The Recession That Wasn't There

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March, 2002

What happened? Did anyone get the license number of that truck? The economy got run over by a recession that blew past like a hit and run driver. It's here; it's gone. Just that fast. Or at least that's what the pundits would have us believe. Not wanting to be a messenger of gloom, I still must point out, like Yogi Berra, that it ain't over 'til it's over. And I don't think it's over yet.

The roots of this recession, short and mild as it was, lie in the behavior of businesses. When the tech sector collapsed, firms saw less and less need for maintaining their rate of investment. On top of this, the September 11 attack temporarily crippled both the airline and hospitality industries. Again, investment and employment suffered. The result of all this has been a quick and steep decline in business spending a minor, but key, component of Gross Domestic product.

That this recession has been short if not sweet can be attributed to three factors. First, consumers never left the market. After a brief sag in consumer confidence and spending in the third quarter, both gradually picked up and are currently at pre-recession levels. This is really good news since consumption makes up three-quarters of the economy. Secondly, the Federal government has fought this recession as if it were deeper and longer that it actually was. The Federal Reserve cut interest rates eleven times, finally lowering short-term rates to forty-year lows. In addition, the Federal budget swung back into deficit, owing to both the tax cuts of 2001 and the expenditures needed to fight the war on terrorism, and stimulated the economy further.

Both of these are standard economic occurrences; the third reason is new and reflects the changes that have occurred in the economy as a result of the information revolution. Business spending has come back quicker than most expected, because firms have simply not been stockpiling inventory, as they would have in prior business cycles. So, even lower consumer demand exhausted available stocks of goods and raw materials, prompting more spending and a quicker rebound.

All this is good news for the economy and good news for the real estate market. The expected sag in home sales will be as mild as the recession has been and will not likely be felt by Realtors at all. In fact, because inventory is so low, the market may not slow down at all. You will need to tell your customers, however, that the mortgage interest rates they are seeing now are probably the lowest of the year. Economic stimulus and economic recovery will push growth up, but they will also push inflation and thus interest rates up, too.

As we go through 2002, be your own forecaster. Be alert to any stories about business investment; it is the key to this recovery. If investment is up, we will have a stronger and quicker recovery, and the opposite holds as well.