LONGEST ECONOMIC EXPANSION IN U.S. HISTORY

"Employment and industrial production are more reliable than GDP and the Dow in determining cyclical turning points in the economy." Policy Foundation, 2009

(July 2019) The U.S. economy entered record territory this month as the economic expansion that began in June 2009[1] entered its 11th year, eclipsing the previous 10-year record (1991-2001) in the business cycle chronology[2] compiled by economists at the National Bureau of Economic Research (NBER).

The chronology compiled by the Cambridge-based non-profit research organization only dates to December 1854 but older business annals and independent research show the current expansion is the longest in U.S. history.

Importance of Coincident Indicators

Popular media, to the extent they rely on economic indicators,[3] generally cite *quarterly* Gross Domestic Product (GDP). GDP growth is synonymous with expansion, while two consecutive negative quarters is said to mean recession.

The NBER's Business Cycle Dating Committee relies on a more complex process that includes the use of *monthly* coincident, or "real-time" indicators.[4] The most important of these four coincident indicators are payroll employment and personal income less transfer payments.[5] In a 2010 memo,[6] the NBER panel noted the importance of these coincident indicators: "The estimates of real GDP and GDI issued by the (U.S.) Bureau of Economic Analysis ... are only available quarterly. Further, macroeconomic indicators are subject to substantial revisions and measurement error. For these reasons, the committee refers to a variety of monthly indicators to choose the months of peaks and troughs. It places particular emphasis on measures that refer to the total economy rather than to particular sectors."

The NBER memo explains, "Movements in these series can provide useful additional information when the broader measures are ambiguous about the date of the monthly peak or trough. There is no fixed rule about what weights the committee assigns to the various indicators, or about what other measures contribute information to the process."

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[1] Policy Foundation research memo (September 20, 2010) "NBER Confirms Policy Foundation Finding Recession Ended In 2009." Summary: A panel of top economists announced today the U.S. recession ended in June 2009, a finding reached by the Foundation in a research memo (November 2009) and opinion column (December 2009).
[2] http://www.nber.org/cycles/cyclesmain.html
[3] Popular media oftentimes rely on market indexes or economic forecasts to assess the state of the U.S. economy.
[4] By contrast, popular media tends to emphasize the unemployment rate--a lagging indicator--instead of payroll employment, its coincident counterpart. The Bureau of Labor Statistics reports both on the First Friday of each month.
[5] Other coincident indicators are industrial production and real manufacturing and trade sales.
[6] Business Cycle Dating Committee memo, September 20, 2010. The memo also cites monthly GDP's importance.

Current Status of Coincident Indicators

Following is a summary of the current status of the coincident indicators:

- Payroll employment has expanded for 106 consecutive months.[7]
- Real personal income less transfer payments increased in May, according to Fed data.[8]
- Industrial production has expanded 77 months during this expansion, though it was lower in June than in January 2019.[9]
- Real manufacturing and trade sales hit a new high in March.[10]

Payroll employment increased 224,000 in June. The jobs report for July will be released Friday, August 2, and should show continued growth of this indicator. Thus, the current expansion will eclipse the previous 10-year record expansion that occurred between March 1991 and March 2001. That expansion started under the late President George H.W. Bush, though it is frequently associated in media reports with ex-President Bill Clinton's two terms in office (1993-2001).

Pre-NBER History

The NBER chronology, as noted, only dates to December 1854. A key source was compiled by future Fed Chairman Arthur F. Burns and Wesley C. Mitchell.[11] Yet business annals that record economic activity to America's Founding do not show a comparable 10-year period of growth. These findings are supplemented by the works of William M. Gouge,[12] Willard Thorp,[13] and Murray N. Rothbard.[14]

Burns and Mitchell did not include pre-1854 dates in the NBER chronology because they considered the data unreliable and inconsistent. Yet they present "calendar year reference dates" that originate with Thorp for the preceding 20-year period (1834-1854). A careful reading of Gouge and Thorp show at least five expansions in this two-decade period, with the longest--five years--between 1848 and 1853. The preceding 15 years (1818-1833) show another four expansions, with the longest a four-year growth period between 1821 and 1825.

The preceding decade was a precursor to the Panic of 1819, preceded by a “rapid expansion of bank notes” with “many banks formed” in 1812–1813[15] and

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[7] U.S. Bureau of Labor Statistics, Current Employment Statistics. https://www.bls.gov/ces/
[8] Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/W875RX1
[9] Federal Reserve System. https://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt
[10] Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CMRMTSPL
[11] A key source is Burns, Arthur F. and Wesley C. Mitchell. 1946. *Measuring Business Cycles*. NBER Studies in Business Cycles, No. 2.
[12] Gouge, William M. 1833. *A Short History of Paper Money and Banking in the United States* (New York) Augustus M. Kelley Publishers, 1968.
[13] Thorp, Willard. 1926. *Business Annals*. (New York) NBER.
[14] Rothbard, Murray N. 1962. *The Panic of 1819*. (New York) Columbia University Press
[15] Thorp (1926), p. 119

a doubling of “bank notes outstanding” in 1811–1815.[16] Thorp and Rothbard disagree about the expansion’s peak, though both identify a credit contraction starting in 1818, leading to a wave of bankruptcies throughout the United States.

The economy in the early decades of the U.S. (1776-1812) was predominantly agricultural and subject to multiple crop cycles.

The State of the Economy In A Presidential Election Year

The state of the economy is an important factor in election years. Perception can override economic reality. In 1992, Clinton campaigned on the idea that economic conditions were worsening ("It's the economy, stupid"), though the economy had been expanding since early 1991. The episode is a reminder that Americans are soon to witness another bitter debate about economic conditions.

The monthly payroll employment report--the most important coincident indicator--will take on added importance in 2020.

-- Greg Kaza

[16] Rothbard (1962), p. 4