The possibility of economic recession in the market by 2020

Introduction

An economic recession is defined as two successive quarters of contraction. The last major recession to hit the global markets happened in the year 2008 when it was triggered by the sub-prime lending crisis in the US. The shock to the global economy was immense, and it spread like wildfire. This resulted in almost all the economies in the world being impacted gravely. Thus, the risks attached to a recession are high, and such an event could result in almost every company being impacted severely. This article will look to identify whether there is another recession looming over the next couple of years, and also study the potential reasons behind such an event.

Key Global Indicators

Over the past couple of years, the global economy has shown stable growth. There have been improvements in almost all aspects of the world economy since the 2008 recessionary period ended. However, there are still plenty of reasons to be worried about. There are plenty of indicators around the world that we are headed towards another recessionary period by the year 2020. Firstly, the current fiscal policies around the world are short sighted and cannot be sustained over a prolonged period of time. For example, the US Fed has continuously made decisions which have boosted the economy in the short run, but these policies cannot be sustained for a longer period. At the moment, the fiscal policy employed by the US has resulted in a 2% growth rate for the country. But, this is not sustainable for too long, simply because the fiscal stimulus will run out by the year 2020. This could result in a widespread panic amongst the market. Further, the problem with a fiscal based approach is that it has also resulted in a rise in the inflation numbers. This could potentially impact the interest rates as well, resulting in a vicious circle of financial anomalies. Driven by the inflation and pricing trends in the US, the inflation numbers in other major economies are also continuing to rise. This has resulted in a reduction in liquidity around the world, and the interest rates have been forced upwards. Commodity prices such as oil & gas have also been on the upturn, resulting in higher costs for businesses around the world. Since the demand for products and services is moderate at best, rising costs are putting pressure on margins. Oil & gas are fundamental commodities which play a major role in the operations of almost all businesses. Not only this, oil prices impact the lives of almost all humans simply because so many of our needs are dependent on it. Also, the job market around the world has been impacted gravely. Unemployment levels around the world have been on the rise, and the governments have failed to create enough jobs for everyone. This is a key element of the global economy.

Already the job market had been suffering from threats such as advanced technology and increased automation. With the governments not being able to generate enough employment, the situation has turned even worse. Too many young people around the world are now dependent on social security in order to pay their bills. This is never a good indicator. It is likely that by the year 2020, a saturation point would have been reached in the job market as well. US growth is likely to fall below 1% by the year 2020, which will result in higher unemployment levels. This could then rub off on the other major economies around the world, resulting in a widespread recessionary period. All these factors are coming together to create a business environment which is conducive for another recession on the back of the 2008 one. If such a recession emerges in 2020, it will take even longer for the world economy to recover compared to the last recession. This is because there will be no easy way out for the major economies such as the US and China. With the US election also not far away by then, 2020 is likely to be a tough year for the world's leading economy.

Trade Tussle

Another major indicator of a global recession is the fact that trade policies around the world are getting more and more complex. The traditional model of having trade allies around the world is no longer in place. For example, the US administration has taken a number of retaliatory steps against what are perceived to be its trade allies, such as Canada and Mexico. This shows that countries around the world are willing to go to any extent in order to preserve their own interests. On top of this, trade tariffs against China have also been put in place by the US. Although the reasoning behind this was claimed to be "fairer", such measures are only likely to result in a backlash against the US by China amongst others. There are also trade disputes emerging between the US and Europe, which were traditionally working together on trade matters. Europe is a curious case in itself in the sense that demand for almost all products is slowing down. Most markets in the European Union are now mature and heading towards saturation point. This has resulted in lower demand for products and services apart from a few exceptions. Trade frictions have also made sure that the countries with the European Union are themselves battling against each other on the trade front. Brexit has also been a major flashpoint in the global economy. Although the UK and Europe are still struggling to figure out the nuances of a possible Brexit deal, the likelihood is that the UK's potential exit will harm the global economy as well. It will not be easy for multinational corporations to operate in the region and to hire workers from outside the UK. Additionally, it will become trickier to sell products and services to the European market. This is because the UK used to be an easy route to the European market for a lot of companies around the world, but now things are expected to change for the worse. Retaliatory measures in terms of trade tariffs are likely to increase year by year, resulting in the situation becoming even worse. Such punitive tariffs are likely to reduce the "free market" economy around the world, resulting in losses for major companies. For example, a couple of the major technology companies of the US have already stated that cost pressures are likely to coerce them into increasing the prices of their products. Such steps will add to the negativity prevailing in the world economy, putting even more pressure on the current state of affairs. All of the above trade factors are indicating the possibility of an imminent recession.

