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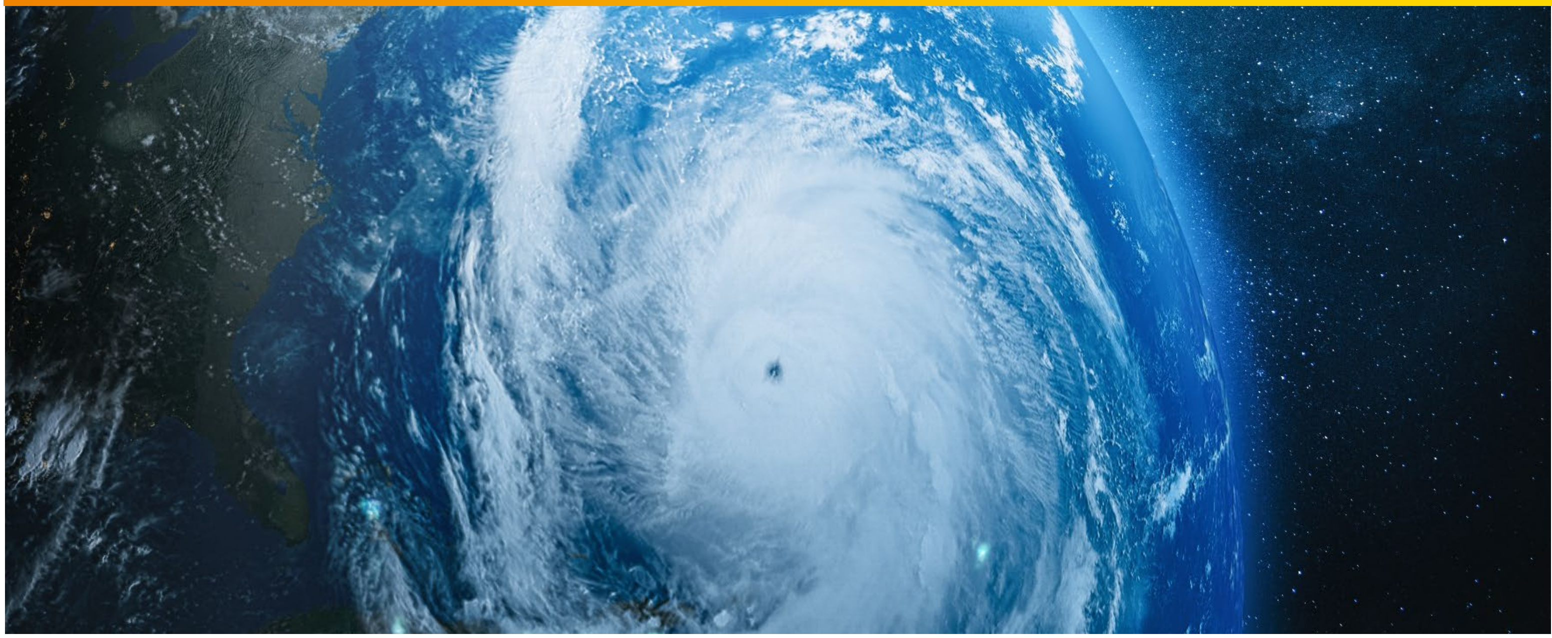


Global economic outlook: Calm before the storm?

Slowing growth, but a recession is not necessarily inevitable

Buffeted by trade wars and geopolitical events such as Brexit and unrest in Hong Kong, the global economy this year is set to grow at its weakest rate since 2009. While most forecasters are expecting this slowdown to be temporary, warning signs of a possible U.S. recession began appearing this year, raising concerns that a longer, broader global downturn could be coming.

These concerns are likely misplaced. Even if the current U.S. economic expansion—the longest on record, spanning over 10 years—ends in recession, the global economy would not necessarily follow suit. The U.S. no longer drives the global economy the way it once did. Today, the U.S. accounts for only one-quarter of global output (from one-third a decade ago). Moreover, many domestic factors that depressed growth in large markets such as Mexico, Brazil, Turkey, Russia and others could reverse next year, allowing global growth to stabilize and possibly even begin to recover.

