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?

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<td>30%</td>
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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?

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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?

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<td>In expansion for more than 6 years</td>
<td>26%</td>
<td>28%</td>
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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

ISM PMI 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
Leading indicators: (1) Initial claims for unemployment insurance
Leading indicators: (2) Jobs still show momentum

2-year growth rate of nonfarm payrolls
Leading indicators: (3) Inverted yield curve is a concern

Spread between 10-year and 1-year Treasury yield

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 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