Analyst: trade dispute could lead to recession in US

burl.cc/54VwdL

People walk along the Venice Beach boardwalk in Los Angeles, California, the United States, Sept 6, 2010. [Photo/IC]

Bank economist says a US downturn due to China trade war is not an "alarmist" prognosis

The ongoing trade dispute with China could tip the US economy into a recession in less than a year, an analyst at investment bank Morgan Stanley believes.

US President Donald Trump last month raised tariffs on Chinese imports valued at $200 billion to 25 percent from 10 percent and threatened to impose tariffs on another $300 billion worth of goods.

China responded by imposing tariffs totaling $60 billion on US goods. The tit-for-tat between the world's two largest economies has disrupted markets for cars, technology, consumer electronics, clothing and farming.

"We could end up in a recession in three quarters," Chetan Ahya, the investment bank's chief economist, said in a research note. "Is such a prognosis alarmist? We think otherwise."

The Duke University Global Business Outlook found that 48.1 percent of US chief financial officers expect the US will be in a recession by the middle of next year or by the end of 2020.

Manufacturing activity slowed in the US, Europe and Asia in May, as the trade dispute between Washington and Beijing continued.

A recession could come just as the US presidential election is heating up and could damage Trump's re-election prospects.

Gao Feng, spokesman for the Chinese Ministry of Commerce, said in Beijing that the continuing trade standoff "could cause a recession in the United States and global economies".

Christine Lagarde, International Monetary Fund (IMF) managing director, said the IMF does not now see the threat of a global recession sparked by trade dispute. Instead, she said growth will slow, but the world economy won't slide into a recession.

Usha Haley, the W. Frank Barton Distinguished Chair in International Business and a professor of management at Wichita State University who specializes in China, called talk of a recession sparked by the trade dispute is "apocalyptic".

"There might be a recession simply because it's time," Haley told China Daily. "The current strong economy is about 10 years old, and historically, a boom is followed by a downturn. The trade dispute with China creates uncertainty, and that doesn't help because it disrupts long-range planning. The underlying principles of the US economy are OK, but need structural adjustment."

The current economic boom began in June 2009 and is 10 years old. While US economic fundamentals remain strong, growth is slowing.

The US economy added 75,000 jobs in May, for the 104th consecutive month of employment gains, but hiring dipped. Analysts expected companies to add 180,000 jobs last month, but employers hired only 41.6 percent of the anticipated total.

Nevertheless, the nation's unemployment rate remained unchanged at 3.6 percent, a 50-year low, and wages remained strong as companies competed to attract and retain employees.

The US economy roared between 1991 and 2001, driven by explosive growth of the internet, rising productivity and strong growth across diverse sectors. Employers found it difficult to hire qualified employees needed to expand, driving up wages.

The market rose to new highs, creating a bubble in technology stocks. When the bubble of overpriced stocks burst, a recession followed in about a year.

The economy boomed between 1982 and 1990 after the Federal Reserve tamed runaway inflation with the highest interest rates in history. US President Ronald Reagan cut taxes, spurring growth. But Iraq's invasion of Kuwait in August 1990 led to a spike in oil prices that helped to bring on a short recession.

Goldman Sachs believes the current US-China trade imbroglio is similar to the US-Japan trade dispute in the 1980s.

"Back then, targeted trade actions failed to significantly reduce the US-Japan trade imbalance," Michael Cahill wrote in a research report. "Under growing bipartisan support, the US pushed Japan to take more sweeping action such as pledging to increase imports, and significantly cut its trade surplus, or potentially face a 25 percent tariff on all its imports."

The result was the Plaza Accord reached in September 1985.

The deal sought to correct the trade imbalance between the US, Japan and Germany. Between 1980 and 1985, the US dollar rose by more than 50 percent against the yen, deutsche mark, franc and British pound as the US economy boomed and the value of the dollar rose, making US exports more expensive.

The Plaza Accord, named for the New York hotel where the deal was signed, allowed the dollar to decline by more than 50 percent against the yen and the deutsche mark by the end of 1987, making US exports more affordable.

"I think it's in the best interest of China and the US to reach a trade agreement — and I think they will," Haley said.