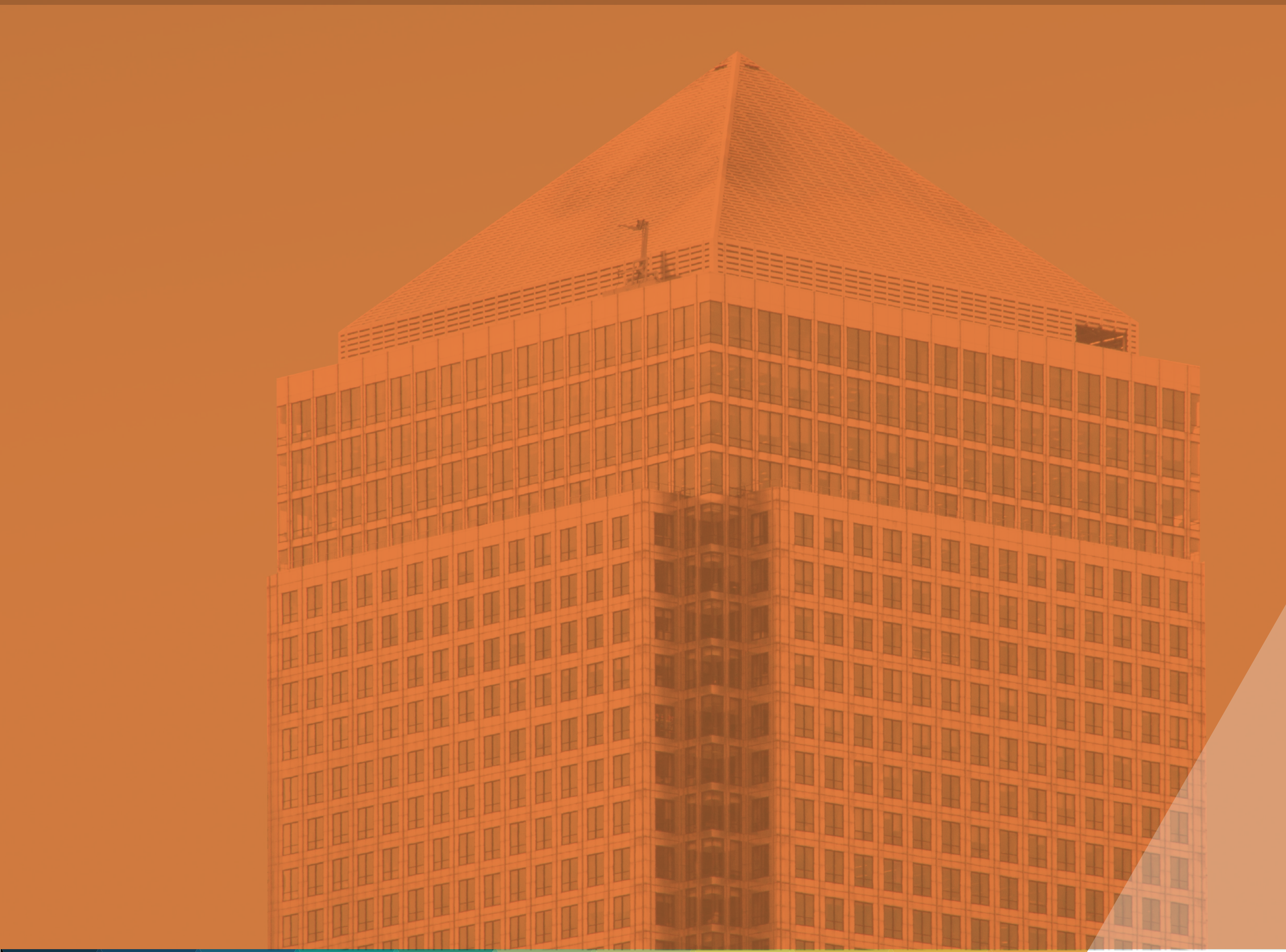
# Is the global recession late?

