Start of Recession in New York State Signaled by UB Researchers

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(PhysOrg.com) -- Although no official determination has been made about whether New York State or the U.S. is in the midst of a recession, researchers from the University at Buffalo's Center of Human Capital believe New York entered a recession beginning in the second quarter (April-June) of 2008.

Their conclusion results from an innovative recession-dating method they developed to forecast the start of recessions at the state level. The method uses an approach similar to the one used by the National Bureau of Economic Research (NBER) to date the start and end of business cycles at the national level, using national data.

The UB model uses state data and was developed for annual state revenue forecasts UB researchers provide to New York State Comptroller Thomas P. DiNapoli.

"The model very clearly shows that the New York State economy began significantly slowing down in the third quarter of the 2007 fiscal year and slipped into a recession in the second quarter of the 2008 fiscal year," says Isaac Ehrlich, SUNY and UB Distinguished Professor, chair of the UB Department of Economics and director of the UB Center of Human Capital.

The UB model factors in such indicators as the state's non-farm employment, unemployment rate and corporate tax receipts. The UB research team devised criteria to determine when these indicators collectively signal the start of a recession.

According to DiNapoli, the UB economic model sheds critical light on when the state went into recession.

"It helps us better understand the impact of the current fiscal crisis on the state and how it will impact the state's revenue picture," he said. "New York State is facing serious fiscal challenges. As the economy deteriorates and the erratic swings continue on Wall Street, the state will have to make difficult fiscal choices."

Ehrlich's co-researchers are Yong Yin, Ph.D., and Alejandro Rodriguez, Ph.D., both UB assistant professors of economics, and UB doctoral student Xuezheng Qin.

The ability to predict the onset of a state recession is valuable to policymakers because they can more confidently see that the economy is weakening and make decisions accordingly, explains Ehrlich, who also is the Melvin H. Baker Professor of American Enterprise in the UB School of Management. "It's like having a little piece of a crystal ball looking ahead knowing there is a deteriorating economic situation."

The UB researchers' recession-dating methodology is designed to determine only the onset of a recession. It is not designed to predict the magnitude of the recession or its length, Ehrlich points out. Historical evidence indicates, however, that New York's recessions tend to last longer than those in the national economy.

"This certainly was the case in the 2001 recession which lasted three quarters at the national level, but 10 quarters in New York State," Ehrlich says.

"Given that the current decline has been precipitated by the implosion of the real estate bubble that created a serious financial crisis for major Wall Street investment banks and insurance companies, New York State's economy is again likely to be hit harder than the national economy. Wall Street contributes about 20 percent of all tax revenues in the state."

Testing its dating methodology backwards, the UB researchers have been able to successfully predict the starting quarters of all the past recessions in New York State for which data on the indicators were available. According to the UB researchers, New York has suffered five recessions since the 1970s. They include the recessions of 1973-75, 1980, 1981-83, 1989-1992 and 2001-03.

Provided by University at Buffalo