Nearly half of US CFOs fear a 2019 recession

By Matt Egan, CNN Business

America's finance chiefs fear the economic expansion is nearly over.

Almost half (48.6%) of US chief financial officers believe the United States will be in recession by the end of next year, according to the Duke University/CFO Global Business Outlook survey released on Wednesday.

And 82% of CFOs surveyed by Duke believe that a recession will begin by the end of 2020.

"The end is near for the near-decade-long burst of global economic growth," Duke finance professor John Graham said in a statement.

The CFO survey's pessimism about 2019 will raise eyebrows because mainstream economists are still projecting steady, albeit slower, growth next year.

Wall Street has begun to sniff out an economic slowdown, evidenced by the wave of falling and extreme volatility infecting the stock market. The S&P 500, down 8%, is on track for its worst quarter since 2011. Banks, which are especially exposed to economic trouble, have plummeted.

Some economists are getting more worried, but few are calling for an imminent recession.

"That's a surprisingly high number, maybe even shockingly high," Ameriprise chief economist Russell Price told CNN Business of the Duke survey. "I'm not worried about a recession in 2019 unless it comes about due to a man-made situation."

Price said that the US economy is strong enough to avoid a recession next year unless the Federal Reserve makes a mistake by aggressively raising interest rates or the US-China trade war "deteriorates substantially."

Trade war, hiring worries

The Duke survey, taken on December 7 and featuring CFOs from 212 US companies, signaled finance chiefs are pessimistic about corporate earnings. CFOs are calling for 4.5% earnings growth over the next 12 months, down from nearly 13% as of September. Capital spending, hiring and revenue estimates were all downgraded.

After hitting an all-time high in the third quarter, US CFO optimism about the economy declined in this quarter's Duke survey. Not surprisingly, executives are nervous about America's workforce. The percentage of CFOs reporting difficulty hiring and retaining qualified employees rose to an all-time high. (The Duke CFO survey began in 1996.)

Companies were split on the impact of the trade situation. Half indicated trade conditions and tariffs will hurt them, while half expect the environment will help.

'Signs of cooling'

Mainstream economists say the odds of a 2019 recession have gone up, though they don't see it as the base case.

Last week, S&P Global Ratings warned "signs of cooling could be emerging" in the US economy. The credit ratings firm raised its odds of a recession in the next 12 months to a range of 15% to 20%, up from 10% to 15% in August.

"This cycle is either in -- or fast approaching -- its latter stages," S&P said.

JPMorgan Chase estimates that the odds of a 2019 recession, based on a combination of economic data and market signals, has climbed to 36%, up from 25% at the end of
September.

The economic expansion that began in June 2009 is the second-longest in American history, if it stays alive until July 2019 it would surpass the 1991-2001 boom as the longest expansion on record.

'Ominous' yield curve

The outlook for 2020 looks more precarious. Just 18% of the CFOs polled by Duke believe the United States will avoid a recession prior to the end of 2020.

"All of the ingredients are in place," Duke professor Campbell Harvey said in the report.

He pointed to elevated market volatility, the impact of "growth-reducing protectionism," and the "ominous" flattening of the yield curve.

The yield curve is one of Wall Street's most reliable fortunetellers. The gap between the two-year and 10-year Treasury yields is getting uncomfortably close to inverting. That occurs when short-term rates are higher than long-term ones. Inversion has occurred prior to every US recession over the past 50 years.

No matter when the next recession strikes, Corporate America could have a debt problem. Egged on by low interest rates, US companies have taken on tons of debt over the past decade.

Former Federal Reserve chief Janet Yellen told New York Times columnist Paul Krugman on Monday that "quite high" levels of corporate debt are "a danger," according to CNBC.

"High levels of corporate leverage could prolong the downturn and lead to lots of bankruptcies," Yellen said.