

Central Valley Index of Economic Indicators



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

SEPTEMBER 2006

Author

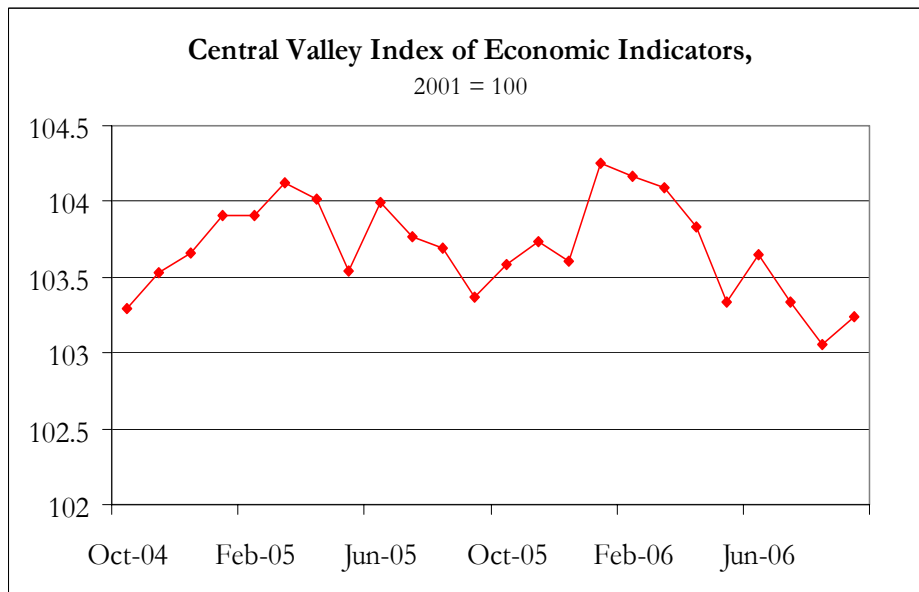
Edward Birdyshaw
Assistant Professor of Economics
Research Director,
Center for Economic Research and
Education of Central California

Index Rebounds, But Slower Growth Expected

The Central Valley Index of Economic Indicators rose 0.30% in September, from 103.06 to 103.24. Of the seven indicators that comprise the index, five—Central Valley building permits, Central Valley new claims for unemployment insurance, California average hours worked, consumer confidence, and U.S. new orders for non-defense, non-aircraft capital goods—showed improvement. The remaining two indicators—Central Valley non-farm payrolls and the interest rate spread—deteriorated.

Consumer Confidence contributed the most to the index's rise, increasing from 82.0 to 85.4. This may be a reflection of falling energy prices and strong gains in the stock market. However, consumer confidence is a volatile component and September's increase should be viewed with some caution. In fact, The Conference Board reports a drop in their consumer confidence index in October.

Regionally, Central Valley new claims for unemployment insurance contributed most to September's increase.



Unemployment claims fell by 7.34%, continuing a decline that began in July. This result seems to contradict the decrease in non-farm employment, which fell by 0.13% in September and has been falling since March. However this data is consistent with broader measures of Central Valley employment, which show a decreasing unemployment rate even as civilian employment growth slows. The declining unemployment rate is driven by a precipitous drop in the number of unemployed workers as measured by the State of California's Employment Development Department.

The California average manufacturing work week also posted gains in September, although the data is preliminary estimate and will likely be revised in the near future. U.S. new orders for non-defense, non-aircraft capital goods continued to rise in

September, increasing by 1.40%. Central Valley building permits also rose slightly, by 0.18% after seasonal adjustment.

The interest rate spread continued to decline, reaching -0.53 in September. Historically a negative value for the interest rate spread is the best indicator of a recession, but many analysts believe the current inversion may be due to expectations of low inflation and not a sign of weakness in the economy.

The index remains weak compared to six months ago, having fallen by 1.63% and with only three indicators showing improvement. While this does not indicate a recession using the 2-percent rule, we expect economic growth to slow in the Central Valley in the near future.

Table 1: Summary Measures

	2006					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Central Valley Index of Economic Indicators, 2001 = 100	104.83	103.34	103.65	103.34	103.06	103.24
Percentage Change	-0.25	-0.48	0.30	-0.30	-0.27	0.17
Diffusion Index	42.9	35.7	71.4	42.9	28.6	71.4
6-month Percentage Change, Annualized	0.48	-0.79	0.09	-1.74	-2.10	-1.63
6-month Diffusion Index	57.1	28.6	57.1	28.6	28.6	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.

