Harry's Take

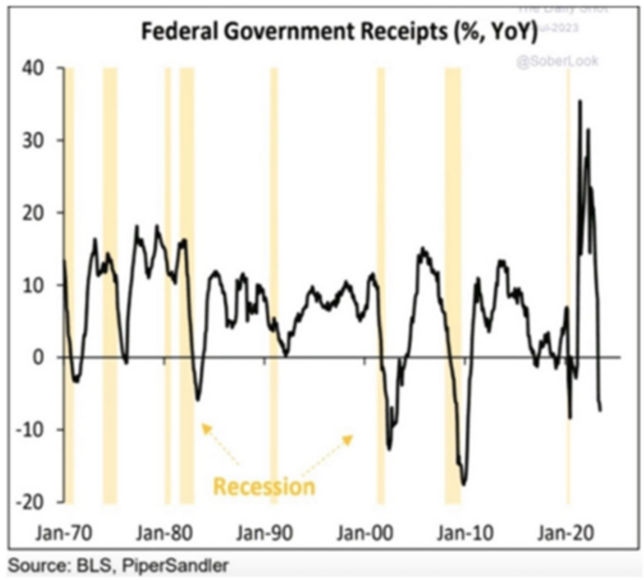
August 29, 2023

Federal Tax Receipts Crashing: Sign of a Recession!

The economy and markets "on crack" (stimulus) seem to be more confused than ever. And why not, after 14 years of a Fed balance sheet that has gone from less than $1T to $9T? Just over $5T of that was added in response to COVID between early 2020 into early 2022. And now, we have just gotten the largest rate hikes in history, 525 bps, and likely are headed to 550 bps!

Economists have long predicted that a recession would occur soon. They keep pushing the date out, as the recession doesn't seem to come. But this chart shows that federal tax receipts are crashing again, which normally would be a sign that we are already in a recession. It's just that recent $5T that's still impacting the economy, but it is about to wear off, and quickly. Then we will see how strong this economy really is… and I say it will prove to be not strong at all!

Federal Tax Revenues Plunging, at -8% Heading Toward -25%+ Year-Over-Year



Source: https://lmtr.com/exploding-debt/ www.hsdent.com

Tax revenues have crashed more in each successive recession since 1970, when they fell about 3%. Revenues were down 7% in the 1980-1982 downturn, 14% in the 2001 recession, and 18% in the 2008 financial crisis. Hence, I would expect a drop of 25% to 30% this time around. And I have been forecasting for a long time now that this next recession would be about 50% worse than 2008-2009, with around an 86% crash on the S&P 500 and 15%-16% unemployment.

But the real question is this: Are we already in a recession, but the numbers just aren't reflecting it yet? Maybe they will be revised; that happens all the time. And how could we expect estimates to be accurate in an economy on crack that has suddenly gone from the most aggressive stimulus in history into March 2022 to the most aggressive tightening since?

All I can say is strap on your seatbelts and get ready for the crash and downturn of our lifetimes. It likely won't be quite as bad as 1929-1933. The worst impacts will be house values: the value of the average house could go down by around 50% and the values of the upscale ones most of us own could drop by up to 70%. Historically, home values have never been even close to falling that severely. From 2006 to 2012, the average house price was down around 34%, and that was a big shock to most.

Note that due to the Labor Day weekend, I will release my September *HS Dent Forecast* newsletter on Tuesday, September 5.

Harry

Got a question or comment? You can contact us at info@hsdent.com.