Figure 1.3.1. Predicted Probability of a New Recession in a Quarter

Sources: Claessens, Kose, and Terrones (2011c); Haver Analytics; and IMF Staff Calculations.

Note: The equity price indices used in the estimation are: S&P 500 for the United States, FTSE All Shares for the United Kingdom, CAC All Tradable for France, and the Nikkei 225 for Japan. The Claessens, Kose, and Terrones (2011c) recession indicator is used for the starts of recessions. Probability estimates are derived from a simple logit model for the recession indicator over the period 1970:Q1 to 2011:Q2, excluding periods during which the economy is already in recession and the quarter just after a recession concludes. The logit model takes as arguments the real equity price change, a dummy for large drops (> 5%) and their interaction. To calculate the average for 2011:Q3, we assume that the last, daily equity price index extends to the end of the quarter. We then calculate the quarterly average level for 2011:Q3 over these daily observations. Latest data are for August 24, 2011.