COUNCIL on FOREIGN RELATIONS

Maurice R. Greenberg
Center for Geoeconomic Studies

Quarterly Update: The U.S. Economic Recovery in Historical Context

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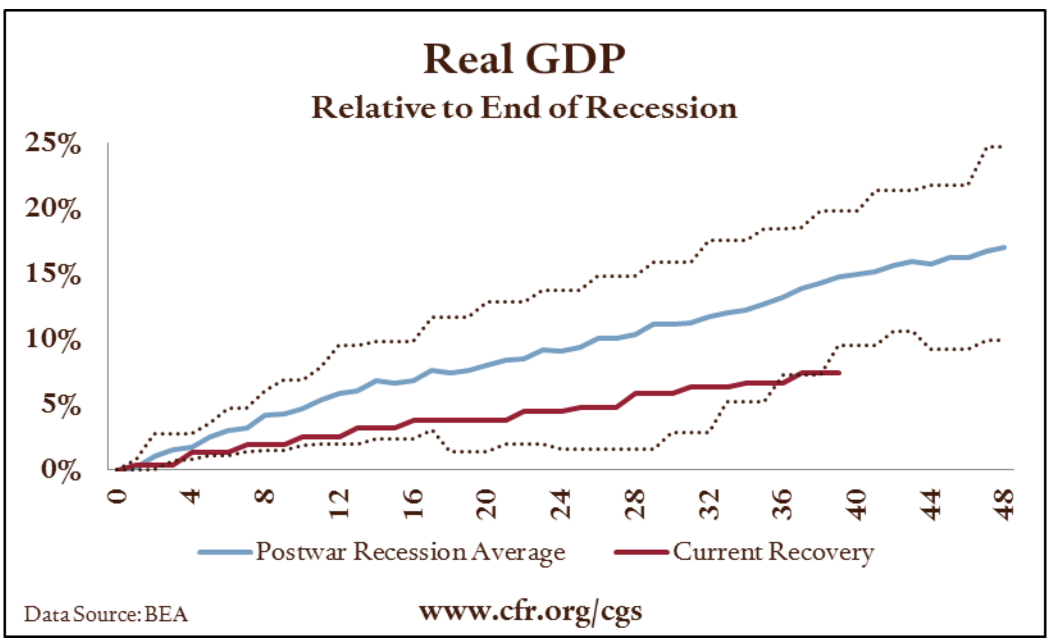
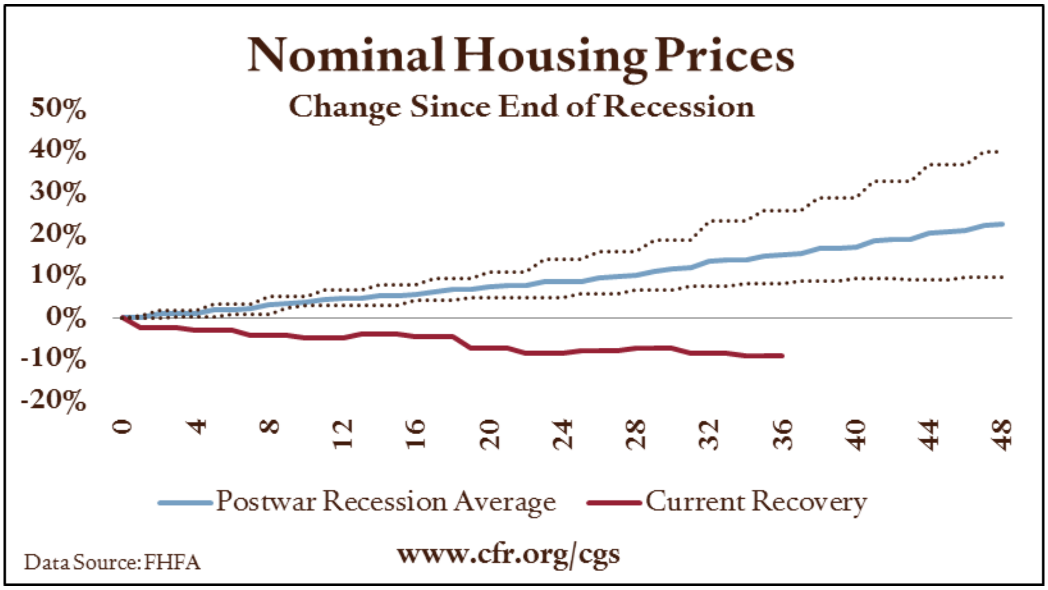
Dinah Walker Analyst, International Economics dwalker@cfr.org

How does the current recovery, which, according to the National Bureau of Economic Research, officially started in June 2009, compare to those of the past? The following charts provide a series of answers, plotting current indicators (in red) against the average of all prior post–World War II recoveries (in blue). The x-axis shows the number of months since the end of the recession. The dotted lines are composites of prior recoveries representing the weakest and strongest experiences of the past. This recovery chart book replaces the cycle chart book, which plotted the downturn as well as the recovery. Those interested in the previous presentation can view it **here**.

