

# Central Valley Index of Economic Indicators



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

## DECEMBER 2006

### Author

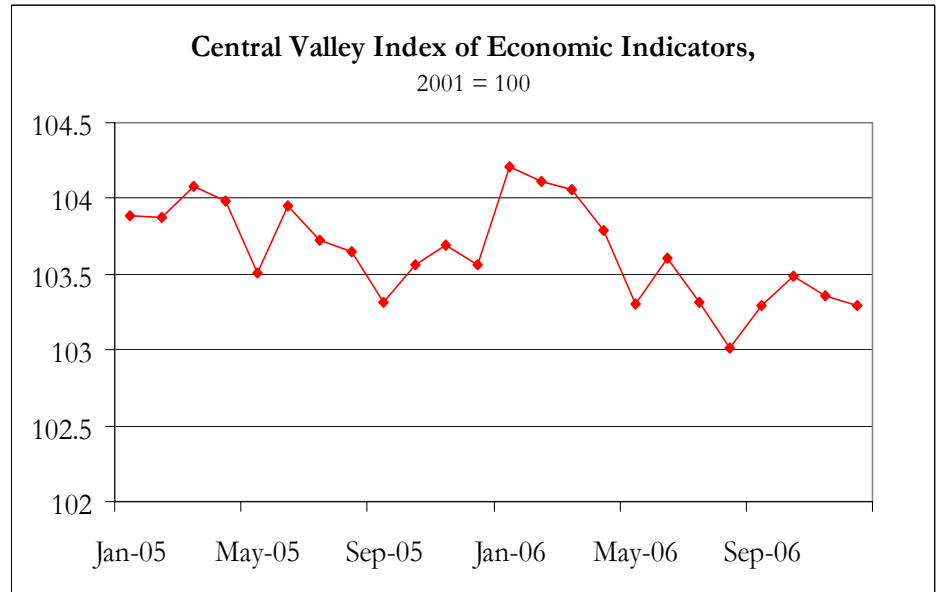
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### Index Falls Slightly, Growth Expected to Continue at Slow Pace

The Central Valley Index of Economic Indicators fell 0.07% in December, from 103.36 to 103.29. Of the seven indicators that comprise the index, three—Central Valley new claims for unemployment insurance, California average hours worked, and U.S. real orders of non-defense, non-aircraft capital goods—showed improvement. The remaining four indicators—Central Valley non-farm payroll, Central Valley building permits, U.S. consumer confidence, and the interest rate spread—deteriorated.

Central Valley building permits contributed most to the index's decline, falling by 30.7% after seasonal adjustment—the largest decline in the region since June 2005. On average, December has been the strongest month for building permits in the Central Valley, but this December saw a decline of 45 permits. This continues a downward trend that began in September.

Non-farm payroll also declined slightly in December, falling by 0.07%. Employment



has been on a downward trend in the Valley for most of the year, but posted significant gains in both October and November, even after seasonal adjustment. New claims for unemployment insurance also edged up in December, rising by 0.15%. As one would expect, unemployment claims have followed a similar pattern as non-farm employment—rising throughout much of the year but posting significant declines in October and September. Part of the recent deterioration may be the result of firms granting more overtime rather than hiring new employees. In fact, the average work week for manufacturing in California rose 0.77% in December from 40.2 to 40.5. This may be a reflection of firms' uncertainty concerning future economic conditions.

Nationally, orders for non-defense, non-aircraft capital goods rose 2.9% in

December while the consumer confidence and the interest rate spread fell slightly. The improvement in orders for capital goods is certainly good news, although a 2.9% increase is well within the normal range for this indicator and does not fully offset declines that occurred in the previous two months.

Compared to six months ago the index fell by 0.61% with exactly half the indicators declining. Using the 2-percent rule, which states that a recession is imminent if the index declines by more than 2-percent over a six month period and more than half the indicators are declining, we cannot predict a recession. Instead we believe growth will continue at a slow pace for the next three to six months.

Table 1: Summary Measures

	2006					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Central Valley Index of Economic Indicators, 2001 = 100	103.31	103.02	103.29	103.49	103.36	103.29
Percentage Change	-0.29	-0.28	0.27	0.19	-0.12	-0.07
Diffusion Index	42.9	28.6	71.4	50.0	28.6	50.0
6-month Percentage Change, Annualized	-1.72	-2.09	-1.46	0.58	0.11	-0.61
6-month Diffusion Index	28.6	28.6	42.9	57.1	42.9	50.0

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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.

