**Post #16: US Economy. ECI September-2024 update.**

On post #12 on the US economy in September 2023 showed that our ECI readings in the prior 6 months showed a significant improvement from their Apr-2023 lows that triggered a recession warning expected to develop during the fall of 2023 and accelerate into the winter of 2023.

The recession did not materialize, and the recovery in the ECIs could have meant that our indicators have already bottomed out, and the recession will be of limited scope (such as a temporary cyclical slowdown). This brought some uncertainty towards the economic conditions that would unravel in the following months.

Since September of 2023, our ECIs have recovered further, peaking in April of 2024 at a value that was still below zero, pointing to a fragile economy (see Figure 1). From April of 2024 the ECIs have been on a slow downward trend reaching the current value of -0.5 in our latest update in September of 2024.

In this post we explain the factors that kept the economy afloat during 2023, provide and update to our ECIs and what they are currently pointing to in the months ahead.

## 1. September – 2024 ECI report summary

Our ECIs have reversed from their recovery which peaked in April of 2024. Our current reading of our 12-month ECI of -0.5 points towards a sluggish economy in the months ahead, but **do not**, at yet, imply a full-blown recession.

**Sep-2024**

| ECI indicator | Value |
|---|---|
| ECI_Composite_3m | -0.62 |
| ECI_Composite_6m | -0.40 |
| ECI_Composite_9m | -0.15 |
| ECI_Composite_12m | -0.50 |
| ECI_Composite_15m | -0.94 |

When looking at the historical context, we observe that after escaping a possible recession in 2023, our ECIs are again on a downward path that require a close monitoring in the months ahead. As illustrated in Figure 1, the 12-month ECI tends to be slow moving with noticeable trending behaviour suggesting that the current downtrend is likely to continue. In due time, If the downturn accelerates and the 12-month ECI drops below -1, we will be updating our forward expectations and release a recession warning for the US economy.

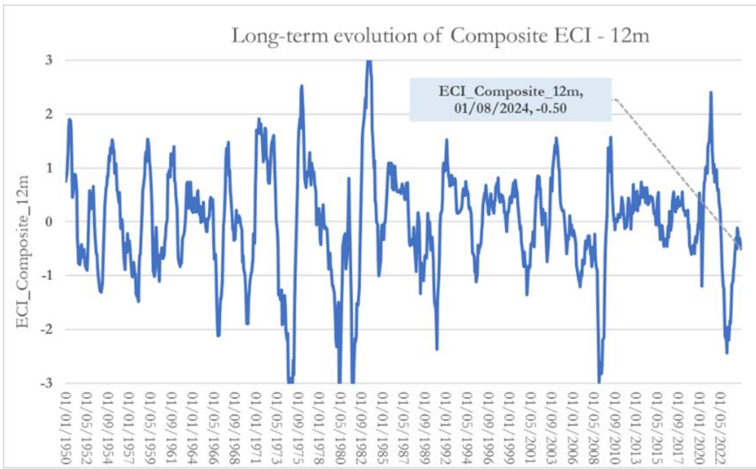


*Figure 1 - Historical time series of the 12m ECI.*

## 2. What held up the US economy in 2023?

The saying by Mark Twain that "history does not repeat itself, but it often rimes" comes to mind. At each economic junction different factors play a role in either driving the economic expansion or downturn. These factors change with the historical conditions at the time, which are ever changing. With hindsight these factors become clear, but at the time there are occurring they are very difficult to pinpoint, especially because they are new factors and the data to quantify them in historical context in usually unavailable.

## A. Legal and illegal migration.

One such factor is effect of net migration into the US.

The legal net migration rate in the US in 2023 was 2.7 per 1000 individuals[1], which corresponds to about 1 million individuals. The US is a country that is known as a melting pot for individuals from all over the world, with traditionally high positive net migration rates. Legal net migration in the US has been relatively stable and on a slightly downward path since 2020, consequently, at first glance, migration is an unlikely factor to be leading to significant changes in the US economy.

However, the recent phenomenon of illegal migration to the US and European countries is difficult to quantify and to access its economic impact. The Republican Homeland Security Committee of the U.S. House of Representatives estimates that as many as 10 million encounters with illegal immigrants since the start of the current U.S. administration[2]. Data from the U.S. Customs and Border Protection[3], shown in Figure 2 confirms those estimates. In 2023 alone there were an estimated 3 million encounters, which represents multiple times (3x) the amount of legal net migration into the U.S.

