

Leading Probability of a US Recession – March 2008

Special comments: In March 2008, the leading probability of a recession **was down to 1%**. Since the beginning of the year, **odds of a full-blown recession beyond the next 3 quarters have continuously declined**.

Preliminary estimates indicate that the coincident filtered probability of a recession was up from 17% in February to 44% in March. Our coincident diffusion index also based on very preliminary March data has been in the red zone for the third month in a row. For now, coincident indicators - that may however considerably be revised in the coming months - show that activity has stalled, like during periods such as the 2003 start of war in Irak or the 1966 credit crunch. Output has thus to tumble further if the US economy is to experience a classical recession.

Since January 2007, the behaviour of the leading probability has been rather hectic and unprecedented: the probability sharply rose until the summer of 2008 before wavering around 30%. It has long been considered that this was an indication of a sharp and unusual slowdown whose intensity should have been maximal at the end of 2007, but that a typical recession could be avoided. Yet, with 3 out of 4 US citizens considering that the US economy fell into a recession, **a self-fulfilling downturn might have started and may transform the current slowdown into a shallow recession.**

Many respected economists consider that the US economy entered a recession in December 2007. We still express doubts that this current downturn will be as easily identified as other past episodes by the NBER, but there have been clear signals of a contraction in the labour market, construction, wholesale and retail trade sectors since the beginning of 2008. The reason why our model sharply hesitated might have been related to the unusual resilience of the manufacturing sector and the slow deterioration of the job market. **Given the small magnitude of all our signals, this murky downturn could be the mildest recession or the most severe slowdown ever**, with even the possibility of no significant GDP contraction over the coming quarters. Following the usual lead of our model, the economy might bottom out between mid 2008 and early 2009. Time will tell if those properties are still valid...

