

2001 Recession – A Journey in Time

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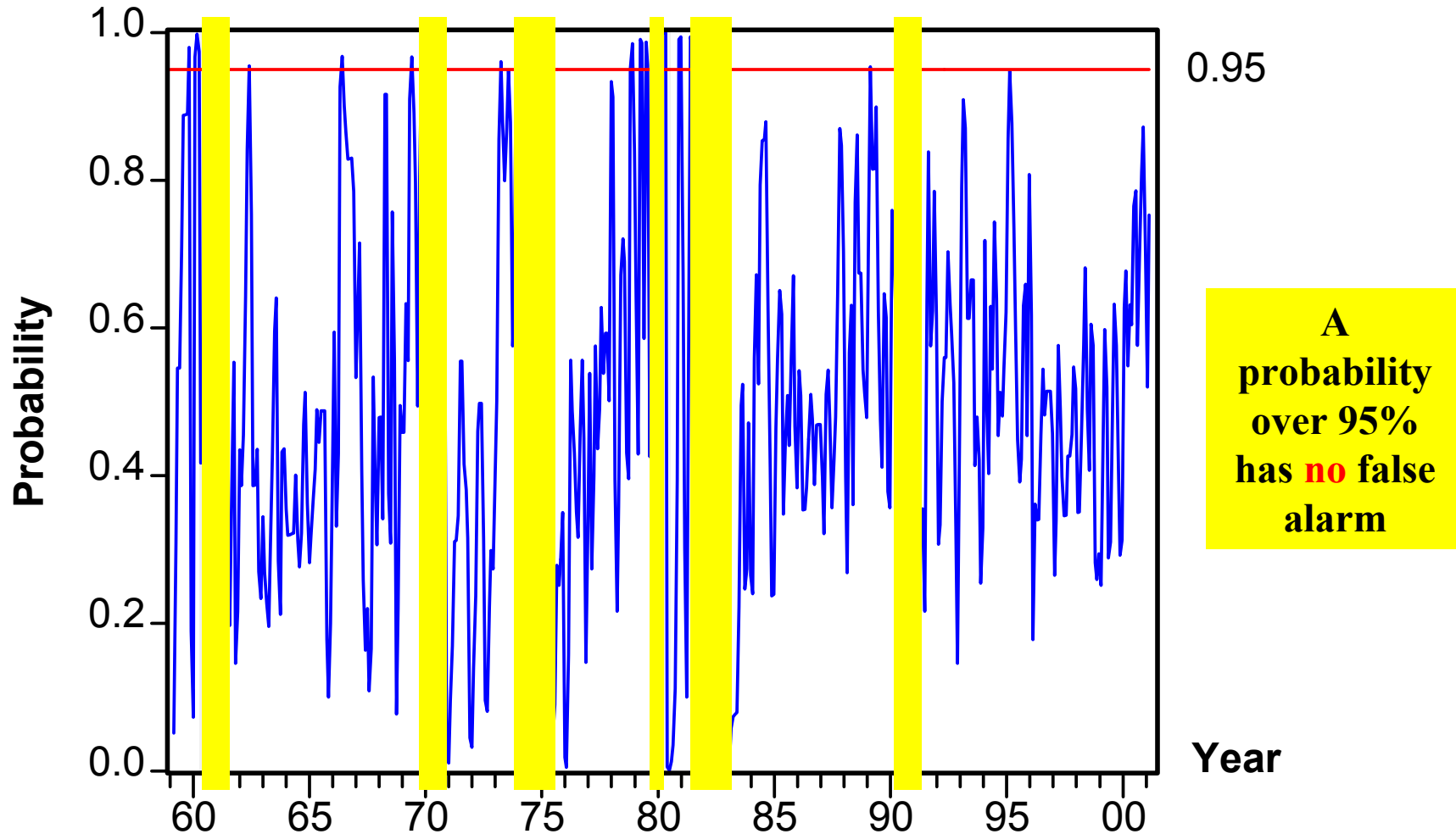
Opening Statement

- On November 26, 2001, the NBER Dating Committee, the official dating authority of the U.S. business cycles, announced that the U.S. Economy has been in a recession since March 2001.
- In December 2000/ January 2001, I started a research on predicting a down turning point in the current state of the U.S. Economy.
 - The focus of this research is to see how well a model I have developed could predict such a turning point in real time.
- In a series of presentations delivered since, I have tried to analyze the state of the U.S. Economy and to make predictions about its status in the near future, given the latest information.
- The main objectives of this presentation are
 - to review these predictions overtime, and
 - to share/ communicate/ exchange our information/ opinion about the Recession of 2001 and the current state of the U.S. Economy.

