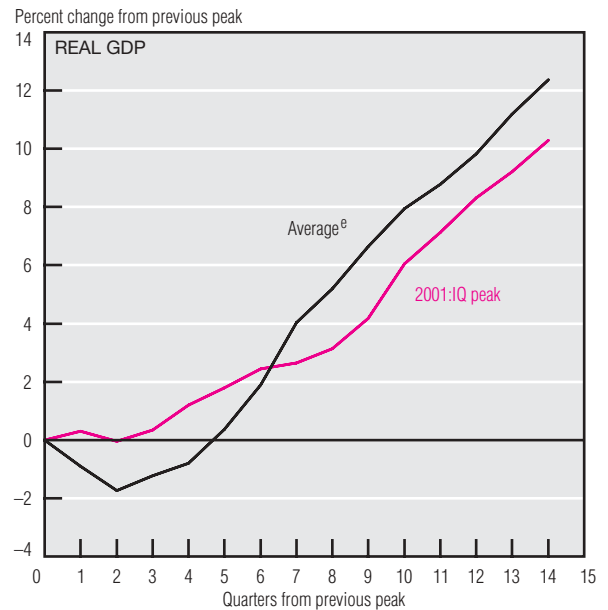
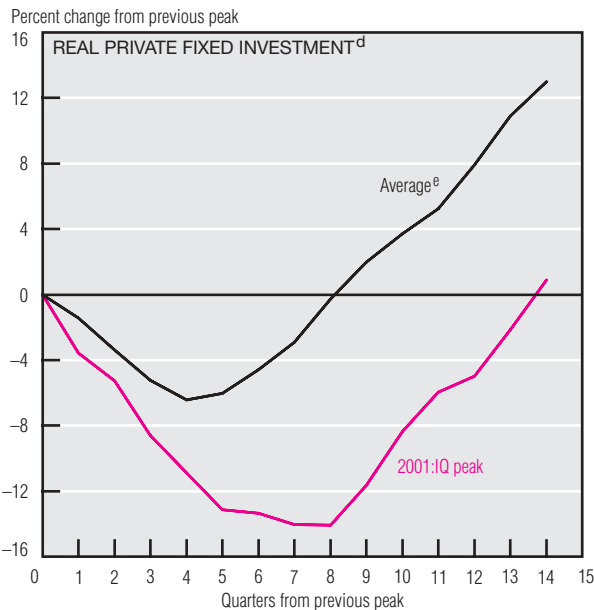
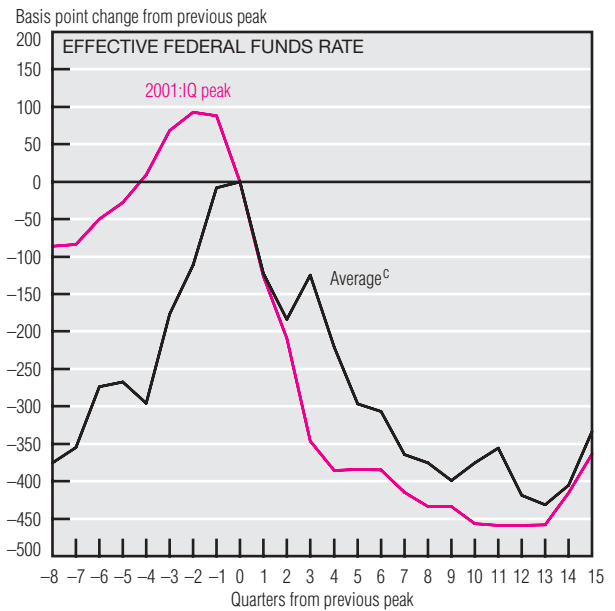
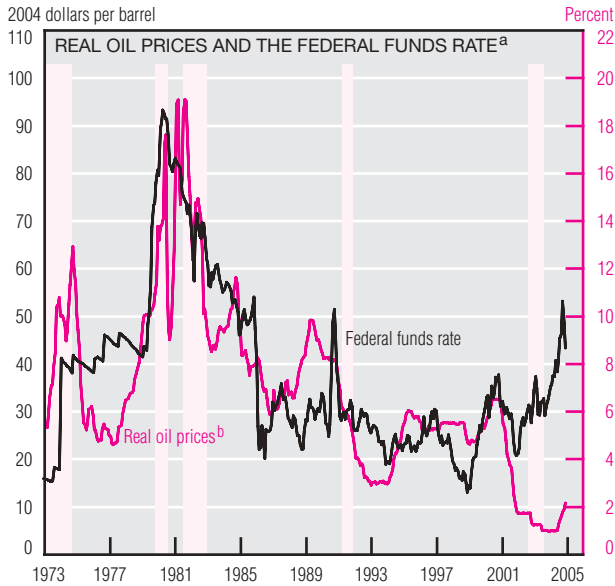


