



IATA Economics' Quick Take-off

30 January 2023

Trends in recessions and business cycles

- The global economy has slowed from the strong rebound in 2021 of 6% world GDP growth, to around 3.4% in 2022 and 2023 might end in the vicinity of 2.9%, according to the IMF in their updated January forecast.
- This rather dramatic slowdown can certainly feel recessionary to many. Moreover, while we do not anticipate a global recession, individual countries might indeed experience two consecutive quarters of reduced economic activity in 2023.
- In our [December Global Outlook](#), we share our expectations for the global economy, which in sum foresee limited deterioration in 2023 compared to 2022, thus providing a floor under the outlook for air transportation, although risks do prevail (a discussion of these can be found [here](#)).
- To add further context to the likelihood of a global recession, we use the US as an example of the trends that can be observed globally, though to varying degrees. These are, notably:
 - Recessions are less common and of shorter duration than expansions.
 - An important factor contributing to that evolution is the rise of the service sector.
 - Why we might not have noticed these trends is likely linked to our “cognitive bias”, which often conditions how we view the world – and this not always in a helpful way.

Table 1: US Contractions, Expansions, and Business Cycles, duration in number of months

	Contraction	Expansion	Cycle	
Average duration in months per period	<i>Duration, peak to trough</i>	<i>Duration, trough to peak</i>	<i>Duration, trough to trough</i>	<i>Duration, peak to peak</i>
1854-2020	17.0	41.4	58.4	59.2
1854-1919	21.6	26.6	48.2	48.9
1919-1945	18.2	35.0	53.2	53.0
1945-2020	10.3	64.2	74.5	75.0

Source: <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>

NBER, the National Bureau of Economic Research, is the outfit tasked with dating recessions in the United States. They define contractions (recessions) as starting at the peak of a business cycle and ending at the trough. Expansions are the periods from the previous trough to the following peak. Business cycles are measured between two consecutive troughs, and between two consecutive peaks (see Table 1).

The shortest recession in US history (from 1854) was that caused by the Covid-19-related lockdowns. It lasted only two months with the trough set in April 2020. The longest recession lasted from 1873 to 1879 and lasted 65 months. That recession was a kind of dot.com bubble of its age, though relating to

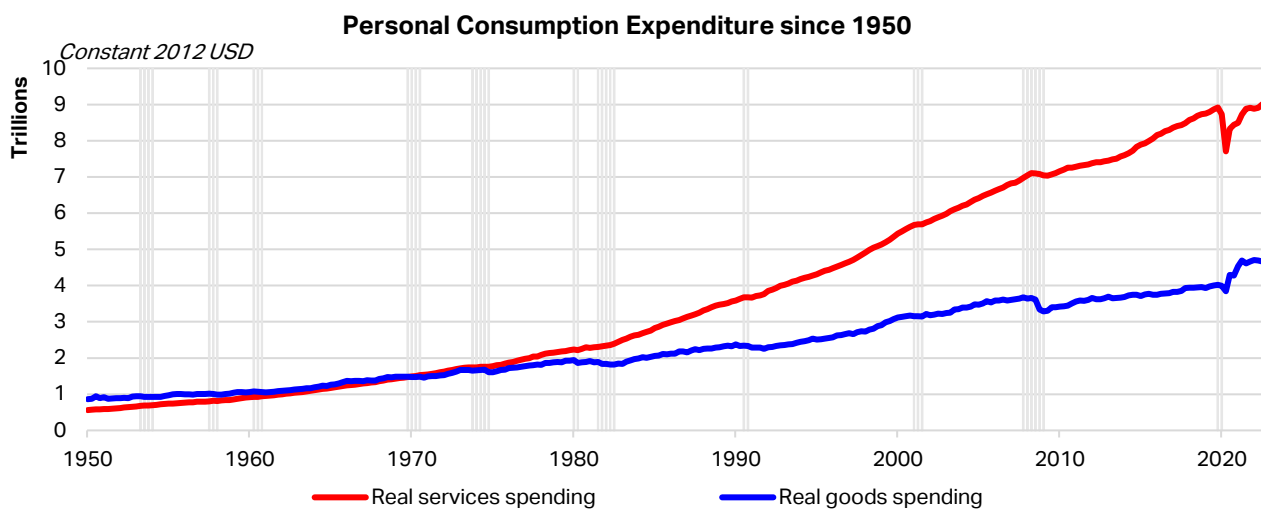
railroads which were a new invention at the time. European investors started to sell off their investments in American rail projects, triggering a major financial crisis. The Great Depression was the second-longest, clocking in at 43 months between 1929 and 1933.

Interestingly, for all the periods, i.e. the total sample from 1854 to 2020 as well as the three sub-periods, the expansions are always longer than the contractions. Moreover, the expansions are getting longer and the contractions shorter. This trend has accelerated over the years. During the first sub-period, the expansions were five months longer on average (+23%), while since 1945, they have been very nearly 54 months longer (6.2 times longer than the contractions).

