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Chronology of the Last Six Recessions

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How successful have economists and other business forecasters been in predicting recessions? This question is of considerable practical value since the level of economic activity greatly influences budgets and other plans of businesses. The purpose of this paper is to examine forecasts of economic recessions that have been made over the last 20 years and evaluate the extent to which forecasters have been successful in their predictions. The approach used was to look closely at published forecasts in major business journals or specialized forecasting newsletters. The conclusion of the paper is that forecasters have been somewhat unsuccessful in their efforts to correctly predict the timing and depth of recessions. The implications of such a conclusion are that planners should not pursue the illusion that recessions can be accurately predicted and, instead, they should accept reality and shift the emphasis from attempting to forecast recessions to effectively monitoring the present state of the economy.

INTRODUCTION

In September 1979, USA Treasury Secretary, G William Miller, announced that the US economy was half-way through a long-anticipated recession. About a week later, indications from the Commerce Department revealed that the preliminary estimates for the third quarter GNP figures showed a real growth of 1%. Subsequently, on October 19, the real growth rate was revised upwards to 2.4%, and then, on November 22, the final figure was released, revealing a comparatively strong real growth of 3.1%. The unexpected strength of the US economy in the third and fourth quarters caught almost everybody by surprise; perhaps the title in the Economist of 'A funny thing happened on the way to the recession...' best describes the sentiments of those involved with forecasting at the time.

At the time of the writing of this article (December 1980) another interesting phenomenon was taking place. Forecasters were split into two groups: one group argued that the 1980 recession (the shortest in American history) was over in August 1980. Consequently, this group predicted a pick up in economic activity, and a slow growth for 1981. The second group, large and equally vocal—was more pessimistic. They talked about a 'W' recession by believing that the upturn in August would be temporary and that the worst part of the recession was yet to come. Obviously, no one can expect unanimity, but divergence of this type raises some fundamental questions about the usefulness of attempting to forecast recessions.

Business and government planners closely observe economic activity as this heavily influences their plans and actions. A question which merits further exploration, however, is the extent to which the prediction of recessions, or booms, in the economy is possible. The purpose of this paper, therefore, is to examine forecasts of economic recessions that have been made over the last 20 years, and evaluate the extent to which economists and other forecasters have been successful in their predictions. The approach that has been adopted is simple: a close scrutiny of major business journals (*Business Week*, *Forbes*, *Fortune*, *Economist*, specialized forecasting newsletters) has been carried out and the forecasts published therein have been compared with the actual resulting figures. It is believed that this method provides credible conclusions, since these journals offer

TABLE 1. FORECASTS OF CHANGE IN REAL GNP FOR FOURTH QUARTER OF 1978 (AT ANNUAL RATES)

	Forecast as of	Real Growth		Forecast as of	Real Growth
Chase Econometric Associates	September	1.5%	Kent Economic Institute	September	4.6%
Citibank	September	1.8%	Merrill Lynch Economics	October	1.5%
Conference Board	September	1.5%	Microeconomics	September	2.0%
Data Resources	September	2.9%	University of Michigan	August	2.3%
Harris Trust	August	2.6%	Wharton EFA	September	3.4%
		Average Real Growth 2.5%			
		Actual Real Growth 5.6%			

Data: Conference Board. Commerce Dept.

summarized predictions made by diverse groups of forecasters, and are widely read by those concerned with planning and decision making. An examination is made of the last six 'recessions', taking first the most recent (i.e. the 1979/80 recession), and then working back to the earliest (i.e. that of 1960/61).

THE 1979/80 RECESSION

As early as the summer of 1978, there was considerable talk of the advent of a slow-down, or mild recession, which was supposedly to start by the end of that year. Table 1, for example, shows the forecasts provided by major economic services for the fourth quarter of 1978. The low figures for the growth in GNP were to signal the beginning of the slow-down. The average forecast for the real growth in GNP was 2.5%, whereas the actual growth rate turned out to be a staggering 5.6%, which even the most optimistic forecasters missed by more than two percentage points. When actual data concerning the economy were available, it became clear that the predicted slow-down was being forced further into the future; in fact, the economy showed a degree of strength which the majority of forecasters failed to predict.

