



ECRI Weekly Leading Index Update: Yet Another Record High for WLI

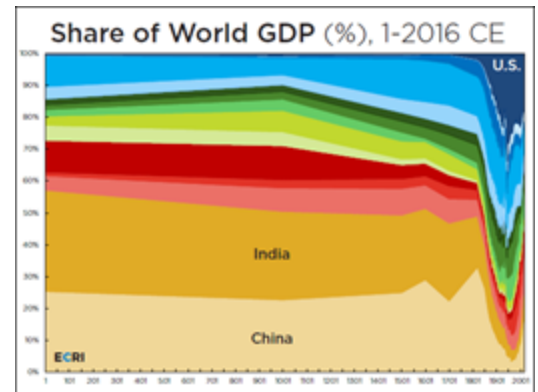
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by Jill Mislinski
of Advisor Perspectives

Today's release of the publicly available data from ECRI puts its Weekly Leading Index (WLI) at 150.3, up 2.7 from the previous week and at another record high. Year-over-year the four-week moving average of the indicator is now at 2.66%, up from 2.19% last week. The WLI Growth indicator is now at 4.5, up from the previous week.

"Why So Many (in the West) Are Pissed Off"

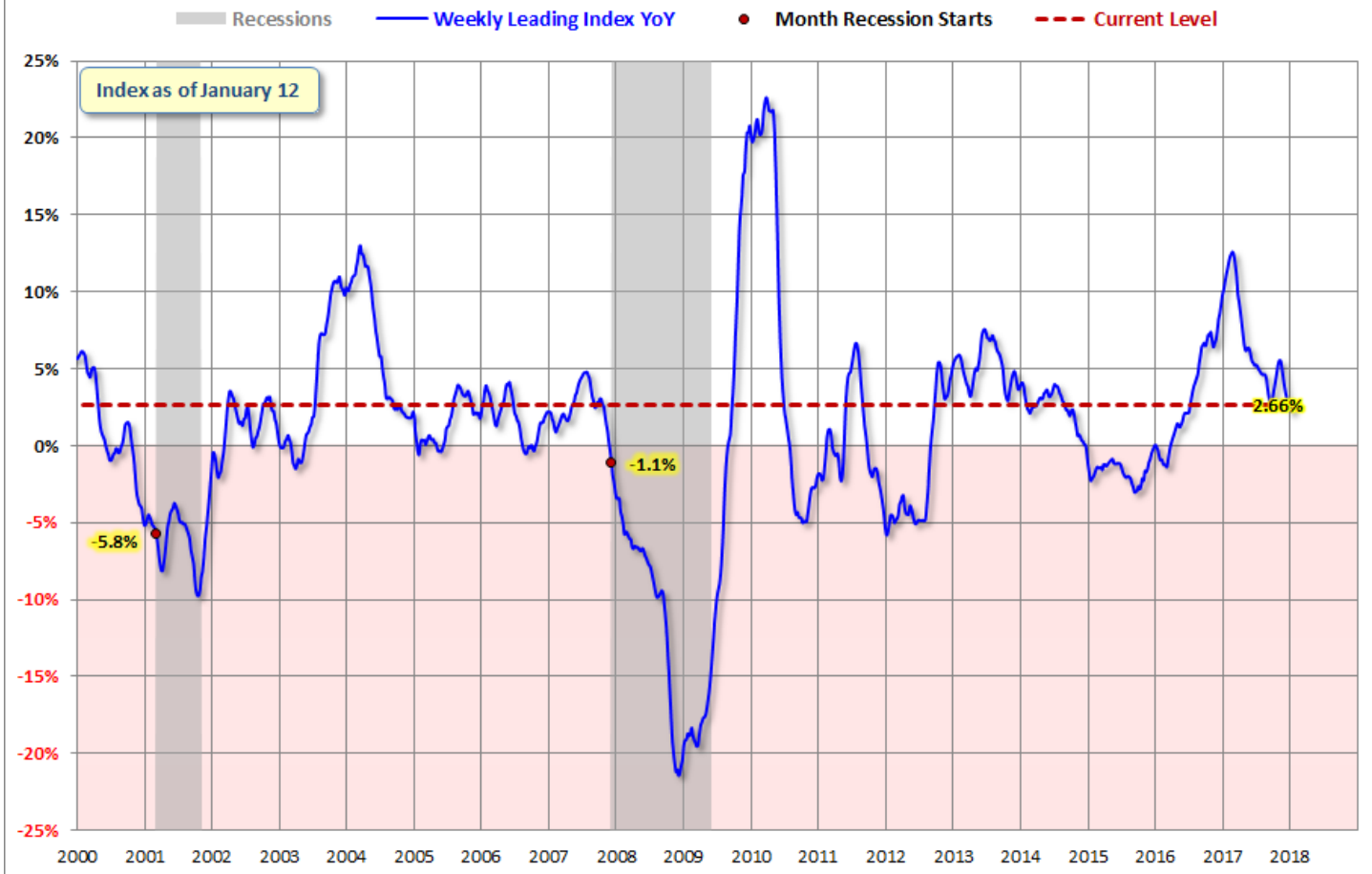
ECRI's recent self published article recounts two thousand years of world GDP history, reminding readers that India and China have been the winners throughout. The West has only made a dent in world GDP since the Industrial Revolution. In order for the US to maintain its place in global GDP and to guarantee a fair shot at prosperity, the middle and working classes must benefit. [Read more](#)



