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THE ECONOMICS OF WALKING ABOUT AND PREDICTING US DOWNTURNS

David G. Blanchflower
Alex Bryson

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ABSTRACT

Economic shocks are notoriously difficult to predict but recent research suggests qualitative metrics about economic actors' expectations are predictive of downturns. We show consumer expectations indices from both the Conference Board and the University of Michigan predict economic downturns up to 18 months in advance in the United States, both at national and at state-level. All the recessions since the 1980s have been predicted by at least 10 and sometimes many more point drops in these expectations indices. A single monthly rise of at least 0.3 percentage points in the unemployment rate also predicts recession, as does two consecutive months of employment rate declines. The economic situation in 2021 is exceptional, however, since unprecedented direct government intervention in the labor market through furlough-type arrangements has enabled employment rates to recover quickly from the huge downturn in 2020. However, downward movements in consumer expectations in the last six months suggest the economy in the United States is entering recession now (Autumn 2021) even though employment and wage growth figures suggest otherwise.

David G. Blanchflower
Bruce V. Rauner Professor of Economics
6106 Rockefeller Hall
Dartmouth College
Hanover, NH 03755-3514
and Adam Smith School of Business, University of Glasgow
and also NBER
David.G.Blanchflower@Dartmouth.EDU

Alex Bryson
Professor of Quantitative Social Science
UCL Social Research Institute
University College London
20 Bedford Way
London WC1H 0AL
United Kingdom
a.bryson@ucl.ac.uk

1. Introduction

Following the collective failure to predict the Great Recession of 2008 economists have redoubled their efforts to predict economic downturns. But predicting downturns with traditional methods and data is notoriously difficult. In two earlier papers (Blanchflower and Bryson, 2021a, 2021b) we examined whether it was possible to predict downturns. Reviewing the comparative cross-country studies, we showed that, once country fixed effects were added to the models, very few variables predict changes in unemployment rates, except lagged unemployment (Blanchflower and Bryson, 2021a). Similarly, in the United States, once one incorporates state fixed effects, little predicts unemployment other than lagged unemployment.

One exception is lagged home ownership, which helps capture mobility frictions in labor markets (Blanchflower and Bryson, 2021a). However, we went on to show that qualitative metrics of economic actors' expectations as to what might happen to the economy, to their labor market prospects, and to their household finances, were all strongly predictive of what happened to aggregate unemployment rates, both at country level in the United States and the rest of the OECD, as well as at state level in the United States (Blanchflower and Bryson, 2021a, 2021b).

We argued that the predictive capacity of these expectations metrics arises from what we term “the economics of walking about”: economic actors on the ground possess information about economic trends based on their own experiences, and the experiences of those in their networks, which allow them to assess likely future economic trends. This is akin to “the wisdom of crowds” whereby the aggregate predictions of non-experts often produce more accurate assessments of situations than those offered by ‘experts’ (Surowiecki, 2005).

We return to the issue in this paper to see whether it is possible to predict turning points in the United States economy since the late 1970s using qualitative data for the United States from The Conference Board and the University of Michigan on consumer expectations. In our previous paper (Blanchflower and Bryson, 2021b) we focused exclusively on the Great Recession of 2008 and showed expectations indexes did a good job of predicting the economic shock, both in the United States and elsewhere. Indeed, they appeared to do a better job than the Sahm Rule which compares a three-month moving average of the present with the lowest values of the moving average over the preceding year (Sahm, 2019).

Repeating that exercise here, but for the United States only, over the period 1978 to September 2021, we show that consumer expectations about future economic trends are highly predictive of economic downturns 6-18 months ahead, thus providing an early-warning-system for the economy.

We identify four criteria to predict these recessions:

Two out of three successive quarters of quarterly GDP growth are negative

There are two successive months of employment declines in the Current Population Survey (CPS) household-level data.

The unemployment rate rises 0.3 percentage points in a single month

Either or both the two expectations measures we examine from The Conference Board and the University of Michigan fall by 10 points or more.

The first three criteria are validated in eye-ball comparisons of the descriptive data series, whilst the predictive power of the expectations metrics is apparent in both descriptive data series and in a regression framework, where expectations 18, 12 and 6 months earlier are statistically significant predictors of downturns.

The rest of this paper is set out as follows. Section Two identifies recessions in the United States with time-series data. Section Three runs unemployment rate regressions to assess the predictive power of lagged consumer expectations in predicting monthly unemployment. Section Four considers the prospects for recession in 2021, despite declining unemployment rates. Section Five concludes.

2. Identifying Recessions in the United States with Time-series Data

Below we examine the six US business cycle peaks – the starts of recessions – since 1978 as called by the NBER Business Cycle Dating Committee (<https://www.nber.org/research/business-cycle-dating>) – henceforth NBCDC. They are as set out in detail in **Table 1**. The peaks occur in:

- 1) January 1980
- 2) July 1981
- 3) July 1990
- 4) March 2001
- 5) December 2007
- 6) February 2020.

The NBER also identified a seventh in 2001 where there were not two successive quarters of negative growth, although two of the four were negative (Q1=-0.3%; Q2=+0.6%; Q3=-0.4% and Q4=+0.3%) implying a further recession beginning in

- 7) January 2001.

In fact, the NBCDC identified seven other start dates for recessions, making fourteen in all since 1945.

- 8) February-October 1945.¹
- 9) November 1948-October 1949
- 10) July 1953-May 1954
- 11) August 1957-April 1958
- 12) April 1960-February 1961
- 13) December 1969-November 1970
- 14) November 1973-March 1975

As can be seen from the second column of **Table 1** it took between five and twelve months before the NBCDC called the recession. For example, it took the NBCDC a year, until December 2008, to call the start of the Great Recession as December 2007.

¹ Our GDP data from the OECD starts in 1947.

Column 3 shows the date the recession started using the rule of two out of three consecutive quarters of GDP growth while column 4 shows the start dates based on the Sahm (2019) rule with current (most recent, revised) GDP data, and the final column shows the start date of recession with real time data that was subsequently subject to revision (but was all that policy makers had at the time to make judgement calls).

In part 2 of **Table 1** we report the starting dates of recession if we use the criteria of two successive months of absolute employment decline using data on non-farm payrolls (NFP) based on establishment data and from households in the Current Population Survey (CPS). The final column of part 2 of **Table 1** shows the starting month for recession based on when the unemployment rate jumped by 0.3 percentage points. We provide further details on these criteria below.

2.1. GDP growth

Chart 1 plots quarterly GDP growth for the 297 quarters from Q21947 through Q22021 (Source: OECD). Of these, forty-two - 14.1% - were negative. There were ten occasions when there were two or more successive quarters of negative growth which is often used to describe a recession, especially in most other countries that do not have an official recession - peak and trough - dating committee. The ten are identified below, not all of which were called as recessions by NBCDC.

- 1) Q2-Q3 1947
- 2) Q1-Q2 1949
- 3) Q3-Q4 1953
- 4) Q4 1969 – Q1 1970
- 5) Q3 1974 – Q4 1974
- 6) Q2-Q3 1980
- 7) Q4 1981- Q1 1982
- 8) Q4 1990 - Q1 1991
- 9) Q3 2008 - Q2 2009
- 10) Q1 2020 - Q2 2020

Table 2 shows when these successive negative quarters of growth took place within the series of all quarters of negative growth since World War Two. In addition, there were five further occasions with two out of three non-consecutive negative quarters of growth a) Q1 and Q3 1956 b) Q2 and Q4 1957 c) Q2 and Q4 1960 d) Q3 1973 and Q1 1974 e) Q1 and Q3 2001.

In every case the date identified using GDP is later than that identified by the NBER. So, a couple of negative quarters in a twelve-month period, successive or not seems a good starting rule. Care must be taken of course, as Blanchflower and Bryson (2021a, 2021b) note, since GDP growth gets revised for a long time and is especially problematic at turning points down, when first estimates tend to overestimate the true rate and frequently have the wrong sign. This occurred, for example, in Q22008 in the UK when the first estimate was +0.2% (Blanchflower, 2008) but is now -0.6%.

2.2. Monthly Employment Change

The second part of **Table 1** reports on peak dates using another rule, namely when there were two successive months of negative growth in a) non-farm payrolls (NFP) obtained from establishment data b) employment from the households in the Current Population Survey (CPS). Of note is that

NFP is revised over the two months after it is first published while the CPS is not. Both surveys show early indications of recession. Take, for example, the July 1990 recession: NFP and CPS both have two negative months starting in June 1990. We provide precise details in [Table 3](#) by month. Months of positive growth are highlighted; the remainder are negative.

January 1980. NFP is negative from April-July 1980. CPS is negative in January 1980 and then negative from March-June.

June 1981. NFP is negative from August 1981-December 1982; CPS is negative from May 1981-September 1981, then negative again in November and December and March-July and September – December 1982.

July 1990. NFP is negative from July 1990-May 1991 and the CPS is negative from June 1990-May 1991 with exception of October 1990 and April 1991.

