

Parallels of the current recession to the early 1980s recessions

When the books on the current recession are closed, which recessionary period will be recorded as the worst?



During the early 1980s there were two recessions that occurred over a three year span. The first was from January to July of 1980. Despite economic recovery that followed, unemployment remained very high heading into the more significant recession that began in July of 1981 and ended in November of 1982.

It is the National Bureau of Economic Research (NBER) business cycle dating committee who decides when the US economy enters and closes a recessionary period. The NBER recession is a monthly concept that takes account of a number of monthly indicators including quarterly GDP growth, employment, personal income, and industrial production.

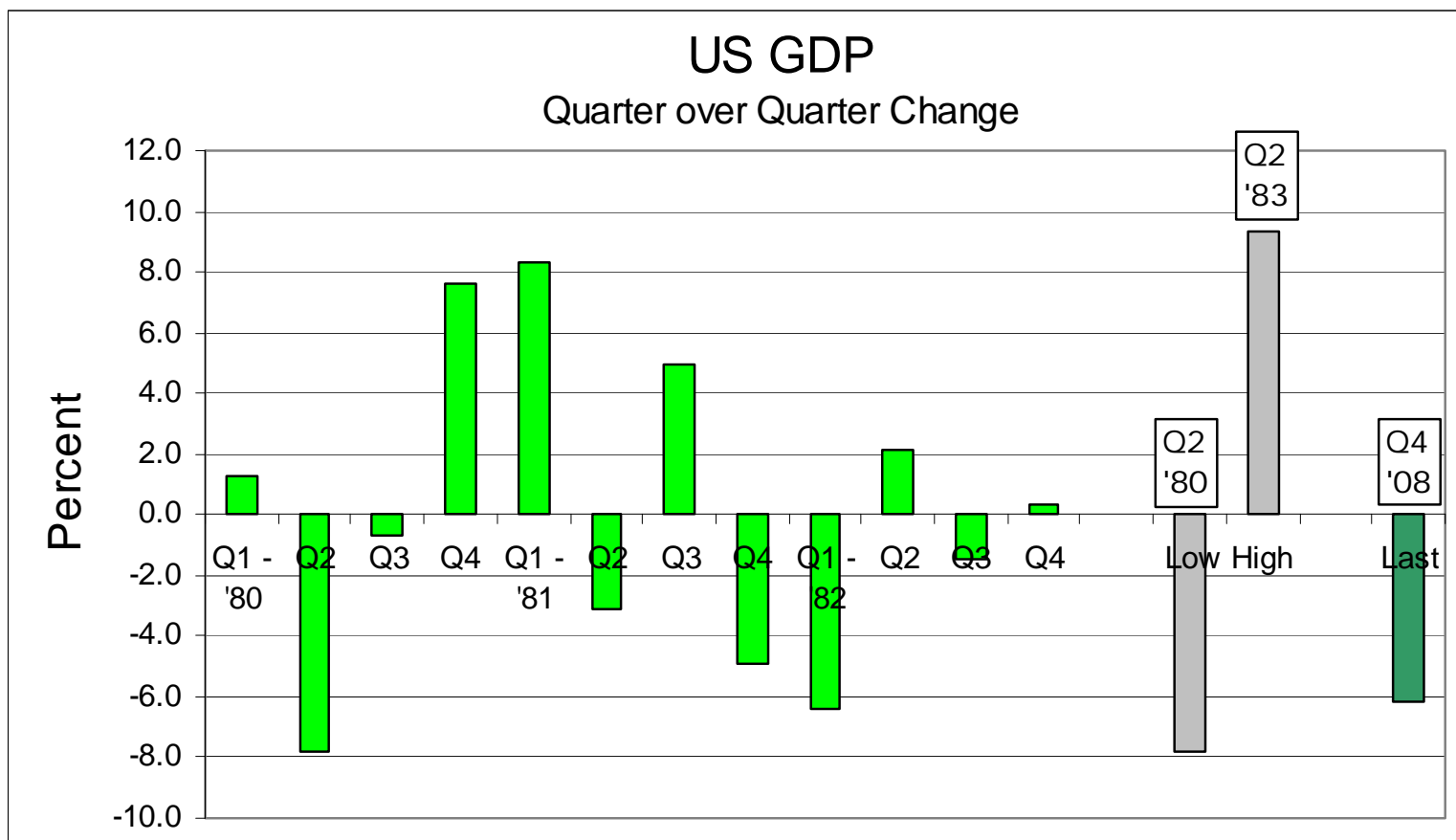
Current conditions are not as poor as during the twin recessions of the 1980s in some respects but several other indicators show the current recession to be worse.

