

The fall and winter seasons of the economic cycle

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April 21st, 2015

(Since April is Financial Literacy Month, a number of articles will be devoted to more educational topics. This is Part III in a series about how understanding economic cycles could inform your financial decisions. Part I is [Understanding economic cycles: An introduction](#). Part II is [Recognizing economic seasons: recovery and growth](#).)

You will recall from Part II of this short series about economic seasons that the spring of early recovery and the summer growth season resemble the corresponding seasons in nature fairly closely. In this post, we will look at the other two seasons of the economy: fall and winter.

But before we do, it is important to keep in mind that, though the seasons in nature change every three months, the seasons of an economic cycle do not have a fixed length. In terms of economic cycles, a season can last years; and it is difficult to set a calendar to know when the season changes.

As in nature, we have two change seasons (spring and fall) and two main seasons (summer and winter). Last time we looked at one of each. Here are the other two.

Fall — the season of harvest

In nature, fall is a pleasant time. As the leaves begin to change color, our activities ramp up. We mark the season with our favorite festivals, holidays, and pastimes like Halloween, Thanksgiving, and football. The cooler temperatures remind us to prepare for the approach of winter: Patio furniture is put away, furnaces are tested, and swimming pools are drained.

Our fictional farmer, Farmer Fred, loves fall too — because it is the season of harvest. It is an exceptionally busy time: All hands are on deck as everyone gets up before dawn and works, works, works late into the night. It is non-stop hustle until the last load is dropped off at the co-op or silo.

It is also the season of payment: Once the crop is delivered, it isn't long before the check for the year's crop arrives. It is pretty much the only time Banker Bob sees Fred, who makes sure to deposit those nice checks in person. This is what he has been working for all year. He has

enough in the bank for next year's supplies plus the annual maintenance on all the equipment, and some left over for any unexpected opportunities which may arise.

Farmer Clod, on the other hand, is not as fortunate. He sees the heavily laden trucks as they lumber by ... but his crop isn't ready for harvest yet. He wanted to be *sure* that winter was over before he started to plant, remember? But he waited too long. His crop is still very green, looking very promising, but there is no harvest.

But then Farmer Clod gets a pleasant surprise: Banker Bob is flush with cash from all those deposits, and he is desperate to make loans — that is the only way *he* can make money. He calls Clod, who jumps at the opportunity.

Buoyed by a huge loan, Clod goes on a buying spree: new combine, new barns and, while he's at it, he does a major plow and plant for the next season. Everyone marvels at Clod's sudden prosperity and they invite him to speak at the Chamber of Commerce. To look the part, he has to lease a Lexus.

Fall in the economy

Spring and summer in the economy made for an easy mental connection to the seasons of nature, as you saw in the [previous article](#) about economic cycles.

However, fall in the economy is quite different. In nature, the temperature drops, warning us of the impending winter. In the economy, the opposite happens — instead of cooling down, the economy gets hotter and hotter. Economists often use the term “an overheated economy” to describe this condition. In other words, it's like summer, only more so.

What makes it worse is that summer is our favorite season and we *want* it to continue. Thankfully, summer is the longest of the economic seasons (measured in years). But it is especially hard to see the transition to fall, because it really is “more of the same, only more so.”

The telltale signs of fall in the economy

If there is one thing that marks fall in the economy, it is rising prices. Home values go up and that makes us feel rich. The quarterly reports we get for our 401(k) plans and IRAs make us feel more secure about our financial future. Rents for homes and apartments go up, just like rent for warehouses and offices. Car prices go up because demand begins to exceed capacity. Cruises are booked up and, consequently, airfare rises too.

Jobs are easier to come by during the fall season in the economy. Overtime is prevalent. Raises, which were like pulling teeth just a short while ago, become the norm again. Bonuses sprout like oranges and promotions accompany expanding headcounts.

Higher prices reflect shortages. To meet the higher demand, construction explodes. New offices, new stores, new plants — virtually everywhere you look, you see construction cranes. Lots which stood empty for years all have construction crews on them — all at top prices. If you are

in construction, you understand in winter and spring that the low bid wins, no matter what. In summer, that eases up; but in fall, all you need to do is bid and you have the job. All of your competitors are slammed and your customer is only too happy to get a bid.

Another sign of fall in the economy is rising levels of debt. That is because banks have more money to lend, so they put the squeeze on their sales force to find more loans to sell. In addition, borrowers adopt a mindset that the good times will last forever, so the payments are safe.

Though we may not discern them, bubbles in prices of things like homes, art, collectibles and, of course, the stock market start to form. The *zeitgeist* in fall is “happy days are here again and they will never end” again.

But unlike in nature, in the fall season of the economic cycle, there is no warning of the shift to the next season.

Winter — the season of recession

It is easy to mentally associate the chill of winter with recession; but here, too, there is a significant difference between nature and the economy: The transition in the economy from fall to winter is abrupt. It can happen in as little as a week or two.

The typical scenario is a dramatic stock market crash, after which corporations panic and cut, cut, cut. The raises we enjoyed in the fall were actually rising prices to our employers, so they lay off millions of workers and cut all expansion projects. (Like Farmer Clod, most corporations embark on overpriced expansion plans at exactly the wrong time.) The layoffs ripple through the economy, as workers fall behind and default on payments for cars, homes and credit cards. Governments panic as their revenues from income, sales and property taxes shrink. They freeze raises and hiring, cut overtime, and don't replace people who leave.

In general, jobs evaporate, home prices drop, and the values of index funds, 401(k) funds and IRAs all drop precipitously. Stores close, banks disappear and the news headlines ooze fear and pessimism. For many people, it's the pits. *But not for everyone.*

Some people love wintertime

Farmer Fred loves winter — it is his season of rest. His [savings account](#) is brimming, work is over, and it is time for Christmas vacation. Last year was Scottsdale; this year, the trip to Barbados is all paid for in cash.

Farmer Clod gets wiped out. All his crops are gone. The bank is under pressure and they call, demanding payment. Clod can't pay and, a few months later, the bank forecloses.

Fred saw it coming and isn't surprised to get Banker Bob's call when he gets back from vacation. All Clod's assets will be auctioned off on the 15th. Freddy is ready, and he scoops up Clod's farm for pennies on the dollar, complete with almost-new equipment and barns.

Without a real understanding of the seasons, Farmer Clod is likely to blame global warming, incompetent politicians, corrupt bankers, Wall Street, and the communists for his demise.

Success and the importance of timing

It is interesting that Farmer Fred faced exactly the same set of circumstances but prospered anyway. The only difference between the two is that Fred understood when to do what, while Clod did not.

Notice that Fred's wealth was determined by what he did in the winter and spring, and what he did *not* do in summer and fall.

Hopefully, you can see that this perspective of the economy involves far more than your investments. It applies to your job, your home, your investments and even your vacations — everything you do with your money. As that '60s song said, "To everything ... there is a season."

In the next installment, we will wrap it up and see what lessons we can learn from Fred and Clod to maximize what we can get from understanding each of the seasons of the economy.