

Predicting the Next Recession

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If picked a month at random over 1948:1 to 2018:11, what is probability U.S. will be in recession sometime within the next year or 2 years?

	1 year	2 years
Random month	30%	43%

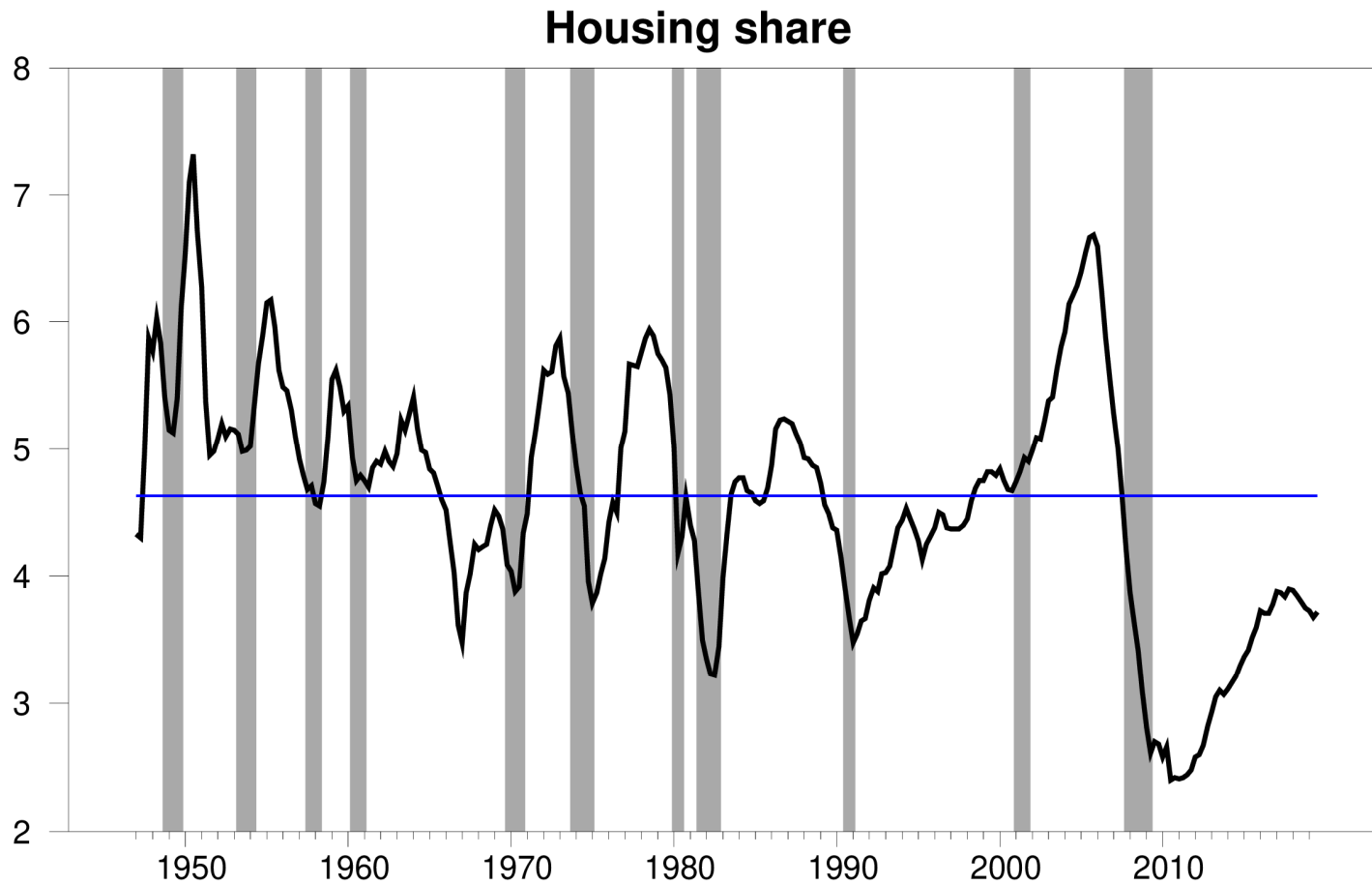
If picked a random month over 1948:1 to 2018:11 conditional on being at least 2 years into an expansion, what is prob will be in recession sometime within the next year or 2 years?

	1 year	2 years
Random month	30%	43%
Have been in expansion for more than 2 years	22%	23%

If picked a month at random over 1948:1 to 2018:11 conditional being at various stages of expansion, what is prob will be in recession sometime within the next year or 2 years?

