

**Newsweek**

# The Recession is Over

**What America's best economic forecaster is saying.**

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Could our long national nightmare be over? The economic contraction, this Great Recession, began in December 2007, and there's no apparent end in sight. As the unemployment rate has [spiked](#), analysts have thrown cold water on Federal Reserve Chairman Ben Bernanke's [March sighting of "green shoots."](#) The stock market's spring rally has [fizzled](#).

But in this season of doubt, I'm prepared to declare that the recession is really, most probably over. Why? Well, it's not because the [economists surveyed](#) by the Wall Street Journal believe it'll end in this quarter. (These guys wouldn't know an economic inflection point if it hit them upside the head. All through 2008, when the economy was contracting, they projected growth for the year.) No, two of the best and most objective forecasters, who are not connected to investment banks or to the CNBC noise machine, have recently called the upturn. Macroeconomic Advisers, the St. Louis-based consulting firm that compiles a monthly GDP index, reported to its clients Monday that while second-quarter GDP was tracking at negative 0.1 percent (recession), the third quarter was tracking at 2.4 percent growth.

The folks at the [Economic Cycles Research Institute](#) agree enthusiastically. It's not because they've detected green pea shoots in Central Park. Rather, it's because we've seen the three P's, says Lakshman Achuthan, managing director at ECRI, which has been studying business cycles for decades and was one of the few outfits to call the last two recessions with any degree of accuracy.

The economic data that get the most play in the news—unemployment, retail sales—are coincident or lagging indicators and historically have not revealed much about directional changes in the economy. ECRI's proprietary methodology breaks down indicators into a long-leading index, a weekly leading index, and a short-leading index. "We watch for turning points in the leading indexes to anticipate turning points in the business cycle and the overall economy," says Achuthan. It's tough to recognize transitions objectively "because so often our hopes and fears can get in the way." To prevent exuberance and despair from clouding vision, ECRI looks for the three P's: a pronounced rise in the leading indicators; one that persists for at least three months; and one that's pervasive, meaning a majority of indicators are moving in the same direction.

The long-leading index—which goes back to the 1920s and doesn't include stock prices but does include measures related to credit, housing, productivity, and profits—hits bottom and starts to climb about six months before a recession ends. The weekly leading index calls directional shifts about three to four months in advance. And the short-leading index, which includes stock prices and jobless claims, is typically the last to turn up.

All three are now flashing green. According to Achuthan, the long-leading index growth rate has been recovering since November 2008, the weekly leading index has been recovering since last December, and the short-leading index growth rate bottomed in February 2009. In sequence, each turned up, "and by April the three Ps had all been satisfied." Sure, corporate profits continue to disappoint, and the unemployment rate is climbing. But for ECRI, which navigates by relying exclusively on its instruments, that's only a part of their picture. They're the Spocks of the economic forecasting crowd—unemotional, uninvested in anything but the logic of what history and their dashboard tell them. "From our vantage point, every week and every month our call is

getting stronger, not weaker, including over the last few weeks," says Achuthan. "The recession is ending somewhere this summer." In fact, it may already be over.

There's plenty of ground for skepticism, in part because the news flow is still quite negative, especially when it comes to corporate profits. ECRI's response? "Indicators are typically judged by their freshness, not their prescience. Since most market-moving numbers are coincident to short leaning, while corporate guidance is often lagging, it is no surprise that analysts do not discern any convincing evidence of an economic upturn."

Still, Achuthan warns that one of the most important indicators—employment—isn't showing recovery yet. The reason: The combination of deleveraging and the long-term decline of manufacturing is hindering job creation and destroying existing jobs. After the last recession ended in 2001, the service sector created jobs, but payroll employment continued to fall through 2003 because millions of jobs were lost in the manufacturing sector during the expansion. "We may see some echo of that in this recovery." But while employment is vital, payroll jobs growth alone doesn't make the difference between recession and expansion.

"We've always felt that employment is very important, but it's a roughly coincident indicator," said Achuthan. "We would not expect the employment indicators to be mirroring anything we're seeing in the leading indicators." ECRI notes that job losses and unemployment claims are off their worst levels. "If we're right and the recession is over, the job market should improve by year's end."

Of course, improvement doesn't mean the sort of 1990s-vintage broad-based employment growth that boosts wages and expands benefits coverage. And without the tailwind of cheap money and a housing boom, it's difficult to see—as it always is at the beginning of expansions—what is going to produce large-scale jobs growth.

The recession is over! Let the jobless recovery begin!

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