In the third quarter of 1979, real GNP grew at an annual real growth rate of 3.1%, at a time when the economy was believed, by most, to be in a recession. The fourth quarter witnessed a rate of about 2%, whereas this time the economy had been predicted to be approaching the middle of the recession. The official National Bureau for Economic Research announcement, issued on June 6 1980, recorded that the actual start of the recession had been during the first quarter of 1980.

THE 1974/75 RECESSION

This recession was the steepest of the post-war era, not only for the US. but for all western industrialized countries, plus Japan. There are several explanations for the severity of the recession, a major one being the large increases in the cost of energy and raw materials that preceded the 1974–1975 period. Nevertheless, the pattern of this recession was unique; there was some talk of a squeeze in the economy as early as the first quarter of 1973, but opinions changed following the subsequent healthy performance of the economy. There was then no further mention of a recession until the end of the year, when one was forecast for early 1974. Subsequently, the recession forecasts were revised as the figures for the first and second quarters of 1974 became available. There was again much talk of a slow-down in the economy, with an upturn envisaged for the end of the year. The recession actually started in the third quarter of 1974, even though forecasters were arguing at the time as to whether or not the economy was in fact heading for one.

In the fourth quarter of 1974, by which time the data for the third quarter were available, the consensus forecast predicted a deepening of the recession and a recovery by late 1975. The actual trough of the recession occurred in the first quarter of 1975, and the recovery began almost immediately. This recovery was in fact tremendously powerful, thus making the predictions of the upturn several percentage points below the actual values. The 1974–1975 recession was indeed deep, but the recovery, in particular in its early stages, was as extreme as the recession that preceded it.

THE 1969/70 RECESSION

This recession can be considered as the most 'normal' of all those of the post-war era. GNP decreased by only one percentage point, having no serious consequences as the event took place after almost nine years of uninterrupted growth. This particular recession was forecasted fairly accurately and generally well-anticipated. However, it did in fact incur the same pattern that appeared during the last two recessions: forecasters predicted that it would begin as early as the third quarter of 1968, whereas it actually started a year later. However, forecasters were fairly successful in estimating the other aspects of this particular recession.

THE 1966/67 PERIOD

The major factor during 1966 was the build-up to the Vietnam war—a situation which created a great deal of uncertainty due to the operation of a 'post-war' economy. In the first quarter of 1967, the real growth of GNP was zero, which prompted certain forecasters to talk about the possibility of a slow-down in the economy. However, such a slow-down did not materialize, and the economy picked up steam after the first quarter. This had been forecast by the majority of economists, who were also of the opinion that there would be no recession during 1967. Obviously, the few forecasters who had predicted a recession were wrong, but the possibility of one occurring was presented.

THE 1963 NON-RECESSION

The views of forecasters, at the end of 1962, concerning the performance of the economy for 1963 are summarized in Fig. 1, which was published in Business Week in the October 13, 1962 issue. The majority of forecasters were of the impression that there would be a small decline in real GNP during 1963, followed by an upturn in the fourth quarter of that year. The actual performance of the economy was one of uninterrupted growth (see Fig. 1)—a factor that was missed by the forecasters who had predicted either a slow-down or a recession for the economy.

THE 1960/61 RECESSION

This recession was damaging, mainly because it was entirely unexpected. Forecasts published during the preceding year made no reference to the possibility of a slow-down or a recession, even though one did in fact take place. It is interesting to note that this recession occurred only two years after the 1958/59 recession—a time span of about half the 'average' period between two recessions. This short interval caught forecasters by surprise, since they believed that a recession could not have started until much later. Finally, the recovery from the recession was slow, which led some people to believe that it was not actually taking place at all.