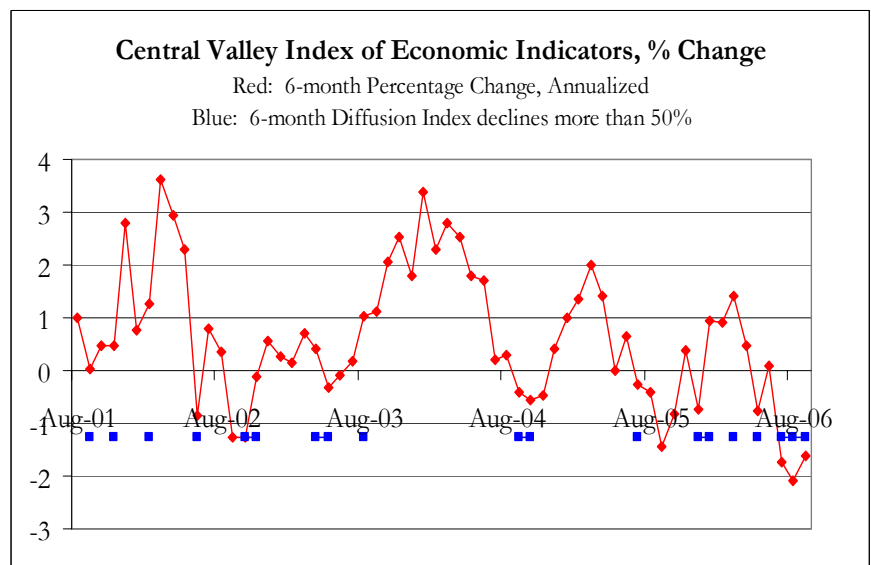
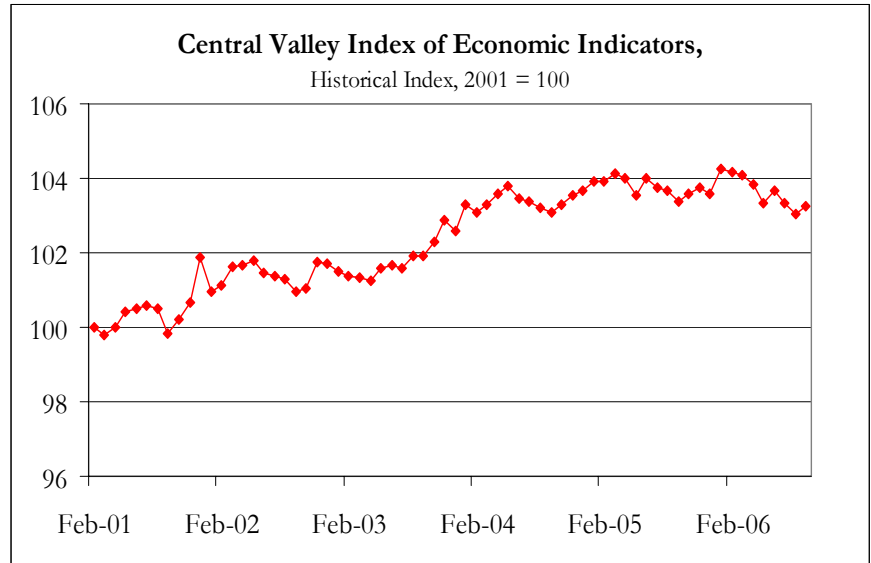


Table 2: Index Components

	2006					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Central Valley Non-Farm Payrolls, SA*	473,244	470,473	468,129	466,460	466,105	465,482
Central Valley Building Permits, SA	694	776	904	708	665	667
California Average Weekly Hours, SA	40.3	40.1	40.5	40.6	40.2	40.3
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,425.3	42,868.5	43,154.2	43,492.2	44,107.2	44,728.0
Univ. of Michigan Consumer Confidence	87.4	79.1	84.9	84.7	82.0	85.4
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.20	0.17	-0.12	-0.24	-0.37	-0.53
Central Valley Initial Unemployment Claims, SA	8,282	9,115	8,435	8,348	8,024	7,456

*SA—Seasonally Adjusted