Weekly Brief

July 24, 2023

Navigating Through Negativity

As I've expressed to you in past Weekly Briefs, I've often been frustrated by what feels like overly negative headlines about the economy.

Philipp Carlsson-Szlezak, our chief economist, and I have maintained a mostly positive outlook, particularly for the US economy, over the past couple years—certainly more optimistic than the media's (and many pundits') predictions of either severe recession with high unemployment or spiraling inflation.

The jury may still be out, but the soft landing we saw on the horizon (see here and here) appears increasingly likely. Why were the headlines and many predictions about the US and beyond so off?

Underestimating Resilience in the US

In an excellent new article in *Harvard Business Review*, Philipp, along with his BCG Henderson Institute colleagues Paul Swartz and Martin Reeves, explain that the dark forecasts missed the full picture of the US economy's resilience. The article also provides a balanced guide to leaders wanting to navigate the inherent economic uncertainties.

Looking at the past couple years, the concerns about the labor market, housing activity, consumer spending, and financial systems were all valid, but the analytical lens was too narrow. Each has elements of strength related to the post-pandemic context and thus not captured in the historical data often used to make forecasts.

For example, fast-rising rates did exert a strong headwind on the housing market. But housing inventory was so exceptionally low after the pandemic that activity remained solid even when demand dipped.

Underestimating Resilience in Emerging Markets

It's not just the US that has been the focus of dire economic predictions. The outlook for emerging markets has also been consistently negative, based on the reasonable fear that rising interest rates in the US would trigger financial crises in those economies, as has happened in the past.

But another interesting recent article—this one in *Fortune* by Philipp and Paul—explains why today's picture is different and a systemic emerging-markets meltdown is less likely. Today, emerging markets are overall much more economically robust than they were in the 1980s and 1990s. Many have increased their reserve balances, shifted out of dollar-denominated debt, and weaned themselves off fixed exchange rates.

Their economic management is also better today. For example, Mexico and Brazil raised interest rates before the US Federal Reserve did, which has allowed them to avoid the pressure that comes from falling behind—a situation they have dealt with in the past. These changes have shored up resilience and put these economies in a much stronger position.

Taking in the Headlines with a Grain of Salt

Does all this mean that the US and emerging markets are out of the woods? Of course not. As we know very well, shocks can arise and change a positive trajectory—or at least put it on pause. It is as foolish only to double down based on the upside as it is only to hunker down because we've been told the sky is falling.

But as business leaders, it's important to look out for bias and remember that stories may fail to integrate critical context or may depend on flawed historical analogies. And we all understand that sharp, negative headlines will attract more clicks.

Yes, risks are out there. Our job is to keep tabs on the wide bands of today's uncertainty while not getting stuck in a universe of doom-and-gloom scenarios.

Until next time,

Rich

Rich Lesser
Global Chair

Further Reading

[What Happens After the US Economy's Soft Landing?]

Job openings have come off their highs and quit rates have fallen—all while hiring continues at a fast pace. As the unemployment rate remains near its 60-year low, there is no sign of recession.

Read more

A Much-Feared Emerging Markets Crisis Didn’t Happen. Is the Global Economy off the Hook?

Much higher US interest rates have exerted a pull on global flows of capital, pushing the US dollar to near all-time highs. But a crisis of global systemic relevance would take a confluence of factors unlikely to happen anytime soon.

Read more

Celebrating Our 60th Anniversary

Over the past six decades, BCG has maintained an unwavering commitment to our corporate purpose: unlocking the potential of those who advance the world. As we turn to our future, join us in celebrating the power of our people, our ideas, and the impact we have through our clients around the world.

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