Probing Question: How do we know a recession has ended?

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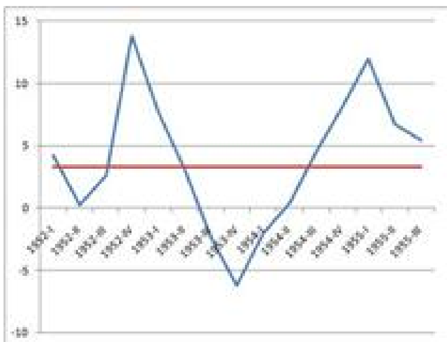

Quarterly GDP growth from 1951 to 1955, showing the Recession of 1953 in the United States.

In today's struggling economy, one check on the day's news is bound to turn up reports of unemployment, falling home values and foreclosures.

You'd think people hadn't heard the good news: the recession is over! Or is it? According to the National Bureau of Economic Research (NBER), the recession officially ended in June 2009, but this statement has raised some eyebrows.

What are the signs a recession is over?

"Technically, if the economy starts growing again, no matter how slowly, the economy has left the recession period," said Anthony Kwasnica, associate professor of business economics at Penn State's Smeal College of Business.

"A recession is measured from the peak of the latest non-recession growth period to the trough or very bottom of the decline, before an upswing," he said. "People tend to think we've recovered only when we've returned to where we started from. Most would agree that the growth since June of 2009 has not been very robust."

Since the gross domestic product (defined as the market value of a country's goods and services produced in one year) didn't decline more than 10 percent, our current crisis isn't typically described as a depression. However, the "Great Recession", as it has been dubbed, remains the most sustained economic slump the United States has weathered since World War II, with jobless rates hitting 10.8 percent, the highest since 1982.

Can we predict when we'll be back in the black? "There is no clear answer," Kwasnica said. "A number of factors are at work here. Some analysts use qualitative, survey-based measures of how people feel about the direction of the economy." The most well-known of these, the Consumer Confidence Index, surveys households on their feelings about the economy, the idea being that confident consumers are more likely to make purchases resulting in economic growth.

Kwasnica cautioned against relying too much on such tools. "While I generally like the Consumer Confidence Index, one often has to worry about the issue of self-fulfilling prophecies in terms of economic activity," he said. "Suppose everyone thought a decline in consumer confidence was a strong signal of a future economic downturn? Then it might seem rational for a business to cut down production. But this could help create the economic downturn. This suggests that we might be better off not knowing exactly what data sources predict recessions."

Yet predicting is part of what economists do -- and one common way they describe a recession's expected progression is with letters, dubbing them V-shaped, U-shaped, W-shaped, or L-shaped, for the patterns of spikes and dips on economic data graphs. The 1973-75 recession is often called U-shaped for its slow decline, a period of no growth, and a slow climb back to recovery. The recession in the early 1980s is considered a W-shaped event, with a "double dip" rise and fall.

What shape describes the current recession's predicted course? Kwasnica cited billionaire investor George Soros who described the United States' economic recovery as "an inverted square root sign." In other words, Kwasnica explained, the U.S. is very likely poised for a small rebound, followed by a sustained period of little to no growth for the next few years. "There are many long term issues that suggest that the U.S. economy might grow more slowly than it did in the past few decades," he added.

Ultimately, Americans are more concerned about what shape their finances are in than the shapes on graphs and pie-charts, agrees Kwasnica. Until there's an unmistakable up-turn we can all agree upon, the nation will continue to scratch its head over declarations that the recession is behind us.

Provided by Pennsylvania State University

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