

State of the Economy:

Leading, Lagging, and Coincident Indicators

June 2024

Economic
INSIGHT



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Executive Summary

A cooler-than-expected May inflation report following minimal improvement in April has reinforced the Federal Reserve's (Fed)'s position on the sidelines, now for the seventh consecutive meeting, with the Committee noting “*modest*” progress towards the Fed's 2% target. Although on a relative basis with the annual pace of inflation still above January levels, (3.3 vs. 3.1% for CPI and 2.2% vs. 1.0% for PPI) and nominally, the growth rate exceeding the 2% target, it's clear the Committee has more work to do before the goal of price stability is achieved, let alone gain the needed confidence to justify a reduction in policy firming.

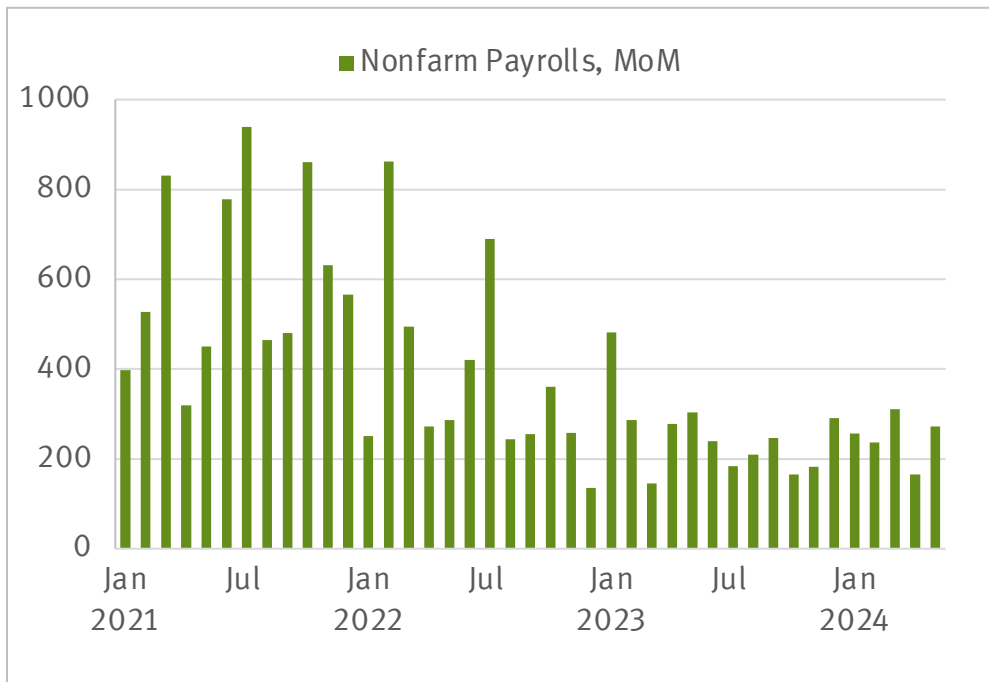
With inflation and the broader economy failing to evolve as expected, the Committee has materially revised down expectations for rate reductions in 2024 – down from three at the start of the year to just one. Despite the extended timeline, the Fed remains convinced the next policy move will be a rate cut – eventually. Fed Chair Jerome Powell was clear that a reduction will not be appropriate until policy makers have gained the needed confidence that inflation is back on a clear disinflationary path towards 2%. But “*no one*” on the Committee, Powell underscored, has a base case of additional rate hikes.

Of course, while the Fed's next move does appear to be policy easing as they are desperate to provide relief, with inflation increasingly bumpy and uneven, and a number of key price components reversing course as of the start of the year, “*eventually*” appears to be a 2025 event or at least until inflation is on a clear downward trajectory. Fed officials themselves have set the bar relatively high, needing “*many*” more months of improving data to justify a rate cut, and with less than half the year left and base effects from 2023 increasingly diluted in the second half, price pressures will expectedly remain elevated, or could push higher in coming months. That doesn't mean the Fed will need to raise rates again, as the bar for additional rate hikes is even higher than it is for rate cuts, but arguably if inflation fails to improve or rises, at some point the Fed would be forced to adjust from simply delaying rate cuts to actively considering additional rate hikes.

