Source: Refinitiv Datastream

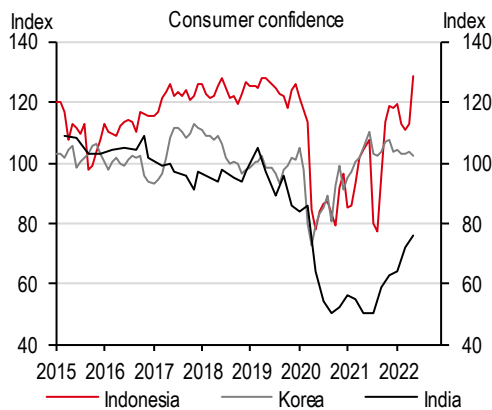
4. High inflation has hit confidence in Eastern Europe



Source: Refinitiv Datastream

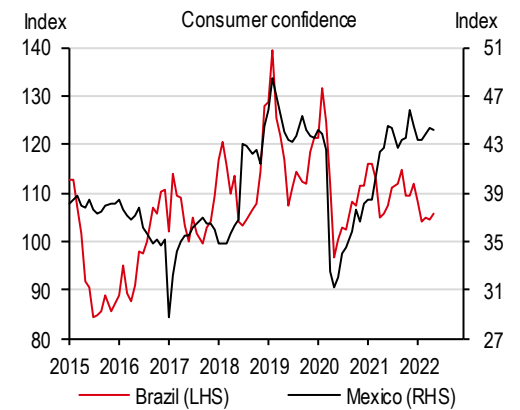
Consumers feel differently across the world, with data holding up better in LatAm

5. But, in Asia, people are much more content...



Source: Refinitiv Datastream

6. ...and higher rates and inflation haven't affected optimism in LatAm...

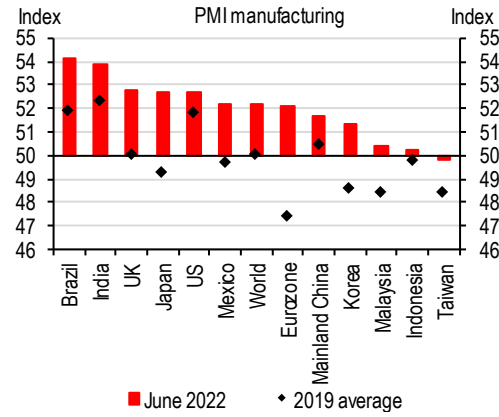


Source: Refinitiv Datastream

Business confidence is holding up much better

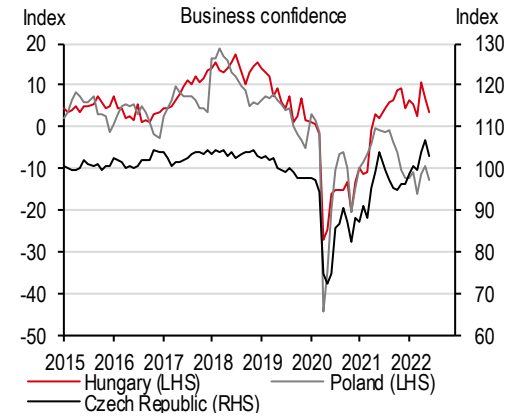
US firms may be less optimistic, but that's not reflected across the world

7. ...but overall PMIs still point to a faster pace of growth than in 2019



Source: Refinitiv Datastream

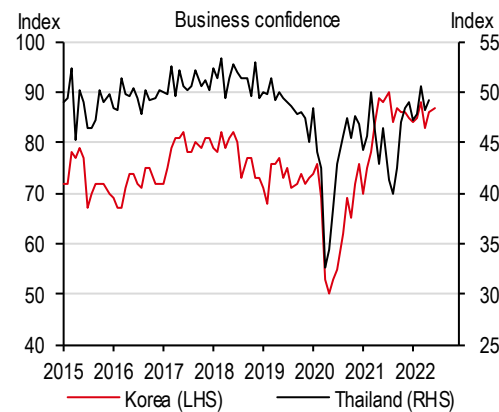
8. Businesses are more confident than consumers in Eastern Europe...



