Opinion | 11 February 2019

Nouriel Roubini: A Mixed Economic Bag in 2019

Since the global synchronized growth of 2017, economic conditions have been gradually weakening and will produce an across-the-board deceleration in the months ahead. Beyond that, the prospect for markets and national economies will depend on a broad range of factors, some of which do not bode well, writes Nouriel Roubini

Nouriel Roubini

Slowdown but no recession

After the synchronized global economic expansion of 2017 came the asynchronous growth of 2018, when most countries other than the United States started to experience slowdowns. Worries about US inflation, the US Federal Reserve's policy trajectory, ongoing trade wars, Italian budget and debt woes, China's slowdown, and emerging-market fragilities led to a sharp fall in global equity markets toward the end of the year.

The good news at the start of 2019 is that the risk of an outright global recession is low. The bad news is that we are heading into a year of synchronized global deceleration; growth will fall toward – and, in some cases, below – potential in most regions.

To be sure, the year started with a rally in risky assets (US and global equities) after the bloodbath of the last quarter of 2018, when worries about Fed interest-rate hikes and about Chinese and US growth tanked many markets. Since then, the Fed has pivoted toward renewed dovishness, the US has maintained solid growth, and China's macroeconomic easing has shown some promise of containing the slowdown there.

Whether these relatively positive conditions last will depend on many factors.

The first thing to consider is the Fed. Markets are now pricing in the Fed's monetary-policy pause for the entire year, but the US labor market remains robust. Were wages to accelerate and produce even moderate inflation above 2%, fears of at least two more rate hikes this year would return, possibly shocking markets and leading to a tightening of financial conditions. That, in turn, will revive concerns about US growth.

Second, as the slowdown in China continues, the government's current mix of modest monetary, credit, and fiscal stimulus could prove inadequate, given the lack of private-sector confidence and high levels of overcapacity and leverage. If worries about a Chinese slowdown resurface, markets could be severely affected. On the other hand, a stabilization of growth would duly renew market confidence.

A related factor is trade. While an escalation of the Sino-American conflict would hamper global growth, a continuation of the current truce via a deal on trade would reassure markets, even as the two countries' geopolitical and technology rivalry continues to build over time.

Fourth, the eurozone is slowing down, and it remains to be seen whether it is heading toward lower potential growth or something worse. The outcome will be determined both by national-level variables – such as political developments in France, Italy, and Germany – and broader regional and global factors. Obviously, a "hard" Brexit would negatively affect business and investor confidence in the United Kingdom and the European Union alike.

US President Donald Trump extending his trade war to the European automotive sector would severely undercut growth across the EU, not just in Germany.

Finally, much will depend on how Eurosceptic parties fare in the European Parliament elections this May. And that, in turn, will add to the uncertainties surrounding European Central Bank President Mario Draghi's successor and the future of eurozone monetary policy.

Fifth, America's dysfunctional domestic politics could add to uncertainties globally. The recent government shutdown suggests that every upcoming negotiation over the budget and the debt ceiling will turn into a partisan war of attrition. An expected report from the special counsel, Robert Mueller, may or may not lead to impeachment proceedings against Trump. And by the end of the year, the fiscal stimulus from the Republican tax cuts will become a fiscal drag, possibly weakening growth.

Sixth, equity markets in the US and elsewhere are still overvalued, even after the recent correction. As wage costs rise, weaker US earnings and profit margins in the coming months could be an unwelcome surprise. With highly indebted firms facing the possibility of rising short- and long-term borrowing costs, and with many tech stocks in need of further corrections, the danger of another risk-off episode and market correction can't be ruled out.

Seventh, oil prices may be driven down by a coming supply glut, owing to shale production in the US, a potential regime change in Venezuela (leading to expectations of greater production over time), and failures by OPEC countries to cooperate with one another to constrain output. While low oil prices are good for consumers, they tend to weaken US stocks and markets in oil-exporting economies, raising concerns about corporate defaults in the energy and related sectors (as happened in early 2016).

Finally, the outlook for many emerging-market economies will depend on the aforementioned global uncertainties. The chief risks include slowdowns in the US or China, higher US inflation and a subsequent tightening by the Fed, trade wars, a stronger dollar, and falling oil and commodity prices.

Silver lining

Though there is a cloud over the global economy, the silver lining is that it has made the major central banks more dovish, starting with the Fed and the People's Bank of China, and quickly followed by the European Central Bank, the Bank of England, the Bank of Japan, and others. Still, the fact that most central banks are in a highly accommodative position means that there is little room for additional monetary easing. And even if fiscal policy wasn't constrained in most regions of the world, stimulus tends to come only after a growth stall is already underway, and usually with a significant lag.

There may be enough positive factors to make this a relatively decent, if mediocre, year for the global economy. But if some of the negative scenarios outlined above materialize, the synchronized slowdown of 2019 could lead to a global growth stall and sharp market downturn in 2020.

This article was published on Project Syndicate on 8 February 2019

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@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
michiel.tukker@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.schroder@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