

INTELLECTUAL AMMUNITION

## Now That We Are In a Boom, Can We Please Declare the Recession Over?

Monday, April 5, 2021

**Donald Luskin**

**Don't worry that the NBER hasn't called the end of the recession. Worry when they do!**

The evidence that we are in the economic boom we've been forecasting (see ["A Boom in 2021... But What Could Make It Bust?"](#) January 4, 2021) is too abundant for even the most strident Covid-19 fear-porn mongers to ignore (see, for example, ["Data Insights: Global PMI"](#) April 5, 2021, or ["On the March Jobs Report"](#) April 2, 2021). So when will the conventional wisdom embrace the obvious in the form of an official declaration from the National Bureau of Economic Research that the pandemic recession is over? Who knows – the NBER's record for making timely top and trough calls is so poor as to be useless for investment decision-making.

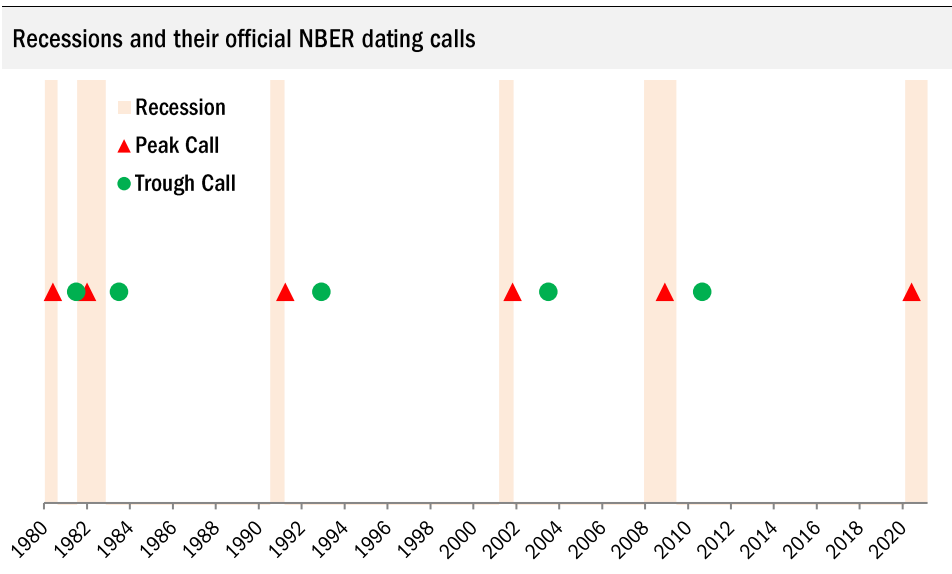
- [They declared the current recession](#) on June 8, 2020, declaring the peak of the prior business cycle to have been February, 2020. *At 121 days past the peak, this is the most prompt recession call it has ever made.* Historically the average has been 208 days, or about seven months. *Twice before, for the 1991 and 2001 recessions, the NBER didn't even declare the economy was in recession until after the recession was over* (please see the chart below)!
- We declared the pandemic recession earlier, on April 3 (and predicted, the same day, that there would be the V-shaped recovery we are experiencing, despite the recession's suddenness

**Update to strategic view**

**US MACRO, US STOCKS:**

Today's PMI record on top of March's payroll blowout makes us wonder when the NBER will get around to calling an official end to the pandemic recession. They didn't announce the recession until June, but that was more prompt than any other call in their history. Based on econometric modeling, they could have called the trough as soon as last October, dating it to April. This could reflect lingering extreme caution from health officials. But typically calling the trough takes twice as long as calling the peak. When the call finally comes, it could be a key sign of capitulation.

[\[Strategy dashboard\]](#)



Source: NBER, TrendMacro calculations

and severity – see [“On the March Jobs Report, and Being in Recession \(Whatever that Means\)”](#) April 3, 2020).

- [The NBER Business Cycle Dating Committee](#) has never laid out an exact definition of “recession” or set of rules for determining when one begins and ends. Economist Ed Leamer has published [a simple econometric model](#) based only on payrolls, the unemployment rate and industrial production, which is able to mimic the [NBER’s cycle dating history](#) with uncanny accuracy. That model would have made the call in April, when we did. It would date the prior business cycle peak to October 2019 – earlier than the NBER’s call for February to have been the peak *month*, but consistent with NBER’s call that Q4-2019 was the peak *quarter*.
- Leamer’s model has been calling the trough of the pandemic recession since October 2020, setting April 2020 as the trough-month. That was very much our call in April (again, see [“On the March Jobs Report, and Being in Recession \(Whatever that Means\)”](#)). If the NBER ends up agreeing, this will have been the shortest recession in history, by far – just two months.
- But when will the NBER speak? It’s tempting to say that the NBER’s failure to grasp the obvious and act on it is reflective of the highly cautious attitude of public health officials. None of them want to declare the pandemic to be over (even as US cases and deaths continue to fall, we have [the new head of the CDC talking publicly](#) about “the recurring feeling I have of impending doom”).
- But this is actually very typical. The NBER is much slower at calling troughs than they are at calling peaks. *The average trough call has come 447 days, or about 15 months, after the trough itself* (more than twice the lag for calling peaks). In 1981, they didn’t announce the end of the 1980 recession until the peak of the subsequent expansion (again, please see the chart on the previous page). In 2003, it took 20 months to call the trough of a shallow 8-month recession.
- The most prompt trough call was for the very severe 1981-1982 recession – just 220 days. We’re already at 340 days, if the NBER were to call an April trough today. It will have taken almost six times longer to call the trough than the two months the recession itself lasted.
- We keep fruitlessly looking for a correction in equities (see, most recently, [“On the March Jobs Report”](#)). Maybe at last it will come when an all-clear call from the NBER will serve as the ultimate signifier of capitulation.

---

## Bottom line

Today’s PMI record on top of March’s payroll blowout makes us wonder when the NBER will get around to calling an official end to the pandemic recession. They didn’t announce the recession until June, but that was more prompt than any other call in their history. Based on econometric modeling, they could have called the trough as soon as last October, dating it to April. This could reflect lingering extreme caution from health officials. But typically calling the trough takes twice as long as calling the peak. When the call finally comes, it could be a key sign of capitulation. ▶