Written by **Bob Adelmann** on October 3, 2011

ECRI Announces New Recession Has Started

Last Friday Laksman Achuthan (left), co-founder of Economic Cycle Research Institute (ECRI), announced that not only has the economy entered a new recession, but that "it's going to get a lot worse. The vicious cycle is starting where lower sales, lower production, lower employment and lower income [leads] back to lower sales … you haven't seen anything yet." Despite some evidence that the economy is growing in places, it's not enough to overcome the significant array of indicators that Achuthan has used successfully for years to predict the economy. According to The Economist, ECRI has never issued a "false alarm," and this time should be no different.

On his website, Achuthan stated:

> Early last week, ECRI notified clients that the U.S. economy is indeed tipping into a new recession. And there's nothing that policy makers can do to head it off.
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> ECRI's recession call isn't based on just one or two leading indexes, but on dozens of specialized leading indexes, including the U.S. Long Leading Index, which was the first to turn down — before the Arab Spring and Japanese earthquake — to be followed by downturns in the Weekly Leading Index and other shorter-leading indexes…
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> A new recession isn't simply a statistical event. It's a vicious cycle that, once started, must run its course. Under certain circumstances, a drop in sales, for instance, lowers production, which results in declining employment and income, which in turn weakens sales further, all the while spreading like wildfire from industry to industry, region to region, and indicator to indicator. That's what a recession is all about.

Achuthan anticipated some skepticism regarding his announcement and explained that recessions are getting closer and closer together with scarcely enough time for the economy to recover from one before another one begins. The interested reader can click here for his slide show back in March 2010 that proves his point.

Achuthan has plenty of company. MarketWatch noted on the same day as Achuthan's announcement that personal income declined in August and consumer spending slowed as well. And no new jobs were added to the economy in August and those who were working saw a decline in their average hourly earnings. Nouriel Roubini, chairman of Roubini Global Economics LLC, wrote a few days earlier:

> The way I see the global economy, I think we're entering into a recession again in most advanced economies [and] I think we're already into one in the U.S. based on [both] hard and soft data. … At this point, the issue is not whether there is going to be a recession … but whether it's going to be relatively mild or whether it's going to be a severe recession [coupled with] a global financial crisis.

Even establishment economists are having a hard time supporting the party line that everything is roses. Glenn Hubbard, President George W. Bush's top economic advisor, looked at the numbers early in August and said he believes the "likeliest outlook for the economy is one of very slow growth over the next couple of years," but that "risks have risen" for another recession. He warned, "If there were to be a shock — a real problem in Europe [or] another budget crisis in the U.S. — that could be enough to tip the economy into recession." Zadh Pandl, an economist with Goldman Sachs, was also getting nervous, writing that "Our best-case forecast continues to be that the US economy will avoid a recession, though the risks are high and rising," while the chief economist for the Dallas Fed, Harvey Rosenblum, had to admit that the economy has lost momentum and could be set for further "backtracking" [Keynesian for another recession], and the economy "may have stalled."

What may not be obvious to those with a vested interest in the elusive ameliorative effects of intervention and stimulus is only too obvious to consumers and investors. The latest Rasmussen poll shows just 10 percent of consumers rating the economy as "good or excellent" with nine percent of investors agreeing with them. At the start of 2011 consumers' expectations for future economic conditions were at a modestly positive 100.3, but they had fallen to 71.9 as of last week, a remarkable decline of 28 points.

If ECRI's Achuthan is correct, how much worse could things get? A careful reading of his charts shows a strong possibility of increasing price inflation at the consumer level, unemployment moving higher to 12 to 15 percent (using the analysis of the Bureau of Labor Statistics) but approaching 25 percent using broader and more realistic analyses, Gross Domestic Product (GDP) going negative for two or more quarters, and federal government deficits staying above $1.5 trillion every year from here on out.

If this comes to pass, it will be more evidence (if more is needed) that Keynesian interventions by the federal government and the Federal Reserve simply don't work, or, as noted by Rosenblum of the Dallas Fed, "The patient isn't responding well to the medicine." It's long past time to take the patient off the medicine and let him begin to recover on his own.