

Recession or no recession??

John Hussman is a very practical economist (if that's not an oxymoron) who is careful how he uses and interprets his data. His assessment of leading economic indicators suggests a very high likelihood that we are headed for another recession. Below is an excerpt from today's (11/7) weekly market comment. Three things to note. The Economic Cycle Research Institute is seeing the same thing based on its set of leading indicators. Many observers who claim we won't head into a recession are using lagging or coincident data to make their case. As Hussman points out, it could be different this time but taking an aggressive investment posture on that basis could prove very dangerous.

Here in the U.S., our broadest models (both ensembles and probit models) continue to imply a probability of oncoming recession near 100%. It's important to recognize, though, that there is such a uniformity of recession warnings here (in ECRI head Lakshman Achuthan's words, a "contagion") that even an unsophisticated, unweighted average of evidence indicates a very high likelihood of recession. The following chart presents an unweighted average of 20 binary (1/0) recession flags we follow (e.g. credit spreads widening versus 6 months earlier, S&P 500 lower than 6 months earlier, PMI below 54, ECRI weekly leading index below -5, consumer confidence more than 20 points below its 12-month average, etc, etc). The black brackets represent official recessions. **The simple fact is that we've never seen a plurality (>50%) of these measures unfavorable except during or immediately prior to U.S. recessions.** Maybe this time is different? We hope so, but we certainly wouldn't invest on that hope.

