

Central Valley Index of Economic Indicators



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

JUNE 2006

Author

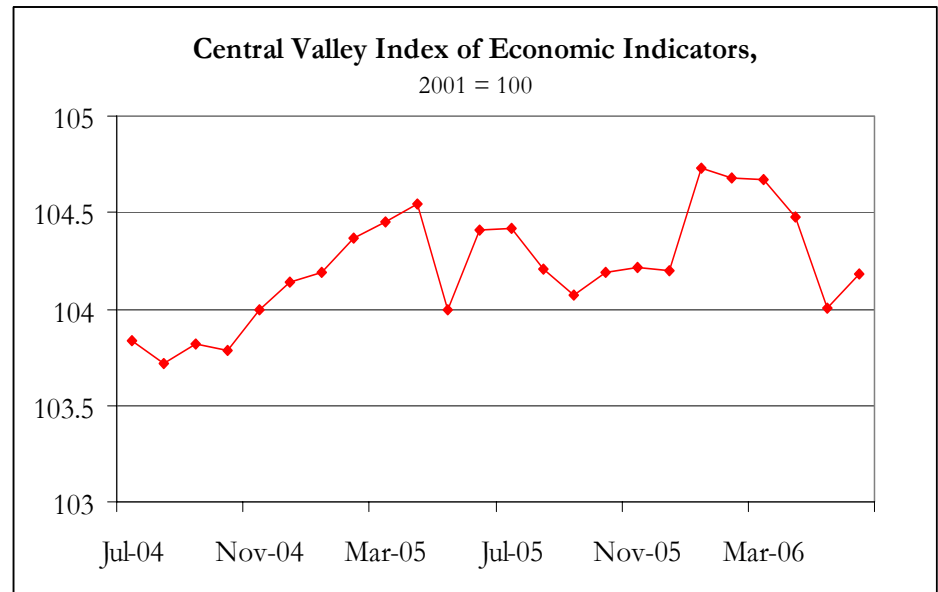
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Index Rebounds; Moderate Growth Expected

The Central Valley Index of Economic Indicators rebounded in June, rising 0.17% from 104.00 to 104.19. Of the seven components that comprise the index, five—Central Valley building permits, Central Valley new claims for unemployment insurance, California average weekly hours, and U.S. real orders of non-defense, non-aircraft capital goods—posted gains. The remaining two components—Central Valley non-farm payrolls and the interest rate spread—deteriorated.

A 7.1% rise in consumer confidence was the main force driving up the index in June, followed by a 7.7% decrease in Central Valley new claims for unemployment insurance. The average work week in California also increased significantly—a 0.87% gain from May.

After seasonal adjustment, the Central Valley lost 1,451 jobs in June, continuing a downward slide that began in April. Using actual numbers, unadjusted for seasonality, the Central



Valley lost 700 jobs – compared to an average increase in June of 1,580 jobs over the last 16 years. In general, job growth as measured by the survey of businesses has been slow throughout the summer.

Despite a nationwide slowdown in the housing market, Central Valley building permits increased by 172 in June—considerably above the average for this month. After adjusting for seasonality this amounts to roughly a 5.0% change from May.

The interest rate spread dropped to a negative value—the first time this has happened since the country emerged from the 2001 recession. While this is alarming on the surface, yield curve inversions are not perfect predictors of

recessions. For example, it is possible the inversion is caused by changing expectations of future inflation or risk premiums, and not a weaker economy. Alan Greenspan has pointed out that, while these inversions may be signals of recessions, they are not the cause.

Though the index regained only 26% of its loss since peaking in January, the increase in June is welcome news. Compared to six months ago, the index is virtually unchanged—falling by 0.02% (annualized) and the six month diffusion index now stands at 42.9, indicating that less than half of the indicators have posted gains. While job growth and interest rates may indicate weaknesses in the economy, there is no sign of an imminent recession.

Table 1: Summary Measures

	2006					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Central Valley Index of Economic Indicators, 2001 = 100	104.73	104.68	104.67	104.47	104.00	104.19
Percentage Change	0.51	-0.05	-0.01	-0.19	-0.45	0.17
Diffusion Index	57.1	28.6	57.1	42.9	35.7	71.4
6-month Percentage Change, Annualized	0.60	0.91	1.16	0.55	-0.42	-0.02
6-month Diffusion Index	42.9	57.1	42.9	57.1	35.7	42.9

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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.

