

Central Valley Index of Economic Indicators



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

NOVEMBER 2006

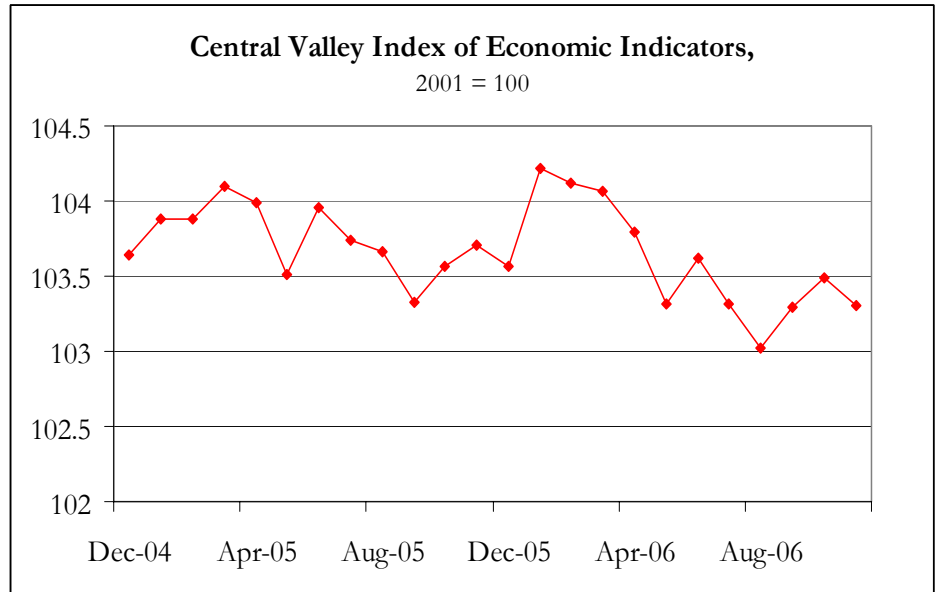
Author

Edward Birdyshaw
Assistant Professor of Economics
Research Fellow,
Center for Economic Research and
Education of Central California

Index Falls Slightly, Slower Growth Expected

The Central Valley Index of Economic Indicators fell 0.17% in November, from 103.49 to 103.31. Of the seven indicators that comprise the index, two—Central Valley non-farm payrolls and Central Valley building permits—posted gains. The remaining indicators—Central Valley new claims for unemployment insurance, California average weekly hours, the U.S. interest rate spread, U.S. consumer confidence, U.S. real orders for non-defense, non-aircraft capital goods—deteriorated.

Employment data was once again mixed in the Central Valley. Non-farm payrolls increased 0.38% in November, from 470,455 to 472,239. This increase was the largest positive contributor to the index and continued a rise that began in October. However, new claims for unemployment insurance also continued to increase, rising by 5.14%. In addition, the average work week in California's manufacturing sector declined for the first time since



June 2006, although the preliminary data is still well above the historical average.

The only other positive contribution came from a sharp rebound in Central Valley building permits, which increased by 9.30% in November. Although the actual number of building permits fell by 82, this is well below the average decline for November of 196. After adjusting for seasonality, building permits rebounded significantly in November.

All of the index's national indicators deteriorated. Of these, U.S. real orders for non-defense, non-aircraft capital goods contributed most to the index's decline. Real orders fell by 2.54%, from

43,757.0 to 42,660, in November. Consumer confidence and the interest rate spread also declined in November, by 1.62% and 0.13% respectively. While these decreases cannot be interpreted as good news, they are modest by historical standards and the index fell only slightly for the month.

Compared to six months ago the index declined very slightly—less than 0.01%. Therefore, despite the fact that a small majority of the indicators decreased from their values of six months ago, the index does not indicate that a recession is imminent. We expect growth to be stable, although slower, in the near future.

Table 1: Summary Measures

	2006					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Central Valley Index of Economic Indicators, 2001 = 100	103.62	103.31	103.02	103.30	103.49	103.31
Percentage Change	0.30	-0.29	-0.29	0.27	0.19	-0.17
Diffusion Index	71.4	42.9	28.6	71.4	50.0	28.6
6-month Percentage Change, Annualized	0.10	-1.73	-2.10	-1.47	-0.58	-0.00
6-month Diffusion Index	57.1	28.6	28.6	42.9	57.1	42.9

Central Valley Index of Economic Indicators

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

NOVEMBER 2006

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.

