

# Interpreting the Great Moderation

It is ironic that a paper about the Great Moderation came into circulation at the time of perhaps the largest post WWII US recession. Nevertheless, it is useful to consider some of the evidence on changes in the volatility of macroeconomic and microeconomic variables provided in this study.

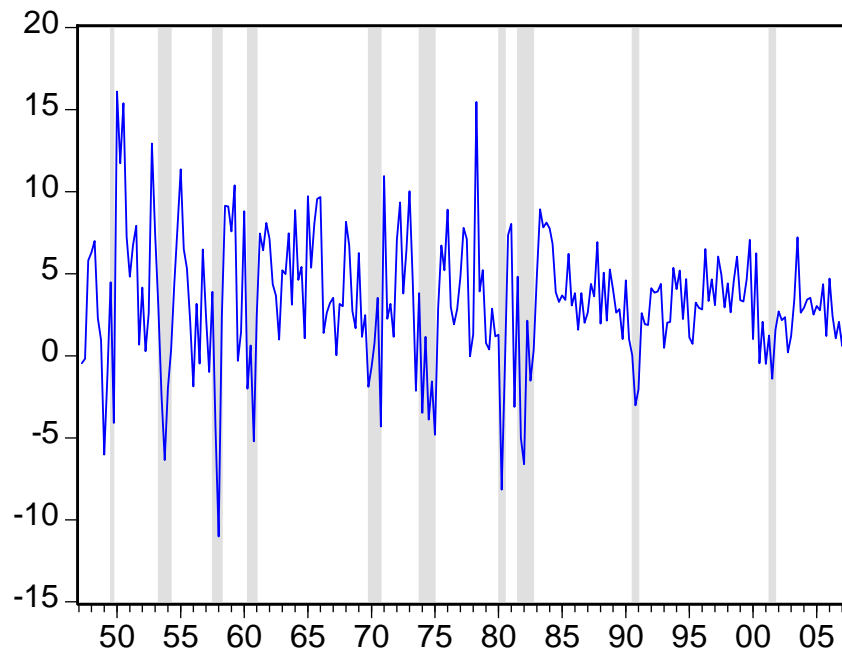
## Findings:

1. Fall in GDP volatility post 1984.
2. Fall in durable goods volatility is important for the fall in GDP volatility.
3. Fall in GDP volatility occurs at “high frequencies” .

