

Is Krugman right?

Nobel Laureate, Paul Krugman, sees some chance of a global recession late this year or next, but Monetary Authority of Singapore (MAS) Managing Director, Ravi Menon, sounds more relaxed - where do we stand?



Global Recession possibility

Paul Krugman has been quoted recently as saying that there is some chance of a global recession late this year or next.

There is no widely accessible global recession indicator. But there are such indicators for the US, from which, most of the global business cycle usually starts and ends. One readily available indicator, the NY Fed index, has a recession in 12 months probability running at a 23.62%. That sounds a bit elevated, but not quite ringing alarm bells.

That said, this index has almost never risen from a lower level to reach this point, without then going on to register higher probabilities and in due course a recession. False signals are extremely rare. That is concerning.

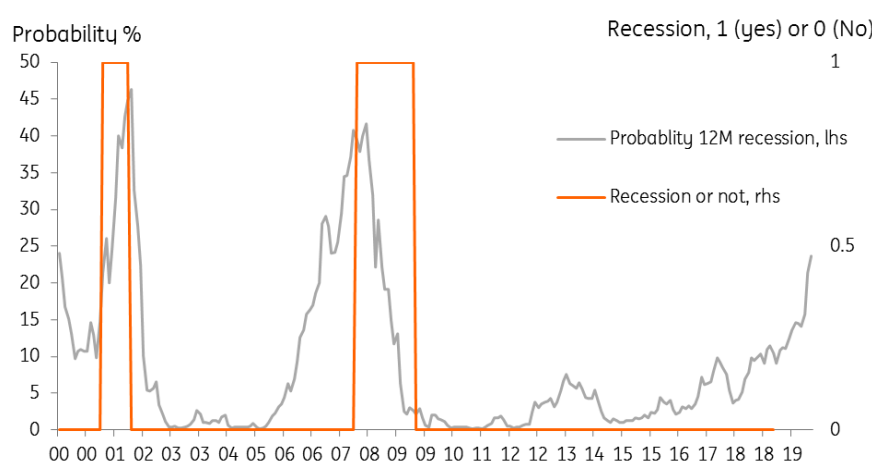
As for a global recession, this is harder to define, with no widely accepted definition. The IMF has a rather complicated definition, involving declining Purchasing Power Parity (PPP) based per-capita GDP backed up by one of seven other indicators including oil consumption and per capita

consumption amongst others. But for most of us, lacking the resources of the IMF, this isn't really all that helpful.

Perhaps a more accessible version is an older IMF definition, which backs out the global GDP growth rate from the per capita GDP cut-off, and suggests that a global recession happens when global growth falls below 3% per year. For the next several years, the IMF is forecasting global growth of just 3.6% to 3.7%. The buffer is small. Moreover, such forecasts tend to be a bit behind the curve. Have the IMF fully taken on board the effect of tariffs on China's exports and growth? Or the impact of the semiconductor cycle? US growth looks good for now, but some aspects of it suggest some slowdown this year and next, so is that baked firmly into the forecast? And Europe, it already looks slow and judging by business sentiment indicators, could slow further. India stands on the brink of a perilous standoff with Pakistan. Brexit may still happen badly ([see here for latest](#)). I could go on, but for the sake of brevity (and sanity), I won't.

In short, the 0.6% buffer does not look terribly large or very comforting.

US recession probability indicator



MAS MD, Menon, sounds relaxed about global prospects

Now before I describe what MAS Managing Director, Ravi Menon, had to say yesterday about the Singapore and Global economies, let's be clear about priorities. Mine, as a market / bank economist, are to look for things that are about to go horribly wrong, to provide a prior warning for our clients. Mr Menon's, are to preserve and foster economic and market confidence. We are bound to look at the world in a different way, and our conclusions, as a result, may differ widely for perfectly legitimate reasons.

Menon suggested, contrary to things we have said in this note, that there is no reason for (other) central banks (CBs) in Asia to ease rates, describing the hikes by some regional CB's last year as appropriate and sensible. I agree with the last bit, and the room for easing may be limited, and probably for later in the year, not now. But real rates in a number of Asian economies, Indonesia for one, Korea another, look high enough to offer domestic economies some support through possible future easing, and not just if external conditions worsen, as domestic conditions aren't looking too impressive in some economies either.

Menon also takes a different view than Krugman saying that the global economy isn't heading for

a hard landing in 2019. Adding that China's slowdown is enabling it to reach a more sustainable growth rate. I tend to share his conclusion, but I would be far more cautious about the hard landing outlook, You see, to me, this still seems like something that *could* happen, even if on balance I don't think it will. But then as mentioned earlier, my job is to highlight risks, not to calm nerves.

As far as Singapore goes, Mr Menon was similarly upbeat, though there was just the hint of a door being opened for future changes in policy direction (next MAS meeting is in April) as he is quoted on Bloomberg as saying that although there is no need for stimulus if the economy evolves as expected in line with MAS forecast ranges "two months is a long time, so we'll see how it looks like then". That may be the most significant comment of the lot.

The SGD is a little softer overnight. The MAS decision in April is unlikely to show a change in the NEER policy, but I would say the risks of an easing grew a very small amount following these remarks.

Bank of Korea - probably won't ease, but should they?

A weak domestic economy, very low inflation, external headwinds - all of these are ingredients for a rate cut from the Bank of Korea (BoK) today. Yet not a single economist in the Bloomberg consensus thinks there will be a cut. Why? Probably for similar reasons as Mr Menon cited earlier for other Asian central banks. Though that time may well come later this year. We all wait with bated breath on developments between the US and China on trade. The possibility of auto tariffs would also seriously affect Korea's stumbling economy. A rate cut later this year might well be on the cards and would be entirely warranted if it came under such circumstances, in my view.

Asia Day ahead

From Prakash Sakpal:

India is the last Asian country to report GDP data for 4Q18 today. We expect it to join the majority of regional countries in posting slower growth, and consider consensus estimate of 6.8% YoY GDP growth subject to downside risk from a slowdown in exports and manufacturing (ING forecast 6.6%). The escalation of border tensions with Pakistan overshadows the economy and markets. The INR has depreciated 0.6% since the tensions started with the terror attack on 14 February and it is down 2.1% year-to-date, the most among Asian currencies. There are no reasons for the depreciation pressure to ease as the tensions will likely remain a burning issue going into elections in May.

Thailand's balance of payments data for January is expected to show a sharp negative swing in the current account balance, just like we saw from the customs-basis trade balance, which plunged to a deficit of \$4 billion in the last month from \$1.1 billion surplus in December. Having dropped to 7.5% of GDP in 2018 from 11% in the previous year, we forecast that the current surplus will shrink further to 4.5% in 2019. Yet it remains a strong support for the Thai baht, Asia's best-performer currency last year and remains so this year (see "[Thailand: Steady economy amid political risk](#)").

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michieltukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com