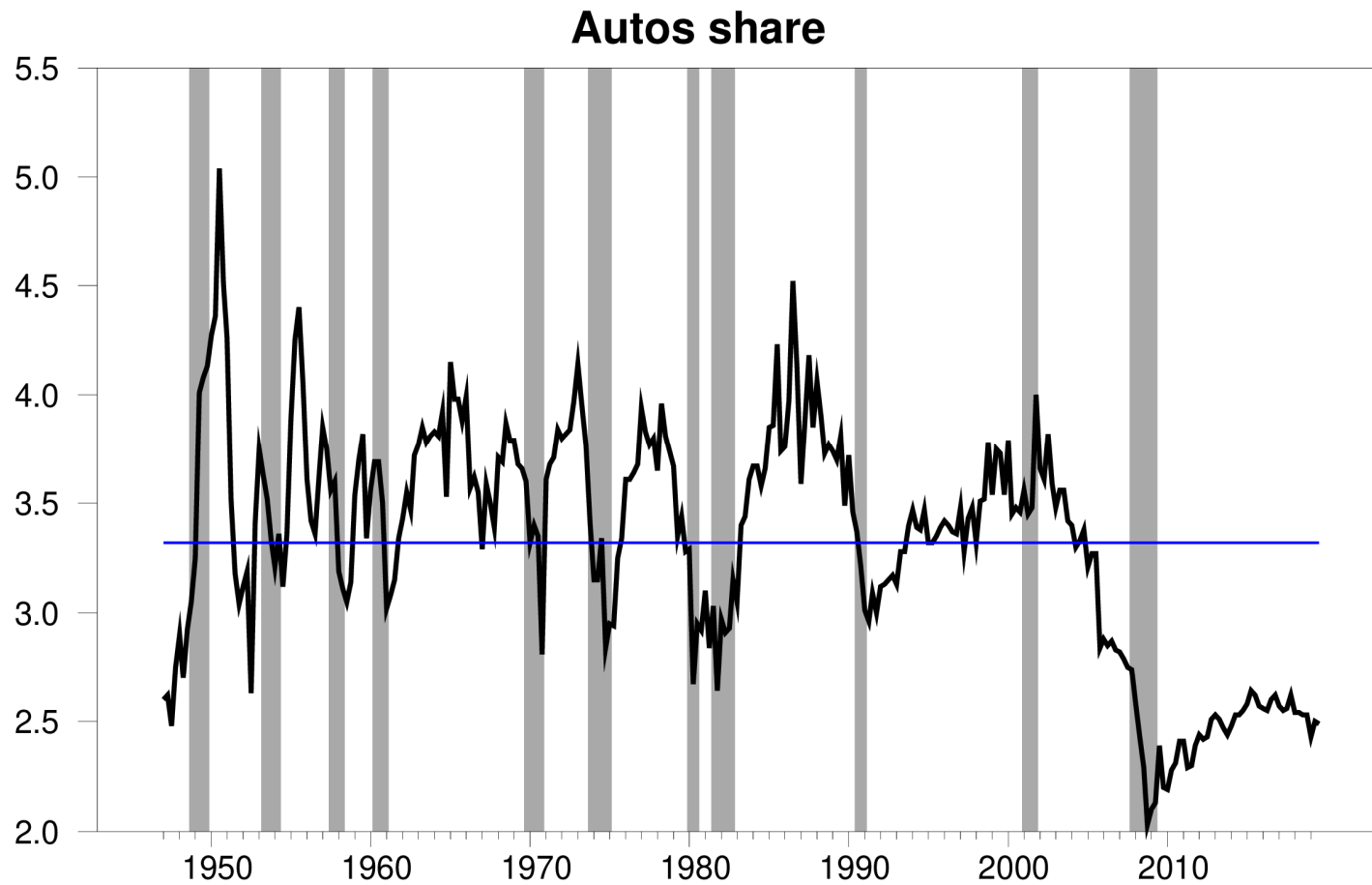
	1 year	2 years
Random month	30%	43%
Have been in expansion for more than 2 years	22%	23%
In expansion for more than 4 years	21%	22%
In expansion for more than 6 years	26%	28%

