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Four Risks That Could Push the U.S. Economy Into Recession

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Many economists believe the U.S. faces a non-negligible risk of entering a recession within the next year. Asked to rank the probability of being in recession at some point over the next 12 months, respondents to The Wall Street Journal's monthly survey of economists, on average, put the odds at 21%. That's about double what they were a year ago. Not high enough to panic, but high enough to pay attention.

We asked the group of about 70 business, financial and academic economists to list the biggest risk factors they believe could tip the U.S. into recession. Most of their responses fall into just four distinct categories of worry: risk from China, falling levels of business investment, U.S. political uncertainty and concern that slower job growth and economic growth leave the U.S. at risk of stalling out.

1. China
The single risk getting the most attention in the U.S. economy is not even part of the U.S. Just over 40% of the respondents to the WSJ survey listed the potential fallout from China as the biggest risk.

"China is building a house of cards, and the risk is that it collapses sooner as opposed to later," said **Diane Swonk** of consultancy **DS Economics**.

The world's second-largest economy is seen as especially dangerous because it has relied heavily on debt to fund infrastructure and economic expansion. If all that debt can't be paid back, it could lead to a full-blown Chinese financial crisis in worst-case scenarios, or to a Chinese recession in less-severe-but-still-troubling scenarios. China is a notoriously hard economy to monitor, and few are confident about what exactly will transpire. But a collapse in China could spark turmoil in financial markets, a slowdown in global trade, hurt many U.S. exporters and cause commodity prices to tumble even further.

2. Business investment

Many economists have an increasingly nervous eye on the levels of U.S. business investment. Though it gets much less attention than the monthly jobs report, one report worth watching is the**Commerce Department's** measures of spending on capital goods. The report shows companies are spending less on things like machines, computers and raw materials powering their businesses. As of April, orders for nondefense capital goods excluding aircraft — a key gauge of overall business investment — fell by 0.8% in April and has declined nearly 12% since September 2014.

"Poor revenues and declining earnings causing cutbacks in capital spending and hiring is the risk," said **Allen Sinai**, chief economist at **Decision Economics Inc**.

Companies face a range of pressures. Exporters and manufacturers are contending with a weak global economy and risks from China. U.S. oil companies have, of course, been battered by low oil prices. And firms are facing a highly uncertain environment, driven in part by the third-largest risk: U.S. politics.

3. U.S. politics

Every presidential election introduces an element of uncertainty into the U.S. economy, but this election has been especially challenging because of stark differences between candidates **Hillary Clinton** and **Donald Trump**, and in the case of Mr. Trump, a great deal of uncertainty about the policies he would pursue if elected. About 15% mentioned this politically induced uncertainty as a large risk.

Leave aside your personal politics for a moment, and consider Mr. Trump's statements about the U.S. debt. He has said he can eliminate $19 trillion of debt in eight years while simultaneously proposing large tax cuts, not touch major entitlement programs and increase military spending. He's also suggested he might renegotiate the debt, but also said he would merely seek to refinance it. Now, with all that in mind, if he's elected what do you think the yield on the 10-year-Treasury will be next year?

"The chance of a recession depends increasingly on the comfort level Americans have on who sits in the White House next year," said **Bernard Baumohl**, chief economist of the **Economic Outlook Group**.

4. Stall speed
The final concern, mentioned by about 15%, is the risk that with the economy growing more slowly and adding fewer jobs, the U.S. is simply more vulnerable to tumbling into recession from small shocks. Economists sometimes call this "stall speed," a term borrowed from aviation, where if a plane is traveling too slowly it can easily be knocked off course by things that would be a minor squall at higher speeds.

"The slowdown that we've talked about for the last year raises the risks," said **Thomas Kevin Swift**, chief economist at the **American Chemistry Council**, a trade group.

The economy grew just 0.8% in the first quarter of the year, according to the Commerce Department. The most recent jobs report was an "unqualified dud." If the U.S. economy is simply running out of momentum, it wouldn't necessarily take much from China, or business investment or U.S. politics or any of a number of other factors, to be flirting dangerously with recession. (Here's a detailed case on how this vulnerability might play out.)

A few notable things are absent from the list of economists' worries. While people are keeping a careful eye on the United Kingdom's vote later this month on whether to leave the European Union, few economists see the so-called "Brexit" as a major source of U.S. economic risk. Only three of the survey's respondents mentioned it as a key risk. Right now, with the Fed likely on hold in June, few economists are worried the Federal Reserve will knock the economy into recession.

The economy could be tipped into recession by a combination of these factors, or by something else entirely. Most economists still think the U.S. will probably avoid recession entirely for now, but these remain four key risks to watch.

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