



Perspectives by Ruth Lea

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**GDP may only regain the pre-recession 2008 peak in 2013,
even with steady growth**

Introduction

Some recent indicators suggest that the economic recovery may be running out of steam. But, even if the economy continues to grow, there are several factors that make the current recession-recovery exceptionally challenging.

Of course, it is true that all four of the post-war recessions can claim aspects of uniqueness. The mid-1970s recession was marked by the 1973-74 oil crisis, stagflation, industrial unrest and a visit from the IMF.¹ The early-1980s recession was marked by an exceptional drop in the traded goods sector (i.e. manufacturing) reflecting the over-valuation of the currency. The early-1990s recession was extended by the ERM corset of high interest rates which had a significant impact on the housing market. But once the UK had been evicted from the ERM recovery was robust. But what really marks the recovery from the late 2000s recession is the expected extraordinary weakness of household consumption, allied with fiscal retrenchment and an impaired financial system. For these reasons, even assuming growth does not peter out altogether, the recovery will prove relatively sluggish.

This Perspective compares three key variables of the four post-war recessions: namely GDP, employment and household consumption.

Four recessions: GDP comparisons

Chart 1 provides the GDP data for each of the past four recessions and their recoveries. The chart has been constructed as follows:

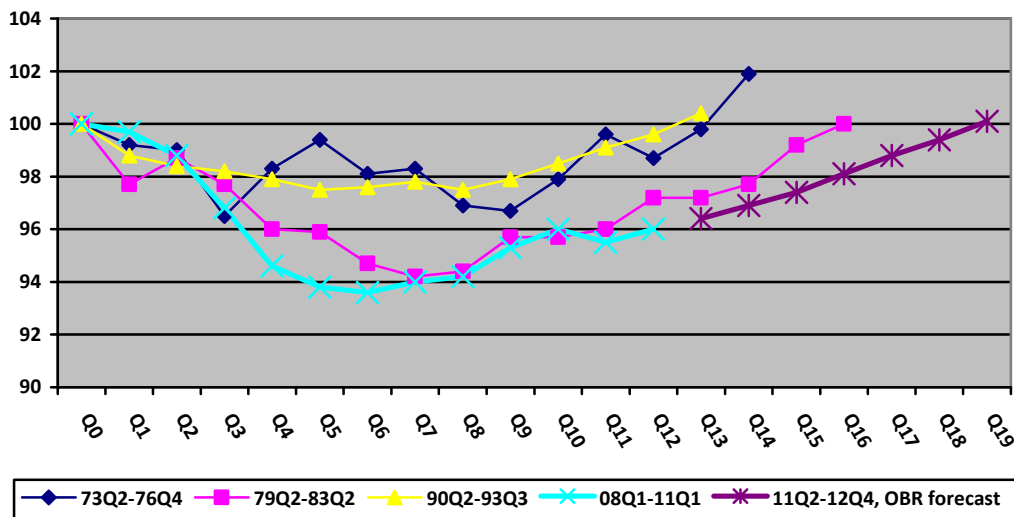
- The previous peak quarter for each recession was identified and shown as Q0 (“quarter 0”) in the chart, index=100.
- The GDP data for the quarters following the pre-recession peak, numbered Q1, Q2 etc., are indexed to the peak quarter.

The recessions are defined as follows:

- The mid-1970s (1973Q2-76Q4): GDP peaked in 1973Q2 prior to the recession. GDP fell sharply and was 3.5% lower than the peak by 1974Q1 (Q3 in the chart), before partly recovering and then experiencing a “double dip” in mid-1975 (when there was rampant inflation and interest rates had been increased). The 1973Q2 peak was nearly achieved in 1976Q3 and exceeded in 1976Q4 (Q14 in the chart).

- The early-1980s (1979Q2-83Q2): GDP peaked in 1979Q2 prior to the recession. GDP (especially manufacturing output) fell sharply and in 1981Q1 (Q7 in the chart) GDP was nearly 6% below the 1979Q2 peak. GDP only returned to its 1979Q2 level in 1983Q2 (Q16).
- The early-1990s (1990Q2-1993Q3): GDP peaked in 1990Q2, falling by 2.5% by 1991Q3 (Q5 in the chart). This recession was therefore relatively shallow and GDP reached the level of the 1990Q2 in 1993Q3 (Q13).
- The late-2000s (since 2008Q1): GDP peaked in 2008Q1 and fell by nearly 6½% by 2009Q3 (Q6 in the chart). The economy recovered well in mid-2010 but has tended to stagnate since 2010Q3. The latest observation (2011Q1, Q12 in the chart) shows GDP still 4% below the 2008Q1 peak.
- The data marked in the chart for 2011Q2 to 2012Q4 are consistent with the OBR's March forecast, modified by the 2011Q1 outturn (discussed below).

