

Central Valley Index of Economic Indicators



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

JULY 2006

Author

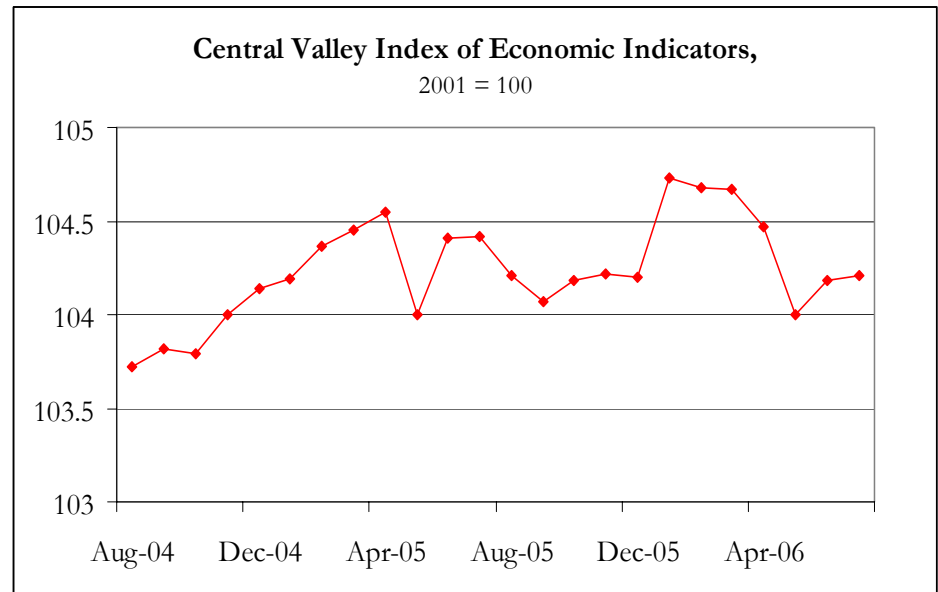
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Index Rises Slightly; Slower Growth Expected

The Central Valley Index of Economic Indicators rose slightly in July, increasing 0.02% from 104.19 to 104.21. Of the seven indicators that comprise the index, four—Central Valley non-farm payrolls, Central Valley new claims for unemployment insurance, California average weekly hours, and U.S. real orders of non-defense, non-aircraft capital goods—showed improvement. The remaining three indicators—Central Valley building permits, consumer confidence, and the interest rate spread—deteriorated.

Upward movement in the index was driven mostly by Central Valley non-farm payrolls. After seasonal adjustment, the Central Valley gained 1,453 jobs in July, stopping a slide in job growth that began in March. Using actual numbers, unadjusted for seasonality, the Central Valley lost 2,900 jobs in July. However, this is considerably lower than the average decrease in July of 3,400 jobs.

Likewise, the average work week in California rose by 0.52% after seasonal adjustment. The actual estimate fell from



40.6 to 40.3, but this decline is mild by historical standards. U.S. real orders of non-defense, non-aircraft capital goods also contributed to the index's increase. Orders of new capital goods rose by 3.1%, which is moderate by historical standards.

Of the three indicators exerting negative pressure on the index, Central Valley building permits is most prominent. Adjusted for seasonality, building permits fell by 33.3% in July—the largest drop since November of 2003. Using actual numbers, unadjusted for seasonality, building permits fell by 349, well above the average drop in July of 85. This decline is consistent with a cooling housing market nationwide, and may reflect increasing interest rates and consumer unease about the future.

The interest rate spread continue to decline into the negative range, falling from -0.12 to

-0.24. Historically a negative value for the interest rate spread is the strongest predictor of recession, although not a perfect one. While this certainly presents cause for concern about the national economy, analysts are divided about the implications of this particular yield curve inversion.

Compared to six months ago, the Central Valley index has dropped by an annualized rate of 1.0%. In addition, the six month diffusion index now stands at 28.6, indicating that only two of the indicators lie above their values of six months ago—California's average work week and U.S. new orders of capital goods. The data suggest that economic growth may slow in the near future. However, the index has risen slightly from June and, using the two percent rule, a recession does not appear imminent.

