RecessionALERT.com
Advanced warning for professionals

SIX-FACTOR LEADING LABOR MARKET GROWTH INDEX
(USLMGI)

The Labor Market Growth Index (LMGI) is a weighted composite of six labor-market related measurements provided by the Bureau of Labor Statistics (BLS), normally within the first week of the month. The data represents the prior month. Each of the six indicators chosen have been found to be very reliable in describing and predicting the turning points in the U.S economic cycle as marked out by the National Buro of Economic Research (NBER).

The LMGI provides a view on U.S economic growth & turning points purely through the lens of labor market data. It provides robust & accurate economic growth measurement & warnings of potential turning points in the economy. It also serves as an authoritative, at-a-glance representation of general U.S labor market conditions .One of the major advantages of the LMGI is all six of its components are published right at the beginning of each month, giving us a *much earlier comprehensive view of the U.S economy* than other composite indicators that are made up of data released throughout the course of a month.

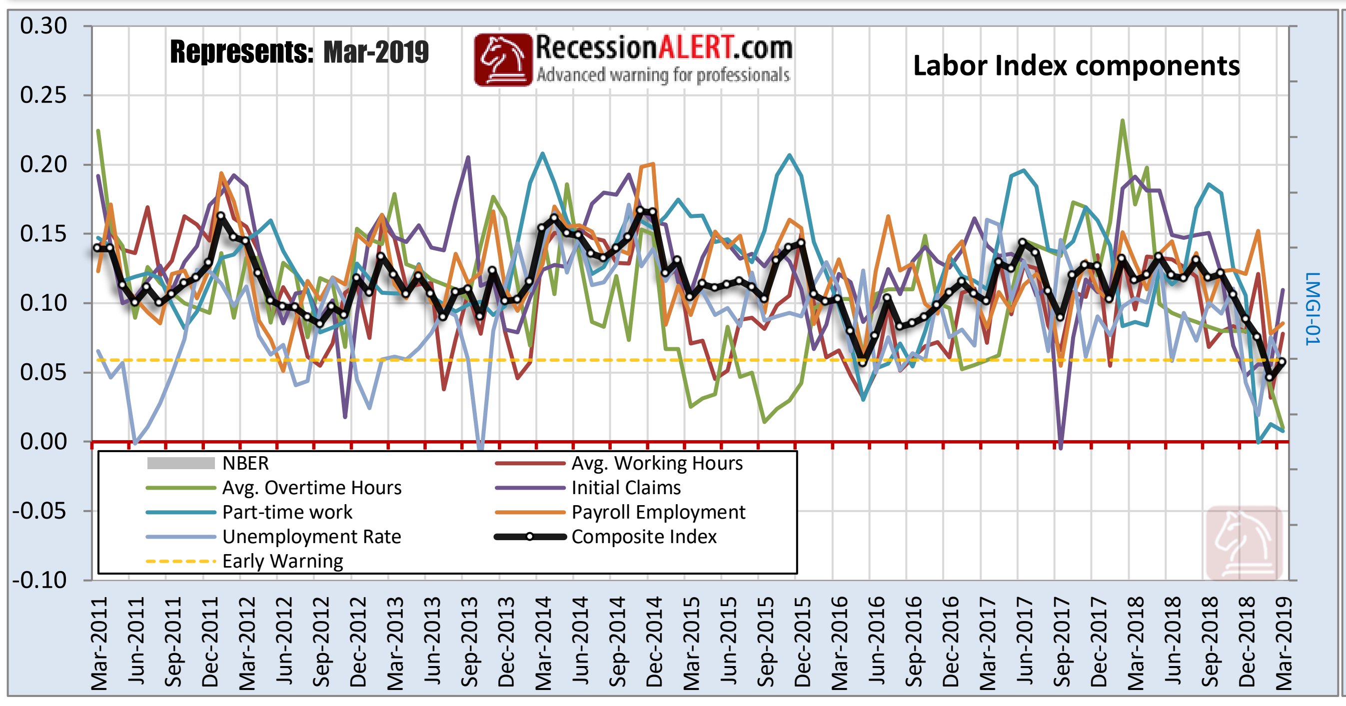
The growth rates used for the various LMGI components are proprietary, but have been optimised to maximise each indicators' NBER recession dating capability whilst minimising false positives & false negatives and providing rapid detection of directional changes in the underlying data that forewarn of approaching turning points. Whilst each of the six indicators ' growth rates are respectable descriptors of U.S expansions and contractions, the composite LMGI out-performs each of them individually. The weights of the various labor market indicators used in the construction of the LMGI are indicated on the respective charts below.