March 2001. NFP is negative from March 2001-April 2002. CPS is negative from April 2001-July 2002 with the exceptions of July and September 2001 and February and May 2002.

December 2007. NFP is negative in July and August 2007 and February 2008-October 2009.

February 2020. NFP and CPS are negative in February and March 2020.

2.3. Unemployment rates

[Table 1](#) also reports the start dates for US recessions since 1978 using the Sahm Rule (Sahm, 2019).² The data was downloaded from FRED (<https://fred.stlouisfed.org/series/SAHMREALTIME>): two sets of estimates are available. First that on the currently reported unemployment rate from the BLS and then one in real time, which was the first estimate reported, prior to it being revised by the BLS. The two sets of results are similar. In all cases the Sahm Rule identifies a start date for recession which is after the date identified by NBER.

Column 1 of [Table 4](#) reports the unemployment rate by month for each of the recession events since the late 1970s. In each case the unemployment rate jumps by 0.3 percentage points close to the date the NBCDC calls the recession. For example, for the January 1980 recession the unemployment rate jumps from 6.0% in December 1979 to 6.3% in January 1980. It rises from 7.2% to 7.5% between December 1980 and January 1981; 5.2% to 5.5% in June 1990; 3.9% to 4.2% in December 2000; 4.7% to 5.0% in November 2007 and 3.5% to 4.4% in February 2020.

2.4. Qualitative data.

We now move on to look at the extent to which it is possible to use qualitative data to predict turning points and especially upticks in the unemployment rate. We are not the first to have done so. Kirchgässner (1982, 2005) pointed to the value of qualitative data in predicting GDP growth using German data, with some work identifying the correlation between public sentiment and subsequent economic growth going back even earlier (Noelle-Neumann, 1980; Steinbuch, 1980).³

In a previous paper we showed individuals' fear of unemployment was predictive of subsequent unemployment rates across many countries in the OECD (Blanchflower and Bryson, 2021a). These data do not exist in the United States. However, there are consumer expectations data from

² It takes three month moving averages of the unemployment rate and takes the current average and deducts the lowest value over the prior three months. When that value reaches 0.5 the Sahm Rule identifies recession.

³ We thank Klaus Zimmermann for bringing these references to our attention.

The Conference Board (CB) and the University of Michigan (UM) as well as Purchasing Manager Indices from Markit we have obtained access to.⁴

The Conference Board Expectations Index is drawn from the Board's Consumer Confidence Survey (https://conference-board.org/pdf_free/press/TCB_CCS_TechNote_May2021.pdf) and is based on respondents' expectations about conditions six months hence in relation to three issues, namely business conditions, employment conditions and total family income. The expectation survey questions have three response options: positive, negative, or neutral. The response proportions to each question are seasonally adjusted. For each question, the positive figure is divided by the sum of the positive and negative to yield a proportion, which is labelled the "relative" value. For each question, the average relative value for the calendar year 1985 is then used as a benchmark to yield the index value for that question. The expectations index simply averages the indexes from the three questions.

The University of Michigan's Expectations Index is a subset of its Index of Consumer Sentiment and is derived from three questions:

Q1. *"Now looking ahead--do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now?"*

Q2. *"Now turning to business conditions in the country as a whole--do you think that during the next twelve months we'll have good times financially, or bad times, or what?"*

Q3. *"Looking ahead, which would you say is more likely--that in the country as a whole we'll have continuous good times during the next five years or so, or that we will have periods of widespread unemployment or depression, or what?"*

The expectations index sums responses to these three questions and rebases the index to 1966 as the base year.⁵ The data going back to 1978 which we use here can be found at <https://data.sca.isr.umich.edu/data-archive/mine.php> Curtin (2019) points to the predictive power of the index with respect to unemployment.

Chart 2 plots the CB and UM monthly series from 1978. **Table 4** column 3 reports the CB expectations index while column 4 reports the University of Michigan expectations index around the times of each recession since the late 1970s. It turns out that they predict well movements in the unemployment rate.

Charts 3 and 4 also plot them against the 12 months ahead unemployment rates. So, we plot the expectations index for January 2012 against the January 2013 unemployment rate. These expectations indices appear to predict unemployment twelve months ahead and the six turning points.

⁴ The CB data are copyright of The Conference Board © [2021]. The data and charts are the property of The Conference Board, Inc. and its contents may not be copied or emailed to multiple sites or posted to a listserv or distributed on a local area or wide area network (such as corporate intranets or networks) without the copyright holder's express written permission. All rights reserved.

⁵ For further details <https://data.sca.isr.umich.edu/fetchdoc.php?docid=24770>

In the table below we see that in each of the six cases the expectations index peaks well before the recession date called by the NBER and by that date is approximately twenty points below the peak. We find similarly in 2021 even though the unemployment rate has continued to drop.

	The Conference Board		University of Michigan	
	Peak	Points drop	Peak	Points drop
January 1980	97.7 (Oct-78)	26.3	71.7 (Oct-78)	17.6
July 1981	102.9 (Nov-80)	8.8	76.9 (Nov-80)	6.1
July 1990	108.3 (Feb-89)	16.5	89.9 (Jan-89)	13.3
March 2001	119.1 (Jan-00)	36.0	87.6 (Jan-07)	22.0
December 2007	94.4 (Jul-07)	20.5	87.6 (Jan-07)	21.4
February 2020	108.1 (Feb-20)	21.3	92.1 (Feb-20)	21.3
September 2021	111.9 (Mar-21)	25.3	83.5 (Jun-21)	18.4

We also have monthly expectations data from The Conference Board on the eight biggest US states - California, Florida, Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas - from February 2007 through September 2021. **Table 5** reports unemployment rates and employment change by month for these eight states for the 2007 recession. With the exception of Texas, the unemployment rates rise, while six states have at least two successive months of negative CPS employment falls. The US had a rise in the unemployment rate from 4.7% in November 2007 to 5.0% in December and negative employment growth in five months in 2007.

Part a) of **Table 6** reports the monthly expectations scores in 2007 and show drops from the peak (in yellow) in every case from early in 2007 before reaching lows later in 2007. They show similar patterns in part b) of **Table 6** in 2021 (where peaks are in purple). They reach a peak in the spring and then fell back.

3. Regression Analyses Using Lagged Expectations to Predict Monthly Unemployment

We now move on to estimate a series of monthly unemployment equations. **Table 7** uses 521 monthly observations of the unemployment rate and the CB and UM consumer expectations variables with both six month and twelve-month lags. Each equation includes a full set of month dummies and a lagged dependent variable which is significant and positive with a coefficient around 0.5.

First in column 1 we include the CB expectations variable and six and twelve-month lags, both of which are significant and negative. In column 2 the six-month lagged CB expectations variable is entered without the twelve-month lag and remain significant and negative. The results are similar in columns 3 and 4 using the equivalent UM measures. Given the expectations variables refer to circumstances six months ahead we include the two six-month lagged terms which are both significant and negative in the final column. Because of collinearity problems we cannot also include year dummies, but we can when we use the state level data.

We have state level expectations data from the CB for eight states so in **Table 8** we report the results of estimating unemployment equations with a lagged dependent variable using state level expectations data from 2007-2021. There are a total of 1400 observations (8 states * 175 months).

The state, month unemployment rate is regressed on a twelve-month lag of the state unemployment rate, along with a full set of state, year and month dummies. In column 1 we include the contemporaneous expectations variable which is insignificantly different from zero. We then replace it with, in turn, 6-month, 12-month and 18-month lagged expectations terms. All three are negative and significant. The final column includes the 6 and 12-month lags and both are significantly negative. The best fit in terms of the highest adjusted R2 is column 2 which includes the 6-month lag (t=4.5). Lagged expectations predict movements in the unemployment rate.

4. Recession in 2021?

Part 7 of [Table 4](#) suggested that The Conference Board expectations peaked in March 2021 and then fell by 26 points through September 2021. The Michigan data peaked in June 2021 and fell by 18 points by August. Supporting data is also presented in [Table 9](#) which reports the subcomponents of the expectation indices, using CB and UM data. All show slowing from Spring 2021.

Part a) of [Table 9](#) reports data from The Conference Board on the three components of their index on business conditions, employment and income ‘six months hence’. Whether business conditions will be ‘better’ reaches a peak in March 2021 and then declines. Analogously the percent saying they will be ‘worse’ reaches a low in June 2021 and then starts to rise. The percent who say there will be ‘more jobs’ in six months peaks at 35.4 in March 2021 and then declines from 35.4 to 21.5 in September. Those saying there will be fewer reaches a low in June 2021.

Consistent data on a slowing in 2021 across the eight largest states using CB data were provided in part b) of [Table 6](#). All reach peaks in the first four months of 2021 and then decline, by a lot. The US saw a 25pt decline, versus 35 in California; 27 in Florida; 31 in Illinois; 16 in Michigan; 59 in New York; 23 in Ohio; 40 in Pennsylvania and 10 in Texas.