Leading Indicators

NONFARM PAYROLLS RISE MORE THAN EXPECTED IN MAY

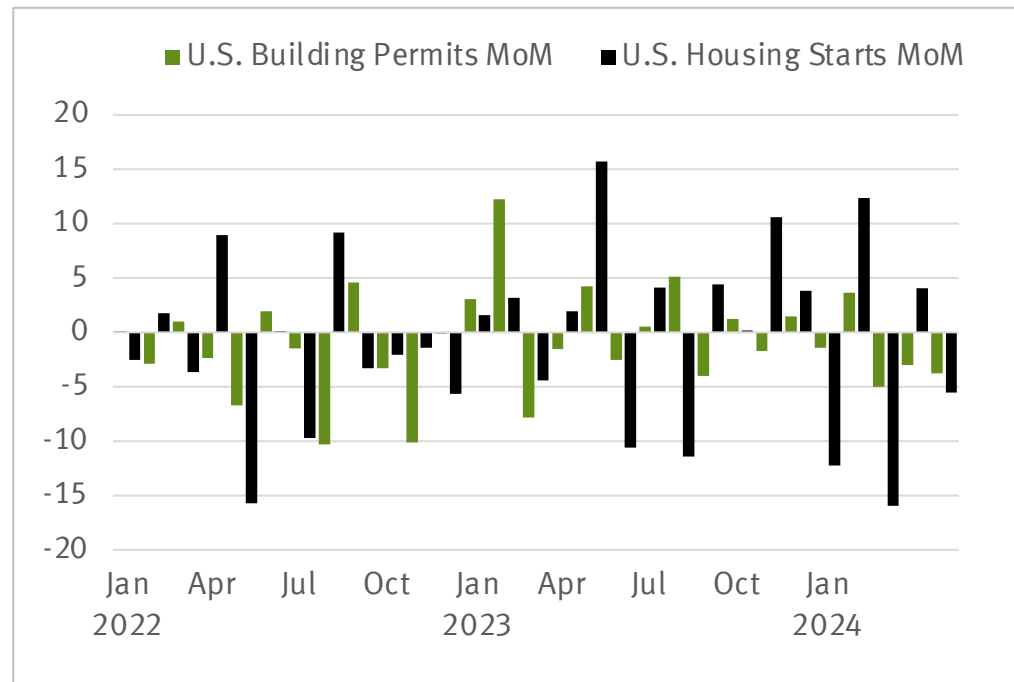
Nonfarm payrolls rose by 272,000 in May, well surpassing the 180,000 gain expected and the strongest pace of monthly job growth in two months.



NFP TCH Index (U.S. Employees on Nonfarm Payrolls Total MoM Net Change SA) Nonfarm Payrolls Monthly
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BUILDING PERMITS AND HOUSING STARTS DROP IN MAY; REMAIN SLUGGISH

On a month-over-month (MoM) basis, building permits unexpectedly fell 3.8%, while housing starts plunged 5.5% in May.



NHCHATCH Index (Private Total Housing Authorized by Building Permits MoM SA) Housing Permits/Starts Monthly
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Leading Indicators

MANUFACTURING ACTIVITY REMAINS IN CONTRACTIONARY TERRITORY

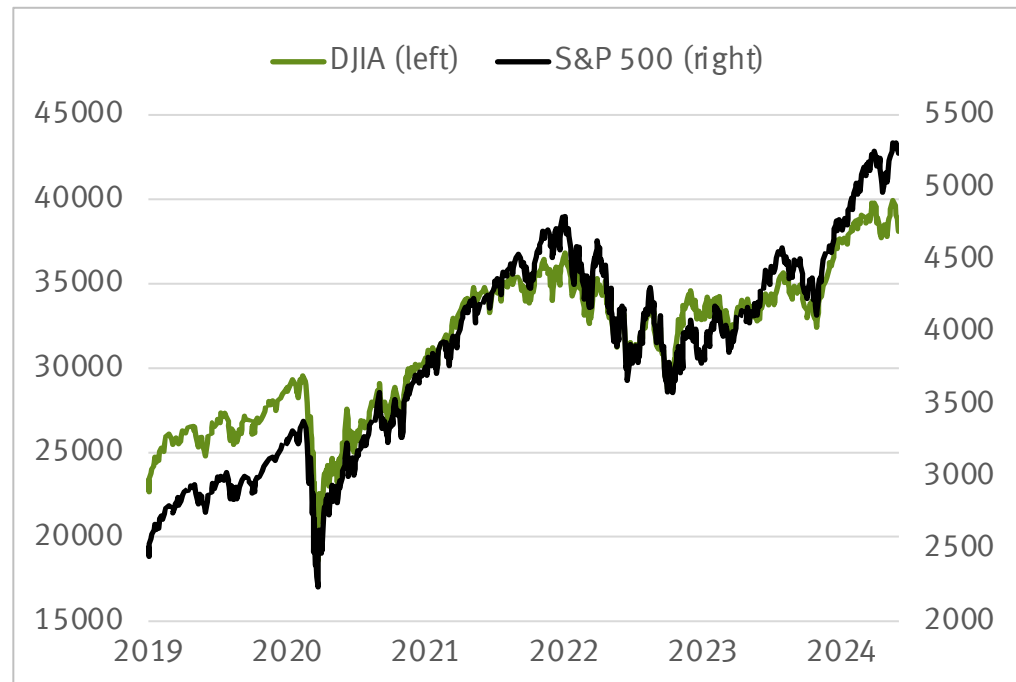
The ISM Manufacturing Index (ISM) fell to 48.7 in May, the lowest reading since February, and the second consecutive month in contractionary territory (a reading below 50).