Business Cycles



a. Shaded bars indicate periods of recession.

b. Prices of West Texas intermediate crude oil, deflated by the Consumer Price Index.

c. Includes peaks in 1957:IIIQ, 1960:IIQ, 1969:IVQ, 1973:IVQ, 1980:IQ, 1981:IIIQ, and 1990:IIIQ.

d. Nonresidential.

e. Includes peaks in 1948:IVQ, 1953:IIQ, 1957:IIIQ, 1960:IIQ, 1969:IVQ, 1973:IVQ, 1980:IQ, 1981:IIIQ, and 1990:IIIQ.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15; and *Wall Street Journal*.

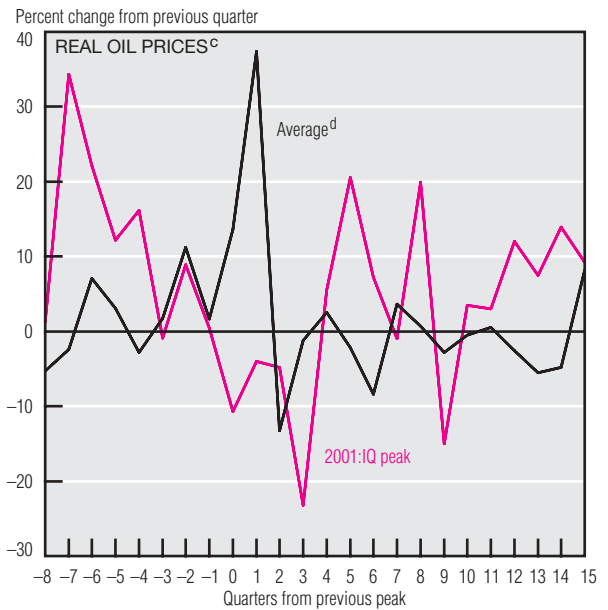
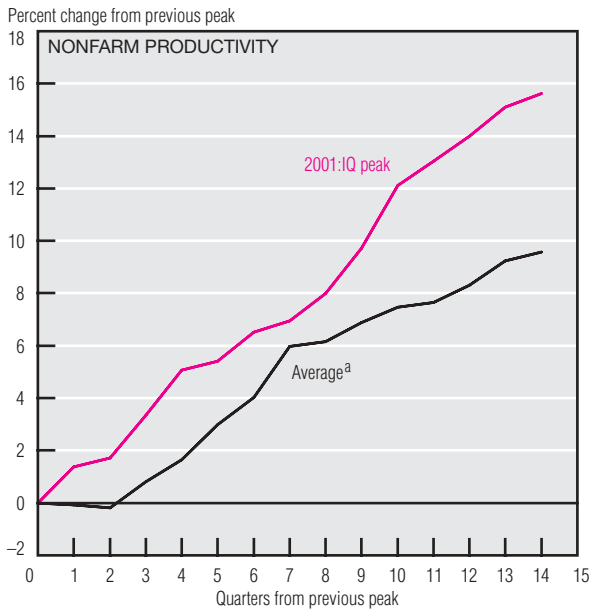
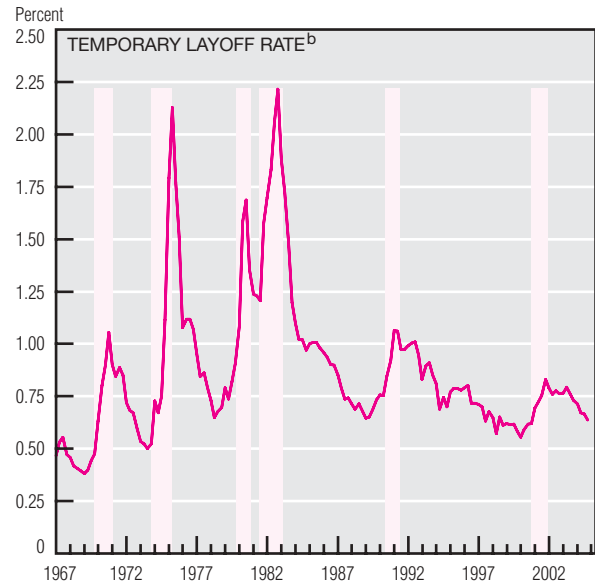
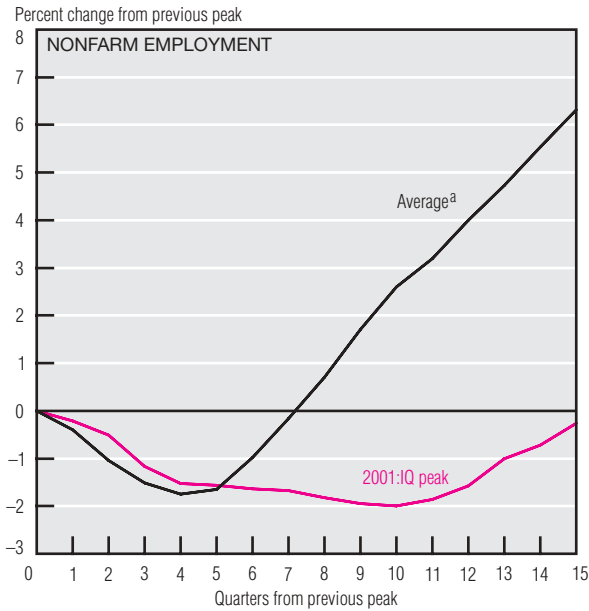
Oil prices and the federal funds rate typically spike before recessions. Both are likely to be causal factors, although the spikes' timing and impact on the economy vary. Oil prices spiked before the 2001 downturn, but earlier than they typically do. And although the fed funds rate also jumped, the increase was less pronounced than usual, which suggests that policy changes were not as influential as they sometimes have been.

