

Recession Risk Retreats

Widespread improvement in the growth rates of ECRI's U.S. leading indexes signals a pullback in near-term recession risks.

Discerning Dawn The U.S. economy has veered away from a recession track, and may finally be on the cusp of a growth rate cycle (GRC) upturn. If so, the “stagflation lite” we had flagged earlier this year (*USCO Essentials, March 2016*) should give way to an inflationary upswing in economic growth.

Notably, U.S. Long Leading Index (USLLI) growth has now risen for six straight months to an 11-month high (Chart 1, top line). The question is whether this improvement objectively signals a nascent GRC upturn.

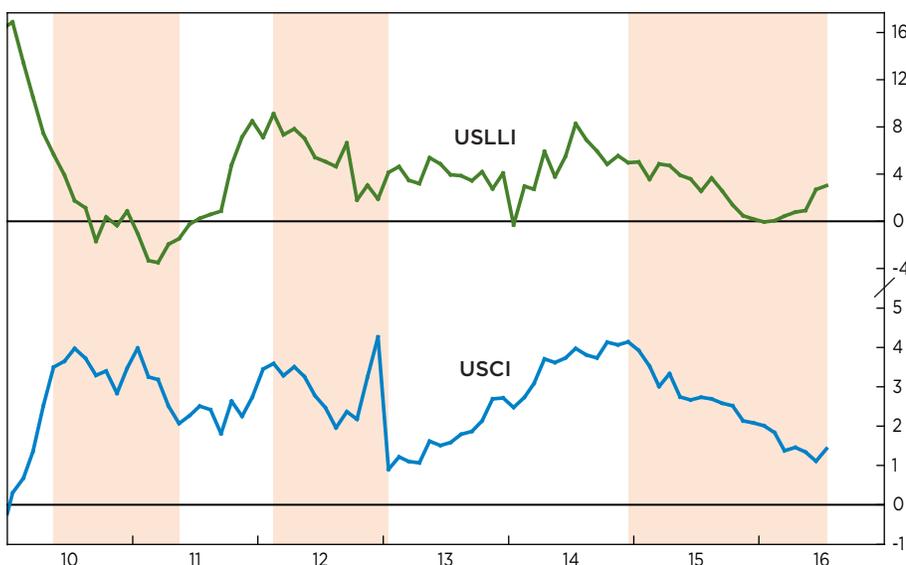
A three P's analysis reveals that the recent upturn in the growth rates of the USLLI and its components is about as pervasive and persistent as the median of comparable past upswings in USLLI growth ahead of GRC upturns. However, it is nowhere near as *pronounced* as the median pattern in those earlier upswings (not shown). Indeed, ahead of genuine GRC upturns, there has hardly ever been a USLLI growth upturn of this modest a magnitude.

One possible explanation is that we are about to experience a mild GRC upturn – maybe even less pronounced than the 2013-14 upturn. But a GRC upswing would be clearly signified if a near-term increase in USLLI growth were to drive it closer to typical past trajectories associated with GRC upturns. Absent such evidence, it is premature to declare that a GRC upturn is at hand.

In fact, with the GRC downturn that began at the end of 2014 having passed the 1½-year mark, U.S. Coincident Index (USCI) growth – while edging up in July – remains near June's 38-month low (Chart 1, bottom line). But in year-over-year (yoy) terms – which amounts to a sort of implicit seasonal adjustment of the data – USCI

If a GRC upturn takes hold, it would be against the backdrop of the inflation cycle upturn already underway. Indeed, yoy inflation in CPI for services, being less susceptible to global disinflation, has now climbed to a 7½-year high, while yoy core CPI inflation has topped 2% for nine months.

Chart 1: U.S. Long Leading and Coincident Indexes, Growth Rates (%)



Shaded areas represent U.S. growth rate cycle downturns.