Extra Feature Story

U.S. Economy Officially in a Recession

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After months of job losses, tumbling markets and low retail and home sales, the research organization with the authority to declare a recession made it official on December 1: the U.S. economy is in a recession.

The National Bureau of Economic Research (NBER), a group of top economists, said the recession itself began in December of 2007.

While it is no surprise to the many Americans dealing with job loss and money problems, it usually takes time to officially declare a recession because economists need to review several months' worth of final readings of data and economic measures.

Measuring a recession

The term recession is defined differently by different people. Some say a recession is marked by at least two consecutive quarters of declining economic activity. That has not happened yet in the recent downturn, but the research group evaluated a variety of economic conditions before agreeing to declare the recession.

The slide in the labor market throughout 2008 was one key reason the group decided on a start date of late 2007. About 1.2 million jobs were eliminated in the United States between January and October of 2008.

Other factors that were considered included falling salaries, store sales, as well as GDP, or gross domestic product.

Gross domestic product, the total dollar value of all goods and services produced during a certain period of time, is a key measure of the economy's health.

There have been 10 recessions since the end of the Great Depression. The current slump is shaping up to be like the 1973-75 and 1981-82 recessions, which both lasted for 16 months.

“I think that we've got a ways to go, that this is going to be probably a deep and long recession,” Jeffrey Frankel, a Harvard University economist who sits on the NBER's committee, told CNBC. “It could be the worst post-War recession. We don't know yet.”

The Great Depression

The most well-known economic downturn was the Great Depression of the 1930s. A depression is commonly thought of as a more severe version of a recession. It is also a more prolonged economic downturn during which the GDP declines more than 10 percentage points.

The Great Depression started on October 29, 1929, when the stock market crashed and the ensuing economic downturn lasted into the early 1940s.

During the Great Depression, more than 15 million Americans lost their jobs-- a quarter of the work force at the time.

The New Deal

When Franklin Delano Roosevelt was elected president in 1932, he brought new hope with a series of "New Deal" initiatives.

His first act as president was to declare a four day banking holiday and have the Congress draft a bill that would give government backing to banks and restore confidence in the system.

Back then, if a bank failed, you lost your money. Now, the government guarantees up to $250,000.

Roosevelt created jobs through programs like the Works Progress Administration, which employed 8.5 million people to build infrastructure such as roads, bridges and airports.

He also created the Civil Conservation Corps, which sent men to work for a monthly stipend in the national forests.

The programs did not end the recession, but they provided some relief for families, and changed the relationship between U.S. citizens and their government.

What really pulled the country out of the depression was World War II, which began in 1939.

The U.S. government ramped up production of military equipment, which grew industry and cut unemployment. By the time the country entered the war in 1941, there was a shortage of workers.

Economists are currently debating what lessons should be applied from the New Deal to President-elect Barack Obama's approach to the economic crisis, including a possible infrastructure building project to create jobs.

Looking for the bottom

As Obama's team creates programs to help struggling Americans, economists are busy debating how we will know when the economy has hit the bottom.

A good place to look is the so-called "leading indicators" which include: manufacturers' new orders for consumer goods, building permits, initial claims for unemployment insurance, average weekly manufacturing hours and, of course, the stock market.

But since the current recession is rooted in the housing crisis, most economists agree that housing prices will have to stop dropping before the market and the economy can recover.

-- Compiled by Talea Miller for NewsHour Extra