NAPMPMI Index (ISM Manufacturing PMI SA) Manufacturing Monthly
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STOCKS MOVE HIGHER IN MAY

Stocks ended higher in May. The S&P 500 started at 5,035.69, rising 4.8% during the month. The Dow Jones Industrial Average (DJIA), which started at 37,815.92, gained 2.3% in May.

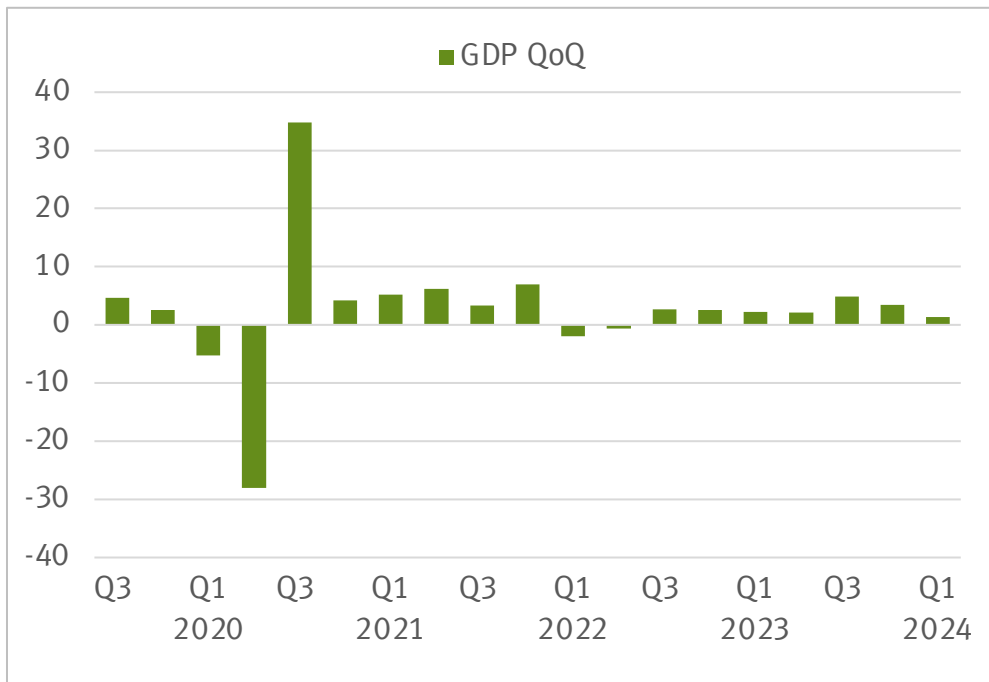


SPX Index (S&P 500 Index) SP500/DJIA Daily
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Lagging Indicators

GDP RISES 1.3% in Q1

Q1 GDP rose 1.3% in the second-round report, the weakest quarterly pace since Q2 2022 and following a 3.4% increase in Q4.



GDP CQQQ Index (GDP U.S. Chained 2012 Dollars QoQ SAAR) GDP Bar Chart Quarterly
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U.S. UNEMPLOYMENT RATE TICKS HIGHER BUT STILL REMAINS HISTORICALLY LOW

The U.S. unemployment rate ticked higher to 4.0% in May, the highest since January 2022.