Part b) of [Table 9](#) reports the three components of the UM expectations index which looks forward rather longer than the CB index. It includes three parts on financial situation and business conditions in a year and business conditions five years hence. The proportion saying, they would be better off financially in a year peaked in April 2021 as did the percent saying business conditions will be better in a year. The two relative indices peaked in that month also. The five-year business conditions peaked in June 2021 as did the overall index.

Supporting evidence is also found from the US Purchasing Manager Indices (PMI). These data suggest marked slowing from May 2021 especially in consumer facing sectors. [Chart 5](#) plots the monthly future PMI from 2012. Here respondents are asked about their organization's future business activity.

Q3. *"What is the expected volume of business in twelve-months time – higher, the same or lower?"*

This series had fallen steadily from 2018 through 2020 and then picked up. It has fallen sharply since June 2021.

[Chart 6](#) plots new order PMIs from 2018 for four sectors – consumer goods; consumer services; technology and Financials, all of which show marked declines from around May 2021. We exclude

Basic Materials; Industrials and Healthcare that do not show marked declines. We use new orders rather than the output measures which also show declines from around that date, as these are less likely to be impacted by capacity constraints although both are likely influenced by backlogs of work which are currently at an all-time high. The table below reports the PMIs for May and September 2021.

Output	Basic Materials	Consumer Goods	Consumer Services	Financials	Healthcare	Industrials	Technology
Output							
5/1/2021	59.2	61.7	73.6	71.8	65.1	65.9	69.1
9/1/2021	60.1	52.8	52.1	52.5	61.0	56.3	50.7
New Orders							
5/1/2021	69.0	68.6	78.5	63.6	68.5	63.8	69.8
9/1/2021	65.4	58.3	52.0	52.7	59.7	55.3	51.1

It is notable how large the declines in new orders are between May and September especially in Consumer Services (-27). The concern here though is that the unemployment rate both in the US as a whole and in these eight states has been in steady decline in 2021 (Table 5). The Sahm Rule is even negative currently as unemployment declines.

A recent survey by The Conference Board⁶, released on 31st August 2021, indicates that 42% of workers are worried about returning to the workplace for fear of contracting COVID-19, a substantial increase from June 2021 when only 24% expressed this concern. The State of Work in America Survey by Grant Thornton in September 2021 found that 40% of employees interviewed said they would look for another job if forced to return to the office full-time.⁷

This increased level of anxiety among workers is potentially justified because, as we showed in a recent study analyzing the US Census Bureau's Household Pulse Survey⁸, workers were substantially more likely to contract COVID than non-workers, despite having a higher probability of being vaccinated (Blanchflower and Bryson, 2021c). This is consistent with the idea that being at work, or commuting to it, increases the risk of infection. Such concerns have been exacerbated by the appearance of the Delta variant of the virus.

Rising anxiety and worry is not confined to workers, however. Chart 7 presents the full series on anxiety and worry from the US Census Bureau's Household Pulse Survey through to end September 2021. The chart plots the percentage of respondents who said that, over the last seven days, they had either (a) not been able to stop or control worrying (b) were feeling nervous, anxious or on edge, for at least half the time. It is apparent that anxiety and worry have been rising again since late June such that, by the end of the period, almost one-in-five experienced worry most of the time, and over one-quarter are anxious most of the time.

⁶ https://conference-board.org/press/return-to-work-survey?mkt_tok=MjI1LVdCWi0wMjUAAAF_iTe9-CPIMu2fzabgohRmYC3H9n8aLZkBstWpFxFxJ3YEA7R7qtR1u5UuBjKqZneyxsAR_Tg8r4oArGvtrDYWpTQKWNZmxrQF0tjwuf09TGGxot

⁷ <https://www.granthornton.com/library/articles/tax/2021/assessing-the-state-of-american-workers>

⁸ <https://www.census.gov/programs-surveys/household-pulse-survey/data.html>

We have argued above that we would expect to see declines in employment and upticks in the unemployment rate to call a recession. But the involvement of the US in propping up the labor market has meant it is hard to see exactly what is going on. A good example of this relates to the wage data. Traditionally when the unemployment rate rises wage growth falls, but the opposite occurred in the US. For example, as the unemployment rose from below 4% to just under 20% in April 2020, wage growth rose.⁹ This was due to base and composition effects. Recently though data from the Current Population Survey has suggested wage growth has gone negative in Q22021.¹⁰ This is what was suggested would happen by Chairman of the Council of Advisers to the President Ceci Rouse and Council Member Martha Gimbel (see Rouse and Gimbel, 2020).

“Usually when we see rising wages, the economy is growing. So how is it that April 2020 – the month when the U.S. economy lost 21 million jobs – saw some of the fastest wage growth in recent memory? And if wage growth slows in the coming months, or even goes into negative territory, what would that tell us about the economic recovery? We explain in this blog why we believe that two measurement issues—composition of the labor force and base effects—explain these trends and why average wage data will be easy to misinterpret in the coming months.”

And later

“Average wages are being shaped by a number of different factors right now, including but not limited to composition and base effects in wages. It is possible that headline average wage growth estimates will be negative in coming months. However, those negative estimates would reflect composition and base effects depressing the average wage, rather than wage cuts for workers. The Administration is paying close attention to how these influences are affecting the economic data. As the economy returns to normal we expect these anomalies to gradually disappear.”

There is evidence from around the world of recent slowing in the qualitative business data in the fall of 2021 as the Delta COVID variant continues to spread around the world.

- i) Australia’s HIS Markit Services PMI contracted for a third straight month in September 2021.
- ii) The UK’s Institute of Directors (IOD) reported that confidence ‘fell off a cliff’ in September.
- iii) HIS Markit flash Eurozone PMI grew at ‘a markedly reduced rate’ in September”.
- iv) The German flash Composite PMI slowed in September.
- v) US flash Composite PMI for September grew ‘at the slowest pace for a year’.
- vi) US flash manufacturing PMI grew the slowest in five months.
- vii) US Flash Composite Services PMI which was the slowest rise in new business for 13 months.

⁹ Average hourly earnings of production and nonsupervisory employees, total private, seasonally adjusted, averaged 2011=2.0%; 2011=1.5%; 2012=2.1%; 2014=2.3%; 2015=2.1%; 2016=2.5%; 2017=2.3%; 2018=3.0%; 2019=3.6%. But in 2020 it rose sharply

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	3.3%	3.3	3.7	7.8	6.8	5.5	4.8	4.9	4.6	4.5	4.7	5.5
2021	5.3	5.2	4.6	1.2	2.4	3.8	4.8	4.8				

¹⁰ Median usual weekly earnings (second quartile), Employed full time, Wage and salary workers. Averaged 2011=1.3%; 2011=1.6%; 2012=1.1%; 2014=1.9%; 2015=2.3%; 2016=2.9%; 2017=3.3%; 2018=3.0%; 2019=3.5%. Q12020=5.7; Q22020=10.4; Q32020=8.2; Q42020=5.1; Q12021=3.3% and Q42021=-1.2%.

We believe these data suggest that the US entered recession again around June 2021.

5. Conclusion

In this paper we have examined the value of data from consumers - the economics of walking about - in predicting economic downturns in the United States. We show consumer expectations indices from both The Conference Board and the University of Michigan predict economic downturns up to 18 months in advance in the United States, both at national and at state-level. All the recessions since the 1980s have been predicted by at least 10 and sometimes many more point drops in these indices. This is comparable to what we found in an earlier paper using fear of unemployment data to predict turning points in European countries (Blanchflower and Bryson, 2021a).

A single monthly rise of at least 0.3 percentage points in the unemployment rate also predicts recession, as does two consecutive months of employment rate declines. This is true whether establishment or household data are used. These data are relatively timely and are published a few months after the month they relate to, and revisions are minimal. In contrast GDP data gives a clear picture year later after the data have been a long revision process. This is a particular problem at turning points when early estimates of GDP growth are biased upwards. Revisions at turning points frequently involve positive estimates eventually being switched to negative as more evidence arrives of. downswing.

The economic situation in 2021 is exceptional, however, since unprecedented direct government intervention in the labor market through furlough-type arrangements has enabled employment rates and unemployment rates to recover quickly from the huge downturn in 2020. As we have shown, ordinarily when recession is coming, we would expect to see an increase in the unemployment rate – our rule of thumb is a 0.3 percentage point upturn in consecutive months – and declining employment. This is not what is happening. On the other hand, there are clear downward movements in consumer expectations in the last six months which, according to our rules of thumb regarding 10-point declines, would suggest the economy in the United States is entering recession now (Autumn 2021) - even though employment and wage growth figures suggest otherwise.

It seems to us that there is every likelihood that the US is entered recession at the end of 2021. The most compelling evidence is from the Conference Board expectations data for the eight biggest states. The figures below are taken from [Table 6b](#) and show the drop in expectations for 2007 and 2021, from the peak values to December 2007 and September 2021 respectively. In 2007 this is mostly from May 2007 through December 2007, whereas in 2021 it is mostly from March 2021 through September. The size of the declines by state are comparable to those in 2007 prior to the Great Recession. Indeed, for the US as a whole the most recent drop is larger (25 in 2007 versus 19 in 2007). All these figures meet our criterion of a ten point drop for a recession.

