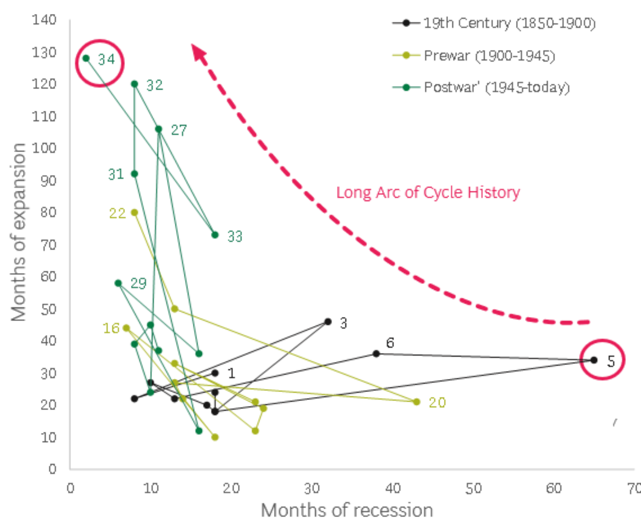
BCG Center for Macroeconomics

QUICK TAKE: Covid-19 and the long arc of cycle history since 1854

Lengths of expansions and the recessions that follow – the 2020 expansion and Covid recession set records for longest and shortest



	Expansion length (m)	Recession start	Recession length (m)		Expansion length (m)	Recession start	Recession length (m)
1	30	7/1857	18	18	22	6/1923	14
2	22	11/1860	8	19	27	11/1926	13
3	46	5/1865	32	20	21	9/1929	43
4	18	7/1869	18	21	50	6/1937	13
5	34	11/1873	65	22	80	3/1945	8
6	36	4/1882	38	23	37	12/1948	11
7	22	4/1887	13	24	45	8/1953	10
8	27	8/1890	10	25	39	9/1957	8
9	20	2/1893	17	26	24	5/1960	10
10	18	1/1896	18	27	106	1/1970	11
11	24	7/1899	18	28	36	12/1973	16
12	21	10/1902	23	29	58	2/1980	6
13	33	6/1907	13	30	12	8/1981	16
14	19	2/1910	24	31	92	8/1990	8
15	12	2/1913	23	32	120	4/2001	8
16	44	9/1918	7	33	73	1/2008	18
17	10	2/1920	18	34	128	3/2020	2

Source: NBER, BCG Center for Macroeconomics.

On Monday, the National Bureau of Economic Research – the official body to date US recessions — said that the Covid recession was over in May 2020 as the economy troughed in April last year (in anticipation of this we've been showing the recession accordingly since last summer). A **recession of just two months** before growth returned is a welcome theme — particularly given the enormous shock of Covid. What should we make of it — is this surprising?

This is a good opportunity to zoom out and look at the very long run of cycle patterns, which we've written about many times before: the modern cycle drives longer expansions and promotes shorter recessions. Our **chart above** shows the "long arc of cycle history" with a substantial reduction in the length of recessions (x-axis) and substantial lengthening of expansions (y-axis). **What's bending the long arc of cycle history?**

Three structural forces have driven **cycle longevity**:

- **Growth of services:** Over the very long run the economy's output has shifted away from production towards services which are generally less volatile and so reduced the volatility of economic output, thus helping cycle longevity.
- **Compulsive stimulus**: Policy makers willingness to use stimulus liberally and consistently helps manage economic headwinds and extend expansions.
- **Anchored inflation**: Low and stable inflation provides policymakers with a robust foundation to manage the cycle — and it also gives policy makers time to respond slowly to any overheating, again stretching cycle longevity.

Two related forces are driving **shorter recessions**:

- **Overwhelming stimulus**: Policy makers growing willingness to provide overwhelming stimulus to contain systemic risk or bridge over an economic shock helps cut recessions short – with Covid triggering a bigger response than 2008.
- **Exogenous shocks**: Exogenous shocks have gained share of baseline cycle risk as other sources of risk — real endogenous shocks and policy errors — have declined. Exogenous shocks, even if severe, tend to be short-lived particularly if their knock-on effects are contained, thereby limiting recessions length.

To be sure, when economists talk about "recession" that is somewhat decoupled from a common or pragmatic interpretation: the end of the recession is not to say suffering doesn't continue or that everyone's economic fortunes have been restored. It's a statement about growth having resumed, even if the performance of the economy might still be below pre-recession output levels. •

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