



New Economy, New Recession?

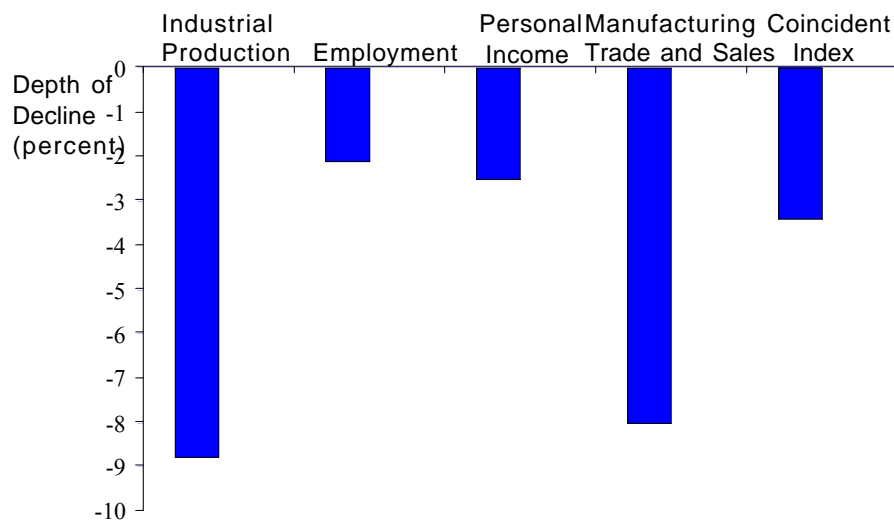
Outline

- What is a recession?
- Detecting a recession
- Fundamental New Economy changes?
- How does the most recent slowdown measure up?
- Concluding remarks

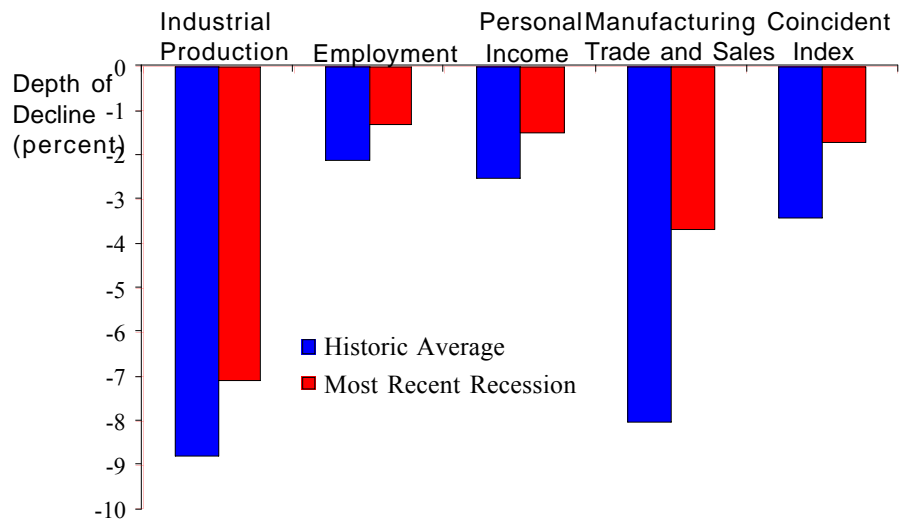
What is a recession?

- Media rule of thumb:
 - 2 consecutive quarters of negative GDP growth
- Official arbiter:
 - NBER Business Cycle Dating Committee
- Key characteristics:
 - depth
 - breadth
 - duration

