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Recession Is Over; Jobs Aren't Trickling Down

By DANIEL ALTMAN

The recession that began in March 2001 ended eight months later, the National Bureau of Economic Research, an independent group that tracks the business cycle, concluded in a report released yesterday.

Cheers, if any, were faint.

Economists said the announcement was not a surprise, and politicians said it offered little comfort to the millions of Americans without jobs.

"We've declared victory over the recession, and we're still laying off a couple hundred thousand workers a month," said Representative Pete Stark of California, ranking Democrat on the Joint Economic Committee. "If it weren't so painful for so many people who are out of work, it would be hilarious. But it isn't. It's not funny."

Still, Representative Jim Saxton, Republican of New Jersey and vice chairman of the committee, in a statement called the economic research bureau's decision "a reasonable one."

The recession preceding the recent one lasted from July 1990 to March 1991 in the bureau's chronology. A year after it ended, the nation's economy embarked on six consecutive months of job growth. This time, 20 months after the recession's formal end, payrolls are still shrinking.

"Most households, most individuals, will really not believe that it is a recovery until we see that job growth as part of the picture," said Lynn Reaser, chief economist at Banc of America Capital Management. But she added, "The official declaration of the end should help confidence on the part of businesses, investors and consumers."

The decision to date the recession's end in November 2001 was made by a committee of seven academic economists after a meeting in Cambridge, Mass., on Wednesday. It was also in November 2001 that the committee declared the recession to have begun eight months earlier. The announcements are typically made long after the business cycle turns up or down, to avoid mislabeling a short-term change as a definite high or low in the size of the economy.

"In retrospect, we could just as easily have made the call a few months ago," said Jeffrey A. Frankel, a professor at Harvard who is a member of the committee.

The 2001 recession is considered short and shallow relative to the nine others since World War II, which averaged 11 months.

In its report, the committee cited the real gross domestic product — the value of all goods and services in the economy, adjusted for changes in prices — as the primary indicator of a recovery.

Jobs have not followed growth, the committee wrote, because of increases in workers' productivity. In fact, Ms. Reaser said, the unemployment rate is unlikely to fall until the economy expands at an annual rate of 3.5 percent or 4 percent, the sort of pace attained in only two quarters since the recovery supposedly began.

With productivity growing at more than 2 percent a year, and the labor force growing about 1 percent a year, she said, the "hurdle rate" of growth for increasing the share of Americans with jobs cannot be less than 3 percent.

Recessions have often been followed by strong recoveries as pent-up demand, especially for manufactured goods, helped to engender a sort of economic slingshot effect. But in an economy where two-thirds of activity is in services, the usual boost has not been forthcoming.

James E. Glassman, a senior United States economist at J. P. Morgan Chase, said the economy had been largely stagnant because of a series of shocks, including the bursting of the stock market bubble.

"It would take extraordinary bad luck — new shocks — to shift us back into recession," Mr. Glassman said. In the committee's announcement, he said, "the subtle message is, `Get over it; the direction has changed.' "

Professor Frankel insisted, though, that the committee had not made any judgment about the likelihood of a new recession. "This has no bearing whatsoever on the current economic outlook, on the odds of a new downturn," he said.

Some economists remain skeptical of the economy's ability to grow at a strong pace. They think that its tepid performance stems not just from shocks but also from structural factors, like the vast amounts of debt carried by consumers and businesses. If the savings rate increases to help cover those debts, both groups will offer less support to the economy in the near term.

"I still think the private sector's desire to strengthen balance sheets and return to a more normal level of saving is a significant headwind for the economy," said Bill Martin, chief economist of UBS Global Asset Management. "For the economy to grow at a satisfactory rate, given current policies, it would be necessary for the still-low rate of saving to fall over time."

But Mr. Glassman argued that lower costs of debt service, a result of the very low interest rates, were a mitigating factor and an important consideration.

Though he agreed with Ms. Reaser that the research bureau's report might give confidence in the economy a small lift, he also said that the disjunction between jobs and growth could reduce the report's relevance in the public consciousness.

"Most politicians don't actually care about the definitions," Mr. Glassman said. "They care about what people think. In a sense, this isn't going to convince anybody or give them much comfort."

Mixed Data in 2 Reports

WASHINGTON, July 17 (Reuters) — The Commerce Department reported today that starts of new housing in June were at the fastest pace since January. A separate report said initial claims for jobless benefits fell, but were still at high levels.

Housing starts rose 3.7 percent in June, to a seasonally adjusted annual pace of 1.803 million. This was the strongest since 1.828 million in January.

"The insistently strong spot in the economy remains bright," said Mark Zandi, the chief economist at Economy.com. "There's no weakening there. People are still buying homes and developers building them."

But the jobless claims report underscored the lackluster nature of the economy and the national unemployment rate of 6.4 percent.

The Labor Department said new claims fell more than had been expected, to 412,000 in the week ended July 12 from a revised 441,000 the week before. Yet, the report represented the 22nd consecutive week that benefits claims have been above the 400,000 level.