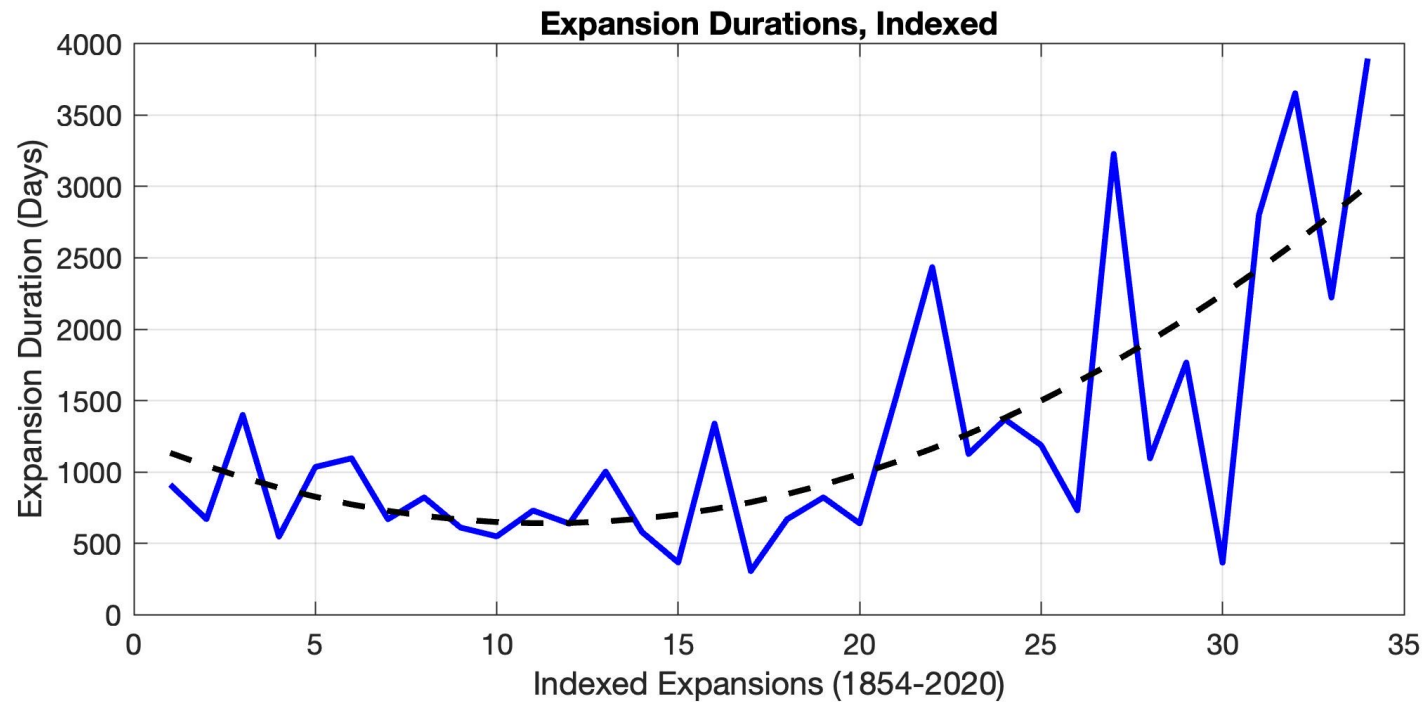# Recession Risk and the Long-term Macro Outlook

