
**It's official.** Last month the National Bureau of Economic Research (NBER), the non-government think tank that is the authoritative voice on the U.S. business cycle, announced that the economy had been in recession for a year. It's been a few years since we were in a recession, so it's worth reminding ourselves of some basic facts. It's time for Recession 101.

by Andrew Brod

*Andrew Brod is the director of the University of North Carolina at Greensboro's Office of Business and Economic Research. You can reach him at (336) 334-4867 or AndrewBrod@uncg.edu. An archive of Dr. Brod's columns is available at www.uncg.edu/bae/ober.*

That the economy is in recession is hardly surprising. In November, 96 percent of the economists surveyed by the National Association for Business Economics (NABE) said they believed a recession was under way. However, there was less consensus regarding when the recession had begun. Only half of the NABE economists believed that the recession had started as long ago as late 2007 or early 2008.

Before the financial crisis put things in frightening focus this fall, it appeared that the recession might be a shallow one. There was even some belief that we'd have a period of anemic growth rather than an outright downturn. After all, as the NBER noted, production measures like Gross Domestic Product were essentially flat through June 2008.

But when gauged by employment measures, a different picture of the economy emerged. Payroll employment hit a peak in December 2007 and fell steadily throughout 2008, including a harrowing drop of 533,000 jobs in November. The unemployment rate hovered between 4.4 and 4.7 percent throughout 2006 and 2007, but starting in late 2007 the rate moved upward until it reached 6.7 percent in November 2008. In making its determination, the NBER placed great weight on these employment indicators.

Now virtually all measures are down sharply. In September, the Federal Reserve's industrial-production index recorded its largest one-month decline since 1946. In October, the Institute for Supply Management's PMI index of manufacturing activity hit its lowest value since 1982. Also in October, the Conference Board's Consumer Confidence Index hit its lowest level since the index was established in 1967.

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And then there are retail sales. **Total retail sales in October registered the largest one-month decline since the 1980s, and November's drop was large as well. In furniture, retail sales declines accelerated this fall after more than a year of gradual decay. From August through October, sales by furniture and home-furnishings stores fell by an average of 2.0 percent per month, which is huge. Sales essentially flattened out in November in seasonally adjusted terms, but even so, November sales were more than 13 percent lower than a year earlier.**

The NBER has just two terms for the business cycle: expansion and contraction. Contractions, also called recessions, are periods of diminishing economic activity, while expansions are periods of growth. From 1854 to 1919, recessions averaged 22 months, and the average expansion lasted 27 months. Since World War II, the natural state of affairs in the U.S. economy has been expansion. Unlike previous eras, when recessions were frequent and often severe, expansions have been much longer than recessions since 1945. The average post-war expansion has lasted 57 months, while the average recession has lasted just 10 months. Our last two recessions, in 1991 and 2001, lasted only eight months.

Almost no one thinks that the end of 2008 marked the end of this recession, so already it's longer than average. The events of this fall, however, have led many

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observers to predict that the recession could persist well into the new year. If it lasts into the second quarter of 2009, it will be the longest recession of the post-war era.

The NBER's after-the-fact announcement makes it clear that the organization isn't in the business of describing the current situation, let alone forecasting the future. Its job is to get things right for posterity. And it's not easy. When the economy turns downward, the NBER economists have to wait to see whether it was a temporary blip or the start of an unhappy trend.

In November 2001, the NBER announced that the recession had started in March of that year. As it happened, November marked the end of the 2001 recession, but because the ensuing expansion started so weakly, it wasn't until the middle of 2003 when the NBER finally made that announcement.

When compared to the previous nine post-war expansions, the 2001-2007 expansion ranked either last or second-to-last for a number of indicators, including growth in GDP, investment, consumption, employment, and wages. However, the 2001-2007 expansion ranked fairly high in corporate profits and labor productivity, suggesting an expansion whose benefits were distributed unevenly.

For all their similarities across the decades, U.S. recessions are changing in one respect. For the first six post-war recessions, it took an average of 19 months after the start of the recession for payroll employment to recover to its pre-recession level. But in the 1970s, the recovery period started getting longer. For the 1973 recession it took 25 months. For the 1991 recession it took 31 months. Finally, for the 2001 recession, employment didn't return to its pre-recession level until 47 months (nearly four years!) after the recession started.

Clearly, not all indicators start moving upward at the start of an expansion. After the 2001 recession, furniture sales (when corrected for inflation and other factors) didn't start to move consistently upward again until the middle of 2003, which is about when the jobs picture started to brighten a bit. It would seem that furniture retailers have much at stake in how quickly employment recovers after the recession of 2008-2009 ends.

This recession will end, because recessions always do. The question is what kind of expansion we can expect when it does end. Will it be anemic and uneven like the expansion of 2001-2007? Or strong and vibrant like the job-filled expansion of 1991-2001? For this recession, perhaps unlike any of those most of us can remember, the answer will depend hugely on the boldness and effectiveness of government policies.

Therefore, let us make a New Year's wish that the new Obama administration will get it right in 2009. With luck, the next expansion will be stronger than the one that just ended.