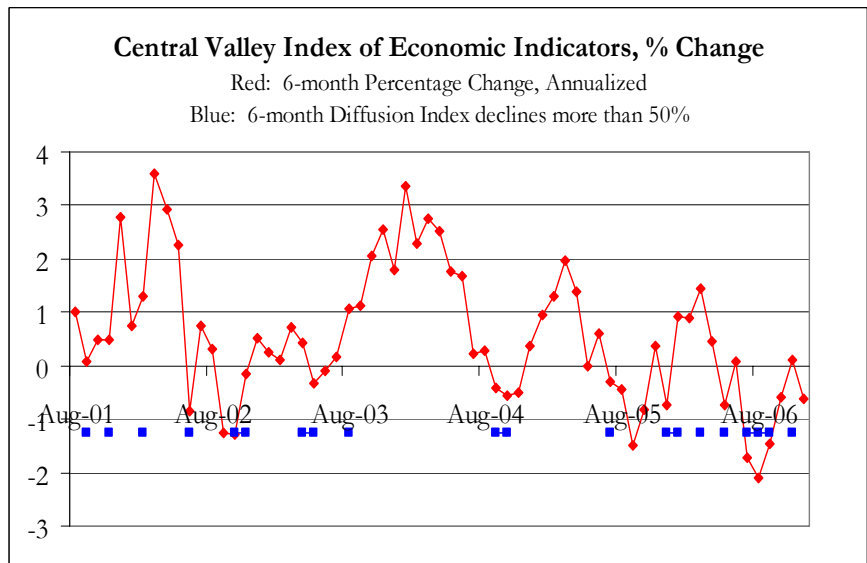
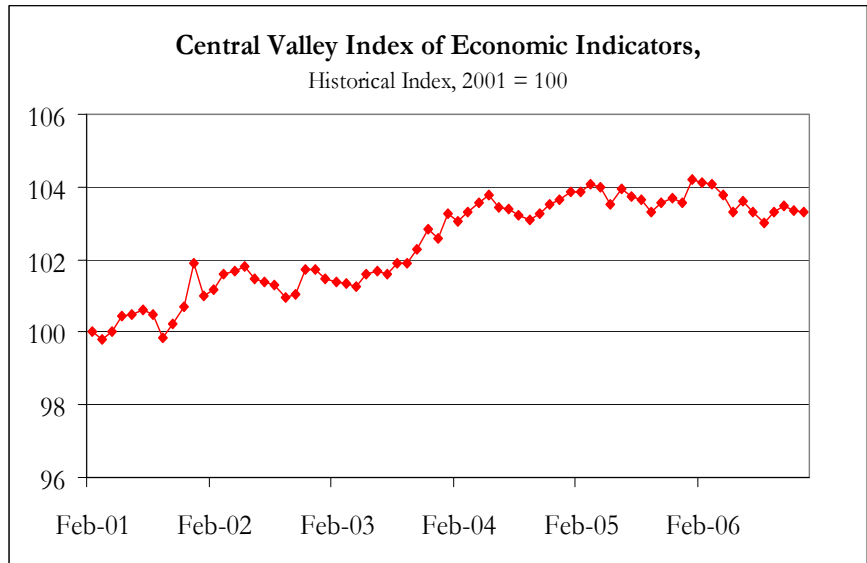


Table 2: Index Components

	2006					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Central Valley Non-Farm Payrolls, SA*	466,460	466,105	465,861	470,455	472,239	471,897
Central Valley Building Permits, SA	710	667	683	548	634	465
California Average Weekly Hours, SA	40.6	40.2	40.3	40.4	40.2	40.5
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	43,492.2	43,957.1	45,194.7	43,727.1	42,709.2	43,957.6
Univ. of Michigan Consumer Confidence	84.7	82.0	85.4	93.6	92.1	91.7
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	-0.24	-0.37	-0.53	-0.52	-0.65	-0.68
Central Valley Initial Unemployment Claims, SA	8,348	8,024	7,456	8,025	8,448	8,435

\*SA—Seasonally Adjusted