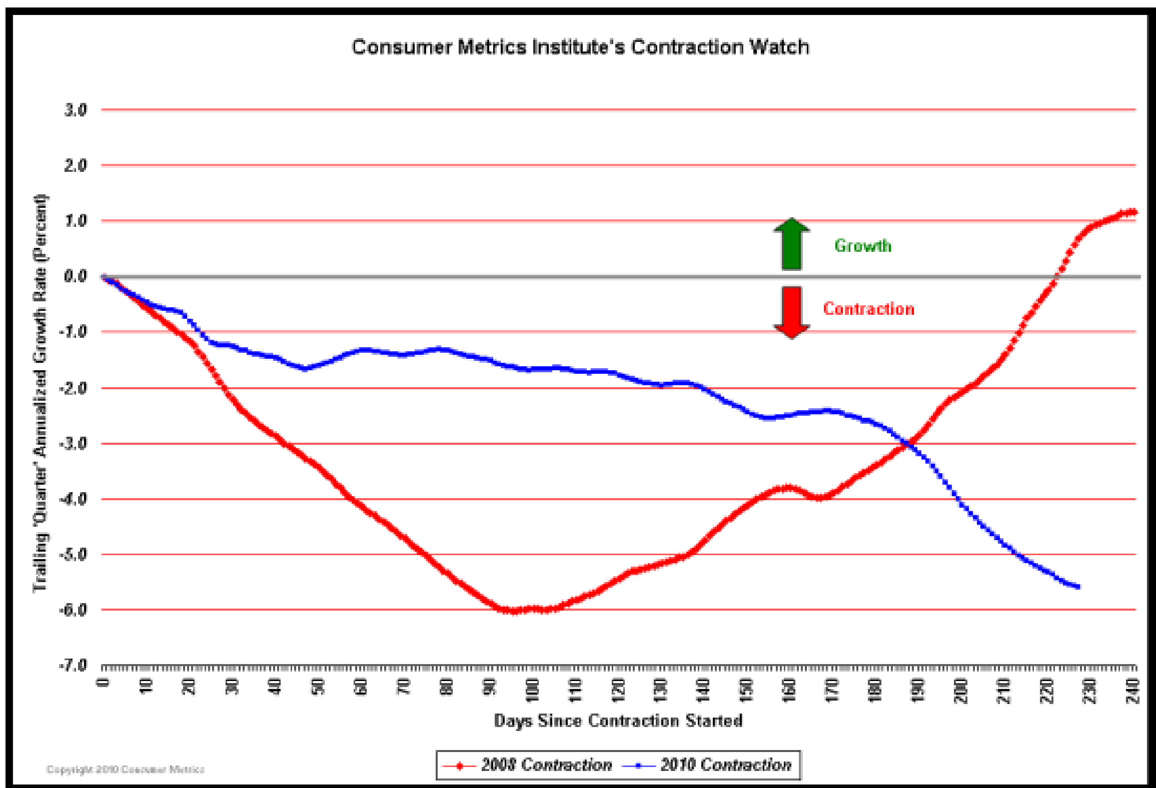
Consumer Metrics Institute Members News

August 30, 2010: Taking a Closer Look at the "Great Recession"

The "Great Recession" that began in 2008 has had many nuances, but among the most important are that many of the observed changes in consumer behavior have begun to linger, much as the recession itself now appears to have done. If a new consumer thrift paradigm becomes endemic -- either because of natural demographic processes or scarred generational memories of upside-down loans -- the lingering recession might well end up being measured in years, not quarters as commonly expected.

