

ARE WE REALLY IN A RECESSION?

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During the last days of November several countries reported their economic growth. This economic growth is measured with the real growth rate of the Gross Domestic Product (GDP) for each quarter compared with the same quarter of the previous year. And we keep hearing this comment: “Are we in a recession?”

THE GDP

The Gross Domestic Product (GDP) is the measurement of the production of goods and services in a country or community for a given period of time, usually a quarter. It is important the amount of GDP, but as well the growth rate in real terms is important. This means, how much was the increase in the production of goods and services in the country compared with the same period (quarter) of a year before. The inflation is eliminated from this growth rate in order to have a number in real terms.

THE RECESSION

Much has been said about the recession in the last years. In economic terms, a recession is defined when there are two consecutive quarters with a negative growth rate, this is, the production in a quarter is smaller than the one in the same quarter a year before. There is a common mistake, intentional or not, to call recession every time there is a deceleration in the growth rate of the GDP or every time there is a problem in another variable of the economy (for example, unemployment or inflation). Nevertheless, we have to be very strict in the definitions we have from the economic theory.

Also, a country is the aggregated behavior of all the industries and regions in a country. A country could not be in recession but this does not mean that a specific industry or region could be in recession. Also, an industry could not be a recession, but this does not mean that all companies in that industry are doing well.

THE FIGURES

In the attached Table (at the end of this document) we present the real growth rates for the GDP of seventeen countries:

- The three countries from the NAFTA area: Canada, USA and Mexico
- The European Union as a group and seven of its country members: UK, Germany, France, Italy, Spain, Portugal and Greece
- Three from Asia-Oceania: Japan, China and Australia
- Three from South America: Brazil, Argentina and Chile

The period presented includes 23 quarters: from the first quarter of 2008 up to the third quarter of 2013.

The first thing we can see is that in 2009 there is a negative growth for the GDP in 15 of the 17 countries. This is, there is recession in 2009 for 15 of the countries. The only two countries, from this list, that do not were in recession in the period from 2008 to 2013 are China and Australia.

After that, we can classify the economic behavior of these countries into five categories:

a) The countries that have never been in recession in this period (2008 Q1 to 2013 Q3). There are only two countries in this category: China and Australia.

b) The countries that had a recession in 2009 but have not had any further period of recession. There are eight countries in this category: Canada, USA, Mexico, UK, Germany, Chile, Argentina and Brazil.

c) The countries that after the recession in 2009 had some other period of recession in 2012 and/or 2013. There are three countries in this category: the European Union (as a whole), France and Japan. The European Union has presented a recession (once again, the aggregated numbers of all its members) for the last seven quarters (since 2012 Q1 and up to 2013 Q3), France presented a short recession for two quarters, from 2012 Q4 to 2013 Q1, and Japan has presented two recession periods of two quarters each, from 2011 Q2 to 2011 Q3 and from 2012 Q3 to 2012 Q4.

d) The countries with a dramatic economic behavior. There are three countries in this category: Italy, Spain and Portugal. Italy has had a recession for the last eight quarters, since 2011 Q4 and up to 2013 Q3, Spain for the last seven quarters, since 2012 Q1 and up to 2013 Q3 and Portugal for the last eleven quarters, since 2011 Q1 and up to 2013 Q3.

e) One country with a pathetic economic behavior: Greece. This country has been in a constant recession since 2008 Q3. This is, it has been in a recession for the last 21 quarters (more than five years).