Source: Refinitiv Datastream

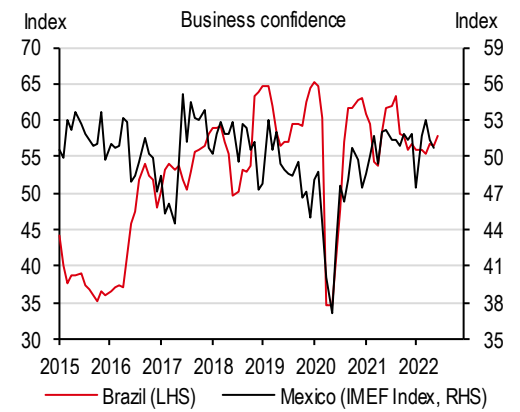
Little impact on business confidence in EM

9. ...and in Asia, confidence has held up...



Source: Refinitiv Datastream

10. ...just like in LatAm...

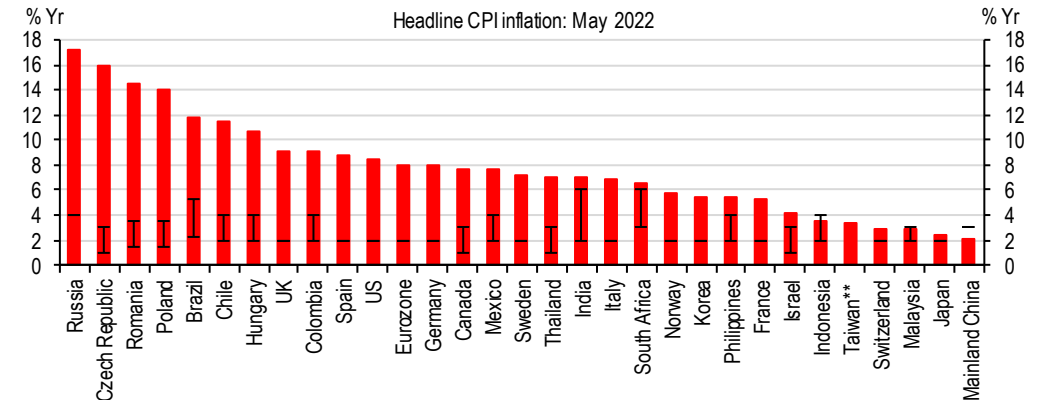


Source: Refinitiv Datastream

Inflation: Still sticky

Inflation is above central banks' targets in much of the world...

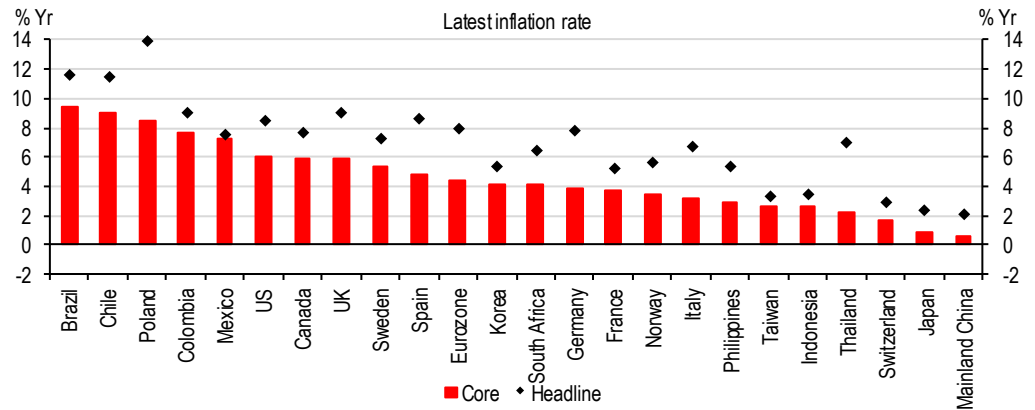
11. No let-up in global inflation for now...



