

US Macroeconomics

April 17, 2023

Joseph Lavorgna, Chief US Economist | 212.610.1741 | joseph.lavorgna@smbcnikko-si.com

Slow Motion Downturn

The Index of Leading Economic Indicators (LEI) for March, released this Thursday, is projected to decline 0.7% after back-to-back -0.3% readings. If accurate, this produces the 12th consecutive decline in the LEI and lowers its year-over-year growth rate to a new low of -7.1% versus -6.5% in February. The last time the series was this negative for this long was during 2007 to 2009. While a recession still lies ahead, its timing remains in doubt.

Excluding the pandemic there have been eight recessions since 1959, and the LEI has led every downturn. There have been no false positives. This historical fact is illustrated in the chart below which shows the level of the LEI along with recession bars. The index always peaks before the onset of recession. However, there is substantial variability in lead times among the business cycles.

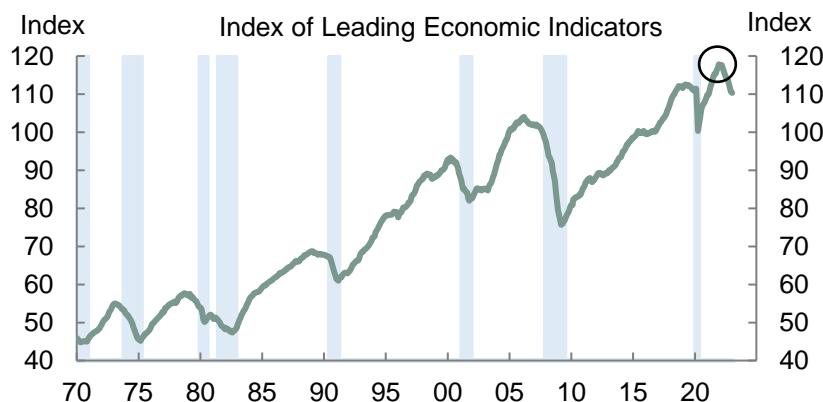
The average lead-time from the peak in the LEI to the peak in the economy is 11 months. But the LEI led the 1960 economic peak (not shown in chart for scaling purposes) by just two months. Then before the 1969 and 1973 recessions, the lead times were eight and nine months, respectively.

However, the recession that began in 1980 saw the LEI peak 15 months earlier (October 1978) but then just eight months before the July 1981 top. The variability continued into the next business cycle where there was a 17-month gap between the LEI and the economy ahead of the 1990 recession.

Next, the LEI peaked 11 months before the 2001 downturn but then led by a whopping 21 months before the economy hit its zenith in December 2007. This is by far the longest lead time of the eight business cycles, and our hunch is that history could repeat. Consequently, if we duplicate this episode, it implies the economy will continue to grow until this September. This is a still a long way away given how many forecasters have been calling for recession for a while.

Right now, the bond market effectively has a similar view as the LEI in that a downturn is at least a handful of months away. The fed funds futures are predicting one last 25 basis point (bp) rate hike at the May 3rd FOMC meeting but then expects a 25 bp cut at the September 20th FOMC meeting. Stay tuned.

Leading Indicators Always Peak Before Recession



Sources: Conference Board, NBER, Haver, SMBC Nikko

Disclaimer

This presentation is for discussion purposes only and is not intended to be an offer to sell or the solicitation of an offer to buy any securities, or any commitment to underwrite, subscribe for or place any securities, is not an offer or commitment to provide any financing or extension of credit or service, and does not contain any tax or legal advice. This presentation has been prepared by SMBC Group (which may include, collectively or individually, any of the following entities in the Americas Division: Sumitomo Mitsui Banking Corporation (“SMBC”), SMBC Nikko Securities America, Inc. (“SMBC Nikko”), SMBC Nikko Securities Canada, Ltd. (“Nikko Canada”), SMBC Capital Markets, Inc. (“SMBC-CM”), SMBC Leasing and Finance, Inc., JRI America, Inc., and SMBC Rail Services LLC) and is being furnished by SMBC Group solely for use by the client or potential client to whom such materials are directly addressed and delivered. This presentation is confidential and is the property of SMBC Group subject to copyright. Any reproduction of this presentation, in whole or in part, is prohibited, and you may not release these materials to any person, except to your advisors and professionals to assist you in evaluating these materials, provided that they are obligated, by law or agreement, to keep the presentation confidential. These materials do not constitute research, a recommendation or an offer or solicitation to any person to enter into any transaction or adopt any hedging, trading, or investment strategy. Prior to participating in any such transaction, you should consult your own independent, competent, legal, tax, accounting, and other professional advisors.

In preparing this presentation, SMBC Group has relied upon information available from third parties, including public sources, and we have assumed, without independent verification, the accuracy and completeness of such information. Specific prices, indices, or measures, including ranges, listed in this document were prepared at the time the document was prepared, and are subject to change without notice. SMBC Group makes no representations to and does not warrant this presentation’s accuracy or completeness. SMBC Group expressly disclaims any liability for any use of the information set forth herein, including, without limitation, any use of the information set forth herein in the preparation of financial statements or accounting material.

These materials may contain forward-looking statements, which may include projections, forecasts, income estimates, yield or return, future performance targets or similar analysis. These forward-looking statements are based upon certain assumptions. All forward-looking statements are based upon currently available information and SMBC Group is not obligated to provide an update. Actual events may differ from those assumptions. Opinions, projections, price/yield information and estimates are subject to change without notice. There can be no assurance that estimated returns or projections will be realized, that forward-looking statements will materialize or that actual results will not be materially lower than those presented. Past performance is not necessarily indicative of future results. Any transactions or strategies addressed may not be suitable for all parties. The value, price or income from transactions or strategies may fall as well as rise. SMBC Group or an affiliate may have a position in any of the underlying instruments, assets, indices, or rates mentioned in this document. You should make your own independent judgment or seek independent financial and tax advice with respect to any matter contained herein.

SMBC is subject to Japanese firewall regulations and therefore absent client consent, non-public client information may not be shared with SMBC Nikko Securities Inc.

SMBC Nikko is a U.S. registered broker-dealer of SMBC Group. Nikko Canada is a U.S. and Canadian registered broker-dealer of SMBC Group. SMBC-CM is provisionally registered as a U.S. swap dealer with the CFTC. Capital markets and other investment banking activities for SMBC Group are performed by a combination of SMBC Nikko, Nikko Canada, SMBC Nikko Securities Inc. and SMBC-CM. Lending and other commercial banking activities are performed by SMBC and its banking affiliates. Derivative activities may be performed by SMBC-CM or SMBC. SMBC Group deal team members may also be employees of any of the foregoing entities. SMBC Group does not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with SMBC Group or for the purpose of avoiding U.S. tax-related penalties. © 2023 SMBC Group. All rights reserved.