The US Economy: Out of the Recession?

Ever since the latest peak was declared in March 2001[1], the whole nation have been waiting for it to end. Although the state of the economy today seems to have rebounded, albeit slowly, whether or not it will stabilize before falling back into recession is a question asked by all. The rule of thumb describes recessions as "at least two consecutive quarters of declining GDP." According to the NBER's definition, however, "a recession is a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale retail sales." Another definition explains it to be "below-trend growth," or "a period when growth falls significantly below its long-term potentials."[2] Depending on which definition one applies, the US economy may, or may not still be in a recession, but no matter which definition is applied, the US economy is depicted as unstable and ready to fall back into a recession at any time.

If we gauge the business cycle in terms of GDP *per se*, then the US economy is still in a recession. The newest statistics compiled by the Bureau of Economic Analysis shows that although the third quarter of 2002 showed an increase in annual GDP growth rate from 1.3% in the second quarter to 4.0%, the 4th quarter has again decreased to only 0.7%. Such drastic fluctuation and a percentage as low as 0.7% clearly indicates that the economy is not yet stabilizing, and the recession is not over yet. [3]

NBER's Busines-Cycle Dating Procedure, which does not consider GDP *per se*, shows that recession dating considers (1) employment, (2) personal income less transfer payments, (3) volume of sales of the manufacturing and wholesale-retail sectors, and (4) industrial production. In its latest report (February 2003), NBER shows that employment rose in January 2003, the most recent reported month. However, this may be just another temporary fluctuation in employment, and does not indicate that employment will continue to increase. Furthermore, the U.S. Department of Labor shows that although unemployment rate has decreased from the 6.0% in December 2002, it is still at 5.8%. It is still as high as last year's average of 5.8 and much higher than 2001's average of 4.7.[4] Although the NBER does not use unemployment as an indicator of recession[5], high unemployment indicates that it might take a very long time for labor supply and demand to readjust and for economic growth to increase substantially.

NBER's report also shows that the movements of real personal income less transfer have generally increased since late 2001 and is still increasing during the most recently reported month, December. The Industrial production, on the other hand, has included a series of surges and drops throughout the recession, and has dropped again this December. The fluctuations again indicate that the recession has not ended, and that more economic instability is possible in the next couple of months. The last indicator, the manufacturing and wholesale-retail sales has also been fluctuating, but generally seem to be on an upward trend.[6] The four indicators assigned by NBER all seem to indicate

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[1] National Bureau of Economic Research. US Business Cycle Expansions and Recessions. 26 Nov 2001.
[2] "Defining the R-word." Economist.com 26 Sep 2002.
[3] Bureau of Economic Analysis. Gross Domestic Product: Fourth Quarter 2002 (Advance). 30 Jan 2003.
[4] Bureau of Labor Statistics. Unemployment Rate – Civilian Labor Force. Chart. Feb 2003
[5] National Bureau of Economic Research. The NBER Recession Dating Procedure. 12 Feb. 2003.
[6] National Bureau of Economic Research. The NBER Recession Dating Procedure. 12 Feb. 2003.

different stories about the economic status of the US at present. While a rising real personal income seems to indicate a come back from the recession, the other indicators are either still fluctuating, or have improved too slightly to be used as any true pointer as of yet. Therefore, although it may be shown otherwise in another 6 months, it is safer to conclude that the economy is still in a recession, or at least an extremely slow and vulnerable return at present.

If one defines recession as a period of time with significantly lower growth than potential, or a below trend growth, then the economy is definitely still in a recession. The Beige Book shows that the last three months of 2002 has been characterized by a "stop-and-go pattern in which a quarter of strong growth was followed by lackluster activity."[7] Moreover, the Economists' survey of the recession shows that even if the economy were recovering, the below trend growth will continue for a long time. "Suppose that America's potential growth rate is 3.5%…and that the economy grows by an average of less than 2% a year over the next few years…total shortfall in output relative to potential over the four years to 2004 should amount to 8% of GDP, making this the worst recession since 1945.[8] Put in this perspective, it seems that the recession has not ended yet. In another part of the survey, the Economists also conclude that the recession is "far from over." America is now too debt ridden for any possibility of robust growth resuming anytime soon. The recession only seems mild because consumer spending has not declined. However, the corporate section is actually suffering the steepest decline since the 1930's, according to the survey. Consumer spending only rests in the rising value of houses, and when the rise ceases to rise fast enough, households will be forced to save. Economy might fall back into economic sluggishness, and possibly recession.[9] If indeed, the recession resumes due to a decrease in consumer spending, then it might be due to a number of reasons that cannot be fully predicted as of now. Business Times recently published an article concerning a new old-fashioned oil shock. If indeed oil prices continue to rise, the economy can fall into a "double dip" recession. "Rising energy prices already [start] to constrain consumer purchasing power."[10]

Despite the many different definitions of a recession, all of them seems to indicate that the current status of the US economy is very volatile. Assuming it is already out of the recession, it may fall back in at any time. If you define recession as below potential or below trend growth, the economy is still in a recession. Even if one bases the analysis on NBER's standards, the economy is still, at best in a very slow come back that is extremely exposed and unstable with fluctuations in high unemployment rate, and industrial production, among other factors. Although it is not impossible that six months later, the NBER will declare that the recession has actually ended prior to this (February 2003), it is impossible to be sure at present. However, given the weak and unstable economy, the safest bet is that the economy is still in a recession.

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[7] "Fed's Latest Survey Finds Growth Still Subdued." The Business Times Online Edition. 17 Jan 2003.
[8] "The World Economy Survey: Defining the R-word." Economist.com 26 Sep 2002.
[9] "The World Economy Survey: The Unfinished Recession." Economist.com 26 Sep 2002.
[10] "Oil Raises Fear of Double Dip Recession in US." The Business Times Online Edition. 11 Feb. 2003.

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