

# The Metrics Behind an Official NBER Recession

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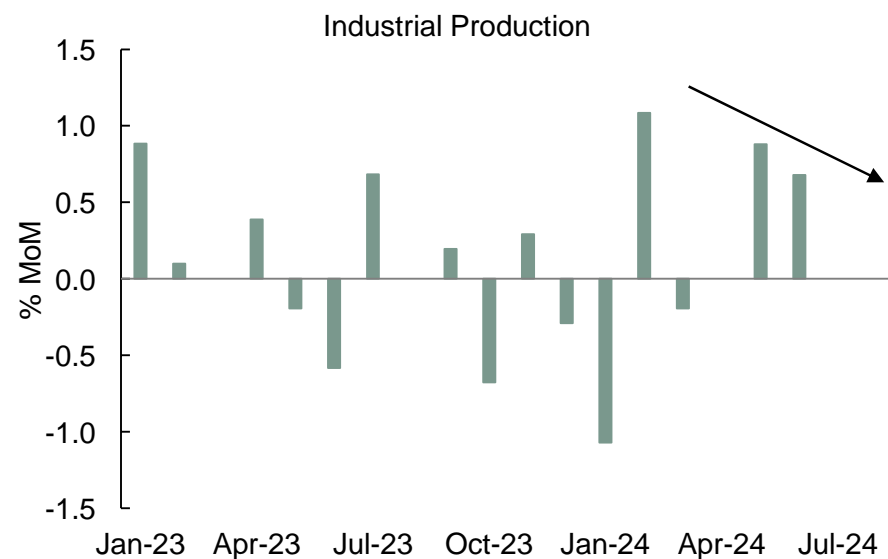
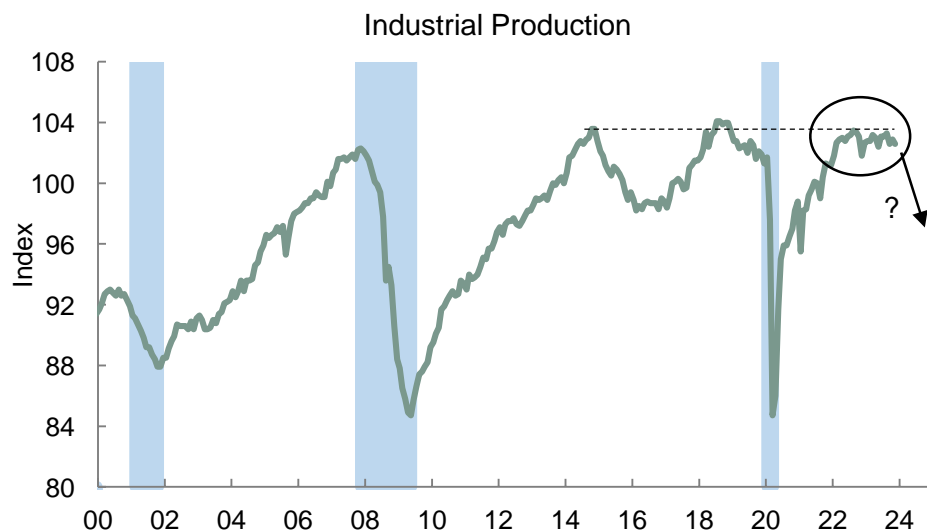
# Introduction

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The National Bureau of Economic Research is an independent body of academic economists that determines the beginning and end dates for recessions. Although this call is judged on many data series, we isolate the five most important parameters typically indicating recession: industrial production, real retail sales, real personal consumption, employment (two measures), and real market-driven incomes. However, by the NBER's own admission, the "two measures [we] put the most weight on are real personal incomes less transfers and nonfarm payrolls." This is important to keep in mind with jobs data showing notable weakness and leading economic and financial market indicators continuing to point to recession.

