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What is a Shallow Recession?

The term "recession" is one of the most frequent and ubiquitous terms currently used by economists, business leaders, research strategists, and the media. After back-to-back quarters of lowered GDP due to various factors, such as geopolitical conditions in Europe, continued supply chain disruptions, economic fallout from the pandemic, stubbornly high inflation data, and increased interest rates, speculation continues over how long and significant a recession might be.

Some experts believe we're technically already in a recession, while others predict it may only be a shallow recession, and some believe we aren't there yet. As such, economists are analyzing market trends to interpret today's economic data to predict if or when the country will fall into a recession and how dire it could be.

Recessions come in many shapes. This short article discusses what a shallow recession is considered.

What is Considered a Recession?

A recession is traditionally defined as two or more consecutive quarters of a decline in economic activity that is spread across all aspects of the economy. It's usually measured using real gross domestic product (GDP). In the U.S., there have been 34 recessions since 1857. Some of the most well-known recessions in U.S. history include the Great Depression in the early 1930s, the Great Recession in 2007-2009, and the more recent COVID-19 recession in 2020.

These prolonged economic downturns can be categorized in different ways, from severe to shallow.

What is a Shallow Recession?

A shallow recession occurs when some parts of the economy are performing on average while others are struggling. Experts also use the phrases "soft landing," "mild," and "short-lived recession" to describe these scenarios. Unlike a severe recession in which GDP growth rate would decline by around 5% or more, a shallow recession helps to cool an overheated economy while not causing any long-lasting damage. In 2022, economic growth declined by around 3% , indicating a marginal contraction in the economy.

How Will We Know If We're in a Shallow Recession?

There are a few key indicators to alert investors if we are experiencing a shallow recession. They are:

- ●The downturn is moderate and short-lived
- ●There will be less severe damage to corporate earnings
- ●The job market remains strong, and job losses are manageable
- ●Investors will find attractive buying opportunities among strong firms with healthy corporate balance sheets

Implement a Strategic Plan to Weather Market Volatility

As investors look ahead in these complex times, we believe the best course of action is to follow a strategic plan and remain committed to analyzing current economic data to make the best strategic decisions.

For our most recent commentary on the market, visit our Insights Page or listen to our podcast, KayneCast. Contact us to learn more about KAR investment strategies.