

# Recession 2020?

Tara M. Sinclair  @TaraSinc

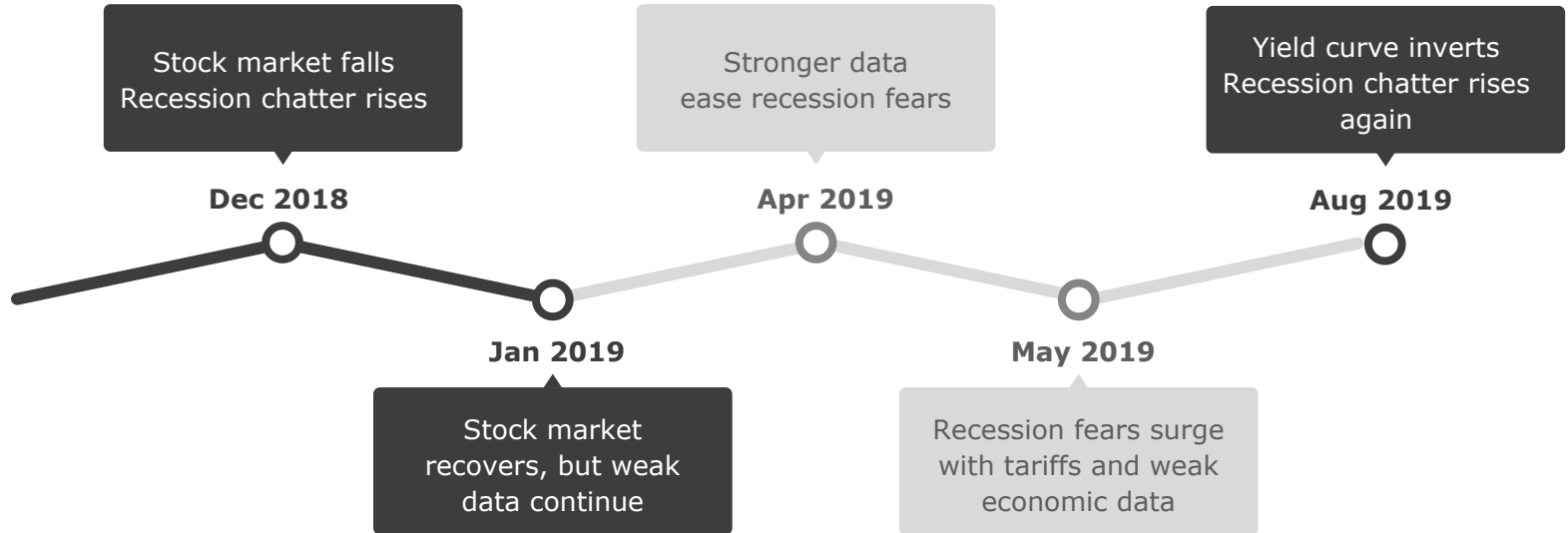
The George Washington University  
Research Program on Forecasting

Society for Government

October 7, 2019

Washington, DC

# Recession rollercoaster



# 3 Questions

1. Are we in a recession now?

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2. When is the next recession coming?