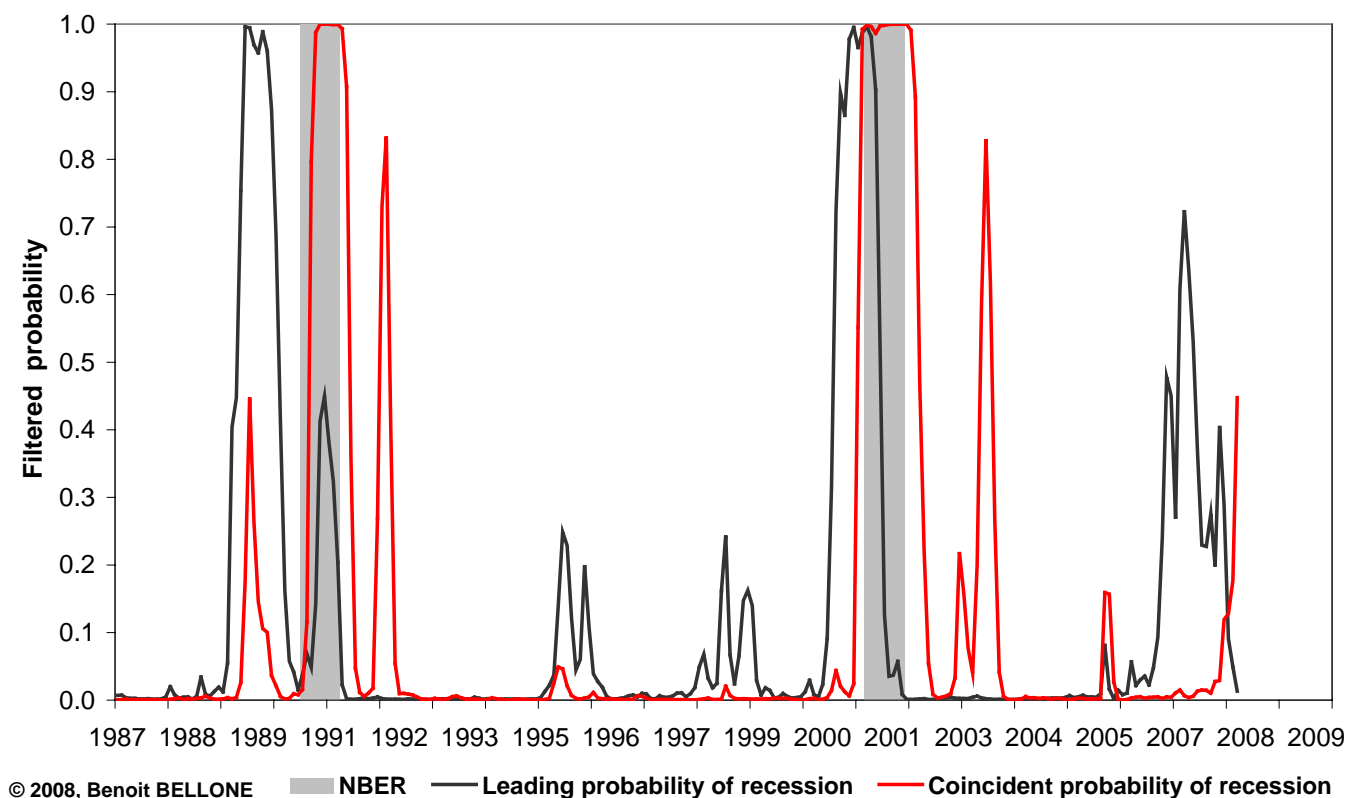


Figure 1. Coincident index and leading probability (1987 - 2008)