Chart 1 GDP, 4 recessions and recoveries, peak GDP quarter=100



Source: ONS database for GDP data in constant prices, author's calculations.

When will the pre-recession peak be achieved?

As indicated above GDP in 2011Q1 was still 4% lower than at the pre-recession peak of 2008Q1, and a key question is therefore when will the 2008Q1 GDP level be regained?

Three growth scenarios are shown below in table 1. They are the OBR's March forecast, the OBR's forecast modified for the 2011Q1 outturn (which, at an increase of 0.5%, undershot the OBR's March 0.8% projection) and a slower growth scenario. Even a quick inspection of the numbers suggest that the 4% shortfall in GDP will not be made up until the end of 2012 or early 2013, given these forecasts.

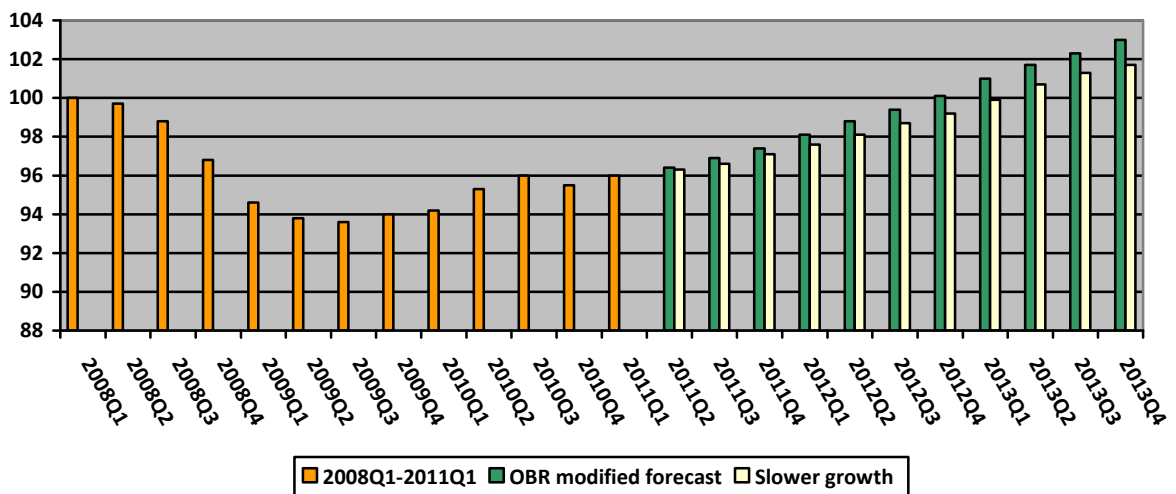
Table 1 GDP growth scenarios

	2009	2010	2011	2012	2013
OBR March forecast	-4.9	1.3	1.7	2.5	2.9
OBR, modified for 2011Q1 outturn	-4.9	1.3	1.45	2.5	2.9
Slower growth scenario	-4.9	1.3	1.3	2.0	2.5

Source: OBR, *Economic and fiscal outlook*, March 2011, author's calculations.

Chart 2 demonstrates that the 2008Q1 level could be regained by 2012Q4 on the OBR's modified forecast, but on the slower growth scenario this will not be achieved until 2013Q2. These estimates are by their very nature approximate, but they are reasonable "ball park" estimates, and ones supported by NIESR.² The economy will, therefore, take around 5 years to regain the pre-recession peak, compared with 3-4 years for the previous three recessions and, indeed, for the recession in the mid-1930s.³

Chart 2 GDP, index 2008Q1=100



Source: OBR March forecast modified, with the quarterly path for 2012 and 2013 interpolated by the author.