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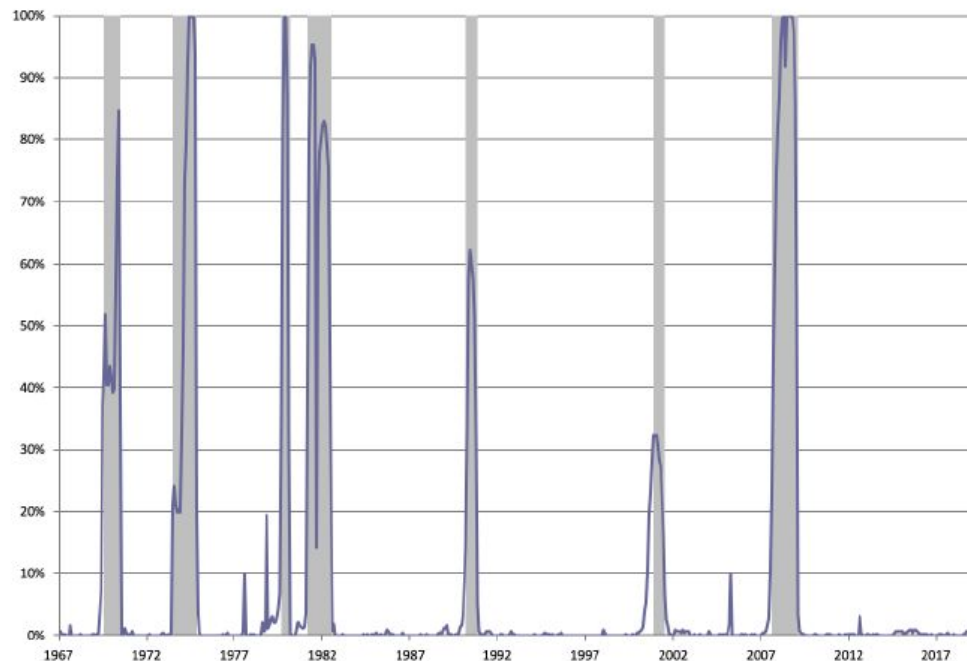
1. Are we in a recession now?
2. When is the next recession coming?
3. What will the next recession look like?

First: Some Good News

# We're not in a recession now



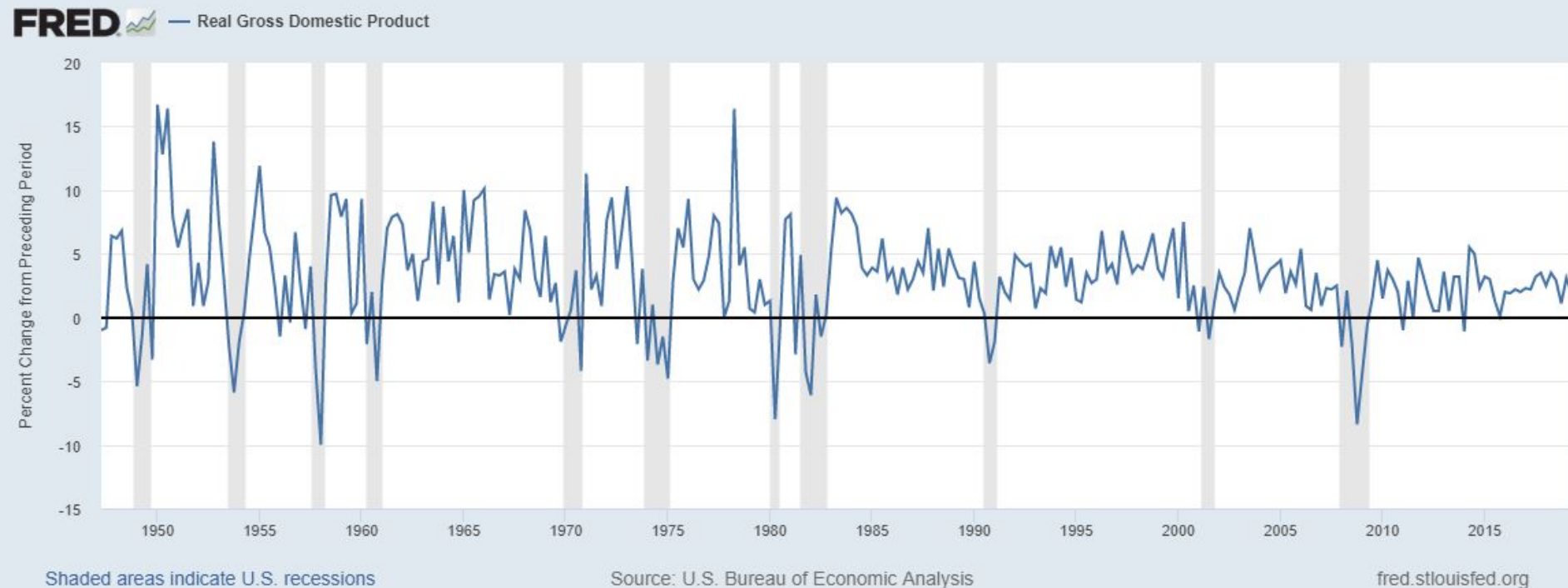
## Historical U.S. Recession Probabilities June 1967 – August 2019



