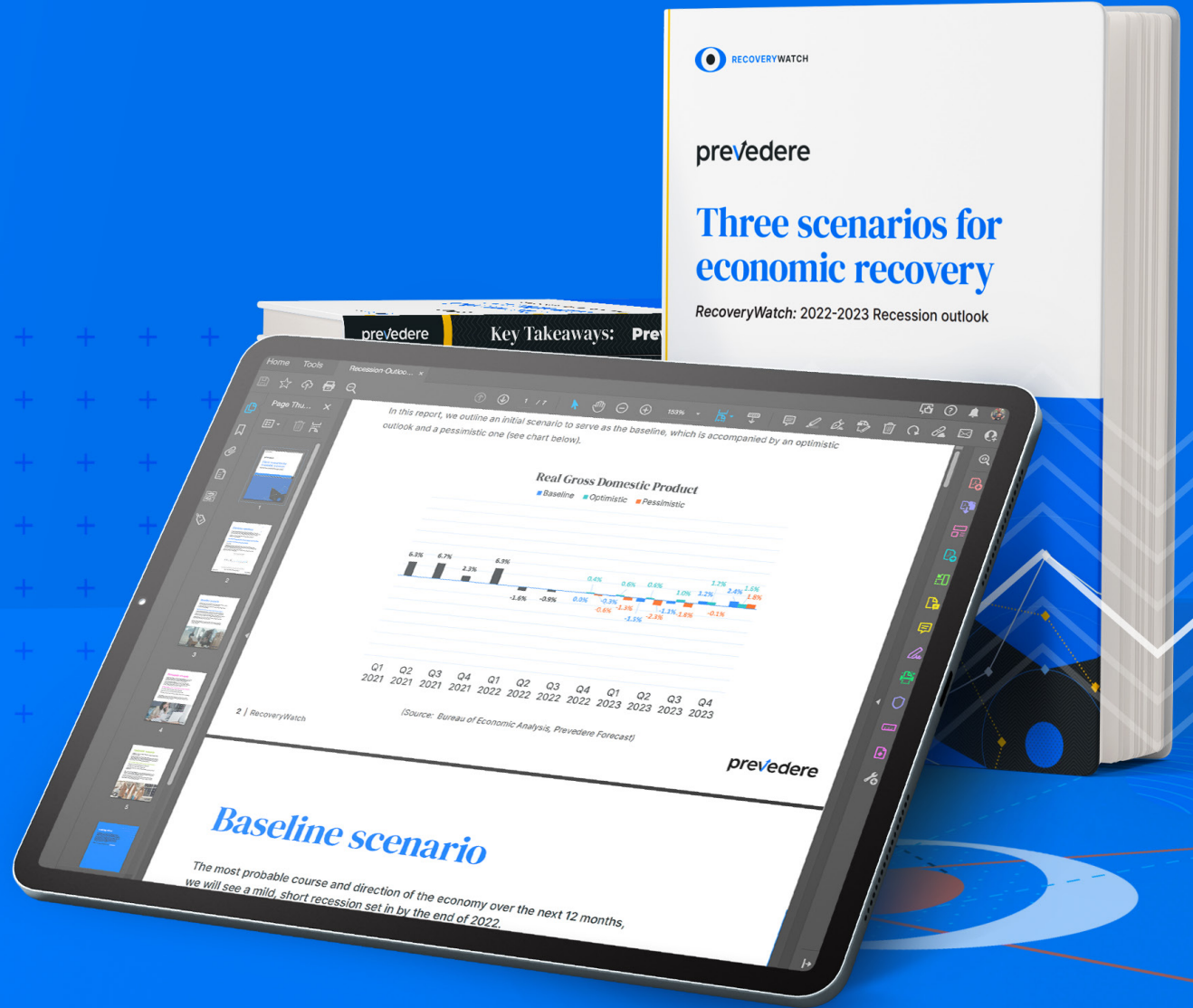RECOVERY WATCH

Leading Economic Indicators Dashboard

A monthly dashboard that tracks critical leading signals that provide early clues to coming changes in the economic business cycle.

RECOVERYWATCH

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Three scenarios for economic recovery

RecoveryWatch: 2022-2023 Recession outlook

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Predictive Indicators for Economic Recovery

Last Update: 06-20-2023

Leading Indicators

The Prevedere Economist team handpicked this set of indicators considered critical leading signals to track economic business cycles.

This dashboard provides businesses with key "leading indicators" that typically turn early in the business cycle, and provide clues to coming changes in the economic environment.

Indicators are grouped into categories with each page of the dashboard representing a category.

Indicator Selection Methodology

Three criteria were used to identify these most reliable leading indicators of economic business cycles:

Historical leading reliability: Each of these chosen factors have consistently signaled economic downturns and recoveries throughout past business cycles ahead of the actual turning points in overall economic output.

Lead Time: While there are many variables that are highly correlated to economic business cycles that can be tracked, the ones chosen on this dashboard have at least a three-month lead time to the historical peaks and valleys in GDP growth, providing businesses with at least a quarter lead time to implement change within their organization ahead of the next economic recovery or downturn.

Diversity: When selecting indicators for a well-rounded dashboard, it's important to look at measures of the different sectors of the economy from sentiment and consumer spending to manufacturing, construction, and financial trends. The key to understanding overall cycles in GDP is to monitor when the majority of leading indicators for these different sectors are moving in the same direction.

