

# Yes Virginia There is a Slow Down

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Turning points in the business cycle are always difficult to pinpoint. Over time, business cycle analysts have developed leading, coincident, and lagging indicators. As the nature of the economy evolves from agriculture to industrial to service these indicators of necessity must also change. One is never certain until hindsight makes clear just which indicators remain useful in determining the direction of economic activity. Also complicating the picture are new laws and regulations and other non-economic matters that have an indirect bearing on the economy.

Once again, as we have in the past, lets look at the “normal” progression of business cycle development in order to assess the current situation.

## A Different Kind of Recession

(In Order of Occurrence)

“Normal”

“2000 – 2001”

Inflation	Up	Inflation	Down
Tight Money*	Up/Down	Tight Money*	Up/Up
Housing	Down	Profits	Down
Inventories	Down	Capital Spending	Down
Consumer Spending	Down	Inventories	Down
Profits	Down	Housing	Down ?
Capital Spending	Down	Consumer Spending	Down ?

\* Two components – interest rates and availability

Viewing the left side, which is the “normal” course of events we note the following:

1. Inflation - although mild has moved up
2. Tight Money – we have had 15 increases in short-term rates, but only now are we beginning to see availability lessen.
3. Housing – is in retreat.
4. Inventories – have not topped out, but our slowing.
5. Consumer Spending – is in a downward track.
6. Profits – are increasing, but margins are declining and the rate of growth is slowing.

**7. Capital Spending – is the only strong area and it appears to be close to a top.**

**All in all our projection of a slowdown to recession remains on course. However, to date, we remain in the minority.**