



Was the Recent Economic Downturn a Recession?

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late last year, the National Bureau of Economic Research (NBER) announced that the U.S. economy entered a recession in March 2001. Some have questioned whether the recent downturn really qualifies as a recession, as by some measures it has been quite mild. For example, the broadest measure of the economy's output, real gross domestic product (GDP), experienced only a modest decline in the current recession. However, given that more timely measures of economic activity are available, the NBER gives relatively little weight to GDP in determining recession dates. Instead, the NBER defines a recession as a "significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail sales."¹ To investigate whether the recent economic downturn meets this definition, I use past recessions as a yardstick.

The table details the significance and length of decline in the four variables included in the NBER recession definition for each recession over the past 40 years. Significance is measured by the percentage decline in each variable from its individual peak to its individual trough. This is computed by finding the lowest point each variable reached during or a year following the recession (called the trough) and subtracting this value from the highest point the variable reached in the past (called the peak). Beside this statistic, in parentheses, is the time in months between individual peak and trough for each series, a measure of the length of the decline. The statistics for the current recession assume the troughs have been reached for all of these variables.

The table shows that both employment and industrial production have experienced significant and lengthy declines in the current recession;

the magnitudes of the declines are similar to those observed in several past recessions and lasted for 13 and 18 months, respectively, longer than the average of the previous recessions. The employment decline is of particular interest, as the NBER gives extra emphasis to employment movements in determining recession dates. The decline in sales during the current recession has been notably mild relative to previous recessions, dropping less than half as much as in the 1990-91 recession. Nevertheless, such a protracted sales decline has never occurred within any expansion. In the sample period considered here, there have been only three months not related to an NBER recession in which sales had declined 2.4 percent below their prior peak, the level reached in the current recession. In all three cases these episodes lasted just one month, with sales bouncing back above their peak in the following month. By contrast, sales in the current recession remained below their peak for 10 consecutive months before the trough was reached, suggesting the recent sales data have more in common with past recessions than past expansions. Finally, as in the 1960-61 and 1969-70 recessions, personal income experienced no sustained fall during the current recession.

Was the recent economic downturn a recession? This evidence suggests that, when compared with past recessions, this downturn does measure up. ■

¹NBER's business-cycle dating procedure, June 7, 2002. nber.org/cycles/recessions.html.

Peak-to-Trough Decline in Each Recession: Percent (months)

	1960-61	1969-70	1973-75	1980	1981-82	1990-91	2001-02
Total employment	-2.3 (10)	-1.5 (8)	-2.9 (6)	-1.5 (4)	-3.1 (16)	-1.6 (20)	-1.4 (13)
Industrial production	-9.1 (11)	-7.3 (13)	-16.1 (16)	-7.3 (13)	-10.9 (17)	-5.3 (23)	-7.4 (18)
Real manufacturing and trade sales	NA	-5.8 (13)	-13.8 (16)	-8.8 (15)	-10.2 (12)	-5.2 (5)	-2.4* (10)
Real personal income excluding transfer payments	-1.37 (2)	-1.0 (2)	-5.9 (17)	-2.8 (7)	-1.7 (14)	-2.6 (7)	-0.9 (1)

NOTE: *The maximum decline in sales was actually 4.2 percent, reached in September 2001. However, this reflected the September 11 terrorist attacks and was largely erased the following month. Thus, I report the second largest decline.

Views expressed do not necessarily reflect official positions of the Federal Reserve System.