# The Metrics Behind an Official NBER Recession

**Troy Ludtka**
Senior US Economist
SMBC Nikko

(212)-224-5483
Troy.Ludtka@smbcnikko-si.com
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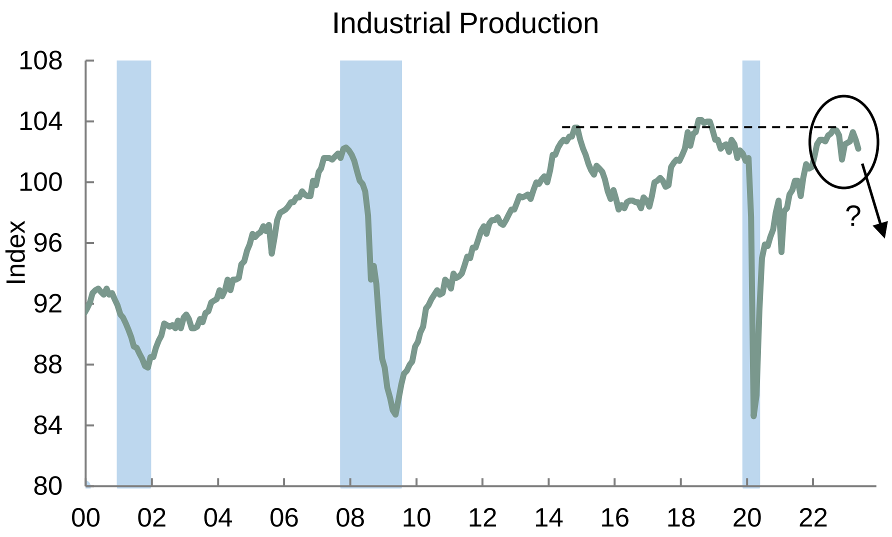
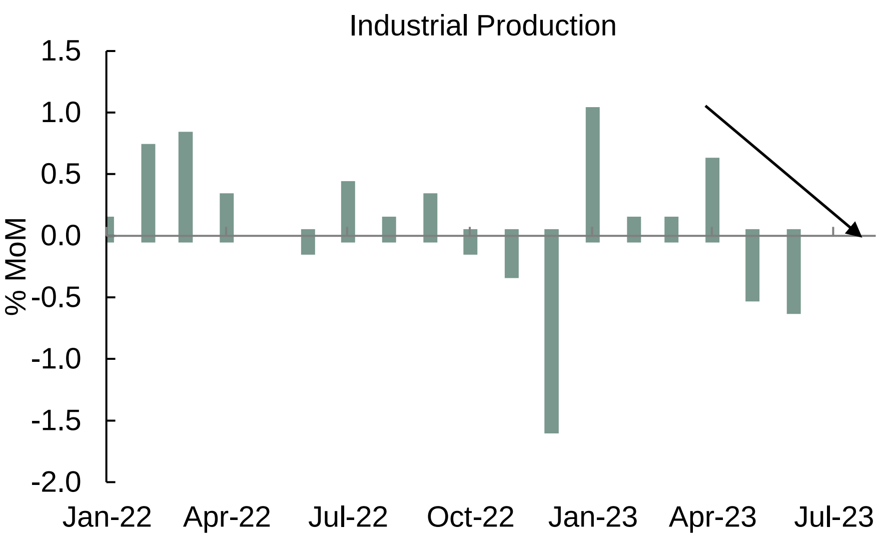
# Introduction

**The National Bureau of Economic Research, an independent body of academic economists, is the ultimate arbiter of recessions and their start- and end-months. Although they judge this call based on the trajectory of many data series, we isolate the five most important parameters typically indicating recession: <u>industrial production, real retail sales, real personal consumption, employment</u> (two measures), and <u>real market-driven incomes</u>. By their own admission, the "two measures [we] put the most weight on are real personal incomes less transfers and nonfarm payrolls." This is important to keep in mind with leading economic and financial market indicators foretelling of recession, and measures of economic growth such as Real Gross Domestic Income having *declined* 0.8% YoY.**

