

Economic Indicator — September 19, 2024

August LEI: Light at the End of Tunnel?

Summary

For now, the best that can be said about the Leading Economic Index is that the declines are getting smaller, but positive developments with interest rates point to some potential relief from rate-sensitive parts of the economy that have been weighing on this barometer.

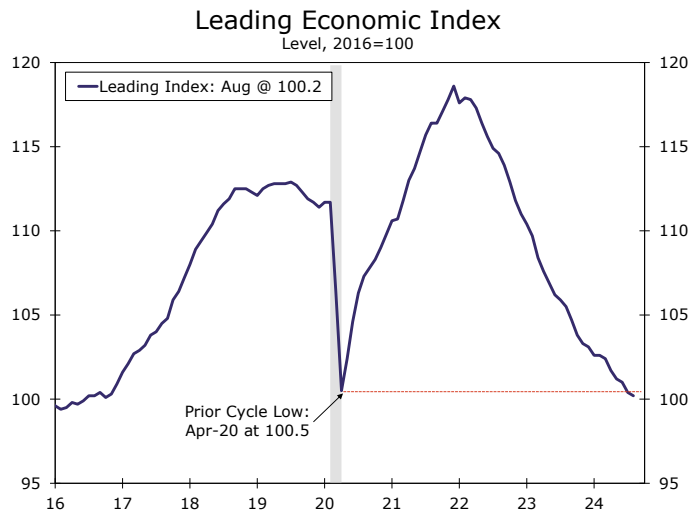
Economist(s)

Tim Quinlan

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

Jeremiah Kohl

Economic Analyst | Wells Fargo Economics
Jeremiah.J.Kohl@wellsfargo.com | 212-214-1164



Source: The Conference Board and Wells Fargo Economics

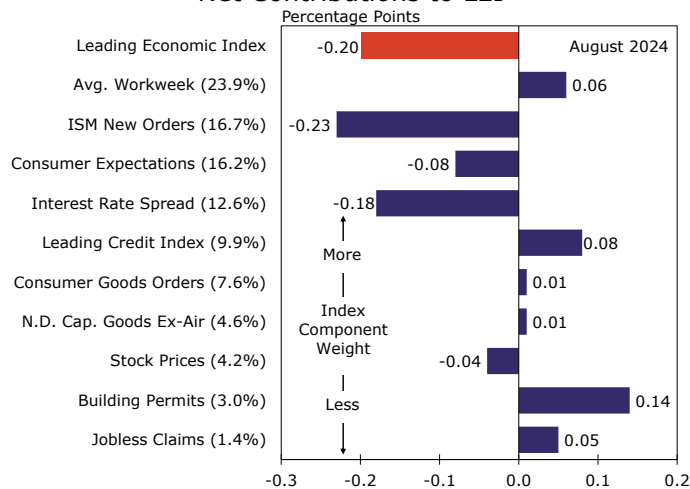
Long As I Can See The Light

The Leading Economic Index (LEI) declined again by -0.2% to 100.2 in August, making for a 30th consecutive month without an increase ([chart](#)). The index breached its pandemic low last month, and the last time the LEI registered an increase was February 2022. On a monthly basis, the LEI has averaged declines of 0.36% year-to-date in 2024. This is a material improvement from the monthly average declines of 0.61% in 2023 and 0.55% in 2022. Declines in the LEI have been becoming more modest for some months now.

Most of the components of the LEI that are weighted the strongest once again contributed negatively to the monthly decline ([chart](#)). The ISM new orders component was a particularly large drag of -0.23 percentage points. The interest rate spread was not far behind, chopping off -0.18 percentage points this month. Elsewhere, consumer expectations (-0.08 percentage points) and the S&P 500 (-0.04 percentage points) were modest negative contributors to August's decline.

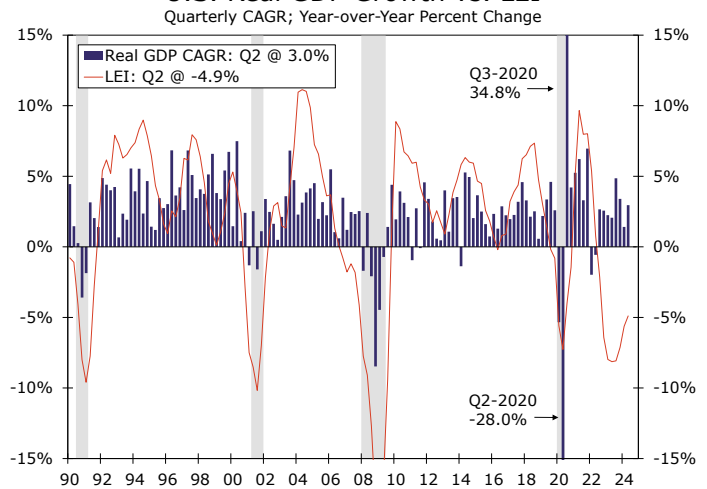
Labor market data in August supported the narrative that the bottom had not fallen out from under the labor market and proved to be a positive for the LEI, with average weekly hours for manufacturing workers and jobless claims each contributing 0.06 and 0.05 percentage points, respectively. The Leading Credit Index offered another modest nudge, tacking on 0.08 percentage points. The largest increase came from building permits, which added 0.14 percentage points to the index after surprising to the upside and increasing 4.9% to a 1,475K-unit pace in August.

Net Contributions to LEI



Source: The Conference Board and Wells Fargo Economics

U.S. Real GDP Growth vs. LEI



Source: U.S. Department of Commerce, The Conference Board and Wells Fargo Economics

There is light ahead in the tunnel. The interest rate spread component of the LEI has been a consistently negative contributor to the index for the past 21 months, subtracting an average of 0.13 percentage points in each. However, the component, which is calculated as the spread between the 10-year Treasury yield and the federal funds rate, has the potential to be a positive contributor in the not so distant future. With the Federal Reserve lowering the federal funds target range by 50 bps yesterday and the yield curve starting to disinvert, the spread between the 10-year yield and the federal funds rate has narrowed thus far in September.

Now that monetary policy easing has begun, the LEI should get some breathing room. In addition to a brighter outlook for the interest rate spread, lower rates should provide some relief for the manufacturing sector, which is an area that has weighed heavily on the LEI through the ISM new orders index, new orders of core capital goods and the average weekly hours worked by factory workers. The interest rate sensitive sector has stagnated in recent years, but it should be one area of the economy that will benefit as rates decline. Even as the outlook for the LEI improves, the index has not provided an accurate signal of the strength of the business cycle and has overstated weakness in the economy for two and a half years ([chart](#)).

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
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE