RECESSION

Recession ahead? Four traditional indicators — and four weird ones

by Zachary Halaschak, Economics Reporter |
September 11, 2022 06:20 AM

Top of mind for economists right now is whether the United States is in or entering a recession, and they are watching several indicators closely for answers.

The economy is not in a declared recession, although views are mixed on whether it might be or is on the brink of tumbling into one. The last time the U.S. was in a recession, as declared by the National Bureau of Economic Research, was a short two-month period at the outset of the pandemic. Before that was the Great Recession.

US DOLLAR TO SOCK MANUFACTURERS AS OVERSEAS PARTNERS WRACKED BY INFLATION

TRADITIONAL INDICATORS:

GDP: Perhaps the single biggest indicator regarding recessions is GDP growth. A historical rule of thumb is that two consecutive quarters of negative GDP growth constitutes a recession.

In fact, all of the last 12 recessions identified by the NBER have seen at least two quarters of negative GDP growth, and, conversely, each instance of at least two quarters of negative GDP growth has later been declared a recession.

So when the Bureau of Economic Analysis announced in a revised estimate that GDP fell at a 0.6% annualized rate in the second quarter, economists took notice. That came after negative 1.6% GDP growth in the first quarter.

Job growth: Still, another major indicator is cutting against the notion that the economy is recessed — the country's surprisingly resilient labor market. Job growth has averaged 378,000 over the past three months, a very strong pace.

The unemployment rate is also shockingly low given the prospects of a recession. While it recently ticked up to a still-low 3.7%, it clocked in at a historic 3.5% in recent months — matching the ultralow level it was at right before the pandemic when the economy was robust and growing.

Industrial production: Another indicator of a recession is declining industrial production. While economic growth as measured by GDP has stagnated, industrial production at factories in the U.S. has hung in there.

Manufacturing output increased 0.7% in July after dipping a bit in June. Overall, output has grown by 3.2% on an annualized basis.

Home sales: Home sales are another indicator of recession because if sales start going down, it can mean that people can't afford to make home purchases. That can result in new construction slowing, meaning fewer jobs in that sector.

The housing market is especially sensitive to the Federal Reserve raising interest rates because doing so translates into higher mortgage rates. The Fed has been on its most ambitious rate-hiking cycle in decades in order to tame inflation, so the housing market and home sales are naturally starting to take a hit. The average rate on a 30-year fixed-rate mortgage hit 5.89%, Freddie Mac reported this week, the highest since 2008.

New home sales in July plummeted from the month before, dropping a whopping 12.6% last month to a seasonally adjusted annual rate of 511,000, according to a report from the Census Bureau.

Additonally, sales of existing homes plunged 5.9% in July, a sixth straight month of declines, according to a report from the National Association of Realtors. Existing home sales are down a hefty 20.2% from a year ago and have accelerated in recent months.

Housing starts, which measure the annualized change in the number of new residential buildings that began construction, declined by a hefty 9.6% in July, the Commerce Department said in a report.

NONTRADITIONAL INDICATORS

Copper: An interesting recession indicator, which in a sense ties together GDP growth, industrial output, and housing, is the copper index. When copper prices start to fall, it shows that demand for the metal, which is key in construction, manufacturing, and household

Copper has been a strong indicator of recessions in the past and is so well regarded that some refer to it as "Doctor Copper."

Copper is now trading at about $3.55 per pound. That is a steep and aggressive decline from its peak of nearly $5 in late February — a more than 28% decline in just a matter of months.

Campbell Harvey, a finance professor at Duke University's Fuqua School of Business, told the *Washington Examiner* earlier this summer that of all the commodities, copper is the one that most closely tracks what is happening in the overall economy. He said that other commodities, such as oil, aren't as good of indicators because of the complexity of supply chains, embargos, etc.

Champagne: One indicator of a recession is the so-called champagne index. Consumers typically imbibe champagne when things in their life are going well. That can translate more broadly to the economy because if a recession is bubbling up, people will feel less well off, might be fired, and are on aggregate less likely to purchase champagne.

History shows that the indicator has been a reliable gauge. Champagne consumption [rose](#) to 23.2 million bottles in 2006, before cratering to just about half of that by 2009, according to *Bloomberg*. NielsenIQ data indicate that in 2022, sales of sparkling wine have been down every month from the previous year.

Men's underwear: Another recession indicator that some watch is overall sales of men's underwear. Former Fed Chairman Alan Greenspan was reportedly very interested in men's underwear sales because he surmised underwear is the last item of clothing men will replace, even if it begins to form holes.

When people have less money to spend, they might skimp or put off buying new underwear because it is the item of clothing that is least forward-facing. So if people have less money in their bank accounts and the economy is in a recession, men's underwear sales would be expected to fall.

"If you were to use it as a barometer, the most important retail sales to watch are Fruit of the Loom and Hanes at Walmart and Target, where most of America buys its underwear," Morningstar analyst David Swartz said.

The word 'recession': Two other offbeat indicators rely on the perceptions of a recession itself. The "R-Word Index" was coined by the *Economist* some three decades ago and refers to the analysis of recessionary risk by calculating the frequency of the word "recession" used in stories in major newspapers.

Google Trends is the modern version of the R-Word Index. Google Trends allows people to analyze a keyword and see the frequency with which it has been typed into Google's massive search engine. Searches for the word "recession" ticked up before the Great Recession, around the time of the brief pandemic recession, and spiked again in late July but have cooled off a bit since then.

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