

CALENDAR OF EVENTS

May 30

**CEO Forum with
Richard Fisher**
San Antonio, TX

June 14

TCUL-Coastal Bend
Corpus Christi, TX

June 19

Economic Roundtable
Stephenville, TX

June 27

Economic Roundtable
Wichita Falls, TX

July 31

**Economic Insights:
Conversations with the
Dallas Fed**
Webcast

August 15

Economic Roundtable
Bastrop, TX

August 22

**Community Depository
Institutions Advisory Council
Meeting**
Dallas, TX

August 30

Economic Roundtable
Lufkin, TX

For more information about these events, email FIRM at Dallas_Fed_Firm@dal.frb.org.

Branding the Great Recession

by Thomas F. Siems

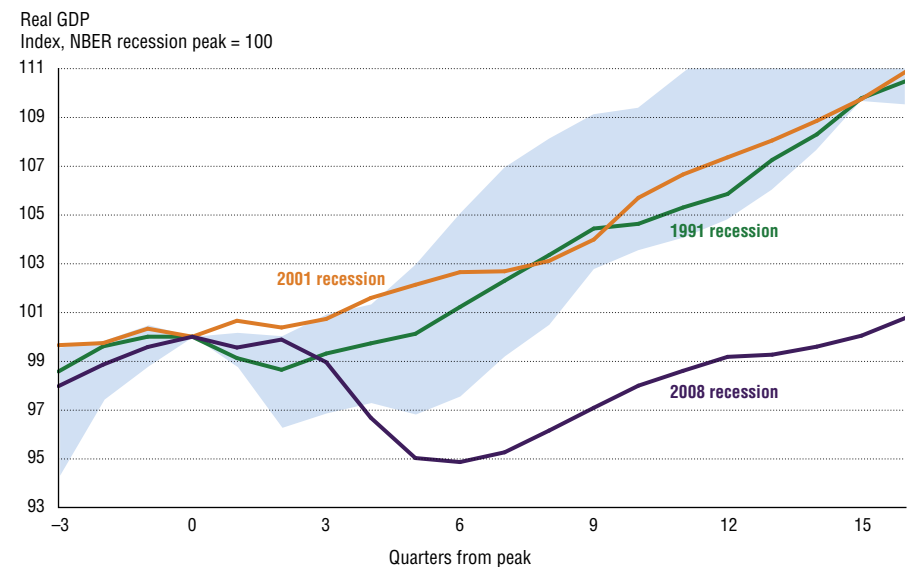
Was the 2008 global financial crisis and economic downturn—often branded the Great Recession—the worst U.S. contraction since the Great Depression of the 1930s? And how has the subsequent recovery compared with previous recoveries?

According to the National Bureau of Economic Research (NBER), the most recent recession lasted 18 months and output contracted by 5.1 percent from peak (December 2007) to trough (June 2009). Since the end of World War II and prior to the 2008 downturn, there were 10 official recessions, lasting an average 10.4 months and contracting an average 1.8 percent from peak to trough. These 10 downturns ranged from six to 16 months in length and from +0.4 to -3.2 percent in depth, as measured by real gross domestic product (GDP).

The NBER's Business Cycle Dating Committee is the generally accepted arbiter for determining the dates that mark the onset of expansions and contractions in U.S. economic activity, or business-cycle troughs and peaks. The NBER does not employ the media's rule of thumb that an economic recession occurs when there are two or more consecutive quarters of declining real GDP, even though most recessions identified by the NBER are consistent with this definition. Instead, the NBER uses a range of other indicators along with changes in real GDP: monthly indicators such as employment, real income, real sales and industrial production.

This essay examines how deep the 2008 recession was, compared with previous contractions, as well as how the current economic recovery stacks up against prior expansions. Chart 1 compares several business cycles by indexing real GDP at the NBER peak recession month for

Chart 1 GDP: Recession and Recovery Trends



NOTE: Shaded area represents the range of real GDP outcomes against the NBER recession peak for the six major U.S. recessions from 1953 to 1982.

each business cycle. The 1991, 2001 and 2008 business cycles are all superimposed on the range of real GDP activity over the previous six recessions from 1953 to 1982, excluding the short 1980 recession.

