

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*

MARCH 2006

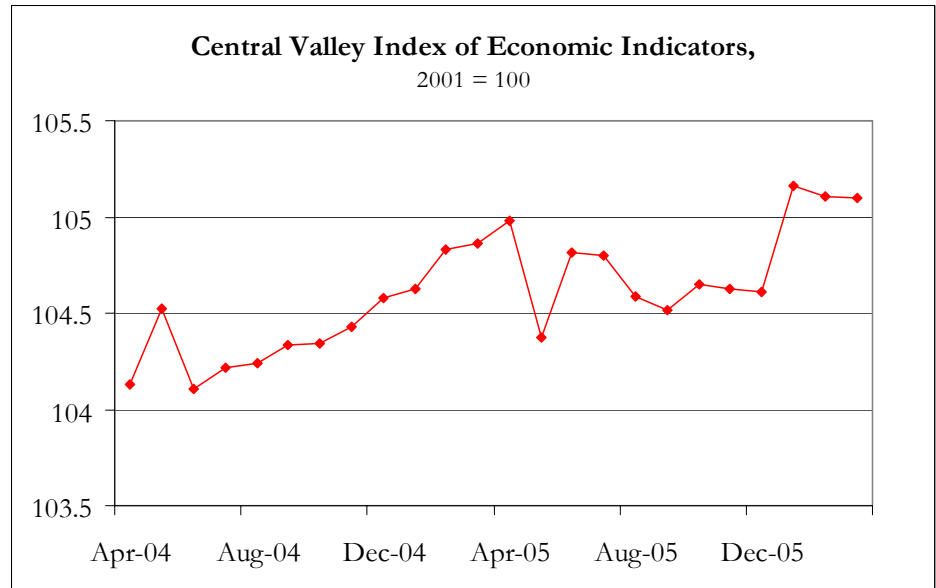
Author

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

Steady Economic Growth Expected

The Central Valley Index of Economic Indicators was virtually unchanged at 105.10 following a decline of less than 0.01%. Of the seven components that comprise the index, four—Central Valley non-farm payrolls, consumer confidence, the interest rate spread, and U.S. real orders of non-defense, non-aircraft capital goods—rose in March. The remaining indicators—Central Valley building permits, Central Valley new jobless claims, and California average hours worked—deteriorated.

Central Valley new claims for unemployment insurance showed the most dramatic movement in March; increasing by 1,244 from 7,996 to 9,240 after seasonal adjustment. Although actual jobless claims fell by 640, this is well below the average for March which typically posts a much larger drop—on average. The unusually high rainfall totals may have slowed construction and thus contributed to this tepid decline. Because new jobless claims are inverted before being included in the index, this component created the biggest lag on the overall index but a 0.35% increase in Central Valley non-farm payrolls nearly offset the deterioration in jobless claims. This



seemingly contradictory result may be explained by noting that the payroll numbers do not differentiate between part-time and full time workers—in fact, the average work week declined by 0.74% in March. Historically, new jobless claims have been highly sensitive to the business cycle, and tend to lead it more than employment. While this cannot be interpreted as good news for the Central Valley, bearing in mind the sharp fluctuations inherent in the index, it is still reasonable to expect solid economic growth in the near future.

Building permits also fell in the Central Valley, from 1,014 to 900—an 11.9% decline. However, given the historical volatility of this index, these numbers should cause no alarm.

Nationwide economic news was largely positive. The interest rate spread rose for

the first time since October, from 0.08 to 0.13, and most analysts believe the Fed will stabilize rates in the near future despite a surprising increase in April's core inflation figure. Real new orders of capital goods posted its largest gain of the year, rising by 2.80%, and consumer confidence also rose slightly in March.

Compared to six months ago, the overall index showed a 1.12% gain—the largest since April 2005. However, the six month diffusion index dipped below 50% owing largely to declines in the regional indicators discussed above. While this news is not good for the Central Valley, following the 2 percent rule, there are no indications of recession. A small dip in the monthly index is not unusual, and we expect steady growth in the near future.

Table 1: Summary Measures

	2005-2006					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Central Valley Index of Economic Indicators, 2001 = 100	104.65	104.63	104.61	105.16	105.10	105.10
Percentage Change	0.13	-0.02	-0.01	0.53	-0.06	-0.00
Diffusion Index	71.4	57.1	42.8	42.8	28.6	57.1
6-month Percentage Change, Annualized	-0.63	0.48	-0.38	0.70	0.99	1.12
6-month Diffusion Index	57.1	57.1	28.6	42.9	57.1	42.9

Central Valley Index of Economic Indicators

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

MARCH 2006

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.