	2007	2021
California	36	35
Florida	64	27
Illinois	27	31
Michigan	13	16

New York	25	59
Ohio	23	23
Pennsylvania	43	41
Texas	27	10
USA	19	25

So, what is going on? The answer appears to lie in the exceptional nature of the COVID-induced shock to the economy. It has been both an economic shock and a health shock, and one with the potential to derail the economy again over the coming months. It seems likely that, in spite of improvements in traditional labor market indicators, declining consumer expectations about the future of the economy are linked to COVID-related fears and anxieties. This is borne out by the survey by The Conference Board discussed above indicating a recent rise in the percent of workers – and especially women - worried about returning to the workplace for fear of contracting COVID-19, a substantial increase from June 2021 when only 24% expressed this concern.

This increased level of anxiety among workers is potentially justified because, as we showed in a recent study analyzing the US Census Bureau’s Household Pulse Survey,¹¹ workers were substantially more likely to contract COVID than non-workers, despite having a higher probability of being vaccinated (Blanchflower and Bryson, 2021c). This is consistent with the idea that being at work, or commuting to it, increases the risk of infection. Such concerns have been exacerbated by the appearance of the Delta variant of the virus. Rising anxiety and worry is not confined to workers as noted above. Evidence from the US Census Bureau’s bi-weekly Household Pulse Surveys is consistent suggesting an increase in anxiety and worry since June 2021.

We suspect that fears linked to COVID will continue to affect the real economy and lie behind consumer expectations about an imminent downturn in the economic situation. This is a bold call of course, and not consistent with consensus and only time will tell if we are right. However, equivalent falls in these data in 2007 were an early indicator of recession, missed at the time by policymakers and economists. There is a possibility of course, that these data are giving a false steer. However, missing the declines in these variables in 2007, as most policymakers and economists did, proved fatal. It is our hope such mistakes will not be repeated this time around. They missed it last time, hopefully they won’t miss it this time. These qualitative data trends need to be taken seriously.

¹¹ <https://www.census.gov/programs-surveys/household-pulse-survey/data.html>

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Table 1. Dating of peaks

NBER peak	Date called by NBER GDP		Sahm Rule current	Sahm real time
1) January 1980	June 1980	Q21980	February 1980	April 1980
2) July 1981	January 1982	Q41981	November 1981	November 1981
3) July 1990	April 1991	Q41990	October 1990	November 1990
4) March 2001	November 2001	Q12001	June 2001	June 2001
5) December 2007	December 2008	Q12008	February 2008	April 2008
6) February 2020	April 2020	Q22020	April 2020	April 2020

NBER peak	2 months of employment decline		Rise in the unemployment rate by 0.3 pp
	NFP	CPS	
1) January 1980	April 1980	March 1980	December 1979
2) July 1981	August 1981	August 1981	April 1981
3) July 1990	June 1990	June 1990	June 1990
4) March 2001	March 2001	April 2001	December 2000
5) December 2007	July 2007	July 2007	November 2007
6) February 2020	March 2020	March 2020	February 2020

Table 2. 42 quarters of negative GDP growth – source OECD

Q2-1947	(1)	Q1-1970	Q3-2001	
Q3-1947		Q4-1970	Q1-2008	
Q1-1949	(2)	Q3-1973*	Q3-2008	(9)
Q2-1949		Q1-1974	Q4-2008	
Q4-1949		Q3-1974	Q1-2009	
Q3-1953	(3)	Q4-1974	Q2-2009	
Q4-1953		Q1-1975	Q1-2011	
Q1-1954		Q2-1980	Q1-2014	
Q1-1956*		Q3-1980	Q1-2020	(10)
Q3-1956		Q2-1981*	Q2-2020	
Q2-1957*		Q4-1981		
Q4-1957		Q1-1982		
Q1-1958		Q3-1982		
Q2-1960*		Q4-1990		
Q4-1960		Q1-1991		
Q4-1969	(4)	Q1-2001*		

Note: * 2/3 successive negative quarters of GDP growth

Table 3. Monthly employment changes in establishment (NFP) and household surveys (CPS).

	NFP	CPS		NFP	CPS
Jan-80	128	-54	Aug-01	-149	-830
Feb-80	83	116	Sep-01	-257	605
Mar-80	111	-282	Oct-01	-317	-454
Apr-80	-145	-480	Nov-01	-312	-154
May-80	-429	-288	Dec-01	-160	-191
Jun-80	-319	-263	Jan-02	-130	-346
Jul-80	-261	114	Feb-02	-116	737
			Mar-02	-19	-261
May-81	13	-8	Apr-02	-94	-51
Jun-81	194	-750	May-02	11	413
Jul-81	111	395	Jun-02	50	-124
Aug-81	-36	-4	Jul-02	-94	-2
Sep-81	-88	-625			
Oct-81	-97	314	Jul-07	-31	-158
Nov-81	-209	-171	Aug-07	-23	-223
Dec-81	-276	-562	Sep-07	80	562
Jan-82	-330	47	Oct-07	79	-298
Feb-82	-2	70	Nov-07	110	6
Mar-82	-129	-90	Dec-07	108	-322
Apr-82	-284	-96	Jan-08	11	105
May-82	-43	540	Feb-08	-79	-222
Jun-82	-242	-573	Mar-08	-49	-70
Jul-82	-344	-50	Apr-08	-240	46
Aug-82	-158	140	May-08	-177	-224
Sep-82	-180	-129	Jun-08	-171	-171
Oct-82	-276	-289	Jul-08	-196	-205
Nov-82	-121	-103	Aug-08	-278	-329
Dec-82	-15	-80	Sep-08	-460	-127
			Oct-08	-481	-274
Jun-90	17	-168	Nov-08	-727	-702
Jul-90	-32	-173	Dec-08	-706	-731
Aug-90	-208	-8	Jan-09	-784	-1217
Sep-90	-98	-278	Feb-09	-743	-512
Oct-90	-151	12	Mar-09	-800	-933
Nov-90	-153	-230	Apr-09	-695	-51
Dec-90	-48	-65	May-09	-342	-408
Jan-91	-111	-301	Jun-09	-467	-239
Feb-91	-321	-185	Jul-09	-340	-108
Mar-91	-160	-103	Aug-09	-183	-409
Apr-91	-210	457	Sep-09	-241	-674
May-91	-115	-669	Oct-09	-199	-386
			Nov-09	12	227
Feb-01	91	-166	Dec-09	-269	-646
Mar-01	-42	171			

Apr-01	-284	-484	Jan-20	315	-76
May-01	-53	-207	Feb-20	289	7
Jun-01	-111	-219	Mar-20	-1683	-3196
Jul-01	-122	198	Apr-20	-20679	-22166

Table 4. Recessions and Consumer Expectations

	Unemployment rate (%)	The Conference Board	University of Michigan
a) January 1980 recession			
Jul-78	6.2	93.3	72.0
Aug-78	5.9	97.4	67.0
Sep-78	6.0	95.3	69.8
Oct-78	5.8	97.7	71.7
Nov-78	5.9	82.4	62.8
Dec-78	6.0	86.1	53.8
Jan-79	5.9	82.2	58.4
Feb-79	5.9	88.8	62.2
Mar-79	5.8	78.0	53.7
Apr-79	5.8	77.9	53.3
May-79	5.6	78.5	54.9
Jun-79	5.7	73.3	51.4
Jul-79	5.7	63.1	44.2
Aug-79	6.0	60.7	49.3
Sep-79	5.9	66.9	53.6
Oct-79	6.0	74.1	49.5
Nov-79	5.9	73.0	52.0
Dec-79	6.0	74.8	51.5
Jan-80	6.3	71.4	54.1
Feb-80	6.3	74.1	54.9
b) July 1981 recession			
	Unemployment rate (%)	The Conference Board	University of Michigan
Nov-80	7.5	102.9	76.9
Dec-80	7.2	91.1	60.4
Jan-81	7.5	85.9	67.9
Feb-81	7.4	78.4	62.1
Mar-81	7.4	88.1	62.1
Apr-81	7.2	93.1	68.8
May-81	7.5	96.3	73.6
Jun-81	7.5	94.0	71.2
Jul-81	7.2	94.1	67.1
Aug-81	7.4	96.5	70.8
c) July 1990 recession			
	Unemployment rate (%)	The Conference Board	University of Michigan
Jan-89	5.4	104.1	89.9
Feb-89	5.2	108.3	88.8
Mar-89	5.0	104.9	87.6
Apr-89	5.2	101.8	83.2

