Financial Uncertainty

**Atlanta economists weigh in on recession: will there be or won't there be?**

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While most economists don’t think a recession is certain, flagging business investments, a trade war with China and resulting uncertainty will reduce economic growth over the coming year, many agree.

“Right now, we are not in recession, but I put the odds of recession beginning sometime between now and December 2020 at 50 percent,” said Jeff Humphreys, director of the Selig Center for Economic Growth at University of Georgia. “My baseline forecast is for a continuation of the late-stage economic expansion through 2020 – albeit with a dramatic slowdown in growth. The 2020 economy will come very close to stalling out.”

The numbers bear out that prediction. Overall, GDP growth will be 2.3% in 2019, drop to 1.7% in 2020 and rise by 2% in 2021, according to the Economic Forecasting Center at Georgia State University’s J. Mack Robinson College of Business.

The U.S. is in an economic expansion that has lasted more than 10 years, the longest since record keeping began in 1854, according to the National Bureau of Economic Research.
The trade war between the U.S., and China and sometimes other nations, has some economists seeing increasing danger of a new, if relatively mild, recession on the horizon.

The most economically damaging effect of the trade war is heightened uncertainty, not the tariffs themselves, said Roger Tutterow, director of the Econometric Center and professor of economics at Kennesaw State University.

President Trump is “trying to be very strategic about forcing China to make concessions broadly with regard to trade policy,” he said, adding that the administration's chaotic approach to trade has raised concerns in corporate boardrooms and a high level of uncertainty among corporate leaders.

The approach “lowers confidence much more than if President Trump had taken a more orderly and predictable approach toward revising international trade policies, especially among business leaders, which in turn lowers businesses' investment spending and net hiring,” said Humphreys.

Georgia is likely to suffer from the effects of a prolonged trade war, local economists said, as major sectors of the state’s economy such as agriculture, transportation and distribution, would be hit.

Even if the economy does not slip into recession, growth is slowing, and manufacturing is likely to see job losses next year.

Signs of a slowing economy are being projected by GSU’s Economic Forecasting Center, which notes that business investment growth will be 2.9% in 2019, fall to 1.7% in 2020 but then rise to 3.2% in 2021. Hiring is also projected to slow, with monthly job gains at 153,000 in 2019 dropping to 118,600 in 2020 and 116,900 new monthly jobs in 2021, according to the report.

“If we go into recession, the job losses would be more widespread across industries,” said Humphreys, adding that manufacturing would likely be one of the worst hit of the non-agricultural sectors. “Because of the nature of this trade war, agriculture is already in recession.”

As corporate investment has flagged, consumers have continued spending.
“There doesn't seem to be a problem with the consumer balance sheet,” said Georgia Tech economist Parks Dodd. “They haven't run up too many debts. Everybody's looking for financial imbalance and the only one people can point to is student loans, that have increased tremendously over the last several years.”

Consumer spending could slow, however, if people start believing a recession is coming. The stock market almost went into a bear market last December, meaning a 20% drop from the previous peak, said Rajeev Dhawan, director of the Economic Forecasting Center.

“People react much more quickly, and much more decisively to what happens to their 401(k). When people start losing money in their 401(k)s like that, it's not surprising that the Christmas season and the early spring look pretty weak on sales, until the market recovered all those losses,” he said. “There are different reasons for why the markets fluctuate, but the end result is that companies are pulling back from investment.”

What are the warning signs of a recession?

One is when the U.S. unemployment rate jumps by 0.3% or more within a three-to-four-month period, prompting a decline in consumer confidence. A vicious cycle begins that can quickly lead to recession, according to Humphreys.

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