Table 1: Summary Measures

	2006					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Central Valley Index of Economic Indicators, 2001 = 100	104.68	104.67	104.47	104.00	104.19	104.21
Percentage Change	-0.05	-0.01	-0.19	-0.45	0.17	0.02
Diffusion Index	28.6	57.1	42.9	35.7	71.4	57.1
6-month Percentage Change, Annualized	0.91	1.16	0.55	-0.42	-0.02	-1.0
6-month Diffusion Index	57.1	42.9	57.1	35.7	42.9	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.

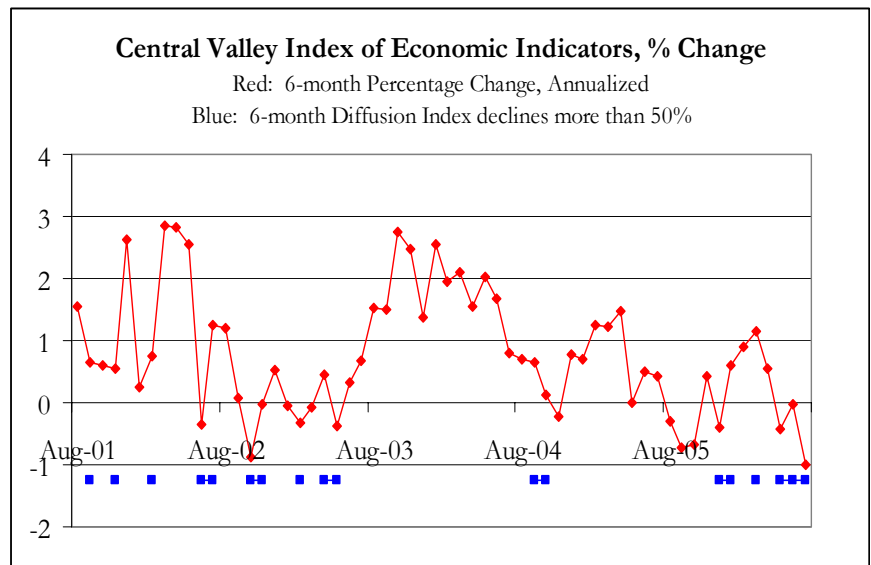
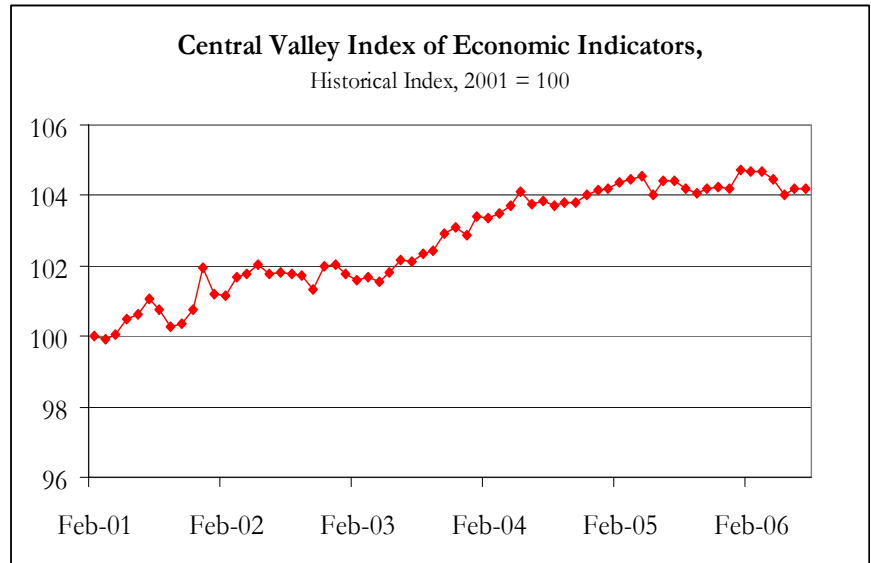


Table 2: Index Components

	2006					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Central Valley Non-Farm Payrolls, SA*	473,438	474,741	471,727	469,840	468,389	469,842
Central Valley Building Permits, SA	1,021	933	853	949	971	694
California Average Weekly Hours, SA	40.3	40.0	40.3	40.1	40.5	40.7
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,057.5	43,408.1	42,454.2	42,868.5	43,154.2	43,940.8
Univ. of Michigan Consumer Confidence	86.7	88.9	87.4	79.1	84.9	84.7
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.08	0.13	0.20	0.17	-0.12	-0.24
Central Valley Initial Unemployment Claims, SA	7,998	9,243	8,278	9,141	8,463	8,410

*SA—Seasonally Adjusted