■ **In this report:**

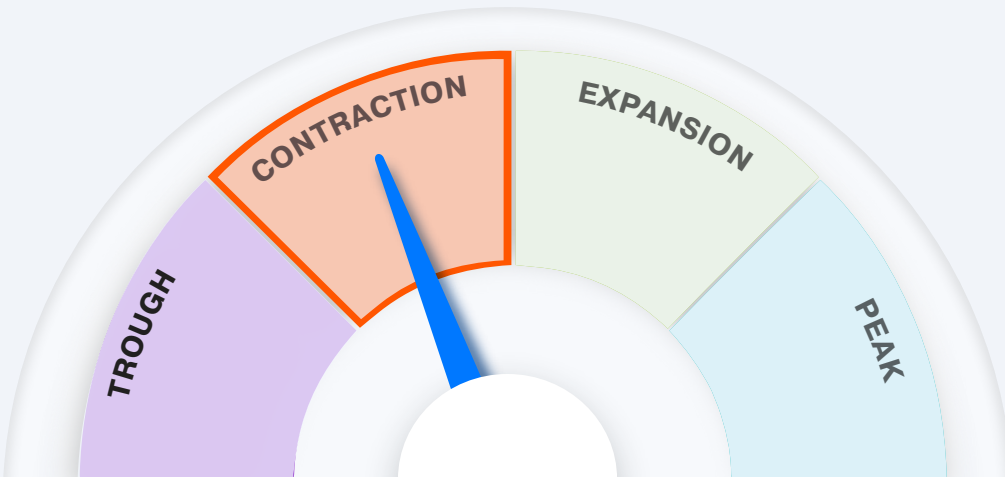# Plan and forecast more accurately with Prevedere.

We help companies build fact-based forecasts with internal and external factors.

Our expert economists and the Prevedere Advanced Predictive Planning platform are the best solution to help executives plan during a global recession.

Snapshot of the U.S. Economy

6-Month Outlook in the U.S. Economy

"The rebound of consumer sentiment in June 2023 provides a reason for optimism that the economy will begin its recovery early next year."

Danielle Marceau
Principal Economist & Director of Analytics

Where we currently stand in the U.S. Economy

Accelerating Growth →

← Decelerating Growth

WE ARE HERE

Recession →

← Recovery

6-Month Outlook in the U.S. Economy

Accelerating Growth →

← Decelerating Growth

WHERE WE'LL BE IN 6 MONTHS

Recession →

← Recovery

Executive Summary

■ **Key Takeaway**

Despite continued volatility among many of the key leading economic indicators, the overall results still suggest that the coming recession will be relatively shallow, and economic recovery is tracking to be the central trend for 2024.

■ **What is the current status of the leading economic indicators?**

In evaluating the data released through June, the most notable trend across the leading economic indicators is that not much has changed from the previous month. These results display a level of consistency in the economy and provide a reason to be cautiously optimistic for next year.

While the trajectory of the majority of leading economic indicators remained unchanged this month, there were a few results that are worth noting:

- **The Consumer Sentiment Index** reversed its tentative decline and returned to a rising trend within its three-period moving average year-over-year growth rate.

- **ISM Non-Manufacturing PMI,** on the other hand, continued to decline this month, which was highlighted during the last report as an important trend to watch to assess consumer behavior.

- **The Economic Policy Uncertainty Index** rose again this month. This could serve as a negative sign for future GDP growth if the increased uncertainty continues over the next few months.

While there are still some mixed signals being displayed across the leading economic indicators, the fact that the majority of them are moving in a positive direction is a good sign in the long term.

Recession in the second half of 2023 is still the most likely scenario but the current expectation is that contraction will be mild and happen over a short period of time. There is reason to be optimistic that the U.S. economy will begin its recovery at the early onset of 2024.

■ **What's next?**

It will be important to continue monitoring the leading economic indicators during the next few months, as the U.S. is likely to enter contraction. As we enter this phase of the business cycle, there are four notable indicators that should be watched very closely: (1) The Consumer Sentiment Index, (2) Consumer Spending Plans, (3) The Economic Policy Uncertainty Index, and (4) The ISM Non-Manufacturing PMI. As long as these key metrics hold up during the coming months and do not display any significant declines, there should be no reason to expect anything more negative from this economic business cycle.

All Categories: Look at these indicators to understand how they are placing upward or downward pressure on the economy.

