# “Curve-edge” analysis can mislead

Leading to conclusions such as this one:

From the news:

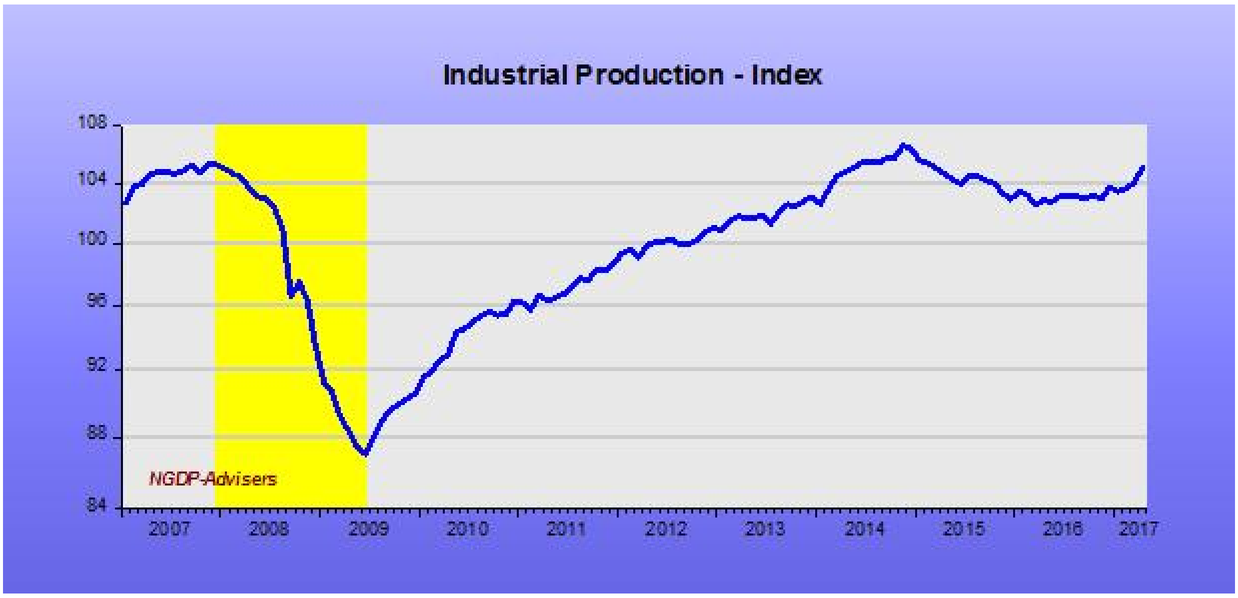
> U.S. industrial output rose sharply in April, ***a sign of underlying strength*** in the economy.

And

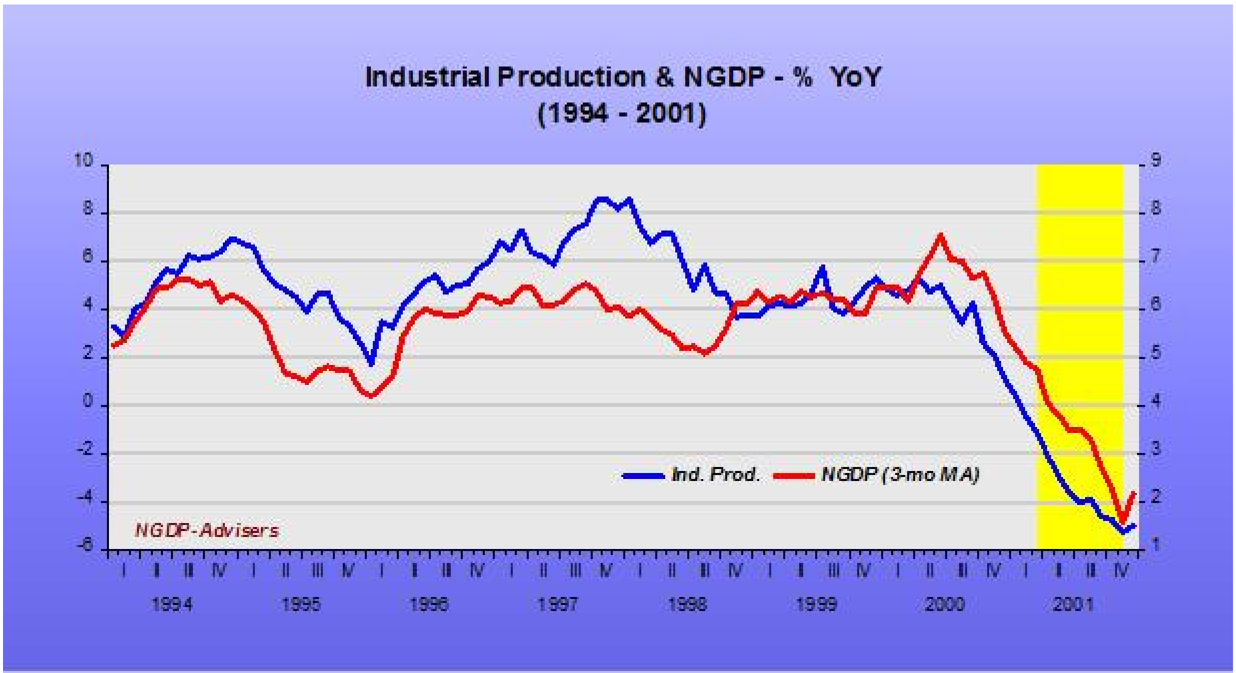
> Industrial production—a measure of output at factories, mines and utilities—jumped 1.0% from a month earlier, the Federal Reserve said Tuesday. That was the ***largest gain in more than three years***

