

Conference Board Leading Economic Index Falls Again in September

- The Leading Economic Index (LEI) fell 0.5% in September, well below the expected decline of 0.3%.
- The LEI has declined for seven consecutive months, pointing to slower economic growth over the near term.
- Four of the 10 components declined, led by the ISM New Orders Index and the Interest Rate Spread, while the largest increases were in the S&P 500 Stock Index and Average Weekly Unemployment Insurance Claims.
- Despite the larger-than-expected decline, the year ago growth rate improved slightly to -4.9% from -5.1%.
- PNC expects the Federal Open Market Committee to lower the fed funds rate by 25 basis points at the two remaining meetings this year with four more identical rate cuts next year.

The Conference Board Leading Economic Index (LEI) declined 0.5% in September following a 0.3% decrease in August. The decline was the seventh in a row and was nearly double PNC's forecast of -0.3%. Four of the 10 components declined, led by the ISM New Orders Index (-0.20%) and the Interest Rate Spread (-0.18%). There were more modest decreases in Building Permits (-0.09%) and Consumer Expectations for Business Conditions (-0.07%). The biggest increases were in the S&P 500 Stock Index (+0.11%) and Average Weekly Unemployment Insurance Claims (+0.04%). Over the six-month period from March through September 2024, the LEI slipped by 2.6%, more than the 2.2% decline over the previous six-month period, even as economic growth has remained good. In general, the LEI is consistent with our forecast for slower economic growth over the next six months. Despite the larger-than-expected decline, the year ago growth rate improved to -4.9% from -5.1%, the slowest rate of decline since June (also -4.9%).

The Conference Board Coincident Economic Index (CEI) climbed 0.1% in September following a 0.2% increase in August. Payroll employment, personal income less transfer payments, and manufacturing and trade sales contributed positively to the CEI in September, more than offsetting a decline in industrial production. The Conference Board Lagging Economic Index (LAG) decreased 0.3% in September following an unchanged reading in August. The LAG's six-month growth rate

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declined 0.2% over the six-month period ending in September 2024 following a 1.1% rise over the prior six months.

PNC is forecasting real GDP growth to slow to an annualized pace of 2.0% in the third quarter from a solid reading of 3.0% in the second quarter. Growth is expected to remain softer through the first half of 2025 before accelerating slightly as lower interest rates begin to kick in and become supportive of accelerating growth. Indeed, PNC expects the Federal Open Market Committee to lower the fed funds rate by 25 basis points at each of the two remaining meetings this year with four more identical rate cuts next year, bringing the fed funds rate down to 3.25%-3.50% by mid-2025.

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