

Handout for September 2022 Newsletter **The Economics of Recessions in FRED®**

Purpose.

1. Create a plot of smoothed recession probabilities.
2. Describe and discuss patterns in the evolution of recession probabilities over time.

Pedagogical Rationale. This assignment requires that you first look for data and plot them into a graph. Next, you will describe and discuss patterns in the evolution of the data series. These tasks will develop your proficiency in searching for and interpreting data.

Grading. Your grade will be determined by (a) how precisely you complete the data search and (b) how accurately you interpret the data.

Steps to Search for and Transform the Data.

1. Access <https://fred.stlouisfed.org/> and search for “Smoothed U.S. Recession Probabilities.”
2. Select “Percent, Monthly, Not Seasonally Adjusted.”

Writing Prompts. Answer the following questions:

1. The data show the probability the U.S. economy is in recession based on a set of employment, industrial production, manufacturing and trade sales, and personal income data. Consider the overlap between the data and the shaded areas in the graph. How closely do the predicted recession dates align with the official recession dates shaded in the graph?
2. Consider the fact that the recession forecast is produced after the appropriate data are released and that translates into a delay of about three months. Is it possible a recession starts before the data arrive and a forecast is produced?
3. Are there instances of the recession forecast probabilities reaching values above 10% for short periods of time without a recession following?

Notes.

1. To learn more about forecasting recessions, read this post from the FRED Blog: “How likely is a recession? (And how fast is a forecast?).”
<https://fredblog.stlouisfed.org/2015/05/how-likely-is-a-recession-and-how-fast-is-a-forecast/>
2. To learn more about dating recessions, read this post from the FRED Blog: “Daily recession dates in FRED: Three choices to date business cycle turning points”
<https://fredblog.stlouisfed.org/2022/06/daily-recession-dates-in-fred/>