Economic roller coaster

Uncertainties about the fiscal health of the United States have people talking about recession

BY DOUG WONG
St. Louis Post-Dispatch

Economic growth slows to a crawl
Layoffs continue to mount
Housing market problems deepen
Consumers cut back spending

These types of headlines have triggered a lot of speculation over the past few months about whether the U.S. economy is headed toward, or already is in, a recession. People want to know how long this economic slowdown will last and how bad it will get. In this report, we will help you understand what a recession is, how we got where we are, and what indicators to watch.

The technical definition of a recession is a prolonged period of declining economic activity. But what does this really mean?

To help visualize a recession, think of the economy as a roller coaster. Most of the time, this ride is relatively boring; it's either on a slow steady climb or is in a stretch of quick rises and drops. These "bunny hops" give us a mild sense of uncertainty.

But every so often, this coaster takes a real plunge, one that is steep and lasts a long time. During this period, job losses mount, factories get idled or shut down completely, and almost everyone's money gets tight. It is this gut-wrenching period that constitutes a recession.

Consumer pessimism widespread

BY TONY PUGH
McClatchy Newspapers

Declining consumer confidence is being felt throughout the economy as consumers cut back on non-essential spending and try to limit purchases to items that are absolutely necessary.

In a recent monthly survey of 15,000 consumers by Discover Financial Services, a record 48.5 percent felt their finances were deteriorating. Another 43 percent said they plan to spend less on discretionary expenses, household improvements and major personal purchases like vacations.

But the cutbacks didn't provide much relief in February as only 48 percent expected to have money left over after their monthly bills were paid. It's the third straight month the results have fallen below 50 percent.

"Given recent economic news of record oil prices and a 26-year high in food and energy prices, there seems to be no relief in sight for any increase in consumer spending beyond the essentials," said Margo Georgiadis, executive vice-president for Discover Financial Services.

Even those making $75,000 or more were pessimistic about the economy, as only 27 percent viewed the economy as good or excellent. Among the same group, only 14 percent felt the economy was getting better, down from 17 percent the previous month.

The pessimism was most pronounced among women, with only 8 percent who thought the economy is improving and 75 percent who said it's getting worse. Fourteen percent of men felt the economy was getting better, while 65 percent thought it was deteriorating.

Rising food prices pinch wallets

BY TONY PUGH
McClatchy Newspapers

A trip to the supermarket has become a costly endeavor over the last year. Food prices jumped 4 percent in 2007, up from 2.7 percent in 2006. The food inflation rate for 2008 will likely fall between three and four percent, according to Ephraim Leibtag, an economist with the U.S. Department of Agriculture.

That's no small potatoes for U.S. families and individuals who typically spend about 10 percent of their disposable income for food. But on the brighter side, annual food price increases were much steeper in the 1970s and 1980s, Leibtag said. And he expects the current increases to moderate after this year.

"There might be some aftereffects in 2009, but I think by 2010, almost all of this current surge will have taken care of itself and we will revert to our historic average," of about 2.5 to 2.7 percent annual food inflation, Leibtag said.

Higher energy costs that make it more expensive to process, pack and ship food for retail sale is the main cause of today's rising food prices. Increased labor and healthcare costs add to the problem as do higher commodity costs for items like wheat, soybeans and corn.

Corn prices began rising, in earnest, after a 2005 energy bill required more ethanol production from corn. The average price per bushel has gone from $2.29 in 2006 to about $4.28 today, Leibtag said, creating higher prices for foods made with corn.

In fact, more than half of U.S. corn is used to feed livestock and poultry. And it takes about seven pounds of corn to produce a pound of beef and six and a half pounds to produce a pound of pork. A two-liter bottle of soda contains roughly 15 ounces of corn syrup, as well, so the ripple effect from higher corn prices is being felt throughout the food chain.

Addressing common concerns

So are we in a recession?

That hasn't been determined yet, officially. By the technical definition provided by the National Board of Economic Research, the nonprofit research organization that officially declares a recession, we aren't yet in one. In fact, the Commerce Department recently said the economy had a slight bit of growth in the last three months of 2007. But the economy definitely has slowed down. The question is, have we topped the hill? Is it time to start screaming?

Is there anything that can be done to prevent it?

Periods of economic slowdown can't be prevented, but they can be influenced by outside forces. For example, the Federal Reserve lowered interest rates in the first half of the decade. With interest rates at historic lows, more people took out loans to buy cars and houses. This helped push the economic roller coaster back uphill.

Equally, the current economic downturn has been accentuated by the tightening of the credit market over the past seven months. This has caused the economic roller coaster to not only head downhill, but also has thrown it into a spiral.

If we fall into a recession, how long will it last and will it be a deep one?

