



Recession Indicators Update: Keep on Trucking

May 1, 2018

Key Takeaways

- ▶ The ClearBridge Recession Risk Dashboard had no changes in April, maintaining our view that the likelihood of a recession in the next 12 months remains low.
- ▶ Several newer indicators to the dashboard provide a broader view of the economy, including truck shipments, which is currently demonstrating healthy growth.
- ▶ Freight volumes carried by trucks provide a timely reading on the economy and material declines have tended to foreshadow a broader slowdown.

As of April 30, 2018, there are no changes to the indicators in the ClearBridge Recession Risk Dashboard. Profit margins maintain a caution signal, reflecting a pickup in sales and potential benefits from tax reform. During April, several indicators moved higher and others lower, but none were substantial enough to warrant a change in signal from the end of the first quarter.

We expanded the number of variables in the dashboard at the start of 2018 and a new indicator which we focus on today is truck shipments. The dashboard is organized along the four key fault lines of our economy: consumer health, business activity, inflation and financial markets.

Exhibit 1: ClearBridge Recession Risk Dashboard

		First Quarter 2018	Fourth Quarter 2017
Financial	Yield Curve	↑	↑
	Credit Spreads	↑	↑
	Money Supply	↑	↑
Inflation	Wage Growth	↑	↑
	Commodities	↑	↑
Consumer	Housing Permits	↑	↑
	Jobless Claims	↑	↑
	Retail Sales	↑	↑
	Job Sentiment	↑	↑
Business Activity	ISM New Orders	↑	↑
	Profit Margins	●	●
	Truck Shipments	↑	↑

↑ Expansion ● Caution ✘ Recession

Source: ClearBridge Investments

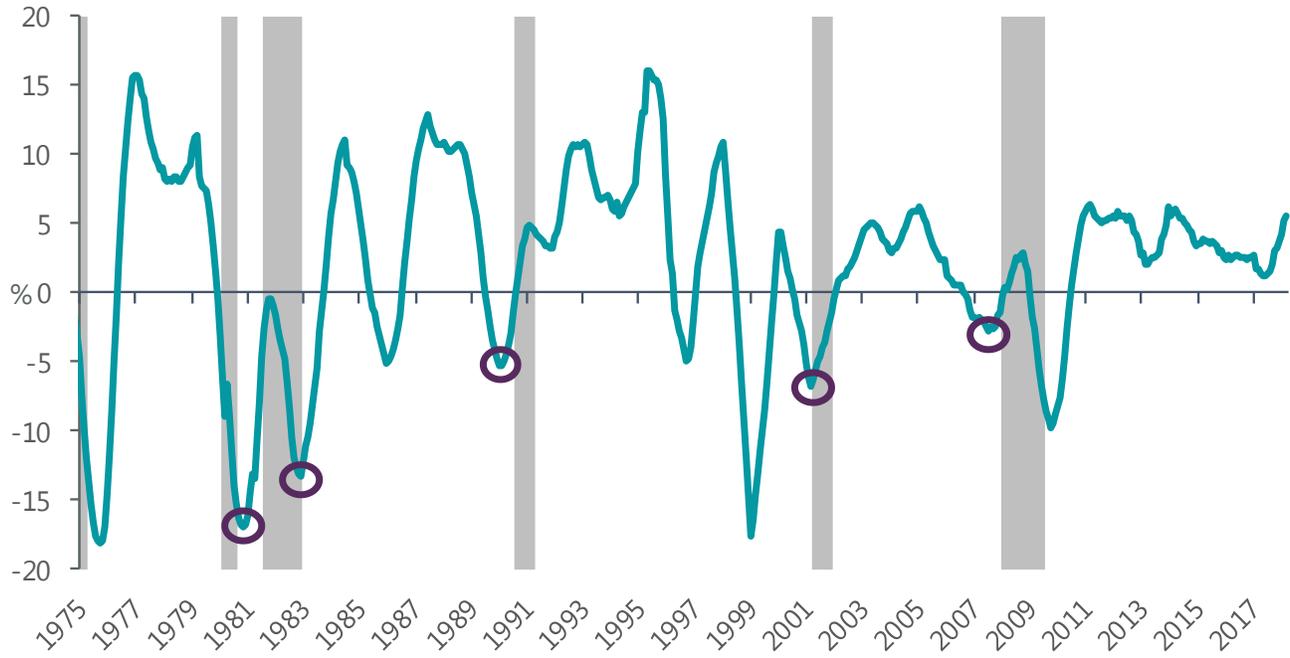
Freight Volumes Correlate with Economic Health

Over 70% of freight moved in the U.S. (10.5 billion tons per year) goes on a truck, according to the American Trucking Association. Even freight moved by rail, ship, or plane typically travels via truck on the way to/from the railyard or airport. As a result, the amount of freight moved by truck provides a timely reading on the health of the economy. When growth accelerates, a greater amount of freight is shipped and truck tonnage rises. Conversely, truck tonnage typically falls as GDP contracts. The metric we evaluate captures data from trucking fleets both large and small across the country.

Historically, truck shipments tend to turn lower well ahead of a recession, ultimately falling by 10% or more as the economy cools off. We look for a dip in truck shipments of 0% to 5% (year-over-year growth) as a cautionary signal for our dashboard, and a fall in truck shipments of more than 5% to signal an impending recession. On average, the caution signal has come 13 months ahead of a recession historically, with a drop of more than 5% occurring four months later (nine months before the start of a recession) as indicated by the circles in Exhibit 2. Put differently, truck shipments have provided investors with meaningful warning ahead of past economic contractions. Truck shipments have not had a perfect track record, however, suggesting caution in 1985/1986 and again in 1996. While both periods coincided with slower GDP, it's important to note that no recessionary indicator is perfect. That's why we incorporate 12 variables into the ClearBridge dashboard, measuring very different parts of the economy, to help see past false alarms for any individual indicator.

Truck shipment growth has been increasing on a year-over-year (YOY) basis, with YOY improvement of 5% or more in each of the last seven months. This pickup in freight activity is consistent with an expanding economy, and the signal is solidly in the green.

Exhibit 2: Truck Tonnage Growth Year-over-Year



As of March 31, 2018. Source: American Trucking Association, Bloomberg.

As our economy continues to evolve, so too will our recessionary dashboard and the signals we incorporate. For example, new regulations regarding electronic logging devices (ELDs) went into effect in February and are likely to raise the cost of truck shipping in the near term. However, volumes (tonnage) should see less of an impact, according to our industry analysts. We will pay close attention to any impact on trucking volumes from the ELD mandate, autonomous vehicles, and other changes and continue to work closely with our industry analysts to leverage their expertise. At the end of the day, freight must continue to be delivered across the country, making this indicator an important component of our dashboard in the years to come.

About the Author



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- 12 years of investment industry experience
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