# Industrial Production

**Industrial production seems to have topped in Q3 2022. Beginning Q4 2022, industrial production saw a string of declines before a short-lived recovery to start 2023. However, we have again printed consecutive declines (-0.5% in May, -0.6% in June). Other data covering the sector (ISM and regional Fed data) also show manufacturing in recession. Slowing production means weaker jobs, hours and incomes. History tells us that industrial production has much further to fall in the event of recession. This indicator is on its way there!**

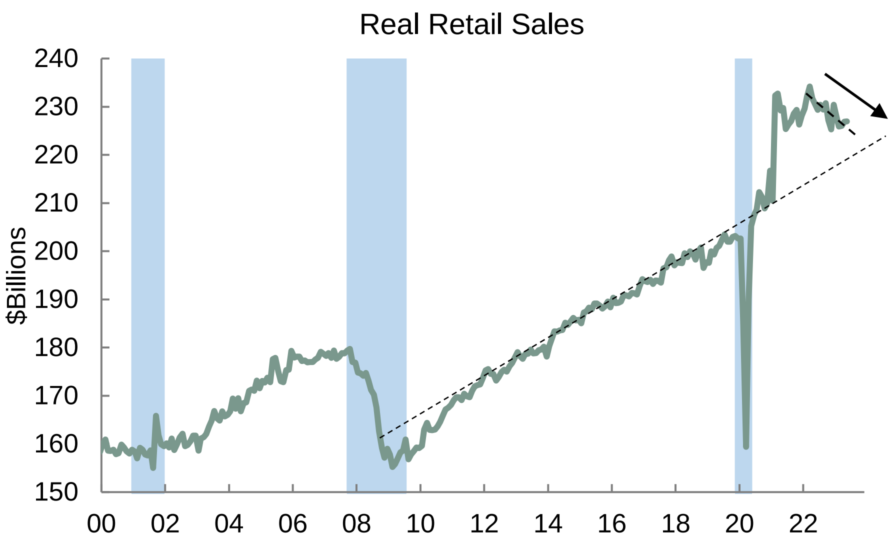


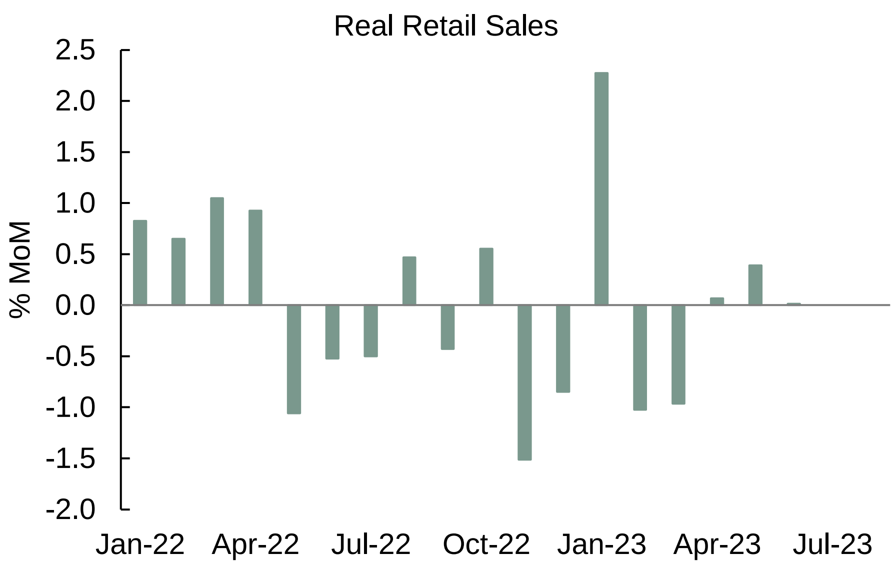




Sources: Federal Reserve, Haver, SMBC Nikko

# Real Retail Sales

**Inflation-adjusted retail sales continue to deteriorate. Since topping out at $234B in April 2022, they have declined 3.1% — the weakest since November 2009. Although still far above trend, we are nearing recessionary territory in this respect. Tightening credit and soft real incomes are biting. This one is heading in a recessionary direction too!**

