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Reuters wire service

Fed data crunchers declare recession over

By Reuters, 12/12/2002

WASHINGTON - It's unofficial: The recession that began last year ended last year as well, with the economy bottoming out in the third quarter. Sorry, make that the fourth quarter, November to be exact.

Those are the findings of two Federal Reserve researchers who used a statistical model to find an end date for a downturn the "official" business-cycle arbiter has yet to say is over.

In a paper posted on the Atlanta Fed's Web site, the researchers found the third quarter to be the recession's end-point when using data for real gross domestic product. But in preliminary research not yet published, they have pinpointed the month of November using the four data series most closely monitored by the elite private panel that is considered to be the final recession arbiter.

Meanwhile, the arbiter - the Business Cycle Dating Committee at the National Bureau of Economic Research - continues to wring its hands out of concern over the potential for a recession-dating misstep.

The panel, admitting only that the recession may have ended, repeated yesterday that no decision would be made until "it concludes that a hypothetical subsequent downturn would be a separate recession, not a continuation of the past one."

While soft economic data may argue for caution in determining when - and if - the recession that began in March 2001 ended, some have argued the panel's caution is excessive.

Many economists say it became clear long ago the recession drew to a close last year. The economy contracted for the first three quarters in 2001 but grew at a 2.7 percent annual rate in the final three months of the year, according to GDP data.

The two Fed researchers said they could have made their GDP-based call in July, when the government revised its data. Before those revisions, the model would have marked the end as the fourth quarter based on data released in February.

"An important feature of the model is that it generally determines turning-point dates more quickly than the NBER Business Cycle Dating Committee," researchers Marcelle Chauvet of the Atlanta Fed and Jeremy Piger of the St. Louis Fed said.

The researchers crunched current GDP data, which has over time been revised, for each of the 10 post-war recessions and found they could replicate NBER-determined peaks-and-troughs closely, never failing to find the recessions that are already in the history books and never finding phantom recessions that had never been declared.

They then examined each of the six recessions in the last 40 years, using data that would have been available at the time, as opposed to data reflecting subsequent revisions.

They found these "real-time" data also marked economic turning points fairly close to the NBER dates, and marked them much earlier than the NBER panel. However, using the old, unrevised, data, they did find one false turning point.

Piger said even better results have been obtained in preliminary research using the four data series the recession-dating panel tracks most closely – industrial production, employment, real income, and wholesale-retail trade. That research has given no false readings.

Still, Piger said the potential for errors remained, especially since the data is often revised, an argument for using the model as a complement, not a replacement, for the NBER's current painstaking human process.

Nonetheless, he said the model could prove helpful. "Although the data gets revised a lot, it doesn't very often get revised to change the sort of qualitative conclusion of whether or not the economy turned the corner and is heading downward," the St. Louis Fed economist said.

Business Cycle Dating Committee member Jeffrey Frankel, a professor at Harvard University, welcomed the research. "It's the sort of thing that one would hope other researchers would be doing to add to our understanding of the economy," he said. Still, he argued machines are no replacement for people. "Our decision tries to take into account more information than is captured in any one [data] series, or even in any two or three of four series," he said. "It's not like we just lock ourselves in a room and only look at those."

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