GRASPING FOR TEA LEAVES

When will the next recession start? This question is perennially on the minds of business leaders, especially years into a bull market. While economists are happy to offer opinions, their predictions rarely form a consensus. For example, economists last year were divided as to when the next downturn in the U.S. would occur: 10% said 2019, 56% said 2020 and 33% said 2021, according to a National Association for Business Economics survey. The experts, in other words, can look at the same data and come to very different conclusions.

The varied responses should come as no surprise, however: Economic forecasters have been notoriously inaccurate for decades. According to findings from Andrew Brigden, chief economist at London-based Fathom Consulting, of the 469 recorded downturns in markets around the world since 1988, the International Monetary Fund (IMF) had only predicted four by the spring of the preceding year while failing to anticipate 159 entirely. "Since 1988 the IMF has never forecast a developed economy recession with a lead of anything more than a few months," Mr. Brigden told *Bloomberg Businessweek*.

According to one new study conducted by David Reifschneider of the U.S. Federal Reserve and Peter Tulip of the Reserve Bank of Australia, economic forecasts have actually gotten *less* accurate since the Great Recession of 2008-2009.

Clearly, classic macroeconomic variables—such as inflation, unemployment, interest

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rates and GDP growth rate—are not great harbingers of the future.

So where should executives and investors look for meaningful clues about what the future holds? One favorite omen among financial professionals is the yield curve. Or, more specifically, the inverted yield curve. When the interest rates on 10-year U.S. Treasury bills fall below the rates on three-month Treasury bills, that creates an inversion—which recessions frequently follow. In fact, inversions have preceded the last nine recessions. But there have also been a handful of false alarms. In 1998, the stock market actually rose by 55% after an inversion. When was the last inverted curve? August 2019.

The stock market is another popular metric, though its accuracy has long been up for debate. (In 1966, economist Paul Samuelson famously joked that declines in U.S. stock prices correctly predicted nine of the past five U.S. recessions.) CNBC analyzed post-World War II bear market numbers to see just how predictive they were. Out of 13 bear markets, seven were followed by a recession within the next 12 months. That is a 53% rate—just slightly higher than chance.

And then there are far less traditional indicators. Look at global corporate debt, for example. Since the mid-1980s, each major U.S. recession has coincided with a high proportion of debt to GDP. Today corporate debt totals $66 trillion, more than twice the amount as before the financial crisis 10 years ago. If interest rates keep rising, driving up companies' debt service payments, it could stifle growth.

Even delinquent auto loans could signal deeper debt issues—echoing the same dynamics of the late 2000s housing bubble. Data from the Federal Reserve Bank of New York indicates that by the end of 2018, more than 7 million Americans were 90 days late on their loan payments, an all-time high. Possibly even more troubling? According to *Forbes*, "some 22% of auto loans and 50% of those underwritten by auto-finance companies qualify as subprime." Although the auto-loan market is much smaller than the mortgage market, numbers like these could spell déjà vu all over again.

Yet even these indicators should be taken with more than a few grains of salt. There is no infallible predictive metric to tell the future. Barring a crystal ball or a modified DeLorean, executives would do well to stay out of the prediction business altogether. **IQ**

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