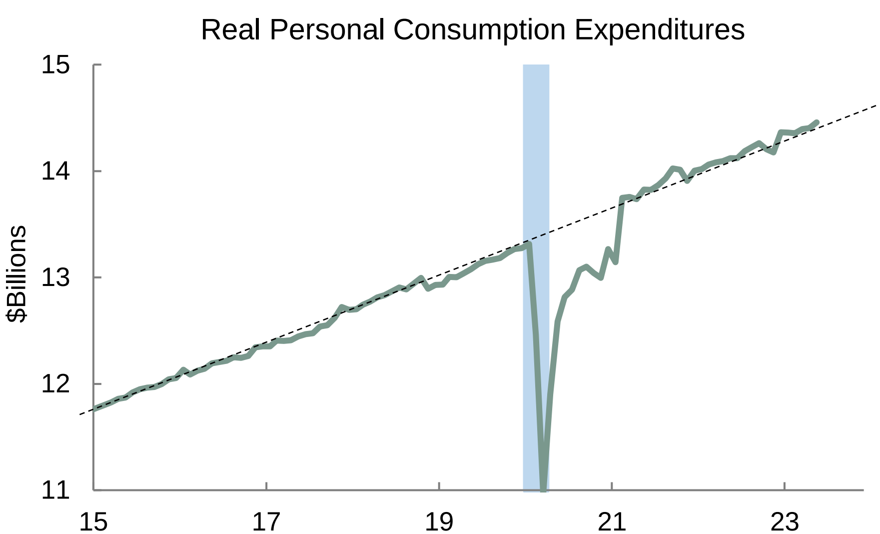


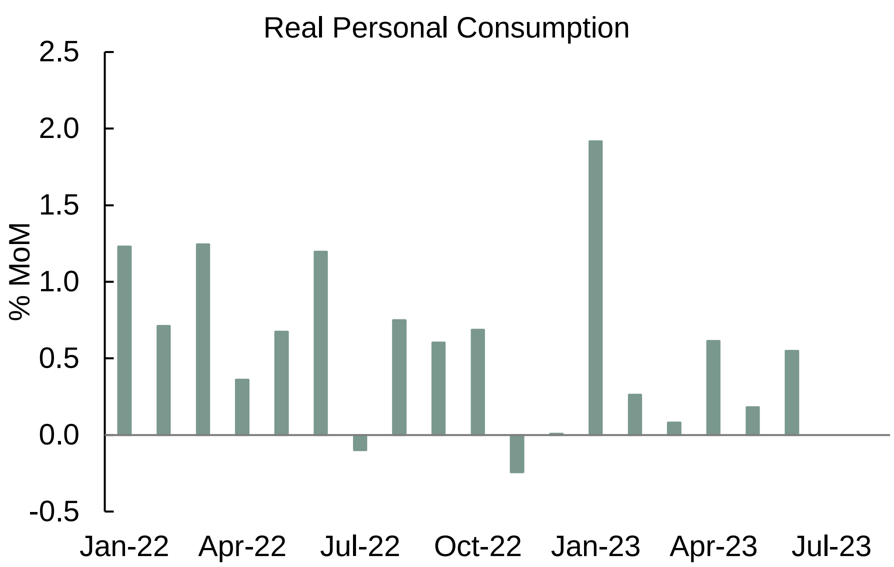




Sources: Census, BLS, NBER, Haver, SMBC Nikko

# Real Personal Consumption

**<u>Real personal consumption</u> (inflation adjusted personal spending) as measured by the BEA, <u>has remained buoyant</u> year-to-date, up 4.0% annualized in 2023. In this respect, we are still right on trend. Goods spending, particularly for interest rate sensitive durable goods, has actually *accelerated* following weakness in Q4 2022. Durable goods spending is now up 6.3% year-to-date annualized, bucking the continued up-move in interest rates. Services spending has also remained robust, as of June. Not seeing a recessionary signal here yet.**