Table 2 GDP four recessions compared: summary data

	Previous peak	Trough, indexed	Peak to trough fall	Pre-recession peak regained	Number of quarters to regain pre-recession peak
1930-34	100 (1930)	94.6 (1931)	5.4%	1934	16 (approx.), 4 years
1973Q2-76Q4	100 (73Q2)	96.5 (74Q1)	3.5%	1976Q4	14, 3½ years
1979Q2-83Q2	100 (79Q2)	94.2 (81Q1)	5.8%	1983Q2	16, 4 years
1990Q2-93Q3	100 (90Q2)	97.5 (91Q3 and 92Q2)	2.5%	1993Q3	13, over 3 years
2008Q1-	100 (08Q1)	93.6 (09Q3)	6.4%		
OBR modified forecast				2012Q4	19, nearly 5 years
Slower growth scenario				2013Q2	21, over 5 years

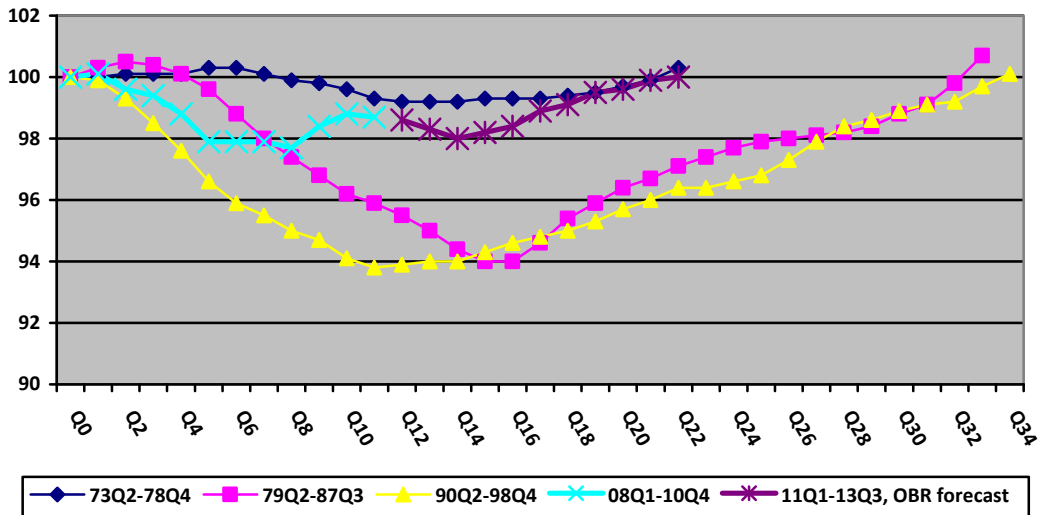
Sources include Thelma Liesner, *Economic Statistics*, 1900-83, Economist publications, for 1930-34, annual data only.

Four recessions: employment comparisons

Even though the recession in terms of GDP loss has been the most severe of all the post-war recessions, the employment picture has been not so severe. We discussed this issue in a recent Perspective when we concluded “the better-than-expected resilience of the labour market in 2008-09 reflected several factors including the willingness of employers to offer, and employees to accept, various cost-saving and job-saving measures, including the displacement of full-time jobs by part-time jobs.”⁴ The disparate fortunes of full-time and part-time employment continue with full-time employment still 4% below the level in 2008Q1 whilst part-time employment is nearly 6% above its 2008Q1 level.⁵

Chart 3 shows the patterns of employment from the pre-recession peaks (defined in terms of GDP not employment) and the subsequent recessions and recoveries. Note that labour market developments tend to lag changes in GDP. The loss of employment was particularly severe in both the early-1980s and early-1990s recessions. And the time taken for employment to recover after both these recessions was very lengthy (around 8 years).

