

WEEKLY OUTLOOK

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1980: A YEAR OF ECONOMIC NOTE

THE U.S. ECONOMY PRODUCED SEVERAL RECORDS OR NEAR-RECORDS IN 1980. Interest rates established new record highs twice, once early in the year and again in the waning weeks of the year. In addition, by the reckoning of some economists, 1980 brought an end to the second longest period of economic expansion since World War Two. However, some analysts also believe this economic decline may be the shortest one on record. Last, inflation approached the record levels of the past but did not quite match them.

The economy began 1980 quite strongly, but this strength was short-lived. The inflation rate during the first few months of 1980 indicated that consumer prices could be as much as 18 percent higher by year's end. The United States rarely has seen higher rates of inflation. The last time was in the late 1940s. The accelerating inflation rate and worrisome expansion in the money supply and consumer credit prompted the Federal Reserve to impose credit controls on the nation's financial system.

As a result of inflation, consumers had less disposable income in 1980 than the year before. This reduction in real income, curtailed credit availability, and record-setting interest rates reduced real-dollar consumer spending by about 4 percent over a four-month period. Among the items avoided by consumers were automobiles and housing. In fact, within a three-month period, sales of new houses fell by over 40 percent. As spending continued to decline through the second quarter of 1980, industrial production dropped at an annual rate of 16 percent and unemployment rose by over 1.5 points to 7.8 percent.

The inflation rate had, in effect, produced the fastest decline in the GNP in recent history. During the second quarter of 1980, GNP fell by over 9.5 percent at an annual rate adjusted for inflation. This surpassed the 9 percent decline (annual basis) in the fourth quarter of 1974. We would have to go back to the 1930s to find more severe declines.

Viewed on a monthly basis, a recession began to develop in February of 1980, reaching its trough in July or August. That length of time (six months) in a GNP decline is about the minimum for which a recession is declared. As

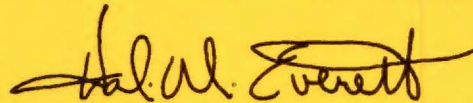
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recessions go, the brevity of the recession in 1980 was matched only by the seven-month recession of 1918. By contrast, the preceding period, from early 1975 to early 1980, was the second-longest expansionary phase in the economy since World War Two. The longest expansionary period extended from the first quarter of 1961 through the third quarter of 1969.

The short recession of 1980 did not mean that a strong recovery was to follow. During the third quarter of the year, GNP began advancing again, although slowly, with the growth that quarter amounting to just over 1 percent on an annual basis. However, inflation eased enough in the month of July to permit no change in the consumer price index from the month before. In the final quarter of 1980, the growth in the GNP was even stronger, moving ahead by about 5 percent at an annual rate. This came as a surprise to many economists who believed that a renewed acceleration of the inflation rate and a second round of record high interest rates in December would result in much less growth.

So, how did the economy end up in 1980 compared to how it began? The verdict isn't final yet, but it appears that the economy did not grow in 1980. The GNP was "measured" as almost identical in 1979 and 1980. Although economic activity appeared to be the same, unemployment increased from 6 to 7.4 percent from December of 1979 to December of 1980. Finally, consumer prices for the year advanced by a little over 12 percent. Strangely, the averages for 1980, as bad as they turned out to be, are almost welcome news compared to the record highs and lows established during the year.



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