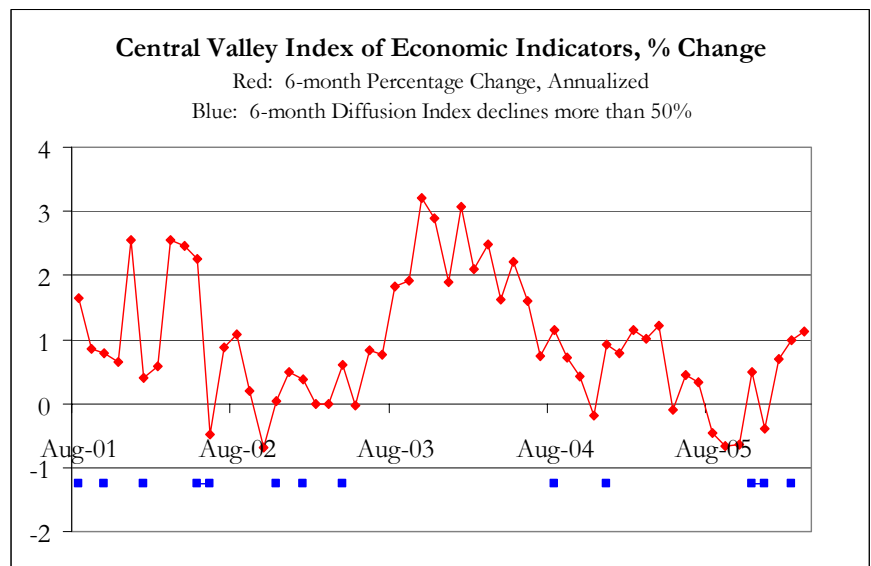
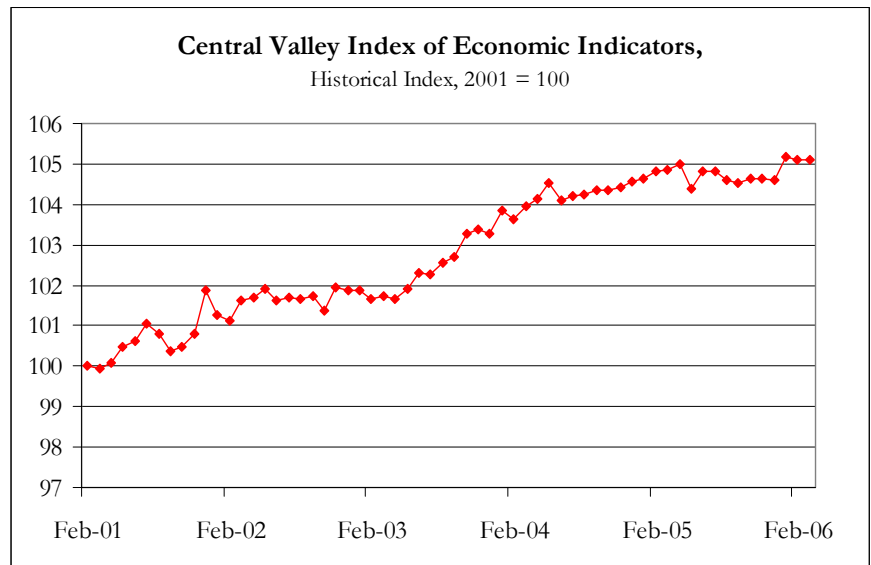


Table 2: Index Components

	2005-2006					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Central Valley Non-Farm Payrolls, SA*	469,118.6	469,786.2	470,336.7	472,480.9	473,314.0	474,957.5
Central Valley Building Permits, SA	1,096	1,339	936	1,208	1,014	900
California Average Weekly Hours, SA	40.6	39.9	39.4	40.5	40.3	40.0
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	43,840.1	43,897.9	45,971.1	45,813.3	45,381.8	46,670.1
Univ. of Michigan Consumer Confidence	74.2	81.6	91.5	91.2	86.7	88.9
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	0.68	0.54	0.31	0.13	0.08	0.13
Central Valley Initial Unemployment Claims, SA	7,554	8,503	8,744	9,688	7,996	9,240

*SA—Seasonally Adjusted