



# RECESSION: HOW TO PREPARE AND SURVIVE

AN OFFICIAL CLIENT UPDATE OF PT HEADHUNTER INDONESIA



*In a recession, you must be able to call into question everything you've done before. - Francois-Henri Pinault*

This topic of recession 2023 has been widely discussed for a while now, not only in Indonesia, but also worldwide. Widespread increases in layoffs keep us questioning whether it is true the recession is going to happen? And at the same time the gas prices have been rising in Indonesia this year. This also keeps us as common people think “Is it that bad?”.

Although Indonesian Finance Minister, Ibu Sri Mulyani, has mentioned that Indonesia has been in a strong economic position and most likely will survive, yet the trauma of COVID-19 economy has still been lingering and we keep wondering if history will repeat itself. To cope with, most people start to think “control what we can control and minimize the risk of what we cannot”.

## Definition of Recession

A recession is a significant, pervasive, and persistent decline in economic activity. It is also defined as negative economic growth for two consecutive quarters. The signs of recession include rise of gas prices, slowing home and auto sales, and the cost of copper is falling.

Unemployment is one key feature of recessions. As demand for goods and services falls, companies need fewer workers and may

### PT HEADHUNTER INDONESIA

#### HEAD OFFICE

MENARA PALMA, 12TH FLOOR  
JL HR RASUNA SAID KAV X-2 NO.6  
JAKARTA 12950 - INDONESIA  
TEL: +62 21 2939 1284  
FAX: +62 21 2939 1222

#### SURABAYA OFFICE

PAKUWON CENTER, 23RD FLOOR  
JL EMBONG MALANG NO.1-5  
SURABAYA 60261 - INDONESIA  
TEL: +62 31 6000 3367  
FAX: +62 31 6000 3105

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lay off staff to cut costs. Laid off staff have to cut their own spending, which in turn hurts demand, which can lead to more layoffs.

On the other hand, there are also signs which indicate that we are not in recession. When the GDP contraction is extremely small, consumer spending remains strong, and the labor market is strong, it shows that recession is not happening.

## The Recession in the Past

Every country has their own strength, economy wise. Let's speak of the US which is known as a country with a strong economy. According to the International Monetary Fund, between 1960 and 2007, there were 122 recessions. According to the National Bureau of Economic Research, the U.S. has experienced 34 recessions since 1854, but only 5 since 1980.

Meanwhile the average U.S. recession since 1857 lasted 17 months, although the 6 recessions since 1980 averaged less than 10 months. Generally in recent years worldwide, recessions have become less frequent and don't last as long.

The 2008 global financial crisis was called the Great Recession, caused by a combination of vulnerabilities that developed in the financial system, also called the subprime mortgage crisis. The last U.S. recession was in 2020, at the outset of the COVID-19 pandemic.

## Preparation, Survival and Thrival

Some businesses such as groceries and healthcare will survive recession on their own, as they are primary needs. Secondary and luxury won't be prioritized.

However, surprisingly Netflix, as an entertainment and media company, has survived even thrived during the 2008 recession, although they were not a huge company as it is today. Streaming services were not popular at that time. Netflix survived through innovation: the company worked on partnerships with Xbox for streaming, and they were increasing memberships and subscriptions.

Lego did different things. During the 2008 recession, Lego decided to expand into a global market. The company focused on building revenue in other countries with stronger economies, while recession happened in the US.

Apart from innovation and business expansion, JP Morgan also provides recommendations to companies. As stated by John Simmons, Head of Middle Market Banking and Specialized Industry of JP Morgan, "Whether or not a recession materializes, business leaders should be prepared for multiple scenarios. Companies have been forced to be nimble in the last few years and we expect that mentality to be a requirement for operating sustainably in the near to mid-term."

To survive and thrive, companies need to watch data for warning signals is one important thing to consider. It starts with managing the risks within control and retaining a flexible cost structure and business model. Identifying expenses which could be reduced could be done to maintain margins without sacrificing long-term growth plans. Some adjustments to strategy, pricing or product mix might also help weather the storm.

Companies are also advised to be proactive and devise an action plan for any potential slowing of sales and profits. Maintaining a healthy balance sheet is a must which covers cash management, maintaining business performance and probably refinancing debts. Merger and acquisition is one alternative as well.

Regarding personal finance, individuals could start to identify financial priorities. Buckling down budget, boosting emergency funds, and diversifying investments are also things to consider. Investing in building a career and reputation for job security is also important to protect one's future.

## Summary

Hope for the best, prepare for the worst. Economic fluctuations are a natural part of our economy, however it is also important to make preparations so both companies and individuals can protect themselves and their families during a downturn, especially recession.

WRITTEN BY AFRINA KARENINA RIZAL  
DESIGNED BY SHABRINA SEPTIANDINI



**AFRINA KARENINA RIZAL**  
Associate Director  
PT Headhunter Indonesia