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Recessions and Lending

A quick look at unemployment, delinquency and lending activity in prior recessions

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If you want a more comprehensive view of prior recessions, you can also download my report, "Timelines of Recession and Recovery."

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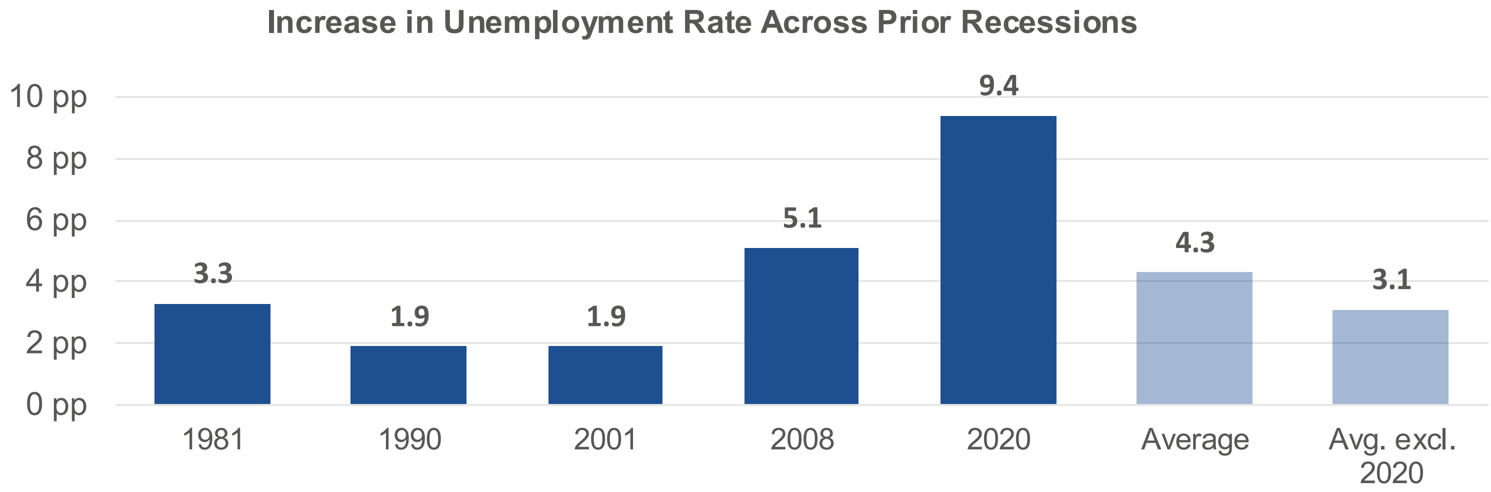
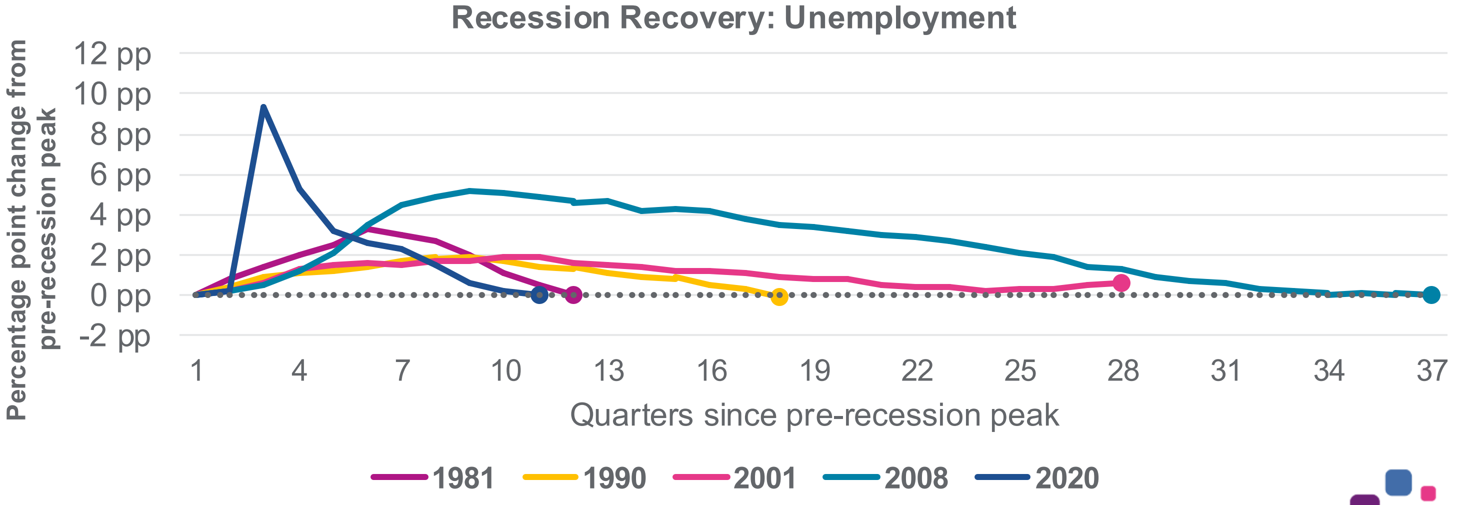
Unemployment in Prior Recessions

