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Is the United States Headed for Recession in 2019?

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Investors know stocks often stumble during economic recessions, so it's no surprise we are frequently asked if a US recession is likely in 2019. The good news is that the economy is expected to continue to grow this year, making it the longest economic expansion in US history. At some point we will have another recession, but most indicators don't suggest one is imminent. Let's examine the current economic climate and the reasons we don't think a recession is likely in the near term.

A recession usually occurs as a part of the regular business cycle where the economy overheats, causing the Federal Reserve to raise interest rates to stifle inflation. Unfortunately, this can also lead to slower growth as businesses cut back investments and consumers reduce spending.

But that's not occurring right now. In fact, four sectors of our economy that are the most volatile and can help tip the economy into a recession are behaving relatively well:

- The housing market doesn't look overbuilt; while home buying slowed in late 2018 following a rise in interest rates, it is not in trouble.
- Businesses did not significantly increase their investments in plants and equipment following the 2018 federal tax cuts. Instead, they used much of their tax savings to purchase their own stock, so there shouldn't be a large drop in spending on business investment.
- Automobile sales have recovered significantly from the lows during the last recession, and sales have been steady. Total US car and truck sales in 2018 were nearly 17.3 million units, up slightly from the previous year.
- Finally, business inventories are not overbuilt. Many companies have much better management systems in place now compared to the past, which allows them to better control spending on inventories.

While these sectors look relatively healthy, consumer spending is the key to any economic downturn. And consumers, which account for roughly two-thirds of US economy, appear to be in pretty good shape.

Jobs are plentiful and wages have been rising. Inflation has been stable for 10 years, which is keeping prices low for consumer goods.

To help assess the chances of a recession, we also monitor a variety of economic indicators that can help predict trouble spots in the economy. So far, there doesn't seem to be cause for serious alarm.

For example, the New York Federal Reserve Bank has developed a computer model that predicts the risk of a recession. Currently, this model shows that risk levels are not near those that preceded previous recessions.

We're also watching the Housing Market Index (HMI), a monthly survey of home builders that is designed to take the pulse of the single-family housing market. While home building slowed late in 2018 following a rise in mortgage interest rates, there are some encouraging signs. Some home builders recently reported that demand is picking up, and the Fed's decision to pause further rate increases should help keep mortgage rates low.

While the U.S. economy is slowing, the economy doesn't seem headed for a recession in the near term.

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