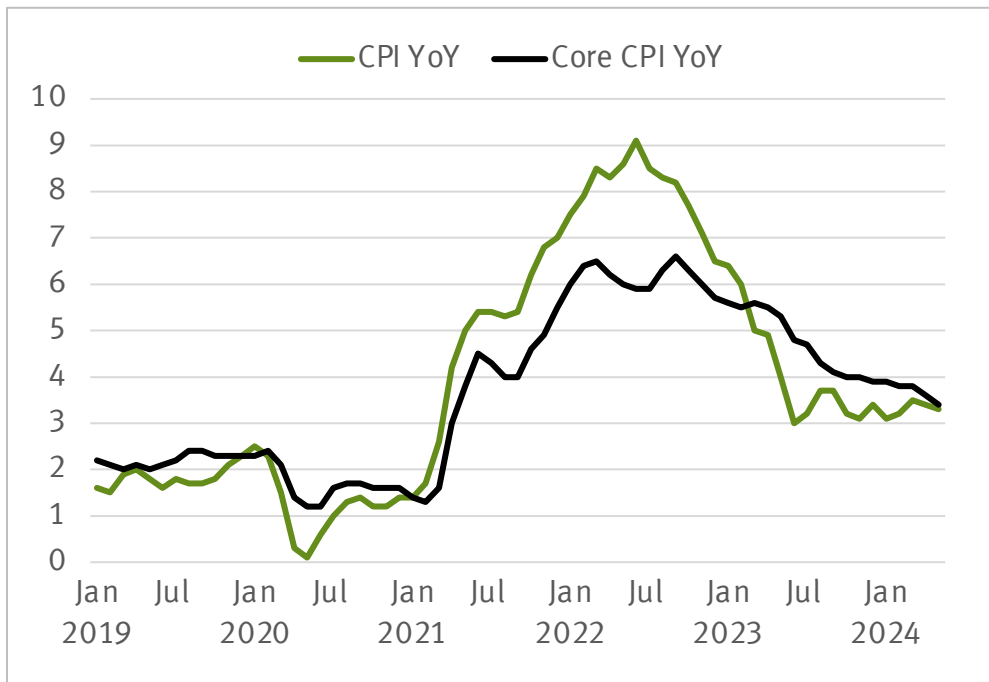


USURTOT Index (U-3 U.S. Unemployment Rate Total in Labor Force Seasonally Adjusted) Unemployment and Wages Monthly
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Lagging Indicators

INFLATION STILL REMAINS ELEVATED

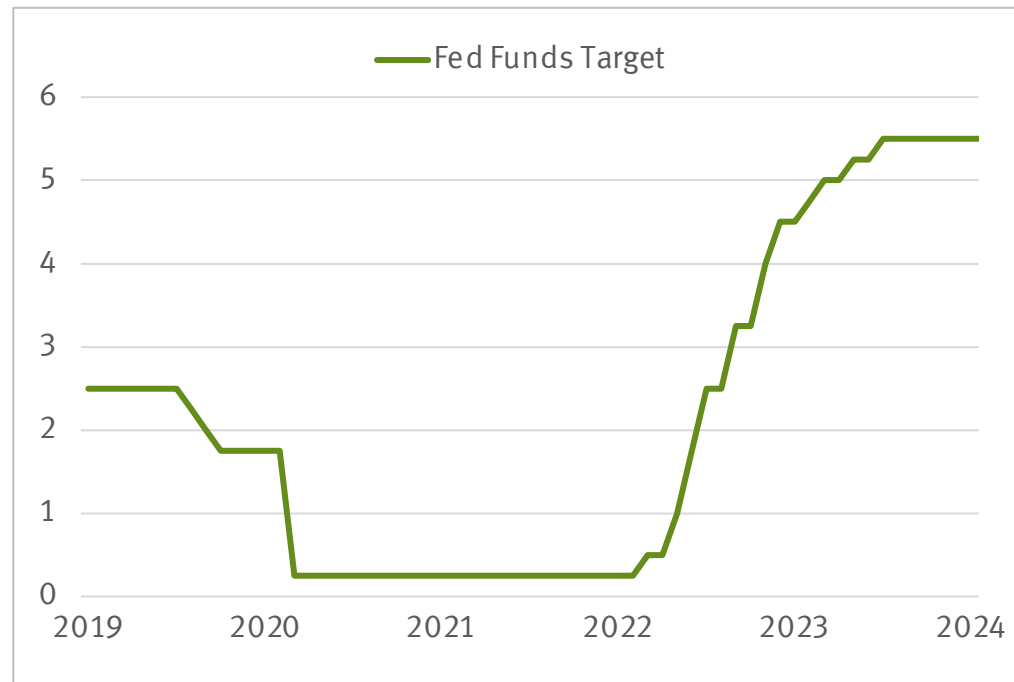
The Consumer Price Index (CPI) was flat in May and rose 3.3% over the past 12 months. Excluding food and energy, the core CPI rose 0.2% for the month and 3.4% year over year (YoY).



