The COMMUNITY COLLEGE UPDATE

Volume 39 **For Publication Date: March 22, 2019** **No. 6**

UCLA Forecasters See Risks of Recession in Late 2020

Economists with the *UCLA Anderson Forecast* see a slowing U.S. economy and a rising risk of recession as the effects of the federal stimulus wane and the global economy sputters. In their quarterly report on the U.S. and California economies, released on March 12, 2019, the UCLA group held to their prior view that the national economy would follow a "3-2-1" path, meaning 3% growth in gross domestic product (GDP) in 2018, 2% growth in 2019, and 1% growth in 2020. As GDP growth slows, the risk of recession rises.

In his presentation, Senior Economist David Shulman indicated that there is a high risk of recession in late 2020 due in large part to slowing global growth. Shulman noted that while the U.S. enjoyed GDP growth at just under 3% in 2018, Euro Zone countries grew at 1.8% in 2018 and the forecast is for growth to slow to 1.2% in 2019. Similarly, growth in Japan hovers around 1% for 2018 and 2019 and is expected to drop to 0.5% in 2020. China, while continuing to outpace all other countries, is also expected to slow from 6.6% growth in 2018 to 6.2% growth in both 2019 and 2020. (Shulman pointed out that studies suggest that China's reported growth rates are probably overstated by 1.7 percentage points.)

The UCLA forecasters had previously predicted that the Federal Reserve (Fed) would raise interest rates three or four times in 2019; however, based on the global slowdown, they have revised their outlook and now expect only one Fed rate hike in 2019 and two or three rate reductions in 2020 to address a slowing U.S. economy.

Providing further evidence of the weakness in global economies, Shulman noted that interest rates on two-year bonds in Germany, Japan, and France are negative. The rate on two-year bonds in the U.S. is 2.5% as of February 22, 2019.

As a result of the federal tax cuts in December 2017, the federal deficit is expected to top $1 trillion this year. It had fallen to just under $600 billion in 2015, from over $1.2 trillion in 2011 at the depth of the Great Recession. Similarly, despite higher tariffs on imported goods, the trade deficit is expected to top $1 trillion in 2019 as well. Both the federal deficit and the trade deficit are expected to exceed $1 trillion "as far as the eye can see."

Countering these negative developments, Shulman indicated that spending on intellectual property—software development, motion picture/TV production, and corporate research and development—will continue to contribute to GDP growth. Growth in this area was 7% in 2018, and while not likely to maintain this "torrid pace" in 2019, growth over the next several years is still expected to be well above the growth of the economy as a whole.

The outlook for California usually follows the path of the U.S. economy, and Jerry Nickelsburg, the Director of the *Anderson Forecast*, indicated that this relationship would hold through their three-year forecast horizon. Nickelsburg indicated that total employment growth in California would slow from 1.3% in 2019 to 0.6% in 2020 and 0.5% in 2021. Similarly, real personal income growth is also expected to slow: 3.2% in 2019, 1.8% in 2020, and 1.6% in 2021.