Compared with recessions since the early 1950s and examining real GDP, the 1991 recession was fairly typical, whereas the 2001 downturn was arguably not a recession at all. But the 2008 recession hit new depths and lasted nearly twice as long as an average economic contraction. Chart 1 also shows that the recovery following the 2008 recession has been longer and slower than usual. From the trough, it has taken nine quarters for economic output to return to the prerecession level. Typically, recessions return to their prerecession peak after just two quarters; the longest previous post-WWII recoveries, following the 1974–75 and 1991 recessions, took three quarters to return to peak output.

Moreover, the pace of growth following the 2008 recession has been slower than any recovery since the Great Depression. The annualized rate of growth over the nine quarters since the economy hit bottom in June 2009 has been 2.4 percent. For post-WWII recoveries, annualized growth averaged 5.2 percent over the subsequent nine quarters; for the three previous recoveries, annualized growth averaged 4.0 percent over the same period.

Also of great concern is the impact that recessions have on jobs. In a similar manner as in Chart 1, Chart 2 displays how nonfarm payroll employment levels compare over several business cycles. As shown by the shaded area, recessions from 1953 to 1982 typically lost 2.7 percent of the workforce (ranging from a decline of 1.2 percent to 4.2 percent). But the economy returned to prerecession employment levels usually within two years from the start of the recession, ranging from 17 to 28 months. And, while the 1991 and 2001 recessions each experienced a falloff in employment within the range for previous recessions, job growth during the ensuing recoveries was far slower than usual. It took 31 months for jobs to recover following the 1991 recession and 47 months for jobs to return to peak levels following the 2001 recession. Indeed, the phrase “jobless recovery” was painfully introduced to the economist’s lexicon following the 1991 recession and was resurrected following the 2001 recession.

For the 2008 recession, the depth of job losses—declining 6.3 percent from peak to trough—was by far the most severe since the Great Depression. For the subsequent recovery, job gains have been meager, rebounding at a flatter trajectory than the two previous jobless recoveries and considerably

DALLAS FED RESOURCES

Texas Economic Indicators

Economic Updates

- Regional—“Regional Economy Picks Up”
- National—“Outlook Remains Positive but Cloudy”
- International—“Sustained Recovery Dependent on Euro-Area Resolution”

Dallas Beige Book

Texas Business Outlook Surveys

Agricultural Survey

Southwest Economy

“Texas Economy Moves from Recovery to Expansion”

Banking and Community Perspectives

“Pathways to Financial Advancement: A Case Study”

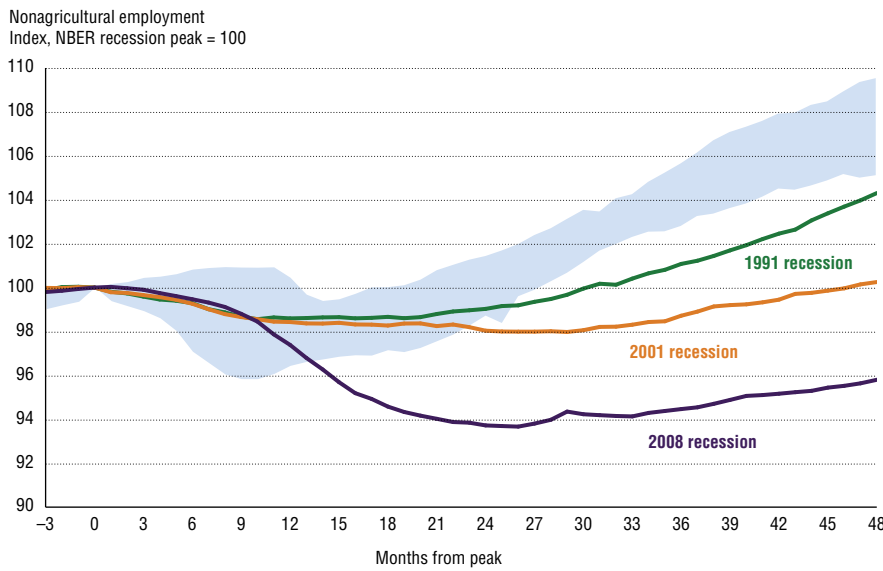
e-Perspectives

“Texas Housing and Mortgage Update”

Economic Letter

“Default and Lost Opportunities: A Message from Argentina for Euro-Zone Countries”

Chart 2 Employment: Recession and Recovery Trends



NOTE: Shaded area represents the range of employment outcomes against the NBER recession peak for the six major U.S. recessions from 1953 to 1982.

below normal. At more than four years since the recession began, nonfarm payroll employment is still 3.7 percent below the prerecession level, and it is likely to take many more months of solid job gains—perhaps another two to three years—before employment fully rebounds.

