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Indicators suggest the recovery is in our view mirror

By Jonathan Michaels


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Warren Buffet, the head of Berkshire Hathaway, at a campaign event for Hillary Clinton in Omaha, Neb., Aug. 1, 2016. As Warren Buffet famously said, "be fearful when others are greedy, and greedy when others are fearful."

As a society, we tend to have short memories, or in some cases, no memories at all. It is difficult to imagine, but 2018 will usher in a new class of young millennials who are, for the most part, complete strangers to the Great Recession. 2009 marks the year they first learned of Justin Beiber, not the year they lost their job, their home or their family.

It should be no surprise then that our nation is spending with perceived immunity. Automotive juggernaut Edmunds reports that there are now 1.26 vehicles on the road for every licensed U.S. driver, the highest the nation has ever had. Yet, times are beginning to cool, and with it the economic suffering will come. The U.S. Federal Reserve reports that car loan delinquencies have already grown to $23.3 billion, the highest level since 2008. And it is about to get worse.

In 2016, U.S. auto sales hit an all-time high of 17.5 million units. This number has been on a decline since then, however, with a 2018 prediction of 16.8 million units. Fewer car sales mean that automakers will begin to idle workers and shutter non-essential factories. General Motors dropped shifts at five plants since last autumn, Ford laid off thousands of workers due to shutdowns in May, and Nissan just announced that it is cutting U.S. production by 20 percent.

None of this should come as a surprise, as we have enjoyed nine years of straight economic growth. To be sure, recessions like to loom in the corner, repeating themselves with unwelcome regularity. From 1945 to 2008, periods of economic expansion have lasted an average of 57 months, putting our 108-month recovery far past the outer edges of a recessionary cycle. We are very past due.

Superficially, recessions are difficult to understand. As the population grows, so does the need for goods and services, which increases national output, or GDP. The increased economic activity causes businesses to employ more people, giving rise to increased household income. More money to spend only pushes the needle further into economic health, begging the question of why would it ever end?

The trouble comes in when markets become oversaturated with goods and services, as profiteers rush to capitalize on the increased demand. Consumers can only buy so many new refrigerators, televisions and cars, and when the desire for consumption fills, demand falls. In an effort to remain profitable, employers begin to reduce salaries and lay off workers, and downward the economy begins to go.

It is no surprise then that there have been 49 recessions in our country's history, returning every few years with unwelcomed regularity. Academically, a recession is defined as two consecutive quarters of negative GDP. The National Bureau of Economic Research — the largest economic research team in the U.S., and the organization formally charged with announcing the start of a recession — puts a finer point on the discussion. The NBER defines a recession as: "A significant decline in economic activity spread across the economy, lasting more than two quarters which is 6 months, normally visible in real GDP, real income, employment, industrial production, and wholesale- retail sales."

Currently, the nation's GDP is stagnated at 2.3 percent. While this is far from negative growth, GDP has been on a steady decline since 2014, when output stood at a high of 5 percent. While not necessarily indicative of what will happen this goaround, it is interesting to note that in the second quarter of 2008 GDP had also fallen to 2 percent, before plummeting to negative 8.2 percent later that year.

Equally concerning is the current status of the crude oil market. According to the Federal Reserve, "a big increase in oil prices has preceded nearly every U.S. recession since World War II." In January 2016, crude oil traded at $30.24; today it stands at $64.68 — an increase of 115 percent. To put this into perspective, in January 2007 crude traded at $72.31, and by June 2008 it climbed to $160.95 — an eerily similar increase of 120 percent.

Perhaps the biggest worrier of them all is the Consumer Price Index (CPI), the price paid by consumers for a basket of goods and services. According to the U.S. Department of Labor, the CPI is currently hovering at 251 points — the highest mark since the start of the Index in 1950. This, of course, means that we are paying more for goods and services than at any time since the end of the second World War, including adjustment for inflation.

To give an example, consider that the average price of a new car today is $36,270, a figure that has risen year-over-year for generations. Putting this into perspective, a new car in 1980, after adjusting for inflation, cost an average of $21,372, about 42 percent less than today.

Our housing market has also exploded, albeit not with the vertical trajectory of the 2000s. This expansion has been wearing sneakers, quietly advancing on us without much attention. The Composite Home Price Index shows that single- family home prices, adjusted for inflation, have finally reached dizzying 2007 levels. Said another way, when folks talk about how overheated the housing market was in 2007, the same statement applies to the market today. Housing is at an all-time national high.

The time has come for an economic chill. Too many indicators suggest that the recovery has moved on, and that the nation will soon experience a constricted economy. Fortunately, downturns typically mirror the expansions they follow, and if true, the next recession should be about as mild as the recovery we recently experienced.

For big thinkers, news of a downturn is not all that bad. As Warren Buffet famously said, "be fearful when others are greedy, and greedy when others are fearful." For those positioned correctly, and immune to the panic of it all, the downturn will be a land of opportunity, where fortunes will be made and lost in a New York minute.

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