

Three Reasons Why Recession Has Not Started

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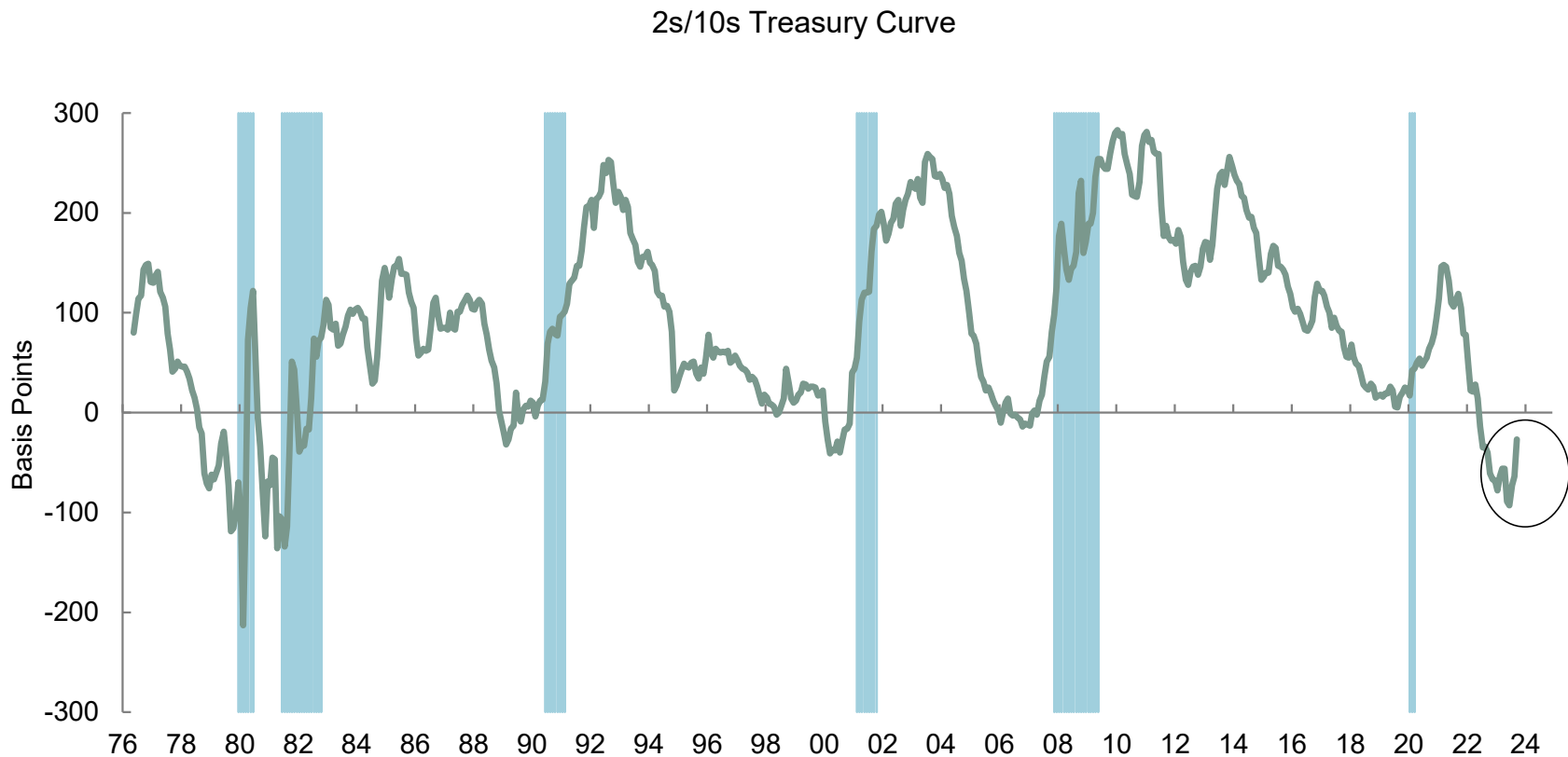