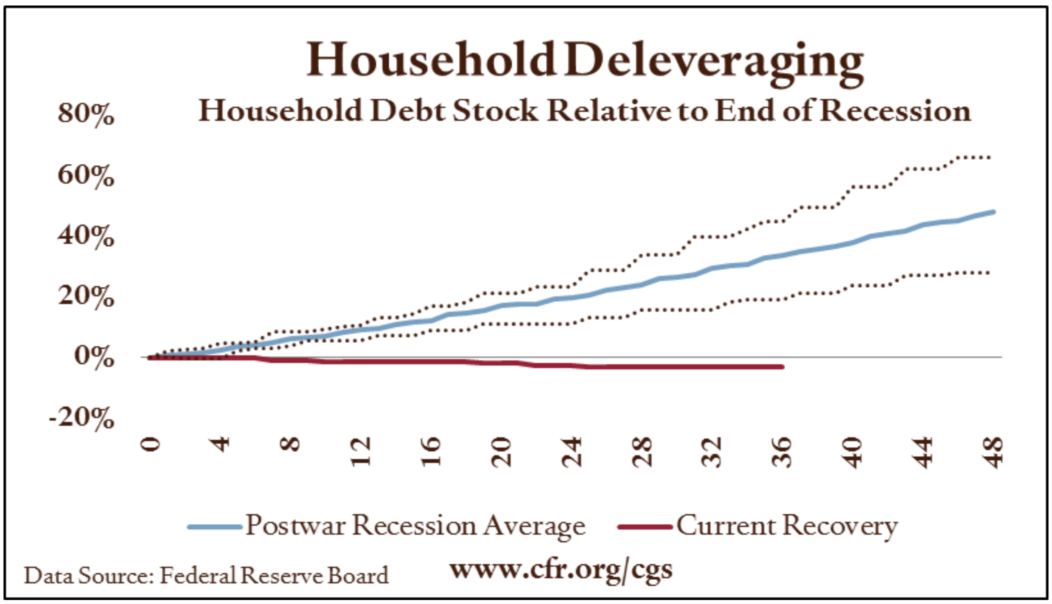
The economic expansion following the 2008 recession has been the weakest of the post–World War II era and remains an outlier among postwar recoveries along several dimensions. Households continue to delever, and certain house price indices show that home prices continue to fall. The deficit remains much wider than during any other post–World War II economic recovery, but the Congressional Budget Office projects it will shrink dramatically in 2013 if the Bush tax cuts expire, sequestration goes into effect, and the other elements of the so-called fiscal cliff are enacted.



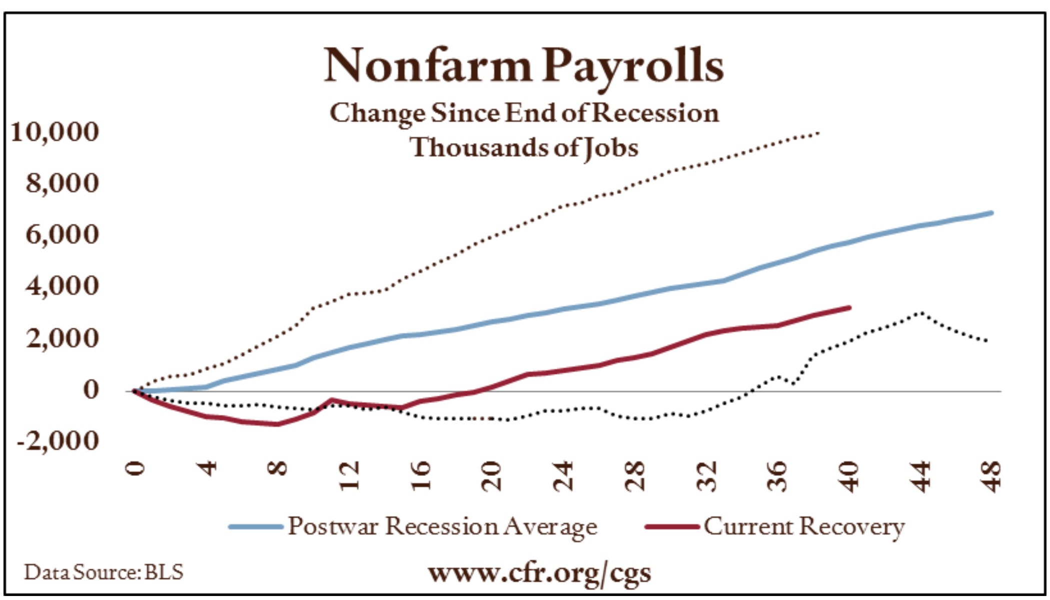
- The current recovery was initially stronger than the recovery from the 1980 recession, which was interrupted by another recession in 1981.
- However, at this point, the current expansion is the weakest in the post–World War II era.
- Thirty-nine months after the start of the economic recovery, GDP is only 7.4 percent higher than it was when the recovery officially began.