Equity Markets Risk

The US equity markets are now perceived to be overvalued. This is because of the fact that private equity valuations have now become higher than ever before. This is usually a major indicator of the market risk that is prevalent today. By the year 2020, this risk is likely to be even higher, and price/earnings ratios are due to jump even more. Eventually, the bubble is likely to burst, resulting in the possible collapse of the share prices. Any such collapse would only fast track the recessionary period, resulting in an economic disaster around the world. And such a risk is not limited to the US only. Various other stock markets such as China are now at levels which are seen as false. Ultimately, since the markets work on global cues, a collapse in one of these is likely to trigger a fall in others as well. Additionally, a majority of real estate markets around the world are now highly inflated. Commercial real estate prices have gone through the roof, and there is likely to be a correction in these in the near future. A great example of this is China. The Asian country has invested heavily in infrastructure and developed multiple housing schemes, especially in smaller towns and cities. However, most of these are lying idle since there are no buyers in the current market. In fact, the supply levels are so much higher compared to the demand that entire cities in China are ready to move into, but have no inhabitants. This is a clear indicator that the asset bubble is also likely to burst in the near future, resulting in a possible collapse of the market.

Possible Precautionary Measures

Even though it has been over a decade since the last major recession, there are still ongoing debates about the reasons behind it as well as the fact that how widespread its impact was. It is well noted that the recession of 2008 was triggered by the collapse of Lehmann Brothers, fuelled by sub-prime lending. The current conditions around the world are also similar to

2008, even though the reasoning behind it is a bit different. Nevertheless, businesses need to be wary of the looming threat of recession which could have a material impact on their operations. The tricky part is to understand how to hedge against this upcoming financial crisis. Firstly, businesses around the world need to be aware of the latest happenings around the world. In order to be prepared for a possible recession, there needs to be a high level of awareness amongst the key business decision makers. The executives need to keep track of the latest commodity prices, inflation rates, interest rates, as well as GDP growth numbers around the world. This could go a long way in helping them to make the right decisions. Secondly, there is a great need for businesses to diversify their operations across different markets. This step could potentially help them in hedging the overall risk of recession by ensuring sustainable demand. There are various high potential markets around the world where the demand for products and services is almost constant through thick and thin. Companies need to look at these markets in order to ensure that they have alternate sources of revenue set up. A couple of good examples for such markets are China and India, who have managed to ensure that their domestic markets' demand remains stable. By ensuring that your end users are in these markets, you could possibly ensure that the recession does not hit you as hard.

Conclusion

Thus, to sum up, it is clear that there is a very real possibility of a global recession emerging by the year 2020. All the signs are visible, and the business community needs to be wary of these. Unless the situation improves vastly, there is a major likelihood of a recession emerging by the year 2020. This will have a significant impact on the operations of companies as well as on the overall gross domestic product (GDP) of various countries. Companies across sectors need to start looking for ways to hedge against the possible recession by various means. For instance, they could look to diversify their product base as well as their geographical presence to ensure that they focus on economies where demand is stable. This will ensure that the business of the companies remains sustainable despite the headwinds in the market.

Justification

This topic is of interest to almost everyone around the world since the recession has an impact on the daily lives of one and all. Further, this is such a sensitive issue for the economy that everyone should be aware of the reasoning behind the potential recession as well as its repercussions. Additionally, this is a topic worth sharing simply because it will allow the readers to be more aware as well as provide them with indicators as to how to hedge against the upcoming economic headwinds. Publishing such pieces of work in the media also ensures that the public is in the know regarding the actual happenings of the global economy. Therefore, it is justified that this topic is talked about and is published by media houses.

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