

# 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

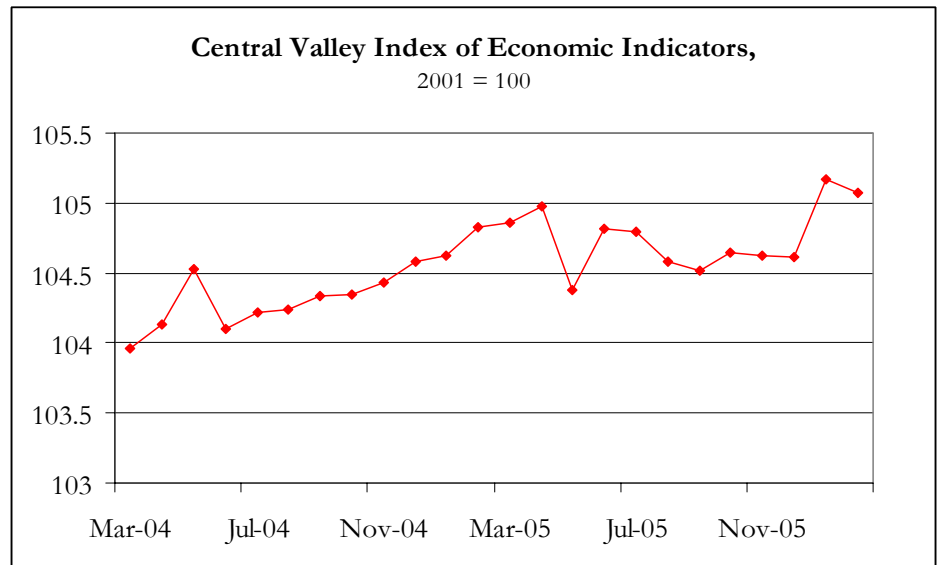
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## Analysis

The Central Valley Index of Economic Indicators fell slightly in February, from 105.16 to 105.07, although it retained most of the gains made in January. Of the seven components that comprise the index, two—Central Valley non-farm payrolls and Central Valley new claims for unemployment insurance—posted gains. The remaining components—Central Valley building permits, California average hours worked, the interest rate spread, consumer confidence, U.S. real orders of non-defense, non-aircraft capital goods—declined in February.

Of all the index components, new claims for unemployment insurance in the Central Valley showed the most dramatic change in February. New claims, which are inverted before being included in the index, fell by 19.1% from 9,688 to 7,996 after seasonal adjustment. This drop nearly offset the slight deterioration in the five declining components, resulting in a small loss in the overall index.

Of the remaining employment indicators, non-farm payrolls showed a modest gain of 0.18% and the California average work week fell slightly, by 0.37%, after seasonal



adjustment. The latter change is quite modest considering the historical volatility of this component.

Central Valley building permits declined by 17% after showing strong gains in January. This is consistent with the nationwide slowdown in housing sales that has been occurring since mid-2005. Nationwide, applications for new mortgages have been trending downward since that time, and a survey of consumer attitudes toward new home purchases also show signs of a slowing market.

The interest rate continued its decline in February, falling from 0.13 to 0.08. However, looking ahead to March, the rate spread regains this loss, and the Federal Open Market Committee has signaled the end of its rate hikes. Consumer confidence fell by 5.06% in February, from 91.2 to 86.7, although spending has been robust

throughout the first quarter. Real orders of non-defense, non-aircraft capital goods fell once again, continuing to decrease slightly after posting gains throughout the fourth quarter of 2005. However, new orders fell by 2.23% in the last two months, which is a moderate decline considering the historical fluctuations of this indicator.

Compared to six months ago the overall index rose by 0.93% and the majority of components showed gains for the first time since November 2005. Using the two percent rule—which states that a recession is likely if the index falls by more than two percent over a six month period and more than half the components are declining—it does not appear that a recession is imminent. The economy is likely to grow at a solid pace for the next three to six months.

Table 1: Summary Measures

	2005-2006					
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Central Valley Index of Economic Indicators, 2001 = 100	104.52	104.65	104.63	104.61	105.16	105.07
Percentage Change	-0.07	0.13	-0.02	-0.01	0.52	-0.09
Diffusion Index	57.1	71.4	57.1	42.8	42.8	28.6
6-month Percentage Change, Annualized	-0.66	-0.63	0.48	-0.38	0.70	0.93
6-month Diffusion Index	71.4	57.1	57.1	28.6	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.