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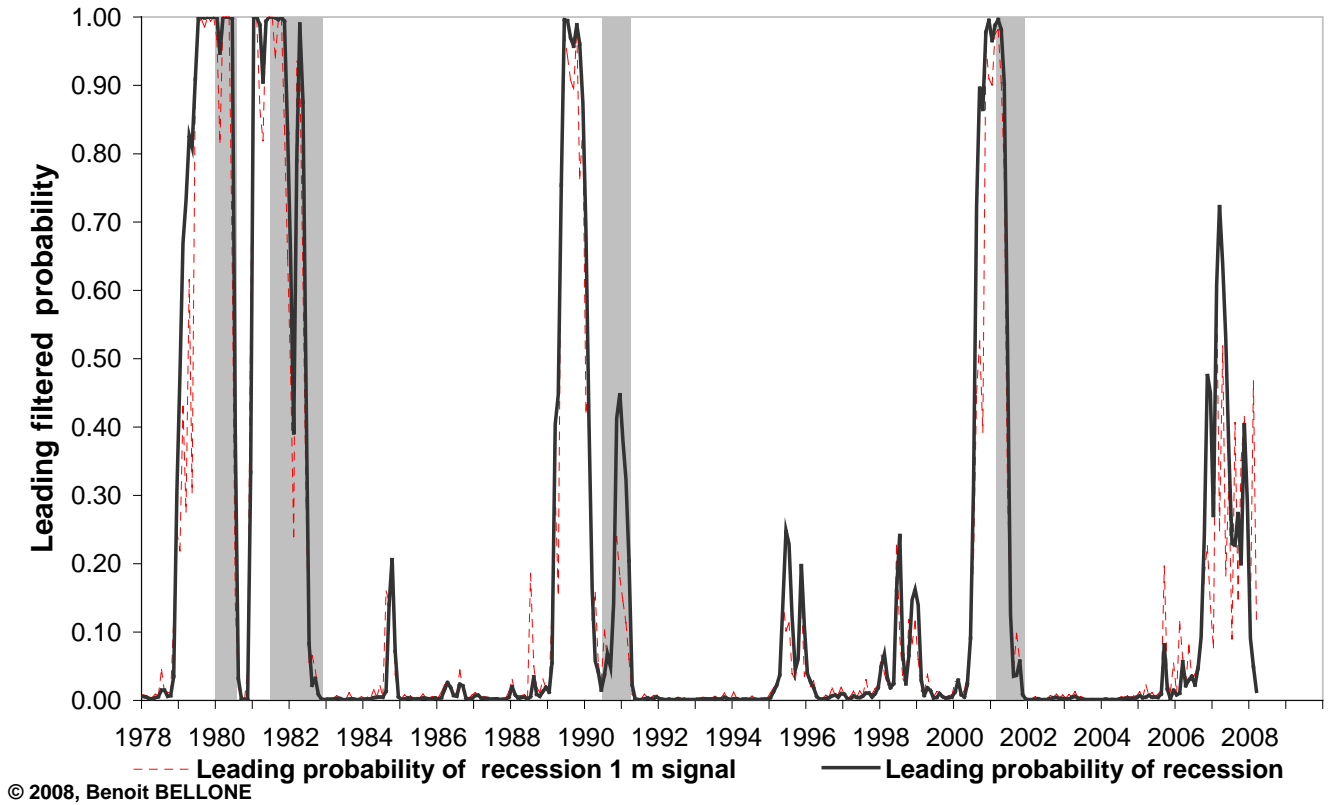