We haven't seen a housing boom in this expansion



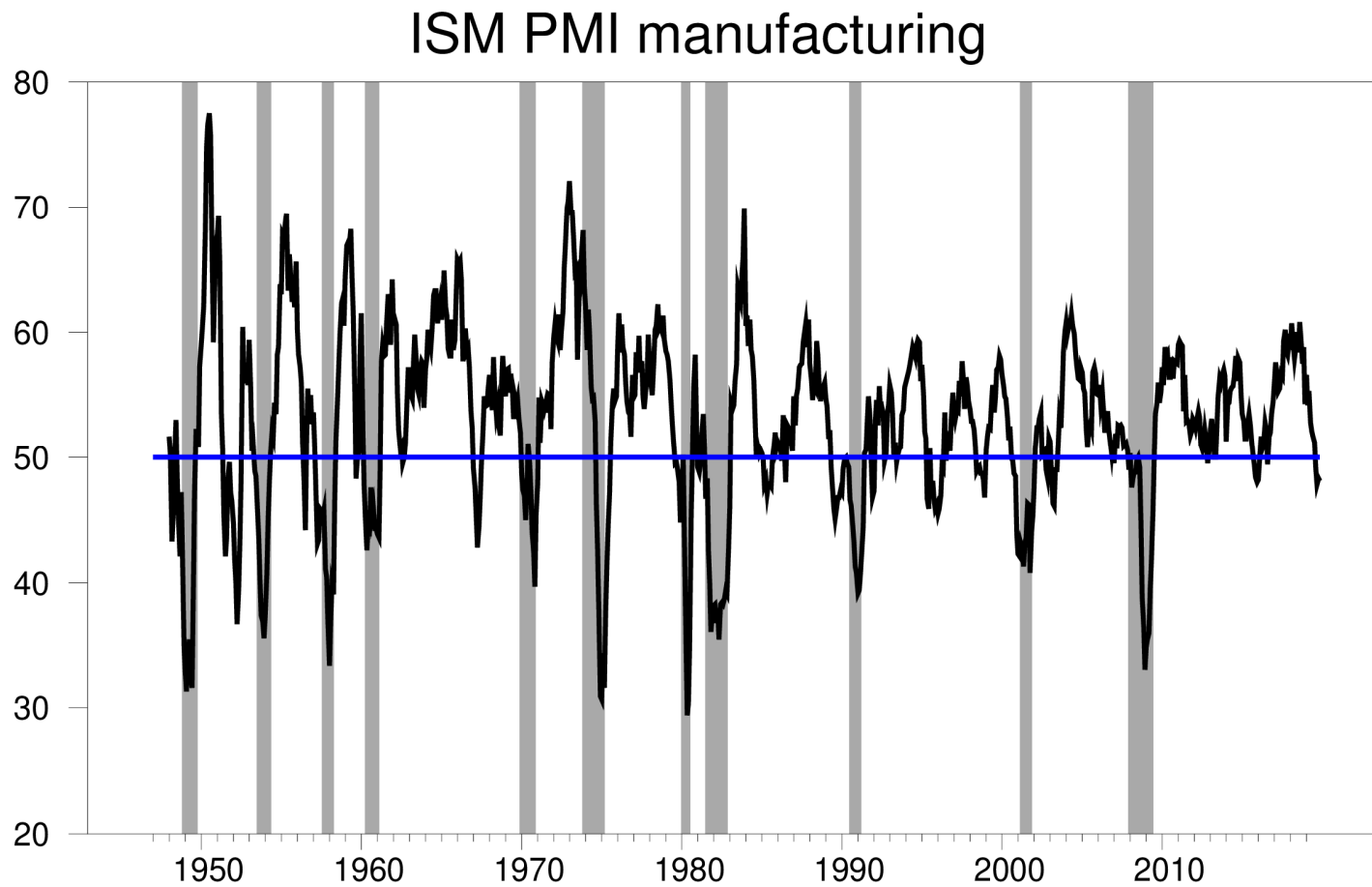
Residential fixed investment as a percent of GDP

Nor was there a boom in autos



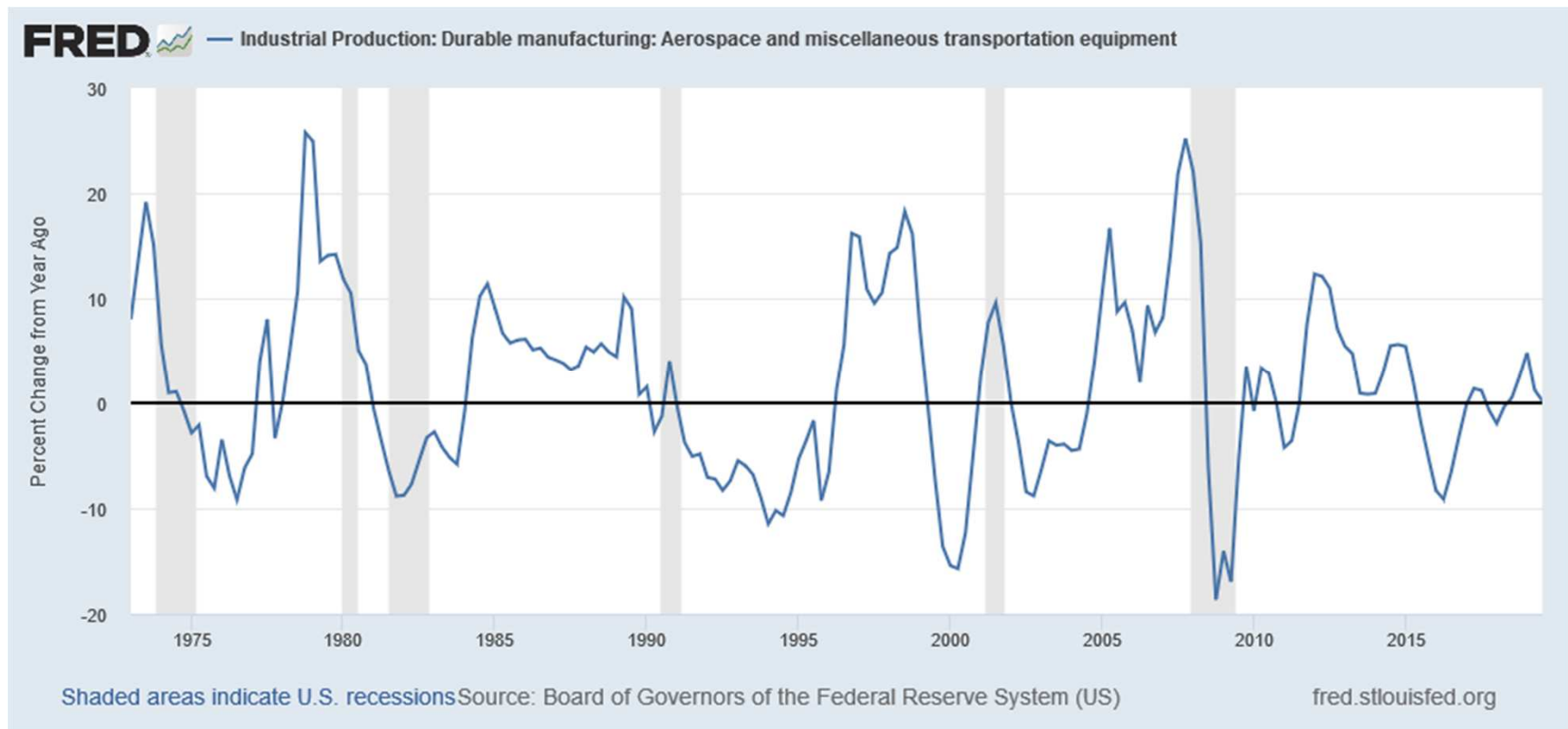
Sales of motor vehicles and parts as a percent of GDP