Global Business Voice: The AGN Global Survey of issues that impact national business and the SME.



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# Is the global recession late?

## The AGN Global Survey – Global Business Voice

**Is the global recession late?**

Welcome to the fifth AGN Global Business Voice.

In this edition, we asked our global panel of SME business advisers - "where is the recession?". The AGN Global Business Voice (GBV) panel comprises of 44 senior accountancy and business advisory professionals, from leading financial advisory and consultancy firms across the world.

In June 2019, the economic expansion of the US reached its tenth anniversary and the longest period of sustained economic growth on record. However, commentators have been saying for some time that the global economy is due a significant "adjustment"....but it's late. Where is it? Across the major economies, we can see bullish share valuations and increasing profits. Trump has occasionally criticised the Federal Reserve for not cutting interest rates and stating they should be introducing a round of QE. Why? When the economy is so... "tremendous"? There are other inconsistent indicators; Germany is predicted to go into recession by the next quarter technically, but the UK economy, which was shrinking in the second quarter, showed signs of growth in the third!

It's not as if politicians are making life easy, as Brexit and US / China trade wars must be having a dampening effect. The ECB is worried and has introduced a new round of quantitative easing. If the world is on the cusp of an economic downturn, surely its time our clients were making preparations.

UBS recently conducted a study that revealed the telling economic conditions that presided in the four quarters before and the two quarters after an economic peak turned into a decline. The following questions were posed to our panel to assess how much these factors are impacting SME business globally.

### Consumer Confidence:

Consumer confidence is often cited as the bell weather of economic future-gazing. The prevailing level of confidence impacts peoples (business and consumer) economic decisions – e.g. their spending activity. We asked our panel if over the last 12 months they had witnessed consumer confidence crashing to a low point, if it had weakened, remained the same, increased or reached a new peak.

### Q1 - Over the last 12 months would you say that consumer confidence*


It's a fairly even split, but while no one is claiming its reached a 'high point' we do have 6% of our panel claiming it has crashed to a low point. Two quarters sit either side of a solid 40% claiming that consumer confidence has remained the same.

Opinions seem to be divided evenly. No alarm bells are ringing on this key indicator, so let's move on.

DOES CONSUMER CONFIDENCE POINT TO A RECESSION? = NO

## Productivity

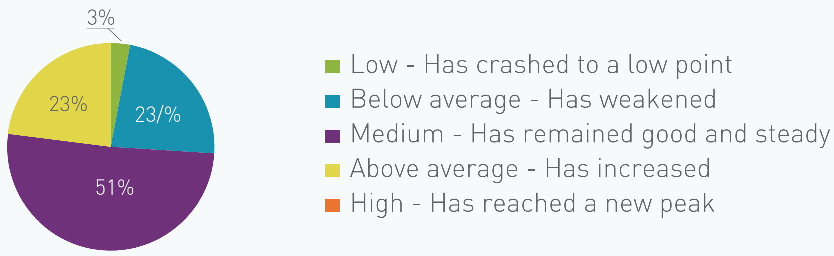
Productivity measures an economy's efficiency in using labour to produce output. Any increase in productivity can suggest that the economy is producing more output with equal or less input – increasing productivity points to a boom, declining productivity points to stagnation and recession.

We asked our global panel "Over the last 12 months would you say that productivity in your country has...crashed to a low point, weakened, remained good and steady, increased or reached a new peak?"

Again – opinions on this are split straight down the middle – with 51% seeing no change. We have 23% each stating that it has weakened and as many saying that it has increased.

