



# "Recession 101"

## A quick lesson in Economics and History

**Are you feeling overwhelmed by all the information about the current economic situation? Do you know what it all means? And what do you do with all these numbers and figures? If this brings you back to your days of getting ready for finals, trying to understand all of the material thrown at you and feeling overwhelmed, we may be able to offer you some help. Here's a quick guide to understanding some of these concepts being discussed on the news that could help you feel a little less confused and a little more hopeful.**

One of the most talked about subjects in the news these days is the recession we're currently experiencing. The reality is that this is not the first time the U.S. economy has gone through a recession, and it probably won't be the last. It is also true that this is one of the worst recessions that the U.S. economy has seen in the Post-World War II era. But the good news is that we have gone through this before, and like before, we can come out. We have history on our side!

### **First things first... what is a recession?**

Experts around the world believe that a true economic recession can only be confirmed if Gross Domestic Product (GDP) growth is negative for a period of two or more consecutive quarters. In other words, when the value of goods and services produced in the United States decreases six months in a row. While the "two quarter" definition

is accepted globally, many economists feel that definition does not factor in other important economic change variables. For instance, current national unemployment rates or consumer confidence and spending levels are all a part of the economic system and should be taken into account when defining a recession.

The agency that is officially in charge of declaring a recession in the United States is known as the National Bureau of Economic Research, or NBER. According to the NBER, a recession is a "significant decline in economic activity lasting more than a few months." The Business Cycle Dating Committee of the NBER determined that a peak in economic activity occurred in the U.S. economy in December 2007. This peak marked the end of the expansion that began in November 2001 and the beginning of this recession.

So now that you've brushed up on your economic concepts, what can you learn from history?

Source: "Determination of the December 2007 Peak in Economic Activity" 2008  
<http://wwwdev.nber.org/cycles/cyclesmain.html>



# U.S. Recessions over Time<sup>1</sup>

## 1907 – 1908

The “Panic of 1907” was the first major financial crisis to take place in the U.S. in the 1900s, with the last recession having been back in the 1890s. The Panic of 1907 was actually a severe decrease in the money supply that manifested itself as a recession.

## 1918 – 1921

The Post-World War I recession was a recession characterized by severe hyperinflation in Europe, which spread to North America. Much of it had to do with the lost production at the end of the war. This, coupled with the influx of labor that was caused by returning troops who needed jobs, drove unemployment to very high levels.

## OCTOBER 1926 – NOVEMBER 1927 (13 months)

The recession of 1926 was one that few remember, as it came just before the Great Depression, and was often overshadowed by it. British coal miners went on strike that year and this action was followed by a general strike, when three million workers went on strike to support miners.

## Depression

Before the Great Depression of the 1930s any downturn in economic activity was referred to as a depression. The term recession was developed in this period to differentiate periods like the 1930s from smaller economic declines that occurred in 1910 and 1913. This leads to the simple definition of a depression as a recession that lasts longer and has a larger decline in business activity.

## AUGUST 1929 – JUNE 1938 (110 months)

The stock market crash that occurred on Black Tuesday, October 29, 1929 was one of the major causes that led to the Great Depression which, coupled with bank failures (throughout the 1930s over 9,000 banks failed), led to one of the worst economic depressions in U.S history.

## FEBRUARY 1945 – OCTOBER 1945 (8 months)

The recession of 1945 was a brief, mild downturn which occurred as the U.S. demobilized from World War II. Basically, the same thing happened in 1945 that had happened right after World War I. During the war, a false high was produced by the extreme demand that the war brought to the U.S.

## NOVEMBER 1948 – OCTOBER 1949 (11 months)

The late 40s recession might be what some would consider a routine cycle of the modern economic model. During the late 40s recession, unemployment rates went from around 4% to about 8%.

## JULY 1953 – MAY 1954 (10 months)

The Early 50s recession, also known as the Recession of 1953, was mainly brought about because of the kinds of financial challenges seen after the Korean War (challenges that often accompany the end of any war). False highs, this time in the form of a large inflationary period, came down quickly as the war came to a close.

## AUGUST 1957 – APRIL 1958 (8 months)

The late 50s recession, also called the recession of 1957, resulted in high unemployment rates and failing businesses. It was mostly due to the tightened monetary policy of the Federal Reserve.

## APRIL 1960 – FEBRUARY 1961 (10 months)

The Early 1960s recession, also called the Recession of 1960, was characterized by, high unemployment rates, high inflation, and a bad Gross National Product rating. These all worked together to cause consumer confidence in the system to deteriorate, and caused a downward spiral that negatively impacted many businesses. What ended the recession was the call President Kennedy made on January 30, 1961 to increase government spending to improve the Gross National Product. This helped reduce unemployment, helped bring back confidence in the economy, and contributed to the end of the recession that very year.

