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National recession vs. Inland Empire recession, where do we stand?

By **CONTRIBUTING WRITER** | |

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On August 28, the headline figure for GDP reported by the U.S. Bureau of Economic Analysis was a decline of 0.9%, following a negative growth rate of 1.6% in the first quarter. The growth rate is published in compound annualized terms, so it represents the percentage change in output that would result if the current quarter-to-quarter rate persisted for a year.

Two consecutive quarters of declining real GDP is commonly referred to as a recession, both in the U.S. and abroad. So, are we in a recession?



Relying on GDP to determine the state of the economy is like a physician measuring a patient's heartbeat. While the heartbeat is a fundamental gauge of a person's well-being, it is not the only one and therefore not enough to establish overall health. Likewise, the Recession Dating Committee of the National Bureau of Economic Research, or NBER, which determines whether or not the U.S. economy is in recession, looks beyond the growth rate of GDP when evaluating the economy. It defines a recession as a "significant decline in economic activity" based upon examination of several indicators, including income, employment, industrial production, retail sales, consumer sentiment, and GDP. There was just one episode since World War II – the first and second quarters of 1947 – when GDP declined over two consecutive quarters, and the NBER did not declare a recession.

So when will we know if we are in a recession or not?

It took the NBER until December 2008 to announce that the Great Recession had started in December 2007. More generally, the NBER must look at the condition of the economy before, during, and after the downturn to determine the exact dating of a recession — the dates are non-revisable. This is important so one can compare recession episodes over time to better understand their origins, and also so that policy makers can take countermeasures to avoid them in the future. As a result, it may be some time before we hear whether the national economy entered a recession during the first half of 2022. As mentioned previously in this column, our own analysis suggests that it has not.

Economists typically use the term recession to refer to the trajectory of the entire national economy, but regional economies may not follow that trajectory faithfully. For example, we describe the long-standing trend for the region as "first in, last out." That is, it typically enters a downturn before other regions, but is one of the last regions to recover. Of course, the Inland Empire bucked that pattern this time around thanks to its logistics sector, and has already surpassed its pre-pandemic level of employment, something the U.S. has not yet done.

What about regional GDP?



Unfortunately, official regional GDP numbers are reported with a substantial delay (2020 is the latest available and we will not receive the statistics for 2021 until December). Just imagine: a supertanker (the IE economy) enters a fog bank that is known to contain nasty obstacles such as icebergs. To make matters worse, not only do you not have a radar but you cannot even determine where you currently are since your GPS is also out. The U.S. Coast Guard tells you that in two days they will let you know where you currently were — which may well be after you hit the iceberg.

To overcome the supertanker’s problem, we have developed an alternative system (with the fancy name “econometric methods”), to estimate quarterly GDP for the IE using past behavior of the regional GDP growth, regional employment, and national GDP growth.

Based on our estimates, GDP in the IE grew by 1.1% during the first quarter of this year, and expanded by another 0.6% during the second quarter. The relatively high employment growth in the region was able to overcome the negative impact from the national economy: while the U.S. economy sneezed, we did not show signs of the cold (yet). This is consistent with other economic indicators since the start of the year. More generally, whether the list of pundits declaring that the U.S. economy is in recession are right or wrong, the IE region is not.

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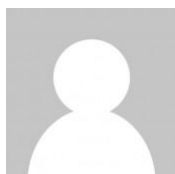
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