

US Macroeconomics

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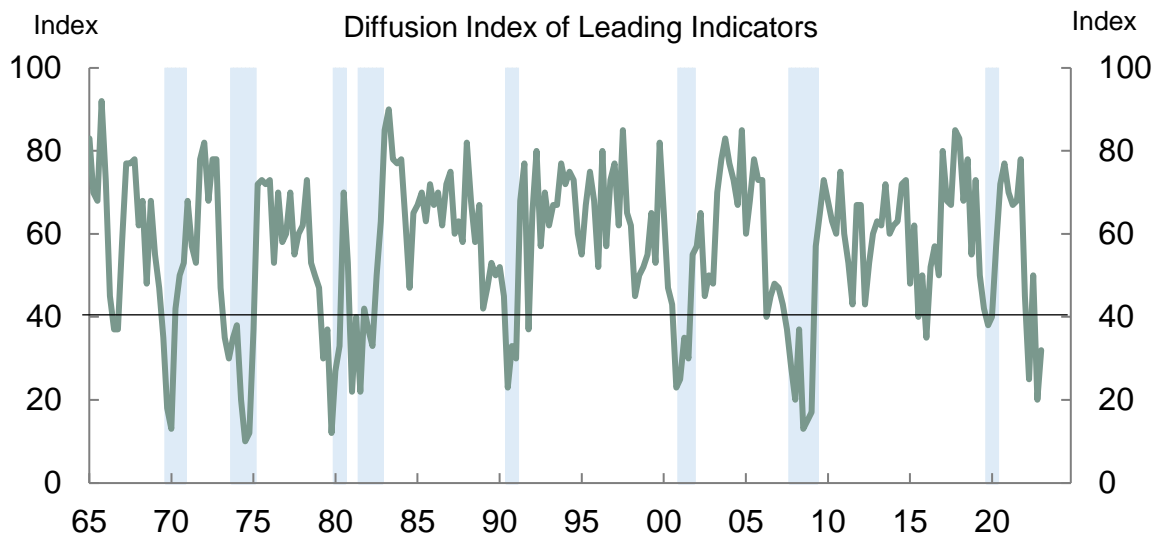
The Slowcession Continued...

The Index of Leading Economic Indicators (LEI) fell for the 12th consecutive month, down 1.2% in March which is the largest non-pandemic decline since March 2009 (-1.7%). **Over the last year, the LEI is down 7.8%, which also is the largest non-pandemic drop since the 2008-09 recession.** Troublingly, the declines in the LEI are broad-based, which increases the index's predictive power because it minimizes the probability of a false signal coming from just a few weak subcomponents. When the majority of the 10 subcomponents of the LEI are declining, the probability of a downturn increases.

The breadth of contributions to the LEI can be measured from its diffusion index. The lower the number the worse for the economic outlook and vice versa. **Last month, the diffusion index registered a 25% reading out of 100 which means that only one quarter of the components contributed positively to the LEI.** They were consumer durable goods orders and nondefense capital goods orders, and the manufacturing workweek which was flat. The series that dragged the LEI lower were initial jobless claims, ISM new orders, building permits, S&P 500 stock index, the treasury yield curve, consumer expectations and the Conference Board's leading credit index.

The March diffusion index follows readings of 50% in January and 20% in February. For the quarter, the diffusion index averaged 32%, which was up from 20% in Q4 2022 but down from 50% in Q3 2022. **With one exception, every time the index has fallen below 40%, recession ensued and generally just two quarters afterward.** The lone instance a downturn was avoided was in Q1 2016. The index bounced off 35% and went right back up. Recently, the diffusion index has remained soft, registering sub-40% readings in three out of the last four quarters.

However, the economy has not yet entered a downturn. Confirmation is only likely to come after employment growth turns negative, and the unemployment rate rises sharply above 4%. The labor market is not there at present. The economy continues to bend but not break. Thus far it remains a slowcession.



Sources: Conference Board, NBER, Haver, SMBC Nikko

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