

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.

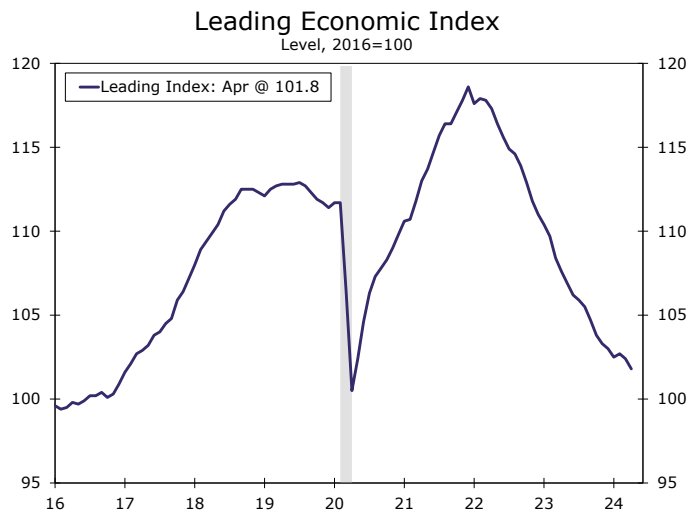
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Source: The Conference Board and Wells Fargo Economics

## Why Dig Myself Out of This?

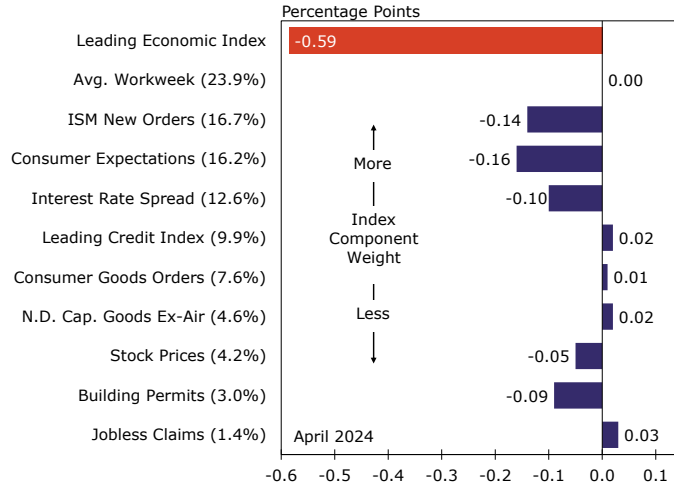
The Leading Economic Index (LEI) decreased 0.6% in April, marking the largest monthly drop since October. The index is now only 1.3 percentage points above its pandemic-related trough hit exactly four years ago ([chart](#)). The U.S. economy has evolved in many unexpected ways since then, and despite 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.

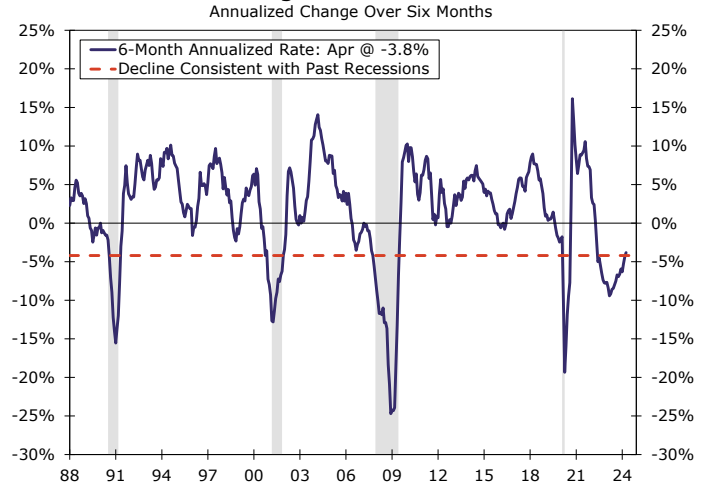
Despite generally loose financial conditions, permit applications for residential construction weakened in April and orders of durable goods are barely positive. Until market participants have more clarity on the timing and magnitude of monetary policy easing, we suspect the LEI will continue to slip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

**Net Contributions to LEI**



Source: The Conference Board and Wells Fargo Economics

**Leading Economic Index**



Source: The Conference Board and Wells Fargo Economics

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