Dating the Recession

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Peaks and Troughs

The beginning of a recession is called a peak, because it represents the high point of economic activity prior to a downturn. The end of a recession, which marks the low point of economic activity, is called the trough (Bernanke and Frank, *Economics*, Chapter 12, p. 310). For more than eighty years, the dates of peaks and troughs have been determined by the National Bureau of Economic Research, a nonprofit organization; see Bernanke and Frank, *Economics*, Table 12.1, p. 310. The National Bureau has also dated recessions retrospectively back to 1854.

As of the beginning of 2001, there had been no "official" recession in the United States since the one that began in July 1990 and ended in March 1991, when the current U.S. President's father held the same job. The ten-year period without a recession was the longest in U.S. history. However, the economy weakened considerably during the

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[1] A member of the National Bureau of Economic Research's [NBER] Business Cycle Dating Committee, and author of an—excellent—competing intermediate macroeconomics textbook, Andrew Abel and Ben Bernanke, Macroeconomics (New York: Addison Wesley).

latter part of 2000 and in 2001. A further blow was the terrorist attacks of September 11, which caused the loss of many jobs both in the affected areas and (because people became afraid to travel) in industries such as airlines and hotels. Because of the increased likelihood that a recession had begun, the six economists who form the Business Cycle Dating Committee—the group within the National Bureau that actually determines recession dates—found themselves called upon for the first time in a decade. (Ben Bernanke is a member of this Committee.)

How the Business Cycle Dating Committee Thinks

The determination of whether and when a recession has begun (a process which is still going on, as of this writing) is unusually difficult this time. The Business Cycle Dating Committee (BCDC) relies heavily on statistical indicators that a) are available monthly and b) show the overall strength of the economy. Four of the most important indicators are

- industrial production, which measures the output of factories and mines
- sales in manufacturing and trade (both wholesale and retail)
- nonfarm employment (the number of people at work)
- real personal income (excluding transfers like Social Security payments)

Each of these indicators measures a different aspect of the economy. Because their movements tend to coincide with the overall movements in the economy, they are called coincident indicators.

Unfortunately for the BCDC, the four major coincident indicators—which normally move more or less together—are behaving very erratically in this episode. Industrial production and sales in manufacturing and trade began to decline as early as September 2000. This decline in manufacturing reflected slow sales of information technology (computers, software, communications devices, etc.) following the collapse of the "dot-com bubble" in 2000. (The values of high-tech stocks fell by two-thirds or more during the year.) However, the weakness in manufacturing was not immediately reflected in the economy as a whole, as both employment and personal income grew strongly in the fall of 2000. Employment did not start to decline until around March 2001, and real personal income has not yet begun to decline (although it is widely expected to fall in October 2001). So, depending on which indicator you take most seriously, you could conclude that the recession 1) began in September 2000, 2) began in March 2001, or 3) is still impending. The unsynchronized behavior of these and other indicators will make "calling" this recession very difficult for the BCDC. Their final decision will no doubt reflect a compromise among the different factors.[2]

Further Information

For more information on how the NBER measures recessions and establishes peak and trough dates, see

http://www.nber.org/cycles/recessions.html

[2] The NBER Business Cycle Dating Committee decided that the U.S. economy had reached its business cycle peak in March 2001, and had been in recession since that date.

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