Economics

Chart of the Week: US recession probabilities rise, but when?

Group Research

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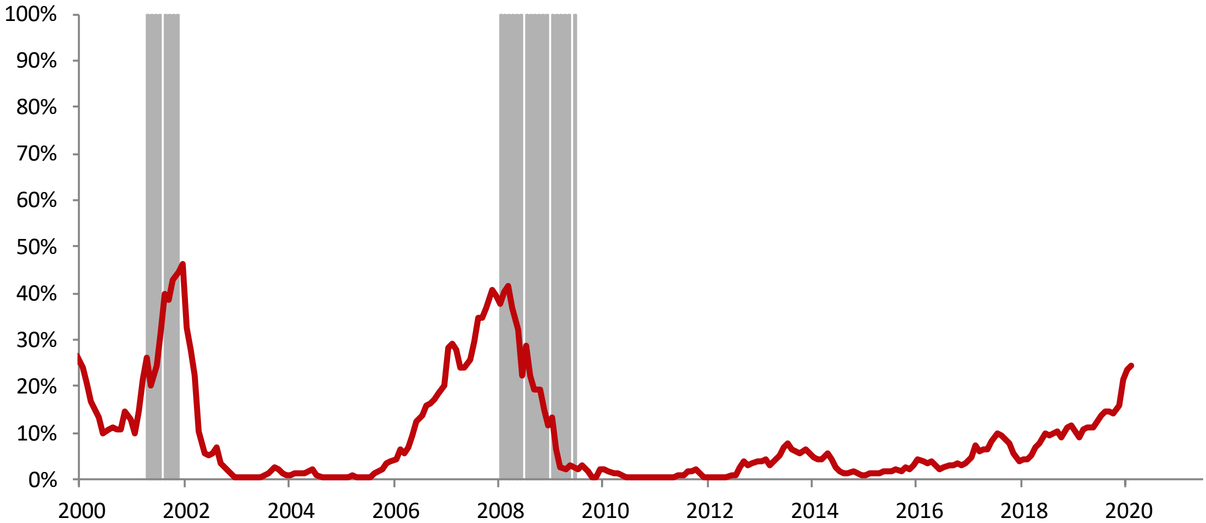
Key Events:

- Benign inflation could provide headroom for the ECB to maintain an easing bias, as rising growth and political risks become a priority.
- Trade deficit is expected to widen further in Hongkong on the back of continuous global growth slowdown and US-China trade tension
- *Industrial production slowdown is also expected in Singapore, Japan, South Korea and Taiwan.*

Chart of the Week: How close are we to a US recession?

Markets have begun to lose their confidence in the US outlook, with equity markets getting spooked by weak data. More telling is the rally in the sovereign bond markets around the world, reflecting rising risk aversion as opposed to just profit taking. Another way of looking at investor sentiment is the difference between 10-year US government bond yield and the three-month US Treasury yield. The NY Fed in fact has a recession probability model based around this measure. The readings from the model show a steady rise in recession risks since the middle of last year, with the implied probability of a recession in the next 12 months rising to 24% lately. Note that recessions are rare; the US has hold only four of them in the past four decades, with only two lasting more than a year. Also, recession probability can rise for 6 to 18 months before a real recession ensues. Hence, recession or sharp slowdown is coming, but it is unlikely in 2019, in our view. Barring a major shock, a likely resolution to China-US trade negotiations, strong wage growth in a tight labour market, and a still-buoyant private investment cycle can keep US growth around 2% this year.

Probability of US recession over the next 12 months (NY Fed model)



Source: Federal Reserve of New York, DBS Group Research

Event	Consensus	DBS	Previous
Mar 25 (Mon)			
Singapore: CPI (Feb)	0.5% y/y	0.6% y/y	0.4% y/y
Taiwan: industrial production (Feb)	-1.5% y/y	-2.3%y/y	-1.9% y/y
Mar 26 (Tue)			
Hong Kong: trade balance (Feb)		-HKD 38.1bn	-HKD10.3bn
-- exports		-4.0% y/y	-0.4% y/y
-- imports		-5.0% y/y	-6.0% y/y
Singapore: industrial production (Feb)	2.2% y/y	3.5% y/y	-3.1% y/y
Mar 29 (Fri)			
Eurozone: CPI (Mar)	1.0% y/y	1.1% y/y	1.5% y/y
Japan: industrial production (Feb)	1.4% m/m sa	1.0% m/m sa	-3.4% m/m sa
South Korea: industrial production (Feb)		-0.5%y/y	0.1% y/y
US: PCE core (Jan)		1.9% y/y sa	1.9% y/y sa

Eurozone: Inflation likely slowed to 1.1% y/y in March, from 1.5% month earlier on base effects. The underlying trends likely to reflect a small recovery in energy costs and food. Base effects are likely to keep overall inflation muted this year, best reflected in the subdued core gauge. This provides sufficient headroom for the European Central Bank to maintain an easing bias, as rising growth and political risks become a priority. Underscoring the accommodative bias and in a bid to replaced maturing TLTROs, the ECB rolled out fresh tranche of funding support, which are expected to preserve favourable lending conditions and ensure transmission of an accommodative monetary policy. Policy normalisation plans are likely to be on ice until end-2020 at the least.

Hong Kong: Exports and imports of good is forecasted to drop further, by 4.0% and 5.0% respectively. Although this is partly due to the usual Chinese New Year effect, the moderating global economic growth and the ongoing trade tension between China and the US may add downward pressure on Hong Kong's exports (of which 99% are re-exports) performance in the months ahead. This should largely mirror the fifth consecutive YOY decline in trade finance. On import front, the potential improvement in retail sales (up 7.1% in Jan 19) may offset part of the decreases in imports, thanks to the positive wealth effect transmitted from the recent rebound in asset markets and the 20-year low unemployment rate. The trade balance is set to widen further.

Taiwan: Industrial production is expected to shrink -2.3% YoY in February, a bigger decline than the -1.9% in January. Exports already reported a sharp contraction of -8.8% in February (vs. -0.3% in Jan). Even excluding the price factors, real exports should have fallen by -4.2% (vs. 4.1% in Jan). There is now a growing chance that industrial output will contract in 1Q, on both the YoY and QoQ basis. Some sort of stabilisation could only be expected for 2Q, presuming that China's fiscal/monetary stimulus will start to work, electronics exports will begin to improve on the back of iPhone price cuts, and tariff uncertainties related to the US-China trade war will dissipate.

South Korea: The fresh data out this week will likely point to a further growth slowdown in 1Q. Industrial production is projected to decline -0.5% YoY in February, compared to 0.1% in January. This will mirror the deterioration in exports (-11.1% vs -5.9%) and manufacturing PMI (47.2 vs 48.3) during the same month. Domestic demand may have started to improve slightly, but not enough to offset the drag from the external sector. Consumer confidence rose by 2 points to 99.5 in February, thanks to the easing of supply-side inflation and the recovery in stock market, but still below the neutral level of 100.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).