Flash Economics

N° 12
August 9th, 2024

Should we fear a recession in the United States?

Many analysts fear that a recession will occur in the United States despite robust growth in the first semester (1.4% annualized in the first quarter, 2.8% in the second quarter). We do not believe this is the case for the following reasons:

- Federal Reserve surveys show that the situation on the credit market has returned to normal (there is no longer any credit rationing by banks or weak credit demand), which shows that the effect of the Federal Reserve's high interest rates should not be overestimated;
- Corporate profitability is extremely high, which excludes a decline in investment;
- Employment continues to grow, and the rise in unemployment can be explained by the extremely high level of immigration;
- Real wages per capita are growing, as can be seen when comparing nominal wage growth and inflation excluding owners' equivalent rent of residences;
- Fiscal policy is stimulative.

The only weakness of the American economy is the rise in the default rate of households on credit taken out on credit cards (and not on other forms of credit), which explains the weakening in consumption. Overall, we can expect growth close to potential (2.25%) in 2024, rather than a recession.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Many analysts believe that the United States will enter a recession

The decline since the beginning of July 2024 of long-term interest rates (Chart 1A) and stock market indices (Chart 1B) in the United States shows that many analysts and investors believe that the United States will enter a recession.

Chart 1A
United States : Interest rate on 10-year government bonds (as %)

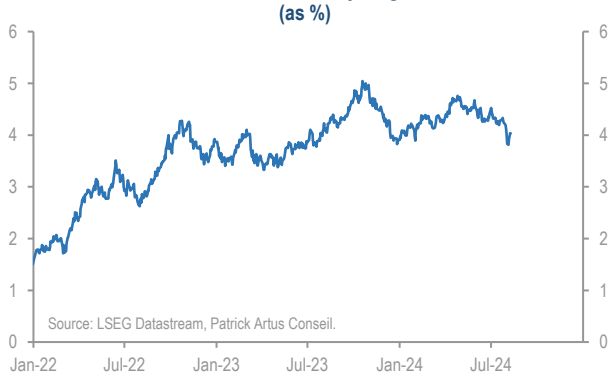
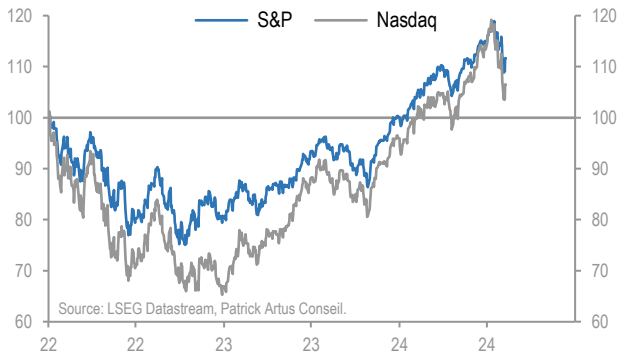


Chart 1B
United States : Stock market indices (01.01.2022 = 100)



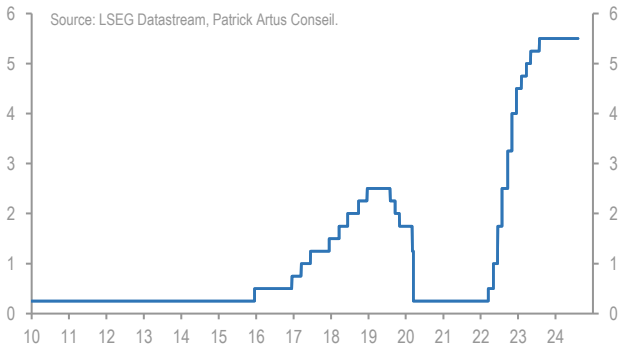
We do not share this opinion for reasons that will be outlined subsequently.

