Economic Update

November 21, 2024

Leading Economic Index Fell Again in October But Met Expectations

- **The Conference Board's Leading Economic Index (LEI) decreased 0.4% month-on-month in October, spot on with the consensus forecast. The LEI has fallen for eight months in a row, pointing to weaker economic growth in the near term.**
- **The year earlier growth rate improved to -4.2%, the smallest decline since October 2022. Nonetheless, the LEI has fallen annually for 28 consecutive months.**
- **Six of the 10 components declined, one was flat, and three rose.**
- **PNC expects the Federal Open Market Committee to cut the fed funds rate by 25 basis points in December with four identical decreases in the first half of next year, putting the fed funds rate in the range of 3.25-3.50% by mid-2025.**

The Conference Board's Leading Economic Index (LEI) fell 0.4% in October, in line with the consensus forecast but down from the upwardly revised 0.3% drop in September (was previously -0.5%). The LEI has fallen for eight consecutive months, pointing to weaker near-term economic growth. Six of the 10 components declined, three rose, and one was flat. ISM New Orders (-0.18%), Average Weekly Hours Manufacturing (-0.12%) and the Interest Rate Spread (-0.09%) contributed the most to the drop. The largest increases were in the S&P 500 Stock Index (+0.12%) and the Leading Credit Index (+0.05%). Despite the larger month-on-month decline, the year-ago drop improved to -4.2%, the smallest since October 2022. Nonetheless, the LEI has declined year-on-year for 28 months in a row. The LEI has been signaling economic weakness for more than two years, but the U.S. economy continues to perform well.

The Conference Board's Coincident Economic Index (CEI) was unchanged for a second month in a row in October. The CEI's components - payroll employment, personal income less transfer payments, manufacturing and trade sales and industrial production - are included in the data to determine U.S. recessions. Personal income less transfer payments and manufacturing and trade sales made positive contributions. There was a drop in industrial production, in part because of the Boeing machinists strike and Hurricanes Helene and Milton, while payroll employment was unchanged.

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The Conference Board's Lagging Economic Index (LAG) dipped 0.1% in October following a 0.3% drop in September. The LAG's six-month growth rate was -0.8% between April and October 2024, a notable deterioration from a 1.2% increase over the previous six months.

PNC's outlook for the federal funds rate is the same as it was in October, before the presidential election. This includes a 25 basis point cut in the fed funds rate at the Federal Open Market Committee's December 18 meeting, which would bring the rate down to a range of 4.25% to 4.50% at the end of 2024. PNC then expects 25 basis point cuts in the fed funds rates at each of the FOMC's four meetings in the first half of 2025. This would bring the rate down to a range of 3.25% to 3.50% by mid-2025, with the fed funds rate then expected to remain in that range. However, risks to this fed funds rate forecast are to the upside.

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