THE ECONOMIC GROWTH IN THE LAST SIX YEARS

If we look at the average quarterly economic growth rates, from 2008 Q1 to 2013 Q3, for each of these 17 countries (actually, 16 countries and a group), we can see four countries with a large growth rate, three with a modest growth rate, four with a low growth rate, five with a negative growth rate and one with a very negative growth rate. Here is the list:

Large average quarterly growth rate from 2008 Q1 to 2013 Q3:

- China 8.8%
- Argentina 5.7%
- Chile 4.1%
- Brazil 3.1%

Modest average quarterly growth rate from 2008 Q1 to 2013 Q3:

- Australia 2.4%
- Mexico 1.8%
- Canada 1.2%

Low average quarterly growth rate from 2008 Q1 to 2013 Q3:

- USA 0.9%
- Germany 0.6%
- France 0.1%
- Japan 0.1%

Negative average quarterly growth rate from 2008 Q1 to 2013 Q3:

- UK -0.3%
- European Union -0.3%
- Spain -0.9%
- Portugal -1.4%
- Italy -1.5%

Very negative average quarterly growth rate from 2008 Q1 to 2013 Q3:

- Greece -4.3%

In any country it is important that the growth rate of the GDP is larger than the growth rate of the population. A country is in recession if the growth rate is negative (below zero), but there won't be an improvement for the population (measured as an income per capita) unless the GDP grows above the growth rate of the population. In each country this growth of the population is different.

CONCLUSIONS

- a) Based in all the above, it is clear that ten of the countries in the sample have not been in recession since 2010 at least, two had a recession but are not in recession any more, and five are still in recession at least up to 2013 Q3.
- b) This does not mean that the situation in each of these countries is just great, or that there are not other aspects that are bad (in example, the unemployment rates or recovery in all industries and or regions).
- c) A country may not be in recession, but a specific industry or one of its geographic areas can be.
- d) We are analyzing the hard figures up to the third quarter of 2013, so we cannot guarantee that there will not be a recession the coming year. Nevertheless, up to this moment, we do think that there should be a recovery (hopefully) in all the countries.

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About Acus Consulting. This firm supports companies, organizations and government agencies in financial and strategic analysis, investment project evaluations, financial planning, financial modeling, valuation, and decision making. It has offices in Toronto and Mexico City.

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QUARTERLY GDP GROWTH
AT ANNUAL RATES COMPARED WITH THE SAME QUARTER OF THE PREVIOUS YEAR

