Monitoring Windows of Vulnerability, or, How to Stop Crying Wolf

ECRI
ECONOMIC CYCLE RESEARCH INSTITUTE

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The Key Question

Questioner: "What do you tell a man who is a skilled mechanic, has a wife and three children, and can't get a job?"

President Taft: "God knows. I don't."

Progress?

"Our greatest accomplishment of the twentieth century is that we have tamed the business cycle, at least in the industrialized countries of the west."

------ Sen. Daniel Patrick Moynihan

Room For Improvement

"The record of failure to predict recessions is virtually unblemished."

-- IMF Study

The Original Empirical Evidence

Indicator	At Peaks				At Troughs			
	U.S. before 1938				U.S. before 1938			
1. Sensitive Commodity Prices	-2				-1			
2. Ave. Workweek, Manufacturing	-3				-3			
3. Comm. & Ind. Bldg. Contracts	-3				-1			
4. New Incorporations	-3				-4			
5. New Orders	-4				-2			
6. Housing Starts	-6				-4			
7. Stock Prices	-6				-6			
8. Business Failure Liabilities	-9				-8			
Ave. 7 Indicators	-4				-3			
Ave. 8 Indicators	-4				-4			

"An Answer to 'Measurement without Theory'"

Indicator	At Peaks				At Troughs			
	U.S. before 1938	U.S 1948-91			U.S. before 1938	U.S 1948-91		
1. Sensitive Commodity Prices	-2	-4			-1	+2		
2. Ave. Workweek, Manufacturing	-3	-6			-3	-1		
3. Comm. & Ind. Bldg. Contracts	-3	-6			-1	+2		
4. New Incorporations	-3	-7			-4	-4		
5. New Orders	-4	-6			-2	-1		
6. Housing Starts	-6	-12			-4	-5		
7. Stock Prices	-6	-6			-6	-5		
8. Business Failure Liabilities	-9	-10			-8	-1		
Ave. 7 Indicators	-4	-7			-3	-2		
Ave. 8 Indicators	-4	-7			-4	-2		

How About in Other Economies?

Indicator	At Peaks				At Troughs			
	U.S. before 1938	U.S 1948-91	10 Countries 1948-1987	11 Countries 1948-1987	U.S. before 1938	U.S 1948-91	10 Countries 1948-1987	11 Countries 1948-1987
1. Sensitive Commodity Prices	-2	-4	-2	-1	-1	+2	+1	-1
2. Ave. Workweek, Manufacturing	-3	-6	-4	-3	-3	-1	-4	-3
3. Comm. & Ind. Bldg. Contracts	-3	-6	-1	-1	-1	+2	0	0
4. New Incorporations	-3	-7	-8	-8	-4	-4	-8	-8
5. New Orders	-4	-6	-6	-4	-2	-1	-9	-6
6. Housing Starts	-6	-12	-6	-6	-4	-5	-7	-7
7. Stock Prices	-6	-6	-6	-6	-6	-5	-7	-6
8. Business Failure Liabilities	-9	-10	n.a.	n.a.	-8	-1	n.a.	n.a.
Ave. 7 Indicators	-4	-7	-5	-4	-3	-2	-5	-4
Ave. 8 Indicators	-4	-7	n.a.	n.a.	-4	-2	n.a.	n.a.

