

# Is this just the beginning of a depression?

---

Dec 10, 2009 12:28 EST

economics

David Rosenberg, the former Merrill Lynch economist now at Gluskin Sheff, has another of his very bearish reports out, and kicks off with [this observation](#):

*The credit collapse and the accompanying deflation and overcapacity are going to drive the economy and financial markets in 2010. We have said repeatedly that this recession is really a depression because the recessions of the post-WWII experience were merely small backward steps in an inventory cycle but in the context of expanding credit. Whereas now, we are in a prolonged period of credit contraction, especially as it relates to households and small businesses.*

This rings true to me. The recession vs depression debate is really a matter of semantics, but the facts are that although markets have rebounded impressively, and big companies have regained access to credit, most of the economy and its working-age population will continue to suffer the effects of the current deleveraging for the foreseeable future.

America's demographics don't help, either:

*The last time we had a consumer recession in the early 1990s, the boomer population was in their early 30s and they were still expanding their balance sheets. The last time we had a bubble burst in 2001 they were in their early 40s. Now they are in their early 50s, the first of the boomers are in their early 60s, and we are talking about a critical mass of 78 million people who have driven everything in the economy and capital markets over the last five decades.*

I'm not optimistic that those of us in the post-boomer generation will be able to rekindle America's historic rates of growth even as the percentage of the population of working age continues to dwindle and the boomers continue to demand the lifestyle to which they have become accustomed.

The point here is that while most recessions are cyclical phenomena, this one could mark a secular turning point — the beginning of the end of America's hegemony in the global economy and the capital markets. And the turning point has come too early, before the rest of the world has generated enough internal momentum to take America's place.

None of this means that Rosenberg's market strategies are going to make money: even when economists are right about the economy, they're often wrong about what that means for asset prices. But if you think that a happy stock market means a happy economy, it's definitely worth reading Rosenberg to see just how big the disconnect between the two might be.

<http://blogs.reuters.com/felix-salmon/2009/12/10/is-this-just-the-beginning-of-a-depression/>