## DECEMBER 1969 – NOVEMBER 1970 (11 months)

The Late 60s recession, though not nearly as problematic as its predecessor in the early sixties, was characterized once again by unemployment and unhealthy amounts of inflation. The modern economic cycle seems, usually, to bring about smaller “aftershocks” when a notably sized recession comes to an end.

#### **NOVEMBER 1973 – MARCH 1975 (16 months)**

The 1970s oil crisis really began in 1973. The 1970s oil crisis was brought on when oil prices were quadrupled by OPEC. This, along with the increased government spending which came with the Vietnam War, led to severe stagflation in the U.S. Stagflation is a condition of slow economic growth and relatively high unemployment – a time of stagnation – accompanied by a rise in prices, or inflation.

#### **JANUARY 1980 – NOVEMBER 1982 (22 months)**

The 1980s recession can be mostly attributed to the Iranian Revolution which took place around 1979. This revolution caused a sharp increase in the price of oil all around the world, causing the 1979 energy crisis. The U.S. enacted a tight monetary policy to control inflation, which led to another recession.

#### **JULY 1990 – MARCH 1991 (8 months)**

The early 1990s recession was caused by a lot of different adverse financial stimuli on the economic environment of the early 90s U.S.. Black Monday, which occurred in October of 1987, resulted in a decrease of 22.6 percent off of the Dow Jones Industrial Average. While the economy did well bouncing back from this trial, long term effects definitely took hold.

#### **MARCH 2001 – NOVEMBER 2001 (8 Months)**

The Early 2000s recession took place in the U.S. for a number of different reasons. One was the collapse of the dot.com bubble. A false high, created in the initial, money-making wave of the Internet that swept the world, arrived at a realistic level. Also, the September 11th attacks caused a huge stir among Americans. Although Americans rallied and stayed positive through the difficult times, the economy took a hit as people stopped spending money. Finally a series of accounting scandals also caused a mild contraction on the North American economy.

#### **DECEMBER 2007 – PRESENT DAY**

The late 2000s recession, affecting the U.S. and most of the rest of the world, was triggered by the breakdown of the housing market. The banking industry has struggled, as many financial institutions face uncertainty about the values of their assets, particularly financial instruments related to mortgages. The stock market has lost significant value from the all-time peak it reached in late 2007 and unemployment has increased.

<sup>1</sup> Source: "History of U.S. Economic Recessions" 2009 <<http://recession.org/history>>

#### **S&P 500 Performance Following Recessions**

##### **Recession Stock Market Low**

##### **6 Months Later**

##### **1 Year Later**

5/26/1970	4.15%	32.14%
10/03/1974	34.47%	38.14%
03/27/1980	10.69%	21.62%
08/12/1982	39.25%	59.26%
10/11/1990	26.42%	31.06%
09/21/2001	17.82%	-12.84%
<b>Average</b>	<b>22.13%</b>	<b>28.23%</b>

Source: National Bureau of Economic Research.  
Stock Market performance is based on the Standard & Poor's 500 index.

## Now that you know, what do you do?

You've learned what a recession is, but what about the more important question: when will it end? No one can tell for sure. But given the historical patterns we can see that there is a light at the end of the tunnel, we just don't know how long the tunnel is going to be. In the meantime, you don't have to just sit there and be overwhelmed by the ride on the economic rollercoaster. Here are some things you could do to help you get through this journey.

- **Bolster that emergency cushion.** Even in flush times, financial advisers say consumers should have about six months' worth of expenses in their bank account to guard against job loss or other emergencies.

- **Forget about keeping up with the Joneses.** Since almost everyone's budgets are strained right now, cutting back is en vogue. Futurist Faith Popcorn's research shows that the concept

of "frugality" has taken hold among families, with parents increasingly teaching their children to reconsider how much they consume and whether they could do with less.

- **Negotiate almost everything.** From credit cards to clothes, companies are open to making deals as they struggle to keep customers. "If you're a good customer, (credit card companies) may be more apt to negotiate

your rate because they don't want to lose you," says Justin McHenry, President of IndexCreditCards.com. At farmers markets and clothing boutiques, simply asking, "Can I get a discount?" can lead to a lower price. Paying with cash increases the chances of making a deal because it allows retailers to avoid credit card transaction fees.

Source: "Your 2009 Recession Survival Guide" December 2, 2008, [www.usnews.com](http://www.usnews.com)

Recessions are painful, but as we've seen, they are just another phase of the economic cycle. Historically recessions have been short in duration when compared to economic expansions. Just keep in mind that as with any cyclical event you should just wait it out and be patient. But you don't have to go at it alone; this is one 'test' you can get help with. Consider seeking advice from an investment professional. For additional information or to access other resources, such as ING's retirement tools and calculators, visit us online at [www.ingretirementplans.com](http://www.ingretirementplans.com).

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