Has The Recession Started? (Pascal Michaillat | Emmanuel Saez)

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Positioning: What We Already Know

- In a cyclical economy that sees booms and recessions there have been many attempts to find rules and ways to more accurately predict recessions
- A commonly used indicator being the Sahm rule, as mentioned in the essay, which is supposed to detect the early stages of a recession by using the three month average of the nation's unemployment rate and determining that if the rate increases by 0.5% or more from the lowest rate of the last 12 months the country has entered the beginning stages of a recession
- Other methods follow trends of GDP, government indexes, interest rates, and yield curves to predict Recessions: The models discussed in this essay focus on combining factors of unemployment, yield curves, and vacancy rates

Positioning: What We Don't Know/What we are trying to find

- An accurate equation for prediction of recessions
- What combinations of data provides the best basis for this prediction
- A mathematical model that predicts recess
- How do we create a mathematical model for predictions

Question: Has The US Economy Entered A Recession?

- How can we improve current detection methods for recessions and make them faster and more accurate in their predictions?
- Is the new Method really more accurate?
- This essay focuses on creating a new rule for predicting recessions reminiscent of the Sahm rule, but with a more multifaceted approach that improves the speed and accuracy of its predictions
- Argues that combining different kinds of data is important to give a more clear view of the market cycles as a whole

Answer

- This essay provides the answer with a mathematical model based on the Sahm Model outline, but uses data from the unemployment rate, vacancy rate, and financial markets
- This model, named the Michez Rule, combines a series of mathematical equations and thresholds that have been tested on current and historical data predicting a recessions if the minimum indicator passes 0.29 percentage points
- Finding that the Michez Rule is faster than the Sahm Rule predicting time taking 1.2-3 months as opposed to 2.7-7 months (important time for markets and governments)
- Comparison of Michez vs. Sahm tested on historical data shows Michez as more effective and having less false positives
- The use of wider kinds of data sets give a more complete view of the economic landscape of the US and its cyclical patterns

Graphical Illustration
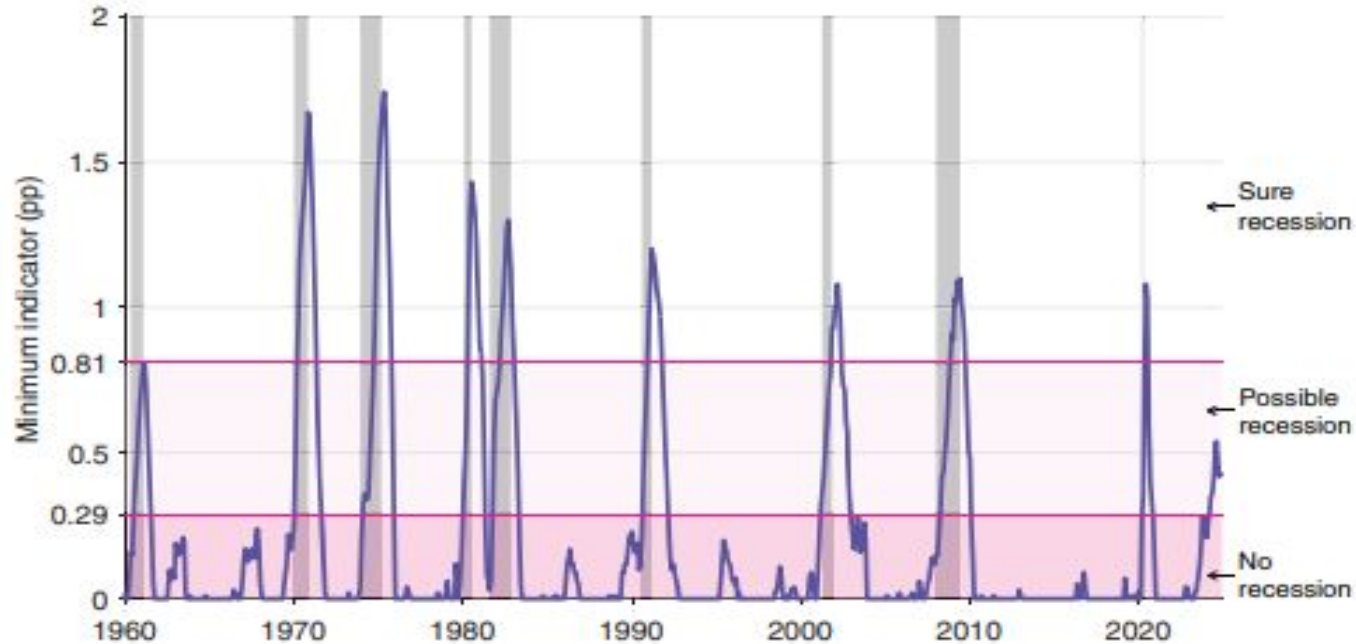
- This graph shows the dual threshold for determining whether we are possibly entering a recession or if we are in one

Conclusion

- The Michez rule has been tested with many different years of data and combined and compared against the Sahm rule
- It's combination of many types of data from different economic focuses from unemployment to financial markets makes it better at predicting recessions without false positives and in a timelier manner
- In all the Michez rule is a more reliable and accurate mathematical model for economists to predict recessions and modeling the cyclical pattern of the US Economy