May-89	5.2	103.0	80.1
Jun-89	5.3	105.1	82.0
Jul-89	5.2	106.6	85.5
Aug-89	5.2	103.7	80.3
Sep-89	5.3	106.1	88.6
Oct-89	5.3	106.4	87.2
Nov-89	5.4	103.7	84.3
Dec-89	5.4	104.4	85.5
Jan-90	5.4	97.0	83.4
Feb-90	5.3	93.7	81.3
Mar-90	5.2	101.9	81.3
Apr-90	5.4	99.2	83.9
May-90	5.4	100.3	79.3
Jun-90	5.2	96.6	76.6
Jul-90	5.5	91.8	77.3

d) March 2001 recession

	Unemployment rate (%)	The Conference Board	University of Michigan
Jan-00	4.0	119.1	108.6
Feb-00	4.1	114.6	107.8
Mar-00	4.0	106.8	101.7
Apr-00	3.8	109.7	103.7
May-00	4.0	118.7	104.8
Jun-00	4.0	111.9	100.8
Jul-00	4.0	113.7	104.5
Aug-00	4.1	113.9	104.0
Sep-00	3.9	115.9	103.4
Oct-00	3.9	108.4	100.7
Nov-00	3.9	101.2	101.6
Dec-00	3.9	96.9	90.7
Jan-01	4.2	79.3	86.4
Feb-01	4.2	70.7	80.8
Mar-01	4.3	83.1	83.9

e) December 2007 recession

	Unemployment rate (%)	The Conference Board	University of Michigan
Dec-06	4.4	96.3	81.2
Jan-07	4.6	94.4	87.6
Feb-07	4.5	93.8	81.5
Mar-07	4.4	87.9	78.7
Apr-07	4.5	88.2	75.9
May-07	4.4	90.1	77.6
Jun-07	4.6	88.8	74.7
Jul-07	4.7	94.4	81.5
Aug-07	4.6	89.2	73.7
Sep-07	4.7	85.0	74.1

Oct-07	4.7	80.0	70.1
Nov-07	4.7	69.1	66.2
Dec-07	5.0	75.8	65.6

e) February 2020 recession

	Unemployment rate (%)	The Conference Board	University of Michigan
Feb-20	3.5	108.1	92.1
Mar-20	4.4	86.8	79.7
Apr-20	14.8	94.3	70.1

7) 2021 recession?

	Unemployment rate (%)	The Conference Board	University of Michigan
Jan-21	6.3	88.1	74.0
Feb-21	6.2	95.4	70.7
Mar-21	6.0	111.9	79.7
Apr-21	6.1	107.9	82.7
May-21	5.8	100.9	78.8
Jun-21	5.9	108.5	83.5
Jul-21	5.4	103.8	79.0
Aug-21	5.2	92.8	65.1
Sep-21		86.6	

Table 5. Employment change and unemployment rates by eight largest states, 2007

a) Monthly employment change (000s)

	California	Florida	Illinois	Michigan	New York	Ohio	Pennsylvania	Texas	USA
Jan-07	14	10	-3	-5	-1	3	3	8	58
Feb-07	5	5	-4	-7	-5	0	0	4	29
Mar-07	0	0	-2	-8	-8	-1	-1	1	263
Apr-07	0	-5	1	-8	-9	-1	-1	1	-734
May-07	1	-8	5	-8	-7	-3	0	3	317
Jun-07	4	-9	7	-7	-3	-4	2	6	160
Jul-07	6	-9	8	-7	2	-4	4	9	-158
Aug-07	7	-7	7	-6	6	-3	5	13	-223
Sep-07	8	-4	6	-5	10	-1	6	18	562
Oct-07	6	-2	5	-4	11	0	6	21	-298
Nov-07	4	-2	5	-4	11	2	6	23	649
Dec-07	2	-4	5	-4	9	2	7	24	-322

b) Unemployment rates

	California	Florida	Illinois	Michigan	New York	Ohio	Pennsylvania	Texas	USA
Jan-07	4.9	2.7	4.6	7.0	4.2	5.4	4.4	4.5	4.6
Feb-07	5.0	2.8	4.6	7.0	4.2	5.5	4.4	4.4	4.5
Mar-07	5.0	2.9	4.7	6.9	4.2	5.5	4.4	4.4	4.4
Apr-07	5.1	3.0	4.8	6.9	4.3	5.5	4.4	4.3	4.5
May-07	5.1	3.1	4.9	6.9	4.3	5.6	4.4	4.3	4.4
Jun-07	5.2	3.2	5.0	6.9	4.4	5.6	4.5	4.3	4.6
Jul-07	5.3	3.3	5.1	7.0	4.5	5.7	4.5	4.3	4.7
Aug-07	5.4	3.4	5.2	7.1	4.5	5.7	4.6	4.3	4.6
Sep-07	5.5	3.6	5.3	7.2	4.6	5.7	4.7	4.4	4.7
Oct-07	5.7	3.7	5.5	7.3	4.6	5.7	4.8	4.4	4.7

Table 6. Expectations from The Conference Board by eight largest states

a) 2007

	California	Florida	Illinois	Michigan	New York	Ohio	Pennsylvania	Texas	USA
Feb-07	94.7	123.5	96.0	35.1	80.7	77.8	81.2	110.6	93.8
Mar-07	101.2	96.6	89.6	31.5	76.7	75.5	70.0	111.6	87.9
Apr-07	87.5	102.3	78.2	23.3	79.0	51.8	93.5	117.4	88.2
May-07	107.2	94.5	71.8	27.0	71.2	64.9	77.8	101.4	90.1
Jun-07	91.4	91.4	92.5	42.2	63.1	70.0	57.0	112.0	88.8
Jul-07	84.2	104.3	93.1	46.7	77.4	70.9	91.8	111.1	94.4
Aug-07	92.8	95.1	87.5	51.0	53.6	61.0	64.4	91.5	89.2
Sep-07	87.4	73.9	90.2	29.9	72.8	64.6	86.1	95.9	85.0
Oct-07	93.2	75.0	69.4	31.6	64.8	67.6	73.7	106.6	80.0
Nov-07	66.7	58.5	61.2	24.8	60.4	60.3	62.4	93.4	69.1
Dec-07	71.0	59.8	68.8	38.4	55.8	54.7	50.4	90.5	75.8

b) 2021

	California	Florida	Illinois	Michigan	New York	Ohio	Pennsylvania	Texas	USA
Jan-21	96.3	95.6	100.9	109.8	113.9	99.7	88.3	104.5	88.1
Feb-21	121.2	100.2	99.9	95.4	119.4	93.1	79.9	93.2	95.4
Mar-21	127.5	121.3	127.7	91.8	129.2	93.2	106.9	119.6	111.9
Apr-21	122.1	115.2	115.2	87.8	120.7	98.9	104.5	117.6	107.9
May-21	114.1	109.8	104.1	69.5	93.0	83.0	95.9	114.4	100.9
Jun-21	115.5	117.3	93.7	89.8	119.5	96.2	108.1	112.5	108.5
July-21	108.9	102.8	100.6	91.4	111.9	95.4	90.4	99.3	103.8
Aug-21	103.5	100.9	91.3	91.9	105.5	87.6	75.1	89.1	91.4
Sep-21	92.9	93.9	97.0	93.4	70.7	75.7	67.2	109.7	86.6

Table 7. Monthly unemployment rate equations, January 1978-August 2021 (months).

Unemployment rate _{t-12}	.5601 (17.65)	.5931 (19.26)	.4917 (14.17)	.5252 (16.41)	.4893 (13.47)
Conf Board expectations _{t-6}	-.0271 (6.86)	-.0354 (10.77)			-.0132 (2.35)
Conf Board expectations _{t-12}	-.0153 (3.74)				
Michigan expectations _{t-6}			-.0389 (6.44)	-.0495 (11.59)	-.0354 (4.82)
Michigan expectations _{t-12}			-.0167 (2.54)		
Constant	6.5633	5.7621	7.5105	6.8041	6.8229
Adjusted R ²	.5335	.5215	.5458	.5379	.5420
N	521	523	511	517	511

Unemployment rates are from the BLS. All equations include 11-month dummies. T-statistics in parentheses.

