Client's Corner

Nine Recessions

ACCORDING TO THE AUGUST SAGES AT THE NATIONAL BUREAU of Economic Research—who are the official arbiters of these things—there have been eight economic recessions in the United States since 1970.

We either are or are not currently in the ninth. Despite the fact that we have now experienced two quarters of negative GDP growth—which used to be the standard—the NBER has yet to call the current unpleasantness an official recession. Let's just assume, for the purposes of this little essay, that they decide to end up counting it. (It won't matter; none of the economic or financial outcomes we're about to examine would change.)

Nine recessions, then, the first of which actually started in December 1969. It ended 11 months later, with GDP having contracted a mere six tenths of one percent. But it persisted for well over two quarters, and in those days that was good enough for it to count officially.

There is no pattern to the depth or duration of these economic contractions. The very longest was 18 months in the Global Financial Crisis. Until COVID, that was also the deepest—GDP down 5.1%.

Then came the pandemic, and the shortest recession in this sample, if not in all of history. It lasted, if you can believe this, a mere three months, from February to April 2020. But because the U.S. economy was all but shut down during those months, GDP fell a staggering 19.2%.

At your leisure, take a trip down Memory Lane with Wikipedia's quite serviceable listing of these official ***recessions***. As you do, try to remember how the media reported each one as the incipient End of Economic Life as We Have Known It. (Or just look at your financial news feed of choice this morning; you'll note that they're essentially recycling the same story.)

None of the foregoing is meant to be dismissive of the significant economic dislocation often wreaked by these episodes. They were all, in their time, reflections of crises of one sort or another. Each looked quite intractable as we were going through it, and no one could predict when, where or why it would end. As is their wont, financial media devoted the most space to the direst predictions—the way they're doing again now.

But you knew all that. Indeed, as I write—a day after the S&P 500 went down over four percent—you are almost certainly reliving it in real time. So it is with some trepidation that I break in upon the currently near-universal shrieking and rending of garments to point out—as gently as possible—certain economic and financial developments which have taken place between the onset of the first of our nine recessions in December 1969 and the present.

U.S. real GDP. At the end of 1969, U.S. Gross Domestic Product stood at $4.95 trillion in chained 2012 dollars, which in English means it's adjusted for inflation. The corresponding apples-to-apples number in June of this year was $19.7 trillion. Yes, dear reader: over the same period that we've been running the gauntlet of nine economic recessions, our country's GDP in real terms quadrupled.

Real GDP per capita. Looking assiduously for the hole rather than the doughnut, a skeptic will be quick to point out that there must have been very significant population growth during this half century or so, such that the comparison above is incomplete if not downright misleading. Said skepticism would be correct, up to a very finite point: At something close to 340 million, today's population is indeed up over 70% from 1969's roughly 200 million. But real GDP per capita—at $59,168 vs. $24,300—is up twice as much, at 140%.

Share values. The Standard & Poor's 500-Stock Index ended 1969 at 92.06. As I write—again, a day after it got absolutely crushed by bad inflation news—it's around 3,900. That's right: nine recessions later—and down nearly 20% from its peak earlier this year—the broad equity market is up about 40 times.

Earnings. The S&P 500 earned $6.10 in 1969. The current consensus earnings forecast for the full year 2022 is around $225. That is, earnings are also up pretty close to 40 times. Don't read past this too quickly, because you've just discovered why stocks have gone up so much over these five highly fraught decades: they were borne aloft by their earnings. In the long run, it's the earnings that have always driven the share values.

Dividends. The dividend of the S&P 500 in 1969 was $3.24. The consensus full-year 2022 estimate is about $65, up 20 times. Hold that thought as we look at the next and final comparison.

Inflation. The Consumer Price Index stood at 38 in December 1969. It's currently 297 and rising. Now look at that juxtaposition in relation to the previous statistic. What you see is: ***cash dividend***

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up 20 times, cost of living up a bit more than eight times. If you are experiencing any anxiety at all about how an investor's retirement income might historically keep up with—and even outstrip—increases in the cost of living, please consider having a conversation with your financial advisor about dividends. This may turn out to be the most impactful talk you have with him/her for the balance of the year.

Step back for a moment now, and look at this whole movie again. You'll see that the issue here is simply perspective—or, if you will, history versus headlines. This isn't just the ultimate truth for investors about recessions. It's the ultimate truth for investors, period. ***The issue is always your perspective. And you get to choose your perspective.***

It's all too easy to get up close to the current situation and say, "This time is different." They've ***all*** been different, one from another. The COVID recession bore no similarity to that of the Global Financial Crisis, and neither looked like the great oil-shock recessions of the 1970s. What they all have most importantly in common is that they were temporary. And at the end of each recession, economic growth, real GDP per capita, share values and dividends resumed their upward courses.

And in time, that turned out to be all that really mattered.

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Sources: U.S. population: Census Bureau, multpl.com. Real GDP and real GDP per capita: Bureau of Economic Analysis, multpl.com, St. Louis Fed. S&P 500 levels, earnings, dividends: NYU Stern School. Consensus 2022 earnings and dividend forecasts: Yardeni Research, Bloomberg. Consumer Price Index: Bureau of Labor Statistics, Inflationdata.com