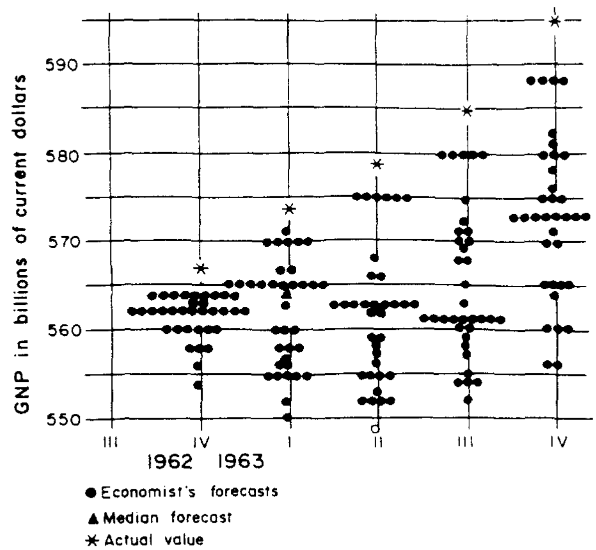

FIG. 1. *How 35 economists predict business quarter by quarter through next year. Source: Business Week, October 13, 1962.*

GENERAL CHARACTERISTICS OF FORECASTING RECESSIONS

Is there anything to be learned from studying forecasts of past recessions? One factor is obvious, at least concerning events of the last 20 years: forecasters have had difficulties in predicting the timing and depth of recessions, and the pattern of the recovery that follows. The implications of this for planners and decision makers will be discussed later. At this point, however, some general characteristics of forecasts of recessions are presented (see Table 2):

(1) Forecasters tend to predict that a recession will take place earlier than it actually does. Even those recessions that are correctly

TABLE 2. A SUMMARY OF THE LAST SIX 'RECESSIONS'

Quarters before & after recession	1960 1961 Date	1960 1961 Summary	1963 Date	1963 Summary	1967 Date	1967 Summary	1969-1970 Date	1969-1970 Summary	1974-1975 Date	1974-1975 Summary	1979 1980 Date	1979 1980 Summary
−7			2nd Qtr 1962	Forecast of slow 2nd half 1962	2nd Qtr 1966	Business activity generally high. Good prospects for business expansion to mid-1967.					2nd Qtr 1978	A slodown/mild recession forecasted for end 1978 or early 1979
−6			3rd Qtr 1962	Economy was stalled during summer months. Forecast of mild recession in 2nd Qtr of 1963.	3rd Qtr 1966	No forecast of recession. However, forecasts uncertain due to post-war economy situation.	2nd Qtr 1968	Forecast of slow-down for third Qtr 1968	1st Qtr 1973	First mention of 'squeeze' in late 1973, followed by recession early 1974. Recovery second half of 1974.	3rd Qtr 1978	Forecast of slow growth first half 1979, and a 'growth recession' second half 1979.
−5	3rd Qtr 1959	Economic growth strong. No forecasts of problem areas ahead.	4th Qtr 1962	Business activity gaining pace. Forecasts of recessions less strong.	4th Qtr 1966	Economy good. No forecast of recession, but one not entirely out of question. Main forecast is for 'cooler' situation.	3rd Qtr 1968	Business good. Forecast of slow-down for fourth Qtr 1968.	2nd and 3rd Qtrs 1973	No mention of a recession; talk of a slowdown only.	4th Qtr 1978	Business activity excellent. Forecast of mild recession pushed back to mid-1979.
−4	4th Qtr 1959	No forecast of decrease in pace of economic activity.	1st Qtr 1963	Economy flat. Forecasts of recession dropped.	1st Qtr 1967	Real growth 0% during Qtr, but forecasters consider it to be a period of readjustment only.	4th Qtr 1968	Business generally good although real growth slid a little. Forecast of mild slowdown pushed back to first half of 1969. Unemployment at 15-year low.			1st Qtr 1979	Business activity generally good. Forecast now is for recession in third or fourth Qtr of 1979.
−3	1st Qtr 1960	Business generally good; forecasts of continued expansion, low inflation.	2nd Q5r 1963	Consensus of forecasts for slow, steady 1963, without recession.	2nd Qtr 1967	Economy picked up after poor first Qtr. Most forecasts for an excellent second half year.	1st Qtr 1969	Business activity good. Reversal of forecast from first half slowdown/second half recovery, to good first half/slow second half.	4th Qtr 1973	Forecast of recession for early 1974, with a second half recovery.	2nd Qtr 1979	Real growth in GNP negative. Forecasts of slowdown for year end maintained (some talk of deeper recession). Some say recession has already started.
−2	2nd Qtr 1960	Economy moving forward. Recovery from last recession now two years old.	3rd Qtr 1963	Business activity good.	3rd Qtr 1967	Business improving rapidly.	2nd Qtr 1969	Slowdown forecast pushed back to year end.	1st and 2nd Qts 1974	No mention of a recession; talk of a slowdown only.	3rd Qtr 1979	Some say that economy is in middle of recession. Majority forecast recession to begin in fourth Qtr. Economy was strong with 3.5% growth in real GNP during Qtr.
−1	2nd Qtr 1960	Despite no forecasts or previous warnings, economy is now in a recession. Forecast is that it will worsen.	4th Qtr 1963	Economy strong. Forecast of good first half, with slight chance of recession in second half of 1974.	4th Qtr 1967	Business activity strong. Forecast for good first half 1968, but a slower second half.	3rd Qtr 1969	Business steady but tailing off towards end of Qtr.			4th Qtr 1979	Some believe recession has already arrived. Majority has pushed start of recession to first Qtr of 1980; but all agree on a sluggish fourth Qtr. Economy, however, grew at about 3% rate.