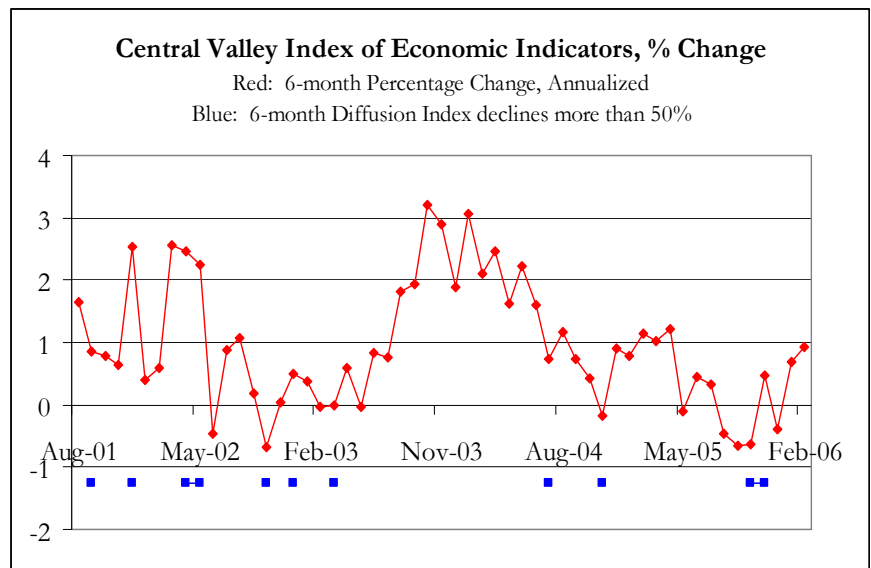
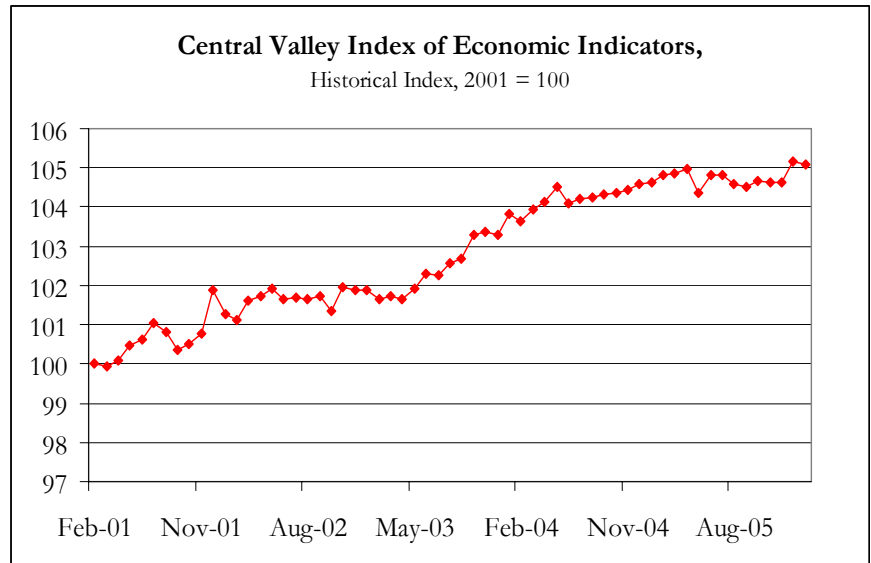


Table 2: Index Components

	2005-2006					
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Central Valley Non-Farm Payrolls, SA*	467,967.9	469,118.6	469,786.2	470,336.7	472,480.9	473,314.0
Central Valley Building Permits, SA	1,508	1,096	1,339	936	1,208	1,019
California Average Weekly Hours, SA	40.2	40.6	39.9	39.4	40.5	40.3
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	43,282.8	43,840.1	43,897.9	45,971.1	45,813.3	44,954.1
Univ. of Michigan Consumer Confidence	76.9	74.2	81.6	91.5	91.2	86.7
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.58	0.68	0.54	0.31	0.13	0.08
Central Valley Initial Unemployment Claims, SA	8,082	7,554	8,503	8,744	9,688	7,996

\*SA—Seasonally Adjusted