Notes: These probabilities were generated using monthly data on non-farm payroll employment, industrial production, real personal income excluding transfer payments, and real manufacturing and trade sales. All data was obtained on September 27, 2019. Shaded areas indicate NBER recession dating.



# Slowdown $\neq$ Downturn



But, where are we going?

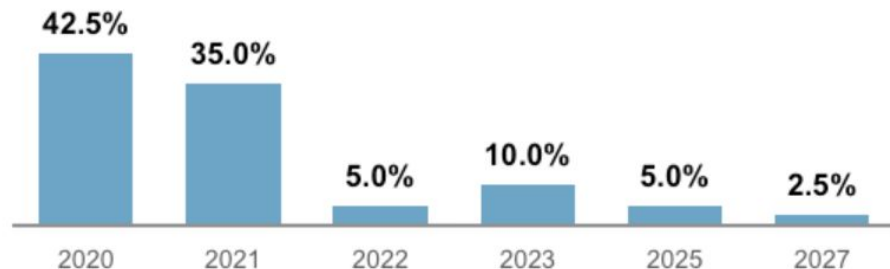
# September 2019 WSJ Survey

## Economic Forecasting Survey

The Wall Street Journal surveys a group of more than 60 economists on more than 10 major economic indicators on a monthly basis.

### Q&A: Recession Forecasting

When do you expect the next recession to start?



