

March 3, 2025

Weekly Market Commentary

Recession watch? Not yet.

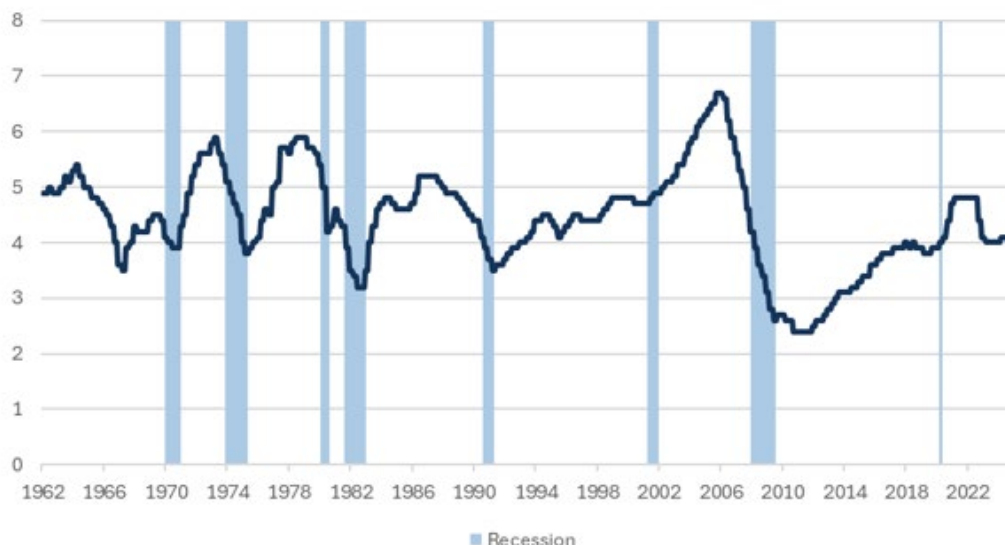


By Michael Crook, Chief Investment Officer

In 2007, economist Ed Leamer published an article titled "Housing IS the Business Cycle." Compared to the generally impenetrable writing common in academia, his lead sentence was about as straightforward as could be: "Of the components of GDP, residential investment offers by far the best early warning sign of an oncoming recession."

Residential investment isn't flashing a warning sign at the current time (Fig. 1), but it is released quarterly with a one-month lag, which makes using it to identify sharp turning points challenging.

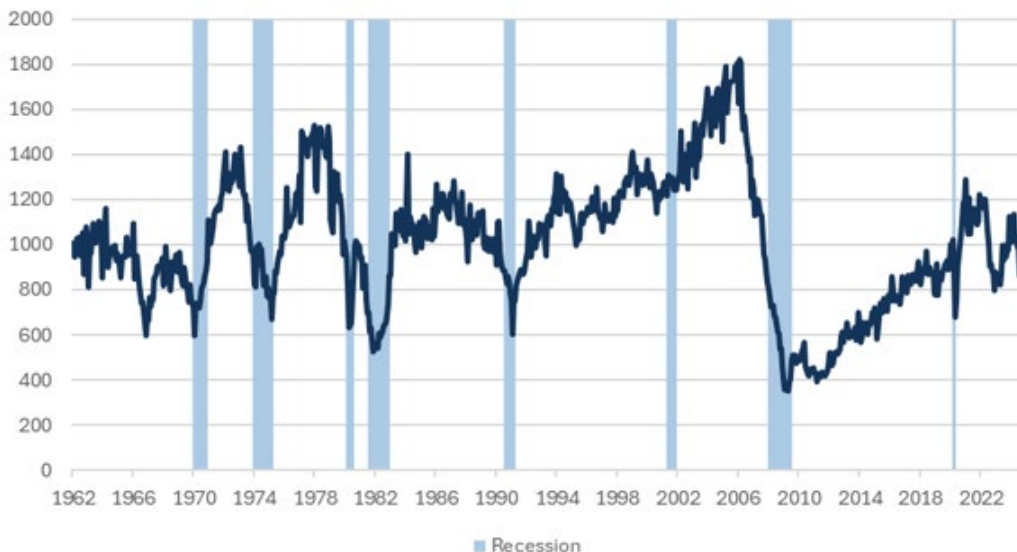
Fig. 1: Residential Investment, percentage of GDP



Source: Bloomberg, Mill Creek.

However, housing starts, which are reported on a monthly basis, tend to follow coincidentally with residential investment. Whenever housing starts fall 30% or more from its recent peak, we generally experience a recession (Fig. 2). Housing starts are currently down about 4% from its high over the last 24 months, which is nowhere near a decline commensurate with a forthcoming recession.

Fig 2: New Home Starts (thousands)



Source: Bloomberg, Mill Creek.

There are caveats to any forecasting model, and Fig.2 illustrates two false positives and one false negative. The false positives were 1966 (the Vietnam wartime economy kept the economy out of recession) and 2022 (a decline in starts that was a slowdown from the COVID boom). The false negative was the mild recession that followed the dot-com bust.

We're not myopically focused on residential investment as a guide to this cycle. Heavy truck sales are also a good leading indicator (Fig. 3), and aggregate income growth, which continues to grow at 4-5% annually, might be the most important baseline indicator of consumer health. Neither gives us pause about the state of the economy at this juncture.

Fig. 3: US Heavy Truck Sales (millions, seasonally adjusted annual rate)



Source: Bloomberg, Mill Creek.

To sum it up - what is economic data telling us right now? That it's premature to be concerned about a US recession.

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