March 27, 2023
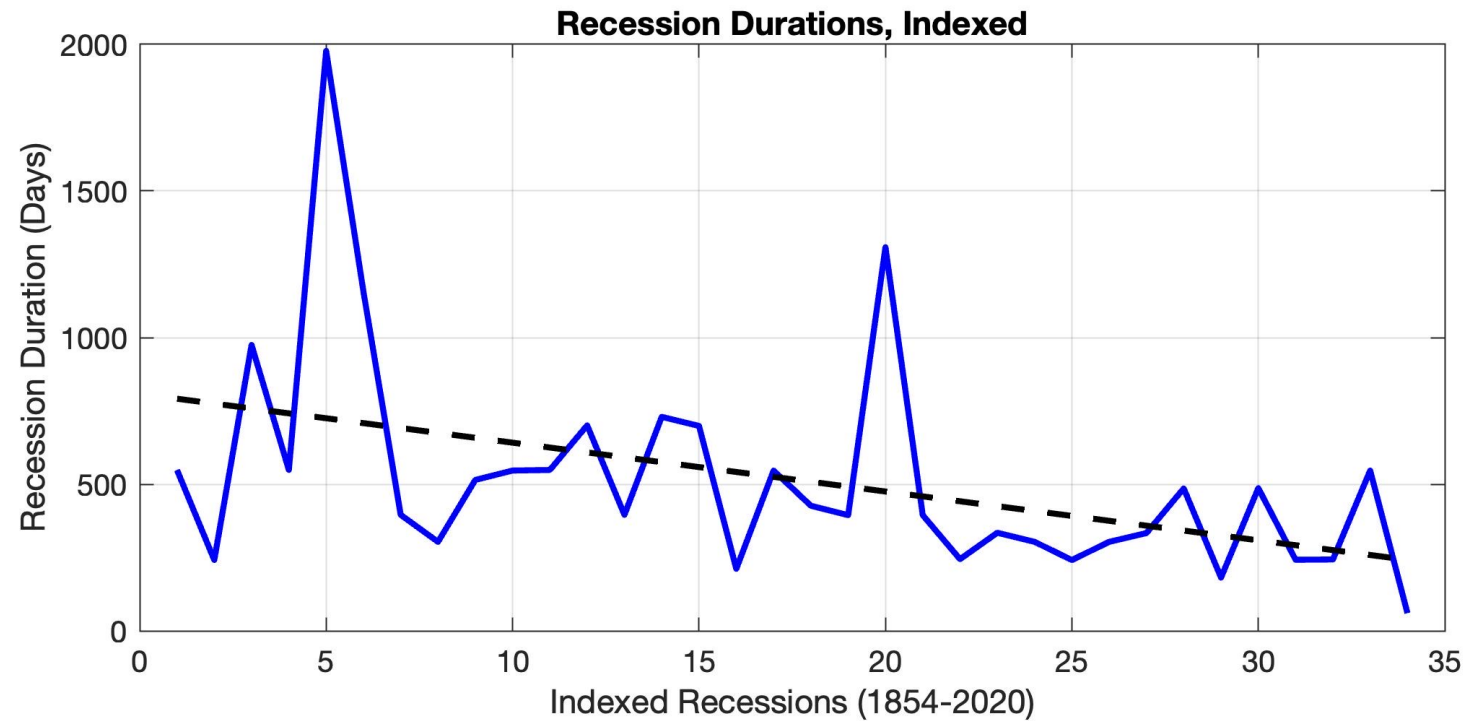
Jorge Barro, Ph.D.

Recession Indicators

- Financial market conditions (credit spreads, delinquency rates)

- Labor market conditions (layoffs, unemployment rate)

- Yield curve

- Expansion duration…?