The 2001 recession was driven primarily by investment, which fell nearly twice as far from its peak as it typically does. One reason for this, distinct from both oil prices and interest rates, may have been excess investment or "capital overhang" leading into the recession. But the real anomaly was not how the economy behaved going into the recession but how it behaved coming out. Now, nearly four years after the National Bureau of Economic Research

declared the recession officially over, employment is just approaching its prerecession level; in a typical recovery, it would be 6% higher than it was before the downturn. Some researchers believe that the persistently weak employment numbers reflect a fundamental restructuring in the economy. They point out that almost all the layoffs in this recession were permanent; temporary layoffs, which generally increase during a recession, were unusually flat.

(continued on next page)

Business Cycles (cont.)



- a. Includes peaks in 1948:IVQ, 1953:IIQ, 1957:IIIQ, 1960:IIQ, 1969:IVQ, 1973:IVQ, 1980:IQ, 1981:IIIQ, and 1990:IIIQ.
 b. Shaded bars indicate periods of recession.
 c. Prices of West Texas intermediate crude oil, deflated by the Consumer Price Index, 2004 dollars per barrel.
 d. Includes peaks that started in 1973:IVQ, 1980:IQ, 1981:IIIQ, and 1990:IIIQ.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and *Wall Street Journal*.

Yet using the recession to explain what has been going on in the recovery may be misleading. The recession, which ended almost four years ago, is in many ways a distant memory. While the recovery has been atypical, the terminology unfortunately causes us to focus on the recession for what was, and to some extent still is, happening. But the cause of the “job-loss recovery” may be independent of what originally caused the 2001 downturn. If that is

so, what explains the labor market’s sluggishness?

Productivity growth doesn’t seem to be the answer. It has been robust, so that one would expect firms to have hired more workers. Perhaps the causes of labor’s feeble recovery are the usual ones: interest rates, oil prices, or a combination of the two. Interest rates, however, were cut as aggressively and consistently as after a typical recession. Oil, however, is a likely culprit. At the end of 2001, crude oil sold for \$20 per barrel;

a year later a barrel was going for \$30. After a short pause, oil prices continued their near-relentless climb, peaking at nearly \$50 per barrel at the close of 2004. This strongly suggests that oil has been a major cause of employment’s inability to recover from the recession. Yet high oil prices have not translated into another recession; the economy seems to be healthy otherwise. Productivity’s steady advance has allowed output to continue growing.