**Factors That Can Cause Recession In 2022**

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**Introduction**

Recession imposes significant hardship with a high increase in the unemployment rate, shifts in financial markets, and related dislocations as a result of the decline in economic activity. Statista (2022d) indicates that the next United States recession is imminent, and will cause more economic decline than the downturn stirred by the pandemic. The average US recession lasted ten months, and looking at the length and causes of the recent recessions can help understand where the economy has been and where it will head (Smith, 2022). However, all recessions are not equal, and the National Bureau of Economic Research defines the starting and ending dates. A recession can be determined by analyzing financial market variables such as the yield curve and credit spread, leading indicators, and macroeconomics such as business cycle and inflation. The paper focuses on inflation rate, unemployment rate, inverted yield curve, and credit spread as factors that may cause recession in the US in 2022.

**Inflation and Unemployment Rate**

The inflation rate measures the increase of a price index ratio, and the 12-month percentage change in CPI shows that prices in the US increased in July 2022 by 8.5% compared to July 2021 (Statista, 2022b). The US annual inflation rate increased from 5.4% in July 2021 to 8.5% in 2022, meaning that the US dollar’s purchasing power has declined in the past year (Statista, 2022b). Kiley (2018) argues that the inflation rate can predict increases in the unemployment rate. Kiley's (2022) analysis using a model with variables such as term spread, credit spread, the unemployment rate, and CPI inflation shows that unemployment rate will increase in the following four quarters. The review indicates that the United States recession has always been preceded by low unemployment and high inflation.

Statista (2022c) data also shows that the unemployment rate as of July 2022 is 3.5% which is lower than 5.4% as of July 2021, and inflation is 8.5% in July 2022 and was 5.4% in July 2021. This implies that the United States unemployment is low and inflation is high, meaning the country may be heading into a recession. Conerly (2021) predicted that the US will evade recession in 2022 but may experience an economic downturn in early 2023, and if Fed avoids the 2023 recession, the country will look for several slumps in 2024 or 2025. World Economic Forum [WEF] (2022) states that the main factor that may currently trigger a recession is high-interest rates, but the Fed has implemented a 50-basis-point hike. WEF (2022) also indicates that high inflation will be a continuing phenomenon in the US, and Fed has to keep interest rates above 3-3.5% to slow inflation and escape recession. The Fed interest rate was highest in April 2019 at 2.42% when the inflation rate was 2% and as of June 2022, the Fed interest rate was 1.21% inflation rate of 9.1% (Statista, 2022a). This implies that the US will be unable to maintain reasonable interest rates, stable prices, and strong employment rates, which will lead to economic decline and recession.

**Yield Curve and Credit Spread**

The yield curve describes the variation between the yield on ten years and two-year federal bonds, and the indicator has signaled the past recessions in the US (Moore, 2018). The US government bond yield for a 10-year was 2.67% as of July 29, 2022, and the 2-year bond was 2.98%, which represents an inverted yield curve (Statista, 2022e). The inverted yield curve represented expectations of the investors for a decline in long-term interest rates, making long-term debtors vulnerable to risks under the uncertainty around financial market conditions in the future. Statista (2022e) argues that an inverted yield curve is a result of investors getting extremely worried about the financial future, and they end up paying extra for short-term bonds, meaning they lack confidence in long-standing financial situations. The US inverted yield curve shows that the country may be heading to recession since the yield curve has historically overturned prior to the previous five US recessions (Statista, 2022e). Moore (2018) insinuates that when the yield on two-year bonds exceeds the one for ten-year bonds, the sign is that the economy is bad, hence the United States may be heading to recession since the two-year yield exceeds the ten-year yield. Kiley (2022) states that credit spread, which is the difference between the Baa corporate bond yield and the ten-year Treasury yield, and term spread, the difference between the ten-year Treasury yield and the Fed rate, are variables used to forecast recession’s probability or economic activity.

**Conclusion**

Real factors such as external economic conditions, nominal factors such as interest rates, and psychological factors such as market pessimism can cause a recession. The US has seen an inverted yield curve in 2022 meaning investors are concerned about the future financial and may have little confidence in long-term financial conditions. In long run, the stock market will decrease which highly triggers a recession. Unemployment is not currently a problem since it is on a declining trend, but it will reach a point where it will stay flat, risking recession. The high inflation rate, low Federal Reserve interest rates, low unemployment rate, and an inverted yield curve indicate that the United States is heading into a recession.

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