Expansion Durations, 1854-2020

Sources: Barro (2023), NBER, and FRED

Recession Durations, 1854-2020

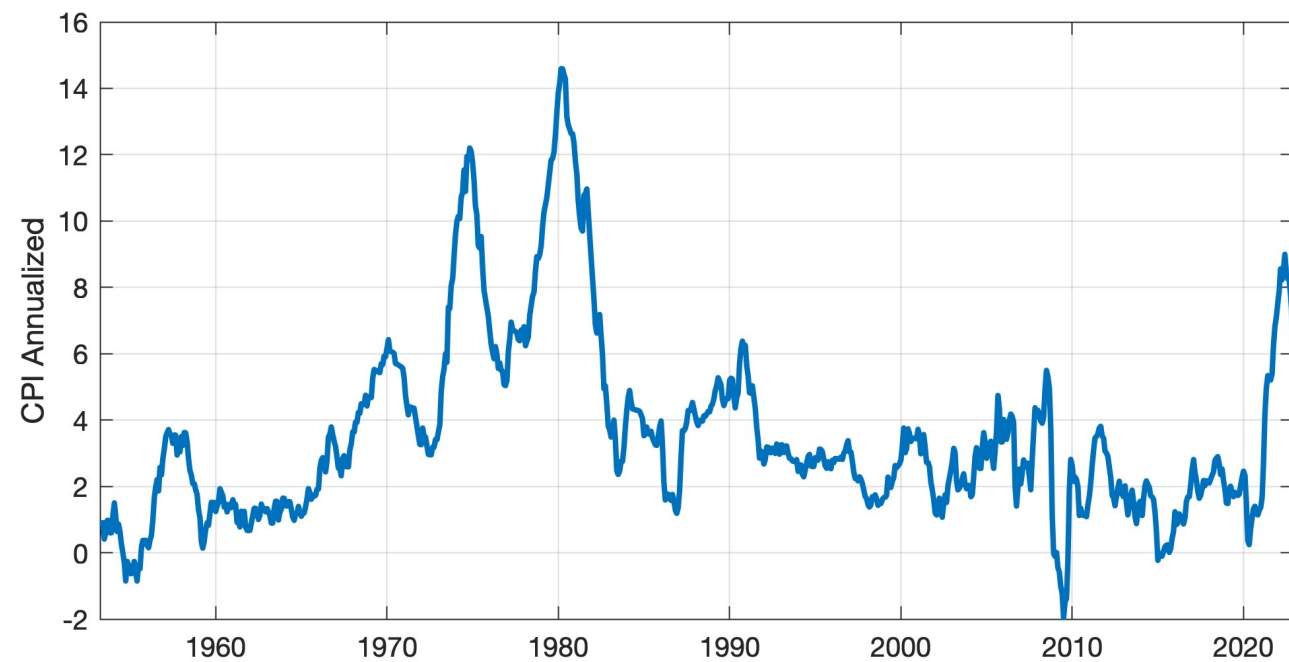Sources: Barro (2023), NBER, and FRED

Long-term Outlook

- Macroeconomic dynamics largely impacted by demographics (US & OECD).

- Focus on interest rates and RGDP.

- Historical values and projections from dynamic general equilibrium model.
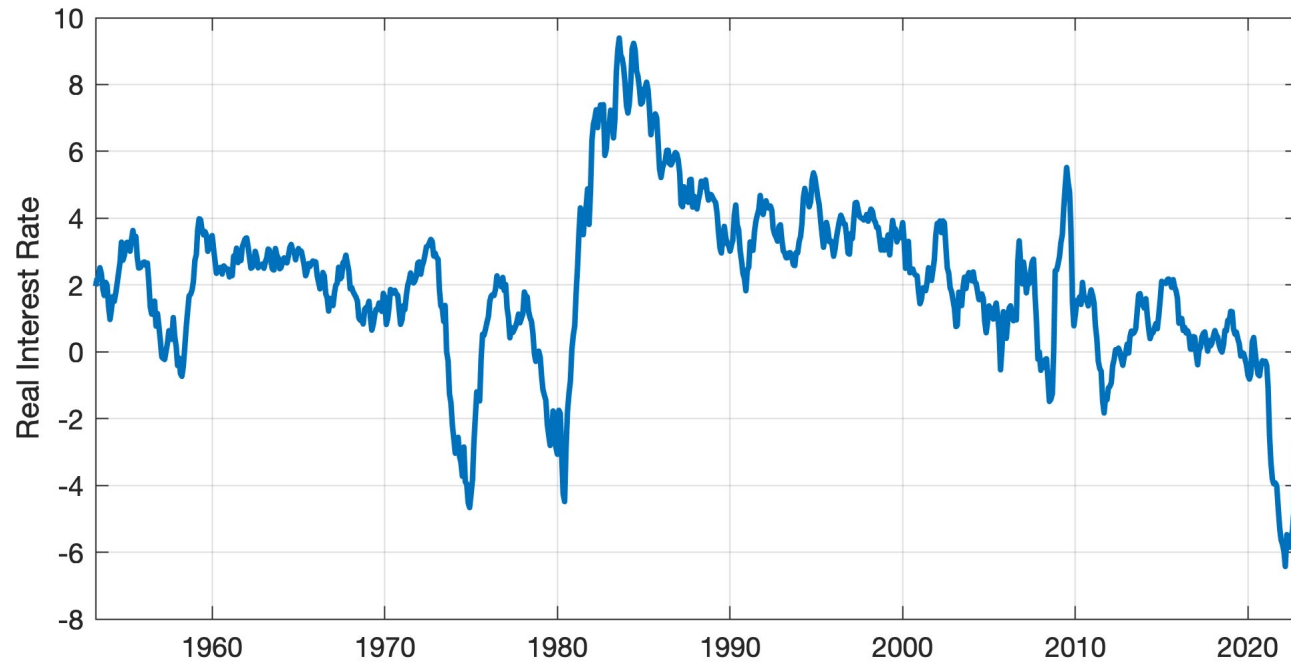
10-year Treasury Rate

