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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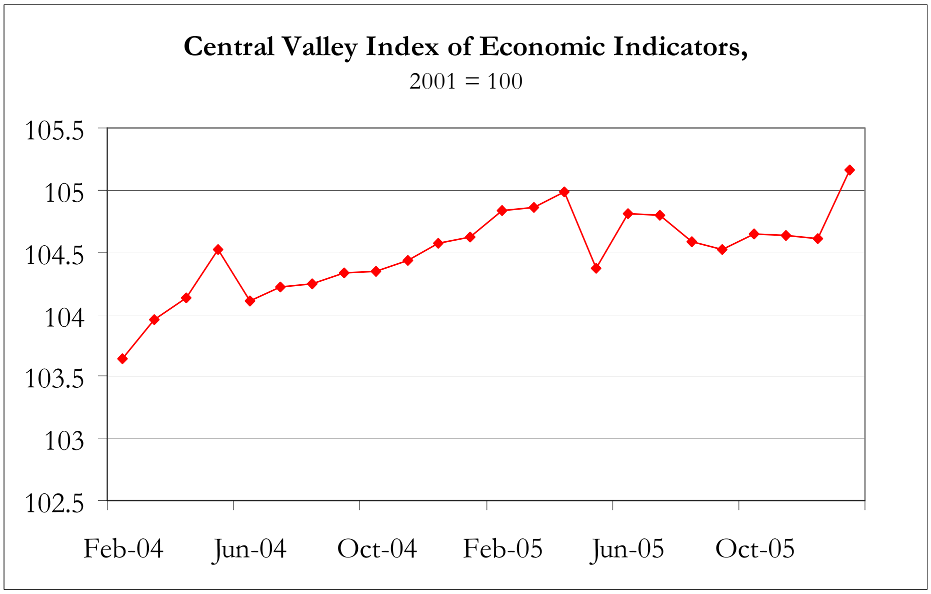
Analysis

The Central Valley Index of Economic Indicators rose sharply in January, increasing by 0.52% from 104.61 to 105.16. Of the seven indicators, three—Central Valley non-farm payrolls, Central Valley building permits, and the California average work week—posted sharp gains. The remaining indicators showed small declines.

Of the employment indicators, all but new claims for unemployment insurance showed improvement. Adjusted for seasonality in Central Valley employment, non-farm payrolls actually rose by about 0.18% and the average work week in California rose by 0.1% in January . In an average year, work week hours *fall* 0.78%. The largest negative component, new claims for unemployeent insurance rose by 4,087 in January—a 24.7% greater increase compared to last January.

Central Valley building permits rose from 959 in December to 1054. This contrasts favorably with a decline of 302 in January of 2005.



Unlike our local data, the national indicators showed a slight deterioration. The interest rate spread declined by 0.18% from 0.31 to 0.13. However, looking ahead to March, the rate spread has regained some of this loss, and most analysts believe the Federal Open Market Committee will stop raising short-term interest rates soon. U.S. real orders of non-defense, non-aircraft capital goods fell by 0.34%, from 45,971.07 to 45, 813.32 in January. This is a moderate decline considering the past volatility of new orders and most analysts are predicting solid growth in the first quarter of 2006. Likewise, consumer confidence fell slightly, from 91.5 to 91.2, but consumer spending has been strong throughout the first quarter of 2006 according the Federal Open Market Committee's meeting minutes from March.

Compared to six months ago, the index rose by 0.70% although slightly more than half of the components showed deterioration over this same period. The index can rise despite a drop in the majority of components if the magnitudes in the declining components are small relative to those posting gains. This is the case for January. In light of this, there are no signs that a recession is imminent—indeed, the index suggests solid economic growth for the next three to six months.