The unemployment rate is one of the economic variables that tends to peak after a recession ends. In the last five downturns, unemployment peaked an average of three quarters after the recession ended. During that time, the unemployment rate rose an average of 4.3 percentage points (pp), and took and average of 19 quarters (excluding the 2001 downturn as it did not recover before the next recession) to return to its pre-recession level.

The greatest increase among the demographic groups was seen among 16- to19-year-olds, Hispanics and Latinos, and men. Unemployment for part-time workers tends to be less impacted by recessions than full-timers, with the one major exception being during the 2020 recession.



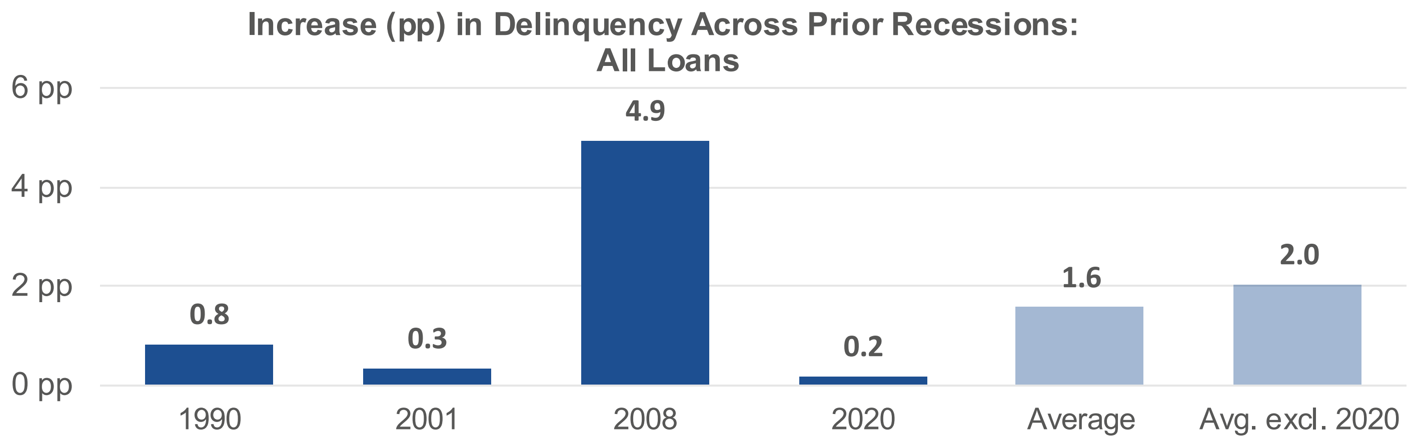


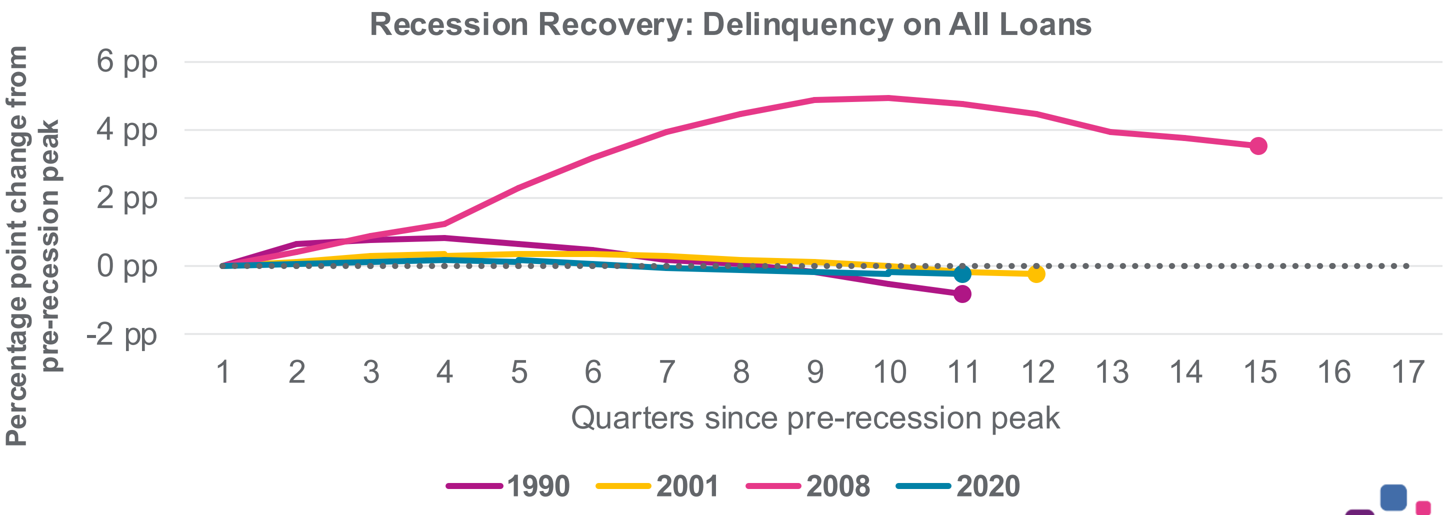
Sources: Bureau of Labor Statistics, Experian Economic Strategy Group, and Experian's Timelines of Recession and Recovery

Delinquency and Lending Standard in Prior Recessions

In the last four recessions, 30+ DPD delinquency on all loans increased by an average 1.6 pp. The largest percentage point increase was seen in real estate (2.3 pp), followed by business (1.4 pp), and consumer loans (0.5 pp). **In terms of timing, overall delinquencies tend to peak two quarters after the end of a recession; however, consumer loans exhibited their peak, on average, during the recession.**

Expected higher levels of delinquency and default can also cause lenders to tighten credit standards and reduce their overall exposure to more sensitive segments of the market. **In the last three recessions, the tightening cycle for credit cards lasted an average of 10 quarters.**

