

## National and District Overview

# ROAD TO RECOVERY: LONGER THAN AVERAGE?

By Kevin L. Kliesen

The nation's record-long business expansion ended in March 2001, exactly 10 years after it started, according to the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER). If historical averages hold, it is reasonable to assume that the expansion will begin anew sometime early this year. Certainly, the majority of forecasters are of this opinion. Still, there are some who believe a more prolonged recession should not be so easily discounted.

### What is a Recession ?

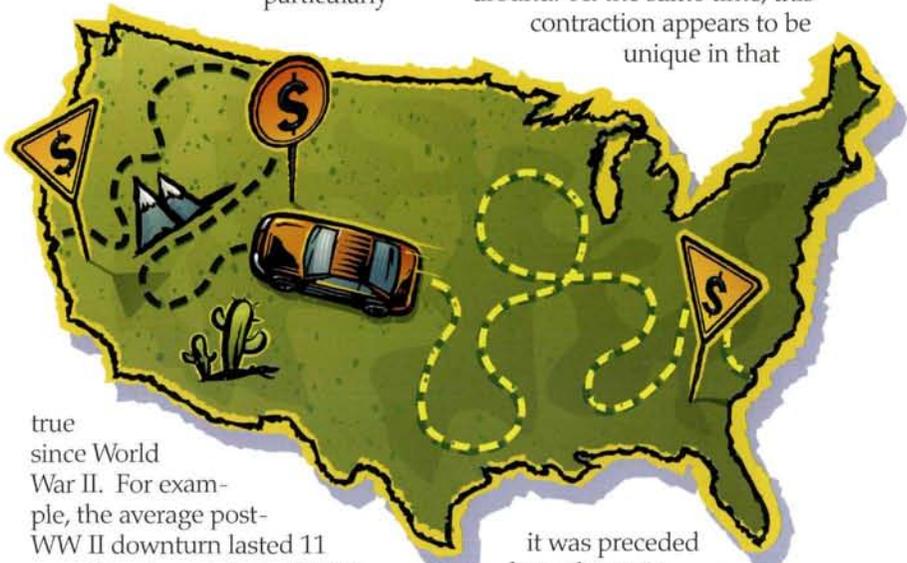
The NBER says that a recession is "a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income and wholesale-retail trade." Although highly subjective, this definition encompasses the three features common to all recessions: depth, dispersion and duration. Depth refers to a decline in economic activity; dispersion means that the downturn is felt across a broad swath of industries; duration means that the decline lasts for a certain amount of time.

Most business cycles—the period of activity that stretches from recession to recession or expansion to expansion—do not exhibit regularly occurring patterns, nor are they all caused by the same set of forces. Accordingly, recessions typically vary in the degree of their severity. Another complication is that many of the key indicators of economic activity do not turn down at the same time. For example, two key indicators that the NBER looks at peaked in 2000—industrial production peaked in June and real manufacturing and trade sales peaked in August—while another, nonfarm payroll employment, peaked in March 2001. The remaining indicator—real personal income less government benefits—has yet to reach peak (through October 2001). Interestingly, real GDP growth did not turn negative until the third quarter of 2001.

### Will This Recession Be Average?

Designating when an expansion ends is key to determining when another one might begin. Since the NBER started dating them in 1854, recessions have gotten progressively shorter over time, while expansions have gotten longer. This is particularly

sions typically arise for a variety of reasons. One factor that the current downturn appears to have in common with most previous post-World War II downturns, however, is that it was preceded by a sharp run-up in energy prices. Still, inflation remained relatively low this time around. At the same time, this contraction appears to be unique in that



true since World War II. For example, the average post-WW II downturn lasted 11 months, whereas from 1854 to 1945 the average contraction lasted 20 months. Hence, if the current recession is of the average post-WW II variety, then the economy should start to expand sometime early this year.

At present, the majority of forecasters, whose views are compiled in the Blue Chip Consensus, expect real GDP growth to turn positive some time during the first quarter of this year. This view of the near-term outlook can best be expressed in the November 2001 *Outlook* issued by the National Association for Business Economics: "The rapid easing of monetary and fiscal policy this time around should enable the economy to return to positive growth more quickly than usual and with lower interest rates and inflation than during the 1990s expansion."

Often, though, the severity of the recession depends on the set of forces that combined to cause it. In this instance, the NBER Committee did not speculate why the recession started in the first place. This is not unusual because recessions

it was preceded by a plunge in equity prices and, hence, household wealth. This plunge was followed by steep reductions in corporate profits and, especially significant, in business spending on capital goods, particularly high-tech equipment and software.

If the investment bust and the set of forces that caused it prove to be the smoking gun behind this recession, then a recovery may not begin in earnest until earnings and profits start to grow again and until businesses feel comfortable making long-term commitments. With the events of Sept. 11 creating substantial uncertainty about the prospects of additional terrorist attacks and with the ongoing government response to these threats, this recession may last a bit longer than usual, even though monetary and fiscal policies have been very stimulative of late.

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