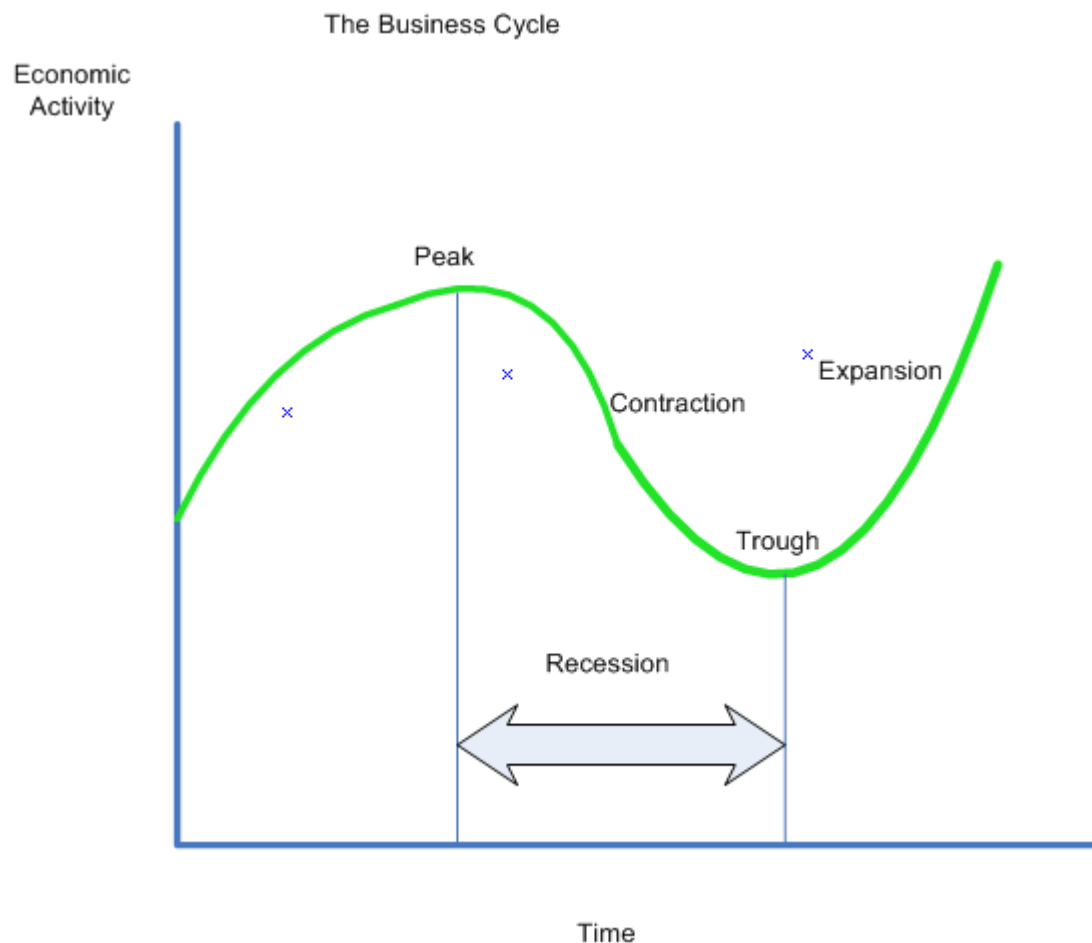


What is a Recession?

In the United States, the official definition of a recession is provided by the National Bureau of Economic Research (NBER) <www.nber.org>. Specifically, when a recession begins (called the peak of the business cycle) and when it ends (called the trough of the business cycle) is determined by the Business Cycle Dating Committee of the NBER. The diagram of a hypothetical business cycle below illustrates the basic idea of a recession.



A recession begins when the NBER declares a peak in economic activity. The NBER declared December 2007 as the most recent peak. A date for the trough or end of the current recession has not yet (as of June 2009) been declared.

So, what is a recession? The simple answer is that a recession occurs when the NBER says it occurs. This is not a very satisfactory answer. The NBER states that a recession occurs when there has been: “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators” (Business Cycle Dating Committee, National Bureau of Economic Research, 2008).

Generally, the NBER requires a downturn in several sectors of the economy and several regions of the economy. The decline in output in a single industry (say automobile manufacturing) is not enough to declare a recession for the entire economy. A decrease in economic activity in a single region (say the northeast) is also not enough of a reason for the NBER to declare a national recession.

The NBER declares a particular month for the peak and trough of the cycle. This means that, in contrast to popular opinion, the definition of a recession does not rely on decreases in Gross Domestic Product (GDP). [GDP is a broad measure of economic activity released quarterly and annually by the U.S. Department of Commerce. No monthly GDP figures are produced.]

What does the Business Cycle Dating Committee examine in order to determine a recession? The committee examines many variables before it makes a decision. Some of these variables include employment, industrial output, consumer expenditures, and financial market indicators such as stock market indices. Ultimately, the committee’s decision is a judgment call. Several attempts to write computer programs to systematically predict the peaks and troughs of the business cycle have failed.

There have been eleven recessions since the end of World War II. The recessions (measured peak to trough) have averaged ten months in length. A complete list of recessions is available on the NBER website <http://www.nber.org/cycles/cyclesmain.html>.

Does the NBER date recessions for individual states? No, it does not. No official agency does so, but there are private consulting firms that do.

What is a depression? There is no official definition of a depression.

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