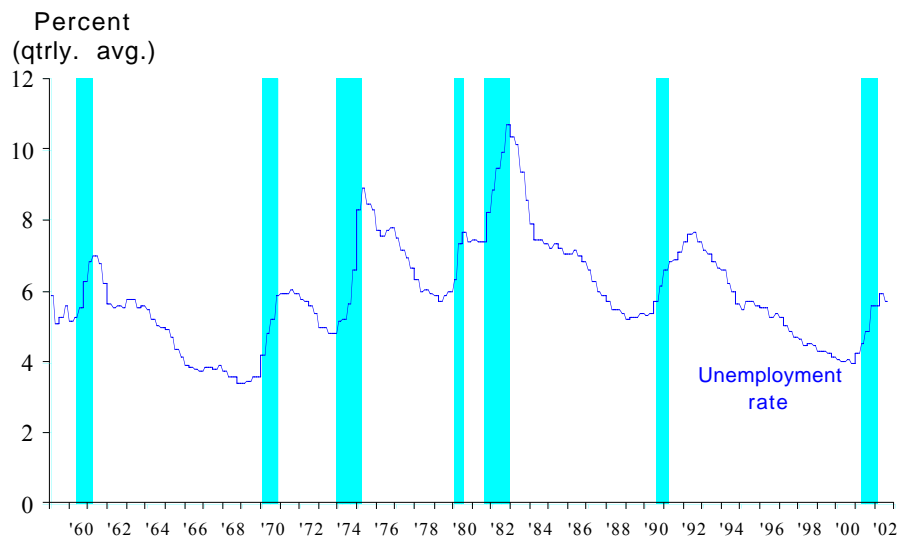
Average depth of declines in the NBER indicators and Coincident Index in past recessions



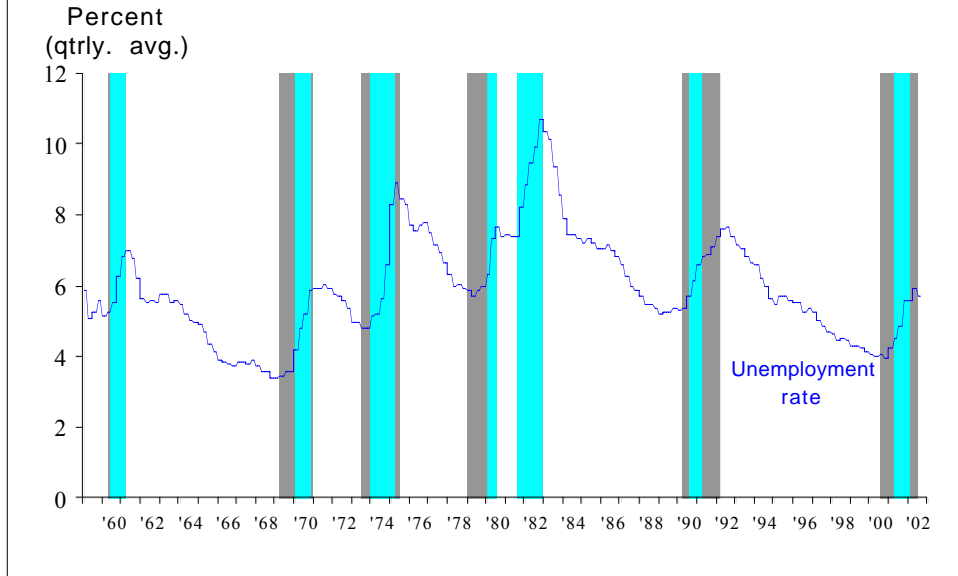
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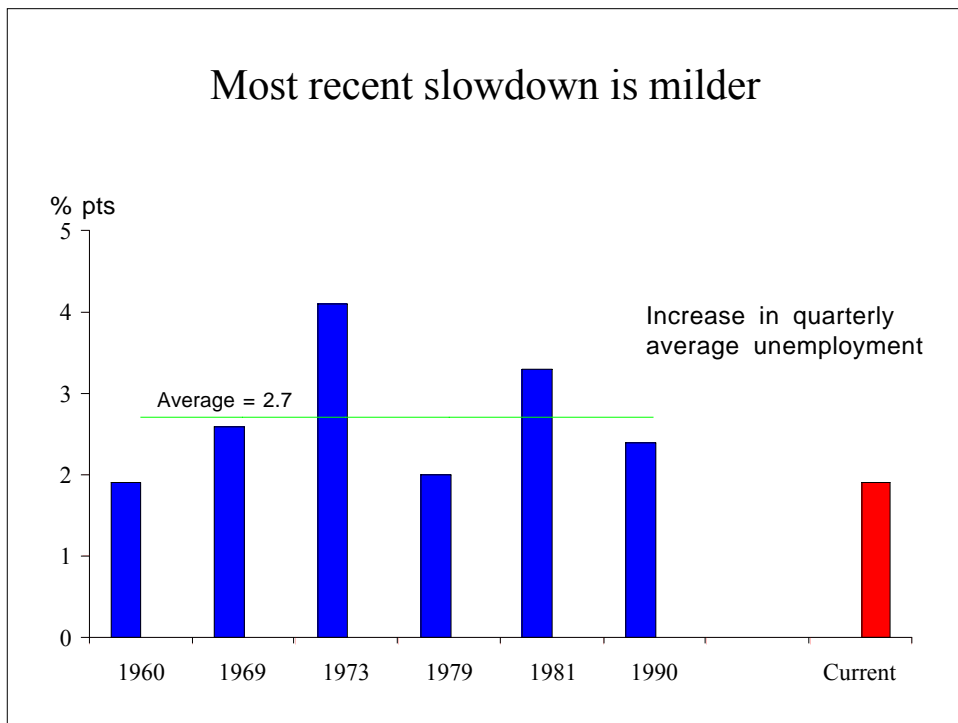
Slowdowns start earlier and sometimes last longer than NBER recessions