Table 8. Monthly State Unemployment rate equations, February 2007-August 2021

Unemployment rate _{t-12}	.1745 (6.47)	.1481(5.38)	.1407 (4.99)	.1209 (4.17)	.1365 (4.85)
Conf Board expectations _t	-.0011 (0.38)				
Conf Board expectations _{t-6}		-.0128 (4.51)			-.0087 (2.81)
Conf Board expectations _{t-12}			-.0147 (4.97)		-.0128 (4.22)
Conf Board expectations _{t-18}				-.0149 (4.93)	
Florida	-1.2145 (7.65)	-1.2035 (7.44)	-1.1985 (7.20)	-1.2273 (7.18)	-1.1874 (7.15)
Illinois	-.5425 (3.48)	-.6404 (4.02)	-.6731 (4.10)	-.6959 (4.11)	-.7163 (4.36)
Michigan	-.2761 (1.77)	-.4464 (2.70)	-.5198 (3.17)	-.5826 (3.44)	-.5569 (3.39)
New York	-1.1404 (6.64)	-1.2893 (7.85)	-1.3307 (7.86)	-1.3586 (7.75)	-1.3886 (8.16)
Ohio	-2.7137 (15.52)	-2.9381 (16.33)	-3.0160 (16.21)	-3.0882 (15.93)	-3.0706(16.46)
Pennsylvania	-.2920 (1.86)	-.4207 (2.62)	-.4509 (2.73)	-.4901 (2.87)	-.5220 (3.13)
Texas	-1.8206 (10.95)	-1.7945 (10.06)	-1.7961 (9.77)	-1.8427 (10.16)	-1.7289 (9.72)
Constant	4.8513	6.1461	7.4877	7.3914	7.8126
Adjusted R ²	.7290	.7296	.7272	.7268	.7287
N	1400	1352	1304	1256	1304
Excluded California					

Table 9. Expectations for Six Months Hence: Percent

a) *The Conference Board*

	2020				2021								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug (r)	Sep (p)
Business conditions													
Better	36.7	36.0	26.5	29.5	31.8	33.6	39.1	33.1	31.0	33.7	30.9	23.4	21.5
Worse	15.8	15.9	22.5	22.0	18.5	16.4	11.1	12.1	14.4	10.8	11.9	17.4	17.6
Same	47.5	48.1	51.0	48.5	49.7	50.0	49.8	54.8	54.6	55.5	57.2	59.2	60.9
Employment													
More jobs	32.9	32.0	25.0	28.0	28.8	29.0	35.4	31.7	27.7	26.6	25.5	23.1	21.5
Fewer jobs	16.1	19.8	21.6	22.2	23.3	19.9	14.8	14.4	17.5	15.7	17.8	18.0	20.3
Same	51.0	48.2	53.4	49.8	47.9	51.1	49.8	53.9	54.8	57.7	56.7	58.9	58.2
Income													
Increase	17.3	17.5	16.0	15.7	14.3	16.0	18.0	17.4	16.2	20.0	20.0	18.2	17.3
Decrease	13.0	14.2	14.5	14.6	15.0	13.0	10.1	10.5	9.3	8.4	8.8	9.9	11.5
Same	69.7	68.3	69.5	69.7	70.7	71.0	71.9	72.1	74.5	71.6	71.2	71.9	71.2

b) *University of Michigan*

	Financial Situation in a Year				Business Conditions in a Year				Business Conditions Next 5 Years				Overall Expectation Index
	Better Off	Same	Worse	Relative	Better	Same	Worse	Relative	Good Times	Uncertain	Bad Times	Relative	
Jan-21	35	45	14	121	51	25	22	129	38	9	50	88	74.0
Feb-21	36	45	18	118	50	23	26	124	36	7	54	82	70.7
Mar-21	33	49	15	118	51	25	23	128	41	9	47	94	79.7
Apr-21	39	44	15	124	53	24	22	131	41	9	48	93	82.7
May-21	31	49	18	113	51	23	25	126	42	6	49	93	78.8
Jun-21	35	45	16	119	50	26	21	129	43	9	46	97	83.5
July-21	36	46	16	120	45	32	21	124	38	9	50	88	79.0
Aug-21	31	45	20	111	31	35	32	99	33	7	58	75	65.1

Chart 1. United States Quarterly GDP Growth, 1947Q2-2021Q2

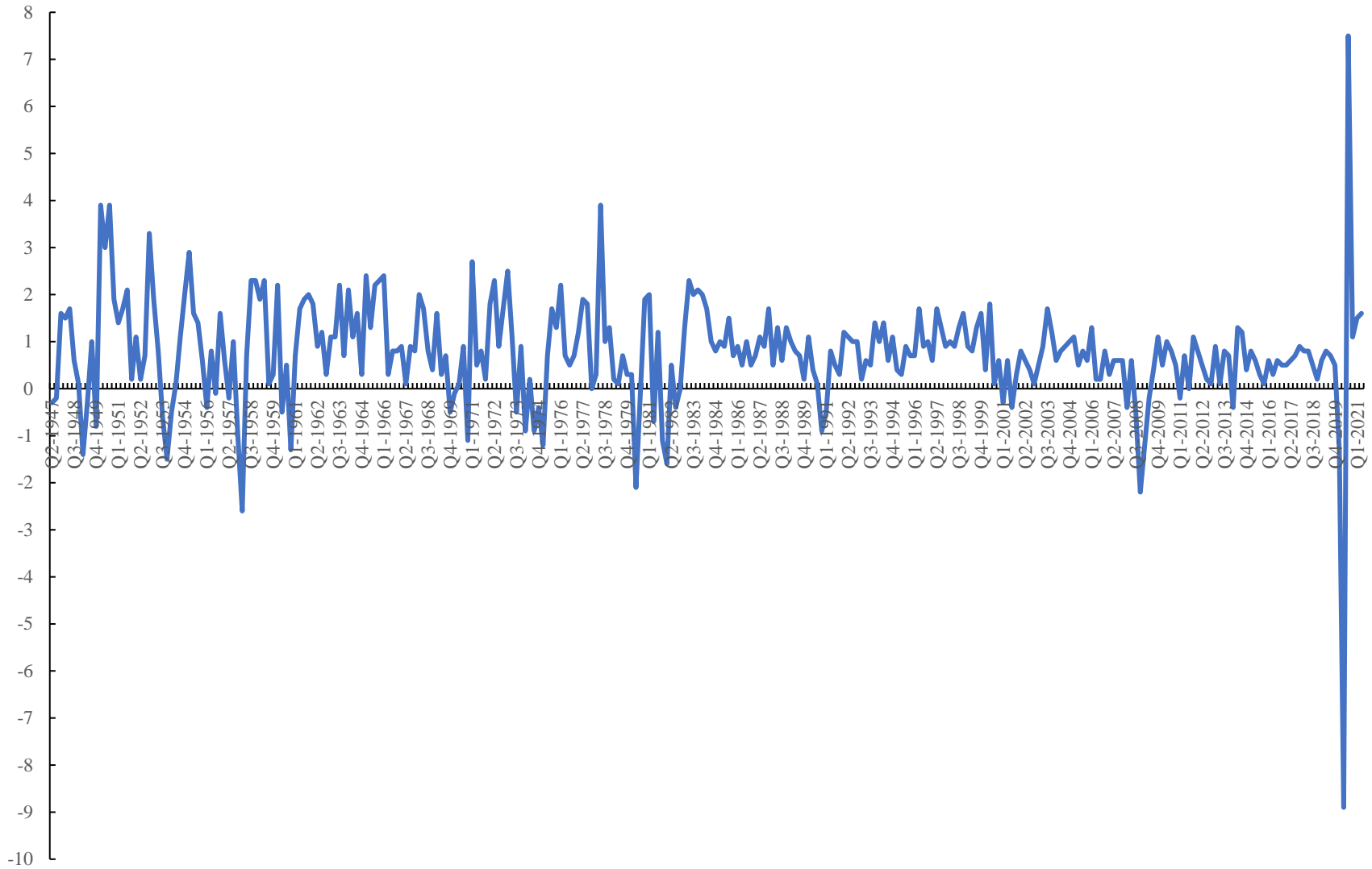
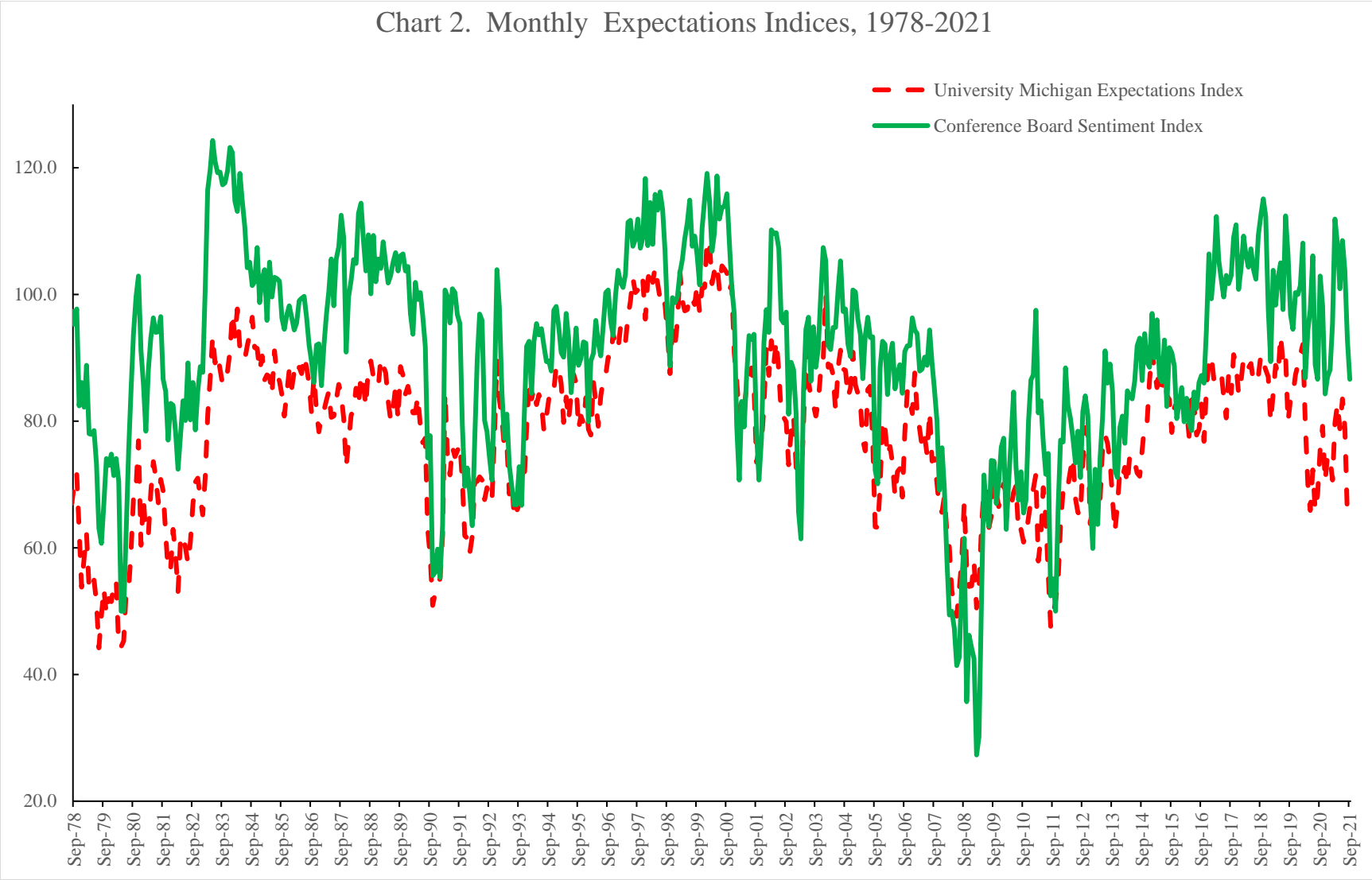


