August 22, 2022

“Economists have predicted nine of the last five recessions.”

– Paul Samuelson

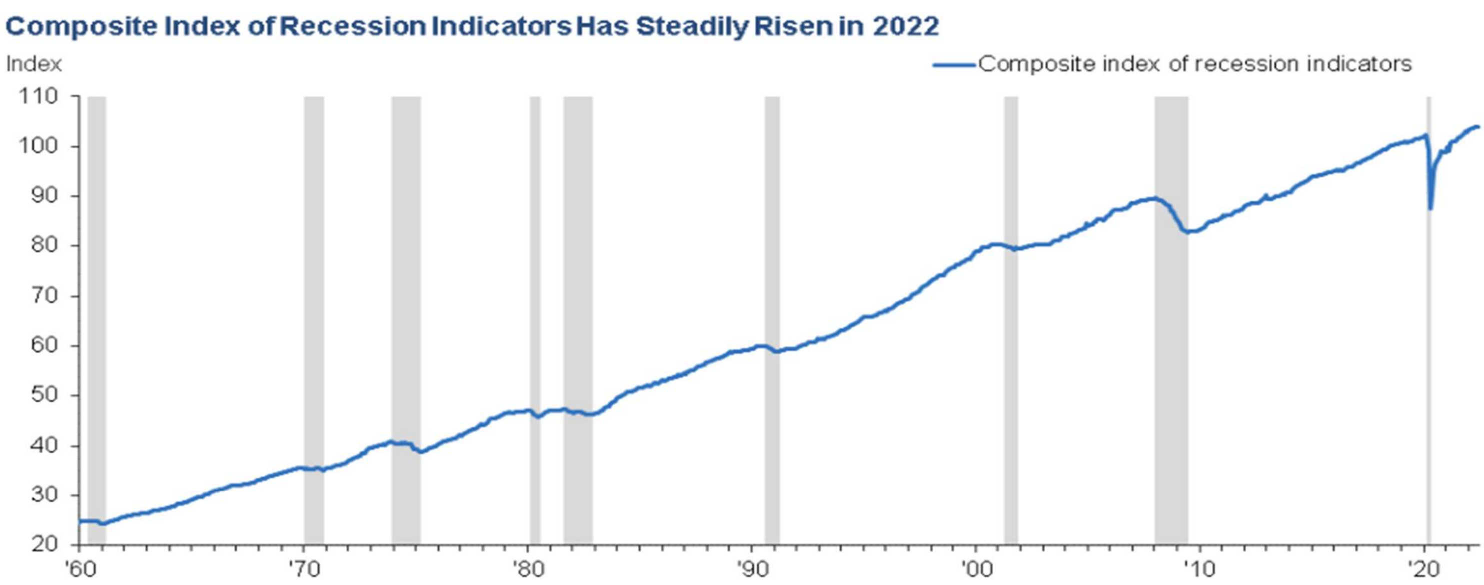
With some debate that the economy is in a recession, it amazes me how strong the job market continues to be. The unemployment rate is a primary economic indicator and one of two primary objectives of the Federal Reserve.

You may have recently heard or read some debate on whether we are in recession. A simple definition of recession is two consecutive quarters of decline in Gross Domestic Product (GDP). GDP is the total value of goods produced and services provided in a country. The first quarter of 2022 was negative 1.6% and the second quarter was down 0.9%.[1] But it’s not that simple.

There is a little-known group of eight men and women, the Business Cycle Dating Committee of the National Bureau of Economic Research (sounds like an exciting group), who determine if the U.S. economy is in expansion or recession.

I think it is important to understand the marking of economic peaks and troughs is retrospective. They typically acknowledge it a few months after the point. The riveting discussion around making these determinations centers on measures of aggregate real economic activity. These include personal income, personal consumption expenses, wholesale-retail sales, employment as measured by the household survey, and industrial production. There is no fixed rule about the specific measurements or how they are weighted in the decision process, just lively debate.[2]

Except for a slight increase in personal expenses, these primary indicators are positive (not recessionary).[3] One the next page is a composite view of these indicators compiled by the Dallas Federal Reserve.



NOTES: Indicators include nonfarm payroll employment, industrial production, real consumption, real personal income minus transfers, employment from the household survey and manufacturing and trade sales. The growth rate is a weighted average, with the weights inversely proportional to the input series' growth rate standard deviation. Gray bars indicate recessionary periods.
SOURCES: Federal Reserve Board of Governors; Bureau of Economic Analysis; Bureau of Labor Statistics; National Bureau of Economic Research; authors' calculations.

Federal Reserve Bank of Dallas

I am mercifully not on the Business Cycle Dating Committee of the National Bureau of Economic Research, but I agree, at the moment, the evidence simply does not suggest recession. This can and will obviously change at some point, but as the chart indicates, recessions are typically very short as compared to expansion and a normal part of the economy.

Please let me know if you would like to discuss 90-day reviews, the Business Cycle Dating Committee of the National Bureau of Economic Research, or anything else on your mind.

My Very Best,

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1 Federal Reserve Bank of Dallas. Sourced from - https://www.dallasfed.org/research/economics/2022/0802#:~:text=Recession%20is%20often%20defined%20as,economic%20contraction%E2%80%94declining%20real%20GDP.
2 Business Cycle Dating Procedure. Sourced from - https://www.nber.org/research/business-cycle-dating
3 FRED Economic Data, Sourced from - https://fred.stlouisfed.org