Sources: Federal Reserve Board of Governors and FRED

Inflation Rate (CPI)
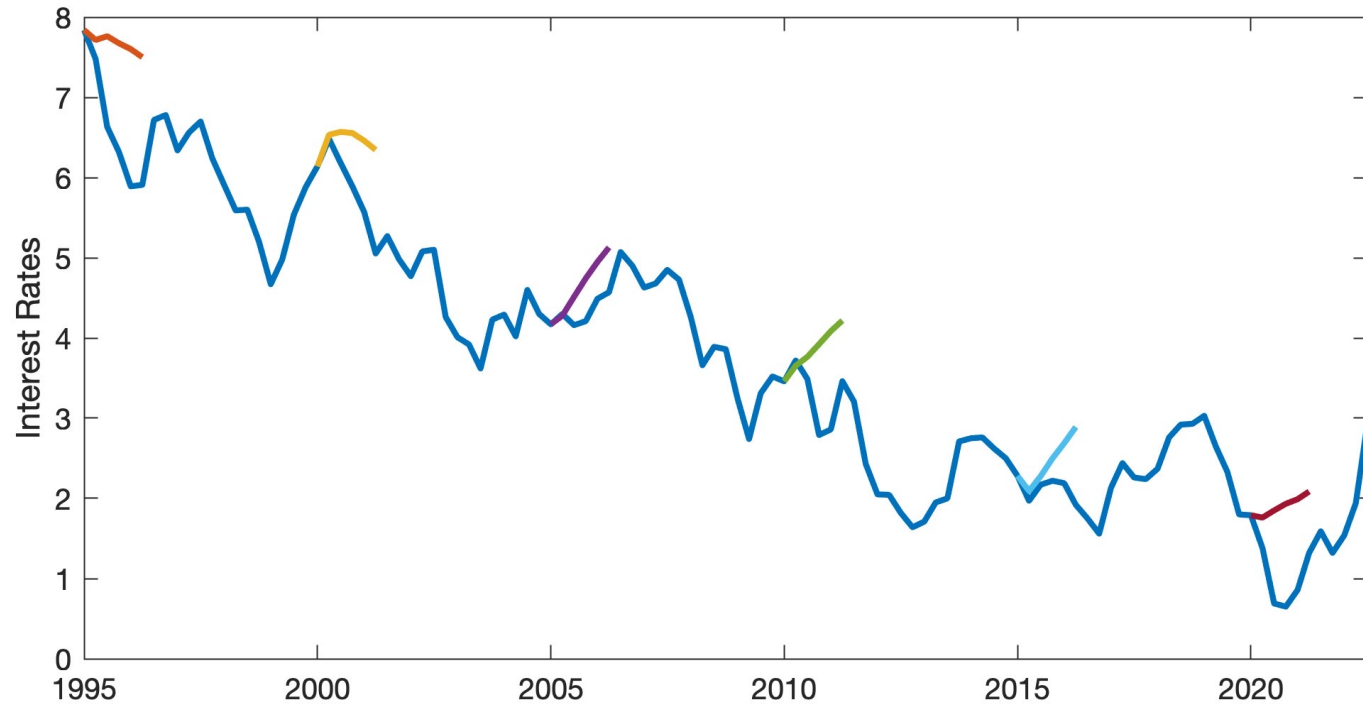

Sources: BLS and FRED

Real Interest Rate

Source: Author calculation (10-year yield minus CPI year-over-year percentage change)

Interest Rate Forecasts over Time

Source: Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia

"Why are interest rates so low?" –Ben Bernanke (2015)

Source: Bernanke (2015)

