GLOBAL
Insight

Wealth Management

U.S. Recession Scorecard

March 2025

Waiting for clarity

As 2025 proceeds, the Scorecard's leading indicators remain undecided on balance and unchanged from last month. We believe a mixed Scorecard, with the preponderance sitting in less-positive columns, argues for investors to stick to a watchful, cautious approach.

Two, perhaps three, of the indicators could shift to more positive readings over the next month or two. At the same time, distortions induced by very elevated policy uncertainty extending into future months, and the fluidity of the tariff situation make us reluctant to confidently extrapolate any one month's direction.

Yield curve

In November, the yield curve returned to a "normal" positioning where short-term Treasury yields are lower than long-term yields. This shift ended the longest-ever inversion of the curve—29 months—from July 2022 to November 2024. Normalization of the yield curve resulted from the Fed taking short-term rates down by 100 basis points in response to inflation getting to within 1% of its 2% target, while bond investors were pushing longer-term Treasury yields higher by about 100 basis points as they worried inflation might stay higher than hoped under the influence of a stronger-than-expected U.S.

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Indicator	Status		
	Expansionary	Neutral/ Cautionary	Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate			✓
Conference Board Leading Economic Index			✓
Non-financial corporate cash flows	✓		
ISM New Orders minus Inventories		✓	
Fed funds rate vs. nominal GDP growth			✓

Source - RBC Wealth Management

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All values in U.S. dollars and priced as of market close, Feb. 28, 2025 unless otherwise stated.

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economy and the prospect for broad implementation of tariffs.

The good news is that the drag from the extended period of tight monetary conditions should gradually abate across the economy. However, the historical record would argue there remains room for a recession. In seven of the past 10 U.S. recessions, the yield curve had de-inverted before or just as the recession got underway.

But there are two glimmers of better news on the credit front: while all consumer loan rates remain very high compared to three years ago, credit cards, auto loans and mortgages have all seen borrowing rates ease slightly in the past month; and the latest Senior Loan Officer Survey indicated a (very narrow) majority of banks lowering lending standards on consumer loans.

These (modest) improvements are arriving "on schedule" about six months after the first fed rate cut. The additional cuts to the fed funds rate made after September point to further easing in consumer lending rates in the coming months, in conformation with the notion that monetary policy changes act with a lag of six months to a year.

A further widening of the gap between the 10-year and 1-year Treasury yields together with more signs of bank credit standards easing would be needed to persuade us to shift our rating of this indicator out of the Recessionary column.

Conference Board Leading Economic Index

The U.S. leading index rose by 0.3% in November after 30 straight months of decline. It scratched out another 0.1% increase in December before sagging back by 0.3% in January. For our part, we would need to see several months of a sustained upward trend before moving this indicator to a more benign rating.

Unemployment claims

Claims set a low for this cycle in September 2022, but subsequently have failed to establish the sustained upward trend that typically precedes the start of a recession. The weekly count jumped sharply higher in early December, but the seasonal adjustment factor around the holiday period is generally regarded as unreliable. As things stand, we think "undecided" is the correct interpretation of the claims data.

Unemployment rate

The unemployment rate usually surges higher just before or just as a recession is getting underway. Typically, it takes an upward move of as little as half-of-one percentage point from the cycle low to signal the start of recession. The low for the unemployment rate was set at 3.4% in April 2023, so that condition has been met. However, as with claims, the anticipated "surge" higher has been more of a "creep" to a recent high of 4.3%. The unemployment rate sits at 4.0% as of this writing.

Also, like claims, seasonality adjustments in December and January may be suspect, not to mention the fallout from how tariffs and other big Washington policy shifts play out. Those concerns notwithstanding, were the unemployment rate to settle back convincingly below 4%, we would re-rate this indicator to Neutral/ Cautionary.

ISM New Orders minus Inventories

The difference between the New Orders and Inventories sub-indexes of the ISM Purchasing Managers' Index has turned negative near the start of most U.S. recessions. But it has also registered occasional false positives—signaling a recession was imminent when none subsequently arrived. Moreover, this indicator only relates to activity in the manufacturing sector (some 15% of the U.S. economy) and is derived

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from a survey rather than hard data. For those reasons, we look at it as a corroborative indicator rather than a decisive one taken on its own.

After setting its most recent low in September 2022, this series has risen steadily (we use a three-month moving average) and moved back above zero in August 2023. It has managed to stay above zero over the intervening 17 months and recently surged to levels that would usually have us re-rate this indicator to Expansionary. However, we think the prospects for tariffs, which have been on the rise since Election Day, have pulled some demand forward which may get reversed in the coming months. For now, we are leaving the rating unchanged.

Fed funds rate vs. nominal GDP growth

The fed funds rate has risen above the six-month annualized run rate of nominal GDP either before or at the start of every recession in the past 70 years. (Nominal GDP is GDP not adjusted for inflation.) That GDP run rate has been declining since its pandemic reopening high of 23% recorded in Q4 2020. By the end of last year, it had slowed to 6.7%, still above the 5.50% fed funds rate. However, for Q2 and most of Q3 the six-month annualized run rate of nominal GDP was running below where the fed funds rate sat at the time, meeting the condition observed before every recession. This indicator remains in the Recessionary column.

Non-financial corporate cash flows

This gives an indication of the ability of such businesses, in aggregate, to internally fund any capital spending they want or need to do. Historically, whenever it has posted a year-over-year negative reading, a decline in corporate capital spending has typically followed, either indicating a recession is coming or a deepening one is already underway. These cash flows, while down from their pandemic peak, are still above a negative crossing point as of Q3, which leaves it as the sole indicator still giving the U.S. economy an expansionary “green” light. There is a long lag time before this data is reported with the Q4 release not coming until later this month.

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