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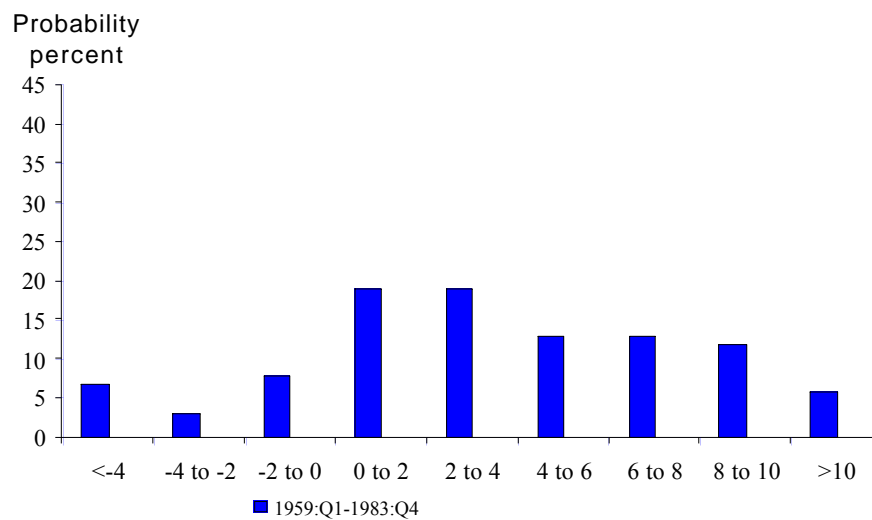
Most recent slowdown is milder