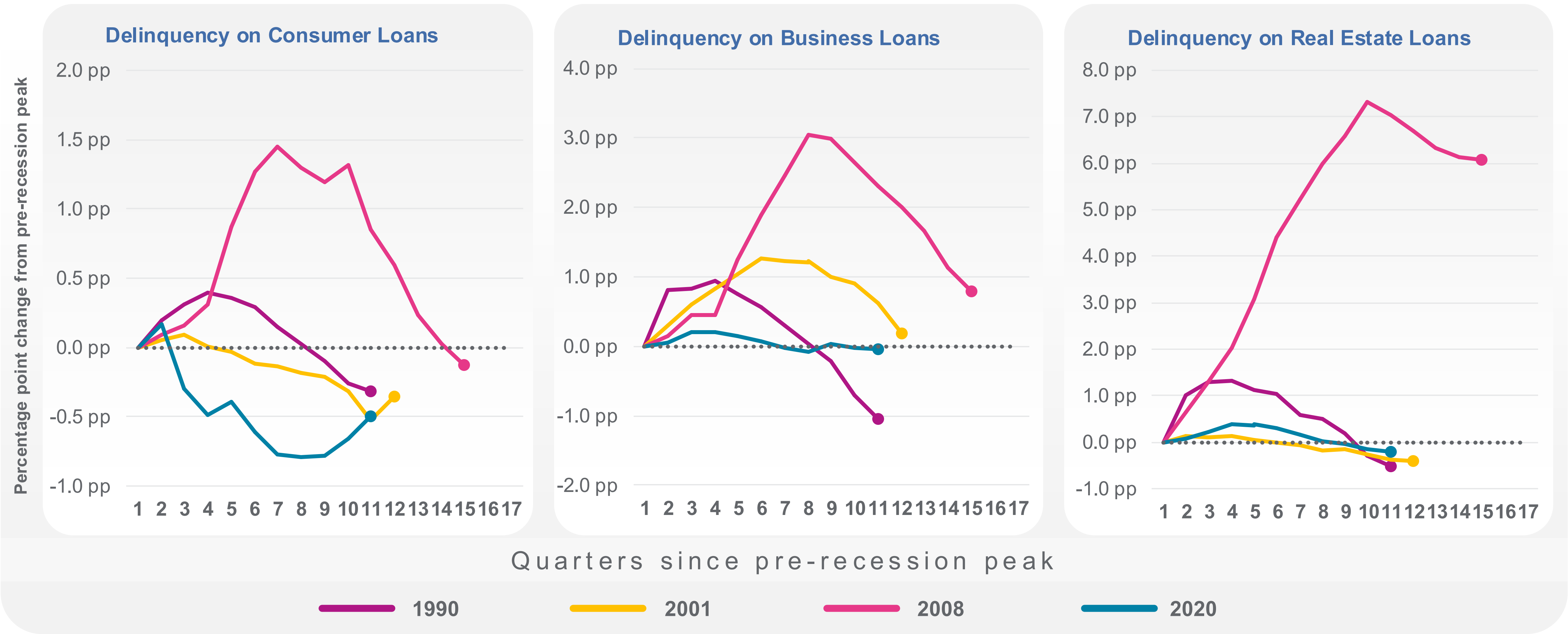




Sources: Federal Reserve, Experian Economic Strategy Group, and Experian's Timelines of Recession and Recovery

Delinquency and Lending Standard in Prior Recessions

Recession Recovery



Sources: Federal Reserve, Experian Economic Strategy Group, and [Experian's Timelines of Recession and Recovery]