Figure 2. Leading Recession Probability (1978 – 2008)

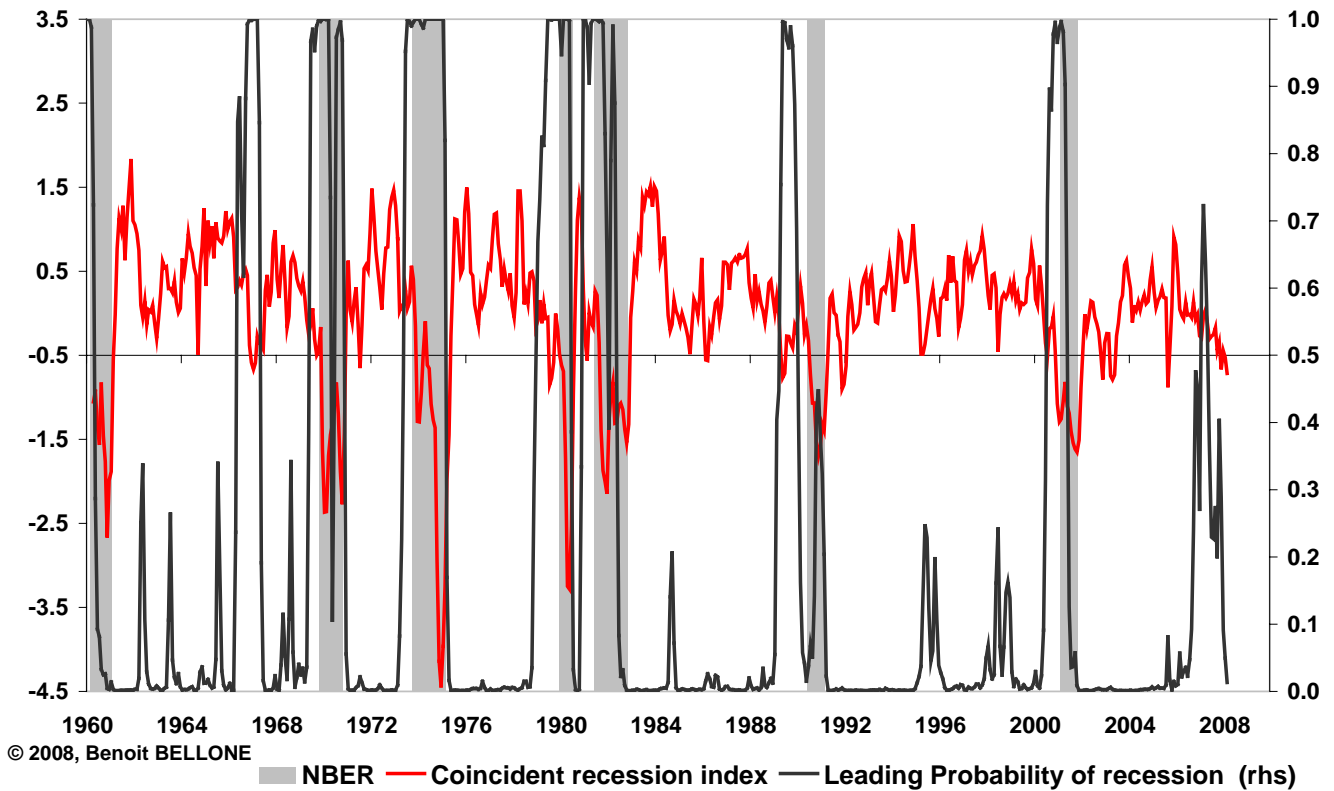


Figure 3. Coincident index and leading probability (1960 – 2008)

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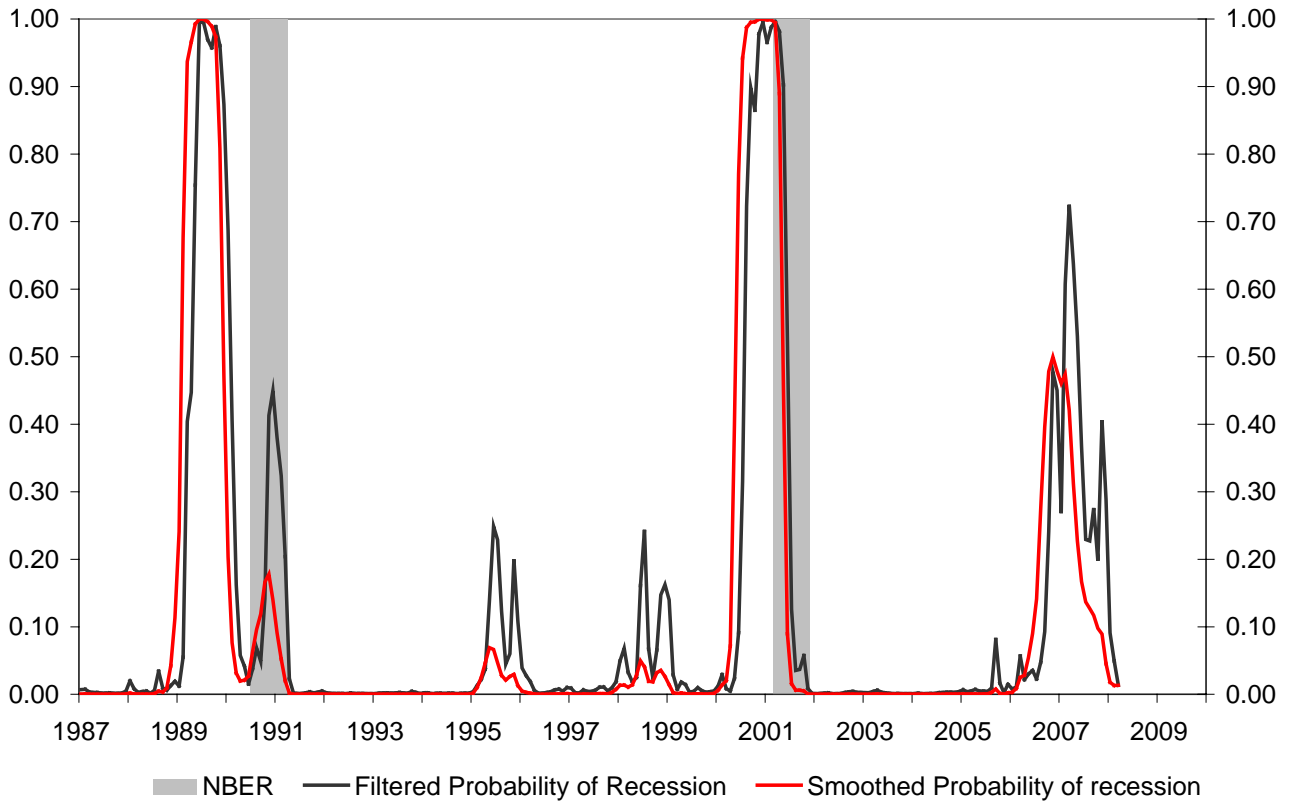


