Focus

It is the question currently on the minds of economists, analysts and policymakers, and it is written about in the media almost daily: Will there be a recession or not? In this article, we try to answer this question. In doing so, we will first discuss the definition of a recession, the predictability of a recession, and global developments.

The US National Bureau of Economic Research (NBER) defines a recession as: 'a significant decline in economic activity that is spread across the economy and persists for more than a few months'. The most common definition of economic activity is Gross Domestic Product (GDP). Consequently, NBER's definition is often shortened to its most commonly used form: 'recession is the state of the economy when the volume of Gross Domestic Product shrinks for two consecutive quarters'.

Starting from that definition, it is relatively easy to determine when the economy is in recession. Another important question is: is a recession coming soon? For this, economists look at several economic indicators with predictive value, including: consumer confidence, purchasing managers' indices, central bank policy rates, equity indices and the bond yield curve.

Consumer confidence gives an indication of future trends in household consumption and savings. Surveys measure how consumers feel about their expected financial situation, the general economic situation, unemployment and their ability to save.

Purchasing managers' indices are indices that use surveys to measure, among other things, how purchasing managers think about the state of the economy, whether orders are increasing or decreasing, how purchasing prices are evolving and the level of existing stocks and expected production.

Economists also often point to developments in *central bank policy interest rates* as an indicator. For instance, Mark Zandi (chief economist at Moody's) at CNBC points out that recessions are almost always preceded by a period of sharp interest rate increases.

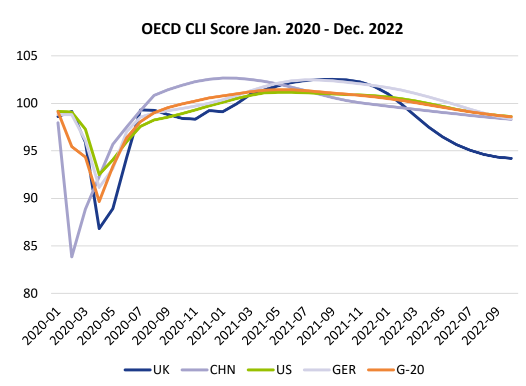
Among other things, a *company's share price* is influenced by its expected earnings. Assuming earnings estimates are accurate, equity markets can be an indicator of the state and future development of the economy.

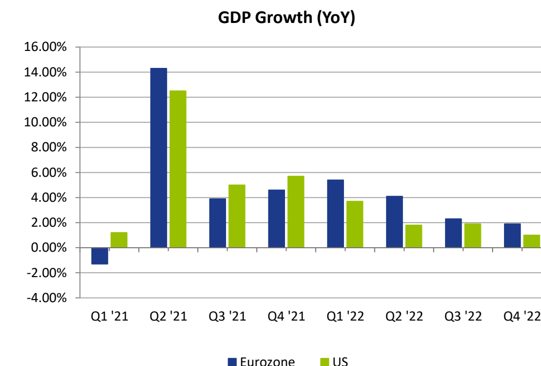
Interest rates on government bonds are mainly influenced by investors' assessment of the outlook for economic growth and inflation, Richard McGuire of Rabobank points out in the Financial Times. The curve flattens when investors have low expectations of economic growth leading to an inverse yield curve. Historically, an inverse interest rate curve has also proven to be a good indicator of a recession.

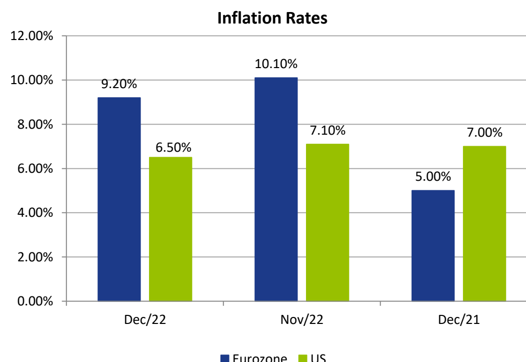
Separately, indicators sometimes give a conflicting picture. Therefore, to get an indication of the direction of the economy, such variables should be considered in conjunction. Commonly used indices that try to combine the above variables into a score are the US Conference Board's Leading Economic Index (LEI) and the OECD's Composite leading indicator (CLI).

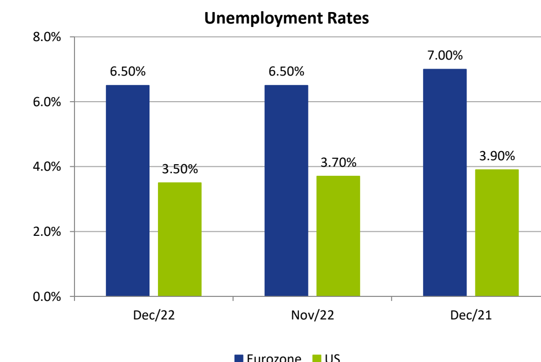
The Conference Board has published the latest LEI for the United States as of 1 February 2023 and it has fallen as in previous months. Over the past six months, the LEI fell nearly 8.0% year-on-year. According to The Conference Board, a 4.0% decline is reason to believe that a recession is imminent. The OECD's CLI confirms this picture. According to the OECD, a score below 100 suggests that an economy is heading into recession in the near future. As the figure shows, almost all economies worldwide have a score below 100.