That is hard to say. The length and depth of an economic slowdown can vary greatly. Since 1990, there have only been two recessions. The recession of 1990 was a real plunge, while the recession of 2001 was more shallow. Both lasted eight months. (Since the end of World War II, the longest an economic downturn has lasted is 16 months; the recessions of 1973 and 1981.) A year ago, most economists were predicting that the economy was headed for a slowdown or a bunny hop run. But now, more economists are predicting that we may be headed for a plunge.

What can I do?

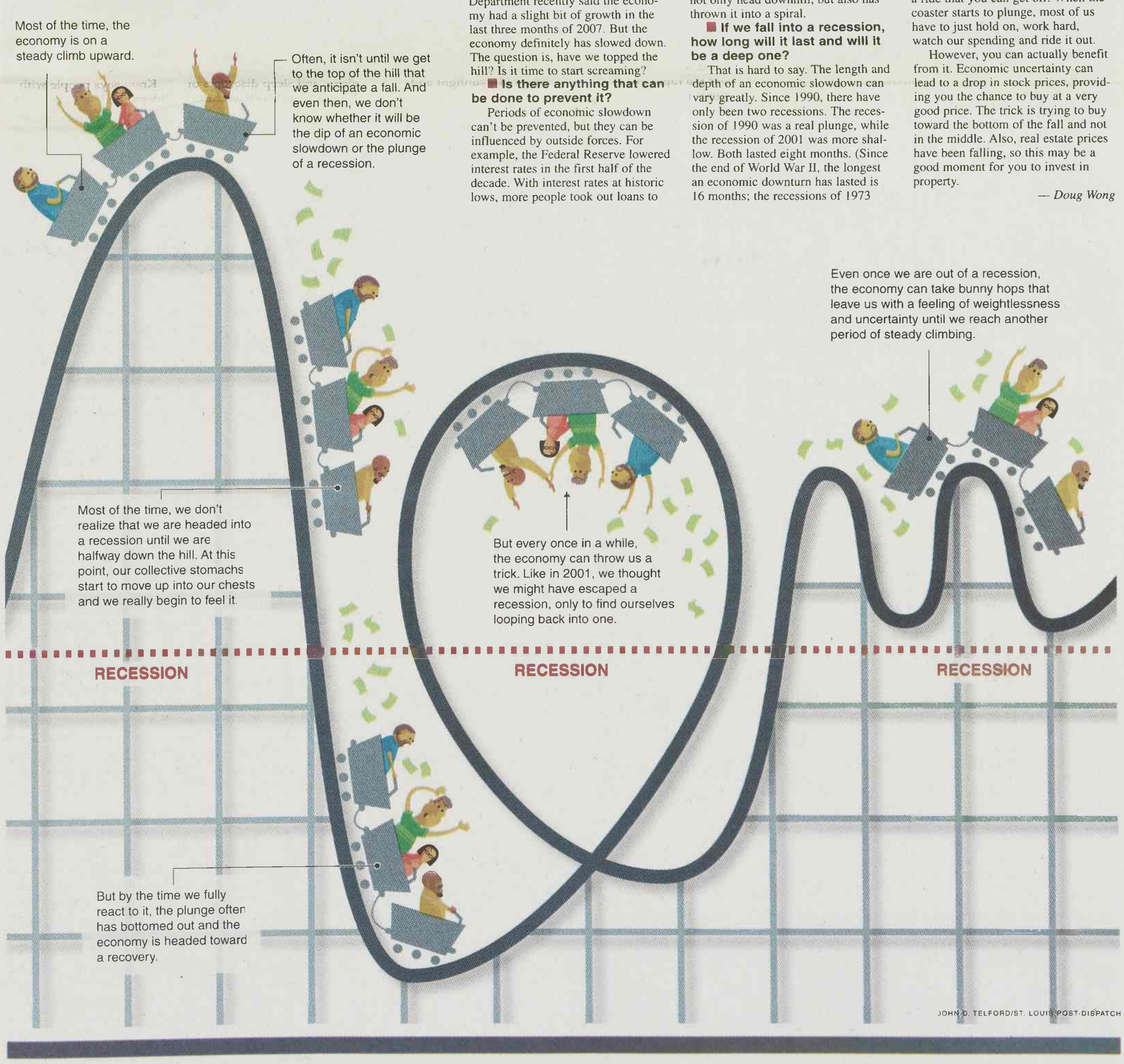
The economic roller coaster is not a ride that you can get off. When the coaster starts to plunge, most of us have to just hold on, work hard, watch our spending and ride it out.

However, you can actually benefit from it. Economic uncertainty can lead to a drop in stock prices, providing you the chance to buy at a very good price. The trick is trying to buy toward the bottom of the fall and not in the middle. Also, real estate prices have been falling, so this may be a good moment for you to invest in property.

— Doug Wong

A THRILLING, CHILLING RIDE

Detailing the highs and lows of the economy:



JOHN D. TELFORD/ST. LOUIS POST-DISPATCH

RECESSION
MCCLATCHY-TRIBUNE