Basis Points – May 18, 2023

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Above the Fold

What (Exactly) Defines a Recession?

The word recession can mean many different things depending on whom you ask. By most measures, it's loosely defined by two consecutive quarters of negative gross domestic product (GDP), but the National Bureau of Economic Research (NBER) actually makes the official "recession" call. When the word is mentioned, some might envision scenes from the Great Depression when millions of Americans were unemployed and could barely afford food. Others might remember the shock in the housing and jobs market during the Great Recession less than 15 years ago, but the reality is that history is full of recessionary periods, some of which are short in duration and not nearly as severe in their effects. In fact, there have been 14 recessions since the Great Depression, which means we average one every six years or so.

What most people don't realize is that the pandemic-related recession of 2020 was technically worse than the Great Depression. That year, the U.S. economy contracted a record 31.2% in the second quarter after falling 5.1% in the previous quarter. Employers shed an eye-watering 20.5 million jobs, the stock market crashed, oil went negative (you could get paid to take delivery) and the unemployment rate hit nearly 15%. The peak during the Great Recession in 2009 was 10%. The point of all this is that recessions, even deep ones, are recoverable and no two have looked the same. Many of them have been triggered by extraordinary events such as the dot-com bubble, the housing (mortgage securities) crisis or even a deadly virus. Today, there are certainly signs that consumers are throttling their spending and that corporate profits are suffering, but barring a major catastrophe, a looming recession is more likely to be shallow than cataclysmic.

Three Things

Apple's "Nerd Helmet" is Coming

Augmented reality (AR) devices have already garnered the not-so-friendly moniker, but Apple is striving to level-up these contraptions and take market share from Meta and its Quest series of virtual (VR)/AR goggles (which currently dominates the space). Apple is expected to announce its entry into the AR headset world during its developer conference on June 5. The new device is reportedly designed to resemble ski goggles with an external battery pack and will be a mixed-reality experience that is expected to cost around $3,000. Apple has not confirmed any of these details yet.

Consumer Update: Conflicting Data Continues

Worse-than-expected earnings reports from retail giants Target and Home Depot painted a fairly grim picture of consumer health as Home Depot expects its annual sales to decline for the first time since 2009. But despite these and other corporate warnings on consumer spending, recent retail sales data from the Commerce Department showed a reversal after two straight months of declines. Consumers' retail spending rose a modest 0.4% in April as Americans increased their spending on autos, dining and online purchases. They did pare back spending on fuel and big-ticket purchases as high interest rates continue to pull on economic growth and consumer confidence.

Lumber Futures Are Changing

Some of you may remember the record-high prices for wood during the pandemic as supply chains crumpled amid high demand. Well, wood futures will continue to trade, but the CME Group has decided to end trading in those old contracts, which represented the value of a railcar full of wood delivered to Western Canada (I know that seems weird). The new contracts will represent a truckload (27,500 board feed) of two-by-fours delivered to Chicago. These new deliveries are expected to stimulate production of woods in the Pacific Northwest and should help reduce volatility.

In the Know

The Biggest Recession Triggers

There really isn’t one main cause for recession, but typically recessions tend to follow large expansions that drive prices higher. High prices strain consumers’ savings and spending ability, lowering demand, and profitability for businesses, which then scale back workforces and offerings, putting further pressure on consumer confidence. Rising interest rates almost always precede recessions, but low interest rates can cause a recession by encouraging excessive borrowing. History has also shown that surging energy prices have triggered several recessions, but given the world’s increasing connectedness, recessionary instigation can come unexpectedly.