



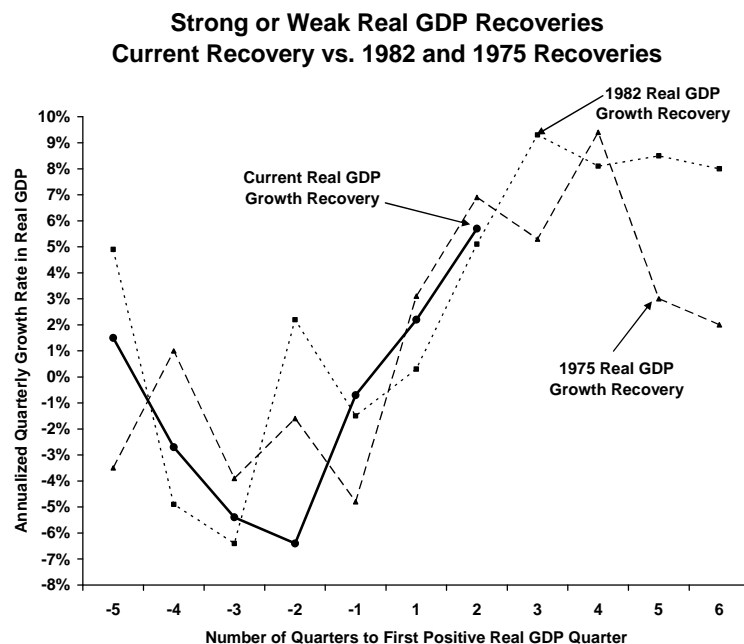
February 2, 2010

So Far ... the Current Real GDP Recovery Looks as Strong as the 1975 and 1982 Recoveries!???

Despite a strong fourth-quarter real GDP report, the debate surrounding the strength of the contemporary economic recovery lingers. Most seem to anticipate a subpar recovery similar to the last two during the early 1990s and after the dot-com meltdown in the early 2000s. However, although the current recovery is only two quarters old, it is thus far closely tracking the strong recoveries of 1975 and 1982.

Historically, the strongest recoveries have followed the deepest recessions. In the last 50 years, prior to the 2008 recession, the two deepest recessions in terms of the decline in real GDP were 1975 and 1982. Chart 1 compares the annualized quarterly growth rates of real GDP in the current recovery with those for the 1975 and 1982 recoveries. The horizontal axis represents the number of quarters from the “first” quarter of positive real GDP growth (i.e., the beginning of the recovery). For example, in the current recovery, the first quarter of positive real GDP growth was in the third quarter of 2009 and its 2.2 percent growth rate for that quarter is shown at “1” on the horizontal axis. Similarly, the -6.4 percent collapse in real GDP growth during the first quarter of 2009 is shown at “-2” on the horizontal axis (or two quarters before the economic recovery began). Essentially, this chart aligns each of the three recoveries at “1” or at the respective beginnings of each recovery.

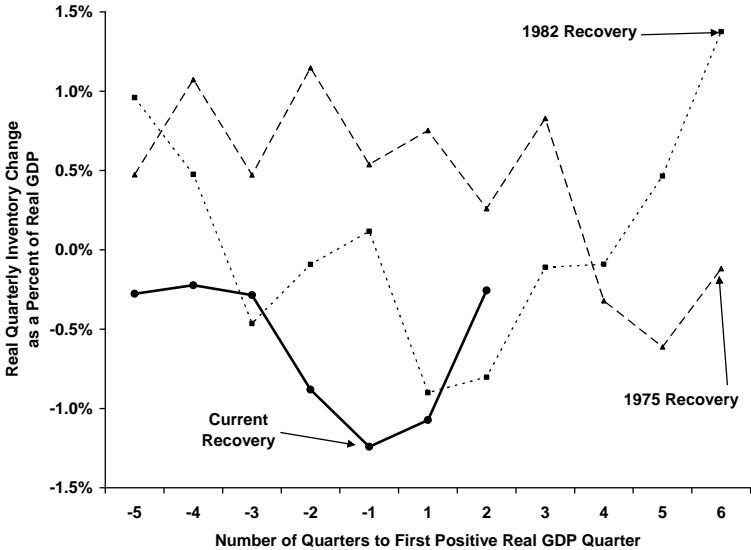
Chart 1



As illustrated in Chart 1, in the first two quarters of this recovery, the pace of real GDP growth has been slightly more than the 1982 recovery and slightly less than the 1975 recovery—that is, the 2009 recovery is thus far tracking quite closely with these historically “strong” recoveries!

Chart 2 utilizes a similar methodology to examine the role played by the inventory cycle. Interestingly, although both the 1975 and 1982 recessions were severe and both were followed by strong recoveries, their respective inventory cycles were diverse. During the 1975 cycle, inventory changes added regularly to real GDP growth throughout the recession and during the early part of the recovery. Consequently, inventory liquidations never played an outsized role in either the recession or the recovery. Moreover, perhaps because they were never liquidated during the 1975 recession, inventory liquidations became a negative force for growth early (by the fourth quarter of the recovery) in the subsequent expansion. By contrast, in the 1982 cycle, inventory liquidation was a strong negative force throughout the recession and inventory changes as a percent of real GDP remained negative during the first two quarters of the ensuing recovery. Perhaps because inventory played such a negative role in the recession, inventory restocking proved a huge and persistent force, boosting real GDP growth for many quarters after the recovery began.

Chart 2
Inventory Cycles
Current Recovery vs. 1982 and 1975 Recoveries



In the contemporary period, many expect the recent boost to real GDP growth from inventory changes will soon end, eventually producing a weak economic recovery. However, as illustrated by Chart 2, the current recovery inventory cycle appears very similar to the 1982 cycle. Therefore, as it did in the 1982 recovery, inventory restocking may become and remain a sizable and persistent force in boosting real GDP growth. As of the fourth quarter of 2009, inventories were still being liquidated. While “less” inventory liquidation does add to real GDP growth, so does actual inventory restocking. And, it is instructive to note in the 1982 recovery, “inventory restocking” did not even begin until quarter “5” of the recovery!

Conclusions??!

Despite a widespread perception that the 2009 economic recovery is subpar, real GDP growth is thus far matching two of the strongest expansions in the last 50 years! Moreover, the similarity of the current inventory cycle to that of the 1982 recovery cycle suggests inventory changes are perhaps just beginning to provide a sizable and sustained boost to real GDP growth!

*Thanks for taking a look!!
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