Potential shocks: (1) Trade war has taken a toll on U.S. manufacturing



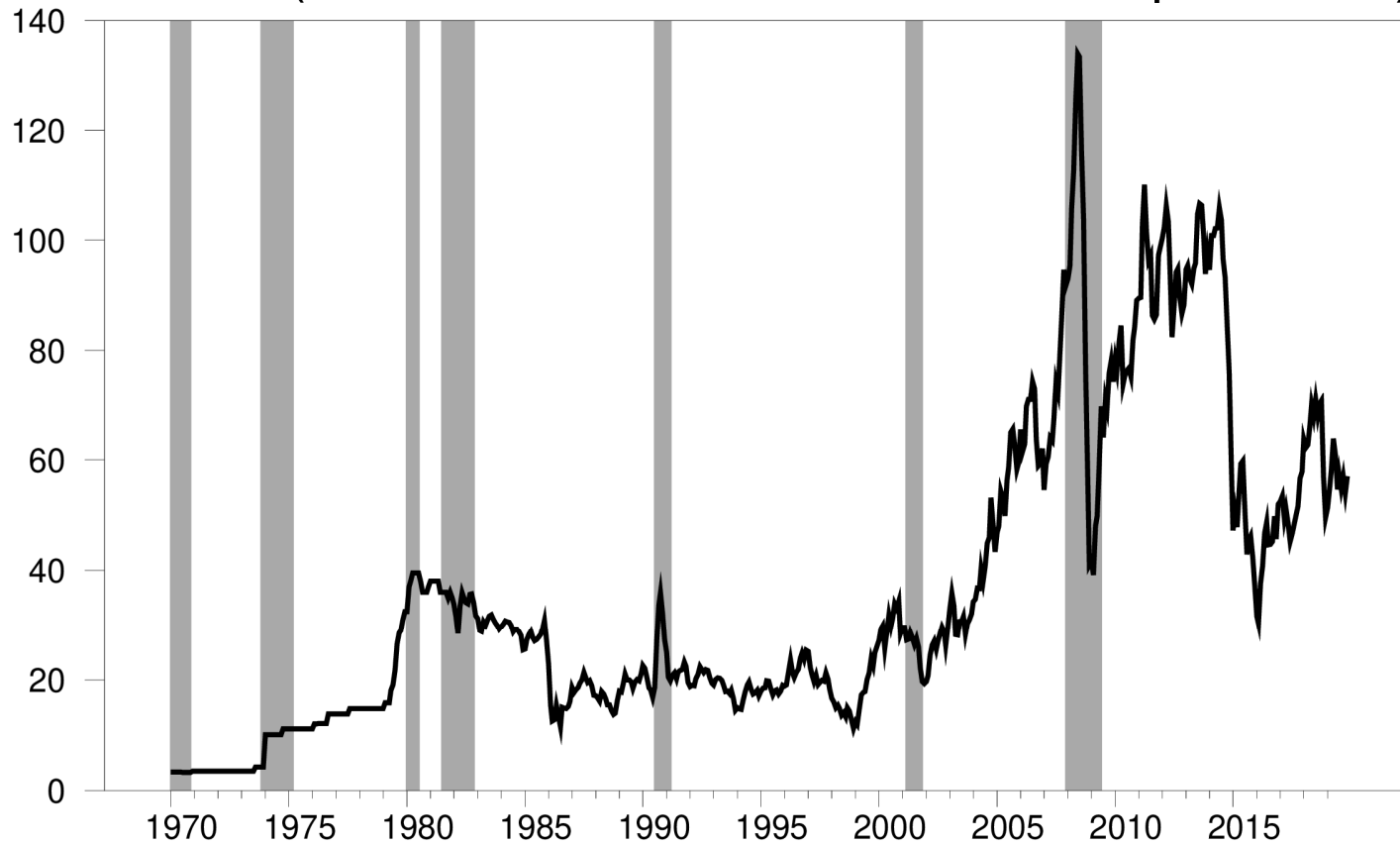
A value less than 50 means contraction

