WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

April 7, 1982

HAS RECESSION REACHED BOTTOM?

WHETHER OR NOT THE U.S. ECONOMY has reached bottom in the present recession is a matter of considerable debate. On the one hand, President Reagan and his chief economic advisor Murray Weidenbaum, lead the argument that the economy is now coming out of the recession and that it will show real growth in the quarter just started. On the other hand, certain economists contend that the economy is slipping further into the recession and will not probably improve until at least the last half of 1982. The timing of this recovery is important to the agricultural community, as it may help generate strength in community prices, especially livestock prices, to be received by farmers in 1982.

To be sure, the economy is in a recession in the technical and lay senses of the word. Successive declines in real gross national product (GNP) in the last three months of 1981 and the first three months of 1982 meet economists' technical definition of a recession. Persistent, high levels of unemployment, certainly in the present range of 8.5 to 9 percent, seem to establish the lay definition.

To prove that a turnaround in the economy is imminent, Mr. Weidenbaum cites "recent developments in personal income, retail sales, orders, and production." In fact, these economic indicators did rise in February, reversing earlier declines. In addition, housing starts also rose in February, offering some hope to the beleaguered construction industry.

However, signs that are unfavorable to quick economic recovery still remain. For example, the index of leading economic indicators, monitored by the Department of Commerce, declined by 0.3 percent in March. Auto sales in March also continued to slide downward from earlier levels. More importantly, interest rates remained high, as evidenced by the prime rate, which remained at 16-1/2 percent. Worse yet, the unemployment rate rose to 9 percent in March, equalling the post-World War II record level set in the 1974-75 recession. Some economists predict that a 9.5 percent unemployment rate is in the offing this summer.

As long as interest rates for the purchase of autos and houses remain high and the fear of being laid off persists, consumers will spend conservatively. Thus, the economy is likely to remain on the recessionary side of the fence in the second quarter. In addition, consumer income growth will be sluggish at best, and may even reverse if unemployment rises further.

The lack of interest in consumer spending, for whatever reason, also implies weakness in some agricultural commodity prices. Livestock prices, especially cattle and broiler prices, are likely to remain under pressure in 1982 despite the expected cutback in pork production.

Hal W. Everett

Hal W. Everett, Extension Economist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801