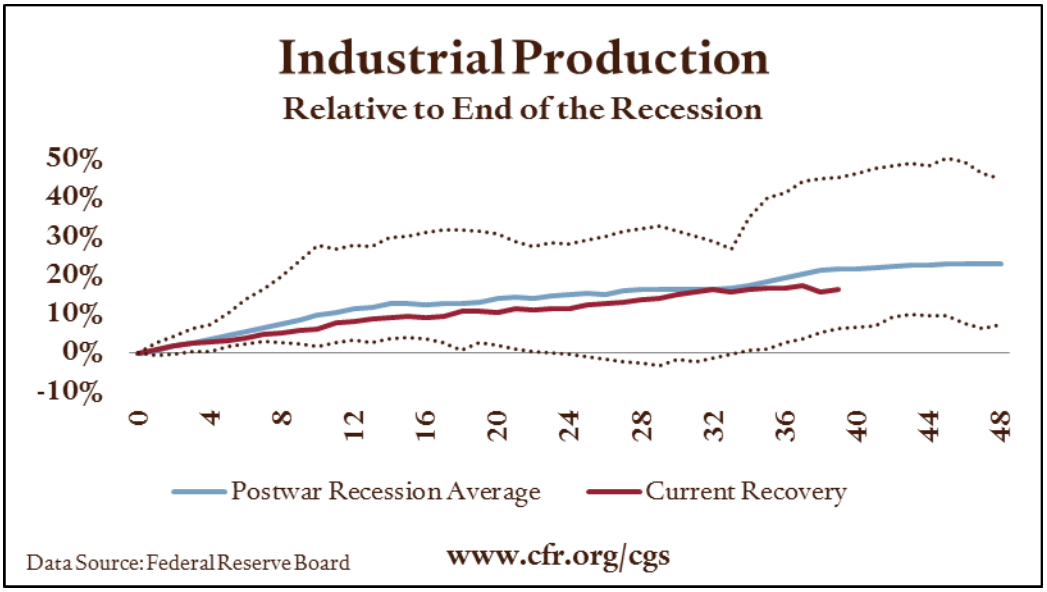
- Some home price indices, such as the FHFA's all-transactions home price index, which is used in the accompanying graph, reflect continuing declines in housing prices, while others show that housing prices have begun to rise slightly.
- Soft home prices have been central to the weakness of the recovery.
- The continued weakness of nominal home prices is a postwar anomaly.



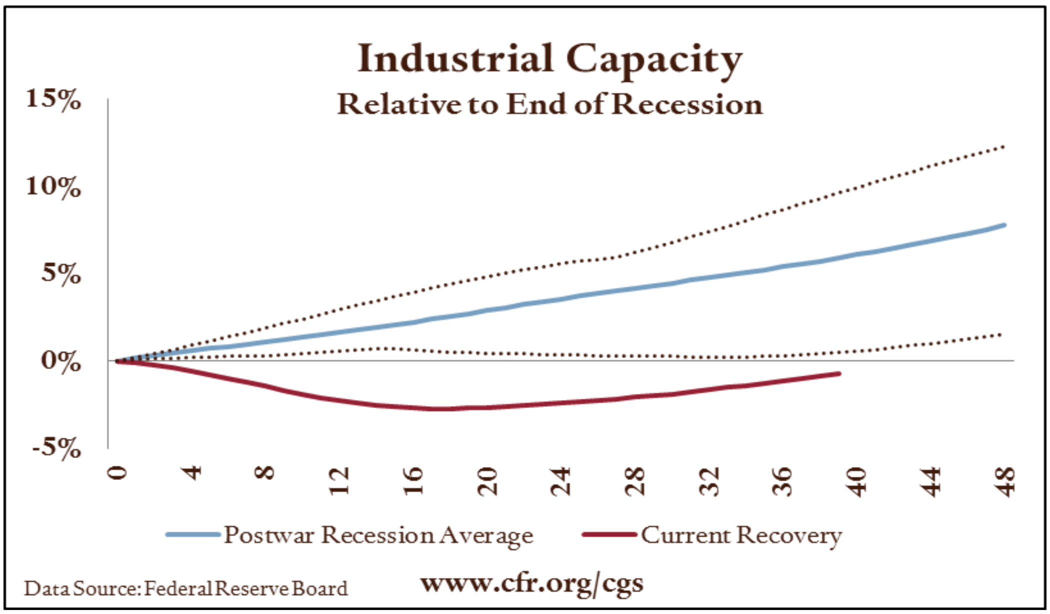
- In every previous postwar recovery, the stock of household debt has risen as the recovery has begun.
- In the current recovery, the collapse in home prices has severely damaged household balance sheets. As a result, consumers have avoided taking on new debt.
- The result is weak consumer demand and a slow recovery.



