Redefining recession

The Economist

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What is a recession?

- Current definition: Two consecutive quarters of falling GDP
- Why no good?
  - For example, GDP in one quarter declines by 10%, then rises by 0.5% in next quarter
  - GDP estimates are subject to large revisions
- Business Cycle Dating Committee of NBER: industrial production, employment, real income, whole and retail trade
- Taiwan: 經建會
Recession

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Alternative?

- GDP per capita (population growth in the US, but not in Japan)
- Unemployment
- GDP gap (fall from potential GDP)
- However, potential GDP is difficult to measure
Unemployment—Simple solution?

- Relatively easy to estimate
- Very consistent with NBER’s dating of recession
- An old joke:
  “When your neighbor loses his job, it is an economic slowdown. When you lose your job, it is a recession. But when an economist loses his job, it becomes a depression.”