# Third Quarter 2019 Survey of Professional Forecasters

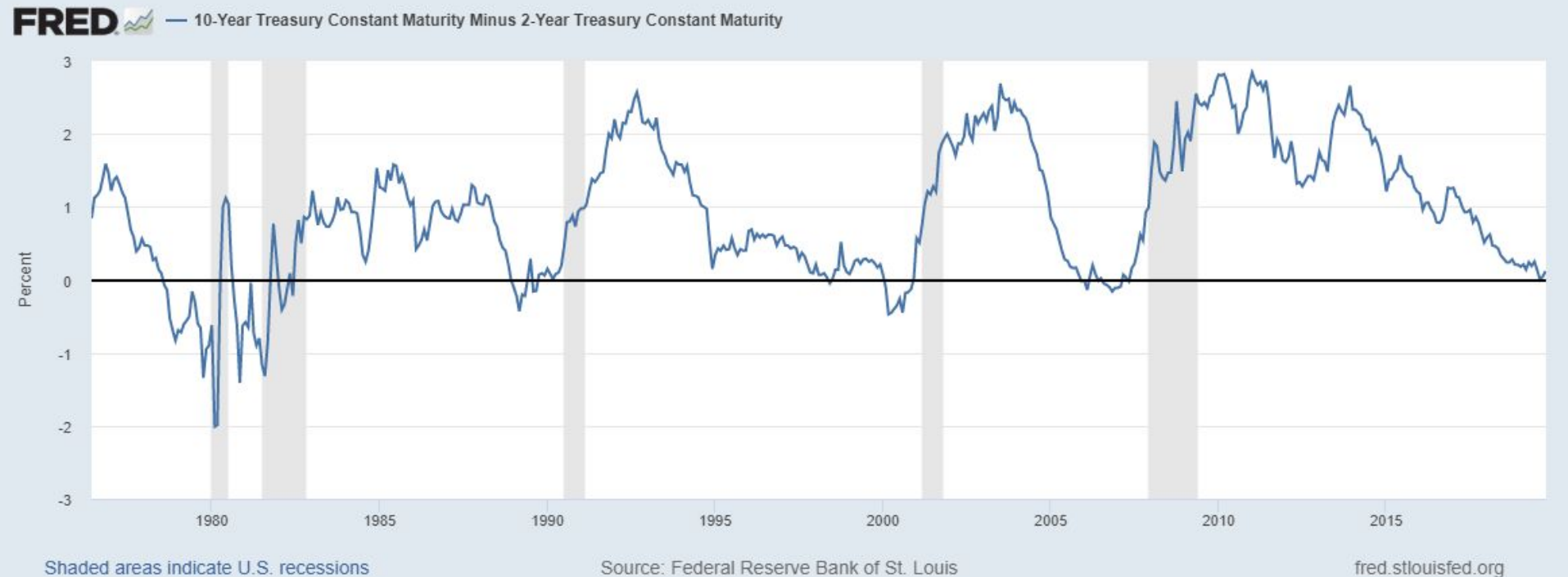
Release Date: August 9, 2019

## Forecasters See Lower Risk of a Negative Quarter

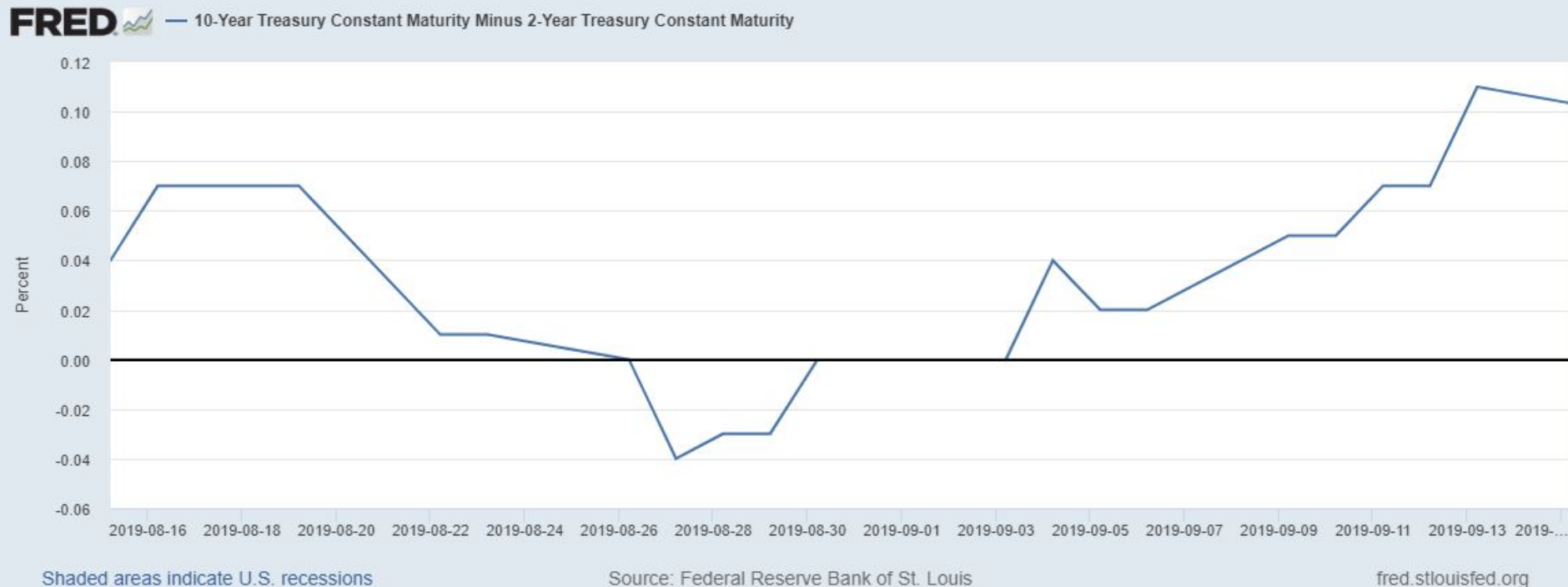
The forecasters have revised downward the chance of a contraction in real GDP in any of the next four quarters. For the current quarter, the forecasters predict an 11.7 percent chance of negative growth, down from 13.1 percent in the survey of three months ago.