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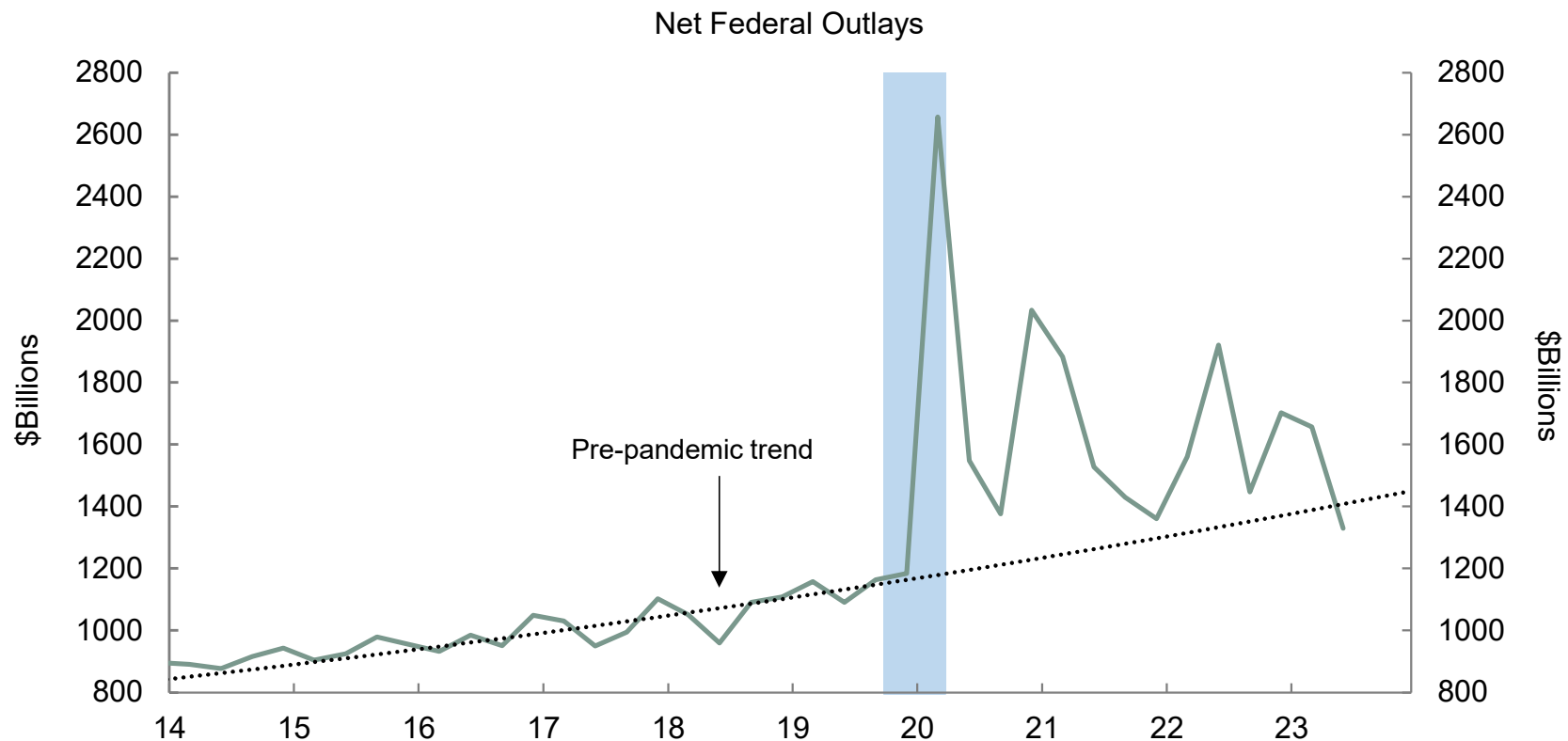
Long and Variable Lags

