Outlook for 2002

The year 2001 was supposed to be the 10th year of the long economic expansion that began in the second quarter of 1992. Instead, it will be recorded as part of the 2001-2002 recession. This is the third consecutive decade that started in recession—the 1980s opened with two recessions (two quarters in 1980 and five quarters spanning 1981 and 1982) and the 1990s began with a recession covering three quarters of 1990 and 1991. The U.S. economy doesn’t seem to start decades well, but it clearly recovered each time and did very well through much of the 1980s and 1990s.

Not all recessions are alike, however. Between 1979 and 1992, the unemployment rate rose from 5.8 percent to almost 9.7 percent. In December of 1982 it was nearly 11 percent. It wasn’t until 1988 that the rate for the year had fallen back to below 5.8 percent. Contrast that performance with the unemployment rate in the 1990s. From 1989 to 1991 the unemployment rate rose from 5.3 percent to 6.8 percent. The rate rose again in 1992, but averaged 5.4 percent by 1996. Clearly, in terms of unemployment, the short recession of 1990–1991 had a much less pronounced and briefer impact.

We believe the current recession will be more like the one in the 1990s. It will have started in mid-2001 and should be over by early to mid 2002. While two or more quarters of that time period will register a contraction in GDP, each year will show a year-over-year positive rate of growth, in the neighborhood of 1 percent. The unemployment rate should rise from a low of 3.9 percent in 2000 to a peak of about 6.4 percent in 2002. Within two to four years, the rate should be back to around 4 percent.

It is debatable whether or not we would have entered a recession in 2001 had it not been for the attack on the United States on September 11th. The economy had already been slowing and GDP growth was barely on the positive side during the first two quarters of the year. The unemployment rate had risen from 3.9 percent in September of 2000 to 4.9 percent in August of 2001. The Federal Reserve began aggressively lowering interest rates early in 2001, attempting to stabilize the economy against the impacts from lower profits, declining business investments, slowing export sales, and decreasing consumer spending. Since September, the Federal Reserve continued this policy and it appears that the federal government will do its own part to resuscitate spending through its own spending increases, industry subsidies, and tax decreases. Central banks in many countries have joined the U.S. Federal Reserve in a concerted effort to provide liquidity in distressing times.

We predict a short and shallow recession because we believe that these policy responses will be measured and adequate. Because the country’s growth was slowing in the first half of 2001, some of the previous imbalances were starting to be corrected before the September attack. The last five years revealed a strong engine of growth for the U.S. that should resurface once imbalances are worked off, the direct impact of the September attack recedes, and confidence returns to realistic levels. Some of the highlights of our 2002 forecast include:

- GDP growth of 1.0 percent and an economic recovery phase in late winter
- GDP inflation of 1.6 percent
- Unemployment rate averaging 6.3 percent
- Historically low short-term rates; Prime Rate of 5 percent
- Housing starts of 1.5 million units
- A trade deficit of approximately 4 percent of GDP
- A declining value of the dollar
- Indiana employment falling by 90,000 jobs
- Modest growth in Indiana exports

The U.S. Economy: The Great Expansion Ends

As we look at the economy in late 2001, after the terrible shock of September 11th, it is easy to see signs of a significant downturn. The National Bureau of Economic Research (NBER) has recently announced that a recession began in March of 2001. How deep will it be? How long will it last?

The dates associated with economic recessions and recoveries are determined by the National Bureau of Economic Research. A recession begins when the NBER decides the economy has reached a peak and ends when the economy reaches a trough. The