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HANOI: A garment factory making men's suits in a factory in Hanoi. The odds of a US recession by next year have increased sharply, with mounting protectionism continuing to pose the greatest economic threat, according to a business economic survey yesterday. —AFP

US recession odds jump amid trade war jitters

Global recession fears grow as factory activity shrinks

WASHINGTON: The odds of a US recession by next year have increased sharply, with mounting protectionism continuing to pose the greatest economic threat, according to a business economic survey yesterday.

Nearly all the respondents to the quarterly survey from the National Association for Business Economics predicted growth would slow in 2019 but were moderately less gloomy about the risks to their outlook. However, the poll of 53 economic forecasters from major US corporations and universities was conducted in the first half of May, just as US trade relations with China took a sudden turn for the worse but before US President Donald Trump's latest threat to impose new tariffs on Mexico in a dispute over migration starting at five percent and quickly increasing to 25 percent.

"Increased trade protectionism is considered the primary downside risk to growth by a majority of respondents, followed by financial market strains and a global growth slowdown," Gregory Daco of Oxford Economics, who chaired the survey, said in the report.

"Recession risks are perceived to be low in the near term but to rise rapidly in 2020."

The panelists put the odds at 60 percent for a US recession before the end of 2020 — nearly double the 35 percent forecast in the survey three months ago. Nearly 90 percent of respondents said they had cut their growth forecasts in recent months due to US trade policy, which has involved battles with all major US trading partners, but even so the overall consensus for this year and next are a bit higher than the last survey.

Panelists now expect GDP growth to fall to 2.6 percent this year and 2.1 percent by next year, from 2.9 percent at the end of 2018. Most, or 60 percent, said the balance of risks was weighted to the downside but this was down from 74 percent in the previous survey.

Global tensions

Meanwhile, factory activity contracted across Asia and Europe last month as an escalating trade war between Washington and Beijing raised fears of a global economic downturn and heaped pressure on policymakers to roll out more stimulus. Such growth indicators are likely to deteriorate further in coming months as higher trade tariffs take their toll on global commerce and further dent business and consumer sentiment, leading to job losses and delays in investment decisions.

Some economists predict a world recession and a renewed race to the bottom on interest rates if trade tensions fail to ease at a Group of 20 summit in Osaka, Japan at the end of June, when presidents Donald Trump and Xi Jinping could meet. The US-China trade war, slumping automotive demand, Brexit and wider geopolitical uncertainty took their toll on manufacturing activity in the euro zone last month. It contracted for a fourth month in May - and at a faster pace.

"The additional shock from the escalated trade tensions is not going to be good for global trade. In terms of the monetary policy response, almost everywhere the race is going to be to the downside," said Aidan Yao, senior emerging markets economist at AXA Investment Managers.

IHS Markit's May final manufacturing Purchasing Managers' Index for the euro zone was 47.7, below April's level and only just above a six-year low in March.

In Britain, the Brexit stockpiling boom of early 2019 gave way last month to the steepest downturn in British manufacturing in almost three years as new orders dried up, boding ill for economic growth in the second quarter. After an official gauge on Friday showed contraction in China, Asia's economic heartbeat, the Caixin/IHS Markit Manufacturing PMI showed modest expansion, offering investors some near-term relief.

The outlook, however, remained grim as output growth slipped, factory prices stalled and businesses were the least optimistic on production since the survey series began in April 2012.

Central banks in Australia and India are expected to cut rates this week, with others around the world are seen following suit in coming weeks and months.

Meanwhile, yesterday's survey adds to evidence that the euro zone economy is under pressure and will likely be of concern to policymakers at the European Central Bank, who have already raised the prospect of further support. There is little likelihood of them hiking interest rates before 2021, according to economists in a Reuters poll last week. They said the bank's next policy move would be to tweak its forward guidance towards more accommodation.

Recession fears

The trade conflict between China and the United States escalated last month when Trump raised tariffs on some Chinese imports to 25 percent from 10 percent and threatened levies on all Chinese goods.

If that were to happen, and China were to retaliate, "we could end up in a (global) recession in three quarters", said Chetan Ahya, global head of economics at Morgan Stanley. Washington's new tariff threats against Mexico last week also contributed to global recession fears, with stock markets tumbling around the world. —Agencies

Stock markets extend drop, oil recovers

LONDON: Stock markets fell further yesterday but oil recovered, with investors opting for haven assets such as the yen amid intensifying trade tensions. The British pound rose despite data showing that UK manufacturing contracted for the first time in three years as Brexit stockpiling dried up.

"Global (stock) markets are kicking off a new week in a similar vein as the week just gone, with another bout of selling taking hold amid a ramp-up in trade war fears," noted Joshua Mahony, senior market analyst at IG trading group. US President Donald Trump's abrupt threat last week to hit Mexico with tariffs over immigration concerns has done little to reassure investors already anxious about the increasingly fractious US-China trade war.

Trump, beginning a state visit to Britain yesterday, has followed up the threats against Mexico with an announcement that Washington would no longer offer preferential trade treatment to India, starting Wednesday, in a bid to pressure New Delhi to increase market access for US goods.

Beijing's imposition of duties on $60 billion worth of US goods meanwhile came into effect Saturday. The move, which came in retaliation for Washington raising its tariffs on $200 billion in Chinese goods, is the latest round in a bruising battle between the two superpowers.

Referring to "the never-ending game of tariff tag", OANDA senior market analyst Edward Moya said there were fears "we could see a global recession by the middle of next year if the US imposes additional tariffs on China and Mexico". As US-China talks have stalled, the dispute has spread beyond trade, with the US targeting Chinese tech giant Huawei over national security concerns, and Beijing threatening to also identify "unreliable" foreign companies.

In a sign of its unwillingness to cede too much ground, Chinese defense minister General Wei Fenghe on Sunday said that "if the US wants to talk, we will keep the door open. If they want to fight, we are ready". There are hopes that Trump and Chinese President Xi Jinping will meet during the G20 summit this month to jumpstart negotiations.

Trump's trade wars have also sent oil markets plunging, but crude futures did rebound slightly yesterday. "The month of May was a disaster for crude prices-the worst May performance in seven years-as the escalation of the global trade war saw the global growth outlook crumble," said analyst Moya.

Elsewhere yesterday, the IHS Markit/CIPS UK manufacturing purchasing managers' index showed a reading of 49.4 last month, down from 53.1 in April. The figure slid below 50 — therefore indicating contraction-for the first time since July 2016. "The upshot is that as most of impact of the no-deal Brexit preparations in March appear to have now unwound, we don't expect May's large fall to be repeated in June," said Thomas Pugh, UK economist at Capital Economics.

"However... a sharp rebound also seems unlikely. As a result, the manufacturing sector is likely to be a drag on (British) GDP growth for some time yet." —AFP

TOKYO: Pedestrians are reflected on an electronics stock indicator at the window of a securities company in Tokyo yesterday. —AFP