

# Central Valley Index of Economic Indicators



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

**MAY 2006**

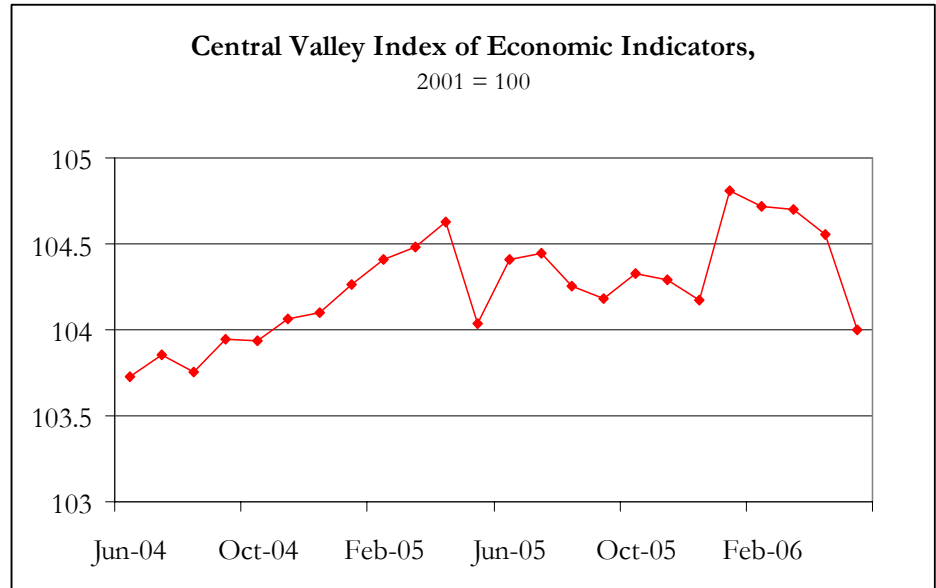
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## Index Declines Sharply

The Central Valley Index of Economic Indicators fell sharply in May, from 104.55 to 104.00. Of the seven components that comprise the index, only two—Central Valley building permits, and U.S. real orders of non-defense, non-aircraft capital goods—showed improvement. The remaining indicators—Central Valley non-farm payrolls, Central Valley new claims for unemployment insurance, California average weekly hours, consumer confidence and the interest rate spread—deteriorated.

Employment in the Central Valley, as measured by the establishment survey, continued to decline despite a falling unemployment rate. There are two reasons for this seemingly contradictory result. First, the employment data used in the index is drawn from a survey of business establishments whereas data used to calculate the unemployment rate is drawn from a survey of households. Employment estimates derived from the household survey are typically higher than those derived from the establishment survey, particularly when the economy is recovering from a recession. In fact, employment growth is greater when measured by the



household survey. However, the growth rate of employment in both measures has fallen even while the unemployment rate has declined.

This brings us to the second reason for the anomaly: the labor force—the sum of all employed and unemployed workers as measured by the household survey—has stagnated since January 2003. So, even though the growth rate of employment has fallen, it is still high enough to drive down the unemployment rate.

Other Central Valley indicators have also declined after seasonal adjustment. New claims for unemployment insurance increased by 9.9% and the average work week in California declined by 0.08%. The latter figure is negligible considering the historic volatility of average weekly hours.

Aside from deteriorating employment data, the decline in the index is largely driven by a decrease in consumer confidence, which fell by 10.0%. While consumer confidence is considered to be a good indicator of future economic performance, it is volatile one and so data from a single month should not cause alarm.

The index showed negative growth—it fell by 0.55%—and more than half the indicators fell when compared to six months ago. However, using the two percent rule, these data do not indicate that a recession is imminent. Also, given the inherent volatility of the index, one should focus more on trends in the data than any single month. While the trend in the index indicates slowdown in economic growth, it does not yet indicate a recession.

Table 1: Summary Measures

	2005-2006					
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Central Valley Index of Economic Indicators, 2001 = 100	104.65	104.81	104.72	104.70	104.55	104.00
Percentage Change	-0.11	0.61	-0.08	-0.02	-0.15	-0.53
Diffusion Index	42.9	57.1	28.6	57.1	42.9	35.7
6-month Percentage Change, Annualized	-0.46	0.69	0.90	1.01	0.43	-0.55
6-month Diffusion Index	28.6	42.9	57.1	42.9	57.1	28.6

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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.

