

Preparing for a Recession

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www.richhallgroup.com

rich.hall@richhallgroup.com

What is a Recession?

- National Bureau of Economic Research (NBER) officially declares
 - 2 consecutive quarters of decline in real GDP is NOT how it's defined anymore
- Definition – *a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.*

Predictors & Indicators?

- There is no single way to predict how and when a recession will occur
- Leading indicators that show changes in trends and growth rates
 - Purchasing Managers' Index
Manufacturing and service sectors
 - Composite Index of Leading Indicators
10 Economic Indicators
• AKA Leading Economic Index
7 month lead indicator
 - OECD Composite Leading Indicator
Early signal of turning points in business cycles
 - Treasury Yield Curve
Measurement of bond yields comparing short & long term (i.e. inverted yield = short-term debt have higher yields than long term)

Where are we?

- Purchasing Managers' Index

- A number >50 = expansion of manufacturing

May – 56.10, Apr – 55.40, Mar – 57.1

- Composite Index of Leading Indicators (LEI)

- Suggests weaker economic activity is likely in near term

Decreased by 0.4 percent in May

Decreased by 0.4 percent in April

- Indicators:

- GDP
- Employment Figures
- Industrial Production
- Consumer Spending
- Inflation
- Home Sales
- Home Building
- Construction Spending
- Manufacturing Demand
- Retail Sales

- OECD Composite Leading Indicator

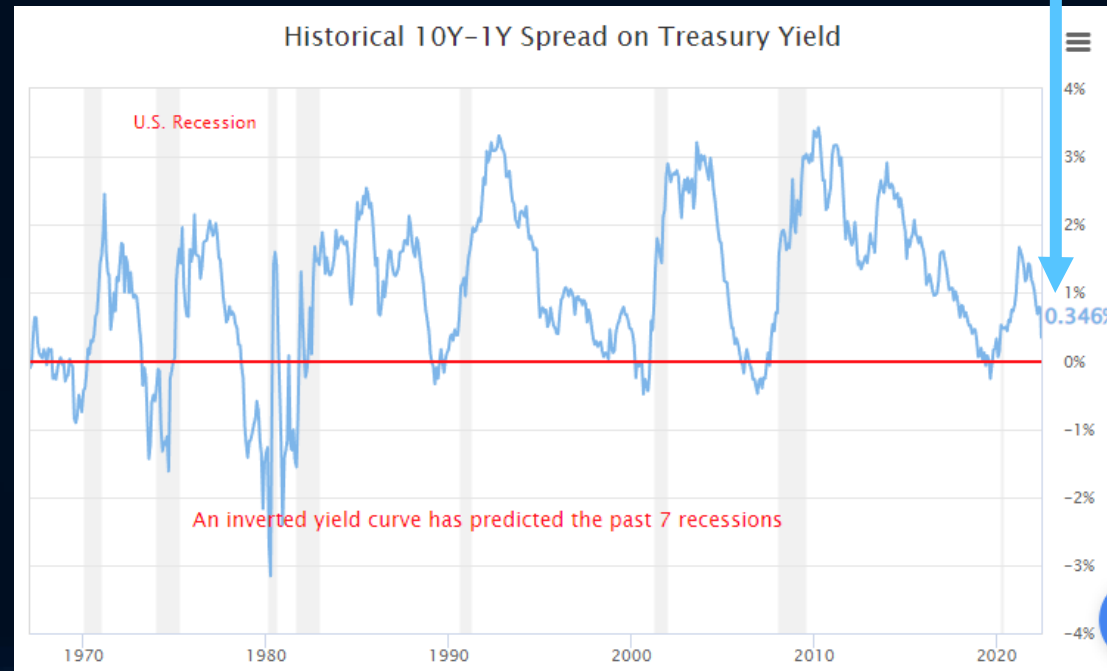
May 99.8

U.S. – Stable Growth, Europe – losing momentum

Where are we?

- Treasury Yield Curve
 - Inverted yield curve has predicted the past 7 recessions
 - Trending toward inverted

As of 06/16/2022	
1-month yield	1.065%
1-year yield	2.877%
2-year yield	3.104%
10-year yield	3.223%
30-year yield	3.27%



How do we prepare our businesses?

- Maintain, improve, and nurture business relationships
- Diversify offerings
- Protect your cash flow
 - Build a cash reserve
 - Minimize AR/Days Outstanding as much as possible
- Keep debt and expenses to a minimum
- Continue marketing
 - Be visible when your competition is struggling
- Keep workforce efficient

Additional Considerations...

- If you do have debt and struggle, contact lenders proactively
 - They'd rather work with you than default
- Negotiate terms with vendors
 - Same as above
- Are there pivots that can generate cash?
- Keep communications open with customers