Chart 2. Monthly Expectations Indices, 1978-2021



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Chart 3. University of Michigan Expectations Index and twelve months ahead unemployment rate

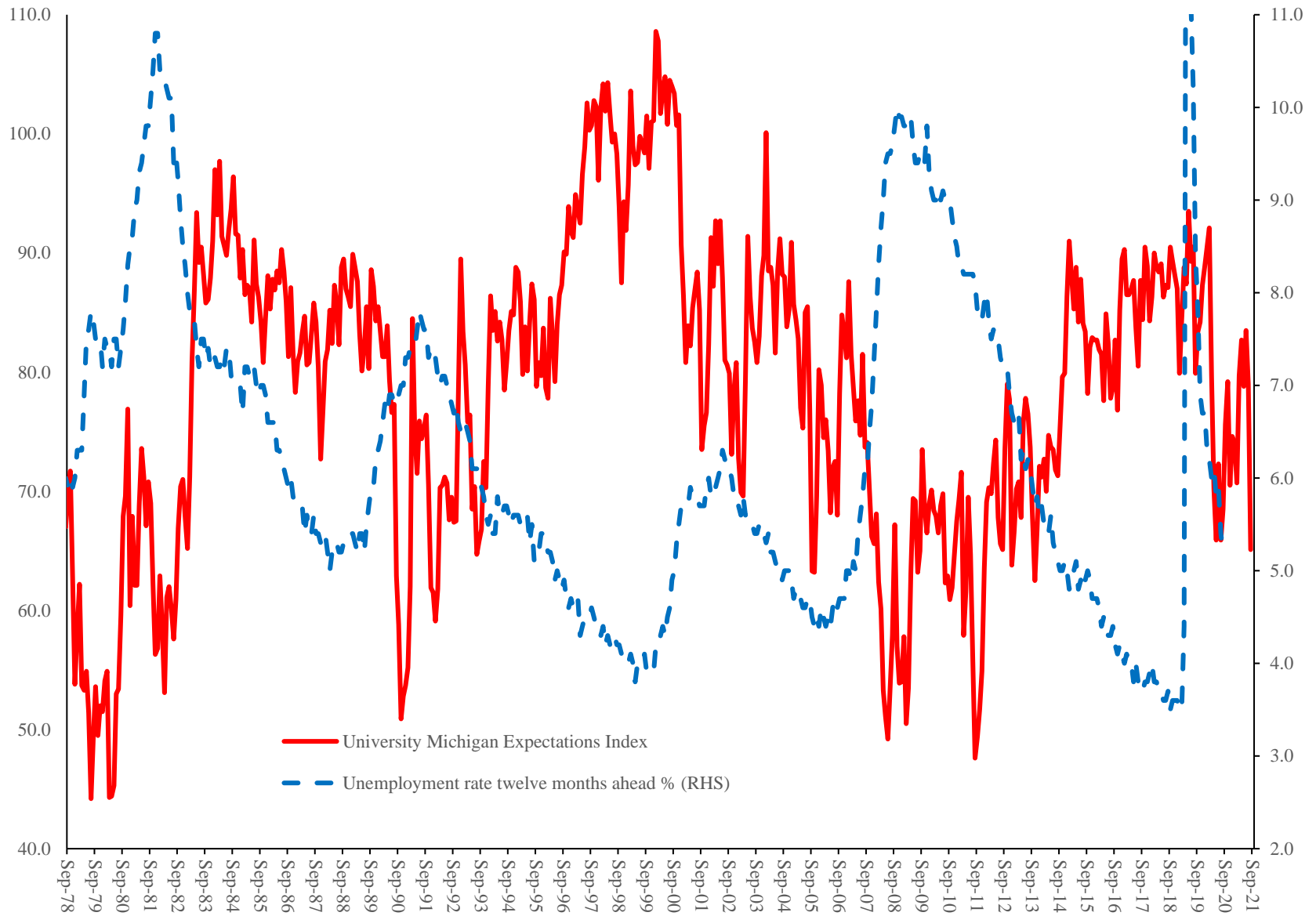
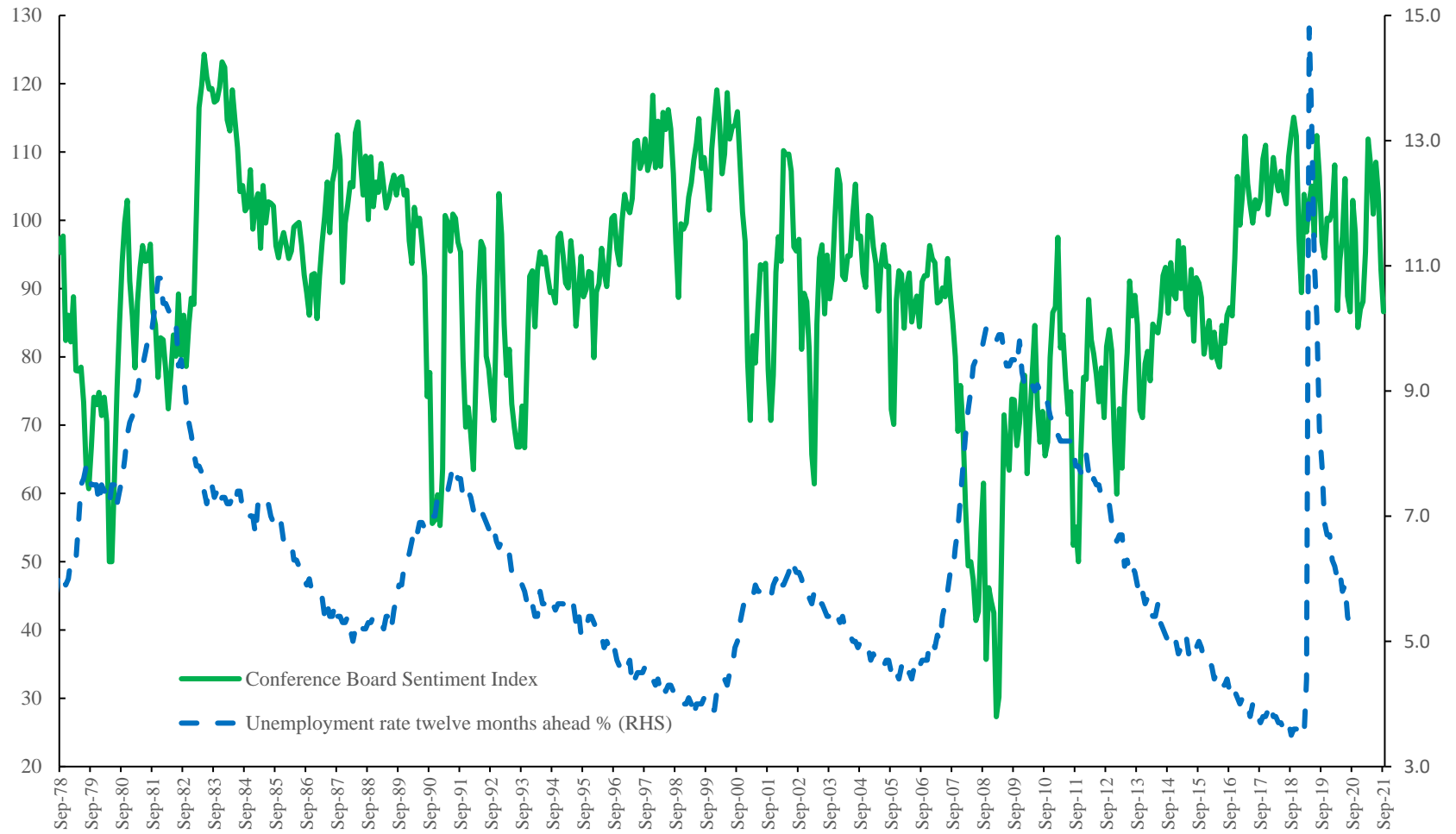


