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FINANCE • RECESSION

Why the Next Recession May Feel Very Different Than 2008

By Erik Sherman September 2, 2019

Recession? Who's scared of a little recession?

Leslie Saul wasn't when she started her eponymous architecture and design firm in 1992. "I think because it was a recession, people wanted to help me," she said. Through multiple later downturns nothing spooked her: Dips lasted only a few months. Then came 2008.

After previous experience, Saul stayed staffed up. "I thought I was so smart to hold onto everyone," she said. Just one small problem: no follow-on projects. "Big firms were talking about a 30% drop in income. For us, it was 90%. It was 15 months of misery." And, eventually, layoffs.

People who lived through the Great Recession are understandably nervous about the "r" word. But there's good reason to believe that when the next recession hits (and it will) the pain won't be nearly as great as what people experienced in 2008.

Part of the business cycle

Recessions—a drop in GDP for at least two successive quarters—are part of the ebb and flow of finance. But they are difficult to further categorize. "The nature of each recession is different and unpredictable," said Dr. Tenpao Lee, a professor of economics at Niagara University. "Some recessions have minimal impact and some are significant and make everybody poorer."

The early 1990s recession that Saul coasted through hit others hard. Jeremy Ong, who operates multiple ecommerce sites and blogs like Hustlr, was a kid whose father ran a construction business.

Customers didn't have the cash to pay and his father in turn couldn't pay supplies. "It took about five years to pay off our creditors," Ong said in a note to Fortune. The family sold its home to move a smaller one, sold cars and laid off a family driver. "We went from eating steak almost every day to having bread for about 2 years."

On the whole, though, the 2008 recession was generally terrible. "There was roughly 50% or 60% decline in the S&P," said Greg Ghodsi, managing director of the 360 Wealth Management Group at Raymond James. A typical recession, he notes, sees a drop closer to 30%.

GDP also took a huge hit in 2008: 5.1 percentage points, according to Ted Rossman, an industry analyst at CreditCards.com. Compare that to the 2.7 points from 1981 to 1982, 1.4 points from 1990 to 1991, and 0.3 points in 2001. "Almost nothing by comparison," Rossman said.

It might have hit already

Preparing for a recession can be difficult because you never know who will be hurt most. Some businesses thrive because they are counter-cyclical and find more customers, like bankruptcy lawyers and discount stores. Others suffer.

Trying to time one is impossible. "We do know that there is a recession coming," said Cindy Kuppens, the COO of O'Brien Wealth Partners. "Maybe next year, maybe 2021. We're coming to the end of a business cycle."

We could even be in a recession now without knowing. Economists have to wait for the data to measure GDP and new estimates come as additional information arrives. A previous quarter can slide in hindsight and a current period may be starting to slow.

Too much worry about a recession can bring one on as businesses react by pulling back and people save money instead of spending it. That shrinks GDP. In other words, you can make yourself crazy trying to forecast the future.

"We've had a 10-year bull market and people need to make sure they're appropriately invested for the future," said Julie Fox, managing director and market head mid-Atlantic private wealth manage at UBS Financial Services. Whether or not a recession is officially here or on the way, prudence suggests taking preventative steps.

What to do now

First step is consider where you are. Are you in the 46% of families that would have to sweat an unexpected $400 bill. Then, Ghodsi says, figure out your expenses and where you might cut. Also, now's the time to shop for a better-paying job. "The labor market is still very strong and there are still plenty of jobs being advertised out there," he said. "If you were going to make a move, this is the time to do it." Wait for a recession and it's likely too late.

If you can, take on extra work and use the money to build a cash buffer and reduce debt. If you've got credit card debt, Rossman suggested looking for new cards with no-interest balance transfers so payments go right into principle and lower balances faster.

If you do have assets, aim for a cash reserve for six months at least and a year if possible and also reduce debt. Reconsider your current plan with your financial advisor. Don't try to time your investments, especially as you can't know when a recession starts or ends. Even in a deep recession like in 2008, investment values bounced back within two years. "In smaller recessions they bounce back much more quickly," Kuppens said.

While recessions may be a fact of life, it's important to remember: they too shall pass.