December 30, 2008

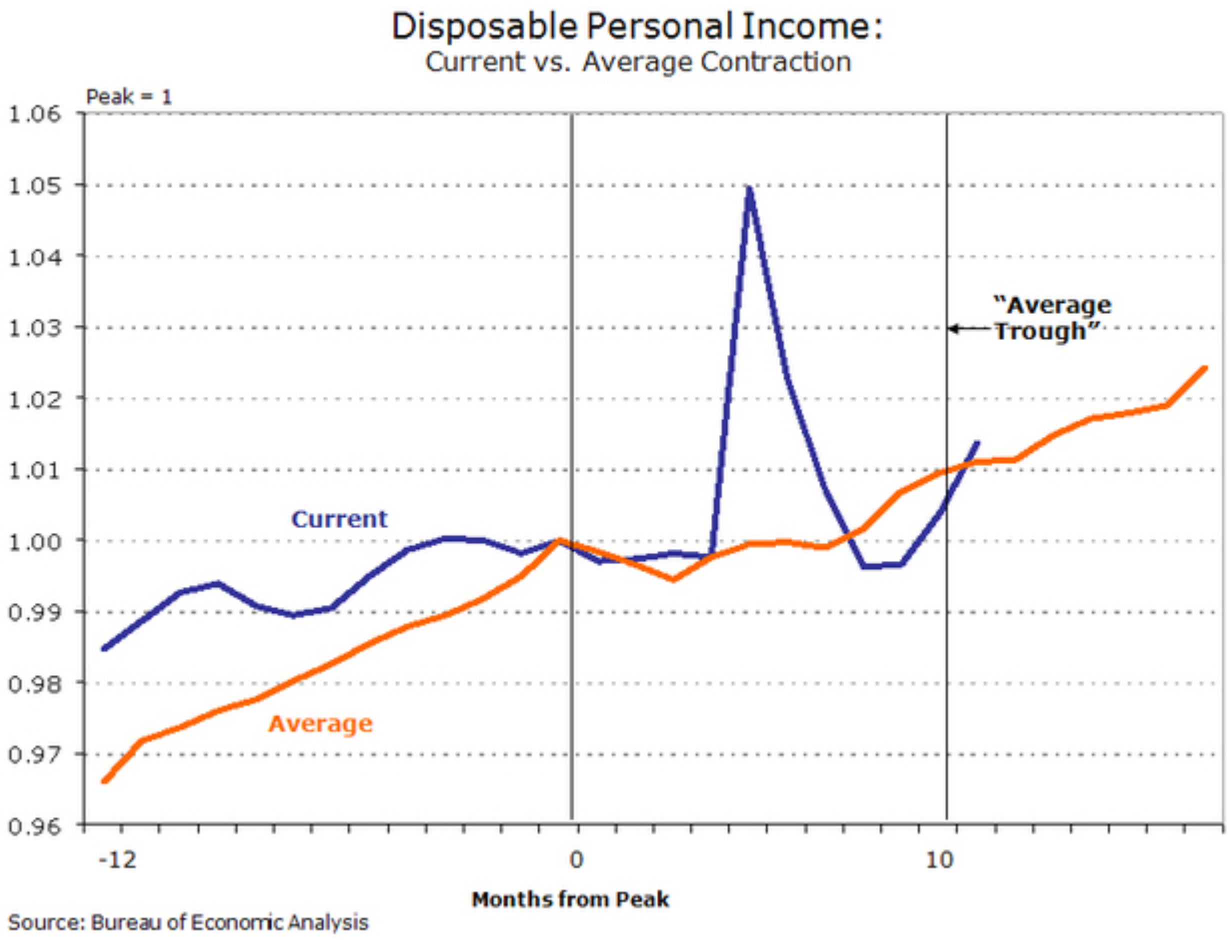
Good news in income growth?

One of my New Year's resolutions is to be more consistent in responding to questions and comments from the loyal readers of macroblog. Though it remains the case that time constraints prohibit a response to all worthy queries, we're still listening. Next year we'll endeavor to give a shout back just a little more often.

In that spirit, I received an interesting inquiry from reader Robert Schumacher:

> A cursory examination of the monthly trends in real disposable income in light of the NBER official business cycles suggests to me that a sustained rise in disposable personal income (at least three if not four months) signals the end of the recession is at hand. In that real disposable income rose in October and November how are we to interpret this amidst the dire economic forecasts for the coming year?