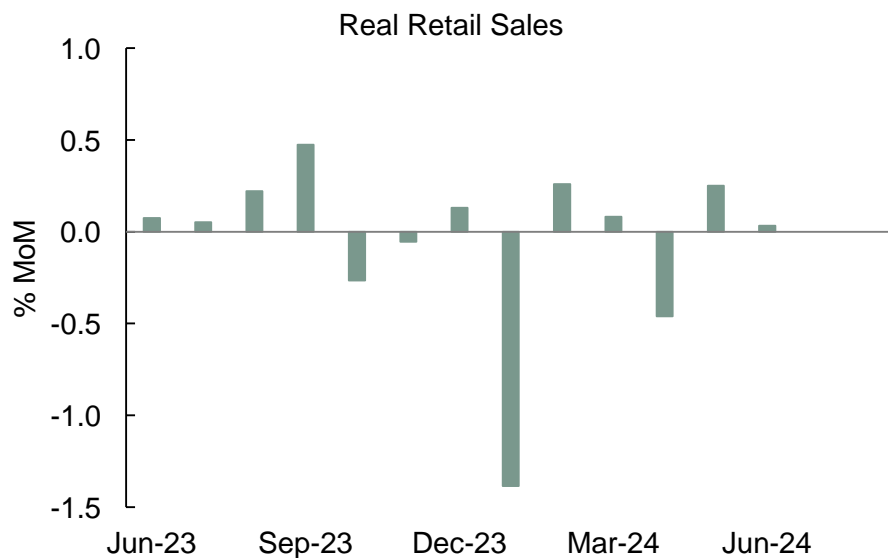
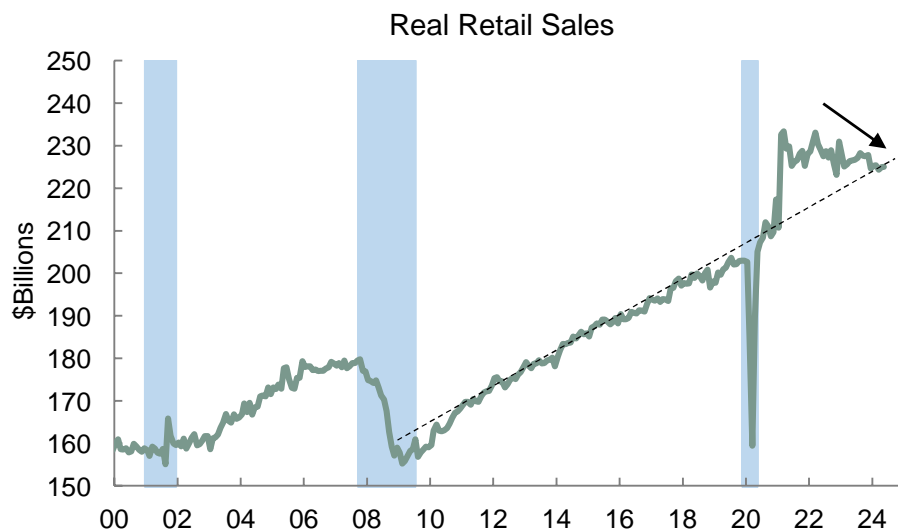
# Industrial Production

Industrial production appears to be sitting near historical tops. ISM and regional Fed manufacturing data continue to show factory sector activity weakening. A slowdown in production means weaker jobs, hours and incomes. History tells us that industrial production has much further to fall in the event of recession. This series does not yet indicate recession.



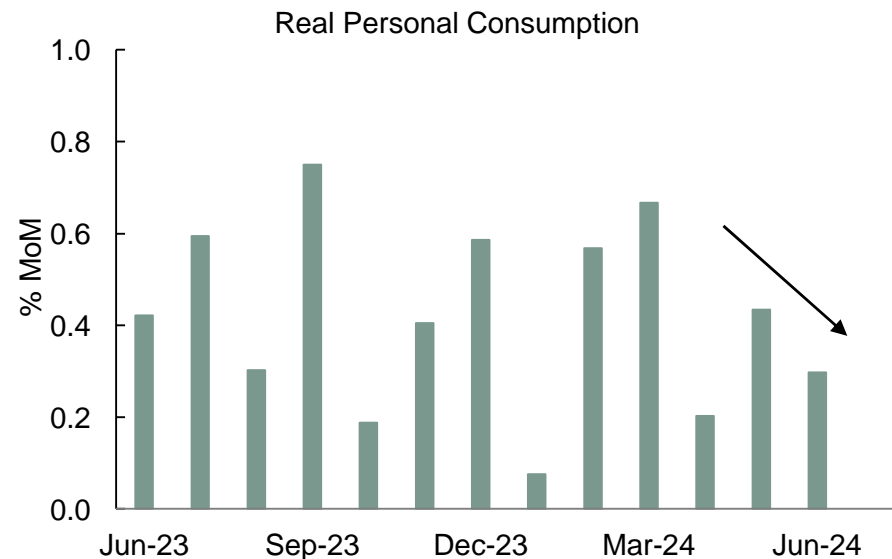
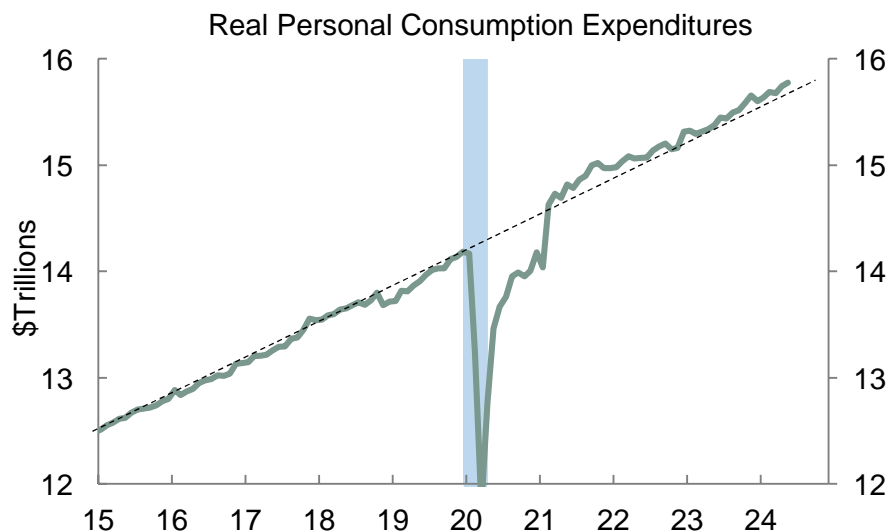
# Real Retail Sales

Inflation-adjusted retail sales continue to grind lower. Since topping out at \$233B in April 2021, they have declined 3.5%. Consumer demand is failing to beat inflation because tight credit and soft real incomes are biting. This one is slowly heading in the recessionary direction!