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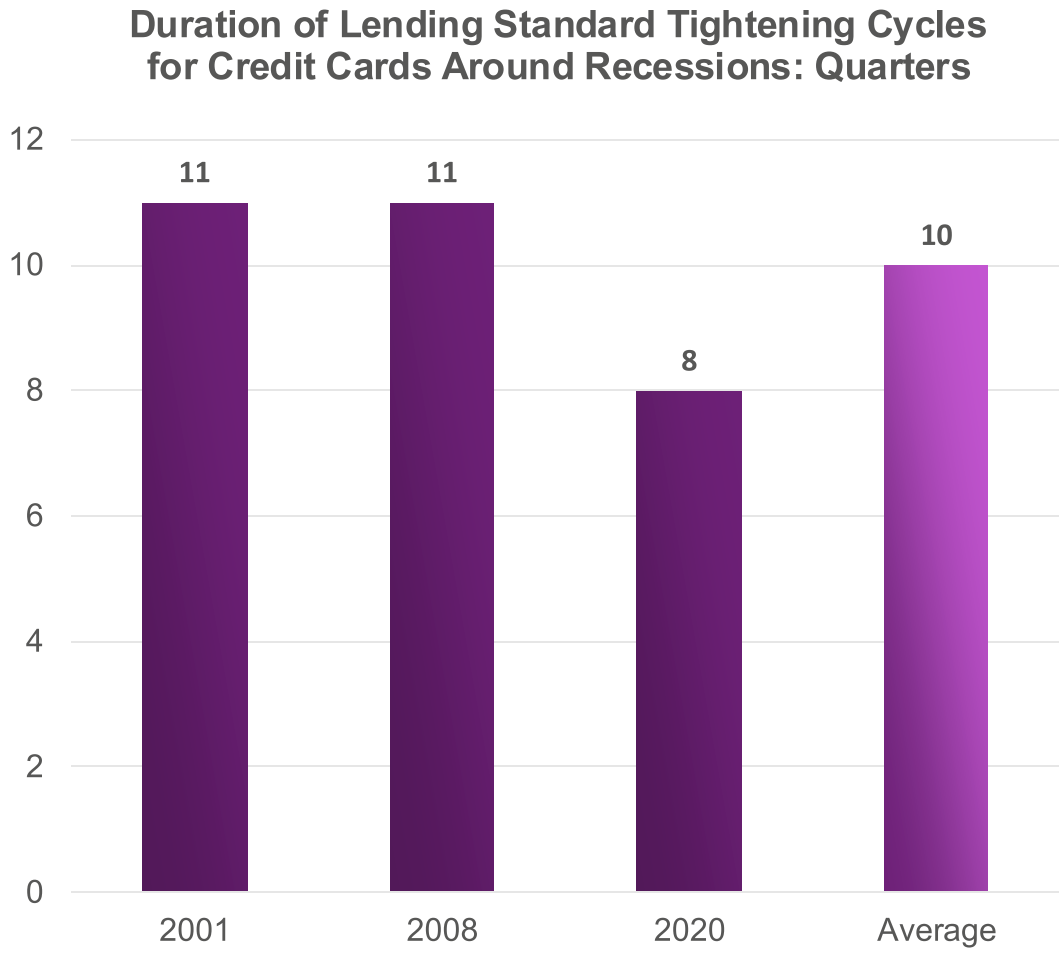