Potential shocks: (2) Boeing's 737 Max

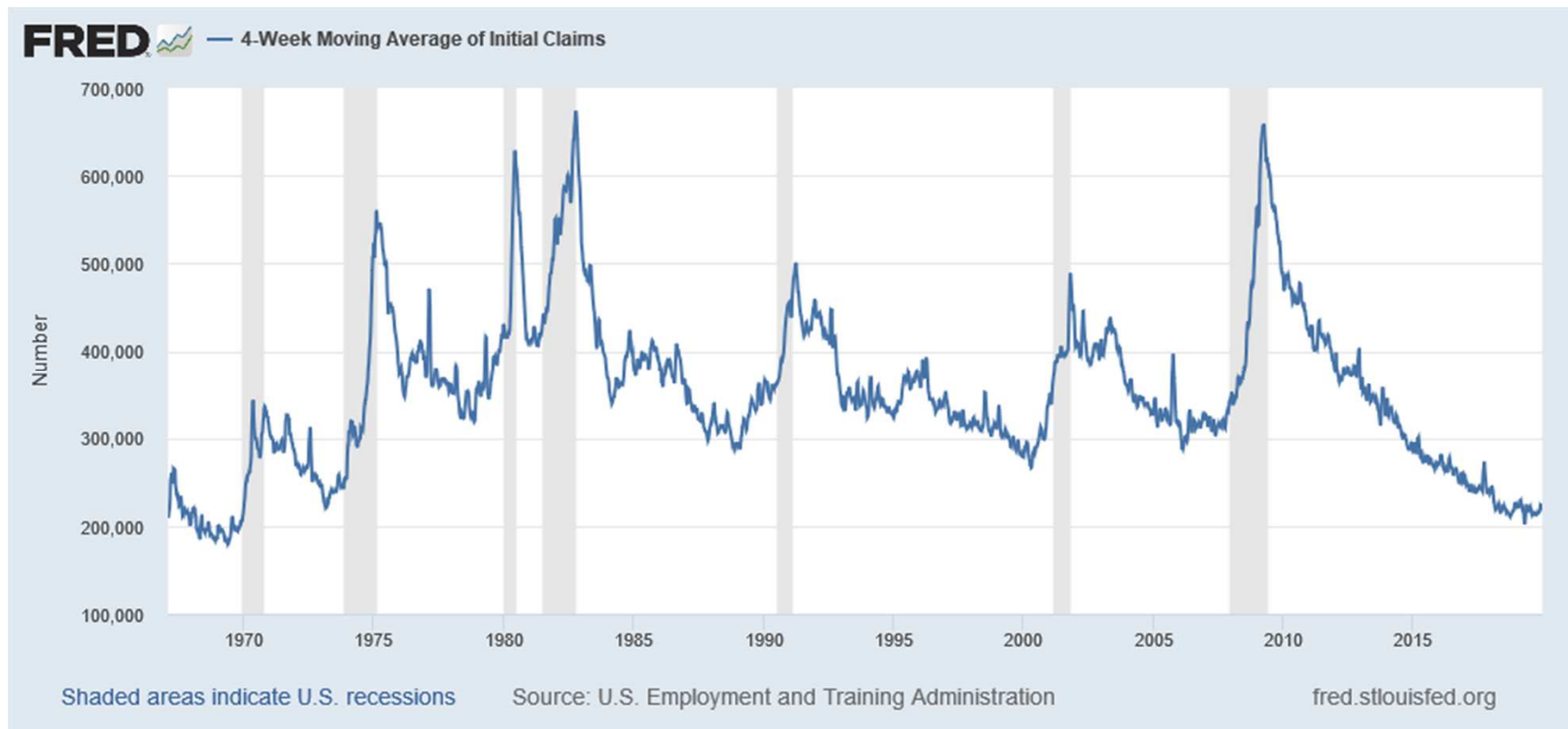


Potential shocks: (3) Oil prices – the dog that didn't bark

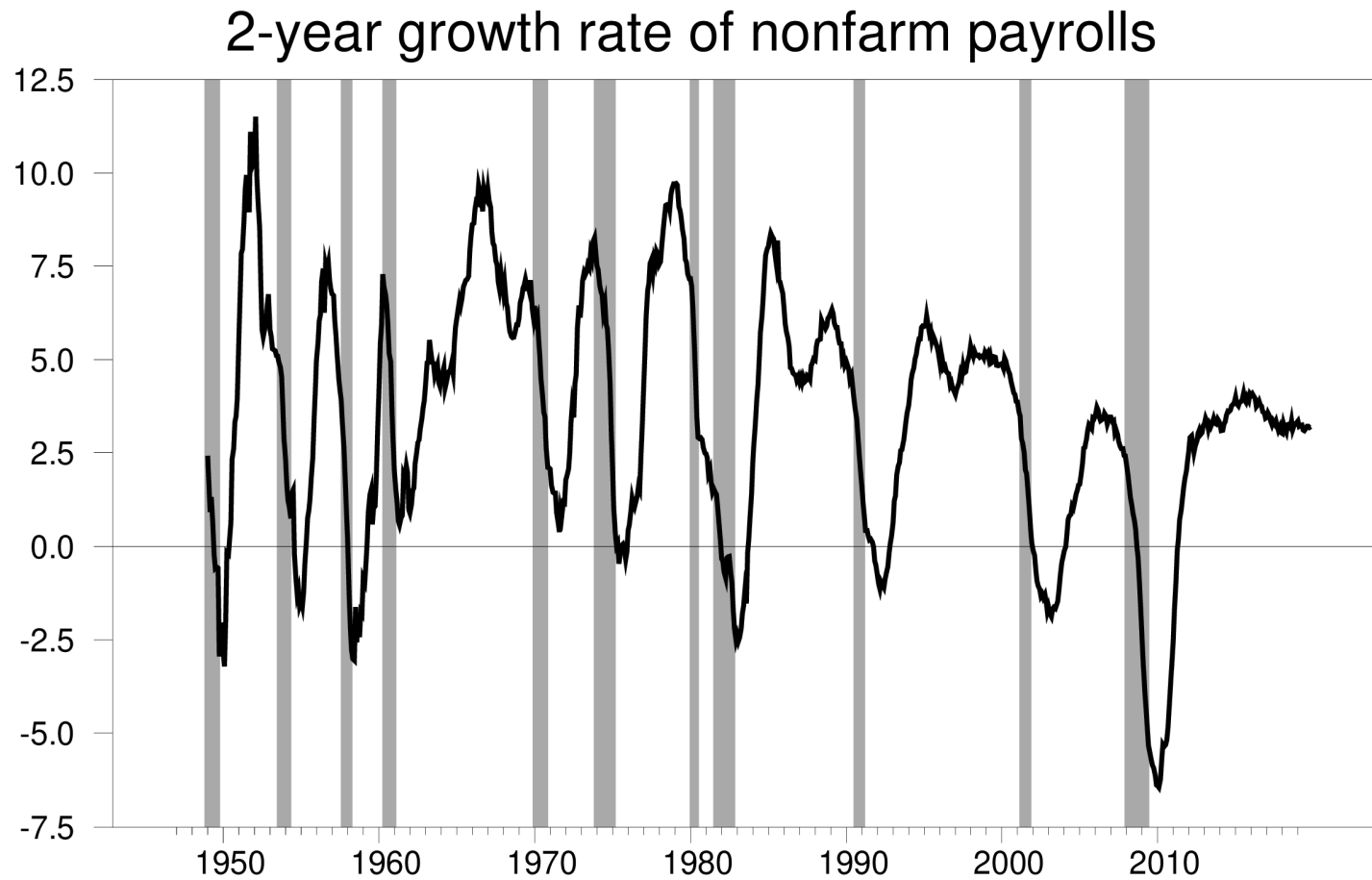
