ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2023.02.27
We Are In A Recession

“Up until the Depression, recession had a moral character: it was supposed to purge the body economic of the greed and excess that attends a business expansion.”
~ President James Buchanan

Hello everyone!

Yep, you read that right. We are currently in a recession. At least that’s my premise.

But, Walt, you say, a recession is a decline in GDP for 2 consecutive quarters! And our GDP has been on the rise for the last 2 quarters!

Simmer down, gentle reader. Let me explain…

I know nobody is saying we are currently in a recession – by definition – but part of the problem is the definition.

GDP isn't declining for a few reasons.

- 1) As I stated last week, there's still too much liquidity in the US economy left over from the government stimulus during Covid.
- 2) Spending is still high – and people still have their credit cards they can spend/live on.
- 3) The government is still spending like crazy – that is calculated in the GDP number.

Let's dig a little deeper into each of those points…

#1. Too much liquidity in the US economy. Yes, as I stated last week, you can't pour $6 Trillion into the economy and then quickly mop it up with a few months of rate hikes. The cash is still out there, continuing to drive up inflation.

In fact, just this past week additional numbers came in, reiterating my position last week that inflation is still not transitory. But even more so – the US Commerce Department showed that consumer prices rose 0.6% last month over December. That's up sharply from 0.2% the month before.

And Core Inflation was up to 4.7% in January, up from 4.6% in December.

What does inflation have to do with GDP? Well, inflation… inflates - for lack of a better word.

Think about when you're at the grocery store. Your money is getting a little tight so you might buy fewer things at the store. But the prices of what you do buy have gone up. When you walk out of the store you've bought less but spent more.

Well, if you take that small increase in spending by one person and spread it across the entire country in all categories, it has the same impact – GDP goes up (regardless of less stuff being bought).

#2. Spending hasn't slowed down that much. There's a few reasons for this. When everybody was getting their Stimmy Checks, a lot of folks were responsible with that money – Yes, they bought more stuff but they also started paying off credit cards and building up their savings.

But then the Stimmy Checks stopped – but the buying of more stuff hasn't completely stopped (it's slowed but not stopped). What has stopped is the paying off of credit cards and building savings accounts. Habits are hard to break – especially spending habits.

I read last week that credit card balances have been growing at the fastest rate since the Great Recession of 2008. At this speed, limits will be hit fairly soon, which means the spending will have to stop. (It also means defaults will ultimately start growing.)

#3. Government spending has not slowed down. This is a big one because for some reason GDP takes into account government spending. Probably b/c it makes the number look better. But Government spending hasn't slowed even though the US government has hit their debt ceiling (i.e. Maxed out their credit cards).

As I mentioned in another missive, they won't be sitting at that credit limit very long. Both parties will pull out all the stops, pointing fingers at each other, gnashing their teeth, calling the other "irresponsible." And then they'll both come to an agreement where they raise the debt limit so they can go on spending.

As long as the US government can print and spend, this will make GDP look better than it really is.

Here's what the reality is. People are starting spend more to buy less b/c prices keep increasing – but the Stimmy Checks aren't there to help. We're also seeing large ticket items, like homes and cars, slow down in their sales volume.

So, there you have it. While we have not hit the technical definition of a recession yet, it's coming – and yes, I think it has already started.

Your February-Will-March-On-And-April-May-Too Financial Advisor,

Walt

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