Risk of a Negative Quarter (%) Survey Means		
Quarterly data:	Previous	New
2019:Q3	13.1	11.7
2019:Q4	15.8	14.2
2020:Q1	19.4	17.6
2020:Q2	22.8	21.5
2020:Q3	N.A.	26.1

# Yield curve inverted $\Rightarrow$ recession coming?



# Risky to say, but maybe this time is different?



**Latest Tax Cuts: Don't Expect Fast Growth**  
Thomas L. Hungerford

**Restoring Productivity Growth in the UK**  
Philip Arestis and Patricia Parado

**The inevitability of a universal basic income**  
Oran M. Levin-Waldman

**On Elizabeth Anderson: Rethinking Libertarianism**  
David Estephan

**Pronounced Wealth Inequality Among Asian Americans**

Christian E. Wilson and Jeffrey R. Thompson

**On Paul Baran and Paul M. Sweezy: Why Stagnation?**  
Michael Margolis

**Steven Pinker and the New Enlightenment**  
Mike Sharpe

Original Article

## The Failure of Forecasts in the Great Recession

Daniel S. Culbertson & Tara M. Sinclair

Pages 34-45 | Published online: 05 Dec 2014

### Abstract

Macroeconomic forecasts are used to make decisions by everyone from business leaders to government policymakers. But the forecasts they rely on are most flawed just when they are most needed. The authors present an analysis of the accuracy of forecasts, focusing specifically on the latest recession in the United States. It is fair to conclude that economists completely failed to anticipate the fall in GDP and employment.

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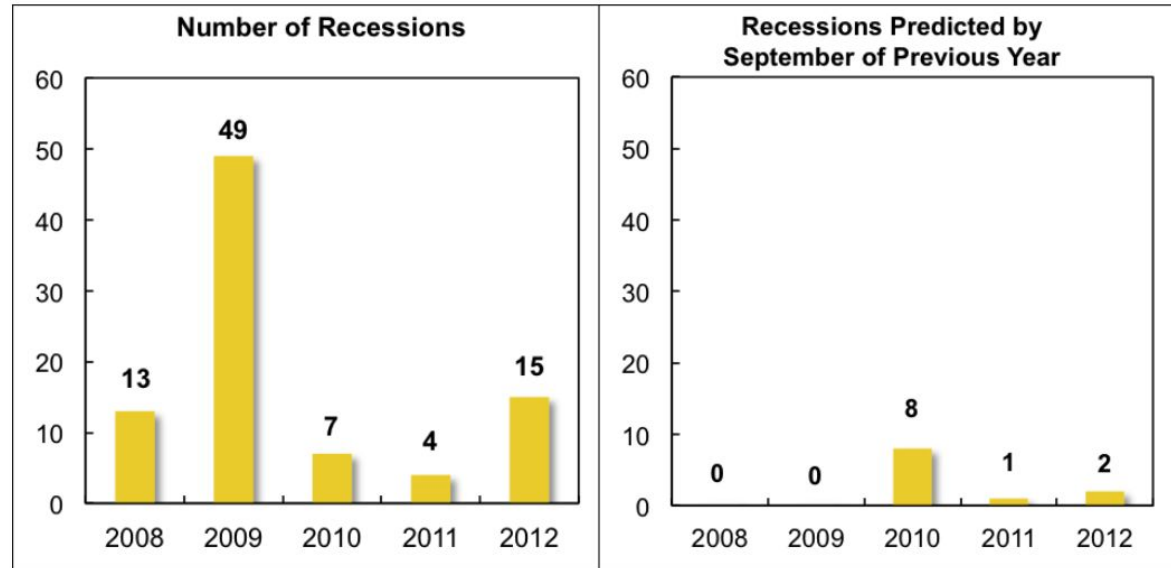
Is this just a US story?