Recession begins	4th Qtr 1960	Trough of recession in mid-Qtr.	1st Qtr 1964	*No recession.* Economy continues its uninterupted growth for entire 1963 64 period.	*No recession.*	4th Qtr 1969	Economy slowing gradually. Forecast of poor first half of 1970, upturn in second half.	3rd Qtr 1974	Forecasters still unsure whether economy headed for true recession or not.	1st Qtr 1980	On June 6 the NBER announces that the start of the recession was Jan. 1980
1	1st Qtr 1961	Recovery under way. Economy slowly picking up pace.				1st Qtr 1970	Economy sliding slowly. Forecast of prolonged slowdown without recession; upturn second half of 1970.	4th Qtr 1974	Forecast that recession will worsen; recovery late 1975.	2nd Qtr 1980	Considerable disagreements exist about the severity of the recession.
2	2nd Qtr 1961	After slight pause in pace of recovery, business activity is strong.				2nd Qtr 1970	Slowdown more pronounced; forecast of sluggish third Qtr upturn.	1st Qtr 1975	Recession at worst point. Forecasts that recovery will begin in second half.	3rd Qtr 1980	Disagreements about length of contraction and depth of recession continue.
3	3rd Qtr 1961	Prospects for continued expansion good. Economy continues 'normal' growth.				3rd Qtr 1970	Forecast of upturn pushed back to year end.	2nd Qtr 1975	Recovery continues. Forecasts of strength of recovery underestimated.		Splitting of opinion about whether or not the recession has bottomed in August 1980
4						4th Qtr 1970	Forecast second half recovery has not occurred. Forecast now is for good upturn in first half of 1971 followed by moderate second half. Latest forecasts of recovery were correct.	3rd Qtr 1975	Recovery completed.		(Table prepared December 1980).
Observations		Recession was not predicted. When it arrived it caught everyone by surprise. Main reason: expansion, since last recession, last only 25 months.		The mild recession that was predicted never arrived; economy continued with no interruption to its established growth pattern.	Minority of forecasters predicted a recession. Majority did not, and they were proved right.		Forecasters missed timing of recession, and many also misjudged its depth. Worsening economic conditions and occurrence of a recession were correctly predicted.		Forecasters missed timing and depth of recession, and strength of recovery. They predicted correctly worsening economic and start of recovery.		Arrival of slowdown forecast too early. Real growth in GNP in a single quarter was taken as a sign that the recession had arrived. Early forecasts of a slowdown were changed, and a recession was predicted. Forecasters correctly predicted worsening economic conditions.

forecast are generally predicted to begin about six months to more than a year ahead of schedule. In other words, the tendency is to underestimate the momentum of the economy, which in fact continues its growth, despite certain problem areas—correctly predicted—that eventually reverse economic growth. This has been the case for at least the last three recessions, all of which occurred later than originally anticipated.