Chart 3 Employment, 4 recessions and recoveries, quarterly data, indexed=100

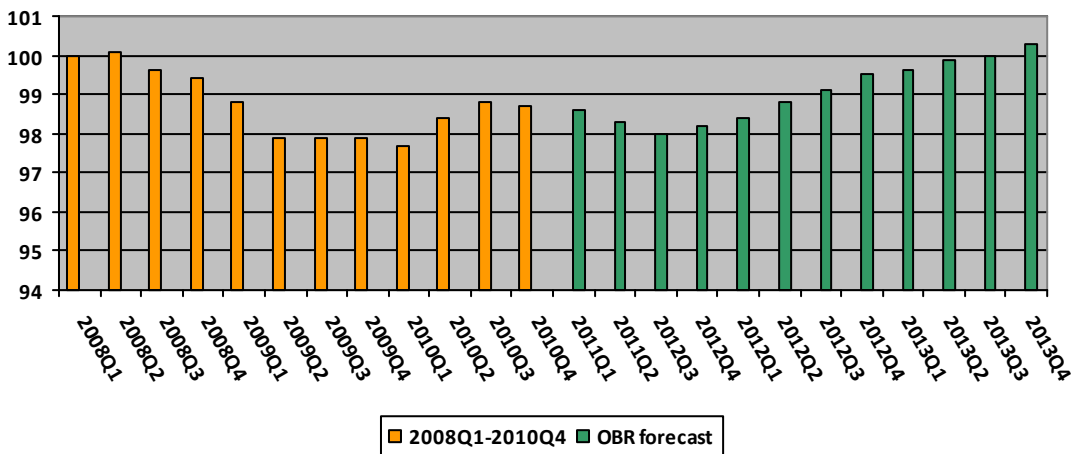


Source: ONS database for employment data, author's calculations. Note the quarters refer to the quarters after the pre-recession peak of GDP.

When will employment recover to the 2008Q1 level?

Even though the labour market remained relatively resilient in the recession, total employment was nevertheless still over 1% lower in 2010Q4 than in 2008Q1. Given the OBR's March forecasts for employment of 29 million (2011), 29.2 million (2012) and 29.5 million (2013), the employment level for 2008Q1 should be regained in mid-2013, see chart 4. But note that the data so far published for 2011 (January and February) were stronger than expected and, if this trend persists, employment may recover its 2008Q1 level sooner than this, despite the expected public sector job losses.

Chart 4 Employment, index 2008Q1=100

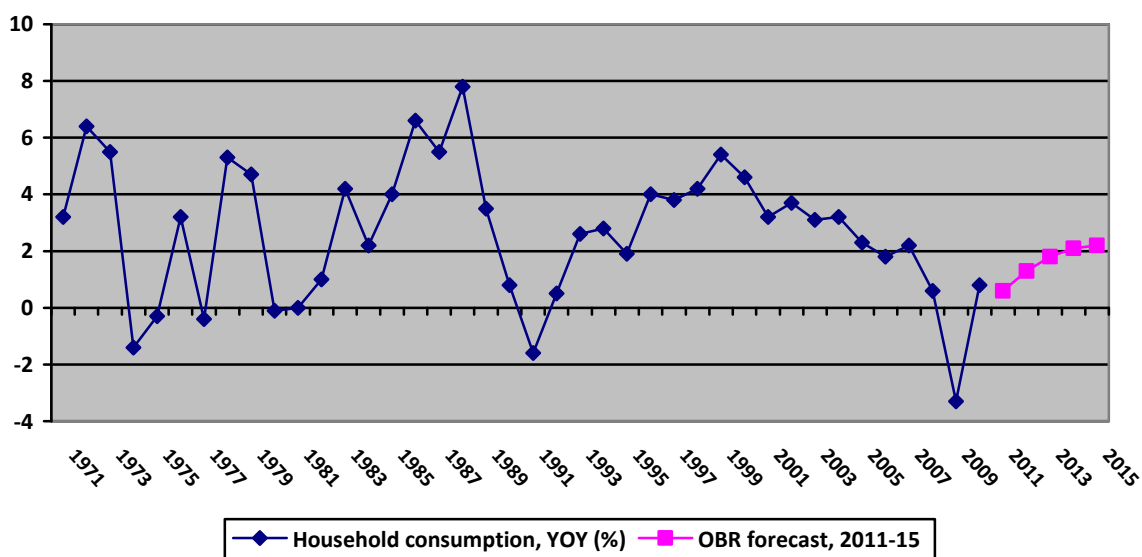


Source: OBR, *Economic and fiscal outlook*, March 2011. The quarterly path for 2011-13 was interpolated by the author.

Four recessions: household consumption

We have discussed the, perfectly reasonable, weakness of the consumption projections in the OBR's overall economic forecasts in previous Perspectives.^{6,7} The weakness of household consumption, over 60% of GDP, means that the OBR is semi-reliant on strong business investment and net exports for growth. Chart 5 puts the OBR projections for 2011-15 into historical context, which shows how feeble growth is expected to be over the next 4 years.

