The United States Faces a Weak Recovery

The United States has just experienced its ninth recession since World War II. This recession was moderate by postwar standards, with consumer durables and residential fixed investment bearing the brunt of the decline in output. The first year of the recovery will likely bring moderate economic growth, although substantially lower growth than that averaged in previous recoveries.

The Recession Ended in the Spring

Preliminary estimates indicate that real gross national product (GNP) fell slightly (0.1 percent annual rate) in the second quarter of 1991. While the high level of consumer debt and uncertainty about the health of the banking sector fuel worries about a *double-dip* recession (five of the previous eight recessions included at least one quarter of positive GNP growth), current evidence suggests the recession is over. For example, the index of leading economic indicators registered six consecutive monthly increases from February to July. Although the index of coincident indicators fell slightly in July, it rose in April, May and June. Since the indexes of leading and coincident indicators were first compiled, the economy has never remained in a recession after six consecutive increases in the leading index and three consecutive increases in the coincident index.

This Recession Was Mild

While the unemployment, idle capital and financial distress inherent in a recession are never socially desirable, this recession was relatively mild compared with past economic downturns. Taking August 1990 as the first month of the recession (the National Bureau of Economic Research announced that July 1990 was the final month of the preceding expansion) and April 1991 as the last month of the recession, this recession lasted about nine months, which is slightly less than the average length for post-World War II U.S. recessions. The cumulative decline in real GNP during this recession was less than 1 percent, substantially less than the 2.1-percent average decline during the other eight postwar recessions. Similarly, the unemployment rate rose 1.5 percentage points during this recession (from 5.5 percent in July 1990 to 7 percent in June 1991), compared with a 2.9-percentage-point average increase in previous recessions. Only in two other recessions (1953–54 and 1970) was the unemployment rate substantially lower than in this recession.

Table 1 shows the average annualized rates of change of the components of real GNP in the fourth quarter of 1990 and the first quarter of 1991—the only full quarters in which the economy was in a recession. Like most recessions, this one saw substantial declines in total fixed investment spending. However, consumption expenditures, especially in consumer durables, fell faster in this recession than in others. The uncertainty caused by the Persian Gulf crisis—reflected by the precipitous drop in consumer confidence in the fall of 1990—certainly played a role in the decline in consumer durable expenditures, but relatively strong export growth helped reduce the severity of this recession.

The Nature of the Recovery

The first year of a recovery is typically quite different from other expansionary periods; economic growth is significantly higher in the first year of a recovery than in other periods of the business cycle. In particular, consumer durables, fixed investment and residential construction exhibit substantially higher growth in the early stages of a recovery than at other times (*Table 2*). However, declines in the unemployment rate are not dramatic in the first year of a recovery. In fact,

Table 1
Behavior of the Components of Real GNP in the 1990–91 Recession (Average Annual Percentage Rate of Growth During Recession Periods)

Component	1990–91 Recession[1]	Average of Postwar Recessions
Real GNP	–2.2	–2.2
Consumption	–2.5	1.1
Durables	–12.0	–1.7
Nondurables and Services	–.3	1.5
Investment	–21.0	–16.9
Fixed	–12.6	–7.8
Nonresidential	–8.1	–10.0
Residential	–22.4	–1.4
Government	1.7	1.2
Exports	5.8	–2.8
Imports	–10.3	–4.5

[1] Includes 1990:4 and 1991:1.
SOURCE OF PRIMARY DATA: U.S. Department of Commerce.

unemployment typically peaks in the first year of the recovery rather than in the recession. Unlike output measures, prices do not display higher-than-average growth during the first year of a recovery. Inflation as measured by the consumer price index is, on average, lower during the early stages of a recovery than during a recession.

Although the economy typically grows faster than average in the first year of a recovery, two considerations suggest that economic growth during the early stages of the current recovery is likely to be less robust than usual. First, the economy tends to respond like a rubber band to cyclical downturns; the deeper the recession, the stronger the economy snaps back. Certainly, the past four recessions exhibit this pattern; economic growth was substantially greater following the deep recessions of 1974–75 and 1981–82 than following the mild 1970 and 1980 recessions. Because the current recession was, in most respects, much less severe than average postwar recessions, the current recovery is likely to be less robust than the average recovery.

Second, specific economic factors suggest we can expect slower growth in this recovery. Consumer durables and residential construction typically have been major contributors to growth in the first year of a recovery. However, high levels of consumer debt may dampen consumer durable purchases in this recovery. Similarly, high levels of debt and the relative distress of the banking sector may limit growth in residential construction.

Summary

Evidence seems to indicate that the recession that began in August 1990 ended in the second quarter of 1991. While this recession was milder than many others, the current recovery will likely be weaker than previous recoveries. Real GNP growth over the next four quarters should average 3 percent to 3.5 percent (well below the growth averaged in previous recoveries), and inflation should average 3.5 percent to 4 percent.

—Nathan S. Balke

Table 2
Average Growth Rates over Different Segments of the Business Cycle[1]
(Sample Period 1947:1–1990:3)

Variable	First Year of Recovery	Expansion	Recession	Entire Sample
Real GNP	6.6	4.4	–2.2	3.3
Consumption	4.8	3.8	1.1	3.3
Durables	16.2	7.4	–1.7	5.9
Nondurables and Services	3.6	3.4	1.5	3.1
Investment	30.2	9.8	–16.9	5.2
Fixed	12.8	6.1	–7.8	3.7
Nonresidential	8.6	6.7	–10.0	4.8
Residential	22.8	6.1	–1.4	3.8
Inventories[2]	13.3	19.0	–3.7	15.1
Government	1.2	4.4	1.2	3.9
Net Exports[2]	–2.2	–21.4	8.9	–16.2
Exports	3.2	7.7	–2.8	5.9
Imports	16.6	10.3	–4.5	7.7
Unemployment[3]	1.2	–.1	1.1	.8
Consumer Price Index	3.6	4.2	4.5	4.3

[1] Unless otherwise indicated, the figures are quarter-to-quarter growth rates at an annual percentage rate.
[2] Average of the level over the subperiod.
[3] The unemployment rate minus the natural rate of unemployment; average of the level over the subperiod. The natural rate of unemployment is the unemployment rate at which inflation has no tendency to accelerate or decelerate.
SOURCE OF PRIMARY DATA: U.S. Department of Commerce.

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