

## Are we in a Recession Now?

As surely as night will follow day, recessionary times will follow boom times. There are, however, two significant differences.

First, there is no regularity of the time frame of the economic cycle. The 'Great Depression' is widely considered to have lingered almost ten years, but in truth, the economy was in a slow recovery for the last eight of those. The 'recession we had to have' in the early 1990s lasted almost two years. As for the recession of 2001-02, did you even notice it? Japan's economy has been in recession almost continuously since 1992.

Second, it is not generally clear (until after the event) just when we have passed from boom to slowdown, from slowdown to recession, from recession to recover and from recovery to boom. As a general rule of thumb, the employment figures are the slowest indicators. Generally the lowest reported levels of unemployment have occurred just after the peak of a boom; the highest levels of unemployment have occurred just after the bottom of a recession.

Consider our current position: The Reserve Bank is making decisions about interest rates (an economic blunt instrument) based on currently available statistical information. A key problem is the currency of the information: For instance, let's say figures currently available may show inflation for the September quarter at 5% (annualised). As further results come to light the inflation for that quarter will be revised and it may finally be determined to be significantly lower or higher. Nevertheless, the decisions made today about interest rates will have an impact on economic activity. The problem is nobody can be certain how long it will take for the impact to be fully felt and nobody can be certain of the depth of that impact.

To make things even more interesting, no two booms or recessions are alike. There are too many variables at work - geopolitics, technology, demographics, climate, environmental issues and scarcity of resources, to name but a few. The UK's economy has, for some decades, been riding on the back of the North Sea Oil. The fact that it has virtually run out means the current recession in the UK is particularly painful and recovery will be slow.

I am prepared to make one broad generalisation: The longer the period of the boom, and the greater the excesses of the finance markets during that boom, the more deep and/or prolonged the ensuing recession is likely to be.

### What is a Recession?

The traditional definition was "two quarters of negative economic growth".

In earlier times, when there was almost a total absence of regulation of commerce and finance, this was probably a fair definition. It would have been applicable at, say, the time of the great depression. Nowadays, with more intelligent capital markets and greater regulation of the finance and corporate sectors, I would venture a broader definition: "two quarters of economic growth which is slower than population growth".

### Are we in a Recession Now?

Governments are very averse to using the 'R' word - for obvious political reasons. Economic commentators are less averse to using the 'R' word.

I will be brave here and say Australia's eastern seaboard is in a recession now. The Western Australia economy is still riding the Chinese boom.

A word of warning there: Remember I mentioned Japan's prolonged recession? For many years prior to that recession, Japan's economy was typified by over-investment in industrial capital, massively over-inflated real estate prices (particularly in the cities) and extremely low domestic consumer spending. China's economy is showing all these symptoms, only more so! We need to be aware of this, but not overly concerned. If the Chinese economy falls into a deep and prolonged recession, we should be able to find new markets for our resources - most notably India.

### What Sort of Recession is this?

In the main, Australian government regulation of the corporate and finance sectors means we have been saved from the worst excesses of those sectors: We have no major sub-prime mortgage problem here. We don't have, and are not likely to have, a 'Northern Rock' bank here. This suggests we will have a 'softer' landing than the United States or the UK.

The wild cards in the deck are the impact of 'Peak Oil' and the impact of environmental change. These will force upon us a prolonged and fundamental rethinking of our use of resources. I believe these factors will mean a relatively lengthy period of recession as we correct our resource utilisation, followed by a slow recovery. In the long view of history I suspect we will need to endure some 'short-term' pain (possibly for up to a decade) for the greater gain.

Within this period of adjustment there will be other, shorter, economic cycles. Accordingly, I believe the forthcoming recovery will be more lengthy, and shallower, than the recover which followed the recession of the early 1990s.

As an aside, the energy and environmental issues will undoubtedly open up new possibilities in transportation and travel, in construction, in manufacturing and even in the service industries.

As with most things in life, there's the doughnut, and there's the hole.

The really smart operators will work closely with their business consultants to ensure they are well positioned to take full advantage of the inevitable recovery. As a member of the Resurg family you are 'ahead of the game' in this regard. Our benchmark program is the ideal way to review your business performance. Our Performance Group program and our consulting service will help you to learn how to more fully understand your KPIs and thus identify and implement measures to improve your business's performance.

The resultant growth in the value of your business will be many times greater than the modest investment.