

# 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

## August 2005

### Author

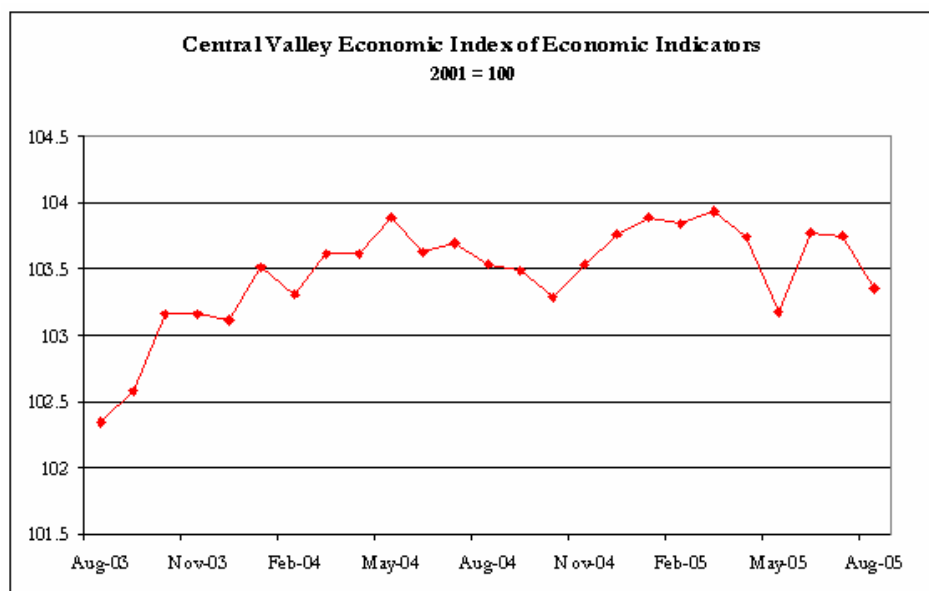
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### Analysis

The Central Valley Index of Economic Indicators fell to 103.62 (2001 = 100) in August, a 0.33 drop from July's reading. Of the indicators that comprise the Central Valley Index, four—U.S. consumer confidence, the interest rate spread, Central Valley non-farm payrolls, and Central Valley building permits—declined in August. The remaining two indicators—U.S. manufacturing orders and California average weekly hours—improved.

Central Valley non-farm payrolls decreased in August, after posting gains in July and June. Although not yet included in the index, new claims for unemployment insurance in the Central Valley fell by 147, driven mostly by a decline in Tulare County. As a result, the change in the employment component of the index is mixed at this time.

U.S. consumer confidence fell by nearly 8%, suggesting that households' expectations of future economic



conditions have grown more pessimistic. The interest rate spread continued to fall—by 0.18% in August—indicating that short-term interest rates will continue to rise. Central Valley building permits, after being seasonally adjusted, declined by nearly 14.0%. This follows a modest increase in July and a strong 40% gain in July.

On the positive side, average weekly hours rose by 0.66% in August, continuing their increase from July. Also, real U.S. orders of capital goods rose by 3.12%, partially offsetting the 4.41% decline experienced in July.

Compared to six months ago, the index has fallen by 0.94%, indicating that economic activity has slowed from its growth earlier in the year. Additionally, the six-month diffusion index, a measure of the proportion of index components that have increased in the last six months, remained at 33.3. In other words, compared to six months ago, only two components of the index have posted gains. This is unchanged from July.

While weakening slightly, the index shows no signs of an imminent recession.

Table1: Summary Measures

	2005					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Central Valley Index of Economic Indicators, 2001 = 100	103.99	103.82	103.29	103.84	103.96	103.62
Percentage Change	0.04	-0.16	-0.52	0.53	0.12	-0.33
Diffusion Index	33.3	66.7	16.7	50.0	58.3	33.3
6-month Percentage Change, Annualized	0.81	0.93	-0.61	0.03	0.04	-0.62
6-month Diffusion Index	58.3	50.0	58.3	50.0	33.3	25.0

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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 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 able to predict the 2001 recession. However, as new data become available, diagnostic tests will be performed and revisions will occur as appropriate.

