The National Bureau of Economic Research, a U.S. organization that dates business cycles, recently announced that the current recession (shown as a shaded area on the charts above) began in March 2001. Because the NBER waits until the data show that an economic downturn is large enough to qualify as a recession, its announcement may come some time after a downturn has begun.

Dating recessions is not an exact science, as the charts above show. For example, the fall and rise that occurred between 1983 and 1985 was not designated as a recession. The depth or severity of a decline can be measured in several ways. In a downturn, employment growth begins to drop and may become negative. All the periods labeled as recessions have negative employment growth near –0.5%. The unemployment rate is less useful for capturing the trough of a recession because it typically continues to rise after the dated recession is over.

Another measure that can be used is the diffusion index of employment. The index is based on the responses of firms in the Bureau of Labor Statistics’ Establishment Survey, which asks whether their employment is increasing, decreasing, or unchanged. A diffusion index of 50 means that the fraction of firms that are decreasing employment is the same as the fraction increasing it. A diffusion index of 40, which roughly corresponds to the troughs of recessions, says that 20% more of the firms surveyed are decreasing employment than increasing. Although it may be too early to declare that the worst of this recession is past, the diffusion index for December, which climbed above 40, brought some good news.