



# Economics Group

**Tim Quinlan, Senior Economist**  
[tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com) • (704) 410-3283  
**Sarah House, Senior Economist**  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282  
**Shannon Seery, Economic Analyst**  
[shannon.seery@wellsfargo.com](mailto:shannon.seery@wellsfargo.com) • (704) 410-1681

## Dating Advice

*As this expansion nears the longest ever, we examine the indicators that define a recession. Recession is coming, it's just a question of when. Dating the economic cycle is not easy; this short series of reports is our best advice.*

### Long in the Tooth

Since 1945 there have been 12 U.S. recessions that have lasted, on average, 10.8 months. Add up the duration of every post-war recession and you get 130 months or just shy of 11 years. That is less than 15% of the time. Said differently, more than 85% of the time the economy is in expansion. The average expansion during that same time period is just under five years, and the longest (1991-2001) was 120 months. If the U.S. economy is still in expansion in July as we expect it to be, this will become the longest U.S. economic expansion on record.

In the lead-up to the financial crisis in 2008-2009, there were very few economists calling for recession, let alone the worst contraction in output since the Great Depression. What explains this reluctance? And what does it mean for identifying the eventual end of the current cycle?

### Why the Reluctance About Calling a Recession?

Imbalances in the economy can be identified in advance. Yet pinning down the precise date for *when* those imbalances lead to recession requires advance knowledge of what the initial spark that saps confidence will be.

Making a recession call well ahead of a downturn therefore means sticking your neck out. John Maynard Keynes lamented that “worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.” An untested model or even a well-informed hunch lacks the sufficient basis for a recession call.

Even for the economist with the guts to do it, the incentives are misaligned. If the call does not go your way, you are accused of “crying wolf,” and if 85% of the time the economy is in expansion, why chance it?

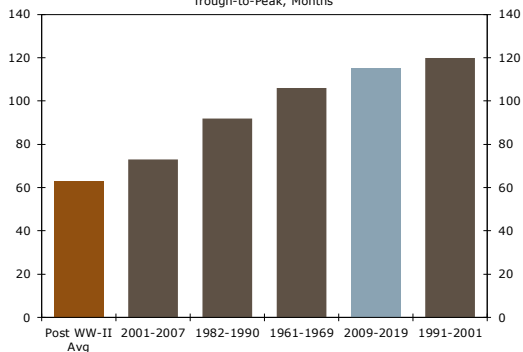
### Night Gathers and My Watch Begins

Why chance it? Because that’s our job. The length of this expansion alone implores a hard look at when the next recession may strike. More crucially, sailing is anything but smooth at present. Risks are mounting and early warning signals of a recession keep popping up. Global growth is slowing. The world’s most influential central bank, the Fed, is teetering on restrictive monetary policy. U.S. policy uncertainty is at a five-year high amid ongoing trade disputes and only tentative resolution to the government shutdown. The leading economic index, a key yardstick for the direction of the economy, is losing momentum. Perhaps most ominously, an inverted yield curve has preceded each of the past seven recessions, and we are uncomfortably close to inversion again.

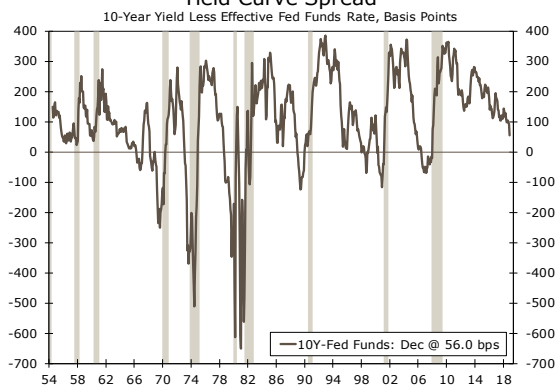
So what defines recession and what should we be watching? The official call is up to the National Bureau of Economic Research, whose dating committee determines the start and end dates for each cycle. It considers recession to be “a significant decline in economic activity...normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.”

In a series of notes over the course of this week, we will unpack each of these components. None of these four horsemen of the apocalypse are signaling recession yet. But what do the leading indicators for each signal in light of the gathering clouds? The next recession is coming, it is just a question of when. These reports will help you identify the leading indicators to watch. Dating the economic cycle is not easy; these reports are our best advice.

Duration of Economic Expansion  
Trough-to-Peak, Months



Yield Curve Spread



## Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS  
FARGO

SECURITIES