



Written by [Bob Adelman](#) on October 21, 2011

The New Recession: How Bad Will It Get?

The prediction by the Economic Cycle Research Institute (ECRI) that the United States is headed into another recession was greeted by a rise in the stock market from 1,074 on the Standard and Poor's 500 Index on Tuesday, October 4, to 1,238 on Friday, October 21, a gain of 15 percent in just 13 days.

This sudden rise happened in the face of ECRI's spokesman Laksman Achuthan's emphatic forecast that "it's going to get a lot worse ... you haven't seen anything yet." Furthermore, Achuthan said that there is nothing policymakers can do about it, that the decline is just going to have to run its course.



Jon Markman, a stock market watcher and skeptic who writes for *MarketWatch*, asked Achuthan if this time his prediction [might be wrong](#). Achuthan isn't backing off one bit. Noting that his proprietary blend of various leading economic indicators has never failed in the past, he wasn't surprised at the market's rise following his company's announcement, and said that the rise even confirmed his bearish call.

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In March 2001 ECRI predicted a recession, and by May the stock market had risen 14 percent only to decline by one-third over the next 16 months. And in March 2008, following another recession prediction by ECRI, stocks rose nearly 10 percent over the next two months before collapsing 42 percent over the next nine months.

If ECRI's September 30 call that a new recession is here is correct, and the stock market reacts similarly, the S&P 500 could start its decline very soon, with the index possibly going as low as 750 (a 40 percent decline) over the next year or so.

As the stock market is at best only one indicator of what might happen in the future, it helps to look elsewhere to see what's happening in the real world. The [Beige Book](#), published eight times a year by the Federal Reserve, uses anecdotal evidence (real people's stories) across the nation's 12 Federal Reserve districts and then draws conclusions from that evidence about the future. The latest report was, at best, "hedgy," noting that "economic activity continued to expand in September, although many Districts described the pace of growth as 'modest' or 'slight.'" And even those small indications of growth may be suspect, according to Eduardo Martinez at Moody's Analytics, who suggested that they might be just fluctuations without direction: "There's no way ... that there can be a robust consumer recovery on the horizon" with consumer confidence and unemployment numbers so dismal.

And the rise of the "misery index" to the [highest levels in 28 years](#) is indicative of how weak the economy is. The index is simply the sum of the current rate of inflation added to the unemployment rate



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(3.7 percent plus 9.1 percent) which, at 13, is the highest since President Ronald Reagan's first term in 1983.

How hard has it been for people in the real world trying to cope with the past recession and prepare simultaneously for the new one? Ernest Markey moved from Michigan to Orlando, Florida, [12 years ago](#) to start a business, Stone Giant, which installed granite countertops for homeowners in central Florida. At its peak, Stone Giant operated two factories, employed 60 people, and installed an average of 15 new kitchen countertops every day. In 2007, Markey earned \$175,000.

Today that business is gone. Markey sold his home for \$500,000 less than its value at the top of the market, and now lives in a much more modest home, driving a used car. He and his wife have just opened a stone-cutting shop but doesn't expect to recover from the losses he sustained during the housing crash. He expects his income will be a third of what it was in 2007. He told the *New York Times*, "For two years I kept thinking that things would get better. Now I think the future doesn't look so good."

Roy Pugsley owns a pool supply company in nearby Winter Garden and told the *Times* that he made 2,500 fewer sales through August of this year than he did in the same period in 2007. At the start of the recession, his business actually increased as people were spending more time at home, but people now are buying only what they need to maintain their pools.

Milcarksy's Appliance Center in Longwood has also been forced to cut back. Most of their business no longer comes from contractors but from homeowners doing their own remodeling. The store had 26 employees three years ago; today it has a dozen. Rae-Anne Crotty, a customer service manager at the store, said, "I might like to think that I'm middle class, but I'm not. I'm not anymore."

With people like Markey, Pugsley, and Crotty just surviving, it's difficult to imagine what another decline in the economy would do to them and the millions of others struggling to survive. The misguided efforts of government to attempt to improve the standard of living for everyone through its interventions in the economy have resulted in precisely the opposite result. And it doesn't appear to be over yet.



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