00:00:14:19 - 00:00:39:07

Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you're confronted with these decisions in your own life. In this episode, I ask the question, should I be worried about a recession?

00:00:39:07 - 00:01:11:20

Speaker 1

Well... It Depends, is sponsored by my firm John G. Ullman & Associates. We are a team of financial planners, research analysts, tax specialists and support staff, all working together to give our clients a comprehensive experience. If, after listening, you'd like to discuss your situation with one of our financial planners, including me, please email info@jgua.com. Before we began a short disclaimer. This is being recorded on August 24th, 2022.

00:01:11:20 - 00:01:50:14

Speaker 1

The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. Getting into it, should I worry about a recession? After the last episode about inflation and I mentioned the fear of recession, I thought because that is another hot topic in the news, maybe I should do another episode to address that.

00:01:51:07 - 00:02:17:03

Speaker 1

Some people may say that two consecutive quarters of shrinking GDP indicates that we're in a recession. However, that is not the official definition. The National Bureau of Economic Research, the actual group that gets to make the call, considers a recession a significant decline in economic activity that is spread across the economy and lasts for more than a few months.

00:02:17:23 - 00:02:44:11

Speaker 1

So how is that different? Well, what's GDP? GDP or gross domestic product is the dollar value of the total of all the goods and services of a country, or said another way, it's all the stuff people get paid to do when they go to work. Historically, before the Great Depression, they kept track of how much corn was sold or how many boats came into the harbor, but that was kind of it.

00:02:45:00 - 00:03:08:05

Speaker 1

But to quantify what was going on during the Depression, they assembled this composite number. GDP fails to capture work done at home. Right. So if you stay at home and take care of the kids, that doesn't count, but if you pay someone to take care of them, that is included in GDP. It would also fail to capture anything that you did yourself that you could have paid for.

00:03:08:14 - 00:03:35:29

Speaker 1

So GDP isn't perfect. That's why economists look at the big picture when they're determining if we're in a recession, such as by examining the labor market, consumer and business spending, production and incomes. Let's look back at the first quarter of the year. Instead of a contraction being spread across the economy, a lot of negativity came from inventories and net exports.

00:03:36:07 - 00:04:02:23

Speaker 1

Inventories are measured on how fast they're growing or shrinking instead of just whether they're growing. Inventories actually increased in the first quarter, just not as quickly as previously. Private domestic final demand or consumer spending and fixed investment, which together makes up about 80% of GDP, increased in the first quarter by about 3% annualized. While payroll employment grew as well.

00:04:03:07 - 00:04:27:20

Speaker 1

In fact, the 1.1 million jobs created in the second quarter is significantly more than usually precedes a recession. The SAHM rule named for the economist Claudia Sahm states that a recession is likely underway when the three month moving average of unemployment rises by at least half a percentage point, relative to its lowest point in the previous 12 months.

00:04:28:05 - 00:04:57:13

Speaker 1

This indicator is currently slightly negative, so well away from the half point threshold of a recession. Essentially, it's looking for an increase in prolonged unemployment, since unemployment is a very typical byproduct of a recession. If we get more recent, we have seen some layoffs, notably from the tech companies and automakers. Yet unemployment, the U-3 and official measure remains near historic lows.

00:04:57:28 - 00:05:34:23

Speaker 1

The housing market has cooled down. In some previously considered hot markets, sales are significantly lower from where they were just a year ago. However, housing supply is still limited and the demand is still there. The Federal Reserve has stated that getting inflation under control is a top priority. Since their primary tool is increasing interest rates, we could see the stock market prices fall further, but some economists expect future interest rate increases to be smaller, which would signal that inflation is getting under control.

00:05:35:24 - 00:05:59:04

Speaker 1

Well, then what's the threat to your income? If you're retired and the bulk of your income is through social security, you're pretty well situated for a recession, assuming you have liquid cash to get through some of the choppier points. If instead you need to take large distribution from your investment accounts subject to the stock market or business income, you might need to prepare for a time.

00:05:59:04 - 00:06:22:18

Speaker 1

You need to take less money out so that your portfolio can recover. Or perhaps you're still working, in which case your employment could be directly impacted if the economy experienced a serious downturn. What can you do to prepare? Build cash reserves! If you've heard a few of these podcast, as might kind of sound like a refrain by now, but it's one of the fundamental points of personal finance.

00:06:23:04 - 00:06:47:27

Speaker 1

You need cash reserves because there will be times you will need it. Spend less. You can use coupons or consume less. You can do things like go out half as often, maybe once a month instead of twice, or get only appetizers instead of a whole meal. What can you do if a recession hits? Buying opportunity. So, kind of back to the cash reserves.

00:06:48:14 - 00:07:14:23

Speaker 1

If you have a surplus, so maybe more than six months of spending in cash, you may be able to buy when prices are at rock bottom. You should check your investment accounts for any cash allocations. Regular dividends and bond maturities can easily accumulate and provide for liquid cash for additional purchases. If you are priced out of the housing during last surge, a recession could help to reset prices such that they become affordable again.

00:07:15:13 - 00:07:48:04

Speaker 1

The Federal Reserve typically cuts interest rates during times of a recession, so lower prices with lower interest rates could come together and benefit some buyers. Chance for a change. While recessions do cause some companies to go out of business, ultimately this is healthy for the economy. As the strong flourish and compete with other strong competitors. If you are laid off, it could be the push you needed to take your career to the next step or to even begin your own business.

00:07:48:29 - 00:08:13:15

Speaker 1

So to recap, we're at an interesting crossroads. On one hand, we continue to have a strong labor market and strong consumer demand. On the other, we have inflation, with a Federal Reserve actively trying to get a grip on it. So is it possible we actually have a soft landing? Yes. It is also possible we head into recession. Also, yes.

00:08:14:14 - 00:08:36:09

Speaker 1

The best way to protect yourself is to have enough cash on hand to handle some turbulence, such as three to six months of spending. Recessions aren't all bad and are part of a normal business market cycle. They prevent the market from getting too hot and causing prices to spiral out of control, and they can also present opportunities to buy when prices are low.

00:08:36:23 - 00:09:14:08

Speaker 1

So to answer the question, should I worry about a recession? Well... It Depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor