Conference Board Leading Economic Index: Continued Increases in August

September 21, 2017

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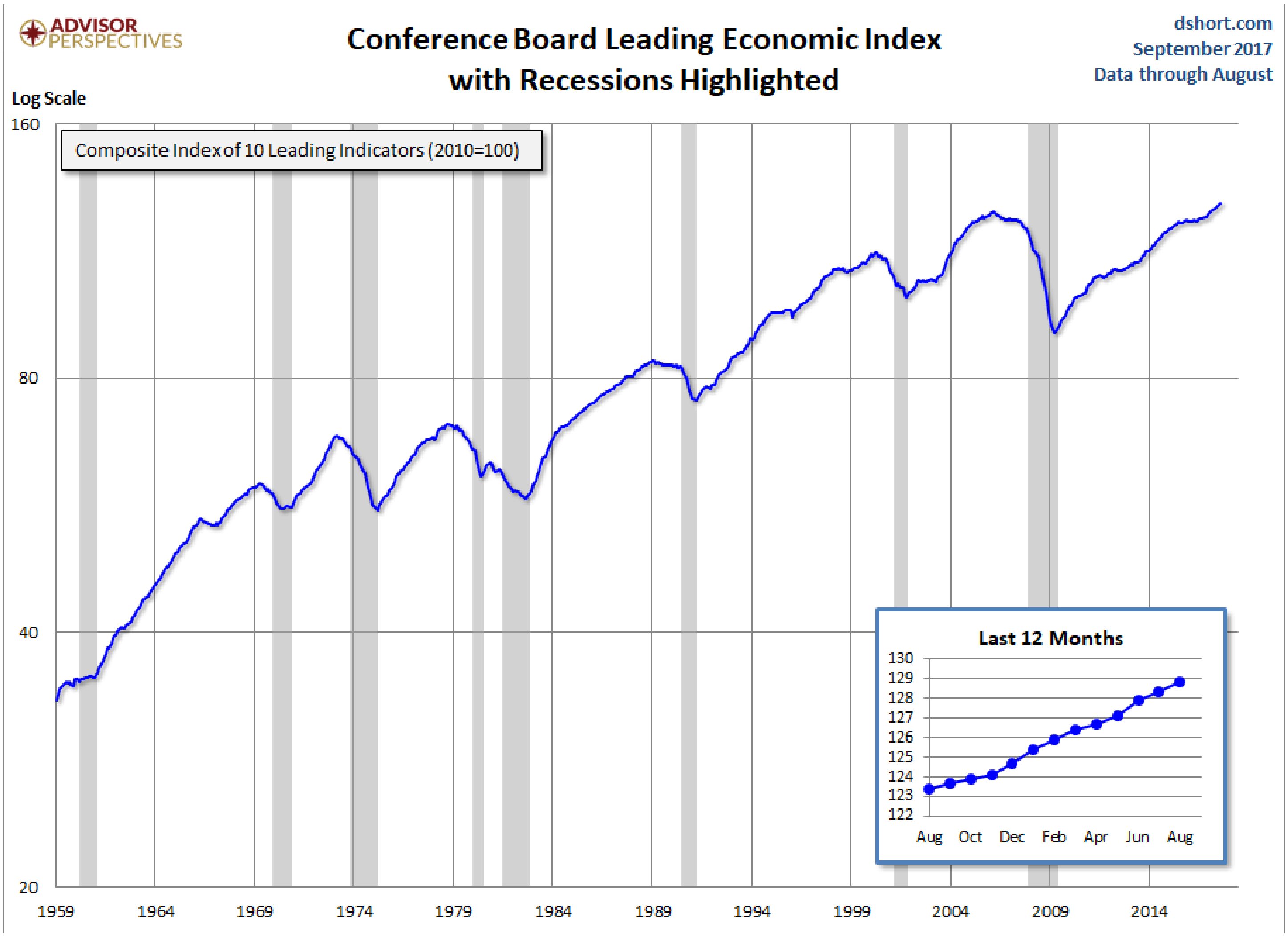
of Advisor Perspectives

The latest Conference Board Leading Economic Index (LEI) for August increased to 128.8 from 128.3 in July and is currently at another all-time high.

