



WEEKLY OUTLOOK

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

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FOUNDATION FOR RECOVERY

TO MANY, AN ECONOMIC RECOVERY SEEMS JUST AS ELUSIVE TODAY as it was several months ago. Certainly, the politically motivated statements of administration officials about an impending recovery, made at a time of increasing unemployment, leave one skeptical. Nevertheless, a foundation is being laid for the start and continuation of a recovery in the near future.

In contrast to the bad news one often hears about the economy, a number of favorable consumer-oriented economic trends have been developing recently. Most often reported is the decline in the inflation rate from over 13 percent two years ago to under 5 percent in 1982. One of several benefits of this economic ill going into remission is that wage changes now become meaningful. That is, recent wage increases, though small, have been translated into positive increases in personal income every month since last December, even when adjusted for inflation. The decline in the inflation rate has also led to a reduction in nominal and real interest rates. A comparison of the prime rate and the consumer price index shows that the nominal rate has fallen from 21-1/2 percent to 11-1/2 percent, whereas the real rate has fallen from 8 percent to about 6-1/2 percent. The growth in the rate of consumer savings--to 7 percent from under 4 percent--also represents a positive economic trend.

When taken together, these trends create a climate favorable for consumer spending. In fact, what the popular press has described as a "consumer-led recovery" is really the only means of generating a true turnaround in the economy. Consumers can spend more because they have higher incomes, easier credit conditions, and larger savings accounts. So far, only their willingness is lacking. Recent surveys, however, indicate that consumer confidence is rising, and that this willingness may soon return.

Of course, not all economic trends have been favorable. As of November, unemployment stood at 10.8 percent of the workforce, the highest in more than forty years. In all likelihood, it will rise above 11 percent in December and will be slow to decline when the recovery begins. Orders of durable goods have been down in five of the last seven months. Other indicators, such as auto sales and

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housing starts, seem determined to fall at least as often as they rise. The record borrowing needs of the federal government in fiscal 1983 may well limit further declines in interest rates.

Despite these and other negative factors, the necessary foundation for recovery is in place. Consumers have the means to buy goods and services. When these means are eventually used, the GNP will rise, and, ultimately, unemployment will decline. The timing of this improvement cannot be predicted with great confidence, but the existence of a foundation means that the turnaround may occur soon, possibly as early as the first quarter of 1983. It is just a matter of the consumer doing the necessary spending.



Issued by *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

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