

Hard to predict

“Predictions are hard, especially about the future” is a saying that has been variously credited to Mark Twain, Samuel Goldwyn, Yogi Berra, and Neils Bohr (Danish politician Karl Kristian Steincke was the first to use it, in 1948, according to an online Quote Investigator). In no field is the saying more true than in economics. Economists have a poor record in calling the turning points in the economy.

This phenomenon was explored in a recent article in Bloomberg Businessweek (“Why Are Economists So Bad at Predicting Recessions?”). The International Monetary Fund does economic forecasting. Of the 469 downturns that have occurred in various countries around the world since 1988, only four were predicted by the spring of the year before recession began. Only 111 were predicted in the spring of the year in which they occurred—that’s less than a 25% success rate. Private economists have done no better. A second study found that of 153 recessions from 1992 to 2014, only five had been predicted by private prognosticators the year before.

Several factors may account for the difficulty of making predictions. Economic data collected by governments inherently comes with a lag, and often get revised. Making a good prediction is a hard job. Studies have shown that warning about a recession that never happens is relatively rare, while failing to forecast a recession is a far more common mistake. There may be an element of herd instinct involved here—the reward that comes from standing out from the crowd may be seen by some and not enough to offset the risk of being wrong. In any event, forecast failures are so routine that they are almost never career ending for an economist.

The current economic expansion in the U.S. began in June 2009, and is quite long by historical standards. There have been some worrying signs that the economy could be slowing. However, there is no consensus building as yet. According to the National Association for Business Economics, 10% of its members expect a recession to start this year, and 25% expect one in 2021. The largest group is taking the safest position, projecting a recession to begin in 2020.

A lot can happen between now and then.

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