



A REVIEW OF RECESSIONS

This economic slump could be just another “bump in the road.”

Economists widely agree: America seems to be in a recession. Important economic indicators show declining manufacturing, a constricting retail and service sector, and poor GDP. So is the sky falling? Is this the end of the world? No. Recessions have occurred throughout our history, and the economy has bounced back.

The National Bureau of Economic Research has identified ten American recessions since World War II; this would be the eleventh.¹ Let's take a look at some notable recessions in recent decades, and the way Wall Street reacted to them.

The 2001 recession. This one lasted eight months, by NBER's estimation, and it followed the longest economic expansion in U.S. history (1991-2001).² It accompanied the last bear market, which lasted roughly from mid-2000 to late 2002. In 2002, stocks tanked: the Dow Jones Industrial Average was down 16.8% for the year, the S&P 500 sank 23.4%, and the NASDAQ fell 31.5%.³ But in 2003, the market made a powerful comeback: the Dow gained 25.3% on the year, the S&P 500 26.4%, and the NASDAQ an amazing 50%.⁴ The bulls kept running right on through 2007.

The 1990-91 recession. Some trace the roots of this one back to Black Monday in 1987, others to the S&L failures and junk bond collapses of the late 1980s. The first three quarters of 1991 represented the depths of this recession, which did much to thwart the reelection of President George H.W. Bush. Interestingly, this one occurred in the middle of an 18-year bull market. Between the start of 1990 and the end of 1991, the Dow rose from 2,810 to 3,100.⁵

The 1981-82 recession. This one was quite severe, lasting 16 months.¹ Some historians blame this recession on the Federal Reserve, which tightened its monetary policy in response to the runaway inflation of the late 1970s. But economists see it differently, arguing that Fed chairman Paul Volcker had to do something - and something drastic - to get the economy back on its feet. The Fed ended up hiking interest rates all the way to 21.5% in December 1980 (the all-time record), and during this recession, the jobless rate was higher than at any time since the Great Depression.⁷ But the Fed's tactic worked. By 1983, inflation was down from double digits to 3.2%.⁷ Between February 1983 and August 1987, the Dow climbed from the 1,100s to 2,700.⁵

The 1973-75 recession. Ah, yes. Remember waiting in line for gas? Remember buying gas only on even or odd days according to your license plate? This one occurred not only due to the OPEC embargo, but also as a byproduct of the U.S., U.K., and other key nations going off the gold standard in the early 1970s. That move devalued the

dollar and other benchmark currencies. So in October 1973, OPEC decided to price oil relative to the price of gold instead of the value of the dollar. Its member nations also cut production levels. Over the next few months, crude oil prices quadrupled.⁸ Commodities prices took off. The bull market in commodities lasted until the dawn of the 1980s. When the OPEC embargo hit, Wall Street was already in the middle of a bear market. Yet just a short time later, in July 1976, the Dow hit 1,011, its highest point between January 1973 and October 1982.⁵

Some perspective. Until the last quarter-century or so, recessions commonly and cyclically occurred every few years. Only two post-WWII recessions have lasted longer than a year.¹ Some analysts feel this is due to the evolution of the U.S. economy over the years: today, consumer spending and the service sector are huge drivers, not just manufacturing. While no one has a crystal ball, what is apparently the first recession in seven years may fall in line with recent economic examples, to have only brief and temporary effects.

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