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On the Classification of Economic Fluctuations: An Update

In an earlier volume of this journal,[1] we used multivariate discriminant analysis to present a four-phase classification of the U.S. business cycle. The four phases we identified in the postwar cycles we termed recession, recovery, demand-pull, and stagflation. The extrapolation of the analysis presented in that paper to the months September 1973 through October 1974 strongly suggested that a recession started during that period, a finding later confirmed by more traditional NBER analysis.

In the table below, we extend our extrapolation to September 1976 using additional (and revised) data. Our findings reconfirm the earlier classification of recession for late 1973 and 1974 and further suggest that the trough of the 1973–1975 cycle occurred in May 1975. The recovery beginning in June 1975 has continued through the end of our time series, September 1976. It should be noted that the dating of the trough as of May 1975 is a bit later than that tentatively established by conventional NBER methods.

Extrapolations of Discriminant Classifications to 1973–1976

| Year | Month | Posterior Probabilities | | | |
		Recession	Recovery	Demand-Pull	Stagflation
1973	October	0.666*	0.096	0.205	0.034
	November	0.887*	0.020	0.090	0.003
	December	0.952*	0.007	0.041	0.000
1974	January	1.000*	0.000	0.000	0.000
	February	1.000*	0.000	0.000	0.000
	March	0.999*	0.000	0.001	0.000
	April	0.977*	0.001	0.022	0.000
	May	0.288	0.010	0.700*	0.001
	June	0.814*	0.026	0.160	0.000
	July	0.947*	0.011	0.043	0.000
	August	0.997*	0.001	0.002	0.000
	September	1.000*	0.000	0.000	0.000
	October	1.000*	0.000	0.000	0.000
	November	0.999*	0.001	0.000	0.000
	December	1.000*	0.000	0.000	0.000
1975	January	1.000*	0.000	0.000	0.000
	February	1.000*	0.000	0.000	0.000
	March	1.000*	0.000	0.000	0.000
	April	0.999*	0.001	0.000	0.000
	May	0.931*	0.069	0.000	0.000
	June	0.047	0.953*	0.000	0.000
	July	0.000	1.000*	0.000	0.000
	August	0.021	0.979*	0.000	0.000
	September	0.011	0.989*	0.000	0.000
	October	0.247	0.753*	0.000	0.000
	November	0.251	0.749*	0.000	0.000
	December	0.058	0.942*	0.000	0.000
1976	January	0.028	0.972*	0.000	0.000
	February	0.001	0.999*	0.000	0.000
	March	0.002	0.998*	0.000	0.000
	April	0.031	0.969*	0.000	0.000
	May	0.032	0.968*	0.000	0.000
	June	0.068	0.932*	0.000	0.000
	July[a]	0.041	0.959*	0.000	0.000
	August[a]	0.025	0.975*	0.000	0.000
	September[a]	0.019	0.981*	0.000	0.000

Source for discriminant functions: Meyer, John R. and Daniel H. Weinberg, "On The Classification of Economic Fluctuations," Explorations In Economic Research, Vol. 2, No. 2 (Spring 1975).

*Most probable group.

[a]Data for the third quarter of 1976 are preliminary and subject to revision.