A few of the major indicators for determining a recession, as well as coated paper demand and key end user indicators are shown on the slides that follow.

GDP weakest since 1980, 1982 recessions



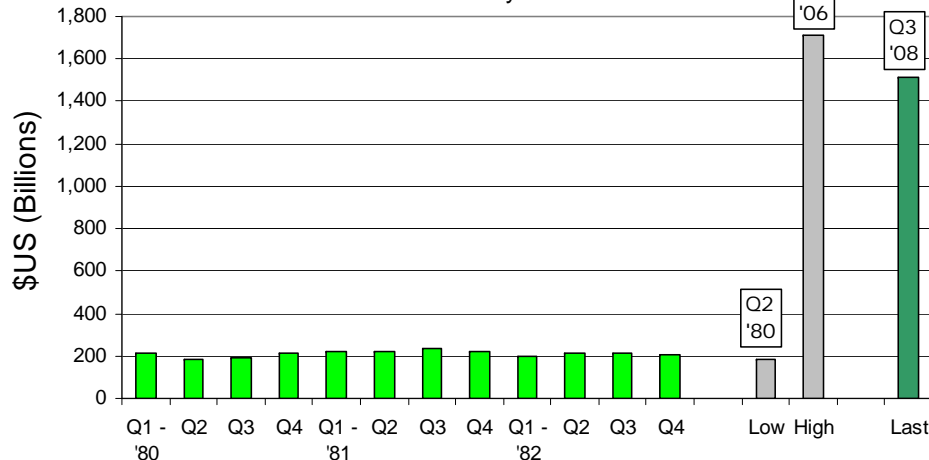
The economy shrank at a rate of 6.3% during the 4Q of 2008 as the deepening recession slowed consumer and business spending, the last time the GDP rate was this bad was Q1 1982 (-6.4%).



Which indicators are better?



Corporate Profits
Quarterly Data

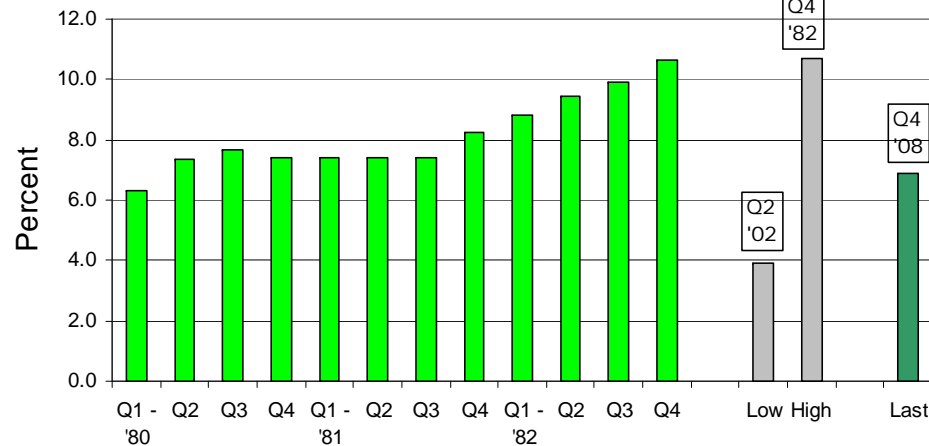


Corporate profits are over six times greater than during the period of the early '80s recessions.

