

The next recession

Television pundits have asked President Biden and several government economists the same question: is a recession coming? The tone of this question makes it seem like the pundits believe that recessions are rare, avoidable,

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and something we never have to experience. The president and government officials have dodged the question, so I will take it upon myself to give a more direct answer: we will probably have a recession soon. Certainly, a recession will come sooner or later. They are just part of the regular business cycle. Since 1946, they have occurred, on average, every 6.3 years.

Standard macroeconomics textbooks list several of the most common causes for recessions. Unfortunately, all of these causes are happening right now. First, a large drop in the stock market or housing prices can cause a recession. When these assets become less valuable, people feel that they need to save more money for their retirement and for a safety net to help them weather unforeseen adversity. As people save more, they purchase less, which can cause a recession.

From the beginning of the year to the time I wrote this column,

the S&P index has fallen over 17 percent. This is a large enough drop to get people to cut back on their expenditures. Many news outlets predict that housing prices are about to fall. A recession is more likely because of the stock market's actual performance and if housing prices drop as expected.

A second cause of a recession is pessimism. If people believe that bad economic times are ahead, this belief can be a self-fulfilling prophesy. When people are pessimistic, they cut back on purchases and try to save their money for the tough times ahead. Their lower levels of spending can cause a recession much like lower asset prices can. Unfortunately, it seems people are becoming pessimistic. President Biden's low poll numbers are in part the result of where people think the economy is going. The shortage of baby-food formula makes people believe that the economy isn't working properly. The University of Michigan's Index of Consumer Sentiment suggests that people are over 28 percent more pessimistic about the economy than they were a year ago.

A third cause of a recession is monetary policy. To battle inflation, the Federal Reserve reduces the money supply. With less money available, some banks will charge higher interest rates. Other banks won't have enough money available to lend to undercut these high rates. Once interest

rates increase, people will decide to borrow less money, so they will spend less. This reduction in spending can cause a recession. If you follow the news closely, you'll know that the Federal Reserve is currently reducing the money supply.

A fourth cause of a recession is high gasoline and diesel prices. High gasoline prices cut into people's discretionary income, so they spend less money on other stuff, which can cause a recession. High diesel prices increase the cost of shipping goods by truck. Trucking companies will pass along some of their higher costs by charging higher prices for their shipments. These higher shipment costs cut into firms' profits and make it worthwhile for them to produce less output, which can cause a recession. As everyone who drives a car knows, gasoline prices are much higher now than they were a year ago. As every trucker knows, so are diesel prices.

I just gave four reasons why a recession may occur. There are other possible causes, but these four causes represent "all of the usual suspects." Given that all four of these causes are happening now, I would be shocked if we weren't heading toward a recession. While there is always a chance that there is some unforeseen good economic news that will swamp all of the bad news I mentioned, I am not optimistic.