favorable to continued expansion, exogenous disturbances barely sufficed to set in motion the mechanism of inventory contraction. The contraction could not get very far in the face of automatic stabilizers, reversal of monetary policy, increasing net exports, and an early rise in defense orders. The basically favorable situation made it easy to anticipate an early upturn. The trough, however, came sooner than most observers expected; hence, the dating scores shown in Chart I-6 were not especially high until one month before the trough.

The favorable circumstances resulted in a sharp upturn, helping to make the trough easy to date and recognize. The bottom started like a U and ended like a V. Since, under NBER procedures, the later date is preferred in doubtful cases, a trough that is half U and half V, in that order, does not give rise to difficulties. The NBER reference date of February has not been challenged.

In November and December, almost as soon as the various commentators declared a recession was under way, they predicted that it would be short and mild. In January the most common expectation was still for a mild recession, with an upturn by midyear. During the month of the cyclical trough, there was, with some exceptions, a tendency to advance the date of the expected upturn. In March, with varying degrees of certainty, all the sources surveyed expressed the view that the upturn was at hand or, at the least, not far off. During April, they became more certain, week by week. During the first part of May, lingering doubts about the reality of the upturn tended to disappear. The question shifted to how fast recovery was proceeding. The answer given was that it was proceeding more rapidly than most observers had expected.

7
False Warnings

False warnings may be considered reverse recognition. This chapter examines some of the most flagrant cases. Our method of scoring for accuracy of dating cannot, of course, be readily adapted to false warnings. The scoring for degree of certainty could be adapted to false warnings more easily, though we have not attempted to do so.[34] But false warnings should be considered because a forecasting record must be discounted if it achieves success at turns that do occur only by ignoring the hazard of false warnings.

The head of a forecasting service has been quoted as having said early in 1931, "Statistics show clearly that business reached its low point in December of last year. Since then there has been a steady but constant improvement. Everything indicates that general business has turned the corner. . . . I go further and say that 1931 should offer the greatest opportunities of any year for generations."

In May 1947, in separate statements, two professors from the same university used almost identical language, one saying, "The long expected and long advertised recession is here," the other saying, "Beyond question, the long advertised recession is here." A month later in a news magazine with a large circulation was the statement, "The nation's bumper crop of economic forecasters could now relax, tuck their thumbs in their vest, and say: 'We told you so.' The recession had officially begun." The basis for that confident assertion was the index of industrial production. The index was revised in 1953 in a way that eliminated most of the decline.[35] The mean of the forecasts of industrial production made in September by a group of forecasters in Zarnowitz' collection predicted a decline from a high in the first half of the year, the decline to continue for the year and a half covered by the prediction and to aggregate more than 10 per cent—clearly an amplitude of cyclical proportions. What is worse, every single forecaster in the group predicted a decline in industrial production. The top of the range of forecasts predicted the same level of industrial production for the second half of 1947 as for the first half, with the first half of 1948 3 per cent

[34] See, however, p. xvi above.

[35] *Federal Reserve Bulletin,* December 1953, pp. 1239–1291. The extent of the decline from March through July 1947 was reduced from 7 per cent to 2 per cent, mainly because of a change in the seasonal adjustment. This is a very interesting example of the difficulties inherent in recognizing the current cyclical position. The "correct" seasonal adjustment cannot be known until data for future years become available. In this particular case, the difficulty was magnified because 1947 was the first year in which the normal postwar seasonal pattern became manifest. Hindsight makes clear what could not be clear to contemporary observers: the fall in industrial production was mainly seasonal in character.

lower and the second half slightly lower still. True, not everybody in the group expected a decline of cyclical proportions.

Though the NBER does not consider 1951–52 a business cycle contraction, it is a borderline case. At the same time that defense spending in connection with the Korean war gave one part of the economy an inflationary thrust, the civilian sector underwent a decline in demand as well as in output. Inventory investment fell from $15 billion in 1950-IV and 1951-II (about 5 per cent of GNP) to a negative figure in 1952-II, a decline greater than that associated with most so-called inventory recessions. GNP itself did not fall, though it leveled off temporarily.[36] Under such circumstances, one might expect to find some forecasters giving false warnings. One business publication in the summer of 1951 said, "Business in general is undergoing a minor recession and many businessmen are facing a downright slump. . . ." It went on to say that its projections "suggest a 'deflationary' not an 'inflationary' gap between the first quarter of 1951 and the first quarter of 1952." In the spring of 1952, another publication said that if a steel strike came, "we think it would add something to the prospects for second half year general revival in business, since it would deepen the current recession by taking a key industry out of production." In mitigation of these offenses, it should be pointed out that the term "minor recession" or even just plain "recession" as used by the publications under review does not have as precise a meaning as it does when used by economists.[37]

Another difficult time for forecasters came in 1956. GNP in constant dollars fell from $446.4 in 1955-IV to $443.6 in 1956-I and from $445.6 in 1956-II to $444.5 in 1956-III.[38] One forecaster relying primarily on business cycle indicators in May 1956 was rather sure a cyclical peak had occurred in February. A business publication that in January had forecast a $5 billion decline (more than 1 per cent) in the

[36] More precisely, the most recent estimates show a decline in GNP in current dollars of one-tenth of 1 per cent in 1952-II, a decline in GNP in constant dollars of one-half of 1 per cent. In 1952-III, GNP resumed its rise.

[37] That the forecasters' use of "recession" does not necessarily imply a business cycle contraction came as an unhappy surprise to me, making the task of interpreting and scoring forecasts more difficult. Moreover, the word may be used at different times by the same publication in different senses. This is a specific example of a general tendency by forecasters to take refuge in ambiguity.

[38] These are the most recent estimates from *Survey of Current Business*, August 1965, pp. 26–27. Earlier estimates told a roughly similar story. GNP in current dollars continued to rise (*ibid.*, pp. 24–25). Figures in the text are in billions.

rate of GNP during 1956 said in its July issue, "To be sure, a business 'recession' has been under way since the end of 1955. But . . . it's a 'friendly' recession. That is to say, industrial production has eased only two per cent since last December and the nation's total output of goods and services has continued to rise. Thus the current business readjustment has been much less severe, for example, than the readjustment of 1949 or 1953–54. . . ." The passage just quoted abounds in ambiguity.[39]

As a business publication later said, 1962 "was a year when many forecasters broke their crystal balls in agonized frustration." A government economist said at the time, "As soon as consumer confidence is shaken, and the consumer limits his spending, the effects can be seen through the whole industrial economy—and I think the process has already started." During a thirteen month period, one of the publications in our sample was continuously forecasting a peak with such a high degree of confidence that, under our methods of scoring for degree of certainty, it would have been given scores ranging from 80 to 100 had a peak actually occurred.

Although I have called the forecasts reviewed in this section "false warnings" or "false alarms" and have even referred to them as "flagrant cases," in a sense they were not false alarms at all. In all of the periods in question—1931, 1947, 1951–52, 1956, and 1962—the economy actually did hesitate and show signs of reversing itself. Such hesitations are hard to distinguish contemporaneously from turning points. Some economists believe that they should be recognized as a separate class of phenomena in addition to the usual cyclical phases of expansion and contraction.

[39] The publication in question was the same one that in 1951 had said the economy was "undergoing a minor recession." In January 1958, in the course of denying that the economy was then experiencing "a real 'recession,'" it said, "time was when 'recession' was reserved for an industrial decline of 15 per cent or more, usually accompanied by slumps of one-third or more in capital spending." Unfortunately, this publication has not issued a glossary defining the differences among "minor recession," "'friendly' recession," and "real 'recession.'"