This, we argue, has something to do with the growth in the service sector. Services overtook manufacturing in the US economy in the 1950s, both in terms of personal consumption, and more spectacularly so in terms of the jobs provided by the respective sectors (see Charts 1 and 2). In earlier recessions the manufacturing sector tended to shed more jobs than the service sector. The one big exception is of course the Covid-19-induced recession which can be characterized as a services recession.

The rise of the service sector is not a US phenomenon but a global one. Even in 2021, after the world's only major services recession, the sector still dominated the world economy with a share of 64.4% of global GDP.¹ In the same year, the share of services in US GDP stood at 77.6%, slightly above the average of 71% among OECD countries. One might be surprised to learn that China's service sector also dominates manufacturing with a share of 53.3% of GDP, slightly ahead of Russia's. At the top end one tends to find smaller countries such as Luxembourg and Monaco which countries' services share of GDP is around 80%, and small island states can see it climb to 95%.

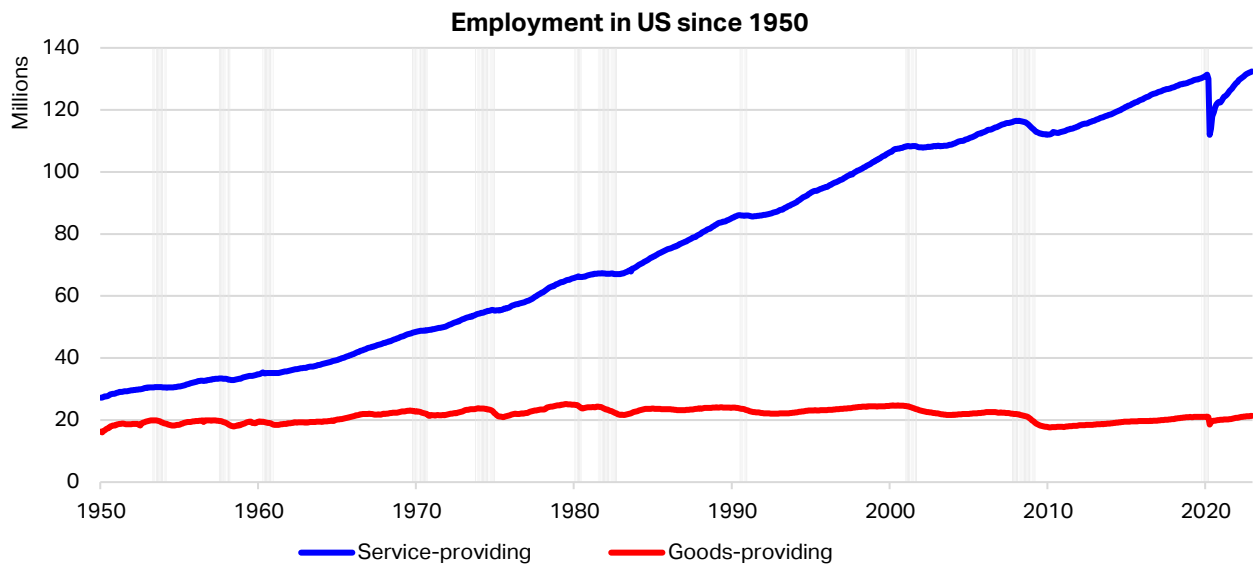
Chart 1: Personal Consumption Expenditures



Sources: U.S. Bureau of Economic Analysis; and National Bureau of Economic Research.

¹ <https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS>

Chart 2: Employment in Goods and Services



Sources: U.S. Bureau of Labor Statistics; and National Bureau of Economic Research.

In accordance with the fact that expansions have lengthened, and contractions have shortened, the duration of the business cycles has also become longer. Their duration has increased by 26 months on average (+55%) from the first to the most recent sub-period in Table 1. In fact, the 2020 recession ended the longest business cycle in US history, at 130 months from trough to trough and 146 months from peak to peak, more than 12 years.

Despite the clearly more frequent and enduring expansions, it is interesting to note that recessions are referenced more frequently in economic texts than expansions. According to [Camargo et al. 2018](#) the most frequent two-word combination in abstracts of papers in Business finance is “financial crisis” while there is no comparable combination of words related to economic expansion or growth among the 20 most frequently used. This is a form of cognitive bias that results from people’s use of heuristics – cognitive strategies or “mental shortcuts” that humans tend to adopt. One such bias is the availability heuristic (Tversky & Kahneman, 1973) which is when people overestimate the probability of infrequent events if those provoke a strong emotional recall. One example that form of bias in our industry is of course the fear of flying due to plane accidents, though this is indisputably the safest mode of transportation.

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