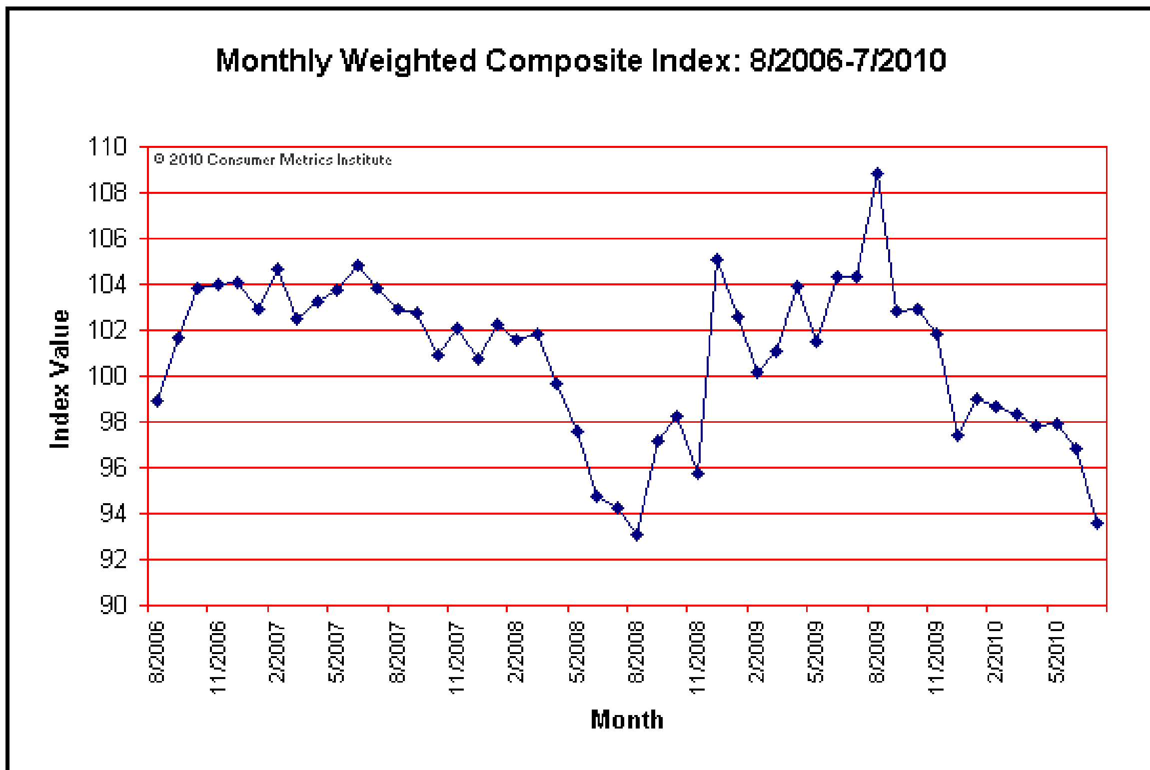
We have previously focused on the fact that consumer demand for discretionary durable goods is now at recessionary levels after starting to contract on a year-over-year basis on January 15, 2010. On the surface this would indicate a "double-dip" recession following the 2008 economic event. We may have inadvertently promoted the "double-dip" aspect of 2010's contraction by graphing the two events superimposed upon each other in our "Contraction Watch" chart as though they were independent episodes:



But even to a casual observer there is something unsettling in the above chart, especially if we've been told that the "Great Recession" was a once-in-a-lifetime event that required once-in-a-lifetime amounts of new national debt to fix. Clearly, the 2010 contraction already appears well on the way to equaling or exceeding the "Great Recession" in severity despite those "fixes."

At the time of this commentary, the 2010 contraction has out-lasted the "Great Recession" in duration, and the current contraction rate is already something we should expect to see less than once in every 15 years. Are we expected to believe that two fully independent contractions this severe happened two years apart? People on the street probably don't think so, any more than the people on the street in 1937 thought that they were experiencing just a series of closely spaced severe recessions (which could actually be argued from the economic data).

Perhaps we need to take a longer look at the charts, including our 48 months of Weighted Composite Index data:



From this perspective, we might reasonably ask whether the upward bump that peaked in August of 2009 is a "Great Recovery" or merely a stimulus fueled anomaly within a longer term economic slowdown. If the latter is true, then the shape of the 2010 contraction in our "Contraction Watch" chart makes more sense; we are seeing now how the 2008 event would have progressed without generous doses of short term consumer stimuli during 2009 (e.g., "Cash for Clunkers" and the Federal Housing Tax Credit).

Our data also indicates that the "Great Recession" unfolded for consumers differently than National Bureau of Economic Research ("NBER") might have us believe. The NBER is considered to be the official scorekeeper for recessions, and they have dated the beginning of the "Great Recession" to December 2007. While it is true that consumer demand (as measured by our Daily Growth Index) peaked prior to that month (on July 28, 2007 to be exact), we find that during December 2007 consumer demand was still growing year-over-year by more than 1% -- slow growth perhaps, but hardly a recession. In fact, unemployment stood at 5% in December 2007, up about .6% from a year earlier, but not exactly recessionary. We think that even

forecasting an upcoming recession in December 2007 would have been a (fortuitous) leap from the data available, and only then by predicting a banking system collapse that was never allowed to fully materialize.

In contrast, our Daily Growth Index shows that on-line consumer demand for discretionary durable goods didn't enter net year-over-year contraction until May 26, 2008 -- nearly two quarters after the NBER says that we were already in a recession. In May 2008 consumers were watching crude oil top $130 per barrel, and the collapse of Bear Stearns was in the nightly news. Additionally, in the U.S. the presidential primaries were in full swing, and unprecedented political uncertainty was in the wind. Consumers had good reasons to be cautious about big-ticket discretionary expenditures, reasons that simply did not exist six months earlier.

Economic cycles are complex and the cause-effect relationships can often reverse mid-cycle. In May, 2008 unemployment was still only 5.4%, indicating that the downturn in consumer demand led and plausibly caused at least a portion of the subsequent rise in joblessness. Now, two years later, we have observed unemployment persisting throughout the artificially stimulated "green shoots" of late 2009, and we find it likely that high unemployment is now causing at least a portion of the weak consumer demand currently being recorded.

The fact that this reversal is so easy to understand is exactly why the Federal Reserve's monetary policy has become irrelevant to this economy; the Federal Reserve may save the banking system, but it is powerless to change the one thing that John Maynard Keynes got right (the "Paradox of Thrift") as over 100 million U.S. households become economic "loose cannons" -- acting exclusively in their own best interests in 100 million different ways.

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