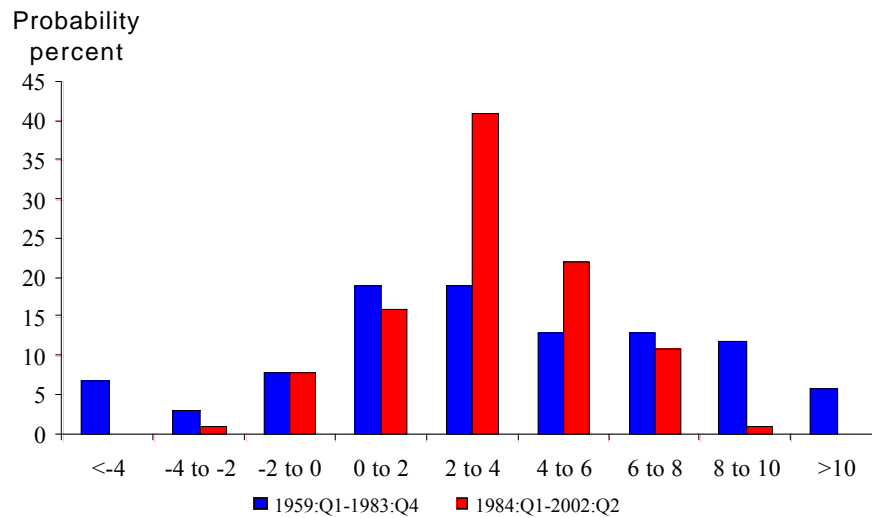
Overview of changes in the economy

- Mild slowdown reflects general shift toward reduced volatility
- IT and financial deregulation/innovation contribute to stability
- Volatility of employment has fallen less than volatility of output
- Firms and workers both more flexible

High and low GDP growth rates much less common



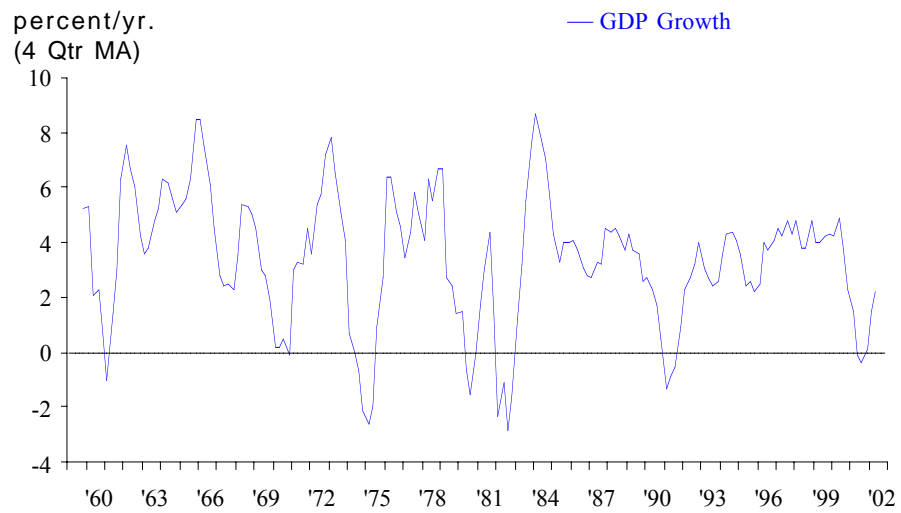
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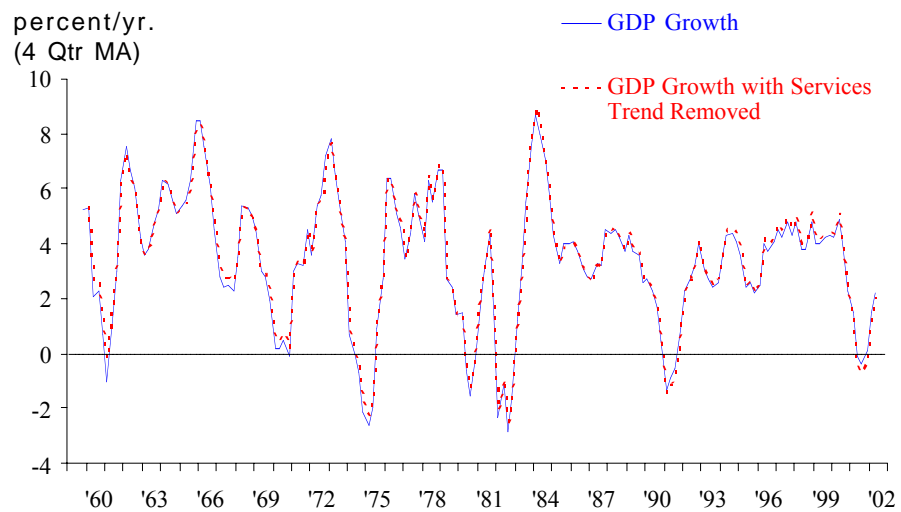
What determines a sector's contribution to GDP volatility?