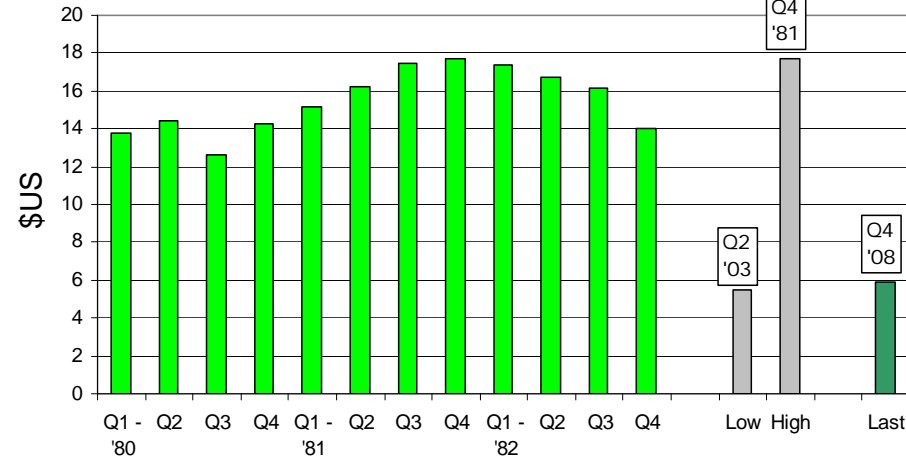
Unemployment rates are on the rise but remain to this point below the double digit levels of the early '80s.

30 yr fixed mortgage rates remain low - less than half of the levels seen in the early 80s.

US Unemployment Rates
Quarterly Average



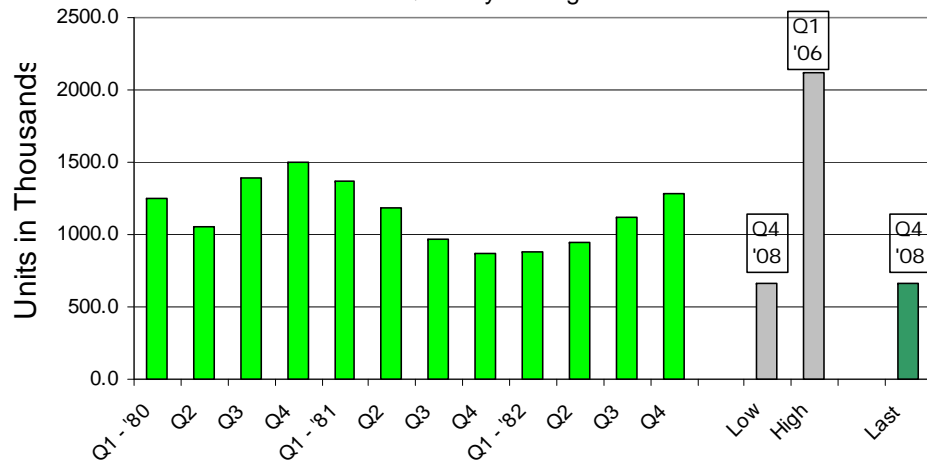
30 year Fixed Mortgage Rate
Freddie Mac



Which indicators are worse?



US Housing Starts
Quarterly Average

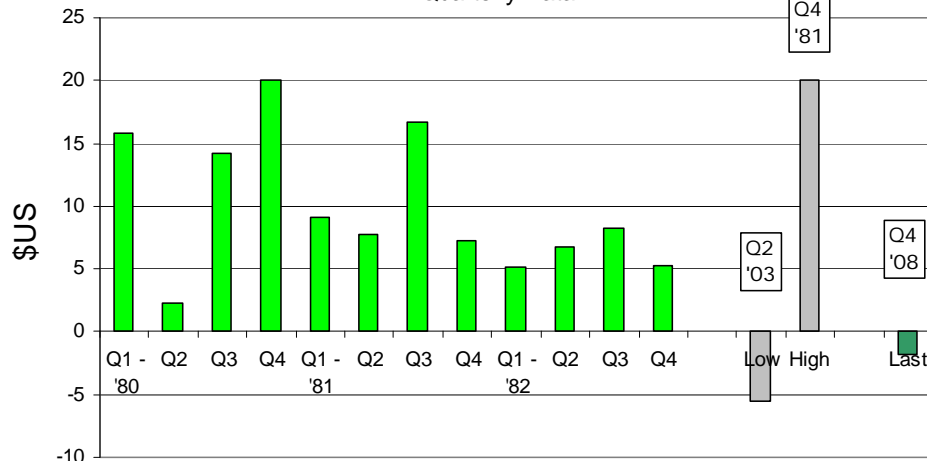


The housing market deteriorated in 2007. Housing starts have deteriorated to levels below the recession of the 80's.

