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Volatility and mixed data are a forecaster's nightmare, and they've led many a forecaster astray. It's not difficult to find forecasts of a fantastic bull stock market. It's just as easy to find forecasts of a market bloodbath. Similarly, it has been easy to find optimistic and pessimistic economic forecasts throughout the recovery.

Right now, most of the forecasts are pretty negative. Citi Bank is concerned that the world might be trapped in a "death spiral." They assign a pretty high probability of a recession in 2016. At least one analyst boldly assigned a 100 percent chance of a recession this year.

There are plenty of reasons to be pessimistic. China has stumbled. Europe is struggling. Brazil is suffering a huge recession. Low commodity prices are wreaking havoc on many countries. Japan has been flat for over a generation.

Some claim that our recovery has lasted so long that we're due for a recession. We at CERF don't buy that. Shocks cause recessions, not time.

Then, there is the nature of our recovery. It's weak and volatile, and large portions of our workforce have been left behind. It's easy to believe that a weak and volatile economy is more at risk than one generating persistent strong growth.

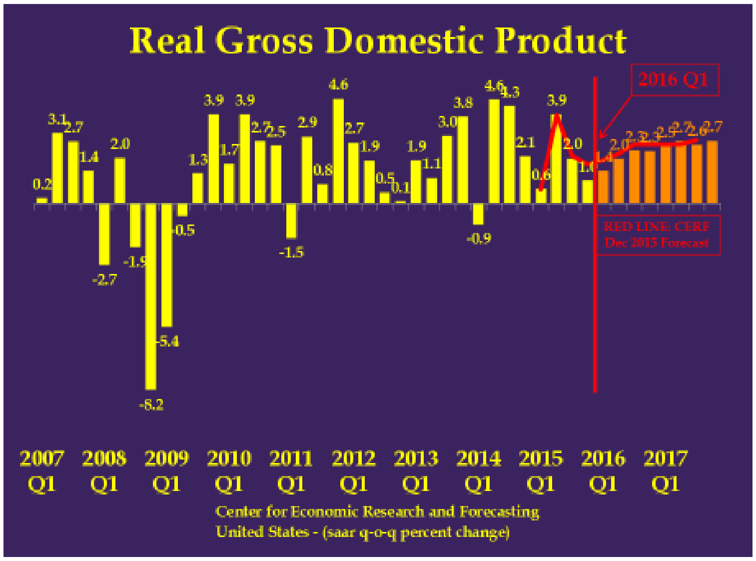
Combined, all of these reasons indicate that the probability of recession has probably increased, but we don't believe that a recession is the most likely outcome.

Part of the reason for our relative optimism is the fact that our economy has been weak and volatile for very long time now. We've seen shocks come and go, not much has changed. Our weak and volatile economy has been remarkably resilient.

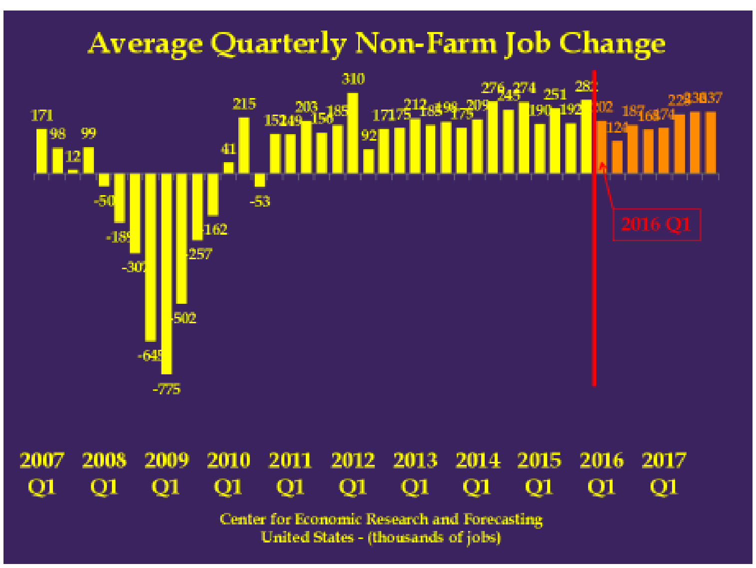
That resilience is a testament to the underlying strength of America's economy. To be sure, our economy has been held back by a weak banking sector, increasingly burdensome regulation, experimental monetary policy, and reckless fiscal policy. Still, it generates year after year of modest growth. It's the recovery that can't be killed. Imagine the growth possible with decent fiscal, monetary, and regulatory policy.

Of course, the recovery will end someday. It could be 2016, but it could just as easily be 2018, and no one will know ahead of time the shock that will kill it or the timing of the shock.

Our forecast is for modest, but improving, economic growth. Our growth is unlikely to reach three percent on average. Individual quarters might see GDP growth in excess of three percent, but the average annual growth rate will be significantly lower.



One thing is for sure. Actual results will be more volatile than our model projects. Current technology does not allow us to forecast volatility with any real degree of confidence.



Job growth is likely to be weak. On average, we expect to see fewer than 200,000 net new jobs per month. Again, observed volatility will exceed the forecast volatility.

We’ve discussed the downside risk, the risk that the economy could be weaker than the forecast. What about the upside risk, the risk that the economy could be stronger than the forecast?

It is possible that the economy could perform better than the forecast, of course, but we believe that it is very unlikely to be dramatically better than the forecast. For example, we’d be pleasantly shocked to see persistent GDP growth over three percent.

Given all the reasons for pessimism, the modest forecasted growth seems somewhat satisfying. We’d love to see what our economy could generate with better policy, but better policy seems very unlikely.