- Sector volatility
- Sector size
- The correlation between sector growth and GDP growth

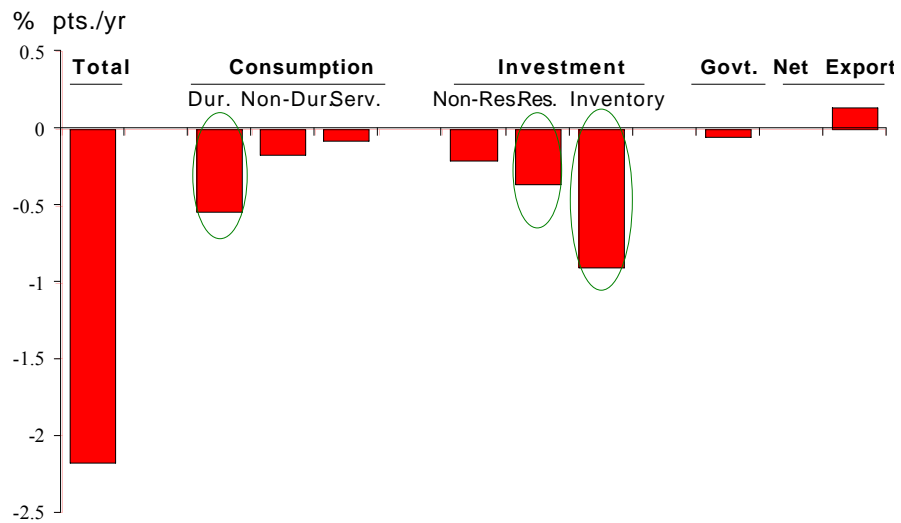
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Contributions to reduced GDP volatility

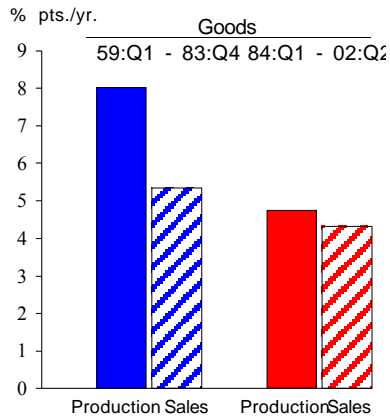


Underlying sources of improvement

- Financial deregulation
- Financial innovation
- Better inventory management

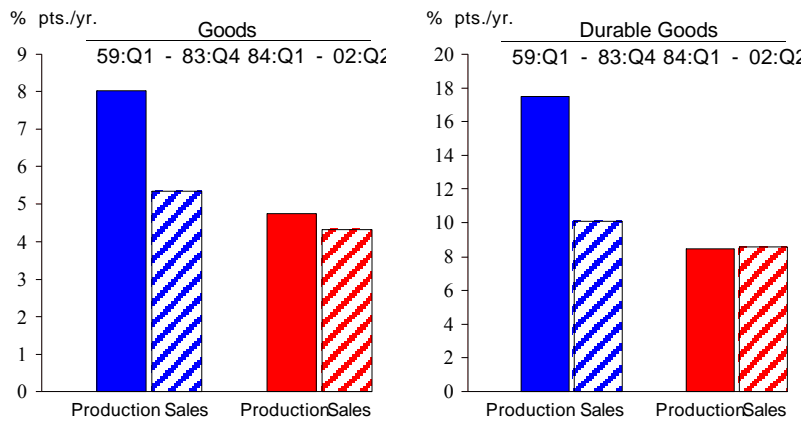
Improved inventory management smooths production relative to sales

(Growth volatility before and after 1984)