The ECRI Indicator Year-over-Year

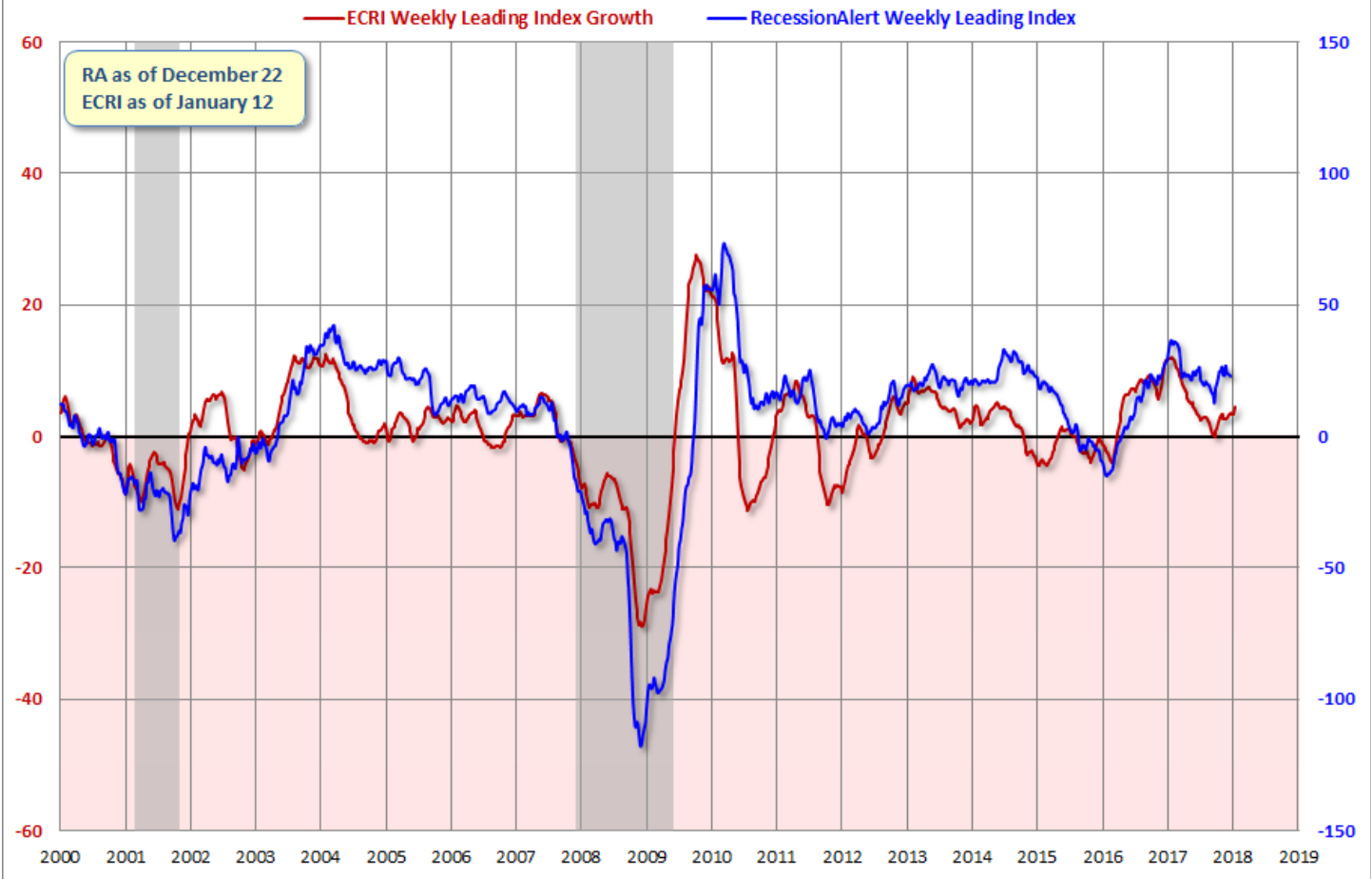
Below is a chart of ECRI's smoothed year-over-year percent change since 2000 of their weekly leading index. The latest level is above where it was at the start of the last recession.

ECRI Weekly Leading Index Year-over-Year of the Four-Week Moving Average



RecessionAlert has launched an alternative to ECRI's WLI, the Weekly Leading Economic Indicator (WLEI), which uses 50 different time series from various categories, including the Corporate Bond Composite, Treasury Bond Composite, Stock Market Composite, Labor Market Composite, and Credit Market Composite. An interesting point to notice — back in 2011, ECRI made an erroneous recession call, while the WLEI did not trigger such a premature call. However, both indicators are now generally in agreement and moving in the same direction. Frequently the latest RecessionAlert data is not available at publish time and will be posted at a later point.

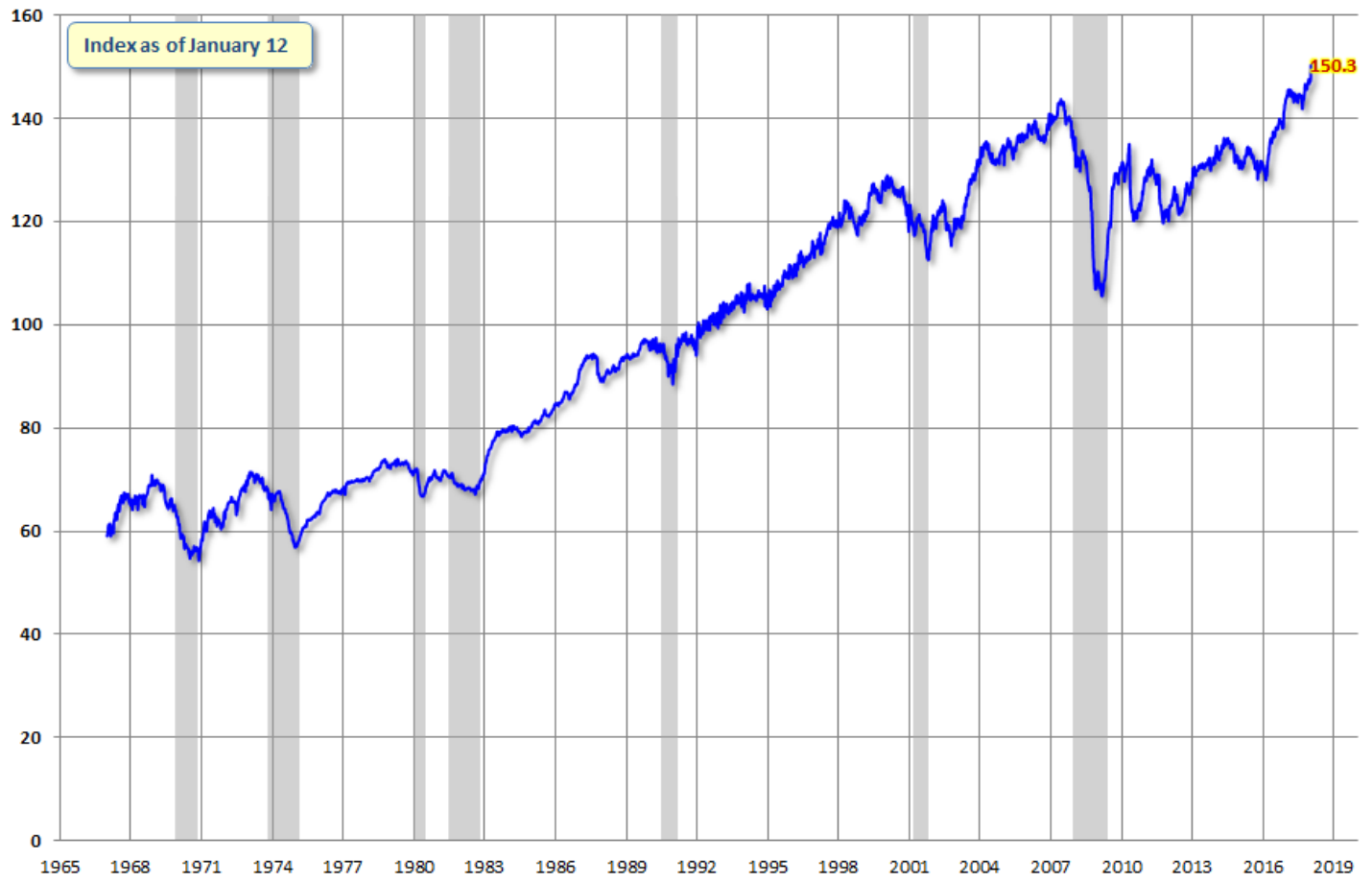
ECRI WLIg and RecessionAlert WLI Since 2000 Recessions Highlighted



Appendix: A Closer Look at the ECRI Index

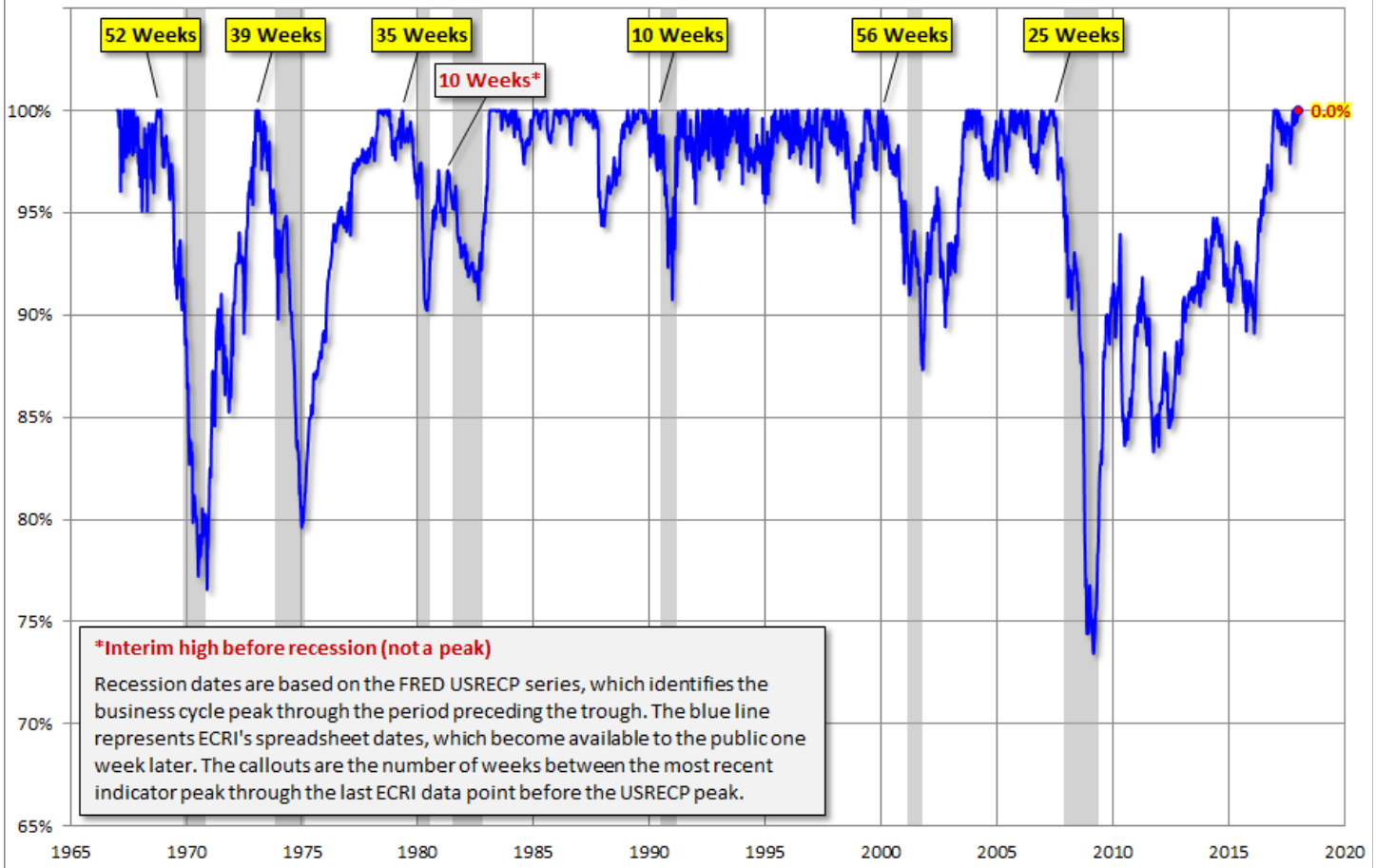
The first chart below shows the history of the Weekly Leading Index and highlights its current level.

