

DAILY GLOBAL  
COMMENTARY

## Will Real GDP Growth in the First Year of Recovery Match Historical Norm?

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Real GDP grew at an annual rate of 3.5% in the third quarter. This is impressive but the pace of economic activity in the quarters ahead will be much more subdued until the final three months of 2010. In the September 9, 2009 commentary, it was noted that history tells us that real GDP has advanced at a rapid clip in the first four quarters of a recovering economy (see table 1). The median increase of real GDP in the first four quarters of an economic recovery prior to 1991 was 6.1%.

Table 1 – Real GDP Growth in Early Quarters of a Recovery

Peak to Trough of Business Cycles (Period of Recession)	% Change of Real Gross Domestic Product During First Four Quarters of Recovery			
	1	2	3	4
Jul.1953 - May1954	0.5	4.6	8.3	12.0
Aug.1957 - Apr.1958	2.5	9.7	9.7	8.3
Apr.1960 - Feb.1961	2.4	7.7	6.6	8.4
Dec.1969 - Nov.1970	-4.2	11.5	2.3	3.2
Nov.1973 - Mar.1975	-4.8	3.1	6.9	5.3
Jan.1980 - Jul.1980	-0.7	7.6	8.6	-3.2
Jul.1981 - Nov.1982	0.3	5.1	9.3	8.1
Jul.1990 - Mar.1991	-1.9	2.7	1.7	1.6
Mar. 2001 - Nov.2001	1.4	3.5	2.1	2.0

How do forecasts of real GDP in the next four quarters compare with history? Forecasts of real GDP growth point to economic conditions being notably weaker than the momentum seen during recoveries in the 1954-1983 period (see tables 1 and 2).

Table 2 - Forecast of real GDP Growth (percent change)

	Actual 2009:Q3	Forecast					
		2009:Q4	2010:Q1	2010:Q2	Annual Avg. 2010	Q4 to Q4 2010	
TNT Forecast - October 2009	3.5	1.9	1.6	2.3	2.1	2.1 to 3.3	
Blue Chip - October 2009		2.4	2.6	2.7	2.5		
Federal Reserve							
Congressional Budget Office					1.7		
Administration, OMB					2.0		

This discussion leads to the conclusion that the probability of the unemployment rate declining rapidly is small as forecasts indicate a sub-par recovery of the economy. Historically, the unemployment rate has declined at the end of twelve months into a recovery (see table 3), with the exception of the 1970, 1991, and 2001 recoveries. In the early 1970s, the jobless rate declined significantly after the initial 12-month period. However, during the 1991 and 2001 recoveries, as is well known, the unemployment rate fell only after an extended period of over 24 months. We are projecting a jobless rate of 10.7% by mid-2010, which is 1.2 percentage points higher than the 9.5% unemployment rate registered in June 2009 (most likely trough of current recession). The Blue Chip consensus forecast for the second quarter of 2010 is 10% (average).

Table 3 Change in Jobless Rate 12 Months from Trough

<b>Trough</b>	<b>+12 months</b>
May-54	-1.6
Apr-58	-2.2
Feb-61	-1.4
Nov-70	0.1
Mar-75	-1.0
Jul-80	-0.6
Nov-82	-2.3
Mar-91	0.6
Nov-01	0.4

### **Auto Sales Rebound in October**

Sales of autos rose to an annual rate of 10.2 million units in October from 9.2 million in September. Attractive incentives helped to push sales in October. Consumer spending is most likely to make a positive contribution to real GDP in the fourth quarter, but a relatively smaller gain compared with the 3.4% annualized increase during the third quarter. Auto sales ranged between 16.2 million – 17.4 million units during 1999-2007. In the first three quarters of 2009, sales of autos have averaged 10.2 million units. Effectively, auto sales have dropped a little over a third of the pace seen in the eight years ended 2007.

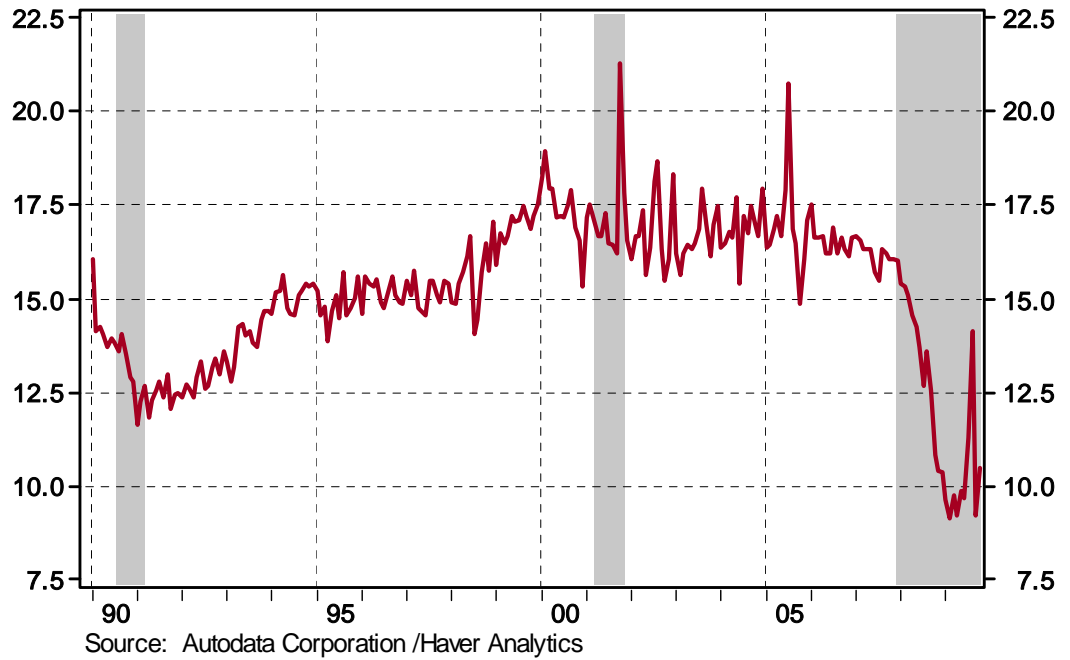
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Chart 1

Total Light Vehicle Retail Sales {Imported+Domestic}

SAAR, Mil. Units



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