

# Central Valley Index of Economic Indicators



A Project of the Department of Economics, College of Social Sciences  
California State University, Fresno

**OCTOBER 2006**

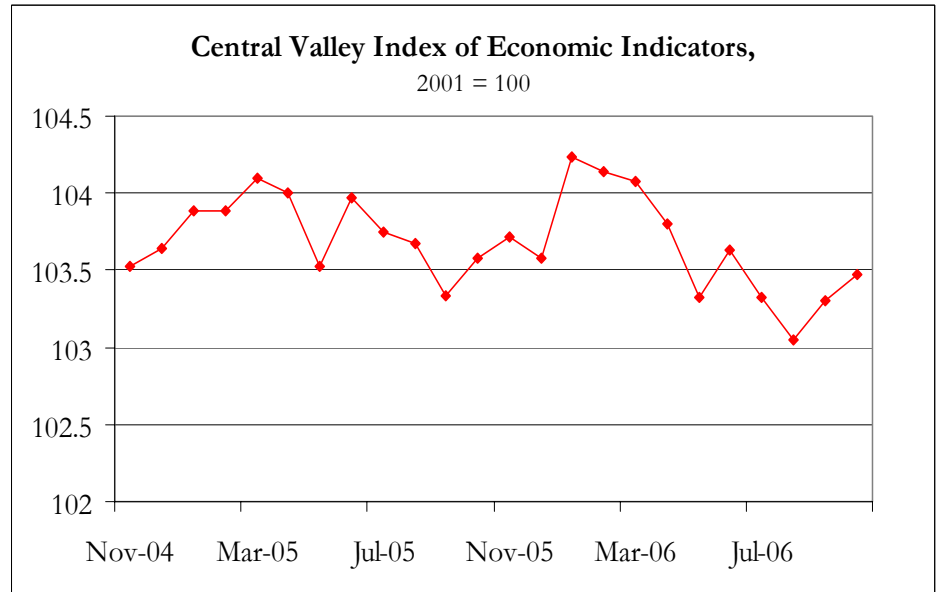
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## Index Rises Slightly, Slow Growth Expected

The Central Valley Index of Economic Indicators rose 0.17% in October, from 103.31 to 103.48. Of the seven indicators that comprise the index, four—Central Valley non-farm payrolls, California average weekly hours, consumer confidence, and the U.S. interest rate spread—showed improvement. The remaining three indicators—Central Valley building permits, Central Valley new claims for unemployment insurance, and U.S. real orders of non-defense, non-aircraft capital goods—deteriorated.

Central Valley non-farm payrolls contributed most to the index's rise, increasing by 0.83% when seasonally adjusted. Using the raw data, unadjusted for seasonality, the Central Valley actually lost 400 jobs, but this is much lower than the average decrease of 2,912.5 jobs in October. Fresno and Madera saw modest decreases of 100 jobs each while Kings county lost 1,000 jobs. These decreases were offset, however, by the addition of 800 jobs in Tulare County. The improvement in employment data is particularly noteworthy as this is the first increase in the Central Valley since March 2006.



Consumer confidence also contributed significantly to the index's rise, growing 9.16% from 85.4 to 93.6. This continues an increase that began in September and places consumer confidence at its highest level since July 2005 as measured by the University of Michigan's Consumer Sentiment Survey. The average work week in California and the U.S. interest rate spread also contributed modestly to the index's rise, increasing by 0.57% and 0.01% respectively. The increase in the interest rate spread, though very slight, is noteworthy as the first improvement since March 2006, and since it stalls a general decline that began in July 2004.

Central Valley building permits presented the largest drag on the index, falling 20.0% from 683 to 559 after seasonal adjustment. Central Valley new claims for unemployment insurance also jumped in

October, rising from 7456 to 8025, a 7.35% rise. Finally, U.S. real orders of non-defense, non-aircraft capital goods dropped 4.14%, from 45,194.7 to 43,362.1. In each case, these declines are toward the higher range considering the historic volatility of each indicator. As a result, while it is good news that the index rose, the news for October should be viewed with some caution—particularly since two important regional indicator deteriorated significantly.

Compared to six months ago the index fell by 0.63%, although a small majority of indicators were above their values from April. Using the two-percent rule, the index does not indicate a recession is imminent, but does indicate that Central Valley economic growth will slow in the near future.

Table 1: Summary Measures

	2006					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Central Valley Index of Economic Indicators, 2001 = 100	103.33	103.63	103.34	103.05	103.31	103.48
Percentage Change	-0.46	0.29	-0.29	-0.27	0.25	0.17
Diffusion Index	35.7	71.4	42.9	28.6	71.4	50.0
6-month Percentage Change, Annualized	-0.76	0.10	-1.74	-2.08	-1.48	-0.63
6-month Diffusion Index	28.6	57.1	28.6	28.6	42.9	57.1

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## Methodology and Notes

The methodology employed in creating the Central Valley Index of Economic Indicators follows closely the technique used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For the purposes of this index, the Central Valley is comprised of Fresno, Kings, Madera, and Tulare Counties. For more information, contact the author.

