When Are We in a Recession?

To the average American, it might seem ludicrous to suggest that the United States is not in a recession right now. But economists' fuzzy definition of the term makes it hard to say when a recession actually starts until we're well into one.

Last week, the International Monetary Fund said the United States likely will slide into recession. And one thing's for sure: When we get there, the economy will be in the toilet.

There are, of course, more technical definitions. You might hear, for example, that recession occurs when gross domestic product (GDP) growth is negative for two or more consecutive quarters. But that's not an adequate measure, most economists agree.

The National Bureau of Economic Research (NBER), a non-profit group that includes economics researchers and professors from all over the country, has a somewhat formal definition that is often cited, said Michael Bernstein, provost and professor of economics and history at Tulane University.

"NBER would define a recession as a significant decline in economic activity that spreads across the economy and that lasts more than a few months," Bernstein said. "Normally it would be visible in data on real income, employment, industrial output, sales, Gross Domestic Product (GDP), that sort of thing."

As for duration, recessions can last for those "few months" or up to about two years.

The factors that predict a recession also are not entirely simple.

Potential predictors

The stock markets have received a lot of attention during this year's economic decline, but Bernstein said that economists have found that stock market indicators alone aren't very good predictors of recessions.

"As much as we try, we cannot demonstrate a close statistical relationship between how the stock market moves and how the so-called business cycle moves. Sometimes they're linked, sometimes not," he told LiveScience.

The stock market can certainly fall in relation to a recession though, as it appears to be doing now.

"In the current context, the market right now is falling because of a perception, apparently a very accurate perception, that the banking and finance system is at great risk for losing money," Bernstein said.

The terms "bear market" and "bull market" also have nothing to do with whether or not the economy is in a recession, Bernstein said. They're simply colloquial expressions: the market is bearish when people are nervous about buying and start selling off shares, whereas in a bullish market people take more risks and are buying more.
One factor that is a better predictor of recession is the real estate market, Bernstein said. When houses are being built, jobs are created and production in construction-related industries goes up; when real estate stagnates, those jobs and the related production are lost. Refinancing on homes also frees up money that homeowners can spend on other things, but when homes drop in value, there's no money to spend.

These types of problems in the housing market were a factor in the current economic mess, which Bernstein says has every indication of becoming a full-blown recession. The economy hasn't been in a downturn for long enough yet to call it a recession at the moment, but unless things change drastically, we'll be in one in just a few more months.

"There's no sign at the moment that we can avoid this thing," he said.

Recessions and depressions past

The last recession the country faced was nearly a decade ago when the "dot-com" bubble burst, taking under countless companies and sending many to the unemployment line. But that downturn was mild compared to the recession the economy is likely heading into, Bernstein said, which will probably be more comparable to the U.S. recession of the late 1980s.

"The last big slide was 1987, when the stock market went down by about 20 percent, and the economy went into the toilet for about five years," Bernstein said.

Of course, none of the 10 recessions since 1945 that the NBER recognizes compares to the magnitude of the Great Depression.

Though the Great Depression lasted for about a decade, it isn't necessarily longevity that turns a recession into a depression. It's the depth of the crisis, Bernstein said. The 1930s saw a 25 to 30 percent drop in GDP, and unemployment went up to 25 percent.

"These are mind-boggling numbers compared to what we've been through since World War II," he said.

For comparison, the national unemployment rate was 6.1 percent as of September this year, according to the Bureau of Labor Statistics. Real GDP (the output of goods and services by sectors in the United States) rose by 2.8 percent from the first quarter to the second quarter of 2008, according to the Bureau of Economic Analysis; it rose by 0.9 percent in the first quarter.

And there are of course some financial safeguards in place since the Great Depression, such as deposit insurance, and these have kept subsequent economic crises from reaching the same severe proportions, though that doesn't keep any recession from being downright dismal.

- The Science Behind Our Economy
- The Long History of the 2008 Financial Mess
- Recession Worries Help Fuel Recession