The Demographics Story
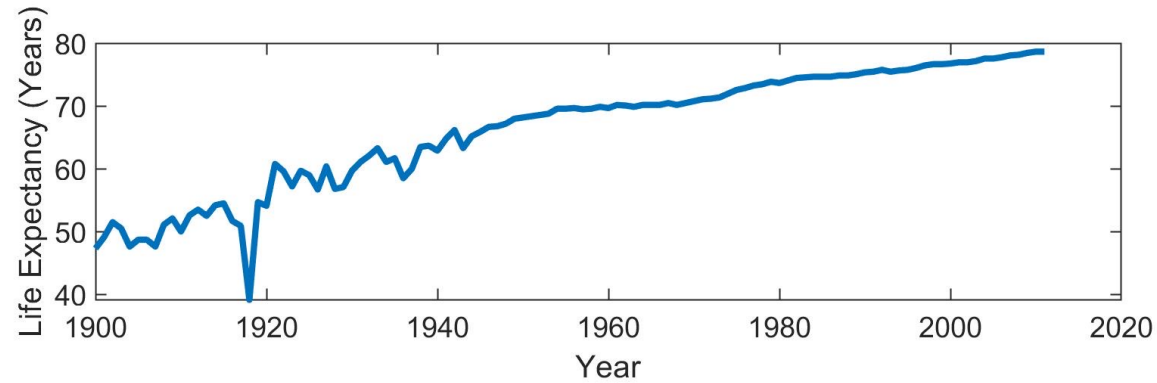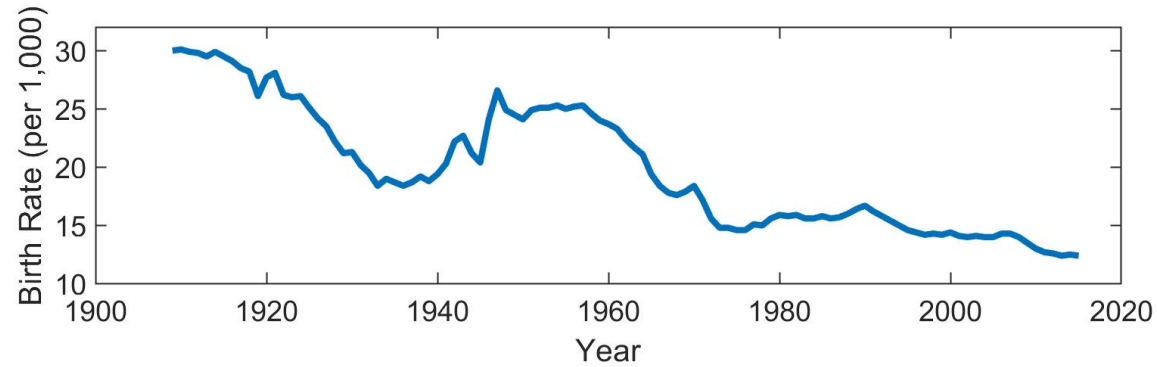
Life-cycle Savings

Source: Author calculation (simulated lifecycle savings profile)

