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## Market spotlight: Recession letters

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NEW YORK (AP) - Economists have never been confused for great communicators, but their latest pronouncements have been even more cryptic than usual.

Long considered numbers geeks in the popular mind, these prognosticators have been talking a lot about letters in recent weeks when it comes to describing how the U.S. economy will emerge from its current malaise.

Most are hoping for a 'V'-shaped recovery, while others warn this downturn feels more like a 'U' or even a 'W.' No one has forecast the dreaded 'L' - at least not yet.

So what are these guys talking about?

The letters represent the shape of a graph that depicts the economy's trajectory from a peak through a recession and back to growth. The 'V,'

for example, would be most favorable, since its point would mean the economy touched ground and bounded higher without pause.

And that seems to be the most common forecast -- that the flagging economy will bottom some time midyear before picking up steam toward year's end after a series of monetary policy measures take effect.

The economy began to cool last year amid a meltdown in the housing market. As home prices fell, risky mortgages started to falter, sending shock waves through the markets that trade securities backed by those assets.

That touched off a crisis in all credit markets as lenders became unsure about whom to trust with new loans. With credit generally more expensive, economic activity has slowed.

The Federal Reserve, which controls monetary policy by setting target interest rates and controlling money supply, has slashed its target rate by 2.25 percentage points since September. The aim is to make credit cheaper and spur more business investment.

The Bush Administration pushed for and got a \$168 billion tax rebate in hopes of catalyzing consumer spending, which accounts for about two-thirds of U.S. economic activity and is in danger of slowing as people, concerned about job security, postpone purchases.

Because the Bush rebates won't be paid until at least May, and the Fed's moves typically take at least six months to have an effect, many expect a first half recession -- technically defined as two quarters of contracting gross domestic product.

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If those policy moves work as planned, though, they are expected to drive a quick recovery from the bottom some time later this year. That would be the most welcome scenario on the capital markets.

But **Citigroup** (nyse: [C](#) - [news](#) - [people](#) ) analyst Tobias Levkovich says the likelihood of a 'V'-shaped recovery seems 'modest' because of concerns in the second half about the elections and 'excessive earnings expectations.'

He thinks the more likely shape will be a 'W' -- in which 'an initial bump from the temporary fiscal stimulus and some impact from the Fed's recent actions' will then be overcome by the political uncertainty and profit concerns. That would result in another decline before the recovery takes hold in earnest.

The chances of an 'L'-shaped recovery are slim, most economists say. That depicts an economy that falters and remains stagnant over a longer period, like what happened in Japan starting in the 1990s.

'We won't have an 'L' because Bernanke and his cohorts are trying everything,' said Axel Merk, manager of the Merk Hard Currency fund. He said the policy proposals will prevent the deep recession, but warned they won't deliver a quick fix.

'Frankly they seem a little reckless because of inflationary pressure,' he said.

Rising oil prices and the sharply declining value of the dollar make goods and services in the U.S. more expensive, even as U.S. exports become more attractive. And any economic growth tends to bring even higher prices.

Economists concerned about these issues tend to predict a 'U'-shaped recovery, with a prolonged trough over several quarters before growth resumes.

In that case, it won't be cheaper credit that will spur economic activity, Merk said, but rather a revaluation of the costs to lend in a market where confidence is low.

'We need lower home prices and lower prices for financial institutions that need money, not lower interest rates,' he said.

The fund manager said the 'U' scenario is most likely, but added that its shape will 'look like a bathtub.'

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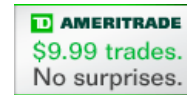
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