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US Economy Strong Enough To Weather Global Turmoil Despite Falling US Treasury Bond Yields

By Maria Gallucci

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The U.S. economy is healthy enough to weather the economic turmoil swirling around the globe. Volatile stock indices, deflation in Europe and sluggish growth in China and Japan aren't expected to push the U.S. back into a recession this year, though these factors could slow economic growth, analysts say.

"The U.S. economy right now is pretty much insulated from the economic and financial struggles that we're seeing outside the U.S.," said **Bernard Baumohl, chief global economist at the Economic Outlook Group** in Princeton, New Jersey. "I'm not particularly concerned that the U.S. is going to stumble."

The outlook counters the growing concerns of bond investors, who have been snapping up government debt over fear of volatility in the stock markets or a broad decline in corporate profits. In recent weeks, investors have purchased so many 10-year U.S. Treasury notes -- the benchmark for mortgages and interest rates -- that bond yields dropped to remarkable lows, a reflection of the major uncertainty with global markets. Yields slipped below 2 percent Tuesday, the lowest level since October.

“The good times are over,” Bill Gross, who formerly managed the world’s largest bond fund, Pacific Investment Management Co., warned in an investor note Tuesday.

The bond boom comes as eurozone nations grapple with deflation and record unemployment rates. Consumer prices across the 19-country region sunk by 0.2 percent in December, the weakest rate since the global recession, and unemployment hovered around 11.5 percent, according to official data released Wednesday. The results caused the euro to hit a nine-year low against the U.S. dollar, at around $1.18.

At the same time, China’s economy is sputtering. Economic growth in America’s second-largest trading partner likely slowed to 7.2 percent in the fourth quarter, the weakest performance since the worst of the global financial crisis in early 2009, Reuters reported Wednesday.

The United States, by contrast, has seen dramatic growth in recent months. Between July and September 2014, the economy grew at an annualized rate of 5 percent -- its fastest rate in more than a decade, according to government data. Unemployment fell to 5.8 percent late last year, an improvement of 1.2 percentage points compared to the end of 2013. Consumers and businesses are also feeling a boost from declining oil prices, which are down by more than half compared to just half a year ago.

“The U.S. is looking a little bit like an island of relative stability in a turbulent global sea right now, and that worries people because you wonder how long that can go on,” Josh Feinman, a chief economist and managing director of Deutsche Asset & Wealth Management in New York, said about the bond investors. “But if you look at the incoming data, the domestic fundamentals in the U.S. still look pretty favorable for growth.”

The grim global reality could still sideline some of America’s expected expansion by dampening demand for U.S. exports to Europe and China, however. Along with low consumer appetites abroad, the stronger dollar makes U.S. goods more expensive for foreign buyers. “It’s going to hurt,” said David Wyss, an adjunct economics professor at Brown University and a former chief economist at Standard & Poors. “It’s going to mean a little slower growth than we would’ve seen otherwise.”

But he also pointed out that plummeting global oil prices and rising U.S. crude production will keep America’s trade deficit from widening dramatically. The country’s shrinking foreign oil bill has already cut the U.S. trade deficit by 7.7 percent, to $39 billion in November, the Commerce Department reported Wednesday.

Despite the uncertainty abroad, “I don’t think it means a recession [for the U.S.],” Wyss said.

While America’s prospects won’t immediately suffer from European deflation and sluggish growth abroad, an unexpected political or economic event could still take a toll -- for instance, if Greece left the Eurozone, as some investors fear it might, or financially troubled governments like Italy's default on their debt, said John Blank, a chief equity strategist for Zacks Investment Research in Los Angeles.

“It has to be a very visible and combustible event to cause the U.S. to take notice,” he said.

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