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Conclusions

1. There is a pattern in reports on the business outlook in the vicinity of cyclical peaks and troughs. As time goes by, analysts become increasingly aware of first the possibility, then the probability, and finally the certainty of a turning point. The beginning of this process is almost impossible to date. Forecasters are always aware of the possibility of a turn. Not long before it occurs, their expectation starts to strengthen and to become more definite. The end of the process may come sooner than six months after the turn, as in 1961. On two occasions (the 1949 trough and the 1960 peak) the end of the process cannot be identified. For the majority of forecasters, the process is normally completed in six months.

2. Since World War II, recognition of troughs has been faster than recognition of peaks. Despite the forebodings of an occasional prophet of doom, forecasters have generally expected each contraction to be short and mild. Although they were not able to pinpoint when the trough would come, they were basically right.

3. Geoffrey Moore wrote in 1950, "If the user of statistical indicators could do no better than recognize contemporaneously the turns in general economic activity denoted by our reference dates, he would have a better record than most of his fellows." [47] This study tends to confirm Moore's assertion. Out of seventy-three scores for forecasts made in the month of NBER reference peaks and troughs, there were forty-nine scores of zero for accuracy of dating (67 per cent) and forty scores of less than 50 for degree of certainty (55 per cent).

4. Evidence in this study that users of the NBER indicators approach actually have done better than their fellows is weak. The evidence sug-

[47] *Statistical Indicators of Cyclical Revivals and Recessions,* New York, NBER, 1950, reprinted in *Business Cycle Indicators,* Vol. I, pp. 257–258.

gests, if anything, that relative to other methods the indicators approach may be more sensitive at peaks and less sensitive at troughs. The two analysts covered in this study who relied heavily on the indicators did better than the average of the others in 1957 and 1960 but worse in 1958 and 1961. But, since all analysts use a mixture of methods, this finding is highly tentative. Furthermore, the samples are small and may be unrepresentative.

5. Forecasts have sometimes gone astray as a result of faulty statistical estimates, as in 1947 (industrial production) and 1957 (inventory investment).

6. Business analysts need to (a) state their predictions more precisely and (b) define their subjective estimates of the likelihood of different possibilities. Though the ambiguous language common in reports on business cycles results partly from the nature of the subject, it is associated also with the practice of predicting a single outcome. Under conditions of uncertainty, the single prediction gets hedged, qualified, and fuzzed up. Proper handling of uncertainty requires defining different possibilities and evaluating their likelihood.

Notes to Table A

SOURCES: Garfield V. Cox, *An Appraisal of American Business Forecasts*, rev. ed. (Chicago: The University of Chicago Press, 1930); and Geoffrey H. Moore. For explanation of method, see text, Chapter 3.

[a] One service did not forecast during 1919 trough and 1920 peak; another service began forecasting three months after the 1919 trough; none of the services was available more than four months before the 1919 trough.

[b] Two peaks only for −6, +4, +5, and +6 months; three peaks for −5, −4, −3, −2, and +3 months.

[c] One trough only for +5 and +6 months; two troughs for −6 and +4 months; three troughs for −5, −4, and +3 months.

[d] Detail need not add to total because of rounding.

[e] Scores given represent sixteenths. Possible scores range from −1 to +1 (i.e., from −16 to +16 in terms of numbers shown here).