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Topics That Will Be Considered

1. Recession Odds
2. Recession Triggers
3. Road to Recession
4. Policy Response
5. How Severe a Downturn
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Recession Odds
Recession Risks Are Rising…
Circle size=Real GDP, USD, 2018Q4

Recession  Recovery  Expansion  Slowdown

Greece  South Africa  Egypt  Brazil  Russia  Saudi Arabia
Turkey  Italy

Australia  Malaysia  Singapore  India  Chile  Indonesia  Vietnam
Thailand  France  South Korea  Canada  Israel  Spain  Germany
U.S.  Japan  China  UK  Italy

Recession Risks Are Rising…

November 2019 5

MOODY’S ANALYTICS
...and Uncomfortably High
Probability of U.S. recession based on financial indicators 12-mo prior

Sources: Federal Reserve, Moody's Analytics
Recession Triggers
Recession Triggers
What Could Go Wrong?

Source: Moody’s Analytics
President Trump’s Trade War Intensifies…

U.S. effective tariff rate, %

- Solar and Washing Machines ($10B)
- Steel Alum. ($18B)
- Steel Alum. Canada, Mexico, EU ($10B)
- China 1 ($34B)
- China 2 ($16B)
- China 3 ($200B)
- China 4 ($200B)
- China 5 ($300B)

Sources: U.S. Census Bureau, USTR, USITC, Moody’s Analytics
…Weighing Heavily on Business Sentiment
Moody’s Analytics global business sentiment survey

Source: Moody’s Analytics

% difference between positive and negative responses
No-Deal Brexit Would Be a Global Body Blow

Difference in Real GDP in 2020Q4, No deal vs No Brexit

Source: Moody’s Analytics

- Lower by less than 0.5 ppt
- Lower by 0.5 to 1.0 ppt
- Lower by more than 1.0 ppt
Road to Recession
U.S. Treasury Yield Curve Sends a Warning
Difference between 10-yr Treasury yield and 3-mo EBY, %

Average length of time between inversion and recession is 12 months

Sources: Federal Reserve, Moody’s Analytics
Consumers Are on Edge
U.S. Google search term, 100=peak popularity

Sources: Google Trends, Moody’s Analytics
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Policy Response
Going Negative
Global negative-yielding debt, $ tril

Sources: Barclays, Bloomberg, Federal Reserve, Moody's Analytics
Fiscal Space, But No Political Will
Assumes maximum sustainable primary balance is 2% of GDP

Source: Moody's Analytics
5 How Severe a Downturn
Leveraged Firms Lever Up
Debt outstanding, $ tril

Sources: BCA Research, BIS, IMF, Moody’s Analytics
Liquidity Is Tenuous in the Shadow System

% of mortgage originations originated by nonbanks

Sources: Federal Reserve, Brookings