

## INVESTING &amp; WEALTH



CFA SINGAPORE INSIGHTS

By Mark Armbruster

## The US economy: 8 more years of expansion?

Policy uncertainty is low, monetary moves are accommodative, while longer-term fiscal measures are also stimulative as rates stay low

**W**HERE is the US economy headed? Recent news coverage about an inverted yield curve, potential trade wars, and troubles in emerging markets have created some unease. Moreover, the current US economic recovery is now 112 months old, according to the National Bureau of Economic Research (NBER), making it the second-longest on record after the 120-month expansion that ended with the bursting of the dot-com bubble in 2001.

Could the present bull run simply die of old age?

Since 1854, economic expansions have lasted less than 40 months on average, making the two mentioned above all the more impressive.

Though economic cycles have lengthened since the end of the Great Depression, perhaps due to the ascendance of the US Federal Reserve or a general maturing of the US economy, the current period appears anomalous, and its extended duration begs the question of when the next downturn will occur.

No one has been able to consistently predict the length and magnitude of business cycles, but there is a strong case to be made for significant further growth. Many have noted that the current expansion has been weaker than historical recoveries. Indeed, despite its august age, the present expansion lags behind the mean.

The graph below compares the current recovery to the average post-1960 as well as the strongest recovery over that time, the one that ran from February 1961 to December 1969.

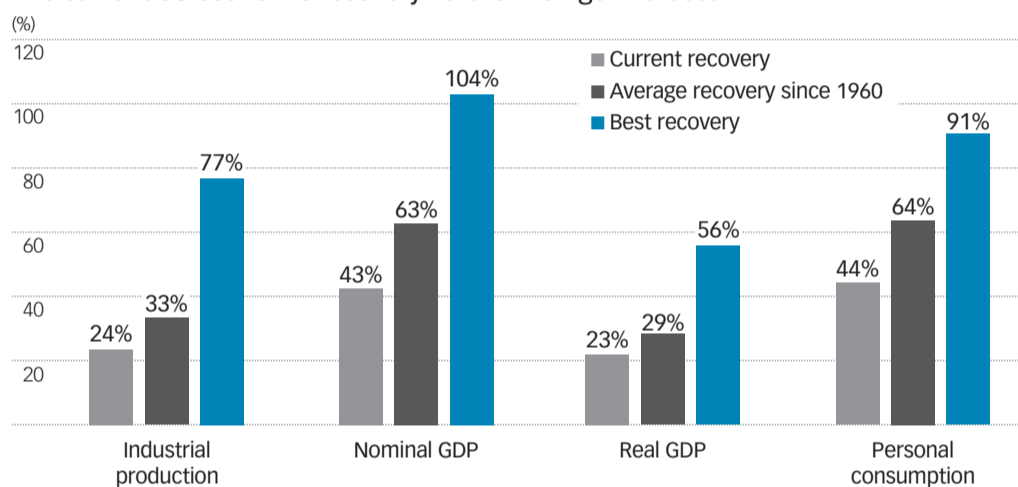
There have been eight NBER recessions in the last 58 years. We compared the four measures of economic growth – industrial production, personal consumption, and nominal and real GDP – to determine the strength of each recovery, focusing on the raw data rather than the growth rates to determine the dollar value of each measure created in aggregate from each recession's end to the outset of the next one.

For example, the 1990 oil price shock resulting from Iraq's invasion of Kuwait and the subsequent Gulf War helped push the economy into recession. Prior to the downturn, real GDP hit a pre-recession high of US\$9.4 trillion (in 2012 dollars) and a low of US\$9.3 trillion during the recession. It then expanded to a new high of US\$13.3 trillion just before the outset of the dot-com recession in March 2001. Thus, the US economy expanded 43 per cent from the trough of the 1990 recession to its 2001 peak.

During the current recovery, however, real GDP sits just 23 per cent above its nadir during the Great Recession of 2008 and 2009. What's more, the recession of the early 1990s was mild by historical standards, but the recovery was much more robust than the current one by every measure we studied.

### Again and again?

The current US economic recovery vs. the average and best



Source: Federal Reserve Bank of St. Louis, Armbruster Capital Management, Inc.

This is not usually the case. In the past, deep recessions have generally been followed by steep recoveries. Why has this recovery, which followed the worst recession since the Great Depression, diverged from the historical pattern?

Some have theorised that the housing market has not rebounded as quickly as in past recoveries or that policy uncertainty is to blame. Certainly, the regulatory environment shifted in the wake of the last recession. Large financial penalties were levied against those deemed to be at fault and have impacted corporations' willingness to spend and invest.

But things are turning around.

During those early recovery years, policy uncertainty hit record highs. Currently, however, it is below its long-term average, according to the baseline policy uncertainty index created by Scott R Baker, Nick Bloom and Steven J Davis. This may be because of the recent regulatory rollbacks under the current Trump administration.

New residential construction has also trended up since 2011, according to US Census Bureau data.

This suggests that the present expansion, while long in the tooth, still has room to run. In fact, our research indicates that further growth at the average long-term rate for each of the indicators we stud-

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ied could mean another three years of economic expansion. This assumes only average levels of economic recovery are achieved during this business cycle. If the US economy experiences an expansion like the more robust recovery of the 1960s, it could grow for an additional 8.8 years.

There are fundamental reasons for optimism. Policy uncertainty is low. Monetary policy is accommodative. While short-term interest rates are rising, they are still well below the levels that create economic distortion. Longer-term fiscal policy is also stimulative. The corporate tax cuts, like low policy uncertainty, could spur further capital spending, which could drive a virtuous circle of corporate activity that creates further economic growth. Finally, the United States may be taking growth from other nations.

The United States may not be able to stand alone forever while other nations lag behind, but there is cause for bullishness.

After all, even former Fed chair Janet Yellen once stated: "I think it's a myth that expansions die of old age ... So the fact that this has been quite a long expansion doesn't lead me to believe that ... its days are numbered."

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