Household Net Worth to GDP

Sources: Federal Reserve Board of Governors, BEA, and FRED

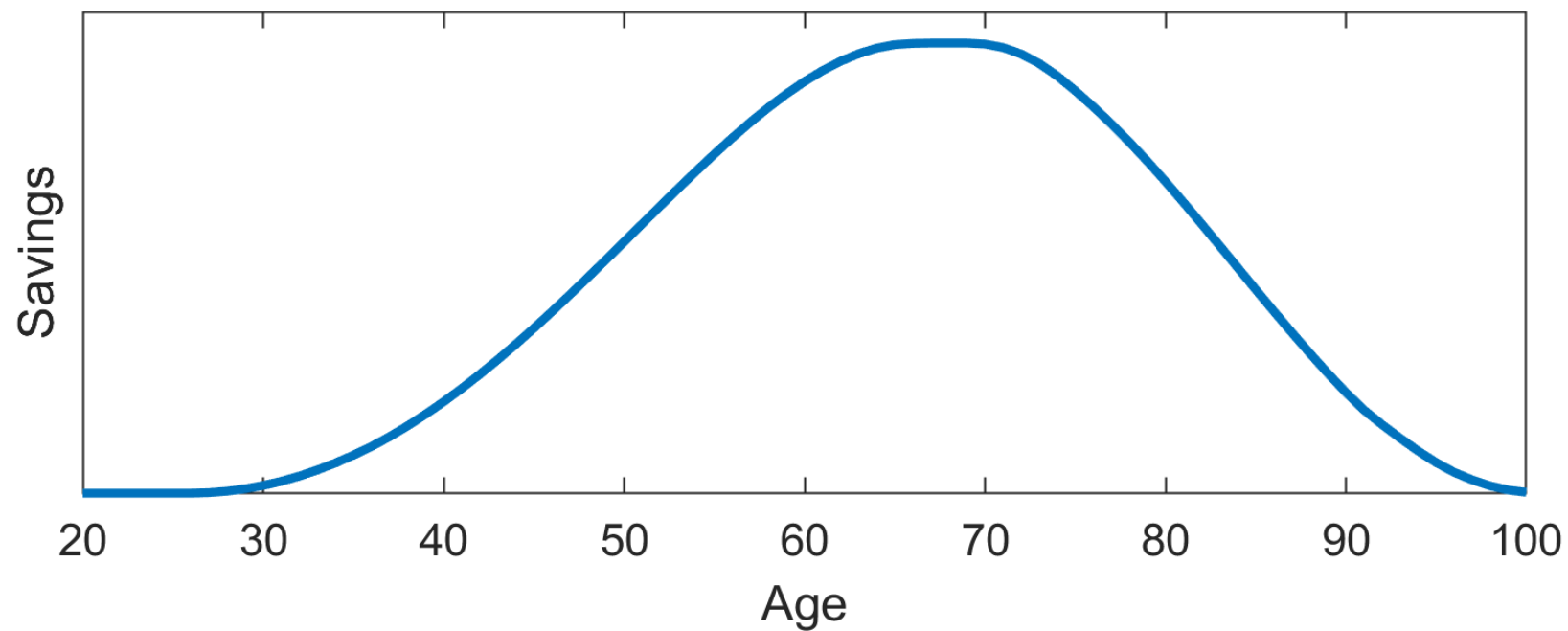