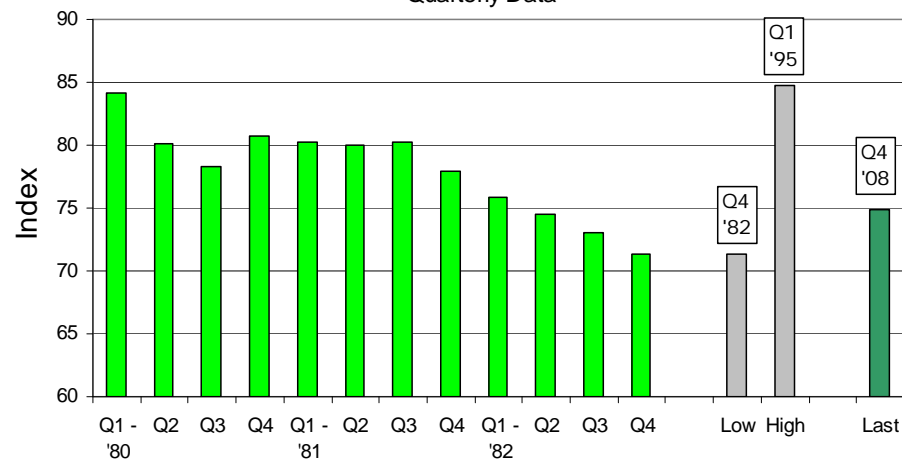
Disposable Personal income is significantly lower now than during the early '80s – nearing a low for this time span.

Industrial Capacity Utilization for the 4Q of '08 was only four percent above the low for the period of time dating back to the early 80's.

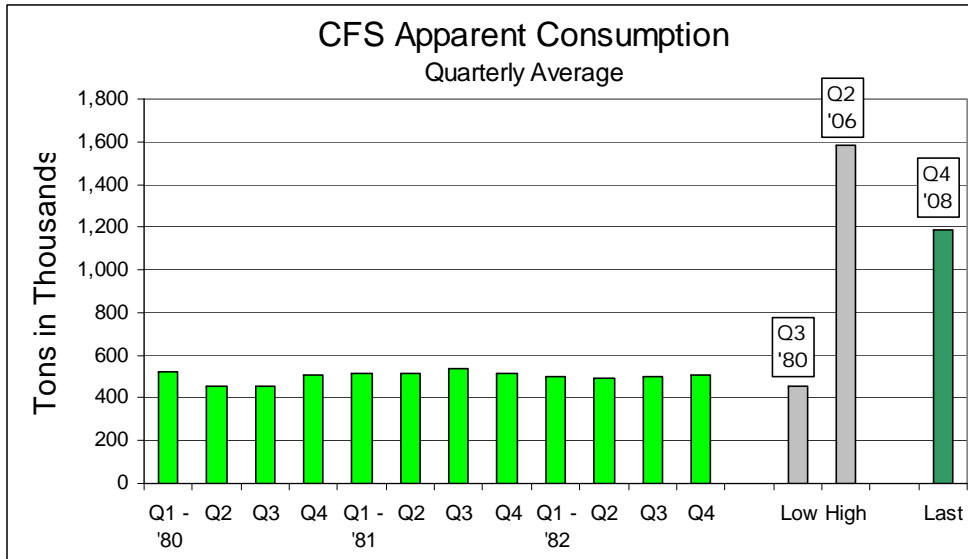
Disposable Personal Income
Quarterly Data