Figure 4. Leading probabilities since the last US recession (1999 – 2008)

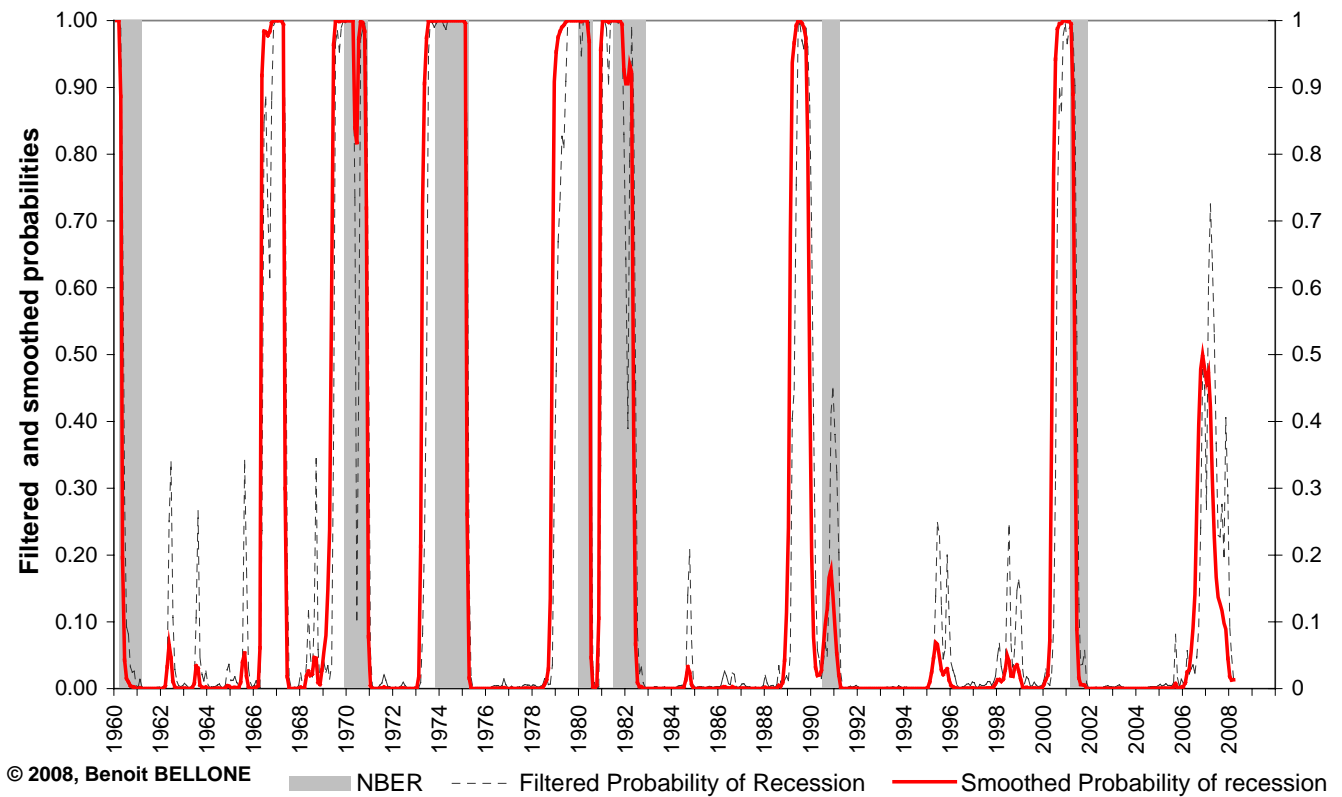


Figure 5. Smoothed and Filtered probability(1960 – 2008)