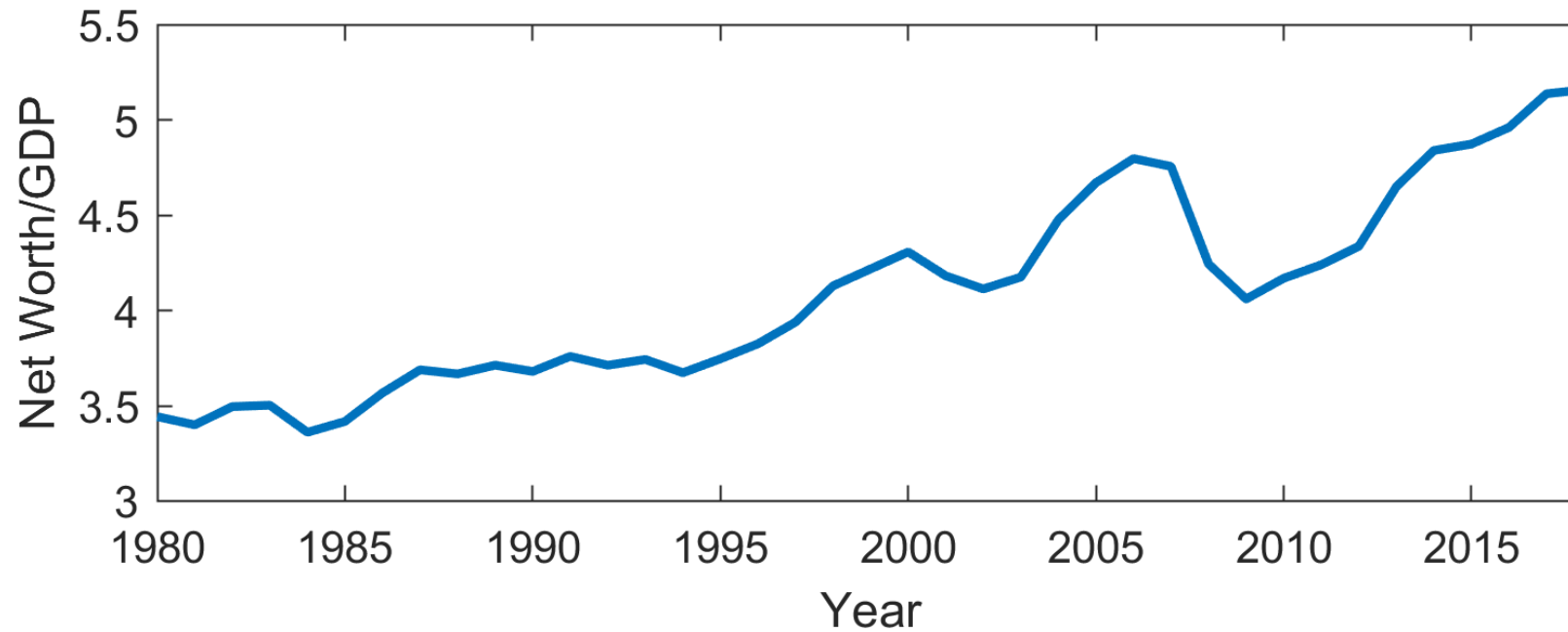# Interest Rate: Simulation Model vs. Data
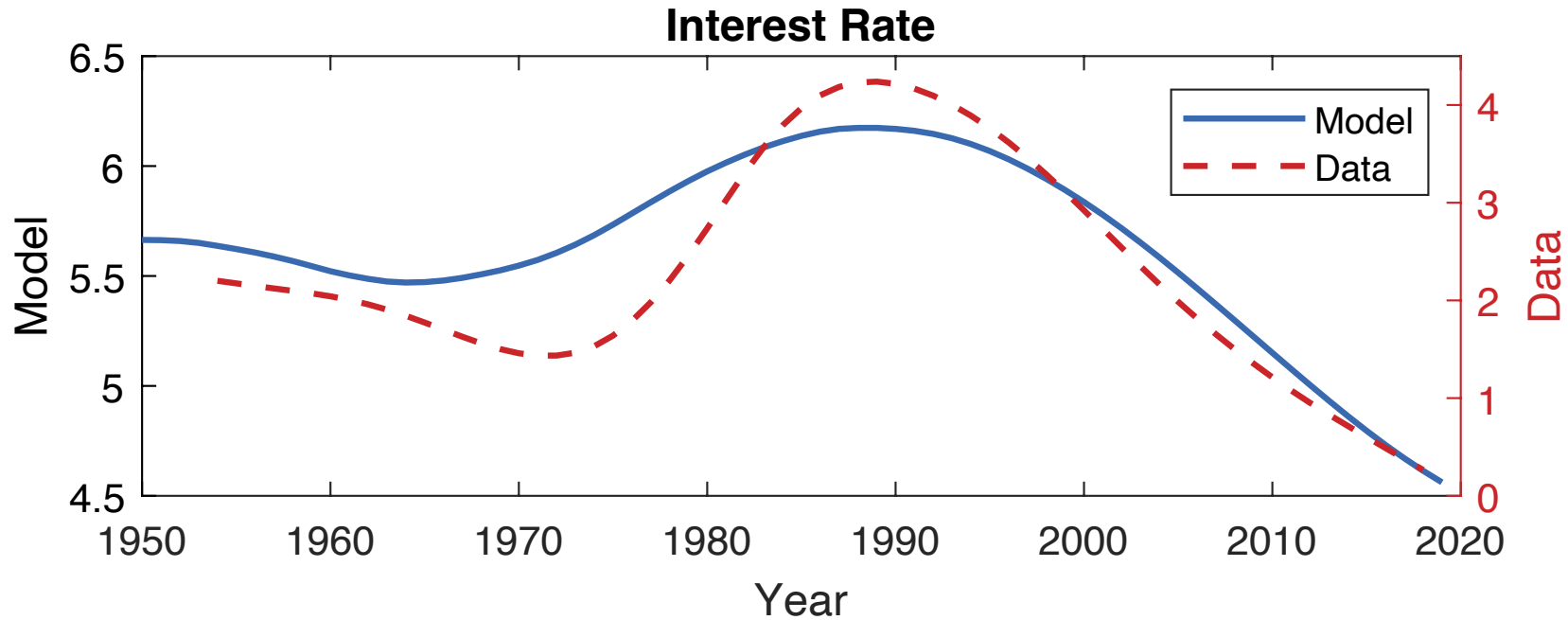
Source: Barro (2022)

