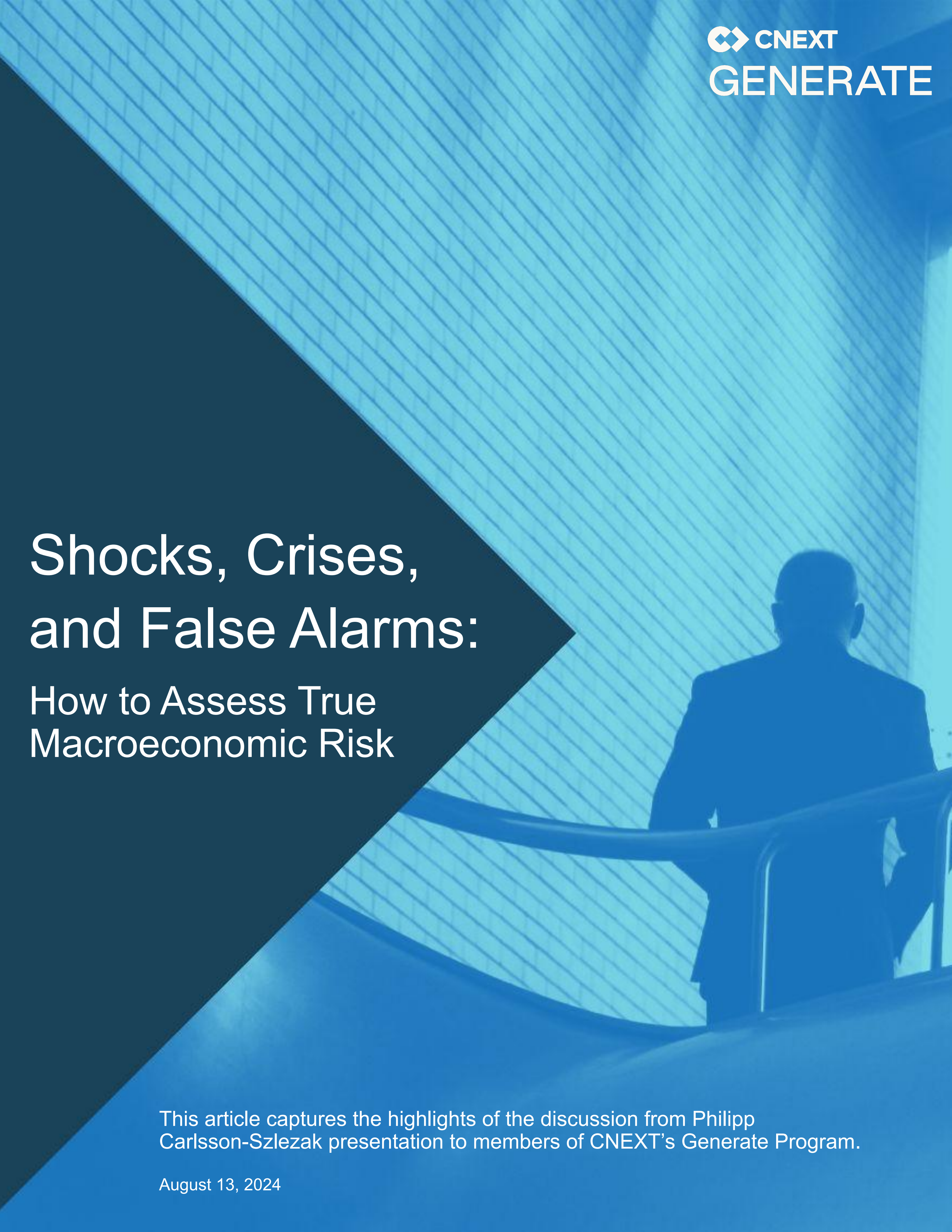

CNEXT GENERATE

Shocks, Crises, and False Alarms:

How to Assess True Macroeconomic Risk

This article captures the highlights of the discussion from Philipp Carlsson-Szlezak presentation to members of CNEXT's Generate Program.

