

Where Are We in the Business Cycle?

The long-term trend of the U.S. economy is one of economic growth. However, the economy is subject to business cycles, which are alternating rises and declines in the level of economic activity. Business cycles vary substantially in duration and intensity. The business cycle has four phases:

1. **Peak:** The economy is near or at full employment, output is near to capacity, and the price level may be rising. The news is full of reports about economic growth, rising stock markets, concerns that inflation may be worsening, labor shortages, and concerns that a downturn may be coming in the future—just because times have been so good.
2. **Recession—**A recession is a period of decline in output, income, and employment. There is contraction of business activity. News reporters start to speculate on future levels of unemployment, slowdowns in business, and tough times.
3. **Trough:** At the trough, the output and employment in the economy bottom out. At this point the papers are filled with doom and gloom—frequently just as the economy turns.
4. **Expansion:** This is the period in which GDP, income, and employment rise.

THE BUSINESS CYCLE OVER THE YEARS

Peak	Trough	RECESSION No. Months	EXPANSION No. Months
April 1960(II)	February 1961 (I)	10	24
December 1969(IV)	November 1970 (IV)	11	106
November 1973(IV)	March 1975 (I)	16	36
January 1980(I)	July 1980 (III)	6	58
July 1981(III)	November 1982 (IV)	16	12
July 1990(III)	March 1991(I)	8	92
March 2001(I)	November 2001 (IV)	8	120
AVG. MONTHS RECESSION OR EXPANSION		11	64

Key Points

- Economic expansions have averaged 64 months, with an overall average 24 percent quarterly increase in real GDP.
- Recent recessions have averaged 6-9 months, with real quarterly GDP down 1.6 percent.
- Economic growth is the norm—generally in the neighborhood of 3.3 percent in real terms over the 1960-2007 timeframe. This is why economic slowdowns seem so painful. We lose 3.3 percent growth and incur a negative 1.6 percent decline.
- Changes in a wide variety of factors--such as government spending, interest rates, and consumer confidence--can change the direction of the economy—upwards or downwards.
- We appear to have been (as of 6/08) at a business cycle peak, with concern being that we might head into a recession—possibly due to oil and financial issues.