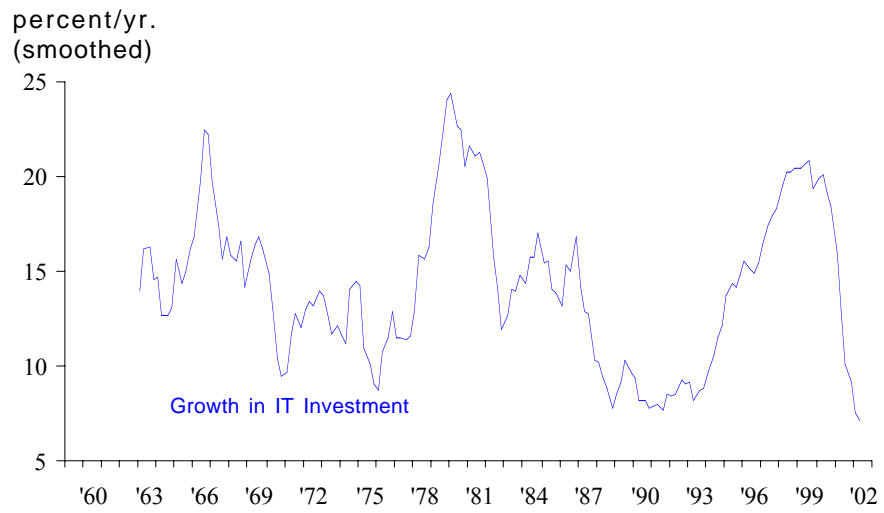
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IT investment surged in the late 1970s and early 1980s

Growth in IT investment



Other sources of stability

- Smaller food and energy shocks
- Changes in monetary policy

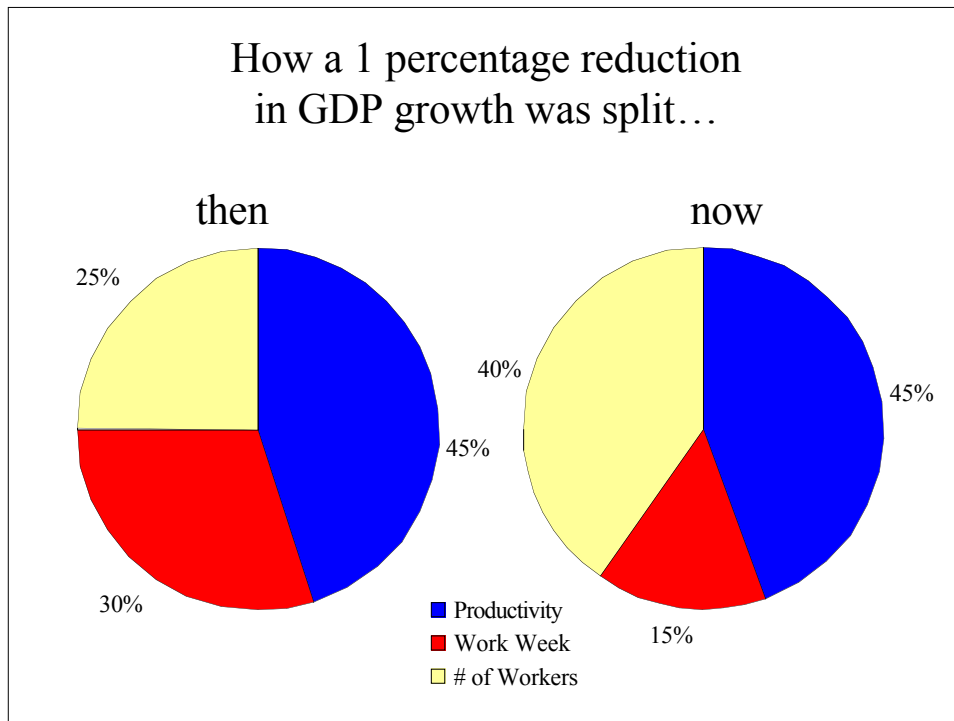
What else is different?