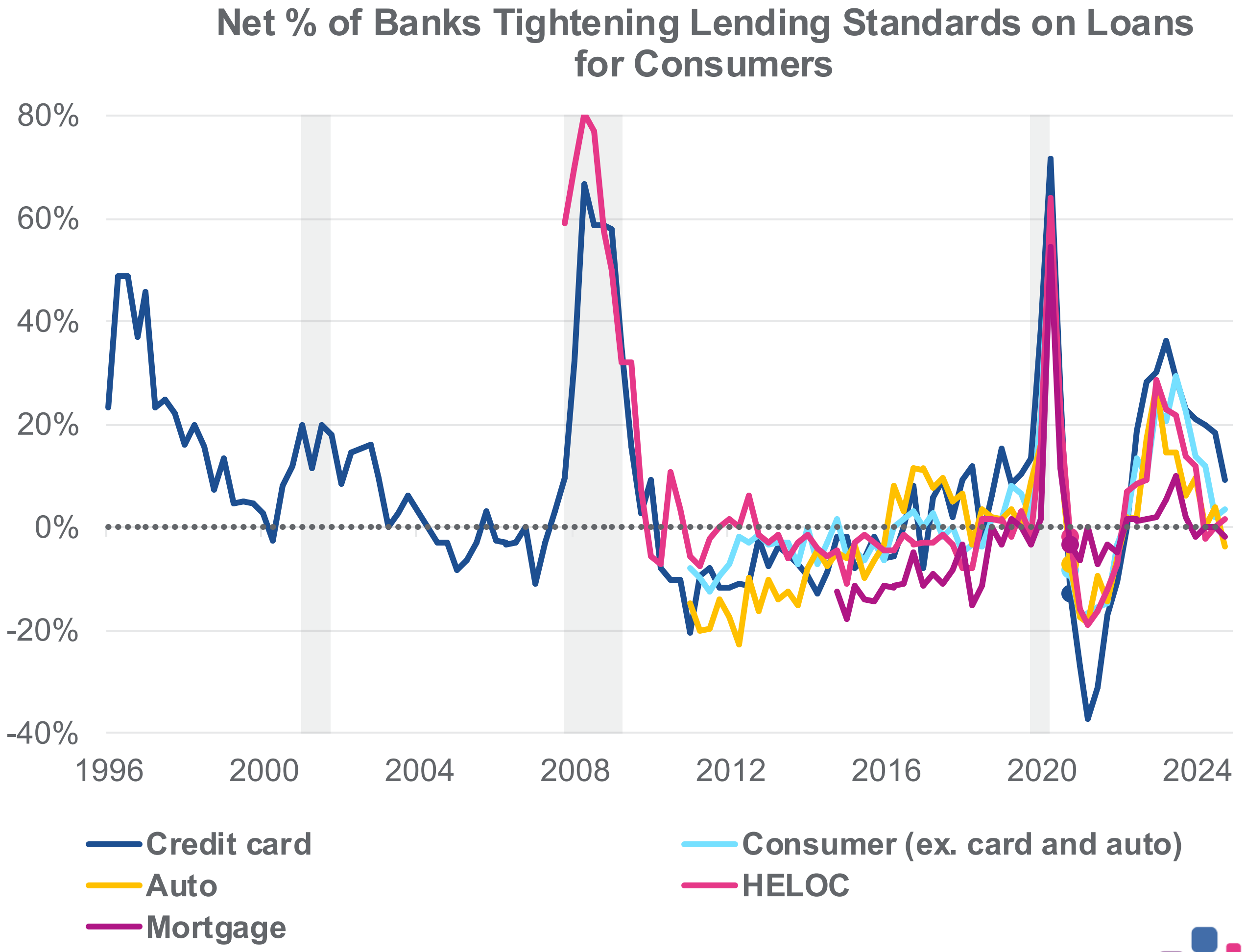
Delinquency and Lending Standard in Prior Recessions





