Understanding the Economic Pulse: August 2023 Update

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As we step into the last stretch of 2023, it's crucial to keep a finger on the economic pulse. An insightful way to grasp the state of the U.S. economy is through the U.S. Leading Economic Index (LEI), a pivotal tool designed to forecast future economic shifts. The LEI is essentially a composite index, a concoction of various economic indicators, offering a glimpse into the potential trajectory of the economy.

According to BVR's Economic Outlook Update for August 2023, the LEI has continuously fallen for almost one and a half years. This decline raises significant flags regarding the economy's future growth and may indicate a possible recession.

Several contributing factors played a role in this decline:

1. High interest rates and tight credit conditions
2. A weaker New Orders Index
3. A drop in consumer outlook regarding business conditions

High Interest Rates

During its July meeting, the Federal Open Market Committee (FOMC) opted to increase the target range for the federal funds rate by 25 basis points, establishing a new range of 5.25% to 5.50%. This decision reflects the ongoing efforts to navigate the economic currents and maintain a balance. However, it is worth noting that the FOMC decided not to increase rates at its September meeting, but indicated the possibility of further hikes before the end of the year remains.

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Weak Manufacturing Orders

The New Orders Index is a significant economic indicator used to assess changes in orders placed with manufacturers. It is a component of various purchasing managers' indices (PMIs) and is commonly associated with the manufacturing sector. An increase in new orders often signifies growing demand, economic expansion, and potentially higher production levels in the manufacturing sector.

According to BVR, of the six largest manufacturing industries, only three showed signs of growth in August (transportation equipment; food & beverage; and petroleum and coal products). Only one of the other 18 manufacturing industries reported new order growth in August while nine reported a decline.

Lower Consumer Confidence

Consumer sentiment, an integral aspect of economic health, took a noticeable hit in August. The Consumer Confidence Index and the Thomson Reuters/University of Michigan's Consumer Sentiment Index witnessed a substantial decrease. This decrease is indicative of deteriorating assessments of current conditions and a cautious outlook toward the short-term economic future.

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The Positives

While the economic landscape may seem challenging, there are still positive signs. Retail sales increased in August by 187,000, showcasing consumer spending strength, a crucial component of economic growth. Moreover, job growth was witnessed, albeit with a slight increase in the unemployment rate. It is worth noting that job growth was lower in September at 170,000 jobs added.

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Mixed Signals

In summary, August 2023 has presented a mixed bag of economic updates. The U.S. Leading Economic Index decline raises concerns about potential economic contraction, urging stakeholders to navigate cautiously. Policymakers, economists, investors, and small business owners are keeping a watchful eye on these indicators, recognizing the critical need for informed decisions in these dynamic economic times.

Understanding the intricacies of these economic indicators is essential for anyone seeking to comprehend the broader economic landscape. The U.S. Leading Economic Index serves as a valuable tool in this endeavor, offering insights into the future trajectory of the economy. As we progress through the remainder of the year, staying informed and adapting to these economic shifts will be key to successfully weathering the challenges and capitalizing on the opportunities that lie ahead.