Year-Q	Canada	USA	Mexico	UK	Euro	Germany	France	Italy	Spain	Portugal	Greece	Japan	China	Australia	Chile	Argentina	Brazil
2008-1	1.7%	1.1%	2.1%	2.8%	2.1%	2.9%	1.8%	0.1%	2.5%	0.9%	0.1%	1.4%	10.6%	3.3%	3.7%	9.1%	6.3%
2008-2	1.1%	0.9%	3.1%	0.6%	1.2%	2.0%	0.7%	-0.3%	1.7%	0.7%	0.1%	-0.1%	10.1%	2.7%	5.0%	8.5%	6.5%
2008-3	0.7%	-0.3%	1.6%	-2.1%	0.0%	0.5%	-0.2%	-1.7%	0.5%	0.3%	-0.1%	-0.6%	9.0%	2.5%	5.2%	7.8%	7.1%
2008-4	-0.7%	-2.8%	-1.1%	-4.3%	-2.1%	-2.0%	-2.0%	-3.1%	-1.2%	-1.8%	-0.9%	-4.7%	6.8%	1.0%	0.9%	6.9%	1.0%
2009-1	-2.6%	-3.5%	-5.2%	-6.8%	-5.5%	-6.3%	-3.9%	-7.0%	-3.5%	-4.1%	-4.2%	-9.4%	6.2%	0.8%	-3.1%	4.1%	-2.7%
2009-2	-3.7%	-4.1%	-7.9%	-6.3%	-5.4%	-6.8%	-3.1%	-6.6%	-4.4%	-3.5%	-3.6%	-6.6%	7.9%	0.9%	-3.1%	2.0%	-2.4%
2009-3	-3.5%	-3.3%	-4.6%	-5.0%	-4.4%	-4.4%	-2.6%	-4.9%	-3.9%	-2.5%	-3.0%	-5.6%	9.1%	0.9%	-0.6%	-0.8%	-1.5%
2009-4	-1.4%	-0.2%	-1.0%	-2.5%	-2.3%	-1.3%	-0.5%	-3.4%	-3.0%	-1.5%	-1.9%	-0.5%	10.7%	2.8%	2.6%	-0.3%	5.3%
2010-1	2.1%	1.6%	3.7%	0.5%	1.0%	2.5%	1.2%	1.1%	-1.4%	1.7%	-1.0%	4.9%	11.9%	2.7%	2.1%	2.6%	9.3%
2010-2	3.6%	2.7%	6.7%	2.0%	2.2%	4.3%	1.6%	1.9%	-0.2%	1.7%	-2.8%	4.4%	10.3%	3.3%	6.4%	6.8%	8.8%
2010-3	3.8%	3.0%	5.4%	2.4%	2.2%	3.9%	1.7%	1.8%	0.0%	1.3%	-6.6%	6.0%	9.6%	2.7%	7.5%	11.8%	6.9%
2010-4	3.3%	2.8%	4.5%	1.8%	2.3%	3.8%	1.4%	2.3%	0.4%	1.6%	-9.0%	3.3%	9.8%	3.0%	6.9%	8.6%	5.3%
2011-1	3.0%	2.0%	4.4%	1.7%	2.6%	5.2%	2.1%	1.4%	0.5%	-0.4%	-8.8%	0.1%	9.7%	1.2%	9.8%	9.2%	4.2%
2011-2	2.0%	1.9%	3.2%	0.8%	1.8%	3.4%	1.7%	1.1%	0.5%	-0.9%	-7.9%	-1.5%	9.5%	1.1%	5.8%	9.9%	3.3%
2011-3	2.9%	1.5%	4.1%	1.0%	1.4%	2.9%	1.6%	0.5%	0.6%	-1.4%	-4.0%	-0.5%	9.1%	2.5%	3.2%	9.1%	2.1%
2011-4	2.4%	2.0%	4.2%	1.1%	0.7%	1.6%	1.2%	-0.6%	0.0%	-2.8%	-7.9%	0.0%	8.9%	2.3%	5.0%	9.3%	1.4%
2012-1	2.0%	3.3%	4.7%	0.6%	-0.2%	1.8%	0.3%	-1.8%	-0.7%	-2.4%	-6.7%	3.1%	8.1%	4.3%	5.1%	7.3%	0.8%
2012-2	2.6%	2.8%	4.4%	0.0%	-0.5%	0.6%	0.1%	-2.6%	-1.4%	-3.2%	-6.4%	3.2%	7.6%	3.7%	5.7%	5.2%	0.5%
2012-3	1.2%	3.1%	3.1%	0.0%	-0.7%	0.4%	0.0%	-2.8%	-1.6%	-3.6%	-6.7%	-0.2%	7.4%	3.1%	5.8%	0.0%	0.9%
2012-4	1.0%	2.0%	3.3%	-0.2%	-1.0%	0.0%	-0.3%	-3.0%	-1.9%	-3.8%	-5.7%	-0.3%	7.9%	3.1%	5.7%	0.7%	1.8%
2013-1	1.4%	1.3%	0.6%	0.2%	-1.2%	-1.6%	-0.4%	-2.5%	-2.0%	-4.1%	-5.5%	0.1%	7.7%	2.5%	4.7%	2.1%	1.8%
2013-2	1.4%	1.6%	1.6%	1.3%	-0.6%	0.9%	0.5%	-2.2%	-1.6%	-2.0%	-3.7%	1.2%	7.5%	2.6%	4.0%	3.0%	3.3%
2013-3	1.9%	1.8%	1.3%	1.5%	-0.4%	1.1%	0.2%	-1.8%	-1.1%	-1.0%	-3.0%	2.4%	7.8%	2.3%	4.7%	8.3%	2.2%