ECRI Weekly Leading Index with Recessions



For a better understanding of the relationship of the WLI level to recessions, the next chart shows the data series in terms of the percent-off the previous peak. In other words, new weekly highs register at 100%, with subsequent declines plotted accordingly.

ECRI Weekly Leading Index Peaks with Months Before Recessions



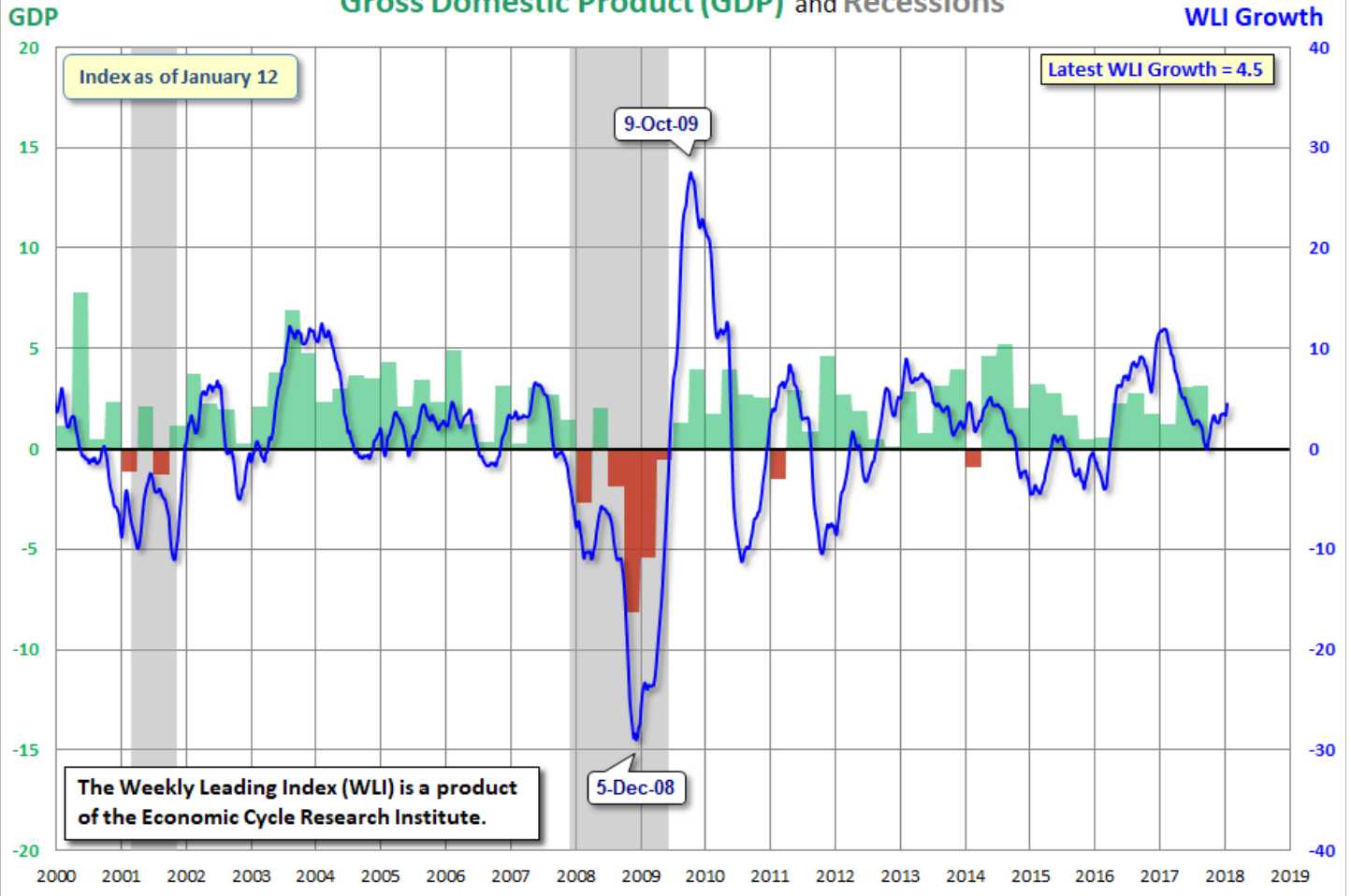
As the chart above illustrates, only once has a recession ended without the index level achieving a new high -- the two recessions, commonly referred to as a "double-dip," in the early 1980s. We've exceeded the previously longest stretch between highs, which was from February 1973 to April 1978. But the index level rose steadily from the trough at the end of the 1973-1975 recession to reach its new high in 1978. The pattern in ECRI's indicator is quite different, and this has no doubt been a key factor in their business cycle analysis.

The WLIg Metric

The best known of ECRI's indexes is their growth calculation on the WLI. For a close look at this index in recent months, here's a snapshot of the data since 2000.

