Central Valley
Index of Economic Indicators

Center for Economic Research and Education of Central California
A Project of the Economics Department, College of Social Sciences
California State University, Fresno

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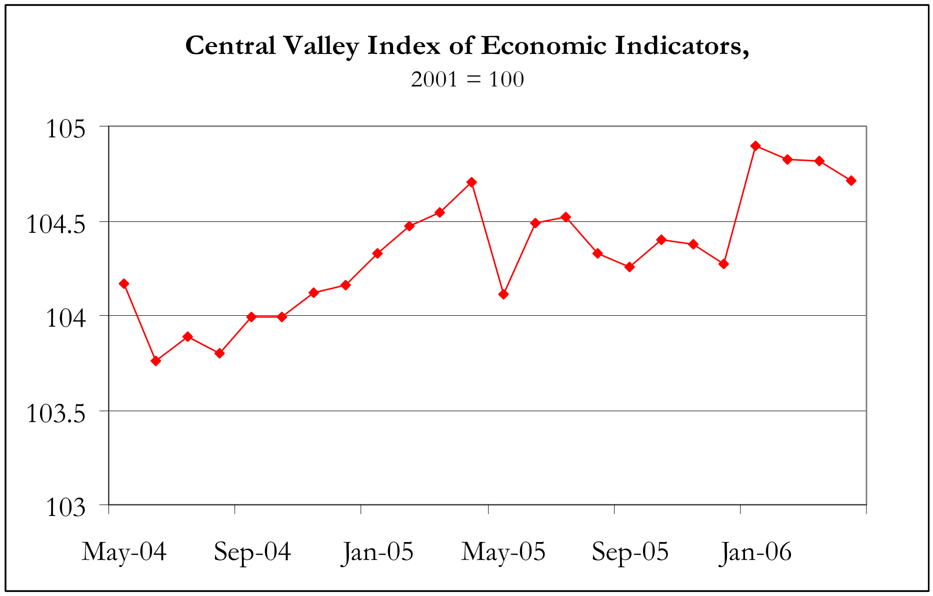
Author
Edward Birdyshaw
Assistant Professor of Economics
Associate Director,
Center for Economic Research and
Education of Central California

A Modest Decline



The Central Valley Index of Economic Indicators fell by 0.04 percent, from 104.8 to 104.7 in April. Of the seven indicators that comprise the index, three—Central Valley new unemployment claims, California average weekly hours, and the interest rate spread—showed improvement. The remaining indicators—Central Valley non-farm payrolls, Central Valley building permits, U.S. real orders of non-defense, non-aircraft capital goods, and consumer confidence—deteriorated.

Central Valley non-farm payrolls dropped 0.22 percent in April after seasonal adjustment. The number of people actually employed increased by 1,600 in April, but this represents only about half the average increase in the last five years. In the last two years, for example, the Central Valley has added over 5,000 jobs each April. However, this drop was largely offset by an 11.0 percent decrease in new claims for unemployment insurance in the Central Valley. The apparent discrepancy between payrolls and new claims for unemployment insurance may be due to the fact that non-farm payrolls do not differentiate between part-time and full-time workers. In fact, the average work week increased in California by 0.10 percent after seasonal adjustment.

With the employment components of the index largely offsetting each other, the drop in the index is due mostly to a 1.93 percent decline in U.S. real orders for non-defense, non-aircraft capital goods. This decline may be due, in part, to rising interest rates, and a 1.70 percent drop in consumer confidence.

Finally, the interest rate spread continued to improve in April, rising from 0.13 to 0.20. The Fed has indicated that future monetary policy will be dependent on incoming data, which show modest increases in core inflation and a slow down in personal consumption expenditures. This could be a signal that past economic growth is driving recent inflation numbers, while rising energy prices coupled with falling housing prices are dampening consumer spending. If this interpretation is correct, the Fed will likely stop raising interest rates for the near future.

Compared to six months ago, the index has increased by 0.60 percent. The 6-month diffusion index stands at 57.1, indicating that most of the index components have increased over the last six months. As a result, while the index does show signs of a slowing economy, no recession is imminent.