Organization of This Talk

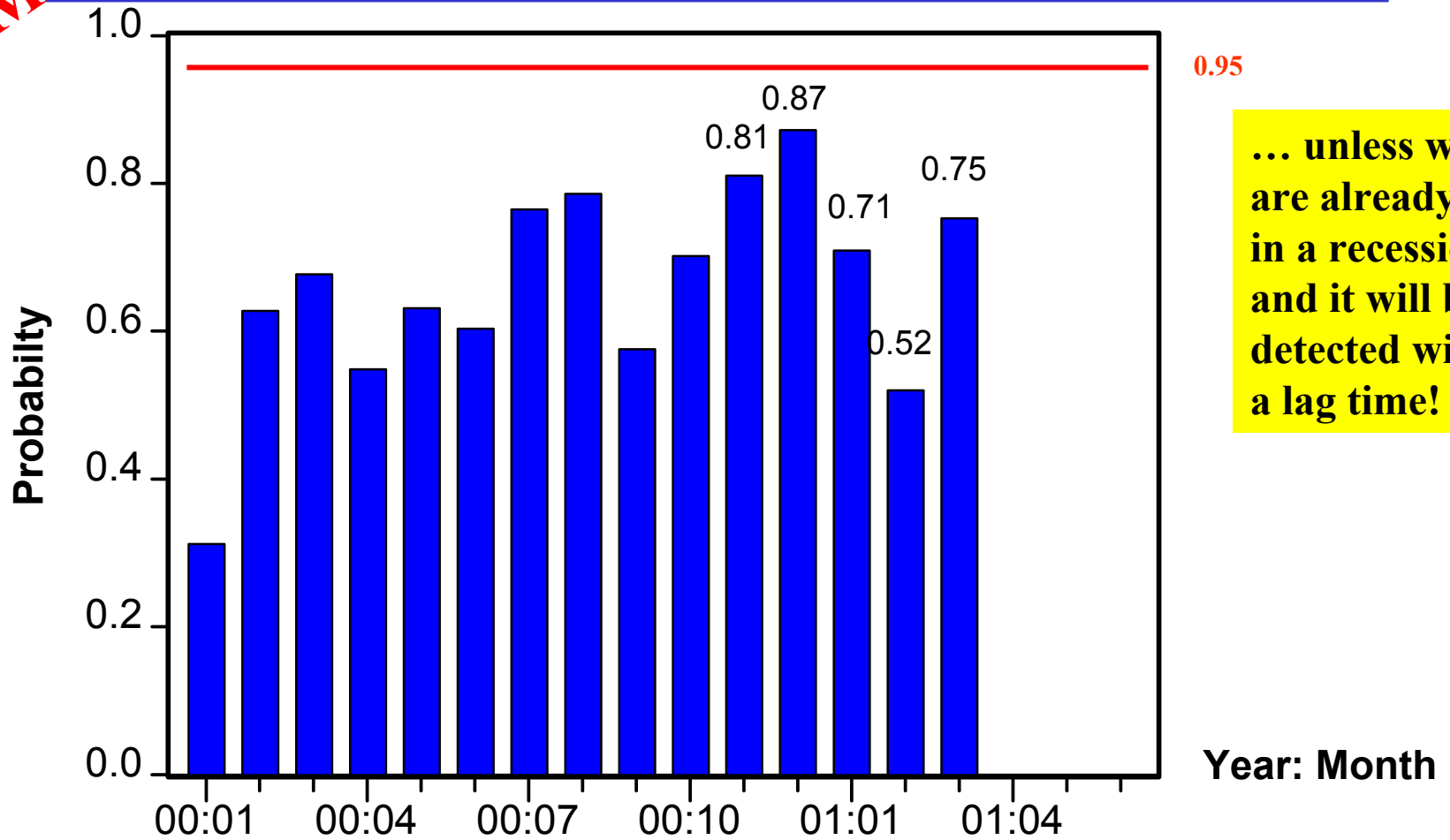
- Performance Evaluation of the Bayesian Probability Forecast of a Downturn in the U.S. Economy (BPDF2): 1959 – 1999.
- Recession of 2001: A Journey in Time
 - May 4, 2001, SCSU Department of Economics and Finance Seminar, “*Using Pre-1996 versus Post-1996 Composite Leading Indicators to Predict a Downturn in the U.S. Economy.*”
 - September 14, 2001, NYC INFORMS Chapter, “*Predicting the Near Term State of the U.S. Economy Using Composite Leading Indicators.*”
 - November 5, 2001, CPMS: The Practice of Management Science – INFORMS National Meeting – Miami Beach, “*Predicting the Near Term State of the U.S. Economy Using Composite Leading Indicators.*”
 - January 25, 2002, SCSU Department of Economics and Finance Seminar, “*The Composite Leading Indicators, Recession of 2001, and the Monetary Policy.*”
- 2001 Recession? Two viewpoints.