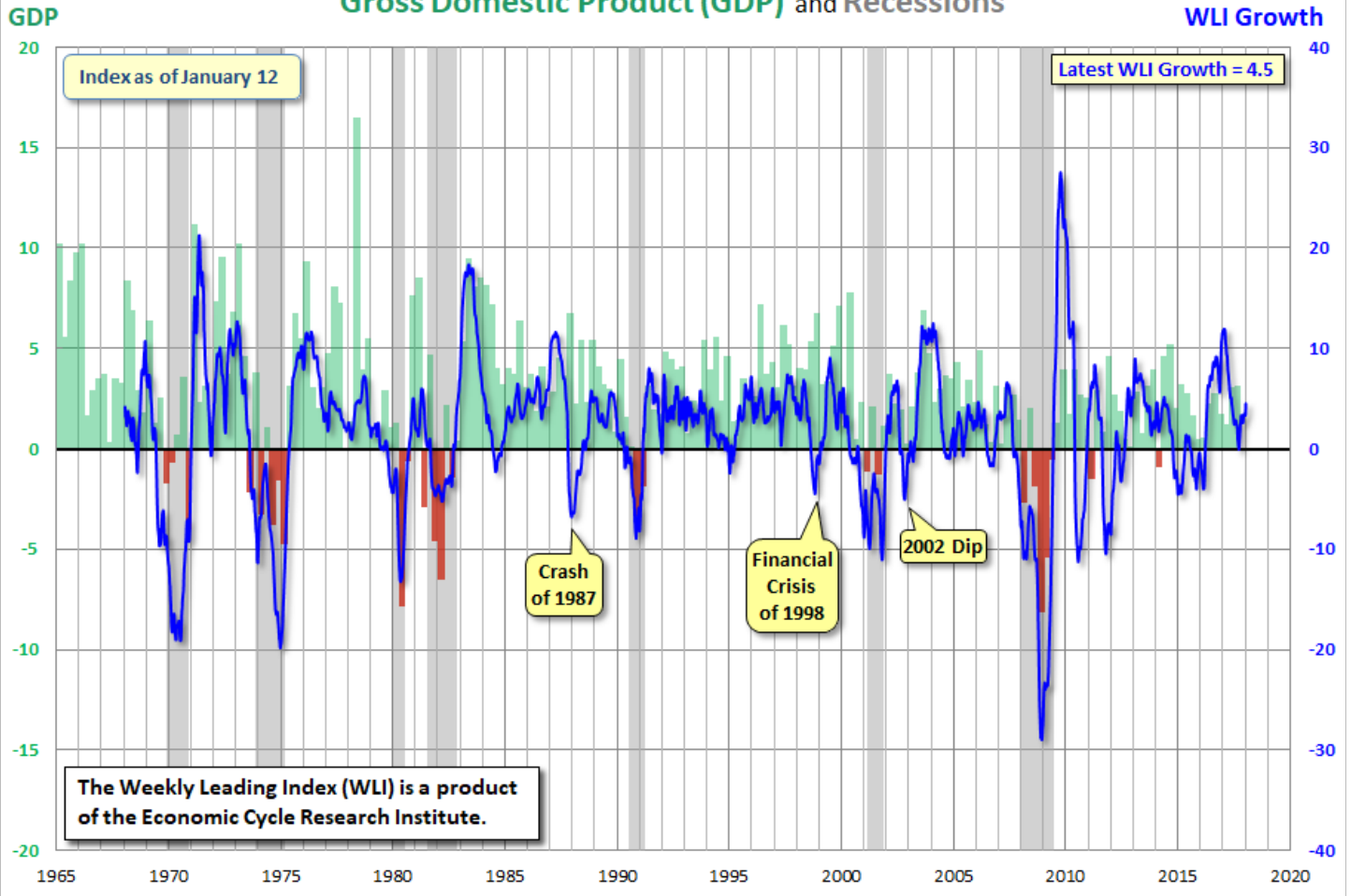
ECRI Weekly Leading Index (WLI) Growth Since 2000

Gross Domestic Product (GDP) and Recessions



Now let's step back and examine the complete series available to the public, which dates from 1967. ECRI's WLI metric has had a respectable record for forecasting recessions and rebounds therefrom. The next chart shows the correlation between the WLI, GDP, and recessions.

