The Global Recession

The current U.S. recession began in December 2007, according to the National Bureau of Economic Research (NBER). The recession has since affected other countries, and many forecasters predict that world output will contract during 2009. The International Monetary Fund (IMF), for example, predicts that world gross domestic product (GDP) will fall by at least ½ percent in 2009, which would be the first annual decline in world GDP in 60 years.¹

Has the current economic slowdown affected more countries than prior U.S. recessions? According to the Economic Cycle Research Institute (ECRI), six of the world’s seven major developed countries that make up the G7 are now experiencing a recession. Only Canada has escaped thus far. Further, 61 percent of 18 developed and emerging countries (the G7 plus 11 other major U.S. trading partners) are now in recession, according to the ECRI. The chart shows the percentage of these 18 countries that were in recession during each of the seven U.S. recessions since 1970. The current recession is fairly widespread: A higher percentage of countries are now in recession than during four of the previous six episodes and, of course, the percentage could increase before the recession ends.²

Like the NBER, the ECRI considers a variety of data in determining when a country is in recession. However, a common rule-of-thumb recession indicator is a decline in GDP for two consecutive quarters. By this measure, 50 percent of the 18 countries in our sample, including the United States, have been in recession during the past year. As the chart shows, this is a higher percentage than all but one U.S. recession since 1970. Moreover, because GDP data for the fourth quarter of 2008 are not yet available for several countries, the percentage of countries now in recession as determined by this measure is likely to rise.³ Thus, both the ECRI recession indicator and the rule-of-thumb indicator show that an unusually high percentage of the world’s large countries and major U.S. trading partners are currently experiencing a recession.

The world’s economies are tied together by global financial markets and international trade. Shocks that affect the U.S. economy—the world’s largest—will surely affect the rest of the world. Many analysts blame the current recession on the financial crisis that resulted from large losses on securities backed by U.S. residential mortgage loans. Some analysts also attribute the economic slowdown to a spike in energy prices. If the current recession engulfs more countries and world GDP contracts in 2009 as predicted by the IMF, then this recession will prove to be the broadest, and certainly the deepest, of the past 40 years.

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² ECRI recession indicators are not available for all 18 countries over the entire period. Australia, Austria, Canada, France, Germany, Italy, India, Japan, Korea, New Zealand, Spain, Sweden, Switzerland, the United States, and the United Kingdom are included in all recessions. Ireland is included in all but the 1970 recession, Mexico in the past five, and China is included for the past three recessions. See http://ecri-prod.s3.amazonaws.com/reports/samples/1/BC_0902.pdf for details.
³ GDP data are not available for all 18 countries over the entire period. Australia, Austria, Canada, France, Germany, Japan, Korea, Spain, Switzerland, the United Kingdom, and the United States are included in all recessions. Italy, the Netherlands, and Sweden are included in the data for the past five recessions, Mexico for the past four, New Zealand for the past three, and Brazil and Ireland are included for the past two recessions.