4. Fall in volatility in firm-level employment growth rate.

5. No fall in household-level consumption volatility!

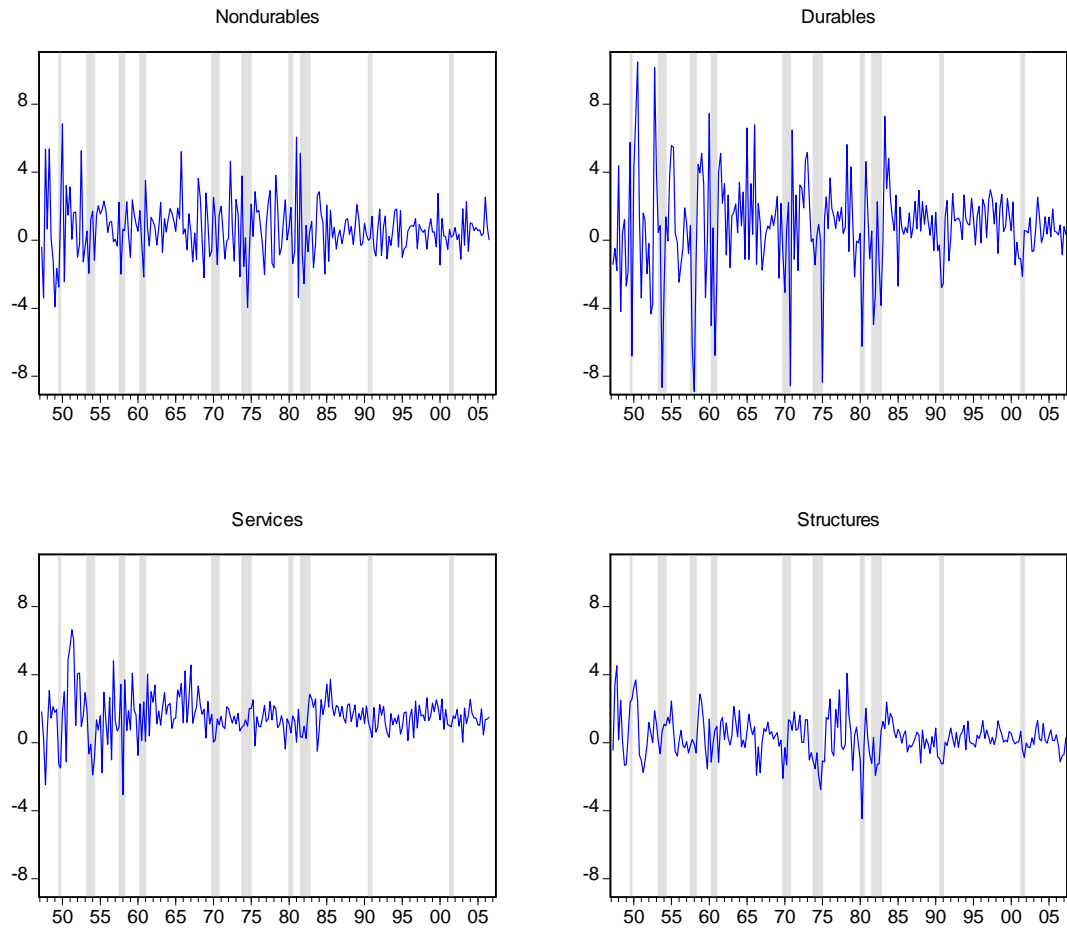
Figure 1: GDP Growth, 1947-2007



Quarterly, Annual Rate. Source: NIPA

Note: Shaded periods represent NBER-designated recessions

Figure 2: GDP Growth Contributions by Major Product

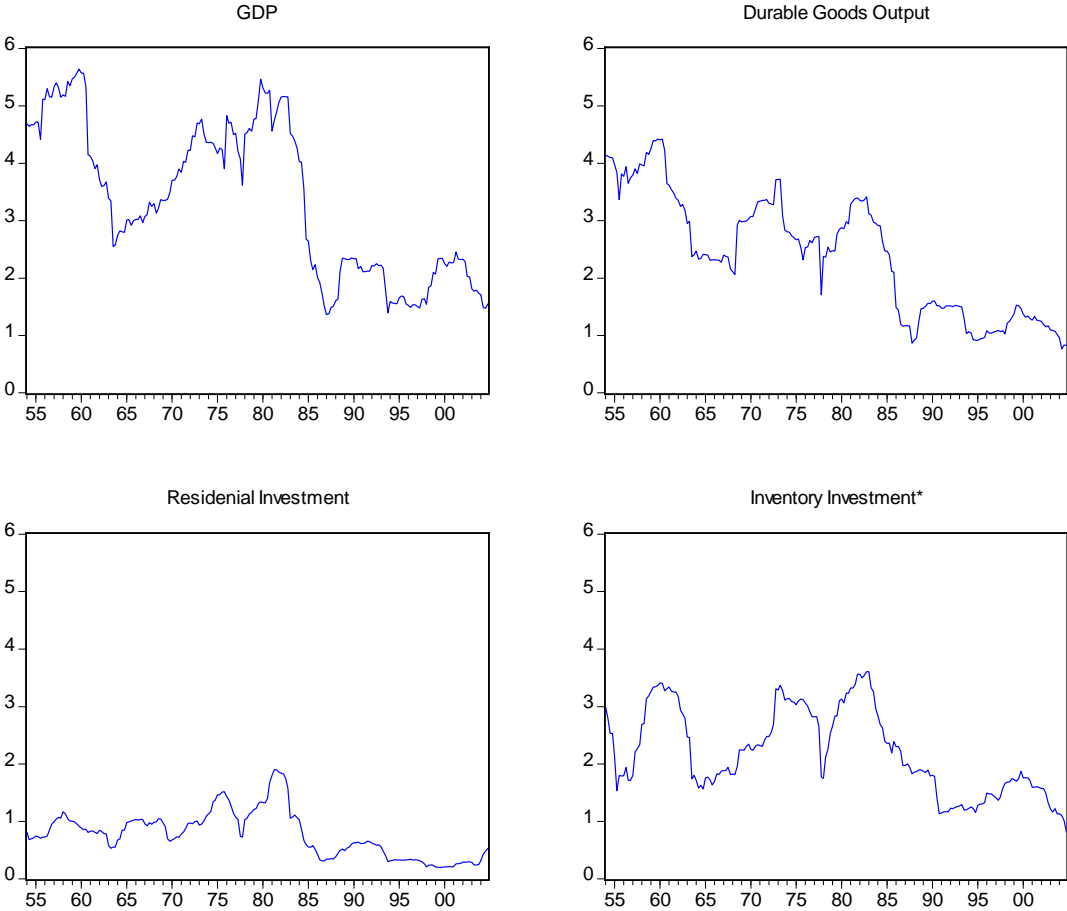


Quarterly, Annual Rate. Source: NIPA

Note: Growth contributions are growth rates scaled by the product's share in total