Price of oil (West Texas Intermediate, dollars per barrel)



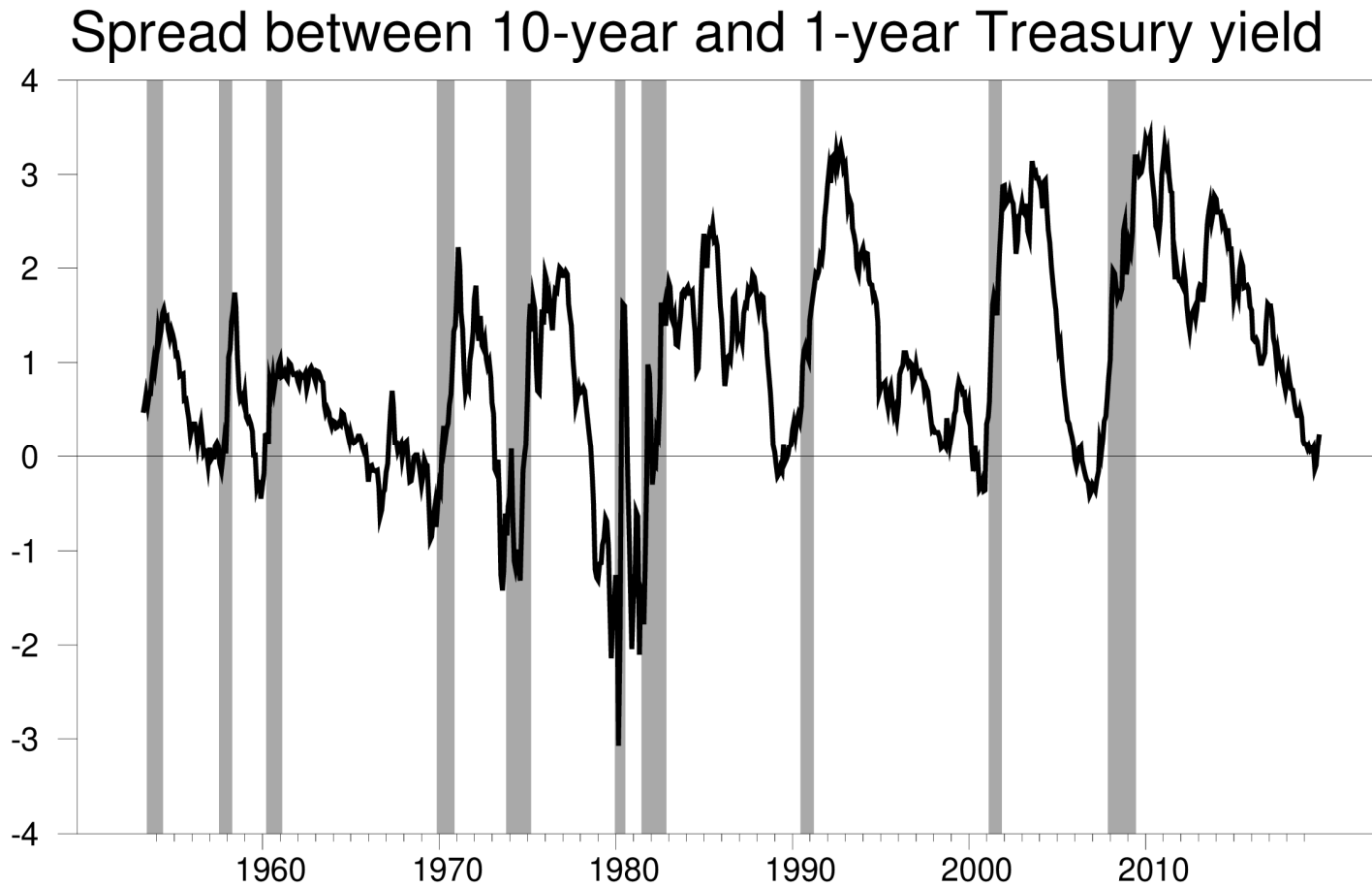
Leading indicators: (1) Initial claims for unemployment insurance



