LONG BEACH, California: In this photo taken on August 1, 2019, the US flag flies over a container ship unloading its cargo from Asia at the port of Long Beach. — AFP

US economists see recession in 2020 or 2021

Trump pushes back as raft of data shows mixed picture on American economy

WASHINGTON: A majority of economists expect a US recession in the next two years, but have pushed back the onset amid Federal Reserve actions, according to a survey released yesterday. The survey came out after President Donald Trump pushed back against talk of a looming recession as a raft of US data reports last week showed a mixed picture on the economy. "I'm prepared for everything. I don't think we're having a recession. We're doing tremendously well. Our consumers are rich," Trump told reporters Sunday. "I gave a tremendous tax cut, and they're loaded up with money. They're buying. I saw the Wal-Mart numbers, they were through the roof," he said.

"And most economists actually say that we're not going to have a recession. But the rest of the world is not doing well like we're doing." His chief economic advisor Larry Kudlow also downplayed talk of a recession. "I sure don't see a recession," he told NBC's Meet the Press. "Consumers are working at higher wages. They are spending at a rapid pace. They're actually saving also while they're spending... So I think actually the second half, the economy's going to be very good in 2019," he said. "We're doing pretty darn well in my judgment. Let's not be afraid of optimism." The National Association for Business Economists (NABE) found far fewer experts now think the next recession will start this year compared to a survey in February. NABE conducted its policy poll as Trump put the Fed under constant attack, demanding more stimulus, but before the central bank cut the benchmark lending rate on July 31.

However, the Fed was already sending strong signals that it intended to pull back on the rate increases made in 2018 due to concerns starting to dog the economic outlook, including the trade war.

Trade war skepticism

"Survey respondents indicate that the expansion will be extended by the shift in monetary policy," said NABE president Constance Hunter, who is chief economist at KPMG. Only two percent of the 226 respondents now see a recession this year, compared to 10 percent in February's survey, NABE said. However, "the panel is split regarding whether the downturn will hit in 2020 or 2021," Hunter said in a summary of the survey, which showed 38 percent expect a contraction of growth next year, while 34 percent don't see it until the following year. More economists shifted their recession prediction to 2021, narrowing the gap from the prior report, which had many more expecting the change next year.

The results show 46 percent expect at least one more rate cut this year from the Fed, while about a third see policy holding where it is now, with 2.25 percent as the top end of the policy range. Economists are skeptical about a resolution to Trump's trade wars, although 64 percent said a "superficial agreement is possible," NABE said. But that was before Trump announced another round of tariffs of 10 percent on the remaining $300 billion in goods not yet hit by US punitive duties. The new measures will take effect in two stages, on September 1 and December 15.

As Trump continues his vocal campaign criticizing the Fed, the NABE survey found economists are concerned about the impact: 55 percent said his remarks do not influence Fed decisions but do "compromise the public's trust in the central bank." And over a quarter of respondents said the criticism will "cause the Fed to be more dovish than otherwise, thus threatening its independence." The survey also asked about fiscal policy, and a majority of economists said Trump's tax cuts "had an overall negative impact on housing activity over the past 18 months," due to changes in deductions allowed for mortgage interest. — AFP

Hedge funds sell oil as global economy slows

LONDON: Hedge funds cut their bullish positions in petroleum last week for the second week running as anxiety about the slowing global economy and oil consumption trumped optimism over production restraint by OPEC and its allies. Hedge funds and other money managers reduced their net long position in the six major petroleum futures and options contracts by 35 million barrels in the week to Aug. 13, having cut it by 25 million barrels the previous week.

Portfolio managers last week sold Brent (37 million barrels), US gasoline (15 million), US heating oil (9 million) and European gasoil (4 million) as the consumption outlook deteriorated.

By contrast, funds bought NYMEX and ICE WTI (30 million barrels) as new pipelines from the Permian Basin to the coast reduced congestion near the oilfields and supported local prices. Overall, fund managers have cut their net long position in the six major contracts to only 543 million barrels, down from a recent peak of 911 million in April and the lowest total since June and before that February.

If "structural" long and short positions (minimum levels of long and short positions, which never change) are excluded from the analysis, fund managers are running a dynamic net long of only 52 million barrels. The hedge fund community now holds a basically neutral position on petroleum prices, with the global economy replacing US sanctions against Iran and Venezuela as the dominant theme this year.

Falling oil prices have prompted Saudi Arabia and its allies in the OPEC+ group to extend their production restraint until at least the end of the first quarter of 2020. Low prices are also forcing a slowdown in the drilling and completion of new wells in the US shale fields, which should eventually result in slower production growth. But consumption growth is decelerating even more quickly, with most major advanced economies and emerging markets now either in recession or on the brink of it.

From a positioning perspective, the balance of risks has probably shifted to the upside, with plenty of room for hedge fund managers to add more bullish long positions and cover existing bearish shorts.

From a fundamental perspective, however, the balance of risks remains tilted to the downside, with the global economy losing momentum and oil consumption growth slackening. If positive news emerges about the economy, oil prices are primed to rally, but such news is sparse and prices remain under pressure. — Reuters

Germany warns of possible recession, mulls stimulus

FRANKFURT: The German economy could enter a recession in the third quarter, the Bundesbank warned yesterday, as the debate on government measures to support the economy swelled in Berlin.

"The economy could contract again slightly" this summer, Germany's central bank said in its monthly report, following a 0.1-percent decline in gross domestic product (GDP) in the second quarter.

"According to data currently available, industrial production is expected to shrink markedly in the current quarter as well." Having seen a decline in trade against the backdrop of the trade war, two of its main customers, Europe's biggest economy will enter what it technically defines as a recession should GDP shrink further. Alarmist signals are reviving the political debate between those who support the German government's dogma of balanced budgets and those seeking more flexibility in order to revive the economy.

Germany can afford it on paper after five consecutive years of budget surpluses and interest rates for long-term loans that are extremely attractive to the federal government.

As trade tensions intensify, economists have urged Berlin to fork out cash to avoid a recession, but Chancellor Angela Merkel's government has previously said things were not yet bad enough to warrant loosening the purse strings.

Balanced budget

Citing anonymous sources, Der Spiegel news magazine said Friday that the government "had no intention of continuing to set aside money in the event of a recession". That would mean abandoning the so-called "black zero" doctrine committing the German state to a balanced budget.

On Sunday, German Finance Minister Olaf Scholz hinted at a potential intervention, stating that Germany could "fully face up to" a new economic crisis. "It is sometimes important, when things change completely, for example, for us to have enough strength to react," he said during an open house day at government offices. "If we have debt in Germany that is less than 60 percent of our GDP, that is the strength we need to stand up to a crisis," he added.—AFP