

Central Valley Index of Economic Indicators

California State University, Fresno
 A Project of the Center for Economic Research and Education

DECEMBER 2005

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.

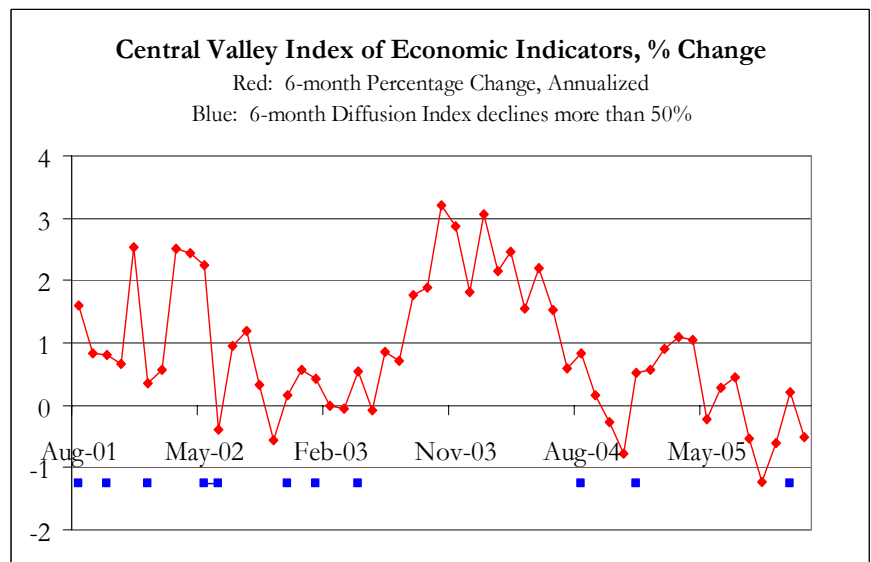
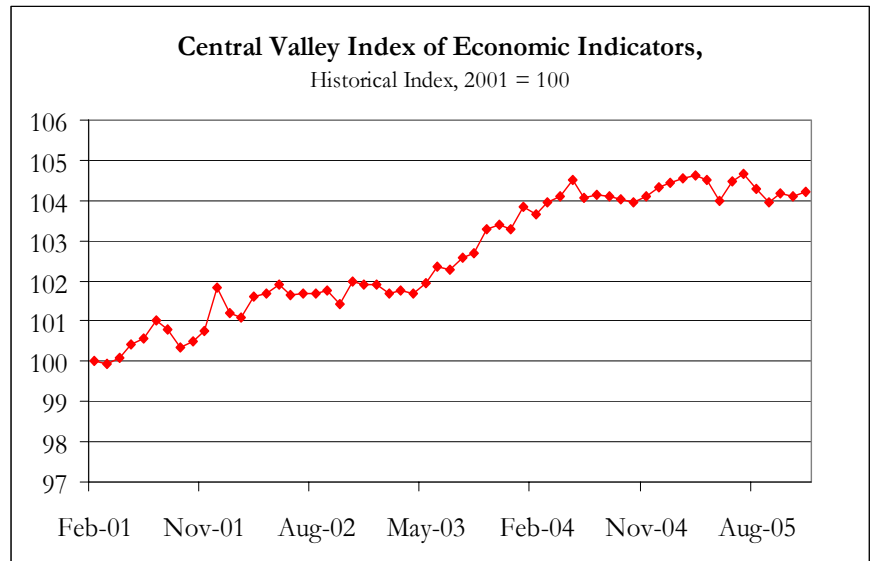


Table 2: Index Components

	2005					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Central Valley Non-Farm Payrolls, SA*	463,021.0	461,759.0	462,110.9	463,148.9	463,921.4	465,149.5
Central Valley Building Permits, SA	1,449	1,283	1,242	1,025	1,210	910
California Average Weekly Hours, SA	40.0	39.9	40.2	40.6	39.8	39.5
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,537.2	44,205.7	43,252.4	43,840.1	43,947.6	45,468.6
Univ. of Michigan Consumer Confidence	96.5	89.1	76.9	74.2	81.6	91.5
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.92	0.76	0.58	0.68	0.54	0.31
Central Valley Initial Unemployment Claims, SA	8,315	8,725	8,082	7,554	8,503	8,744

*SA—Seasonally Adjusted