

Economic *SYNOPSIS*

short essays and reports on the economic issues of the day



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The Current Recession: How Bad Is It?

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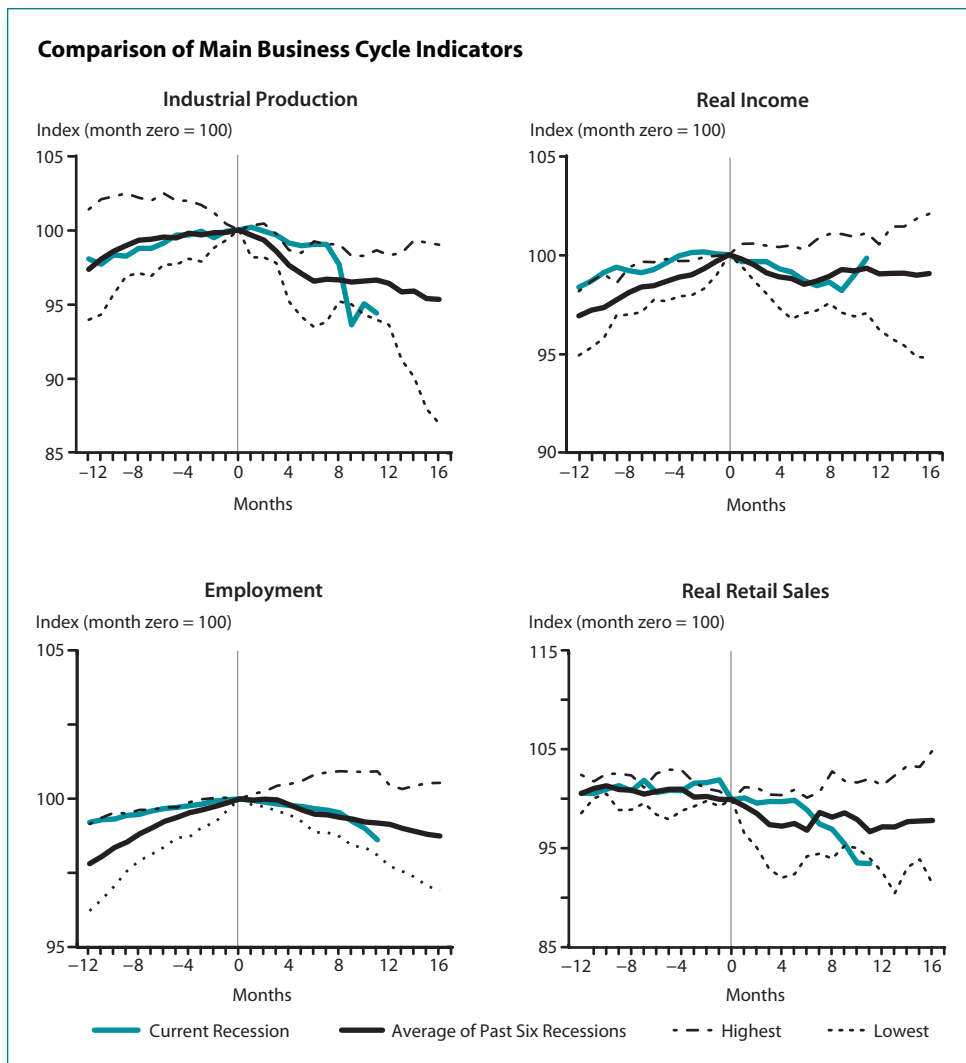
On November 28, 2008, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) declared that a recession began in the United States in December 2007.¹ This committee defines a recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators.” The U.S. economy has experienced six recessions over the past 40 years. On average these recessions have lasted 10.7 months. The longest recessions—beginning in November 1973 and July 1981—each lasted 16 months. The shortest recession—beginning in January 1980—lasted only six months. Although the end of the current recession is unclear, many economists expect it to extend into mid-2009, a duration of around 18 months.

The most skeptical economists believe that because of the contraction in the housing market and problems in financial markets, the magnitude of the current recession could be the most severe in decades, perhaps comparable to the [Great Depression](#). Although the causes of the current recession may be unique, main recession indicators have moved in a predictable fashion.

In a recession, the severity of the decline is just as relevant as the duration of the recession. These two measures are not independent; a prolonged but shallow recession may have an aggregate impact similar to a short but deep recession.

To compare the current recession with the past six recessions, the chart plots four main economic indicators

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used by the NBER: industrial production, real personal income less transfer payments, employment, and real retail sales and food services.² Each series is indexed to 100 at the start of the recession. The horizontal axis indicates the number of months before (negative values) and after (positive values) the start of a recession, where zero indicates the month the NBER determined the economy moved into a recession.³ The black line indicates the averages over the past six recessions,⁴ the blue line data on the most recent recession, and the two dashed lines the highest and lowest values of each series, capturing variability across the past recessions.

Based on these indicators, the current recession has been worse than average; however, the declines are not unprecedented. In the previous recessions, [industrial production](#) tended to decline sharply at the business cycle peak; in the current recession, it did not decline sharply until early 2008. In the current recession, [real income](#) declines have been significant; at the start of the recession, incomes were above their pre-recession averages but are now slightly below average. [Current employment trends](#) are consistent with past recessions, although in recent months employment has

begun to approach its lowest levels. The most disturbing current indicator is the [decline in real retail sales](#). Historically, retail sales have stabilized within months of the beginning of a recession; eleven months into this recession retail sales continue to decline.

Main recession indicators tend to support the claim that this recession could be the most severe in the past 40 years. However, we are still far from another Great Depression. The severities of the declines experienced so far have been consistent with past recessions, and although the length of the current recession could set a record, it will likely be only by a few months. ■

¹ The NBER is a not-for-profit corporation that sponsors economic research and promotes dialog on economic issues. By informal consensus, economists and policymakers accept the Business Cycle Dating Committee's judgment on business cycle turning points. The NBER report is available at wwwdev.nber.org/cycles/dec2008.html.

² Deflated using the Consumer Price Index for All Urban Consumers (1982-84 = 100).

³ According to the NBER, recessions began in December 1969 (lasting 11 months), November 1973 (16), January 1980 (6), July 1981 (16), July 1990 (8), and March 2001 (8).

⁴ Because some recessions were shorter than 16 months, the average is pulled upward toward the end of the sample.