

What Will The Next Recession Look Like?

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Mild, Severe or Something In Between?

The consensus of economists expects the next recession to be mild. But that is what professional forecasters were predicting in 2008 as well. Instead, we had the most severe recession in the post-WWII era, as shown on the following page, and most economists missed it.

Whether the next downturn is short and shallow, long and deep or something in between will depend on the policy response, whenever the next downturn begins. Will the Fed react quickly to burgeoning weakness? Will the government lower taxes, increase spending and/or reduce burdensome regulation?

Our best guess is that the ongoing and rapid fall in inflation which is expected to continue, coupled with aggressive Fed easing, together will produce a mild recession, like the 1960-1961, 1969-1970, and 2000-2001 downturns.

These recessions are bolded in the table. Notably, the 2000-2001 episode was the only downturn when GDP expanded, albeit very slightly. Perhaps history will repeat. Stay tuned.

Three Mild Downturns In The Post-WWII Era

Real GDP		Cumulative Decline (bps)
Peak	Trough	
1948 Q2	1949 Q4	-153
1953 Q2	1954 Q2	-243
1957 Q3	1958 Q2	-297
1960 Q2	1961 Q1	-13
1969 Q4	1970 Q4	-17
1973 Q4	1975 Q1	-314
1980 Q1	1980 Q3	-218
1981 Q3	1982 Q4	-252
1990 Q3	1991 Q1	-137
2001 Q1	2001 Q4	50
2007 Q4	2009 Q2	-382
Average ->		-180

Sources: BEA, Haver, SMBC Nikko

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