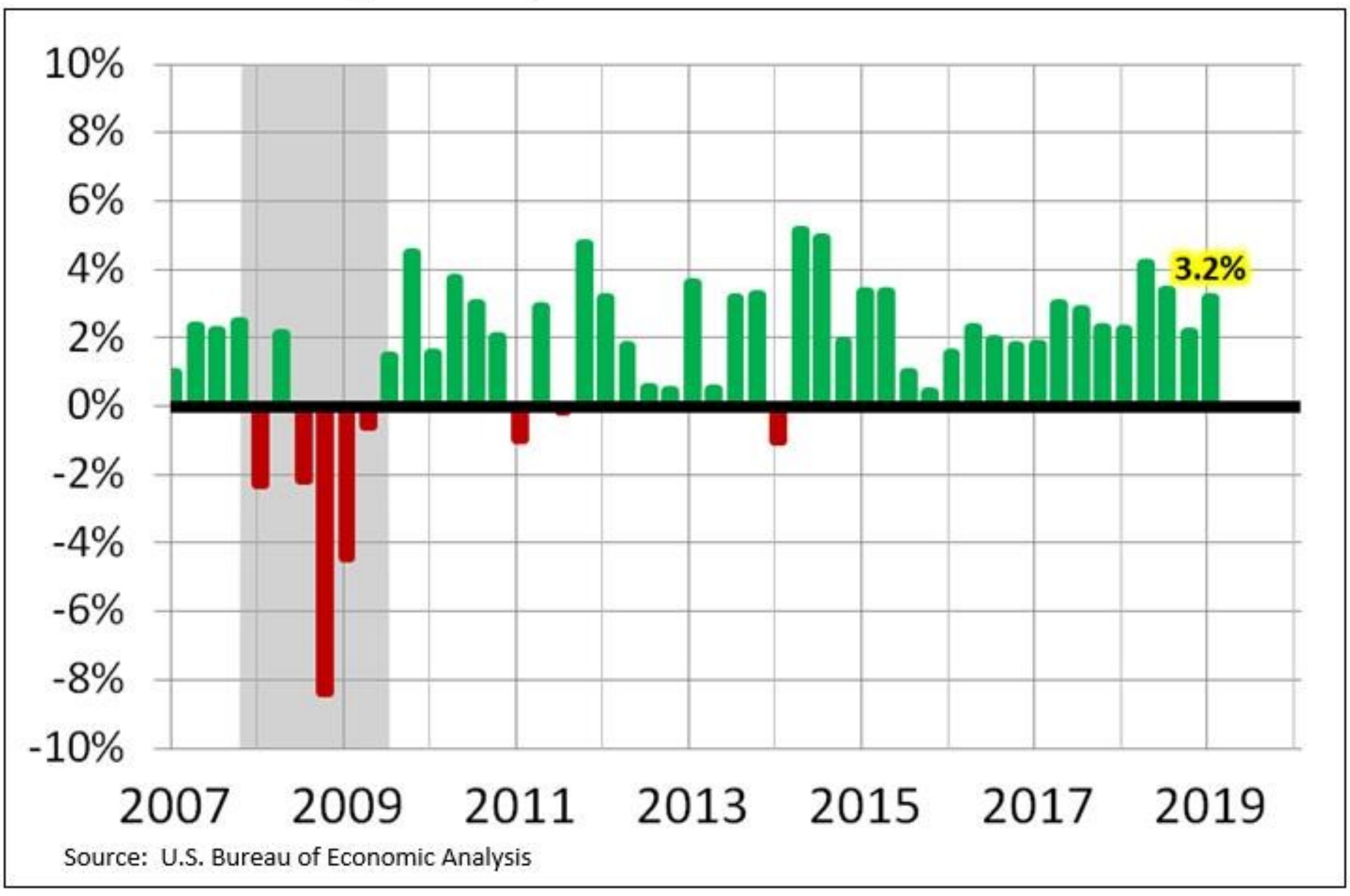
Chart of the Month

April 2019

Real Gross Domestic Product
Quarterly Results Annualized



Real gross domestic product (GDP) increased at an annual rate of 3.2 percent in the first quarter of 2019 according to the Bureau of Economic Analysis (BEA). The first read on GDP beat the consensus expectations of 2.3% and topped the fourth quarter pace of 2.2% as well as the first quarter of 2018 of 2.0%.

The economy continues to outperform the Federal Open Market Committee (FOMC) and the Congressional Budget Office (CBO) forecasts. On average, the FOMC and CBO projected real GDP growth in 2017, 2018, and 2019 of 2.2%, 2.0%, and 1.7%, respectively. In actuality, real GDP rose 2.5% in 2017, 3.0% in 2018, and at an annualized rate of 3.2% in the first quarter of 2019.

The BEA estimates that the partial government shutdown lowered the overall growth rate by 0.3%, suggesting that real GDP may have been 3.5% otherwise. It is also worth noting that inventory investments and a narrowing in the trade deficit, both of which boosted GDP in the first quarter, may not be sustainable, thereby dampening future growth somewhat.

Nonetheless, The Leading Economic Index (LEI), published monthly by The Conference Board, rose 3.1% year-over-year in March, establishing a new all-time high. We covered The Leading Economic Index in our [April 2018 Chart of the Month](), noting that the annualized rate of growth in the LEI was "consistent with GDP growth of 3.2%."

As shown in the chart below, the LEI has been rising irregularly since the last recession in 2009 and shows no signs of rolling over anytime soon. Importantly, the LEI peaked an average of 16 months prior to the start of the past three recessions. Based on the above, *if* the March report turned out to be the high for this cycle (which we believe to be highly unlikely), the next recession wouldn't begin until July 2020.

Going back to the 1960s, the year-over-year change in the LEI has turned negative every time prior to the onset of recession (with an average decline of 1.9%, equal to five percentage points *below* the latest reading). Given the positive trends in GDP and LEI, we maintain that the expansion will continue for at least several more quarters, if not years. With inflation in check and the Fed on hold for the foreseeable future, the backdrop remains favorable for stocks and bonds.

Leading Economic Index

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