Source: Refinitiv Datastream. Note: Black bars show central bank inflation targets. ** = no inflation target

...and inflationary pressures are broadening out

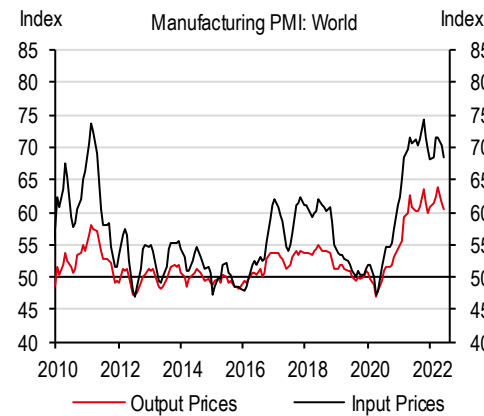
12. ...and it's more than just food and energy in much of the world



Source: Refinitiv Datastream

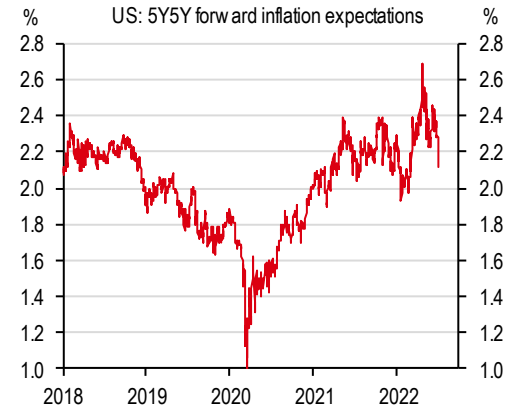
But some leading indicators suggest pressures may be peaking out

13. But PMI price indices have clearly stopped getting worse...



Source: S&P Global

14. ...and market inflation expectations have fallen back

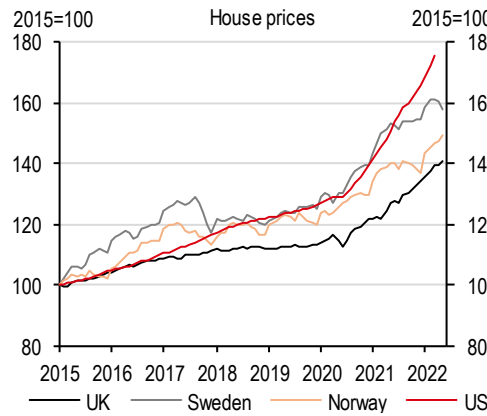


Source: Refinitiv Datastream

Housing markets: Wobbling from high levels

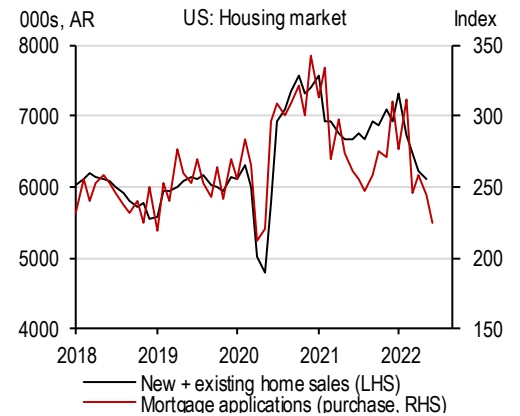
Global house prices keep grinding higher...

15. House prices keep rising in many places...



Source: Refinitiv Datastream

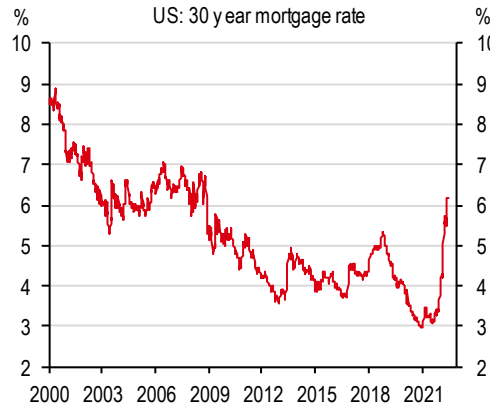
16. ...but activity in the sector is falling sharply



Source: Refinitiv Datastream

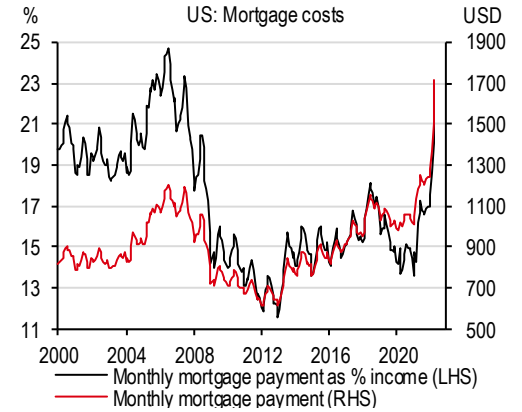
...but affordability metrics are starting to flash red...