(2) Forecasters initially tend to predict a slow-down, or at most a mild recession. This, however, is independent of what actually takes place. For instance, the major recession of 1974–75 was not anticipated as such until it had already begun. Similarly, if the recovery after the recession is stronger than usual, this factor, too, is generally underestimated by forecasters (for example, the recovery that followed the 1974–1975 recession), who tend to predict an average recovery in the same way that they tend to predict average recessions.

(3) A situation which often occurs is that the divergence of opinions increases as the economy deviates from its normal course and unstabilizing events occur. In such cases, the range of forecasts provided varies considerably, thus creating problems for planners and decision or policy makers. For instance, it can happen that a particular publication displays conflicting opinions, with regard to the state of the economy, from one issue to the next. It has even been the case that opposing hypotheses are being advocated in a single issue of a particular publication. Thus one writer can express the opinion that signals clearly indicate that the economy is sliding into a recession, whilst elsewhere in the same issue another author can be arguing that this is not the case, and that available evidence does not illustrate such a pattern. Unfortunately, this state of affairs occurs precisely when the need for clarity is at its greatest.

(4) It is easier to predict recessions that occur after the average (i.e., about four years) time between recessions has elapsed, than it is to predict those which take place sooner (such as the 1960–1961 recession).

(5) Each one of the last six 'recessions' has had its own idiosyncrasies: in this respect, no two recessions have been the same.

To summarize the above findings: (a) a recession can take place when there have been few or no predictions to that effect (e.g., as in 1960–1961); (b) a predicted slow-down does not actually take place, and the economy continues its past pattern of growth (e.g., as in 1963); (c) a major recession is seen initially as only a slow-down (e.g., the 1974–1975 recession); and (d) the timing of recessions is usually missed by about six months to a year.

Table 2 presents a general summary of forecasts made during periods before recessions and the subsequent actual events that took place.

CAN RECESSIONS BE FORECASTED?

In the past, many recessions, of various magnitudes, have occurred at intervals throughout the history of modern economies. Table 3 provides a summary of recessions that have afflicted the US economy over the last 125 years. It can be seen from this illustration that the 'average' business cycle has a duration of a little more than four years. Since a business cycle is defined as lasting from one peak or trough to the next, it can be stated that a recession will occur on average every four years. This much is clear, and easy to accept, but the major difficulty is that, inevitably, wide deviations from the average occur. There have been cases recorded of business cycles which have lasted for as little as 28 months, whilst others have well exceeded 100 months. Furthermore, the intensity of recessions varies considerably: some are of catastrophic proportions, and are known as depressions, whilst others are extremely mild, being described simply as slow-downs. The challenge, therefore, is not to predict the average recessions (both in terms of duration and intensity), but rather to obtain the specific details (regarding timing and depth) of the particular recession that is about to occur. Unfortunately, the track record of forecasters shows that they have not been successful in this respect. Predictions concern-