One, monetary policy operates with long and variable lags, a common refrain. While the average lead time between yield curve inversion and recession is about 13 months, there have been a couple of times when the lead was 20 months. This takes us to an economic peak in February 2024 since the curve inverted July 2022. But there is nothing to suggest the lead time cannot be longer.



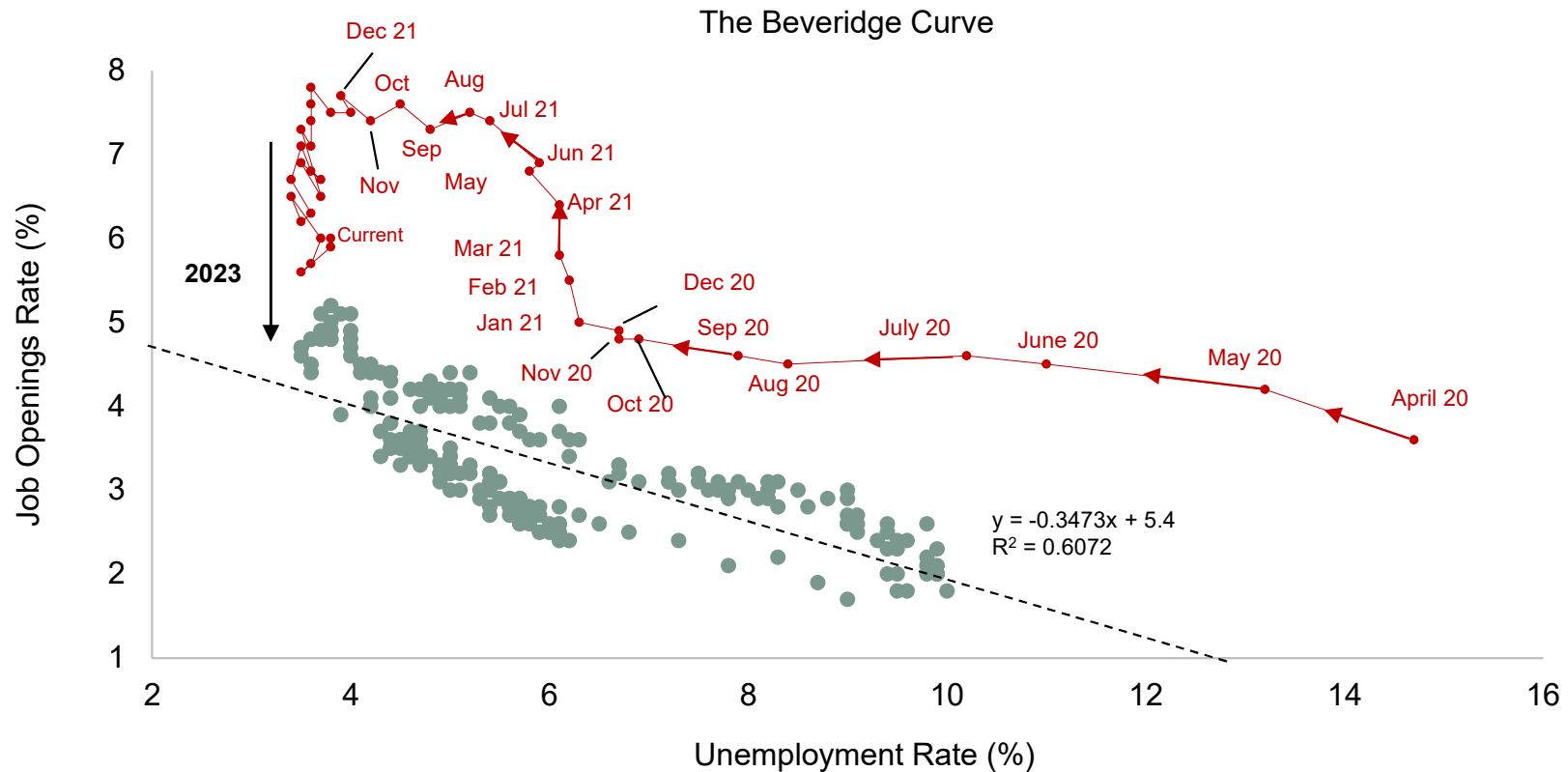
Expansionary Fiscal Policy

Two, fiscal policy has been massively expansive. Since 2021, cumulative government outlays are \$3.2 trillion above what they would have been had spending remained in line with its pre-pandemic trend. Federal outlays have recently slowed to a below trend pace because of an end to student loan forbearance. A divided Congress makes it unlikely there will be more fiscal stimulus ahead of next year's Presidential Election.



Labor Market Normalizing

Three, and maybe most importantly, the economy is normalizing following unprecedented pandemic-related disruptions and distortions. This means that traditional cause and effect relationships will reassert themselves. In other words, the economic models are not broken. Perhaps this is best illustrated by the Beveridge Curve, which shows the ratio of job openings relative to the unemployment rate. For example, there were a lot of job openings despite elevated unemployment in 2021. This incongruity is finally correcting as job openings are falling in 2023 while the unemployment rate is historically low.



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