The Great Depression (1929–1941)

The Great Depression of the 1930s is marked as one of the most significant events in the economic world. It started when the New York Stock Market crashed on October 29, 1929. Now, when I say the word "crashed" for a stock market, it has a lot more impact in the economic world than its usual meaning. A crash in the stock market means sudden and severe decline in the price of stock. All that loss of money on such a large scale.

During the 1920s, New York City was a global economic and cultural hub. The city experienced a period of remarkable growth and prosperity, making it a key player on the world stage. Wall Street was and has always been the financial capital of the world. It is one of the largest and most influential stock exchanges globally. The world was thrown into utter dread. Some people lost almost everything.

This resulted in the collapse of numerous banks. Unemployment made it to its peak. The US had never seen a 20%+ unemployment rate until that time. The world knew they needed better policies. High unemployment leads to a significant reduction in consumer spending. Businesses cut production, adding to the economic downturn. Then, there were the effects of World War I.

Here, we'll talk about all the recession indicators and how they behaved. The recession indicators I'll be talking about are
Unemployement
Yield Curve
The Stock Market
GDP etc…
Since I've used the word recession, let's talk about it first.

What is a recession?

A recession is defined as two-quarters of negative GDP. It is not a sharp decline in the stock market or consecutive months of negative returns in the stock market. The truth is, we cannot predict exactly when the next recession is going to take place. All we can do is study the recession indicators and make predictions about where we are in the economic business cycle. The business cycle consists of four parts, namely (in order),

1. Expansion: A period when inflation is rising, GDP expands, and unemployment declines.

2. Peak: When All the goods' prices are at their maximum. The rate of GDP becomes constant. Unemployment is at its lowest.

3. Recession: When GDP starts declining. Unemployment starts to rise as companies start to lay off employees, and the price of assets such as real estate and cars declines. The government may begin fiscal or monetary policy to stimulate the economy. (I'll talk about fiscal and monetary policies ahead.)

4. Recovery: The economy starts to grow again. Investors start investing, and businesses start hiring.

However, the National Bureau of Economic Research (NBER), the organization that determines when a recession is taking place in the U.S., defines a recession differently. Besides GDP, it uses a range of monthly indicators of broad economic activity to determine when economic growth starts to slow.

How the indicators behaved during the Great Depression

The indicators are the closest thing we've got to predicting the next recession. Every time the indicators predict a recession, it has happened. There are a lot of indicators; we'll be looking into some.

1. The Yield Curve

In business and finance, people talk a lot about "the yield curve." They usually mean the curve that appears when you plot the yield (rate of return) of Treasury bonds as a function of their time to maturity. While that may sound like insider jargon for finance professionals, the shape of that curve is widely referenced in the mass media because it has become one of the most closely watched recession predictors in the world.

The shape of the yield curve is influenced by expected future changes in interest rates, which means it reflects investors' expectations about future economic conditions.