August 13, 2024

Philipp Carlsson-Szlezak:

Philipp Carlsson-Szlezak is BCG's Global Chief Economist. He also leads the Center for Macroeconomics at the BCG Henderson Institute.

He frequently contributes to the Harvard Business Review and the World Economic Forum and writes a regular column for Fortune.com.

Philipp is co-author of Shocks, Crises, and False Alarms: How to Assess True Macroeconomic Risk published by Harvard Business Review Press, 2024. The book calls out pervasive doomsaying in public discourse about the economy and demonstrates how executives can navigate real, financial, and global risks more productively.

The last 40 years have been characterized by macroeconomic tailwinds. The time spent in recession declined, real returns on equity rose, and global trade grew.

Will the tailwinds continue? The public discourse suggests they won't and that a crisis is imminent or inevitable.

1. Create your own Outlook

Before letting public opinion steer your viewpoint, consider the following four steps before making an investment or strategic decision:

Reject master model mentality

Even the best economic models are based solely on the past. The more the current financial and social contexts diverge from precedent, the less accurate the models become. By definition, a shock occurs outside of a model's typical range, making extrapolation unreliable during a crisis.

Counter doom-mongering

If economic models are not trustworthy predictors of macroeconomics, the press is even less so. All macroeconomic situations display a bell curve of possible outcomes, yet the public discourse and even reputable economic publications focus on the high-risk tail of the curve.

GO DEEPER:

Read Philipp's book:

Shocks, Crises, and False Alarms: How to Assess True Macroeconomic Risk

Or hear him discuss it on the following podcasts:

Hidden Forces

Moody's Inside Economics

Macro Hive Conversations

Forward Guidance

The Corporate Director

Embrace analysis beyond economics

Creating an outlook appropriate for you and your company requires personal judgment. Build a narrative of what your company's growth is built on through the lens of multiple disciplines, methods, and mindsets.

Economics is one player in the bigger picture. When the public discourse predicts a crisis, ask yourself whether your narrative's fundamentals have changed.

DISCIPLINES	METHODS	MINDSETS
Economics	Quantitative	Rational Optimism
History	Systems Thinking	Narratives
Finance	Storytelling	Coherence
Politics	Econometrics	Pragmatism
Science	Case Studies	Probabilistic Thinking

Retain an independent view

Your company is not the macroeconomy, and the macroeconomy is not your company. Build and trust your ability to judge based on the data and information most relevant to your situation.

2. Apply the Framework to Recession

Recessions, like all major shifts in macroeconomics, arise from changes in the economy's fundamental structure. While technical analyses can show common correlations, they are not reliable predictors of cause and effect.

There are only three types of recessions:

1. Real economy recession
2. Policy induced recession
3. Financial recession

Do any of these indicate a likelihood of an upcoming recession in the US today?

Real economy

- Firms reported stable second-quarter earnings.
- The economy is cooling but not shrinking.
- Firms stopped hiring but didn't start firing.
- Wage growth is higher than inflation.
- Purchasing power is still increasing but at a slower rate.

Policy

- The Federal Reserve rate is stable, with indications that it may be lowered, encouraging economic growth.
- Government spending continues to grow.

Financial

- Even in the slightly cooling economy, there is no indication that banks' liquidity is threatened or that they need to withdraw lending.

While volatility is high on a company-by-company basis, the foundations of the system remain strong and stable.

3. Embrace Judgment

Most acts of leadership require judgment. No truth is unassailable. In macroeconomics, there is more information than you could possibly consume or analyze. Let data aid you, but be confident in making 'human' decisions.

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Members participate in virtual meetings to gain insights, approaches, and tools to tackle their most pressing leadership and business challenges, while also developing valuable peer networks for the future - all to accelerate organizational performance and achieve their business objectives and professional aspirations.

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