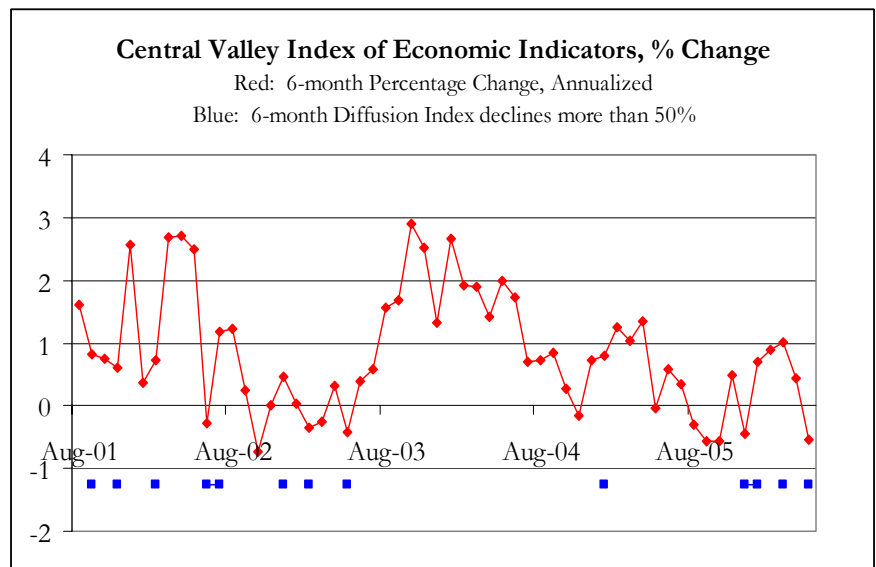
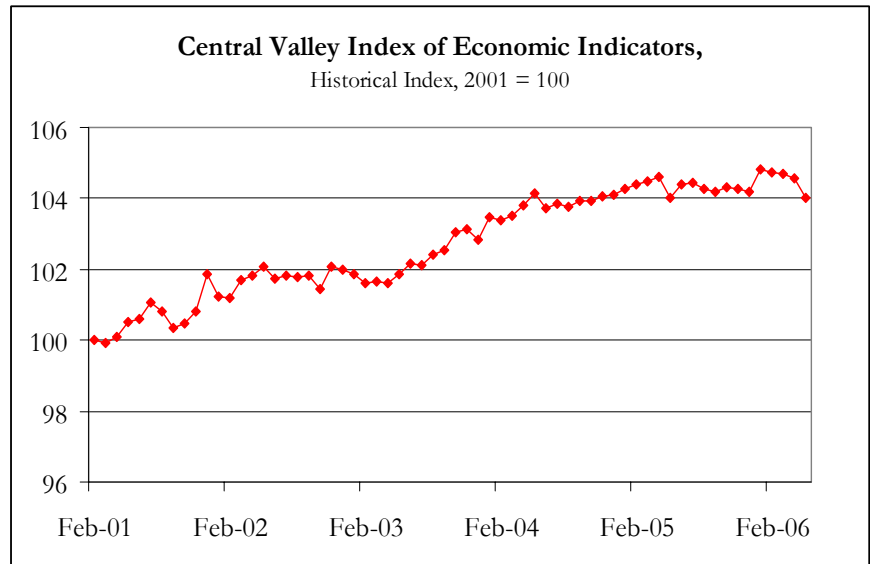


Table 2: Index Components

	2005-2006					
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Central Valley Non-Farm Payrolls, SA*	470,336.7	472,480.9	473,314.0	474,454.1	472,124.8	469,549.0
Central Valley Building Permits, SA	936	1,220	1,012	921	836	888
California Average Weekly Hours, SA	39.4	40.4	40.3	40.0	40.3	40.2
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	41,838.2	42,613.8	42,086.4	43,467.5	42,454.2	42,554.5
Univ. of Michigan Consumer Confidence	91.5	91.2	86.7	88.9	87.4	79.1
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.31	0.13	0.08	0.13	0.20	0.17
Central Valley Initial Unemployment Claims, SA	8,744	9,688	7,996	9,240	8,276	9,139

\*SA—Seasonally Adjusted