Last Refresh: 06-20-2023

Category	Indicator	Relationship	Next Update	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
Macroeconomic Leading Indicators	Prevedere GDP Leading Indicator	Procyclic	07-20-2023	↓	↓	↓	↓	
	Weekly Economic Index	Procyclic	06-23-2023	↑	↑	↓	↑	↑
	OECD U.S. Composite Leading Indicator	Procyclic	07-09-2023	↑	↑	↑	↑	
Business & Consumer Sentiment	Consumer Sentiment	Procyclic	07-20-2023	↑	↑	↑	↓	↑
	Economic Policy Uncertainty Index	Countercyclic	07-06-2023	↑	↑	↑	↓	
	OECD Business Confidence Indicator	Procyclic	07-09-2023	↑	↑	↑	↑	
	Small Business Optimism Index	Procyclic	07-14-2023	↑	↑	↑	↑	
Consumer Spending	ISM Non-Manufacturing Composite Index	Procyclic	07-07-2023	↑	↑	↓	↓	
	Plans to Decrease Overall Spending - Adults 18+	Countercyclic	07-16-2023	↑	↑	↑	↑	↑
	U.S. Consumer Spending Expectations	Procyclic	07-16-2023	↑	↑	↑	↑	↑
Production / Construction	ISM Manufacturing PMI Composite	Procyclic	07-03-2023	↑	↓	↑	↑	
	Architectural Billings Index - National	Procyclic	06-24-2023	↑	↓	↓		
	New Privately-Owned Housing Permits Authorized	Procyclic	07-21-2023	↑	↑	↑	↑	
Financial / Prices	10-Year Minus 2-Year Treasury Constant Maturity	Procyclic	06-21-2023	↓	↑	↓	↓	↓
	Junk Bond Spread	Countercyclic	07-04-2023	↑	↓	↑	↓	
	Real M2 Money Supply	Procyclic	06-24-2023	↓	↓	↓		
	Commodity Price Index Data: Raw Material	Procyclic	07-04-2023	↓	↓	↓	↓	

NOTES

Values represent changes in cyclical trend for each indicator. When trend goes from negative to positive for consecutive months, this is likely an indication of a cyclical turning point and early onset of recovery for this indicator.

In June, 4 out of 5 indicators are signaling improvement in business cycle momentum from the prior month.

In May, 8 out of 15 indicators are signaling improvement in business cycle momentum from the prior month.

↑ Upward pressure on economy

↓ Downward pressure on economy

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Macroeconomic Leading Indicators: Leading indicators of overall GDP growth

Prevedere GDP Leading Indicator
4-6 month lead-time

3 Period Year over Year
Latest Value: -4.2
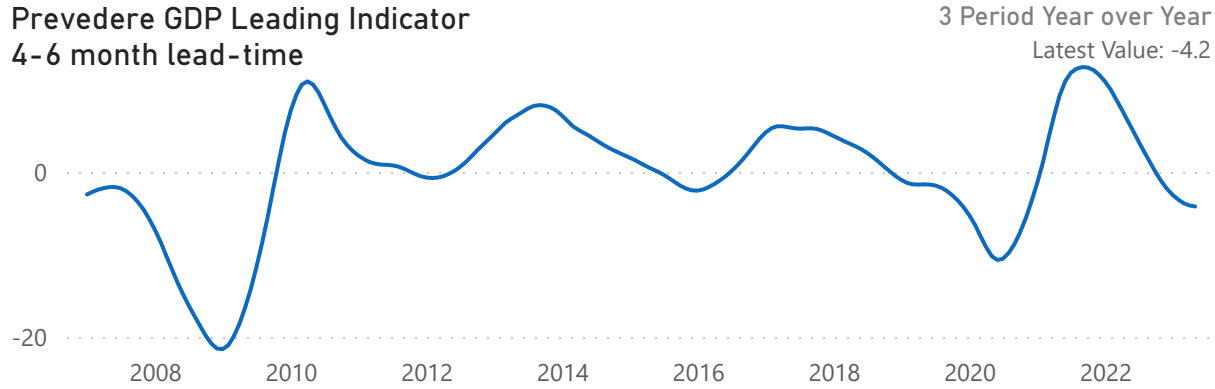
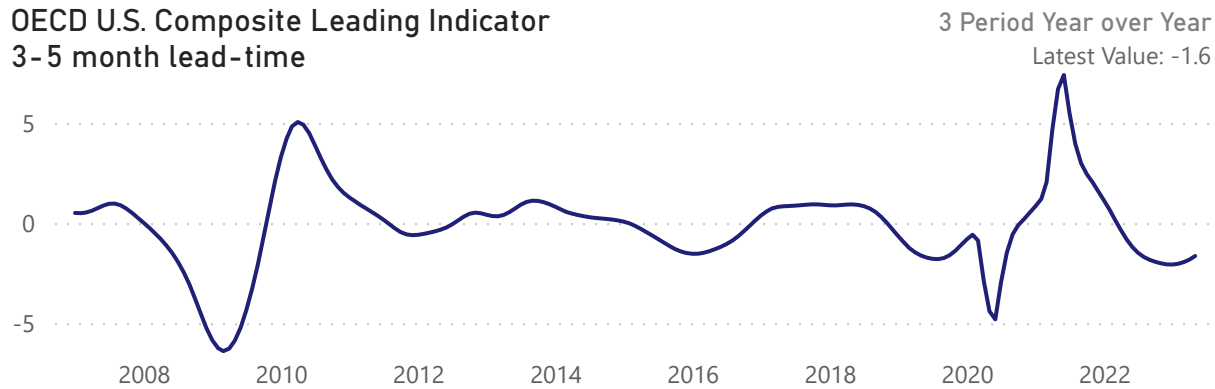*A composite leading indicator created by Prevedere to gauge future GDP growth and cyclical turning points 3-6 months in advance.*

Source: Prevedere   Data as of 05-2023

Weekly Economic Index
3-5 month lead-time

3 Period Moving
Latest Value: 0.9

High frequency measure of overall economic activity comprised of 7 non-financial measures of real economic output.

Source: Stock, James H.   Data as of 06-10-2023

OECD U.S. Composite Leading Indicator
3-5 month lead-time

3 Period Year over Year
Latest Value: -1.6

This composite leading indicator is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long term potential level.

Source: Organization for Economic Co-operation and Development   Data as of 05-2023

MONTHLY TRENDS

How have these indicators changed up or down in the past 5 months.