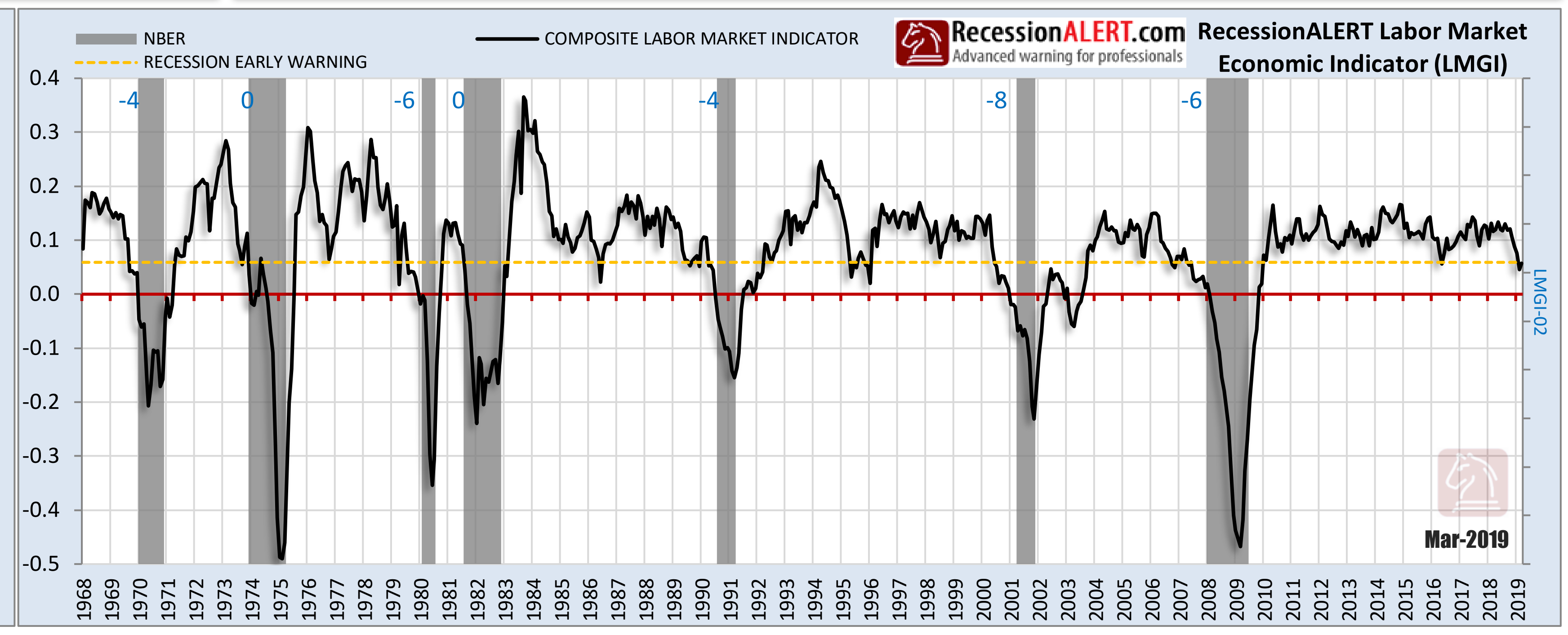
There are two recession triggers provided for the LMGI. The first, indicated by the dashed amber line in the below chart, is an advance recession warning that provides leads to NBER recession indicated by the little blue numbers at the top of the chart. A "-3" indicates 3 month lead, "+1" indicates a 1-month lag and "0" indicates a co-incident recession signal. A signal generated by two consecutive LMGI readings below this threshold *eliminates any previous false positives* (false alarms). The red solid horizontal line at the zero level provides for a co-incident recession signal.

