The Recession is Over, In Case You Hadn't Noticed

The Associated Press reported recently that a new government survey indicates that the recession is over. Federal Reserve Chairman Ben Bernanke and analysts across the country say that the economy is showing growth again. However, what no one can predict is how deeply the so called Great Recession has permanently changed Americans' spending habits.

"A study by research firm AlixPartners concluded that once a new normal sets in after this recession ends, Americans will spend at about 86 percent of their pre-downturn level," a recent AP article reported. While the Fed expects business spending to increase in the next quarter, with a 3 to 4 percent increase predicted, it is consumer spending that truly drives the American economy.

This summer's Cash for Clunkers program will give consumer spending a little bump on the statistical charts, but those numbers may be misleading. Many consumers who spent money on cars did so in place of purchasing other consumer goods. Not to mention that a car comes with a car payment that will impact what funds people have available on a monthly basis, thus effecting consumer spending habits in the long-term.

Further impacting consumer spending is the fact that the national unemployment rate is at a 26-year high of 9.7 percent. It is widely reported that the rate is expected to reach 10 percent before the end of the year. While Austin's unemployment continues to be lower than the national average, consumers everywhere remain cautious about job security. The real estate market remains weak across the country, which is yet another thing to make the American consumer feel uncertain about the future.

As a Time magazine article recently pointed out, the ripple effect of one job loss can be felt across an entire community. When the economy is faltering and companies begin cutting back on jobs, either through layoffs or hiring freezes, it starts a brutal cycle. People begin spending less on eating out, for example. Restaurants bring in less revenue, which means less tax revenues for the city, less tips for the wait staff, less money going to suppliers and eventual layoffs in more business sectors. More job losses means less consumer spending and the cycle continues.

Sales tax revenues in Texas are down 11.6 percent from the summer of 2008, according to the Austin-American Statesman. Cities from Amarillo to Austin are having a tough time meeting budgets and are cutting back on services, like library hours and teacher salaries. Thus the cycle continues.

Normally as a recession ends, the cycle begins to change as both businesses and consumers start spending again. According to the AP this is what happened after the recession in the early eighties, helping to fuel the prosperity of the last decade. What is different this time around is the soaring housing market that had everyone feeling rich just a couple of years ago. When the housing market came crashing down, it left a lot of Americans deeply in debt in the rubble. So while jobs are scarce and incomes are down, personal debt is at an all-time high, more than doubling in the last decade (AP). Add to that the fact that the retirement funds of the large baby boomer generation have been depleted through the faltering stock market. The recession maybe over officially, but it left a new American consumer in its wake: one who is more focused on paying down debt and building retirement funds than in buying a new refrigerator or going out to eat.

About the Author

Ki's office is located in central Austin and he works in the Austin Texas real estate market. He encourages potential buyers to search for homes in the Austin MLS on his website. His site also has a blog with updated information and statistics on Austin real estate.