17. Mortgage rates have soared...



Source: Refinitiv Datastream

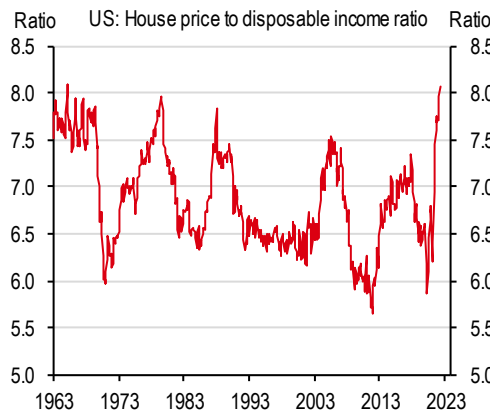
18. ...pushing monthly costs up for homeowners...



Source: Refinitiv Datastream

...meaning housing demand may fall in the coming months

19. ...and fewer people can afford high-priced homes...



Source: HSBC, Refinitiv Datastream. Note: Based on median new home sale price and per-capita disposable income.

20. ...and monthly payments are up substantially

Property value	Monthly mortgage payment				
	Interest rate				
	2%	3%	4%	5%	6%
700k	2670	2988	3325	3683	4059
600k	2289	2561	2850	3157	3479
500k	1907	2134	2375	2631	2899
400k	1526	1707	1900	2105	2319
300k	1144	1280	1425	1578	1740

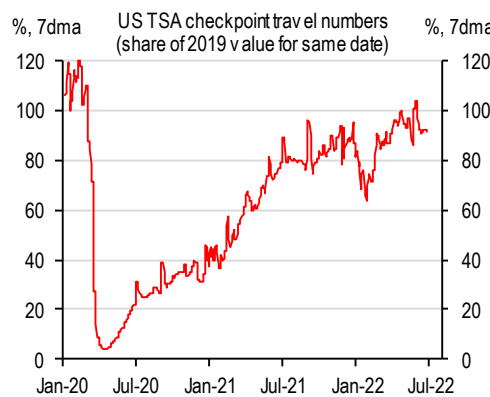
NB: Assumes 90% LTV mortgage

Source: HSBC. Note: Applies for any given currency – given purchase price and mortgage payments. Purely indicative based on 90% LTVs to show impact of higher rates on monthly mortgage costs.

There are some reasons for optimism, believe it or not

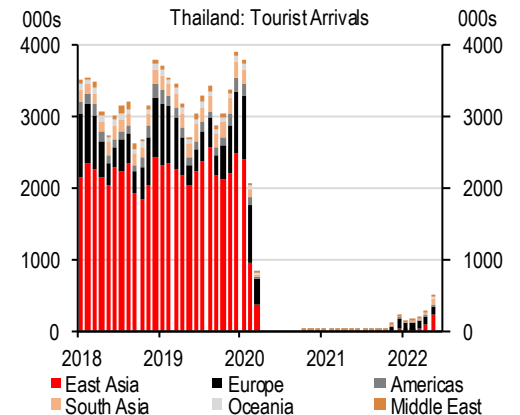
Tourism is part of the economy that should have a strong 2022 and 2023

21. The travel rebound has been remarkable so far...



Source: Refinitiv Datastream, TSA

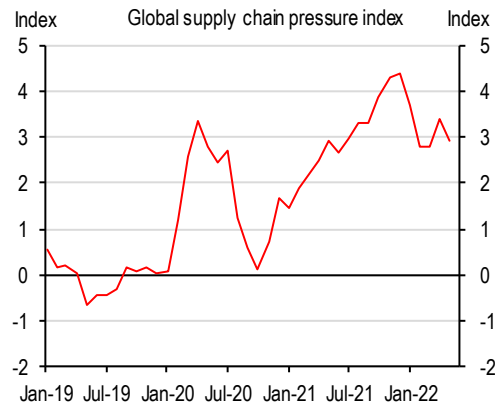
22. ...and there's a huge runway for international tourism to catch up