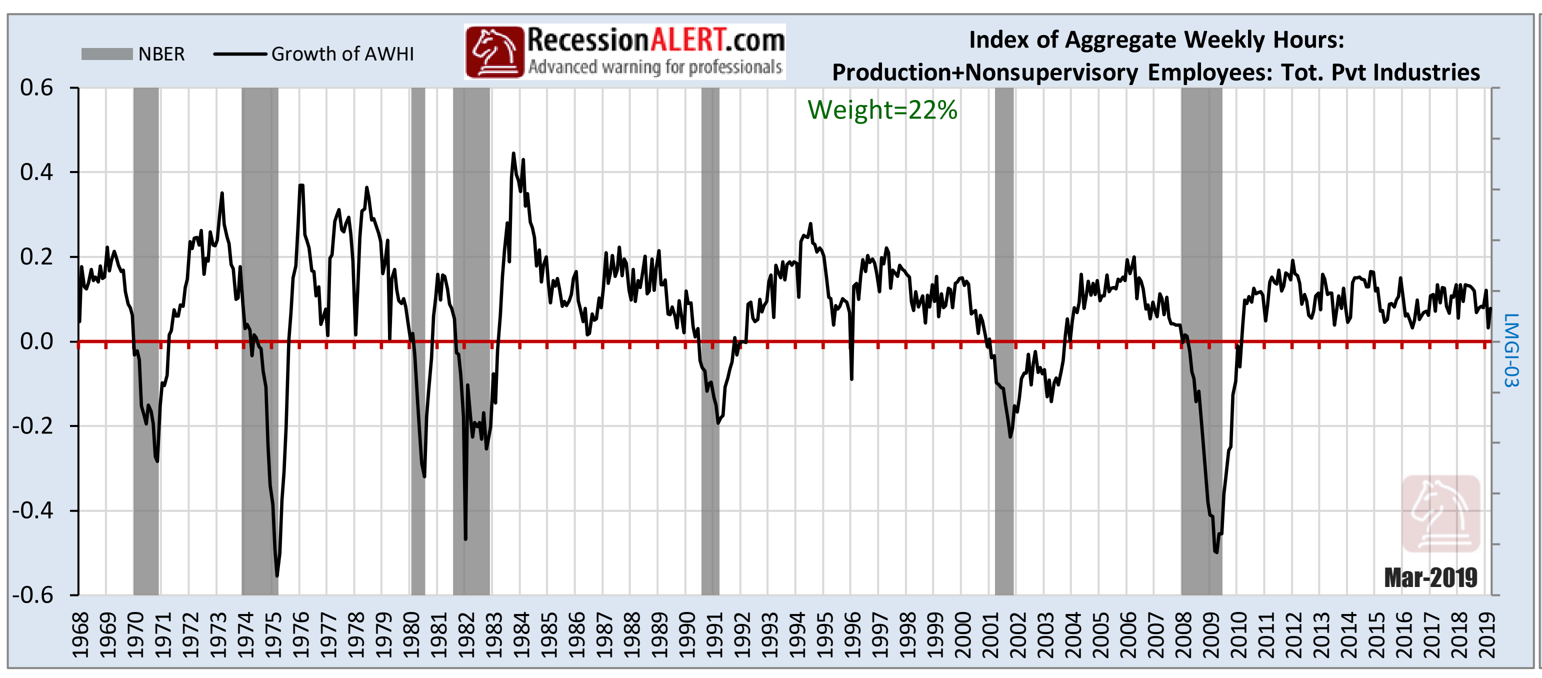
We also track a Recession Diffusion Index at the bottom of the report which shows how many labor-market indicators are at recessionary levels. When this gets to 4 or more, recession risks escalate dramatically. When 3 consecutive months pass with a reading of 4 or more, recession probabilities are virtually certain (100%).

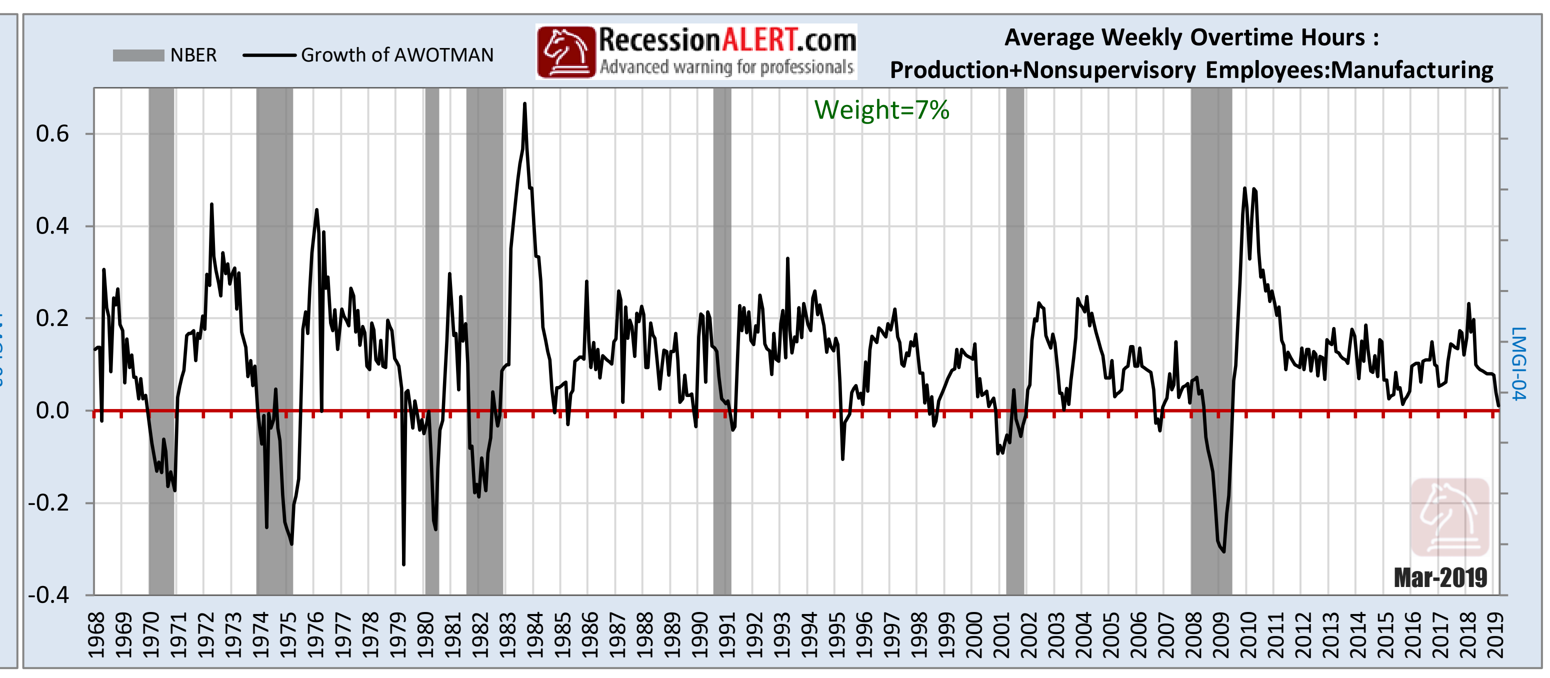
The last chart is the Implied Recession Probability which uses the six labor market component growth rates together with stylized facts about the Recession Diffusion Index to determine precise mathematical probability of currently being in a recession. Readings above 0.27 provide recession warning whilst those above 0.6 virtually guarantee recession with zero historical false positives.