Chart 4. Conference Board Expectations Index and twelve months ahead unemployment rate



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Chart 5. US PMI Future Index, July 2012-July 2021

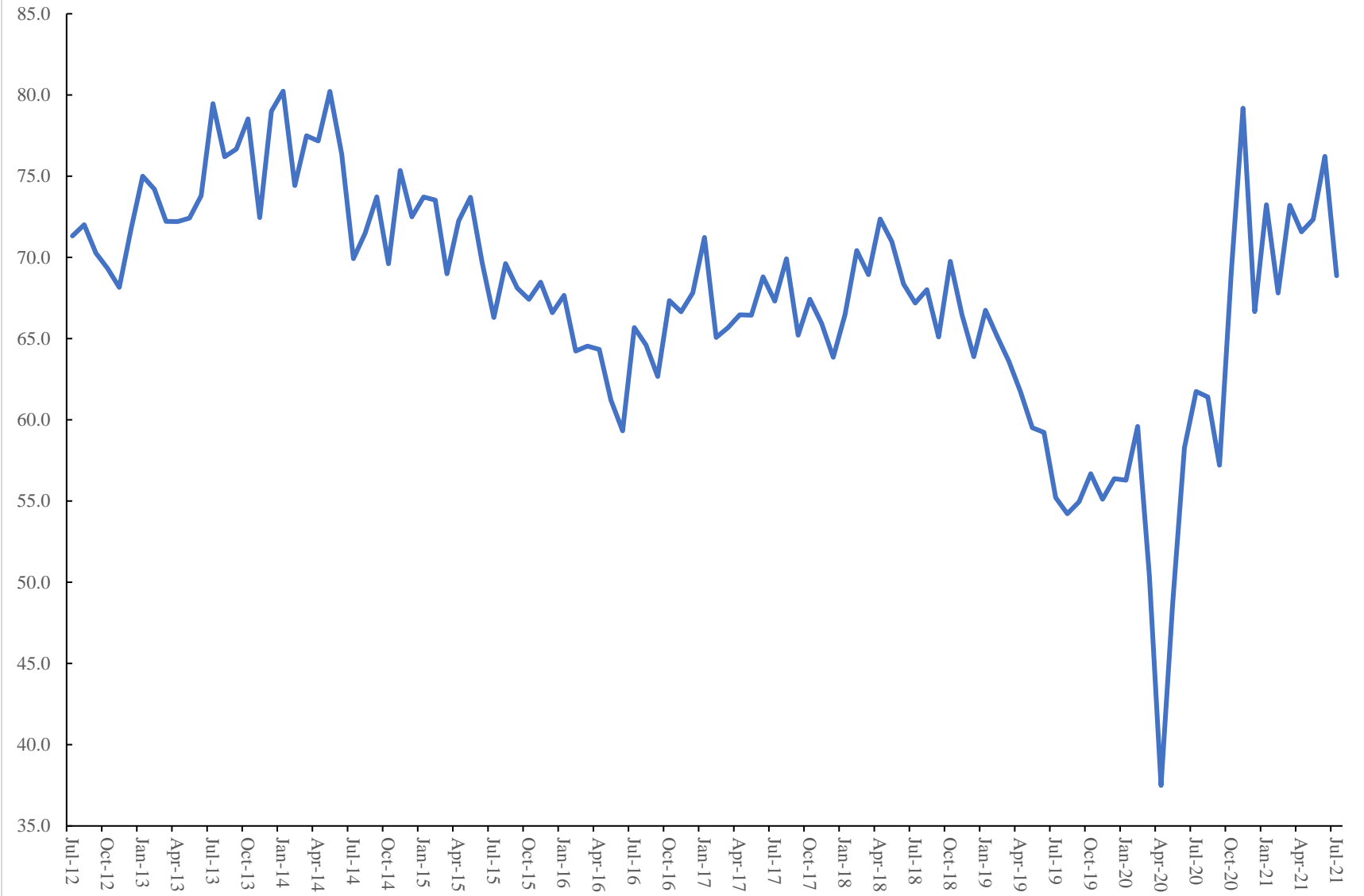


Chart 6. US PMI New Orders September 2018-September 2021

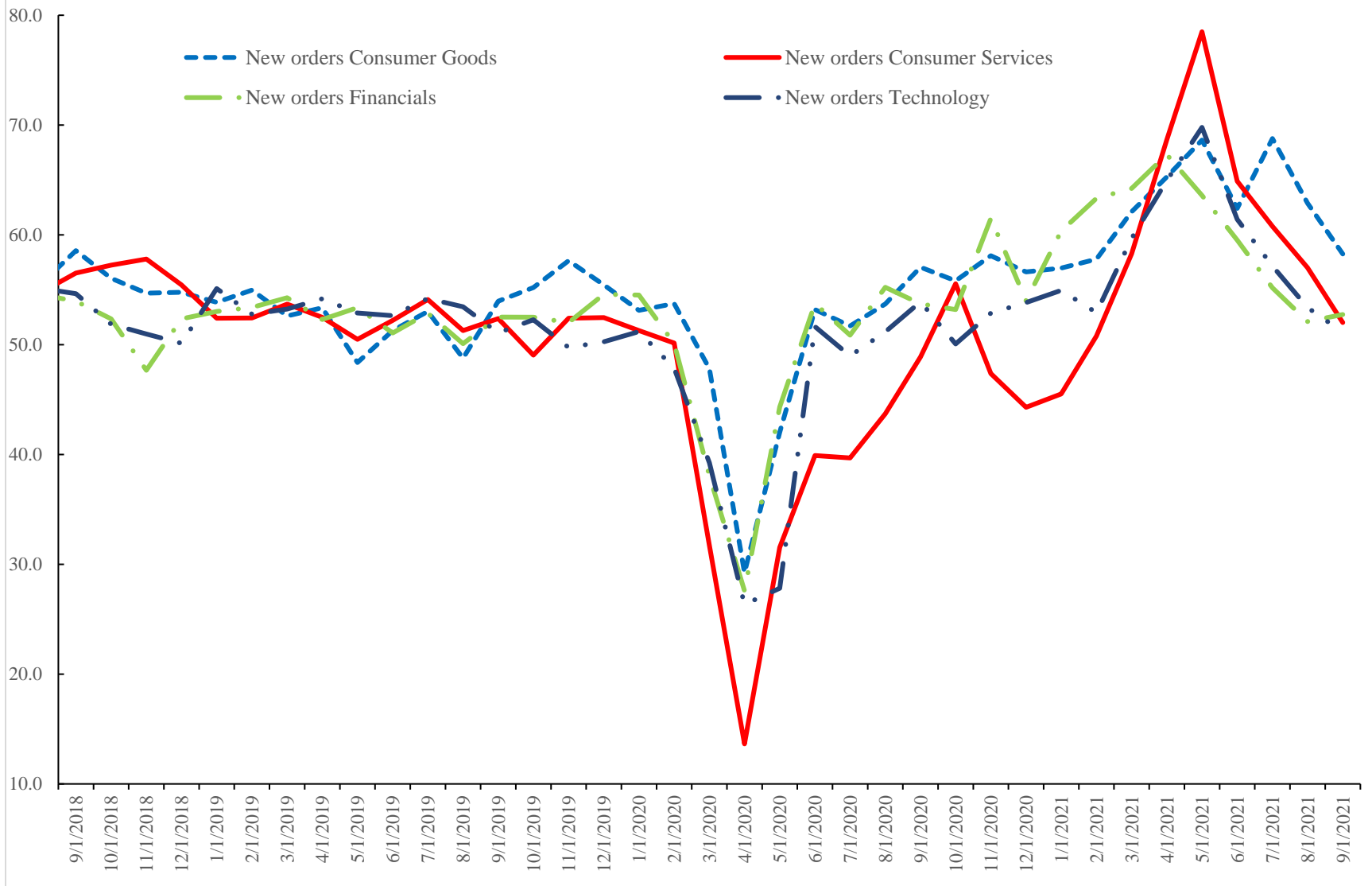


Chart 7. Anxiety and worry from the US Household Pulse Surveys, April 2020-Sept 2021
 (% saying 'more than half the days' or 'nearly every day')

