<u>The Outlook: Aug. 17, 2019</u>

"Recession!" or "Recession?"

The headlines have shifted from "Trade War!" to "Global Economy Tipping into Recession!" over the past couple of weeks. Those are the headlines. The actual facts are, in a nutshell:

1. <u>The U.S. economy</u> is showing no signs of recession worth mentioning. It's actually been the opposite, with the real "news" being the startling and continuing strength of America's total economy--both businesses and households--in this 11th year of the steady economic upturn which began in 2009. That steady U.S. growth has not only been "continuing," it's even been "accelerating" since Trump was elected. That's remarkably good news, which of course doesn't sell, so the media have been glomming onto anything it can cast in a negative, scary light. The media has been doing that throughout every one of the 11 years of this economic upturn—headlining each passing item from the thin stream of negative economic news—and has been dead wrong for 11 years. The fact that the headlines have been so wrong doesn't guarantee they'll always be wrong . . . but it puts us in the right frame of mind when we see those headlines.

2. <u>The "global" economy</u>, on the other hand, is generally slowing and weakening so far this year, not dramatically (except for China) but to some degree. By "generally" we mean it's a mixed bag, which is normal. The most important parts of the global economy are:

   Europe: Pretty weak, but not into recession yet. But that observation needs perspective, which is that Europe's economy is <u>always</u> weak. Over the 11 years of this general upturn, the U.S. economy has averaged 2.5% to 3.0% growth . . . and Europe has averaged about 0.5% to 1.5%. That is a great big difference, when it comes to economies and growth. That difference shows up in such vital things as employment: America, spectacularly strong; Europe, crummy. Europe's political leaders are <u>all</u> people who believe in heavy taxation and government regulation of every aspect of life, pretty much. Economies don't grow under those policies, they stagnate—which is exactly what Europe has been doing for the last decade.

   China: Nobody knows for sure, because China's economic statistics are lies: always exaggerated to give a picture of more economic strength than the reality. At Outlook we suspect that China has been hit quite hard by President Trump's "trade war," and might very well be in a recession already. That's part of the reason why Europe's manufacturing industries (particularly Germany's) have been weakening throughout 2019, as exports to China fall—led by plunging sales of German cars in China.

   The Rest of Asia: Not bad at all, steady-to-strong growth. Japan keeps plodding along, economically, which has been its way of life for a long time, just like Europe's. But India, Vietnam, Indonesia, the Philippines, Southeast Asia in general are all growing pretty well, at this moment.

   Latin America: Mexico OK, Argentina awful, Brazil in between. That kind of mixed bag is also completely typical of Latin America's big picture, economically.

Africa: Doesn't matter, sadly enough, when it comes to the world's economic "big picture."

<u>What does all this mean for the risk of "recession," especially here in the U.S.?</u>

China is big and important for global economic growth . . . but it is <u>not</u> the heart and soul of the global economy—far from it. The impact of China's weakness, so far this year, is exactly what we might expect: damaging enough to dent Europe's stagnant economy, because it was weak to begin with; but not strong enough to dent the U.S. economy, which was quite strong to begin with.

There are no "global economic monsters" ready to jump out and bite the world in 2019, like bad loans everywhere in the banking system did in 2008. The one thing, though, that is always capable of becoming "monstrous" is simple: <u>fear</u>. If enough businesses and consumers throughout the world get frightened enough by media headlines, they'll do what normal people always do when worried enough: get cautious, conserve their money, and cut back on spending and business investment plans. That kind of contagious caution, or downright fear, is a self-fulfilling prophecy if it really gets rolling. Economic growth always depends on people having at least a certain degree of confidence. When they lose that, as a giant group, all economic activity gets cut back, which is the very definition of "recession."

We think more of Europe's economic weakness is due to exactly that kind of contagious concern, than is due to lower demand for European manufactured products from China. American consumers and business leaders have been seeing the same media scare headlines as their European counterparts, of course . . . but economically speaking, Outlook suspects Americans are a good deal tougher and more aggressive. Those "cowboy capitalists" (a label which came out of Europe a long time ago) don't scare as fast.

Besides being more confident in general, American consumers, businesses and especially American banks have built themselves into financial "Rocks of Gibraltar" over the past 11 years. The U.S. has gone so far beyond Europe in that regard that there is no comparison. That's another reason that "recession" is sharply less likely here than anywhere else, despite the world's general economic inter-dependency. It's not impossible—almost nothing in the economic world is "impossible"—but it's a lot harder for the wind of contagious fear to blow down a house made of bricks than one of straw.

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