It used to be that nobody wanted to mention the word recession and doing so was seen as a self-fulfilling prophecy. But going through the deepest recession on record from a Northern Ireland perspective during the pandemic has perhaps desensitised us. At the minute, recessionary chatter is actually the norm. Around the world, talk of the roaring 20s has been confined to the dustbin. Like Covid, talk of the R-word is spreading fast.

Recession, though, shouldn't be our biggest concern at present. And some are actually arguing that a recession is economically desirable and the only way to eliminate inflation. Whilst, people assume that a recession means a big collapse in output and rapidly rising unemployment, the reality is that every recession is different. With all the talk of going back to the 70s with inflation at a 40-year high, the public are perhaps assuming a recession this year would be like the ones experienced in the 1970s and 80s too.

So, it’s worth taking a look at what a recession actually means.

Going into recession simply means that the economy contracts for two consecutive quarters, so it is a technical term used by economists. Two consecutive quarters of the economy falling at 0.1% is a recession whereas one quarter of the economy contracting by 5% followed by one where the economy grows by a small amount is not. The latter is clearly worse, but it isn’t a recession.

At present we are seeing inflation going through the roof, the UK’s tax burden is set to hit its highest level since the 1950s, and before Rishi Sunak’s £15bn in subsidies it had been forecast that real household disposable income was set to fall at its fastest rate since records began in 1956. Petrol and diesel prices are currently pushing towards the £2 per litre mark. In this environment, a technical recession is neither really here nor there for consumers and households.

If we have a technical recession this year, it’s not necessarily going to increase the pain consumers and businesses are feeling. Steep falls in consumer disposable income have already happened and are set to continue regardless of a technical recession. And some sectors of the economy, for example the hospitality sector, have already had steeply falling output over two quarters. A technical recession won’t really mean anything to them. It’s also not going to have a major impact, in the form of widespread job losses, on the labour market which is currently very strong. The unemployment rate will rise a bit but is still expected to remain very low regardless of whether a technical recession happens or not.

It used to be that unemployment could be expected to hit 10% during a recession and it was those ‘One in Ten’ people that UB40 sang about in 1981 who became unemployed who were hit hard. Today, whilst unemployment won’t spike, the cost-of-living crisis is impacting everyone, albeit those on the lowest incomes are being hit hardest. Working in the public sector is generally considered to be the safest place to work during a downturn or recession, however, this is not the case in 2022. Given the current inflationary environment, the public sector is expected to see the smallest pay rises and the biggest real-terms cuts in the economy. As a result, we may even see a flight from the public sector to the private sector the like of which we haven’t seen before.

All of these factors are why some, including outspoken US economist Larry Summers, are arguing that we do actually need a recession that pushes up unemployment. In the 1980s, Paul Volker the Chair of the US Federal Reserve, engineered a recession to curtail inflation, resulting in a big increase in unemployment to almost 11%. These are the discussions that central banks are currently having around how fast and aggressively they increase interest rates to keep inflation down whist inflicting the least amount of damage possible on the economy. But an increase in unemployment would make the central bankers’ jobs easier in terms of dealing with inflation by taking the heat out of the economy and also alleviating skills shortages. It is of course politically unpalatable to be advocating higher unemployment as a good thing. Summers is quoted as saying that the US needs unemployment to rise above 5% (from 3.6% currently) for five years to curtail inflation – this would mean 10million job losses. Summers offers alternative unemployment rate scenarios to crush inflation – 7.5% for two years or one year of 10%.

An end to the war in Ukraine to increase the supply of food, a drastically increased supply of oil by Saudi Arabia and sanctions lifted on oil producing Venezuela would be the least painful way to curb inflation. But none of these things are in the gift of central banks. Instead, all they really have is the ability to increase interest rates to reduce demand without (hopefully) crashing the economy. Indeed, this is what has been happening around the world in recent months.

From a Northern Ireland perspective, the unemployment rate here is currently just 2.6%

and skills shortages are the biggest concern for many employers. Inflation here is also arguably more severe than elsewhere. Advocating higher unemployment here is equally politically unpalatable in Northern Ireland as everywhere else, but it's probably something that many employers would want. And economists might argue that whilst unfortunate for individuals, it would be in the overall interests of the economy.

So, avoiding recession is not the panacea that many would have you believe. The bigger challenge is to avoid stagflation and to get out of the low growth / low productivity funk that lies ahead. And there are things that are within our control to try to deal with this, including getting out of the current recession in Northern Ireland's politics as we approach the start of the third successive quarter with no Executive. The UK government also needs to outline how it is going to boost growth in the UK economy in an environment where Brexit is acting like a slow economic puncture. There has been a recession in strategic thinking and an inflated bubble in rhetoric. A credible plan is needed.

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