ADVISOR PERSPECTIVES

A Tale of Two Depressions: What do the New Data Tell Us?

By Barry Eichengreen and Kevin H. O'Rourke
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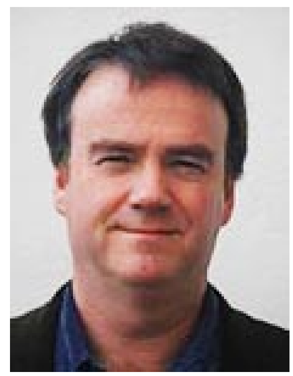
Barry Eichengreen

This is the fourth installment of the authors' comparison of data from the current recession to those of the Great Depression. Previous installments of their analysis can be found here:



Kevin H. O'Rourke

A Tale of Two Depressions (April 2009)
A Tale of Two Depressions (June 2009)
A Tale of Two Depressions (October 2009)

Global output

Global industrial production continues to recover – something for which policy deserves considerable credit (as we have argued on this site, see Almunia et al 2009 and O'Rourke and Eichengreen 2009). But before indulging in self-congratulation, policymakers should note that the level of industrial production is still 6% below its previous peak (figure 1). (At the trough it was 13% below its previous peak.) It follows that considerable excess capacity remains in a number of important economies. Exiting now from policies of stimulus in those countries would therefore be premature.

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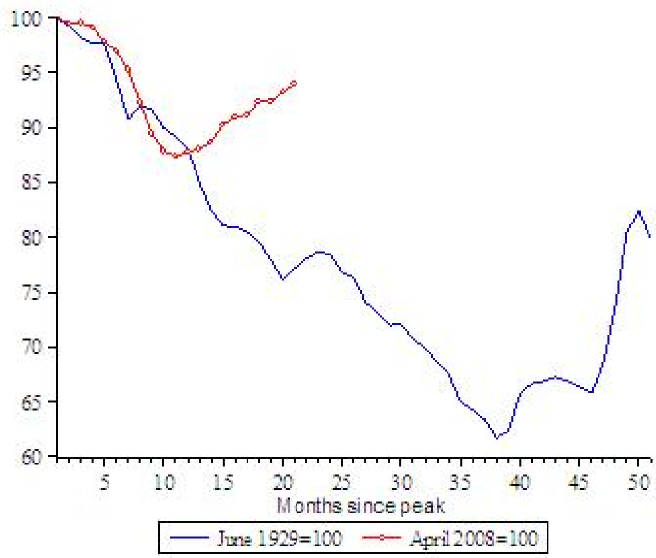
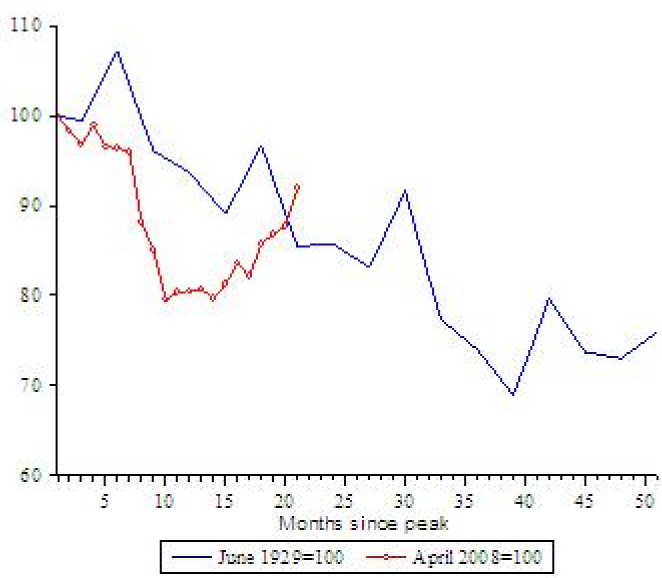
Figure 1. World industrial production, now vs. then



World trade

World trade also continues to recover but remains 8% below its previous peak (figure 2). (At the trough it was 20% below its previous peak.) The roots of this collapse of trade remain to be fully understood, although recent research has begun to shed light on some of the causes (see Baldwin 2009 and Chor and Manova 2009).

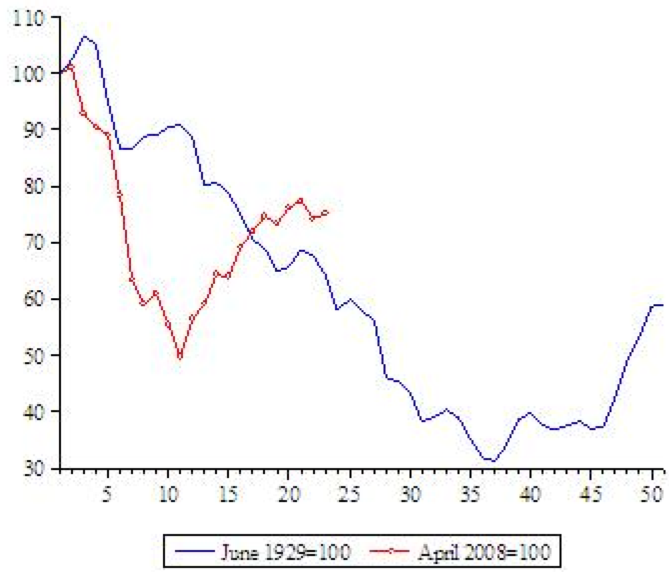
Figure 2. Volume of world trade, now vs. then



Equity markets

World equity markets are now 25% below peak (figure 3). (At their trough they were 50% below peak.) There was a break in the upward trend in January 2010 that may signal investors' growing concern about the danger of a double dip – although if the crisis has taught us anything, it has taught us that too much should not be made of the forecasting ability of financial markets.

Figure 3. World equity markets, now vs. then



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