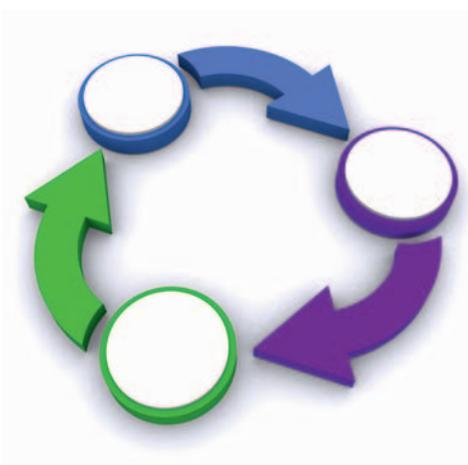


# 46 The business cycle

## A Key indicators

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

- a the **jobs market** – how many people are **in employment** and how many are **out of work** or **unemployed**.
- b **disposable incomes** – what people have available to spend after buying essentials such as food, electricity, etc.
- c **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.
- d 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.
- e **inflation** – how fast prices are rising.
- f **financial markets**, including the **stock market** for company shares.
- g 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**.
- h **exchange rate** – the value of a country's **currency**.
- i **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.



Note

property, housing: BrE and AmE  
 real estate: AmE only

## B 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**.

## C Boom and bust

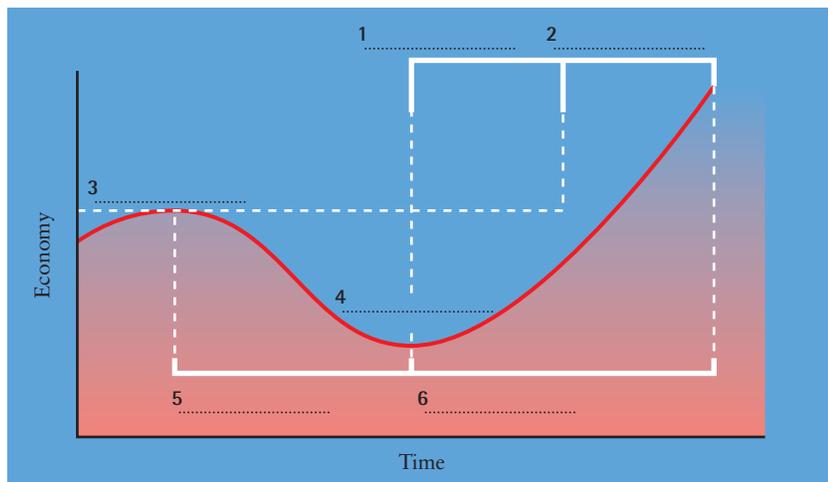
When the economy is **booming** – growing fast – commentators start to talk about the **risks** or **signs of overheating**, with key indicators getting out of control, and a loss of **economic stability**. They talk about the need for a **soft landing**, with the government aiming to bring economic 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 | <b>Shares in biggest one-day rise for 10 years</b> | 6 | <b>Average pay rises 3 per cent – gas, electricity fall</b> |
| 2 | <b>Average house price now €203,000</b>            | 7 | <b>TRADE GAP WIDENS BY RECORD £500 MILLION</b>              |
| 3 | <b>Jobless at lowest for 12 years</b>              | 8 | <b>Government borrowing rises to unprecedented levels</b>   |
| 4 | <b>CONSUMERS IN RUSH TO MALLS</b>                  | 9 | <b>Consumers and firms hit by price jump shock</b>          |
| 5 | <b>Dollar falls to 15-year low against yen</b>     |   |   |

**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.

- Britain's economy ..... for most of the 'Blair decade', growing by 3 or 4 per cent per year.
- 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.
- The president said he is concerned but believes the market will find a ..... without substantial government intervention, and will not go into a recession.
- Government spending went well beyond sustainable levels during the boom and this threatened .....
- The Turkish economy had a sudden reversal and experienced a severe ....., following growth of 8 per cent the previous year.
- 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?