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Why Odds May Be Fading For a Near-Term U.S. Recession

Many economists are reducing their warnings, seeing potential infrastructure spending, tax cuts, soaring markets and less focus on international risks

By **JOSH ZUMBRUN** - Dec 8, 2016

As recently as this summer, the outlook for the U.S. economy was looking a little hairy.

The jobs report released in June originally showed the economy added just 38,000 jobs that month. Worries about China's economy were on the rise. Many feared that a vote for Brexit could lead to immediate recession, even before the U.K. formally began the process of exiting the European Union**.** By July, the odds that economists placed on a recession in the next 12 months had risen to 22%, more than double what the risk had been a year before.

But the odds are gradually declining, having dropped to 17% in The Wall Street Journal's latest monthly survey. That's still about one-in-six odds over the next year, which is somewhat higher than we've seen in recent years. But it's accurate to say that many economists are slowly lowering their warning flags.

The Wall Street Journal surveyed 62 economists from Dec. 2 to Dec. 6. The participants in the survey are a group of business, academic and financial economists who produce professional forecasts of key U.S. economic indicators.

A range of factors are behind the tentative shift.

First, many economists are marking up their forecasts on signs that President-elect Donald J. Trump wants to pursue substantial tax cuts and infrastructure spending early in his administration, policies that would tend to boost consumption and employment, at least initially.

"The economy is building a head of steam in anticipation of tax cuts, a pickup in federal spending, and fewer regulations," said **Bernard Baumohl**, chief economist of the **Economic Outlook Group**.

If the economy were already operating at full speed, these policies might overdo it and lead just to higher interest rates and inflation. Indeed, economists are now forecasting higher rates and inflation than they were before the election. But many share the assessment that inflation, in particular, has been too low in recent years, and that somewhat higher inflation would be a welcome development.

Second, at least for now, the stock market is still providing a lift. The S&P 500 is up 7% since the end of October, and more than 24% over the past three years. In general, a buoyant market is a source of confidence and comfort for both professional investors and those checking the balances of their 401(k)s. Typically, the wealth effect of rising stock prices provides some lift to consumption and should provide some pep for the economy.

Third, some of the most-feared international developments have not yet come to pass. The U.K.'s finance ministry warned that a Brexit vote to leave the EU would "represent an immediate and profound shock to our economy. That shock would push our economy into a recession." The pound fell sharply and the Bank of England reacted quickly to provide stimulus. But the overall U.K. economy has continued to grow. (The U.K. has yet to formally invoke the provision of the EU's treaty that would initiate the exit process, and new concerns could arise when it does, but for now the alarms have quieted.)

No one believes that risks are gone. Plans for tax reductions and infrastructure could be chopped to pieces in the congressional buzzsaw. The stock market is soaring now but has a long history of shocking portfolios with abrupt turns. Worries about Europe could intensify again—just this weekend Italian voters rejected changes to their constitution, prompting the prime minister to resign. And forecasts of higher growth during the first years of a Trump presidency are accompanied by a new set of risks, forecasters have cautioned, including a trade war or erratic policy missteps.

But for now, though the dust is still settling, many are seeing somewhat less risk on the horizon.

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