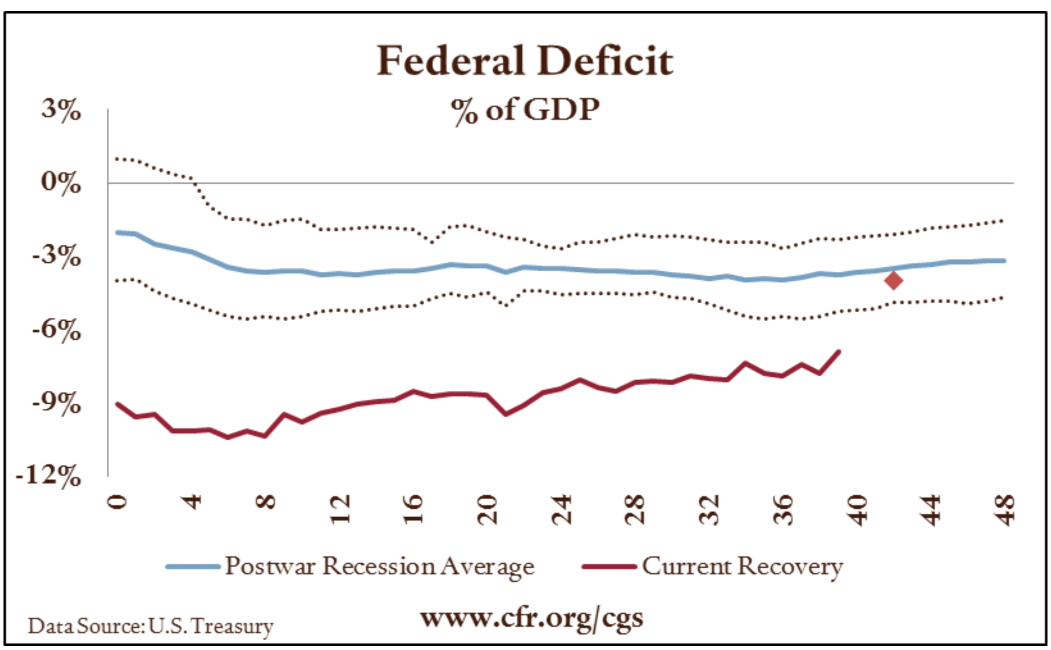
- The relative weakness of this recovery is obvious in the labor market.
- Job losses continued throughout the first eight months of the recovery.
- Payrolls have increased for the past twenty-five consecutive months, but there are still 4.3 million fewer Americans on nonfarm payrolls than there were at the start of 2008.



- Because of the depth of the recent recession, one might expect stronger-than-average improvement in industrial production.
- Despite the predicted snapback, the increase in industrial production during this recovery has been fairly typical of postwar recoveries.



- Capacity in manufacturing, mining, and electric and gas utilities usually grows steadily from the start of a recovery; however, during the current recovery, investment was initially so slow that capacity declined.
- Since the start of last year, this trend has reversed itself and industrial capacity has steadily risen.
- Capacity has nearly returned to the level it was at the beginning of the recovery.



- The federal deficit was much larger at the start of this recovery than it was in any other postwar recovery.
- Although the deficit as a percent of GDP has shrunk slightly, it continues to pose significant challenges to policymakers and the economy.
- The Congressional Budget Office estimates the budget deficit will shrink to 4 percent of GDP next year if the fiscal cliff goes into effect (represented by the red diamond in the accompanying chart).