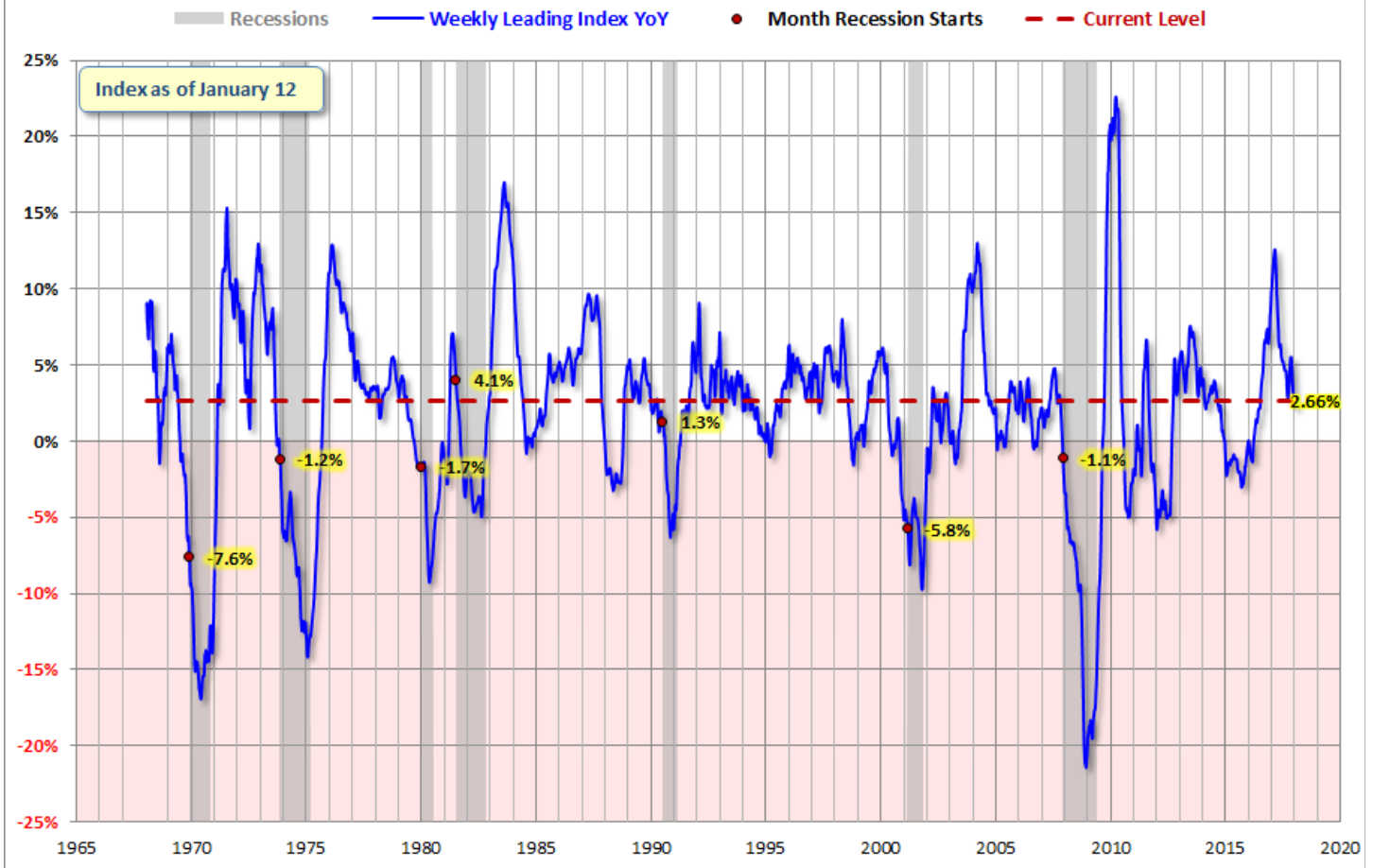
ECRI Weekly Leading Index (WLI) Growth Gross Domestic Product (GDP) and Recessions



Year-over-Year Growth in the WLI

Here is a snapshot of the year-over-year growth of the WLI rather than ECRI's previously favored method of calculating the WLIg series from the underlying WLI (see the endnote below). Specifically, the chart immediately below is the year-over-year change in the 4-week moving average of the WLI. The red dots highlight the YoY value for the month when recessions began.

ECRI Weekly Leading Index Year-over-Year of the Four-Week Moving Average



The WLI YoY has been in positive territory for over 52 weeks and is now at 2.66%, up from 2.19% last week. The latest level is higher than at the start of six out of the last seven recessions.

Note: How to Calculate the Growth series from the Weekly Leading Index

ECRI's weekly Excel spreadsheet includes the WLI and the Growth series, but the latter is a series of values without the underlying calculations. After a collaborative effort by Franz Lischka, Georg Vrba, Dwaine van Vuuren and Kishor Bhatia to model the calculation, Georg discovered the actual formula in a 1999 article published by Anirvan Banerji, the Chief Research Officer at ECRI: "*The three Ps: simple tools for monitoring economic cycles - pronounced, pervasive and persistent economic indicators.*"

Here is the formula:

"MA1" = 4 week moving average of the WLI

"MA2" = moving average of MA1 over the preceding 52 weeks

"n"= 52/26.5

"m"= 100

WLIg = [m*(MA1/MA2)^n] - m