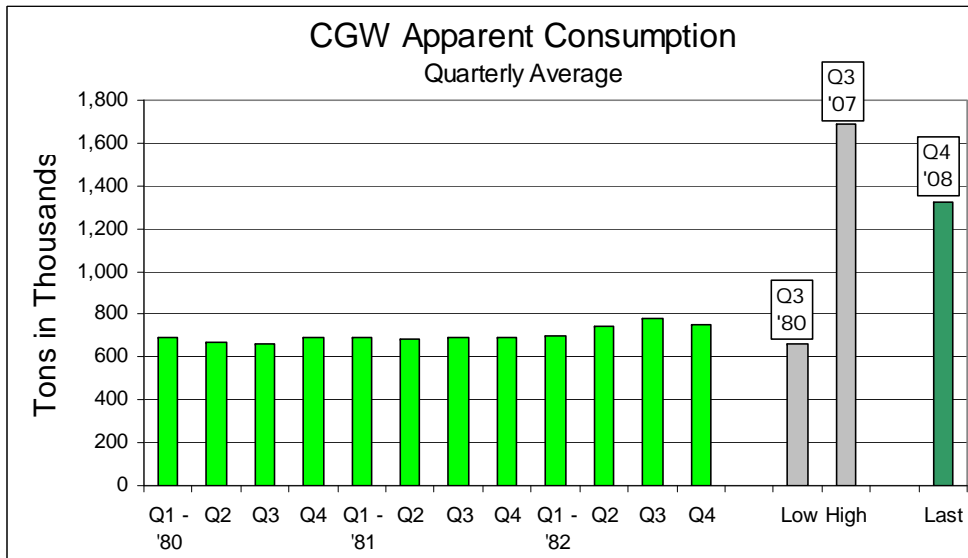
Industrial Capacity Utilization
Quarterly Data



Coated Paper Demand during these recessionary periods

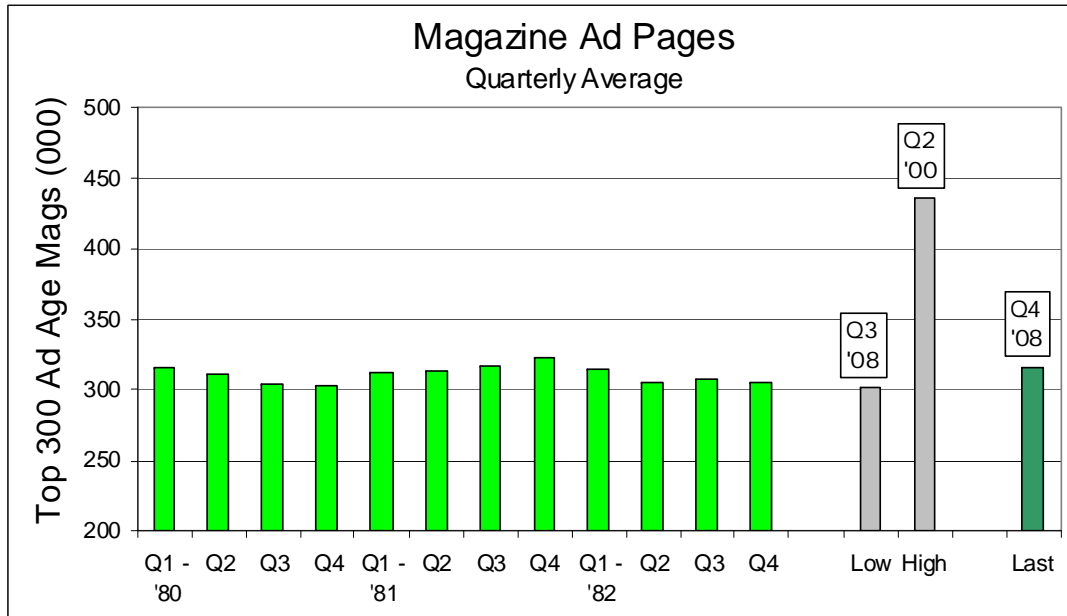


CFS Apparent Consumption has fallen 25.2% off the highs of 2Q '06. Following the recession of the early '80s, the CFS demand rose at a positive quarterly CAGR of 1.3% to the all time high in '06.



CGW Apparent Consumption has fallen 21.8% off the high which occurred a year later than the CFS high (3Q '07). The quarterly CAGR for CGW demand following the 80's recession to the 3Q '07 high was much less than that of CFS at 0.8%.

