Economic analysis

Economics

According to the article of Michael Barbaro and Louise Uchitelle in the New York Times Magazine, there are reports saying that American consumers are cutting back from spending. Many producers are assuming that if this decline in personal consumption will continue, the economy will be heading towards the possibility of recession (Barbaro & Uchitelle). Recession is an economic issue wherein there is a decline in the level of real national output over successive months. An abrupt slowdown in the rate of production, expenditure and income can be interrelated with recession (tutor2u).

The Business Dating Committee at the National Bureau of Economic Research (NBER) defines recession as the period wherein business activity has reached its peak and begins to drop until trade activity bottoms out while expansionary period is when the industrial activity starts to rise again (Moffat). Recession is the effect of lack of demand. Consumers tightens their belts, companies dismiss workers, state and local governments reduce expenditures on education and health care or increase taxes to be able to balance their budget. There is a direct interrelation between the nation's economy and stock market.

The stock market serves as the basis of examining the economic situation of the country. When the stock market experiences a drop down, economy is likely to drop, too. On the other hand, it is not yet proven with sufficient evidence that the stock market is the major cause of rising and falling of the economy. Stock market simply mirrors the people's beliefs and assumptions about the future economic activity. In the article, it was mentioned that from the working class to the wealthy; Americans are cutting back drastically on personal spending which accounts for seventy percent of the economy since December.

There is a decline in the sales of consumer companies such as Nordstorm, Tiffany, American express, etc. Although wages and salaries have not fallen but due to inflation, rising of gasoline prices and other energy costs, falling home values, and a volatile stock market makes even the wealthier consumers feel the pressure of avoiding too much expenses. Everyone is trying different ways to save money. Consumers are trying to be wiser and more practical on how they will spend their money.

The wages may have increased but the increase is not enough to match the increase in the basic necessities. They tighten their belts to avoid unnecessary expenditures, in other terms, as much as possible they would want to spend on what is really needed. Some consumers are focused on their eliminating their liabilities rather than spending on other unnecessary stuffs. A nation's economy is the producing and spending of goods and services. People produce things to be consumed by other people, how can they consume if no one is producing it.

Likewise, people consume to produce more (Harris). If consumers will cut back from spending or consuming products or services from producers, the products and labors will be directly affected. The producers will generate fewer products, and worst, they may opt to lay off some workers due to lesser profits that are entering because of the low demand of their products. Who needs more workers if only few products are needed to be produced? Sometimes, companies fail to recover from circumstances like that which result into bankruptcy and permanent closing of their establishment.

In effect, if all stock holders and company owners will experience the same situation, the rate of unemployment and real national output will rise, which will make the nation’s economy weak. As the demand decreases, recession is likely inevitable. What would be the effect of recession in the economy? Recession can lead to depression wherein there is a rise in unemployment and a weak stock market. If the economy is weak, further conflicts will be felt by the whole community such as greater inflation, scarcity, and many others.