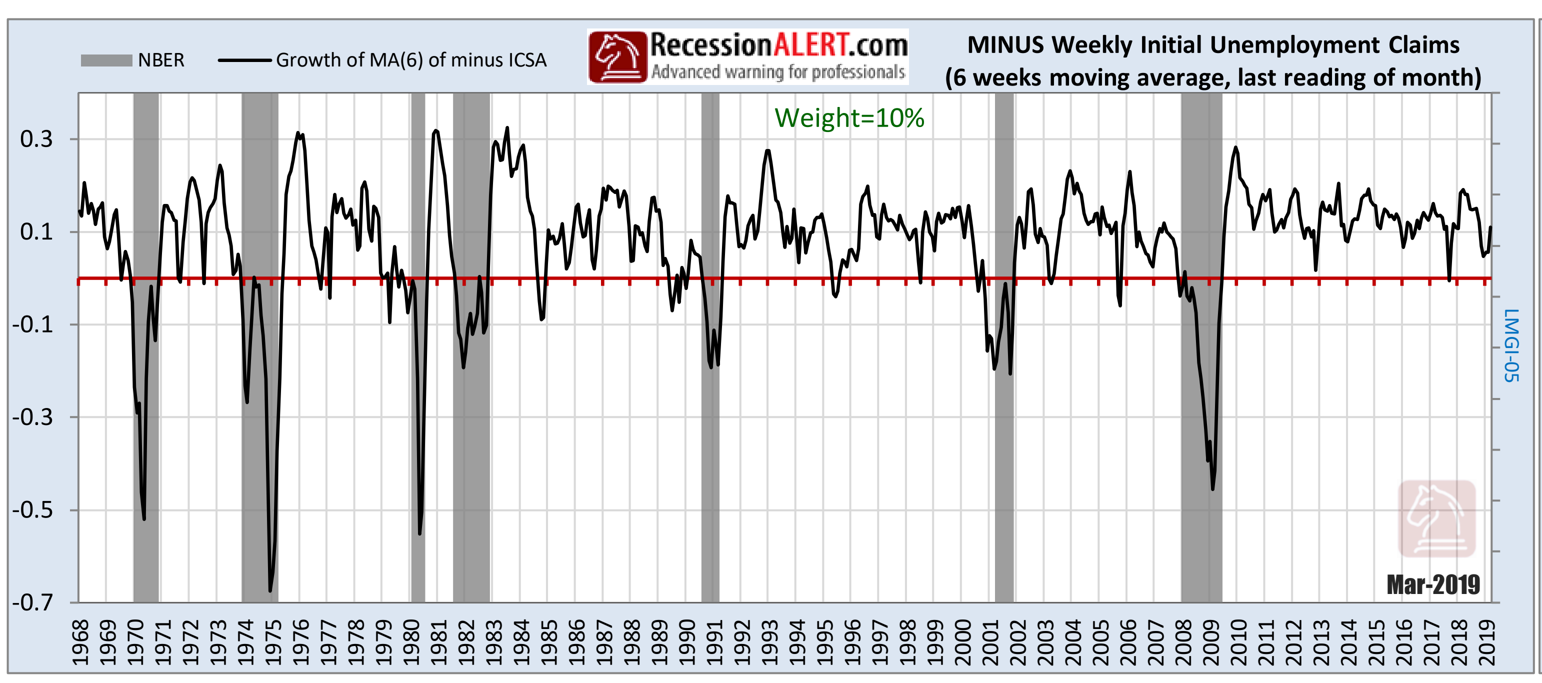
For best reading, select **VIEW-->ZOOM-->FIT VISIBLE**
(or hit Control-3 on keyboard)

