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How Did Leading Indicator Forecasts Perform during the 2001 Recession?

FRB Richmond Economic Quarterly, Vol. 89, No. 3, Summer 2003, pp. 71-90

20 Pages

Posted: 5 Dec 2012

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Date Written: 2003

Abstract

The 2001 recession differed from other recent recessions in its cause, severity, and scope. Professional forecasters found this recession difficult to forecast. A few leading indicators (stock prices, term spreads, unemployment claims) predicted that growth would slow, but none predicted the sharp economic slowdown. Several previously reliable leading indicators (housing starts, orders for new capital equipment, consumer sentiment) provided no early warning signals. When combined, the leading indicator forecasts performed somewhat better than a benchmark autoregressive forecasting model.

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