Figure 6: BPDFD2_1996: Bayesian Probability Forecast of a Downturn Using 2 Consecutive CLI - CLI1996=100



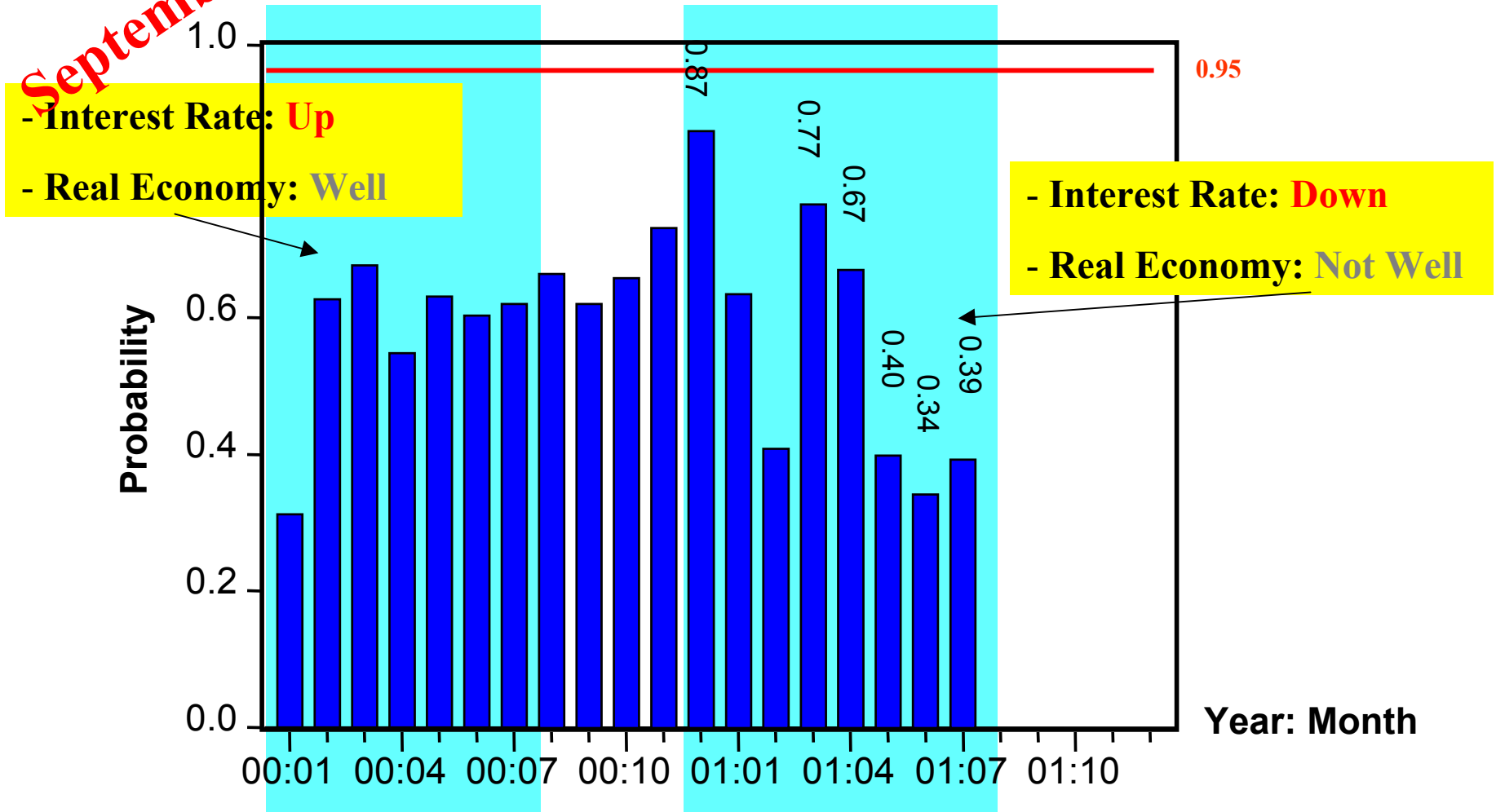
Recession in the Near Future? BPDFD2 Says No!