GDP. Thus, they are affected by trends in sector shares over time, but the effect is very slight.

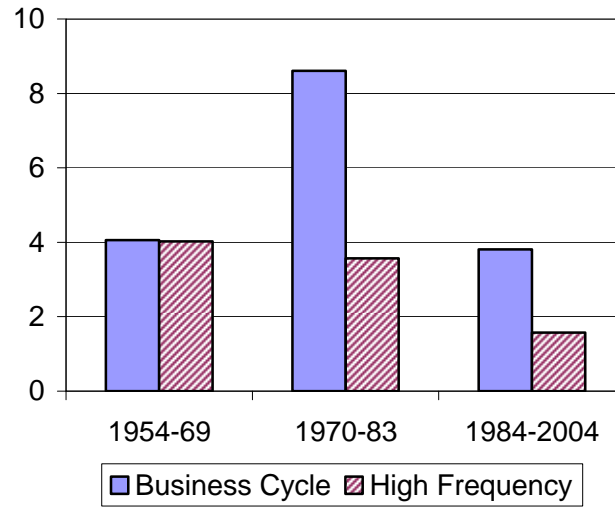
Shaded periods represent NBER designated recessions.

Figure 3: Volatility\* over Time in Key Categories



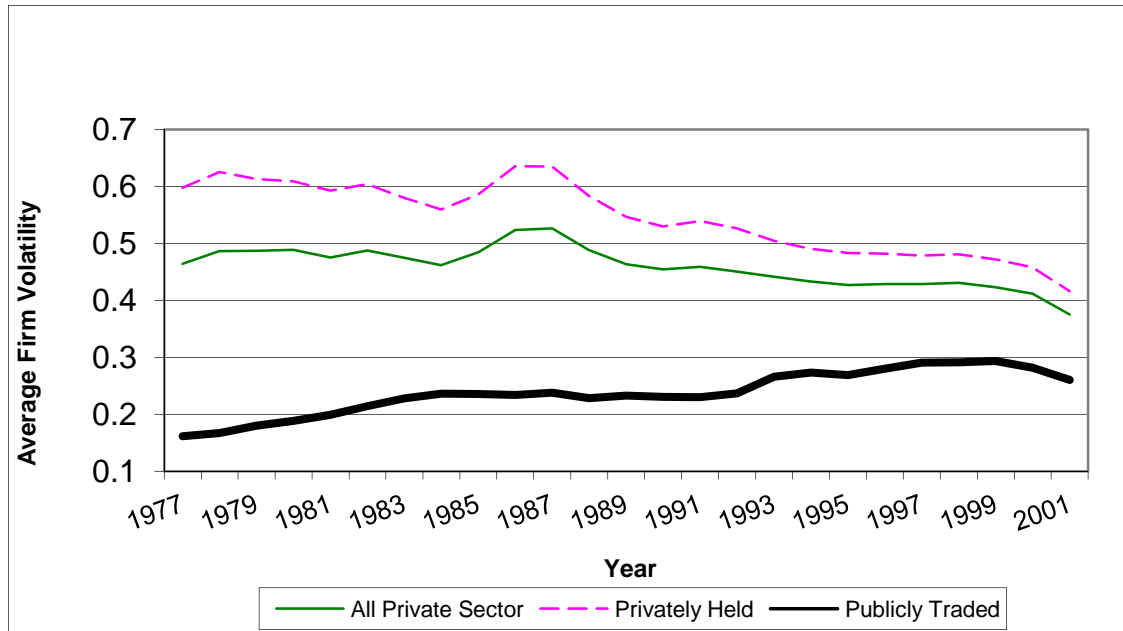
\*5-year rolling standard deviations of quarterly annualized growth contributions.  
 \*\*Inventory investment growth contributions were computed by subtracting fixed investment's contribution from total investment's.