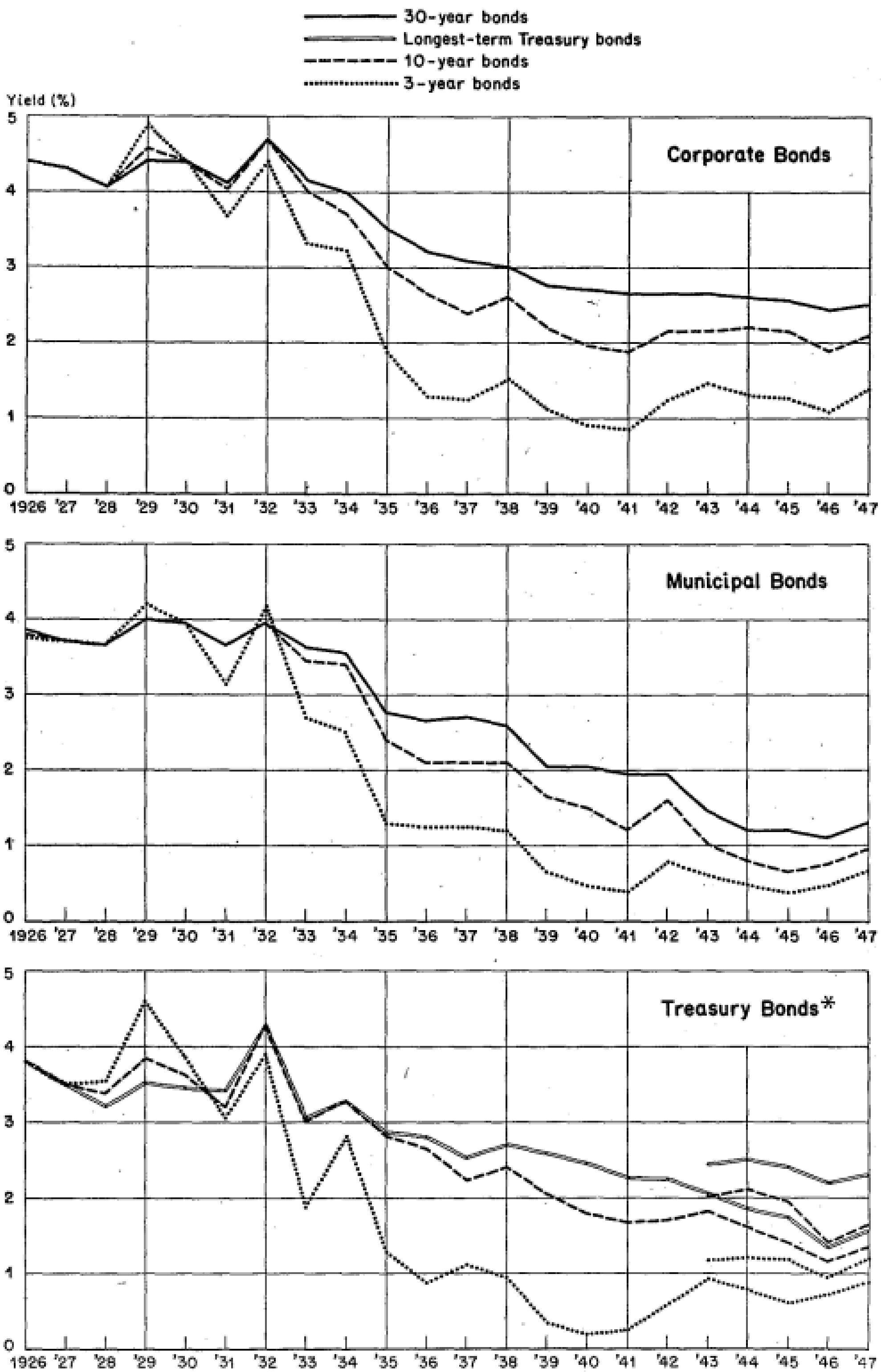
Both theory and history tell us that an inverted yield curve can be an advance warning that a recession is coming, but it provides little information on how soon or how severe that recession may be.

2. Gross Domestic Product (GDP)

Gross domestic product is the monetary value of all finished goods and services made within a country during a specific period.
GDP provides an economic snapshot of a country and is used to estimate the size of an economy and its growth rate.