GDP CQQQ Index (GDP U.S. Chained 2012 Dollars QoQ SAAR) GDP Bar Chart Quarterly
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FEDERAL RESERVE HOLDS RATE STEADY IN JUNE

As expected in June, the Federal Reserve held rates steady for the seventh consecutive meeting at a range of 5.25% to 5.50%.

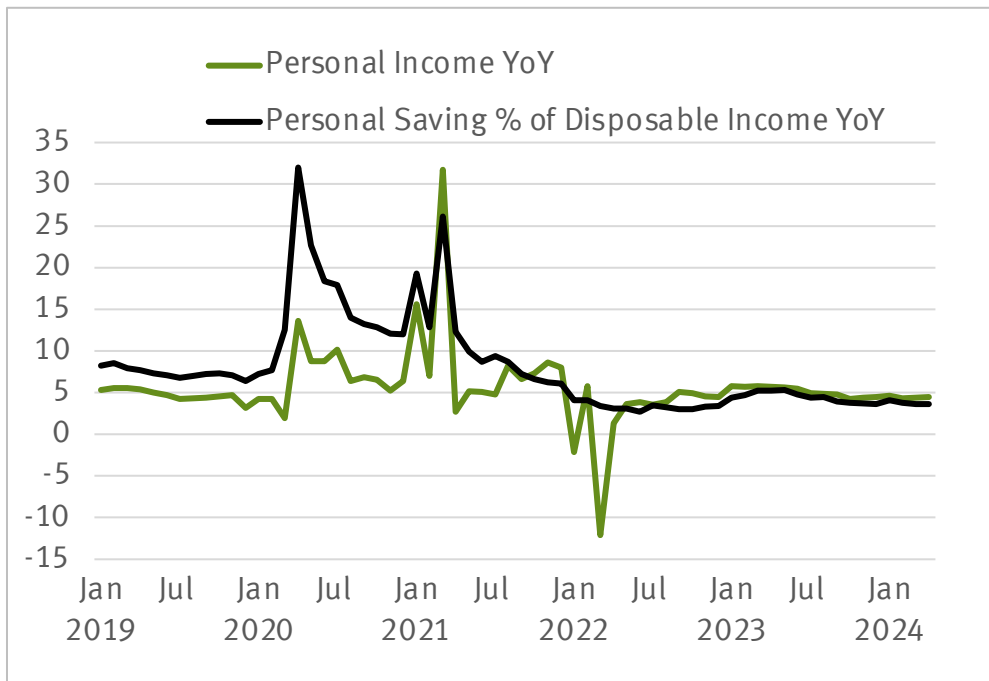


FDTR Index (Federal Funds Target Rate – Upper Bound) Fed Funds Tgt/Effective Daily
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Coincident Indicators

INCOME AND SAVINGS DOWN FROM PEAK

Personal income rose 4.5%. Personal savings as a percent of disposable personal income rose 3.6% in April, matching the annual gain in March, but down from a 4.1% increase at the start of the year.



PITLYOY Index (U.S. Personal Income YoY SA) Personal Income/Saving Daily
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U.S. INDUSTRIAL PRODUCTION REMAINS LACKLUSTER

Industrial production rose 0.4% in May from a year prior, the strongest annual gain in five months, albeit following two consecutive months of annual declines.