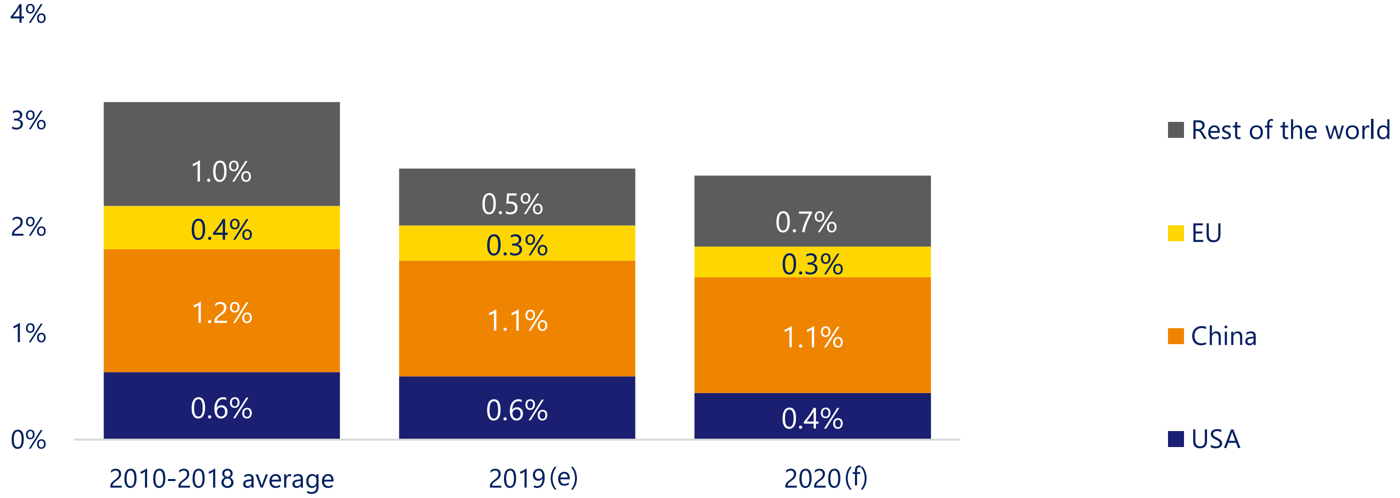
Key Takeaways:

Recessions are about more than just changes in GDP

Most of the key measures of global economic activity are still below recession levels

Do recessions even matter?

The U.S. no longer drives the global economy the way it once did
(Contribution to global GDP growth, percent)



Sources: Visa Business and Economic Insights, Oxford Economics, Haver Analytics

The true impact of recessions means going beyond what defines them

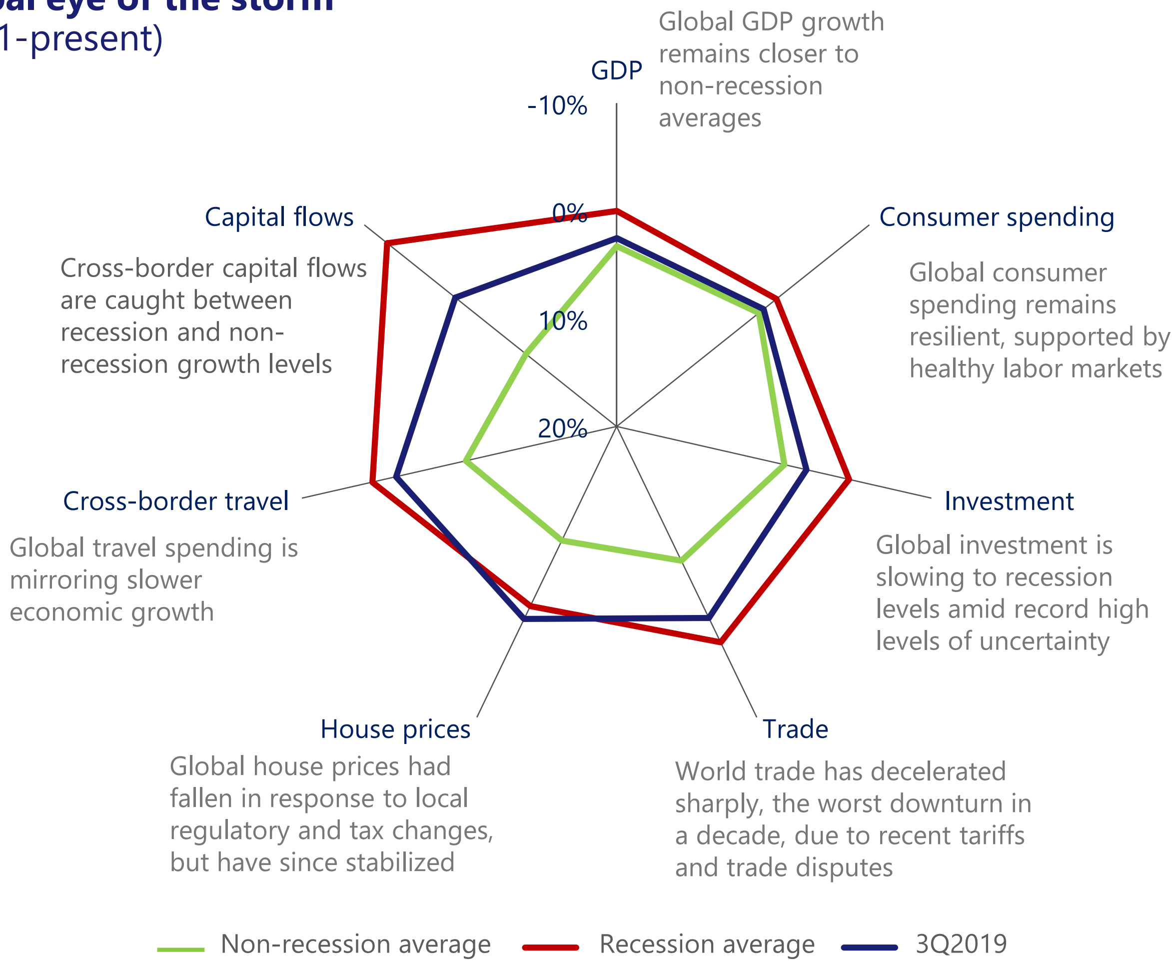
Traditionally, a global recession was defined as a period when real GDP growth fell below 2-2.5 percent, which was shorthand for saying when economic output was lower than population growth. However, an ageing, slowing population makes that threshold less meaningful today. The true power of a recession is about more than just changes in real GDP. Using GDP as the sole measure would be like measuring the strength of a hurricane by the wind speeds within the eye of the storm. There the speeds are relatively calm and normal. It is only when you go further out about 15-20 km into the eyewall where the full destructive force of the storm can be felt.