Leading indicators: (2) Jobs still show momentum

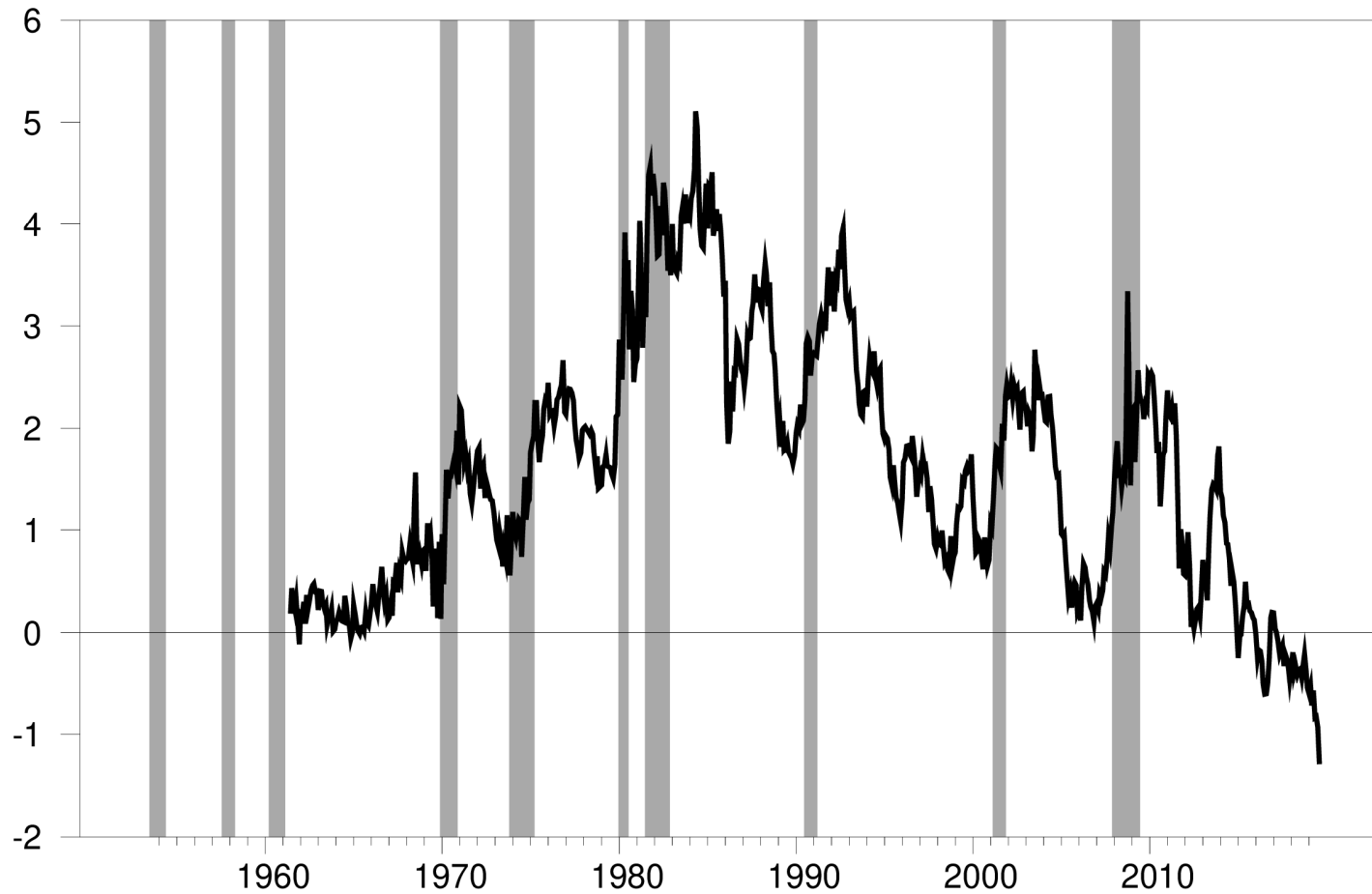


Leading indicators: (3) Inverted yield curve is a concern



Negative in Sept, now back to positive

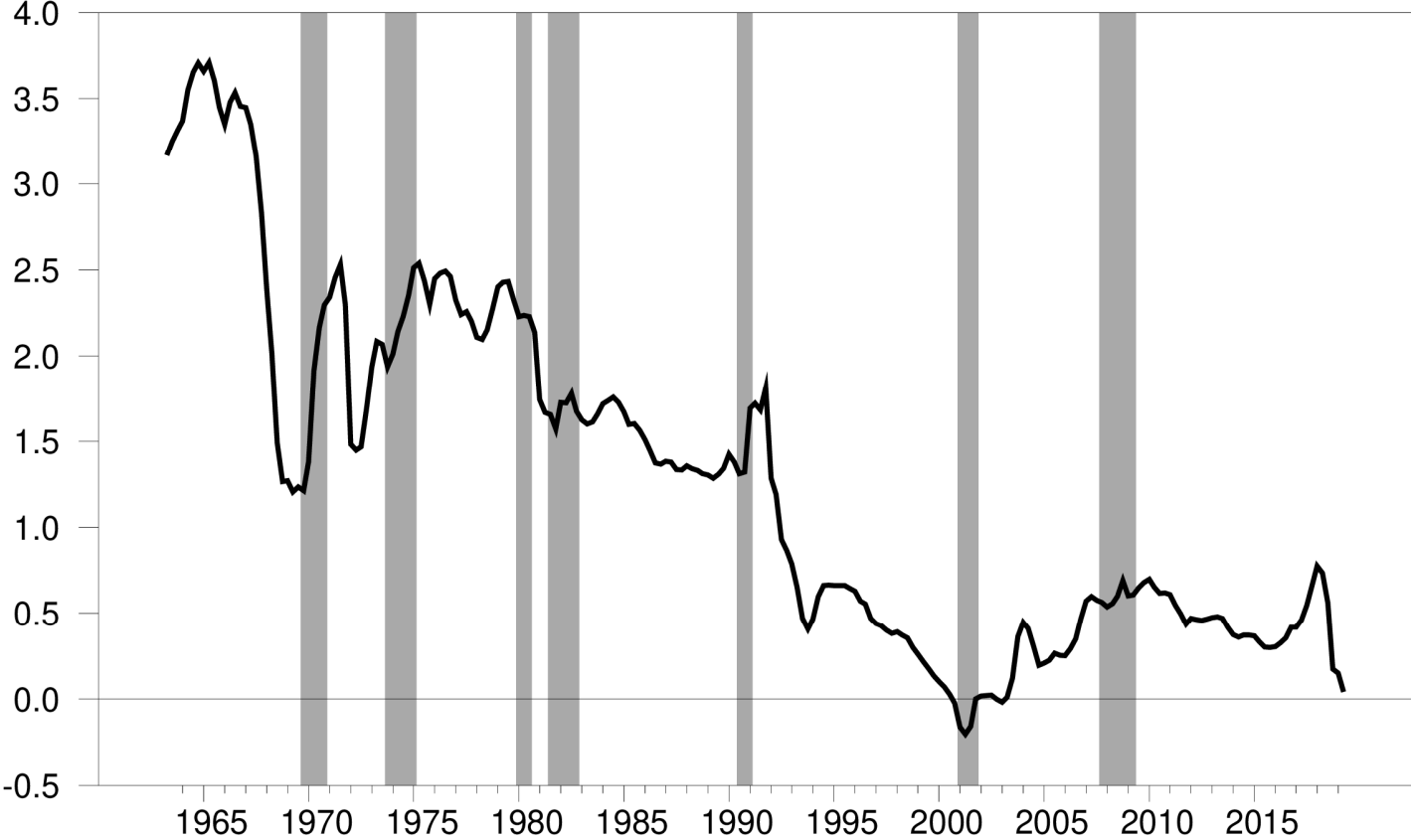
But if term premium has turned negative, an inverted yield curve could be the new normal



Adrian, Crump and Moench (FRB NY) estimate of term premium on 10-year Treasury

And the ability of the term spread to forecast GDP growth 12 months ahead has been steadily declining

Coefficient on spread



Coefficient on spread for 10-year sample ending at indicated date

Conclusions

- Recessions happen fairly frequently
 - But not on a regular schedule
- There are some reasons for more than usual concern right now
 - Trade war and manufacturing
 - Long-term bond yields
- But these are not enough to overturn the naïve forecast
 - More likely than not, no recession in 2020