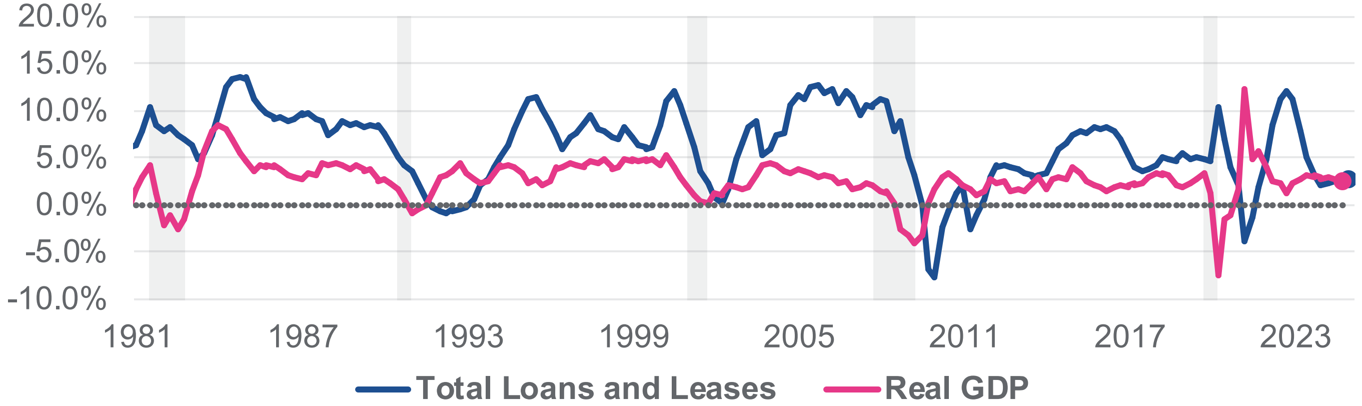
Sources: Federal Reserve, Experian Economic Strategy Group, and [Experian's Timelines of Recession and Recovery]

Lending Activity in Prior Recessions

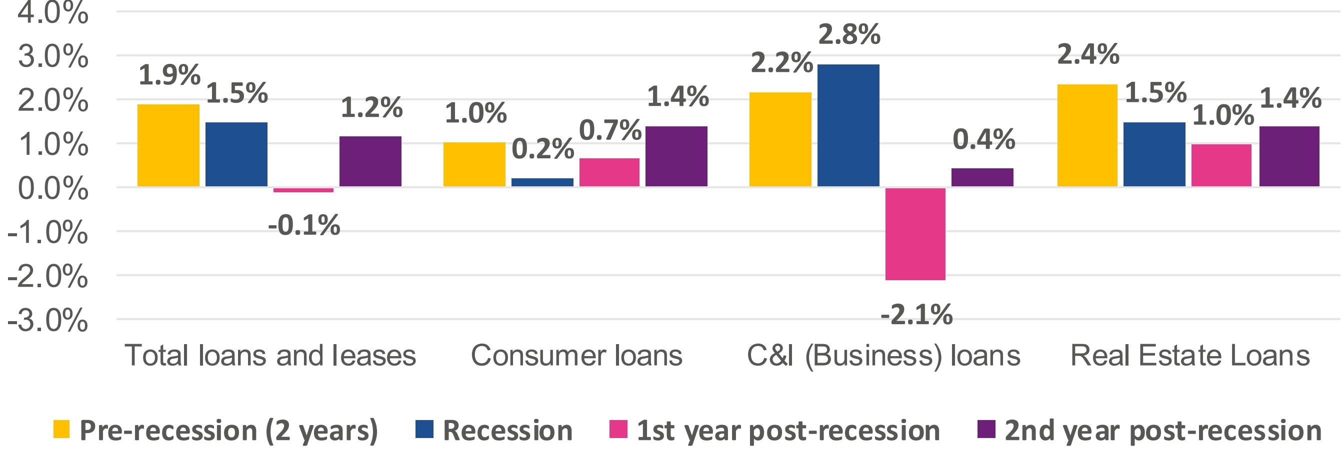
In times of stress, financial institutions begin to tighten lending standards, while at the same time consumers and businesses take more precautionary measures to protect their finances. This two-sided relationship results in fewer loans being made and an overall softening of lending activity around periods of recession. **Because of the key role that credit serves in the economy, weaker lending activity can also drive a slowdown and elongate a recession** – such as what occurred after the Great Financial Crisis and 2008 Recession.