# Is this just a US story? - Hardly.

[Ahir and Loungani \(2014\)](#) **NONE** of the 62 recessions in 2008–09 was predicted by September of the previous year by the consensus of professional forecasters.

**Figure 1.** Number of recessions predicted by September of the previous year



# The best forecaster of the US economy



Economics Letters

Volume 108, Issue 1, July 2010, Pages 28-32



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## Can the Fed predict the state of the economy?

Tara M. Sinclair  , Fred Joutz, H.O. Stekler

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<https://doi.org/10.1016/j.econlet.2010.04.010>

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### Abstract

We show that systematic forecast errors reveal that the Fed is “surprised” by real and inflationary cycles. The Fed knows the state of the economy for the current quarter, but cannot predict it one-quarter ahead.

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Economists put decimal points  
in their forecasts to show  
they have a sense of humor.

- William Gilmore Simms

What will next recession look like?

# Expansions don't die of old age...

December 16, 2015

Chair Yellen's Press Conference

FINAL

## **Transcript of Chair Yellen's Press Conference December 16, 2015**

the underlying health of the U.S. economy I consider to be quite sound. I think it's a myth that expansions die of old age. I do not think that they die of old age. So the fact that this has been quite a long expansion doesn't lead me to believe that it's one that has—its days are numbered.

# ...but they do die

The New York Times

Opinion

# A Smorgasbord Recession? (Wonkish)

The next slump may have multiple causes.



By **Paul Krugman**

Opinion Columnist

Sept. 19, 2018

# *How the Recession of 2020 Could Happen*

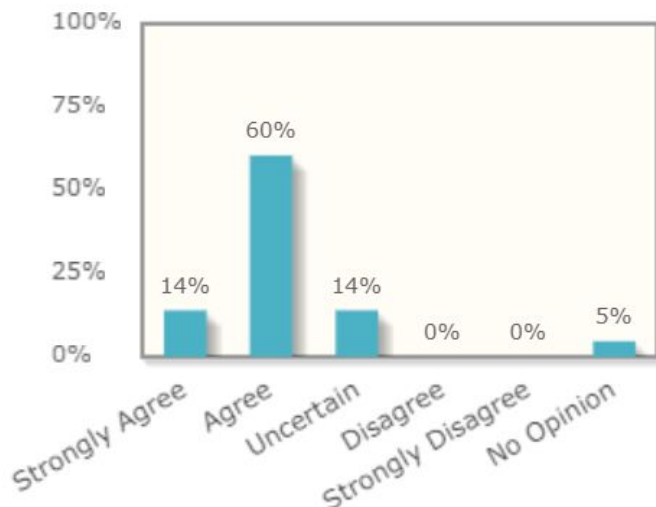
The freeze-up in business confidence, caused in part by the trade war, could wind up affecting consumer confidence.

“It is potentially a self-inflicted-wound type of recession,” said Tara Sinclair, an economist who studies business cycles at George Washington University. “But how deep that gash goes depends on many other characteristics of the economy and the policy response thereafter.”

## China-US Trade War

**Question A: The incidence of the latest round of US import tariffs is likely to fall primarily on American households.**

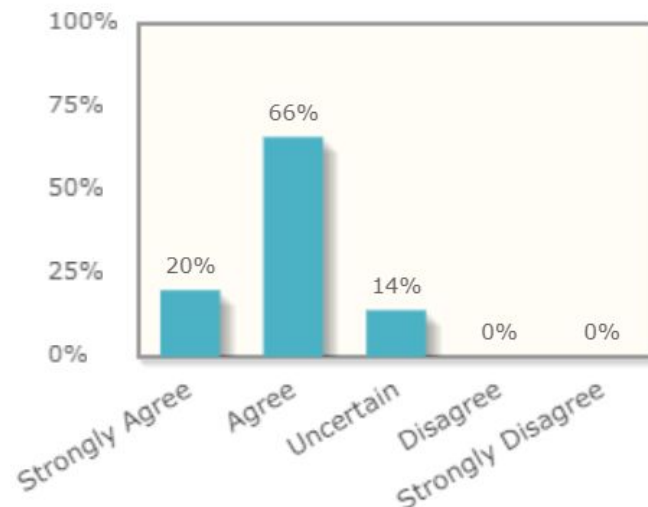
### Responses



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Source: IGM Economic Experts Panel  
[www.igmchicago.org/igm-economic-experts-panel](http://www.igmchicago.org/igm-economic-experts-panel)