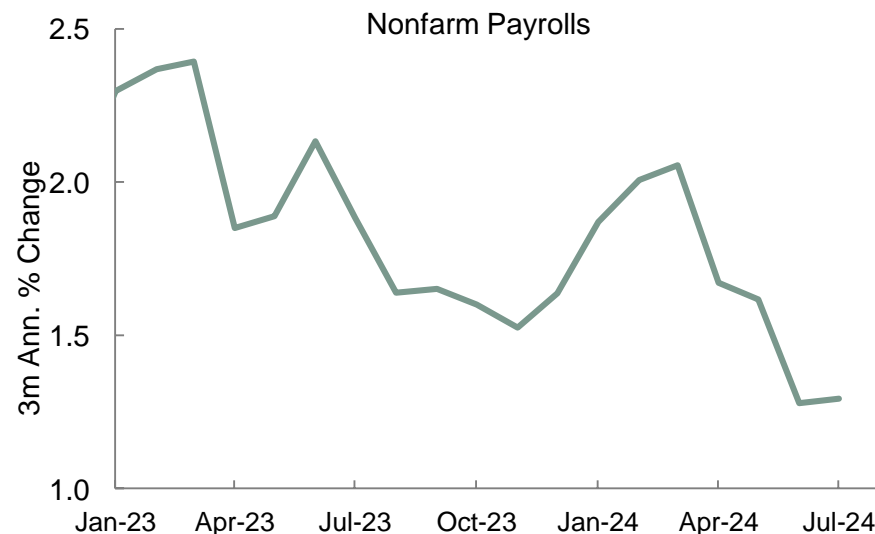
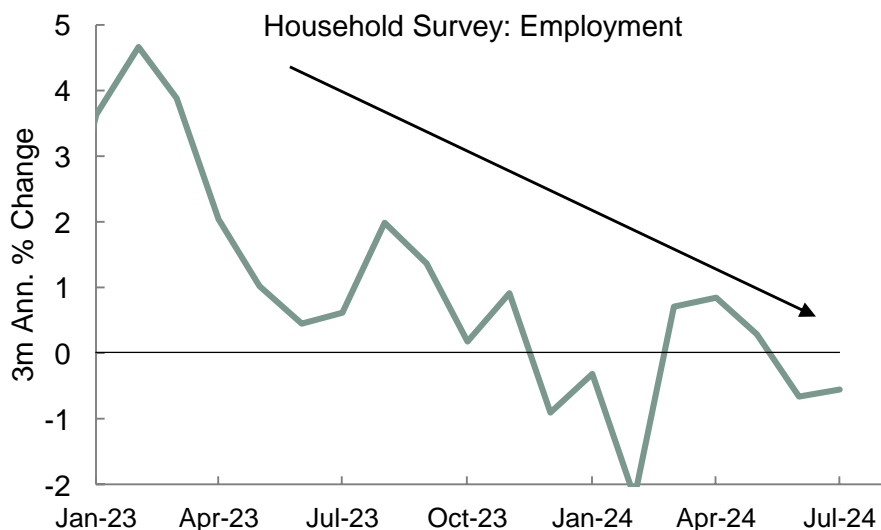
# Real Personal Consumption

Real personal consumption (inflation adjusted personal spending) as measured by the BEA, has increased 1.6% annualized in H1 2024. In level terms, we are above the pre-Covid trend. However, there are indications of slowing as interest-rate sensitive durable goods spending *declined* 1.3% annualized in H1. Although temporarily remaining decent, services spending also appears to be somewhat slowing.



# Employment Growth

The NBER looks at two measures of payrolls when dating recessions: employment growth according to the BLS' survey of *households* (left) and the *establishment* survey of firms (right). Both measures are showing job growth slowing steadily, especially the household survey, which has shown a decline of -0.6% on a three-month annualized basis for July. The labor market is flashing some recessionary warning signs. For example, the unemployment rate is up 90 basis points from its cyclical low. Historically, 50 basis point up-moves in unemployment (from cyclical lows) have indicated imminent recession.



## Real Personal Incomes Less Transfer

Real personal income less government transfers is ultimately a measure of productivity and labor market strength. This series continues to slow on a multi-year basis. Year-to-date, this measure of market incomes is up just 1.2% annualized. Although there is no recession signal here quite yet, most labor market series are steadily and quickly slowing.



## Conclusion

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Although not all indicators are indicating recession quite yet (given available data), the labor market is deteriorating quite quickly. Consequently, we expect that spending — and ultimately industrial production — will weaken as well. Other indicators such as the Index of Leading Economic Indicators (LEI) and the, now un-inverting, yield curve also support a recession thesis for the quarters ahead.



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