Source: Refinitiv Datastream

Easing supply chain pressures may be good news for both shortages and inflation

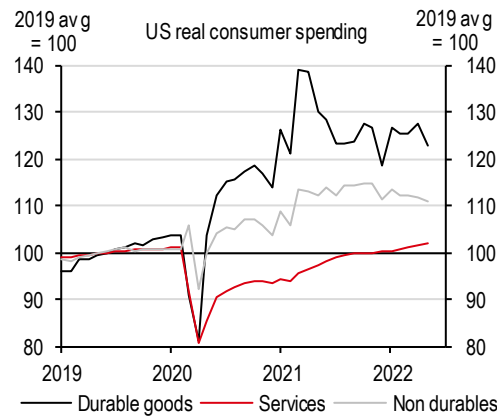
23. Supply chain pressures are easing...



Source: New York Fed

Goods spending may be normalising as services spending picks up

25. Services spending keeps grinding higher...



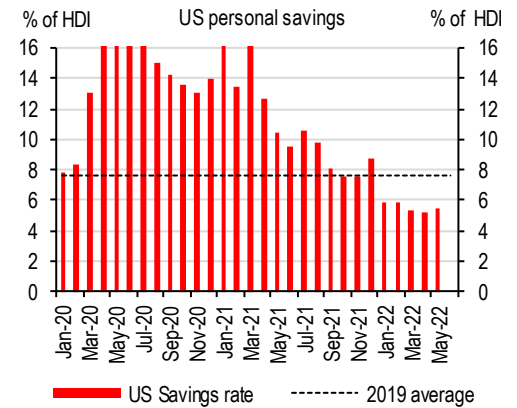
Source: Refinitiv Datastream

24. ...and shipping costs are plummeting



Source: Refinitiv Datastream

26. ...as households save less to underpin their outlays

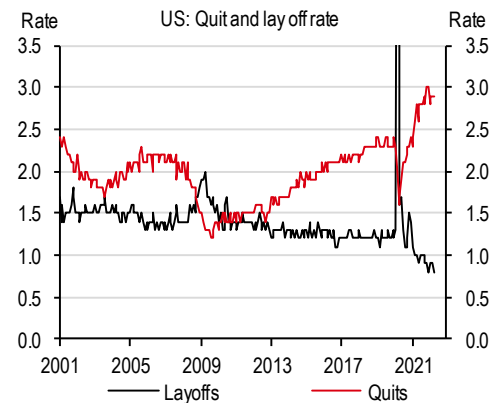


Source: Refinitiv Datastream

Labour markets: A source of hope

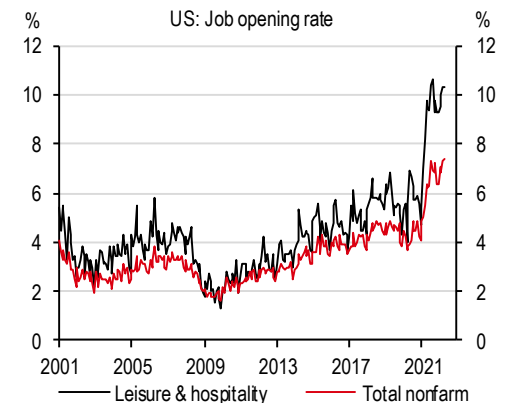
The tightness of the labour market may affect households' willingness to spend more and save less

27. Most US job leavers are doing so on their own accord...



Source: Refinitiv Datastream

28. ...and firms keep wanting to hire



Source: Refinitiv Datastream

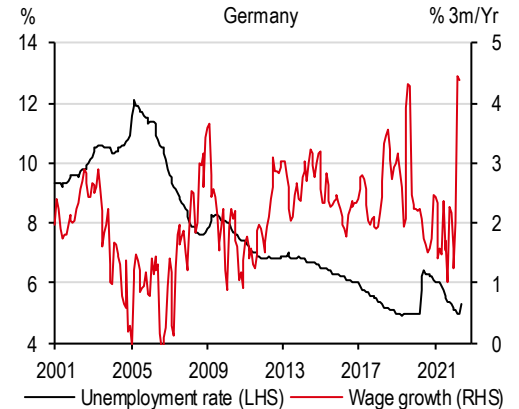
Tight labour markets are becoming clear across the developed world