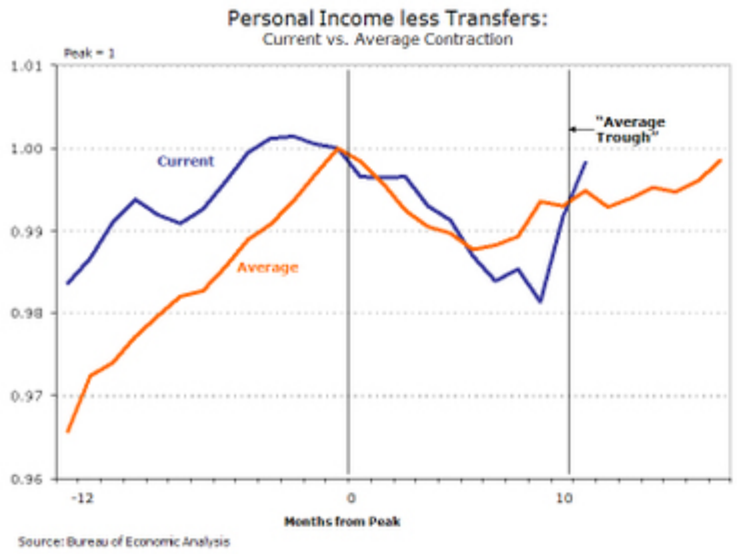
It does seem, as Robert suggests, that a sustained rise in real disposable income is characteristic of a typical recession's end. Using a graphical device from a few posts back, here's a look at the trajectory of disposable income up to and after December 2007 (the start date of the current recession according to the NBER Business Cycle Dating Committee), compared with the average experience of the previous seven recessions dating from 1960:



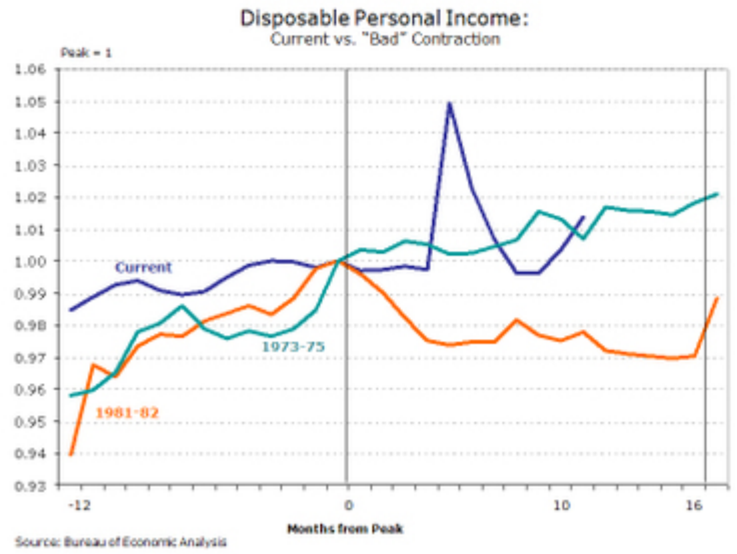
As in the previous post, "time 0" represents the peak of a business cycle, or the month a recession begins. The average length of US recessions from 1960 through 2001 was 10.7 months, so the line indicating 10 months from the peak roughly coincides to the end of the average recession over this period.

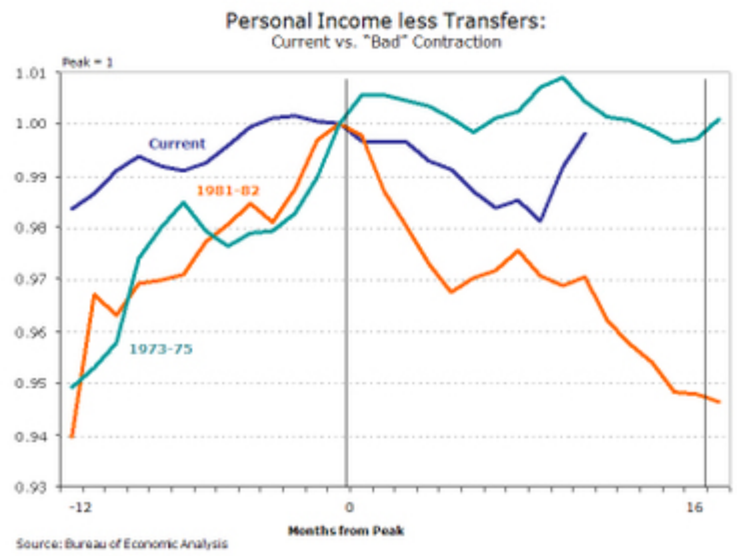
On average, Robert's conjecture looks right on track. In the typical case, growth in real disposable income stalls and then begins to pick up three or four months before recession's end. If you smooth through the spike associated with the stimulus package of late spring, income growth was roughly flat through August but has increased since (and at a reasonably good clip). That would seem to portend well for all of us—and I assume it is *all* of us—hoping for a sooner rather than later end to the current contraction.

The picture is equally encouraging if we look at the income series preferred by the Business Cycle Dating Committee, which subtracts out transfers (that is, payments made to the public by the government):



That's all encouraging, but there is a caveat: Individual results may vary. Here are the comparisons for the long-lived (16-month) recessions of 1973–75 and 1981–82:





In these two recessions—which are arguably better benchmarks than the average at this point—income measures were not such reliable harbingers of expansion.

Still, in current circumstances a glimmer of hope is better than nothing.

By David Altig, senior vice president and director of research at the Federal Reserve Bank of Atlanta

Because of the New Year holiday, today's posting will be the only macroblog posting for this week.

December 30, 2008 in Business Cycles, Data Releases | Permalink