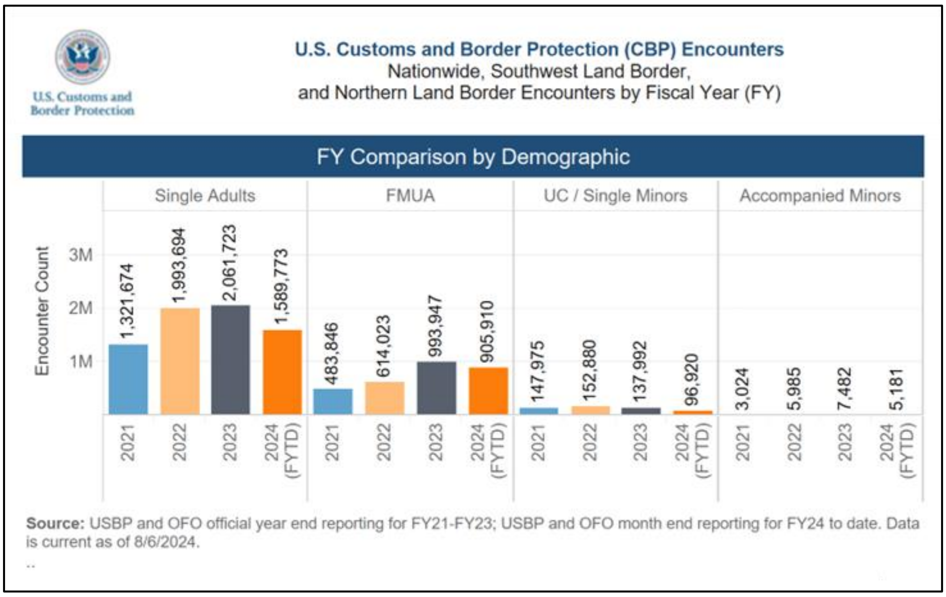


*Figure 2 - US Border encounters, 2021 to 2024. Source: US Customs and Border Protection.*

It should also be mentioned that the datapoints in Figure 2 likely underestimate the actual number of illegal migrants into the U.S. during the period, emphasising the magnitude of its impact on the American society and the economy. I believe that the large illegal migration to the US was one of the most important factors that played a significant role in supporting the US economy in 2023 (and early 2024). The illegal immigrants are putting pressure on accommodation, social services, demand for essential goods, and to some extent, adding to the lowest wage

[1] https://www.macrotrends.net/global-metrics/countries/USA/united-states/net-migration

[2] https://homeland.house.gov/2024/05/22/startling-stats-factsheet-biden-administration-on-track-to-reach-10-million-encounters-nationwide-before-end-of-fiscal-year/

[3] https://www.cbp.gov/newsroom/stats/nationwide-encounters

workforce. In our full ECI report for September 2024 we estimate to amount to 0.3% to 0.5% of GDP (which is perhaps conservative).

However, as is the case for any "new" economic variable, where can we find evidence of its impact? And how do we quantify it?

One of the economic variables that is showing signs of being impacted by the large illegal immigration inflows is the employment estimates. In particular the last few years showed a large discrepancy between the employment Establishment Survey, which is a survey of businesses and the household survey, which focuses on households. In the last few years, the Establishment survey has been pointing to robust employment growth while the household survey shows stagnant growth in employment (see Figure 3).

The discrepancy is confounding economists[4] and policy makers, as evidenced by Jerome Powell's comments at the FOMC[5] press conference on June 12th 2024. Even though this is beyond the scope of this post, my detailed analysis of the discrepancies between the U.S. Establishment and Household surveys points towards the large net migration being the main driver of the discrepancies.

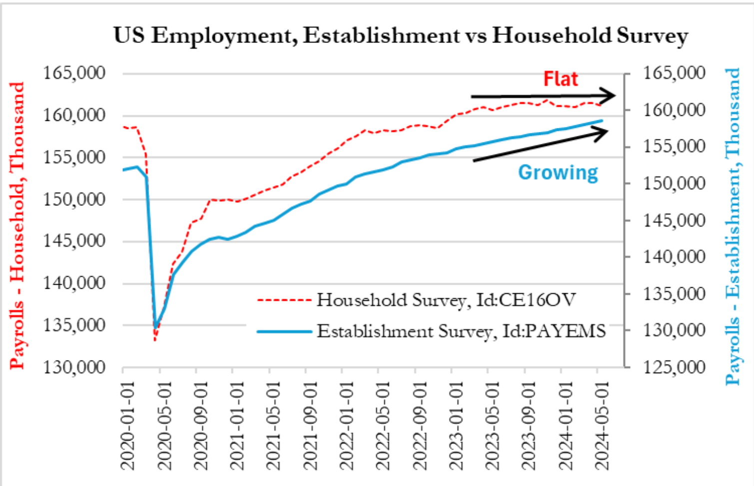


*Figure 3 - Comparison of the Establishment and Household Surveys of U.S. employment.*

It appears that even though illegal immigrants are providing a tailwind to the economy, it's happening at the expense of local households.

## B. Government spending (large deficits)

The second factor that provided support to the U.S. economy during 2023 was the large government deficits (see Figure 4), partly to provide social credits for the large inflow of immigrants and partly for the policies in the green new deal.

