TABELL'S MARKET LETTER

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Recession has, for something like the past two years, been a just about indispensable topic for those whose business it is to comment on the stock market. For the entire period, we have been duly warned of the imminence of an economic contraction, and, until recently, at least we are told, evidence of that contraction has failed to manifest itself. With the existence of a downturn now widely recognized, most discussion now centers on the probable extent and depth of the future slide.

The one question not now being raised regarding a recession is "Is it over?" It is, of course, patently obvious that the answer to this question as of mid-May, 1980, is "No." It is, however, in our view, less than obvious that the question is inappropriate and quite probable that it will become more appropriate over the coming months.

We have pointed out before and will reiterate again the fact that those of us who predict recessions are not predicting a future event. The reason for this is that recessions are recognized after the fact. In all cases to date, the peak of a recession has not been formally recognized by the NBER until well after it has occurred, and very often, the recession itself remains unrecognized until well after the whole process is over and the economy has again turned up. The question for the past two years has not been when a recession would begin but when it would become obvious that a recession already begun was well under way. It is that point that has now been reached, and the job of the forecaster, at the moment, is not picking a peak but a trough.

Part of the difficulty in the current analysis of economic time series lies in the fact that their recent behavior has, in many ways, been quite different than their behavior in the past. The NBER's various indices of economic activity have tended, since World War II, to feature sharp reversals and identifiable peaks and valleys. What has generally not been a feature of these series is broad flat periods with no clearly identifiable trend. It is, however, just this sort of behavior which has characterized recent action. Those of us whose profession is playing with numbers recognize the fact that this sort of behavior makes cycle identification difficult. Thus, the long delay in recognizing the onset of a recession which has been a two-year topic of discussion.

The Bureau's leading indicator composite, however, has been in a rounding to flat formation since early 1978 with an actual peak having been reached in October, 1978. The coincident composite has been flat since the beginning of 1979, with a peak having been reached in March of that year. Housing starts peaked in the second quarter of 1978 and are currently at a little better than half their peak level. The rate of inventory change turned down at around the same time and turned negative last fall. Inflation-adjusted money supply was flat throughout 1978, turned down that fall, and has been trending downward ever since. The point is that, assuming the present is ultimately identified as a period of economic contraction, its peak will most likely be seen as taking place well over a year ago.

We are, meanwhile, seeing various pieces of evidence that point to the maturity of the process. The recent behavior of short-term interest rates, widely described as extraordinary, suggests one such instance. Their behavior, admittedly unprecedented, is less than extraordinary, when one pictures a Federal Reserve concentrating more and more on monetary aggregates and less and less on interest rates. At a time when the talk is still of monetary restraint, the Fed may be becoming an actual supplier of funds to the banking system. Under these circumstances, behavior of interest rates is simple evidence of reduced loan demand due to an economic contraction in its advanced rather than its early stages.

It must be remembered, moreover, that economic indicators foreshadow bottoms with a much shorter lead time than is the case with tops. In a fair number of cases, the delay in getting the figures out is just about the same as the lead time. Thus the condition at the bottom of a recession is the announcement of new lows by most indicators. It is well to keep this in mind at the moment, since this is precisely the condition which is likely to obtain for the next few months.

We do not think that the action of the stock market over the past two years suggests that it has ever disbelieved in the existence of a recession or that the recession was going to be unusually mild. We suspect, therefore, that its response to the obviously forthcoming announcements of economic contraction may be more positive than many analysts suspect.

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Dow-Jones Industrials (12:00 PM)	822.70
S & P Composite (12:00 PM)	106.89
Cumulative Index (5/15/80)	787.68

AWT:sla