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US recession risk elevated: survey

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Most economists continue to see an elevated risk of the US falling into a new recession within the next 12 months, even though concerns of an imminent downturn in February — when the Dow Jones Industrial Average had fallen nearly 15 per cent — have since subsided.

Economists have also cut their forecasts for interest rates.

Forecasters in the latest Wall Street Journal survey of business, academic and financial economists estimated, on average, that the US had a 20 per cent chance of falling into recession in the next year.

That was up slightly from the 19 per cent in last month's survey.

While 1-in-5 odds are far from a slam dunk, they are double the odds from as recently as September.

"Decelerating employment growth, growing uncertainty and sputtering GDP growth does not portend well," said Chad Moutray, chief economist at the National Association of Manufacturers.

The economy grew at a 0.5 per cent annual pace in the first quarter of the year, according to the most recent Commerce Department reading. The most recent monthly jobs report showed the pace of job growth slowing as well.

This rough start to the year prompted economists to lower their estimates for economic and job growth this year. The average forecast now calls for 1.9 per cent growth this year, down from 2.1 per cent in last month's survey.

Over the next 12 months, the economy will add about 180,000 jobs, they estimate, down from 185,000 last month and 190,000 in March.

Even after making these downgrades, 63 per cent per cent of economists think the risks to the economy are to the downside. In other words, if their forecasts are wrong, economists think it's because they're probably too optimistic.

Since recession risks first rose late last year, the biggest risk has consistently been the chance that China's economy would falter or that the dollar would be too strong, and that a slowdown in international trade would weigh the US down.

While a global slowdown is still identified as the biggest risk, the forecasters see elevated risks coming from the US political process as well.

About 42 per cent of respondents say uncertainty from the election is already harming the US economy, at least somewhat, because business investment can be challenging when the potential range of political outcomes is so wide.

Meanwhile, the economists surveyed have again lowered their projections for the path of Federal Reserve interest rates.

Their average prediction for where the Fed's benchmark short-term rate, the federal-funds rate, will be at the end of 2016 was 0.76 per cent in the May survey, down from 0.84 per cent in the April survey. That suggests more economists now anticipate only one quarter-percentage-point increase this year.

They also expected the fed-funds rate at the end of next year to settle at 1.55 per cent, rising to 2.39 per cent at the end of 2018.

In April, the economists surveyed predicted a fed-funds rate of 1.65 per cent at the end of next year and 2.48 per cent at the end of 2018.

Fed officials have held the rate between 0.25 per cent and 0.50 per cent since December. In their latest projections, released in March, they expected it to rise to 0.9 per cent by the end of 2016, and to 3 per cent by the end of 2018, a slightly more ambitious path than the one projected by the economists in the survey.

Economists said the US economy's sluggish growth and the slow pace of inflation would restrain the central bank's interest-rate increases. Inflation has held below the Fed's 2 per cent annual target for four years.

"What possible justification does the Fed have to raise rates more aggressively?" said **Bernard Baumohl, chief economist at the Economic Outlook Group.** "The US economy is crawling at less than a 2 per cent pace. That's a dangerously thin buffer in the event of another global economic shock."

The Fed will release new economic projections at its June meeting.

The survey also found around 80 per cent of respondents said US living standards are higher today than during the 1990s or earlier.

The 2016 presidential campaign has exposed worries among many voters about a US in decline. The sentiment played a particular role in boosting the candidacy of businessman Donald Trump, with a campaign slogan pledging to "Make America Great Again."

While many economists view the US as not fully recovered from the recession that began in 2007 or the previous recession in 2001, that still leaves a 40-year disconnect compared to voters who see the US in a half-century of decline.

The Wall Street Journal surveyed 70 economists from May 6 to May 10, though not every respondent answered every question.

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