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Why Is Everyone Predicting a Recession?

More and more real estate professionals are predicting a recession in the next 12 months, but Beacon Economics says there is no downturn in sight.

By Kelsi Maree Borland | March 27, 2019

(https://images.globest.com/contrib/content/uploads/sites/311/2019/03/christhornberg.jpg)Economic sentiment is shifting. This year, more and more real estate professionals are predicting a recession in the next 12 months, either in late 2019 or early 2020. **Christopher Thornberg** of **Beacon Economics**, however, says that there is no recession in sight. While he predicts slowing economic growth, he also there are no imbalances that could trigger a recession in the near future.

“This year, the chance of a recession is zero. Next year, there is a small chance. Something could pop up over the year, but I have no idea what that would be. Every recession has a cause, and that cause has to be a large shock to the system. It has to be large; it has to be rapid; and it has to be sustained: a collapsing housing market; collapsing investment in the business sector; collapsing consumer spending,” Thornberg, a founding partner at Beacon Economics, tells GlobeSt.com. “For anyone who thinks the economy is about to go into a recession, my question for them is, ‘why do you think that, and what is worrying you?’ I look through the range of indicators and study them on a regular basis, and not one of these things is flashing warning.”

Thornberg doesn’t know why so many people are predicting a recession; however, he has gotten used to the discussion. People have been predicting a recession for several years now. “This has been happening for the last couple of years. First, there were concerns about the Fed clamping down on leading,” he says. “That was followed by an interruption in Chinese capital, and last but not least, you had moderately rising interest rates. All of those things slowed commercial real estate activity, but at the beginning of this year, it has started to pick back up.”

Among the concerns of those predicting a downturn are disputes with China, instability in the housing market and corporate debt levels. “People talk about China, but there is no issue with China,” says Thornberg. “Not only will issues with China not cause a recession, it won’t even cause our economy to slow down. That is because China cares about volume. We slapped a 10% tariff on products and the Yuan depreciated by 15% with no change in prices. They are willing to sacrifice prices to maintain volume.”

While home sales have slowed and there are affordability challenges in some markets, the housing market isn’t unstable—it is under supplied. “Housing slowed a bit, but where is the imbalance? The credit markets are clean and there is no excess supply,” adds Thornberg. “If anything, markets are still tight, and interest rates have dropped again.”

Some economists have pointed to the corporate debt levels as a potential trigger for a downturn. Thornberg rejects at the suggestion. “Corporate debt levels as a percent of GDP have been growing at a low linear trend for 30 years,” he says. “There is nothing in the corporate debt arena that would worry me. It is still much lower than financial sector debt and lower than consumer debt.”

This isn’t to say that Thornberg doesn’t have pressure points. The first is the high-yield debt markets. “There are people taking a lot of risk in high-yield debt in particular,” he says. “They are taking risks, but those risks don’t create a risk in economic expansion. When the economic expansion comes to an end, those risks could create additional harm in the context of a recession, but they will not create a recession on their own.”

His second pressure point is the non-bank lending market. While this market has grown, it isn’t enough to trigger a downturn. “The Federal Reserve has restrained bank lending so much that you are starting to see the proliferation of non-bank lending,” says Thornberg. “The lending market outside of the traditional financial sector is expanding, and that scares me because those are not regulated sectors. Bad things happen in parts of the financial market that aren’t well regulated. We saw that in 1998 through 2000 and we saw that clearly in 2004 to 2007. I don’t think it is threatening the current expansion, but I am starting to see inklings of excess.”

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