



## Is This the Start of the Next Global Recession?

### Description

Since the financial crisis in 2008, the world has been gripped by a deflationary cycle. Evidence of this can be seen in the relatively low inflation rates across much of the developed world at a time when ultra-loose monetary policies have largely been pursued. This may have staved off a period of deflation, but now the reverse problem could lie ahead. The world could be facing a period of higher inflation which has not been seen for over a decade. Could this send the global economy into recession?

### Changing policies

Donald Trump's economic policies are centred on job creation. He stated he will become 'the greatest President for jobs that God ever created'. Part of his plan to get more Americans into work is a simultaneous increase in spending and a reduction in taxation. The former should stimulate demand for labour since it will be focused mainly on infrastructure, while the latter should boost spending and could create a multiplier effect. Overall, it seems likely that jobs growth will be strong.

However, such a policy is likely to cause inflation in the US to rise. A loosening of fiscal policy may be met with a tighter monetary policy from the Federal Reserve, but with interest rates forecast to rise only three times this year they may end up being behind the curve. The result may be inflation at a much higher level than it has been for several years, which could easily spread across the globe.

### The problems of higher inflation

As mentioned, the Federal Reserve may be forced to raise rates at a relatively fast pace. If inflation is exported outside of the US then other Central Banks could be forced to do likewise in order to keep rises in the price level at more respectable levels.

The problem with this response is that higher interest rates naturally slow economic growth. They make saving more attractive and spending less so, since borrowing costs are higher. This could mean a reduction in debt taken on by businesses for investment, lower levels of consumer spending and reduced activity in housing as mortgages become less affordable. The end result of this may be lower

levels of economic activity which could end in recession.

## **An opportunity**

Of course, investors have faced periods of higher inflation in the past as well as numerous recessions. As such, it is possible to benefit from such periods, although some assets may perform better than others. For example, gold shares could become more popular due to the precious metal's status as a store of wealth, while companies which are able to raise prices in line with inflation could also perform better than those which cannot.

The next decade is highly unlikely to be anything like the last decade when it comes to inflation and economic growth. While deflation has dominated in the past, the future headlines are more likely to focus on inflation. As such, preparing for such an eventuality seems to be a prudent step to take in order for Foolish investors to benefit from the possible changes which lie ahead for the global economy.

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