

JENNIFER XUE IS A GLOBALIZATION OBSERVER, AWARD-WINNING AUTHOR, AND ENTREPRENEUR BASED IN NORTHERN CALIFORNIA. SHE IS A REGULAR CONTRIBUTOR TO NUMEROUS PUBLICATIONS WORLDWIDE. HER WORKS CAN BE FOUND AT JENNIXUE.COM.

# THE FORTHCOMING 2020 U.S. RECESSION AND INDONESIA



**ON DECEMBER 20, 2017,** the United States Senate passed the Tax Cuts and Jobs Act into law, which caused a sugar rush in the US economy. In addition to this factor, there are other variables at play that could bring the US economy to the brink of another recession. If it's moving

toward this downward slope, what are the telltale signs, and what will this recession mean for Indonesia?

The tax reforms have been favorable to large corporations, as they allow them to enjoy an effective tax rate of 21% or lower. The thing is, they have the opposite effect on individual taxpayers, who might have to pay more taxes instead. This is especially true for those who reside in high-tax states with skyrocketing property values. The rich will eventually benefit in the long run from this new law with such a permanent tax cut. On the other hand, the lowest earners will pay more in taxes after the temporary individual tax provisions expire in 2025.

Now let's talk about recession. First and foremost, it's hard to predict a recession. Most of the times, you can only be certain after it's over. The rule of thumb for the definition of a recession is having two consecutive quarters of negative GDP growth. The US National Bureau of Economic Research defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." The last recession was The Great Recession of 2008 that started in December 2007 and ended in June 2009, approximately one and a half years. It resulted in millions of foreclosed homes and massive unemployment. However, even after the recession was over, the widespread negative impact was still felt, such as in significantly increased wealth inequality.

Second, Trump's trade war with China and his protectionism place the US in an awkward position. Eventually, these will translate into higher prices to be absorbed by consumers, who are already stretching themselves



thin. Despite the low unemployment rate of 3.6%, many individuals must work two or three full-time jobs simply to make ends meet. This signifies rampant, less noticeable underemployment. In such a stressful society, increased prices would strain them even further.

Third, the yield curve is already showing an inversion, in which the short-term interest rates are higher than the long-term rates. Historically, every US recession in the past 60 years was preceded by this curve. Fourth, the housing sector has slowed down, and home prices in high-priced areas have started to decrease, including those in the San Francisco area, Los Angeles, and others. New property development has cooled down, and resale properties take longer to sell as well.

Whether the recession is already under way or not, the US government must immediately address the nagging issues of underemployment, growing inequality, and extreme poverty (homelessness), as these create on-going social stress in the society. After all, with a robust middle class, purchasing power is favorable. With a looming recession and the US people's reduced purchasing power, it's time for Indonesian businesses to get ready for what's ahead. Especially with the on-going trade war and Trump's resentment toward 5G technology, the US market isn't the same as it was several years ago. Indonesia has the whole world on its plate, so one fewer market to conquer shouldn't be an issue. 

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