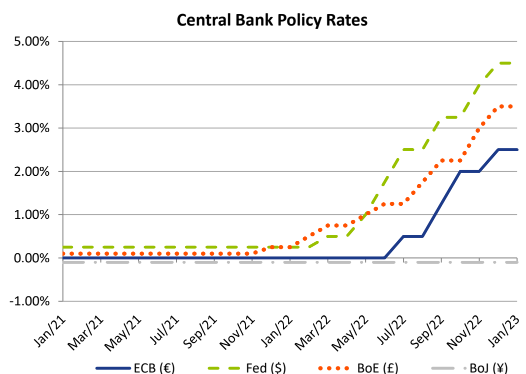
While such indices seem to provide evidence, caveats are still in order. As can be seen in the figure, most economies were already predicting a recession in April 2022, but so far this has not been the case. S&P economist Chris Williamson also points out in the FD that the purchasing managers' index for several countries is positive. This index may be underweight in the discussed indices. Zandi of Moody's also thinks it is possible that, at least in the United States, a recession could be avoided if the Fed cuts interest rates again once economic growth stagnates. So time will tell what the predictive value of the indicators really is and whether a recession is indeed imminent.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	NR	NR	NR
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

The European Central Bank implemented a 50 basis point increase. The ECB expressed its intention to do the same in March. The central bank will then reassess what further steps are needed to bring inflation back to the 2% target.

The Federal Reserve raised interest rates by 25 basis points, raising the federal funds rate to a range of 4.50% to 4.75%. In doing so, the Fed reported that the expectation remains that further interest rate hikes remain appropriate, to contain the economy sufficiently to bring inflation back to 2% over time. In December, the Fed already raised interest rates by 50 basis points, following a series of 75 basis point increases.

Final figures from the European Commission showed that eurozone consumer confidence improved in January but remained strongly negative. The confidence index improved to -20.9 in January from -22.1 in December.

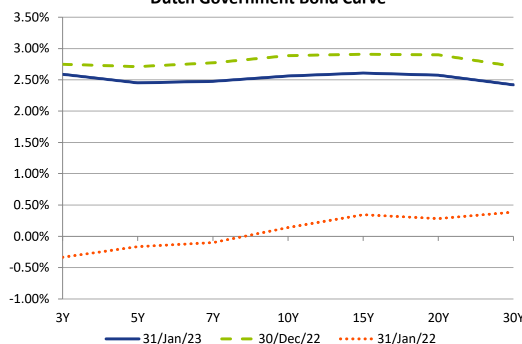
China's purchasing managers' index for manufacturing was found to have risen to 50.1 in January from 47.0 in December, according to official figures from the Chinese government. Analysts had forecast an index of 50.4.

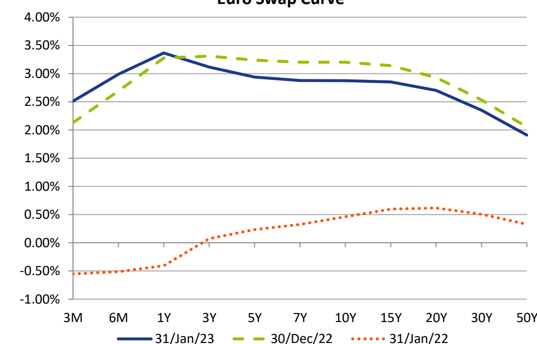
Consumer prices in the eurozone eased again in January. Preliminary figures from Eurostat showed that prices rose by 8.5% year-on-year. In December, the increase was still 9.2%. In November, inflation recorded 10.1%. Core inflation, a key indicator for the ECB, was 5.2% year-on-year in January. Core inflation was also 5.2% in December.

Dutch inflation fell to 8.4% in January, according to preliminary figures from Statistics Netherlands. It is the first time that the statistics office includes the price cap for energy. In December 2022, year-on-year inflation stood at 11% according to the European definition (HICP).

Agenda:

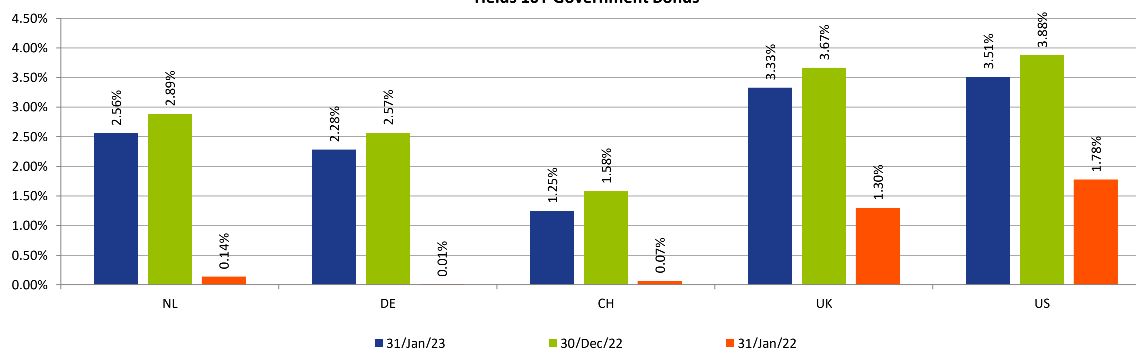
03 February: Unemployment US
10 February: Economic growth UK
14 February: Economic growth NL
14 February: Economic growth Eurozone
14 February: Unemployment UK
14 February: Inflation US
16 February: Unemployment NL





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa2	A+
ING Bank	A+	A1	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	A-	A1	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A-	A3	BBB+

Currencies	31/Jan/23	30/Dec/22	31/Jan/22
EUR/USD	1.086	1.071	1.124
EUR/GBP	0.882	0.885	0.835
EUR/CHF	0.995	0.990	1.041
EUR/JPY	141.320	140.415	129.325
EUR/DKK	7.439	7.437	7.441
EUR/SEK	11.368	11.160	10.474
EUR/CAD	1.446	1.451	1.428
EUR/AUD	1.540	1.572	1.590
EUR/CNY	7.338	7.385	7.146



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