

No US recession in 2019, although economist warn of self-fulfilling prophecy

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Singapore

ECONOMISTS at the three local banks don't see the US economy going into a recession - at least not in the next 12 months.

The only risk is that the US may actually talk itself into a recession, according to Irvin Seah, the executive director of group research at DBS Bank. If US businessmen keep harping on a recession on the cards, it may become a self-fulfilling prophecy

- particularly when businesses start believing it and cutting back on investments and spendings, Mr Seah said on Tuesday at a forum on business outlook, hosted by the Singapore Chinese Chamber of Commerce & Industry (SCCCI).

Speaking at the same forum, Suan Teck Kin, United Overseas Bank's research head, cited published estimates which put the probability of a US recession at a low 21 per cent - and that could be up to 18 months away. Selena Lin, OCBC Bank's head of treasury research and strategy, didn't think the current slowdown in US economic growth is cause for alarm, either. According to her, the economy is just easing back to normal growth.

All the three economists played down the deceleration in expansion seen in the major economies. Noting that China contributed to 27 per cent - the biggest contributor - of global growth, Mr Suan indicated that though the Chinese economy is losing steam, it's not something to lose sleep over. The key drivers of growth in China - consumption and investment spending as well as the services sector - appear to remain stable and performing all right.

The expectation of a hard landing in China is unlikely to happen. "The talk (of a hard landing) has been heard for a long time already," Mr Suan said.

Mr Seah pointed out that the slowdown in Chinese economic expansion is not a new phenomenon. "It's been slowing down for many years - and will continue." It's the natural outcome of economic reform - the transformation from an export- to a consumption-driven economy - and deleveraging of debts.

OCBC's Ms Ling said the economic slowdown in China has been "very smooth". Besides, because China has a huge economy, there are still growth sectors which offer opportunities to investors, she added.

All three economists also don't see a liquidity squeeze. The US Federal Reserve raised interest rates four times in 2018. This

year the economists think there will be only one hike - or two hikes at the most.

On the threat of a US-China war - another potential development which could sink the global economy - the three economists noted that it's a power struggle that goes beyond trade. It's also a contest for technological superiority and global leadership and dominance.

The US trade deficit with China - ostensibly that's what the beef the US has with China - is a long-standing issue, Mr Suan noted. The US has been importing more from China than exporting to it for the past 20 years, according to him. In any case, he said, the trade conflict between the two superpowers is here to stay.

Still, Ms Ling thought that with his current problems at home and with an eye on the next US election, President Donald Trump is going to be "more amenable" in reaching a settlement with the Chinese.

Nevertheless, the lesson for Singapore businessmen is to diversify their markets - and the economists think they should invest more in the Asean markets - the next growth region.