- Firms readier to hire and fire
- People move in/out of labor force more freely

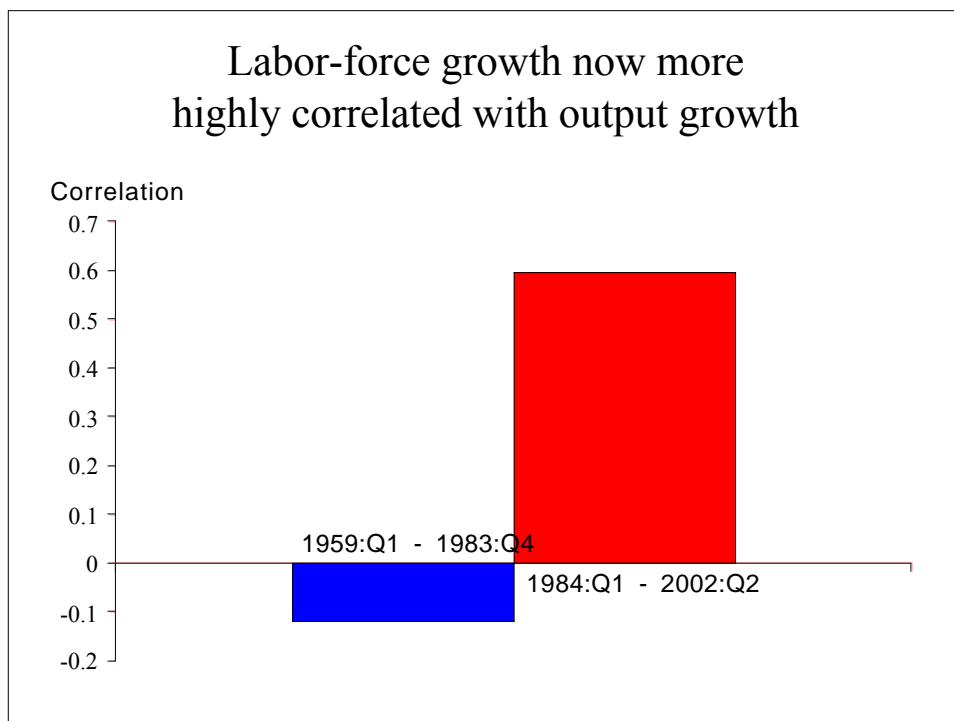
How a 1 percentage reduction in GDP growth was split...



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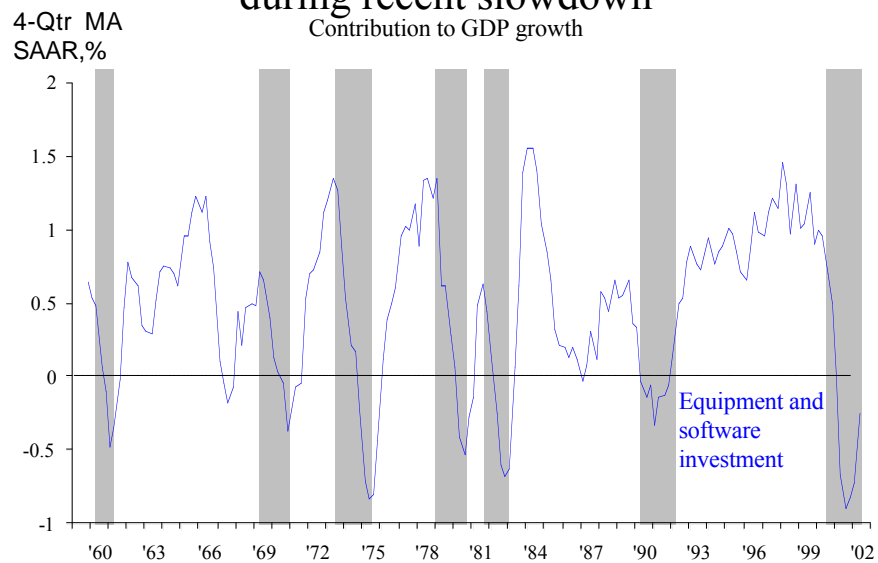
Labor-force growth now more highly correlated with output growth