TABLE 3. BUSINESS CYCLE (USA) 1850 THROUGH 1980

Business Cycle			Duration (months) of:		
Trough	Peak	Trough	Expansion	Contraction	Full Cycle
Dec. 1854	June 1857	Dec. 1858	30	18	48
Dec. 1858	Oct. 1860	June 1861	22	8	30
June 1861	Apr. 1865	Dec. 1867	46	32	78
Dec. 1867	June 1869	Dec. 1870	18	18	36
Dec. 1870	Oct. 1873	Mar. 1879	34	65	99
Mar. 1879	Mar. 1882	May 1885	36	38	74
May 1885	Mar. 1887	Apr. 1888	22	13	35
Apr. 1888	July 1890	May 1891	27	10	37
May 1891	Jan. 1893	June 1894	20	17	37
June 1894	Dec. 1895	June 1897	18	18	36
June 1897	June 1899	Dec. 1900	24	18	42
Dec. 1900	Sept. 1902	Aug. 1904	21	23	44
Aug. 1904	May 1907	June 1908	33	13	46
June 1908	Jan. 1910	Jan. 1912	19	24	43
Jan. 1912	Jan. 1913	Dec. 1914	12	23	35
Dec. 1914	Aug. 1918	Mar. 1919	44	7	51
Mar. 1919	Jan. 1920	July 1921	10	18	28
July 1921	May 1923	July 1924	22	14	36
July 1924	Oct. 1926	Nov. 1927	27	13	40
Nov. 1927	Aug. 1929	Mar. 1933	21	43	64
Mar. 1933	May 1937	June 1938	50	13	63
June 1938	Feb. 1945	Oct. 1945	80	8	88
Post-war Cycles					
Oct. 1945	Nov. 1948	Oct. 1949	37	11	48
Oct. 1949	July 1953	Aug. 1954	45	13	58
Aug. 1954	July 1957	Apr. 1958	35	9	44
Apr. 1958	May 1960	Feb. 1961	25	9	34
Feb. 1961	Nov. 1969	Nov. 1970	105	12	117
Nov. 1970	Nov. 1973	Feb. 1975	33	15	48
Feb. 1975	Jan. 1980	Aug. 1980?	59	7+	

ing the timing and depth of recessions have not been accurate; furthermore, recessions were predicted, which never took place.

It might be that predicting recessions is not possible because of self-defeating prophesies. Recessions create economic hardships which make them politically unwelcome. If they are predicted, therefore, governments can take actions to postpone their occurrence, or diminish their impact. It could be then, that, because of accurate initial forecasts, subsequent predictions about recessions will turn out to be wrong. Similarly, one cannot dismiss the possibility of self-fulfilling prophesies. If enough businesses believe that a recession is forthcoming, one can be created if the businesses reduce capital spending and cut production.

No doubt there are many factors determining when a recession will start and how deep it will be. Furthermore, it might be that forecasters, by their predictions, and businesses by their actions (or inactions) do influence the level of economic activity. Can forecasters, however, accurately predict the combined effect of all of these factors, so that it can be known, with some degree of confidence, when the next recession will start, how deep it will be, and when and how the recovery will take place? The answer to these questions—at least by looking at the last 20 years—is not encouraging. Forecasters must, therefore, understand and accept the imperfections of their profession. Moreover, planners, decision and policy makers need to know the various types of uncertainty involved with predicting recessions, and must find ways of incorporating such uncertainty into their plans and strategies. Otherwise, there is no guarantee that they will not be caught by surprise.

The above is not meant to imply that economic forecasts are useless; on the contrary, there is a great deal to be gained from experts' predictions of recessions since they guide governmental policies to deal with them more effectively; furthermore, recessions or booms comprise only a small fraction of the overall business cycle; whatever imperfections are involved in their prediction, therefore, should not overshadow the 'usual' forecasts which are much more accurate and reliable, and which are of the greatest importance to the business cycle as a whole.

CONCLUSION

This article has been concerned with the predictability of recessions. A general comparison of forecasted and actual results indicates that forecasters have been somewhat unsuccessful in their efforts. This conclusion has serious implications for planners, decision and policy makers who need a detailed knowledge of the future level of the economy before they can make plans or decisions. Instead of pursuing the illusion that a recession can at present be accurately predicted, it would be much more beneficial to accept reality and shift the emphasis to effective monitoring of the present state of the economy. Finally, it is important that both forecasters and users of forecasts accept the uncertainties that exist in the prediction of recessions and incorporate them into their plans and strategies.

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