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CHANGES IN ECONOMY, BUSINESS FOSTER SOFT LANDING

BY SHARMAN ESAREY

CHICAGO, OCT 5, REUTER - BETTER INVENTORY CONTROL, A LARGER SERVICE  
SECTOR AND A STABLE, MORE OPEN CENTRAL BANK POLICY MAY HAVE PROVIDED A  
FOUNDATION FOR THE U.S. ECONOMY'S SOFT LANDING, ECONOMISTS SAID.

AND NOW, IN THE SEVENTH YEAR OF ITS LONGEST PEACETIME EXPANSION, THE  
U.S. ECONOMY APPEARS SET FOR ANOTHER REBOUND, HAVING PERHAPS AVERTED A  
RECESSION WHICH TYPICALLY FOLLOWS SUCH PROTRACTED ECONOMIC STRENGTH, THEY  
SAID.

"IT'S NOT CLEAR THAT EVERY LOW POINT HAS TO BE A RECESSION," SAID  
AMPBELL HARVEY, ASSISTANT PROFESSOR OF FINANCE AT DUKE UNIVERSITY'S FUQUA  
SCHOOL OF BUSINESS.

RECESSION, TRADITIONALLY DEFINED AS AT LEAST TWO CONSECUTIVE QUARTERS  
OF NEGATIVE GROWTH IN REAL GROSS NATIONAL PRODUCT, FOLLOWED ALL THE  
PREVIOUS EIGHT EXPANSIONS SINCE WORLD WAR II. THE SHORTEST RECESSION IS  
LESS ONE OF THE MOST RECENT, HAVING OCCURRED BETWEEN JANUARY AND JUNE OF  
1980.

CHANGES IN THE U.S. ECONOMY HAVE MODERATED THE CYCLE OF BOOM AND BUST,  
SAID VICTOR ZARNOWITZ, PROFESSOR OF ECONOMICS AND FINANCE AT THE UNIVERSITY  
OF CHICAGO BUSINESS SCHOOL.

THE MODERATION "HAS ACCELERATED IN RECENT YEARS. ALTHOUGH I BELIEVE  
MUCH OF THE PROCESS IS BEHIND US. I'M NOT SURE IT WILL PROCEED AT THE SAME  
RATE," HE SAID.

SOME ECONOMISTS SPECULATE THAT THE MODERATION IN THE BUSINESS CYCLE  
MAY HAVE HAD PARTLY TO DO WITH COMPANY INVENTORIES, WHICH HAVE EXACERBATED  
PAST SWINGS.

"INVENTORIES ARE MUCH MORE TIGHTLY MANAGED THAN IN THE PAST," SAID  
AMES VAN HORNE, A PROFESSOR OF FINANCE AT STANFORD UNIVERSITY'S BUSINESS  
SCHOOL. "WE DON'T HAVE THESE ACCUMULATIONS."

FACING OVERFLOWING STORE ROOMS, COMPANIES WERE FORCED TO SWIFTLY PARE  
PRODUCTION AND WORKERS, ACCELERATING ECONOMIC CONTRACTION.

AND ZARNOWITZ CITED THE ENORMOUS GROWTH OF THE SERVICE SECTOR, WHICH  
HE SAID NOW REPRESENTS MORE THAN 60 PCT OF GNP. "WE HAVE A VERY LARGE  
PROPORTION OF SERVICES (WHICH ARE) MUCH MORE STABLE THAN GOODS. SERVICES  
CAN'T BE STORED."

IN ADDITION, POLICIES AT THE FEDERAL RESERVE UNDER CHAIRMAN ALAN

GREENSPAN HAVE BEEN EASIER TO ANTICIPATE, ALLOWING BUSINESSES TO BETTER PLAN INVESTMENT DECISIONS.

"IT'S MORE OF A POLICY WITH FEWER SURPRISES: SOMETHING LIKE BUSINESS AS USUAL," DUKE'S HARVEY SAID.

THESE CHANGES MAY HAVE BUOYED THE U.S. ECONOMY DURING SOME OF THE POTENTIALLY DEVASTATING SHOCKS OF THE 1980S, SUCH AS THE STOCK MARKET CRASH, THE ECONOMISTS SAID.

THE 1987 CRASH WAS "DEFINITELY A SHOCK. (BUT IT WAS NOT) TRANSLATED INTO A RECESSION. IT POTENTIALLY COULD HAVE HAD AN IMPACT AND DIDN'T," HARVEY SAID.

ALTHOUGH FEARS OF AN UPCOMING RECESSION ARE ABATING, THE ECONOMY MAY REMAIN VULNERABLE TO A SURPRISE, PARTICULARLY AN EXTERNAL ONE, SUCH AS THE SHARP RISE IN OIL PRICES WHICH LED TO A RECESSION IN THE EARLY 1970S, THE ECONOMISTS SAID.

"THE BIG QUESTION MARK IS: IF THERE WAS AN EXTERNAL SHOCK, COULD THE ECONOMY RIDE IT OUT? IT'S JUST NOT CLEAR," HARVEY SAID. REUTER