[4] https://thehill.com/opinion/finance/4721351-jobs-numbers-jay-powell/

[5] FOMC minutes: https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240612.pdf
FOMC press conference: https://www.youtube.com/watch?v=YqaxWf7gsQA

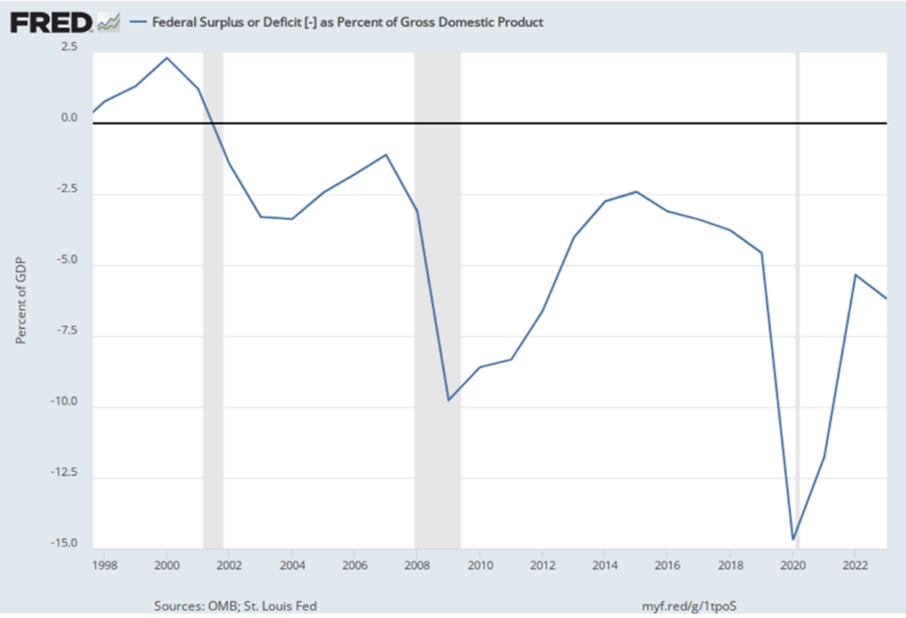


*Figure 4 - U.S. Federal deficit as a percentage of GDP. Source: [https://fred.stlouisfed.org/graph/?g=1r6Qn](https://fred.stlouisfed.org/graph/?g=1r6Qn)*

### C. The US consumer. Large cash savings by US individuals

The third factor that kept the economy afloat in 2023 was the U.S. consumer. U.S. households still have record level cash and checkable deposits, reminiscent from the pandemic stimulus packages in 2020 and 2021. The drawdown of these savings (shown on Figure 5-left), which is evidenced by the record low savings rate (shown on Figure 5-left), provided a large tailwind to the economy, in particular in the housing market.

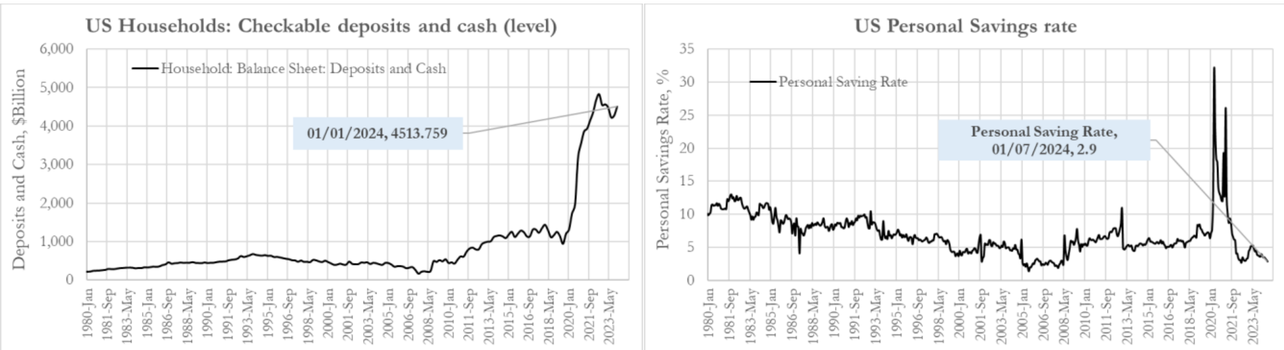


*Figure 5 - US Household Savings. Left: Liquid assets. Right: Savings rate*

## 3. Summary

In my view, with hindsight, the factors that I described above were the main drivers for keeping the U.S. economy afloat in 2023, and that confounded our ECIs projections. The ECI's subsequently recovered peaking in April of 2024. Since then, our ECIs turned downwards again. The significance of this downturn is still to be determined in the coming months.

Thank you for reading this post.