

DAILY GLOBAL
COMMENTARY

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The S&P 500 and Economic Recessions

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The current hot topic of discussion in the press, excluding the presidential elections, is the likely recession in the U.S. economy. Here is our contribution to this discussion about one specific aspect – the movements of the S&P 500 just prior to a recession and during a recession. The leading/lagging properties of this index and by how much it changes during a recession are presented in table 1. The monthly average of the S&P 500 is used in this analysis.

From table 1 two major conclusions can be drawn: (1). The S&P 500 is a leading indicator par excellence. Since the 1950s, the S&P 500 has always peaked before the peak of a business cycle, with one exception (1980 business cycle). The S&P 500 establishes a trough prior to the end of a recession without exception. (2). The median percent decline of the S&P 500 from its peak to trough is 16.9%. In the first three business days of 2008, the S&P 500 is down nearly 7.0% from its peak in October 2007. If history is a guide, brace yourselves for a rough ride in the months ahead.

Table 1 S&P 500 – Peaks and Troughs

Business Cycle Peak	Trough	Peak of S&P 500		Lead(+)/Lag (-1) months	Trough of S&P 500		Lead (+)/Lag (-1) months	S&P 500 Peak to Trough % change
		Date	Level		Date	Level		
Jul-53	May-54	Jan-53	26.18	(+6)	Sep-53	23.27	(+8)	-11.12%
Aug-57	Apr-58	Jul-57	48.51	(+1)	Dec-57	40.33	(+4)	-16.86%
Apr-60	Feb-61	Dec-59	59.06	(+4)	Oct-60	53.73	(+4)	-9.02%
Dec-69	Nov-70	May-69	104.62	(+7)	Jun-70	75.59	(+5)	-27.75%
Nov-73	Mar-75	Jan-73	118.42	(+10)	Dec-74	67.07	(+3)	-43.36%
Jan-80	Jul-80	Feb-80	115.34	(-1)	Apr-80	102.97	(+3)	-10.72%
Jul-81	Nov-82	Apr-81	134.43	(+3)	Jul-82	109.38	(+3)	-18.63%
Jul-90	Mar-91	Jun-90	360.35	(+1)	Oct-90	307.12	(+5)	-14.77%
Mar-01	Nov-01	Aug-00	1485.46	(+7)	Sep-01	1044.64	(+2)	-29.68%
		Oct-07	1539.66		Jan. 2-4, 2008	1435.32		-6.78%
							Decline - Average	-20.21%
							Decline - Median	-16.86%