

Top Bank Economists Downgrade US Economic Growth

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By Paul Bergeron

The relative COVID-19 containment the world was experiencing at the start of the year had many bank industry economists forecasting an above-trend growth forecast for the US economy.

But developments such as the reemergence of supply chain issues from Russia's invasion of Ukraine, another pandemic wave in Asia, compounding persistently high inflation and the resulting aggressive Federal Reserve response has forced most to dial that optimism back.

American Bankers Association's Economic Advisory Committee chair Richard DeKaser, chief corporate economist at Wells Fargo & Co., now says the US economy will continue to expand through 2024, but at a slower pace than its long-term potential.

The committee's forecast, issued last week, said a 13-member panel expects inflation to gradually slow toward the Federal Reserve's objective of 2% over the next two years.

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Consumer Spending to the Rescue

The committee forecasts 1.6% inflation-adjusted growth this year (Q4 over Q4) and 1.5% in 2023, well below last year's 5.5% growth.

Strong consumer spending is expected to offset these headwinds, these economists representing the largest banks said.

It expects real consumer spending to rise 2.5% this year and 1.8% next year, supported by low unemployment and exceptional wealth gains over the previous few years.

"Unemployment remains low and job gains are expected to continue," said DeKaser. "Moreover, 2019, 2020 and 2021 were the highest three years on record for gains in inflation-adjusted wealth per household, which will provide a strong tailwind for the consumer economy."

According to the committee, the risks are biased to the downside and there is a 40% chance of recession next year. Over-tightening by the Federal Reserve, stubbornly elevated inflation, little resolution to supply chain problems, or a housing correction could tip the economy into a downturn.