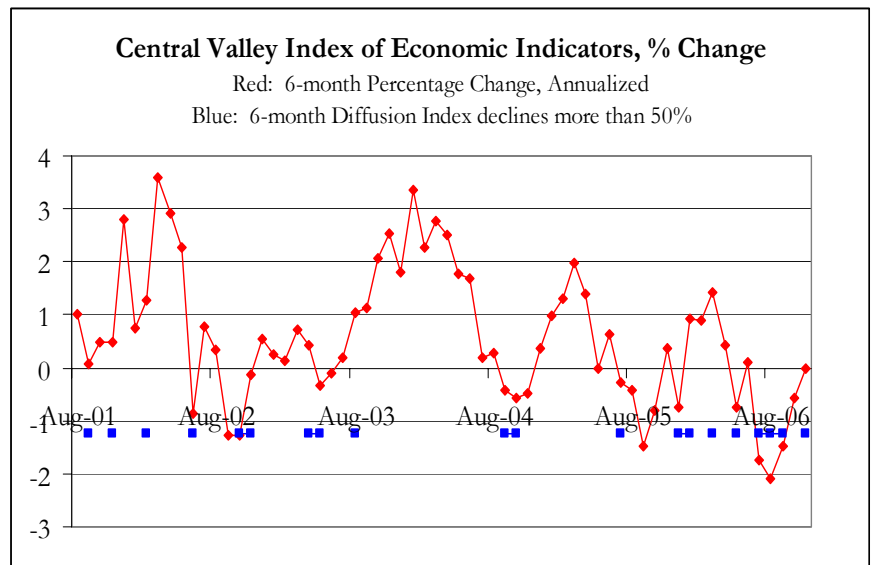
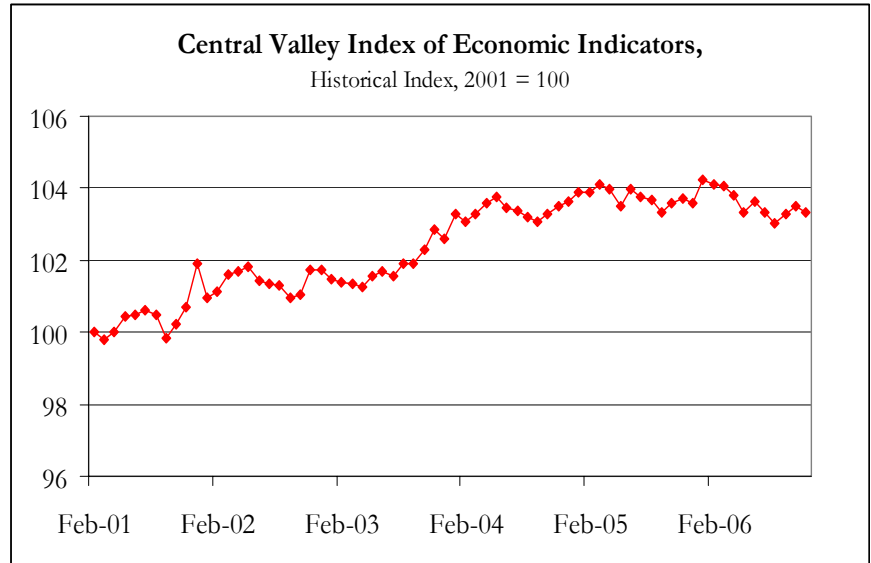


Table 2: Index Components

	2006					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Central Valley Non-Farm Payrolls, SA*	468,129	466,460	466,105	465,861	470,455	472,239
Central Valley Building Permits, SA	901	710	667	683	548	602
California Average Weekly Hours, SA	40.5	40.6	40.2	40.3	40.4	40.2
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	43,183.6	43,492.2	43,957.1	45,194.7	43,757.0	42,660
Univ. of Michigan Consumer Confidence	84.9	84.7	82.0	85.4	93.6	92.1
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	-0.12	-0.24	-0.37	-0.53	-0.52	-0.65
Central Valley Initial Unemployment Claims, SA	8,435	8,348	8,024	7,456	8,025	8,448

*SA—Seasonally Adjusted