

WHAT WILL COME TO THE RESCUE? WEB BUZZ 2010.09.20

Steven Gjerstad and Vernon L. Smith (a Wichita native) recently authored a white paper entitled “Household Expenditure Cycles and Economic Cycles, 1920-2010” examining how the various sectors of the economy affect the business cycle. The sectors examined were non-durable consumption, consumer durables, non-residential fixed investment, and housing. This study has particular significance as one attempts to determine what will lead us out of the current recession. In the past it has almost always been the housing sector reacting to low interest rates that has led the charge. If that is going to be the case this time around we may have a long, long road ahead. Those housing experts in whom we have confidence are telling us that the low in housing may be as long as three years away. Some say five years.

We all know that government spending is the only sector of the economy that has accelerated to any degree over the last several years. Most of their money has come from borrowing, thus it cannot continue forever. However, for now it is propping up a very serious economic downturn.

The authors do not speculate as to what sector will lead us out of the wilderness. At this time, we are hard put to come up with anything that makes sense to us. We can only conclude that we are in for an extended period of slow to no growth. A concern we do have is that the easy money conditions will lead to large mergers and acquisitions activity, which, because of synergistics, will cause large layoffs.

Note the following table that depicts, in 2005 dollars, the size of this recession compared to other post World War II recessions. This assumes the recession ended 6/30/09. Please note how severe this recession has been compared to the previous ones since the 1930's.

Recession	GDP	Housing	Durables	Housing + Durables	Investment
1948-49	-\$29.5	-\$11.8	-\$5.8	-\$14.4	-\$27.2
1953-54	-\$59.8	-\$37.0	-\$70.2	-\$105.9	-\$5.1
1957-58	-\$97.7	-\$35.1	-\$41.3	-\$73.8	-\$43.9
1960-61	-\$45.1	-\$23.3	-\$27.0	-\$47.3	-\$17.9
1969-70	-\$26.8	-\$26.8	-\$43.0	-\$59.0	-\$23.3
1973-75	-\$157.8	-\$103.8	-\$84.1	-\$177.2	-\$40.7
1980	-\$131.9	-\$88.8	-\$90.8	-\$168.7	-\$29.6
1981-82	-\$163.8	-\$55.0	-\$42.8	-\$86.3	-\$131.5
1990-91	-\$109.4	-\$77.4	-\$92.4	-\$148.0	-\$119.5
2001	-\$31.2	-\$12.0	-\$30.4	-\$23.4	-\$275.4
2007-09	-\$489.7	-\$392.3	-\$202.0	-\$579.6	-\$358.2
TOTALS	-\$1342.7	-\$863.3	-\$721.8	-\$1482.6	-\$1072.3

Table 2: This table shows total GDP declines (in billions of 2005 dollars) during the eleven post-war recessions. It also shows declines in housing, durables, and investment. The decline in housing plus durables is slightly lower than the decline in housing plus the decline in durables in each recession, because the peaks and troughs of the declines in these two series differ slightly.

Adapted from Gjerstad and Smith