> The Conference Board LEI for the U.S. increased again in August. Large positive contributions from building permits, the yield spread, and consumer expectations for business conditions more than offset the large negative contribution from initial claims for unemployment insurance. In the six-month period ending August 2017, the leading economic index increased 2.3 percent (about a 4.7 percent annual rate), an improvement from its growth of 2.0 percent (about a 4.1 percent annual rate) during the previous six months. Also, the strengths among the leading indicators have remained widespread. [Full notes in PDF]

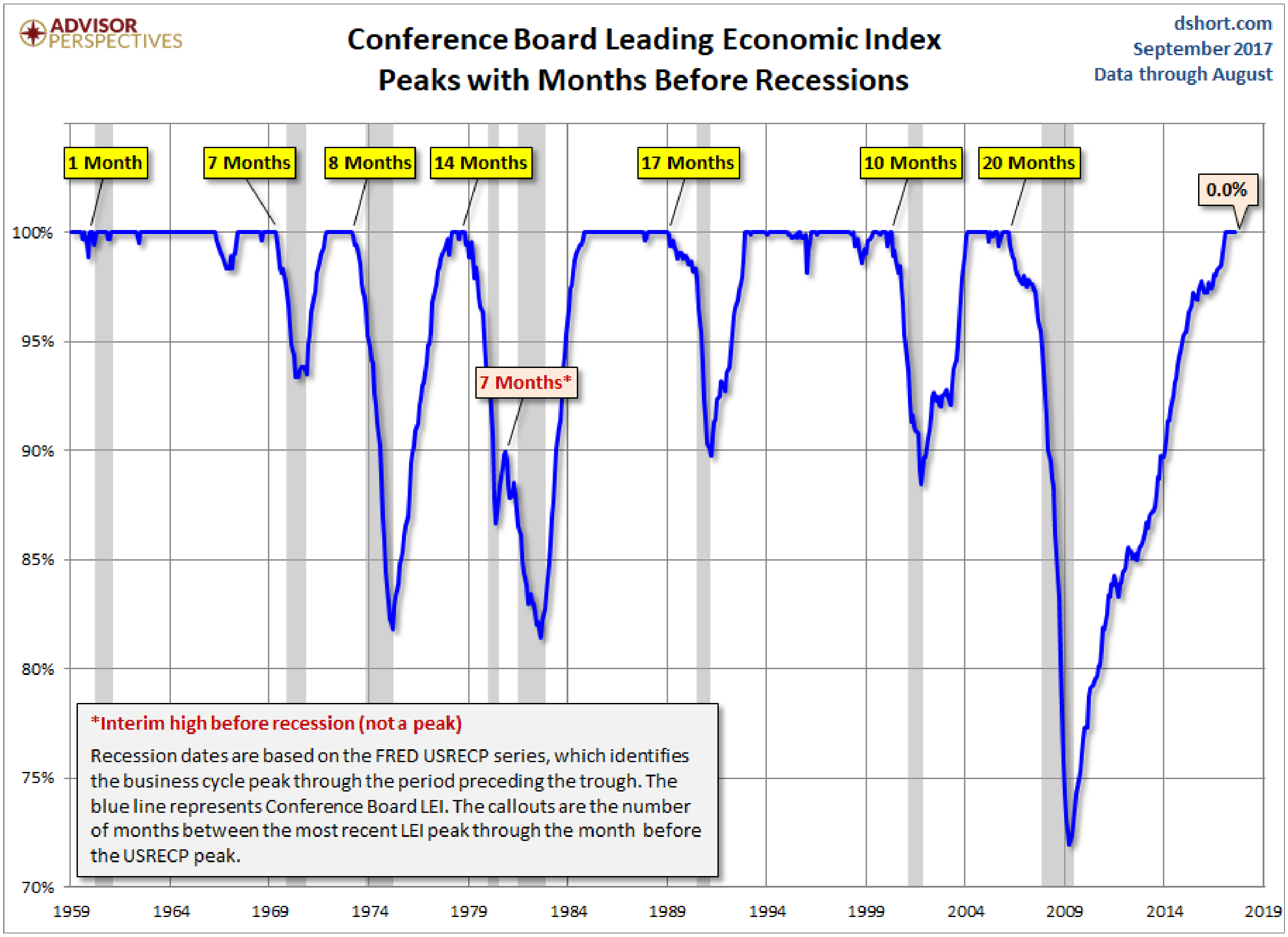
Here is a log-scale chart of the LEI series with documented recessions as identified by the NBER. The use of a log scale gives us a better sense of the relative sizes of peaks and troughs than a more conventional linear scale.



For additional perspective on this indicator, see the latest press release, which includes this overview:

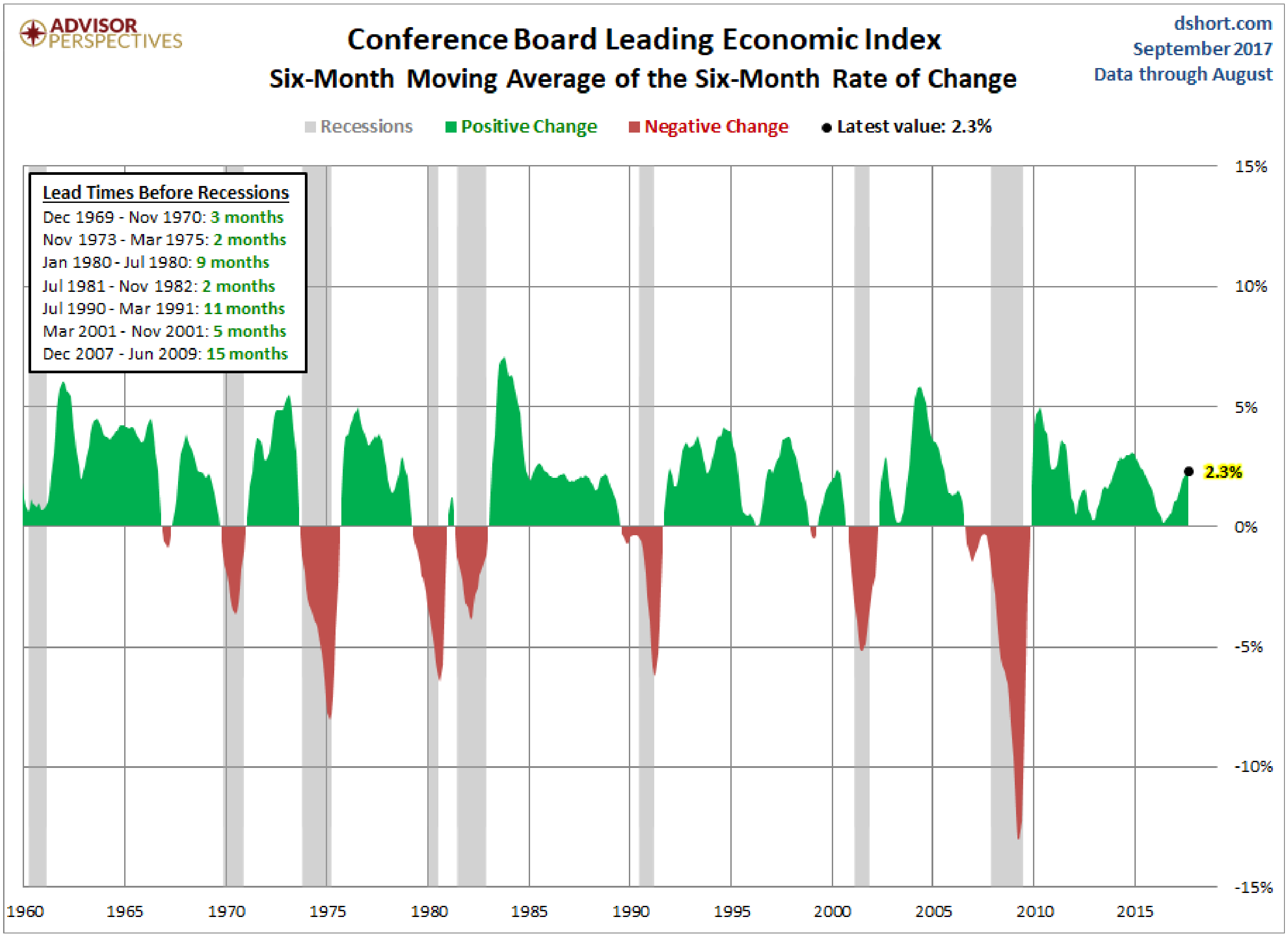
> "The August gain is consistent with continuing growth in the U.S. economy for the second half of the year, which may even see a moderate pick up," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "While the economic impact of recent hurricanes is not fully reflected in the leading indicators yet, the underlying trends suggest that the current solid pace of growth should continue in the near term."

For a better understanding of the relationship between the LEI and recessions, the next chart shows the percentage-off the previous peak for the index and the number of months between the previous peak and official recessions.

