



# National Economic Trends



## How Weak is the Current U.S. Economy?

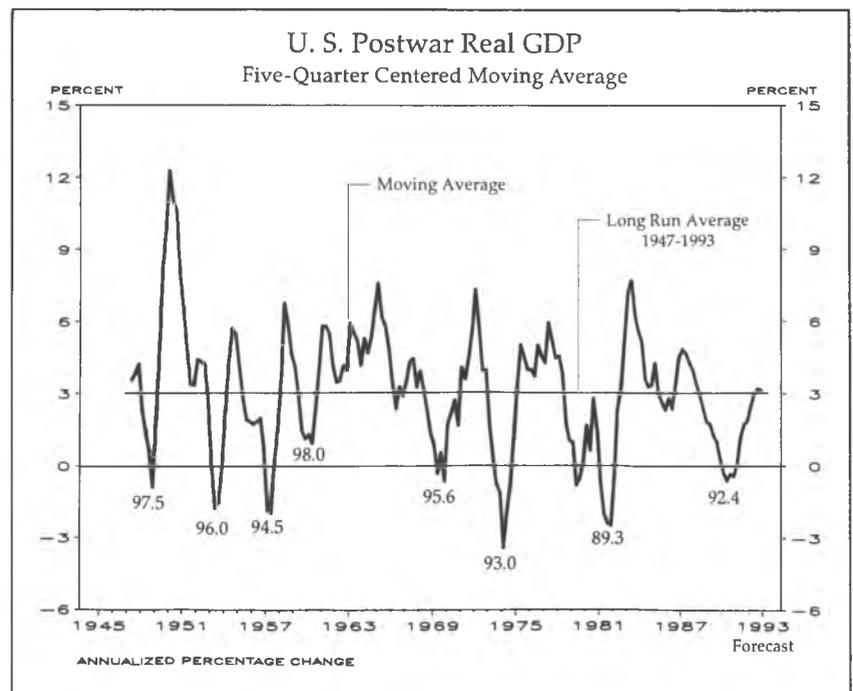
The recent recession has been described (mainly by economists) as relatively mild by historical standards. Many analysts note that, so far, there have been only two quarters during which real output actually declined (the fourth quarter of 1990 and the first quarter of 1991) and that most forecasters predict a slow recovery during 1992. Furthermore, the declines in real output were not nearly as sharp as in many previous recessions. On the other hand, media reports and public opinion often describe the present downturn as extremely severe and contend that the economy is still in recession. Are these views mere hyperbole, based on misguided notions about economic activity? Maybe not. The accompanying chart shows how the current economic performance could be viewed as one of the weakest in the post-World War II era.

The chart shows a five-quarter centered moving average of annualized percentage changes in real gross domestic product (GDP) during the postwar era. The Blue Chip consensus forecast is used for 1992 and 1993. The solid line through the data, which represents the average growth rate for the entire period (about 3 percent), divides the data into subperiods of below-average and above-average growth. All of the periods of below-average growth in GDP are associated with NBER-designated recessions.

One way to assess economic performance is to ask the following question: How much

lower is GDP at the end of a period of below-average growth than it would have been had the economy grown at the long-run average rate during the same period? The answer is given by the number underneath each period of below-average growth. Based on current forecasts, the moving average of GDP growth will not be above 3 percent until the fourth quarter of 1992; at that time, GDP will be about 92.4 percent of what it would have been had the economy grown at the long-run average rate. Thus, according to this measure, which captures both the magnitude and duration of economic slowdowns, the current economy is one of the weakest of the postwar era. It is slightly worse than 1975; only the 1980-82 downturn was more severe.

—James B. Bullard



Views expressed do not necessarily reflect official positions of the Federal Reserve System.