Written by **Bob Adelmann** on August 15, 2019

Recession Coming, or Head Fake?

Upon hearing rumors that he had died, Mark Twain quipped, “The reports of my death are greatly exaggerated.” Upon hearing rumors that the U.S. economy was headed for recession, Walmart’s healthy sales and revenue report on Thursday rebuffed such a presumption.

The rumors seemed to have substance. On Wednesday the *Wall Street Journal* reported that “early indicators and business sentiment indicators point to another weak performance in the third quarter. That could potentially indicate a recession.” The *Journal* backed up that claim by noting that Germany’s economy went negative in the quarter that ended in June, while the jobless rate in China’s largest cities hit the highest level seen since such reporting began. Other data on factory production, consumer spending, property investment, and “other key readings” were all “lower than expected,” said the *Journal*.

Given the opacity of data coming from Chinese government sources, the *Journal* looked at exports to China from the Eurozone (19 of the 28 countries making up the European Union) and reported that they slowed to a barely perceptible increase of 1.5 percent in the first five months of the year. The *Journal* quoted Germany’s economic minister, Peter Altmaier: “The new figures are a wake-up call and a warning. We are in a weak growth phase but not yet in a recession.” All Germany needs is another negative quarter and the classic definition of a recession will have been met.

The next day the *Journal* reported the results of an internal poll it had taken of a number of economic gurus who, looking into their crystal balls, declared that the odds of a recession in the next 12 months had risen to 33.6 percent, up from 30.1 percent in July.

And then there was the “yield curve inversion” that lit up warning lights in all of those crystal balls. Seeing as how the inversion has predicted five of the last nine recessions, the sky is falling, head for the hills!

Add in the 800-point drop in the Dow on Wednesday, and people began believing the rumors.

Sensibility arrived on Thursday, just in time. MarketWatch quieted the waters with its analysis of how Wall Street reacted to previous such “inversions”:

On average, the S&P 500 has returned 2.5 percent after a yield-curve inversion in the three months after the episode, while it has gained 4.87 percent in the following six months, 13.48 percent a year after, 14.73 percent in the following two years, and 16.41 percent three years out, according to Dow

Jones Market Data.

A look back revealed that the inversion was temporary, reflecting not a coming recession but a surge of foreign bond buyers flocking to U.S. treasuries because they pay interest at rates far above those available from foreign governments.

Then came Walmart, which reported on Thursday that its second-quarter earnings beat expectations. A proxy for the overall U.S. economy because of its enormous size — 1.5 million employees in the United States manning more than 3,500 Supercenters generating more than half a trillion dollars in annual gross sales — the company's results not only beat expectations, but reported that same-store sales grew by 2.8 percent. This negated predictions that the U.S. economy was slowing to below two percent, far away from (as the talking heads were often delighted to note) Trump's promise of three-percent growth under his administration. To add to those prognosticators' discontent, Walmart expects U.S. same-store sales to rise "to the upper end of the 2.5% to 3.0% range" for fiscal year 2020.

Two reports from Federal Reserve banks added to their chagrin: The Philadelphia Federal Reserve Bank reported on Thursday that its manufacturing index came in at 21.8, far ahead of prognosticators' prediction of 11.1. And the New York Fed's Empire State manufacturing index rose to 4.8 versus naysayer's expectations of a drop to 2.5.

Finally, productivity of U.S. workers — GDP per worker — rose at a solid 2.3-percent rate versus estimates of just a 1.5-percent improvement.

Mark Twain has been proven right once again. Not only is the U.S. economy not on its deathbed, it is alive and thriving, extending its recovery from the Great Recession into record territory. Notions to the contrary are proving to be a head fake.

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