Chart 5 Household consumption, real terms annual growth, 1971-2015

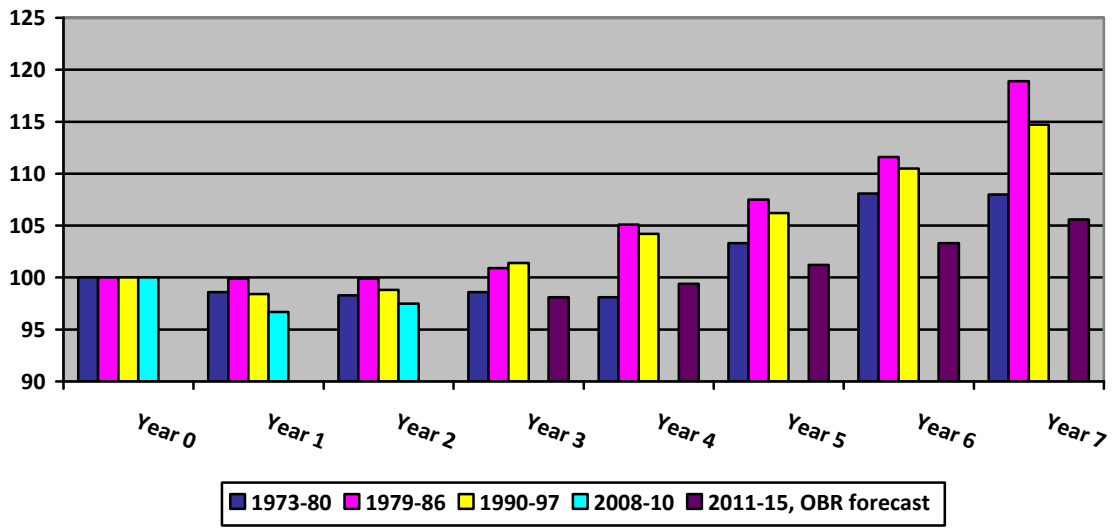


Sources: (i) ONS database, (ii) OBR, *Economic and fiscal outlook*, March 2011

Chart 6 shows the annual levels of household consumption, indexed to the peak year for the four recessions-recoveries in annual terms. Spending will be around 5½% higher than the 2008 peak after 7 years in the current cycle, assuming the OBR forecast. This makes the current recovery the slowest recovery of any comparable post-recession period. At the equivalent stage after recessions in the early 1980s and early 1990s spending was nearly 19% and 15% higher respectively. Perhaps it should be noted though that weak household spending after a recession is not entirely unprecedented following a recession. 7 years after the 1973-74 oil shock consumer spending was only 8% higher – but even this growth, feeble though it was, is stronger than expected by the OBR for this cycle. Moreover FT analysis, using BoE data, concludes that consumer spending recovered to 12% (on average) above its previous peak within 7 years in the 18 major recessions since records began in 1830.⁸

Weak household spending really is an exceptional feature of the current economic cycle. And it is a feature that will continue to drag on the current recovery.

Chart 6 Household consumption, 4 recessions and recoveries, peak year, indexed=100



Sources: (i) ONS database, (ii) OBR, *Economic and fiscal outlook*, March 2011.

References

1. Ruth Lea, "Three British recessions compared", *Arbuthnot Banking Group*, 21 July 2008, compared the recessions of the 1970s, 1980s and 1990s.
 2. NIESR interprets the term "recession" to mean a period when output is falling or receding, while "depression" is a period when output is depressed below its previous peak. Thus, they argue, the recession is over (unless output turns down again) while the period of depression is likely to continue for some time. NIESR "don't expect output to pass its peak in early 2008 until 2013". NIESR calculate charts for 1930-34, 1973-76, 1979-83, 1990-93, 2008-, from 3-month moving averages of monthly GDP. See NIESR, "Estimates of monthly GDP", 12 May 2011.
 3. Thelma Liesner, *Economic Statistics, 1900-83*, Economist publications, for 1930-34.
 4. Ruth Lea, "The labour market: better than expected so far but hard challenges ahead", *Arbuthnot Banking Group*, 23 August 2010.
 5. See also ONS, "GDP and the Labour Market, comparing recessions", 26 May 2011.
 6. For example Ruth Lea, "The MPC and the Budget: marking time", *Arbuthnot Banking Group*, 4 April 2011.
 7. Note too that household consumption fell 0.6% (QOQ), to be 0.3% lower than a year earlier, in 2011Q1. See ONS, "Second estimate of GDP: 2011Q1", 25 May 2011.
- FT*, "Consumer spending recovery set to be the slowest since 1830", 1 June 2011.

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