Indicator	Relationship	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
Prevedere GDP Leading Indicator	Procyclic	↓	↓	↓	↓	
Weekly Economic Index	Procyclic	↑	↑	↓	↑	↑
OECD U.S. Composite Leading Indicator	Procyclic	↑	↑	↑	↑	

↑ Upward pressure on economy

↓ Downward pressure on economy

Business & Consumer Sentiment: Measures of sentiment among consumers and businesses.

Consumer Sentiment
4-6 month lead-time

3 Period Year over Year
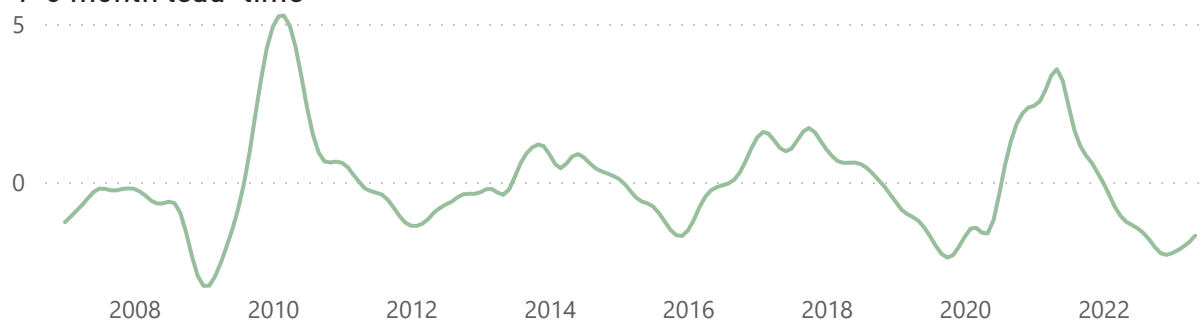Latest Value: 7.5

Measures confidence amongst consumers and is a leading indicator of consumer spending.

Source: University of Michigan   Data as of 06-2023

Economic Policy Uncertainty Index
6-9 month lead-time

3 Period Year over Year
Latest Value: -12.3

Daily news based composite. Can signal supply chain disruptions and upcoming slack or tightening demand.

Source: Federal Reserve Bank of St. Louis   Data as of 05-2023

OECD Business Confidence Indicator
4-6 month lead-time

3 Period Year over Year
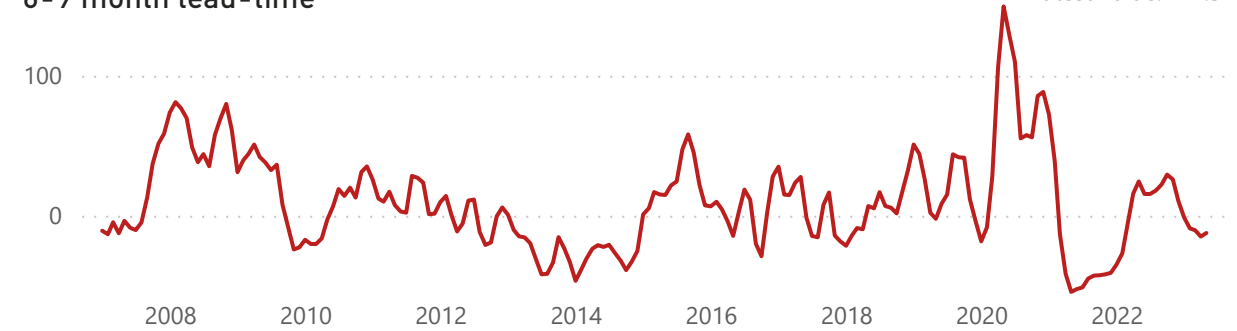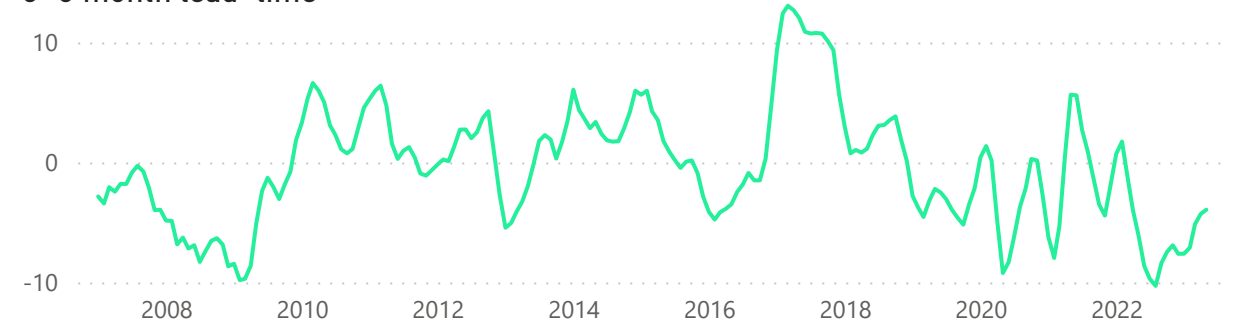Latest Value: -1.7

Measures confidence amongst business leaders and is a leading indicator of business investment.

Source: Organization for Economic Co-operation and Development   Data as of 05-2023

Small Business Optimism Index
3-5 month lead-time

3 Period Year over Year
Latest Value: -3.9

Indicator of sentiment among small businesses who can be quicker to react to economic conditions than big firms.

