LET'S GET TECHNICAL PART 4: GDP
Dear Subscriber,

We introduced the Critical Signals Report Storm Tracker here as our starting point when it comes to assessing global risk and the proximity of the next recession. In Part 1, Part 2, and Part 3, we’ve respectively looked at how trends, leading indicators, and yield curves inform our market signals.

Today, in Part 4 we now turn to the topic of GDP and its key role in tracking market conditions critical to your investing portfolio.

Let’s Get Started

GDP (Gross Domestic Product) is a monetary measure of the final market value of all goods and services within a country, measured over a period of time, either quarterly (“quarter-over-quarter” or “QOQ”) or yearly (“year-over-year” or “YOY”).

Growth in GDP is the most frequently used indicator of overall economic activity, closely tracked by economists, investors, and the Critical Signals Report for its value as a trend and leading indicator when it comes to predicting and timing recessions.

Let’s See Which Countries Measure Up When It Comes to Growth in GDP

As an overview, the chart below tracks U.S. GDP, quarter-over-quarter, from the Great Recession of 2008 through Q1 2019 (March 31). What stands out here is that despite the long period of low interest
rates and untold amounts of quantitative easing (QE) following the Great Recession, growth in U.S. GDP has flatlined at 2% – that’s not impressive.

Why? Because the vast majority of borrowing at the federal level has been frittered away by buying our own Treasury bonds and because the vast majority of corporate borrowing since 2008 (corporate borrowing has doubled since then) has been likewise frittered away in stock buybacks and dividend payments. Truly, we’ve witnessed a lost decade for productivity and growth at both the Fed and Corporate levels – and THAT MATTERS.

Needless to say, the real U.S. economy, as measured by our dying middle class, has not benefited at all while the U.S. stock market has skyrocketed.

Let’s Compare U.S. GDP to Other Major Countries, Expanding Our Time Frame to Year-Over-Year (YOY)

Adding GDP for Europe, Japan, and China shows all four countries flatlining since the Great Recession, YOY – not good.
And normalizing all of these GDP curves by adjusting values to a notionally common scale starting prior to the Great Recession, China moves from the top to the bottom. China is the big gorilla in the room. Really, it’s in our best interests to see China succeed, but that’s not what we’re doing.

Looking Ahead

As you know by now, the Critical Signals Report strives to look ahead, not behind, when it comes to assessing just about everything that goes into Storm Tracker, including GDP. If you’re looking in the rearview mirror having viewed the charts above, we need some forecasting tools.
Here’s one… the Federal Reserve Bank of Atlanta, always on the cutting edge when it comes to forecasting the GDP right now. In fact, it’s actually called “GDPNow” for just that reason… it’s updated weekly. (This chart dates to May 24, 2019.)

This chart is worrisome, for it is telling us that the Blue Chip’s consensus forecasts are now tumbling since our rearview mirror look at March 31 above; GDPNow is below Q1 consensus; and GDPNow is itself falling.

GDPNow is estimating GDP at 1.3% for Q2 2019, which is a far cry from the 3.2% Q1 2019 announcement from the Bureau of Economic Analysis.

**Recession Forecasting**

Here at *Critical Signals Report*, our effort in tracking the storms is to build an indicator, Storm Tracker, that will forewarn us of the next recession.

But we’re not the only folks who do this. So does the Federal Reserve Bank of New York, for example. They recently updated their recession-probability forecast to 29% … take a look below … *it’s rising exponentially.*
Twice since 2000, this indicator has forecast not one, but two recessions. The indicator rose to its current 29% reading just prior to the 2001 recession, and foreshadowed the 2008 recession as well, albeit at higher levels. At 29%, the level today is already at a level that triggered the 2001 recession and is already over halfway to the peak that preceded the Great Recession of 2008. As they say in hockey, we’re expecting a “hat trick” – 3 goals since the year 2000.

Bottom line: The rise and fall of GDP is a major factor in recession forecasting. When GDP falls, Storm Tracker is adversely impacted … it goes up … risks rise.

See How This All Fits Together?

We track global GDP, which informs the Critical Signals Report Storm Tracker, which in turn informs the Critical Signals Report Crash Portfolio (to be shared soon) of changes that may be required in asset allocation.

But there’s more…

Was This Useful? Do You Have Questions?

Fire away. We want to hear from you. Please provide your questions/comments below, as we’ll be formulating answers all along this technical journey. In the meantime, be safe out there.
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