May 4, 2001



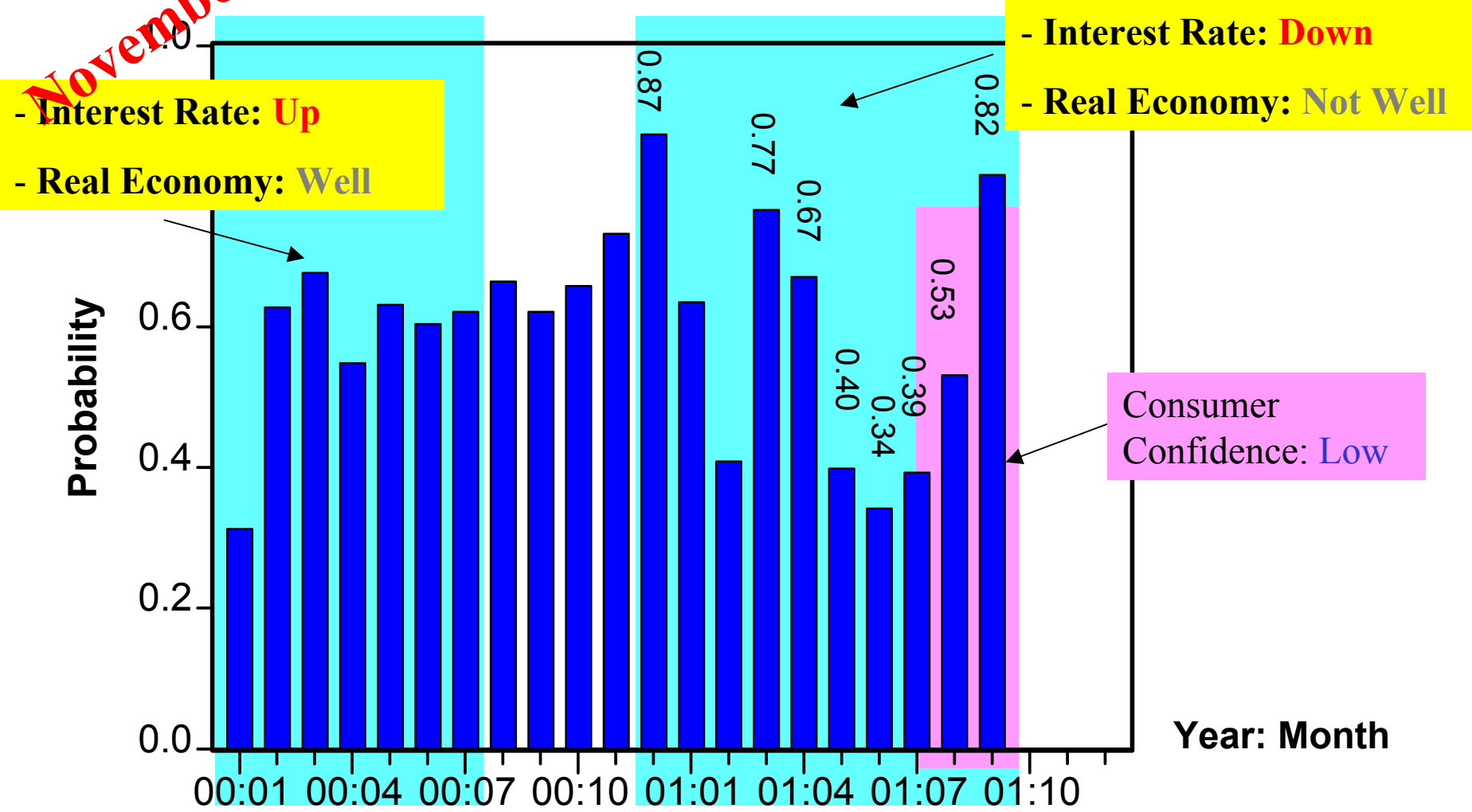
How Well Are CLIs Predicting the Near Future State Of the Economy?

