The business cycle

Key indicators

To assess the state of a country’s economy, commentators look at key indicators such as:

- the jobs market – how many people are in employment and how many are out of work or unemployed.
- disposable incomes – what people have available to spend after buying essentials such as food, electricity, etc.
- retail sales / consumer spending – how much people are spending in the shops. This is related to consumer borrowing – how much people have borrowed in loans, on their credit cards, etc.
- the property or housing market – house prices, and the price and availability of mortgages – loans to buy property. Interest rates decided by a country’s central bank – how much it costs to borrow money – are very important in this context.
- inflation – how fast prices are rising.
- financial markets, including the stock market for company shares.
- the trade balance – how much the country is importing and exporting. If it exports more than it imports, it has a trade surplus; if it imports more than it exports, it has a trade gap.
- exchange rate – the value of a country’s currency.
- government spending – the amount that the government is paying for everything that it provides. There is a budget surplus when a government takes in more in taxes than it spends; there is a budget deficit when a government takes in less in taxes than it spends.

The business cycle

Economic growth is when a country’s economic activity increases. Typically, when the economy recovers from a trough – its lowest point – there is a period of recovery when growth starts to pick up – speed up. This is followed by a phase of prosperity when people and companies have money to spend and feel confident about the future. These two phases make up a period of expansion.

The economy then peaks or reaches its peak – highest point – and starts to decline – grow more slowly. The economy may even shrink in a period of contraction or contract in a slowdown – get smaller – before it reaches a trough or bottoms out and starts to grow again. This is the economic or business cycle.

Boom and bust

When the economy is booming – growing fast – commentators start to talk about the risks or signs of overheating, with key indicators getting out of control, and a loss of economic stability. They talk about the need for a soft landing, with the government aiming to bring economic activity back to more sustainable levels – ones that can be continued – without the economy going into recession – technically, a period of declining activity lasting two consecutive quarters (six months) or more.

A long period of severe recession is a depression or a slump. This whole process is referred to, slightly informally, as the boom and bust cycle.
46.1 Match these headlines (1–9) with the issues that they relate to (a–i) in A opposite.

1 Shares in biggest one-day rise for 10 years
2 Average house price now €203,000
3 Jobless at lowest for 12 years
4 CONSUMERS IN RUSH TO MALLS
5 Dollar falls to 15-year low against yen
6 Average pay rises 3 per cent – gas, electricity fall
7 TRADE GAP WIDENS BY RECORD £500 MILLION
8 Government borrowing rises to unprecedented levels
9 Consumers and firms hit by price jump shock

46.2 Use nouns from B opposite to complete the labels in this diagram.

46.3 Use correct forms of expressions from C opposite to complete these sentences.

1 Britain’s economy ..................................... for most of the ‘Blair decade’, growing by 3 or 4 per cent per year.
2 The Chinese Central Bank raised interest rates, a move aimed at reducing the risk of .................................................. in an economy that is growing at more than 11 per cent per year.
3 The president said he is concerned but believes the market will find a ........................................... without substantial government intervention, and will not go into a recession.
4 Government spending went well beyond sustainable levels during the boom and this threatened ..............................................
5 The Turkish economy had a sudden reversal and experienced a severe ............................................., following growth of 8 per cent the previous year.
6 In the gold industry, ............................................. cycles last an average of ten years.

Over to you
At what point in the business cycle is your country right now? What is the state of some of the key indicators?