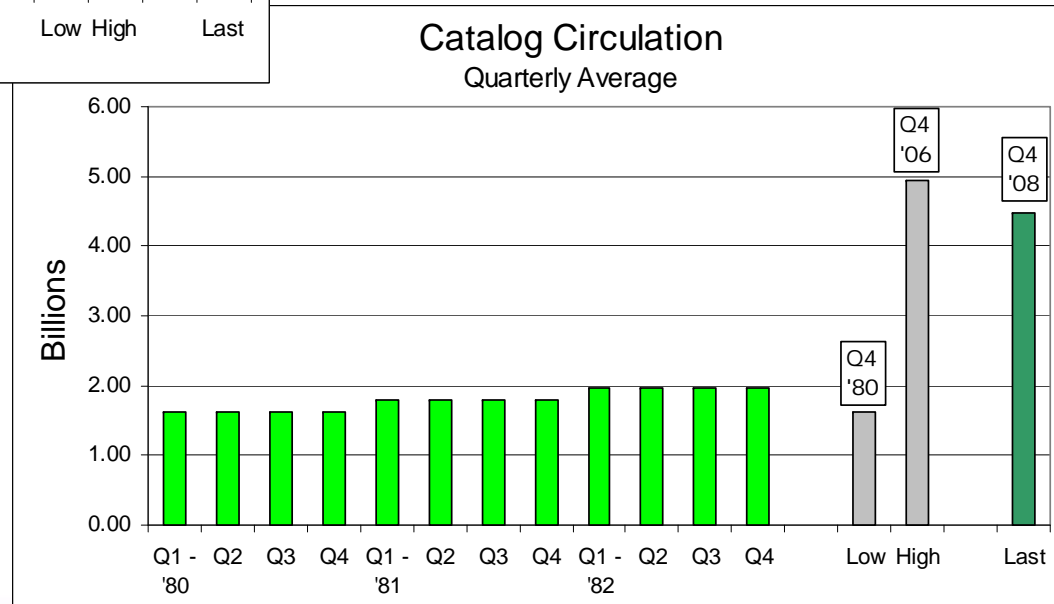
End User indicators during these recessionary periods



Magazine ad pages for the top 300 Ad Age magazines posted healthy 3% growth in 1981, but gave up all of these gains in 1982; Post-recession, the magazine ad market experienced a swift recovery.

Despite the recession, the average circulation per issue of ABC audited magazines continued to climb in 1981 and 1982.

Catalogs mailed experienced strong double-digit growth throughout most of the 1980s as remote shopping gained acceptance.



Some other comparisons between 1Q 1982 and 4Q 2008 - periods of GDP quarterly losses of >6.0%



- The Dow Jones Industrial average lost 6.0 percent in the first quarter of 1982 but lost 19.1 percent in the fourth quarter of 2008.
- In the first quarter of 1982, households saved 11.6 percent of their total after-tax incomes; in the fourth quarter of 2008, households saved only 3.2 percent.
- At the end of the first quarter of 1982, the national unemployment rate was 10.8 percent, whereas it was 7.2 percent at the end of the fourth quarter of 2008.
- During the first quarter of 1982, 462,000 (0.5 percent) jobs were lost and 780,000 (0.9 percent) jobs were lost year over year to March 1982. But 1,554,000 (1.1 percent) jobs were lost in the fourth quarter of 2008 and year over year to December 2008, 2,974,000 (2.2 percent) jobs were lost. That is, job losses now are more than twice as severe as they were at the worst of the severe 1981-'82 recession.

Conclusions



The current recession is very different from the early 1980's recessions in that the root causes are completely different. The current difficulties are made much worse by the lack of confidence in the credit markets, leading to very low interest rates and inflation, but also very little liquidity. As such, many businesses and individuals are being forced to make short term decisions based on cash flow that are not consistent with their longer term objectives. In contrast, the early 1980's was characterized by very high interest rates and inflation (stagflation). That type of recession was easily (though very painfully) resolved through monetary policy. That appears to be more difficult in the current climate.

- The impact of these differences may be twofold:
 1. The end of the recession is difficult to predict, and progress toward recovery will be tougher to track.
 2. When the recovery begins, it could exhibit a much steeper climb back.