Taking Account

Alternatives Measures to Date Business Cycles?

According to the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), there have been 10 recessions since World War II. To date the peaks and troughs of these recessions, the committee has mainly relied on four monthly measures: The Federal Reserve Board of Governors index of industrial production, the Bureau of Labor Statistics estimates of payroll employment, Bureau of Economic Analysis estimates of real manufacturing and trade sales, and the BEA estimates of real personal income less current transfers.

In a recent working paper, BEA economist Bruce Grimm found that the four monthly measures do not fully agree with the committee's peak and trough months. However, as a group, the four measures were found to be in general agreement with the committee's peaks and troughs.

Grimm also looked at quarterly estimates of real gross domestic product and real gross domestic income. He found that the estimates do not fully agree with the committee's peak and trough quarters or with each other. However, taken as a group, they are also again in general agreement with the committee's official peaks and troughs.

Thus, NBER's methodology appears to be more robust than any alternative methodology that relies on just one performance measure.

In general, Grimm's paper found no reason to revise the timing of the NBER post-World War II cyclical peaks and troughs.

The working paper can be found on BEA's Web site at <www.bea.gov/bea/papers/grimm.pdf>.

Effects of Hurricanes Katrina and Rita on ITAs

BEA's U.S. international transactions accounts (ITAs) will reflect the effects of recent hurricanes on trade in goods and services and on other components of the accounts. However, providers of the source data used in these accounts generally cannot isolate the effects of the hurricanes. Thus, BEA cannot quantify the effects of the hurricanes on any of the aggregates in the ITAs.

The hurricanes caused a temporary loss of petroleum production and refining capacity and other disruptions that affected the value of oil and other commodities that are traded internationally by the United States. These disruptions affect U.S. trade in goods beginning with data covering August 2005.

In addition, the hurricanes will have a large effect on net unilateral current transfers. This component will reflect any insurance and reinsurance claims received by U.S. companies from foreign insurance companies that are in excess of "expected" claims. ("Expected" claims are estimated as premiums multiplied by the historical average of claims as a percentage of premiums.) Donations from abroad for hurricane relief also will be reflected in this account.

These two increases in U.S. receipts will result in net unilateral current transfers becoming less negative and, taken by themselves, will reduce the current account deficit in the third quarter of 2005. Because comprehensive source data on actual claims are not available for the release of the preliminary estimates for the third quarter, BEA will make adjustments to net unilateral current transfers. These adjustments will be phased out as additional source data are received.

Subsequent quarters may be affected by claims related to business interruption insurance. In addition, income payments and financial flows will reflect the effects of the hurricanes on the earnings of foreign-owned companies located in the Gulf region in the third and subsequent quarters.

For more information, see <www.bea.gov/katrina/Trade_KatrinaRita.htm>.