The Central Valley Index is constructed to have the properties of a leading index. As a general rule, a decline in the index of more than 2 percent over six months, coupled with a decline in more than half its components, signals that a recession is likely imminent. Following revisions of the U.S. Leading Index, The Conference Board has changed the 2 percent rule to 3.5 percent. However, the Central Valley Index will continue to employ the 2 percent rule unless further data demonstrate its inadequacy.

Due to a lack of historical data, the index is not capable of predicting the 2001 recession. However, it is worth noting that the index did not predict the “double-dip” of the 2001 recession that some had feared, but never materialized. Thus, for the data available, the index has performed well in its role as a recession indicator. As new data become available, diagnostic tests will be performed and revisions will occur as appropriate.

In order to prepare the report in the timeliest fashion possible, preliminary data are used for certain components. Values of these components are updated as revised data become available.

Sources: The State of California Employment Development Department, The Construction Industry Research Board, The U.S. Bureau of Labor Statistics, The Federal Reserve Bank of St. Louis, The Federal Reserve Statistical Release, and the author’s calculations.

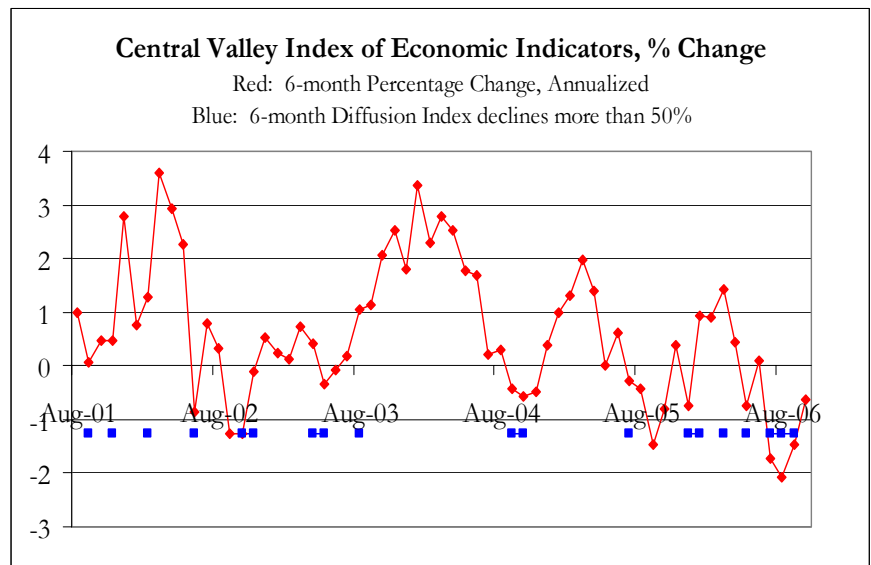
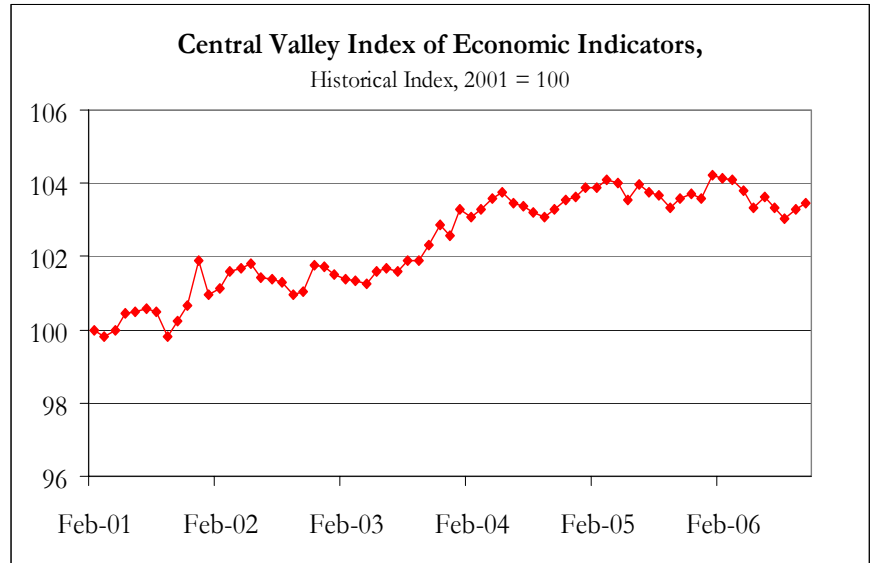


Table 2: Index Components

	2006					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Central Valley Non-Farm Payrolls, SA*	470,473	468,129	466,460	466,105	465,861	469,763
Central Valley Building Permits, SA	780	901	710	667	683	559
California Average Weekly Hours, SA	40.1	40.5	40.6	40.2	40.3	40.5
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,868.5	43,154.2	43,492.2	44,107.2	45,194.7	43,362.1
Univ. of Michigan Consumer Confidence	79.1	84.9	84.7	82.0	85.4	93.6
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.17	-0.12	-0.24	-0.37	-0.53	-0.52
Central Valley Initial Unemployment Claims, SA	9,115	8,435	8,348	8,024	7,456	8,024

\*SA—Seasonally Adjusted