

THE NEXT RECESSION? HOLD THAT THOUGHT.

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When will the next recession hit?

This question is often the subject of speculation and guesswork; yet few have an honest answer. It is not a pessimistic query. Investment choices are as much psychological as they are strategic and tremors regarding recessions are real. It's normal to think that after an abnormally long period of sub-par expansion that economic growth has to end... sometime.

We believe the traditional question of when a recession might hit may be antiquated. Economic cycles are historically fickle. There are many fundamentals that go into an expansion: a growing gross domestic product (GDP), low interest rates, low unemployment, and consumer spending. Shifts amongst those same fundamentals can send an economy into contraction.

There are also extraneous wild cards, such as global political instability or dramatic energy price rises, that we observed wreaking economic havoc in 1973-1974 and 1979 with the Middle Eastern oil embargoes.

At the risk of channeling a corollary to "its different this time" might there be something new happening that has yet to reveal itself? What if the next recession looks less like a recession and more like a restructuring of fundamentals and fundamental economic underpinnings? We offer two variables that are having a subtle but major impact on the economy and might offer some explanation as to why the economic expansion has not lost steam. The first variable is "energy" which has been a traditional catalyst for inflationary spikes.

While the current administration made a political choice to prop up the coal industry and devalue the science of climate change and policies, the domestic and global marketplaces have offered a different verdict. [More coal plants closed](#) in the first two years of the current administration than in the first four years of the prior administration.

Germany announced earlier this year that it produced enough renewable electricity to power every home in the country for a year – and Germany is on line to reach a 65 percent electricity goal through renewables by 2030.

Google, Amazon, Facebook, Microsoft, and the U.S. Department of Defense have become the largest buyers (and investors) in renewable energy. These companies along with the Department of Defense are hedging their financial bets and gaining budgeting predictability by these major investments. There are more modest indicators, such as our country's first offshore wind farm near Block Island, R. I., which have set a new template for renewable energy development. As batteries become more effective and cheaper and project costs stabilize, according to a 2018 Bloomberg New Energy Finance report, by 2050 an estimated 50 percent of global electricity consumption will come from wind and solar power. This could be an Industrial Revolution-level transformation happening right before our very eyes. It's a transformation that has and will continue to benefit a second variable that doesn't get much attention.

The second variable that will have a major impact on our economy is the ascent and changing spending habits of the Millennial generation (1981-1996). The Millennials are the largest living adult generation in the country with an estimated population of 73 million in 2019 according to a Pew Research report in 2018. Boomers shaped a lot of the current economy, but the Millennials' impact may be even greater over the next 50 years.

The energy revolution goes hand in hand with the digital transformation of the economy. As Millennials grow older, and begin to spend more, they will likely spend in traditional ways (housing, cars) but also differently: they are more likely to use product subscription services and buy more goods online as recently noted in a Barron's story. These digital shopping choices are devastating the retail industry of our parents and grandparents but, so far, they have proven to be deflationary.

These are not settled times as fundamental issues such as rising income inequality can erode a democratic system. But as Bob Dylan once sang, "The times they are a changing". Few could have predicted this convergence of technology and demographics and its economic impact. Struggling to find the right definitions and to think critically about the 'new normal' while preparing our clients and their friends properly will remain our top priority in the coming years.

Does anything you've read trigger a question? Send us an [email](#).

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Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

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