BCG

Weekly Brief

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Avoiding the False Alarms of Macroeconomics

The wave of macroeconomic anxiety is subsiding. The “inevitable” recession did not arrive, surging inflation did not persist, and central banks are lowering interest rates in Europe and will likely do so soon in the US. Meaningful macroeconomic risks and challenges remain, but the doomsaying of recent years seems to have been overdone.

Now is a good moment for executives to step back and think about how they assess and internalize the public macroeconomic discourse. A timely book by my colleagues Philipp Carlsson-Szlezak and Paul Swartz, *Shocks, Crises, and False Alarms: How to Assess True Macroeconomic Risk*, is a helpful guide. The *Financial Times* just called it “an invaluable framework to better understand growth, the financial sector, and the trends shaping the global economy.”

What’s their take? Macroeconomic risks are ever present, but for every true crisis there are many false alarms. In addition to predictions of recession and permanent inflation, there were worries that rising interest rates would deliver emerging-market defaults. And while memories are short, in the depths of the COVID-19 crisis, the recovery was commonly pegged to take the better part of a decade—which, as it turned out, wasn’t the case.

To cultivate our own macroeconomic judgment, we should focus on developing three habits:

- **Reject model mentality.** Clean answers are not part of economics the way they are in the natural sciences. The use of point forecasts will likely let down those who use them directly for planning processes. And models are sadly least reliable when leaders need them the most—during times of crisis.

- **Discount the doom.** Negative headlines attract more clicks and eyeballs. False alarms get amplified, even at respected news outlets. Instead of asking when a crisis will happen, we should focus on plausible drivers and how the system would respond if it were to happen.
- **Practice economic eclecticism.** Building sound macroeconomic judgment involves drawing on adjacent disciplines—for example, history, finance, and politics—to capture the complexity of each area of risk. Rather than looking for silver bullet frameworks or being swayed by headlines, leaders need to engage directly with macroeconomics and form their own judgment.

The Path to Rational Optimism

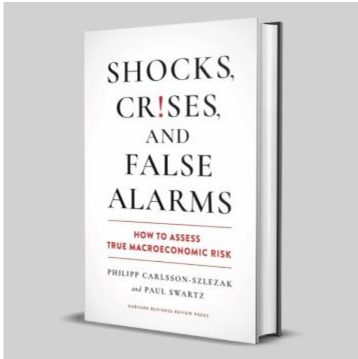
By forming the above three habits, we will be in a better position to calibrate macroeconomic risk—even if we cannot consistently predict outcomes. This book helps readers build concrete knowledge of the macroeconomic risk landscape, including recession and recoveries, technology and productivity, debt and bubbles, as well as trade and geopolitics. And along the way, we are likely to discover a more optimistic take on the future.

Until next time,

Christoph

Christoph Schweizer
Chief Executive Officer

Further Insights



Shocks, Crises, and False Alarms

This new book calls out pervasive economic doomsaying in public discourse and demonstrates how executives can navigate real, financial, and global risks more productively.

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How to Assess True Macroeconomic Risk

Models and forecasts can be seductive, but it's time for executives to reclaim their economic judgment.

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How to Live with Economic Doomsaying

For every true economic crisis, there are many false alarms. We should stop treating financial forecasts like a precise science and embrace rational optimism over provocative headlines.

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