

Central Valley Index of Economic Indicators



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

AUGUST 2006

Author

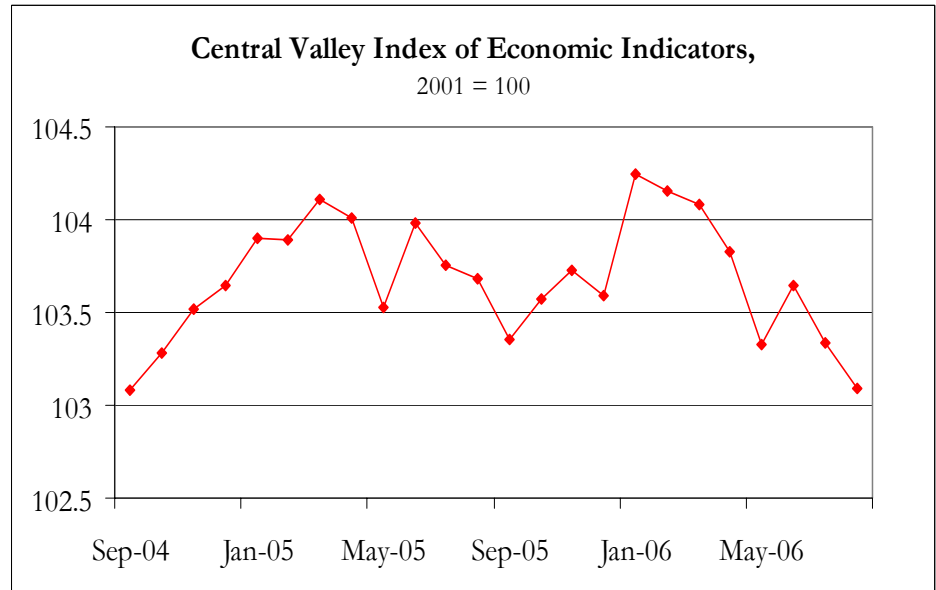
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Index Continues to Decline[†]

The Central Valley Index of Economic Indicators fell 0.24% in August, from 103.33 to 103.09. Of the seven indicators that comprise the index, three—Central Valley new claims for unemployment insurance, Central Valley non-farm payrolls, and U.S. real orders of non-defense, non-aircraft capital goods—showed gains. The remaining indicators—Central Valley building permits, California average weekly hours worked, consumer confidence, and the interest rate spread—deteriorated.

Of all components, California's average work week contributed most to the decline. According to the Bureau of Labor Statistics' preliminary estimate, the California work week rose by 0.3 hours, while the average gain for August is 0.5. As a result, the work week declined by 0.65% after adjusting for seasonality. A 3.24% drop in consumer confidence also contributed to the Index's decline, although this component is highly volatile and caution should be used when interpreting month to month changes.

Central Valley building permits and the interest rate spread also declined in August, although less dramatically. Building permits



fell by 9.13% in August, which is considerably less than the 24.44% drop in July. On average, building permits change by nearly 13% each month, so the decline in August is moderate by historical standards. The interest rate spread, considered a strong predictor of recessions, continued its decline into the negative range. However, this may be due to expectations of higher inflation and greater uncertainty regarding future economic growth, rather than a structural deficiency in the current economy.

On a positive note, Central Valley non-farm payrolls posted its first gain since March. Job growth was slow at 0.08%, but the gains are very close to the average for August. New claims for unemployment insurance also improved—declining by 3.98%. Taken together, these indicators suggest that the

labor market may be improving in the Central Valley.

Compared to six months ago, the index fell by 2.03% and the diffusion index indicates that more than half the components have declined. According to the 2-percent rule, these statistics suggest that a recession is imminent. However, there are signs that the labor market is improving in the Central Valley, and much of the recent movement in the index has been caused by its more volatile national and statewide components. In light of this, while there is cause for concern, we cannot predict a recession at this time.

[†] The seasonal adjustments of several components have been updated. Therefore comparisons to previous reports are not valid.

Table 1: Summary Measures

	2006					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Central Valley Index of Economic Indicators, 2001 = 100	104.08	103.82	103.33	103.64	103.33	103.09
Percentage Change	-0.07	-0.25	-0.48	0.30	-0.30	-0.24
Diffusion Index	57.1	42.9	35.7	71.4	42.9	42.9
6-month Percentage Change, Annualized	1.41	0.48	-0.76	0.09	-1.73	-2.03
6-month Diffusion Index	42.9	57.1	28.6	57.1	28.6	35.7

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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.