Source: National Federation of Independent Business   Data as of 05-2023

MONTHLY TRENDS

How have these indicators changed up or down in the past 5 months.

Indicator	Relationship	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
Consumer Sentiment	Procyclic	⬆	⬆	⬆	⬇	⬆
Economic Policy Uncertainty Index	Countercyclic	⬆	⬆	⬆	⬇	
OECD Business Confidence Indicator	Procyclic	⬆	⬆	⬆	⬆	
Small Business Optimism Index	Procyclic	⬆	⬆	⬆	⬆	

⬆ Upward pressure on economy

⬇ Downward pressure on economy

Consumer Spending: Measures of consumer's intent and ability to spend.

ISM Non-Manufacturing Composite Index
4-6 month lead-time

3 Period Year over Year
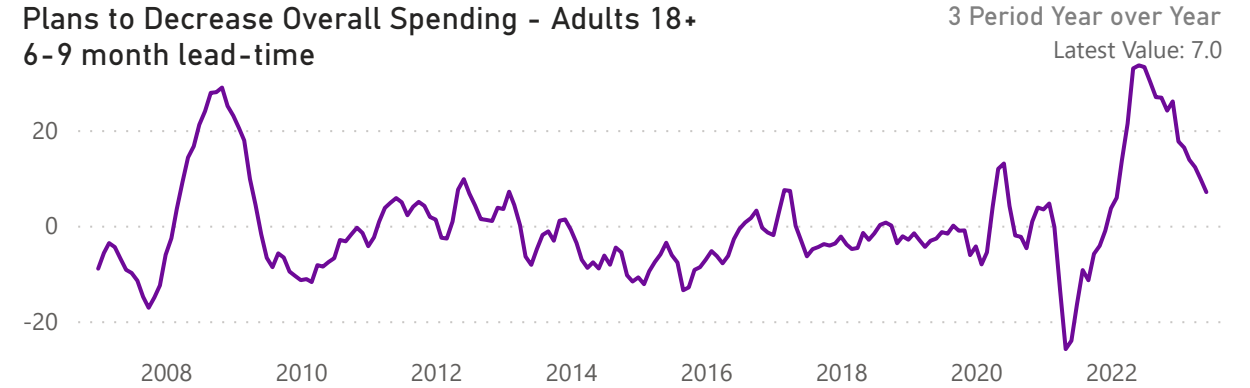Latest Value: -10.4
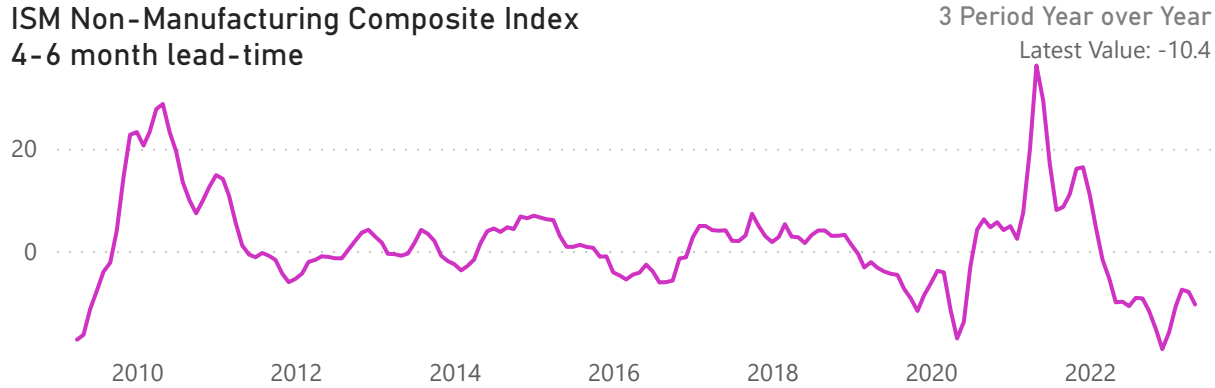
Diffusion index from a survey of business managers in the non-manufacturing industry covering topics such as business activity, new orders, employment, inventory, and prices.

Plans to Decrease Overall Spending - Adults 18+
6-9 month lead-time
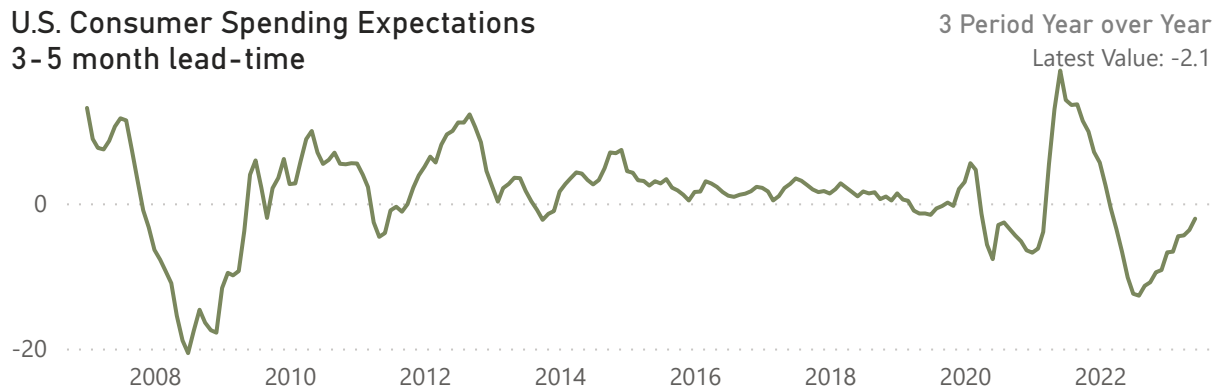
3 Period Year over Year
Latest Value: 7.0

Survey question asking consumers financial steps they plan on taking during the next 3 months. As the response for decrease overall spending moves higher, this is a negative sign for overall consumer spending.

