U.S. Recession Risk - Weekly Monitor

Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

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Given the growing fears of a recession in the U.S., we provide on a weekly basis our tracking table for recession indicators. The table below shows the current reading and recent momentum of several indicators compared to the ones observed three months before the eight previous recessions. Red indicates that the current reading is worse than any historical episodes while green is better. Both yellow and orange are in the historical range, the former indicating a better situation compared to the median while the latter shows the opposite.

The signal from today's economic dashboard is slightly more pessimistic than in the previous release. Indeed, on the financial data side, the signal from the S&P 500 deteriorated as the index fell slightly. As for soft data, an improvement in CEO confidence was offset by a decline in ISM services. Finally, all hard data updates left the signal of their respective indicators unchanged. This week, financial markets will be closely watching the July CPI report, which is expected on Thursday. We will also receive the preliminary August consumer sentiment report on Friday.

U.S.: Economic and financial indicators 3 months before recessions

As of August 4, 2023

		Last reading	Prior reading*	Published last week?	Value 3 months before U.S. Recessions								Median
					2020	2007-09	2001	1990-91	1981-82	1980	1973-75	1970	
Financial/commodity	S&P 500 (% drawdown from past year max)	-2.4%	0.0%	yes	-1.3%	-0.4%	-13.6%	-7.7%	-5.6%	-7.8%	-13.3%	-14.6%	-7.7%
	BBB spread (increase from past year min, bps)**	8.5	2.0	yes	2.0	46.2	133.8	6.0	0.0	41.0	43.0	23.0	32.0
	Copper price (% drawdown from past year max)	-8.7%	-7.6%	yes	-10.6%	-2.2%	-9.5%	-12.0%	-16.2%	-1.2%	0.0%	-1.6%	-5.9%
	Oil price (% drawdown from past year max)	-14.6%	-18.3%	yes	-16.0%	-4.0%	-31.0%	-21.0%	-4.0%	0.0%	0.0%	0.0%	-4.0%
	U.S. Dollar (% increase from past year min)	1.6%	0.6%	yes	3.1%	0.0%	5.3%	8.3%	12.5%	4.5%	1.4%	NA	4.5%
	Yield curve (10-year minus 3-month, bps)	-138	-147	yes	26	77	-76	98	-62	-127	-157	35	-18
Soft data	Consumer sentiment (Michigan)	71.6	64.4	no	99.3	80.9	94.7	90.6	76.3	63.3	72.0	86.4	83.7
	SME optimism	91.0	89.4	no	102.7	96.1	96.4	99.4	97.4	93.3	NA	NA	96.9
	CEO confidence (quarterly data)	48.0	42.0	yes	43.0	44.0	31.0	48.0	61.0	32.0	NA	NA	43.5
	ISM manufacturing	46.4	46.0	yes	47.9	52.8	42.3	49.5	53.5	48.0	63.5	54.6	51.2
	ISM services	52.7	53.9	yes	55.7	53.5	52	NA	NA	NA	NA	NA	53.5
Hard data	UI Claims 4-week ave. (% increase from past year min)	20%	23%	yes	6%	8%	26%	6%	2%	20%	12%	10%	9%
	Temp. help services jobs (% drawdown from past year max)	-5.4%	-4.7%	yes	0.0%	-3.2%	-4.3%	NA	NA	NA	NA	NA	-3.2%
	Average hours worked (% drawdown from past year max)	-0.9%	-0.9%	yes	-0.9%	-0.3%	-0.6%	-0.9%	-0.3%	-0.6%	-0.5%	-0.8%	-0.6%
	Building permits (% drawdown from past year max)	-15%	-12%	no	-5%	-27%	-2%	-39%	-21%	-30%	-30%	-19%	-24%
	Real consumption (3-month, % ann)	2.9%	1.2%	no	1.3%	2.4%	2.3%	1.8%	-0.1%	0.7%	4.1%	6.4%	2.1%

*Previous Friday for financial data, previous month for hard and soft data (quarter for CEO confidence)

** As of Thursdays

NBF Economics and Strategy (data via Refinitiv, Bloomberg)

As the market closed last Friday, the signal from the financial/commodity indicators was slightly worse than the previous reading. The deterioration stemmed from a decline in the S&P500, which fell from the annual peak it had reached in the prior week. Similarly, corporate spreads, the price of copper and the U.S. dollar deteriorated compared to the previous week, but their signal was left unchanged. Meanwhile, the slope of the yield curve flattened further while the price of oil increased, but that also did not affect these indicators' respective signals.

On the soft data side, CEO confidence improved above the median level historically seen prior to a recession. We also got an updated reading on ISM manufacturing, which improved as well although it remained in contraction and below its median historical pre-recession level. The ISM services, on the other hand, slipped in the month and its signal consequently turned a shade more pessimistic than its previous reading. There were no other updates as of last Friday. In the latest news, both consumers and small businesses reported higher confidence than in their previous reading, but their level of optimism remained subdued.

On the hard data front, the 4-week average of unemployment claims declined last week, but that did not impact this indicator's signal. We also got July's employment numbers last Friday, which continued to show early signs of deceleration. Indeed, average hours worked of production employees remaining below their median reading historically seen prior to a recession, while temporary help services jobs slipped further below their worst historical pre-recession reading. There were no other updates as of last Friday. As of the latest news, June's real consumption came in stronger than its prior reading on a three-month annualized basis, while building permits showed a sharper decline from their one-year peak than the month before.

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