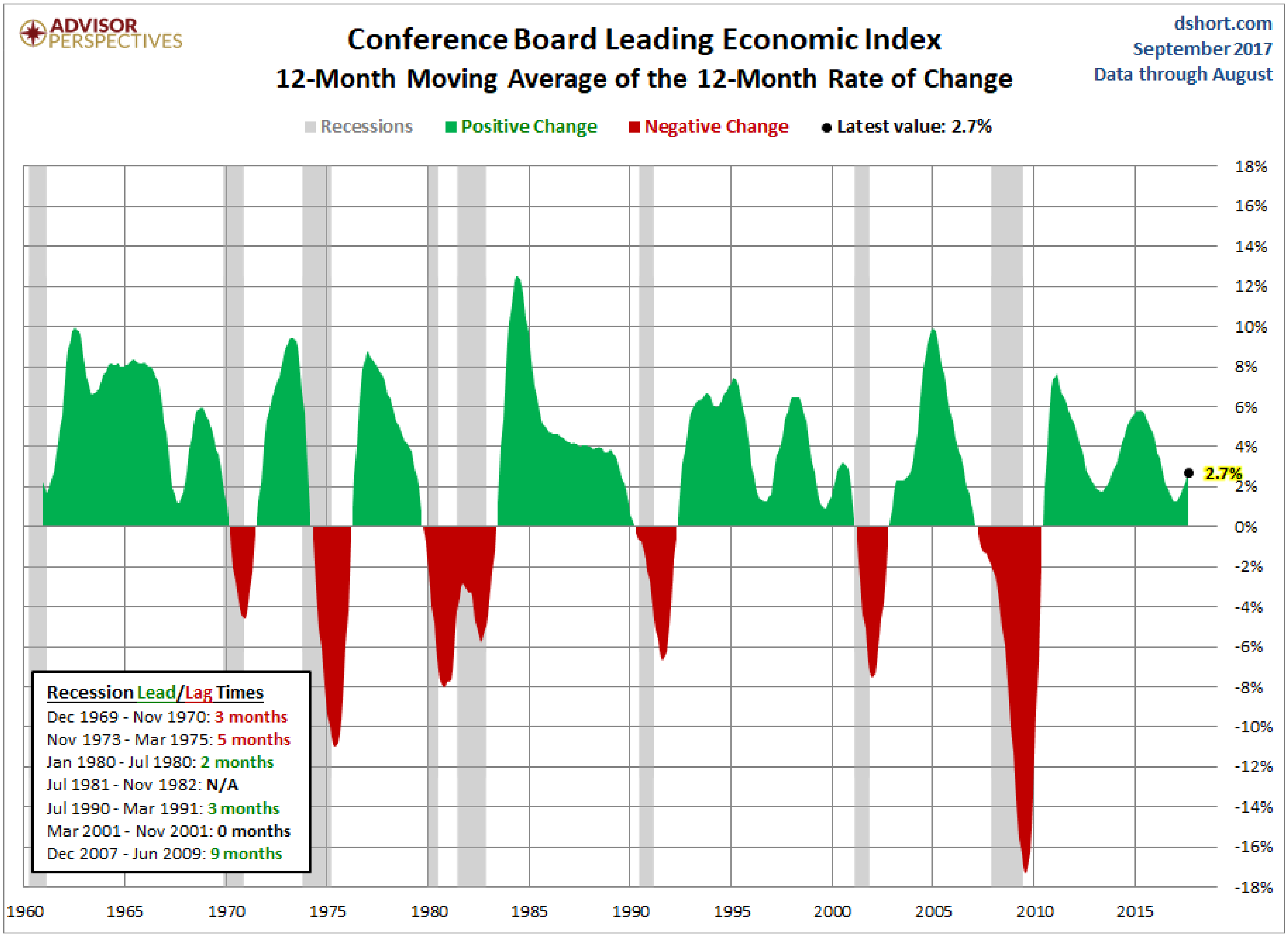


LEI and Its Six-Month Smoothed Rate of Change

Based on suggestions from Neile Wolfe of Wells Fargo Advisors, LLC and Dwaine Van Vuuren of RecessionAlert, we can tighten the recession lead times for this indicator by plotting a smoothed six-month rate of change to further enhance our use of the Conference Board's LEI as a gauge of recession risk.



As we can see, the LEI has historically dropped below its six-month moving average anywhere between 2 to 15 months before a recession. The latest reading of this smoothed rate-of-change suggests no near-term recession risk. Here is a twelve month smoothed out version, which further eliminates the whipsaws: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Conference Board Leading Economic Index
12-Month Moving Average of the 12-Month Rate of Change
dshort.com
September 2017
Data through August
Recessions
Positive Change
Negative Change
Latest value: 2.7%
2.7%
Recession Lead/Lag Times
Dec 1969 - Nov 1970: 3 months
Nov 1973 - Mar 1975: 5 months
Jan 1980 - Jul 1980: 2 months
Jul 1981 - Nov 1982: N/A
Jul 1990 - Mar 1991: 3 months
Mar 2001 - Nov 2001: 0 months
Dec 2007 - Jun 2009: 9 months
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
-18%
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015