September 14, 2001



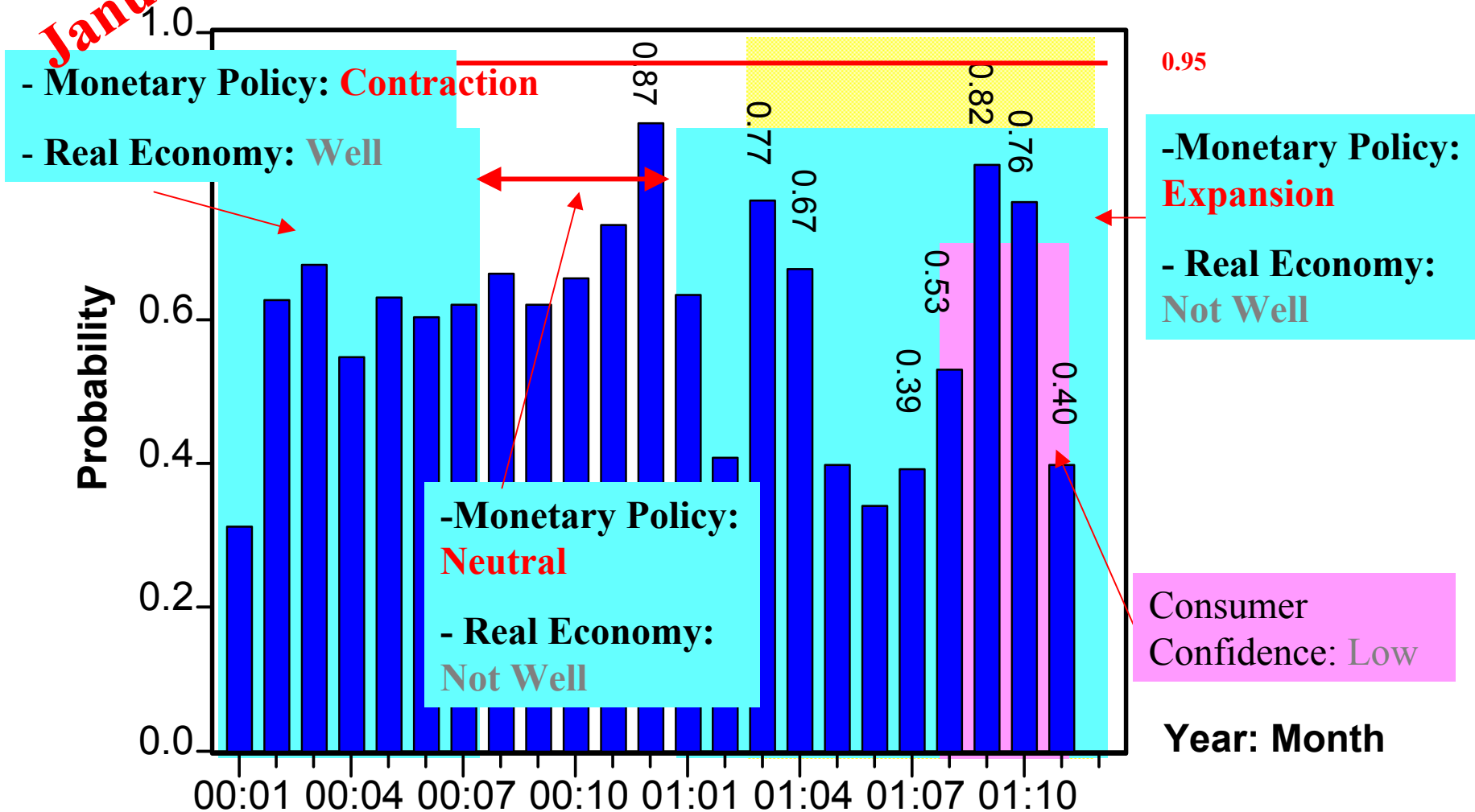
How Well Are CLIs Predicting the Near Future State Of the U.S. Economy?

November 5, 2001



Is the Monetary Policy Applied Beyond Its Effective Level?