U.S. Long Leading & Coincident Indexes
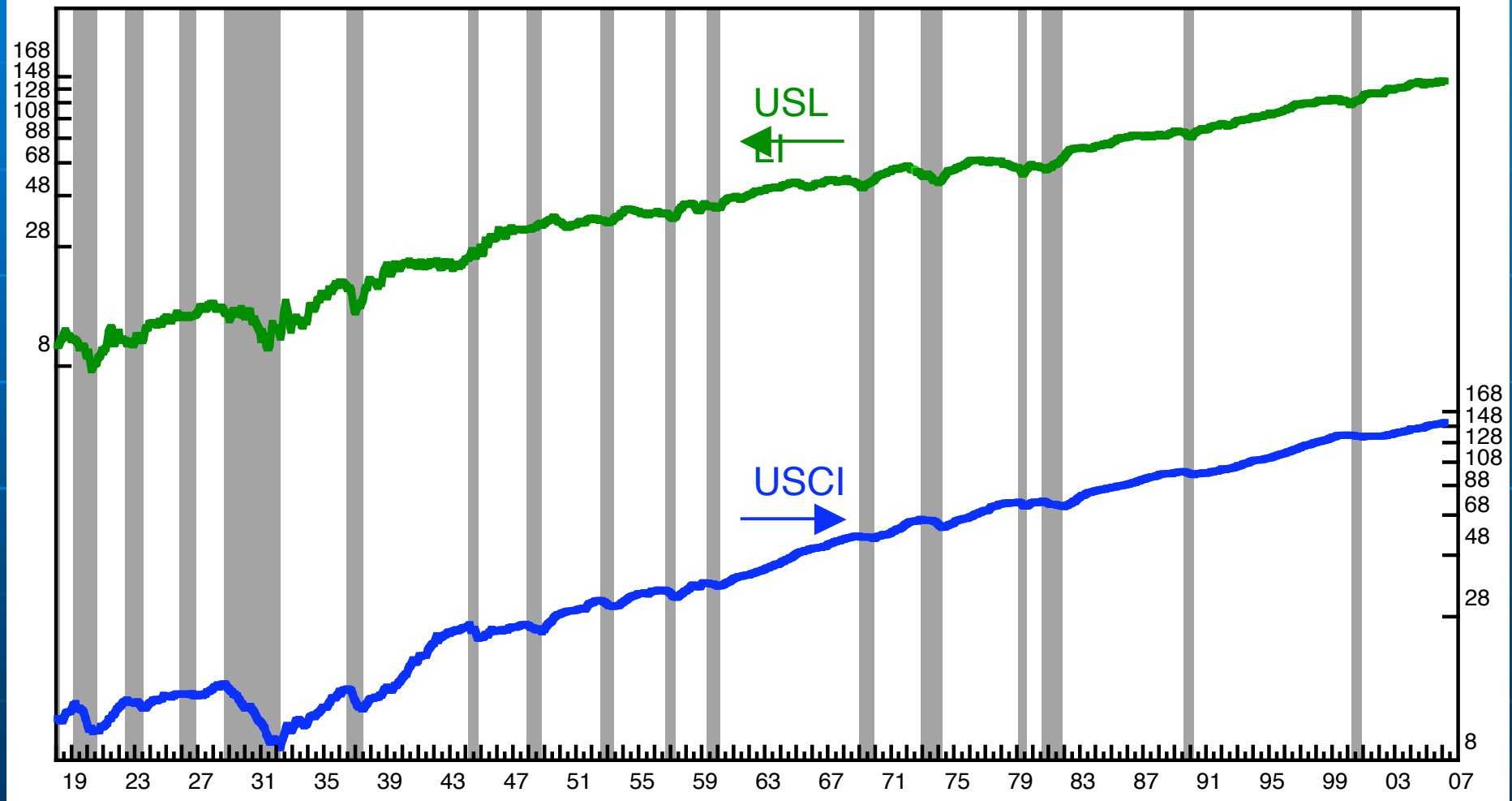
Shaded areas represent U.S. business cycle recessions.

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U.S. Long Leading, Short Leading and Coincident Indexes, Growth Rates (%)