In the near future the index will be revised to include an agricultural price index, new claims for unemployment insurance, and average monthly help-wanted ads. All of this data will be regionally focused on the Central Valley.

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.

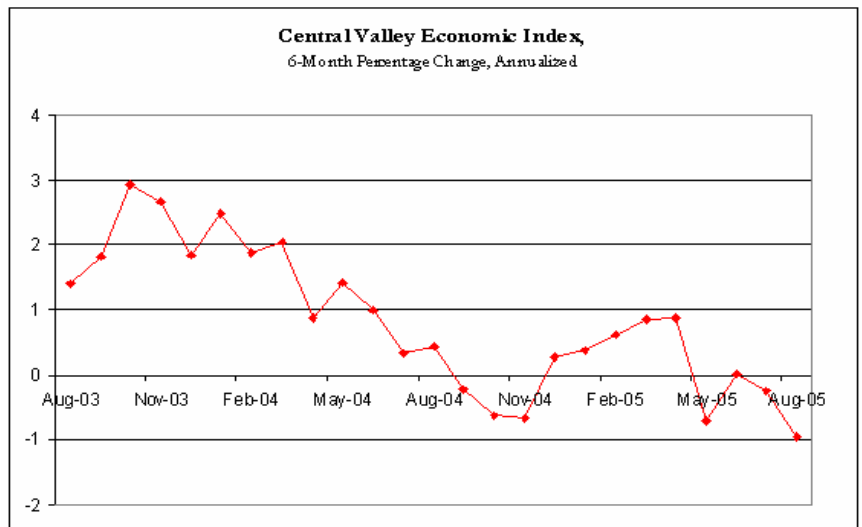
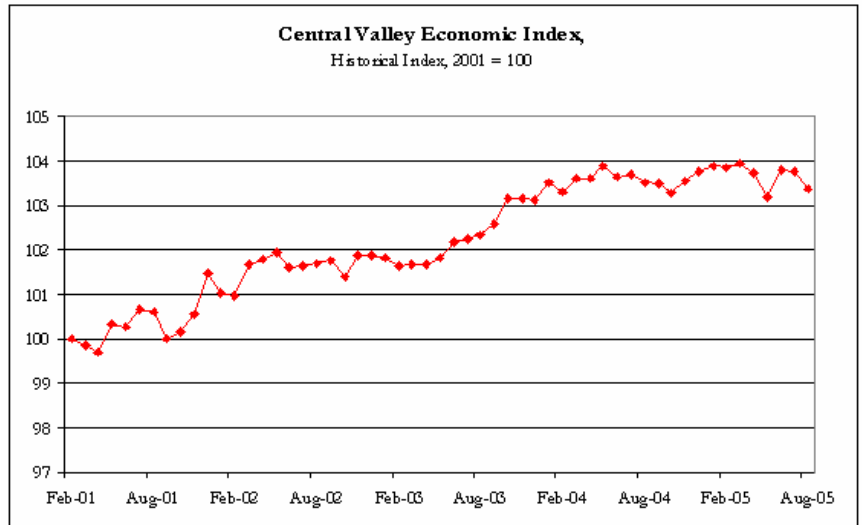


Table 2: Index Components

	2005					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Central Valley Non-Farm Payrolls, SA*	462349.1	462754.2	461110.0	462444.4	463007.2	461745.3
Central Valley Building Permits, SA	1250	1207	963	1434	1440	1286
California Average Weekly Hours, SA	39.8	40.0	39.9	39.5	40.0	39.9
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42319.9	42539.8	42298.8	44456.7	42537.2	44268.5
Univ. of Michigan Consumer Confidence	92.6	87.7	86.9	96.0	96.5	89.1
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	1.87	1.55	1.14	0.96	0.92	0.76
Central Valley Initial Unemployment Claims**	8956	7362	6343	7347	6741	6594

\*SA—Seasonally Adjusted

\*\*Unemployment Claims are not yet included in the index and are reported here simply for reference.