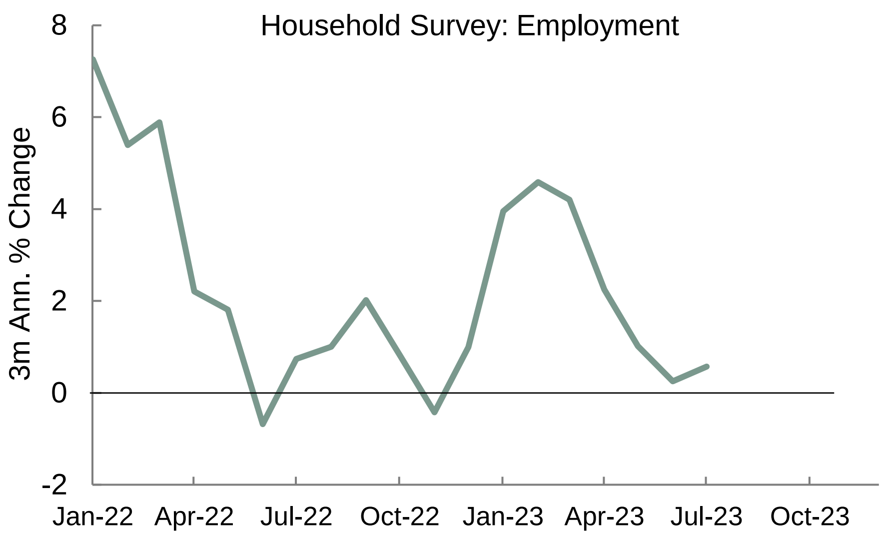


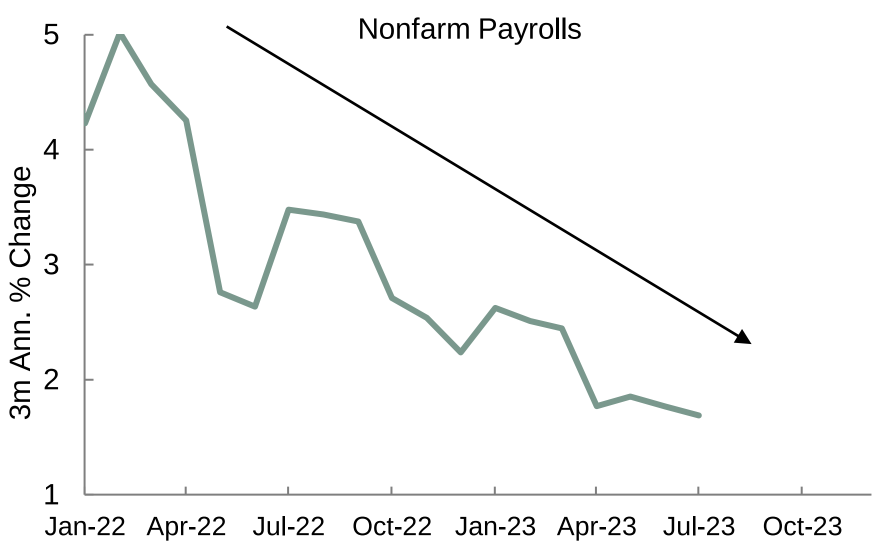




Sources: BEA, NBER, SMBC Nikko

# Employment Growth

**The NBER looks across two measures of payrolls when dating recessions: employment growth according to the BLS' survey of households (left) and the establishment survey of firms (right). Both measures are showing job additions slowing sharply, especially as judged by the establishment survey, which is now adding just 1.7% on a three-month annualized basis. We are moving in the recessionary *direction* in the sense that job growth is steadily slowing. Our preferred leading indicators for jobs are mixed. 1) Manufacturing overtime hours have trended flat this year following a sharp deterioration in 2022. 2) Temporary hiring has declined 4.7% on a year-over-year basis. 3) Construction hiring is still strong growing 2.6% YoY, likely reflecting record new home construction. No recession here yet although we are heading in that direction.**