The five reasons why we do not believe in the prospect of recession in the United States

1. Normalization of surveys on credit demand and supply

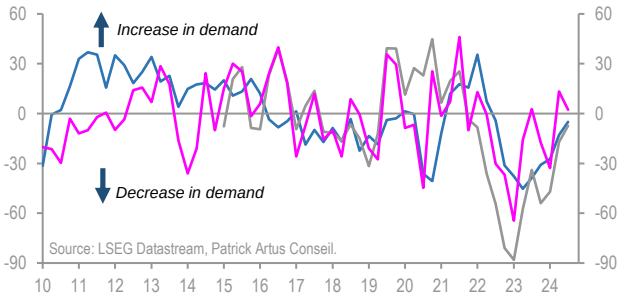
Analysts who predict that the United States will enter a recession point to the high level of interest rates of the Federal Reserve (Chart 2).

Chart 2
United States: Fed Funds rate (as %)



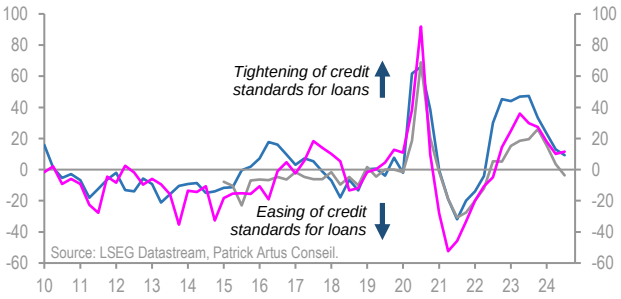
But the Federal Reserve's surveys no longer show an abnormal weakness in credit demand or restrictions on credit supply (Charts 3A/3B).

Chart 3A
United States: Fed survey on changes in demand for loans*



(*) Balance of banks' answers (as %)

Chart 3B
United States: Fed survey on changes in supply conditions for loans *



(*) Balance of banks' answers (as %)

Borrowers have apparently adapted to the higher level of interest rates, and the effect of this level on the US economy should not be overstated.

2. Very high profitability of companies

The profit margin rate of US companies is extremely high (**Chart 4A** compares it to that of companies in the Eurozone), **which rules out a recession coming from insufficient profits and a sharp decline in investment (Chart 4B)**.

Chart 4A
Ratio between GDP deflator and unit labour cost (2010.Q1 = 100)

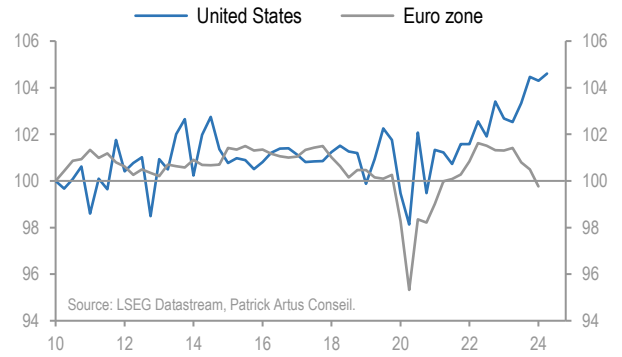
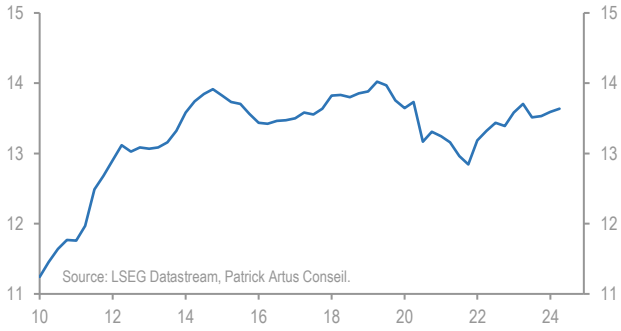


Chart 4B
United States: Nonresidential private investment (in value terms, as % of nominal GDP)

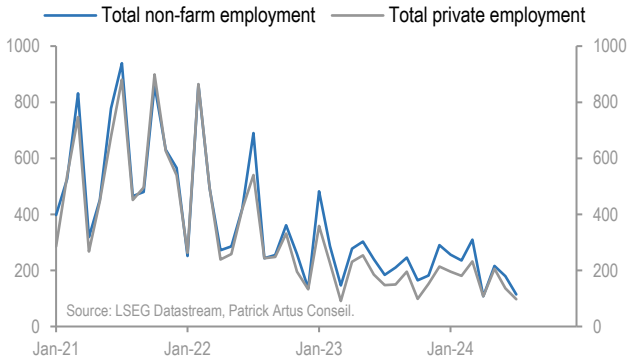


3. The rise in the unemployment rate results from the very high level of immigration

The rise in the unemployment rate, which reached 4.3% of the labor force in July 2024, while its level was 3.7% from November 2023 to January 2024, **should not be a cause for concern**.