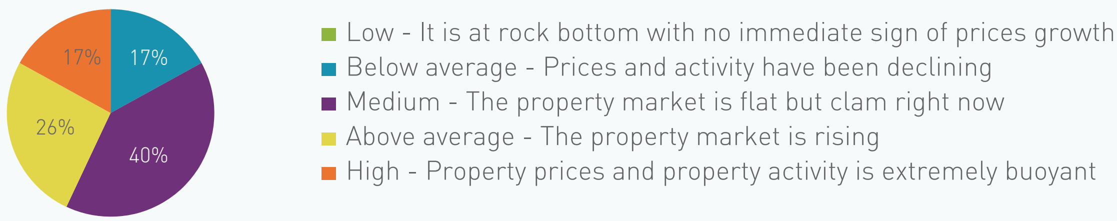
DOES PRODUCTIVITY POINT TO A RECESSION? = NO

### Q2 - "Over the last 12 months would you say that productivity in your country has...crashed to a low point, weakened, remained good and steady, increased or reached a new peak?"




## Housing Market

### Q3 - "Over the last 12 months what has happened to your domestic residential and commercial property market?...is it at rock bottom with no immediate sign of price growth, a place where prices and activity have been declining, flat but calm, rising or extremely buoyant?"




In some economies, there is a strong relationship between the domestic housing market and the overall health of the economy. For example, the housing market represents about 15 per cent to 18 per cent of U.S. GDP. A weak or strong housing market can have a substantial influence on the direction of the overall economy.

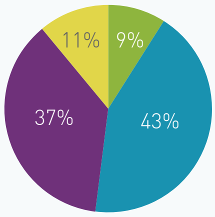
We asked our panel – "Over the last 12 months what has happened to your domestic residential and commercial property market?...is it at rock bottom with no immediate sign of prices growth, a place where prices and activity have been declining, flat but calm, rising or extremely buoyant?"

Our global panel is more confident on this metric. 17% of them report that their property markets are active and extremely buoyant. It's interesting that the panel's feeling about consumer confidence is relatively benign – while at the same time reporting that plenty are confident enough to invest in property. Is this simply a case that if 28% see "increased" consumer confidence (See Q1 above)...property is where they spend the money? In total, some 83% of the panel observes a property market that is calm or rising! Is this a case of "make hay while the sun shines"? or is property considered to be a "safe haven" for investors – an idea not necessarily supported by the evidence from the last recession.

DOES HOUSING MARKET POINT TO A RECESSION? = NO

## Auto sales

### Q4 - " Declining auto-sales"




- Low - Auto sales have plummeted and industry is struggling
- Below average - The growth of recent years is fading
- Medium - The market is flat and on a tipping point
- Above average - There is modest growth in auto sales
- High - Care sales growth is at a high and looks set to continue

Auto-sales are another "Bell weather" for the state of a domestic economy. In 2010 car sales fell off a cliff as the financial crisis unfolded and have been in recovery for some time, but are there signs of a weakening position?

We asked our global panel of business advisors what they have seen in their country. Their options were - auto sales have plummeted, recent growth is fading, the market is flat, they can see modest growth, care sales are at a high point and look set to continue?

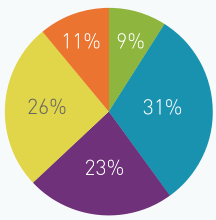
In contrast to the housing market observations, the panel thinks the auto market is less buoyant. Some 50% of them believe that its fading or has plummeted and is struggling. Nobody is prepared to say that it's at a high and that looks set to continue. Perhaps this is unsurprising. Regardless of the state of the economy, the industry is beset with huge problems. The typical narrative around this issue usually refers to global overcapacity. The Chinese domestic car brand market is as big as the rest of the established market combined – a capacity that has only emerged in the last ten years.

Typically the gloomy analysis continues with European manufacturers struggling to dump diesel in favour of lean petrol, of the sector being ill-equipped to move into their electric future. The prospect of self-drive cars further compounds all this, and the possibility that the independent vehicle ownership model is doomed as millennials are not interested. Perhaps car sales are not the reliable indicator of economic fortunes we once thought they were?

DOES AUTO SALES POINT TO A RECESSION? = NOT CLEAR

## Government intervention

### Q5 - " Do you think your government's policies to counter the effects of the global financial crisis are still making an impact?"