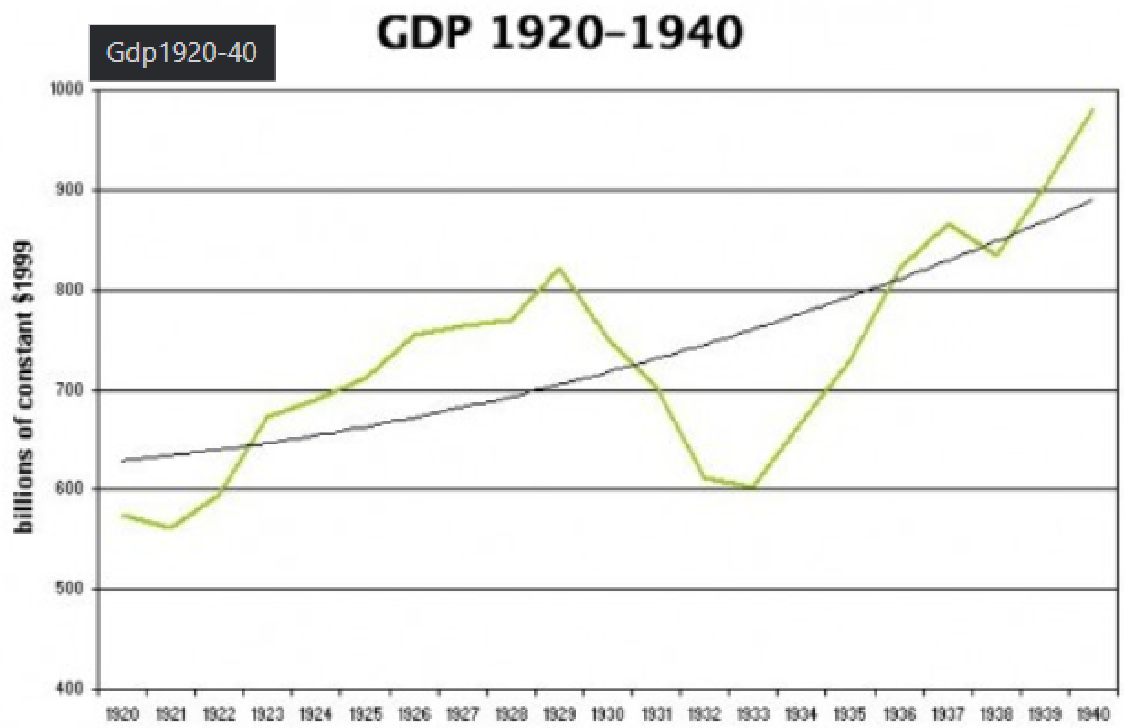
During the Great Depression, the US GDP fell by 29% between 1929-1933, with industrial production falling by nearly 47%. 20% of banks in existence in 1930 had fallen by 1933 due to banking panics.

CHART 4—Basic Yields of Bonds by Type, First Quarter, 1926-47



Source: Basic Yields of Bonds, 1926–1947: Their Measurement and Pattern, NBER, 1947.

In the US, the GDP fell to its lowest recorded level of just 57 billion dollars in 1933. By comparison, worldwide GDP fell by less than 1% from 2008–09 during the Great Recession.

