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National Economic Trends

THE FEDERAL RESERVE BANK of ST. LOUIS

Long Expansions

This month, the current economic expansion enters its seventh year. That means that the U.S. economy has produced positive growth in the real value of goods and services more or less continuously since 1991. Some analysts have noted that the current expansion is mature by the standards of postwar U.S. economic history, and that one might reasonably expect a recession in the not-too-distant future. Is this true? Can we safely say anything about expansions based solely on the fact that they have been continuing for some length of time? A look at the data suggests that the answer is—probably not.

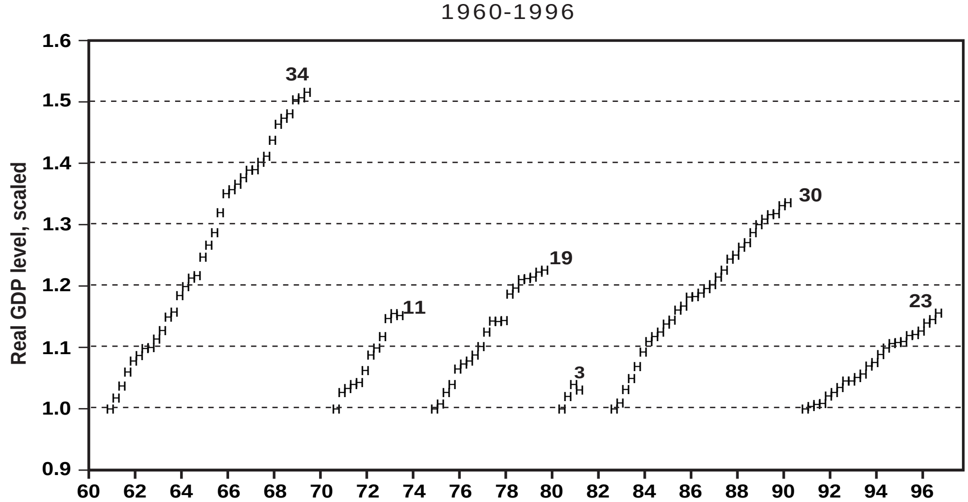
The chart gives us a way to compare economic expansions since 1960. The data are the real value of gross domestic product (GDP), quarterly, since 1960, measured as a chain-weighted quantity index and scaled so that beginning-of-expansion output is equal to one. The scaling means that we can interpret the middle- or end-of-expansion level of GDP as a multiple of the beginning-of-expansion level of GDP. The end of an expansion is the last quarter before the onset of a recession, as defined by conventional NBER dating. The next expansion then begins with the level of output in the last quarter of the recession. The numbers indicate the length of the expansion expressed in quarters.

The chart shows that expansions sometimes take a long time to unfold, and there have not been enough of them to make any sturdy inferences about what the typical length might be. Although the current expansion appears to be somewhere in the middle in terms of length, there is no evidence to suggest that the 34-quarter expansion in the 1960s represents some kind of upper limit on how long an expansion can continue.

It is also clear from the chart that the relative level of output so far in the current expansion is far below the relative level of output at similar points in the two longest expansions. If it were the 1960s all over again, the economy would now be producing about 1.38 times its beginning-of-expansion output. This suggests that the current expansion may have a long way to go based on the possible peak in real GDP. The 1960s, however, were witness to an influx of women into the labor force and high levels of productivity growth—influences that have tapered off in the 1990s. In part because of such trends, some economists think the growth rate of potential GDP has slowed over the postwar era, so that a long expansion today might produce slower growth, on average, than earlier expansions.

—James Bullard

Economic Expansions
1960-1996



The level of real GDP is scaled so that beginning-of-expansion output is 1. The length of an expansion is given in quarters in bold at the end of the expansion.