

Bankers Say Downside Economic Risks Outweigh Upside Risks

Feb 12

By Thomas F. Siems, Ph.D., CSBS Senior Economist

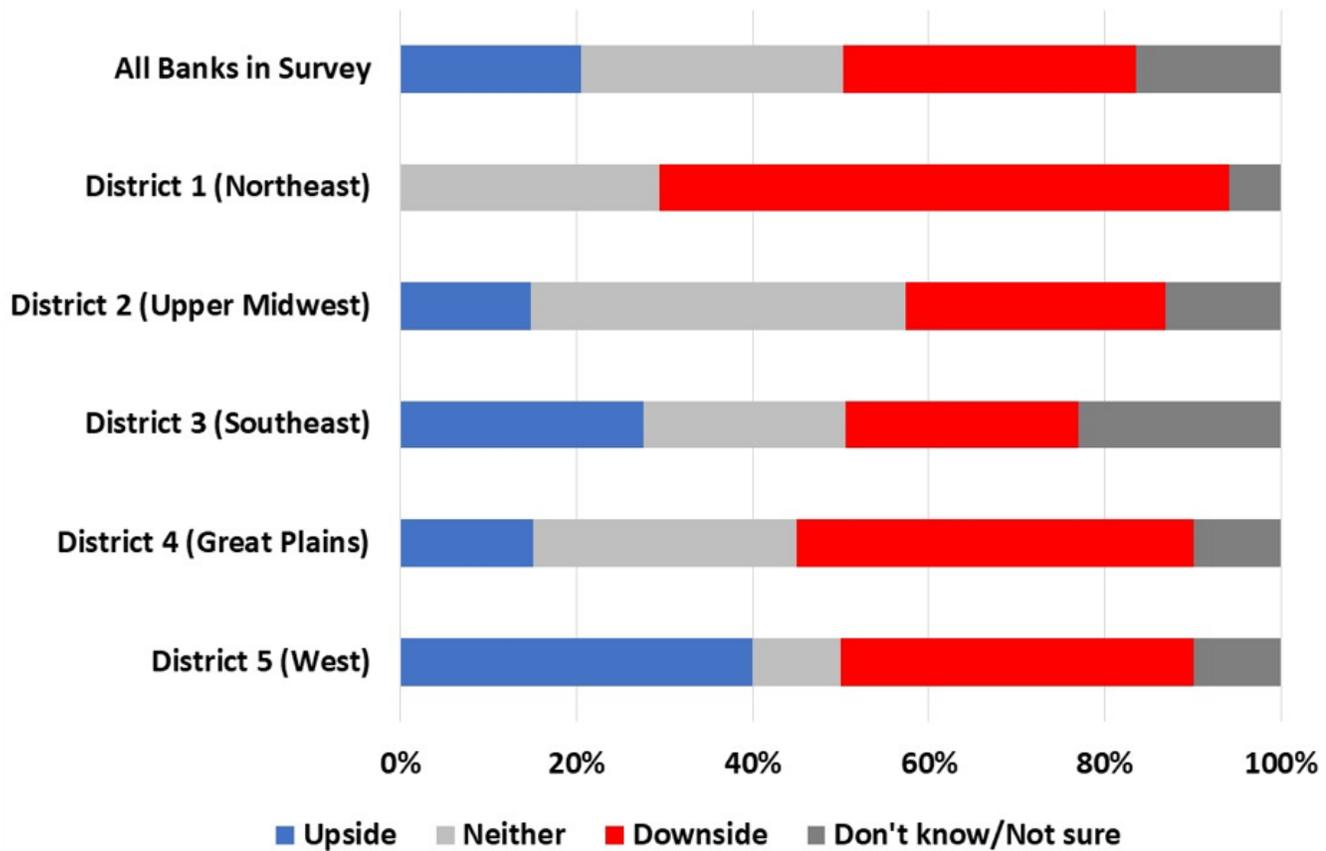
Community bankers responding to the fourth quarter 2019 Community Bank Sentiment Index ([CBSI](#)) survey judged that the balance of risks to 2020 economic growth is weighted more to the downside, but they are not nearly as downbeat as professional economists. Moreover, bankers' assessment of risks to 2020 economic growth is not uniform across the five CSBS Districts ([map](#)).

