



say it with Mr Złoty

HAVE FUN WITH MR ZŁOTY

Recently Mr Złoty has had an extraordinary experience. That is what he told us:

"I went to the ATM the other day and it asked to borrow a 20 till next week!"

READ AND LEARN

This month we are dealing with... recession at large!

Definitions:

In economics, the term "recession" generally describes the reduction of a country's GDP (Gross Domestic Product) for at least two quarters of the calendar year. The usual dictionary definition is „a period of reduced economic activity", a business cycle contraction. The term refers to the fluctuations of economic activity around a long-term growth trend. The cycle involves shifts over time between periods of relatively rapid growth of output (recovery and prosperity), and periods of relative stagnation or **decline** (contraction or recession).

The United States-based NBER (National Bureau of Economic Research) defines economic recession as: „a significant decline in the economic activity, lasting more than a few months, normally visible in GDP (gross domestic product) growth, real personal income, employment, industrial production, and wholesale as well as retail sales."

Precautions to be taken

Both government and business have responses to recessions. In the Philadelphia Business Journal, Strategic Business adviser Carter Schelling has discussed

precautions businesses take to prepare for **looming** recession, likening it to **fire drill**. First, he suggests that business owners **gauge** customers' ability to resist recession and redesign customer offerings accordingly. He goes on to suggest they use lean principles, replace unhappy workers with those more motivated, eager and highly competitive. He also says that „Companies, get better at what they do during bad times." He calls his program the „Recession Drill."

Regarding stock exchange, diversifying one's portfolio into international stocks may provide some safety; however, economies that are closely correlated with that of the U.S. may also be affected by a recession there. During an economic decline, **high yield stocks** such as FMCG, pharmaceuticals, and tobacco tend to hold up better.

Early symptoms

Some recessions have been **anticipated** by stock market declines. Since 1948, ten recessions were preceded by a stock market decline, by a lead time of 0 to 13 months (average 5.7 months). However, it should be noted that ten stock market declines of greater than 10% in the DJIA (Dow Jones Industrial Average) were not followed by a recession.

The **real-estate** market also usually weakens before a recession. However real-estate declines can last much longer than recessions.

Moving out of a recession

Strategies for moving an economy out of a recession vary depending on which economic school the policymakers follow. While some economists may advocate deficit spending (when spending exceeds income) by the government to **spark** economic growth, other economists may suggest tax cuts to promote business capital investment, others, still, may simply recommend that the government not interfere with natural market forces.

Recession's length

Since the business cycle is very hard to predict, top economists argue that it is not possible to take advantage of economic cycles for timing investments.

HERE IS A LIST OF WORDS/EXPRESSIONS IN RED IN THE TEXT ABOVE. PLEASE MATCH THEM WITH THEIR EXPLANATIONS.

1	decline	A	to come into view indistinctly with an enlarged and often threatening aspect (of an event) to seem ominously close
2	precautions	B	to estimate or appraise; judge
3	looming	C	the lowest point or most depressed stage of the trade cycle
4	fire drill	D	to regard as likely; expect; foresee
5	gauge	E	Real property
6	high yield stocks	F	a rehearsal of duties or escape procedures to be followed in case of fire
7	anticipate	G	an instance of shortening, shrinking
8	real-estate	H	an increase, enlargement, or development, esp. in the activities of a company
9	spark	I	diminished in large proportion
10	trough	J	gradual deterioration or loss; movement downward or towards something smaller; diminution
11	expansion	K	to animate, inspire, provoke, set in motion, set off, start, stimulate.
12	contraction	L	a stock whose dividend yield is higher than the yield of any benchmark average
13	decimated	M	an action taken to avoid a dangerous or undesirable event

KEY: 1J; 2M; 3A; 4F; 5B; 6L; 7D; 8E; 9K; 10C; 11H; 12G; 13I

Even the NBER (National Bureau of Economic Research) takes a few months to determine if a peak or **trough** has occurred in the US.

There is a view termed the halfway rule according to which investors start discounting an economic recovery about halfway through a recession. In the 16 U.S. recessions since 1919, the average length has been 13 months, although the recent recessions have been shorter. Since the 2008 recession is not an average one; the downturn in the stock market did not bottom around November 2008 as it had been predicted, some economists fear that this recession may last longer.

Recession cycles in the U.S.

Since 1854, the U.S. has encountered 32 cycles of **expansions** and **contractions** with an average of 17 months of contraction and 38 months of expansion. However, since 1980 there have been only eight periods of negative economic growth over one fiscal quarter or more, and four periods considered recessions:

- January-July 1980 and July 1981-November 1982: 2 years
- July 1990-March 1991: 8 months
- March 2001-November 2001: 8 months
- December 2007-January 2009: 13 months and counting...

From 1991 to 2000, the U.S. experienced 37 quarters of economic expansion, (economic recovery and prosperity) the longest period of expansion on record.

Current recession

The 2008/2009 recession is seeing private consumption fall for the first time in nearly 20 years. This indicates the depth and severity of the current recession. With consumer confidence so low, recovery will take a long time. Consumers in the U.S. have been hard hit by the current recession, with the value of their houses dropping and their pension savings **decimated** on the stock market. Not only have consumers watched their wealth being eroded – they are now fearing for their jobs as unemployment rises.

HAVE FUN WITH MR ZŁOTY

Mr Złoty kept wondering: "Why is advice so cheap?"

And finally he came to a simple and wise conclusion: "Because supply always exceeds demand."

COMMUNICATION SKILL PILL

Breaking bad news

In time of recession a lot of bad news have to be communicated. Look at the following expressions for breaking bad news and saying sorry and remove one extra word from each line.

We regret to inform you that we are not unable to offer you the job.

I'm very sorry but your order has been delayed up.

Unfortunately I won't be able to make it done by Tuesday.

I am very sorry indeed about all the inconvenience has caused.

I do apologize very profusely for his unacceptable behaviour.

I'm afraid I've got to some bad news for you: you'll have to cancel your holiday.

KEY: 1 not, 2 up, 3 done, 4 has, 5 very, 6 to

Responding to bad news

Now think how you could respond to such bad news and do the same with the following lines:

That's indeed terrible!

That must have been awful enough!

Sounds such terrifying!

Oh my dear God!

You must be feeling so absolutely terrible!

Any time you need to talk to just call me.

KEY: 1 indeed, 2 enough, 3 such, 4 dear, 5 so, 6 to

COLOUR UP YOUR ENGLISH

'Make hay while the sun shines' is an English saying. How about learning some more, this time crisis-related, sayings?

Rearrange the words in each line so that they form English sayings/ proverbs defined below

- lemons/ lemonade/ when/ make/ life/ you/ gives

It means that when things are going badly, you should try to find the positive and even then look for opportunity.

- lining/ has/ cloud/ every/ a / silver

It means that there is a positive or hopeful side to every unpleasant situation.

- never/ pours/ rains/ never/ it/ it/ but

Misfortunes usually come in large numbers

- time/ saves/ stitch/ in/ a/ nine

It's better to deal with a problem at an early stage, to prevent it from getting worse.

- before/ is/ the/ it/ always/ dawn/ darkest

The most difficult time is just before a problem is solved.

KEY: 1. When life gives you lemons, make lemonade; 2. Every cloud has a silver lining; 3. It never rains but it pours; 4. A stitch in time saves nine; 5. It is always darkest before the dawn



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