There are some classic signs of a recession beyond slowing real GDP growth. As the business cycle turns downward, the future becomes less certain. For households, this may pose greater risks of unemployment and falling wealth as asset prices such as those linked to housing and financial investments decline. Households become less willing to borrow for larger outlays and consumer credit growth slows more than the downshift in GDP. Cross-border travel slips even further in a global recession as consumers pull back on discretionary spending. While the economy as a whole might be moving forward according to real GDP stats, the individual components might not.

On a more profound level, recessions often unleash the forces of creative destruction. Firms that are already struggling prior to the recession often do not survive as financial and business pressures overwhelm their ability to continue to operate. At the same time, the uptake of new technologies that enable more competitive companies to thrive often accelerates. The fact that this could be the first global recession of the digital age may actually make the next cycle more volatile.

A more critical consideration for businesses and consumers is what may come with the recovery following the next recession. If it is within the next few years, it will coincide with the global roll-out of the next generation of mobile technology, 5G. Advanced fifth generation networks have already been introduced this year in China and roll-out plans have been announced in other markets within the next five years. The investment and adoption of the new technologies enabled by 5G will touch every industry through its promise of mobile broadband capabilities, improvements in the latency of communications and ability to support more varied and numerous applications to run on mobile networks.

Global eye of the storm
(1981-present)



Sources: Visa Business and Economic Insights, Oxford Economics, International Monetary Fund, Haver Analytics
* Cross-border travel and capital flows are as of 2Q2019.

The odds of the U.S. and even the world falling into recession in the next year remain low. Looking at signals from seven broad measures of economic activity today, only two are consistent with where they would be during a global recession: cross-border trade and housing prices. Both are currently showing soft readings due to policy changes. In the case of trade, the escalating tariffs, unresolved trade disputes and disruptions in auto supply chains have depressed activity. Real estate prices have softened in part to measures taken by governments to ensure greater housing affordability. Capital flows, investment and stock prices are caught between recession and non-recession values, but GDP and consumer spending still remain far from close to recessionary levels.

So, while the global economy is spinning out of the relative calm 'eye of the storm,' it still has some distance to go before reaching the volatile edges. Although recession speculation continues to grow, it is worth asking *do recessions really matter?* After all, when global recessions occur, the world economy usually continues to grow (that was the case in three of the last four business cycles). Not to mention that recessions on average last a year and come once a decade.

Bottom line: we spend more time out of recessions than in them. That may be our answer.

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