- They were largely ineffective and made no difference
- Have made some impact but their affect is fading fast
- Our economy no longer feels the benefits and can stand on its own
- They are still playing a role (if minor) in holding up your country's economic growth
- They are pivotal to the continued success of your country's domestic economy

During the financial crisis, many governments sought to kick start economic growth through various fiscal strategies. These ranged from interest rate cuts to cash injections to the banking system, from public spending on infrastructure projects to emergency tax cuts, or a mix of all of the above. Many of these initiatives were implemented between 2009 to 2015, and it's possible their effects are fading...or could be holding back a recession!

With all this in mind, our question was "Do you think your government's policies to counter the effects of the global financial crisis are still making an impact?". The answer options ranged from; They were largely ineffective and made no difference? Made some impact, but their effect is fading fast? Our economy no longer feels the benefits and can stand on its own? Are they still playing a role in holding up your country's economic growth? And finally, are they pivotal to the continued success of our country's domestic economy?

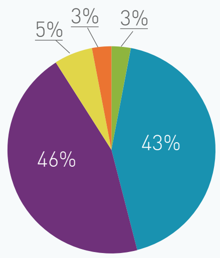
The picture here is less clear. The Global Financial Crisis began some 11 years ago... and started to fade in 2012/13. In this context, it is surprising that some 26% of the panel still feel that the government measures taken at that time are still playing an important role in upholding economic growth. And perhaps that points to why this picture is so confused. Does it suggest that for some economies at least, the recession is not of being held back by continued quantitative easing, tax breaks, government subsidies, government spending?

That said it needs to be acknowledged that some 63% of the panel don't think these policies are doing anything anymore to sustain their countries economy.

DOES GOVERNMENT INTERVENTION POINT TO A RECESSION? = NOT CLEAR

## Yield curve and other investment indicators?

### Q6: What is happening to the general economic indicators in your country?




- They have sunk to a low
- They are trending downwards
- They have remained stable
- They are trending upwards
- They are at high

Typically, a 'yield curve' illustrates trends over time of the bond investment market performance. The curve changes shape as the economic situation evolves. Stock market growth and investment returns and central bank interest rate trends are also pointers to whether a recession is imminent.

We asked "What is happening to the general economic indicators in your country? - Have they sunk to a low? Trending downwards? Remained stable? Trending upwards? Or are they at an all-time high?

This is probably the most decisive factor here. Despite everything that has been written above a good 43% think that investment indicators (presumably other than those discussed so far) point to a recession! Another 46% think they are stable. In some markets, investors have moved in large volumes to the safety of long term government bonds and away from short term equities – which in itself sore a drop in market prices.

**DOES YIELD CURVE AND OTHER INVESTMENT INDICATORS POINT TO A RECESSION? = YES**

## Conclusion

The view is a mixed one, but what does this disparity mean? The survey very much reflects the current paradox of apparent fears of the markets and indicators suggesting a recession is imminent, while actual real-world factors like productivity suggest its still a while off. It turns out even the esteemed members of our global panel of business advisors are struggling to shed new light on this conundrum

DOES ALL THIS POINT TO A RECESSION?

| | |
|---|---|
| CONSUMER CONFIDENCE | NO |
| PRODUCTIVITY | NO |
| HOUSE SALES | NO |
| AUTO SALES | UNCLEAR |
| GOVERNMENT INTERVENTION | UNCLEAR |
| INVESTMENT INDICATORS | YES |

'Technically' it could be argued we are due a recession. We've come to the end of the typical 10 to 12-year cycle. The investment indicators are keen to make us believe that it's around the corner – but the patterns of actual human behaviour don't support it!

The current economic cycle follows a series of unprecedented interventions at the time of the 2008 global financial crisis. For possibly the first time fiscal policy was coordinated on a global basis. How has this affected the traditional understanding of an 'economic cycle'? Perhaps those developments have fundamentally altered the model? As ever we can be reasonably sure a downturn will happen – but we still don't know when.

- They have sunk to a low
- They are trending downwards
- They have remained stable
- They are trending upwards
- They are at high

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