

# RECESSION BAROMETER

July 19, 2019

## Spotlight on : Recession Barometer

### SUMMARY

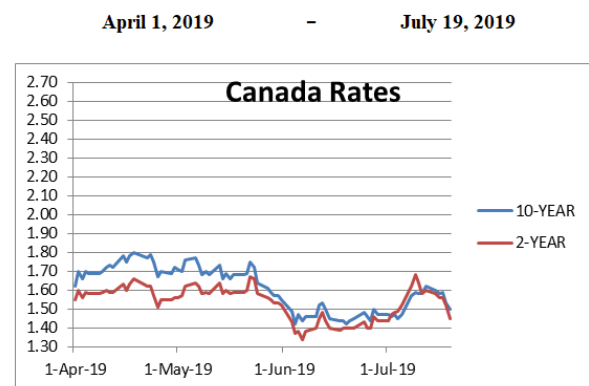
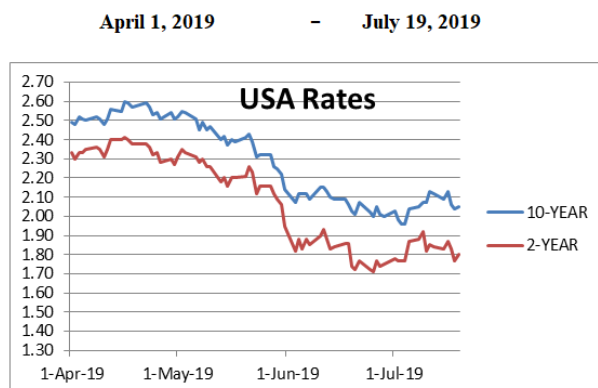
Canada: Using the favoured 10-year/2-year Spread, Inversion in Canada has come back from the brink. The Canadian 10-year/2-year yield curve ratio was inverted for seven consecutive days, not quite making our Inversion criterion of ten consecutive days. However, the 10-year/3-month Spread and the 5-year/2-year Spread are both inverted at this time. So, Canada remains close to beginning a Count-Down to Economic Recession. We continue on watch.

USA: In the United States, interest rates declined last week. The U.S. 10-year/2-year yield curve Spread tightened slightly from 0.28x to 0.25x, well above the Inversion level of 0.00x.

Our U.S. Recession Barometer had no change in its 7.5x reading this past week (10.0x denotes Inversion).

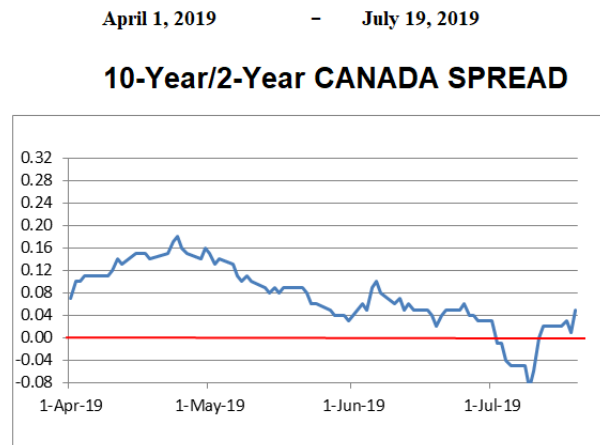
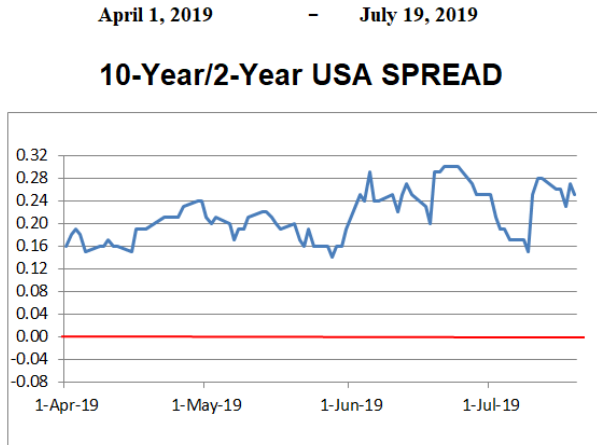
### INTEREST RATES

The two charts below show the trend in interest rates in the United States and Canada since April 1, 2019, for 10-year and 2-year maturities. The two charts are presented with an identical scale.



**Observation:** U.S. rates are well above the corresponding Canadian rates. There has been much more “separation” in the U.S. rates than in Canada, particularly since near the end of May. There also has been some slight divergence in direction. More notably, the 2-year in Canada briefly rose above the 10-year, which means Inversion. Not so in the USA.

Let us look at the Spreads for these two maturities.



