



# Economic Outlook of COUNTRY Trust Bank®

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**An editorial opinion  
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We hear much these days about the end of recession in the U.S. If it's true, what kind of a recovery will the economy experience coming out of this recession? Will the recovery be strong, mild, or feeble?

Recession shapes are used by economists to describe different types of recessions. There is no specific academic theory or classification system for recession shapes; rather the terminology is used as informal shorthand to characterize recessions and their recoveries. The most commonly used terms are V-shaped, U-shaped, W-shaped, and L-shaped recessions. The shapes take their names from the approximate shape economic data make in graphs during recessions and the ensuing recovery.

In a V-shaped recession, the economy suffers a sharp but brief period of economic decline with a clearly defined trough, followed by a strong recovery. A clear example of a V-shaped recession is the Recession of 1953 in the United States. In the early 1950s the economy in the United States was booming, but because the Federal Reserve expected inflation, it raised interest rates, tipping the economy into recession. These were the days when the Fed believed that their job was to remove the punch bowl before the party - or economy - got out-of-hand. In 1953 growth began to slow, in the third quarter the economy shrank by 2.4 percent. In the fourth quarter the economy shrank by 6.2 percent, and in the first quarter of 1954 it

shrank by 2 percent before returning to growth. By the fourth quarter of 1954, the economy was growing at an 8 percent pace, well above the trend. Thus GDP growth for this recession forms a classic V-shape.

A U-shaped recession is longer than a V-shaped recession, and has a less-clearly defined trough. GDP may shrink for several quarters, and only slowly return to trend growth. The Recession of 1973–75 can be considered a U-shaped recession. In early 1973 the economy began to shrink and continued to decline or have very low growth for nearly two years. After bumping along the bottom, the economy climbed back to recovery in 1975.

A W-shaped recession or "double dip" recession, occurs when the economy has a recession, emerges from the recession with a short period of growth, but quickly falls back into recession. The early 1980s recession in the United States is cited as an example of a W-shaped recession. The National Bureau of Economic Research considers two recessions to have occurred in the early 1980s. The economy fell into recession from January 1980 to July 1980, shrinking at an 8 percent annual rate from April to June of 1980. The economy then entered a quick period of growth, and in the first three months of 1981 grew at an 8.4 percent annual rate. As the Federal Reserve under Paul Volcker raised interest rates to fight inflation, the economy dipped back into recession from July 1981 to November 1982. The economy then experienced mostly robust growth for the rest of the decade.



An L-shaped recession occurs when an economy has a severe recession and does not return to trend line growth for many years, if ever. The steep drop, followed by a flat line makes the shape of an L. This is the most severe of the different shapes of recession. A classic example of an L-shaped recession occurred in Japan following the bursting of the Japanese asset price bubble in 1990. From the end of World War II throughout the 1980s, Japan's economy grew robustly. In the late 1980s a massive asset-price bubble developed in Japan. After the bubble burst, the economy suffered from deflation and experienced years of sluggish growth, never returning to the higher growth Japan experienced from 1950-1990. There is a fear among some economists that the recent U.S. housing collapse mirrors events in Japan in the late 1980s.

Our current recession was not caused by the Fed raising interest rates. In fact, the Fed has kept rates artificially low since 1999. Their initial reason for keeping rates low was to fight computer problems that allegedly were coming due to Y2K. The problem never occurred. Next, the Fed lowered interest rates in response to the terrorist attacks of 9/11 and the resulting economic slowdown. By 2003 Fed Funds were at a generational low rate of 1%. After raising rates from this artificially low level, Fed Funds topped out at 5.25% in 2007. In early 2008 the Fed began to once again cut rates, this time taking Fed Funds to 0.25% officially, but the effective rate is 0%. Similar to the situation in 2003, investors are being forced to make riskier investments to avoid earning virtually nothing on their short-term investments. This is the same environment we faced six years ago, when investors, stretching for yield, made poor decisions that resulted in disastrous losses.

Most pundits are hoping for a V-shaped recovery in which the economy recovers just as quickly as it previously sank. They are telling their listeners to

“buy the dips.” Our fear is that we are facing something quite different this time. The last banking/financial crisis of this magnitude that we faced was in the 1930s. The Savings & Loan Crisis of 1990 was nowhere near as large as the crisis we are facing today. Whether the resulting recovery makes this a U, W, or L-shaped recession is as yet unknown, but our bet is that it won't look like a V. Any result other than a V-shape means we may bounce along the bottom with little or no growth for an extended time.

*People who achieve financial security rarely do so alone. With all of the current economic uncertainty, this is a perfect time to contact your COUNTRY® Financial representative for an in-depth review of your situation. Backed by a team of experts, your financial representative is equipped to give you the guidance you need.*