The United States continues to create jobs (Chart 5), especially in the private sector, and **the rise in the unemployment rate results from the extraordinarily high level of immigration**, 3 million people in net terms in 2023.

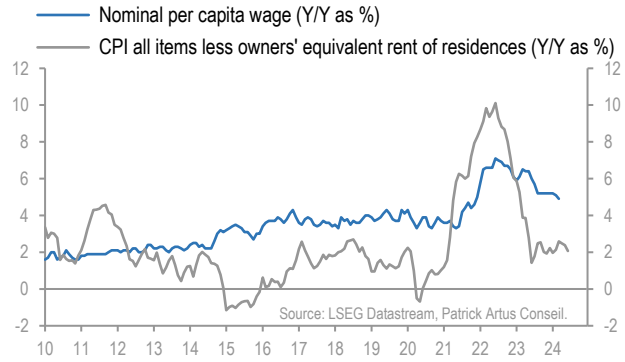
Chart 5
United States: Change in payroll employment
(M/M, thousands of person)



4. The real wage per capita is increasing

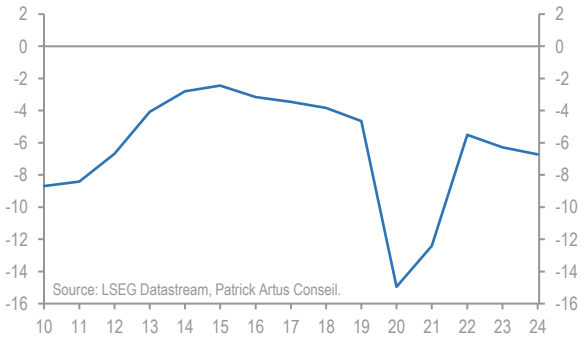
If we compare the increase in nominal wage per capita and inflation excluding owners' equivalent rent of residences (**Chart 6**), **which measures the increase in real wage per capita**, we see that the real wage has been increasing since the beginning of 2023 and in the recent period is growing by 3% per year.

Chart 6
United States : Nominal per capita wage and inflation
excluding owners' equivalent rent of residences



5. The US fiscal policy remains stimulative (Chart 7)

Chart 7
United States: Budget deficit (as % of nominal GDP)



Summary: only one weakness of the US economy

The United States cannot enter a recession if credit demand and supply conditions have returned to normal, if corporate profit margins are high, if employment and real wages continue to grow, and if fiscal policy remains stimulative.

The only factor of concern is the rise in default rates on credit cards (3.2% in the first quarter of 2024 compared to 2.6% at the end of 2019), which is prompting US households to be cautious about their consumption (Chart 8) and, in a consistent manner, is undermining their confidence (Chart 9).

Chart 8
United States: Real retail sales (Y/Y as %)

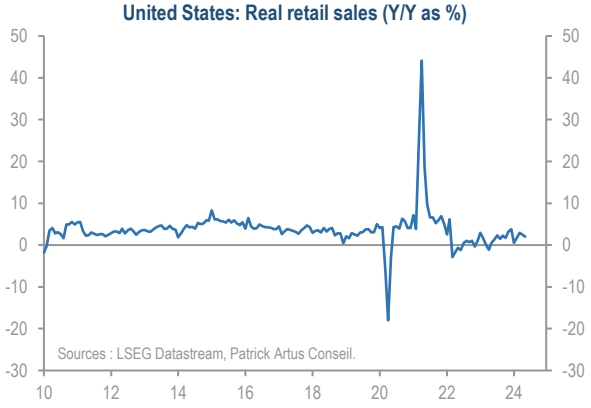


Chart 9
United States : Consumer confidence index (1985 = 100)



But overall, there are no signs of recession in the United States, and we can expect growth close to potential (2.25%) in 2024.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.