National Recession is Here

Our previous issue stated that a national recession was close...it's now here!

The heading on the National News article in the previous edition of Trendlines stated "National Recession is Close." In this edition, let's make it official: National recession is here. The tone of the previous issue raised some question as to whether a recession would hit the United States economy. I am now of the opinion that there is no way it can miss. I am also now of the opinion that the downturn will be a long and drawn-out affair. The stock market continues to waffle, a large volume of additional subprime and Alt-A mortgage loans are yet to reset this year, and the weak dollar fueling inflation is pushing speculators into commodities, which in turn is pushing up oil prices. That results in higher food prices. That's too many variables flaring at once. It's time to call it what it really is—a recession.

Speculative bubbles resulting in bad financial management lie at the core of the current situation. Its roots started in the dot-com environment of the last decade which resulted in the recession of earlier this decade. To counter the dot-com recession, an accommodating monetary policy was implemented, coupled with an industry-induced reduction in regulatory oversight, all of which stimulated dramatic increases in housing and mortgage market activity. One problem hath begot the other.

Discerning mortgage financing rules were abandoned several years ago. Lenders stopped evaluating the quality of their borrowers, which became the new standard. Now, with money coming so easily and to a much broader audience, housing prices skyrocketed as all that money chased a limited product. Now the market has rapidly returned to the old requirements of proper discernment leading to tighter money. But household income cannot support current housing prices with the return to old standards. The economy isn't going to get back on its feet until housing prices come back in line, and as we all know, sellers will kick and scream all the way to lower prices, so don't expect housing and income to rapidly come back into balance.

We also see signs of the housing sector credit problems now spreading into the commercial credit markets. Banks that are trying to absorb and write down billions in defaulted mortgage loans on the one hand find it difficult to lend money to the commercial community from the other hand.

Many economic forecasters believe we will have a mild recession ending by the second half of this year. Maybe on paper it will, but its effects, I feel, will linger longer. Currently, tax rebate checks are the hoped-for answer, but a recent cartoon pictured throwing tax rebate checks at a huge and menacing economic bear. It illustrated a fitting analogy of the situation and its limited impact. You don't stop something as big as this financial crisis, built over many years of imprudent behavior, with a few rebate checks. Besides, higher gasoline prices will probably absorb most of it.

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