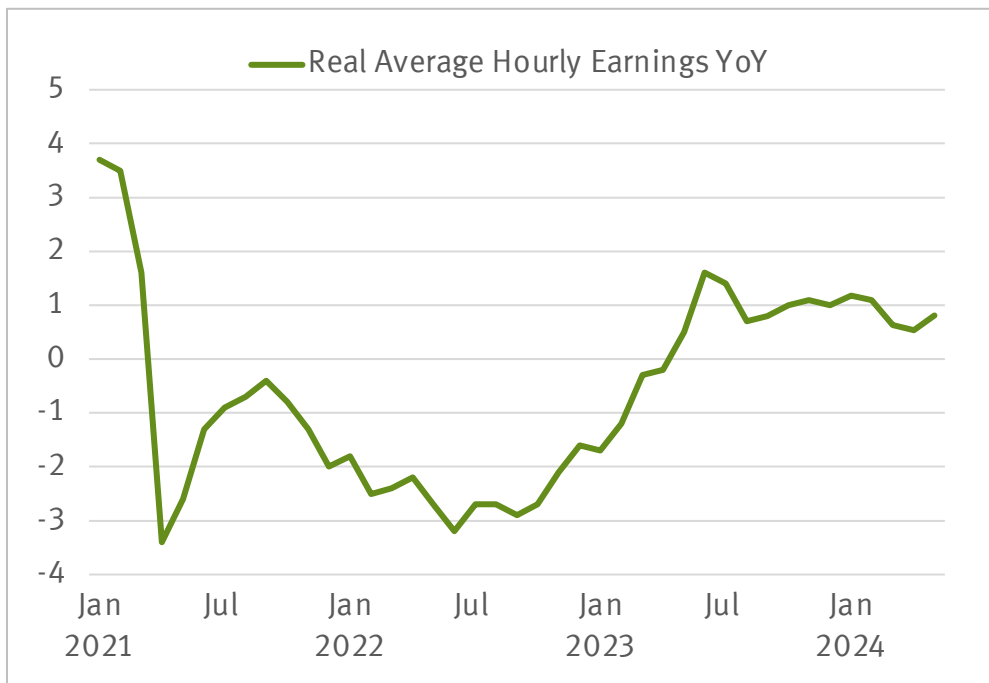


IP YOY Index (U.S. Industrial Production YOY SA) Industrial Production Daily
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Coincident Indicators

REAL EARNINGS TICK HIGHER IN MAY

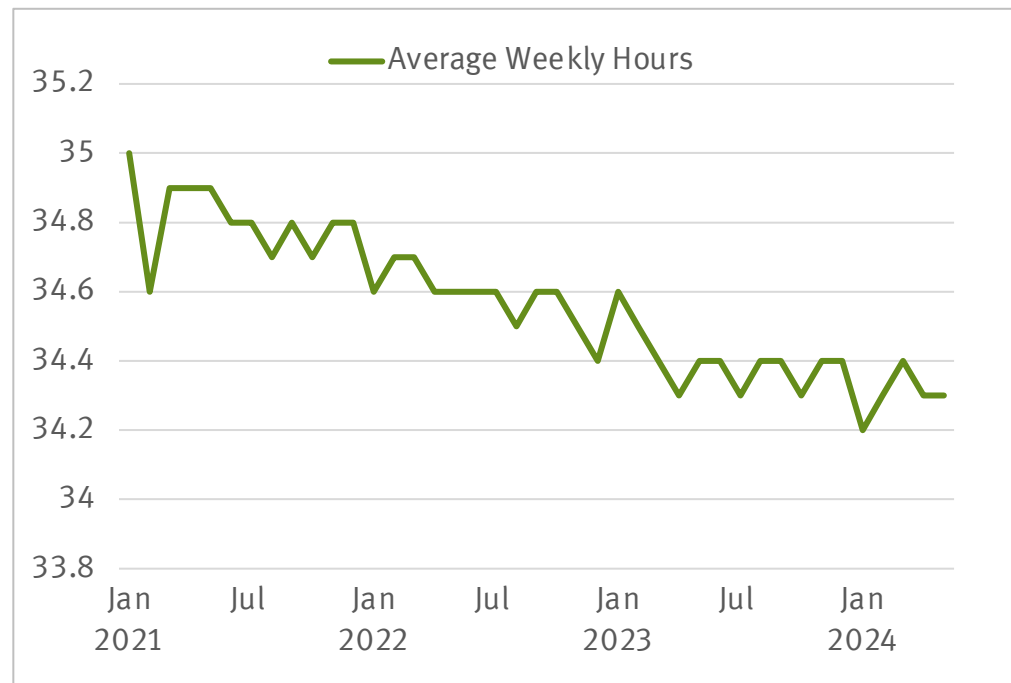
Real average hourly earnings increased by 0.8% in May from a year ago, the largest gain in three months.



REALYRAW Index (U.S. Real Average Hourly Earnings 1982-1984 USD YoY SA) Real Average Earnings Daily
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WEEKLY HOURS STEADY IN MAY

Average weekly hours held steady at 34.3 hours in May for the second consecutive month.



AWH TOTL Index (U.S. Average Weekly Hours All Employees Total Private SA) Average Weekly Hours Monthly
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The Dow Jones Industrial Average (DJIA) is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market.

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The ISM Manufacturing Index is a composite diffusion index created to monitor employment, production inventories, new orders, and supplier deliveries in national manufacturing based on surveys of more than 300 manufacturing firms by the Institute of Supply Management.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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