In the prior five recessions, quarterly credit growth slowed from 1.9% in the two years in the lead up to recession to -0.1% in the year following a recession. **Lending activity tends to slow the most for consumer loans during recessions, while it slows the most for business (C&I) loans and real estate loans in the year after.**

Total Loans and Leases and Real GDP: YoY % Change



Average Quarterly Growth Across Loan Types Surrounding Periods of Recession



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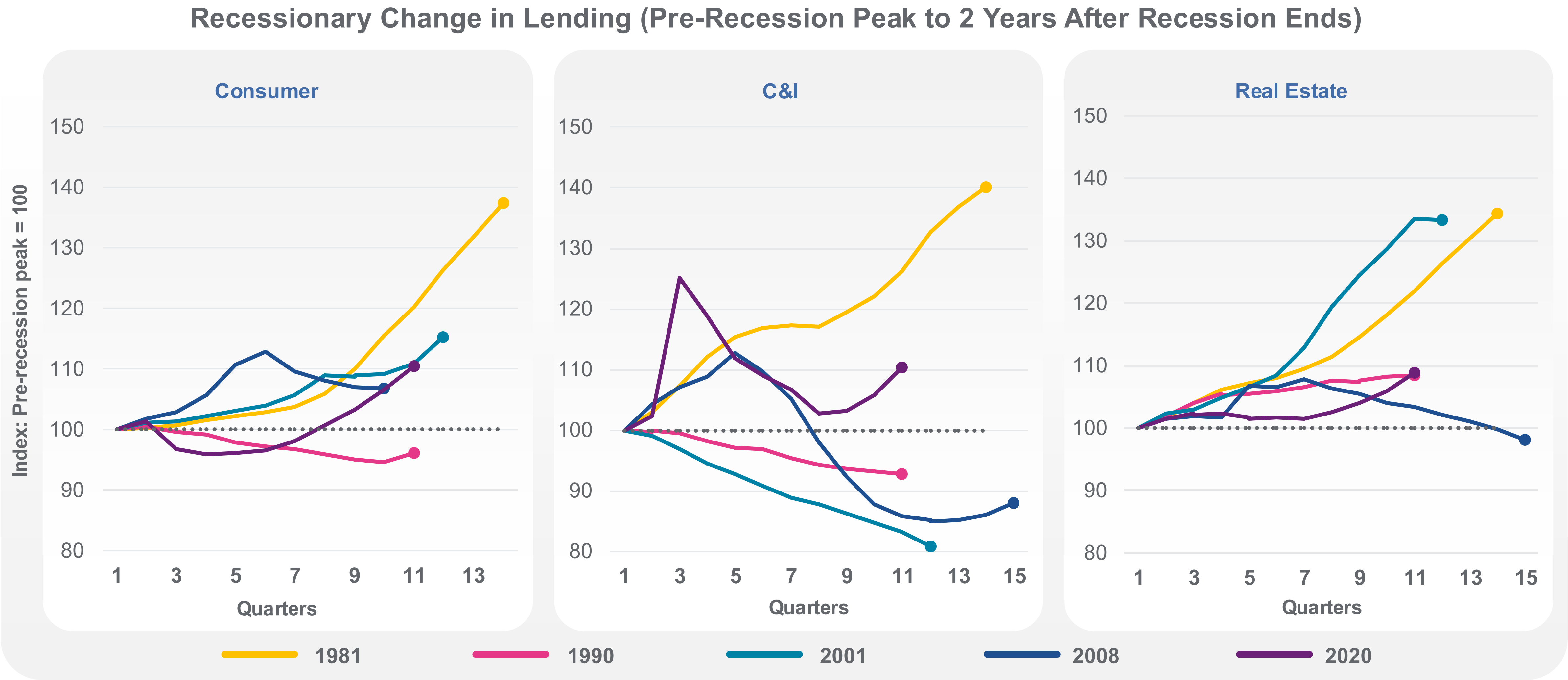
Lending Activity in Prior Recessions



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