

November 25, 2002

More Furrowed Brows. Is a Double Dip Ahead?

By DAVID LEONHARDT

It is not foolproof, but the Anxious Index has provided a new reason to worry about a double-dip recession.

The index — which measures forecasters' opinions on whether the economy will soon start shrinking — rose to 24.1 in the current quarter, the Federal Reserve Bank of Philadelphia said on Friday. Over the summer, it was 18.6.

When the index has reached the mid-20's in past years, a recession has followed roughly half of the time.

"It's a little bit worrisome," said Dean Croushore, an economist at the Philadelphia Fed. "The data for the last three months, and even the last six months, have been weaker than the forecasters expected."

Wall Street forecasters tend to make overly optimistic predictions, and almost all failed to foresee last year's recession. But their doubts about their own forecasts, measured by the Fed's survey, have been an unusually good economic indicator.

When forecasters say that there is a 30 percent chance, on average, of the economy's shrinking in the following quarter, a recession usually ensues.

The survey began in 1968, and the Philadelphia Fed began using the term Anxious Index after it appeared in The New York Times this year.

The index exceeded 20 before the 1990-91 recession and before the second of two successive downturns in the early 1980's. But it also reached that level in 1992, when the economy was beginning its longest expansion on record, and in the mid-80's, when it avoided recession.

The index's jump "is not insignificant, but it doesn't mean it's inevitable" Mr. Croushore said, referring to a new downturn.

The most recent recession began in March of last year, according to a committee of academic economists. The committee has not yet announced when the recession ended, but it is likely to choose a month around the beginning of this year.

Since the Fed conducted the most recent survey, in early November, the economy has appeared to improve somewhat, with stocks rising and claims for unemployment insurance falling.

Forecasters also said that the unemployment rate would remain at about 5.8 percent early next year and fall to 5.6 percent during the second half of the year. They said that the economy would grow 2.6 percent, down from a previous estimate of 3 percent, and that inflation would remain mild over the next decade.

Federal Reserve officials are slightly more optimistic, according to recent comments by Alan Greenspan, the chairman, and others. A recent survey by a business group showed corporate executives to be more downbeat.

Full results of the Philadelphia Federal Reserve's survey are available at www.phil.frb.org/econ/spf/index.html.