The Facts Say No

By MARCELLE CHAUVET and KEVIN HASSELT

EVER since the pioneering work “Measuring Business Cycles” by Wesley Mitchell and Arthur Burns was published in 1946, the question of whether the United States economy is in a recession has been answered with opinions.

But as James Hamilton, an economist at the University of California, San Diego, has demonstrated, simple statistical models exist that can take economic data and deliver an indication of the current state of the economy. These models do not render an opinion but rather provide a factual answer to the question.

An extension of Mr. Hamilton’s model developed by one of us (Ms. Chauvet) relies on several monthly indicators and outputs to deliver a probability that the economy is in a recession in a given month. The model’s prediction is analogous to a weather forecast. If it says that the chances of rain are 80 percent, then you pack an umbrella. If the model says the probability of recession is 80 percent, then you ready your policy action.

If an economist had relied on this model over the past 60 years and declared that we were in a recession if the probability of one was greater than 50 percent for two months in a row, that economist would have correctly called every postwar recession without ever giving a false signal.
The National Bureau of Economic Research’s recession dates agree with those made by the model. But the model estimates probabilities in real time as the data arrive. The bureau has made pronouncements that the economy entered a recession even after the recession was already over.

According to the model, the probability that the American economy was in a recession in October, the last month for which we have data, was only 16.5 percent. This is high enough to make us nervous about the future, but it is low enough that we can be fairly sure that if a recession is going to be visible in the data, it did not begin until November at the earliest.

Given the many uncertainties surrounding the implosion of the housing sector, it is certainly possible that the economy is headed for dark times. Economists will inevitably have differing opinions about that. But as to the factual question of whether we are in a recession given the data in hand, the unambiguous answer is no.

— Marcelle Chauvet, a professor of economics at the University of California, Riverside, and Kevin Hassett, the director of economic policy studies at the American Enterprise Institute. They are the co-authors, with James Hamilton, of the forthcoming “Calling the Business Cycle.”