

# US Macroeconomics

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## Another Signpost

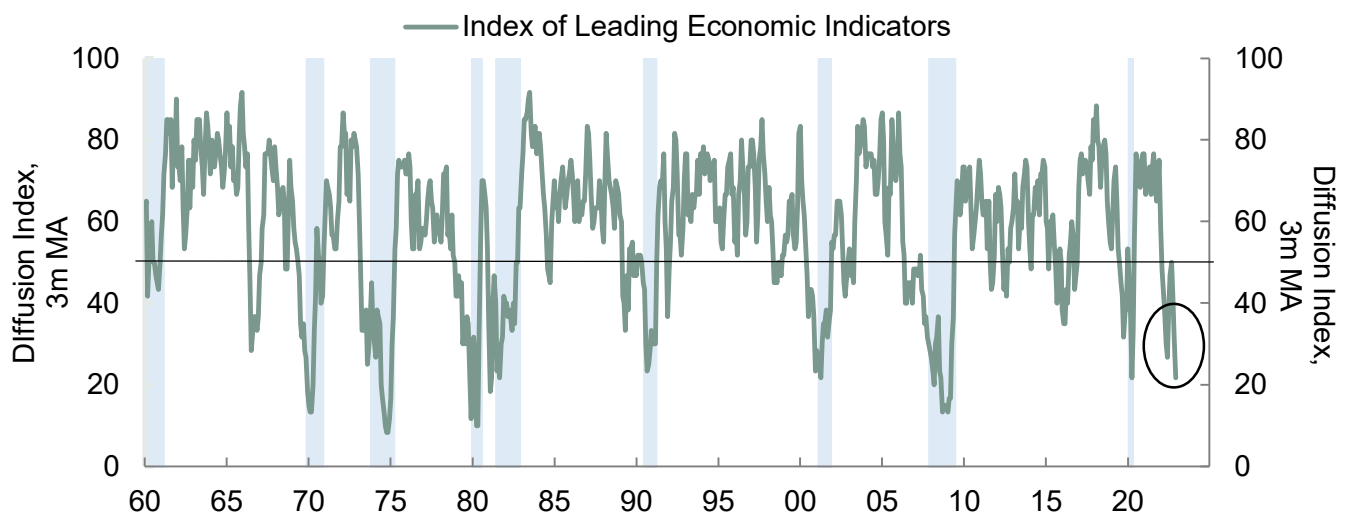
The Index of Leading Economic Indicators (LEI) fell 1.0% in December after November was revised down a tenth to -1.1%. **The LEI has now registered 10 consecutive declines and is down in 11 out of the last 12 months.** This is the worst performance since the 2008-2009 recession, a troubling development to be sure.

Moreover, **the LEI has fallen 6% from its peak**, which is a big decline. In the past, the economy was either *in recession or on the cusp of entering one* when this happened. In addition, the underbelly of the LEI is showing broad-based weakness as measured by its diffusion index. This increases the probability of a recession.

In the chart below, we show the three-month moving average on the one-month diffusion index on the LEI. **Only two components — consumer goods and nondefense capital goods orders — were small positive contributors to the index in December.** The remaining subcomponents of the LEI are the manufacturing workweek, initial jobless claims, ISM new orders, building permits, S&P 500 stock index, treasury yield curve (10s less fed funds rate), consumer expectations and the leading credit index which is comprised of six various financial market indicators created by the Conference Board.

**The December diffusion index was just 20% in both December and November after** registering a 25% reading in October — reflecting a flat contribution from one of the subcomponents. Notably, the current average is just 22%, which is below the 25% threshold that has always foreshadowed a downturn in the past. Importantly, there have been no exceptions to this rule.

To make matters worse, the Fed is still committed to raising interest rates and shrinking its balance sheet. This means the current market debate ought not be about whether there will be a soft landing but rather how deep the inevitable recession will be.



Source: Conference Board, NBER, Haver, SMBC Nikko

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