Economic Indicator — May 17, 2024

The LEI's Hole Is Too Deep to Dig Out Of

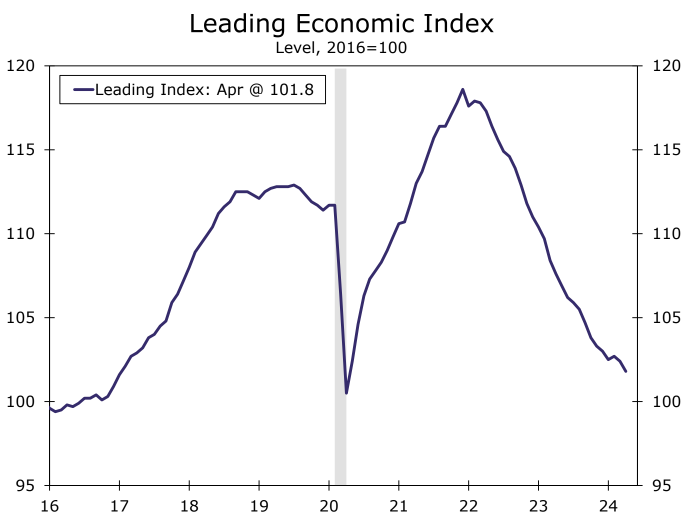
Summary

The Leading Economic Index (LEI) remains out of sync with an economy that continues to expand. The index is in a hole, now just a stone's throw away from its pandemic low.

Economist(s)

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

Nicole Cervi
Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059



Source: The Conference Board and Wells Fargo Economics

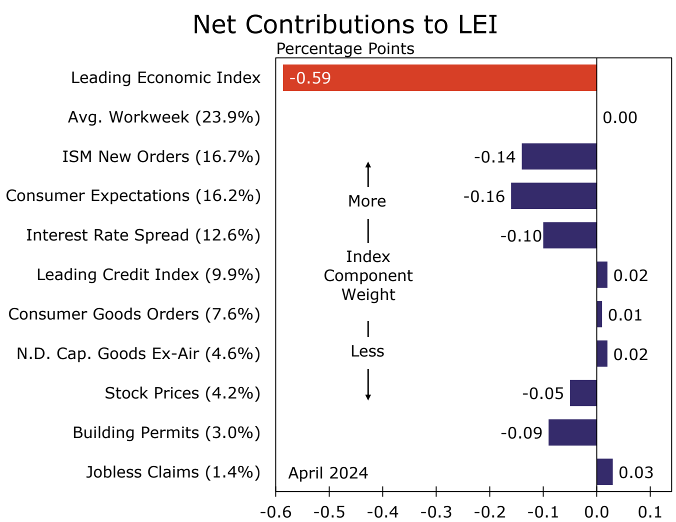
Why Dig Myself Out of This?

The Leading Economic Index (LEI) decreased 0.6% in April, marking the largest monthly drop since October. The index is now only 1.3 percentage points above its pandemic-related trough hit exactly four years ago (chart). The U.S. economy has evolved in many unexpected ways since then, and despite a generally strong macroeconomic backdrop, recession indicators are still flashing signs of weakness. While the upturn in the six-month annualized change in the LEI is historically consistent with an improving economy (chart), it is emerging from a recession signal that did not come to fruition.

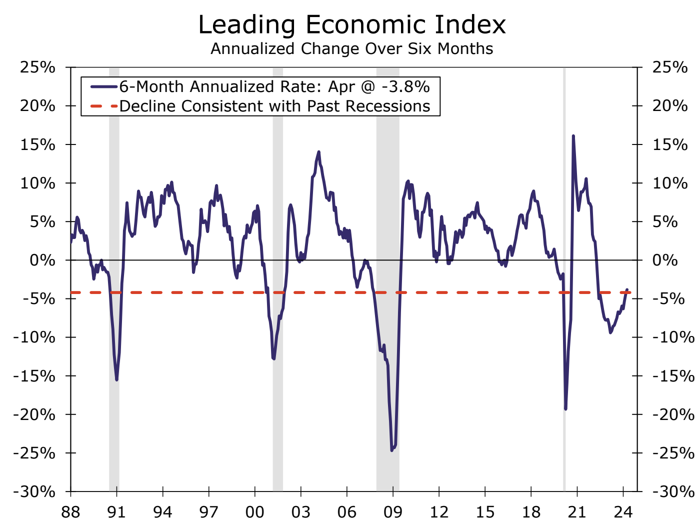
The challenging mix of stubborn inflation and high interest rates have weighed on the psyche of American consumers and businesses alike. Positive real disposable income growth and elevated corporate profit margins have supported solid economic activity, yet the additional planning and general uncertainty involved in getting things done has dragged on sentiment. Consumer expectations and the new orders component of the ISM manufacturing index together pulled the LEI's monthly change down 0.3 percentage points (pp) in April.

The S&P 500 lost some steam last month, which flipped stock prices' contribution to the LEI negative for the first time in six months (chart). The softening in equity prices coincided with an upward drift in the 10-year Treasury yield, while short-term bond yields held mostly steady. Consequently, the yield curve unwound some of its deep inversion over the month, leading the interest rate spread to its smallest drag (-0.1pp) on the LEI since last November. Credit conditions remain accommodative, evident in the Leading Credit Index's positive contribution.

Despite generally loose financial conditions, permit applications for residential construction weakened in April and orders of durable goods are barely positive. Until market participants have more clarity on the timing and magnitude of monetary policy easing, we suspect the LEI will continue to slip in the coming months.



Source: The Conference Board and Wells Fargo Economics



Source: The Conference Board and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures