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Tick, Tock: Timing of the Next Downturn and What it Means For Commercial Real Estate

Economic downturns in recent decades have generally started with a bang—bubbles bursting in the housing or technology markets or oil price shocks come to mind—but the next one is more likely to arrive as a whimper.

As the U.S. economy approaches a decade without a recession—closing in on the longest such period post-World War II—guessing what will cause the next downturn and when it will commence has turned into a parlor game for business.

Analysts looking for an overheated sector that could bring the entire economy down are searching in vain. Problems that caused previous recessions seem relatively under control. For example, commercial mortgage lending has grown through the cycle, but leverage levels seem under control. Consumer debt is at an all-time high, but consumer debt-to-income ratios and household balance sheets are healthy. The stock market dropped 10 percent in October as investors worry about rising interest rates, the impact of trade policy and an economic slowdown, but it's hard to predict a bear market when corporate profits are at record levels. Oil price shocks have been a major factor in virtually every recession of the last half-century, and while oil prices have risen lately, they remain nowhere near all-time highs, while oil's impact on the economy is diminishing.

It's true that the next bubble is rarely obvious until after it pops. And there are many potential trouble spots—just none identified to date that have the capacity to create major waves by themselves. Consequently, the next downturn might be caused not so much by the pop of a major bubble but by the cumulative effect of a series of economic events.

As to when economic growth might turn negative, it's unlikely to happen soon. U.S. and global GDP is likely to hit a multi-year high at about 3% this year, and the consensus view is that growth will slow only slightly in 2019. The U.S. employment market continues to be robust. Absent an unforeseen event, 2020 is the earliest a recession could commence, and even that might be a stretch.