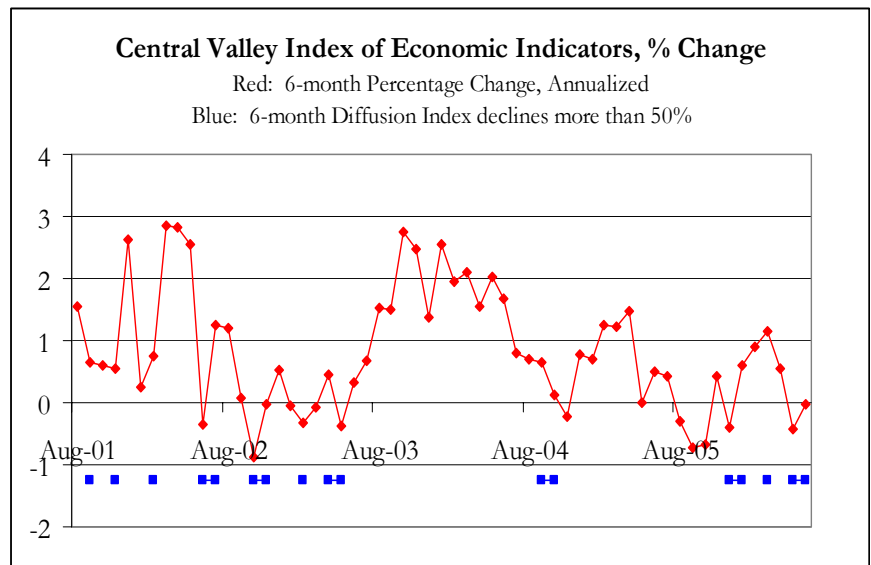
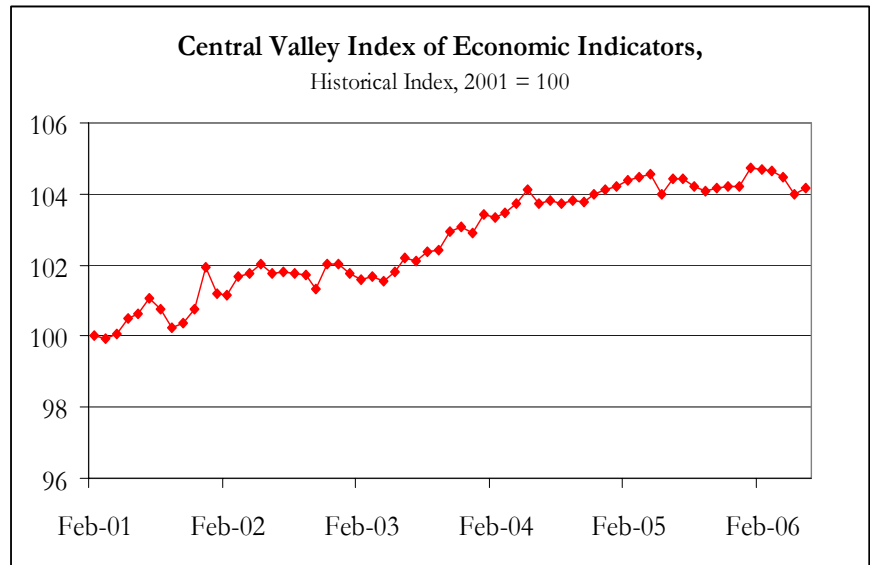


Table 2: Index Components

	2006					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Central Valley Non-Farm Payrolls, SA*	472,257	473,438	474,741	471,727	469,840	468,389
Central Valley Building Permits, SA	1,207	1,021	933	853	949	971
California Average Weekly Hours, SA	40.4	40.3	40.0	40.3	40.1	40.5
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,613.8	42,057.5	43,408.1	42,454.2	42,868.5	43,154.2
Univ. of Michigan Consumer Confidence	91.2	86.7	88.9	87.4	79.1	84.9
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.13	0.08	0.13	0.20	0.17	-0.12
Central Valley Initial Unemployment Claims, SA	9,439	7,998	9,243	8,278	9,141	8,463

*SA—Seasonally Adjusted