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U.S. Economy Faces Recession Risks, Says Economist

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Economist Mark Zandi of Moody's Analytics has raised concerns about the U.S. economy following the Bureau of Labor Statistics' August 1 report. He warned that current trends point to the economy being "on the precipice of recession."

In a post on X, Zandi noted that consumer spending has stagnated, construction and manufacturing are contracting, and employment growth is slowing. "With inflation rising, it is difficult for the Federal Reserve to provide relief," he added.

Zandi previously described employment as the "remaining firewall between a weakening economy and recession." However, recent revisions to May and June job gains reduced the total by 258,000 positions. This adjustment brings the three-month average increase to just 35,000, a pace more typical of early recession conditions than a healthy economic expansion.

The slowdown is not limited to hiring. Consumer spending growth in the first quarter has remained weak, housing investment has declined for several months, and manufacturing output is down year-over-year. While GDP grew 3% in the second quarter, much of the increase stemmed from reduced imports rather than robust domestic demand. Tariff uncertainties are also affecting hiring and investment decisions.

If a recession occurs, workers in sectors sensitive to economic shifts, such as construction, manufacturing, transportation, and retail, are often the first to experience layoffs or reduced hours. However, modern economic trends suggest a broader impact. Advances in artificial intelligence may reduce demand for certain entry-level white-collar jobs, while government workforce reductions earlier in the year could further depress spending in local economies.

Small businesses may face early strain as consumer spending declines. Reduced revenue from discretionary purchases can quickly create cash flow issues. Businesses without sufficient reserves or flexible operations may need to reduce staff, delay investments, or close entirely.

Experts emphasize that there are measures individuals can take to mitigate potential economic shocks. Building an emergency fund covering at least three months of living expenses is a key safeguard. Protecting existing savings in low-risk, accessible accounts can further buffer against sudden income loss.

Debt management is critical. Paying down high-interest balances frees up income and reduces exposure to rising borrowing costs if credit tightens. Reviewing monthly expenses and trimming non-essential spending can also create financial flexibility.

Diversifying income sources can provide additional security. Options include freelance or contract work, enhancing skills for greater employability, or reconnecting with professional networks. Small business owners might consider strengthening cash reserves, renegotiating supplier contracts, or adjusting operations to withstand fluctuations in consumer demand.

While the U.S. has not officially entered a recession, warning signs are evident. The pace of economic growth, employment trends, and consumer behaviour will determine whether a downturn materializes. Proactive financial planning can help individuals and businesses weather potential challenges.

Even if a recession does not occur, adopting these practices can strengthen personal finances. Building savings, reducing debt, and managing spending provide a solid foundation for financial stability. Preparing now can reduce the impact of future economic uncertainties and help maintain flexibility in a changing market.