PRESENTATION OF "HAS THE RECESSION STARTED?" BY PASCAL MICHAILLAT AND EMMANUEL SAEZ (2024)

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CONTEXT: HOW DOES THE PAPER RELATE TO THE LECTURE MATERIAL?

- This paper develops a new Sahm-type recession indicator, defined as the minimum of the unemployment indicator and the vacancy indicator, combining these data sources to improve recession detection.
- It contributes to macroeconomic analysis by improving the timeliness and accuracy of recession detection, compared to traditional methods like the Sahm rule.
- The findings complement lecture discussions on business cycles, labor market dynamics, and economic indicators.
- Prior methods, such as the Sahm rule, relied solely on unemployment data, which could lag behind actual recessions. This paper's method provides a more robust and earlier detection mechanism.

QUESTION: WHAT IS THE RESEARCH QUESTION ADDRESSED BY THE PAPER?

- Has the US economy entered a recession?
- How can a combination of vacancy and unemployment data improve the detection of recessions in real time?
- What are the historical and current implications of this new recession rule, especially compared to previous approaches?
- How does this method address the limitations of earlier models in terms of detection speed and accuracy?

ANSWER: WHAT ARE THE MAIN ELEMENTS OF THE ANSWER TO THE RESEARCH QUESTION?

- **New Indicator Definition:**
  - Combines the Sahm unemployment indicator and a new vacancy indicator.
  - Minimum indicator is defined as the smaller of the two: unemployment indicator or vacancy indicator.
- **Recession Rule:**
  - Two thresholds:
    - **0.3pp:** A recession may have started.
    - **0.8pp:** A recession has started for sure.
- **Performance:**
  - Detects recessions 0.8 months after they start on average (compared to a 2.1-month delay for the Sahm rule, as stated in the paper).
  - No false positives or negatives since 1929.
- **August 2024 Data:**
  - Indicator at 0.54pp.
  - Implies a 48% probability that the US is in a recession.

GRAPHICAL ILLUSTRATION OF THE ANSWER TO THE RESEARCH QUESTION

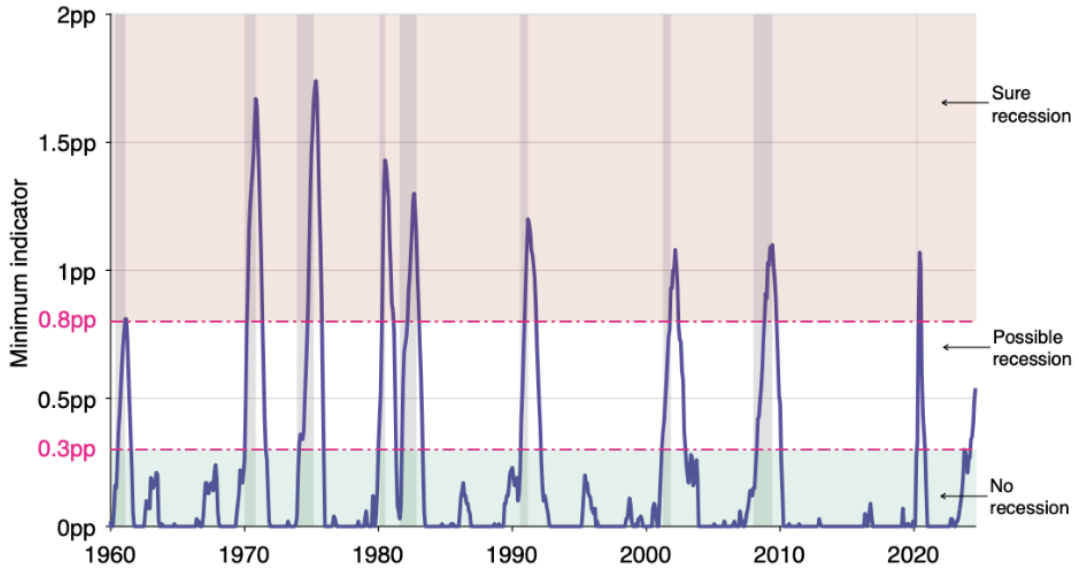

FIGURE 4. Minimum indicator and two-sided recession rule in the United States, January 1960–August 2024

- **Minimum Indicator Over Time (1960–2024):**
  - Recession thresholds clearly marked at **0.3pp** and **0.8pp**.
  - August 2024 value: **0.54pp**, indicating possible recession.

Figure: **Figure 4.** Minimum indicator and two-sided recession rule in the United States, January 1960–August 2024.

POSITIONING: HOW DOES THE MATERIAL IN THE PAPER CONTRIBUTE TO THE PREVIOUS LITERATURE?

- **Improves on Sahm Rule:**
  - Combines vacancy and unemployment data for earlier detection.
  - Reduces noise and blips from individual indicators.
- **Historical Robustness:**
  - Identifies all recessions since 1929, providing a perfect track record, whereas the Sahm rule breaks down before 1960 due to false positives in earlier periods.
- **Extends Labor Market Research:**
  - Confirms vacancy-unemployment dynamics along the Beveridge curve.
  - Adds reliability to real-time macroeconomic indicators.
- **Previous Limitations:**
  - Earlier models, such as the Sahm rule and yield curve analysis, were limited by single-variable dependence, making them less adaptable to structural changes in the economy.

CONCLUSION

- **Results Summary:**
  - The new recession indicator detects recessions earlier on average by 0.8 months and provides more consistent accuracy compared to the Sahm rule, as demonstrated by its historical performance.
  - Current data suggest the US may be in a recession with a 48
- **Broader Implications:**
  - Enhances real-time policymaking by providing early recession signals.
  - Suggests potential for better labor market and economic stabilization policies.
- **Limitations:**
  - Requires reliable real-time data on vacancies and unemployment.
- **Future Questions:**
  - How does the indicator perform during atypical downturns like pandemics?
  - Can this methodology be adapted to other economies or sectors?