Table 1: Summary Measures

	2005-2006					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Central Valley Index of Economic Indicators, 2001 = 100	104.4	104.3	104.9	104.8	104.8	104.7
Percentage Change	-0.03	-0.10	0.60	-0.07	-0.01	-0.09
Diffusion Index	42.9	42.9	57.1	28.6	57.1	42.9
6-month Percentage Change, Annualized	0.50	-0.41	0.73	0.95	1.07	0.60
6-month Diffusion Index	57.1	28.6	42.9	57.1	42.9	57.1

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Methodology and Notes

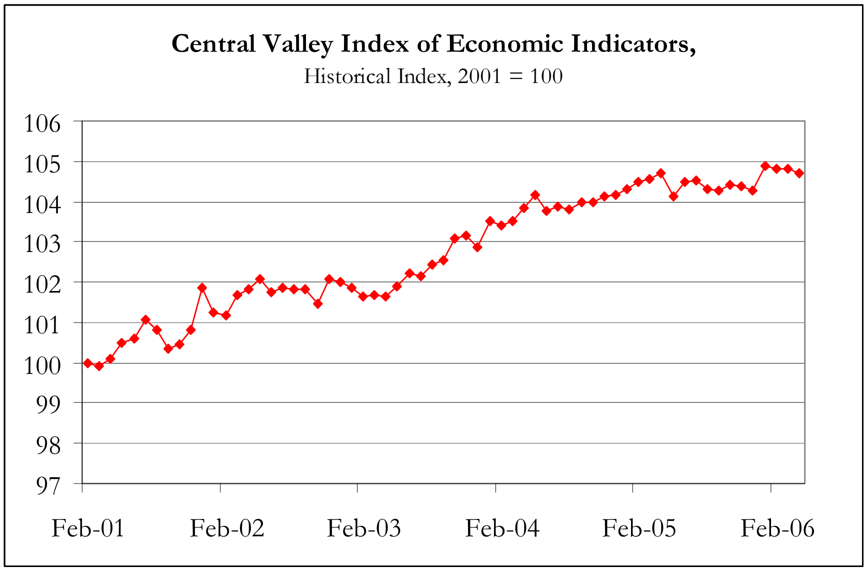
The methodology employed in creating the Central Valley Index of Economic Indicators follows closely the technique used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For the purposes of this index, the Central Valley is comprised 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.



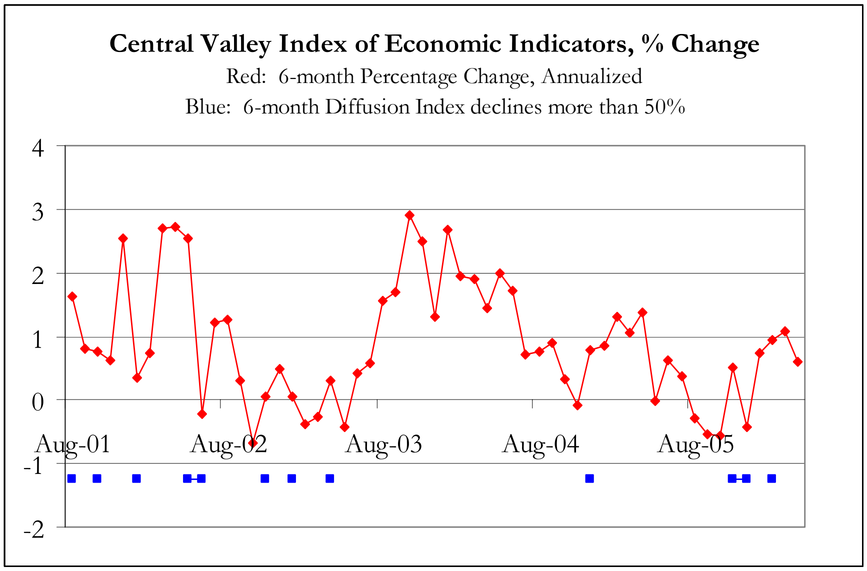


Table 2: Index Components

	2005-2006					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Central Valley Non-Farm Payrolls, SA*	469,786.2	470,336.7	472,480.9	473,314.0	474,454.1	473,426.5
Central Valley Building Permits, SA	1,339	936	1,220	1,208	921	842
California Average Weekly Hours, SA	39.9	39.4	40.5	40.3	40.0	40.1
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions $, SA	41,016.6	41,838.2	42,555.3	42,086.4	43,521.6	42,691.3
Univ. of Michigan Consumer Confidence	81.6	91.5	91.2	86.7	88.9	87.4
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.54	0.31	0.13	0.08	0.13	0.20
Central Valley Initial Unemployment Claims, SA	8,503	8,744	9,688	7,996	9,240	8,276

*SA—Seasonally Adjusted