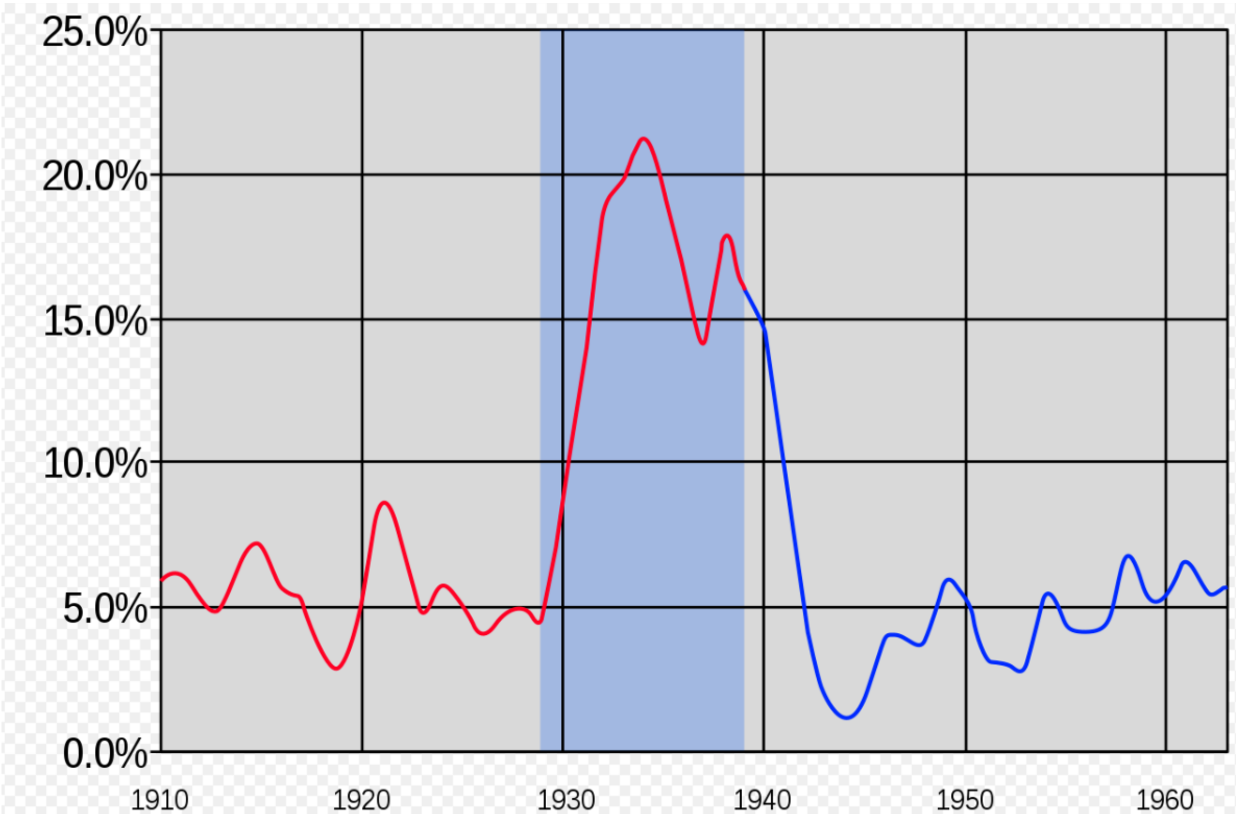


3. Unemployment

Rising unemployment is a likely sign that a country's economy is increasingly struggling, and prolonged above-average unemployment is a sure sign that times are tough. Unemployment is a powerful indicator, but not one that's very helpful in predicting recessions because job losses tend to happen mid-recession, not at the outset or in advance.

The most common metric is the official unemployment rate. It's straightforward: When it goes up, that's bad, and when it goes down, that's good.

Unemployment rose by more than 20% in 1929. The number translates to 15 million unemployed Americans.



