



Download This Paper (Delivery.cfm/SSRN\_ID899538\_code358088.pdf?abstractid=899538&amp;mirid=1)

Open PDF in Browser (Delivery.cfm/SSRN\_ID899538\_code358088.pdf?abstractid=899538&amp;mirid=1&amp;type=2)



Add Paper to My Library

Share:

## The Yield Curve and Predicting Recessions

*FEDs Working Paper No. 2006-7*

21 Pages

Posted: 3 May 2006

Jonathan H. Wright ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=232682](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=232682))

Johns Hopkins University - Department of Economics

Date Written: March 2006

### Abstract

The slope of the Treasury yield curve has often been cited as a leading economic indicator, with inversion of the curve being thought of as a harbinger of a recession. In this paper, I consider a number of probit models using the yield curve to forecast recessions. Models that use both the level of the federal funds rate and the term spread give better in-sample fit, and better out-of-sample predictive performance, than models with the term spread alone. There is some evidence that controlling for a term premium proxy as well may also help. I discuss the implications of the current shape of the yield curve in the light of these results, and report results of some tests for structural stability and an evaluation of out-of-sample predictive performance.

**Keywords:** Interest rates, forecasting, GDP growth, term premiums, probit**JEL Classification:** C22, E37, E43[Suggested Citation](#) >[Show Contact Information](#) >

Download This Paper (Delivery.cfm/SSRN\_ID899538\_code358088.pdf?abstractid=899538&amp;mirid=1)

Open PDF in Browser (Delivery.cfm/SSRN\_ID899538\_code358088.pdf?abstractid=899538&amp;mirid=1&amp;type=2)

## 22 References

1. Donald W K Andrews  
Tests for Parameter Instability and Structural Change With Unknown Change Point  
Econometrica , volume 61 , p. 821 - 856 Posted: 1993  
Crossref (<https://doi.org/10.2307/2951764>)
2. Andrew Ang , Monika Piazzesi , Min Wei  
What Does the Yield Curve Tell Us About GDP Growth?  
Journal of Econometrics Posted: 2006  
Crossref (<https://doi.org/10.3386/w10672>)
3. John Y Campbell , Robert J Shiller  
Yield Spreads and Interest Rate Movements: A Bird's Eye View  
Review of Economic Studies , volume 58 , p. 495 - 514 Posted: 1991  
Crossref (<https://doi.org/10.2307/2298008>)

1. John Cochran, Monika Piazzesi  
We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve and personalize our content and to enhance our marketing efforts. For more information, see our [Cookie Policy](https://www.elsevier.com/legal/cookie-policy) (<https://www.elsevier.com/legal/cookie-policy>)

[Cookie Settings](#)

Accept all cookies

0 Citations

Fetch Citations

Do you have negative results from your research you’d like to share?

Submit Negative Results (<https://www.ssrn.com/index.cfm/en/Negative-Results/>)

Paper statistics

DOWNLOADS	3,208
ABSTRACT VIEWS	14,710
RANK	7,041

50 Citations

22 References

PlumX Metrics



([https://plu.mx/ssrn/a/?ssrn\\_id=899538](https://plu.mx/ssrn/a/?ssrn_id=899538))

Related Journals

Board of Governors of the Federal Reserve System Research Series ([https://papers.ssrn.com/sol3/JELJOUR\\_Results.cfm?form\\_name=journalBrowse&journal\\_id=671301](https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=671301))

Follow ⓘ

Recommended Papers

New Indexes of Coincident and Leading Economic Indicators ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=227144&rec=1&srcabs=899538&pos=1](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=227144&rec=1&srcabs=899538&pos=1))  
By James H. Stock ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=513](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=513)) and Mark W. Watson ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=88149](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=88149))

Forecasting Output and Inflation: The Role of Asset Prices ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=264434&rec=1&srcabs=899538&pos=2](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=264434&rec=1&srcabs=899538&pos=2))  
By James H. Stock ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=513](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=513)) and Mark W. Watson ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=88149](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=88149))

Predicting U.S. Recessions: Financial Variables as Leading Indicators ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=225441&rec=1&srcabs=899538&pos=3](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=225441&rec=1&srcabs=899538&pos=3))  
By Arturo Estrella ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=232215](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=232215)) and Frederic S. Mishkin ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=75048](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=75048))

View more >

Feedback 💬

Submit a Paper > (<https://hq.ssrn.com/submissions/CreateNewAbstract.cfm>)

- SSRN Quick Links
- SSRN Rankings
- About SSRN

 (<https://www.facebook.com/SSRNcommunity/>)

 ([https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1)

[trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany\\_493409%2Cidx%3A1](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A1)

 (<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>)

Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).



(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)