**Observation:** The U.S. Spread is far from Inversion, which is denoted by the **red** line at 0.00x. After declining for a few weeks, the U.S. Spread has rebounded almost back to the June highs. In Canada, Inversion occurred between July 2 and July 10 inclusive. The 10/2 Spread went back above Inversion on July 11 and has stayed there. On Thursday, it looked Inversion was going to occur again but, on Friday, the Spread widened out to 0.05x.

**COMMENT:** *Inversion usually precedes an Economic Recession by an average of 15-20 months. But, when do you start the Count-Down from Inversion to the expected Recession? The eResearch criterion is that we start the Count-Down when there is an Inversion for ten consecutive days, or when there is Inversion for 20 out of 30 days.*

**COMMENT:** *So, although the consecutive day streak lasted seven days, the Inversion did not last the required ten days. However, we are still monitoring the 20/30 day benchmark. The “score” right now is 7/14 days.*

## THE eRESEARCH RECESSION BAROMETER

Our Recession Barometer for the United States reflects the average of three different yield spreads. These are:

1. 10-Year/2-Year Spread
2. Equal-Weight Average of Three Spreads: 20-Year/10-Year; 10-Year/3Month; and 5-Year/2-Year
3. Equal-Weight Average of Twelve Spreads: 30-year/20-year, 30-year/10-year, 20-year/10-year, 20-year/5-year, 10-year/2-year, 10-year/3-month, 5-year/2-year, 5-year/3-month, 2-year/1-year, 2-year/3-month, 1-year/6-month, and 1-year/3-month.

The Spreads from these three metrics are then averaged to derive the Reading for the Recession Barometer.

The table below shows how these metrics have evolved since the beginning of May 2019.

<u>Date</u>	<u>10Year/2Year U.S. Spread</u>		<u>3 U.S. Spreads</u>		<u>12 U.S. Spreads</u>		<u>Combined Spreads</u>	
	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>	<u>Spread</u>	<u>Reading</u>
May 3, 2019	0.21	6.5 X	0.11	8.0 X	0.10	8.0 X	0.14	7.5X
May 10, 2019	0.21	6.5 X	0.09	8.0 X	0.08	8.5 X	0.13	7.5X
May 17, 2019	0.19	7.0 X	0.07	8.5 X	0.07	8.5 X	0.11	7.5X
May 24, 2019	0.16	7.5 X	0.06	8.5 X	0.06	8.5 X	0.09	8.0X
May 31, 2019	0.19	7.0 X	0.01	9.5 X	-0.01	10.0 X	0.06	8.5X
June 7, 2019	0.24	6.5 X	0.03	9.0 X	0.00	9.5 X	0.09	8.0X
June 14, 2019	0.25	6.5 X	0.06	8.5 X	0.04	9.0 X	0.12	7.5X
June 21, 2019	0.30	6.0 X	0.10	8.0 X	0.07	8.5 X	0.15	7.5X
June 28, 2019	0.25	6.5 X	0.07	8.5 X	0.04	9.0 X	0.12	7.5X
July 5, 2019	0.17	7.0 X	0.03	9.0 X	0.02	9.5 X	0.07	8.5X
July 12, 2019	0.28	6.0 X	0.10	8.0 X	0.07	8.5 X	0.15	7.5X
July 19, 2019	0.25	6.5 X	0.10	8.0 X	0.08	8.5 X	0.14	7.5X

**CURRENT RECESSION BAROMETER READING, Week Ending July 19:**

**7.5x.**

**There is no change from the preceding week.**

## U.S. Recession Forecast

The following chart shows when a recession could occur for various post-inversion dates. For inversion, we are monitoring three yield spread ratios, a widely-followed two-maturity metric, an equal-weighted average of three spread readings, and an equal-weighted average of twelve spread readings.

Our criterion for declaring Inversion is that: (1) the Recession Barometer reading must be 10; and (2) two of the three Series must be inverted and one of these must be the 10-Year/2-Year Yield Curve.

Our current “guess” is that a recession could occur 15 months post-inversion (shown in **Red** in the table below). This is a “moving target” and will change with each ensuing month. It will also change with changes in global economic conditions.

We are mindful that a substantial number of Spreads at the short-end are inverted. However, the overall Recession Barometer Reading is 7.5x and the Spreads for all three Series are still positive. So, for the moment, there seems to be no need to change our 15-month Count-Down period once our Inversion criterion is reached. This looks like it is not going to be anytime soon.

### Forecasting the Commencement of a Recession

If an inversion occurs during the current month ... then a recession will begin at stated date projections.

<u>Current Month</u>	<u>Inversion +12 Months</u>	<u>Inversion +15 Months</u>	<u>Inversion +20 Months</u>	<u>Inversion +24 Months</u>	<u>Inversion +30 Months</u>	<u>Inversion +36 Months</u>
July/2019	July/2020	<b>Oct/2020</b>	Mar/2021	July/2021	Jan/2022	July/2022

Source: eResearch

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