Figure 4: GDP Volatility by Frequency



Note: Units are standard deviations of annualized growth rates.

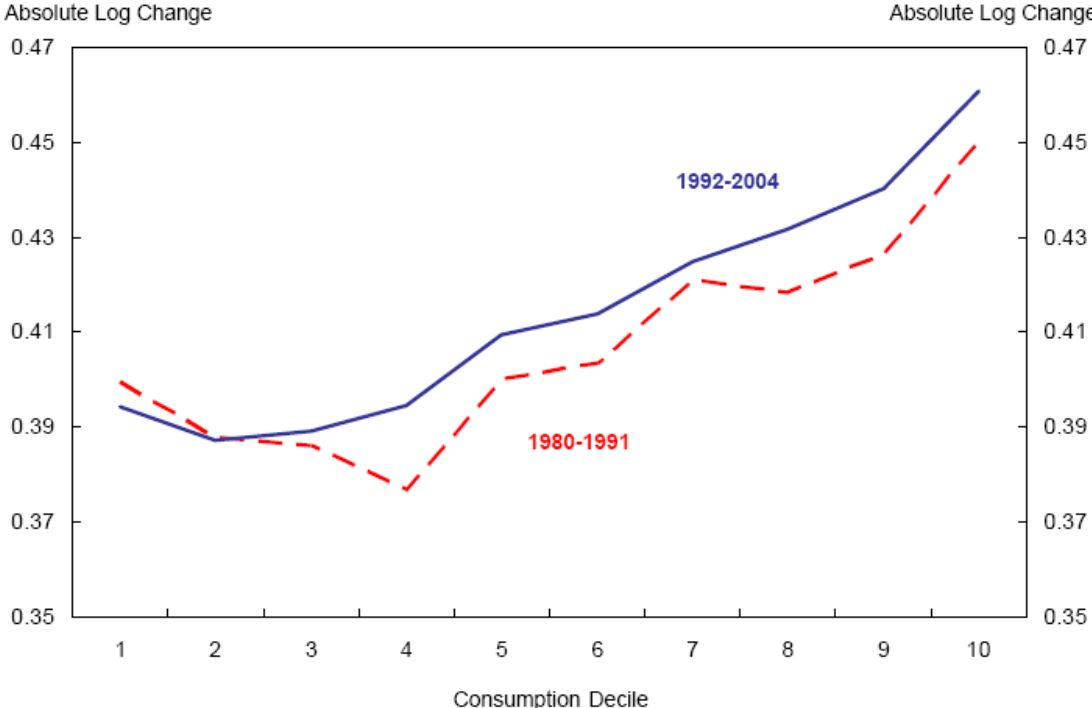
Figure 7: Volatility in Firm-Level Employment Growth Rates, Overall and by Ownership Status, U.S. Private Sector, 1977 to 2001



Notes: Firm-level volatility calculated as a ten-year weighted moving average of growth rates, inclusive of entry and exit and with a degrees-of-freedom correction. See equation (6) in Davis et al. (2006). Average volatility across firms computed on an employment-weighted basis.

Source: Calculations on the Longitudinal Business Database by Davis et al. (2006).

Figure 8: Household-Level Consumption Volatility by Deciles of Predicted Consumption



Note: We compute the absolute value of six-month log changes in expenditures on nondurable goods and services per adult equivalent in each household. Averaging the absolute changes by time period and decile yields the reported measure of consumption volatility.