Depicting the 2008 economic downturn as the Great Recession seems justifiable. It was the longest and deepest economic contraction, as measured by the drop in real GDP, since the Great Depression. And the time it took to return to prerecession peak output was far longer than any other post-Great Depression recovery. Job losses during the Great Recession were also the most dreadful since the Great Depression. And, for the nation as a whole, job growth has been muted during the recovery.

Siems is a senior economist and director of economic outreach in the Financial Institution Relationship Management Department at the Federal Reserve Bank of Dallas. Send comments or questions about this article to the author at Tom.Siems@dal.frb.org.

ABOUT FINANCIAL INSIGHTS AND FIRM

Financial Insights is published periodically by FIRM – Financial Institution Relationship Management – to share timely economic topics of interest with financial institutions.

FIRM was organized in 2007 by the Federal Reserve Bank of Dallas as an outreach function to maintain mutually beneficial relationships with all financial institutions throughout the Eleventh Federal Reserve District. FIRM's primary purpose is to improve information sharing with district financial institutions so that the Dallas Fed is better able to accomplish its mission. FIRM also maintains the Dallas Fed's institutional knowledge of payments, engaging with the industry to understand market dynamics and advances in payment processing.

FIRM outreach includes hosting economic roundtable briefings, moderating CEO forums hosted by Dallas Fed senior management, leading the Dallas Fed's Community Depository Institution Advisory Council (CDIAC) and Corporate Payments Council (CPC), as well as creating relevant webcast presentations and this publication. In addition, the group supports its constituents by remaining active with financial trade associations and through individual meetings with financial institutions.

Contact us at Dallas_Fed_FIRM@dal.frb.org.

Noteworthy Items

Richard Fisher's speech before the Dallas Regional Chamber of Commerce

In this speech ("Not to Be Used Externally, but Also Harmful if Swallowed: Projecting the Future of the Economy and Lessons Learned from Texas and Mexico"), Dallas Fed President Richard Fisher concludes that monetary policy has largely done its job and that it is now up to Congress and the executive branch to create the right environment for businesses to create jobs and for consumers to help drive the economy forward.

<http://www.dallasfed.org/news/speeches/fisher/2012/fs120305.cfm>

Richard Fisher's speech before the Texas Bankers Association's annual convention

In this speech ("Adios 'Texas Ratio'"), Dallas Fed President Richard Fisher concludes that Texas is home to the nation's best-run banks, and Texas is the best-performing economy in the country. Fisher shows how the Texas economy has outperformed the nation and other large economies in creating jobs, how Texas banks continue to outperform the nation and why the so-called Texas ratio should be renamed.

<http://www.dallasfed.org/news/speeches/fisher/2012/fs120511.cfm>

Chairman Bernanke's speech at the Independent Community Bankers of America National Convention and Techworld (in Nashville, Tenn.)

In this speech, Federal Reserve Chairman Ben Bernanke stresses the importance of community banks to our financial system and economy, as well as the importance the Federal Reserve places on its relationship with community banks.

<http://www.federalreserve.gov/newsevents/speech/bernanke20120314a.htm>

Dallas Fed's 2011 Annual Report essay released

The essay, "Choosing the Road to Prosperity: Why We Must End Too Big to Fail—Now," argues that greater stability in the financial sector begins when the giant banks are broken up and the assumption of government rescue is driven from the marketplace.

<http://www.dallasfed.org/assets/documents/fed/annual/2011/ar11b.pdf>

Economic Insights: Conversations with the Dallas Fed webcast on ending too big to fail

Harvey Rosenblum, the Dallas Fed's executive vice president and director of research, is featured in this webcast as he presents the 2011 Annual Report essay, "Choosing the Road to Prosperity: Why We Must End Too Big to Fail—Now." Rosenblum is joined by S. Scott MacDonald, president and CEO of the Southwestern Graduate School of Banking Foundation and finance professor at SMU, to examine the concentration of assets in the banking industry and for a brief panel discussion.

<http://www.dallasfed.org/publications.cfm?tab=1#dallastabs>