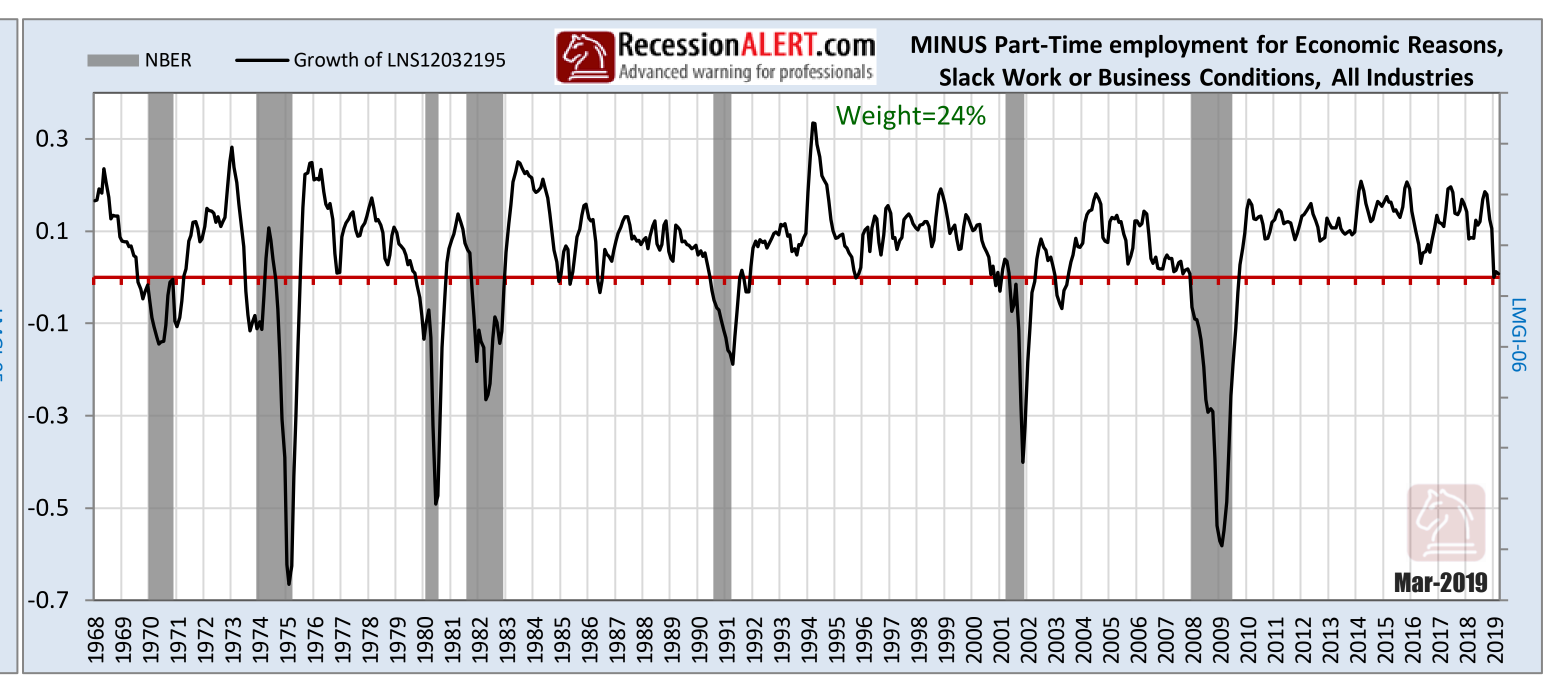


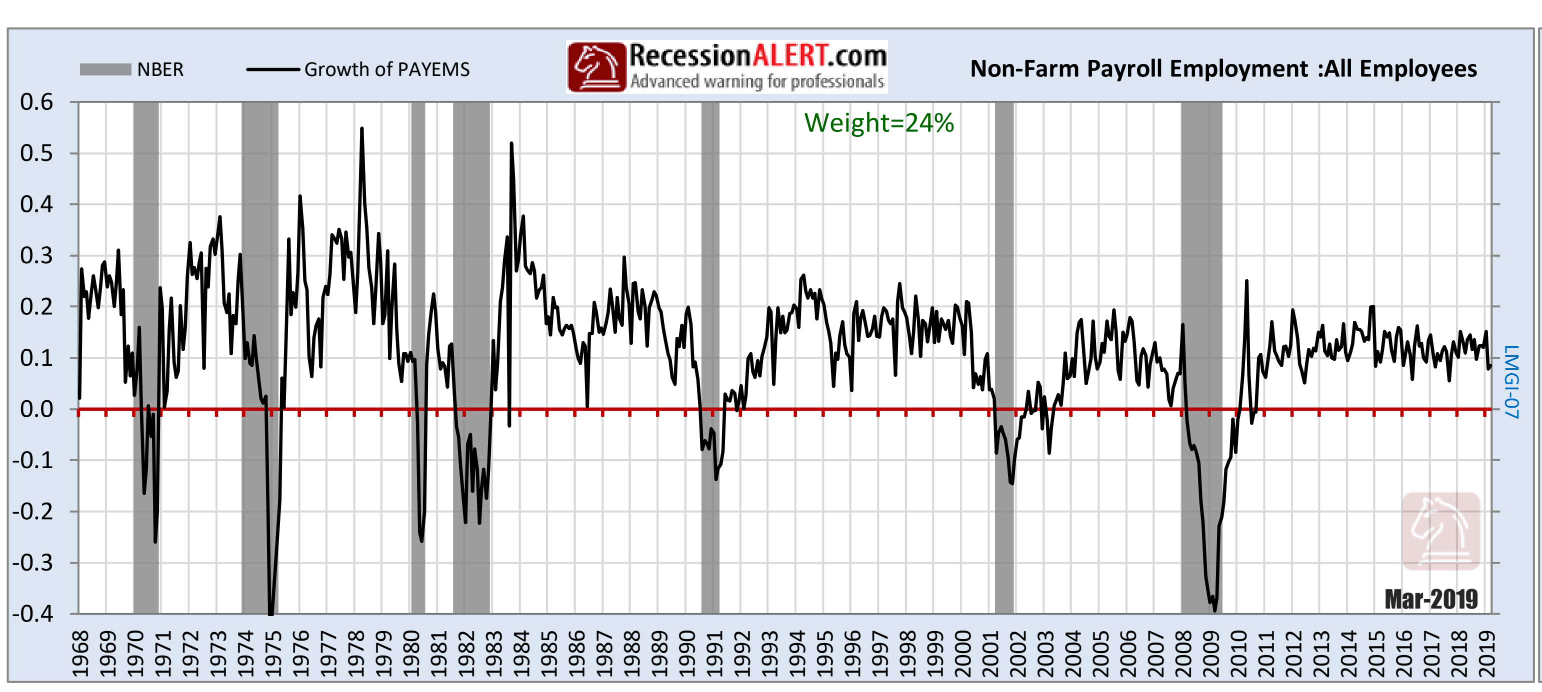


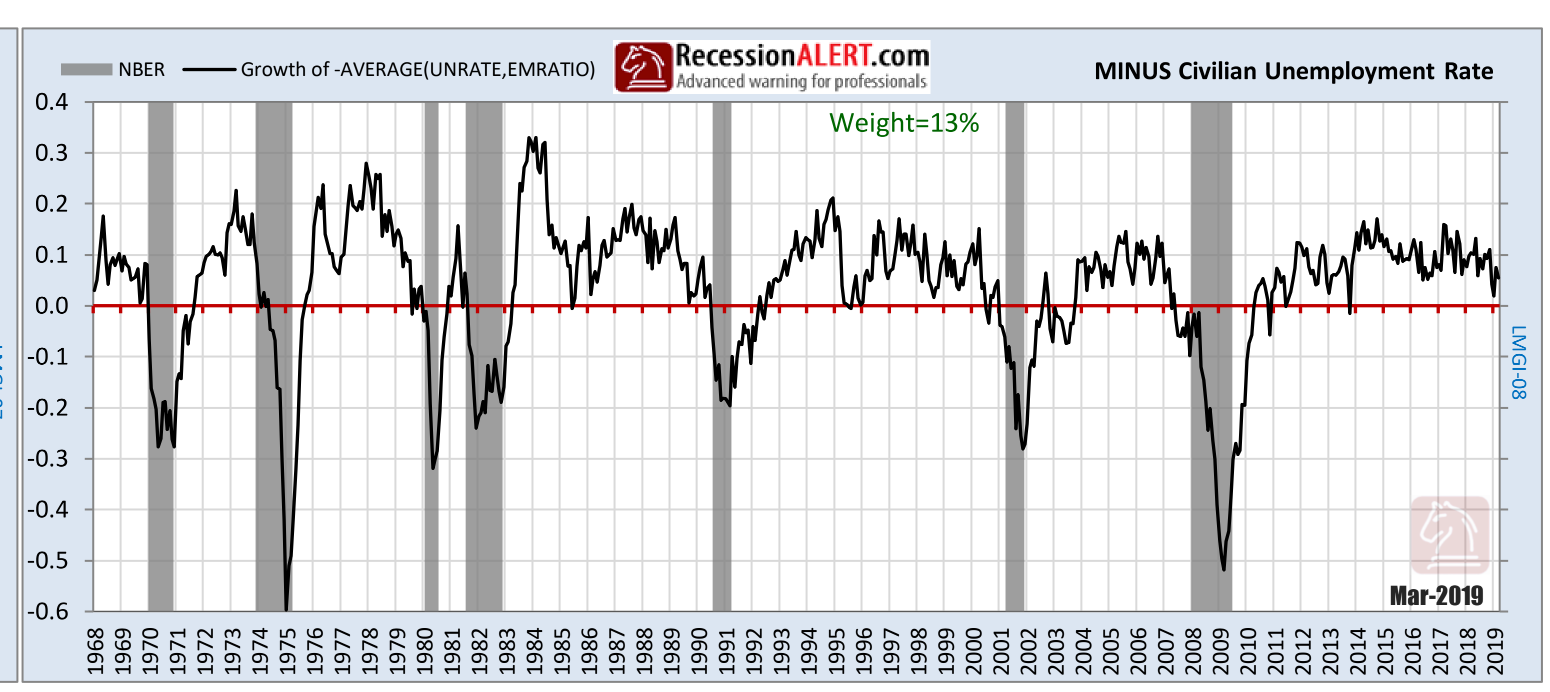


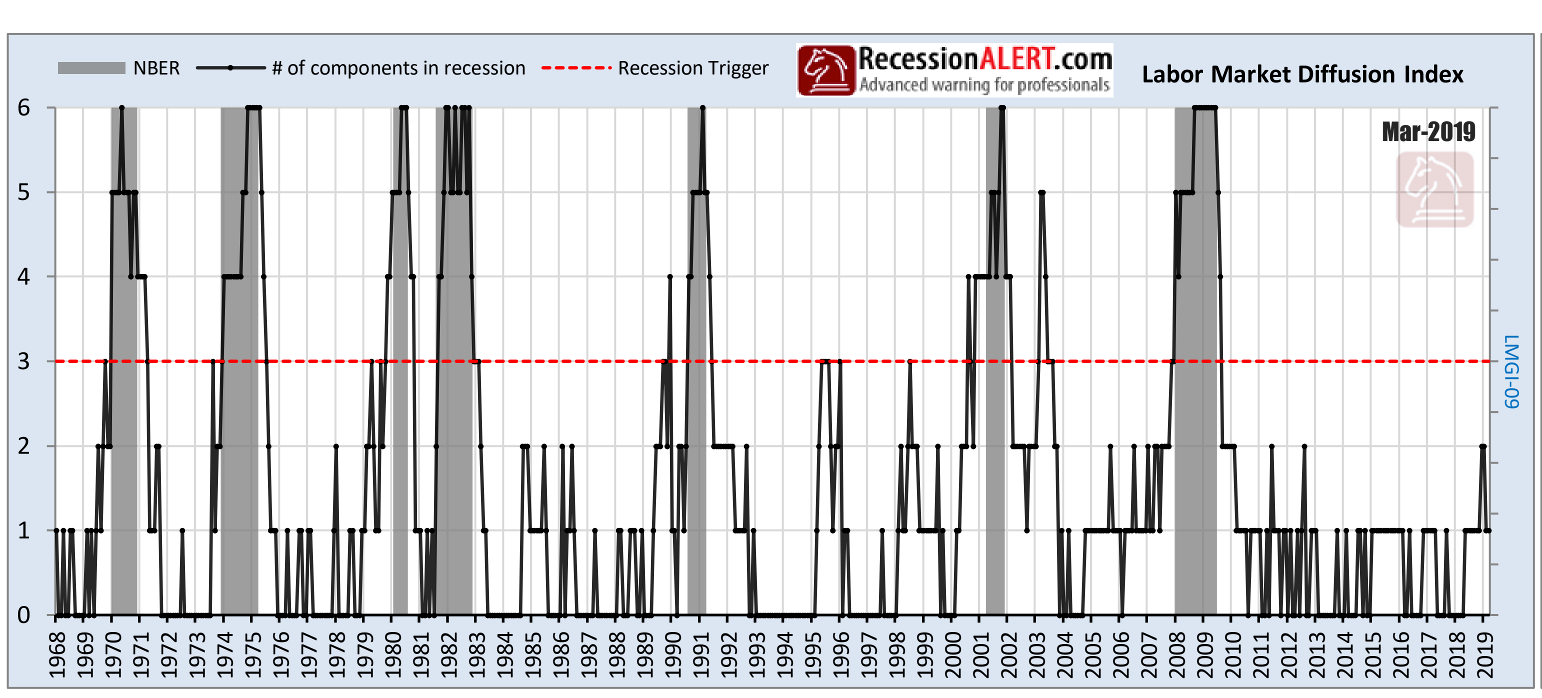


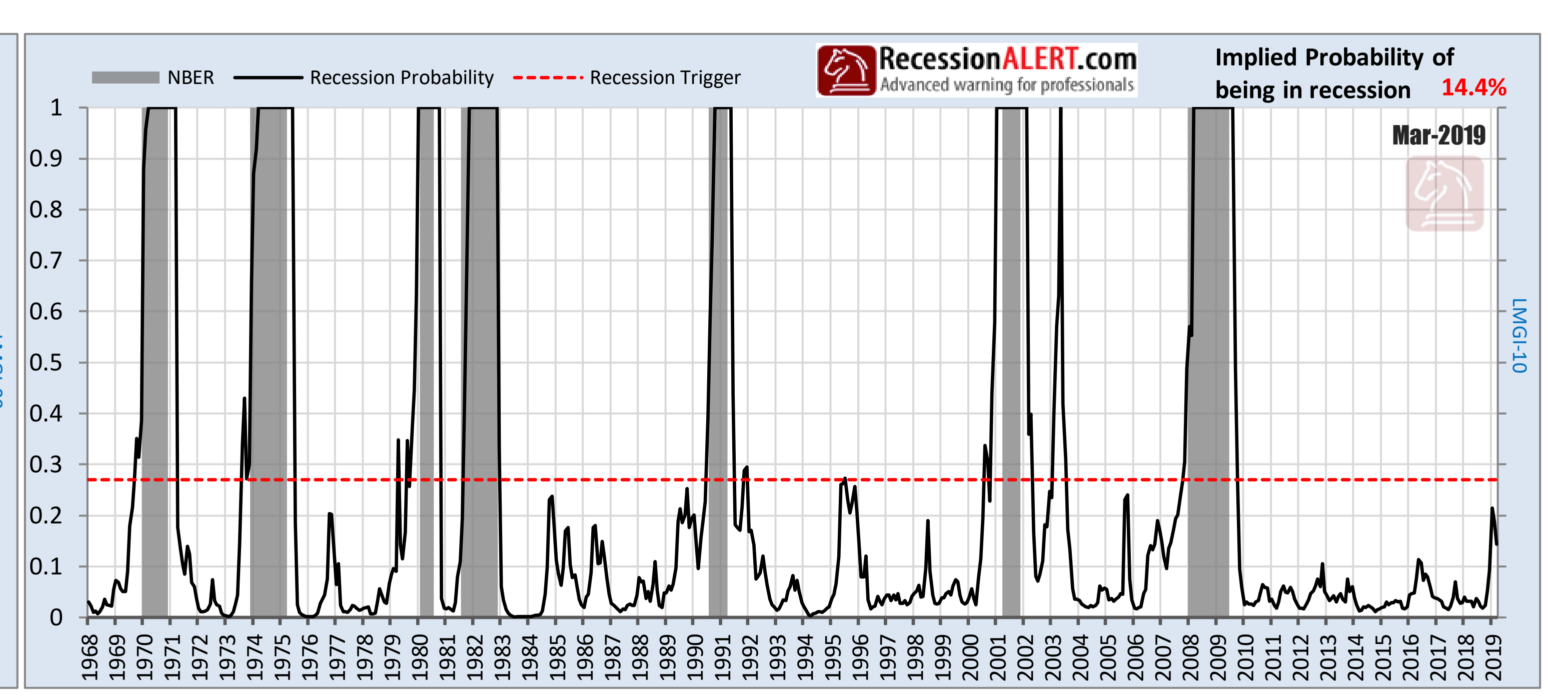












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YELLEN LABOR DASHBOARD

Federal Reserve Chair Janet Yellen recently used her “jobs data dashboard” to justify the Fed’s easy money policies and to argue there’s still considerable slack in the labor market five years after the recession’s end. Seven of the nine gauges on this dashboard have not recovered to