### Responses weighted by each expert's confidence



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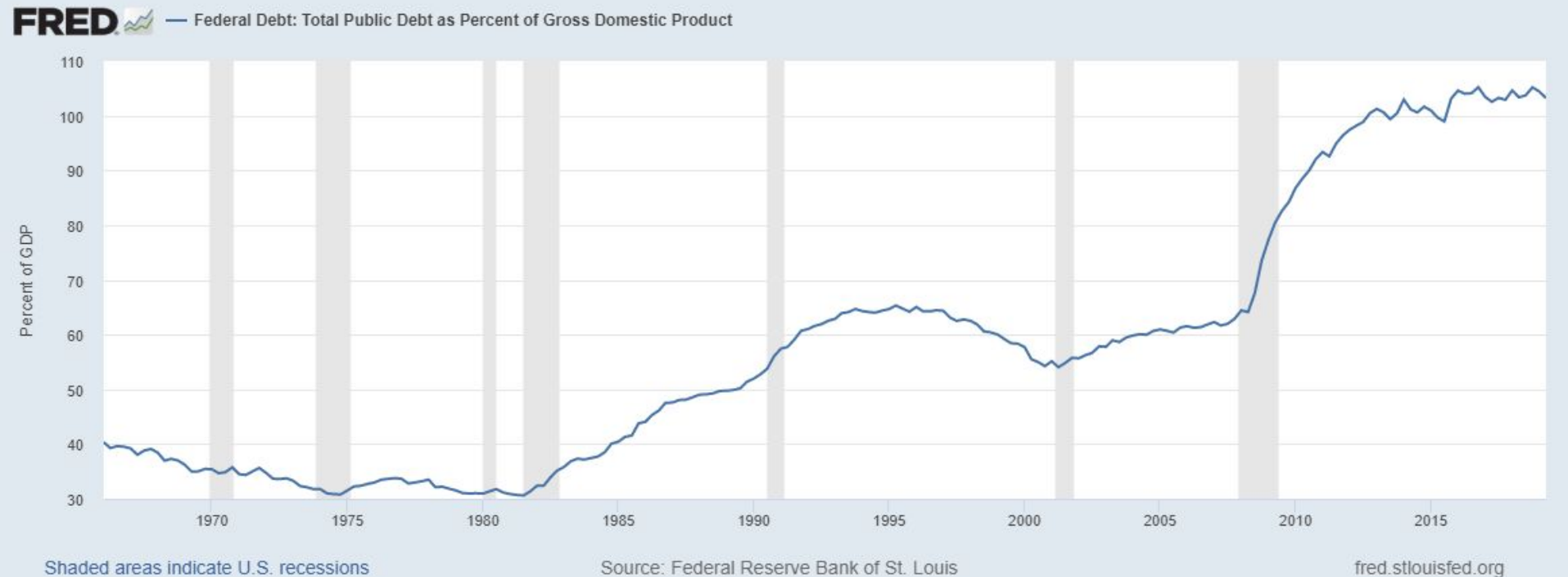
Source: IGM Economic Experts Panel  
[www.igmchicago.org/igm-economic-experts-panel](http://www.igmchicago.org/igm-economic-experts-panel)



# Does the Fed have firepower?



# Any room for fiscal stimulus?



# Focus on preparation rather than prediction

- We're not in a recession...yet.
- Don't count on forecasters to tell you exactly when the next recession will come.
- Long run trends are there even if recession risk is what's in focus right now.

# Thank you!

## Stay in touch!

Tara M. Sinclair  @TaraSinc

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