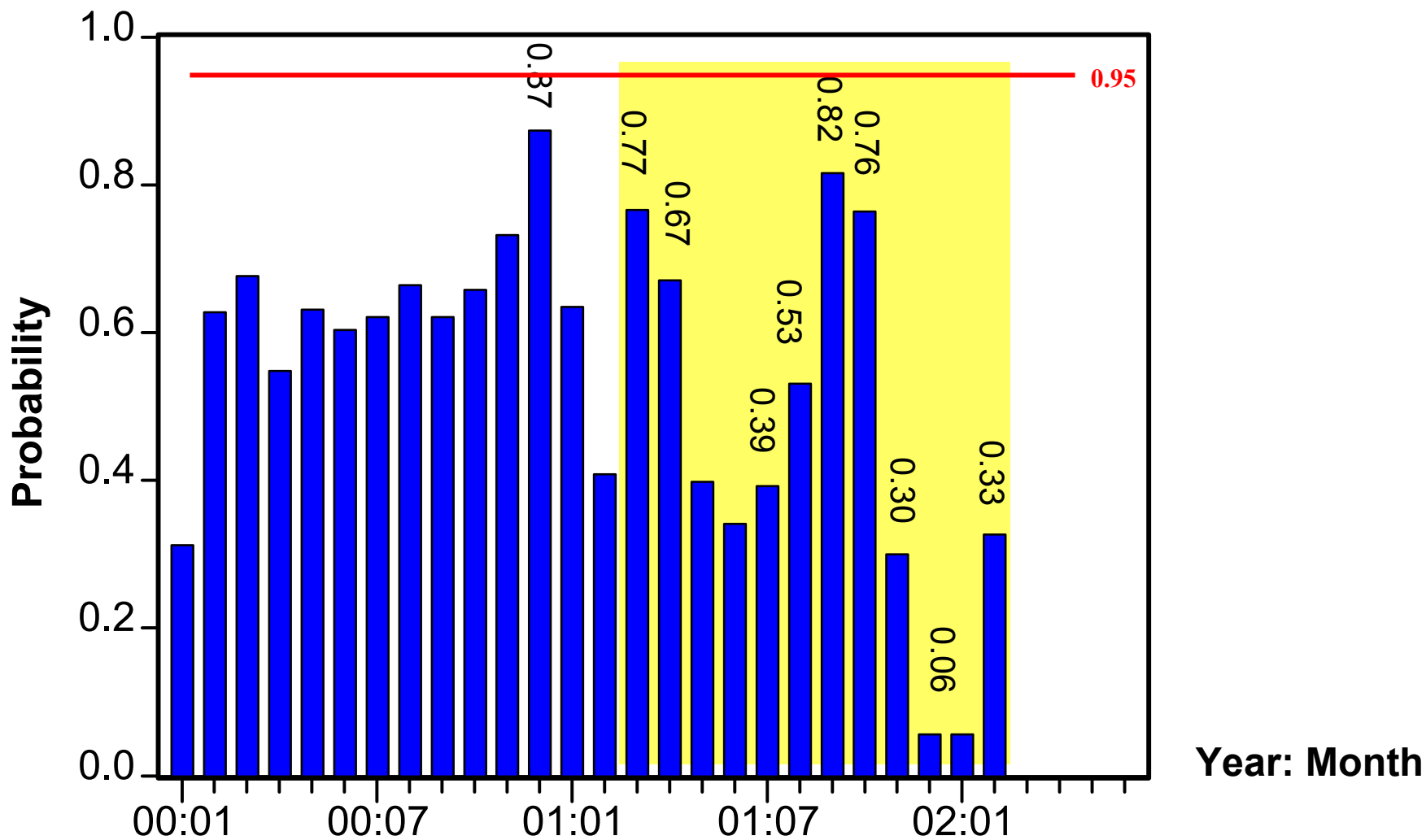
January 25, 2002



Source: Mostaghimi M. (2001), An Information-Theoretic Methodology for Estimating Bayesian Probability Forecast of a Downturn in the US Economy, Manuscript, Department of Economics and Finance, Southern Connecticut State U., New Haven, CT 06515.
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Is (Was) It A Recession?



2001 Recession: Two Viewpoints

- Until January 30, 2002 my main view was that the U.S. Economy has not been doing well for over a year and a half.
 - A view consistent with the NBER's.
 - If the CLI, which is the predictor of the state of the economy in the near future, is not reflecting it, then, there must be a problem with it.
 - CLI is dominated by the monetary policy tools which are controlled by the Federal Reserve System.
- On January 30, 2002 the Department of Commerce had announced that the RGDP increased by 0.2% for the 4th quarter 2001 (this figure was revised to 1.4% on February 28).
 - This information was totally a surprise, as the expectations were a decline of 1%.
 - Generally a two consecutive quarterly declines in RGDP is considered a sign of a recession.
 - RGDP had declined only once (the 3rd quarter) in 2001.
 - A second strong view has emerged since as to whether the U.S. Economy has ever been in a recession in 2001.