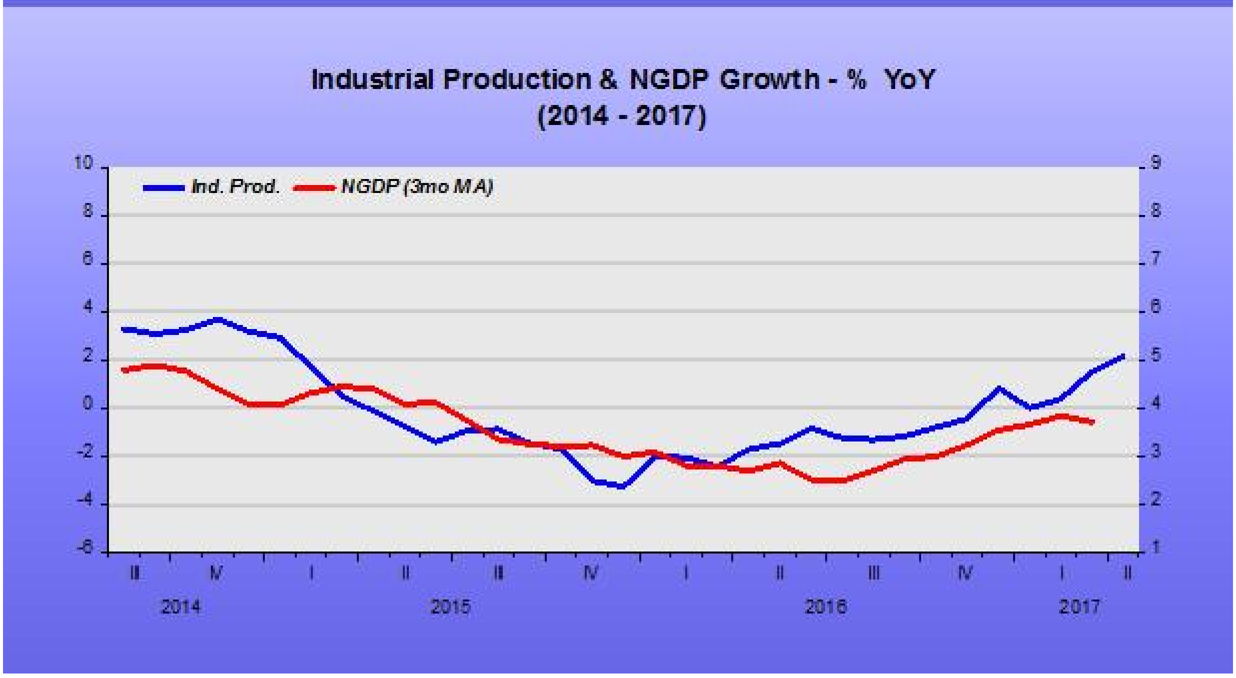
Some months ago, however, it registered the biggest loss in three years!

When you look at the level of industrial production, you see that even after the “largest gain in more than three year”, it is still below the level of 10 years ago, or the level obtained at the end of the expansion in 2014!




You can also find that industrial production growth rides on the back of the main driver of the economy, the growth in nominal spending, or NGDP. The chart illustrates, coupling industrial production growth and nominal spending growth in two periods. Weak NGDP growth goes hand in hand with weak IP growth. [Note: NGDP growth obtained from the monthly NGDP estimate by [Macroeconomic Advisers]




Note that the NGDP growth "curve edge" at present could be indicating that spending growth is turning down. If that confirms (likely in our view), soon the "curve-edge" analysts will be referring to industrial production as a "sign of underlying weakness" in the economy.

And the markets weren´t enthused. Stocks, the Dollar and long yields retrenched on the news.