U.S. Consumer Spending Expectations
3-5 month lead-time

3 Period Year over Year
Latest Value: -2.1

The consumer spending forecast represents consumers' intended level of retail spending over the next 90 days.

MONTHLY TRENDS

How have these indicators changed up or down in the past 5 months.

| Indicator	Relationship	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
ISM Non-Manufacturing Composite Index	Procyclic	⬆	⬆	⬇	⬇	
Plans to Decrease Overall Spending - Adults 18+	Countercyclic	⬆	⬆	⬆	⬆	⬆
U.S. Consumer Spending Expectations	Procyclic	⬆	⬆	⬆	⬆	⬆

⬆ Upward pressure on economy

⬇ Downward pressure on economy

Production/Construction: Measures of industrial, manufacturing and construction output.

ISM Manufacturing PMI Composite
4-6 month lead-time

3 Period Year over Year
Latest Value: -16.8
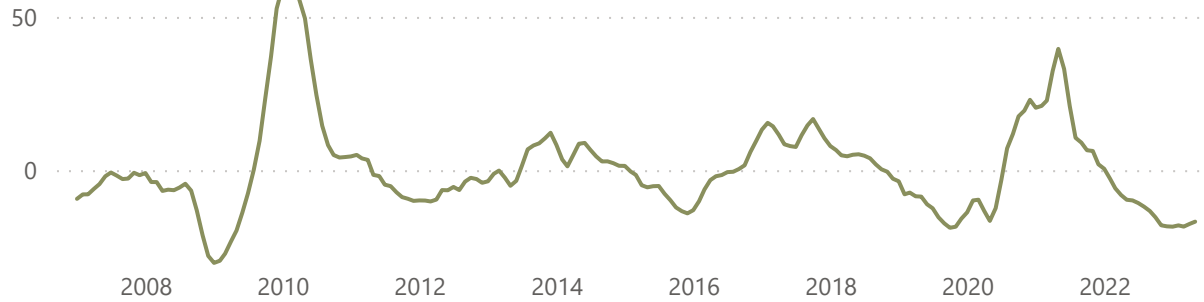
Diffusion index from a survey of business managers in the manufacturing industry covering topics such as business activity, new orders, employment, inventory, and prices.

Source: Institute for Supply Management   Data as of 05-2023

Architectural Billings Index - National
4-6 month lead-time

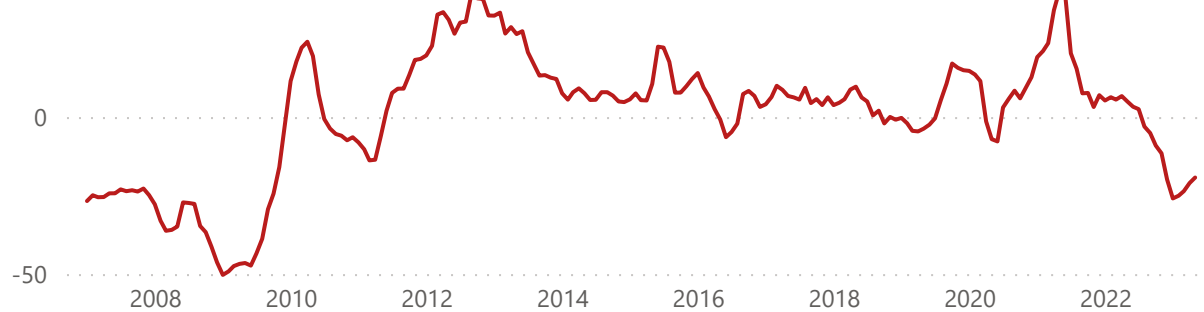3 Period Year over Year
Latest Value: -10.2

Survey based dataset that gathers information around shifts in billings from major architectural firm leaders.

Source: The American Institute of Architects   Data as of 04-2023

New Privately-Owned Housing Permits Authorized
4-6 month lead-time

3 Period Year over Year
Latest Value: -19.2

Total number of new privately owned residential permits authorized in the United States.

Source: United States Census Bureau   Data as of 05-2023

MONTHLY TRENDS

How have these indicators changed up or down in the past 5 months.

| Indicator	Relationship	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
ISM Manufacturing PMI Composite	**Procyclic**	⬆	⬇	⬆	⬆	
Architectural Billings Index - National	**Procyclic**	⬆	⬇	⬇		
New Privately-Owned Housing Permits Authorized	**Procyclic**	⬆	⬆	⬆	⬆	

⬆ Upward pressure on economy

⬇ Downward pressure on economy

Financial/Prices: Leading indicators from treasuries, bonds, and other financial conditions.

10-Year Minus 2-Year Treasury Constant Maturity
18+ month lead-time

Raw
Latest Value: -0.9
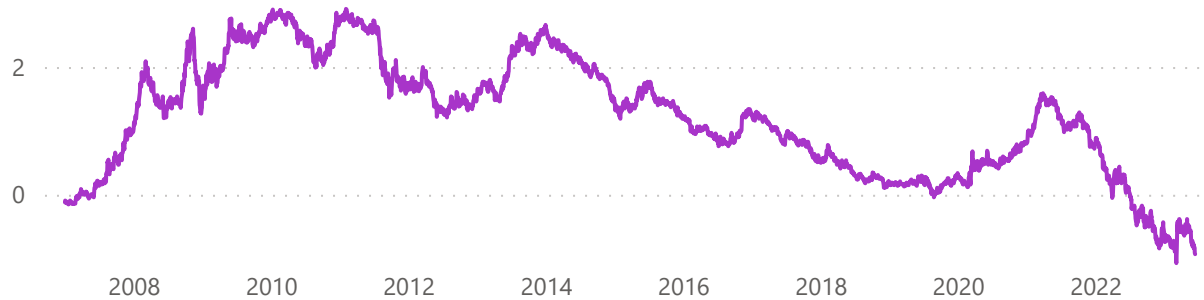
The spread between a 10 year treasury bond yield & 2 year treasury bond yield. When the spread becomes negative, meaning that the short-term maturity rate exceeds the long-term maturity rate it is indicative of recession.

Source: Federal Reserve Bank of St. Louis   Data as of 06-16-2023

Junk Bond Spread
3-5 month lead-time

Raw
Latest Value: 1.1

The spread between BAA rated corporate bonds and AAA rated corporate bonds. An increasing spread is indicative of recession as investors move toward more guaranteed returns on AAA bonds.

Source: Prevedere   Data as of 05-2023

Real M2 Money Supply
9-12 month lead-time

3 Period Year over Year
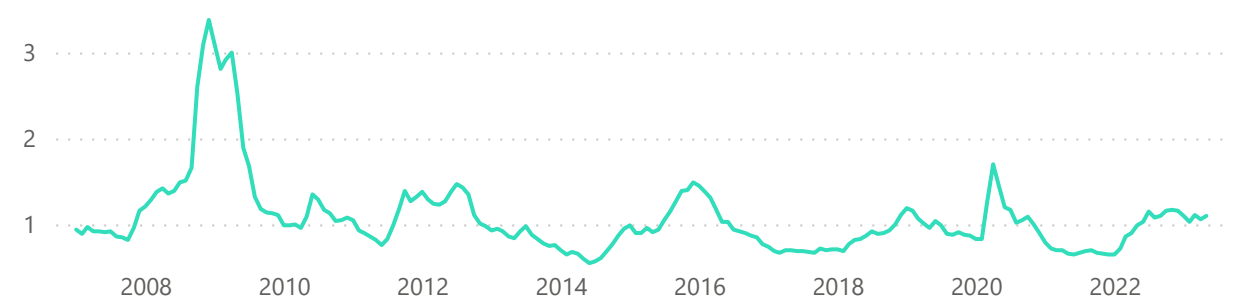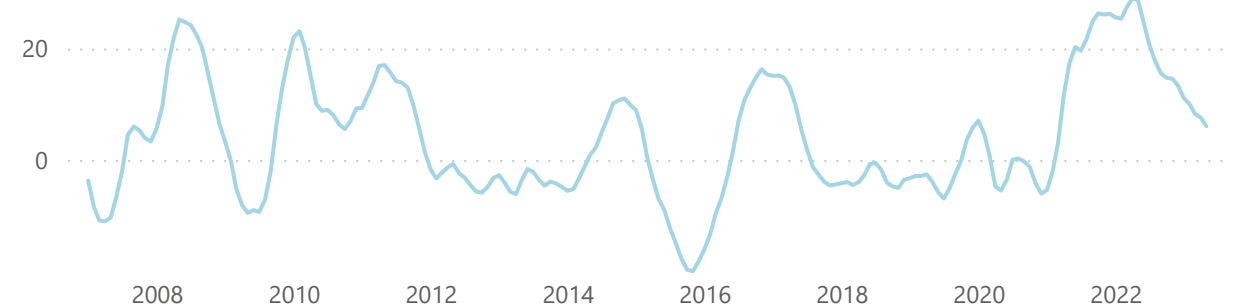Latest Value: -8.5

Inflation adjusted measure of money supply where contraction can be indicative of recession.

Source: Federal Reserve Bank of St. Louis   Data as of 04-2023

Commodity Price Index Data: Raw Material
9-12 month lead-time

3 Period Year over Year
Latest Value: 6.1

Index measuring raw material commodity prices with extreme contraction being indicative of recession.

Source: The World Bank   Data as of 05-2023

MONTHLY TRENDS

How have these indicators changed up or down in the past 5 months.

Indicator	Relationship	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
10-Year Minus 2-Year Treasury Constant Maturity	**Procyclic**	⬇	⬆	⬇	⬇	⬇
Junk Bond Spread	**Countercyclic**	⬆	⬇	⬆	⬇	
Real M2 Money Supply	**Procyclic**	⬇	⬇	⬇		
Commodity Price Index Data: Raw Material	**Procyclic**	⬇	⬇	⬇	⬇	

⬆ Upward pressure on economy

⬇ Downward pressure on economy

Anatomy of the Dashboard

Data grouped by logical categories

We have organized our leading indicators into fours. These categories are meant to be a logical grouping that an economist would look for when studying an industry or an entire economy.

**See the data how our economists see it**

Our economists have determined for the reader what the best frequency and calculation the data should be viewed at if you are looking for real signals of economic change. If you look at data too granularly (such as by the hour, or day) the signal can get lost in the volatility. So we utilize moving averages and growth rates to help isolate sustained trends.

Historical Context

We want to show enough data history, when available, to compare to the "Global Financial Crisis" in 2008-10. This should help a reader visually compare the recent negative movements to prior cases where the indicator showed recessionary or weaker conditions.

Reason for the Indicator

Under each indicator there is a description of why that indicator was chosen by the Economist team as a top indicator to watch.
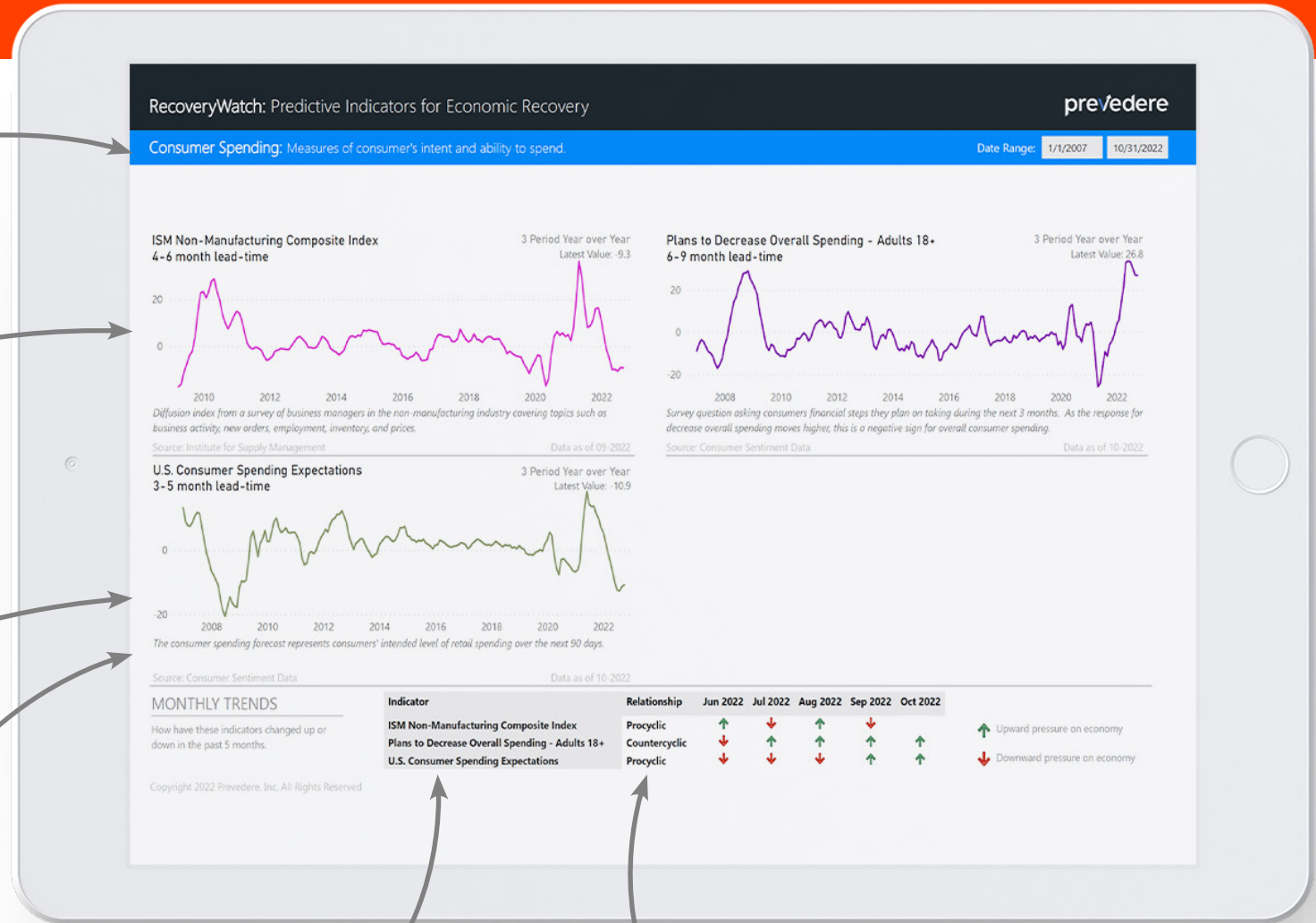
Simple Signal Summary

To simplify the interpretation of the indicators, a table is provided that highlights the data compared to the previous month. If the indicator is signaling improvement from the previous month, then it gets a green arrow.

The Cycle

The Economists know that some indicators may rise, and that signals negative pressure on the economy or industry. We call that a countercyclic relataionship and account for it appropriately in the summary table.

Do you have a scenario planning platform to navigate the current volatile market?

By working with Prevedere's global data, Advanced Predictive Planning platform, and expert in-house economists—your organization can realize both tactical and strategic advantages, including:

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- A new layer of understanding, with data driven predictions, to help drive **supply chain decisions.**

- Ability to attain insights and discover impactful **consumer-level drivers.**

- Ability to attain **CAGRs, market size projections, and other financial metrics** that were previously difficult to produce.

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