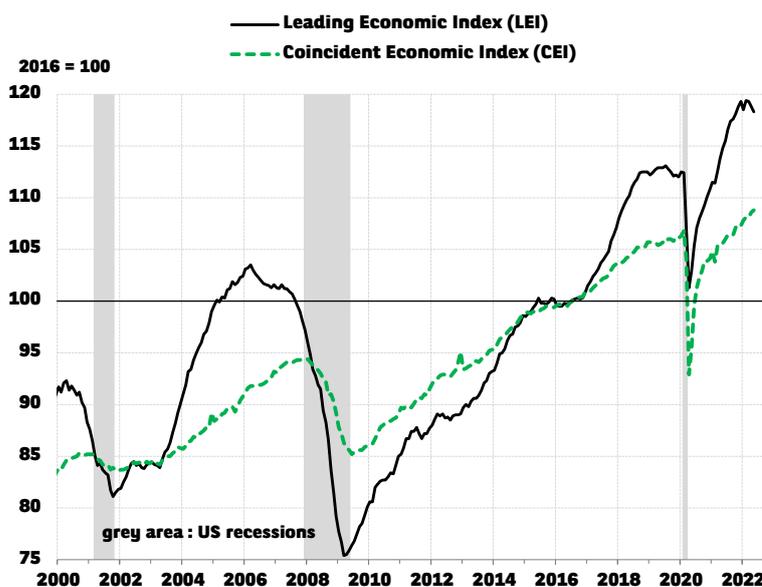


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UNITED STATES: WHAT DOES THE COMPOSITE LEADING INDICATOR TELL US ABOUT THE RISK OF RECESSION?

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The Conference Board Economic Indexes



Source: Conference Board, BNP Paribas

Faced with the accelerated normalisation of monetary policy by the Federal Reserve (Fed), the US economy is showing clear signs of slowing down. The deterioration of some indicators (University of Michigan consumer sentiment survey, Philadelphia Fed business outlook survey) may even suggest that a recession is coming. Two indexes, published by the Conference Board, help in assessing the state of the economy and the short-term risk of recession.

The Coincident Economic Index (CEI) tracks current economic activity, moving in step with the economic cycle, based on four components: non-agricultural payroll employment, real personal income less transfer payments, manufacturing and trade sales and industrial production. This indicator suggests that the US economy is likely to return to growth, in the second quarter, after its 1.4% q/q contraction in the first quarter.

The Leading Economic Index (LEI) is a composite of 10 indicators that have been identified as moving in advance of the cycle. This indicator shows a significant slowdown ahead for the US economy. It fell for the third month in a row in May, due mainly to the drop in two of its component indicators, affected by the normalisation of monetary policy: the S&P 500 index and the number of building permits issued. A third component that has also contributed negatively is consumer confidence, which has dropped significantly under the effects of high and rising inflation. Two other developments are worth highlighting: the 6-month diffusion index for the LEI (the proportion of component indicators that have risen on an annualised basis over the past six months) was only 40% in May; the 6-month change (annualised) of the LEI turned negative. Any amplification of this fall will need to be watched closely: if it reaches -3.5% and the diffusion index is below 50%, then it is a strong recessive signal.

The question is therefore at what speed the deterioration of the LEI will continue. If it falls rapidly, then it is possible that the US economy will fall into recession by the end of 2022. This is not, however, the most likely scenario considering that the labour market is still very strong.

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