Sources: BLS, Haver, SMBC Nikko



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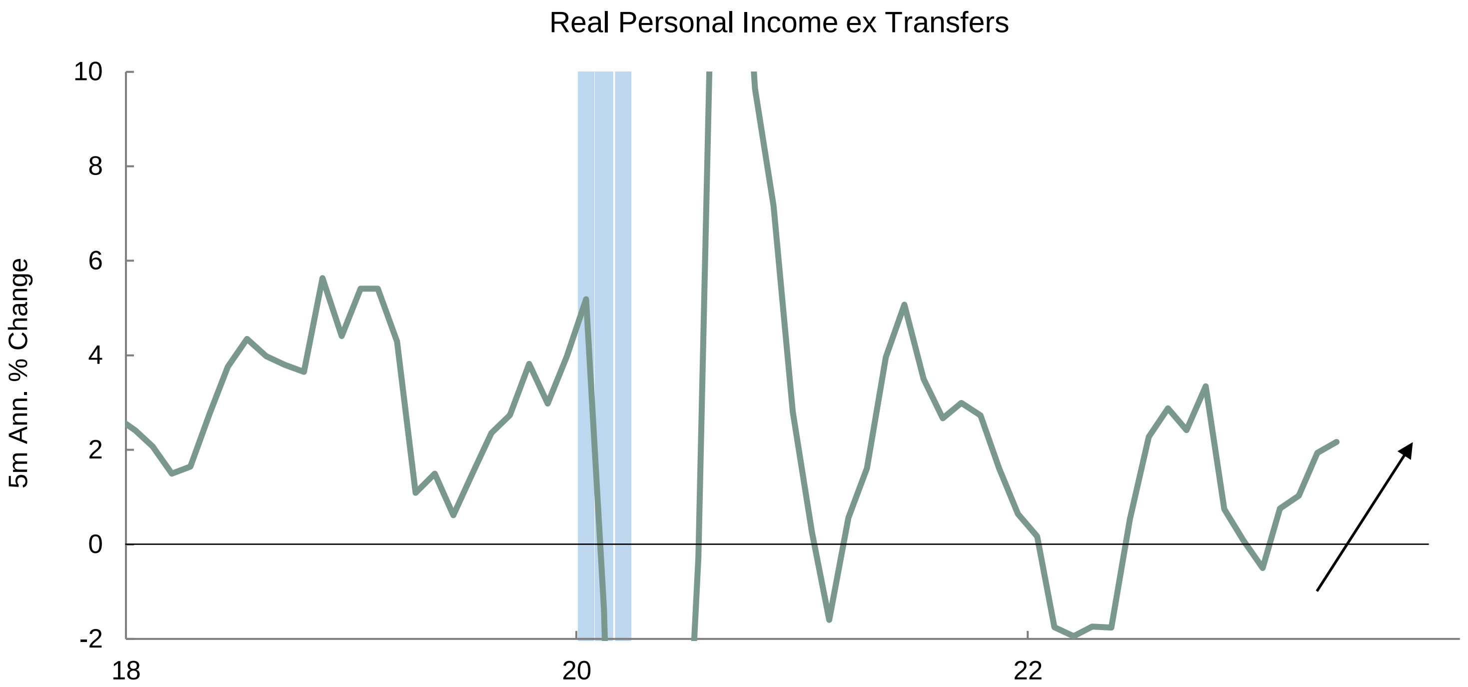
# Real Personal Incomes Less Transfer

**<u>Real personal income less government transfers</u> is another measure of labor market strength. Due to inflation's continued comedown, <u>this series has shown rapid *improvement*</u> since late 2022. Year-to-date, this measure of market incomes is up 2.1% annualized. Inflation's comedown and the strong Q2 productivity numbers are tailwinds. No recession signal here yet.**




Sources: BEA, NBER, Haver, SMBC Nikko

# Conclusion

**In sum, industrial production and real retail sales are only beginning to flash recessionary signals while job growth is steadily softening. Real PCE and real incomes less transfers both remain sturdy. We are expecting these indicators to weaken as growth deteriorates and firms are increasingly faced with a Hobson's choice of paying creditors/operational investment or cutting headcount. Forward looking indicators continue to support the recession thesis. <u>The bottom line is that until the unemployment rate ticks up at least 50 basis points, and incomes and PCE decline, do not expect the NBER to date any recession.</u>**

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