Key Points

- Community bankers in the Northeast had the most pessimistic view of 2020 economic growth.
- Bankers nationwide listed the single greatest downside risk to 2020 economic growth is a “political or geopolitical event.”
- However, bankers nationwide listed the greatest upside risks as lower interest rates, trade policy and a prolonged Fed pause.

As shown in **Chart 1**, for the full sample of 208 banks, most bankers (33%) answered that the balance of risks to 2020 economic growth is weighted more to the downside, with 21% saying the risks are more to the upside, 30% said neither, and 16% said they did not know or are unsure. When examined by CSBS District, we find similar conclusions to those when investigating bankers' outlook for [profitability](#). District 1 bankers have the most pessimistic view of 2020 economic growth. District 2 (Upper Midwest) and District 4 (Great Plains) bankers also have more “downside” responses than “upside” responses, whereas District 3 (Southeast) and District 5 (West) bankers judge 2020 economic risks as roughly balanced.

Chart 1: Bankers' Assessment of the Balance of Risks to 2020 Economic Growth, by District



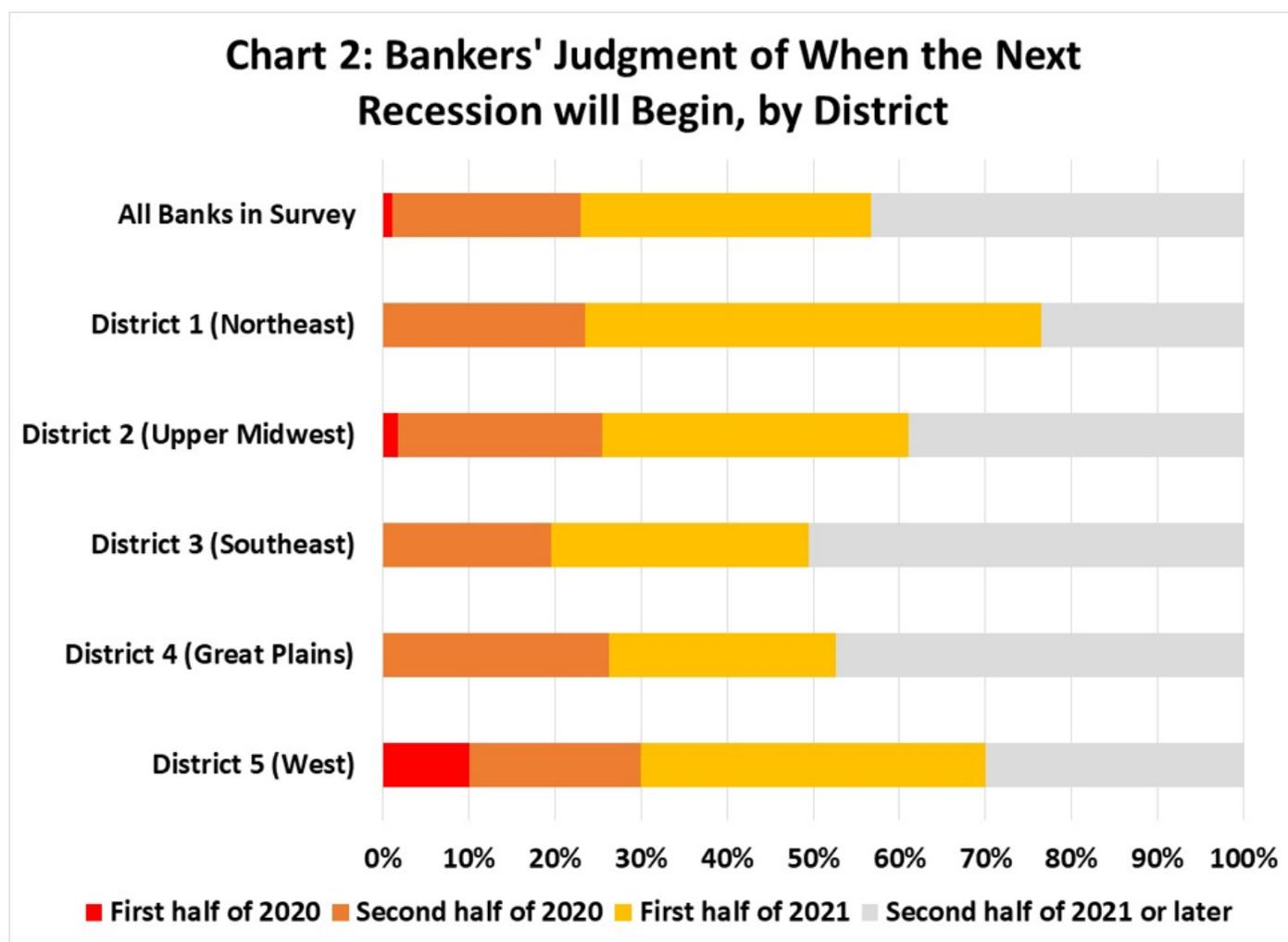
By way of comparison, the National Association of Business Economics' (NABE) Outlook [Survey](#) was conducted in mid-November, about one month before the CSBS survey, and asked similar questions. In the NABE survey, 53 professional economic forecasters indicate that the 2020 economic balance of risks are skewed much more to the downside (71%), with 19% of respondents believing the balance of risks are to the upside and the remaining 10% supposing they will be equally balanced.

By a large margin, 34% of bankers said the single greatest downside risk to 2020 economic growth is a "political or geopolitical event," with all five CSBS Districts listing this risk as the top concern. The other top answers to this question are a "global growth slowdown" (15%), "manufacturing weakness spilling over to reduced consumer spending" (10%) and "trade policy (increased protectionism)" (9%). The NABE panelists ranked "trade policy" (50%) as the single greatest downside risk, followed by "political or geopolitical event" (14%) and "global growth slowdown" (10%).

Bankers responded that the single greatest upside risks to 2020 economic growth are "lower interest

rates” (20%), “trade policy (reduced protectionism)” (20%) and “prolonged Fed pause” (13%). Lower interest rates and a prolonged Fed pause were the top concerns in three CSBS Districts (Northeast, Upper Midwest and West), whereas trade policy was cited as the top concern in two Districts (Southeast and Great Plains). In comparison, the NABE Outlook Survey’s top answers to this question are “trade policy” (42%), “stronger global growth” (16%) and “stronger wage growth” (14%).

In answer to the question, “When do you think the next recession will most likely begin?” **Chart 2** shows that bankers believe the odds of a recession starting in 2020 are 23%, rising to 57% by mid-2021, with 43% saying the next recession will not start until mid-2021 or later. More bankers in District 3 (51%) and District 4 (47%) put the odds of a recession starting further into the future (past mid-2021), whereas 76% of bankers in District 1 believe a recession will begin sooner rather than later (after mid-2021). Professional economists in the NABE Outlook Survey believe the odds of a recession starting in 2020 are 43%, rising to 66% by mid-2021, so that 34% judge the next recession to begin after mid-2021.



In summary, bankers' assessment of risks to 2020 economic growth lean to the downside but are not as negative as professional economists. Bankers in the Southeast and West regions have a more balanced assessment of risks. According to surveyed bankers, the single greatest downside risk to 2020 economic growth is a political or geopolitical event, whereas the top candidates as the single greatest upside risk are lower interest rates, trade policy and a prolonged Fed pause. Twenty-three percent of bankers expect the next recession to begin in 2020.

For more information, visit the [CBSI webpage](#).