

Economic Indicator — January 22, 2024

## On to Greener Pastures: Smallest LEI Decline Since 2022

### Summary

While the Leading Economic Index continues to signal recession, a milder pace of contraction and broad-based improvements in the index's components suggest activity, especially in interest-rate sensitive sectors, has found a floor.

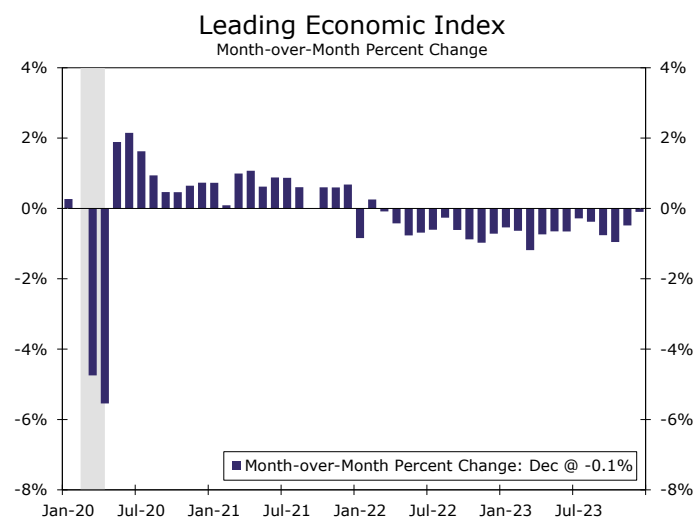
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Source: The Conference Board and Wells Fargo Economics

### Nearly Back in the Black

The Leading Economic Index (LEI) continues to signal recession. Falling 0.1% in December, the LEI has slid for 22 consecutive months and currently stands only three points higher than its low point during the initial pandemic lockdown in 2020 ([chart](#)).

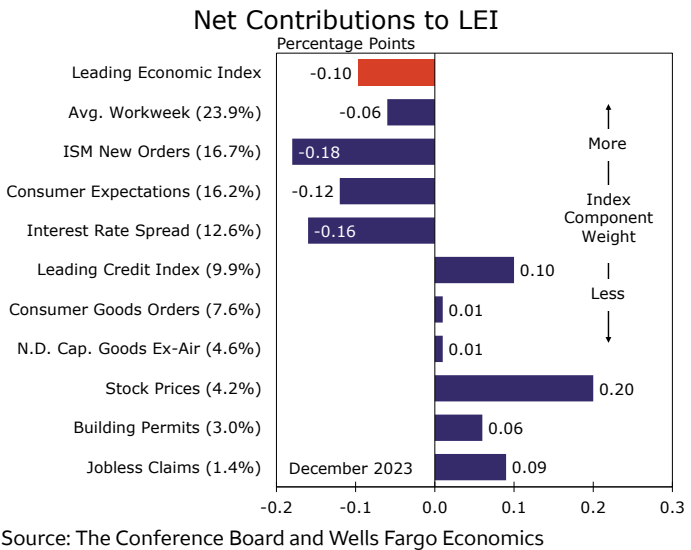
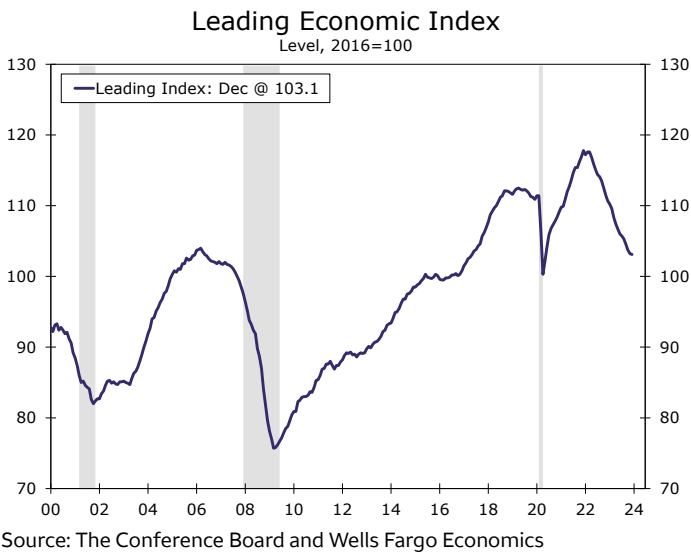
While the index remains in the red, the monthly outturn clocked in well below the 0.7% decline averaged over the previous three months and marked the smallest decrease since March 2022 when activity was wavering amid the start of the Federal Reserve's tightening cycle ([chart](#)). The milder pace of contraction suggests that activity, especially in interest-rate sensitive sectors, has found a floor.

Six components positively contributed to the LEI in December—the most since early 2022. Stock prices distantly led the pack, adding 0.20 percentage points to the headline index, as the S&P 500 was in the midst of a run toward another record high that it set last week ([chart](#)). Initial claims for unemployment insurance (+0.09) and home building permits (+0.06) were modestly additive as well.

Notably, the Leading Credit Index, which consists of financial tightness indicators, such as the 2-year swap spread and debit balances on margin accounts, was revised to show a positive contribution in November (+0.05) and December (+0.10) for the first time since the summer of 2022. Expectations for the Fed to ease policy this year have helped to relax financial conditions.

On the flip side, sentiment remains weak. The new order component of the ISM manufacturing index chopped 0.18 percentage points off the LEI in December, nearly canceling out the gain from stock prices. Consumer expectations (-0.12) also sliced the monthly change. Yet the recent strength seen in the University of Michigan's Consumer Sentiment index and the Conference Board's Consumer Confidence index suggest household confidence is turning a corner as real income has strengthened amid improving inflation.

In short, while recession risks remain elevated, incremental improvements in the LEI's components suggest the likelihood of an economic downturn is fading.



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