Table 1: Summary Measures

	2005-2006					
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Central Valley Index of Economic Indicators, 2001 = 100	104.59	104.52	104.65	104.63	104.61	105.16
Percentage Change	-0.20	-0.07	0.13	-0.02	-0.01	0.52
Diffusion Index	28.6	57.1	71.4	57.1	42.8	42.8
6-month Percentage Change, Annualized	-0.47	-0.66	-0.63	0.48	-0.38	0.70
6-month Diffusion Index	64.3	71.4	57.1	57.1	28.6	42.9

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Methodology and Notes

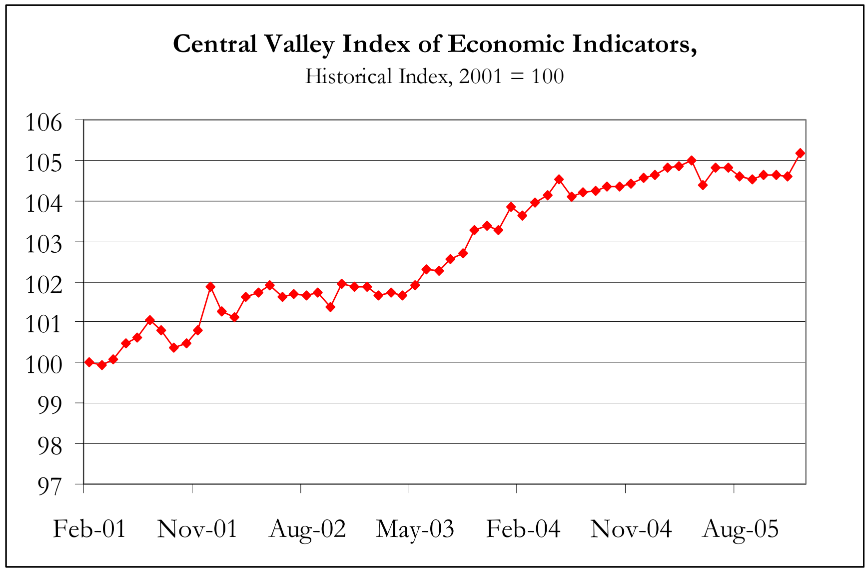
The methodology employed in creating the Central Valley Index of Economic Indicators follows closely the technique used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For the purposes of this index, the Central Valley is comprised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



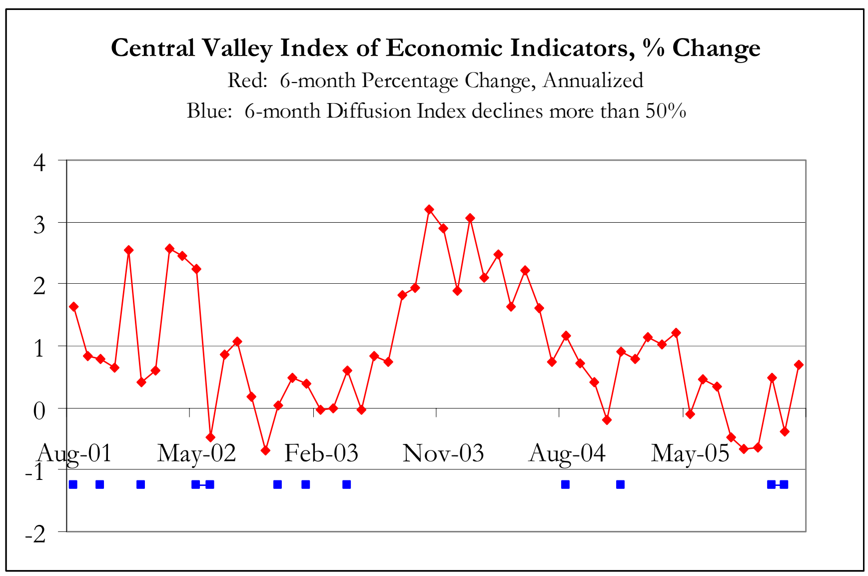


Table 2: Index Components

	2005-2006					
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Central Valley Non-Farm Payrolls, SA*	465,635.1	467,967.9	469,118.6	469,786.2	470,336.7	472,480.9
Central Valley Building Permits, SA	1,341	1,508	1,096	1,339	963	1,208
California Average Weekly Hours, SA	39.9	40.2	40.6	39.9	39.4	40.5
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions $, SA	44,205.7	43,282.8	43,840.1	43,897.9	45,971.1	45,813.3
Univ. of Michigan Consumer Confidence	89.1	76.9	74.2	81.6	91.5	91.2
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.76	0.58	0.68	0.54	0.31	0.13
Central Valley Initial Unemployment Claims, SA	8,725	8,082	7,554	8,503	8,744	9,688

*SA—Seasonally Adjusted