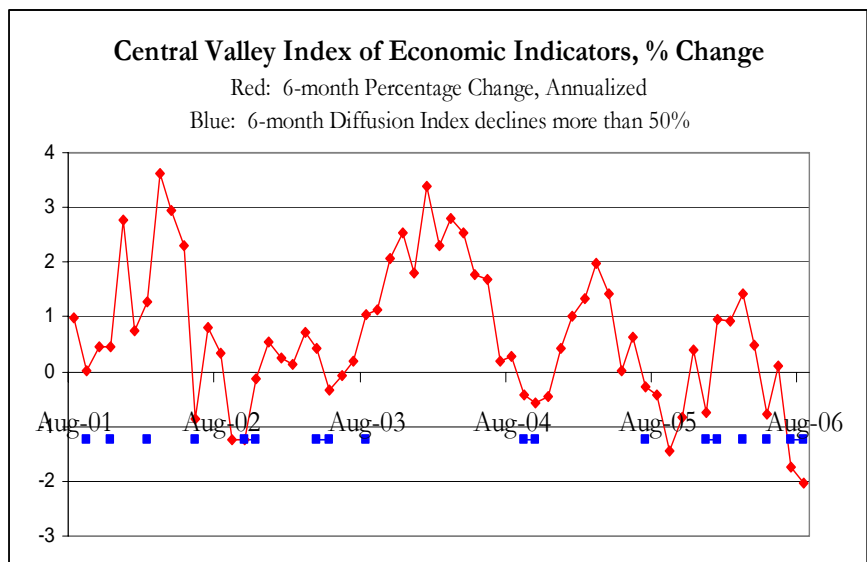
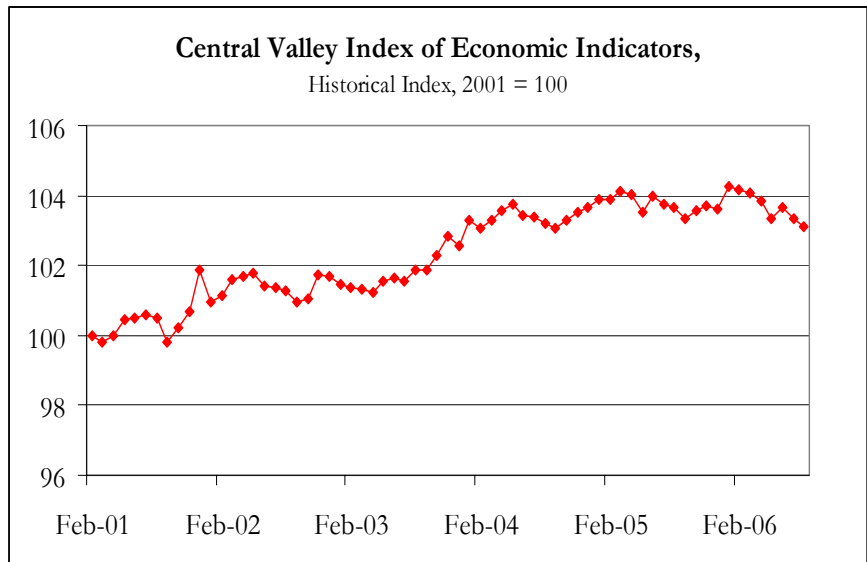


Table 2: Index Components

	2006					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Central Valley Non-Farm Payrolls, SA*	476,430	473,244	470,473	468,129	466,460	466,811
Central Valley Building Permits, SA	827	694	776	904	707	645
California Average Weekly Hours, SA	40.0	40.3	40.1	40.5	40.6	40.3
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	43,467.5	42,425.3	42,868.5	43,154.2	43,492.2	43,802.7
Univ. of Michigan Consumer Confidence	88.9	87.4	79.1	84.9	84.7	82.0
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.13	0.20	0.17	-0.12	-0.24	-0.37
Central Valley Initial Unemployment Claims, SA	9,233	8,282	9,115	8,435	8,348	8,024

*SA—Seasonally Adjusted