levels reached before the last recession, reinforcing her belief that the economy will need “extraordinary support” from the Federal Reserve for “some time to come.” It appears the Federal Reserve has changed emphasis from their singular focus on the unemployment rate to a broader labor market approach, which is the right thing to do. The Federal Reserve went so far as to state that policy would remain accommodative well beyond the prior target threshold of 6.5% for the unemployment rate since the new guidance objectives are “Full Employment” and “2 % inflation.”

Whilst we have been regularly publishing a Labor Market Report for clients since October 2012 to gauge exactly what we thought the Federal Reserve ought to be looking at, the collection of indicators in Yellen’s dashboard have some interesting additions to our one. More specifically we feel there is a risk that several of the components she has chosen may paint a picture of more slack in the market than realistically exists, but maybe its a good thing to look at the worst case scenario. Nonetheless, since we now have specific details on exactly which nine labor components the Federal Reserve will be examining on a monthly basis it would be prudent for investors to keep their eyes on the exact same things the Federal Reserve is using to gauge the conditions of the economy.

Below we have compiled a “Yellen Dashboard” which we will now be including as an addition to our standard monthly Labor Market Report for subscribers. All the indices have been re-based to zero at the peak of the last business cycle and normalized so that they touch -100 at their worst point reached since then. It is very clear from the chart that most components are struggling to regain prior best points.