USLLI

USWLI

USCI
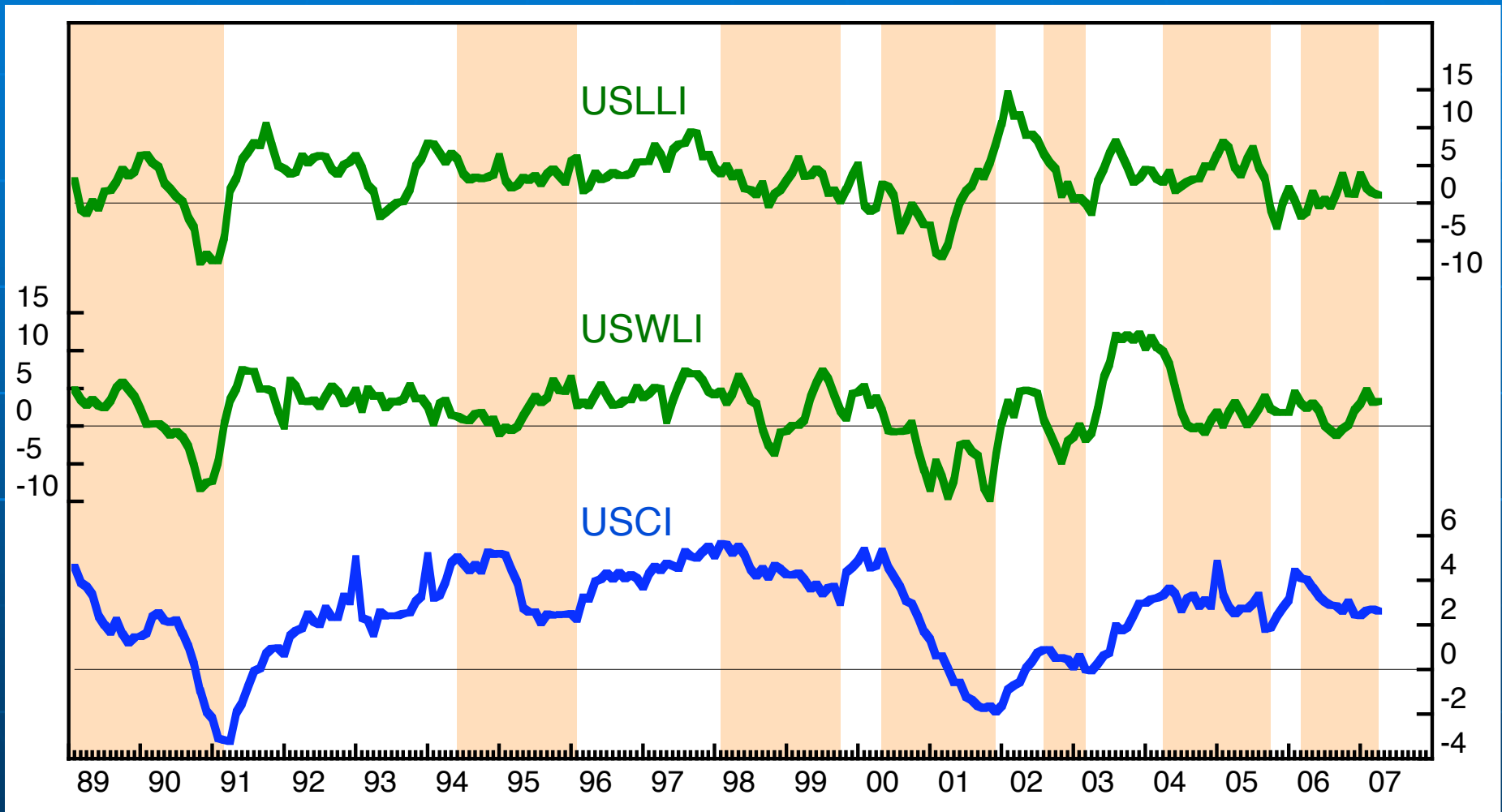
Shaded areas represent U.S. growth rate cycle downturns

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Grading the Major Market-Moving Numbers as Leading Indicators of Economic Growth

	How Consistent a Lead?[1]	How Long a Lead?[2]	How Often is Lead Too Long?[3]	How Variable a Lead?[4]	How Common Are Missed Turns?[5]	How Common Are False Alarms?[6]	How Smooth/ Noisy?[7]	How Promptly Available?[8]
Long Leading Index Growth	97	-9/-7	17%	6.6	0%	23%	2	3rd
Weekly Leading Index Growth	91	-7/-4	6%	7.7	0%	23%	2	1st
ISM Manufacturing Index	78	-3/-1	6%	4.4	0%	11%	2	1st
Industrial Production Growth	51	0/0	0%	5.1	6%	17%	2	3rd
Initial Jobless Claims	42	1/1	0%	5.4	11%	6%	3	1st
Nonfarm Payroll Job Growth	25	2/1	0%	5.9	11%	6%	1	1st
Producer Price Index Growth	68	-4/-3	17%	7.2	6%	22%	1	3rd
Capacity Utilization	29	4/1	0%	8.2	13%	0%	1	3rd
Retail Sales Growth	72	-4/-1	9%	8.3	0%	9%	5	2nd
Personal Income Growth	54	0/0	0%	3.5	6%	11%	3	5th
Consumer Confidence	27	3/3	0%	7.4	8%	0%	3	4th
GDP Growth	42	-1/0	0%	3.8	11%	25%	1	9th
Unemployment Rate	2	9/6	0%	8.5	36%	0%	2	1st
Housing Starts	79	-5/-2.5	7%	11.3	14%	14%	4	3rd
Average Hourly Earnings Growth	52	0/-1	11%	13.4	19%	17%	4	1st
New Construction Value	29	5/2	0%	13.1	24%	0%	2	5th
New Orders, Durable Goods	38	4/1	0%	10.2	33%	7%	4	4th
Single Family Home Sales	81	-3/-3	20%	11.3	16%	16%	4	4th

LEGEND: BETTER → WORSE