

NBER Determination of the February 2020 Peak in Economic Activity

Cambridge, June 8, 2020 -- The Business Cycle Dating Committee of the National Bureau of Economic Research maintains a chronology of the peaks and troughs of U.S. business cycles. The committee has determined that a peak in monthly economic activity occurred in the U.S. economy in February 2020. The peak marks the end of the expansion that began in June 2009 and the beginning of a recession. The expansion lasted 128 months, the longest in the history of U.S. business cycles dating back to 1854. The previous record was held by the business expansion that lasted for 120 months from March 1991 to March 2001.

The committee also determined that a peak in quarterly economic activity occurred in 2019Q4. Note that the monthly peak (February 2020) occurred in a different quarter (2020Q1) than the quarterly peak. The committee determined these peak dates in accord with its long-standing policy of identifying the months and quarters of peak activity separately, without requiring that the monthly peak lie in the same quarter as the quarterly peak. Further comments on the difference between the quarterly and monthly dates are provided below.

A recession is a significant decline in economic activity spread across the economy, normally visible in production, employment, and other indicators. A recession begins when the economy reaches a peak of economic activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion.

Because a recession is a broad contraction of the economy, not confined to one sector, the committee emphasizes economy-wide indicators of economic activity. The committee believes that domestic production and employment are the primary conceptual measures of economic activity.

The Month of the Peak

In determining the date of the monthly peak, the committee considers a number of indicators of employment and production. The committee normally views the payroll employment measure, which is based on a large survey of employers, as the most reliable comprehensive estimate of employment. This series reached a clear peak in February. The committee recognized that this survey was affected by special circumstances associated with the pandemic of early 2020. In the survey, individuals who are paid but not at work are counted as employed, even though they are not in fact working or producing. Workers on paid furlough, who became more numerous during the pandemic, thus resulted in an overcount of people working in recent months. Accordingly, the committee also considered the employment measure from the Bureau of Labor Statistics household survey, which excludes individuals who are paid but on furlough. This series plateaued from December 2019 through February 2020, and then fell steeply from February to March. Because both series measure employment during the week or pay period containing the 12th of the month, they understate the collapse of employment during the second half of March, as indicated by unprecedented levels of new claims for unemployment insurance. The committee concluded that both employment series were thus consistent with a business cycle peak in February.

The committee believes that the two most reliable comprehensive estimates of aggregate production are the quarterly estimates of real Gross Domestic Product (GDP) and of real Gross Domestic Income (GDI), both produced by the Bureau of Economic Analysis (BEA). These measures estimate production that occurred over an entire quarter and are not available monthly. The most comprehensive monthly measure of aggregate expenditures, which includes roughly 70 percent of real GDP, is monthly real personal consumption expenditures (PCE), published by the BEA. This series reached a clear peak in February 2020. The most comprehensive monthly measure of aggregate real income is real personal income less transfers, from the BEA. The deduction of transfers is necessary because transfers are included in personal income but do not arise from production. This measure also reached a well-defined peak in February 2020.

The Quarter of the Peak

In dating the quarterly peak, the committee relies on real GDP and real GDI as published by the BEA, and on quarterly averages of key monthly indicators. Quarterly real GDP and real GDI peaked in 2019Q4.

The quarterly average of employment as measured by the payroll series rose from 2019Q4 to 2020Q1. However, the committee concluded that the special factor noted above implies that the series should not play a significant role in determining the quarterly peak. The quarterly average as measured by the household survey reached a clear peak in 2019Q4. The committee concluded that like GDP and GDI, the number of people working also reached its quarterly peak in 2019Q4.

The fact that the monthly peak of February occurred in the middle of 2020Q1 while the quarterly peak occurred in 2019Q4 reflects the unusual nature of this recession. The economy contracted so sharply in March (the final month of the quarter) that in 2020Q1, GDP, GDI, and employment were significantly below their levels of 2019Q4.

Further Comments

The usual definition of a recession involves “a decline in economic activity that lasts more than a few months.” However, in deciding whether to identify a recession, the committee weighs the depth of the contraction, its duration, and whether economic activity declined broadly across the economy (the diffusion of the downturn). The committee recognizes that the pandemic and the public health response have resulted in a downturn with different characteristics and dynamics than prior recessions. Nonetheless, it concluded that the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions.

Committee members participating in the decision were: Robert Hall, Stanford University (chair); Robert Gordon, Northwestern University; James Poterba, MIT and NBER President; Valerie Ramey, University of California, San Diego; Christina Romer, University of California, Berkeley; David Romer, University of California, Berkeley; James Stock, Harvard University; Mark Watson, Princeton University.