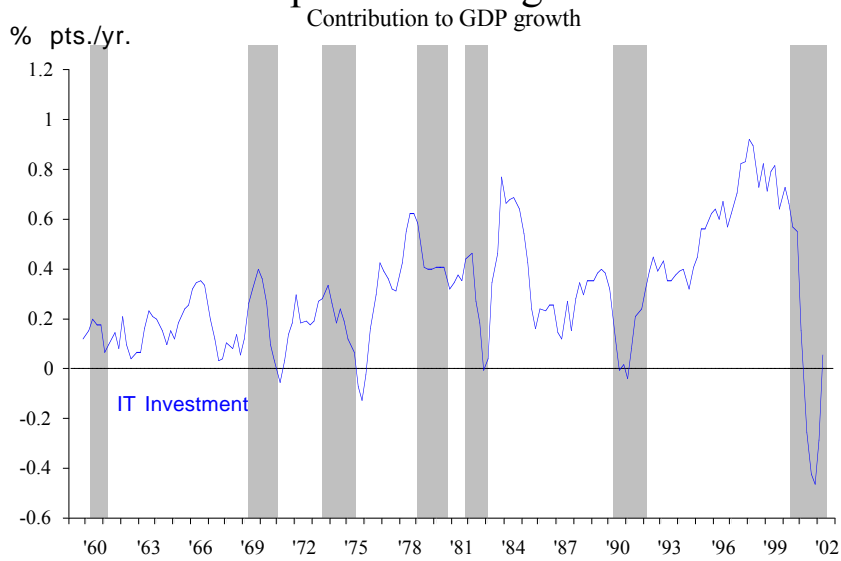
Does the most recent slowdown measure up?

- Slowdown relatively mild? Yes
- Firms shed workers rapidly? Yes
- Output per worker held up well? Yes
- Labor-force participation dropped? Yes
- Consumer durables held up well? Yes
- Residential investment held up well? Yes
- Inventories kept under control? Yes, but

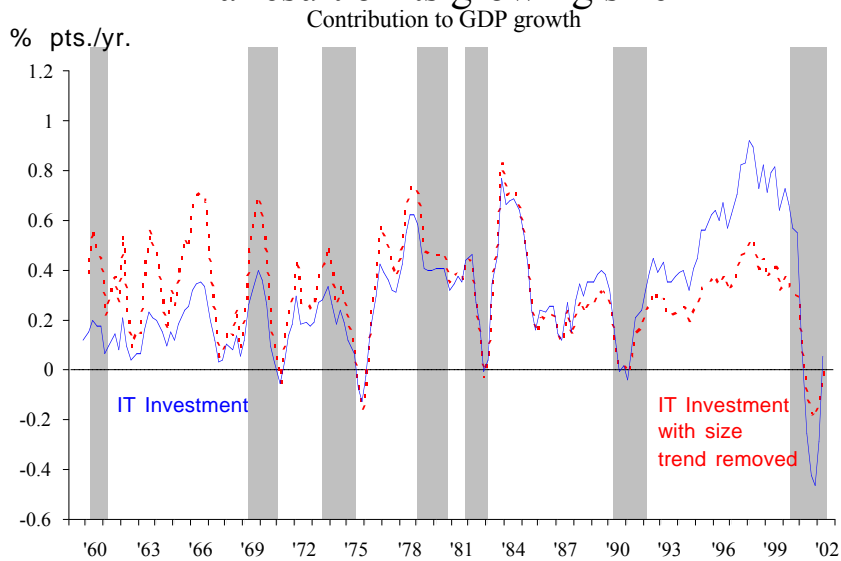
Equipment and software investment plunges during recent slowdown



IT's investment's increasing impact on GDP growth



IT's growing impact mostly a result of its growing size



Conclusions

- The economy behaves differently than before
 - GDP growth less volatile
 - labor market more flexible
- Improved access to credit and more sophisticated inventory management key
 - made possible by deregulation and IT innovation
- Recent slowdown reflects many long-term changes
- IT investment swings having a larger and larger impact

There is more to the New Economy than faster productivity growth.