Outlook on Interest Rates

- Model predicts real interest rates will decline steadily by at around 100 basis points by 2050.

- Current interest rates are experiencing a cycle, not change in long-run trend.

- Inflation stabilizes → nominal interest rates will likely fall.

RGDP: Simulation Model vs. Data

Source: Barro (2022)

Outlook on RGDP

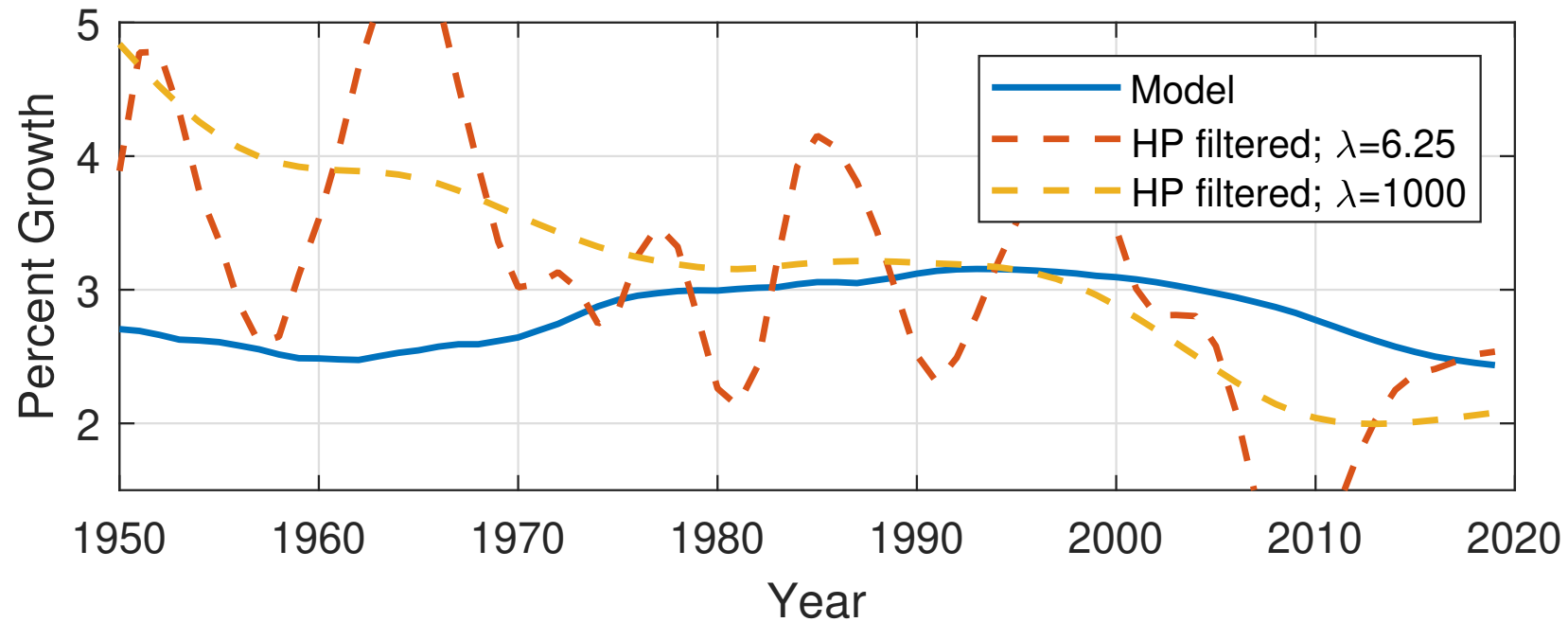- Model predicts RGDP will decline steadily by at around 25 basis points by 2050.

- Largely driven by declining population growth rate.

- Also dependent on education, birth rates, and immigration.

Summary

- Expansions are getting longer; recessions are getting shorter.

- Demographics largely impacting the long-term macro outlook.

- Interest rates and RGDP likely to trend downwards through 2050.

References

- (Bernanke Blog) Bernanke, Ben S. 2015. Why are interest rates so low? Brookings Institution Blog. Brookings Institution, Washington, D.C.

- (Macro Risk) Barro, Jorge. 2023. Assessing Recession Risk in a Post-pandemic Economy. Issue brief no. 01.26.23. Rice University's Baker Institute for Public Policy, Houston, Texas.

- (Long-term Outlook) Barro, Jorge. 2022. Demographics and the U.S. Economy. Working paper. Rice University's Baker Institute for Public Policy, Houston, Texas.

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