29. There are now more vacancies than unemployed people in the UK



Source: Refinitiv Datastream

30. Despite an ever-tighter labour market, wage growth is well below inflation

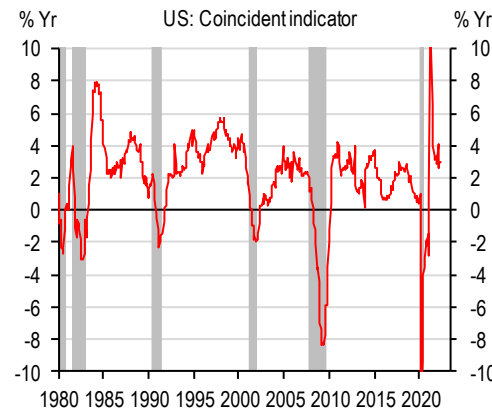


Source: Refinitiv Datastream

Overall recession risks: A mixed bag

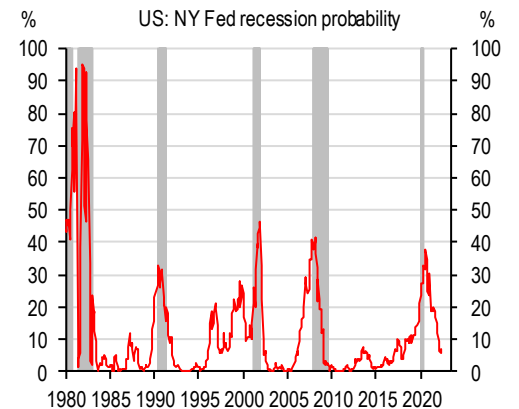
Some US data still don't point to a recession for now...

31. US activity data are a long way from recession territory for now...



Source: Refinitiv Datastream, NBER. Note: Grey bars signify US recessions.

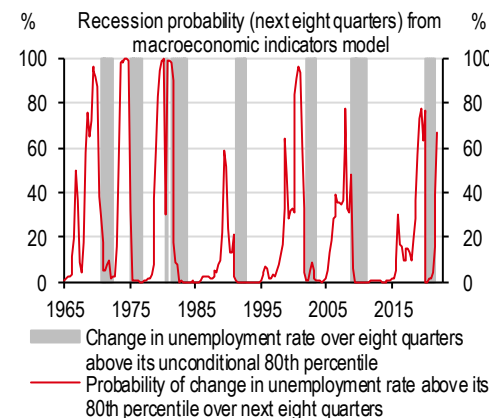
32. ...and recession probabilities look low



Source: Federal Reserve Bank of New York, The Yield Curve as a Leading Indicator. This model uses the slope of the yield curve, or "term spread," to calculate the probability of a recession in the United States twelve months ahead. Here, the term spread is defined as the difference between 10-year and 3-month Treasury rates.

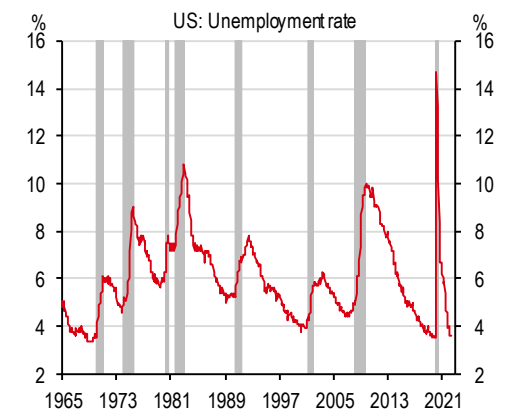
...but the worry is that the labour market could weaken quickly

33. Some models suggest a sharp rise in the unemployment rate is likely...



Source: Federal Reserve, Financial and Macroeconomic Indicators of Recession Risk, 21 June 2022. Note: Based on a model with four variables considered: CPI inflation (measured on a four-quarter change basis); the unemployment rate; the credit spread; and the term spread

34. ...something that typically precedes an economic contraction



Source: Refinitiv Datastream, NBER. Note: Grey bars signify US recessions.

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