Ed Hyman: The Next Recession is Five to Six Years Away

February 29, 2016
by Jeffrey Briskin

The U.S. economy is showing signs of weakness, but the next recession is probably five to six years away, according to Ed Hyman, the chairman of Evercore ISI, a global economic research and investment banking advisory firm.

In a presentation at the 2016 MIT Sloan Investment Conference on February 26, Hyman said that the odds of a recession occurring within the next year or so are about 10%. Yet, he doubts that the stock market will rally again unless the Fed restarts quantitative easing.

Hyman heads the economic research team at Evercore and has been rated the #1 economist on Wall Street for the past 35 years by the *Institutional Investor* poll of investors.

We last wrote about Hyman five years ago, when he correctly forecast a bull market for U.S. equities, although he was over-optimistic about the prospects for economic growth. He predicted the U.S. economy would grow at 5.5% in 2011 and 2012, about twice the actual growth.

A longer, more protracted economic cycle

Hyman bases his prediction on historical analysis that shows that recessions usually happen around five years after the Fed's stance on interest rates changes from easing to tightening. Normally, the Fed begins tightening two to three years after a recovery begins. But the depth and longevity of the Great Recession and the slow momentum of the current 65-month recovery kept the Fed from raising interest rates until December of 2015.

Hyman's cautiously optimistic outlook is aided by surveys and interviews he and Evercore conduct with more than 300 corporate CFOs. When he speaks with clients in various locations across the U.S., most of them report that their markets are doing well. He is particularly encouraged by surveys of Evercore's employment agency clients that indicate demand for their services is strong and wage pressure is increasing.

He is also encouraged by the gradual rebound in the segments of the housing industry. "Historically, new housing starts over the past 35 years have averaged around 1.5 million per month. After falling to 300,000 during the Great Recession, they've come back to around a million per month, which is encouraging," he said.

However, he still sees areas of concern. Falling energy prices have driven oil rig counts from a peak of 2,000 during the height of the shale oil boom to less than 500 in February 2016. The negative impact of industry-related layoffs and cuts in capital expenditures are offsetting the positive influence of lower gas prices. Yet, in balance, Hyman believes that lower energy prices will help delay, rather than hasten, the timeframe for the next recession.

Equity markets: In a holding pattern

Hyman said that the stock market stopped rising once the Fed halted quantitative easing in 2014. Falling earnings in 2015 also spooked investors. He believes that the market may not move up again until the Fed either restarts quantitative easing or economic momentum increases as interest rates rise.

The global outlook – not all bad

Hyman believes that the U.S. economy "is the sparkplug that will keep the world economy growing." Based on his research and interviews with business leaders in Europe, he believes that the overall economic picture there "is okay, but not great," with pockets of strength in certain countries such as Germany and Great Britain. Japan's economy remains "worrisome."

Five years ago China's GDP was growing at a 20% pace. Today it's down to 5%. Evercore's own weekly surveys of business leaders in China have reported negative outlooks for nearly five months. While Hyman doesn't believe that China's economy is headed for a hard landing, its recovery will be long and painful.

"Debt is a killer"

Hyman is very concerned about the systemic risks posed by record levels of sovereign and corporate debt. "When the next recession hits five to six years from now and debt levels are even higher than they are now, I'm scared that it will be the end of the world, economically."

In spite of his concerns, Hyman believes that policymakers have learned from the mistakes they made prior to the Great Recession, such as raising interest rates in 2007 when the warning signs of a recession were clearly evident.

"Now I feel that policymakers around the world are right on the case. They're watching what's happening and they're responding in a reflexive fashion to different sets of weakening data."

Citing the recent G-20 conference in China, Hyman is encouraged that most central bankers are committed to working together to mitigate the global impact of economic distress in China and other nations. He's also relieved that most of those bankers are adopting an easing stance and inflation is not a major area of concern.

"I'm sort of relaxed because policymakers are not relaxed," he said.

Jeffrey Briskin is director of marketing at Advisor Perspectives.