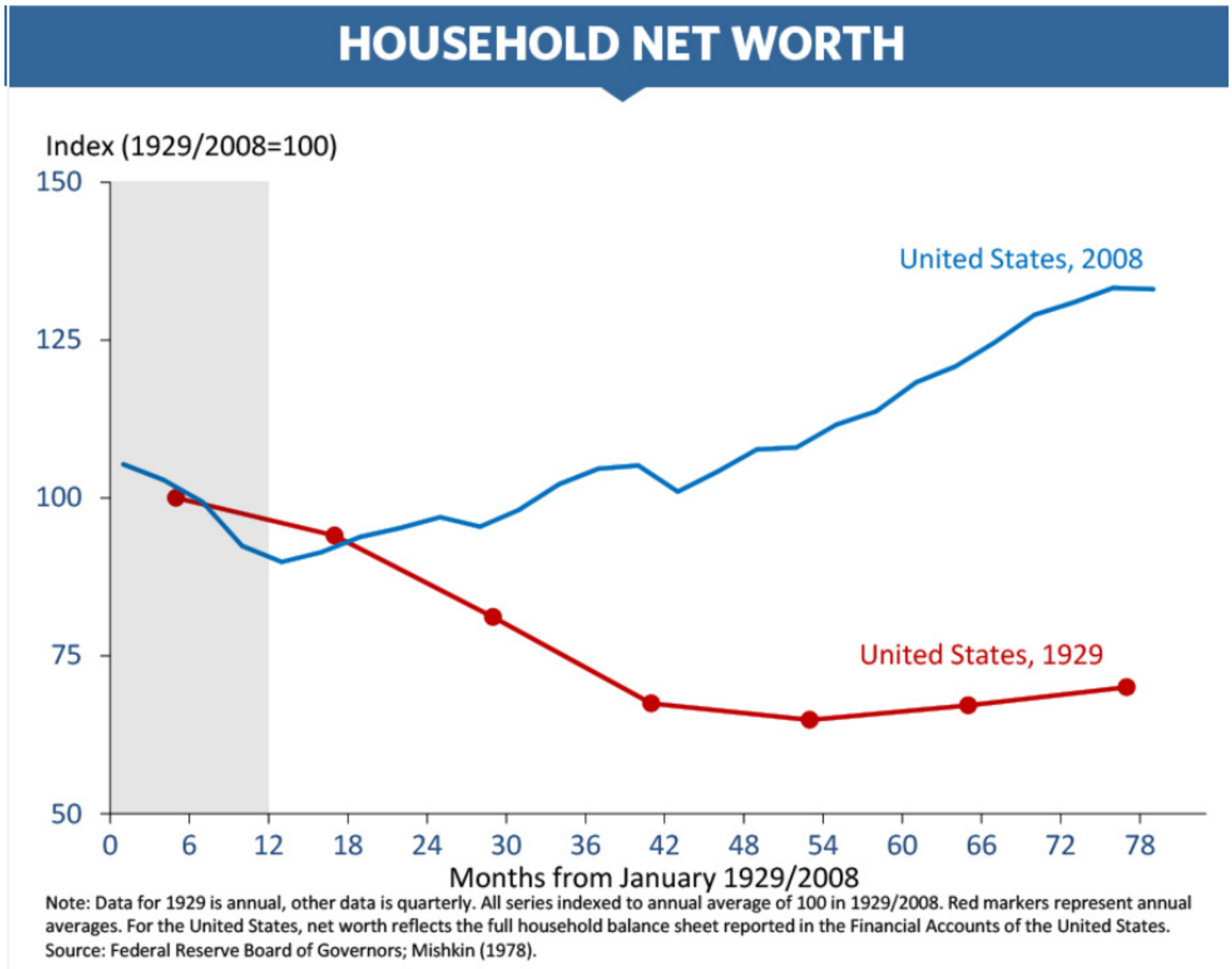
U.S. unemployment rate from 1910–1960, with the years of the Great Depression (1929–1939) highlighted. % U.S. Unemployment (estimated) U.S. Unemployment Data for 1910–1930 from Christina Romer (1986), ftp://ftp.bls.gov/pub/special.requests/lf/aat1.txt, retrieved March 6, 2009. The data was originally compiled by Peace01234.

4. Housing and Household

There are two economic indicators that describe, broadly, how people are living: housing starts and household formation. Housing starts track the number of new residential construction projects. When the number drops, it signifies a lack of demand and/or investment in housing.

It serves as an advance warning that when recession is near, demand growth will slow or reverse, as there won't be as many people buying and renting homes and purchasing the items one needs to start a household.

Some economic forecasters speak highly of its ability to round out a picture of what's happening in an economy and improve predictions.
In 1933, the average family income had dropped to $1,500, 40 percent less than the 1929 average family income of $2,300. Millions of families lost their savings as numerous banks collapsed in the early 1930s.



These were some recession indicators and their behavior during the 1930s, using charts. Now, enough of the indicators. Let’s talk about what caused this depression and how the world recovered from it.

What caused the Great Depression?

The 1929 stock market crash was a result of an unsustainable boom in share prices in the preceding years. Here are some of the most significant factors behind the big crash:

1. Credit boom
2. Buying of stocks on the margin
3. Irrational exuberance
4. Mismatch between production and consumption
5. Weakness in the banking system
6. The poor role of monetary policies

How the world recovered from it

The world saw many changes after this disaster, like the introduction of fiscal policy and changes in monetary policy. Both policies are macroeconomic tools used to manage or stimulate the economy. As per definition
“Monetary policy addresses interest rates and the supply of money in circulation, and it is generally managed by a central bank.
Fiscal policy addresses taxation and government spending, and it is generally determined by government legislation.”
Monetary policy and fiscal policy together have great influence over a nation's economy, its businesses, and its consumers.
Eventually, it eased when World War II started, which created many jobs, boosting the economy to where it used to be.